



UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM — MINORITY STAFF
SPECIAL INVESTIGATIONS DIVISION
AUGUST 2006

WASTE, FRAUD, AND ABUSE IN HURRICANE KATRINA CONTRACTS

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EXECUTIVE SUMMARY

In the aftermath of Hurricane Katrina, the Bush Administration turned to private contractors to provide relief and recovery services worth billions of dollars. Now, one year later, it is apparent that taxpayers and the residents of the Gulf Coast are paying a steep price for the failure to stop waste, fraud, and abuse in federal contracting.

At the request of Reps. Henry A. Waxman, Dennis A. Cardoza, David R. Obey, John S. Tanner, Eleanor Holmes Norton, and John F. Tierney, this report examines procurement spending in response to Hurricane Katrina. The report identifies 19 Katrina contracts, collectively worth \$8.75 billion, that have experienced significant overcharges, wasteful spending, or mismanagement.

Key findings in the report include the following:

- **Full and Open Competition is the Exception, Not the Rule.** As of June 30, 2006, over \$10.6 billion has been awarded to private contractors for Gulf Coast recovery and reconstruction. Nearly all of this amount (\$10.1 billion) was awarded in 1,237 contracts valued at \$500,000 or more. Only 30% of these contracts were awarded with full and open competition.
- **Contract Mismanagement Is Widespread.** Hurricane Katrina contracts have been accompanied by pervasive mismanagement. Mistakes were made in virtually every step of the contracting process: from pre-contract planning through contract award and oversight. Compounding this problem, there were not enough trained contract officials to oversee contract spending in the Gulf Coast.
- **The Costs to the Taxpayer Are Enormous.** This report identifies 19 Katrina contracts collectively worth \$8.75 billion that have been plagued by waste, fraud, abuse, or mismanagement. In the case of each of these 19 contracts, reports from the Government Accountability Office, Pentagon auditors, agency inspectors general, or other government investigators have linked the contracts to major problems in administration or performance.

There are indications that federal officials may repeat many of the same mistakes in responding to future disasters. Earlier this month, the Federal Emergency Management Agency awarded new contracts worth over \$1 billion to several of the same companies implicated in the wasteful Hurricane Katrina response.

I. INTRODUCTION

In the aftermath of Hurricane Katrina, the Bush Administration turned to private contractors to provide relief and recovery services worth billions of dollars. In response, Democratic members of Congress urged that fundamental reforms be enacted to protect Gulf Coast residents and federal taxpayers from waste, fraud, and abuse in these Katrina-related contracts. On September 20, 2005, Rep. Waxman joined with Minority Leader Pelosi in introducing the “Hurricane Katrina Accountability and Clean Contracting Act” (H.R. 3838), stating: “We cannot allow greed, mismanagement, and cronyism to squander billions of taxpayer dollars as has happened too often over the last five years.”

These calls for reform were rejected. On September 21, 2005, President Bush promised: “We’ll make sure your money is being spent wisely. And we’re going to make sure that the money is spent honestly.”¹ A spokesperson for the White House Office of Management and Budget similarly asserted: “We feel that we have the controls in place to prevent abuse and fraud.”²

Now, one year later, it is apparent that the promised controls never materialized, allowing waste, fraud, and abuse in federal contracting to flourish. The issuance of billions of dollars in no-bid contracts, combined with inadequate contract management and oversight, led to pervasive overcharging and wasteful spending in Katrina-related contracts.

At the request of Reps. Henry A. Waxman, Dennis A. Cardoza, David R. Obey, John S. Tanner, Eleanor Holmes Norton, and John F. Tierney, this report examines procurement spending in response to Hurricane Katrina. The report is based in large part on a review of over 550 reports from government auditors and investigators, many of which have not been publicly released. The audit reports reviewed by the Special Investigations Division include:

- 387 reports prepared by the Defense Contract Audit Agency, the agency responsible for performing contract audits for the Department of Defense and other government agencies, and internal auditors at the U.S. Army Corps of Engineers;
- 57 reports prepared by the Government Accountability Office, the independent, nonpartisan auditors and investigators working for Congress; and
- 42 reports prepared by several agency inspectors general, who are charged by law with oversight of agency management and administration.

This report also reflects interviews with outside experts, as well as investigations into contract abuses conducted by the Special Investigations Division and investigative reporters.

¹ President Bush, *Remarks at Republican Jewish Coalition 20th Anniversary* (September 21, 2005).

² *Scandals, Waste Plague Rebuilding*, Miami Herald (Sept. 25, 2005).

II. CONTRACT MISMANAGEMENT

The contract spending in response to Hurricane Katrina was not accompanied by responsible, competent contract management. To the contrary, government reports and audits have documented failures in many aspects of contract management at both the Federal Emergency Management Agency (FEMA) and the Army Corps of Engineers, the two agencies with responsibility for the bulk of the Hurricane Katrina recovery effort. Mistakes were made in virtually every step of the contracting process: from pre-contract planning through contract award and oversight.

A. Reliance on Noncompetitive Contracts

Competition in federal contracting protects the interests of taxpayers by ensuring that the government gets the best value for the goods and services it buys. Competition also discourages favoritism by leveling the playing field for competitors while curtailing opportunities for fraud and abuse.

Federal law recognizes that there are occasions when full and open competition is not feasible. Under the Competition in Contracting Act, agencies can award sole-source contracts in cases in which only one source can provide the needed goods or services. Agencies can also limit competition when emergency circumstances require immediate contract awards.³ But these and the other permissible exceptions are intended to be limited. The Federal Acquisition Regulation provides that “contracting officers shall promote and provide for full and open competition in soliciting offers and awarding Government contracts.”⁴ Contracting officers using one of the exceptions must submit a written justification and, for procurements over \$500,000, gain the approval of a more senior official.⁵

In the case of Hurricane Katrina, full and open competition has been the exception, not the rule. The urgent needs in the immediate aftermath of Hurricane Katrina provided a compelling justification for the award of noncompetitive contracts.⁶ Yet as the immediate emergency receded, the percentage of contract dollars awarded without full and open competition actually increased. In September 2005, the month after Hurricane Katrina, 51% of the contract dollars awarded by the Federal Emergency Management Agency were awarded without full and open competition. Rather than declining after September, the percentage of contract dollars awarded

³ See Congressional Research Service, *Iraq Reconstruction: Frequently Asked Questions Concerning the Application of Federal Procurement Statutes* (June 23, 2003); 10 U.S.C. § 2304(c); 40 U.S.C. § 253(c); 48 C.F.R. § 6.302.

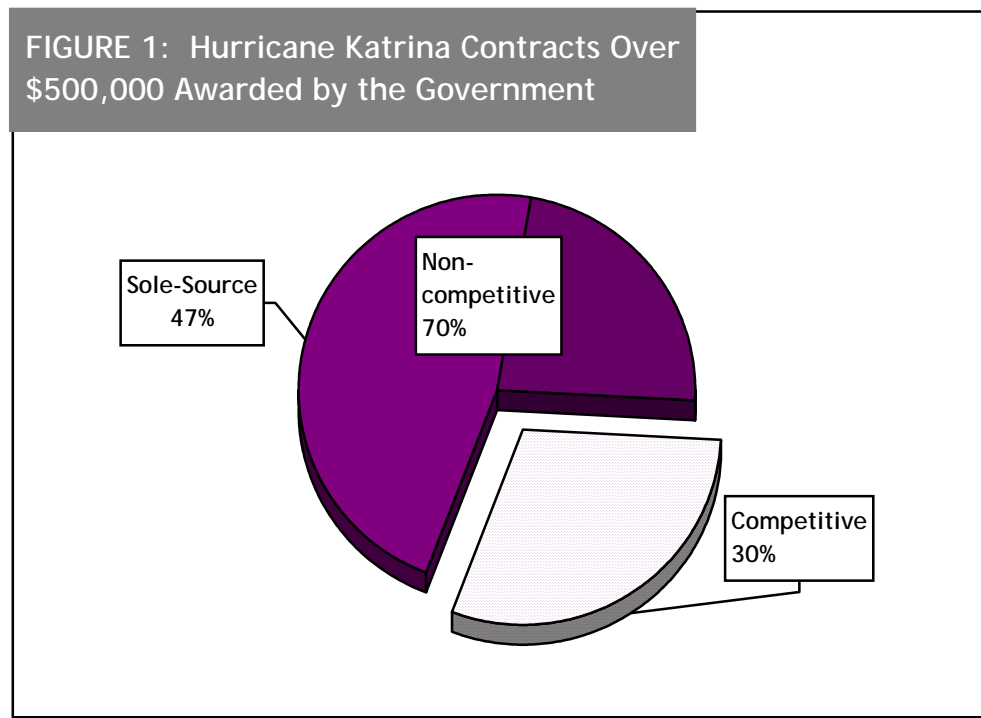
⁴ 48 C.F.R. § 6.101. Unlike the rest of DHS, the Transportation Security Administration (TSA) is exempt from the requirements of the F.A.R. (P.L. 101-71 § 101).

⁵ 48 C.F.R. § 6.303-6.304.

⁶ For the purposes of this report, a “noncompetitive” contract is defined as a contract awarded without full and open competition.

noncompetitively increased to 93% in October 2005. As late as December 2006, FEMA was still awarding 57% of the total dollar value of its contracts without full and open competition.

As of June 30, 2006, over \$10.6 billion has been awarded to private contractors for Gulf Coast recovery and reconstruction. Nearly all of this amount (\$10.1 billion) was awarded in 1,237 contracts valued at \$500,000 or more. Only 30% of these contracts were awarded with full and open competition. Over 47% were awarded on a sole-source basis.⁷ See Figure 1.



FEMA also failed to follow through on promises to rebid the four large contracts for management of temporary housing awarded in haste in the weeks following Katrina. On October 6, 2005, Acting FEMA Director David Paulison pledged in a Senate hearing to re-compete the contracts.⁸ In testimony to Congress in November, however, Greg Rothwell, DHS' chief procurement officer, said the contracts would not be rebid before February.⁹ In May 2006, DHS Chief Procurement Officer Elaine Duke conceded that the four large contracts would not be rebid and would continue to be used for the installation of trailers in Louisiana.¹⁰

⁷ President's Council on Integrity and Efficiency, Executive Council on Integrity and Efficiency, *10th PCIE Hurricane Katrina Report: To Date As of 06-30-06* (June 30, 2006).

⁸ *Hurricane Contracts To Be Rebid* — U.S. Official, Reuters (Oct. 6, 2005).

⁹ *FEMA Neglects Contract Pledge*, Associated Press (Nov. 12, 2005).

¹⁰ House Government Reform Committee, *Hearings on Sifting Through Katrina's Legal Debris: Contracting in the Eye of the Storm* (May 3, 2006).

B. Poor Contract Planning

In the absence of competition to discipline prices, careful contract planning and aggressive contract management is essential to protect taxpayer interests. But responsible planning and management has been missing from the response to Hurricane Katrina.

A key component of preparedness is having contingency contracts in place to meet immediate needs after a disaster strikes. But in February 2006, GAO reported that neither FEMA nor the Army Corps of Engineers had adequate contingency contracts in place before Hurricane Katrina.¹¹ According to GAO, the failure to “explicitly consider the need for and management of the contractor community” played a major role in the mismanagement of the relief effort.¹²

A month later, GAO released another assessment of federal contract management and oversight after Hurricane Katrina. This report found that the Katrina response efforts suffered from inadequate planning and preparation to anticipate requirements for needed goods and services; a lack of clearly communicated responsibilities across agencies and jurisdictions; and insufficient numbers and inadequate deployment of personnel to provide for effective contractor oversight.¹³ For example, GAO found:

- FEMA failed to adequately anticipate the need for temporary housing and public buildings.
- FEMA incurred unnecessary costs because the agency failed to define its requirements. In one instance, FEMA spent \$3 million for 4,000 camp beds that were never used; in another, it paid \$10 million to renovate a military barracks that was used as temporary housing by only six occupants.
- The Army Corps’ “blue roof” program was slowed down due to lack of sufficient contract monitors.¹⁴

C. Excessive Reliance on Subcontractors

The response to Hurricane Katrina relied heavily on contracts under which private contractors purchased goods and services from other private contractors. In these contracts, the prime contractor became, in essence, a middleman, adding a layer of fees to the contract that was often

¹¹ U.S. Government Accountability Office, *Agency Management of Contractors Responding to Hurricanes Katrina and Rita* (Feb. 2006) (GAO-06-461R).

¹² U.S. Government Accountability Office, *Preliminary Observations Regarding Preparedness and Response to Hurricanes Katrina and Rita* (Feb. 1, 2006) (GAO 06-365R).

¹³ U.S. Government Accountability Office, *Agency Management of Contractors Responding to Hurricanes Katrina and Rita* (Feb. 2006) (GAO-06-461R).

¹⁴ *Id.*

unnecessary. In some instances, contracts were set up with multiple layers of contractors between the government and the subcontractor that actually performed the work, vastly multiplying expenses and complicating oversight.

One example of the misuse of subcontractors involves the “blue roof” program. In the aftermath of Hurricane Katrina, FEMA and the Army Corps of Engineers entered into contracts with three large contractors, the Shaw Group, Simon Roofing, and LJC Construction, to cover wind-damaged roofs with blue tarps.¹⁵ These contractors subcontracted with other contractors, who in turn subcontracted with yet another layer of subcontractors. Because so many contractors took a cut of the funds, the fees charged to taxpayers were vastly inflated. According to one published account, the costs to the taxpayer under the tiered contracts were sometimes 1,700% higher than the job’s actual cost.¹⁶ A second account reported that the taxpayer paid an average of \$2,480 per roof for a job that should cost under \$300.¹⁷

D. Inadequate Contract Oversight

The lack of contract officials severely hampered the response to Hurricane Katrina. At the time the hurricane hit, FEMA had only 36 acquisition officials, far short of the minimum of 172 procurement officials that experts have recommended for the agency.¹⁸ According to GAO, FEMA and the Army Corps of Engineers lacked sufficient personnel to perform adequate oversight on the contracts reviewed.¹⁹ This lack of oversight put the agencies “at risk of being unable to identify and correct poor contractor performance ... [and] paying contractors more than the value of the services performed.”²⁰ The DHS Inspector General responsible for Katrina reconstruction agreed, saying, “Inadequate contracting staff and a shortage of Contracting Officer Technical Representatives (COTRs) hampered FEMA’s ability to effectively monitor Katrina response contracts.”²¹

¹⁵ See III.B, *infra*.

¹⁶ *Multiple Layers of Contractors Drive Up Cost of Katrina Cleanup*, Washington Post (Mar. 20, 2006).

¹⁷ *U.S. Paying a Premium to Cover Storm-Damaged Roofs*, Knight Ridder (Sept. 29, 2005).

¹⁸ Select Bipartisan Committee to Investigate the Preparation for and Response to Hurricane Katrina, *A Failure of Initiative: The Final Report of the Select Bipartisan Committee to Investigate the Preparation for and Response to Hurricane Katrina* (Feb. 15, 2006).

¹⁹ U.S. Government Accountability Office, *Agency Management of Contractors Responding to Hurricanes Katrina and Rita* (Mar. 16, 2006) (GAO-06-461R).

²⁰ *Id.*

²¹ Department of Homeland Security, Senate Committee on Homeland Security and Governmental Affairs, Testimony of Matt Jadacki, Special Inspector General Gulf Coast Hurricane Recovery, *Hearings on Katrina and Contracting* (Apr. 10, 2006).

E. Credit Card Abuse

In 1994, Congress passed legislation providing the basic authority for federal employees to use credit cards to buy small amounts of goods or services directly from vendors.²² These charge card programs are designed to provide an easy, efficient means for government agencies to make small, routine purchases while avoiding the requirements of the contracting regulations.²³

While the use of purchase cards can increase flexibility and streamline acquisition procedures, government purchase cards are also notoriously prone to abuse. In an audit initiated to review the Department's controls over purchase cards in the wake of Hurricanes Katrina and Rita, GAO found that a "weak control environment and breakdowns in key controls" resulted in waste, fraud and abuse. GAO also found that DHS lacks adequate staffing, sufficient training, and effective monitoring of its purchase card program.²⁴

Examples of credit card abuse at FEMA include the unnecessary purchase of 2,000 sets of canine booties at a cost of more than \$68,000, the expenditure of \$8,000 for a 63" plasma screen television, and the purchase of 20 flat-bottomed boats — only eight of which FEMA has in its records — at twice the retail price.²⁵

In November 2005, DCAA reviewed 119 Katrina-related government credit card transactions totaling \$32,712. According to auditors, "There were procedure violations in 83% of these transactions."²⁶ Auditors reported that "[t]he general attitude is that the Emergency Response Operation justifies non-compliance with the internal control standards."²⁷ They concluded, "Controls existed to prevent the inappropriate use of credit cards. The controls were circumvented and ignored."²⁸

F. Corruption

Finally, corruption exploited — and aggravated — Hurricane Katrina contract mismanagement. According to the Department of Homeland Security Inspector General, 1,395 cases of reported criminal activity, including procurement fraud and abuse, are currently under investigation.²⁹

²² Federal Acquisition Streamlining Act of 1994 (FASA), Pub. L. 103-355 § 4301.

²³ U.S. General Accounting Office, *Purchase Cards: Increased Management Oversight and Control Could Save Hundreds of Millions of Dollars* (Apr. 28, 2004) (GAO-04-717T).

²⁴ U.S. Government Accountability Office, *Purchase Cards: Control Weaknesses Leave DHS Highly Vulnerable to Fraudulent, Improper, and Abusive Activity* (July 19, 2006).

²⁵ *Id.*

²⁶ Alabama Document # 28 (Nov. 3, 2005).

²⁷ *Id.*

²⁸ *Id.*

²⁹ President's Council on Integrity and Efficiency, Executive Council on Integrity and Efficiency, *PCIE Hurricane Katrina Report: To Date As of 06-30-06* (June 30, 2006).

In one case, two FEMA officials, Andrew Rose and Lloyd Holliman, pled guilty to accepting bribes from a food service contractor.³⁰ In their plea agreement, Mr. Rose and Mr. Holliman acknowledged that they demanded a \$20,000 payment plus \$2,500 a week in exchange for inflating the number of meals provided by a contractor.³¹

In another case, an Army Corps of Engineers official, Mitchell Kendrix, was charged with conspiracy to commit bribery. Mr. Kendrix allegedly accepted multiple bribes to falsify the debris removal records of a contractor involved in the response to Hurricane Katrina.³²

III. Wasteful Katrina Contracts

Contract mismanagement at FEMA and the U.S. Army Corps of Engineers has a steep cost for the taxpayer. Waste, fraud, and abuse have squandered hundreds of millions, if not billions, of dollars. The discussion below provides a summary of seven wasteful Hurricane Katrina contract programs. An appendix to the report identifies 19 contracts that have been examined by government auditors and investigators and found to contain significant waste, fraud, or abuse or to have been poorly managed. The total value of the costs incurred or projected to be incurred under the 19 problem contracts is \$8.75 billion.

A. The Contracts for Debris Removal

In September 2005, the Corps of Engineers awarded four contracts worth \$500 million each to remove and dispose of debris. According to internal government documents, lax government oversight allowed the contractors to double bill for the same debris, overstate mileage to claim extra fees, haul ineligible debris from private property to boost reimbursements, and inflate prices by improperly mixing low-cost vegetative debris into loads of high-cost construction and demolition debris. The problems included:

- Failure to Empty Trucks. Government inspectors observed contractors “fraudulently being paid for the same load” by exiting dump sites “without completely unloading the debris from its truck bed.” These problems were compounded by the absence of federal oversight. The Corps of Engineers frequently failed to inspect trucks leaving the dumps. According to the auditors, “This provides the opportunity for truck drivers to leave debris in the bed of the truck while receiving full credit for each load,

³⁰ *2 FEMA Workers Plead Guilty in Bribery Case*, Los Angeles Times (Apr. 6, 2006).

³¹ *2 Held on Katrina Bribery Charges*, Los Angeles Times (Feb. 3, 2006); *FEMA Workers Are Indicted in Bribe Case*, New Orleans Times-Picayune (Feb. 3, 2006).

³² U.S. Attorney, Southern District of Mississippi, Press Release, *Bribery Charges Filed for Katrina Debris Removal* (Dec. 6, 2005).

resulting in government overpayments to the contractors and minimizing the amount of debris being cleared from the right-of-ways.”³³

- Excessive Mileage Claims. Contractors took advantage of a system that paid them an extra \$2 per cubic yard for debris carried over 15 miles. In one instance, “mileages were overstated” in over 50% of the 303 trips examined by auditors.³⁴
- Payments for Ineligible Debris. One subcontractor was hired to remove debris from public rights-of way, but submitted bills for “hauling debris collected from ... wooded lots, beyond the public right of way.” According to the auditors, this was “a recurring problem” for both this and other contractors.³⁵
- Mixing Debris. Contractors fraudulently mixed vegetative debris with construction and demolition debris to inflate their billings by \$2.84 per cubic yard.³⁶
- Overpayments for Partial Loads. Government investigators reported that Corps of Engineers officials regularly credited contractors with hauling more debris to dumps than they actually carried. Auditors found that the Corps’ assessments of contractor performance were “overly generous,” “unusually high,” “more on the liberal side,” “often very liberal,” and “consistently on the high side.”³⁷

The effect of these problems was compounded by the high rates paid by the Corps for debris removal under the contracts. Ashbritt Inc., one of the prime contractors hired by the Corps, testified in Congress that it received approximately \$23 per cubic yard for debris removal in Mississippi.³⁸ In contrast, a local contractor testified at the same hearing that it could have removed the debris for just \$12.90 per cubic yard, a savings of 44% for the taxpayer.³⁹

B. The “Blue Roof” Contracts

After Hurricane Katrina struck, the Corps of Engineers issued contracts collectively worth over \$300 million to contractors for temporary roof repairs using blue plastic sheeting. But when the

³³ Memorandum from Rep. Henry A. Waxman to Democratic Members of the House Government Reform Committee (May 4, 2006) (citing Army Corps of Engineers and Defense Contract Audit Agency documents) (online at www.democrats.reform.house.gov/story.asp?ID=1050).

³⁴ *Id.*

³⁵ *Id.*

³⁶ *Id.*

³⁷ *Id.*

³⁸ House Committee on Government Reform, Testimony of Ashbritt, Inc. President Randall Perkins, *Hearings on Contracting and Hurricane Katrina* (May 4, 2006).

³⁹ House Committee on Government Reform, Testimony of David Machado, Necaize Brothers Construction, *Hearings on Contracting and Hurricane Katrina* (May 4, 2006).

auditors examined these contracts, they found consistently inflated charges and unsatisfactory supervision and oversight. The problems included:

- **Repeated Overbillings.** One evaluation revealed net overbillings of 43%; a second revealed overbillings of 52%. In one case, a contractor “listed nearly 4 times as many square feet covered than was actually covered.” In another, Corps of Engineers officials went on “final inspections only to arrive at the location and find that there was no blue roof plastic installed despite the contractor’s assertion of completion through attending final inspection.”⁴⁰
- **Inadequate Supervision of Subcontractors.** The prime contractors hired by the Corps did not directly install blue sheeting. Instead, their role was to hire subcontractors, who often hired additional layers of subcontractors, to do the actual work. The auditors found, however, that the prime contractors consistently failed to supervise the work of the subcontractors, calling into question what value they provided. The prime contractors failed to inspect work and had little knowledge of or control over the activities of the subcontractors.⁴¹
- **Lax Oversight.** Government inspectors found that the Corps officials had an “informal agreement” not to challenge bills that exceeded estimates by 50%. According to the inspectors, this understanding was “excessive and unreasonable” and “does not adequately protect the Government from waste or abuse.”⁴²

The “blue roof” contracts also illustrate the costs of tiering subcontracts. With so many contractors taking a cut of the contract, the costs to the taxpayer soared. In one case, the subcontractor who actually covered the roofs received a payment of just \$0.02 per square foot, while the subcontractor at the top of the chain received over 36 times more for the work.⁴³ In another instance, the government paid the prime contractor 1,700% more than the job’s actual cost.⁴⁴

C. **The Contracts for Manufactured Homes and Trailers**

In the aftermath of Hurricane Katrina, FEMA purchased 24,967 manufactured homes and 1,755 modular homes at a cost of \$915 million to provide housing and temporary office space for

⁴⁰ Memorandum from Rep. Henry A. Waxman to Democratic Members of the House Government Reform Committee (May 4, 2006) (citing Army Corps of Engineers and Defense Contract Audit Agency documents) (online at www.democrats.reform.house.gov/story.asp?ID=1050).

⁴¹ *Id.*

⁴² *Id.*

⁴³ *Tiers of Subcontractors Bleed Off Reconstruction Money*, Newhouse News Service (Jan. 9, 2006).

⁴⁴ *Multiple Layers of Contractors Drive Up Cost of Katrina Cleanup*, Washington Post (Mar. 20, 2006).

hurricane victims and relief workers.⁴⁵ But according to the DHS Inspector General, as of January 2006, only 4,600 manufactured homes and 100 modular homes had been used for housing or office space. Not one of the homes had been sent to the most ravaged parts of Louisiana and Mississippi because FEMA's own regulations prohibit the use of the homes in flood plains. More than 2,360 of the manufactured homes could not be used by FEMA at all because they exceed FEMA's size specifications. Six months after Hurricane Katrina, nearly 11,000 homes worth over \$301 million were sitting on the runways at one Arkansas airport.⁴⁶

Similar mismanagement characterized the contracts to buy travel trailers. After Hurricane Katrina, FEMA spent \$1.7 billion to purchase 114,000 travel trailers.⁴⁷ FEMA bought at least 27,000 of those trailers "off the lot," without negotiating either price or specifications.⁴⁸ Yet over 23,700 of these travel trailers sat unused for months. Moreover, because FEMA has not maintained the trailers, they are losing their value as housing or for eventual resale.⁴⁹

In December, Scott Wells, FEMA's Federal Coordinating Officer in Louisiana for Hurricanes Katrina and Rita, testified before the Senate that the entire concept of purchasing trailers for temporary housing was flawed. According to Mr. Wells, the cost to house a family for 18 months (the limit for FEMA-financed temporary housing) can reach \$90,000 to \$100,000 for housing in a mobile home or \$30,000 to \$40,000 for housing in a travel trailer. Mr. Wells testified that if FEMA had simply given the families \$26,200 in cash for housing, which is the maximum entitlement for hurricane victims, this would "allow them to quickly get on with rebuilding their lives and afford them a permanent housing solution" while saving the taxpayer hundreds of thousands of dollars.⁵⁰

D. The Technical Assistance Contracts for Temporary Housing

In early September, FEMA awarded emergency no-bid contracts for housing relief to Shaw Group, Inc., Bechtel Corp., CH2M Hill, and Fluor Corp.⁵¹ Over the last year, the four contracts,

⁴⁵ President's Council on Integrity and Efficiency, Executive Council on Integrity and Efficiency, *Oversight of Gulf Coast Hurricane Recovery: A Semiannual Report to Congress* (Apr. 30, 2006); Committee on Homeland Security and Governmental Affairs, Testimony of Department of Homeland Security Inspector General Richard L. Skinner, *Hearings on Hurricane Katrina: Waste, Fraud and Abuse Worsen the Disaster* (Feb. 13, 2006).

⁴⁶ Senate Homeland Security and Governmental Affairs Committee, Testimony of DHS Inspector General Richard L. Skinner, *Hearings on Hurricane Katrina: Waste, Fraud and Abuse Worsen the Disaster* (Feb. 13, 2006).

⁴⁷ *Id.*

⁴⁸ President's Council on Integrity and Efficiency, Executive Council on Integrity and Efficiency, *Oversight of Gulf Coast Hurricane Recovery: A Semiannual Report to Congress* (Apr. 30, 2006).

⁴⁹ *Id.*; *FEMA's Trailer 'Boneyard' Blasted*, The Sun Herald (Dec. 13, 2005) (online at www.sunherald.com/mld/sunherald/13394657.htm).

⁵⁰ Senate Homeland Security and Governmental Affairs Committee, Testimony of Scott Wells, Deputy Federal Coordinating Officer, FEMA, *Hearings on Hurricane Katrina: Perspectives of FEMA's Operations Professionals* (Dec. 8, 2005).

⁵¹ *FEMA Neglects Contract Pledge*, Associated Press (Nov. 12, 2005).

known as Technical Assistance Contracts, have ballooned from approximately \$400 million to about \$3.4 billion.⁵²

In November 2005, the Department of Homeland Security Inspector General warned that the four contracts were at risk for cost overruns. Instead of issuing formal task orders with a set price for the work done under the contracts, FEMA instead issued a series of verbal authorizations to initiate work, without imposing cost ceilings or spending limits. The Inspector General found that this practice “does not provide for effective control of total costs for the effort.”⁵³

An audit by the Defense Contract Audit Agency questioned over \$50 million of the \$154 million in costs claimed by Bechtel to install 35,000 travel trailers. According to DCAA, Bechtel submitted charges of \$127 per month on each trailer for “preventative” maintenance and another \$95 per month for “corrective” maintenance. When the auditors examined these fees, however, they discovered that the subcontractor performing the work was charging \$127 per month for both preventative and corrective maintenance. The auditors confronted the company about these duplicate charges, and Bechtel admitted that this “computation error” would have improperly cost taxpayers more than \$48 million during the 18 month period of the contract.⁵⁴

In addition to the millions in duplicate charges, the auditors also concluded that Bechtel improperly charged for utility costs for the trailers in the amount of \$6.9 million. According to the auditors, Bechtel would not have to pay these fees because the trailers were scheduled to be demobilized.⁵⁵

E. The Contract with Carnival Cruise Lines

In September 2005, the Military Sealift Command, acting on behalf of FEMA, awarded Carnival Cruise Lines three contracts worth a combined \$236 million to provide temporary housing to Hurricane Katrina evacuees. These contracts proved wasteful for the federal taxpayer, costing more than \$50,000 to house a single person for six months, more than \$300 per person for each night’s lodging.⁵⁶

One reason for the high costs of the Carnival contracts was their generous terms. Under the contracts, Carnival received the same level of profit from the government contract as it would have received under normal operating conditions. Rather than being paid based on the cost of

⁵² *Big Katrina Contractors Win More FEMA Work*, Washington Post (Aug. 10, 2006).

⁵³ Department of Homeland Security Inspector General, *Management Advisory Report on the Major Technical Assistance Contracts* (Nov. 2005) (OIG-06-02).

⁵⁴ Defense Contract Audit Agency, *Application of Agreed-Upon Procedures to Evaluate Bechtel National, Inc.’s Proposal for Contract No. HSFHQ-05-D-0572, Task Order HSFHQ-05-J-004, Revision 2, Site Maintenance and Food Services* (Rept. No. 4281-2006D28000002) (Nov. 10, 2005).

⁵⁵ *Id.*

⁵⁶ Letter from DHS Inspector General Richard L. Skinner to Rep. Henry A. Waxman (June 29, 2006).

housing evacuees, this highly profitable company was compensated for both the revenues the company would have earned under normal operations and any additional expenses that Carnival incurred under the contract. As a result, the taxpayer reimbursed the company for both the cost of housing the evacuees and the revenues the ships would have earned from their casino operations, liquor and drink sales, and on-shore excursions if they were operating normally. The \$236 million contract value also did not take into account all the cost savings that Carnival realized under the contract, such as avoided entertainment and navigational expenses.⁵⁷

F. The Contract for Base Camps

In September 2005, FEMA awarded an \$80 million contract to Clearbrook LLC to build and supply base camps for emergency workers responding to Hurricane Katrina.⁵⁸ In November, the government suspended payments on the contract at the direction of Department of Homeland Security auditors.⁵⁹ The auditors reported a “complete lack of documentation supporting price reasonableness” and found that \$4.9 million had been paid for work performed before the effective date of the contract.⁶⁰ The auditors also found that Clearbrook had billed FEMA for over \$3 million in overcharges based on mathematical error.⁶¹

G. The Contract for Portable Classrooms

In September 2005, the Army Corps of Engineers awarded Akima Site Operations LLC, a subsidiary of an Alaska Native Corporation, a \$40 million no-bid contract to install portable classrooms in Mississippi. According to a recent investigation by GAO, this contract resulted in the waste of millions of taxpayer dollars.⁶²

The GAO investigation found that the Corps agreed to pay Akima \$40 million despite knowing that Akima was charging significantly more than the cost of the classrooms. According to GAO, the Akima price was nearly double what local Mississippi businesses said they would have bid. GAO found that the Corps entered into the contract with Akima without negotiating a better value because there was no competition for the contract.⁶³

⁵⁷ Letter from Rep. Henry A. Waxman to Secretary of Homeland Security Michael Chertoff (Oct. 20, 2005).

⁵⁸ Department of Homeland Security Inspector General, *Clearbrook, LLC Billing Errors Under Contract Number HSFE-06-05-F-6232* (Nov. 2005) (GC-LA-06-07).

⁵⁹ *Payments on Katrina Contract Halted After Billing Questions*, Washington Post (Nov. 17, 2005).

⁶⁰ Department of Homeland Security Inspector General, *Clearbrook, LLC Billing Errors Under Contract Number HSFE-06-05-F-6232* (Nov. 2005) (GC-LA-06-07).

⁶¹ *Id.*

⁶² U.S. Government Accountability Office, *Hurricane Katrina: Army Corps of Engineers Contract for Mississippi Classrooms* (May 2006) (GAO-06-454).

⁶³ U.S. Government Accountability Office, *Hurricanes Katrina and Rita: Contracting for Response and Recovery Efforts* (Nov. 2, 2005) (GAO-06-235T).

IV. SUSPECT NEW CONTRACTS

Rather than learn from the many mistakes made in response to Hurricane Katrina, it appears that FEMA officials may be poised to repeat them. On August 9, 2006, FEMA awarded six “technical assistance” contracts, worth \$250 million each, for the installation and maintenance of temporary housing in response to future disasters. Four of these contracts, however, were awarded to the same contractors who received the emergency, no-bid technical assistance contracts following Hurricane Katrina: Bechtel, CH2M Hill, Fluor, and Shaw Group. In the case of each of the four contractors, government auditors found significant problems with contract performance, management, or cost control.⁶⁴

Two new consortia also received technical assistance contracts. But some of the companies in these consortia also have records of poor performance and excessive charges. Parsons, for example, received a contract to build 150 health clinics in Iraq, but completed only 20 in two years before the Army terminated the contract. According to auditors, “failure on the part of the contractor” delayed completion of the contract and escalated costs.⁶⁵ Similarly, Dyncorp overbilled the government more than \$600,000 to deliver fuel to an Iraqi police training center.⁶⁶

Moreover, FEMA contemplates that the actual work under the new contracts will be done by subcontractors. According to Deirdre Lee, FEMA’s deputy director of operations, the contractors will be encouraged to subcontract work under the contracts as soon as possible.⁶⁷ This reliance on subcontractors threatens to replicate the layering of fees that led to extensive waste in the Hurricane Katrina response.

V. CONCLUSION

This report examines contracting in the aftermath of Hurricane Katrina. It finds that that contract spending for recovery and reconstruction in the Gulf Coast was hindered by the lack of advance planning; that competitive contracts were the exception, not the rule; that contract mismanagement has been widespread, due in part to shortages of trained contract; and that the cumulative costs to the taxpayer are enormous. The report and its appendix identify 19 Hurricane Katrina contracts worth \$8.75 billion that have experienced waste, fraud, abuse, and mismanagement.

⁶⁴ Department of Homeland Security Inspector General, *Management Advisory Report on the Major Technical Assistance Contracts* (Nov. 2005) (OIG-06-02).

⁶⁵ Special Inspector General for Iraq Reconstruction, *Management of the Primary Healthcare Centers Construction Projects*, Audit Report 06-011 (Apr. 29, 2006).

⁶⁶ U.S. Department of State Inspector General, *Review of Agreed-Upon Procedures for the Verification of Excessive Fuel Charges in Support of the Jordan International Police Training Center*, Audit Report AUD/IQO-05-16 (Mar. 2005).

⁶⁷ *Big Katrina Contractors Win More FEMA Work*, Washington Post (Aug. 10, 2006).

APPENDIX A: PROBLEM CONTRACTS

Total Number of Contracts: 19
Total Estimated Value: \$8.75 billion

This Appendix lists 19 contracts that the U.S. Government Accountability Office, agency inspectors general, the Defense Contract Audit Agency, or other government investigators have found to involve waste, abuse, or mismanagement. In each case listed, auditors found that contract abuses or mismanagement occurred during the last five years.

The cumulative estimated value of these 19 contracts is approximately \$8.75 billion. Estimated value is defined as the total program cost or contract ceiling. When contracts have been completed and actual costs are known, or if total program costs or contract ceilings are unknown, value is estimated as the most recent contract costs cited by federal auditors.

The Appendix provides citations to all listed audit reports, as well as electronic hyperlinks for all listed audit reports that are publicly available on the Internet.

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- Contractor:** Akima Site Operations, LLC.
Department or Agency: Department of Defense.
Estimated Value: \$40 million.
Contract Description: Portable Classrooms for Mississippi Schools.
Selected Audit Report(s): U.S. Government Accountability Office, [Hurricane Katrina: Army Corps of Engineers Contract for Mississippi Classrooms](#) (May 2006) (GAO-06-454); U.S. Government Accountability Office, [Hurricanes Katrina and Rita: Contracting for Response and Recovery Efforts](#) (Nov. 2, 2005) (GAO-06-235T)
Problem(s) with Contract: Wasteful Spending; Lack of Competition.

 - Contractor:** Ashbritt.
Department or Agency: Department of Defense.
Estimated Value: \$500 million.
Contract Description: Debris Removal.
Selected Audit Report(s): Army Corps of Engineers and Defense Contract Audit Agency, [Audit Documents](#) (various).
Problem(s) with Contract: Wasteful Spending; Mismanagement.

- 3. Contractor:** Bechtel National, Inc.
Department or Agency: Department of Homeland Security.
Estimated Value: \$575 million.
Contract Description: Manage Temporary Housing for Katrina Evacuees.
Selected Audit Report(s):
Department of Homeland Security Inspector General, [Management Advisory Report on the Major Technical Assistance Contracts](#) (Nov. 2005) (OIG-06-02).
Problem(s) with Contract: Mismanagement; Wasteful Spending.

- 4. Contractor:** Carnival Cruise Lines.
Department or Agency: Department of Homeland Security.
Estimated Value: \$82.7 million.
Contract Description: Cruise Ship Housing for Katrina Evacuees (Ecstasy).
Selected Audit Report(s): Naval Audit Service, [Chartered Cruise Ships](#) (Feb. 2006) (Audit Report N2006-0015); Department of Homeland Security Inspector General, [Management Advisory Report on the Acquisition of Cruise Ships for Hurricane Katrina Evacuees](#) (Feb. 2006) (Report No. GC-HQ-06-11).
Problem(s) with Contract: Wasteful Spending.

- 5. Contractor:** Carnival Cruise Lines.
Department or Agency: Department of Homeland Security.
Estimated Value: \$62.2 million.
Contract Description: Cruise Ship Housing for Katrina Evacuees (Holiday).
Selected Audit Report(s): Naval Audit Service, [Chartered Cruise Ships](#) (Feb. 2006) (Audit Report N2006-0015); Department of Homeland Security Inspector General, [Management Advisory Report on the Acquisition of Cruise Ships for Hurricane Katrina Evacuees](#) (Feb. 2006) (Report No. GC-HQ-06-11).
Problem(s) with Contract: Wasteful Spending.

- 6. Contractor:** Carnival Cruise Lines.
Department or Agency: Department of Homeland Security.
Estimated Value: \$91.1 million.
Contract Description: Cruise Ship Housing for Katrina Evacuees (Sensation).
Selected Audit Report(s): Naval Audit Service, [Chartered Cruise Ships](#) (Feb. 2006) (Audit Report N2006-0015); Department of Homeland Security Inspector General, [Management Advisory Report on the Acquisition of Cruise Ships for Hurricane Katrina Evacuees](#) (Feb. 2006) (Report No. GC-HQ-06-11).
Problem(s) with Contract: Wasteful Spending.

7. **Contractor:** Ceres Environmental Services.
Department or Agency: Department of Defense.
Estimated Value: \$500 million.
Contract Description: Debris Removal.
Selected Audit Report(s): Army Corps of Engineers and Defense Contract Audit Agency, [Audit Documents](#) (various).
Problem(s) with Contract: Wasteful Spending; Mismanagement.
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8. **Contractor:** CH2M Hill Constructors, Inc.
Department or Agency: Department of Homeland Security.
Estimated Value: \$530 million.
Contract Description: Manage Temporary Housing for Katrina Evacuees.
Selected Audit Report(s): Department of Homeland Security Inspector General, [Management Advisory Report on the Major Technical Assistance Contracts](#) (Nov. 2005) (OIG-06-02).
Problem(s) with Contract: Mismanagement; Wasteful Spending.
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9. **Contractor:** Clearbrook, LLC.
Department or Agency: Department of Homeland Security.
Estimated Value: \$80 million.
Contract Description: Food and Lodging at Base Camps for Hurricane Katrina.
Selected Audit Report(s): Department of Homeland Security Inspector General, [Clearbrook, LLC Billing Errors Under Contract Number HSFE-06-05-F-6232](#) (Nov. 2005).
Problem(s) with Contract: Lack of Defined Requirements; Wasteful Spending; Mismanagement.
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10. **Contractor:** Environmental Chemical Corp.
Department or Agency: Department of Defense.
Estimated Value: \$500 million.
Contract Description: Debris Removal.
Selected Audit Report(s): Army Corps of Engineers and Defense Contract Audit Agency, [Audit Documents](#) (various).
Problem(s) with Contract: Wasteful Spending; Mismanagement.

11. Contractor: Fluor Enterprises, Inc.
Department or Agency: Department of Homeland Security.
Estimated Value: \$1.4 billion.
Contract Description: Manage Temporary Housing for Katrina Evacuees.
Selected Audit Report(s): Department of Homeland Security Inspector General, [Management Advisory Report on the Major Technical Assistance Contracts](#) (Nov. 2005) (OIG-06-02).
Problem(s) with Contract: Mismanagement; Wasteful Spending.

12. Contractor: International American Products, Worldwide.
Department or Agency: Department of Homeland Security, Department of Defense.
Estimated Value: \$100 million.
Contract Description: Emergency Ice.
Selected Audit Report(s): President's Council on Integrity and Efficiency, Executive Council on Integrity and Efficiency, [Oversight of Gulf Coast Hurricane Recovery: A 90-Day Progress Report to Congress](#) (Dec. 30, 2005); U.S. Government Accountability Office, [Hurricane Katrina: Better Plans and Exercises Needed to Guide the Military's Response to Catastrophic Natural Disasters](#) (May 2006) (GAO-06-643).
Problem(s) with Contract: Mismanagement.

13. Contractor: Landstar Express America Inc.
Department or Agency: Department of Transportation.
Estimated Value: \$136.9 million.
Contract Description: Bus Transportation Services.
Selected Audit Report(s): President's Council on Integrity and Efficiency, Executive Council on Integrity and Efficiency, [Oversight of Gulf Coast Hurricane Recovery: A 90-Day Progress Report to Congress](#) (Dec. 30, 2005); Department of Transportation Inspector General, [Internal Controls Over The Emergency Disaster Relief Transportation Services Contract](#) (Jan. 20, 2006).
Problem(s) with Contract: Wasteful Spending; Mismanagement.

14. **Contractor:** Lipsey Mountain Spring Water Co.

Department or Agency: Department of Homeland Security, Department of Defense.

Estimated Value: \$74.5 million.

Contract Description: Emergency Water.

Selected Audit Report(s): President's Council on Integrity and Efficiency, Executive Council on Integrity and Efficiency, [Oversight of Gulf Coast Hurricane Recovery: A 90-Day Progress Report to Congress](#) (Dec. 30, 2005); U.S. Government Accountability Office, [Hurricane Katrina: Better Plans and Exercises Needed to Guide the Military's Response to Catastrophic Natural Disasters](#) (May 2006) (GAO-06-643).

Problem(s) with Contract: Mismanagement.

15. **Contractor:** Multiple Contractors.

Department or Agency: Department of Homeland Security.

Estimated Value: \$915 million.

Contract Description: Manufactured/Modular Homes for Katrina and Rita Evacuees.

Selected Audit Report(s): Department of Homeland Security Inspector General, [Mobile Homes and Modular Homes at Hope and Red River](#) (Feb. 2006) (Report No. GC-HQ-06-12); Department of Homeland Security Inspector General, [Oversight of Gulf Coast Hurricane Recovery, A Semiannual Report to Congress](#) (Apr. 30, 2006); Senate Committee on Homeland Security and Governmental Affairs, [Testimony of Department of Homeland Security Inspector General Richard L. Skinner](#) (Feb. 13, 2006).

Problem(s) with Contract: Lack of Defined Requirements; Wasteful Spending; Mismanagement.

16. **Contractor:** Multiple Contractors.

Department or Agency: Department of Homeland Security.

Estimated Value: \$1.7 billion.

Contract Description: Travel Trailers for Katrina Evacuees.

Selected Audit Report(s): Department of Homeland Security Inspector General, [Oversight of Gulf Coast Hurricane Recovery, A Semiannual Report to Congress](#) (Apr. 30, 2006); Senate Committee on Homeland Security and Governmental Affairs, [Testimony of Department of Homeland Security Inspector General Richard L. Skinner](#) (Feb. 13, 2006).

Problem(s) with Contract: Wasteful Spending; Mismanagement; Lack of Competition.

17. **Contractor:** Phillips and Jordan.
Department or Agency: Department of Defense.
Estimated Value: \$500 million.
Contract Description: Debris Removal.
Selected Audit Report(s): Army Corps of Engineers and Defense Contract Audit Agency, [Audit Documents](#) (various).
Problem(s) with Contract: Wasteful Spending; Mismanagement.
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18. **Contractor:** Scotia Prince Cruise Line.
Department or Agency: Department of Homeland Security.
Estimated Value: \$13 million.
Contract Description: Cruise Ship Housing for Katrina Evacuees.
Selected Audit Report(s): Naval Audit Service, [Chartered Cruise Ships](#) (Feb. 2006) (Audit Report N2006-0015); Department of Homeland Security Inspector General, [Management Advisory Report on the Acquisition of Cruise Ships for Hurricane Katrina Evacuees](#) (Feb. 2006) (Report No. GC-HQ-06-11).
Problem(s) with Contract: Wasteful Spending.
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19. **Contractor:** Shaw Environmental, Inc.
Department or Agency: Department of Homeland Security.
Estimated Value: \$950 million.
Contract Description: Manage Temporary Housing for Katrina Evacuees.
Selected Audit Report(s): Department of Homeland Security Inspector General, [Management Advisory Report on the Major Technical Assistance Contracts](#) (Nov. 2005) (OIG-06-02).
Problem(s) with Contract: Mismanagement; Wasteful Spending.