

# Good Work and Fair Contracts:

Making Gulf Coast Reconstruction  
Work for Local Residents  
and Businesses



Gulf Coast Commission  
On Reconstruction Equity



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This report was funded by the Annie E. Casey Foundation. We thank them for their support but acknowledge that the findings and conclusions presented in this report are those of the authors alone, and do not necessarily represent the opinions of the Foundation. The Gulf Coast Commission on Reconstruction Equity was created by Interfaith Worker Justice in partnership with Good Jobs First.

**W**hen Hurricane Katrina devastated New Orleans and other parts of the Gulf Coast, more was exposed than the inadequate levee system. Broadcast images of trapped and hopeless people made clear that those left behind were overwhelmingly poor and people of color. Government efforts to rescue survivors and evacuate New Orleans proved too little and too late, and issues of racism and poverty were lifted above the usual silence and became part of public discussion and awareness. An embarrassed federal government was offered an opportunity, in its long-term response to Gulf Coast rebuilding, to demonstrate its commitment to efficiency, honesty, and fairness.

Instead the federal government turned taxpayer dollars over to private contractors in a manner so haphazard and susceptible to fraud that criticism and ridicule continues from all quarters. Worker rights advocates on the ground in Gulf States report that thousands of workers fall victim to wage theft, and that enforcement of regulations by the U.S. Department of Labor's (DOL) Occupational Safety & Health Administration (OSHA) and the Wage & Hour Division (WHD) is practically non-existent. The Federal Emergency Management Agency (FEMA) wasted \$900 million on prefabricated homes and trailers, many of which are left sinking in the Arkansas mud, while workers in New Orleans are without decent shelter. Contracts were given without full and open competition to politically connected firms. The administration suspended enforcement of basic worker health and safety regulations, as well as the requirement that federal contractors pay prevailing wages.

The Gulf Coast Commission on Reconstruction Equity has brought together both local and national people of faith, contracting specialists, academics, community and labor advocates to:

- Evaluate the Gulf Coast cleanup and rebuilding contracts and promote ethical contracting standards and incentive packages, including hiring local and minority contractors.
- Promote strong labor standards, including enforcing prevailing wages, overtime, and health and safety laws.
- Support public policy options to expedite job training and apprenticeships, first source hiring and housing for people displaced and disenfranchised by Hurricanes Katrina, Rita and Wilma.

The Report Card that accompanies this report provides poor grades to President Bush, Congress, and the federal departments responsible for overseeing an orgy of profiteering in the midst of an immense human tragedy. Given the ongoing disaster that characterizes the relief efforts, the Gulf Coast Commission on Reconstruction Equity is issuing a Call to Action – a program to bring transparency and honesty to the contracting process; to demand ethical standards for all companies receiving taxpayer dollars and subsidies; and to provide good jobs, safe working conditions, and housing for displaced Gulf Coast residents and other workers.

## **Gulf Coast Contractors**

Interfaith Worker Justice and the Commission planned to assign grades to the contractors receiving the largest awards. But this task proved to be impossible due to the lack of transparency in the contracting process. The government procurement offices do not publicly provide databases on contractors that yield anything but cursory information, even for firms that receive awards worth hundreds of millions of dollars for contract work in the Gulf Coast (or in Iraq or other places in the world where the U.S. issues multi-million dollar contracts to corporations).

People who are savvy at combing through government websites cannot even determine, in many cases, where work is to be performed. Companies awarded contracts (the “prime contractor”) subcontract the work to other firms (sometimes subsidiaries, sometimes unrelated). The subcontractors then subcontract pieces of the work; work may ultimately be performed by the sub of a sub of a subcontractor. Federal procurement rules do not currently require prime contractors to report additional subcontractors beyond the first sub level. If this seems confusing, imagine being a worker in New Orleans who has worked for weeks without pay. Some workers are literally snatched off the streets and know their employer only as “Joe who drives a blue Ford pick-up truck.”<sup>1</sup> Some contractors serve mainly as “pass throughs” or front companies, with the “juice” (political and money connections) held by a subcontractor.

But some things can be stated about contractors in the aggregate. Little or no effort was made to provide incentives that could have led to the selection of minority and local contractors, and the U. S. Department of Labor (DOL) exempted all enforcement of affirmative action requirements. Instead, the largest awards went to many of the usual suspects. While the Commission refrains at this time from assigning a grade to each contractor, some general points are clear – that the contracting process awarded contracts to politically-connected companies, in some cases with histories of fraud and abuse, and the mistreatment of workers. “We’re finding that a number of Hurricane Katrina-related contracts and assistance payments don’t pass the ‘straight face test’,” said David M. Walker, the Republican Comptroller General of the United States.<sup>2</sup>

### **Sub-contractor of a sub-contractor of a sub-contractor of KBR-Halliburton<sup>3</sup>**

The most basic worker right is to be paid for one’s labor. Worker advocates along the Gulf Coast charge that wage theft has been routine practice in the Gulf Coast since Hurricane Katrina struck. A tragic and ugly example took place for 85 workers on the Seabee Navy Base in Gulfport, Mississippi.

The mainly immigrant workers were hired by agents of Karen Tovar in North Carolina and brought to Mississippi with the promise of good jobs. [Karen Tovar is the principal of KTC Services (Karen Tovar Construction), a sub-contractor of KCT (Kansas City Tree), which is

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<sup>1</sup> Dr. Luz Molina, Director of Workplace Justice Center, New Orleans, Louisiana; phone conversation.

<sup>2</sup> David M. Walker, Comptroller General of the United States, “Getzen Lecture in Government Accountability,” School of Public and International Affairs, University of Georgia, February 8, 2006.

<sup>3</sup> Investigation by Mississippi Immigrant Rights Alliance.

a subcontractor of TFR Services (Tipton Friendly Rollins), which is a sub-contractor of Kellogg Brown & Root (KBR), a division of Halliburton Company.]

After receiving the first week's pay, the problems started. Tovar told her workers a number of stories, including that she had not gotten paid and so she couldn't pay them yet. By the time the Mississippi Immigrant Rights Alliance (MIRA) staff became aware of the situation, things had gotten desperate. Some workers were owed five weeks of back wages. As newcomers to Mississippi, they were dependent on Tovar for food and water, which was sometimes withheld. Tovar woke the workers once at 3:00 a.m. and told them there would be a raid by Immigration Control & Enforcement (ICE), so they better scatter.

Some returned to North Carolina. MIRA staff found 35 of these workers stranded in three trailers. "The trailers weren't fit for rats," said Vicki Cintra, an advocate with MIRA. "The people hadn't eaten for three days. They were gaunt and their skin looked burnt."

MIRA filed a complaint with the DOL in October 2005. But it had to wait for a response until late in December, since there was only one bilingual DOL investigator to cover the states of Alabama and Mississippi. Halliburton has paid approximately \$141,000 back wages to date, with a second part of the complaint pending. But many of the workers have no known permanent addresses and may never recover their wages.

Wage theft is happening everyday, as advocates working for the Advancement Project and the Grassroots Legal Network in New Orleans report. The fingerprints of the prime contractors are usually hidden to workers. Like Mississippi, Louisiana has no state department of labor, and the U.S. DOL is invisible and asleep at the wheel.

Kellogg, Brown & Root/Halliburton has been implicated even in other serious labor rights abuses involving federal contracts in Iraq. In a fairly shocking development, Halliburton joined other lobbyists to oppose policies against human trafficking overseas. KBR/Halliburton uses more than 200 subcontractors in Iraq, and one of these subcontractors was implicated in a human trafficking scandal involving 12 men who were taken from Nepal to Iraq and eventually executed.<sup>4</sup>

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### **Southern Poverty Law Center (SPLC) Files Suit Against Two Contractors for Violating the Rights of Migrant Workers**

Neither of two large disaster recovery firms, LVI Environmental Services, Inc., headquartered in New York City, and Belfor USA Group Inc., a Michigan contractor ultimately owned by a huge German conglomerate, received prime awards as federal contractors for the Gulf Coast.<sup>5</sup> But both moved quickly to capture other business opportunities. Belfor won contracts to clean and reopen 60 Wal-Mart stores, restore public records for Jackson County, Mississippi, rebuild a casino in Biloxi, and clean up Tulane University in New Orleans. LVI received contracts to clean public elementary and high schools in New Orleans.

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<sup>4</sup> Cam Sampson, "U.S. to probe claims of human trafficking," *Chicago Tribune*, Jan. 19, 2006

<sup>5</sup> This does not mean that these companies have not gotten business as federal sub-contractors. The process is not transparent, and we have no reliable listing of sub and sub-sub contractors. What is known, according to federal records, is that a Belfor subsidiary has received about \$95,000 in Katrina-related contracts.

SPLC filed lawsuits in February 2006 against the companies after interviewing hundreds of workers and seeing the failure of the U.S. Department of Labor to protect workers involved in the reconstruction of the Gulf Coast. The suit against Belfor alleges that the company used a subcontractor to avoid paying any overtime to more than 1,000 workers. LVI is alleged to have paid no wages at all to many of its migrant workers, affecting at least 700 people.<sup>6</sup> LVI operates a “man-camp” to house migrant workers outside of New Orleans. People live in deplorable conditions; tractor-trailers are crammed with bunks, and armed security guards patrol the perimeter.<sup>7</sup>

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## Political Connections

The Commission calls for contracts to be awarded based on merit, but many of the largest Gulf contractors have executives, lobbyists, or consultants who are known more for their political influence than for any business acumen.

**Ashbritt, Inc.** of Pompano Beach Florida received a \$500 million contract with options worth up to \$1 billion as the prime contractor for cleanup work in Mississippi after Hurricane Katrina. In March 2005, Ashbritt hired the lobby firm Barbour, Griffith & Rogers, and paid it \$40,000 in the first four months. The firm had been run by Haley Barbour before he became Governor of Mississippi. Barbour is also the former chair of the Republican National Committee. Ashbritt is run by Randal Perkins, managing vice president, and his wife Saily Perkins, president. Since 2001, the couple has donated \$123,000 to Republican candidates. Randal Perkins “says it would be ‘naïve’ to expect businesses to restrain themselves from hiring lobbyists who can help them navigate the maze of bureaucracy in Washington. “We hired Mike Parker [former Army Corps of Engineers Director] to work with us on this Corps project.”<sup>8</sup>

There is a revolving door between government officials and regulators and the businesses they regulate. The association of former government officials with companies seeking federal contracts is commonplace and has clearly had an impact on the awarding of contracts in the wake of Hurricane Katrina. Other major Gulf coast contractors with heavy political juice include:

- **Bechtel Group, Inc.** – Executives and consultants have held major positions of power, including former Reagan cabinet members George Schulz (Secretary of State) and Caspar Weinberger (Secretary of Defense) as well as two former CIA directors.
- **Kellogg Brown & Root/ Halliburton** – Vice President Dick Cheney was CEO until 2000.
- **ECC-Environmental Chemical Corp.** – Former Rear Admiral Charles Kubic serves as ECC International President.
- **IAP Worldwide Services, Inc.** – Former Vice-President Dan Quayle sits on the Board of Directors.
- **The Shaw Group, Inc.** – Hired Joseph Allbaugh, former FEMA Director, as a lobbyist/consultant.
- **Fluor Corporation** – The company and its top officers donated more than \$600,000 to political candidates and committees since 2000, 78 percent of which went to Republicans.

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<sup>6</sup> *Xavier v. Belfor USA Group Inc.*, and *Navarrette-Cruz v. LVI Environmental Services of New Orleans, Inc.*, et al.: copies of the complaints available at [www.splcenter.org](http://www.splcenter.org).

<sup>7</sup> Leslie Eaton, “In Louisiana, Worker Influx Causes Ill Will,” *New York Times*, Nov. 4, 2005.

<sup>8</sup> Charlie Cray, “Disaster Profiteering: The Flood of Crony Contracting Following Hurricane Katrina,” *Multinational Monitor*, September-October, 2005; Mark Hollis, “Cleanup Contract Inquiry Draws Focus to Pompano Firm,” *South Florida Sun-Sentinel*, Oct. 7, 2005.

## Contract Fraud

**Clearbrook LLC** is a relatively small business. Dunn & Bradstreet reports that as of October, 2005, the company had annual sales of \$3.5 million and 35 employees. There is little in the public record on Clearbrook. Yet the firm has received more than \$162 million in post Katrina Gulf Coast cleanup contracts, raising questions as to how a firm of this size demonstrated the capacity to manage work on such a scale. Payment on the contracts was suspended in November after Department of Homeland Security auditors found irregularities, including more than \$3 million in apparent overcharges.<sup>9</sup>

And then there is **KBR-Halliburton**, which has been awarded more than \$171 million to date in Katrina related contracts. Before the Iraq War began, the company secured a \$7 billion non-competitive contract to repair Iraq's oil fields, which were expected to be extensively damaged. An audit by the Department of Defense disclosed in August 2004 that KBR had not adequately accounted for \$1.8 billion it was given for work in Iraq and Kuwait.<sup>10</sup>

## Does Our Government Make the Grade?

The federal government and its various departments should ensure transparency. Citizens should be able to know definitively how or if contracts were put out to bid, how they were evaluated, how many companies competed for the work, why a contractor was chosen, how dollars were spent, what subcontractors are used, and what standards are required to ensure fundamental worker rights. These things are not happening.

Instead the federal government continues to limp along from scandal to scandal, and New Orleans and other parts of the Gulf Coast remain devastated. It is with profound sadness that the Commission compiled this assessment of the response by the President, Congress, and key federal departments to the tragedy of Hurricanes Katrina, Rita, and Wilma.

### President George W. Bush: F

- **No real planning or coordination:** Bush created the "Office of Federal Support for Gulf Coast Rebuilding" two months after the hurricanes to coordinate efforts by all federal departments and agencies. Four months after this body was set up, there is still no website, no plans, no principals, goals, or progress reports available to the public. In the meantime, Bush has allowed the overwhelmed and ineffective Federal Emergency Management Agency (FEMA) to remain the agency in charge of directing and coordinating all federal efforts.
- **Allowed lawbreakers to receive huge government contracts:** One of Bush's first acts in office was to repeal the Contractor Responsibility Rule, proposed by the Clinton administration to deny federal contracts to lawbreakers.
- **Waived worker protections:** After Hurricane Katrina, Bush waived contractor requirements to pay prevailing wages and to issue an affirmative action plan.

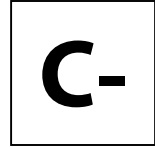


<sup>9</sup> Charles R. Babcock, "Payments on Katrina Contract Halted After Billing Questions," *Washington Post*, November 17, 2005.

<sup>10</sup> Neil King Jr., "Pentagon Questions Halliburton on \$1.8 Billion of Work in Iraq," *Wall Street Journal*, Aug. 11, 2004.

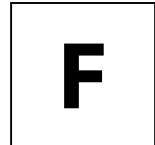
- **Chickens come home to roost:** Years of wartime allocations coupled with tax breaks for the wealthy have left the government extremely limited in its ability to deal with a disaster. Critical agencies are understaffed and unable to take a proactive stance in monitoring and enforcing compliance with labor and environmental laws and regulations.

## • Congress: C-



- **Denunciations without solutions:** Many members on both sides of the aisle have stepped forward and brought light to the continuing crisis and the disastrous response by the government at all levels. Congressional hearings have also exposed abuses among particular contractors and in the contracting process. Congress has not passed legislation that would make the contracting process transparent and accountable.
- **Passed 3<sup>rd</sup> Emergency Supplemental Bill with no debate.** While touted as an additional \$29 billion in resources dedicated to the task of rebuilding the Gulf Coast, no new money was earmarked. 100 percent of the spending was offset by cuts in other budgets, including \$23.4 million from the FEMA Disaster Relief Fund.
- **Robbing Peter to pay Paul:** The majority went along with the White House in slashing \$39 billion in federal programs that mainly benefit the poor, with savings allegedly going to help the Gulf Coast. Millions of Americans will lose Medicaid insurance or have large Medicaid cutbacks, many of whom are Gulf Coast refugees.

## Department of Homeland Security (DHS)/ Federal Emergency Management Agency (FEMA): F



- **No plan – piecemeal response:** FEMA is responsible for coordinating an overall federal response plan in emergency situations. It failed to ensure coordination with the Occupational Safety and Health Administration (OSHA) for first responders and workers still involved in cleanup work.
- **Massive chaos, waste, fraud, and cronyism in the letting of contracts:** “When one considers that FEMA’s programs are largely administered through grants and contracts, the circumstances created by Hurricanes Katrina and Rita provide an unprecedented opportunity for fraud, waste, and abuse. (DHS Inspector General Performance and Accountability Report, Dec. 2005.)
- **Leadership vacuum:** The General Accounting Office, the research arm of Congress, found that the lack of leadership and oversight manifested after Katrina hit has continued through the recovery and the contracting process.<sup>11</sup>
- **Allowed housing assistance voucher program to run out for displaced residents.** No guidance was issued by mid-January, which would have allowed extended assistance. Congress asked FEMA to issue guidance on extending housing assistance, but FEMA failed to act by a mid-January deadline.<sup>12</sup>

<sup>11</sup> “Hurricanes Katrina & Rita: Contracting for Response & Recovery Efforts,” GAO-06-235t, Nov. 2, 2005.

<sup>12</sup> Douglas Rice and Barbara Sard, “FEMA Misses Congressional Deadline to Issue Guidance on Continued Housing Assistance for Hurricane Victims: Displaced Families at Risk,” Center on Budget and Policy Priorities, January 31, 2006, [www.cbpp.org](http://www.cbpp.org).

## **Department of Defense (DOD)/ Army Corps of Engineers (ACE): F**

**F**

- **Cronyism in the letting of contracts:** Top procurement officer Bunnatine Greenhouse was demoted (several days before Hurricane Katrina struck the Gulf Coast) after she testified about Halliburton's contract abuses in Iraq. ACE awarded massive Gulf Coast contracts to politically connected firms.
- **Provided no leadership on the all-important question of protective levees:** While only authorized to rebuild levees to previous levels, ACE could have called for building protections that could withstand future severe storms. The levees will not be rebuilt to resist future Category 4-5 storms by the coming hurricane season.

## **Department of Justice (DOJ): F**

**F**

- **No Prosecution of Corporations:** Attorney General Alberto Gonzalez set up the Hurricane Katrina Fraud Task Force, targeting individuals who may have benefited illegally from Hurricane relief efforts while almost completely ignoring corporate lawlessness.

## **Department of Labor (DOL)/ OSHA: F**

**F**

- **No overall plan activated:** OSHA's mission is to assure the safety and health of workers, but it did not develop any plan to do so.
- **No publicly available assessment of risk to workers.** OSHA is responsible for conducting a full assessment of the extent to which workers are at high risk of exposure to toxic substances. It did not.
- **No worker safety enforcement.** OSHA waived its enforcement of employer adherence to health and safety laws and regulations in the affected areas after Katrina struck the Gulf Coast. OSHA announced enforcement would resume on January 25, 2006 – *except in seven parishes in and around New Orleans and areas south of Interstate 10 in Mississippi* (the hardest hit and most environmentally compromised areas).
- **No company fines:** Enforcement of employer requirements to conduct worker safety training and provide protective equipment such as respirators was dropped after Katrina. Instead, OSHA haphazardly distributed leaflets for workers to read about various safety issues and posted safety fact sheets on its website. Companies continue to expose workers to hazardous and toxic materials without benefit of standard protections.
- **DOL/OSHA inspectors remain largely invisible:** Advocates on the ground in Gulf States have been consistently unable to locate any government health and safety investigators to whom they could refer workers suffering from toxic exposure and accidents.
- **Lessons not learned from 9/11:** The Department of Defense Appropriation bill signed into law December 2005 contained \$125 million to support the Center for Disease Control to monitor "first responders" health and disabilities in 2006. Yet OSHA continues to ignore thousands of workers exposed to serious hazards in the Gulf Coast from late August 2005 to the present
- **No additional OSHA inspectors requested by DOL:** DOL's Fiscal Year 2007 budget recently presented to Congress does not request any additional inspectors.



## **Department of Labor (DOL) Employment Standards Division/Wage and Hour Division (WHD): F**

**F**

- **No sighting of wage and hour inspectors:** There is no public information documenting whether wage and hour investigators have been dispatched to the Gulf States. Worker rights advocates have not sighted inspectors and know of only one bilingual investigator in the region.
- **No proactive inspection:** DOL staff waits for complaints to be brought to the agency's attention, rather than inspecting work sites and talking with workers..
- **No information available to the public:** Public policy advocates and labor law attorneys concerned with widespread wage and hour violations submitted a list of questions prior to meeting in February with the Acting Director of the Wage and Hour division. Not one question was answered by DOL staff.

## **Environmental Protection Agency (EPA): D**

**D**

- **Downplayed seriousness of environmental problems affecting residents and workers:** The EPA did not declare the Gulf State region a disaster zone after Hurricane Katrina inundated hundreds of miles of coast and flooded New Orleans.
- **Downplaying hazards lead to federal inaction to address critical situations:** EPA declared water levels safe and that there was no serious contamination from Superfund pollution sites near New Orleans. No evidence that EPA informed State EPAs, DOL agencies, and local officials about hazardous oil, chemicals, mold, and other toxins, about which companies are required to inform workers.
- **Resisted ordering cleanup of contaminated sediment and other toxins that remains in flooded communities.** EPA continues to merely study the contamination and suspected toxic effects on people without establishing cleanup standards, especially in New Orleans.

## **Housing & Urban Development: C**

**C**

- **No targeting of community development resources to help poor people:** HUD provided no leadership to obligate state and local governments to use Community Development Block Grants to benefit low-income people, even though 25 percent of the population of New Orleans had incomes below the poverty level and approximately 50 percent were renters.

## Call To Action

The Gulf Coast Commission on Reconstruction Equity has looked at the federal government's cleanup and rebuilding efforts following the Gulf Coast hurricanes of 2005 and found colossal failure. This is not a unique or new observation, and in fact the best responses from federal officials have been the moments of self-candor and criticism from the General Accounting Office of Congress, the Inspectors General of federal departments, and members and committees of Congress, including many Republican members.

What is new is that Interfaith Worker Justice (IWJ) and the Commission, focusing on the needs of workers, the poor, and the local residents and diaspora of the Gulf States, are today issuing a clarion call for action. We are calling on Congress and the US Department of Labor to take immediate steps to address the failures by government and the private sector to rebuild the region in a manner that benefits those who live there. IWJ and the Commission are calling for a comprehensive effort, on the scale of a new Marshall Plan that includes:

- A driving plan and vision for rebuilding the Gulf Coast that is informed by democratic participation and debate.
- Legislation to create new contracting standards and criteria.
- Department of Labor investigation of worker abuses in the Gulf Coast rebuilding.
- Housing and job options that target low-income and minority residents, both those in the Gulf and those displaced by the storm.

Today, on February 28, 2006, we are calling for a four-point platform to begin to turn around the failing process we have all witnessed.

1. **Congress should pass legislation to establish clean and ethical standards for federal contracting, with serious criminal penalties for violations of labor and environmental laws.** The Commission offers its "Criteria for Assessing Efficacy of Contracts and Economic Development Subsidies in Gulf Coast Relief, Recovery, and Reconstruction," (Appendix A, as a blueprint for such legislation).
2. **Congress should allocate \$20 million to create Workers Centers run by a coalition of labor, faith, and community organizations, in New Orleans, Biloxi, and other population centers, and to provide temporary housing for displaced residents returning to work in the region.** This allocation should be matched with CDBG funds that would be used to assist displaced residents returning to the region and other workers. Contractors would be required to hire 50 percent of their work force from the centers. The centers would provide training and apprenticeship programs for local youth. They would provide advocates to assist all workers with issues that arise at the worksite and in the community.
3. **A Special Enforcement Unit of the DOL Wage and Hour Division, including bilingual officers, should be immediately dispatched to the Gulf Coast** to proactively investigate wage theft, non-payment of overtime, and other violations. Representatives of this unit must enforce compliance with laws. This investigative and enforcement team should stay in the region for at least one year, and make sure that federal procurement officers are apprised of labor law offenders.<sup>1</sup>
4. **A Special Enforcement Unit of OSHA, including bilingual officers, should be immediately dispatched to the Gulf Coast** to proactively investigate health and safety violations, including failure of employers to apprise workers of hazards. This investigative and enforcement team should also remain in the region for at least one year, and make sure that federal procurement officers are apprised of health and safety violators.