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U.S. DEPARTMENT OF HOMELAND SECURITY  
BEFORE THE  
COMMITTEE ON GOVERNMENT REFORM  
U.S. HOUSE OF REPRESENTATIVES**

**MAY 4, 2006**



Good morning Mr. Chairman and Members of the Committee.

Thank you for the opportunity to be here to discuss our oversight of the federal government's response and recovery efforts after Hurricane Katrina. Today, I will take a slightly different approach to responding to your request. Let me begin with quoting the philosopher George Santayana.

Santayana, once wrote, "those who cannot remember the past, are condemned to repeat it."

All of us know the quote. Most of us probably agree with it. But, very few of us can recall the specific lessons of the past we're supposed to remember. That is why, I submit to you that we are here today, to learn the specific lessons of the past, in this case the federal government's response to the devastation caused by Hurricane Katrina, in order to not repeat the same mistakes.

In the aftermath of a major disaster such as Hurricane Katrina, the federal government is obligated to ensure a number of important safety and security measures for its citizens. The government is responsible for:

- Taking immediate steps to mitigate damage or harm to its citizens;
- Ensuring that roads are cleared of debris to allow emergency workers access to affected areas;
- Providing temporary shelter to disaster victims that lose their homes; and
- Providing minimum repairs to buildings to enable victims to return to their homes and prevent further damage.

As we review the responsibilities of the government, it then begs the question, "Did the federal government meet its obligations?"

Unfortunately, as my testimony indicates, there were many weaknesses in the federal government's response and recovery efforts in the aftermath of Hurricane Katrina. We are still in the process of fully evaluating the overall contracting efforts and pre-disaster planning related to Hurricane Katrina. However, our work thus far has disclosed that:

1. FEMA either purchased supplies, commodities, equipment and other resources to support emergency and disaster response efforts in insufficient quantities or over-purchased commodities, because disaster requirement planning was inadequate;
2. The government, in many instances, did not pay reasonable prices for goods and services because competition was limited or non-existent; and
3. Costs and prices were not always controlled, because the government's contract oversight and monitoring was inadequate.

## **HURRICANE KATRINA OVERSIGHT: THE ROLE AND RESPONSIBILITIES OF THE OFFICE OF INSPECTORS GENERAL**

Hurricane Katrina left damage in catastrophic proportions along the Gulf Coast in Louisiana, Mississippi, and Alabama. Hurricane Katrina caused 1,326 deaths – 1,096 in Louisiana, 228 in Mississippi, and 2 in Alabama.<sup>1</sup> More than 700,000 people were displaced from the Gulf Coast region and over 273,000 were evacuated to shelters. While the Federal Emergency Management Agency (FEMA) and other federal, state, and local entities pre-staged commodities and personnel in and around the region, the magnitude of the storm and its catastrophic effects completely overwhelmed all disaster response systems and resources. The damage to the Gulf Coast region remains uncalculated.

In the wake of Katrina, Congress responded quickly with funds for immediate relief efforts, and the long process of recovery began. To date, emergency appropriations totaling approximately \$85 billion have been made available for the recovery effort, of which \$36.6 billion went to FEMA.

In the first 90 days after Katrina swept the Gulf Coast area, more than 4,700 contracts were awarded, valued at more than \$8.1 billion, mostly for emergency response and the initial stages of recovery. Usually, disaster response periods last roughly 72 hours. In this case, the initial response to help the millions affected by the hurricanes lasted approximately three months. Also unique to this disaster is the breadth of states to which victims were evacuated. FEMA reports that every state in the Union plus the District of Columbia housed victims of Katrina. This phenomenon, in itself, increased the opportunity for fraud, waste, and abuse.

As the emergency response phase diminishes, individual and household assistance is growing. Likewise, public assistance grants have increased dramatically over the past several months as the arduous task of rebuilding the Gulf Coast's infrastructure begins in earnest.

Although FEMA is responsible for coordinating response and recovery efforts, the enormous effort required to restore the Gulf Coast necessitated the combined and collaborative efforts of many federal, state, and local government entities. Estimates of the cost to recover from the storm and rebuild the affected areas are as high as \$100 billion. With this much damage, money, and number of agencies involved, the necessity for oversight is unprecedented.

To understand the oversight work that's being conducted and how it is managed, it's necessary to grasp the collaborative efforts of the federal Inspector General (IG) community. The federal IG community, through the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE), offered the capacity needed for consistent reporting and the preventive interaction to oversee the

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<sup>1</sup> Data from [www.firstgov.gov](http://www.firstgov.gov), Frequently Asked Questions – Hurricane Katrina's effects, accessed April 14, 2006.

billions in recovery dollars. The federal IG community was a natural fit for oversight and stewardship of the recovery funding effort.

Just prior to Hurricane Katrina, the PCIE/ECIE had established a Homeland Security Roundtable to deal with government-wide homeland security related issues. After Hurricane Katrina, the Homeland Security Roundtable served as the forum for the IG community to plan and discuss hurricane recovery oversight. The Roundtable members meet regularly to share information and collaborate. Each participating IG provides oversight of federal dollars for their respective agencies whether the funding was from a direct appropriation or through a mission assignment from FEMA.

The result being that no one agency is responsible for all oversight and stewardship activities. The benefit of this organizational structure is that each agency is best able to monitor and investigate its own recovery responsibilities. As a result, greater oversight is taking place and oversight efforts are not being duplicated. In addition, the PCIE/ECIE established a central hotline to handle reports of fraud, waste, and abuse throughout the Gulf Coast.

The Hurricane Relief Fraud Hotline supports all federal agencies involved in the recovery. The Department of Defense Office of Inspector General served as the operator of the Hotline on behalf of all OIGs. In April 2006, operation of the hotline was turned over to the Department of Justice Joint Command Center in Baton Rouge. The Hotline, which has reported 14,385 calls through the end of March 2006, functions as a channel for tracking incoming complaints and allegations of wrongdoing.

Additionally, on September 8, 2005, in the immediate aftermath of Hurricane Katrina, United States Attorney General Alberto R. Gonzales established the Hurricane Katrina Fraud Task Force. The Task Force is charged with deterring, detecting, and prosecuting dishonest individuals and contractors trying to take advantage of the Hurricane Katrina and Hurricane Rita disasters. The overall goal is to stop people who seek to illegally take the money that is intended for the victims of the hurricanes and the rebuilding of the Gulf Coast region.

In addition, within the Department of Homeland Security Office of Inspector General, Inspector General Skinner created a separate Special Inspector General for Gulf Coast Recovery. The Special IG provides:

- Independent audits and investigations of disaster relief operations;
- Independent and objective leadership and coordination of, and recommendations on, policies designed to promote economy, efficiency, and effectiveness in the administration of disaster programs and operations, and prevent and detect fraud, waste, and abuse;
- An independent and objective means of keeping the Congress, the Secretary of Homeland Security, and all other federal departments and agencies involved in disaster relief fully and currently informed about problems and deficiencies

relating to the administration of disaster relief programs and operations, and the necessity for and progress of corrective action.

This allows us to stay current on all disaster relief operations, and provide on-the-spot advice on internal controls and precedent setting decisions.

Although FEMA has cooperated with our efforts and is in the process of implementing procedures to identify and reduce waste, fraud, and abuse, it has yet to implement a number of DHS/OIG recommendations, which, in our opinion, could have mitigated many of the problems they are experiencing today.

In May 2005, we provided FEMA with a report entitled, "FEMA's Individuals and Households Program in Miami-Dade County, Florida, for Hurricane Frances." In the report, we identified the need for better development and implementation of policies, procedures, and guidelines in the granting of awards to individuals and households for hurricane relief. Unfortunately, FEMA had not implemented those controls when Katrina struck. The lack of basic internal controls is contributing to the fraud, abuse, and waste we are currently seeing.

#### **PRE-DISASTER PLANNING AND CONTRACT MANAGEMENT**

FEMA's core mission is to respond to emergencies and procure emergency supplies and equipment, e.g., travel trailers, mobile homes, base camps, food, ice, etc., on a recurring basis. Therefore, planning for these procurements would represent sound business practice. Because of the unpredictable nature of emergency operations, such planning cannot always be used to select specific sources in advance of a disaster. However, for each major type of procurement, i.e., travel trailers, mobile homes, base camps, etc., pre-disaster planning can address the following:

- Identify prospective sources of supplies and/or services, including sources identifiable through government-wide and industry association databases using market survey approaches;
- Delineate how competition will be sought, promoted, and sustained during emergency operations;
- Describe how Stafford Act requirements for preferences of firms affected by the disaster will be met;
- Layout source-selection procedures for each type of procurement; and
- Establish communications systems and processes and publicize them in order that prospective sources know how to contact FEMA procurement personnel.

The above pre-disaster planning did not take place; therefore, FEMA found itself in an untenable position and hastily entered into contracts with little to no competition for disaster commodities.

Although the Federal Acquisition Regulation (FAR) requires agencies to perform acquisition planning and conduct market research for all acquisitions in order to obtain competition to the maximum extent practicable, this did not take place in response to Hurricane Katrina. According to the Homeland Security Acquisition Manual and the FAR, formal acquisition plans are not required for emergency acquisitions, i.e., when the need for the supplies/services is of such an unusual and compelling urgency that the government would be seriously injured if the supplies/services were not immediately acquired.

However, because many of the response requirements are the same for every disaster, a modicum of pre-disaster planning can and should take place. Pre-disaster planning should include establishing standby or call contracts with vendors to provide essential goods and services required to facilitate immediate response operations or to meet the needs of disaster victims. Call contracts for ice, water, food, tarps, transportation, travel trailers, and other items commonly procured shortly after disasters strike should be in place and ready to execute on short notice. A call contract allows for costs, specifications, terms and conditions to be negotiated in advance negating the need for intensive contract negotiations during a crisis. This is a common business practice in other federal agencies, including the Corps of Engineers and the Forest Service.

Understandably, in the aftermath of a disaster, government agencies award contracts under expedited contracting methods, as authorized by FAR, in order to provide a timely response to victims' needs. In response to Katrina, DHS alone awarded approximately 3,400 contracts worth approximately \$5.3 billion. More than 1,000 of the contracts were valued in excess of \$500,000, but less than half were awarded under full and open competition. We are currently reviewing the terms and conditions of all contracts over \$500,000 and other Office of Inspectors General (OIG) are doing the same. In addition, we are conducting reviews of invoices, focusing on high-risk contracts.

Shortly after Hurricane Katrina struck, FEMA awarded four major contracts for technical assistance in the gulf region. Technical assistance primarily involves the installation, operations, maintenance and deactivation of housing facilities such as travel trailers and mobile homes. We reviewed the source selection process for each of the major Technical Assistance Contracts (TAC), but could not find complete written records of the source selection process to determine how these firms were selected.

FEMA awarded contracts to the TAC contractors under a sole source basis. The four major TAC contractors are among the top 50 construction contractors in the country according to the Engineering News Record (ENR) magazine, therefore are technically qualified to perform the work. However, FEMA did not provide sufficient documentation regarding the process used to select these firms over other firms listed in ENR's Top 50 Engineering Firms. Of the companies selected by FEMA, one ranked first and a second ranked fourth, while another ranked 15<sup>th</sup> and the fourth ranked 50<sup>th</sup>. The lack of source selection documentation created the appearance of bias or favoritism.

We understand that FEMA is in the process of re-competing each of these contracts. And, recently, FEMA awarded more than 30 contracts to local and small businesses in the Gulf Region to perform some of the work (maintenance and de-activation of travel trailers) previously performed by the large TAC contractors.

To be effective in fostering competition to the maximum extent possible, acquisition plans should use public information strategies to identify FEMA procurement points of contacts and proposal evaluation criteria for major products. Therefore, well-connected vendors would not have a significant advantage in contacting FEMA procurement personnel following a disaster and receiving the lion's share of the contract awards. State economic development offices, chambers of commerce, and industry associations could be used by FEMA in developing appropriate public information strategies. Here again, this approach could have helped prevent charges of favoritism and more equitably distributed contract awards as well as address the issues of fair and reasonable pricing and Stafford Act requirements for local preferences.

Limited competition also results in limited assurance that the price the government pays is reasonable. The media has already reported many cases in which procurement personnel authorized contractors to begin work without a definitive statement of work, often on a sole-source basis with no attempt to independently estimate costs. While many contractors performed their work efficiently and in good faith, there were instances where there were problems. In some cases, the government will have little legal recourse to recoup payments from contractors awarded questionable contracts.

Also, FEMA maintained little or no documentation regarding price reasonableness in many contract files. The FAR requires contracting officers to document the determination of fair and reasonable pricing. It also requires that the company size standard be specified in the solicitation so that companies can appropriately represent themselves as small or large businesses. Further, according to the FAR, "All factors and significant subfactors that will affect contract award and their relative importance shall be stated clearly in the solicitation."

In many of the files that we reviewed, there were no contract files checklist or record of supervisory review and approval. With the high volume of procurement activity within such a short period of time, documentation providing an explanation of the source selection process and the determinations of cost reasonableness was not prepared for many contracts. While we recognize that Hurricane Katrina was a disaster of major proportions, use of streamlined documentation procedures to meet the FAR requirements would not have appreciably impeded FEMA's contracting efforts to provide expedited assistance to the disaster victims.

**ADDRESSING LESSONS LEARNED:  
CREATING SOLUTIONS NOT RE-VISITING LESSONS LEARNED**

The federal government, in particular FEMA, received widespread criticism for a slow and ineffective response to Hurricane Katrina. As I have discussed thus far, much of the criticism is warranted. Although FEMA and other agencies deployed emergency responders and resources in advance of the storm, most were overwhelmed the first week after landfall.

In March 2006, we issued a report entitled, *A Performance Review of FEMA's Disaster Management Activities in Response to Hurricane Katrina* (OIG-06-32, March 2006). This report details FEMA's responsibility for three major phases of disaster management, i.e., preparedness, response, and recovery, during the first five weeks of the federal response. We evaluated FEMA's preparedness and readiness efforts over the past ten years to determine its organizational capability and position prior to Hurricane Katrina. We reviewed whether FEMA's authorities, plans and procedures, organizational structure, and resources were adequate and effective.

FEMA's initial response was significantly impeded by the adjustments it was making in implementing its responsibilities under the National Response Plan (NRP). Moreover, within the past two years, the Department of Homeland Security (DHS) published two watershed planning documents, the National Incident Management System (NIMS) and the NRP, which restructure how federal, state, and local government agencies and emergency responders conduct disaster preparation, response, and recovery activities. Changes needed to implement both documents, however, were still underway when Hurricane Katrina made landfall.

The response demonstrated some positive features of the incident command structure under NIMS, which FEMA and state staff led in Mississippi and Alabama. It also highlighted severe deficiencies and multiple areas where FEMA and DHS headquarters must make adjustments to the NRP, such as the use of incident designations, the role of the Principal Federal Official (PFO), and the responsibilities of emergency support function coordinators. It also should not be overlooked that when compared to other disasters, FEMA provided record levels of support to Hurricane Katrina victims, states, and emergency responders.

However, FEMA's shortcomings traverse a number of areas. For example, a lack of visibility in the resource ordering process, difficulty deploying sufficient numbers of trained personnel, unreliable communication systems, and insufficient management controls for some assistance programs all demonstrate a need for improved response support capabilities and more effective delivery mechanisms for assistance.

FEMA's efforts to support state emergency management and to prepare for federal response and recovery in natural disasters were insufficient for an event of Hurricane Katrina's magnitude. Difficulties experienced during the response directly correlate with

weaknesses in FEMA's grant programs, staffing, training, catastrophic planning, and remediation of issues identified during previous disasters and exercises.

Finally, the integration of FEMA, all hazards preparedness, and disaster response and recovery capabilities within DHS requires additional attention. After the terrorist attacks of September 11, 2001, DHS' prevention and preparedness for terrorism have overshadowed that for natural hazards, both in perception and in application. Although an "all-hazards" approach can address preparedness needs common to both man-made and natural events, DHS must ensure that all four phases of emergency management – preparedness, response, recovery, and mitigation – are managed throughout the department on an all-hazards basis. Coordination and consultation among DHS components and with the states is essential to guide, advise, develop, and monitor all-hazards capability and responder effectiveness.

In our report, we made 38 recommendations to the Director of FEMA, Under Secretary for Preparedness, Assistant Secretary of Public Affairs, and Director of the Office of Operations Coordination to improve emergency management capabilities, which include:

- Establishing measurable expectations of FEMA's response;
- Providing the necessary financial, technical, and staff support to meet them;
- Assessing FEMA's readiness;
- Clarifying how DHS headquarters, FEMA, and other DHS components will implement aspects of the NRP;
- Addressing improvements to FEMA's infrastructure for resource ordering and tracking, personnel deployment, disaster communications, and handling disaster applications;
- Completing catastrophic, surge, and workforce plans;
- Adding training;
- Strengthening the remedial action program;
- Building relationships with the states in concert with DHS' Preparedness Directorate and Public Affairs; and
- Modifying how FEMA manages disaster assistance.

Our recommendations aimed at clarifying how DHS headquarters, FEMA, and other DHS components can implement aspects of the NRP, and address improvements to FEMA's infrastructure for resource ordering and tracking; personnel deployment; disaster communications; and disaster application handling. The nature of some of these recommendations suggests that they should be able to be addressed prior to this upcoming hurricane season and within existing resources and funding levels. However, many recommendations may require additional time, beyond the start of hurricane

season, to be fully addressed and many will require an initial and sustained funding commitment by DHS and Congress to be fully implemented.

In closing, through our oversight efforts we have learned:

- FEMA scrambled to purchase supplies, commodities, equipment and other resources to support emergency and disaster response efforts from numerous vendors, because requirement planning prior to Katrina was inadequate;
- Call or standby contracts with pre-negotiated prices, quantities, terms and conditions, and specifications could have greatly facilitated post disaster procurement operations, but were not implemented;
- In many instances, the government did not pay a reasonable price for its purchases, because competition was limited; and
- The government's contract oversight and monitoring was inadequate, resulting in cost and price variations.

Because of the nature of disaster operations, we understand that pre-disaster planning has to be flexible to address the impact of the disaster. However, pre-disaster acquisition planning can balance the capabilities of distributors, wholesalers, retailers and manufacturers, and maximize the use of licensed manufacturers and dealers. And, call or standby contracts with pre-negotiated prices, quantities, terms and conditions, and specifications could have greatly facilitated procurement operations.

As I have pointed out there were many weaknesses in the federal government's pre-disaster planning and contract management efforts. However, we hope that the lessons learned from our findings will help address weaknesses and be better prepared for future disasters.

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Mr. Chairman, this concludes my prepared remarks. I would be happy to answer any questions.