

Multiple Layers Of Contractors Drive Up Cost of Katrina Cleanup

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NEW ORLEANS -- How many contractors does it take to haul a pile of tree branches? If it's government work, at least four: a contractor, his subcontractor, the subcontractor's subcontractor, and finally, the local man with a truck and chainsaw.

If the job is patching a leaking roof, the answer may be five contractors, or even six. At the bottom tier is a Spanish-speaking crew earning less than 10 cents for every square foot of blue tarp installed. At the top, the prime contractor bills the government 15 times as much for the same job.

For the thousands of contractors in the Katrina recovery business, this is the way the system works -- a system that federal officials say is the same after every major disaster but that local government officials, watchdog groups and the contractors themselves say is one reason that costs for the hurricane cleanup continue to swell.

"If this is 'normal,' we have a serious problem in this country," said Benny Rousselle, president of Plaquemines Parish, a hurricane-ravaged district downriver from New Orleans. "The federal government ought to be embarrassed about what is happening. If local governments tried to run things this way, we'd be run out of town."

Federal agencies in charge of Katrina cleanup have been repeatedly criticized for lapses in managing the legions of contractors who perform tasks ranging from delivering ice to rebuilding schools. Last Thursday, Congress's independent auditor, the Government Accountability Office, said inadequate oversight had cost taxpayers tens of millions of dollars, by allowing contractors to build shelters in the wrong places or to purchase supplies that were not needed.

But each week, many more millions are paid to contractors who get a cut of the profits from a job performed by someone else. In instances reviewed by The Washington Post, the difference between the job's actual price and the fee charged to taxpayers ranged from 40 percent to as high as 1,700 percent.

Consider the task of cleaning up storm debris. Just after the hurricane, the Army Corps of Engineers awarded contracts for removing 62 million cubic yards of debris to four companies: Ashbritt Inc., Ceres Environmental Services Inc., Environmental Chemical Corp. and Phillips and Jordan Inc.

Each of the four contracts was authorized for a maximum of \$500 million. Corps officials have declined to reveal specific payment rates, citing a court decision barring such disclosures. But local officials and businesspeople knowledgeable about the contracts say the companies are paid \$28 to \$30 a cubic yard.

Below the first tier, the arrangements vary. But in a typical case in Louisiana's Jefferson Parish, top contractor Ceres occupied the first rung, followed by three layers of smaller companies: Loupe Construction Co., then a company based in Reserve, La., which hired another subcontractor called McGee, which hired Troy Hebert, a hauler from New Iberia, La. Hebert, who is also a member of the state legislature, says his pay ranged from \$10 to \$6 for each cubic yard of debris.

"Every time it passes through another layer, \$4 or \$5 is taken off the top," Hebert said. "These others are taking out money, and some of them aren't doing anything."

Defenders of the multi-tiered system say it is a normal and even necessary part of doing business in the aftermath of a major disaster. The prime contracts are usually awarded by FEMA or other government agencies well in advance, so relief services can be brought in quickly after the crisis eases. These companies often must expand rapidly to meet the need, and they do so by subcontracting work to other firms.

The two federal agencies that administer most disaster-related contracts, FEMA and the Army Corps of Engineers, say the system benefits small and local companies that do not have the resources to bid for large federal contracts. At the top end, prime contractors must be large enough to carry the heavy insurance burdens and administrative requirements of overseeing thousands of workers dispersed across a wide area, agency officials say. They also note that contractors have a legal right to hire subcontractors as they need them.

"Our purview of a contract goes to the prime contractor only," said Jean Todd, a Corps contracting officer.

But watchdog groups that monitor federal contracting say Katrina has taken the contract tiering system to a new extreme, wasting tax dollars while often cheating companies at the low end of the contracting ladder. In some cases, the groups say, companies in the top and middle rungs contribute little more than shuffling paperwork from one tier to the next.

"It's trickle-down contracting: You're paying a cut at every level, and it makes the final cost exponentially more expensive than it needs to be," said Keith Ashdown of the watchdog group Taxpayers for Common Sense. "And in almost every case, the local people who really need to be making the money are at the bottom of these upside-down pyramid schemes."

The gap is particularly large for roof repairs. Four large companies won Army Corps contracts to cover damaged roofs with blue plastic tarp, under a program known as "Operation Blue Roof." The rate paid to the prime contractors ranged from \$1.50 to \$1.75 per square foot of tarp installed, documents show.

The prime contractors' rate is nearly as much as local roofers charge to install a roof of asphalt shingles, according to two roofing executives who requested anonymity because they feared losing their contracts. Meanwhile, at the bottom of the contractor heap, four to five rungs lower, some crews are being paid less than 10 cents per square foot, the officials said.

At least the prime contractors for roofing and debris removal owned equipment that could be immediately applied to the job at hand. In the world of Katrina contracting, this has not always been the case.

For example, one company hired as an ice vendor owns no ice-making equipment. Landstar Systems Inc., a \$2 billion Florida company placed in charge of the bus evacuation of New Orleans, is a transportation broker that specializes in trucking and has no buses of its own. In 2002, the company was awarded a \$100 million contract to provide emergency transportation services for the federal government during major disasters. The contract, which is administered by the Federal Aviation Administration, was expanded in the fall to a maximum \$400 million. Landstar declined a request for an interview.

Thousands of New Orleanians had been stranded in the Superdome for more than 48 hours by the time FEMA issued the first order for a bus evacuation early on the morning of Aug. 31. The order was passed to Landstar, which then turned to other companies to locate buses, according to an official chronology prepared by the Department of Transportation. Landstar hired Carey International Inc., of Washington, which then hired the BusBank, of Chicago, and Transportation Management Systems of Columbia, Md. Bus Bank and TMS called private charter-bus companies -- some from as far away as California and Washington state -- asking them to send buses and drivers to New Orleans.

More than 1,100 buses eventually responded, some arriving four days later, after traveling hundreds of miles. Daily earnings averaged about \$700 per bus, according to bus company owners. Landstar's daily

earnings were nearly \$1,200 per bus, government records show.

"A lot of that money is going to brokers who didn't have to do anything," said Jeff Polzien, owner of Red Carpet Charters, an Oklahoma bus company that sent coaches to New Orleans as a fourth-tier subcontractor.

Lower pay is hardly the worst problem subcontractors face. With many tiers to navigate, money trickles down slowly, delaying payment by weeks and months, and frequently imposing hardships on the smallest firms.

Several bus company owners said they were still owed tens of thousands of dollars for work they did in the fall. For some, the delays have been ruinous.

Thomas Paige, owner of Coast to Coast Bus Line of Dillon, S.C., laid off staff, and two of his four buses were repossessed by creditors after payment for his New Orleans work fell behind by three months.

"I went to New Orleans to help people -- and hopefully to help myself -- but now I feel like I've dug a ditch and fallen into it," Paige said. "If I would have known what I know now, I never would have gotten involved. It's just not worth it."

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