

HOUSE COMMITTEE ON OVERSIGHT & GOVERNMENT REFORM

OPENING STATEMENT OF CHAIRMAN EDOLPHUS TOWNS

Hearing: Preventing Stimulus Waste and Fraud:
Who are the Watchdogs?

March 19, 2009

Good morning and thank you all for being here.

Our Nation is at a pivotal point in history as we endure the greatest economic crisis in more than a half century. Millions of jobs have been lost, companies are failing, Americans are losing their homes; and states, cities, communities, and families desperately need help. This is the greatest financial crisis since the Great Depression. Answering the call, Congress recently passed the American Recovery and Reinvestment Act (known as the Recovery Act) which provides \$787 billion in tax cuts and federal spending to preserve and create jobs, assist those most harmed by the recession, and reinvest in our great country.

I was a proud original co-sponsor of the Recovery Act legislation – but along with the opportunity to heal our ailing economy, we have the monumental challenge of ensuring that American tax payers' dollars are used wisely and not squandered. The risk of fraud increases when billions of dollars go out the door quickly. This is the painful lessons of Iraq war spending and spending in response to Katrina where billions were lost to fraud. Fraud experts estimate that U.S. organizations lose 7% of revenues to fraud and waste. When applied to the stimulus package, that amounts to a whopping \$55 billion in American tax dollars potentially wasted.

Mindful of this history, the Recovery Act provides for an unprecedented degree of oversight and accountability, and remedies two of the major problems with Iraq and Katrina funding. The law mandates the use of competitive contracting and the use of fixed-price contracts. Further, the newly minted Recovery Accountability and Transparency Board (known as the "Recovery Act Board") is designed to provide transparency on how federal recovery money is spent.

I applaud the President for his support of these critically important reforms. However, these reforms are not enough. We need to take steps to ensure that problems are fixed before they arise. Two weeks ago we held a hearing on the excluded parties list of businesses that should have been suspended and debarred but that were still receiving federal contracts. Last month, the Inspector General at the Department of Transportation issued a report which documented that in 2003, executives were over paid by \$73 million, including the payment of expenses that should have been unallowable, including spa resort bills, alcohol, 45 automobiles, including Mercedes, BMW and other luxury brands. Most disturbingly, just yesterday, the Committee learned that several of the very first contracts awarded using stimulus funds may have been less than transparent and/or

contained paperwork errors. At least one of these contracts had no competition. Today, I will ask that Mr. Devaney conduct a comprehensive examination of this first set of 11 stimulus-related contracts to determine whether the contracts are transparent and if tax payers' money was spent efficiently, and report back to this Committee within two weeks with a full report.

The sad truth is, once fraudulent dollars go out the door, the federal government historically is only able to collect pennies on the dollar.

I am also concerned that states are already beginning Recovery Act spending, however, states have not been told exactly what information to collect. This needs to be fixed immediately. In order to assess the adequacy of fraud prevention problems I will ask Mr. Devaney to report back to this Committee within two weeks his views on whether each executive branch agency receiving federal funds has an adequate fraud prevention program.

I also have major concerns about the Administration's primary transparency tool, Recovery.gov. The fact of the matter is that Recovery.gov is currently not a useable database. I fully recognize the difficulty confronting the Administration in this task. With the need to track funding from each federal, state, and local agency involved with this funding, and the need to determine how many jobs have been created. In order for this to work we need to have uniformed standards for collection and reporting of this information.

In view of the need to immediately resolve this issue, today I will be sending a letter to the Vice President, urging him to convene a high-tech roundtable of federal, state and private sector IT leaders to come up with a uniform approach to track and account for Recovery Act funding. We need to come up with a workable solution to what information is needed, in what form that information is needed and how that information should be displayed.

The national outrage over AIG's decision to give \$165 million in bonuses to its employees after receiving federal bailout money underscores the need for a thorough plan for tracking and accounting for stimulus funds, and preventing waste, fraud, and abuse under the Recovery Act.

I look forward to today's hearing for a thorough examination of the problems that our federal, state, and local watchdogs must overcome. And let us all work with speed and diligence and in the greatest spirit of cooperation to safeguard our investment in America.

I want to thank all of our witnesses for appearing here today, and I look forward to hearing their testimony.