

Chairman's Statement
Sen. Tom Coburn, M.D. (R-OK)
Katrina and Contracting: Blue Roof, Debris Removal, Travel Trailer Case Studies
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Last August, Hurricane Katrina wreaked havoc upon the Gulf Coast. A few short months later, Hurricane Rita pounded the Gulf Coast, exacerbating the challenges of reconstruction. As you can see from the chart Congress has already appropriated \$100.9 billion for the recovery efforts. Between recent approval of \$3 billion by the Senate and a request by the President of \$20 billion, we are looking at \$123 billion dollars to date. As you can see from the graph, the money spent on this recovery effort is the most expensive rebuilding effort of all-time. To put this into perspective, Hurricane Katrina recovery funding will be over 8 times the amount of federal hurricane recovery aid for the entire 2004 hurricane season. Now, perhaps, Katrina was 8 times worse than the previous year's season. There's a valid argument to be made. But with this level of disaster, it is all the more important that the money Americans have provided for their neighbors in the Gulf Coast not be wasted.

The Congress has held extensive hearings on Hurricane Katrina back in Washington. We're not here to assign blame and reconstruct a minute-by-minute account of failure. Rather, we're dealing here with a few case studies of financial management that I believe are symptomatic of government's inherent limitations. A Federal bureaucracy based in Washington is always going to come up short when it is trying to watch billions of dollars far from Washington. But the nature of this disaster is that the Federal government will be spending money here for years to come.

So let's take a look at a few specific cases and see if we can learn something that we might apply not only across the rest of the recovery effort, but across other disasters in the future. Today, we will explore federal contracting and management of three programs: the "Blue Roof" program, debris removal, and the travel trailer program. While the audits of these programs have only just begun, initial reports from the media, the Government Accountability Office, and local officials paint a disappointing picture. We've heard about unreasonably inflated prices, excessive layers of subcontracting, and inadequate oversight for these three programs.

Last year, Senator Carper and I introduced with Senator Obama a bill that would have created an independent chief financial officer. This CFO would be in charge of every penny that goes out the door. With the huge opportunity costs associated with wasted tax dollars, I know the American public and the people of the Gulf Coast deserve no less. The CFO would have been responsible for the efficient and effective use of federal funds in all activities relating to the recovery from Hurricane Katrina. Unlike an inspector general which audits money after it has been spent, the CFO would have been responsible for preventing problems. Unlike the so-called "IG Council" that was put in charge of financial management for recovery, a CFO would have been a single accountable point of reference. In other words, the CFO's motto would be "the buck stops here."

We were promised that a CFO wasn't necessary. We were promised that every dollar would be tracked. When the Senate was presented with the first supplemental appropriations request for tens of billions of dollars, we were assured that the expenditure of this money would be accountable and responsible and the American people would not be embarrassed. After months of hearings and investigation, it seems that we had the oh-so-predictable waste and fraud that always accompanies huge money rolling out fast and unwatched by Washington.

As reported in recent news articles, there are cases where the price for putting a blue tarp on a roof costs close to the price of hiring a roofing company to install a new roof. We also hear reports of travel trailers that retail around \$16,000 to \$20,000 costing FEMA up to \$60,000 for purchasing, hauling, installing, and removing. Two thirds overhead seems awfully high to me. There are reports of FEMA spending up to \$400,000 to prepare lots for these travel trailers only to find out after the fact that local authorities either did not give authorization to build at those locations or communities weren't properly consulted. With debris removal, there are cases where top contractors are reportedly charging up to \$30 per cubic yard while 5 sub-contractors deep, the workers actually doing the work receives sometimes as little as \$6 per cubic yard.

Some may argue that inflated prices and multi-layering of contracts is to be expected due to the downsizing of federal procurement staff. They say that it takes five layers of middle-men, each taking his cut, in order to get money from Washington to Biloxi. I'm not buying it. And Americans shouldn't stand for it.

The Government Accountability Office – that's Congress' investigation operation - has recently issued a report highlighting the systematic failures that are creating these types of problems: inadequate planning and preparation, lack of clearly communicated responsibilities, and insufficient numbers and inadequate deployment of personnel. FEMA is only at 73% of its authorized staffing levels. In addition, FEMA still does not have a permanent director, four of the ten division chiefs and four of the ten regional directors are serving in an acting capacity. In another example, GAO reports that a contract worth \$120 million was tasked to the General Services Administration by FEMA, and it took FEMA three weeks to pinpoint the person responsible for oversight on the contract.

There have been all kinds of new task forces, councils, and coordination models that have been born as reports of problems keep surfacing, but the problem with each is the same. You can't fix it after the fact. As former Secretary of State Colin Powell famously noted with respect to recovery of devastated regions: "you break it, you buy it." He wasn't talking about domestic disaster recovery, but the principle is the same. When we have funneled money through a broken system, Americans are on the hook to pay for the consequences of that system throughout the life of the reconstruction. But it's not just today's taxpayers who are on that hook. We have mortgaged this recovery on the backs of our children and grandchildren. Their future quality of life is in further jeopardy every time we fritter away another dollar.

Today we'll be looking at the following questions:

- How extensive is the problem of mismanagement and waste that is reported both by GAO and the media?

- What steps are FEMA and the US Army Corps of Engineering taking for current and future contracts to ensure reasonable prices before a contract is signed?
- Is it possible to cut out some of the layers of subcontracting that, in some cases, is over 6 levels deep?
- Is the federal government getting the oversight and management out of the prime contractors that we are paying for?
- What are we to expect from the inspector general community regarding ongoing audits of the Blue Roof program, debris removal, and the travel trailer program?
- Is the Inspector General community receiving adequate funding to handle the burden of the additional Katrina audits as well as audits for normal agency programs?

I want to thank all the witnesses for being with us here today, some of them taking time away from tireless and thankless work to answer our questions. I know that good people with good hearts are running these operations and we are not here to question anyone's motives. Thank you very much for your service to the region's recovery and to our country.