

TESTIMONY OF
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BEFORE THE SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS,
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, AND
INTERNATIONAL SECURITY
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Mr. Chairman and Members of the Committee, my name is Tina Burnette. I have been the Deputy Director of Acquisition for Gulf Coast Recovery in the Federal Emergency Management Agency (FEMA) since January of this year. Thank you for the opportunity to appear here today to discuss the successes of the agency as well as challenges faced by FEMA in its response to Hurricane Katrina.

Prior to being named to my current position, I spent 90 days in Louisiana as on-site acquisition support to the Katrina Recovery Office headed by Vice Admiral Thad Allen. I am a career Federal Executive and have spent 16 years of Federal service in the procurement profession. As the Deputy Director for Acquisition, Gulf Coast Recovery, I provide oversight and support for those acquisitions issued in support of the Gulf Coast response and recovery.

In the days immediately following the disaster, the primary goal of FEMA's contracting office was to prioritize the urgently needed support to respond to this catastrophic event. Clearly, an equally important responsibility for our office was our fiduciary responsibility to ensure that the contracts we issued were awarded in accordance with applicable rules and regulations, provided cost-effective results, and precluded waste, fraud, or abuse.

As the relief effort progressed, an oversight board was formed at the Department called the "Hurricane Internal Control /Procurement Oversight Board," which is chaired by the Under Secretary for Management and established to ensure financial and procurement control and integrity over hurricane funding that the Department receives. This Board coordinates internal control policy and management oversight issues in the appropriate use of hurricane related funding. Board members include the Under Secretary for Management, the Chief Financial Officer, the General Counsel, the Chief of Operations at FEMA, and the Chief Procurement Officer. In addition, the DHS Inspector General advises the board and participates in oversight and compliance reviews.

DHS Acquisition Policy and Oversight Division personnel are reviewing high-risk Katrina contract actions to verify what was purchased, the reasonableness of the price, and the extent of competition. Special attention is being paid to the Fluor, Shaw, CH2MHill, and Bechtel contracts because of the large dollar value and the fact that they were awarded without full and open competition – a situation I will discuss in further detail.

Since the disaster, the Oversight Division has reviewed more than 13,000 purchase card transactions and is in the process of reviewing more than 250 purchase orders. All contract actions over \$25 million will be individually reviewed. All contract actions over \$5 million that were awarded without full and open competition will be individually reviewed. For smaller actions within the simplified acquisition threshold, a sample of actions will be reviewed. In addition to these reviews the Inspector General plans to review the Katrina files in April 2006.

Shortly before and immediately after Hurricane Katrina made landfall on August 29, 2005, acquisition personnel within FEMA and other agencies worked long hours to meet pressing humanitarian needs, protect life and property, and provide support to victims. The need for quick response is the fundamental reason why we are here today examining the results of FEMA's actions.

FEMA has established a priority list of acquisition needs for which contracts will be awarded prior to the onset of the hurricane season. These contract vehicles will enable a more responsive ordering process

of goods and services while ensuring fair and reasonable prices. FEMA is currently working with other agencies, such as the Defense Logistics Agency to put in place commodity contracts to support the upcoming hurricane season. FEMA is also working with the General Services Administration (GSA) to better utilize that agency's services in the future.

In your letter requesting the agency's testimony, you asked that FEMA specifically address contract management for debris removal, the blue roof program, and trailers. I will address FEMA's oversight and actions of these efforts and share with you steps that FEMA is taking to ensure the integrity of the contracting process.

Debris Removal

FEMA supports debris removal through mission assignments issued to the U.S. Army Corps of Engineers, and also reimburses State and local governments that contract with local debris contractors, through the public assistance grants program. FEMA reviews State and local projects and resulting contracts for cost reasonableness and assesses the adequacy of competition and to ensure that non-competitive selections are properly justified. Our review of these agreements focuses on ensuring that State or local governments have written contracting procedures and that they also use competitive procedures as much as practicable. Based on a request by the State of Louisiana, we are awarding a contract specifically to review grantee procurement systems to ensure that these systems protect the financial and other interests of the Federal Government

Blue Roof Program

The majority of the blue roof program is supported through a mission assignment with the Army Corps. FEMA's primary support of the program last year was through the purchase of blue tarps. FEMA assisted the Army Corps by ordering \$9,996,600 worth of blue tarps in the early part of the disaster. FEMA awarded these contracts to multiple vendors that could provide the required specifications and estimated delivery dates, and the prices were determined to be fair and reasonable based on prices paid for prior purchases of similar items.

Trailers

The Robert T. Stafford Disaster Relief and Emergency Assistance Act (The Stafford Act) authorizes FEMA to purchase or lease temporary housing units. A temporary housing unit is defined as a travel trailer, park model, or manufactured home – all of which vary in size and appearance, but provide basic shelter. To provide timely housing assistance and meet one of FEMA's top mission goals of moving applicants out of shelters and hotels or motels, we purchased temporary housing units through manufacturers and from dealer inventories.

FEMA's contract manufacturers produced and delivered travel trailers to logistical staging sites in the affected areas. To sustain the level of required inventory, FEMA also awarded several contracts from dealer inventories as a supplement to the supply from manufacturers. As of March 24, 2005, FEMA purchased 143,699 temporary housing units, with 99,197 units from the manufacturer contracts and 44,502 units from dealer inventories. FEMA expended approximately \$2.655 billion for these purchases, approximately \$1.708 billion to manufacturers and \$947 million for dealer inventories. These costs include delivery to the logistical staging area, but not installation.

The initial manufacturing contracts for temporary housing units were awarded on a non-competitive basis to geographically dispersed vendors to meet the immediate humanitarian need. Local vendors were not able to meet the immediate need. The average unit prices paid by FEMA under these contracts, including delivery to staging areas, are as follows: mobile home - \$36,501, travel trailers - \$12,128, and Park Model - \$24,774. The unit prices under these initial contracts were determined to be fair and reasonable by comparing them to prices obtained under prior competitive contracts issued by FEMA. Subsequent manufacturing contracts were awarded based on limited competition to vendors licensed to perform work in the affected state.

On April 3, 2006 FEMA's contracting office was notified by a contractor of a \$2.3 million overpayment on a contract valued at \$287.5 million. The overage is associated with excessive mobile home delivery cost, which was issued on a not-to-exceed basis. FEMA has initiated a comprehensive program to test randomly for improper payments across programs and activities that are at risk. The contractor has agreed to reimburse the Government immediately.

Trailer Installation:

In the aftermath of the disaster, FEMA awarded sole source contracts to four companies: Bechtel, CH2MHill, Fluor, and Shaw. These contractors supported the installation of temporary housing units, among other tasks, which is called Individual Assistance – Technical Assistance Contracts (IA-TAC). Based on company size and previous disaster experience, these four firms were determined by FEMA to be highly qualified to support this effort. We have committed to monitoring closely their costs, schedule, and performance

FEMA anticipates that 151,000 trailers will be installed by the time this effort is complete, which includes addressing the housing needs of victims of Hurricane Rita. Currently, we have over 110,000 temporary housing units that are either occupied or are ready to occupy in the States of Louisiana, Mississippi, Alabama, and Texas. Temporary housing units are installed on three types of site. The first is an individual site, which is often adjacent to an applicant's damaged home. The second is a commercial job site, which includes commercially operated manufactured home parks and recreation vehicle (RV) parks where FEMA leases a parcel of land from the owner. The last is a group site, where FEMA develops a site and installs the temporary housing units. Additionally, in Louisiana we provided large industrial employers with temporary housing units that have been installed on their property to house eligible employees.

The total costs to date for installing temporary housing units has been \$1.028B, which is in addition to the cost of purchasing the temporary housing units. The estimate to complete the housing mission in the gulf states is \$2.7B. In the Gulf Coast Region, the average cost to install a temporary housing unit on a homeowner's site is approximately \$10,000 and the average cost to design and construct a new group site is \$30,000 per temporary housing unit installed. Actual costs vary widely depending on a variety of factors.

Contract and Subcontract Management and Support

To support the management of these contracts, FEMA established a Program Management Office (PMO) staffed by talented acquisition specialists and program and project managers. This team implemented a number of control systems to ensure effective accountability of funds being expended in this effort. For example, a tracking system monitors all aspects of each project assigned to a contractor. This system includes tracking the project's period of performance and costs associated with each effort. We are also proactively looking for potential improper payments to reduce the risk to the Government.

DHS obtained Defense Contract Audit Agency (DCAA) on site support to review contract proposals. DCAA is providing assistance in support of hurricane relief efforts for FEMA contracting officers by reviewing, auditing, evaluating, and analyzing costs to ensure they are properly allowable and allocable to task orders. Application of Federal costs principles and support from the DCAA help ensure that the prices charged by each company are based on actual expenses incurred. DCAA analyzes each contractor's proposal and makes recommendations prior to the final negotiations. DCAA's support includes an evaluation of direct hourly labor costs and indirect costs, to include overhead and general and administrative expenses. The percent of overhead varies for each of the companies and is established by DCAA. The FAR establishes parameters for fee or profit, which is based on the level of performance risk assumed by the contractor and varies with each project assigned to the contractor.

Subcontracting relationships are an integral part of our success. Many aspects of subcontracting are good for local businesses and for small businesses. For example, of the actual subcontracting dollars expended by the four large contractors, small businesses and local businesses received the following percentages:

	Bechtel	CH2MHill	Shaw	Fluor
Small Business	83.6%	77.5%	61.4%	60.1%
Local Business	67.0%	48.2%	83.0%	49.5%

Another benefit is that the relationships these contractors have formed ensure that qualified subcontractors mature their skills in each mission area and build capacity to support future FEMA's needs. As a result of these subcontracts, FEMA now has a much larger pool of highly qualified Section 8(a) and small businesses that could compete directly for future prime contracts and support our future disaster response efforts.

Under these prime contracts, approximately 487 subcontractors, employing over 10,000 people, performed substantial work for FEMA. FEMA has found that utilizing private sector expertise to manage the projects, including overseeing the performance of the subcontractor work, is the most efficient method for responding to a large-scale disaster. FEMA retains oversight through its program management office, which is constantly interfacing with the prime contractors to ensure that the contractor is complying with contract requirements.

The Future

As recovery work continues, and in preparation for the upcoming hurricane season, FEMA is engaged in several initiatives to compete contracts for new work. Specifically, the four technical assistance contracts that provide ongoing support primarily for housing disaster victims will be re-competed using a two-pronged approach.

The maintenance and deactivation work for those temporary housing units installed under the IA-TAC, and other related work, will be assumed by approximately 36 small or small, disadvantaged businesses under contracts to be awarded shortly. Other efforts that are being supported under the IA-TAC will also be re-competed, such as group site maintenance and infrastructure support.

The new contract for the installation of the temporary housing units for the upcoming hurricane season will be awarded competitively on a national basis. We have already synopsisized this competitive contract and a Request for Proposal will be issued soon.

FEMA is in the process of increasing its acquisition corps to handle post-Katrina work by adding 60 positions that will include procurement and program management personnel. We have been working to hire talented and qualified individuals for these important acquisition positions. To date we have hired 45 acquisition professionals, which includes 21 contracting professionals, and 24 technical representatives.

Summary

Mr. Chairman, in the days immediately following Hurricane Katrina, the primary focus of the FEMA procurement office, and of the entire procurement community, was to act as quickly as possible within the parameters of acquisition law and regulation to obtain the materials and support desperately needed in the devastated areas. FEMA procurement professionals also recognized their fiduciary responsibility, and worked within the system to ensure that contracts were awarded correctly. Currently, DHS is reviewing transactions to ensure that proper procedures were followed and that appropriate decisions were made. We are using the results of those reviews to help us understand how to do better next time. As you know, many of the reports issued on the response to Hurricane Katrina have found that having strong situational awareness of local needs, regional priorities, and national resources is critical to making the right decisions. This is true for the procurement and contracting effort as well.

Thank you, Mr. Chairman. I look forward to the committee's questions.