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Statement of Rep. Henry A. Waxman
Committee on Government Reform Hearing
"Sifting Through Katrina's Legal Debris: Contracting in the Eye of the Storm"
May 4, 2006

Today's hearing should make our blood boil. And it should shame us.

After Hurricane Katrina devastated the Gulf States, Americans did what they always do. They opened their wallets to get the recovery going. As a nation, we committed billions of dollars to make things better. And Americans asked us to make sure the job was done right.

Today we examine how that money has been spent. And what we will find is massive fraud, waste, and abuse … pervasive mismanagement … and gross incompetence.

Much of this is summarized in a briefing memo that my staff has prepared, and I ask unanimous consent that it and the documents it cites be made part of the record.

One of the first and most basic challenges the Gulf States faced was removing countless tons of debris. The U.S. Army Corps of Engineers led this effort and awarded four contracts totaling $2 billion to clean up the mess.

The debris contractors grabbed the money and then committed every abuse imaginable. Some sought double payments for the same load … others massaged their travel records to qualify for bonuses for long-distance transport … and one contractor even picked up debris from a public dump and then drove it to the federal site just to game the system.

The types of fraud and waste in the debris contracts goes on and on. And it's all summarized in depressing detail in this memo.

Things weren't any better in the effort to patch damaged roofs. The federal government spent millions on contracts with companies to install temporary blue plastic sheeting to protect damaged homes. But internal government documents show that blue roofs that were installed for billing purposes were never installed on actual roofs … overcharges were routine … and exaggerating the amount of work actually done seems to have been standard procedure.

The Katrina contracts are a lose-lose-lose proposition. Private contractors exploited the system to make a bundle, taxpayers were gouged, and the folks devastated by Katrina in Louisiana and Mississippi didn't get the help they deserved.

Who let this happen? The short answer is the Corps of Engineers, the prime contractors, the Bush Administration, and Congress.

The Corps had the dual responsibility of getting the work done and looking out for taxpayers. But the Corps of Engineers regularly failed to inspect trucks as they left dump sites and repeatedly overestimated the size of the loads delivered by the contractors. In a series of damning reports, government auditors describe the Corps' assessments as "unusually high," "overly generous," "very liberal," and "consistently on the high side."

The exact same types of problems plagued the "blue roof" contracts. Government auditors found that Corps officials entered into an "informal agreement" with the private contractors not to question billings as long as the bills did not exceed the estimates by more than 50%. According to the auditors, this agreement was "excessive and unreasonable" and "does not adequately protect the Government from waste or abuse."

One of the most powerful findings that emerges from the documents is how fundamentally flawed the Bush Administration's entire contracting approach has been. The cornerstone of the Administration's approach has been to award large umbrella contracts to major prime contractors. These contractors don't collect the debris themselves and they don't patch roofs themselves. Instead, they hire subcontactors to do the work, and then these subcontractors hire other subcontractors.

The theory behind this approach is that the prime contractors should have the resources and the expertise to oversee these layers of contractors effectively.

What the documents reveal is that this entire approach is bankrupt. The government auditors repeatedly report that the prime contractors are exercising virtually no oversight over the subcontractors. They don't know where the subcontractors are, what they are doing, or whether they've completed their work.

This approach builds overhead on top of overhead and dramatically inflates costs for taxpayers. Each contractor, subcontractor, and sub-subcontractor wants a cut even if it isn't doing any real work. And it's an ideal environment for fraud.

When GAO testifies this morning, we will also learn that there was inadequate planning … that the agencies failed to communicate with each other about who was in charge … and that there was ineffective contractor oversight because there weren't enough people on the ground. GAO will also tell us about other examples in which millions of dollars were simply thrown away because of incompetence and lax oversight.

What's clear is that the contractor looting in Katrina isn't an isolated incident. Contract mismanagement, deficient oversight, and exorbitant overcharges have occurred again and again since 2001.

The Bush Administration has gone on three spending binges in the last five years. The first was the frenzied award of huge homeland security contracts after the September 11 attacks. The second was the $20 billion spent on Iraq reconstruction. And the third is responding to Katrina.

All three are marked by unprecedented contractor abuse. We aren't talking about hundreds of thousands of dollars lost to fraud and wasteful spending. We aren't talking about millions. We are talking about billions of dollars — billions — squandered or looted.

Scattered through Iraq right now are over 100 partially built public health hospitals, paid for by U.S. taxpayers, which are likely never to be completed. They cost over $180 million. The contractor, Parsons, got paid. But it didn't finish the work.

Last month, the *New York Times* reported on a $70 million ditch Halliburton built in Iraq. It appears company officials knew their plan for repairing an oil pipeline couldn't possibly work. It didn't … but they still got their $70 million and American taxpayers bought a ditch.

Yet despite the litany of extraordinary abuses, no one in this Administration seems to care. And no senior officials are ever held accountable.

Congress is no better. Given all the billions of taxpayer dollars that have been wasted, Americans might think that Congress would dig into this problem. But in almost every case — with the exception of a few hearings in this Committee — Congress has looked the other way.

I'm particularly frustrated by the Katrina looting because we knew it was going to happen. That's why I joined with Minority Leader Pelosi last September in introducing the "Hurricane Katrina Accountability and Clean Contracting Act." This legislation would have enacted fundamental reforms in time to prevent the Katrina abuses.

But the bill never received a hearing, and Administration officials claimed we were exaggerating the problem. The day after Leader Pelosi and I introduced our Katrina legislation, the President said reforms weren't necessary. And he promised: "We'll make sure your money is being spent wisely. And we're going to make sure that the money is spent honestly."

I said at the outset that we should all be ashamed and I mean that. But at the same time, I want to thank Chairman Davis for holding this hearing. He is one of the lone figures on the Republican side who will ask questions and request documents. He doesn't always go as far as I think he should, but he does much more than many of his colleagues.

In particular, I want to thank him for requesting with me the documents from the Army Corps of Engineers and the Department of Homeland Security that detail the abuses in Katrina-related contracts. Those 3,000 pages of documents are the reason we are here today. And I look

forward to working with the Chairman, and all the Committee members, in getting to the bottom of this and finally holding someone accountable for the unconscionable looting and incompetence.

We owe that to American taxpayers and we owe it to all those who lost so much in Katrina.