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Statement
of
Mr. Thomas F. Gimble
Principal Deputy Inspector General
Department of Defense

before the
Subcommittee on Federal Financial Management, Government
Information, and International Security
Senate Committee on Homeland Security and
Governmental Affairs

on
Management and Oversight of Federal Disaster Recovery:
Operation Blue Roof

Mr. Chairman and Members of the Senate Subcommittee on Federal Financial Management, Government Information, and International Security:

Thank you for the opportunity to appear before the subcommittee today to address our ongoing oversight work regarding the U.S. Army Corps of Engineers' Operation Blue Roof Program. We are working in close coordination with other Inspectors General through the President's Council on Integrity and Efficiency (PCIE) Homeland Security Roundtable on Hurricane Katrina to ensure effective use of DoD oversight resources in the relief and recovery efforts.

Specifically within DoD, the DoD Office of Inspector General, the Army Audit Agency, the Naval Audit Service, the Air Force Audit Agency, the Defense Contract Audit Agency, the Defense Criminal Investigative Service, and the Army Criminal Investigation Command have employed a cadre of about 150 auditors, investigators, and inspectors who have provided professional oversight of contracts and operations related to Hurricane Katrina relief and recovery efforts. We have deferred other audit work to ensure resources are available for this important effort. In addition, my office provided the facilities and personnel needed to stand up the Hurricane Katrina Fraud Hotline. On March 20, 2006, the Hotline operations transitioned to the Hurricane Katrina Fraud Relief

Task Force Command Center in Baton Rouge, Louisiana. As of the end of March, the Hotline has received 9,664 complaints.

The subcommittee has called this hearing to discuss the preplanning and contract management of federal recovery efforts in the aftermath of Hurricane Katrina. More specifically, the subcommittee has expressed particular interest in the contacting for debris removal, blue roofs, and trailers. The DoD Office of Inspector General has not performed work regarding the procurement of trailers. Further, the Auditor General of the Army Audit Agency is here today to discuss its ongoing work related to debris removal. My testimony today will describe the DoD Office of Inspector General activities as they relate specifically to the Operation Blue Roof Program.

Operation Blue Roof

The Department of Homeland Security's Federal Emergency Management Agency (FEMA) is responsible for coordinating Federal response to emergencies and disasters. One means of managing disasters is through mission assignments issued under the provisions of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, its implementing regulations, and the National Response Plan. Mission assignments direct Federal agencies to perform certain tasks in anticipation of, or in response to, the President's declaration of disasters or emergencies.

The Operation Blue Roof Program is a priority mission managed by the U.S. Army Corps of Engineers (Corps) for FEMA. The Operation Blue Roof Program provides a free temporary roof for residential structures, schools, daycares, and all publicly owned facilities. These temporary roofs provide short-term relief until the owner can make permanent repairs.

Requests Related to Operation Blue Roof

We received a request on November 1, 2005, from the House Committee on Homeland Security that asked us to review the Army Corps of Engineers' accountability and oversight of the Operation Blue Roof Program. The request specifically asked that we:

- Obtain and review the request for proposal for the Blue Roof project.
- Obtain and review the responses, detailing the winning bid submissions, from The Shaw Group, LJC Construction, Simon Roofing, and their subcontractors.
- Obtain any documents concerning complaints or negative contractor performance evaluations of prime contractors on the Hurricane Katrina Blue Roof project.
- Determine the rationale by which DoD determined that Operation Blue Roof contracts could not be awarded to small, minority, or locally owned firms as prime contractors.

In addition, we received a request on November 3, 2005, from the Senate Committee on Homeland Security and Governmental Affairs that asked us to review the

efficiency of the Corps' management of the emergency services mobilization. Specifically, we were requested to:

- Determine whether the Corps had in place adequate indefinite-delivery, indefinite-quantity (IDIQ) contracts before the hurricane to procure essential assistance, and if not, whether the lack of such contracts resulted from the Corps' failure to plan and award such contracts or from FEMA's failure to issue mission assignments to the Corps to award such contracts.
- Determine whether FEMA and the Corps should, in the future, employ multiple award IDIQ contracts for essential goods and services in advance of disasters.

Operation Blue Roof Audit

On November 9, 2005, we announced the "Audit of the Army Corps of Engineers' "Operation Blue Roof" Project in Response to Hurricane Katrina," Project No. D2006-D000CG-0081.000, in response to these requests. The objective of the audit is to review the award and administration of Operation Blue Roof contracts for the Hurricane Katrina recovery efforts. The fieldwork for this audit is not complete. We plan to issue a draft report in June 2006.

Contract Award Process

On June 23, 2005, the Corps St. Louis District posted a solicitation for an IDIQ contract with a value not to exceed \$10 million for temporary roofing repairs on structures damaged by natural disaster in Louisiana and Mississippi. However, the

Government reserved the right to mobilize additional contractors if it was in the Government's best interest and necessary to meet disaster response mission requirements. The solicitation was open to large and small businesses and specified open competition and best value. The solicitation also stated that technical factors, when combined, were significantly more important than cost or price.

On July 8, 2005, the Corps St. Louis District awarded one contract with a value not to exceed \$10 million for temporary roofing repairs on structures damaged by natural disaster in Louisiana and Mississippi. After Hurricane Katrina struck the gulf coast on August 29, 2005, the Corps St. Louis District awarded four additional blue roof contracts, each with a value not to exceed \$10 million. As the need for temporary roofing repairs continued to rise, the Corps modified the five contracts to increase their capacity and dollar value.

On October 4, 2005, the Corps Vicksburg District awarded to a small disadvantaged construction firm a contract with a value not to exceed \$12 million for repair work in Mississippi. On October 18, 2005, the Corps St. Louis District awarded another contract to a small disadvantaged construction firm with a value not to exceed \$50 million for repair work in Louisiana.

Scope of Work

We are currently determining whether the Corps properly awarded and administered Operation Blue Roof contracts for Hurricane Katrina. Specifically, we are

reviewing all 7 contracts (29 delivery orders) with a total obligated dollar value of \$277.5 million for temporary roofing work performed in Louisiana and Mississippi. We have visited or contacted Corps Headquarters, Washington, D.C.; Corps Omaha District, Omaha, Nebraska; Corps St. Louis District, St. Louis, Missouri; Corps Vicksburg District, Vicksburg, Mississippi; Corps Baton Rouge Recovery Field Office, Baton Rouge, Louisiana; Corps Finance Center, Millington, Tennessee; and Corps Mobile District, Mobile, Alabama.

New Contracts for Operation Blue Roof

The Corps is planning for the award of new Operation Blue Roof contracts prior to the 2006 hurricane season. On November 30, 2005, the Corps Mobile District posted a solicitation for IDIQ contracts for Contingency Contract Initiative Temporary Roof Repairs in 10 states: Maryland, Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, and Texas. Responses were due February 2, 2006. The solicitation specified competitive best value. The Corps plans to make multiple contract awards: three unrestricted awards; one Historically Underutilized Business Zone set-aside contract; one Service-Disabled Veteran-Owned Small Business; and two contracts per state to small disadvantaged businesses, with the business being certified in the state in which the contract is awarded. The estimated maximum dollar value of the five contracts awards to other than small, disadvantaged businesses is \$100 million per contract. Those five contracts have provisions allowing for an increase in total award value if warranted due to the magnitude of storm devastation experienced

over the life of the contract. The estimated maximum dollar value of the awards to small disadvantaged businesses is \$25 million per contract. The Corps is currently in the source selection process.

Plans for Continued Audit Coverage

In response to concerns raised by the public and Congress, specifically related to subcontracting and contract pricing for temporary roofs, we plan to initiate an audit in June 2006 on contractors' costs used to establish pricing, the percent of contract cost for overhead, and how many layers of subcontractors were used.

Other Ongoing Oversight by DoD Office of Inspector General

I would like to bring to the attention of the Subcommittee the fact that the DoD Office of Inspector General has 10 additional ongoing audits related to Hurricane Katrina. These audits cover contracts on ice, water, subsistence, and construction capabilities; expanded micro-purchase authority for purchase card transactions; effects on information technology resources in affected areas; accounting and oversight of obligations and expenditures related to DoD Hurricane Katrina efforts; and the use of DoD resources supporting recovery and relief efforts.

In addition to audit coverage, the Defense Criminal Investigative Service (DCIS) has received 21 criminal allegations related to Hurricane Katrina. Of the 21 allegations, eight were determined to be unfounded; three were referred to other Federal agencies,

three were declined for prosecution; one is still being examined to determine if a case initiation is warranted; and six resulted in opened cases. The opened cases deal with bribery, kickbacks, and possible product substitution; three of those relate to debris removal, and one relates to blue roofs. The allegations originated from Government agencies, subcontractors, and private citizens.

Regarding coordination and oversight, DCIS conducted 34 mission or fraud awareness briefings. Currently, DCIS is working joint investigations with the U.S. Army Criminal Investigation Command and the Federal Bureau of Investigation. In addition, DCIS is supporting the following groups:

- The Hurricane Katrina Task Force Command Center, headquartered in Baton Rouge, which consists of senior law enforcement and U.S. Attorney's Office personnel. This group coordinates investigations and collects and analyzes criminal investigative data.
- The joint law enforcement and U.S. Attorneys' Offices working group headquartered in Covington, Louisiana, and the Joint Criminal Investigative Task Force headquartered in Mississippi—both of which are looking into hurricane-related fraud and corruption.

Other Ongoing Oversight

The Defense Contract Audit Agency (DCAA) is supporting both FEMA and the Corps in their Hurricane Katrina recovery efforts.

DCAA's support to FEMA is focused on FEMA's four largest reconstruction contractors: Bechtel, CH2M Hill, Fluor Federal, and Shaw Environmental. The audit effort has included forward pricing reviews, reviews of costs billed under Government contracts and preaward accounting system surveys, as well as support of Source Selection Evaluation Boards.

DCAA has also provided direct support to the Corps emergency response mission. DCAA provides professional advice on accounting and financial matters to assist in the negotiation, award, administration, repricing, and settlement of contracts. DCAA has been primarily involved in the Corps missions related to installation of temporary roofing (Blue Roof Mission) and debris removal (Debris Mission). This effort involves verifying contractor compliance with the terms and conditions of the contract. DCAA conducts audit steps such as on-site visits, physical observations, and verification of contractor records to ensure compliance with contractor policies and contract terms. For the Blue Roof Mission, DCAA's findings have included lack of initial estimates on Right of Entry forms, claimed quantities in excess of actual physical roof area, incomplete certified payroll records, and safety violations. For the Debris Mission, DCAA's findings have included the need for improved observation tower locations at dump sites, lack of standard procedures for determining the amount of debris hauled to dump sites, lack of controls over the billing process, and safety violations.

These observations and recommendations are recorded and reported to the Corps on a real-time basis. The Corps has taken corrective action on an ongoing basis or is in the process of taking corrective actions with the responsible contractors.

Further, the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency have each provided audit oversight. These audit agencies currently have 14 ongoing audit projects that cover the areas of contracting, financial accounting and reporting, contract data reporting, and purchase cards.

This concludes my statement, I will be happy to answer any questions that the Subcommittee may have.

APPENDIX

DEPARTMENT OF DEFENSE HURRICANE KATRINA OVERSIGHT

Issued Audit Reports

Naval Audit Service

Report N2006-0015, Chartered Cruise Ships, February 16, 2006.

Ongoing Audit Projects

DoD Office of Inspector General

Audit of the DoD Contract Support for the Hurricane Katrina Recovery Effort, Project No. D2005-D000CH-0309.000, September 15, 2005.

Audit of the Effects of Hurricane Katrina on DoD Information Technology Resources in Affected Areas, Project No. D2005-D000AS-0310.000, September 15, 2005.

Audit of the Use of DoD Resources Supporting the Hurricane Katrina Disaster, Project No. D2006-D000LA-0009.000, September 19, 2005.

Audit of Accounting and Oversight of Obligations and Expenditures Related to the DoD Hurricane Katrina Reconstruction Effort, Project No. D2006-D000FE-0010.000, September 19, 2005.

Audit of Expanded Micro-Purchase Authority for Purchase Card Transactions Related to Hurricane Katrina, Project No. D2006-D000CK-0019.000, September 23, 2005.

Audit of the International American Products, Worldwide Services, Ice Delivery Contract for the Army Corps of Engineers, Project No. D2006-D000CG-0075.00, November 8, 2005.

Audit of the Army Corps of Engineers' "Operation Blue Roof" Project in Response to Hurricane Katrina, Project No. D2006-D000CG-0081.000, November 9, 2005.

Audit of USACE's "Emergency Water" Contractor, Project No. D2006-D000FE-0091.000, November 17, 2005.

Audit of Costs Incurred Under the CONCAP Contract Task Orders for Hurricane Relief Efforts, Project No. D2006-D000CH-0110.000, January 9, 2006.

Audit of Defense Logistics Agency Subsistence Contracts used for the Hurricane Katrina Recovery Efforts, D2006-D000CG-0121.000, January 23, 2006.

Audit of Disaster Recovery Efforts Related to Hurricane Katrina on Army Information Technology Resources, Project No. D2006-D000AS-0135.000, February 13, 2006.

APPENDIX

Army Audit Agency

Audit of Army Fund Accountability for Hurricane Relief Efforts, Project No. A-2006-FFD-0216.000, October 7, 2005.

Audit of Debris Removal Contracts, Project No. A-2006-FFD-232.000, October 12, 2005.

Audit of Contracts for Hurricane Protection System, Project No. A-2006-FFD-0238.000, October 12, 2005.

Audit of the Contract Data Reporting for Hurricane Operations, Project No. A-2006-FFD-0250.000, December 12, 2005.

Audit of Quality Assurance Service Contracts for Hurricane Operations, Project No. A-2006-FFD-0354.000, December 12, 2005.

Naval Audit Service

Audit of Hurricane Katrina Relief Funds, Project No. N2006-NFA000-0009.000, September 30, 2005.

Audit of Department of the Navy's Use of Hurricane Katrina Relief Funds, Project No. N2006-NFA000-0009.003, September 30, 2005.

Audit of Cash Accountability of Department of Navy Disbursing Officers for Hurricane Katrina Relief Funds, Project No. N2006-NFA000-0009.004, September 30, 2005.

Audit of Government Commercial Purchase Cards Used for Hurricane Katrina Relief Efforts, Project No. N2006-NFA000.0009.002, October 3, 2005.

Audit of Controls and Accountability Over Medical Supplies and Equipment—Hurricane Relief Efforts, Project No. N2006-NFA000-0009.005, October 17, 2005.

Audit of Contractor Support Services in Support of Hurricane Relief Efforts, Project No. N2006-NFA000-0009.006, October 17, 2005.

Air Force Audit Agency

Audit Planning, Hurricane Katrina Relief Efforts, Project No. F2006-FB1000-0124.000, October 5, 2005.

Hurricane Katrina Federal Emergency Management Agency (FEMA) Reimbursements, Project No. F2006-FB1000-0173.000, November 1, 2005.

Hurricane Katrina Supplemental Funds Management, Project No. F2006-FD1000-0210.000, November 21, 2005.