



## Some Firms Hired in Katrina's Wake Have Checkered Pasts

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GoldStar EMS was on the ropes earlier this year, beset by legal problems.

The Texas ambulance provider's offices had been raided by the Federal Bureau of Investigation as part of a widening investigation into alleged Medicaid fraud. It faced a \$1.3 million tax lien from the Internal Revenue Service. It had been forced to file for emergency bankruptcy protection to prevent the local tax assessors who had seized its airplane from also taking its helicopters. It had closed many of its offices across the state and fired two-thirds of its work force. Dozens of its ambulances sat idle in a parking lot in preparation for a fire sale.

Then Hurricane Katrina tore through the Gulf Coast, and GoldStar's fortunes began to change. Desperate to get ambulances into flood-ravaged areas of Louisiana, the Federal Emergency Management Agency put out a call for help. C. Henderson Consulting Inc., a small East Texas firm, bid for the work and signed a federal contract to provide up to 50 ambulances a day through the end of September at a total cost of \$5.2 million.

Then Henderson Consulting went looking for subcontractors capable of providing dozens of ambulances immediately. The only firm it found with that many vehicles on hand was GoldStar, which soon had a subcontract to provide up to 45 ambulances a day at a profit of \$800 per vehicle per day.

"Most ambulance companies wouldn't be able to supply 45 ambulances on a dime like that. But ours were just sitting there in the lot, so it was a nice coincidence for everyone," says Edward Rothberg, GoldStar's attorney. "It would be pretty sad for the government to say that we won't use GoldStar because they're being investigated, so we'll leave people to die in the streets."

The GoldStar contract illustrates one of the unintended consequences of what is shaping up to be the largest government rebuilding effort in U.S. history. As

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the Bush administration rushes to rebuild Louisiana, it faces the prospect of turning to companies with checkered histories that even include disputes with other arms of the government. It's essentially a no-win situation: If officials don't get quick results, they're likely to be criticized for getting bogged down in bureaucracy. But if they push some of the contracting formalities aside, they may find themselves employing unreliable or unsavory companies.

Companies that are involved in earlier disputes with the government are often "so clearly unreliable" that similar problems could well arise during the relief work, says Danielle Brian, executive director of the Project on Government Oversight, a government watchdog in Washington.

FEMA officials say they do have a procedure to review the background of Katrina contractors. First, they check with the General Services Administration to see if a company has been suspended or barred from government contracts. Then they check FEMA's own database to see if the agency has had problems with the contractor in the past. If problems are found, FEMA won't sign up the company.

But such checks aren't likely to disclose much about first-time contractors or about companies that haven't been formally barred from federal work but still face tax liens, criminal investigations or other disputes with other parts of the government. And FEMA doesn't investigate the backgrounds of subcontractors at all, because, as spokesman Michael Widomski says, its work is "specifically through the main contractor."

The potential problems are complicated by the sheer volume of federal money being devoted to rebuilding the Gulf Coast. Yesterday, in response to congressional concerns about potential contracting problems, the Bush administration announced it was hiring FEMA's former acting chief financial officer, Matthew Jadacki, to head a new Office for Hurricane Katrina Oversight, with offices in Louisiana, Mississippi and Alabama. But that may not assuage a bipartisan group of lawmakers that has questioned FEMA's ability to monitor spending. Last week the group proposed legislation to create an independent watchdog modeled on a similar office in Iraq.

GoldStar isn't the only company hired in the wake of Katrina that has had prior run-ins with government agencies. Last month, Illinois state police terminated a \$7 million contract with Bode Technology Group Inc., a subcontractor for the company hired by the U.S. to recover and identify Katrina victims. The Springfield, Va., company, which is a division of ChoicePoint Inc., found "false negatives" on many of the samples it was testing for the state police. Bode, which was reviewing rape kits, said it had found no usable evidence in many of the samples. But the state police, which performed its own quality-control tests, found otherwise.

In a written statement, Bode expressed "regret" about the state police decision on the contract and said the dispute centered on an older type of lab work rather than DNA testing.

The Katrina contract has been a lifeline for GoldStar, whose fortunes had plummeted after a meteoric rise. GoldStar Chief Executive Ralph Crall served as the pastor of a small church he founded and funded in East Texas. He launched GoldStar in 1998, along with an associate he met when the two handled public relations for American Medical Response, then the largest private ambulance provider in Texas. The new company soon displaced AMR. At its peak it owned 90 ambulances, two helicopters and two Learjets, held contracts with cities like Galveston and Corpus Christi, and had annual revenue of more than \$20 million, Mr. Rothberg says.

But GoldStar's ascent was soon shadowed by accusations of billing irregularities and poor ambulance response times. Since 2003, eleven complaints were lodged against the company with Texas regulators, far more than any other ambulance organization had. A former employee sued, claiming he was fired after reporting "a potentially serious safety concern." And an investigative article in a Houston alternative newspaper, the Houston Press, concluded that the company "maximized profits and growth at the expense of the injured."

Last April, FBI agents raided seven of GoldStar's offices, confiscating patient records and other files as part of an intensive investigation into whether the company and its top executives had committed Medicaid fraud, according to people familiar with the probe. Mr. Rothberg denied wrongdoing and blamed a competitor or disgruntled former employee for lodging the complaint that triggered the probe. Prosecutors in the U.S. attorney's office in Beaumont, Texas, said last week that the investigation is ongoing but declined further comment.

GoldStar's problems deepened weeks later when tax collectors in Jefferson County sent constables to seize one of the company's jets over an unpaid tax bill of more than \$70,000 and made plans to seize its helicopters as well, according to Miriam K. Johnson, the tax assessor there. "It's an unusual move for us to make out here," she says. "We only do it when we know a company is in trouble and we realize we need to protect the county the best we can."

The company filed for bankruptcy protection so that it could keep the helicopters but began scaling back significantly. It pulled out of Jefferson County and a half-dozen other East Texas counties and fired hundreds of workers, reducing its total work force to about 120, Mr. Rothberg says. It also closed a debt-ridden air-service subsidiary called GoldStar Angel Flight, selling off its helicopters and turning its remaining jet over to creditors, he says.

The legal and financial problems had put GoldStar on life support until Katrina hit and its unused ambulances suddenly became a valuable resource. Under the terms of its deal with FEMA, Henderson Consulting is paid \$3,100 a day for each ambulance and two-person crew, Mr. Rothberg says. Under the agreement between Henderson and GoldStar, the two companies split the profit on each ambulance equally, he says, allowing each company to net about \$800 a vehicle.

John C. Henderson, the owner of Henderson Consulting, says he knew about GoldStar's troubles when he struck the deal but accepted the company's assurances that they would be resolved in its bankruptcy proceedings. "Their legal and financial problems aren't any concern of ours," he says.

Mr. Rothberg, meanwhile, says the company is proud of its work in Texas and hopes its initial monthlong subcontract will be extended. He defends the company's right to win Katrina contracts. "We still live in America, and we're still innocent until proven guilty," he says.

**-Deborah Solomon contributed to this article**