

**“An Oversight Hearing on Gulf Coast Reconstruction:
Has the Federal Government Left Small Businesses Behind?”**

Senate Democratic Policy Committee Hearing

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Transcript

DORGAN: We're going to begin this hearing this morning. I am Senator Byron Dorgan, and I am joined by Senator Mary Landrieu, and this is a hearing of the Democratic Policy Committee. We have held a series of oversight hearings on a range of issues, particularly dealing with contracting, and this morning we will be discussing FEMA, contracting, and the response to Hurricane Katrina and the rebuilding effort in the Gulf.

Let me make a couple of comments initially, and then I will ask for some opening comments by my colleague, Senator Landrieu. First of all, the reason we're holding a number of hearings on oversight is I'm very concerned about what is happening in certain areas of contracting for reconstruction. We are familiar in our part of the country with FEMA. I'd like to put up a poster that shows a flood that occurred in Grand Forks, North Dakota. That was 8th Ave and 4th Street. I don't mean to suggest that the flood in 1997 in Grand Forks was anything similar to the devastation of New Orleans, for example, as a result of Hurricane Katrina. But it was, I think, the largest evacuation of a city in this country since the Civil War, when the entire city of some 50 plus thousand people of Grand Forks had to be evacuated because of the Red River flood.

During that period when the entire city was evacuated and we were dealing with flooding, FEMA came in. And FEMA was an organization that was vastly different than the organization our colleague Senator Fritz Hollings described. There was a time back in the 1980s for example, Fritz Hollings said we would have two disasters. First we would have the natural disaster, and then we'd have FEMA showing up, which was a second disaster. In the 1990s, under James Lee Witt, FEMA became, I think, one of the outstanding federal organizations, and we experienced it personally when the Red River Valley floods in Fargo, Wahpeton, and Grand Forks, North Dakota especially. It was a first-rate organization both in preparedness and response. The response that we experienced was really extraordinary, and I complimented and still do James Lee Witt and all the men and women who worked in FEMA to make that kind of response possible. They really did help people.

Now I want to contrast that with a previous hearing we held. I don't want to focus today only on failure, because I want to talk about what we do next, but the next chart shows Paul Mullinax. He sat at this table a couple of months ago. Paul is a truck driver from Florida. Paul came to tell us his story. He was to haul ice, ice that was very much needed by the victims in the gulf. And he had a refrigerated truck, a contractor who does

his own work, and so he drove his truck to pick up ice in New York to be taken to the gulf for the victims. He was instructed by FEMA to take a truck load of ice from Newburg, New York to Carthage, Missouri. So Paul did that.

When he got to Carthage, Missouri he was told, no, you must not proceed to Montgomery, Alabama to Maxwell Air Force Base. He did that and got to Maxwell Air Force Base in Alabama, and there with 100 other refrigeration trucks, he sat. You will see a picture, he asked to have a picture taken of him by someone down there. He and 100 other trucks loaded with ice sat for 12 days. He ended up being told by FEMA that he needed to haul his ice to Massachusetts. So FEMA had Mr. Mullinax drive his truck from Florida to New York to pick up ice, and then to Carthage, Missouri, then down to Alabama, and to drop it off in the State of Massachusetts.

That is unbelievably incompetent, whoever made these decisions. And he had the courage to come and say, "what in the hell is going on in government that I am hauling ice all around the country and dropping off ice in Massachusetts that's destined for people in the gulf?" In fact one truck driver, I believe it was a county sheriff, ordered some of these ice trucks in one area to be delivered, and the county sheriff got arrested as I recall. I mean it was a bazaar situation.

But my point is this: a lot of things didn't work right. And it wasn't just incompetence; it was staggering incompetence in some cases. Now what we want to understand is that we are spending a lot of money, and we're willing to do that, because it's important. When President Clinton came to Grand Forks and the city was evacuated, his message was very simple, "You're not alone. You're in trouble, but you're not alone. This country cares about you and it's going to help you."

That's the way Congress felt about what happened in the aftermath of Hurricane Katrina. We appropriated a lot of money, and we're still appropriating a great deal of money, because we want to help. We want to say to all the victims, "You're not alone. This country has an obligation and a responsibility." And so, the question is, how do we do that? What kind of contracting exists? What does FEMA do? What do the other agencies do? How do they work? And what we discover from time to time is that it is not working the way we intended at all. The jobs aren't going to the people who were the victims, who need the jobs. Skilled electricians get a job that's going to last on a base, and all the sudden undocumented workers are brought in by another contractor. The skilled workers who lost their homes and now have some hopes in a new job gets laid off to be replaced by undocumented workers through the back door by a contractor who wants to make more money. That's the kind of thing that's just wrong, and we've got to put a spotlight on it when it happens.

There are not about 200,000 travel trailers that are being lived in by people, and now there are 36 separate contracts for \$100 million each for maintenance of these travel trailers. Who's getting these contracts? Who will get those jobs? These are really import questions, and that is why we try to hold these hearings, ask these questions, and

ask federal agencies to do the right thing, use the money the right way. That's what the American people expect, so this is another in a series of those hearings.

We will hear from Arnold Baker, the owner of Baker Ready Mix and Building Materials as a supplier of concrete and building materials based in New Orleans. Errolyn Letellier is with her husband the owner of Rockery Ace Hardware in Lakeview, Louisiana. Steve Ellis, Vice-President for Programs at Taxpayers for Common Sense. Barbara Sonnier, who is a contract specialist, who assisted local companies bidding for FEMA trailer maintenance contracts, a Louisiana native who holds an MBA from Tulane University. And Tim White, the owner of White Hall Transportation, a manufactured home dealer and distributor based in Mississippi. Let me thank my colleague Senator Landrieu. Both Senators from Louisiana have worked hard on these issues. I've watched, sitting side-by-side on the floor of the Senate and in hearings the work of Senator Landrieu, and it's been tireless for a long long time. I don't know what it's like to represent a State that has suffered the kind of near complete disaster that comes from Hurricane Katrina. We've been involved in some of it, Senator Conrad and I, but not to the extent that you have Senator Landrieu. Thanks for your tireless work and your terrific work, and I'm really pleased you're here today.

LANDRIEU: I thank the Senator for those generous comments, and join him in welcoming all the panelists with us to this very important hearing. And I thank Senator Dorgan for his really extra work in this regard to take time out of his schedule to stay on point and focused. Not just because every hearing helps us to get the situation fixed and better in New Orleans and in Louisiana and the Southern part of Louisiana from east to west and along the whole Gulf Coast, frankly. But hopefully what we learn in these hearings will help prevent the same heartache and pain from happening to other homeowners, business owners, nonprofit organizations that have seen everything they've worked for in their whole lives and over the past many decades literally washed away by one disaster and then stomped on by another disaster, which is an incompetent, disorganized federal response at almost every level.

Now maybe one time, as Senator Dorgan said, parts of this worked. And I believe it did. I was a witness to watching FEMA work in the past when we had any number of hurricanes come across the Gulf Coast, but it is not working now. And I think the testimony, Senator Dorgan, that's going to be given is going to add to your already growing portfolio of testimony from a broad range of people from broad political backgrounds about the disorganization and incompetence of several agencies that were created to help, and are not only not helping, but maybe in some instances making matters worse.

Let me give you just an example, and before I do, let me say this too. The flooding that you experienced in your state was devastating, and because of what you and Senator Conrad went through, it makes you extra sensitive to our situation. Not only as you pointed out did we have two hurricanes, Katrina and Rita, hitting within three and a half weeks, category 4 and 5 hurricanes at some point in their tumultuous existence out in the gulf, but then we had a series of multiple levy breaks in a metropolitan area. A federal

levy system that literally collapsed, just collapsed, because of years of inadequate funding and attention at the federal level primarily, but also some at the state and local level. But it was a budget that was stretched so thin over a number of years, the Corps of Engineers' budget for infrastructure and civil works literally just collapsed. And so a major American city was really in many ways, was not devastated by a hurricane, it was devastated by a flood of literally biblical proportions. You would think FEMA, the SBA disaster assistance, and other federal agencies would have quickly grasped this was not just a regular hurricane. At least for New Orleans and the metropolitan area, but also relative, Senator Dorgan, to the Gulf Coast, it was a tsunami that came out of the Gulf of Mexico. We've all lived through hurricanes on the Gulf Coast. We lived through Camille, we lived through Betsey, but this hurricane was extraordinary in its devastation to the Gulf Coast.

The third point I want to make about this is, the region that these hurricanes hit works together almost as an economic unit. I know that's very difficult for people to understand, because sometimes Texas thinks it works with Texas and Louisiana works with Louisiana, but there's more business that goes across south Texas, Louisiana, Mississippi, and Alabama than goes vertically. It's horizontal. So the fact, Senator, that you've got these 81,000 or more small businesses that were devastated along a corridor where they all change. They're suppliers of each other, they share customers, sometimes they're building things where the parts are made in Mississippi, assembled in Louisiana, and delivered to Texas. It's all devastated, and we're not getting the help we need there, because of incompetence and disorganization.

I'm going to submit the rest of my statement to the record, but let me just say to my small businesses, who even those who did not, unlike Errolyn's, whose was ruined by the flood waters and coming back, even those that are not touched by the floodwaters itself have seen a tremendous falloff in business and then an inability to get the loans they need to just hold on until their markets just come back. And Senator, some of these businesses have been around 62 years, 72 years, 50 years, 30 years. Businesses that everyone in New Orleans knows about, has relied on, and they can't seem to get the funding from the SBA and contracts when other out of town people are getting the contracts to keep them in business.

I just have some charts that I wanted to show you. This is what one of our doctor's offices looks like. Can you imagine leaving your doctor's office? We've lost over 600 physicians, 1800 pharmacists. These are what doctors' offices all over the South look like. They left on Friday, thinking they would come back. Many of these have never flooded before, and this is what they walked back to. And when they send these pictures to the SBA disaster loan office, they say "Sorry, we just can't help you." You either are over our limit or under our limit, can't get our check to you, so I don't know what we do. This is an example of just one of our many manufacturing businesses just taken recently. Still, not much progress. And this is just another example of what our businesses all along the Gulf Coast have been like, Senator Dorgan, and unless we fix this situation, it is almost impossible for a region to recover without small businesses, which is the engine of their economic growth. Our business owners are fighting to reestablish themselves, but

they've got to have the Federal government on their side, and not stepping on their neck while they're trying to do it. And that's all I'd like to say.

DORGAN: Senator Landrieu, thank you very much. Well, we will begin with Arnold Baker. Arnold Baker is the President and majority owner of Baker Ready Mix and Building Materials, which is a concrete and building material supplier based in New Orleans.

Mr. Baker, we appreciate very much your willingness to be here today, and my understanding is that your company manufactures and delivers concrete through an integration of innovative concrete technologies, and that you're located kind of between new Orleans Lakefront Central Business district and eastern New Orleans, and you have a fleet of 15 mixer trucks and provide concrete for a wide range of construction projects. So, it sounds like an interesting and growing business.

Mr. Baker, we're glad that you're here. You may proceed.

BAKER: Thank you for providing Baker Ready Mix and Building Materials with the opportunity to come before the U.S. Senate Democratic Policy Committee.

I own a three year old concrete plant in New Orleans. We sustained substantial damage to our facility from Hurricane Katrina and the aftermath of the flood that followed. We also endured revenue losses and operating losses for over six months following.

Unlike the 60,000 businesses in the region that are now closes and may never open again, we survived the months without electricity, telephone service, internet, sewer or water services and are now fully operational.

Prior to Katrina, as our credit lines grew, as we became stronger as a company, we were able to offer those same credit terms to small contractors, which in turn enabled them to grow their businesses. We became an economic generator in a historically underutilized business district. Currently, ninety-five percent of our work is now cash on delivery because our credit lines are used up servicing our pre-Katrina material expenses. We are in this situation primarily because we have not been able to garner reimbursement for material stock piles commandeered by rescue and recovery forces in the weeks following the hurricane.

We tried in vain to get this issue resolved. We have had many discussions and two congressional monitors assigned to our case. But after receiving the back up documents and even affidavits confirming delivery and the use of the material, we're still no closer to being paid. We're owed approximately \$590,000.

To summarize our struggle: In August 2005, we were in the process of completing an airport runway rehabilitation project; we provided the concrete for a rehab runway. We leased a plant that was placed on airport property and have material stockpiles at the airport. The limestone that we used for the airport project had to be ordered weeks in

advance, because it had to be barged in from the Midwest and then trucked to the site after being weighed and assigned a delivery ticket of verification. It was a very formal tracking process, where all the material was brought exclusively to that site for that project.

Saturday, August 27, 2005, operations at that airport were suspended in preparation of the hurricane.

After the hurricane hit, on Thursday, September 1, 2005, we began dispatching teams into the city to survey the damage to our facilities, which included two offices, a permanent plant, and our temporary plant at the airport. Our main plant was under four feet of water, had substantial wind damage and flood damage, and the material stock piles of standard gravel, sand, pea gravel and limestone were contaminated by the sewer waters. By comparison we noted that the temporary plant at the airport plant suffered very little wind damage, and the material stock piles were not contaminated, because they had no flood waters there.

After the initial assessment we turned our attention to trying to get the main plant back on line. At that point, it still had four feet of water, and also trying to get our houses back in order. My house marinated in eight feet of water for two weeks.

The first week of October we were notified by the airport that the additional work at the airport was being cancelled. I then asked my brother, Whitney Baker, and my plant manager, Leon Gedry (?) to go out to the site, measure the material stock piles that we had out there, so we could then bring the new materials back to our main plant and sell the excess back to Pontchartrain Materials, Inc., who we bought it from. They reported back that the stock piles were no longer there and that the site had been professionally cleared off.

I then attended the October 10th New Orleans Aviation Board meeting and I let airport management know that my material stock piles were gone. The airport management said, "Yes, we realize that. We suspect that when the airport was under FEMA/Army control, the material was confiscated to support rescue and recovery efforts." Great. I asked what it was used for and initially, it was stated that the sand was used in sand bags for the levee containment effort, which I thought was a great use. There are large limestone based staging areas around the airport that were used for staging areas for trailers and equipment.

After that, airport management asked me to submit a claim to the airport so that they could then submit their claim to FEMA for reimbursement. I was a small business, so they had more resources than I. I felt like that was the best way to proceed. It was pretty easy to quantify that material because that plant was used exclusively for runway use. We could determine the exact amount of material that was delivered through our invoicing and delivery receipts. We knew the exact amount of material that was used in each yard of concrete produced because there are certified mix designs – this is the

amount of sand, this is the amount of limestone, this is the amount of water. We knew how many yards we sold to the contractors. Really, it was an easy math equation.

The airport agreed, asked for the back up documents, and submitted them to FEMA

In December, I received a letter from the airport that FEMA was disallowing their claim for our material because as a privately owned company, we needed to file a separate claim. They gave me a phone number and a contact name. After several calls to the FEMA representative, I was informed that they could not process our claim because the airport was under military control not FEMA control. They advised that I call General Honore.

We then started a letter writing campaign to the Army, the Red Cross, the Aviation Board, and FEMA, copying everyone in the process.

In January, a FEMA specialist was assigned to us. I was excited. Fantastic. I shared with her all that had transpired including the formula for deriving my totals, specifically asking if there was a better way or process. She concurred with the process and the assessment, but nothing happened.

In February, the first of two Congressional monitors was assigned to our case. We again shared all that we had and knew and asked again, if there is a better way please let me know, but this is our assessment. We just want a resolution because, right now, I'm trying to get up and running, and I am being crippled financially because my line of credit is being exhausted by the debt owed for the material.

In March, we were passed on to another Congressional monitor repeating the same process.

In April, we were contacted by a FEMA specialist who said that he was handling the case. He again concurred with our assessment, but this time asked if we could provide affidavits to back up our assessment, which we did. We sent all that in about two weeks ago, but we haven't seen a response yet.

Every official and representative that has been assigned to us has asked for back up information. I don't even want to tell you what my copy and printing bill is. They've thanked us for it and say they will get back to us. After we make follow up calls to that person, another person contacts us and says they have been assigned the case, and so that's what's been going on for months now. And now I'm paying \$12,000 a month interest, so this number continues to grow. I don't think I'm any closer to a resolution today than I was in October. I have no objection to FEMA or the Army taking whatever they needed to get the job done in the wake of the hurricane. I truly hope the stockpiles were put to good use. All I ask is that I be reimbursed for the materials, so that I can get my business back on sound financial ground. Whatever you can do to help will be greatly appreciated.

DORGAN: A story that shouldn't need to be told. These things should be resolved. This is, in my judgment, substantial incompetence by an agency, so we'll come back to that. Thank you for telling us your story. I hope that perhaps we can get this resolved as soon as possible.

Errolyn Letellier, you and your husband are the third generation of Letelliers to operate the Rockery Ace Hardware store in Lakeview, Louisiana.

LETELLIER: That is correct

DORGAN: Let me thank you, is your husband here with you?

LETELLIER: No, he's actually working. The store was open two weeks ago and we're up and running. It was long hard work, but it's open.

DORGAN: Well thank you very much for being with us today, and would you please tell us what you have come to testify about.

LETELLIER: Good morning Senators, my name is Errolyn Letellier. I would like to thank you for your time and attention.

My husband and I purchased the Rockery Ace Hardware store in the Lakeview area of New Orleans over 12 years ago. My husband runs the store and I'm a bookkeeper for a local real estate investor. We are the third generation to operate Rockery Ace hardware, which was founded by my husband's grandfather in 1942. Our business was thriving before Katrina.

When the Corps of Engineers 17th street canal flood walls failed, it was inundated by eight feet of muddy water. After the water went down, which took two weeks, we returned to the area on September 21, 2005. We were refused access to our business by military police. After contacting a friend who is a police officer, we were refused entry at two check points, but were let through on the third. When we arrived at the store, we found one of the front windows blown out. My husband entered the store wearing a respirator to retrieve the checkbook and a few other documents that he could carry. I will never forget the smell that day. Then Hurricane Rita came and the city was locked down even tighter than before. We were unable to access the city for two more weeks. By the time we returned to our business, it had been looted of what few items remained.

My application for a small business disaster loan was prepared professionally and submitted on October 7, 2005 to the Small Business Administration through a FEMA recovery center in our area. In December of 2005 after a two month wait, I started to receive phone calls from the SBA regarding my application. I was told that we would receive the money faster if I took \$150,000, which is less than half of what is needed to build and restock our business. I was later told that we could apply for a loan modification on the remainder needed. I agreed. I thought some money is better than no

money. We were desperate. We were approved for \$150,000 before the year ended and I though “Wow, we will start the new year with hope for the future.”

At that time we were forced to begin selling off our investment stocks and taking money from our retirement accounts to rebuild the business. Our SBA loan closing was then scheduled for March 5th at 5:00 in the evening, over 6 months after the storm. I was given a list of items to bring to the closing: property, windstorm, and flood insurance for our family home and a piece of property that we neither owned nor lease. I asked that the address for this unknown property be corrected before the closing, but was told the correction would delay the closing. So I prepared all the necessary documents, insurance papers on our home and business, and copies of all invoices for expenses that had been paid to date.

Around 2:30 in the afternoon of our scheduled closing appointment we received a phone call that my father-in-law had collapsed while cutting the grass, and that 911 had been called. We immediately got in the car and drove to the hospital. Around 4:00 that day he passed away. We knew that if we missed the closing it would take weeks to reschedule, so we left the hospital and went directly to the SBA closing appointment.

When we sat down with the SBA representative, we told her what had just happened to my father-in-law. While my husband and I were sitting down at the table with her she proceeded to receive calls on her cell phone, make dinner plans, and typing on her computer. The SBA’s closing attorney walked up and gave her a strange look. The paperwork was then explained to us, and she proceeded to ask for all the items I was told in advance to bring. I gave her everything that was asked except the information on the property that I knew nothing about. I told her that she needed the Flood Insurance for our business address. She would not take the document even after I insisted. We were later told that those items were needed. Then, while finishing up, she said we could get an advance of \$10,000. I told her what expenses we had already incurred and that \$10,000 was not enough. The attorney stepped in and said that we should receive more for our first distribution. By the time we left, we scheduled to receive a \$50,000 automatic deposit into our bank account.

As we were leaving the building the attorney called us to the side. He told us we were the third couple that day this had happened to, and that we should have received \$80,000 for economic injury and all the money we had paid out to date. This totaled approximately \$140,000. Now we had to go back to the hospital to deal with my father-in-law’s death wondering what hurdles were ahead of us in order to receive the loan amount needed to rebuild our financial lives.

As the week of May 8th, we have only received the first installment of \$50,000, even after we have submitted all the invoices paid to date and copies of contracts for work in progress.

As per a recent news story in New Orleans, it seems the process for an SBA disaster loan is efficient and quick only if a U.S. Senator or two get involved and hand walk the

application through the process and then deliver the check to the business applicant in person. Otherwise the process is a never ending series of phone calls and questions that drag on and on.

The first time my husband and I borrowed money to start our business, we paid off the loan in 3 ½ years. My first question to you, Senator, is:

Should it take the government 7 months to process a fraction of what is needed for us to get back in business? Should taxpayers who have never asked anything of the government be made to run a gauntlet of bureaucracy in order to receive a helping hand? A helping hand that will provide a much needed service to a devastated community trying to rebuild.

The SBA disaster loan process is broken for the average business owner. Please help us to help ourselves. If this SBA disaster loan process was made more accountable and user friendly, then we who have suffered due to the failures of the U.S. Army Corps of Engineers could at least know that our suffering and hard work will eventually bring its own rewards. Thank you.

DORGAN: Mrs. Letellier, thank you so much for being with us, and we will ask some questions in a few minutes, but it's almost unbelievable testimony about what we would expect to be the efficient delivery of assistance to victims. I appreciate you being here to share it with us.

Next we'll hear from Steve Ellis. Mr. Ellis is the Vice President of Programs at the Taxpayers for Common Sense, which is a nonprofit organization doing what the title would suggest. Mr. Ellis, thank you for being with us.

ELLIS: Thank you. Good morning Chairman Dorgan, Senator Landrieu. I am Steve Ellis, Vice President of Programs at Taxpayers for Common Sense, a national, non-partisan budget watchdog. TCS applauds you for looking more closely contracting mishaps in the wake of Katrina, both because of the sizable federal investments being made to rebuild the region and the importance of getting the Gulf Coast back on its economic feet. I believe it is critical that the experiences of the people who I'm sharing the table with be heard and TCS applauds you for amplifying their stories.

I want to briefly cover how the process should work during the four major time periods surrounding natural disasters.

The Government Accountability Office (GAO) has repeatedly emphasized the importance of strong pre-disaster planning. Acquisition and pre-positioning of gear and supplies, staff training and preparedness, and conditional contracts are all hallmarks of effective pre-disaster planning.

After disaster hits you have immediate response, followed by short term recovery that could last a few months for a disaster like Katrina. During short term recovery periods,

the goal is to move as quickly as possible to provide aid and positioning the affected region for long term recovery and reconstruction by removing debris, relocating displaced people, and stabilizing infrastructure. During this period, brief, limited sole-source contracts may be justified, but the faster government shifts to competitively bid contracts that are directed toward local contractors and subcontractors, the more resilient the long-term recovery and reconstruction effort will be. During recovery, you need enough contract supervision boots on the ground to ensure taxpayers will get their moneys worth. These individuals are the taxpayers eyes and ears and the first line of defense to ensure that precious tax dollars being are spent wisely.

The total number of Katrina related federal contracts is staggering. The list of just FEMA contracts is 217 pages long and includes 3,400 contracts ranging from items like \$287.5 million for manufactured housing from Circle B Enterprises to \$36.90 for Direct TV in Biloxi, Mississippi. It's hard to get past some of the ridiculous items precious relief dollars are spent on. TCS research uncovered contracts for everything from \$14,890.86 for a Face of FEMA video to \$7,200 worth of shirts with "Bureau of Indian Affairs Disaster Response" printed on them. It is sad to say that you almost expect to see a kid walking around DC with a taxpayer bought shirt that says "My parents worked on Katrina reconstruction, and all I got was this lousy t-shirt."

After the first few days of fumbling, bumbling response, FEMA wanted to appear to do something, and spending money was the easiest thing to do. In one case, 10,770 mobile homes, which cost the taxpayers \$301.7 million, were left in Hope, Arkansas. The flood prone areas in Louisiana made these homes unsuitable for use. Sole source or no-bid contracts may be easier to execute, but they are more expensive, insulate vendors from competition, and they create concerns of cronyism and favoritism. Our David Pauleson, then acting and now Director of FEMA, stated, "I've been in public service a long time, and I've never been a fan of no-bid contracts." But that hasn't stopped FEMA from retaining no-bid contracts and using limited competition contracts. Even with the best contracting process, if there is no one there to monitor and demand performance, contracting efforts are going to fail.

FEMA had roughly 55 contract personnel supporting Katrina recovery. Each was responsible for roughly \$163 million worth of contracts on an annual basis, 7 times the industry's average. The \$3.6 billion contracting bonanza of travel trailer maintenance work was supposed to be skewed toward in-state, small businesses, those that had less than \$30 million in annual sales and regularly conducted business or were located in the state prior to Katrina. Out of state businesses were subject to a 30% surcharge on their bid to help local companies. But a Fluor subsidiary teamed up with PRI, Inc., a California based minority owned small business, and ended up with four \$100 million out of the total of 36 contracts that were being awarded. Tom Stinent RV Freedom Center in Indiana partnered with several local companies to pull in local set aside contracts that eventually totaled more than \$100 million.

Even after contracts were awarded, there were countless examples of waste. Corp. debris and removal contractors were dumping less than their full load, leaving the site, and then

returning to dump again and collect an additional fee. The Corp. way paying roughly \$31 a cubic yard for debris removal, when local governments were able to contract debris removal for \$14 to \$16 per cubic yard. It is clear that disaster recovery has become an industry unto itself, and where there is money to be made, there are companies willing to exploit the taxpayers pocketbook, even on the backs of disaster victims. As we go forward, Congress and the Administration have to work to reign in the rampant contract abuses by implementing effective pre-disaster planning, further restricting sole-source procurement, and requiring a certain amount of direct activity by prime contractors. Furthermore, strengthening rules governing local set-asides so taxpayer dollars don't just go to rebuild buildings and infrastructure, but local economies and lives. Nine months after day zero, with hurricane season nearly upon us, now is the time to fix our disaster management process and prepare for future disasters, before we waste more taxpayer dollars, before the next hurricane ends. Thank you very much for inviting me to testify today. I'd be happy to answer any questions you have.

DORGAN: Thank you for your testimony as well. The stories again are pretty disappointing, and I'd like to ask you some questions about the contracts you just described.

Next is Barbara Sonnier. Barbara is an account executive and contract specialist at Demolition and Construction Management Services, where she formulates plans for local businesses to participate in FEMA trailer and maintenance contract opportunities. You've participated in mandatory FEMA contract meetings and formulated what is called a "Louisiana Core" of contractors to ensure needed assets would be pre-positioned prior to natural disasters, local flooding, or inclimate weather. Thank you for being here. Barbara, you may proceed.

SONNIER: Mr. Chairman, members of the Committee, I want to thank all of the members of Congress who have been to visit our State and to thank you all for all of your financial support for the Gulf Coast. I want to thank you for giving me the opportunity today to speak to you today regarding the FEMA Trailer Maintenance contracts and related bidding process.

I am a life long resident of Louisiana and in particular of the New Orleans area. I have many friends and relatives who have been displaced because of Hurricanes Katrina and Rita. I had first hand experience with both hurricanes as they have changed forever our lives and our families.

In December 2005, based on my prior government contracting experience, I was employed by a Louisiana and Mississippi small business to explore the feasibility of bidding for one of the 36 maintenance contracts that FEMA promised to award to small businesses with a preference with businesses based in the region.

I studied the solicitations, read all of the attached materials that FEMA posted for the solicitation and concluded that the preference for the "local small business" would give our locals who were already on the ground an opportunity to participate in such contracts.

Eventually there was a modification to define “local small businesses,” including a cap of \$30 million in annual revenues.

The original solicitation was in keeping with the best of contracts that I have participated in – it explicitly defined the scope of work and gave all the necessary details to determine the magnitude of what needed to be done. From my experience I knew that many of the small Louisiana businesses, especially in the Greater New Orleans area that had been wiped out by the flooding were successfully on the ground doing such work. They were working in debris removal, levee stabilization as well as many of the facets of trailer hauling, setting up, and maintenance. The 36 FEMA contracts were a tremendous opportunity for all of us.

Bidders were required to complete an excel spreadsheet to receive confidential ratings from agencies that had previously contracted with them, particularly if it was to provide the same type of services. We were also required to submit a 50-page technical proposal separate from the pricing. This is an excellent opportunity again. Again FEMA provided a very detailed outline as to what the technical information should include.

However, I had several concerns about the solicitation. I was concerned with a mandatory worksheet that we were required to fill out – it was for 6700 trailers per contract for 5 years, but the contract was only for \$100 million. That would come to \$20 million a year, which is simply not feasible on that size of a contract. Their own historical documents that they gave us on pricing proved that.

I was also concerned about the repeated warnings that the winning bidders would need to handle and to respond to the numerous phone calls from the trailer residents. The outline anticipated not just regular maintenance calls, but also emergency phone calls, that would require a specific response within a set time limit.

Another cause for concern was the Contract Line Item 1000, which was a catch-all in which bidders were instructed to put any non-itemized cost covering the first five year duration of the contract, but with a note that I would have to incur and bill all of those costs within the first days of the contract. That might include, for example, establishing the call center. Again, this is not something I’ve ever seen in government contracting before, and over five years, that one CLIN could add up to millions. The contracts wording was ambiguous as to when the winning bidders were to be paid for those expenses. When repeatedly pressed on this issue, FEMA simply told us to bid as stated in the solicitation.

With all of the notes on the solicitation, I attended the two mandatory meetings for the perspective bidders, one in New Orleans for Louisiana contracts and one in Gulfport.

The response and turn out at the meetings was over whelming. In both states they had to schedule multiple meetings to accommodate the crowd – but the FEMA panelists was informative and cooperative. They allowed a considerable question and answer period and told us that we were told that we would receive a copy of the transcripts – which we

later did. There were a lot of questions still unanswered – but we were given email addresses for the FEMA Points of Contact.

As the questions arose, FEMA put out contract modifications on a regular basis and at one point had to extend the filing date for the bids. More questions arose, and FEMA issued more modifications.

After receiving as much information as we could from FEMA, my colleagues and I worked on the ground in the New Orleans area, talking to the occupants of the trailers, meeting with people who potentially be occupying, and observing several existing FEMA call centers.

To say the least, it was overwhelming to me. It is staggering to imagine that many people living in areas that they are totally unfamiliar with, next door to people they did not know and with limited access to transportation, food, and medical help. I personally spent days reviewing the addresses that FEMA again in good contracting practices had supplied to us. But it covered a tremendous geographical area and trying to see logically how this would work was rather baffling.

I took the sign-in sheets from the FEMA meetings and then personally looked up every company in the LA Secretary of State, Dunn and Bradstreet (D&B) and the Central Contractor Registration (CCR), which were all mandatory to participate in FEMA contracting. We narrowed it down to those who were local and qualified as small businesses.

Having identified the qualified local subcontractors and bidders, our company invited all of them to a series of meetings to pull together an experienced team of companies who were already doing trailer work. A lot of these people, Senators, were actually living in their offices or in trailers, because they had lost everything. We brought to the table our expertise as contract specialists and call center specialists. We knew that whoever won would need to hire additional staff to meet the contract's demands and would first and foremost get the job done by the locals.

To that end we sought the help of many agencies including the Louisiana Technical College in Hammond for the call center training. The contract and dialog with FEMA repeatedly addressed the question, again this is excellent, of “professionalism” in responding to the calls from the trailer residents, including the need to understand the plight of the occupants – included “right of entry,” domestic violence, sexual harassment issues. Again, all of this, if you sat in a call center, you could understand the trauma these people were going through. They actually said they were hearing gun shots in some of the emergency phone calls. We worked with the local state employment agencies to find people who were unemployed as a result of the storm and who qualified for the many jobs we would have.

Throughout the bidding process, we continued to interact with other small businesses, prime contractors like us, and to share information. We did not see one another as the

competition, but instead developed a joint “asset management plan” in case of bad weather. You don’t have to have a hurricane to know that New Orleans floods. With the onset of the next hurricane season, we knew whoever won the contract would also need a hurricane plan, with resources attributed and staged according. Again, geographically New Orleans is bound by the interstate, the lake; we have other issues besides just storm weather. We have local flooding. Once the bids were submitted, we continued to fine tune out logistical plan, including the call center and many other contract requirements. Our work did not end the day we submitted the bid.

After the award date was delayed, finally a letter was sent to the bidders stating the “apparent winner.” From then on, the winners were listed on the FEDBIZOPPS web site. Again, this is good contracting practices. From then on, none of the local companies that attended any of the meetings and participated with us won.

We immediately began researching those companies that did win the contracts, based on the addresses FEMA gave us that were posted, many of which were out of state, and discovered that we could not locate any of them within the databases, which we as locals had been advised to do. Again, good contracting practices.

At that point several of the winning bids began to show as much as a \$100 million preference for the same work. As more awards were posted, they eventually ranged from 84 million to 280 million, which is vastly a huge difference for this same project. It was like nothing I have ever seen before in contract awards, given the explicit nature of the solicitation.

Based on the FEMA spreadsheets, you simply cannot fill in all of the line items and stay under \$175 million. If you have any experience in trailers and know the distances between the sites that FEMA listed, it is impossible to do the work for less than that minimum. It is like going to a parking lot and having two trucks for sale, brand new, one is \$184 million and the other is \$280 million. One of them doesn’t have an engine, because something’s got to drive this.

Several of the businesses that did not win began to receive phone calls from the winning bidders. I received one that was particularly disturbing, but unfortunately not unique, and I think Senator Landrieu can attest to this. The call was from a representative who claimed that her country had won one of the contracts. She was calling to ask if my company would like to do the “pest and termite control” portion of the contract. By the way, it’s line item.

I then asked for the name of the company, physical address, and exactly what they wanted a bid on. She emphatically refused and told me to just bid the termite portion according to how many cans it would take to treat a trailer. And I quote her, “just like roaches – the \$2.00 can of treatment.”

She refused to give me a phone number, but gave me fax number in the Hammond area, and I believe it is a local Office Depot. Again, you have to be really concerned about

that. As anyone knows in Louisiana knows, you can't treat termites with a \$2 off the shelf can of bug spray. The very question gave pause, and made me suspect I was dealing with a contract winner who didn't know the first thing about Louisiana and it made me wonder how much more they didn't know.

Many of us who bid the trailer maintenance contracts have been in contact with one another over the recent weeks, as more companies have been listed with winning bids. We are all concerned both by the unrealistic low bids and by our inability to identify these companies as local.

An agency that awards a contract normally holds a debriefing after the award is made, and FEMA has held them before prior to the storm. I've been to them, through a series of those companies that bid unsuccessfully. Before the winning bidders proceed with the contract, the losing company would have access to the details of their bids, their line items, their qualification, and other relevant information. Despite repeated requests, FEMA has yet to announce any plans to such meetings.

As a native of Louisiana I am very concerned about the impact on my neighbors of putting trailer maintenance in the hands of companies that have never cared for a trailer, and that are not from Louisiana and have obviously underbid the contract. Furthermore, their performance will be considered a reflection on Louisiana, even though they came from and will return to other parts of the country.

If Louisiana companies truly lost because of "price" then that is what America free market system is all about, and that's fine. At this time, however, I am deeply concerned that FEMA and the winning bidders have underestimated what a toll it will take on an already devastated area of the country if these contracts are not successfully performed.

I thank you again for your time and consideration.

DORGAN: Ms. Sonnier, thank you very much. Finally, we will here from Tim White. Tim is the President of White Hall Transport, Inc., a 40-year resident of McComb Mississippi, a 20-year Veteran of the Housing industry. He owns three small companies, which offer access to housing, installation of manufactured homes, and mortgage loans.

Mr. White, thank you for being with us.

WHITE: Mr. Chairman, Senator Landrieu, I want to thank you for holding today's hearing and for your interest in helping to rebuild the Mississippi Gulf Coast. I am grateful to have the opportunity to appear before you today. I am hopeful that with efforts like this, we can bring some order to the out-of-control situation that we have been experiencing with FEMA.

I come before you as a former fourth-tier FEMA contractor and a bidder on one of FEMA's 36 \$100 million small business contracts for maintenance and deactivation of travel trailers in the Gulf Coast region. My overall feeling about FEMA is that the

agency is just as out-of-control now as it was during its initial response to the hurricanes. While Americans have been overcharged millions of dollars for the hurricane relief effort, what is worse is that some of the companies that have been contracted to maintain FEMA travel trailers are making little or inept attempts to do the work, but are still getting paid.

This experience with FEMA is also personal to me because my family members' homes, businesses and everything they owned were destroyed by Hurricane Katrina on August 29, 2005.

It has been my goal to help my family rebuild their homes that were lost on the Gulf Coast. In an attempt to do this, my father, brother, and I joined forces to subcontract for a Louisiana company, which in turn subcontracting for a second Louisiana company, which had in turn received a contract from the Shaw Group for hauling and installing FEMA travel trailers. We were contracted for this project because my family and I have 95 combined years of experience in the sale, installation, and service of manufactured homes. Unfortunately the companies we were worked for had absolutely no previous experience in this industry. As a fourth-tier contractor, our company performed the work and fronted all the money to pay the laborers, the insurance, and other related expenses of actually doing the work. To date we have not been fully paid, on the grounds that FEMA has not paid Shaw and Shaw has not paid the sub-contractors above us.

On our first day on the job, we were given 20 task orders. When we attempted to pick up trailers, we were told that the task order forms we presented were not approved for picking up trailers. I took all 20 task orders to the trailer pick-up yard for someone to review. Of the 20, only four were on the correct form, and of those four only two had been approved by FEMA as having an acceptable home site. Problems and issues like these were almost an every day occurrence.

After working with three different subcontractors that had no experience with this type of work, we felt like we could better serve the victims of Hurricane Katrina by obtaining a contract directly with FEMA. In an effort to offer a strong proposal, we attended a pre-bid conference sponsored by FEMA in Biloxi, Mississippi. During this meeting we were told that the focus was to award bids to local disaster-area companies. Guidelines as to which companies would be considered local were established, and we were told that non-local companies would have a 30% upward adjustment in order to give local firms preference. These contracts were to be 100% small business and minority-owned, disadvantaged small business set-aside contracts. In the State of Mississippi, five contracts were to be awarded to small business, and another five to so-called "8A" small businesses. We were told that technical experience would be first criteria, then price. After leaving the pre-bid conference we truly felt like the small businesses in the disaster area were finally going to have a fair opportunity to be awarded a FEMA trailer maintenance and deactivation contract.

In the preparation of our bid, we found many conflicting items in the solicitation. For example, the length of the contract was to be for a period of five years, but occupants

were told they would only have the travel trailers for 18 months. Additionally, the proposal was suppose to be for 6,700 units, but the pricing spreadsheet proposed 6,700 travel trailers and 6,700 manufactured homes, including park models, for a total of 13,400. These are just two examples of the solicitation's inconsistencies.

While calculating our pricing, we used our 95 years of experience to determine the cost for totally fulfilling the scope of work required. We also based our bid on the costs for actually doing the work.

My company received a letter from FEMA on March 24, 2006, which contained a list of the apparently successful offers. Of the five listed, only two were from Mississippi. I was disappointed that my company was not awarded one of the bids, and shocked when I read that only two Mississippi companies did receive awards. We immediately began to gather information about the apparent winners, so that we could solicit work through them. While researching these companies, we found details that did not follow the rules and guidelines that FEMA had established.

First, the company PRI/DJI, from San Diego, an apparent award winner, was not registered with the Central Contractors Registry as a small business. I also visited their website and found numerous U.S. Federal Government contracts that they had received totaling \$994.1 million. Of these, they listed \$200 million in Mississippi and \$200 million in Louisiana for maintenance and deactivation. On March 30, 2006, I filed a formal challenge with FEMA concerning the size of PRI/DJI. After filing my challenge with Nancy Costello, FEMA's point of contact for this contract, I learned that "DJI" stands for Del-Jen Industries, a wholly owned subsidiary of Flour Enterprises, Inc. Flour is one of the four prime contractors who had already received a no-bid, \$500 million contract, and had also received, in early 2006, additional contracts totaling approximately \$518 million, according to Hurricane Contracting Information Center's website

Here we were bidding against a massive, Texas-based government contractor, when supposedly the contracts were designed for small businesses. I would also like to note that after PRI/DJI was notified of our challenge, their website suddenly eliminated sizable existing contracts. Ultimately, it appears that FEMA has awarded not one, but four \$100 million contracts to PRI/DJI — two for Mississippi and two for Louisiana.

Secondly, another out-of-state company, Doug Boyd Enterprises of Knightdale, North Carolina, received an award. Yet according to CCR, his company was formed on December 2, 2005. It turns out that Mr. Boyd is the Mayor of Knightdale and apparently has ties to FEMA from working with the North Carolina division of Emergency Management.

On April 25, 2006 I received a copy of the SBA's ruling on PRI/DJI as a small business. It is the SBA's position that PRI/DJI falls under a special mentoring/protégé program that PRI/DJI has been approved for since February 22, 2001, and that they are therefore eligible to bid on Small Business and 8a contracts. Nevermind that they did not claim to be a small business on CCR, nor that it makes no sense to award four \$100 million

contracts to a supposedly small business. Maybe what FEMA did was legal, but I have difficulty understanding how it meets the stated objectives of awarding these contracts to small, local businesses.

On a personal note, my family was issued a FEMA travel trailer on November 18, 2005. Only yesterday, for the first time, were they contacted by Gill and Associates regarding maintenance of their travel trailer. When my mother inquired why they had not called or visited earlier, the service person said her cell phone was “too expensive.” It is my understanding that some of these trailer maintenance contractors are being paid as much as \$350 per month, per trailer. I have heard from numerous other travel trailer occupants that this same scenario is being repeated over and over. As hurricane season approaches and as the travel trailers age, problems will only continue to grow.

My conclusion is that far too many of these awards have questionable relationships. Technical guidelines were compromised, which will, in the end, only continue the hardship of the hurricane victims.

I stand ready to answer any questions that you may have about my experience with the Hurricane Katrina relief effort.

DORGAN: Mr. White, thank you very much. Thanks to all of you for being willing to take the time to come here and to spend the morning, and talk about these issues. I have to tell you, when I hear about the experiences you’ve had, it makes me furious.

I believe that government can be an instrument of public good. I believe in government, that’s why I have sought public office over many years, but my belief in government is that government is to be run in a way that you bring competent people in, you administer and manage programs competently, and you use the money for which it is intended. In this case, as a member of the appropriations committee, with my colleague Senator Landrieu, we have appropriated a substantial amount of money, it’s an unprecedented amount of money, billions and billions of dollars we’ve appropriated in response to the most devastating natural disaster that has occurred in this country. And we expect and hope that that money is designed to help the victims, and to help recovery, and to provide a foundation to give people hope and opportunity.

That’s what we do, and when I hear stories of incompetence, when I hear stories of people that don’t seem to care, when I hear stores of others trying to cheat, I’m telling you, it really angers me, and I think Senator Landrieu and I just talked about it, and we will ask the Inspector General to investigate a range of claims about contract abuse. A range of claims about performance by agencies, especially FEMA, but I’m very interested as well by the way you were treated by the SBA, and to know how many businesses have similar stories, Miss Letellier.

Let me ask a few questions, and then call on my colleague as well. Mr. Baker, you’ve gone through the system, and you have lost property. The government expropriated your property, you say, “that’s fine, it was an emergency, they took the property.” You expect

to get paid for it. You're a small business, and it's now eight months, and you haven't been paid.

BAKER: That's correct. Not only have I not been paid, but the greatest frustration is that we've fully documented the process, we've done everything we've been asked to do, and we can't get a response. We've spoken to probably eight different representatives of various agencies, and it stops at that that initial meeting.

DORGAN: Well, we will work on this. As one of the other witnesses said, but this shouldn't be a case where you have to go to a United States Senator or go to some public official. This should be a case where the agency is responsible in responding to the issues, and clearly they have taken property from you. If you have the evidence of that and have not been paid, there's no excuse for you calling and finding that each month there's someone else put in charge. You ought to expect your government to reimburse you for property they took from you.

Are you in touch with other small business men and women who are also in the process of recovery? Is this an isolated problem with you, or are you aware of other people who have had experience in these kinds of issues?

BAKER: There are several other businesses at the airport alone that are also experiencing that and throughout the city. This is not an inconsistent or unusual situation.

DORGAN: Miss Letellier, the experience that you've described is also extraordinarily disappointing to me, because you also want agencies that are dispensing money and providing assistance to be very sensitive about this, and to understand, they're dealing with people who lost everything and that are trying to recover. You described an agency you described as a heartless circumstance. First of all, you didn't get the right result from them, and second, you describe your relationship with the person involved as someone who seemed to be cavalier, and not very caring about what was going on, making dinner plans and so on.

Is this an experience that is yours alone, or I assume you have a lot of friends because you own a small business, you have a number of friends in the business community. What are others experiencing trying to get these grants and loans trying to get back on your feet?

LETELLIER: Every small business owner that I know except for one, only one, has received full amount that they need. Everyone else has received approximately \$10,000, have received no money to fix up rental properties, both commercial and residential. Small businesses need money to move forward, and we're not receiving it.

DORGAN: You have a hardware store that's been around for a long time. What is the total amount necessary? Your hardware store is now open I understand?

LETELLIER: Yes, we opened two weeks ago. We still have a few things we need to take care of. We have no air conditioning; we can't run our computers, because it gets too hot. It's over 85 degrees. So the employees, which we only have two now plus my husband, have a run around with little pads and write down all the prices and ring them up on a cash register, which we had to lease. Once we find a contractor able to provide the service and hook the air conditioner up, then we'll pretty much be finished and I will know exactly the cost, but it will around \$340,000.

DORGAN: The \$340,000, is that the financial hit you've taken as a result of the flood and hurricane, and so on? Does that include that time you've been shut down, the lost revenue?

LETELLIER: That is just paying off bills off pre-Katrina, paying for insurances we had to maintain, which we were insuring nothing. We had a tornado come through, and couldn't even make a claim, because I had nothing in the store to claim. We lost another roof.

DORGAN: But that includes your inventory, your damage to the store, the financial hit that you've taken you get your business back up and running. Is this a situation where you feel you'll be successful moving to the future?

LETELLIER: Yes, since we've been open in the last two weeks, our business has been better than pre-Katrina, which I would expect. As a hardware store, it is a much needed business to build and recover in the area. So I do expect that, but it's hard and it's rough. Pre-Katrina, we had eight employees, five full-time. Now we only have two.

DORGAN: But you want to keep doing this. I mean you're building. You've got hope and optimism in the future. That's what businesses are built on, right?

LETELLIER: And it's not about me, it's about us being there for the community

LANDRIEU: I'd just like to add on this point if I could, to press a point. In addition, Senator Dorgan, to what you've heard about all the individual problems and frustrations, add to that these business know if they could just get back open, they could actually make more money than they did before the hurricane and that their services are so desperately needed by the community that they have served, and know, and love, and they literally cannot get their doors open. They have to watch trucks from out of state drive past their doors making money hand over fist. Never been in the city, never put down roots in the city, have no intention of staying after this is over with, and these businesses cannot get their doors open.

The second point I want to make is: Senator Kerry and I were literally floored to find out last week, that this is now a routine practice with the SBA. If you borrow \$150,000, they only give you \$10,000 on an installment basis, but you pay the \$150,000 amortization on the \$10,000. As if you received \$150,000, your monthly checks to the agency. The reason they say is because the paperwork is too difficult to handle. So businesses that

virtually have no money, and wait it gets worse, not only do they have to pay the full amortization rate on the \$10,000 they received and then maybe they can come back and get the other 10, if they put in an application, let's say the week after the storm for \$400,000, because they just weren't quite sure what they lost. You can tell why it may be a little confusing for people to really have an accurate sense of what they lost 30 days after the storm. So like what Errolyn did, they put all her paper work in and says she want to borrow 400, but then she and her husband later decide they only need to borrow 2, they might not need it, they might sell a price of property. They won't let them reduce their amount. They have to take the 400, and they have to pay on the 400, whether they use the money or not. It is so beyond anyone's capacity to function.

The final thing I'll say is, for people, for anybody, this should not happen, but for people who have never asked their government for much and have watched everything they've worked, not just in their lifetime, but their parents and grandparents wash away, and are trying desperately to get back up on their feet in very tough conditions, like their children are in school 100 miles away. Business owners bring their kids to school in the morning, then come back and try to open their business, and then go pick their kids up 100 miles away. This is outrageous, and it never should happen. So, I thank you all for your testimony.

DORGAN: Senator Landrieu, thank you. Let me ask just a couple more questions, and then I'll allow Senator Landrieu to ask questions as well. We're going to ask questions at the head of FEMA and the SBA and find out what in the hell is going on here. There's something horribly wrong.

But on the issue of these contracts, these larger contracts, Mr. Ellis, you described some of the research you've done, and Mrs. Sonnier and Mr. White, you've described your experiences. It is almost unbelievable that when there's money around, and there is a lot of money here. This is a lot of money that we've appropriated. It attracts a massive amount of interest by companies that have no roots, no connection, and they go out and find ways to bid when they shouldn't be allowed to bid. It's unbelievable to me that the agency allows that. So I especially want the Inspector General to do a good investigation about what has happened when we put together 36 contracts, \$100 million each, \$20 million a year for 5 years, we expect those contracts to be helping the folks in the region. Providing jobs in the region, providing companies opportunities in the region. That's why there were limitations. That's why you have contract conditions. And I am so sick and tired of seeing contract abuse.

We've had I think 9 or maybe 10 hearings on contract abuse in Iraq. It is unbelievable the staggering incompetence and the massive amount of waste, fraud, and abuse, and I fear we're going to see the same thing. You take a couple a hundred thousand travel trailers, and then say, alright now maintain them, and I think Mr. White, you described your family, perhaps your mother it was, who hasn't heard from anybody, and then all the sudden, somebody calls and they've got the contract and they've been getting paid for maintaining that trailer, but haven't been doing anything. I worry there's just a massive

amount of waste and abuse here, and perhaps some fraud. So I think it's important to take a hard look at this.

Mr. Ellis, you've heard the discussions by Ms. Sonnier and Mr. White. Your impression?

ELLIS: Well, my immediate impression is, from all the people who have testified here, it makes me very angry. Like you, our organization believes in government where our mission is for a responsible government that lives within its means. To hear what people are having to go through in these cases is quite frankly enraging. Particularly, on these contracts, clearly, years ago when the Stafford Act was written, which governs disasters and disaster response, they recognized what you've pointed out Senator Dorgan, that it's critical for reconstruction that local businesses be given these contracts, because that helps the local economy. Yet FEMA has not only it seems to me in this case, looked the other way when people were exploiting the small business set aside, when people were exploiting the provisions that they be small businesses and be locally based, that they are actually abetting that. After they had the appeal, and it is quite clear that Del Gen industries, a subsidiary of Fluor, a wholly owned subsidiary of Fluor, was not a small business, and that their partner was also not locally based and was a very large company as well, they didn't rule in favor of the appeal. In these cases, we've had people who were doing, as Ms. Sonnier and Mr. White described, doing the right thing as in pursuing the contract, making sure they knew the contract, and making sure they knew the details, making sure they knew the cost, and bidding. These are they type of people we want to have the contract as taxpayers, because it contributes to the local economies. To have that not occur, it's beyond enraging to hear this.

DORGAN: Well, originally when no bid contracts were allowed in the Gulf, I understood that, with the understanding that the commitment was made that they were not going to be extended, that they were going to be bid later. But in an emergency, you move quickly and you move with aggression. I understood moving with some no-bid contracts with the promise, but the promise hasn't been kept either. Those contracts were extended, not re-bid competitively.

But Mr. White and Ms. Sonnier, how is it that with the current rules, and I should just say parenthetically, we did ask FEMA about these contracts, and FEMA said they could not come here to comment, because there are eight or nine protests to the contract awards. So FEMA doesn't want to be here talking about it, but I'll tell you something, FEMA is going to talk about this. One way or another, they're going to talk about this. They're going to talk about it to investigators. They're going to talk about it to somebody. And we're going to see to it. But how is it do you think, given the rules on these contracts, and we talk about the 36 \$100 million each contracts for these trailer maintenance issues. How is that Fluor Company, a very large company, can end up with a part of the contract? Mr. White, how do you think that happens?

WHITE: Well, one thing is that they have an advantage by first having received a no-bid contract. With the technology and equipment in the field and the personnel that's already on staff, they have the overhead part pretty much paid for with the first contract, so a lot

of the expenses that these new people that are trying to get these bids would have initially, which I believe Ms. Sonnier was talking about the first line item, \$1000, Fluor would not have that. So therefore they were able to bid a lower bid price. When you have the ability to conduct four \$100 million contracts, you also can lower your profit margin, because the volume is there. Most companies were barely large enough to handle one, much less bid on four.

DORGAN: But the testimony you gave, in order to be involved in a contract or try to be involved in a contract, you had to be a sub-sub-sub-contractor and the only one in the whole chain that knew anything about what was being contracted for. Isn't that correct? That's unbelievable to me.

WHITE: Yes sir, and that's happened in many cases. I have other people in the same industry, and they were two or three tiers down the line.

DORGAN: And each those tiers had to get some money in their pocket, right?

WHITE: Yes.

DORGAN: So it's like passing around an ice cube. You know something, that's not what we're supposed to be doing up here to be appropriating money for this type of thing. That's an outrage. Let me call on Senator Landrieu.

LANDRIEU: If I could Mrs. Letellier, you've been so good, and also Mr. Baker, if you'd like to add as a constructive question looking for a constructive answer. All your testimony has been tremendous, thank you very much. What could you recommend to either the FEMA disaster center or the Small Business disaster center that would cut down on the paperwork that they are requiring from you, and maybe comment for the record about, now that you've had to live through this nightmare, is there some suggestions you might have to these agencies that would cut down on the paperwork that you've had to provide? Both of you have done an extremely professional job, but both of you are very experienced business owners. You realize there are people out there that have smaller business, they might not have as much experience or ability as you all that are really struggling. Who can't get a loan, because they lost their documents, and they're just not able, which is understandable, to provide them to the agencies. But you would think that with some checking like yellow page directories that they had been in business, and this was their real address. I mean, just the local yellow pages could give these agencies some information that they need to know. Would you have any suggestions along that line that we could take back?

LETELLIER: With a disaster of this magnitude, obviously the SBA was overwhelmed. We couldn't call on private industry, bankers that these businesses are familiar with, that they know. Maybe somehow if SBA is spending X to process a loan, why couldn't we go these private banks, give them the money, process a loan, help this process speed up and get the money to the hands of the small businesses that need it. Now it's beyond the

point where some people don't need loans anymore, they need grants or if not they're going to close and they won't re-open.

LANDRIEU: I want to let you know we're working on that, because we heard that loud and clear. Mr. Baker?

BAKER: I am also President of the New Orleans regional Black Chamber of Commerce, which is a local chapter of the national Black Chamber of Commerce. I applaud the national chapter, because they came and set up local chapters all across the Gulf South immediately after the hurricane to ensure there was a direct information flow. So I benefited from that, and I think government agencies need to follow the same suit. When we're trying to get either information or direction or guidance, we're calling some void, hoping someone will answer that will tell us a correct path. More often than not, if the call is responded to, no one knows what's really going on. And then they really can't apply the information they have to what's really going on in the Gulf South. The biggest frustration has been this...

LANDRIEU: Changeover of personnel has been just so frustrating.

BAKER: Exactly, and new people are coming in.

LANDRIEU: I'll tell you, the testimony from both FEMA and the SBA has been "we just can't maintain a current staff, we have to staff up when disasters occur." And I understand that, because that's the nature of disaster response. You stay lean and then when an event occurs, you staff up. But that is not an excuse to staff up with untrained, non-knowledgeable, non-local people.

There is a system that you could pre-train local people who are local, who know the area so that if a disaster hits, you staff up with pre-trained people. Just as they ask local governments to be prepared, Steve, the Federal government can be prepared more by having people pre-trained. They've hired people who don't know the first thing about a loan application, and here as Mrs. Letellier said, there are local banks across the Gulf Coast, who know these small businesses, who are familiar with these owners, who have usually been in the process of lending the money over the years and watched their businesses grow. Barbara and Tim, do you have something you could suggest to either minimize the paperwork of what you've been through or expedite the process? And also Tim, to just hit again, besides the investigation which we're going to continue and ask for, is there some better suggestion you have to make sure that businesses like yours that are local and capable can get the work. And I don't know Barbara, if you'd like to start.

SONNIER: First of all, it costs a lot of money for a small business to put a bid together. Man hours, there's an opportunity cost of time and your money. I was hired specifically, because that's what I do, to come in and advise companies to do this. A tremendous cost. When you look at the results of all their efforts, you put out a call next time for more local business preference, they're not going to do it. You're going to end up, by necessity, going back to these non-compete practices, which again after a hurricane, you

couldn't get our phone numbers. If you live in New Orleans, we didn't have any. I understand, but we're there. You ask if there's a better way to do it. My big question right now is, this panel they put together, the point of contacts were very knowledgeable. A lot of expertise, Nancy Costello's groups who actually made the decisions and awarded the contracts, we used their own systems. We got into CCR and couldn't find them. That is a red flag. I've done business with the Marine Corp., the Navy, all of them. If you don't turn in that one documented item with the correct national industry codes, you have to meet those specifications with past performances. How does somebody that's an accounting service, how does somebody who's never been in the trailer business end up with these humungous contacts? It's discouraging, and again, I'm living in New Orleans. Your family's there. Your family may be in trailers. I have some that will be. It's scary. I don't think FEMA oversaw the end of the awards. I think they did their job, they got the correct Fluor information in there. They looked logical like they said; again, we ended up with spreadsheets. I am a former college professor. I taught math. The spreadsheets do not make sense. You don't do 13,000 trailers and expect to come up with \$20 million a year. It cannot be done. That was total incompetence on their part.

WHITE: One thing that I feel would apply to our situation, as well as Mrs. Letellier, is that FEMA and the people who are there for the emergency, they are supposed to be prepared for the emergency and should have a call list of companies and businesses all over the United States that say, "We've got this problem. You need to be on call. We're going to have to take this and run with it when this hits the ground." I have that with my contractors. If I have an AC guys and I need an air conditioner, I've got two or three people in case this guy's not there. Someone can get on it and stay on it.

The other thing is, this is not the first time they have had to provide travel trailers and mobile homes. And the enormous amounts that we've paid, it could have been avoided just by using your historical data, and instead of saying, "hey, here's a bid," go to the public and say, "this is what we're willing to pay. These are the prices which we feel are making you a fair profit margin, can you do it for this? And if not, what can you do it for?" I spoke with the project manager of Shaw and gave him my opinion of what a travel trailer installation should be, and that was somewhere in the \$3,000 to \$4,000 range. His comment was that they were presently paying over 100% more than that, and I was just baffled, it just amazed me. I had a similar conversation with a procurement officer with Fluor, and his comment was that they were paying 104% more than that, and it makes no sense. There are plenty of people out there who could have done this job for a lot less money. I was a third tier, and I was tickled to death at the profit margin that I was making. A lot of this money could have been avoided by people making the right calls to the right people in the industry.

LANDRIEU: And if I could Mr. White, not only do I get angry hearing that, but as the Senator that represents the state, and is trying to help Mississippi as well, the whole Gulf Coast, guess who gets charged with that money? Mississippi and Louisiana, when the Members of Congress say, "But we've already sent you so much money. Why should we send you more?" I keep saying you can take 30 to 40% off of everything you sent us. It went elsewhere. We can't account for it, and don't blame us for the waste, because it's

not the system we sent up. So that is the added damage that is caused by this kind of what I would say corrupt and inefficient system.

I'm going to bring a chart down, Senator Dorgan, that's going to show why FEMA should know that we're an area that hurricanes come frequently, and that there's no excuse for them not to have set up a system that Mr. White has just explained. Having pre-positioned, knowing other businesses in the area that provide the basic services for disasters. You know what you need: water, ice, electricity, building supplies, equipment, etc. In every storm: tree cutting, debris removal. I mean, hurricanes have similar results regardless of this intensity as they hit. Now this was a little different obviously, we've never had the kind of flooding we had in the metropolitan area. But outside of that, I'm going to bring you all a chart of how many hurricanes have hit us in the last several decades. This should be no surprise to Federal Agencies that do this work, and I don't know, Mr. Ellis, if you'd like to comment on this, and that's really my final question.

ELLIS: Sure, and thank you Senator Landrieu. Absolutely, I mean, in my testimony and particularly in my written testimony, disaster preparedness is a critical element of a successful recovery. You're right, obviously, and I did allude to this in my testimony as well, this is perhaps the best predicted natural disaster in the nation. A hurricane striking the Gulf Coast is something that we've all known about for decades, and so to not be prepared is utterly inexcusable. And it's not just working with the local communities to find and identify that, it's also identifying within other agencies. The SBA is not alone, they're in the Department of Commerce. There could be loans from other units in the Department of Commerce. To some extent, FEMA for their contract reviews, they took personnel from the GSA, the General Services Administration. It's things like that that would make sense to actually pull in other units of the Federal government. It doesn't just have to be FEMA contracting officers that are reviewing this, it could be other agencies of government that are providing assistance. What really strikes me on the SBA stories here is that it's the mirror image, or exact opposite, with the post-9/11 small business loan program, where literally the SBA was shoveling cash out the door. It was supposed to go to businesses who were affected by 9/11, it went to things like a dog groomer in Salt Lake City, it went to a liquor store in Denver, it went to businesses that weren't even in business after 9/11. So you juxtapose that story, those mistakes by SBA, with the experience Mrs. Letellier has had, and it boggles the mind. And so, really, it's quite clear that we've got a lot of work to do to improve out government delivery of disaster relief and recovery, and there's really no time to start like the present.

DORGAN: As a result of this hearing, and the gathering that Senator Landrieu had in New Orleans recently, and other investigations that we have done with contracting, we will ask the Inspector General to do some investigating on these contracts number one. Number two, we intend to make a report to all our colleagues about what we are hearing here. This is really very troubling, because it is about a culture, an agency that apparently has forgotten the word service, and forgotten that when you deal with people that have been hit with a natural disaster and lost their businesses, lost their homes, that you have a different responsibility there to try to get things done, get them done quickly, get them done right, and really try to help people. It's a circumstance now where FEMA is now

part of a much larger federal agency, the Department of Homeland Security. So it is a bureaucracy subsumed into a much larger bureaucracy, I think of about 170,000 people cobbled together within this new Federal Agency, which I think is a disaster in itself. We've got to find a way to stop what is going on that is wasting the taxpayer's money, frustrating the very folks we are supposed to be helping. We've got to find a way to stop this. Did you want to show this, and I'll conclude.

LANDRIEU: Based upon this chart, you would think the Federal Government would now know that hurricanes hit with some kind of regularity along the Gulf Coast and the eastern seaboard. That anybody with the mind to actually run an efficient government, maybe there's some people that just don't believe in any government, but the Senator and I are not in that crowd, we believe there is a role for government, and you need to have it, and it needs to work. But obviously there are agencies that just don't have the simplest data to indicate that there will be storms, there will be lots of them. So not only should local government pre-position assets, the Federal government should get itself ready to deal with the aftermath of these storms, which are fairly predictable. They have many businesses along this area that work hard to make money to keep this government running, and when storms hit, they are in the perfect position to help stand up their communities. That's what they do everyday anyway. They hire people, produce wealth for the communities, and the system of contracting that we have has undermined every value that we speak of in Congress about hard work, pay your taxes, play by the rules, we'll be there to help you if you need it. That has not been true, and Senator Dorgan and I and our colleagues are going to do everything we can to get the system working again.

DORGAN: Senator Landrieu, thank you very much. The frustration we have is, I know, a frustration you have. We want things to be done right, and we want to respond as a country and as a nation to help people. Despite my anger about what I hear, I'm nonetheless impressed and inspired by the fact there is always a reservoir of hope, no matter the trouble. It's easy for all of us to respond to success, it's very hard to respond to trouble. That takes great character, and I think from what I've heard from a number of you today and others is that you get knocked down by a disaster and get up and dust yourself off, and start trying to figure out how to start over and make it happen again. And that's the spirit we understand exists, and that's why we put together a substantial amount of resources to say we want to help you do that. The Constitution begins with the words "we the people," and the constitution presumes that all the power in America is the power of one. All the power of one: one person casting a vote at one time. It's all the power in the world is the power of one, but it's also the power for one person to come forward to a panel like this in Washington, DC and just speak out and make a difference. That's the power of one, and you've all exercised that power today as best you can. And I think if you have lit a fuse with your willingness to speak out, and if we can use this information and improve these agencies and stop this abuse and waste and get this contracting right and get people to work and get businesses back on their feet, you will have done something very noble today, and I want to thank you for taking your time to be here. This meeting is adjourned.