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ONE YEAR LATER... KATRINA'S WASTE

A Report Detailing Contracting Fraud, Waste,
and Abuse in the Aftermath of Hurricane Katrina



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Index

Introduction	Page 2
Manufactured Housing	Page 3
Waste Begets Waste	Page 5
Blue Roofs	Page 6
Debris Removal	Page 8
Temporary Classrooms	Page 10
Small Business Contracts	Page 12
Ice	Page 14
FEMA Underfunded	Page 16
Bad Investments	Page 18
Technical Assistance	Page 19
Compounding the Agony	Page 20
Conclusion	Page 21

Introduction

On August 29, 2005, Hurricane Katrina came ashore along the Gulf Coast, bringing with it unprecedented devastation. The human cost of the storm was staggering – nearly 1,700 lives lost, hundreds of thousands homeless, even more without work.

In the days and weeks that followed, the federal government played a desperate game of catch-up. For years this Administration had ignored and underfunded the Federal Emergency Management Agency (FEMA), and saddled it with leaders picked based on who they knew – not what they knew. At the time Katrina struck, FEMA’s procurement office had only *one-third* of the staff that senior Department of Homeland Security leaders knew were needed to perform the office’s day-to-day functions.¹ Specifically, a Department study had shown that FEMA needed between 95 and 125 procurement employees for its annual, non-emergency duties. Yet the office was only “authorized” to have 55 employees and only had funds to hire 36 of these 55.

This staffing crisis had real consequences: when Katrina struck, FEMA did not have in place contracts necessary to respond to a large-scale catastrophe and had

no “surge” capacity. FEMA’s beleaguered procurement employees worked around the clock but were immediately overwhelmed. The result of FEMA’s lack of preparation and staffing shortage was, not surprisingly, a significant waste of taxpayers’ money. The U.S. House Committee on Homeland Security, as well as the Department’s Office of Inspector General and the Government Accountability Office (GAO), have been investigating fraud, waste, and abuse in post-Katrina contracts. Problems identified to date include:

- Sole-source contracts being issued at exorbitant prices;
- Local and small businesses being excluded from recovery contracts;
- Contracts with four or more layers of subcontractors collecting a cut, while the people doing the actual work receive pennies on the dollar;
- Rushed decisions made in the midst of a crisis because funding was never provided for proper planning; and
- A failure to rebid competitively contracts that were issued sole-source in the days immediately before and after the storm.

All told, this report identifies over \$7 Billion in contracts, much of which was wasted. Many of these contracts were issued non-competitively. This report is not the end of the process; rather it is merely a sampling of what has been uncovered to date. Many of the areas detailed below are still under active investigation. This Committee should immediately hold hearings into the issues outlined below – and the many others that are still emerging.

¹ Staff of Senate Committee on Homeland Security and Government Affairs, 109th Congress, *Hurricane Katrina: A Nation Still Unprepared*, pg. 14-11 (May 2006); Dizard, Wilson P., “Greg Rothwell: Better buys at DHS, interview with Greg Rothwell, former chief procurement officer of the Homeland Security Department,” *Government Computer News*, January 9, 2006, available online at http://www.gcn.com/print/25_01/37878-1.html?topic=interview (Rothwell told the Department’s “senior leadership” that FEMA’s procurement office was one of the most “several understaffed” in the Department”).

Manufactured Housing: \$900 Million in Unusable Homes

Housing for disaster victims was one of the many areas that FEMA was unprepared to handle. Unfortunately, this failure was not for lack of knowledge of this weakness. Indeed, FEMA had long anticipated the need to have a catastrophic housing plan, and requested \$20 million in Fiscal Year 2005 to create one.² The Department of Homeland Security, however, rejected this request. Thus, when Katrina struck, FEMA was unprepared to deal with the hundreds of thousands of citizens who were immediately made homeless. Not only did FEMA not have appropriate contracts in place to house the evacuees, it had no plan.

Historically, FEMA housed disaster victims in travel trailers. Consistent with this past practice, in the days and weeks after Katrina FEMA purchased every trailer it could identify. But it was quickly apparent that the need far exceeded the number of available trailers. It was in this rush to find housing for evacuees that FEMA paid almost \$900 million for over 26,000 manufactured and modular homes.³

FEMA regulations, however, prohibit placing these types of homes in flood plains. Not surprisingly, though, most of the citizens whose homes were flooded by Katrina lived in flood plains. Moreover, approximately 2,360 of these homes cannot be used for an additional reason – they exceed FEMA’s size regulations.⁴ FEMA, apparently, did not inform its contracting officers of this requirement in the rush to find housing.

Efforts to determine how these purchases happened have been hampered by FEMA’s poor documentation. Though purchases of this size must be authorized by senior FEMA officials, FEMA’s purchasing documents are missing this required information.⁵ The Inspector General found that on August 30, 2005 (the day after Katrina made landfall), FEMA’s Housing Area Commander sent an email instructing that FEMA should “[p]urchase [temporary housing] until I say stop.”⁶ FEMA’s Deputy Director of Recovery sent an email seeking clarification of this direction, but the Inspector General could not find later emails offering specific instructions.⁷

² Staff of Senate Committee on Homeland Security and Government Affairs, 109th Congress, *Hurricane Katrina: A Nation Still Unprepared*, pg. 14-6 (May 2006).

³ According to the Department of Homeland Security’s Inspector General, FEMA paid \$857.8 million for 24,967 manufactured homes and \$40 million for 1,295 modular homes. U.S. Congress, Senate, Committee on Homeland Security and Governmental Affairs, *Hurricane Katrina: Waste, Fraud and Abuse Worsen the Disaster*, testimony of Richard Skinner, Inspector General of the Department of Homeland Security, 109th Cong., 2nd sess., pg. 7, 13 February 2006. Available online at <http://hsgac.senate.gov/files/021306Skinner.pdf>

⁴ *Ibid.* pg. 8

⁵ U.S. Congress, Senate, Committee on Homeland Security and Government Affairs, *FEMA’s Manufactured Housing Program: Haste Makes Waste*, testimony of Richard Skinner, Inspector General of the Department of Homeland Security, 109th Cong., 2nd sess., pg. 5, 21 April 2006. Available online at <http://hsgac.senate.gov/files/042106Skinner.pdf>

⁶ *Ibid.* pg. 5

⁷ *Ibid.* pg. 5

In short, FEMA paid \$900 million for more than 26,000 homes that cannot be used by the overwhelming majority of the evacuees whose homes were ruined by Katrina. As of the last Inspector General report, FEMA was anticipating being able to use approximately 7,000 of these homes.⁸ FEMA has explained that it hopes to use the remaining homes for other disasters, but has acknowledged that it has plans to sell the homes if they are not used.⁹ Typically such sales recover only pennies on the dollar, but these FEMA-owned homes may well sell for even less than is typical because FEMA removed dishwashers, built-in televisions, and built-in microwaves from many units so that all would offer the same amenities.¹⁰

⁸ Ibid. pg. 9

⁹ Staff of Senate Committee on Homeland Security and Government Affairs, 109th Congress, *Hurricane Katrina: A Nation Still Unprepared*, pt. 28-6 (May 2006); see also U.S. Congress, Senate, Committee on Homeland Security and Government Affairs, *FEMA's Manufactured Housing Program: Haste Makes Waste*, testimony of Richard Skinner, Inspector General of the Department of Homeland Security, 109th Cong., 2nd sess., pg. 5, 21 April 2006.

¹⁰ U.S. Congress, Senate, Committee on Homeland Security and Governmental Affairs, *Hurricane Katrina: Waste, Fraud and Abuse Worsen the Disaster*, testimony of Richard Skinner, Inspector General of the Department of Homeland Security, 109th Cong., 2nd sess., pg. 7, 13 February 2006.

Waste Begets Waste:

Storing Unusable Manufactured Housing

Once FEMA realized that it could not use the overwhelming majority of the \$900 million worth of manufactured and modular housing units that it purchased, it needed somewhere to store them. Some are spread across sites in Louisiana, Texas, Alabama, and Mississippi, with another 10,000 being stored on a runway and a field adjacent to a municipal airport in Hope, Arkansas.¹¹ An examination of this last site reveals how poor and rushed decisions (in this case the purchase of unusable housing) can have unintended – and costly – consequences.

A threshold issue is the cost to rent the land on which the housing is stored. Before FEMA arrived, the city of Hope rented the property to a hay farmer for \$5,000 per year.¹² FEMA, on the other hand, agreed to pay \$25,000 *per month* – or \$300,000 per year – to rent this land.¹³ FEMA then paid \$272,000 to construct an access road to the site, as well as an additional \$58,000 in maintenance costs every three months.¹⁴

But the spending does not stop there. Because the units were placed on open fields, many were sinking into the earth and becoming damaged. To try to mitigate this, and to make it easier to move the homes in the future, FEMA has contracted to spend \$4.2 million to lay gravel over much of the area, with an option for an additional \$2.9 million.¹⁵ All told, the Inspector General estimates that FEMA will spend almost \$47 million in 2006 to store and maintain manufactured housing.¹⁶

¹¹ U.S. Congress, Senate, Committee on Homeland Security and Governmental Affairs, *Hurricane Katrina: Waste, Fraud and Abuse Worsen the Disaster*, testimony of Richard Skinner, Inspector General of the Department of Homeland Security, 109th Cong., 2nd sess., pg. 7, 13 February 2006.

¹² Davis, Andy. “Hope airport to see 5,000 homes go rest stay; FEMA has long-term emergency supply plans for site,” *Arkansas Democrat-Gazette*, March 22, 2006; Staff of Senate Committee on Homeland Security and Governmental Affairs, 109th Congress, *Hurricane Katrina: A Nation Still Unprepared*, pt. 28-6 (May 2006).

¹³ U.S. Congress, Senate, Committee on Homeland Security and Governmental Affairs, *FEMA’s Manufactured Housing Program: Haste Makes Waste*, testimony of Dennis Ramsey, Mayor, City of Hope, 109th Cong., 2nd sess., pg. 5, 21 April 2006. (Contract Enclosed) Available online at <http://hsgac.senate.gov/files/042106Ramsey.pdf>

¹⁴ U.S. Congress, Senate, Committee on Homeland Security and Governmental Affairs, *FEMA’s Manufactured Housing Program: Haste Makes Waste*, testimony of Richard Skinner, Inspector General of the Department of Homeland Security, 109th Cong., 2nd sess., pg. 6, 21 April 2006.

¹⁵ *Ibid.* pg. 8.

¹⁶ *Ibid.* pg. 6.

Blue Roofs:

Plastic Tarps for the Price of Asphalt Shingles

Many of the homes that survived Hurricane Katrina were badly damaged, with roof damage being a common problem. In order to make these homes habitable, the government began a program called “Operation Blue Roof.” In order to install these “blue roofs” – blue plastic tarps – on damaged homes, the United States Army Corps of Engineers (Army Corps) issued contracts reportedly in excess of \$330 million. Five prime contractors, two in Mississippi¹⁷ and three in Louisiana,¹⁸ were the primary recipients of these contracts.¹⁹

Roofers are paid by the “square,” which is 100 square feet. The contracts with these five primary contractors ranged in price from a “low” of \$149 per square to a high of \$187 per square.²⁰ This price – which did not include the cost of the tarps, which were supplied by the government – rivaled the prices some local contractors charge for purchasing and installing a typical asphalt shingle roof.²¹

Some of these contracts were negotiated in the months before Katrina, and the high prices supposedly reflect the difficulty of working in a disaster area. But while this justification might explain why such high prices were paid in the immediate aftermath of the storm, it does not explain why the government continued to pay these rates months after Katrina. Indeed, when the government did turn to other contractors, it got much better pricing. For instance, in October, the government sought competitive bids from minority-owned companies, and hired Ystueta, Inc. for \$74 per square – less than half what it was paying the five prime contractors.²² Yet even after finding that contractors like Ystueta could do the job for less than half the price, the government still continued to issue work orders at the original higher prices.²³

One of the primary reasons for the high prices was the multiple layers of sub-contractors involved. As a result of these many tiers of subcontractors, very little of the contract price trickled down to the people doing the actual work. For while the large prime

¹⁷ The two contractors in Mississippi are Carothers Construction, Inc., and Ceres Environmental Services.

¹⁸ The three contractors in Louisiana are Simon Roofing, the Shaw Group, and LJC Construction Co.

¹⁹ Varney, James and Russell, Gordon. “Blue Roof Costs Have Critics Seeing Red,” *The Times-Picayune*, Feb. 19, 2006.

²⁰ Ibid.

²¹ Warrick, Joby. “Multiple Layers of Contractors Drive Up Cost of Katrina Cleanup,” *The Washington Post*, March 20, 2006, A01.

²² Varney, James and Russell, Gordon. “Blue Roof Costs Have Critics Seeing Red,” *The Times-Picayune*, Feb. 19, 2006.

²³ Varney, James and Russell, Gordon. “Blue Roof Costs Have Critics Seeing Red,” *The Times-Picayune*, Feb. 19, 2006.

contractors were collecting upwards of \$149, work crews were paid approximately \$10 per square, with some reportedly making as little as \$2 per square.²⁴

Beyond this wasteful spending, there have been allegations of double-billing, charging for work not done, inflating invoices, and shoddy workmanship.²⁵

²⁴ Varney, James and Russell, Gordon. "Blue Roof Costs Have Critics Seeing Red," *The Times-Picayune*, Feb. 19, 2006; *see also* Warrick, Joby. "Multiple Layers of Contractors Drive Up Cost of Katrina Cleanup," *The Washington Post*, March 20, 2006, A01.

²⁵ Staff of House of Representatives Minority Committee on Government Reform, 109th Congress, *Dollars, Not Sense: Government Contracting Under the Bush Administration* (May 2006).

Debris Removal:

Multiple Layers of Contractors Taking Their Cut while Local Businesses are Left Out in the Cold

Debris removal was a pressing need after Katrina. Immediately after the storm, the Corps of Engineers awarded contracts to four companies: Ashbritt, Inc., Ceres Environmental Services, Inc., Environmental Chemical Corp., and Phillips and Jordan Inc. Each contract had an initial cap of \$500 million. On March 28, 2006, the Army's Auditor General reported the Army Corps had obligated more than \$1.6 billion to these four contracts.²⁶ More recently, FEMA estimated that it has paid \$3.6 billion for debris removal in Alabama, Louisiana, Mississippi, and Texas.²⁷

Randall Perkins, the President of Ashbritt, testified before a Congressional Committee that his company was being paid \$23 per cubic yard for debris removal.²⁸ The *Washington Post* has reported that local officials and "businesspeople knowledgeable about the contracts" said prime contractors were being paid between \$28 and \$30 per cubic yard.²⁹ But whether the rate the government paid was \$23, \$28 or \$30, there are unanswered questions about how this price was negotiated. An audit by the United States Army Audit Agency found that the task orders issued under these contracts were priced at \$4.85 per cubic yard more than the contractors' initial bids, and \$4.86 more than the Army's independent estimates.³⁰ The Audit Agency could find no explanation in the contract files to reconcile or justify these differences.

Additionally, as with "Operation Blue Roof," the people doing the actual work were paid just a fraction of the contract price. Perkins said that his company was paying a subcontractor on average just \$10 of the \$23 his company was collecting per cubic yard.³¹ One Louisiana

²⁶ U.S. Congress, Senate, Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, and International Security, *Management and Oversight of Federal Disaster Recovery: Debris Removal, Blue Roof Program, Haul and Install Case Studies*, statement of Patrick Fitzgerald, Auditor General of the Army, 109th Cong., 2nd sess., pg. 2, 10 April, 2006. Available online at http://coburn.senate.gov/ffm/index.cfm?FuseAction=Files.View&FileStore_id=7e85279b-93dd-416b-95b0-0fb53436b327

²⁷ Jordan J., Lara. "Dispute Delays Federal Gulf Coast Cleanup," *The Associated Press*, June 28, 2006. In addition to direct payment to contractors, this number may include reimbursements to localities that chose to manage their own debris removal.

²⁸ U.S. Congress, House of Representatives, Committee on Government Reform, *Sifting Through Katrina's legal Debris: Contracting in the Eye of the Storm*, testimony of Randall R. Perkins, President of Ashbritt Inc., 109th Congress, 2nd sess., 4 May, 2006. Full transcript retrieved online on Congressional Quarterly.

²⁹ Warrick, Joby. "Multiple Layers of Contractors Drive Up Cost of Katrina Cleanup," *The Washington Post*, March 20, 2006, A01.

³⁰ U.S. Congress, Senate, Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, and International Security, *Management and Oversight of Federal Disaster Recovery: Debris Removal, Blue Roof Program, Haul and Install Case Studies*, statement of Patrick Fitzgerald, Auditor General of the Army, 109th Cong., 2nd sess., pg. 3, 10 April, 2006.

³¹ U.S. Congress, House of Representatives, Committee on Government Reform, *Sifting Through Katrina's legal Debris: Contracting in the Eye of the Storm*, testimony of Randall R. Perkins, President of Ashbritt Inc., 109th Congress, 2nd session, 4 May, 2006.

debris hauler reported that he was being paid between \$6 and \$10 per cubic yard of debris.³² Indeed, this debris hauler appears to have done well even to collect \$6 to \$10, as the \$10 per cubic yard that Ashbritt paid was just one of five or more layers of contracting that in some cases left haulers being paid just \$3 per cubic yard. In one example, the \$23 per cubic yard that the government paid to Ashbritt paid for *four* levels of subcontractors. Ashbritt hired a company called C&B Enterprises for \$9 per cubic yard, which hired Amlee Transportation for \$8 per cubic yard, which hired Chris Hessler Inc, for \$7 per cubic yard, which hired a debris hauler from New Jersey to do the actual work for \$3 per cubic yard.³³

Moreover, there is strong evidence that local contractors – who under the Stafford Act should have been given a preference for these contracts – were offering much better prices. The city of Gulfport, Mississippi, for example, hired a contractor for \$14.95 per cubic yard, while the city of Biloxi, Mississippi paid \$15.89 per cubic yard.³⁴ But while local municipalities were negotiating less expensive contracts, FEMA was non-responsive to local businesses.

Derrell Cohoon, the CEO of the Louisiana Associated General Contractors, testified that just days after Katrina, his organization had identified seventy firms that wanted to participate in debris clean-up.³⁵ Yet Cohoon was unable to get FEMA to respond to his inquiries, and by the time he learned of the huge prime contracts, “the 1st, 2nd, 3rd, and even 4th tier subcontracts were already in effect, and Louisiana firms were being relegated to 5th, 6th, and lower tiers.”³⁶ Many “couldn’t afford to take the work at the prices demanded of them by the primary contractors or higher-tiered subcontractors, or they were never afforded the opportunity for work at all.”³⁷

In addition, there are reports of double-billing for debris, making excess claims based on mileage, receiving payment for ineligible debris, and other fraudulent practices.³⁸

³² Warrick, Joby. “Multiple Layers of Contractors Drive Up Cost of Katrina Cleanup,” *The Washington Post*, March 20, 2006, A01.

³³ Myers, Lisa and NBC Investigative Unit. “Is Katrina Cleanup a Fleecing of America?” *MSNBC Online Edition*, June 5, 2006. Retrieved online at <http://www.msnbc.msn.com/id/13153520/>

³⁴ Ibid.

³⁵ U.S. Congress, Senate, Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, and International Security, *Management and Oversight of Federal Disaster Recovery: Debris Removal, Blue Roof Program, Haul and Install Case Studies*, statement of Derrell Cohoon, CEO of Louisiana Associated General Contractors, 109th Cong., 2nd sess., pg. 2, 10 April, 2006. Retrieved online at http://coburn.senate.gov/ffm/index.cfm?FuseAction=Files.View&FileStore_id=56cf80f1-623e-475f-85d4-125036926a76

³⁶ Ibid. pg. 3.

³⁷ Ibid. pg. 3.

³⁸ Staff of House of Representatives Minority Committee on Government Reform, 109th Congress, *Dollars, Not Sense: Government Contracting Under the Bush Administration*, pg. 59, (May 2006).

Temporary Classrooms: Questionable Prices, Excluding Local Businesses

Among the scores of buildings destroyed by Hurricane Katrina were many schools. In a laudable effort to get Mississippi's schools up and running, FEMA moved to secure temporary classrooms. On September 10, 2005, FEMA tasked the Army Corps with purchasing 450 portable classrooms, and on September 20th the Army Corps placed a sole-source order with Akima Site Operations for the classrooms. The Army Corps was able to avoid competition because Akima, as an Alaska Native Corporation, is allowed to receive no-bid contracts.³⁹ The cost was \$39.5 million dollars, or approximately \$88,000 per classroom.⁴⁰

The GAO reviewed this contract and found that Akima solicited quotes for the classrooms from a local Mississippi business. This Mississippi business, in turn, determined that it could purchase the classrooms from a supplier in Florida for between \$45,000 and \$50,000, and provided a price quote to Akima. Despite the fact that Akima gave this quote to the Army Corps – and despite pre-existing government contracts under which classrooms could be purchased for between \$30,000 and \$54,000 – the Army Corps agreed to pay Akima \$88,000 per classroom. According to the GAO, “the Corps could have, but failed to, negotiate a lower price.”⁴¹

At a minimum, the Army Corps agreed to pay \$34,000 per classroom more than established prices. In the end, however, taxpayers may have overpaid far more than that, because the GAO found that Akima ultimately bought the classrooms directly from the supplier identified by the Mississippi business – for less than the quote the Mississippi business originally supplied.⁴²

But overpaying for these classrooms is just part of the problem. The Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act) establishes a preference for using local and small businesses in areas affected by a disaster.⁴³ This preference was ignored here

³⁹ Alaska Native corporations (ANC) are designed to foster economic development for Alaska Natives, and receive special advantages under the Small Business Administration's 8(a) Business Development Program. While acquisitions under the 8(a) program that exceed more than \$3 million (\$5 million for manufacturing) must be competed, ANCs can be awarded contracts noncompetitively for any dollar amount.

⁴⁰ GAO, *Hurricane Katrina: Army Corps of Engineers Contract for Mississippi Classrooms*, 06-454 (Washington, D.C.: May 1, 2006).

⁴¹ Akima takes issue with the GAO report, asserting that its “conclusion is based on an incomplete analysis of cost data that did not consider ALL 450 classrooms and the actual costs associated with transportation, logistics, and set-up costs.” (emphasis in original). Akima insists that it “did not overcharge the government.” Akima also notes that it delivered the first 200 classrooms ahead of the 14 day delivery schedule, and that all 450 classrooms were delivered five days earlier than the final schedule. GAO, *Hurricane Katrina: Army Corps of Engineers Contract for Mississippi Classrooms*, 06-454 (Washington, D.C.: May 1, 2006). See also Letter from John Wood, President/CEO, Akima Management Services, Inc., to the Honorable Bennie G. Thompson, Ranking Member, House Committee on Homeland Security, (May 4, 2006) (on file with the Committee on Homeland Security).

⁴² GAO, *Hurricane Katrina: Army Corps of Engineers Contract for Mississippi Classrooms*, 06-454, pg. 7, (Washington, D.C.: May 1, 2006).

⁴³ Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. 5121 *et. seq.*

and elsewhere, because, as the GAO found, “[p]reparation was lacking in implementation of the Stafford Act preference for contractors residing or doing business in the affected area. [Army Corps] staff expressed uncertainty regarding how to apply preferences or determine if a company was in an affected area.”⁴⁴

In this case, this lack of “preparation” resulted in the Army Corps hiring an Alaskan company which in turn purchased classrooms from a Florida company. And because of the Army Corps’ “uncertainty” regarding the Stafford Act requirements, the only role a local Mississippi company played in the deal was to identify a manufacturer for Akima and not be included in the contract.⁴⁵

⁴⁴ GAO, *Agency Management of Contractors Responding to Hurricanes Katrina and Rita*, 06-461R (Washington, D.C.: May 15, 2006).

⁴⁵ GAO, *Hurricane Katrina: Army Corps of Engineers Contract for Mississippi Classrooms*, 06-454 (Washington, D.C.: May 1, 2006).

Small Business Contracts: for Not-So-Small Contractors

Not all of the contracts distributed in the aftermath of Hurricane Katrina were for millions of dollars or went to large contractors. In fact, some contracts are, by law, supposed to go to small contractors. The Department of Homeland Security maintains a database of contractors known as the Homeland Security Contract Information Systems (HSCIS), and in order to facilitate the provision of contracts to small businesses, entries can be coded to identify business types. In order to ensure that they are meeting statutory small contracting requirements, federal agencies track such awards.

One company that was coded as a “small business” in the HSCIS and that received an \$800,000 contract is Corporate Express. Presumably FEMA and the Department included this contract among its small business statistics. Corporate Express, however, was not a small business; it has operations in 17 countries and in 2004, its North American division recorded sales of nearly \$4.5 billion.⁴⁶ The company initially explained that it accidentally entered employment and revenue figures in a government database which allowed them to benefit from small business contracts.⁴⁷ The Inspector General, in turn, postulated that FEMA “personnel may have inadvertently miscoded Corporate Express as a small business in the HSCIS.”⁴⁸

Yet the Inspector General examination also turned up facts that raise questions regarding whether this in fact was an error. Specifically, the Inspector General reviewed a sample that included 183 contracts that were awarded to Corporate Express in fiscal years 2003 and 2004. It found that 28 of these contracts classified Corporate Express as a “small business,” and that five of them were set-aside for small business - meaning that Corporate Express was not eligible to receive them.⁴⁹ In addition, the Small Business Administration told the Inspector General that it found one contract awarded by the Comptroller of the Currency to Corporate Express as a small business, and the General Service Administration found two.⁵⁰ Corporate Express has been on notice that some government agencies believe it to be a small business since at least 2002, when the Navy’s Space and Naval Warfare Systems Command listed it as one of its “Top 50 Small Business Prime Contractors.”⁵¹

⁴⁶ Letter from the Honorable Bennie G. Thompson, Ranking Member, House Committee on Homeland Security to Richard L. Skinner, Inspector General, Department on Homeland Security (Oct. 21, 2005), (on file with the House Minority Committee on Homeland Security).; *See also* Department of Homeland Security, “FEMA Contracts Awarded in Support of Hurricane Katrina related efforts,” contract # HSFE06-05-P-7683, pg. 17, Nov. 10, 2005. Available online at <http://www.taxpayer.net/budget/katrinaspending/femacontracts11-10.pdf>

⁴⁷ Mook, Bob. “Congressman wants probe of Corporate Express” *Denver Business Journal*,” October 24, 2005.

⁴⁸ Letter from Richard L. Skinner, Inspector General, Department on Homeland Security, to the Honorable Bennie G. Thompson, Ranking Member, House Committee on Homeland Security, (Apr. 12, 2006) (on file with the House Minority Committee on Homeland Security).

⁴⁹ *Ibid.*

⁵⁰ *Ibid.*

⁵¹ Mook, Bob. “Congressman wants probe of Corporate Express” *Denver Business Journal*,” October 24, 2005.

FEMA, the Department, and the federal government must do better. FEMA needs to have enough staff to ensure that small businesses that receive contracts truly are small, and Corporate Express is but one example of a recovery effort that has largely left out small, disadvantaged, minority- or women-owned businesses.

Ice:

From Here to There to Storage

In the wake of Katrina, victims across the Gulf Coast were in desperate need of food, water, and ice. All were slow in coming, but the story of FEMA and the Army Corp's efforts to deliver ice is particularly troubling. Ice is a particularly crucial commodity to have in disaster response operations; it is needed to cool food and medicine, and could have been used in the make-shift morgues to keep many of the victims' bodies cool.

Based on an Army Corps model, FEMA estimated that it would need 200 million pounds of ice for a category 5 hurricane.⁵² Ultimately, the Army Corps ordered 182 million pounds of ice, but used only 40% of it.⁵³ FEMA has explained that much went unused because so many homes were destroyed and many of the storm's victims were relocated to lesser affected areas.⁵⁴ But while it may well be true that the overall demand for ice was not what FEMA had anticipated, it is similarly true that in the first weeks after Katrina, FEMA was unable to get ice to many people who desperately needed it. Trucks were left idling for days while some of Katrina's victims were waiting, and FEMA spent millions of dollars shipping ice back and forth across the United States, ultimately storing much of it. FEMA originally set aside \$200 million for ice purchases, and while there is no credible figure for how much it ultimately spent, as of October 2, 2005, FEMA had issued a contract for over \$104 million.⁵⁵

The story of one load of ice is illustrative: on September 2, trucker Mark Kostinec picked up 20 tons of ice in Greenville, Pennsylvania and was told to take it to a FEMA staging area in Carthage, Missouri. When he arrived in Carthage, however, Kostinec was told to go to Montgomery, Alabama. He spent a day and half in Montgomery - with his trailer running to keep the ice frozen - before being told to go to Camp Shelby, Mississippi. From Camp Shelby he was directed to Selma, Alabama. He spent two days in Selma - again with his trailer running - before being sent to Emporia, Virginia. There he sat for a week, trailer running around the clock. Finally, on September 17, Kostinec was sent to Fremont, Nebraska, where he unloaded the ice into a rented storage freezer. All told, Kostinec drove 20 tons of ice approximately 4,100 miles and was paid \$4,500 for the effort.⁵⁶

Unfortunately, Kostinec's story is not an anomaly. Paul Mullinaux hauled ice from New York first to Missouri, then to Alabama, and then back northward to Massachusetts. Mullinaux, who spent a week in Alabama and at one point refused to take his load to Idaho, was

⁵² MSNBC.com, FEMA Responds to Ice Issues, available at <http://www.msnbc.msn.com/id/9665486/> (last visited Jul. 31, 2006).

⁵³ Ibid.

⁵⁴ Ibid.

⁵⁵ United States Army Corps of Engineers, *Hurricane Katrina Consolidated Contract Listing* (Oct. 11, 2005), available at http://www.usace.army.mil/Katrina/Katrina_Contracts_101205.xls

⁵⁶ Lipton, Eric and Shane, Scott. "Stumbling Storm-Aid Effort Put Tons of Ice on Trips to Nowhere," *The New York Times*, Oct. 2, 2005.

paid \$20,000 for his journey.⁵⁷ Another trucker was paid \$9,000 to haul ice from New York to Alabama before being sent to Maine, where the ice was put in storage.⁵⁸ A fourth started in Wisconsin, went to Louisiana, then started for Georgia, was rerouted for South Carolina, from there went to Cumberland, Maryland, and finally to Iowa, where the ice was stored.⁵⁹

At the same time these trucks criss-crossed the country, FEMA officials in Mississippi were at their wits end; the Federal Coordinating Officer there later testified to Congress that “despite requests that were submitted pre-landfall, only about 25% of requested water and ice arrived in Mississippi during the period of September 1st to the 9th.”⁶⁰ The Inspector General reported that one Joint Field Office published a commodity status report showing that between August 27 and September 5, it received less than half of the ice it requested.⁶¹

In some ways FEMA’s difficulties with ice parallel its manufactured housing problems; FEMA bought plenty but could not make use of it. But with the ice, there were no regulations preventing the ice from reaching many of those in need. Instead, due to poor logistics and planning, FEMA was simply unable to get the ice to some of the areas that were desperately requesting it. The result: people suffered and the government wasted money shipping and storing ice.

⁵⁷ Linn, Mike. “Ice Odyssey Leaves Truckers Cold,” *The Montgomery Advertiser*, Oct. 7, 2005.

⁵⁸ Hench, David. “Hurricane Katrina Truckloads of Ice to be Stored in Portland,” *Kennebec Journal*, Sep. 20, 2005.

⁵⁹ MSNBC.com, FEMA Responds to Ice Issues, available at <http://www.msnbc.msn.com/id/9665486/> (last visited Jul. 31, 2006); Myers, Lisa and the NBC Investigative Unit, “The FEMA Follies,” available at <http://msnbc.com/id/9369937/>; Lipton, Eric and Shane, Scott. “Stumbling Storm-Aid Effort Put Tons of Ice on Trips to Nowhere,” *The New York Times*, Oct. 2, 2005.

⁶⁰ U.S. Congress, Senate, Committee on Homeland Security and Governmental Affairs, *Hurricane Katrina: Perspectives of FEMA’s Operations Professionals*, statement of William L. Carwile, Federal Coordinating Officer, Hurricane Katrina Response and Initial Recovery Operations: Mississippi, 109th Cong., 2nd sess., 8 December, 2005. Available online at <http://hsgac.senate.gov/files/120805Carwile.pdf>

⁶¹ Staff of Office of Inspector General, Department of Homeland Security, *A Performance Review of FEMA’s Disaster Management Activities in Response to Hurricane Katrina*, pg. 71, (Mar. 2006), available at http://www.dhs.gov/interweb/assetlibrary/OIG_06-32_Mar06.pdf

FEMA Underfunded:

Lack of Planning and Rushed Decisions Leads to Wasteful Spending

As noted previously, FEMA had no catastrophic housing plan, and the Department of Homeland Security rejected the agency's request for funding to create one. Yet after Katrina decimated the Gulf, FEMA was faced with finding long-term housing for hundreds of thousands of evacuees, most of whom had lost everything. With no plan in place – or even in the works – for dealing with such a situation, FEMA cast a wide net to identify any possible solution. But decisions made in such a frenzied environment are often poor, and many of FEMA's actions bore this out.

One well-known example is FEMA's decision to lease cruise ships for \$236 million. To its credit, FEMA's beleaguered procurement office quickly recognized that leasing ships was beyond its expertise, and engaged Navy procurement specialists to assist in negotiations. On September 4th, FEMA announced its plan to lease three Carnival Cruise Ships, the Ecstasy, Sensation, and Holiday, and a smaller ship from Scotia Cruise Lines. These ships could house a maximum of 8,000 people. Unfortunately, the demand for these ships never equaled their capacity; during the first 30 days, the average occupancy rate was just 35%. In the months after that it ranged from 82% to 92%.⁶² Moreover, the cost to house each evacuee was as high as \$300 per night, or \$50,000 for six months.⁶³

The cruise ship leases are not the only example of rushed contracting that proved to be wasteful, however. On August 31, 2006 FEMA obtained the use of a former Army base in Anniston, Alabama as housing for as many as 1,000 evacuees. Though it was a no-cost lease, FEMA spent \$7.9 million to refurbish the base in order to make it suitable for housing before it opened on September 15.⁶⁴ According to the GAO, FEMA went ahead with this project despite warnings from FEMA officials in Alabama that the rooms were not needed.⁶⁵ In the end, the local FEMA officials proved to be correct—the facility averaged less than ten evacuees per day and was shutdown less than 2 months later, on October 25.⁶⁶

Another questionable decision involved a \$3 million purchase of 4,000 beds for base camps. None were used.⁶⁷

⁶²Staff of Office of Inspector General, Department of Homeland Security, Semiannual Report to the Congress, pg. 10, (May 2006) Available at http://www.dhs.gov/interweb/assetlibrary/OIG_SAR_Oct05_Mar06.pdf

⁶³ Staff of House of Representatives Minority Committee on Government Reform, 109th Congress, *Dollars, Not Sense: Government Contracting Under the Bush Administration*, pg. 62, (May 2006).

⁶⁴ U.S. Congress, Senate, Committee on Homeland Security and Governmental Affairs, *Hurricane Katrina: Waste, Fraud and Abuse Worsen the Disaster*, testimony of Richard Skinner, Inspector General of the Department of Homeland Security, 109th Cong., 2nd sess., pg. 10, 13 February 2006.

⁶⁵ GAO, *Agency Management of Contractors Responding to Hurricanes Katrina and Rita*, 06-461R (Washington, D.C.: May 15, 2006).

⁶⁶ U.S. Congress, Senate, Committee on Homeland Security and Governmental Affairs, *Hurricane Katrina: Waste, Fraud and Abuse Worsen the Disaster*, testimony of Richard Skinner, Inspector General of the Department of Homeland Security, 109th Cong., 2nd sess., pg. 10, 13 February 2006.

⁶⁷ GAO, *Agency Management of Contractors Responding to Hurricanes Katrina and Rita*, 06-461R (Washington, D.C.: May 15, 2006).

One issue that recently came to light concerns the locks on as many as 118,000 trailers that FEMA has delivered. Though FEMA bought many different types of trailers, the manufacturers use a limited number of locksets. Thus, one key can potentially open many trailers – as a resident in one Baton Rouge trailer park recently demonstrated for a local television station.⁶⁸ At this point in time it is unclear how much it will cost to replace locks or otherwise address this problem. It is similarly unclear whether the federal government or the manufacturers will pay for the repairs.

The real issue with these contracts, and others like them, is not just that people made poor or uninformed decisions in the midst of a crisis. Instead, the larger problem is that FEMA was in a position that forced it to make these decisions in a post-catastrophe environment. This work should have been done years in advance. FEMA and the federal government should have had catastrophic plans in place to deal with a displaced population. But creating such plans required long-term thinking and a focus on FEMA, and it required funding. In both regards the Department of Homeland Security and the Bush Administration came up short.

⁶⁸ Varney, James. “FEMA has Key Concern with its Trailers,” *The Times-Picayune*, August 15, 2006.

Bad Investments:

\$2.5 Million in Lost Interest on Donations, Decreasing the Aid Delivered to Evacuees

After Hurricane Katrina, foreign governments and entities contributed over \$100 million to relief efforts.⁶⁹ Though there were no restrictions placed on the funds, the donors requested that the minimum amount possible go towards overhead and the maximum be used to aid the storm's victims. Pursuant to a Memorandum of Agreement (MOA) with the Department of State, \$66 million of these funds were transferred to FEMA, with the understanding that all of the funds would finance case management services for affected households. FEMA, in turn, contracted with a consortium of case managers to provide the services for 24 months.⁷⁰ Thus, the vast majority of the \$66 million was to be paid over time.

Despite provisions in the MOA expressly allowing FEMA to invest these funds, FEMA failed to do so. The Department of Homeland Security's Office of Inspector General estimates that the lost interest is more than \$2.5 million.⁷¹ The Inspector General found that this money was lost to the case management program, and stated that the loss "significantly lessens both the breadth and depth of the services provided to Hurricane Katrina victims and likewise belies the intentions of the foreign donors."⁷²

⁶⁹ Memorandum from Richard L. Skinner, Inspector General, Department on Homeland Security, to R. David Paulison, Acting Director of Federal Emergency Management Agency (Feb. 21, 2006) (on file with the House Minority Committee on Homeland Security).

⁷⁰ Ibid.

⁷¹ Ibid.

⁷² Ibid.

Technical Assistance: \$2 Billion in No Bid Contracts

In the wake of a disaster, FEMA regularly requires “technical assistance” services, which include supporting and staging temporary housing, home and building inspections, and more. When Katrina struck, FEMA was in the process of negotiating contracts for these services, but none were complete.⁷³ FEMA officials had hoped to have these contracts in place prior to the 2005 hurricane season, but was unable to do so partly because of the staffing shortage in its procurement office.⁷⁴

As Katrina approached, FEMA entered into no-bid “letter contracts” with three major companies – Shaw Group, Bechtel, and CH2M Hill.⁷⁵ A fourth contract was issued to the Fluor Corporation, which had won a competition, though the actual contract had not been negotiated. The original contract ceiling on each was \$100 million, but was soon thereafter raised to \$500 million.⁷⁶ The ceiling for Shaw and Bechtel was later raised to \$950 and \$575 million, respectively, and is expected to be raised to \$530 million for CH2M Hill.⁷⁷

Putting aside the fact that FEMA should have been staffed properly such that it could complete these contracts before hurricane season; it is at least understandable that it would move quickly to issue these letter contracts once Katrina threatened the Gulf. But why FEMA would continue these no-bid contracts beyond the immediate aftermath of the storm is a different story. In fact, On October 6, 2005, then-Acting FEMA Director Paulison committed to competitive contracts.⁷⁸ Yet this was not done expeditiously,⁷⁹ and it was not until August 9, 2006, well into the next hurricane season, that FEMA finally awarded new contracts. All four of the aforementioned companies were recipients.

⁷³ Staff of Senate Committee on Homeland Security and Government Affairs, 109th Congress, *Hurricane Katrina: A Nation Still Unprepared*, pt. 28-5 (May 2006).

⁷⁴ *Ibid.* pt.14-12.

⁷⁵ *Ibid.* pt. 28-5.

⁷⁶ *Ibid.* pt. 28-5.

⁷⁷ Hsu, Spencer S., “\$400 Million FEMA Contracts now Total \$3.4 Billion,” *The Washington Post*, August 9, 2006, A08.

⁷⁸ Staff of Senate Committee on Homeland Security and Government Affairs, 109th Congress, *Hurricane Katrina: A Nation Still Unprepared*, pt. 28-5 (May 2006).

⁷⁹ *Ibid.* pt. 28-5 to 28-6.

Compounding the Agony: Neglecting the Dead

The failure to plan for a catastrophe had costs far beyond the financial. Months after the chaos of the storm subsided, many families across the Gulf Coast lived with the uncertainty of whether their loved ones had survived the storm. Some were shocked to have their loved one's body returned to them more decomposed than it had been when it was recovered. Other bodies were taken to morgues and held for weeks without notice, and were sometimes misidentified. As one Louisiana man said, "I'll never know if the person we buried was really my mother."⁸⁰ In one case, a Louisiana woman whose ailing 82 year-old mother was airlifted from the Superdome on August 31st spent the next five months searching for her. It was only after she appeared on CNN that she discovered that her mother lay unidentified at a morgue.⁸¹

Stories like this were not simply the byproduct of a catastrophe. Instead, they were the direct result of FEMA's failure to plan for mass casualties and this Administration's failure to fund FEMA appropriately. Simply put, FEMA was unprepared to recover and care appropriately for bodies on a large scale. It was not until one week after Katrina hit, with local resources strained and bodies decomposing in the streets, that FEMA hastily hired Kenyon International Emergency Services Inc., to recover the deceased in Louisiana.

Unfortunately, the situation deteriorated from there. Initially, FEMA reached a verbal agreement with Kenyon "to retrieve and transport bodies." However, difficulties finalizing the agreement with Kenyon hindered body recovery efforts on the ground. Frustrated Kenyon executives withdrew from their agreement with FEMA; this led FEMA to request that the Department of Defense take over the body recovery effort until another contractor could be found."⁸² Faced with this bungling, Louisiana Governor Kathleen Babineaux decided not to wait, and immediately hired Kenyon.⁸³

FEMA's lack of preparation left bodies decomposing for days, making the identification process far more difficult as some bodies remained in the flood water for days.⁸⁴ To make matters worse, even those families who could supply DNA material to FEMA to help identify their loved ones weren't accommodated because FEMA had not approved a contract with a DNA laboratory.⁸⁵

⁸⁰ Dewan, Shaila. "Bungled Records of Storm Deaths Renew Anguish." *The New York Times*, Nov. 13, 2005.

⁸¹ Williams, Mike. "New Orleans: Katrina Aftermath: Discouraged, but determined: The Missing: Loved ones left in fear, frustration." *The Atlanta Journal Constitution*, Nov. 27, 2005, A12; Lee, Trymaine. "Finally, An Answer; The Words Family Waited for, feared: Mother's Body has been found," *The Times Picayune*, Feb. 8, 2006.

⁸² The White House, "*The Federal Response to Hurricane Katrina, Lessons Learned*," ch. 4, (Feb. 2006)

⁸³ Louisiana Department of Health and Human Services, *Kenyon International Emergency Services Inc., statement of work*, Sep. 12, 2005. Available online at <http://www.dhh.louisiana.gov/offices/publications/pubs-145/Kenyon%20Contract.pdf>

⁸⁴ Dewan, Shaila. "Identifying Hurricane Dead Poses Unusually Daunting Challenges." *The New York Times*, Sep. 12, 2005.

⁸⁵ Dewan, Shaila. "Bungled Records of Storm Deaths Renew Anguish." *The New York Times*, Nov. 13, 2005.

Conclusion

When Katrina crashed ashore along the Gulf Coast one year ago, FEMA was underfunded, mismanaged, and poorly led. For its part, the Department of Homeland Security was singularly fixated on preparing for a terrorist attack, to the exclusion of readying the country for a natural disaster. Indeed, as both House and Senate investigations have found, the Secretary of Homeland Security was disengaged both in the days before *and* the days after Katrina wreaked her havoc. This neglect is as inexplicable as it is inexcusable.

But FEMA and the Department of Homeland Security's failures run deeper than poor leadership. The failures are a direct result of an Administration-wide approach to governance that was content to allow FEMA's crucial procurement office to operate at just a fraction of its necessary staffing level. The Administration's disastrous response to Hurricane Katrina was a predictable consequence of its willingness to delay for years the funding of the "Hurricane Pam" planning exercise and its refusal to fund a catastrophic housing plan.

The federal government failed in preparing for and responding to Hurricane Katrina and this report details some of the monetary consequences of this failure. The responsible agencies have examined these failures, but have not focused enough attention on the contracting failures both before and after the storm. Congress must act now. The Committee on Homeland Security should immediately hold hearings to investigate the contracting waste detailed herein and to develop practical solutions. These hearings should leave no stone unturned, beginning with an examination of the years preceding Katrina and continuing through the immediate run-up to the storm, the immediate aftermath, and the recovery effort.

The clock is ticking on the next catastrophic hurricane, flood, or terrorist attack. The Department of Homeland Security, and the federal government as a whole, need to be ready. They are not.

- END OF REPORT -