

UNCLASSIFIED

**STATEMENT BY MR. PATRICK FITZGERALD
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BEFORE THE

**SENATE HOMELAND SECURITY AND GOVERNMENTAL
AFFAIRS COMMITTEE**

**SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, AND INTERNATIONAL
SECURITY**

ON

**“MANAGEMENT AND OVERSIGHT OF FEDERAL DISASTER
RECOVERY: DEBRIS REMOVAL, BLUE ROOF PROGRAM, HAUL
AND INSTALL CASE STUDIES”**

109TH CONGRESS

**April 10, 2006
New Orleans, LA**

Mr. Chairman and distinguished Members of the Subcommittee, it is my pleasure to be here today and to have the opportunity to discuss with you the oversight work we are doing related to Hurricane Katrina.

As the Army's Auditor General, I am responsible for the worldwide operations of U.S. Army Audit Agency. Army Audit is the Army's internal audit organization, and we provide objective and independent auditing services that help Army leaders make informed decisions, resolve issues, use resources effectively and efficiently, and satisfy statutory and fiduciary responsibilities. The scope of our audit responsibility includes U.S. Army Corps of Engineers and its role in disaster response and recovery.

After Hurricane Katrina, we met with the Office of the Inspector General, DOD; Air Force Audit Agency; Naval Audit Service; and the U.S. Government Accountability Office to design a plan to provide oversight of DOD funds in support of Hurricane Katrina recovery and relief efforts. As part of the plan, we assumed responsibility for oversight of the Corps of Engineers' mission assignments for debris removal and demolition, and repair of the Hurricane Protection System. We are also providing oversight of the costs Army units charged in support of various other mission assignments.

Today I will focus my statement on the debris removal contracts and our audit results to date related to the Corps' acquisition strategy and contract monitoring procedures. We began fieldwork last October and are nearing completion of our initial audits. The scope of our audit covered the five debris contracts and contract solicitations for the pending demolition contracts. We plan to issue a draft report on our debris removal audit in May 2006.

In response to Hurricane Katrina, the Federal Emergency Management Agency provided the Corps of Engineers with a mission assignment for debris

removal in designated areas. The Corps had five contracts for debris removal in Mississippi and Louisiana. The first contract was awarded in November 2002 as an Advanced Contracting Initiative (ACI) contract. Immediately after Hurricane Katrina, Corps officials recognized that the contract didn't have the capacity to handle the widespread destruction and cleanup. Within days, Corps contracting personnel prepared a solicitation to award four Indefinite Delivery Indefinite Quantity (IDIQ) contracts, each with a \$500 million limit and an option for an additional \$500 million. The Corps awarded four contracts on 15 September 2005. As of 28 March 2006, the Corps had obligated about \$1.6 billion against the five debris contracts:

Contract Number	Contractor	Date of Award	Work Location	Amount Obligated (as of 28 MAR 06)
DACW29-03-D-0009	AshBritt	11/29/02	Mississippi, Louisiana	\$70,947,464
W912P8-05-D-0025	AshBritt	9/15/05	Mississippi	489,445,571
W912P8-05-D-0022	Phillips & Jordan	9/15/05	Louisiana	408,467,452
W912P8-05-D-0023	Environmental Chemical Corp.	9/15/05	Louisiana	347,975,009
W912P8-05-D-0024	Ceres Environmental Services Inc.	9/15/05	Louisiana	325,279,582
			Total	\$1,642,115,078

I will focus my discussion in two areas where we made recommendations to improve debris removal operations: Acquisition Strategy and Contract Monitoring Procedures. The Corps' decision to award four large contracts of \$500 million each led to multiple tiers of subcontractors. The prime contractors did little, if any, debris hauling. As a result, they subcontracted from 70 to 99 percent of their work, with most subcontracts going to small or disadvantaged businesses located in hurricane-affected areas. We reviewed cost proposals submitted by the prime contractors that showed markups for overhead and profit from 17 to 47 percent of subcontractor costs (an average of about \$5.19 a cubic yard). We were unable to determine subcontractor markups below the first tier of subcontractors. During the audit we recommended that the Corps award future

contracts in smaller amounts. The Corps agreed and scaled back the scope of new contracts for demolition to \$150 million or less. The Corps is also considering limiting the number of tiers of subcontractors for future contracts.

Another concern we had with the Corps' acquisition approach was the method it used to establish prices. Although it awarded IDIQ, fixed-price contracts, Corps contracting officials negotiated higher prices for most task orders issued under three of the four contracts. Our analysis of the individual task orders showed that the negotiated prices averaged as much as \$4.85 more a cubic yard than what the contractors initially bid, and as much as \$4.86 a cubic yard greater than the independent government estimate. Contract files didn't include explanations of how the government estimate was reconciled with the final agreed-to price.

For negotiated contracts, Defense Contract Audit Agency (DCAA) normally would audit the contractor proposals for reasonableness. However, because these contracts were awarded as fixed-price contracts, the contracting officer did not request a DCAA audit. We recommended, and the Corps agreed, that DCAA review each task order. If the agency finds defective pricing, the government can recoup overstated costs from the contractors.

The Corps' process for monitoring contractor performance was adequate to prevent overpayment, but the process was somewhat costly and inefficient. Some of the excessive oversight included keeping government quality assurance representatives onsite with each contractor cleanup crew versus doing spot checks of contractor quality control practices. We also identified some process improvements the Corps can make to reduce its contract monitoring costs—the most significant is automation of the load ticket process. Based on our recommendation, the Corps has taken action to require contractors to submit automated load ticket information.

In conclusion, we have been working closely with the Corps to develop solutions to these issues, and Corps management has been responsive to our recommendations. I appreciate the opportunity to testify before you today and will be glad to respond to your questions.