



Post Disaster Governance, Transparency, & Fraud Risk Response

Providing Support, Accountability and Transparency to the Rebuilding Process

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- Boxing Day Tsunami, Hurricane Katrina, Japan Triple Disaster – A look back
- Characteristics: Reconstruction and Remediation Projects
- Typical Issues faced
- Potential Impacts and Consequences
- Lessons Learned
- Anticipated Benefits
- Mitigation





July 2003



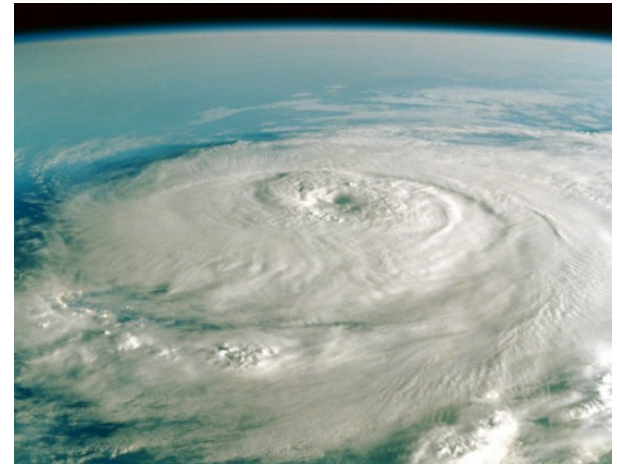
December 27, 2004



- An Illinois woman mourns her two young daughters, swept to their deaths in Hurricane Katrina's floodwaters. It's a tragic and terrifying story. It's also a lie.
- An Alabama woman applies for disaster aid for hurricane damage. She files 28 claims for addresses in four states. It's all a sham.
- Two California men help stage Internet auctions designed to help Katrina relief organizations. Those, too, are bogus.



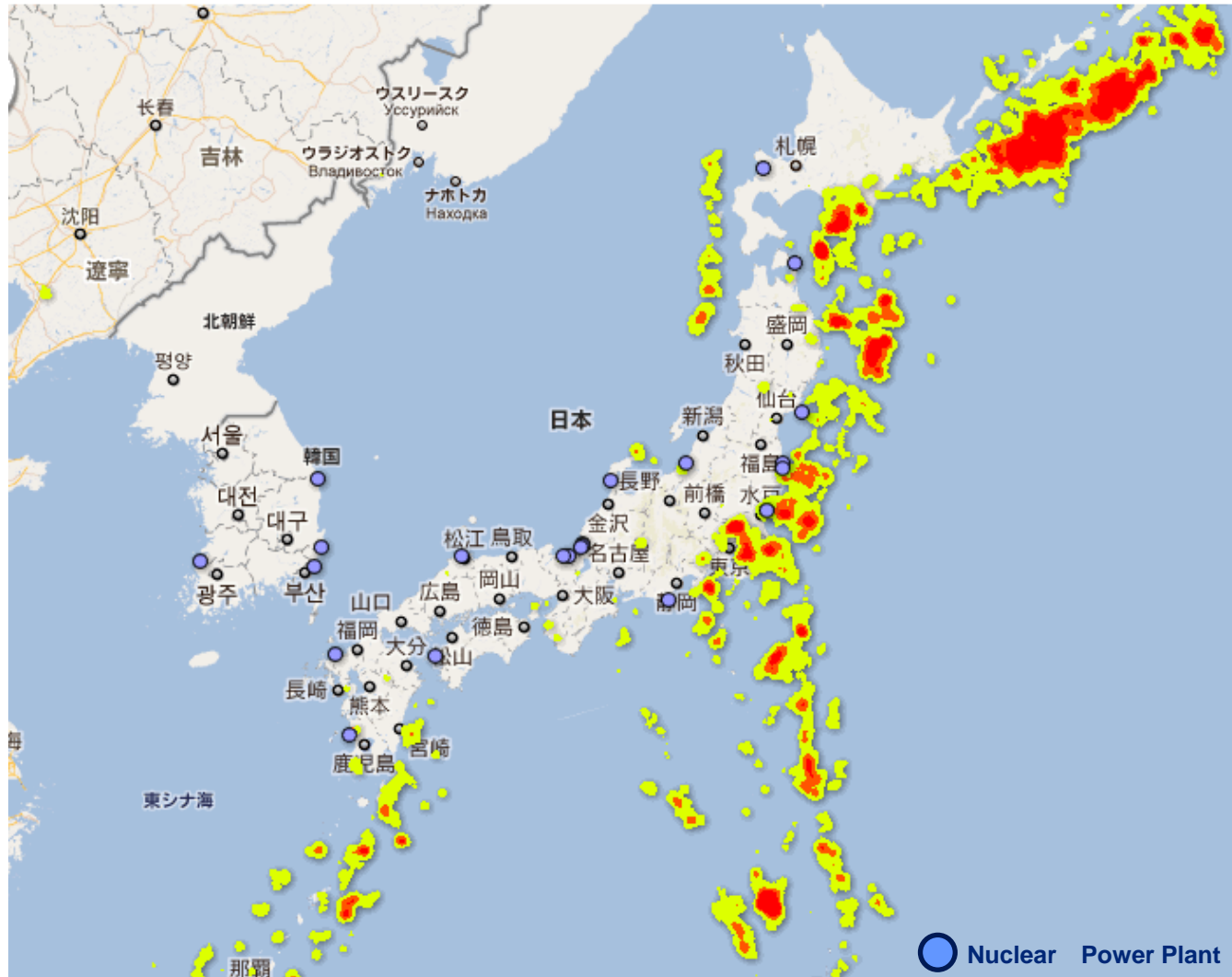
A former New Orleans resident, Mr. James is charged with filing more than 30 fraudulent claims for aid after Katrina for disasters ranging from three Gulf Coast hurricanes to a tornado in Indiana and flooding in New Hampshire.



Source: http://www.cbsnews.com/2100-500487_162-2636984.html

Source: http://www.nola.com/opinions/index.ssf/2010/03/rain_drops_keep_falling_on_des.html

Japan earthquake activity (4.5+ magnitude) since 1973 and locations of nuclear power plants



Source: Google - This map shows a heatmap of 175,000 4.5+ magnitude earthquakes since 1973 based on data from the USGS (United States Geological Survey). And worldwide locations of nuclear power stations using information from the IAEA (International Atomic Energy Agency).

The devastation caused by the earthquake and tsunami affected many industries and geographies, resulting in massive impact values:

- Japan estimates \$300+ billion
 - Residential Suburbs
 - Light Industrial Suburbs
 - Heavy Industrial Suburbs
 - Fuel Installations
 - Harbour Infrastructures
 - Inland Infrastructures (roads, rail underground pipes/cables, airport, dam)
 - Utility Stations and sub-stations (water, electricity, gas communications)
- S&P estimates \$245 to \$500 Billion.
- World Bank estimates \$235 Billion



Multiple funding sources identified to support the relief effort:

- \$49 billion approved by Japanese Cabinet to finance reconstruction
- China Red Cross Society plans to donate \$55 million
- Qatar donates \$100 million
- Taiwan \$3 million
- Japanese Red Cross \$350 million long-term recovery plan
- U.S. promises to create public-private partnership for reconstruction so that U.S. firms can enter into reconstruction efforts

Characteristics of Large-Scale Reconstruction & Remediation Projects

Characteristics of Large-Scale Reconstruction and Remediation Projects



Significant challenges present themselves in major reconstruction and remediation projects

- Human and environmental safety considerations of paramount importance
- Sheer volume and complexity of work
- Aggressive timelines
- Significant regulatory and compliance issues and constraints
- Intense public scrutiny
- Dynamic scope, high degree of unforeseen conditions
- Numerous, competing stakeholder interests and priorities
- Complex project governance and management structures
- Logistical constraints due to scope and scale of devastation

Characteristics of Large-Scale Reconstruction and Remediation Projects

- Inefficiencies in decision making due to competing interests and dynamic scope
- Significant inflow and outflow of funds from multiple sources
- Restrictions on the use of funds
- Complicated tracking and reporting of sources and uses of funds; transparency concerns
- Varying and demanding communications protocols and requirements
- Limitations in internal capacity and capability to adequately address needs
- Oversight challenges due to complexity, scale and organisation of reconstruction and remediation efforts; difficult to keep up-to-date with project performance

Typical Issues Facing Large-Scale Reconstruction & Remediation Projects

1999 Izmit, Turkey - Earthquake



1999 Izmit, Turkey - Earthquake

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- Commission of Inquiry into the provision and management of public contracts in the construction industry (October 2011)
- In response to increasing public outcry around allegations of systemic corruption in the construction industry – primarily involved municipalities
- Also looking at links to political fund-raising
- 2011 Construction bids came in \$347 million below estimates in Quebec. *Were previously almost spot on to provincial estimates previously. (Jacques Duchesneau allegation)*



Source: <https://www.ceic.gouv.qc.ca/>

Source: <http://www.edmontonjournal.com/news/deep+will+Charbonneau+Commission/7248420/story.html>

Typical Issues Facing Large-Scale Reconstruction and Remediation Projects



Issues in major reconstruction and remediation projects are exacerbated by the scale and complexity, the urgency of need and the significant number of parties involved

- Safety challenges due to nature of work and logistical constraints
- Lack of clear governance structure and accountability
- Massive coordination and oversight requirements
- Dynamic/weak scope definition and schedule development
- Unforeseen conditions impacting scope, schedule and budget
- Undefined contract strategies and inadequate contract planning
- Inefficiency in procurement and delivery
- Circumvention of procurement and payment controls due to immediacy of need
- Funding constraints and lack of accountability for funds distribution

Typical Issues Facing Large-Scale Reconstruction and Remediation Projects



- Sheer volume of work and aggressive timelines place strains on existing controls for the sake of fast-tracked delivery
- Many stakeholders and “owners” involved creating a loss of control
- Poorly developed project execution plans
- Logistical constraints
- Regulatory constraints
- Insufficient issue/risk management process
- Insufficient project controls and change management process
- Inadequate reporting and poor communications; limited transparency
- Capacity constraints; difficulty accessing qualified resources to augment existing capacity and capability

Potential Impacts and Consequences

While the factors pressuring major reconstruction and remediation projects are generally the same as those that influence any project, the scale and complexity is immensely magnified as are the consequences of even minor issues:

- Safety issues concerning workers, adjacent parties and the environment
- Quality issues due to rapid nature of work, limitations in oversight
- Productivity issues due to competing priorities and inefficient planning
- Cost overruns
- Schedule delays
- Waste and fraudulent practices
- Scope creep, unplanned scope changes
- Inefficient payment process
- Inability to track sources and uses of funding

Common risks observed in large-scale disaster reconstruction efforts:

- Transparency issues resulting in an inability to match funding sources to specific projects
- Lack of accountability for funds distribution and expenditure
- Inefficiency in the payment process
- Collusive or self-serving behavior among bidders
- Circumvention of procurement and payment controls due to immediacy of need
- Multiple "owners" impacting efficiency of coordination, oversight and control
- Unforeseen conditions impacting scope, schedule and budget

Lessons Learned

Through providing support to stakeholders affected by previous disasters such as the tsunami in Southeast Asia, Hurricane Katrina in the Gulf Coast of the United States, and the triple disaster in Japan we have identified key elements of a successful reconstruction effort:

- Flexible governance framework which provides key controls without impeding project procurement and delivery
- Sufficient consideration of safety issues in all elements of governance, management and control
- Clearly defined levels of authority and lines of communication
- Augmentation of internal project management capabilities with external support as required
- Risk-based scheduling updated routinely to reflect project progress
- Effective cost tracking and reporting to establish transparency
- Strong change management process to mitigate impacts of changes to scope, schedule or budget

- Robust stakeholder management approach
- Defined issue resolution process
- Third party independent assessment of cost, schedule and effectiveness of controls
- Claims management process established early in the project to assess and mitigate potential exposures and risks
- Comprehensive documentation of decisions, changes, approvals, etc.
- Fraud detection and prevention mechanisms (system and manual)

Anticipated Benefits

Leveraging the lessons learned from previous large-scale disaster , reconstruction and remediation efforts, the short and long-term benefits are numerous:

- Proper consideration of safety in the established governance, management and controls framework
- Enhanced organizational ability to achieve project objectives
- Improved efficiency of the capital project delivery process while establishing and maintaining effective controls
- Expansion of existing capabilities in project management, risk mitigation, internal audit and dispute avoidance and resolution
- Improved change management and claims management, mitigating impact of risks throughout the duration of the project
- Avoidance or mitigation of project delays and cost overruns; identification of recoverable costs
- Timely and objective status reporting to enable informed decision making

Anticipated Benefits

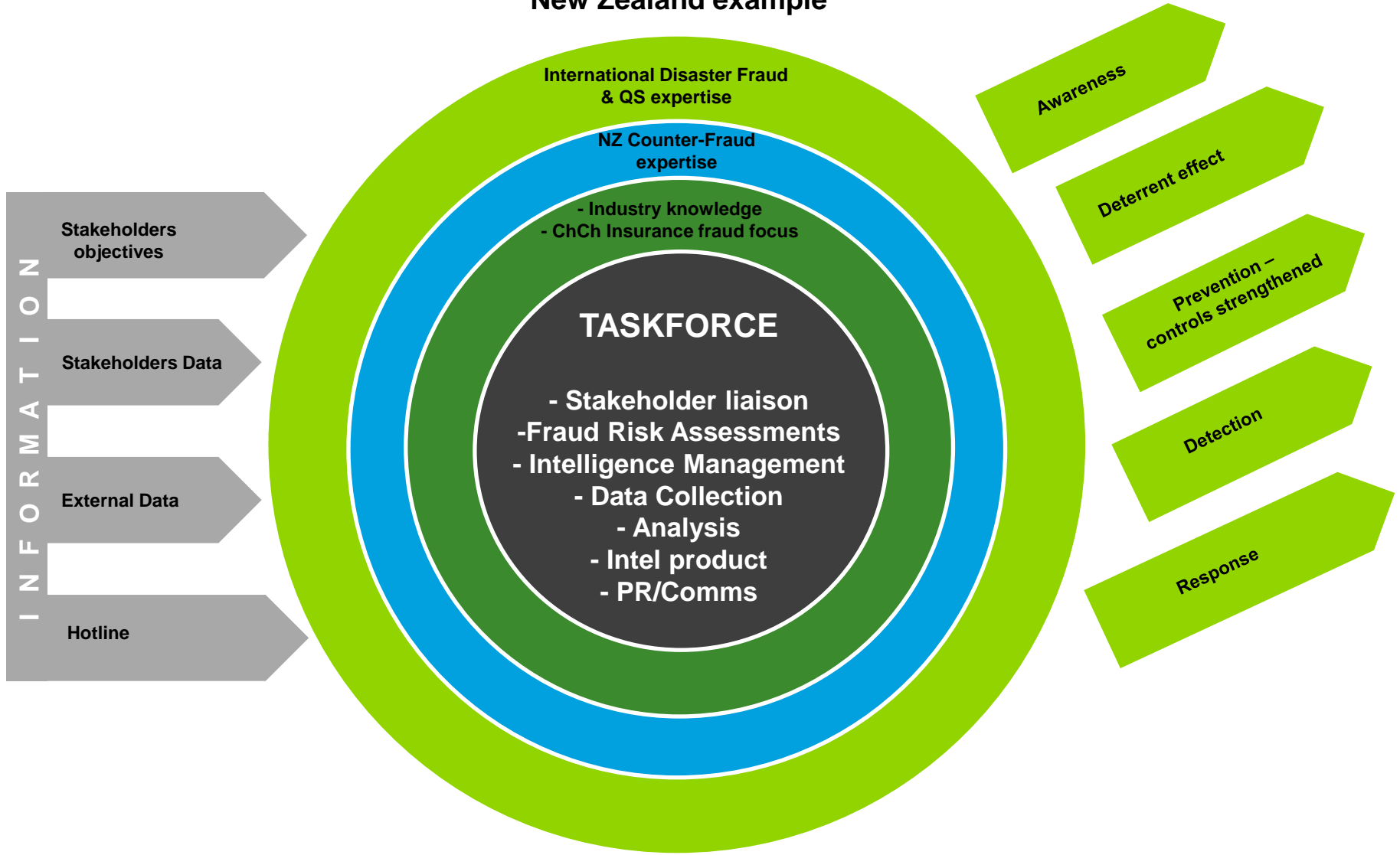
- Improved project governance, controls, information flow and reporting
- Accountability for capital expenditures throughout the capital project lifecycle
- Rapid identification of opportunities to improve efficiency of processes
- Improved detection and prevention of waste and fraudulent practices
- Ability to share lessons learned
- Independent evaluation and effective oversight
- Stakeholder confidence in the stewardship of funds through timely, objective, and transparent oversight and reporting

Mitigation

- Assessment of the effectiveness and efficiency of the existing organization, policies, procedures, systems and controls to deliver and control the required remediation and reconstruction program
- Development /enhancement of policies and procedures to streamline and standardize procurement and delivery processes
- Clear delineation and definition of project participant roles and responsibilities including decision making, lines of authority and lines of reporting
- Establishment/enhancement of a project controls framework to monitor and track budget, commitments, changes, payments and forecasts
- Augmentation of project control resources, including cost tracking and reporting, change management, schedule assessment and management reporting

- Development/enhancement of key performance indicators and dashboard reporting to provide high level visibility of project progress
- Development/enhancement of reporting to track sources and uses of funds
- Establishment/enhancement of procurement processes to maintain transparency, control and fairness while achieving aggressive timelines and schedules
- Support of the procurement and contract administration processes
- Support to the stakeholder management process
- Development /enhancement of a risk-based project schedule to improve the reliability of forecasting using Monte Carlo analysis
- Support of the change management process to assist in identifying issues, risks and impacts due to project changes
- Establishment/enhancement of a claims management process to proactively address potential claims by or against third parties

G O V E R N A N C E - New Zealand example





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