

Testimony

Before the Committee on Government Reform, House of Representatives

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HURRICANE KATRINA

Improving Federal Contracting Practices in Disaster Recovery Operations

Statement of William T. Woods, Director Acquisition and Sourcing Management





Highlights of GAO-06-714T, a testimony before the Committee on Government Reform, House of Representatives

Why GAO Did This Study

The devastation experienced throughout the Gulf Coast region in the wake of Hurricanes Katrina and Rita has called into question the government's ability to effectively respond to such disasters. The government needs to understand what went right and what went wrong, and to apply these lessons to strengthen its disaster response and recovery operations.

The federal government relies on partnerships across the public and private sectors to achieve critical results in preparing for and responding to natural disasters, with an increasing reliance on contractors to carry out specific aspects of its missions.

This testimony discusses how three agencies—the General Services Administration, the Federal Emergency Management Agency (FEMA), and the U.S. Army Corps of Engineers (the Corps)—conducted oversight of 13 key contracts awarded to 12 contractors for hurricane response, as well as public and private sector practices GAO identified that provide examples of how the federal government could better manage its disaster-related procurements.

What GAO Recommends

While GAO is not making any new recommendations in this testimony, GAO highlights previous recommendations for improving federal procurement in contingency operations.

www.gao.gov/cgi-bin/getrpt?GAO-06-714T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William T. Woods at (202) 512-4841 or woodsw@gao.gov.

HURRICANE KATRINA

Improving Federal Contracting Practices in Disaster Recovery Operations

What GAO Found

Agency acquisition and contractor personnel have been recognized for their hard work in providing the goods and services required to be responsive. The response efforts nonetheless suffered from three primary deficiencies:

First, there was inadequate planning and preparation in anticipating requirements for needed goods and services. Some key agencies did not always have adequate plans for contracting in a major contingency situation. For example, FEMA did not adequately anticipate needs for temporary housing and public buildings. Tensions also existed between selecting national contractors and the Stafford Act requirement for a preference for contractors from the affected area.

Second, there was a lack of clearly communicated responsibilities for contracting activities across agencies and jurisdictions. When disasters occur, local or state officials sometimes determine contract requirements and send them to FEMA, which writes and awards the contract or passes that responsibility on to another agency. FEMA or another agency may then oversee contract performance. Although this process requires clear alignment of responsibilities and good communications, our fieldwork found examples that did not meet that standard. Although the process for ordering and delivering ice depends on good communications between FEMA and the Corps, for example, Corps officials said FEMA did not fully understand the contracting approach they used and ordered at least double the amount of ice required, resulting in an oversupply of ice and a lack of distribution sites to handle the volume ordered.

Third, there were insufficient numbers and inadequate deployment of personnel to provide for effective contractor oversight. For example, FEMA's contracts to install temporary housing in four states had only 17 of the 27 technical monitors that were needed for oversight.

GAO has identified practices in the public and private sectors that provide insight into how federal agencies can better manage their disaster-related procurements, including:

- developing knowledge of contractor capabilities and prices by identifying commodities and services and establishing vendor relationships before they are needed;
- establishing a scalable operations plan to adjust the level of capacity required to effectively respond to needs;
- formally assigning and communicating disaster-related responsibilities, with joint training for government and contractor personnel; and
- providing sufficient numbers of field-level contracting staff with the authority needed to meet mission requirements.

Mr. Chairman and Members of the Committee:

Thank you for inviting me here today to discuss the practices for managing federal disaster recovery contracts related to Hurricanes Katrina and Rita and how these practices can be improved. The size and strength of Hurricane Katrina resulted in one of the largest natural disasters in our nation's history, and in its aftermath major questions have been raised about our nation's readiness and ability to respond to catastrophic disasters. Hurricane Rita increased demands on an already stressed response and recovery effort at all levels of government.

GAO has a large body of ongoing work on a range of issues relating to all phases of the preparation, response, recovery, and rebuilding efforts related to Hurricanes Katrina and Rita. GAO's work has been coordinated with the rest of the accountability community at the federal, state, and local levels to ensure that all significant issues associated with relief and recovery, including contracting, are addressed while avoiding unnecessary duplication of efforts.

Comptroller General Walker recently testified on GAO's preliminary observations on the challenges encountered in the response to Hurricane Katrina, and he identified four themes that are similar to lessons learned from past catastrophic disasters. These include the central importance of (1) clearly defining and communicating leadership roles, responsibilities, and lines of authority for response in advance of a catastrophic disaster; (2) clarifying the procedures for activating the National Response Plan and applying them to emerging catastrophic disasters; (3) conducting strong advance planning and robust training and exercise programs; and (4) strengthening response and recovery capabilities for a catastrophic disaster.

These themes directly relate to what I will discuss today, namely how three agencies planned for and conducted oversight of several key contracts in support of Katrina and Rita response and recovery efforts: the General Services Administration (GSA), the Federal Emergency Management Agency (FEMA), and the U.S. Army Corps of Engineers (the Corps). For those areas where we identified deficiencies, I will also

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¹ GAO, Hurricane Katrina: GAO's Preliminary Observations Regarding Preparedness, Response, and Recovery, GAO-06-442T, (Washington D.C.: Mar. 8, 2006).

² See GAO, *Agency Management of Contractors Responding to Hurricanes Katrina and Rita*, GAO-06-461R (Washington, D.C.: March 2006).

discuss public and private sector practices that provide examples of how the federal government could better manage its disaster-related procurements. In doing our review, we selected 13 mission-critical contracts, each with a dollar value in excess of \$5 million, that were awarded to 12 contractors performing work for the three agencies. We analyzed how monitoring policies and processes were put into practice. We also reviewed the practices of selected federal agencies, state emergency management agencies, commercial businesses, and a major utility that responded to Hurricane Katrina, analyzing their policies and procedures to identify successful practices and alternative approaches for managing disaster-related procurements. We conducted our work from October 2005 through March 2006 in accordance with generally accepted government auditing standards.

Summary

Given the environment in which they were operating, agency acquisition and contractor personnel have been recognized for their hard work in providing the goods and services required to be responsive. The response efforts nonetheless suffered from three primary deficiencies:

- inadequate planning and preparation in anticipating requirements for needed goods and services,
- lack of clearly communicated responsibilities across agencies and jurisdictions to ensure effective acquisition outcomes, and
- insufficient numbers and inadequate deployment of personnel to provide for effective contractor oversight.

A number of efforts are under way by these agencies to address the issues we and others have identified.

In reviewing contracts awarded in another contingency situation, rebuilding Iraq, GAO found that without effective acquisition planning, management processes, and sufficient numbers of capable people, poor acquisition outcomes resulted. GAO made recommendations for improving procurements in contingency operations, including the need for sufficient numbers of trained staff who have clear responsibilities and guidance for overseeing contractor performance. In more recent work, we identified a number of practices in the public and private sectors that provide insight into how the federal government can better manage its disaster-related procurements. These practices include

 developing knowledge of contractor capabilities and prices by identifying available commodities and services and establishing vendor relationships before they are needed,

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- establishing a scalable operations plan to adjust the level of capacity required to effectively respond to the need,
- formally assigning and communicating disaster-related responsibilities, with joint training for government and contractor personnel, and
- providing sufficient numbers of field-level contracting staff with the authority needed to meet mission requirements.

Contractor Roles in Emergency Response Operations Are Increasing

The private sector is an important partner with the government in responding to and recovering from natural disasters such as Hurricanes Katrina and Rita. As we recently noted, ³ such partnerships increasingly underlie critical government operations. With hundreds of billions of tax dollars spent each year on goods and services, it is essential that federal agency acquisitions be handled in an efficient, effective, and accountable manner.

Over \$87 billion of federal funding has been appropriated in response to the recent hurricanes. In responding to Hurricanes Katrina and Rita, the government depended heavily on contractors to deliver ice, water, and food supplies; patch rooftops; and provide housing to displaced residents and temporary facilities to local government agencies. Overall, the circumstances caused by the hurricanes created a difficult environment in which agencies had to balance the need to deliver goods and services quickly with the need for appropriate controls. Although achieving that balance is sometimes hard to accomplish, that fact must not be allowed to serve as an excuse for poor contracting practices.

There Was Inadequate Planning and Preparation in Anticipating Requirements for Needed Goods and Services The need for strong planning is one of the themes identified by the Comptroller General in regard to the government's overall response to the hurricanes. Planning also must explicitly address the need for and management of the contractor community. In previous work we said that for federal agencies to be effective they need to develop the knowledge necessary to identify, select, and manage contractors, including having competitively awarded contracts in place prior to a disaster. We found that some key agencies did not always have adequate plans for contracting in a major contingency situation. We also noted the competing tensions between the selection of national contractors and the requirement under

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³GAO, 21st Century Challenges: Reexamining the Base of the Federal Government, GAO-05-325SP (Washington, D.C.: February 2005).

the Stafford Act for a preference for contractors from the affected area. Better planning could have alleviated those tensions.

For example:

- While contracts for some items were in place prior to the storm, FEMA did
 not adequately anticipate needs for such services as providing temporary
 housing and public buildings.
- The practice of the Corps is to establish Planning and Response Teams for various missions assigned to it by FEMA prior to an event, with specific responsibilities assigned to team members. However, the Corps indicated it did not know prior to the hurricane that it would be tasked by FEMA with some of the mission assignments it received. In one case, faced with a compressed time frame for acquiring portable classrooms and with no prior knowledge about the classroom mission they were assigned, Corps contracting officials placed an order, under an existing agreement, with a subsidiary of an Alaska Native Corporation under the Small Business Administration's section 8(a) Business Development Program. The Corps accepted the contractor's proposed price of \$39.5 million even though it had information that the cost for the classrooms was significantly less than that. Based on our analysis of a quote obtained by the contractor from a local Mississippi business, the price the contractor actually paid for the classrooms, and prices for similar units from GSA schedule contracts, our conclusion⁴ is that the Corps could have, but failed to, negotiate a lower price.
- Similarly, better management of requirements development could have avoided costs to house workers and victims. Based on information provided by local officials, FEMA spent \$3 million for 4,000 base camp beds that were never used.
- Preparation was also lacking in implementation of the Stafford Act preference for contractors residing or doing business in the affected area.⁵
 The Corps staff expressed uncertainty regarding how to apply preferences

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⁴GAO, Hurricane Katrina: Army Corps of Engineers Contract for Mississippi Classrooms, GAO- 06-454 (Washington, D.C.: May 2006).

⁵42 U.S.C. § 5150.

or determine if a company was in an affected area. Several GSA and FEMA officials indicated they were aware of the Stafford Act, but stated it is difficult to immediately factor in local businesses in such a catastrophic event. GSA officials stated they plan to review the Federal Acquisition Regulation (FAR) to see if additional Stafford Act guidance is necessary.

In discussing our findings and observations with FEMA officials, they said they are taking steps to improve in areas such as staffing and premobilization capabilities. However, they also stated that such preplanning and preparedness has a cost. The Corps commented that contracting staff need to have defined requirements in order to get the right type of contracts put in place, and the contracting staff did not always get defined requirements in a timely manner. Additionally, a Corps official commented that until funding for a particular mission is secured, preparation for it cannot go forward and this also delayed contracting efforts. Finally, both GSA and the Corps noted that they tried to reach out to local and small businesses through forums and other means to make them aware of opportunities to contract with the federal government.

Examples of Federal, State, and Private Sector Practices for Improving Planning and Preparation Officials that we talked to in the public and private sectors considered preidentification of commodities, scalable operations, and pre-established vendor relationships to be essential for ensuring adequate planning and preparation for providing needed goods and services following a disaster. For example:

• Florida's Division of Emergency Management developed a database that pre-identifies over 200 supplies and services that may be needed to respond to a disaster. Florida also pre-qualifies vendors, recording quantities and locations of vendor supplies, and establishes rates before each hurricane season, giving it the knowledge it needs to quickly procure supplies and services at a reasonable price. Similarly, Wal-Mart uses a database to review historical buying trends to identify what goods will be

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⁶GAO recently issued a decision on a protest of the terms of a solicitation issued by the Corps for demolition and debris removal in the State of Mississippi. The protester asserted, in part, that the Corps decision to limit the competition for this work to Mississippi firms improperly exceeded the authority granted under a provision of the Stafford Act to provide a preference to firms residing, or primarily doing business, in the area affected by a major disaster. GAO's decision did not view the Corps decision to implement the Stafford Act preference with a set-aside as an abuse of the agency's discretion, and the Corps did not act improperly by limiting this competition to Mississippi firms. *AshBritt, Inc.* B-297889, March 20, 2006.

⁷See FAR, Subpart 26.2-Disaster or Emergency Assistance Activities.

in demand both before and after a hurricane, and to stock the merchandise in its stores accordingly.

- The Corps awards Advanced Contracting Initiative (ACI) contracts to fulfill its anticipated disaster response missions. ACI contracts are used to jump start the missions following a disaster, with the Corps bringing in other contracts as necessary to complete the work.
- Part of Mississippi Power's operations plan is to identify multiple potential staging areas, and multiple housing and food supply options for its own and outside workers, which enables the company to expand or reduce its operations depending on the size of the disaster. After Hurricane Katrina, Mississippi Power's scalable operations plan enabled it to shelter and manage more than twice the number of outside personnel it had planned for, but that were needed to restore service as quickly as possible to all customers able to receive power.

There Was a Lack of Clearly Communicated Responsibilities across Agencies and Jurisdictions We also found that processes for executing contracts were hindered by poor communication of responsibilities. As envisioned under the National Response Plan (NRP), federal agencies responding to a disaster carry out their acquisition functions through a network of federal, state, and local agencies. In some instances, the local or state officials determine the requirements and communicate them to FEMA; FEMA may write and award the contract or communicate the requirements to another agency that writes and awards the contract; and then FEMA or another agency oversees contract performance. This approach puts a premium on aligning roles and responsibilities clearly and maintaining good communications to ensure effective execution of the contract.

Our fieldwork identified examples where unclear responsibilities and poor communications resulted in poor acquisition outcomes. For example:

• FEMA officials stated that a contractor spent approximately \$10 million to renovate 160 rooms and furnish another 80 rooms in military barracks in Alabama that a FEMA survey team identified for use as temporary housing. To renovate the facility, FEMA headquarters awarded a contract without consulting local FEMA officials in Alabama. According to FEMA officials in Alabama, however, the facility was not needed and they tried to stop the renovation. These same FEMA officials stated that few evacuees agreed to live at the facility, and when officials decided to close the facility, it had only six occupants.

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- The process for ordering and delivering ice heavily depends on effective communications between FEMA and the Corps. However, according to Corps officials, FEMA did not fully understand the contracting approach used by the Corps and ordered at least double the amount of ice required, resulting in an oversupply of ice and a lack of distribution sites available to handle the volume ordered. Additionally, the local Corps personnel were not always aware of where ice might be delivered and did not have the authority to redirect ice as shipments arrived, resulting in inefficient distribution and receipt at the state level.
- FEMA tasked GSA to write three contracts in Louisiana for base camps, hotel rooms, and ambulances, with a total value of over \$120 million. GSA contracting officers awarded the contracts, but could not tell us which FEMA officials would be responsible for overseeing contractor performance. The FEMA official identified as the main point of contact by GSA did not have any knowledge of these contracts or who was responsible for oversight. Only after contacting multiple FEMA officials over a 3-week period were we able to determine the agency officials responsible for contract oversight.

In commenting on our findings, GSA officials stated that their role is to provide resource support in the response phase of a disaster, meaning they are responsible for executing contracts under the NRP, and FEMA is responsible for monitoring the contracts. FEMA officials commented that there needs to be more clarity regarding procurement roles and indicated one of their goals is to work with GSA to clarify procurement responsibilities for the future. GSA officials indicated that the current memorandum of understanding between GSA and FEMA is being updated to reflect the standards of the new NRP as well.

Examples of State and Private Sector Practices for Establishing and Communicating Responsibilities To clearly establish and communicate disaster-related responsibilities, public and private sector officials told us they use such practices as conducting joint disaster response training for agency employees and contractors and formally assigning their employees specific disaster-related responsibilities. For example:

• The employees at CSX Transportation Railroad and their suppliers participate jointly in both disaster planning and training exercises. This allows each supplier to know its responsibilities and the railroad's expectations in the event of a natural disaster. As a part of its preparation for disaster response, the Florida Division of Emergency Management holds joint state-wide training exercises every year with suppliers.

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• Management-level personnel at Mississippi Power are assigned disaster director roles aligned to their day-to-day functions, which they assume during the company's storm preparation phase. Each disaster director has a designated backup and directs all disaster-related activities within his or her functional areas. Each functional area has a specific disaster plan that is integral to the overall corporate disaster recovery plan. Each Mississippi Power employee also has a storm assignment and receives annual training on that assignment.

There Were Insufficient Numbers and Inadequate Deployment of Personnel to Provide for Effective Contractor Oversight The purpose of agencies' monitoring processes is to ensure that contracted goods and services are delivered in accordance with the agreed-upon schedule, cost, quality, and quantity provisions stated in the contract. Without sufficient numbers of trained people properly deployed, however, effective monitoring is hampered and agencies may not be able to identify and correct poor contractor performance in a timely manner. Furthermore, agencies can be at risk of paying contractors more than the value of the services performed.

Our work indicated that while monitoring was occurring on the contracts we reviewed, the number of monitoring staff available was not always sufficient, and staff were not always effectively deployed. For example:

- FEMA's contracts for installing temporary housing in four states had only 17 of the 27 technical monitors that had been determined necessary to oversee contractor performance.⁸
- Corps officials responsible for overseeing the "blue roof" program's field operations told us it was slowed down due to the lack of sufficient monitors.⁹

Deployment practices did not always provide for appropriate notification of responsibilities or overlap of rotating contracting officers and oversight personnel, thus making knowledge transfer and continuity of contract management operations difficult. For example:

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⁸Data provided by FEMA official were dated November 18, 2005.

⁹ The Corps manages the Operation Blue Roof mission for FEMA. Operation Blue Roof provides assistance to storm victims in disaster areas through the installation of rolled plastic sheeting on damaged roofs, helping to protect property and allowing residents to remain in their homes.

- For four of the contracts we reviewed, officials were either unaware or not notified by FEMA of their oversight responsibilities.
- The lack of overlap between oversight personnel for a large temporary
 housing contract left the most recent contract administrator with no
 knowledge or documentation of who had authorized the contractor to
 perform certain activities or why the activities were being performed.

While discussing our findings and observations with FEMA officials, they emphasized that they lacked adequate staffing, but said they have made efforts to fill staffing gaps. Additionally, FEMA officials stated they recognize the need for continuity in contract oversight and indicated they are implementing a process to ensure workload and knowledge sharing among rotating personnel. However, they also believe that fewer transition difficulties exist now as a result of hiring more people and having more oversight officials staying in the affected areas. GSA officials indicated there may also be other alternatives for ensuring adequate contract oversight, such as designating GSA employees to conduct oversight on some contracts. Corps officials stated their policy is to rotate certain personnel every 29 days to keep personnel costs to a minimum because of regulations under the Fair Labor Standards Act. ¹⁰

Examples of Federal and Private Sector Practices for Improving the Deployment of the Contracting Workforce Practices we identified to better ensure sufficient numbers and adequate deployment of personnel in a disaster situation include establishing response structures that employees can be "plugged" into and moving employees from routine service into disaster response. For example:

- The Corps and the Forest Service deploy pre-established trained teams to disaster locations to manage specific missions, such as debris removal and base camp support. These teams include specialists with the authority needed to provide on the ground procurement support to meet mission needs.
- In response to Katrina, Landstar, a transportation services company under contract to the U.S. Department of Transportation, diverted agents from routine customer service activities to emergency response activities, including staffing logistics staging areas, while continuing to meet the basic needs of commercial clients. Similarly, Wal-Mart reassigned employees from their regular duties in the corporate office to serve as

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¹⁰5 CFR § 551.208.

operators in the company's call center for associates affected by the hurricane.

In closing, in any acquisition agencies must have in place sound acquisition plans, processes to make and communicate good business decisions, and a capable acquisition workforce to monitor contractor performance so that the government receives good value for the money spent. These components are critical to successfully managing contracts in any environment—even in contingency situations such as those presented by Hurricanes Katrina and Rita.

Mr. Chairman, this concludes my statement. I would be happy to respond to any questions you or other Members of the Committee may have at this time.

For further information regarding this testimony, please contact William T. Woods at (202) 512-4841 or woodsw@gao.gov. Individuals making key contributions to this testimony included Penny Augustine, James Kim, John Needham, Kenneth Patton, Matthew Saradjian, David Schilling, Shannon Simpson, and Katherine Trimble.

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Appendix I: Recent GAO Products on Hurricanes Katrina and Rita

Hurricane Katrina: Planning for and Management of Federal Disaster Recovery Contracts. GAO-06-622T. (Washington, D.C.: April 10, 2006).

Hurricane Katrina: Comprehensive Policies and Procedures Are Needed to Ensure Appropriate Use of and Accountability for International Assistance. GAO-06-460. (Washington, D.C.: April 6, 2006)

Hurricane Katrina: Policies and Procedures Are Needed to Ensure Appropriate Use of and Accountability for International Assistance. GAO-06-600T. (Washington, D.C.: April 6, 2006).

Hurricane Katrina: Status of the Health Care System in New Orleans and Difficult Decisions Related to Efforts to Rebuild It Approximately 6 Months After Hurricane Katrina. GAO-06-576R. (Washington, D.C.: March 28, 2006).

Agency Management of Contractors Responding to Hurricanes Katrina and Rita. GAO-06-461R. (Washington, D.C.: March 16, 2006).

Hurricane Katrina: GAO's Preliminary Observations Regarding Preparedness, Response, and Recovery. GAO-06-442T. (Washington D.C.: March 8, 2006).

Emergency Preparedness and Response: Some Issues and Challenges Associated with Major Emergency Incidents. GAO-06-467T. (Washington: D.C.: February 23, 2006).

Disaster Preparedness: Preliminary Observations on the Evacuation of Hospitals and Nursing Homes Due to Hurricanes. GAO-06-443R. (Washington: D.C.: February 16, 2006).

Investigation: Military Meals, Ready-To-Eat Sold on eBay. GAO-06-410R. (Washington: D.C.: February 13, 2006).

Expedited Assistance for Victims of Hurricanes Katrina and Rita: FEMA's Control Weaknesses Exposed the Government to Significant Fraud and Abuse. GAO-06-403T. (Washington: D.C.: February 13, 2006).

Statement by Comptroller General David M. Walker on GAO's Preliminary Observations Regarding Preparedness and Response to Hurricanes Katrina and Rita. GAO-06-365R. (Washington, D.C.: February 1, 2006).

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Federal Emergency Management Agency: Challenges for the National Flood Insurance Program. GAO-06-335T. (Washington, D.C.: January 25, 2006).

Hurricane Protection: Statutory and Regulatory Framework for Levee Maintenance and Emergency Response for the Lake Pontchartrain Project. GAO-06-322T. (Washington, D.C.: December 15, 2005).

Hurricanes Katrina and Rita: Provision of Charitable Assistance. GAO-06-297T. (Washington, D.C.: December 13, 2005).

Army Corps of Engineers: History of the Lake Pontchartrain and Vicinity Hurricane Protection Project. GAO-06-244T. (Washington, D.C.: November 9, 2005).

Hurricanes Katrina and Rita: Preliminary Observations on Contracting for Response and Recovery Efforts. GAO-06-246T. (Washington, D.C.: November 8, 2005).

Hurricanes Katrina and Rita: Contracting for Response and Recovery Efforts. GAO-06-235T. (Washington, D.C.: November 2, 2005).

Federal Emergency Management Agency: Oversight and Management of the National Flood Insurance Program. GAO-06-183T. (Washington, D.C.: October 20, 2005).

Federal Emergency Management Agency: Challenges Facing the National Flood Insurance Program. GAO-06-174T. (Washington, D.C.: October 18, 2005).

Federal Emergency Management Agency: Improvements Needed to Enhance Oversight and Management of the National Flood Insurance Program. GAO-06-119. (Washington, D.C.: October 18, 2005).

Army Corps of Engineers: Lake Pontchartrain and Vicinity Hurricane Projection Project. GAO-05-1050T. (Washington, D.C.: September 28, 2005).

Hurricane Katrina: Providing Oversight of the Nation's Preparedness, Response, and Recovery Activities. GAO-05-1053T. (Washington, D.C.: September 28, 2005).

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