

## Fraud, Katrina contracts could waste \$2B

HOPE YEN Associated Press

**WASHINGTON** - The tally for Hurricane Katrina waste could top \$2 billion next year because half of the lucrative government contracts valued at \$500,000 or greater for cleanup work are being awarded without little competition.

Federal investigators have already determined the Bush administration squandered \$1 billion on fraudulent disaster aid to individuals after the 2005 storm. Now they are shifting their attention to the multimillion dollar contracts to politically connected firms that critics have long said are a prime area for abuse.

In January, investigators will release the first of several audits examining more than \$12 billion in Katrina contracts. The charges range from political favoritism to limited opportunities for small and minority-owned firms, which initially got only 1.5 percent of the total work.

"Based on their track record, it wouldn't surprise me if we saw another billion more in waste," said Clark Kent Ervin, the Homeland Security Department's inspector general from 2003-2004. "I don't think sufficient progress has been made."

He called it inexcusable that the Bush administration would still have so many no-bid contracts. Under pressure last year, Federal Emergency Management Agency director David Paulison pledged to rebid many of the agreements, only to backtrack months later and reopen only a portion.

Investigators are now examining whether some of the agreements - which in some cases were extended without warning rather than rebid - are still unfairly benefiting large firms.

"It's a combination of laziness, ineptitude and it may well be nefarious," Ervin said.

FEMA spokesman James McIntyre said the agency was working to fix its mistakes by awarding contracts for future disasters through competitive bidding. Paulison has said he welcomes additional oversight but cautioned against investigations that aren't based on "new evidence and allegations."

"As always, FEMA will work with Congress in all aspects to ensure that we are carrying out the agency's responsibilities," McIntyre said.

The Aug. 29, 2005, hurricane swept ashore in southern Louisiana, Mississippi and Alabama, leveling homes and businesses along the Gulf Coast. Its storm surge breached levees in New Orleans, unleashing a flood that left more than 1,300 people dead, hundreds of thousands homeless and tens of billions of dollars worth of damage.

A series of government investigations in the storm's wake faulted the Bush administration for underestimating the threat and failing to prepare by pre-negotiating contracts for basic supplies in what has become the nation's costliest disaster.

Earlier this month, the Government Accountability Office said its initial estimate of \$1 billion in disaster aid waste was "likely understated," citing continuing problems in which FEMA doled out tens of millions of dollars in fraudulent housing assistance.

Democrats in Congress called for more accountability. When they take over in January, at least seven committees plan hearings or other oversight - from housing to disaster loans - on how the \$88 billion approved for Katrina relief is being spent.

Among the current investigations:

\_ The propriety of four no-bid contracts together worth \$400 million to Shaw Group Inc., Bechtel Group

Inc., CH2M Hill Companies Ltd., and Fluor Corp. that were awarded without competition.

The contracts drew immediate criticism because of the companies' extensive political and government ties, prompting a promise last year from Paulison to rebid them. Instead, FEMA rebid only a portion and then extended their contracts once, if not twice - to \$3.4 billion total - so the firms could finish their remaining Katrina work.

The four companies, which have denied that connections played a factor, were among six that also won new contracts after open bidding in August. The latest contracts are worth up to \$250 million each for future disaster work.

\_ The propriety of 36 trailer contract awards designated for small and local businesses as part of Paulison's promise to rebid large contracts.

Homeland Security Inspector General Richard Skinner is reviewing whether some small and local businesses were unfairly shut out in favor of winners such as joint venture PRI-DJI. DJI stands for Del-Jen Inc., a subsidiary of Fluor, which has donated more than \$930,000 to mostly Republican candidates since 2000.

"It's not what you know, what your expertise is. I don't even believe it's got much to do with price. It's who you know," contends Ken Edmonds, owner of River Parish RV Inc. in Louisiana, a company of 9 people whose application was rejected.

PRI, a minority-owned firm based in San Diego, said it is the "majority partner" with Del-Jen as part of a federal mentoring program offered by the Small Business Administration. The joint venture received four Katrina contracts worth up to \$100 million each based on price and "knowledge of work with the federal government," president Frank Loscavio said.

- Whether small and minority-owned businesses were unfairly hurt after the Bush administration initially waived competition requirements.

For many weeks after the storm, minority firms received 1.5 percent of the total work - less than one-third of the 5 percent normally required - because they weren't allowed to bid for many of the emergency contracts.

The National Black Chamber of Commerce called the figure appalling because of the disproportionate number of poor, black people in the stricken Gulf Coast, prompting Sen. Olympia Snowe, R-Maine, and Rep. Donald Manzullo, R-Ill., to request GAO to investigate.

FEMA has since restored many of its competition rules, and the number of contracts given to minority firms is now about 8.8 percent, according to the agency.

### ON THE NET

A copy of the semiannual report on Katrina spending by the agencies' inspectors general:

[http://www.dhs.gov/xoig/assets/katovrsqht/OIG\\_pcie\\_sept06.pdf](http://www.dhs.gov/xoig/assets/katovrsqht/OIG_pcie_sept06.pdf)



## Katrina Fraud Likely to Balloon Past \$1 Billion

Charges of Political Favoritism Lodged at Bush Administration

By HOPE YEN, AP

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Pumps in New Orleans suck water out of flooded neighborhoods in September of last year after Hurricane Katrina swept through the city. The hurricane first hit the Gulf Coast on Aug. 29, 2005.

## Katrina Fraud ...

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This is what SHOULD happen to executives -- be they construction or insurance executives -- who commit fraud.