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PROFITEERING

Officials Are on the Lookout For Relief Effort's Dark Side

By DAVID BARSTOW

Every dump truck is being weighed to make sure that it is, in fact, carrying a full load. Drivers are required to sign load tickets to make sure that valuable scrap steel is not diverted to secret dumps. The Federal Emergency Management Agency has imported teams of investigators and auditors, and other officials are starting — ever so politely — to ask questions about $1 billion in hauling contracts signed days after the World Trade Center attack.

As a river of relief money begins to flow into Lower Manhattan, veteran disaster officials are taking steps to head off schemes great and small that all too often plague recovery efforts. "I would hope in my heart that nothing like that would happen here," said Tom R. Barbee, who oversees all fraud investigations involving FEMA aid on the East Coast. "But having been with FEMA since 1984, something tells me that it will."

Thus far, the aftermath of Sept. 11 has generated an overwhelming sense of civic unity. A wounded city has been lifted by heroic rescuers, unselfish volunteers and suspended political rivalries. These same responses have been found in other communities staggered by earthquakes, hurricanes and terror. Yet history has also documented a darker side of disaster relief: construction companies charging for nonexistent employees, debris haulers charging full price for half-filled trucks, sticky-fingered politicians steering contracts to friends.

In a river of money, an abundance of risk and temptation.

This is why, for example, the state comptroller's office has decided to audit every funeral-expense claim to guard against price gouging.

"In most disasters, the first thing you get is this 'I'm here to do a good job,' and then, as the weeks go by, it starts to turn into being about money, as in, 'How do I make the most money?' " said Allen Morse, an official with the Army Corps of Engineers.

Mr. Morse is leading a team of debris removal experts that is advising and monitoring the city's extensive cleanup effort. He is pleased with what he has seen so far. The city has contracted with some of the nation's largest construction companies, he said, and they have moved with great efficiency. "My antenna is telling me that we have a lot of patriots on this job," he said.

Still, the risks and temptations are plainly evident to the budget and financial control officials who are just starting to gain their footing.

The sums at stake are huge — in the billions — and the need for speed is paramount. New York has a tradition of corruption among hauling companies and construction unions, which are expected to play a prominent role in the city's recovery.

At the same time, many of the usual safeguards have been abandoned, at least for now.

Last week, for example, the city suspended normal bidding rules in awarding four $250 million contracts to the construction companies that have been hired to remove more than one million tons of rubble. Even by New York City standards, that is a lot of money. In all of 2000 the city contracted for $9.9 billion in goods and services. In 1999 and 2000 combined, it signed only $77 million in emergency no-bid contracts.

Reflecting the extraordinary speed at which public funds are being committed, the State Emergency Management Office and the city comptroller have not yet seen the contracts or supporting documents relating to the $1 billion in new contracts. In a highly unusual move, the city comptroller has already written $90 million in checks to the construction companies based only on a phone call from the mayor's office.

"These are companies that have done substantial amounts of business with the city," said David Neustadt, spokesman for the city comptroller's office, adding that they still intend to review the contracts. "An emergency calls for an emergency response."

But John A. Agostino, chief financial officer of the State Emergency Management Office, said that he has started to seek information about the contracts "to minimize any issues that might come up." Mr. Morse, the Army Corps of Engineers official, said the contracts contained provisions that were generally discouraged under FEMA guidelines.

The four contracts, he said, pay for debris removal based on "time and material." In other words, the haulers are paid by the hour or day, which means they have little financial incentive to work quickly. Past FEMA audits have revealed any number of abuses with such contracts. One favored ruse is to use under-size trucks, forcing more trips to the landfill.

But according to Mr. Morse, FEMA officials have approved of New York City's debris-removal contracts, at least while debris removal is being slowed by the search for survivors and bodies.

FEMA has waived another requirement that it normally insists upon to guard against waste. In most disasters, FEMA asks local governments to pay 25 percent of the costs of rebuilding public facilities. The point is to give states and cities an incentive to hold costs down. But in this disaster FEMA has agreed to reimburse New York 100 percent, and Dennis R. White, a senior audit official for FEMA's inspector general, said that New York can expect more leeway than usual in how thoroughly it documents its expenses.

"This is not a situation in which we're going to be going in there looking for crooks," he said. "The priority here is on giving aid. We're certainly not going to nitpick over paperwork."

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