TOM DAVIS, VIRGINIA,
CHAIRMAN

CHRISTOPHER SHAYS, CONNECTICUT
DAN BURTON, INDIANA
ILEANA ROS-LEHTINEN, FLORIDA
JOHN M. McHUGH, NEW YORK
JOHN L. MICA, FLORIDA
GIL GUTKNECHT, MINNESOTA
MARK E. SOUDER, INDIANA
STEVEN C. LATOURETTE, OHIO
TODD RUSSELL PLATTS, PENNSYLVANIA
CHRIS CANNON, UTAH
JOHN J. DUNCAN, JR., TENNESSEE
CANDICE MILLER, MICHIGAN
MICHAEL R. TURNER, OHIO
DARRELL ISSA, CALIFORNIA
JON C. PORTER, NEVADA
KENNY MARCHANT, TEXAS
LYNN A. WESTMORELAND, GEORGIA
PATRICK T. McHENRY, NORTH CAROLINA
CHARLES W. DENT, PENNSYLVANIA
VIRGINIA FOXX, NORTH CAROLINA
JEAN SCHMIDT, OHIO
VACANCY

ONE HUNDRED NINTH CONGRESS

# Congress of the United States

## House of Representatives

COMMITTEE ON GOVERNMENT REFORM

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515–6143

MAJORITY (202) 225–5074
FACSIMILE (202) 225–3974
MINORITY (202) 225–5051
TTY (202) 225–6852

http://reform.house.gov

HENRY A. WAXMAN, CALIFORNIA,
RANKING MINORITY MEMBER

TOM LANTOS, CALIFORNIA
MAJOR R. OWENS, NEW YORK
EDOLPHUS TOWNS, NEW YORK
PAUL E. KANJORSKI, PENNSYLVANIA
CAROLYN B. MALONEY, NEW YORK
ELIJAH E. CUMMINGS, MARYLAND
DENNIS J. KUCINICH, OHIO
DANNY K. DAVIS, ILLINOIS
WM. LACY CLAY, MISSOURI
DIANE E. WATSON, CALIFORNIA
STEPHEN F. LYNCH, MASSACHUSETTS
CHRIS VAN HOLLEN, MARYLAND
LINDA T. SANCHEZ, CALIFORNIA
C.A. DUTCH RUPPERSBERGER, MARYLAND
BRIAN HIGGINS, NEW YORK
ELEANOR HOLMES NORTON, DISTRICT OF COLUMBIA

BERNARD SANDERS, VERMONT,
INDEPENDENT

# MEMORANDUM

**To: Democratic Members of the House Government Reform Committee**
**Fr: Rep. Henry A. Waxman**
**Date: May 4, 2006 (Revised May 8, 2006)**
**Re: New Information about Katrina Contracts**

On Thursday, May 4, at 10 a.m. in 2154 Rayburn, the Government Reform Committee will hold a hearing on contracting problems in the aftermath of Hurricane Katrina. One memo has already been distributed describing the general issues for the hearing and highlighting some of the major problem contracts. The purpose of this second memo is to provide members with significant new information uncovered during the Committee's investigation. This new information has not yet been made public.

In light of numerous press and auditor accounts detailing major contracting deficiencies in the response to Hurricane Katrina, the Government Reform Committee launched an investigation into the Administration's procurement processes. On March 2, 2006, Chairman Davis and Ranking Member Waxman wrote to Homeland Security Secretary Michael Chertoff requesting "copies of all audits, reports, or other assessments in the possession of the Department that raise questions about contractor cost estimates, billings, accounting or estimating systems, or performance." On April 6, 2006, the Chairman and Ranking Member sent a similar request to the Army Corps of Engineers.

In response to these requests, the Committee has received approximately 3,000 pages of documents, including audits by the Defense Contract Audit Agency, reports by the DHS Inspector General, and performance assessments by the Army Corps of Engineers. In total, these documents span the period from the week Hurricane Katrina struck to the week of the current hearing. The documents include evaluations of federal contracts for debris removal, temporary roofing, and temporary housing in the aftermath of Hurricane Katrina.

## I. KEY FINDINGS

This memo is a summary of the minority staff's review of the Katrina contracting documents. The review finds that the documents disclose widespread mismanagement, waste, and fraud in contracts worth billions of dollars. The documents reveal a host of major problems that occurred in numerous locations under multiple contracts over a period of many months.

***The Debris Removal Contracts.*** 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, resulting in government overpayments to the contractors and minimizing the amount of debris being cleared from the right-of-ways."

- 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.

- 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 this and other subcontractors.

- Mixing Debris. Contractors fraudulently mixed vegetative debris with construction and demolition debris to inflate their billings by $2.84 per cubic yard.

- 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."

In the case of one large debris contractor, Ashbritt, the problems were so severe that the Corps took the extraordinary step of issuing a "cure notice" to the company. This document threatened to terminate the contact unless Ashbritt took immediate corrective action.

***The "Blue Roof" Contracts.*** The Corps of Engineers issued contracts collectively worth over $300 million to contractors for temporary roof repairs using blue plastic sheeting. When the 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."

- 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.

- 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."

***Other Contract Abuses.*** The government auditors found multiple other instances of waste, fraud, and abuse in Katrina contracting. In the contract to provide housing trailers, for example, Bechtel attempted to double-bill taxpayers for more than $48 million. Even government-issued credit cards were abused. Procedures were violated in 83% of the credit card transactions examined by auditors, leading the auditors to conclude: "Controls existed to prevent the inappropriate use of credit cards. The controls were circumvented and ignored."

## I. THE DEBRIS REMOVAL CONTRACTS

On September 15, 2005, the Army Corps of Engineers awarded four $500 million contracts to remove and dispose of debris left in Hurricane Katrina's wake.[1] Ashbritt received the contract for Mississippi, while Environmental Chemical Corporation (ECC), Ceres Environmental Services, and Phillips and Jordan (P&J) received the contracts for Louisiana.

The Corps of Engineers provided the Committee with hundreds of evaluations from the Corps' Internal Review Office. These evaluations describe the observations and findings of auditors from the Internal Review Office and the Defense Contract Audit Agency (DCAA).

The auditors reported serious and recurring problems. They found that the Corps of Engineers failed to properly assess the amount of debris carried by contractor trucks and failed to ensure that the trucks were empty when they left the dumps. These failures led to overpayments to the contractors. The auditors also found that the contractors overcharged the government by claiming that they drove further than they actually did, improperly loading debris from private property and wooded lots, and mixing different types of debris. Auditors concluded that there was also inadequate subcontractor supervision. The deficiencies of one contractor, Ashbritt,

---

[1] U.S. Corps of Engineers of Engineers, *News Release: Debris Removal Contracts Awarded for Hurricane Recovery Efforts* (Sept. 15, 2005).

were so severe that the Corps of Engineers took the extraordinary step of issuing a "cure notice," which warned the company that its contract could be terminated if the problems were not corrected.

## A. Improper Debris Assessments

Auditors repeatedly reported that Corps of Engineers officials were crediting contractors with hauling more debris to dumps than they actually carried. When a truck arrived at the dump, the Corps official would assess how full the truck was and give the driver a "load ticket," which was the basis for payment. Because the contractors were paid by the cubic yard of debris, any overestimate of the amount of debris on the truck would lead to an overpayment to the contractor. According to the Corps' *Guidelines for Estimating Loads in Trucks*, "It is virtually impossible for a truck to be 100% loaded, because wood debris, tree branches and rubble cannot be placed in a truck without having air holes/voids."[2]

According to the auditors, Corps officials routinely gave contractors credit for completely full trucks even when the trucks were not full. For example, at one Louisiana dump site, 19 of the 20 loads observed by auditors were assessed as 100% full. However, the auditors "did not note any of the trucks entering the site having 100% loads."[3]

This occurred repeatedly at different sites over a period of months. Auditors found Corps' assessments to be "more on the liberal side,"[4] "often very liberal,"[5] "unusually high,"[6] "overly generous,"[7] and "consistently on the high side."[8] These flawed assessments resulted in an "overstatement of the amount of debris actually hauled."[9] In effect, the Corps was paying for debris that was never picked up or dropped off.

## B. Failure to Empty Trucks

The Corps of Engineers also frequently failed to inspect trucks leaving the dumps. In many cases, the Corps did not have an exit tower from which exiting trucks could be viewed from above. This opened the door to abuse, allowing trucks to exit the dumps with debris still in the bed of the truck. The contractor could then receive "payment for hauling the same material multiple times."[10]

---

[2] Alabama Document #1.

[3] Louisiana Document # 142 (Dec. 3, 2005).

[4] Louisiana Document # 169 (Dec. 16, 2005).

[5] Louisiana Document # 173 (Dec. 20, 2005).

[6] Louisiana Document # 173 (Dec. 20, 2005).

[7] Louisiana Document # 187 (Jan. 25, 2006).

[8] Louisiana Document # 215 (Mar. 5, 2006).

[9] Louisiana Document # 173 (Dec. 20, 2005).

[10] Mississippi Document (Oct. 19, 2005).

Auditors found that the Corps did not have adequate exit towers at at least five dumps in Louisiana, one dump in Alabama, and two dumps in Mississippi.[11] 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, resulting in government overpayments to the contractors and minimizing the amount of debris being cleared from the right-of-ways."[12]

The Corps' oversight was deficient in other ways, as well. At one Louisiana site, auditors found that the Corps' lacked the "staffing to verify that trucks had emptied their loads prior to leaving."[13] At another dump, the quality assurance official "had been asleep in his vehicle" and did not examine departing trucks.[14]

Not surprisingly, the lax oversight invited fraud. In Mississippi, auditors "observed a self-loading truck exiting the Petal dumpsite in Forrest County without completely unloading the debris from its truck bed."[15] As a result, the contractor was "fraudulently being paid twice for the same load."[16] About a month later, auditors "observed four trucks leaving the dumpsite in Laurel, MS with a considerable amount of debris remaining in the trucks."[17]

At another site, a contractor was observed transferring debris from one dump site to another to inflate billings. According to the auditors: "They watched the driver climb the citizen dump pile and enter the excavator. He proceeded to load his trailer himself. ... When the load was complete, the driver exited the dumpsite. ... He then pulled around the entrance tower and unloaded his trailer with the debris he obtained from the citizen dumpsite."[18]

### C. Claiming Extra Mileage

In several cases, contractors took advantage of a system that paid them $2 per cubic yard more for debris carried over 15 miles to a dump. In Alabama, when auditors examined contractor trucks, they found a "high rate of invalid reporting of odometer readings."[19] According to the auditors, "Of the 303 tickets ... reviewed, 56% of the reported mileages were overstated." Under the P&J contract, a subcontractor provided odometer readings of 21 miles,

---

[11] Louisiana Document # 137 (Nov. 29, 2005); Louisiana Document # 156 (Dec. 12, 2005); Louisiana Document # 162 (Dec. 13, 2005); Louisiana Document # 213 (Feb. 23, 2006); Alabama Document # 16 (Sept. 29, 2005); Mississippi Document (Sept. 25, 2005); Mississippi Document (Oct. 19, 2005).

[12] Louisiana Document # 137 (Nov. 29, 2005).

[13] Louisiana Document # 185 (Jan. 28, 2006).

[14] Louisiana Document # 210 (Feb. 20, 2006).

[15] Mississippi Document (Sept. 25, 2005).

[16] *Id.*

[17] Mississippi Document (Oct. 19, 2005).

[18] Mississippi Document (Oct. 11, 2005).

[19] Alabama Document # 11 (Sept. 20, 2005).

but only traveled 11 miles to the dump. According to auditors, "The contractor would be overpaid the two dollar difference between the 15 mile rate … and the 16 to 30 mile rate."[20]

### D. Loading Ineligible Debris

Contractors also sought to overcharge the government by recovering debris from wooded lots on private property instead of public rights-of-way as required by their contracts.

One of the companies engaged in this practice held a subcontract for debris removal from Ceres. Auditors reported that in December, the subcontractor was found "hauling debris collected from the wooded lots, beyond the public right of way."[21] According to auditors, "the government is being charged for the removal of debris that is not contractually obligated. This could result in contract overruns and failure to meet the contract goals."[22]

Two weeks later, the subcontractor was again found to be engaging in the same improper practice. According to the contracting officer, "This is a recurring problem."[23] Almost four months later, the subcontractor's drivers were still continuing this practice. Auditors reported: "This has been discussed with Ceres before. Basically, if this happens again Corps will direct Ceres to pull truck placards."[24]

Another contractor, P&J, was also caught loading debris from private property in Alabama.[25] And ECC subcontractors in Louisiana spent their time collecting debris from the Lakewood Country Club golf course.[26]

### E. Mixing Different Types of Debris

Another method of inflating prices was to mix different types of debris in order to obtain the higher price. Under the terms of the contracts, the debris removal contractors were paid $2.84 more per cubic yard to remove construction and demolition debris than they were paid to remove vegetative debris. In Alabama, auditors found that contractors improperly mixed these different types of debris in order to charge the government the extra $2.84 per cubic yard. This fraudulent activity was directly observed by auditors.[27]

### F. Failure to Supervise Subcontractors

---

[20] Alabama Document # 19 (Sept. 29, 2005).

[21] Louisiana Document # 141 (Dec. 2, 2005).

[22] *Id.*

[23] Louisiana Document # 160 (Dec. 13, 2005).

[24] Louisiana Document # 198 (Feb. 1, 2006).

[25] Alabama Document # 22 (Oct. 4, 2005).

[26] Louisiana Document # 101 (Nov. 8, 2005).

[27] Alabama Document # 23 (Oct. 6, 2005); Alabama Document # 26 (Oct. 27, 2005).

According to auditors, prime contractors also failed to adequately supervise their subcontractors. For instance, when auditors examined Ceres's operations in Louisiana, they found that Ceres did "not have a sufficient number of [quality control employees] in the field to appropriately monitor lower tier subcontractors."[28] In early December, Ceres had "no contractor personnel" at one dumpsite in Tangipahoa Parish.[29] In fact, Ceres "had not had a representative onsite for approximately a week."[30] Auditors concluded, "The contractor is not managing this dump site."[31]

### G. Ashbritt's Cure Notice

The problems of one company, Ashbritt, were so severe that the Corps of Engineers took the extraordinary step of issuing a cure notice to the company. This document threatened to terminate Ashbritt's contract unless it took immediate action to correct its serious problems.[32] The problems identified in the cure notice included failure to prosecute work in a diligent manner, failure to comply with safety requirements due to a high accident rate, and damage to homeowner property.[33]

In connection with the cure notice, the Corps of Engineers also issued performance assessment ratings of "unsatisfactory" for "Quality of Product/Service," "Schedule," "Business Relations," and "Management of Key Personnel."[34]

## III. THE "BLUE ROOF" CONTRACTS

The U.S. Army Corps of Engineers, on behalf of FEMA, administered the temporary roof repair program, commonly known as the "blue roof" program because of the blue plastic sheeting employed. The blue sheeting was provided by FEMA, but the Corps of Engineers employed contractors to manage the program and install the temporary roof patches.

The Corps of Engineers awarded about $330 million in blue roof contracts to five large prime contractors in the weeks following Katrina, and it added two small businesses as prime contractors toward the end of 2005. The original prime contractors in Mississippi were Carothers Construction, Inc., and Ceres Environmental Services. S&M Associates, Inc., later received a small business contract. The original prime contractors in Louisiana were LJC

---

[28] Louisiana Document # 141 (Dec. 2, 2005).

[29] Louisiana Document # 148 (Dec. 4, 2005).

[30] *Id.*

[31] *Id.*

[32] Corps of Engineers, Cure Notice to Ashbritt (Oct. 16, 2005).

[33] *Id.*

[34] *Id.*

Construction Company, Inc., Shaw Constructors, Inc., and Simon Roofing, with Ystueta, Inc. later receiving a small business contract.

New documents provided by the Corps of Engineers reveal pervasive problems in the "blue roof" program, including overcharges and failure by prime contractors to properly manage subcontractors. Prime contractors were unable to tell Corps of Engineers auditors where subcontractors were performing work on any particular day, could not provide accurate payroll records from subcontractors or respond to complaints that subcontractors were not being paid, and failed to perform quality assurance checks of subcontractor work before submitting bills to the government. Due to this mismanagement, auditors identified overcharges in every sample of bills they reviewed. Auditors now project that total overbillings will exceed $12.5 million.

### A. Consistent Overbilling

Last month auditors projected, based on sampling, that overbilling for the temporary roof contracts exceeds $9 million in Mississippi alone.[35] Audits of the Louisiana contractors projected overbilling of nearly $3.5 million.[36] Because these figures are preliminary projections based on sampling, the actual amount of overcharges could increase when final audits are completed.

As early as November 2005, Corps of Engineers staff identified inconsistencies in bills that indicated overbilling by contractors. An evaluation of ten buildings under the contract with Simon Roofing "disclosed a total estimated net overbilling of 43 percent of the originally billed amount," and evaluation of another ten buildings "disclosed a total estimated overbilling of 52 percent of the originally billed amount."[37] A month later, another report found overcharges of 50% in a sample of 11 buildings. According to this report, the same work had been billed by two different prime contractors, LJC and Shaw.[38]

Individual examples were even more egregious. In one case, a Corps official reported that a Shaw bill for one roof "listed nearly 4 times as many square feet covered than was actually covered."[39]

Lax management by the Corps of Engineers emboldened contractors to overbill. In October 2005, Corps of Engineers reviewers challenged an "informal agreement" by Corps representatives not to scrutinize bills that exceeded estimates by less than 50%. According to the investigators:

---

[35] Mississippi Documents (Apr. 12, 2006).

[36] Louisiana Documents #207 and #208 (Feb. 17, 2006); Louisiana Document # 217, (Mar. 6, 2006).

[37] Louisiana Document # 138 (Nov. 29, 2005).

[38] Louisiana Document # 153 (Dec. 10, 2005).

[39] Louisiana Document # 84 (Nov. 1, 2005).

[T]his informal agreement may lead to a large overstatement of required roofing and the related payment to the contractor, in addition to the over-utilization of scarce Blue Roof material and wasted roofing crew time. We believe that fifty percent of the original estimate is excessive and unreasonable and does not adequately protect the Government from waste or abuse.[40]

## B. Failure to Properly Manage Subcontractors

The prime contractors for the blue roof project did not directly employ staff to install the roofs. Instead, the prime contractors entered into multiple layers of subcontracts, so that the actual workers who installed the blue roofs were, in some instances, employed by third-tier subcontractors.[41] Because of this arrangement, it is not clear what value the large prime contractors actually provided to the government. The prime contractors claim that their value was in management and coordination. But the Corps of Engineers documents call this assertion into question, revealing that prime contractors exercised little quality control over their subcontractors and had little visibility of what work was actually being performed.

### 1. Failure to Inspect Work

Corps of Engineers quality control personnel regularly found that work had not been completed, and in some instances had not even begun, despite certifications from prime contractors that they had inspected the work of their subcontractors. Corps of Engineers reports are particularly critical of Shaw's performance as a prime contractor.

On October 12, 2005, Corps of Engineers inspectors examining Shaw's performance reported that they went "on final inspections only to arrive at the location and find that there was no blue roofing plastic installed despite the contractor's assertion of completion through attending the final inspection." The auditors concluded that "Shaw is failing to adequately monitor and inspect the roofing efforts of its subcontractors and crews as required." They added further: "The contractor's failure to maintain adequate inspection and quality control procedures over its roofing subcontractors and crews has a compounded effect in potentially harming the government."[42]

The previous month, on September 17, Corps inspectors examining Shaw wrote:

We visited 7 locations. ... [Q]uality deficiencies were noted relative to all 7 houses and ALL 7 were rejected and scheduled for rework by the USACE QA [quality assurance]. It appears Shaw and/or subcontract QC [quality control] representatives had not visited the 7 worksites prior to or during roof repair. ... It appears that Shaw has not placed adequate personnel to administer the work being performed and/or has failed to adequately train subcontractor personnel. Without proper supervision provided by the prime contractor

---

[40] Louisiana Document #20 (Oct. 11, 2005).

[41] Louisiana Document #63 (Oct. 25, 2005).

[42] Louisiana Document #22 (Oct. 12, 2005).

quality issues are compromised resulting in a potential for significant rework, wasting of resources and an indefinite delay in mission completion.[43]

### 2. Little Control Over or Knowledge of Subcontractors

Prime contractors exercised little control over the scheduling of work crews, government monitors could not locate crews, and crews were not deployed efficiently. According to one Corps of Engineers report:

> It seems the contractor is not sorting their [work orders] by address so that their crews would not waste time traveling from one site to another. ... This internal control weakness presents an immeasurable risk to the USACE that: Separate crews will be traveling to the same area at different times to install the blue roofs instead of one crew efficiently working one area. This will result in excessive amounts of time wasted on travel as well as the use of a limited supply of fuel. Time spent setting up and packing up the work area to go to scattered locations in lieu of an organized plan reduces the number of homes that the contractor can complete daily.[44]

Another Corps of Engineers report found:

> The failure to have an adequate quality control program will lead to substantial rework and wasted government furnished material. The failure seems to be primarily due to the inability to identify the location of the roofing crews without going through numerous steps. ... On this date the contractor required about one hour to obtain the location of the work area of three observed crews. Since Shaw has responsibility for a stated 277 roofing crews, this is considered unacceptable.[45]

### 3. Failure to Ensure Workers Were Paid

Another problematic aspect of the failure to manage multiple layers of subcontractors is that, in some cases, workers were unpaid for weeks at a time. According to auditors:

> We continued to receive numerous complaints from workers regarding lack of payment. On October 24, 2005, we met with roofers who worked previously for LJC for one week and were not paid for the work. The roofers are currently working for prime contractor, LJC. Unfortunately they have not been paid since the inception of work. They were issued check #2274 from RST Gutters, Inc., a subcontractor to LJC, in the amount of $12,231.30. The check was drawn against a bank account from Washington Mutual. RST Gutters told the workers not to cash the check because there were insufficient funds at this time. RST Gutters stated that they had received a bad check from Classic Roofing, a higher tier LJC subcontractor, as the reason for the bad check. It appears that Classic

---

[43] Mississippi Document (Sept.. 17, 2005).

[44] Mississippi Document (Oct. 2, 2005).

[45] Mississippi Document (Oct. 11, 2005).

> Roofing may be where the non payment problem exists. In addition to being issued a bad check, the men stated that the bad check did not contain the correct amount. They believe the check was short by $3400 of regular wages because it did not include wages for small roof repairs and steep roof pitch. We were notified today that some of the roofers left the area and went back to Texas.[46]

In this case, the company that was not paid, RTS Gutters, was a third-level subcontractor. According to the report, the prime contractor was LJC; the first-level subcontractor was Liberty Roofing; and the second-level subcontractor was Classic Roofing. The report found: "It seems the prime contractor, LJC, has failed to assure that payments are made to the work crews."[47]

## IV. OTHER CONTRACTS AND TRANSACTIONS

Serious problems also manifested themselves in other contracts and transactions. In some cases, federal officials were responsible for increasing waste, fraud, and abuse. In other cases, contractors exhibited significant deficiencies.

### A. Bechtel's Technical Assistance Contract

Under Bechtel's no-bid "technical assistance contract," FEMA tasked the company to install 35,000 travel trailers. This task order alone was worth over $154 million, but a third of this amount was deemed invalid by government auditors. According to the Defense Contract Audit Agency, Bechtel submitted one monthly charge on each trailer for "preventative" maintenance and another monthly charge for "corrective" maintenance. When the auditors examined these fees, however, they discovered that the first charge included both preventative and corrective maintenance, meaning that Bechtel billed twice for 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.[48]

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.[49]

These and other invalid charges led the auditors to raise questions about Bechtel's system for properly estimating costs. In a separate report, DCAA found that Bechtel "did not always

---

[46] Mississippi Document (Oct. 25, 2005).

[47] *Id.*

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

[49] *Id.*

comply" with the Federal Acquisition Regulation or its own company procurement manual "to ensure adequate and reliable cost estimates." Bechtel responded that these deficiencies resulted from "the emergency response situation and compressed schedules created by Hurricane Katrina." Nevertheless, the company committed to supplementing training, enhancing cost models, and boosting resources to review costs before submitting them to the government.[50]

### B. Misuse of Government Credit Cards

Government credit cards are notoriously prone to abuse. The response to Hurricane Katrina was no exception. For example, in November, auditors reviewed 119 government credit card transactions totaling $32,712. According to auditors, "There were procedure violations in 83% of these transactions."[51] Auditors reported that "[t]he general attitude is that the Emergency Response Operation justifies non-compliance with the internal control standards."[52] They concluded, "Controls existed to prevent the inappropriate use of credit cards. The controls were circumvented and ignored."[53]

## V. CONCLUSION

The documents obtained by the Committee portray widespread instances of waste, fraud, and abuse in key contracts related to the recovery and rebuilding of the Gulf Coast after Hurricane Katrina. They raise questions about the integrity of contractors, the costs of relying on multiple layers of subcontractors, and the adequacy of oversight. The cumulative burden on the taxpayer appears to be substantial.

---

[50] Defense Contract Audit Agency, *Report on Estimating System Deficiencies* (Rept. No. 4281-2006D24020001) (Dec. 20, 2005).

[51] Alabama Document # 28 (Nov. 3, 2005).

[52] *Id.*

[53] *Id.*