

**GAO**

Testimony

Before the Subcommittee on Management,  
Integration, and Oversight, Committee on  
Homeland Security, U.S. House of  
Representatives

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For Release on Delivery  
Expected at 2:00 p.m. EST  
Wednesday, July 12, 2006

# INDIVIDUAL DISASTER ASSISTANCE PROGRAMS

## Framework for Fraud Prevention, Detection, and Prosecution

Statement of Gregory D. Kutz, Management Director  
Forensic Audits and Special Investigations



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# Highlights

Highlights of [GAO-06-954T](#), a testimony before the Subcommittee on Management, Integration, and Oversight, Committee on Homeland Security, U.S. House of Representatives

## Why GAO Did This Study

Federal agencies spend billions of dollars annually to aid victims of natural and other disasters and acts of terrorism. Managers of federal disaster assistance programs face a dual challenge—delivering aid as quickly as possible while at the same time ensuring that relief payments go only to those who are truly in need. Due to the very nature of the government's need to quickly provide assistance to disaster victims, federal disaster relief programs are vulnerable to significant risk of improper payments and fraudulent activities.

On February 13, 2006, and on June 14, 2006, GAO testified concerning extensive fraud, waste, and abuse in the Individuals and Household Program (IHP), a component of the Federal Emergency Management Agency's (FEMA) disaster assistance programs. GAO identified significant internal control weaknesses that resulted in FEMA making tens of thousands of Expedited Assistance payments that were based on bogus registration data. GAO also found numerous other internal control failures in FEMA's IHP disaster assistance program, resulting in an estimate that FEMA made \$600 million to \$1.4 billion in improper and potentially fraudulent payments to registrants. The purpose of this testimony is to establish a framework for preventing, detecting, and prosecuting disaster assistance fraud.

[www.gao.gov/cgi-bin/getrpt?GAO-06-954T](http://www.gao.gov/cgi-bin/getrpt?GAO-06-954T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz at (202) 512-7455 or [kutzg@gao.gov](mailto:kutzg@gao.gov).

# INDIVIDUAL DISASTER ASSISTANCE PROGRAMS

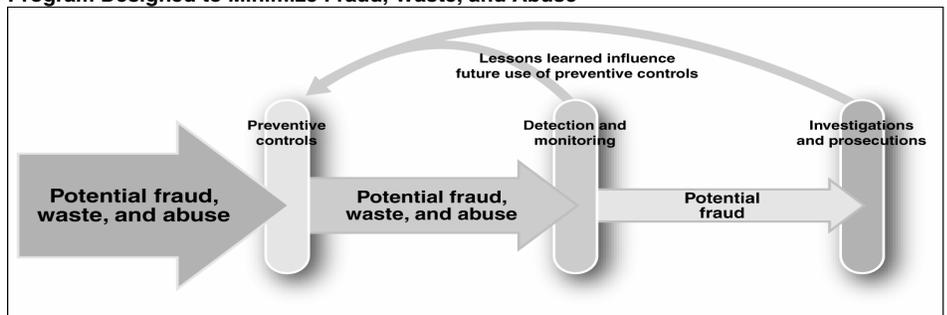
## Framework for Fraud Prevention, Detection, and Prosecution

### What GAO Found

Recent GAO audits have illustrated the importance of an effective fraud, waste, and abuse prevention system in federal disaster assistance programs. GAO's Standards for Internal Control in the Federal Government provide a framework for internal control that can be used to minimize fraudulent, wasteful, and abusive activity regardless of whether dealing with the effects of natural disasters like hurricanes Katrina and Rita, or coping with the destruction left by the terrorist attacks of September 11, 2001.

The figure below illustrates that a well-designed fraud prevention system should consist of three crucial elements: (1) upfront preventive controls, (2) detection and monitoring, and (3) investigations and prosecutions. The figure also shows that upfront preventive controls can help screen out the majority of fraud, and are the most effective and efficient means to minimize fraud, waste, and abuse. Detection and monitoring, and aggressive prosecution of individuals committing fraud, while also crucial elements of an effective system, are less effective and generally cost more.

Program Designed to Minimize Fraud, Waste, and Abuse



Source: GAO.

Audit work has long confirmed that upfront preventive controls are most effective when they require validation of data provided by disaster registrants against other government or third-party sources, and physical inspections when possible. Preventive controls should also include procedures designed to identify problem registrants prior to payments. Training personnel on fraud awareness and potential fraud schemes is also an integral component in preventive controls. Collectively, these preventive controls can help improve program integrity and safeguard tax dollars.

An effective fraud deterrence program must also include resources to continually monitor and detect potential fraud, and aggressively investigate and prosecute individuals who received assistance fraudulently. Monitoring and detection include data-mining for suspicious registrations and payment usage, and setting up fraud hotlines. Finally, program integrity is enhanced by investigating and prosecuting individuals who take advantage of program weaknesses. However, the high costs of prosecutions highlight our conclusion that upfront preventive controls are most effective in preventing fraud, and that lessons learned from detection and prosecutions should be used to improve preventive controls. **United States Government Accountability Office**

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Mr. Chairman and Members of the Committee:

Thank you for the opportunity to discuss fraud prevention and detection related to the federal government's efforts to provide assistance to individuals and households in the aftermath of disasters.<sup>1</sup> Effective fraud prevention in relief programs is an important issue, regardless of whether dealing with the effects of natural disasters like hurricanes Katrina and Rita, or coping with the destruction left by the terrorist attacks of September 11, 2001. Agencies are faced with many challenges in the aftermath of a disaster and must devote resources not only to distributing money and relief quickly to victims, but must also minimize fraud, waste, and abuse to ensure only legitimate victims receive assistance.

On February 13, 2006,<sup>2</sup> and then again on June 14, 2006,<sup>3</sup> we testified concerning extensive fraud, waste, and abuse related to hurricanes Katrina and Rita in the Individuals and Household Program (IHP), a component of the broader disaster assistance program from the Federal Emergency Management Agency (FEMA). The February testimony focused on control weaknesses that resulted in FEMA making tens of thousands of Expedited Assistance (EA) payments that were based on bogus registration data. Our June 14, 2006, testimony discussed breakdowns in internal controls, in particular the lack of controls designed to prevent bogus registrations, which resulted in an estimated \$600 million to \$1.4 billion in improper and potentially fraudulent payments. Based on these findings we have made recommendations to FEMA to develop effective systems and controls to minimize the opportunity for fraud, waste, and abuse when FEMA decides to provide assistance in the future. Crucial internal controls and control weaknesses we identified during our work on hurricane disaster relief, and

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<sup>1</sup> In the aftermath of a disaster, the federal government typically activates numerous programs to help disaster victims. Examples of programs include individual assistance, public assistance, and hazard mitigation. Individual assistance provides financial and other direct assistance to individuals and households. Public assistance provides grants to states, local governments, and non profit organizations to provide services such as debris removal and housing accommodations to disaster victims. Hazard mitigation provides grants for long-term hazard mitigation projects.

<sup>2</sup> GAO, *Expedited Assistance for Victims of Hurricanes Katrina and Rita: FEMA's Control Weaknesses Exposed the Government to Significant Fraud and Abuse*, [GAO-06-403T](#), (Washington, D.C.: Feb. 13, 2006).

<sup>3</sup> GAO, *Hurricanes Katrina and Rita Disaster Relief: Improper and Potentially Fraudulent Individual Assistance Payments Estimated to Be Between \$600 Million and \$1.4 Billion*, [GAO-06-844T](#), (Washington, D.C.: June. 14, 2006).

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requirements in the Comptroller General's Standards for Internal Control in the Federal Government,<sup>4</sup> are directly relatable to controls over any individual assistance program, regardless of the cause of the disaster. My testimony today will focus on the importance of fraud prevention controls, fraud detection efforts, and the aggressive pursuit and prosecution of individuals who commit fraud against the government in a time of disaster.

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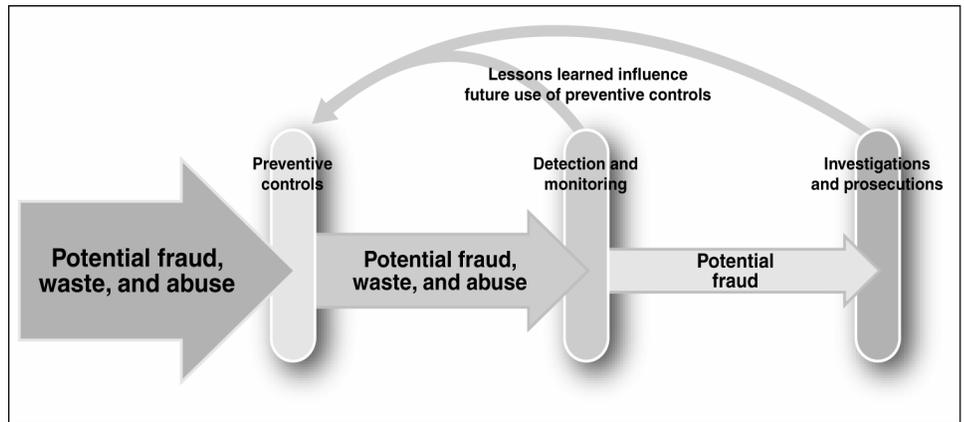
## Summary

The establishment of effective fraud prevention controls over the registration and payment process, fraud detection and monitoring adherence to those controls throughout the entire program life, and the aggressive pursuit and prosecution of individuals committing fraud are crucial elements of an effective fraud prevention program over any assistance programs with defined eligibility criteria, including disaster assistance programs. The very nature of the government's need to quickly provide assistance to individuals adversely affected by disasters makes assistance payments more vulnerable to applicants attempting to obtain benefits that they are not entitled to receive. However, it is because of these known vulnerabilities that the federal government, and more specifically FEMA, needed to have had effective controls in place to minimize the opportunities for individuals to defraud the government. Figure 1 provides an overview of how prevention controls help to screen out the majority of fraud, waste and abuse, and how detective controls and prosecution can help to further minimize the extent to which a program is vulnerable to fraud.

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<sup>4</sup>The Federal Managers' Financial Integrity Act of 1982 (FMFIA) required that GAO issue standards for internal control in government resulting in the issuance of *Internal Control: Standards for Internal Control in the Federal Government*, [GAO/AIMD-98-21.3.1](#), (Washington, D.C.: November, 1999).

**Figure 1: Program Designed to Minimize Fraud, Waste and Abuse**



Source: GAO.

The results of our work serve to emphasize the fundamental concept that fraud prevention is the most effective and efficient means to minimize fraud, waste, and abuse. Preventive controls should be designed to include, at a minimum, a requirement that data provided by registrants be validated against other government or third-party sources to determine whether registrants provided accurate information on their identity and place of residence. Inspections and physical validation processes should also be conducted whenever possible to confirm registration information prior to payment. System edit checks designed to identify problem registrants and claims (e.g., duplicates) before payments are made are also critical. Finally, providing training on fraud awareness and potential fraud schemes to all key government and contractor personnel is important in stopping fraud before it gets into the program. Prior to implementing any new controls, and well in advance of any disaster, agencies must adequately field test the new controls to ensure that controls are operating as intended and that legitimate victims are not denied benefits. In addition, as fraud prevention controls are increased, agencies must provide safety precautions to assist any disaster victims who are inappropriately denied relief due to preventive controls.

Although more costly and less effective than preventive controls, fraud detection and monitoring after payments have been made is also critical. Key elements of the detection process include data-mining for fraudulent and suspicious registrants, reviews to establish the accountability of funds, and the establishment of hotlines to receive tips of potentials fraud. For example, after the initial registration process, agencies need a control

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system that includes continual monitoring, to include data-mining registrations—similar to the data-mining we conducted—to identify potentially fraudulent registrations in their claim system. Also, control weaknesses identified through detection and monitoring should be used to make improvements to preventive controls to reduce the risk for fraud, waste, and abuse in the future.

Another element of a fraud prevention program is the aggressive investigation and prosecution of individuals who committed fraud against the federal government. The deterrent value of prosecuting those who commit fraud sends the message that the government will not tolerate individuals stealing assistance money, serving as a preventive measure for future disasters. For hurricanes Katrina and Rita the Justice Department has set up the Katrina Fraud Task Force, which has investigated and convicted numerous individuals who received assistance fraudulently from FEMA. Further, schemes identified through investigations and prosecution can be used to improve the fraud prevention program.

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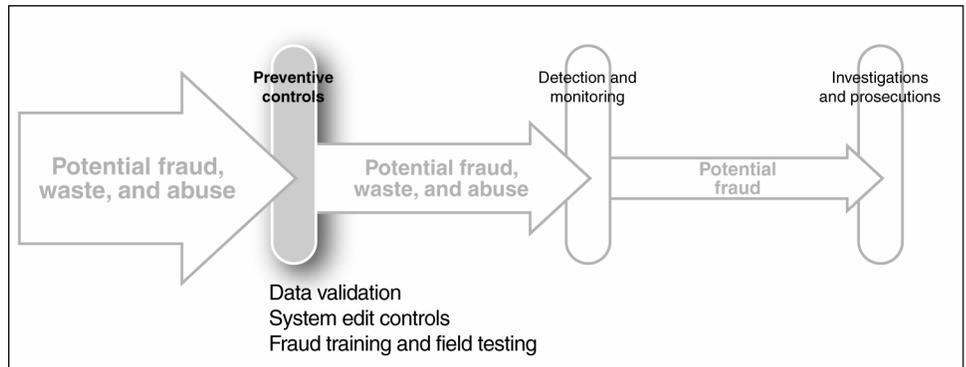
## Fraud, Waste, and Abuse Prevention Controls

Prevention is the most effective and efficient way to minimize fraud, waste, and abuse in any federal program, including disaster assistance, and is also a key element described in the Standards for Internal Control in the Federal Government.<sup>5</sup> The most crucial element of fraud prevention is to substantially diminish the opportunity for fraudulent access into the system through front end controls. Figure 2 displays how preventive controls fit within a larger fraud, waste, and abuse prevention program.

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<sup>5</sup> [GAO/AIMD-98-21.3.1.](#)

**Figure 2: Preventive Controls**



Source: GAO.

Fraud prevention can be achieved by requiring that registrants provide information in a uniform format, and validating that information against external sources. In the current environment, agencies have at their disposal a large number of data sources that they can use to validate the identity and address of registrants. However, our work related to FEMA’s management of the IHP program for hurricanes Katrina and Rita found that their limited use of a third-party validation process left room for substantial fraud. Effective fraud prevention controls require that agencies enter into data-sharing arrangements with organizations to perform validation. System edit checks are also key to identifying and rejecting fraudulent registrations before payments are disbursed. In addition, an effective fraud prevention system is not complete without adequate fraud awareness training of all personnel involved in the distribution of relief. Finally, any new systems or processes need to be field tested to ensure that the system is working properly prior to implementation.

## Data Validation

Prior to a disaster registrant gaining access to relief payments, key registrant information must be validated. For this program, data such as names, social security numbers (SSN), primary residences, citizenship status, and any other information which determines eligibility must be validated upfront, prior to agencies accepting the registration, or at least prior to disbursements being made. Obtaining releases from registrants which allow an agency to validate data with other sources such as social security records, tax records, and other information is an important step that can facilitate effective validation of data.

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Depending on the turnaround time needed for a payment, agencies can choose to validate records with federal government databases, or validate information with third-party contractors who can confirm key information with publicly available data from credit reports and other sources almost instantaneously. When using these third-party sources it is also important to at least periodically authenticate<sup>6</sup> the data within the program with the source of the information such as Social Security Administration (SSA) or Internal Revenue Service (IRS) records. Regardless of the sources used, all key data concerning a registration has to be validated to minimize the risks to acceptable levels prior to the registrant being accepted in the program. For example, because FEMA lacked basic identity validation controls, they accepted thousands of IHP registrations from registrants who provided social security numbers that had never been issued or belonged to deceased individuals. In addition, because FEMA failed to validate damaged address information, we found thousands of dollars were paid to individuals for bogus damaged addresses.

For data to be properly validated, it should be recorded in a uniform format. Once key data elements relating to disaster relief eligibility are determined, our work has shown that it is important to record the information in a format that will facilitate data validation with external sources. Otherwise, agencies may be faced with thousands or tens of thousands of registrations being rejected or placed in a manual review status because data was not recorded accurately. This is also particularly important when recording names, identity information, and addresses in order to prevent registrants from getting multiple payments by changing the spelling of their address or name. For example, data collected by hotels providing lodging that was paid for by FEMA did not record occupant's SSN or FEMA registration ID numbers. Thus, there were no common data elements that could be used to ensure people already staying at FEMA paid hotels did not also improperly receive rental assistance.

Within the federal government, many organizations such as SSA, United States Postal Service (USPS), and IRS maintain information on disaster assisted registrants. These are all data sources that we have used in prior

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<sup>6</sup> For purposes of this testimony, data validation refers to the process of comparing data provided by a registrant with publicly available data (e.g., credit reports) or government databases to ensure accuracy. Data authentication refers to the process of periodically authenticating data that have been validated by third-party contractors with source databases such as SSA or Internal Revenue Service records.

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forensic work to identify fraudulent and improper payments. However, proactive actions are necessary on the part of agencies responsible for providing disaster assistance to enter into data-sharing agreements with organizations that own the data. Agreements have to be in place prior to any disaster occurring for agencies to take advantage of data-validation sources. Also for tax information, consent must be requested from the registrant at the time of registration.

Finally, whenever possible, registration data and specific loss claims should be validated by a physical inspection of the disaster damage prior to payment. In some cases, as with the massive destruction caused by Hurricane Katrina, physical inspections in a timely manner are not possible, and therefore acceptance of data must be done through electronic verification. However, within the FEMA IHP program we found significant fraud related to expedited assistance payments that were made prior to any physical inspection being performed. In the cases we found, many fraudulent registrations could have been identified and rejected if inspections were performed because they would have seen that properties did not even exist, as we found when performing our own inspections. For example, FEMA failed to perform physical inspections on our undercover registrations, which used completely bogus property addresses and vacant lots. Had a physical inspection been performed, FEMA could have identified the fraudulent information and denied the expedited and rental assistance payments.

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## System Edit Controls

Disaster relief programs must also have a network of system pre-payment edit checks in place to ensure that obviously false or duplicate information is not used to receive disaster relief payments. System edit checks can be performed before or after a registration is accepted into the system, but to be an effective preventive control, they must be performed prior to the distribution of a payment. Edit checks should include items such as ensuring that the same SSN was not used on multiple registrations, or that the registrant provides a verifiable physical address for which the disaster damaged is based on. In the case of FEMA's IHP program, we found the lack of effective system edit checks allowed numerous individuals to fraudulently register numerous times and receive multiple payments using the same name, social security number, or address. In one case, the lack of controls allowed an individual to register eight times using the same name and SSN and receive multiple disaster assistance payments. In addition, accepting applications with obviously inaccurate data exposed FEMA to the risk that disbursements would be made based on obviously false data. For example, we found during our work that FEMA paid millions of

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dollars in IHP payments to individuals who used a Post Office Box as their damaged physical address in order to receive assistance. In those cases system edits should have identified the Post Office Box as an invalid physical address and forced the applicant to provide a valid street address for the damage property in order to be considered for disaster assistance.

Results of our work also showed that agencies must follow through and accurately implement—and not short-change—existing system edit checks to provide assurance that the program is protected. We found in the course of our work that FEMA had designed controls that may have prevented some fraudulent payments. However, our work also indicated that these controls were circumvented, for example, when FEMA designed scripts to override system edit checks that had identified registrations as potential duplicates, in an effort to disburse funds as quickly as possible. Adhering to existing control procedures is therefore also crucial when maintaining effective fraud prevention.

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## Fraud Training and Field Testing

Beyond the uniform recording and validation of data, other controls, including a well-trained work force that is aware of the potential for fraud, can help prevent fraud. Personnel involved in a disaster program, including government employees and call center and inspection contractors, should receive training about the potential for fraud within the program and the likely types of fraud they could encounter. Fraud awareness training with frontline personnel is crucial because they are part of the first line of defense and therefore play a key role in fraud prevention. If the personnel accepting registrations and performing physical inspections of properties and documents are aware of fraud indicators and suspicious activities, they will help to identify potentially fraudulent activity as soon as it occurs. Where possible, incentives can be provided to contractors not just to process registrations and claims quickly, but also to prevent fraud.

In addition, when implementing any new controls, it is important to field test all systems prior to putting them in place. As stated in a recent testimony on the IHP program, FEMA acknowledged that they had instituted several new processes that had not been tested. Weaknesses in these new processes, including the lack of validation controls over key data elements, resulted in our findings of approximately \$1 billion dollars in potential fraud in the IHP program. On top of reducing the risk of untested controls allowing substantial fraud, field-testing also helps to ensure that new controls do not improperly deny benefits to valid registrants. A safety net for those registrants who are wrongly denied

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disaster relief due to preventive controls should always be in place to ensure they receive assistance. This process should include staff who are adequately trained to expeditiously handle exceptions.

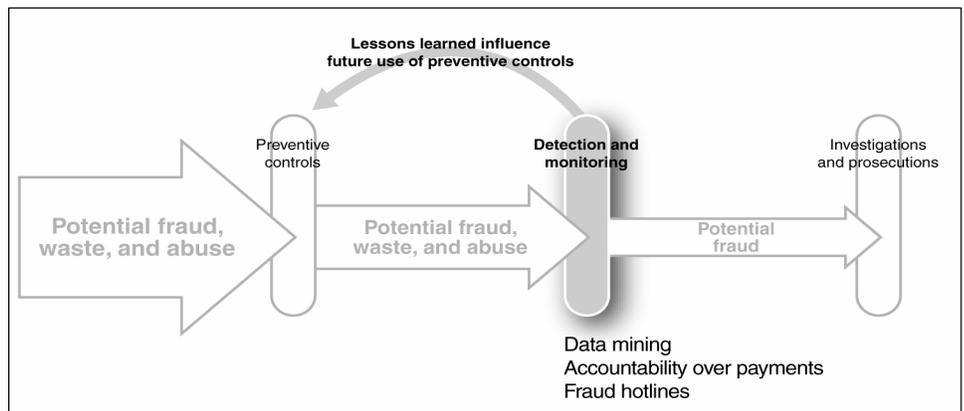
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## Detection and Monitoring

Even with effective preventive controls, there is substantial residual risk that fraudulent registrants are likely to gain access to a disaster relief program and begin to receive payments. Therefore, after a registrant has successfully passed through upfront controls and begun to receive payments, our work at FEMA illustrated that agencies must continue their efforts to monitor the execution of the disaster relief program. Detection and monitoring efforts are addressed in the Standards for Internal Control in the Federal Government<sup>7</sup> and include such activities as data-mining registrations, which have received payments, ensuring accountability over funds and monitoring how the disaster assistance is being spent, and establishing mechanisms to identify the existence of fraud. Figure 3 provides a perspective on how these controls fit into an overall fraud prevention program.

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**Figure 3: Detection and Monitoring Controls**



Source: GAO.

Data-mining of registration data within the program should be done to look for suspicious information after payments have been made. Along with data-mining efforts, proper accountability controls over the distribution of funds and the monitoring of fund usage is key to obtaining

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<sup>7</sup> [GAO/AIMD-98-21.3.1.](#)

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reasonable assurance that relief payments are being used to mitigate the effects of a disaster. Also, setting up hotlines to identify potential frauds is an important activity that should be in place when distributing disaster funds. Finally, any lessons learned from detection and monitoring efforts should be used to improve preventive controls to reduce the risk for fraud, waste, and abuse in the future.

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## Data-mining

Despite effective preventive controls, there is still risk for fraud, waste, and abuse within disaster programs once payments are made. Therefore, it is important that program managers continuously data mine registrations for suspicious activity. A robust data-mining program can include many different efforts. Examples of fraud indicators include but are not limited to searching for anomalies like those found at FEMA, including multiple payments sent to the same address or bank account. Abnormalities such as numerous residents in a damaged apartment building all relocating to the same location may also suggest fraud. Comparing recipient data against other government assistance programs such as databases containing information on Red Cross or FEMA paid for hotel rooms can help to identify duplication of benefits between programs. However, due to the difficulties of collecting overpayments, system edit checks that occur prior to payments being made are preferable to data-mining after payments have occurred.

The data-mining we performed on FEMA's IHP program showed how important constant monitoring and detection can be. We searched for and found examples where the same individual received several rental assistance checks from FEMA while at the same time residing in a hotel room paid for by FEMA. We also found instances where multiple family members from the same household registered numerous times and received duplicate payments. Using external databases of federal and state prisoners, we found instances where prisoners had fraudulently registered for and received disaster relief payments while incarcerated. As shown by our examples, data-mining efforts should be done in a manner that uses creative solutions to search for potential fraud using all available data sources. To the extent that data-mining identifies systematic fraud, that intelligence should be fed back into the fraud prevention process and system edits so that for future disasters the fraud is detected before money is disbursed.

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## Accountability and Proper Use of Relief Payments

When part of the disaster assistance comes in the form of cash or a cash equivalent such as a debit card, our work at FEMA shows that it is crucial for agencies to maintain strict accountability over who has received the assistance. This can be achieved by obtaining signatures of release from an agency official and, if appropriate, from the issuing bank official, along with a signature of acceptance from the relief recipient. Agencies should also be able to link each distribution of cash to a specific applicant. In the case of FEMA and their distribution of debit cards, adequate accountability was not maintained, resulting in more than \$1 million worth of debit cards being distributed without a record of who received them.

In addition, depending on the type of assistance provided and the means in which the assistance was distributed, it can be important for an agency to monitor the usage of disaster relief funds. Our review of FEMA's IHP program found that almost all money was distributed via check or EFT, which did not allow us to review whether the money was spent on disaster-related needs. A small amount, approximately \$80 million, of IHP money was distributed via debit cards, which allowed us to see whether funds were being used appropriately. In this case, the vast majority of debit card money was still withdrawn as cash, but the remaining amount appeared to have been used for disaster-related needs. However, we did find a small number of purchases for nondisaster items such as football tickets, alcohol, massage parlor services, and adult videos. By monitoring these types of uses and contacting and possibly penalizing those who misuse funds, agencies may be able to ensure that disaster funds are used to help mitigate losses and not for inappropriate items.

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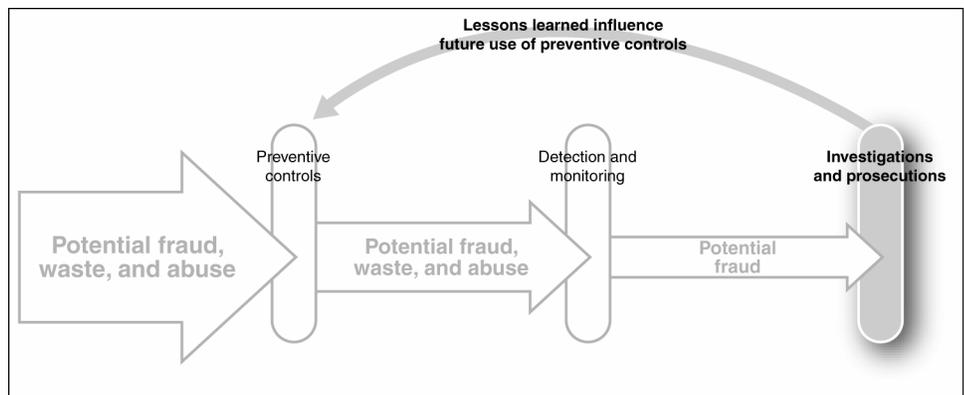
## Fraud Hotlines

To detect existing fraud and prevent new cases in the future, agencies should also set up mechanisms to identify and investigate existing cases. The use of hotlines where individuals can anonymously call and report potential fraud can provide valuable investigation leads. The Department of Homeland Security (DHS) Office of Inspector General set up one such hotline specifically dedicated to fraud related to hurricanes Katrina and Rita. Similar hotlines are useful within any disaster relief program to help identify any fraudulent activity not caught by controls. In conjunction with fraud identified through data-mining or hotline tips, agencies should have in place teams ready to investigate leads, not only for future prosecution, but also to provide suggestions for how the fraud can be prevented in the future.

## Investigations and Prosecution of Offenders

The final aspect of a program designed to reduce fraud in a disaster assistance program is the investigation and aggressive prosecution of individuals who have fraudulently received disaster assistance. Suspicious cases identified through preventive, detective, and monitoring controls, along with hotline tips, should be referred to investigators for further review. In the course of our work performed on IHP fraud for hurricanes Katrina and Rita, we identified tens of thousands of potentially fraudulent registrations. We have already referred thousands of those cases to FEMA and the Katrina Fraud Task force for further investigation and expect to refer others for additional investigation and possible prosecution. While the criminal investigative process is generally a lengthy process, we are aware that several individuals that we referred have already been indicted. This included one individual indicted for fraudulently obtaining over \$25,000 from FEMA based on bogus registrations. Figure 4 displays how investigations and prosecutions fit into an overall fraud prevention program.

**Figure 4: Investigations and Prosecutions**



Source: GAO.

While investigations and prosecution can be the most visible means to deal with fraudsters, they are also the most costly and should not be used in place of other more effective controls. Instead, agencies need to focus on prevention before money is spent. Still, by successfully prosecuting fraudsters, agencies can deter others who are thinking of taking advantage of disaster programs. In the end, investigations and prosecutions are a necessary part of an overall fraud prevention and deterrence program, but should be a last resort when all other controls have failed. In addition, knowledge from these investigations and prosecutions should be fed back

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into the fraud prevention process to better handle future disasters and enhance existing fraud prevention and detection programs.

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## Concluding Comments

Managers of federal disaster assistance programs face a dual challenge—delivering aid as quickly as possible while at the same time ensuring that relief payments go only to those who are truly in need. To meet this dual challenge, managers must recognize that fraud prevention and the rapid distribution of assistance are not conflicting mandates; instead, both can be accomplished if effective controls are in place and operating as intended. Of the controls discussed today, fraud prevention controls are the most useful and cost-effective means of reducing the loss of money due to fraud, because payments, once out the door, have proven extremely difficult to recover. Implementing an effective system of fraud prevention controls including upfront controls, post payment detection and monitoring, and prosecuting those who have exploited control weaknesses are crucial to building the American taxpayer's confidence that federal disaster assistance is given to those in need.

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Mr. Chairman and members of the Committee, this concludes my statement. I would be pleased to answer any questions that you or other members of the Committee have at this time.

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## Contacts and Acknowledgements

For further information about this testimony please contact Gregory Kutz at (202) 512-7455 or [kutz@gao.gov](mailto:kutz@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony.

Major contributors to this testimony include Jennifer Costello, Jason Kelly, John Kelly, Sun Kim, John Ledford, Jennifer Leone, Barbara Lewis, Jonathan Meyer, John Ryan, and Tuyet-Quan Thai

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