
August 29, 2006



Acquisition

Response to Congressional Requests
on the Water Delivery Contract
Between the Lipsey Mountain Spring
Water Company and the United
States Army Corps of Engineers
(D-2006-109)

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Acronyms

ACI	Advanced Contracting Initiatives
CEFMS	Corps of Engineers Financial Management System
CONUS	Continental United States
DHS	Department of Homeland Security
FAR	Federal Acquisition Regulation
FEMA	Federal Emergency Management Agency
GAO	Government Accountability Office
NRP	National Response Plan
OCONUS	Outside the Continental United States
OIG	Office of Inspector General
RFP	Request-for-Proposal
TRC	TRC, Incorporated
USACE	United States Army Corps of Engineers



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August 29, 2006

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY
CHIEF OF ENGINEERS, UNITED STATES ARMY CORPS
OF ENGINEERS


SUBJECT: Response to Congressional Requests on the Water Delivery Contract
Between the Lipsey Mountain Spring Water Company and the United States
Army Corps of Engineers (Report No. D-2006-109)

We are providing this report for your information and use. We performed the audit in response to two Congressional requests. We received editorial comments on a discussion draft from the United States Army Corps of Engineers in a memorandum on August 10, 2006. Although the comments were received too late to be considered for the draft report, we considered them in preparing the final report. We provided a draft of this report on August 3, 2006. No written response to the report was required, and none was received. Therefore, we are publishing this report in final form.

Editorial comments on the discussion draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Lorin T. Pfeil at (703) 325-5568 (DSN 221-5568) or Mr. Dana E. Whiting at (703) 325-6634 (DSN 221-6634). See Appendix C for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:


Paul J. Granetto, CPA
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Department of Defense Office of Inspector General

Report No. D-2006-109

August 29, 2006

(Project No. D2006-D000FE-0091.000)

Response to Congressional Requests on the Water Delivery Contract Between the Lipsey Mountain Spring Water Company and the United States Army Corps of Engineers

Executive Summary

Who Should Read This Report and Why? Members of Congress, United States Army Corps of Engineers contracting officials, emergency management personnel, and technical evaluation teams should read this report. This report discusses the award process and the administration of the water delivery contract used in emergency situations.

Background. Congressman Christopher Shays requested that the DoD Office of Inspector General review the award process of the contract between the Lipsey Mountain Spring Water Company and the United States Army Corps of Engineers for the procurement and delivery of emergency water. He also requested a review of the Lipsey Mountain Spring Water Company's ability to meet contract requirements for supplying water in the event of a domestic emergency. In addition, Congressman Bennie Thompson requested a determination on whether the Lipsey Mountain Spring Water Company owed TRC, Incorporated, a subcontractor, several million dollars.

This report will be followed by a second report that addresses other issues identified in the administration of the water delivery contract. These reports are part of a series of reports that will be issued by the DoD Office of Inspector General discussing the use of DoD resources in support of Hurricane Katrina recovery efforts.

Results. The contract between the Lipsey Mountain Spring Water Company and the United States Army Corps of Engineers for the procurement and delivery of water was properly awarded. The Lipsey Mountain Spring Water Company delivered emergency water to specific sites throughout the United States since April 2003; however, the company did not consistently meet time performance requirements of the contract. In addition, the Lipsey Mountain Spring Water Company might not be capable of functioning as the water supplier in an emergency outside the continental United States. Finally, the Lipsey Mountain Spring Water Company no longer owes several million dollars to TRC, Incorporated.

Management Comments. We received editorial comments on a discussion draft from the United States Army Corps of Engineers in a memorandum on August 10, 2006. Although the comments were received too late to be considered for the draft report, we considered them in preparing the final report. We provided a draft of this report on August 3, 2006. No written response to the report was required, and none was received. Therefore, we are publishing this report in final form.

Table of Contents

Executive Summary	i
Background	1
Objectives	2
Finding	
Congressional Inquiries Regarding the Emergency Water Contract Awarded to Lipsey Mountain Spring Water Company	3
Other Matters of Interest	10
Appendixes	
A. Scope and Methodology	11
Prior Coverage	12
B. Congressional Requests	13
C. Report Distribution	16

Background

We will be issuing two reports discussing procurement of water for emergency situations. The first report addresses the inquiries made by Congressman Christopher Shays and Congressman Bennie Thompson. See Appendix B for copies of the two Congressional requests. The second report will address other issues identified in the administration of the water delivery contract. Both reports are part of a series of audit reports to be issued by the DoD Office of Inspector General discussing the use of DoD resources in support of the Hurricane Katrina recovery efforts.

2004 National Response Plan. The 2004 National Response Plan (NRP) is designed to provide structure for effective and efficient incident management among Federal, State, and Local emergency management agencies. The NRP includes 15 emergency support functions, which detail the missions, policies, structures, and responsibilities of Federal agencies for coordinating resource and programmatic support. The United States Army Corps of Engineers (USACE) is primarily responsible for one of the 15 functions, namely Emergency Support Function #3, "Public Works and Engineering." Emergency Support Function #3 includes contracting for water in emergency situations.

The 2004 NRP not only involved USACE under DoD, but commits all Federal departments to cooperate with the Department of Homeland Security (DHS) in emergency and disaster situations. DHS is the prime Federal agency for responding to emergencies and, under the "Homeland Security Act of 2002" (Public Law 107-296), is allowed to coordinate with personnel from other agencies to accomplish its mission. The Federal Emergency Management Agency (FEMA), part of DHS, is responsible for coordinating the Federal response to emergencies and disasters. In an effort to execute a quick response in these situations, USACE developed the Advanced Contracting Initiatives (ACI). In 1999, USACE developed ACI for ice, water, power, temporary roofing, and debris removal.

Advanced Contracting Initiatives and Issuance of Water Contracts. Under the ACI, requirements contracts are awarded pre-disaster and provide USACE contracting personnel the ability and flexibility to place delivery orders after a disaster at the pre-negotiated rate for these supplies and services. Prior to the development of ACI, USACE procured water after the emergency happened, delaying the response time and adding additional costs.

Requirements Contracts. Requirements contracts provide a method of filling the actual needs of the designated activity by placing delivery orders against the contract. The Federal Acquisition Regulation (FAR) 16.503, "Requirements Contracts," provides the following guidance for requirements contracts.

- An estimate for goods or services may be included in the contract based on past usage or other available information.
- If feasible, the contract shall state a maximum purchase requirement and may specify a minimum and maximum amount for each delivery order, and a maximum amount during a specified time period.

Contract DACW33-03-D-0003. The USACE New England District awarded this firm-fixed price requirements contract as a small-business set-aside to Lipsey on April 1, 2003. The contract covered a base-year period of April 1, 2003, to March 31, 2004, with 4 option years. As of April 1, 2006, USACE had exercised Option Year 3 of the contract, which covers the period from April 1, 2006, to March 31, 2007. This contract was based on the previous 3-year national requirements contract issued by the Wilmington District on July 27, 1999. Five USACE Districts (Jacksonville District, Florida; Mobile District, Alabama; New England District, Massachusetts; Norfolk District, Virginia; and Wilmington District, North Carolina) have obligated approximately \$146 million and disbursed nearly \$81 million against the contract, as of June 23, 2006. The purpose of the contract is to provide bottled water, including transportation, loading/unloading, drayage, and additional ground mileage to locations within the continental United States (CONUS) and outside the continental United States (OCONUS) in response to domestic emergencies.

Objectives

Our overall audit objectives were to address two congressional requests pertaining to the award and administration of the water delivery contract between Lipsey and USACE and determine whether Lipsey owed TRC, Incorporated (TRC) several million dollars. Specifically, we reviewed the contract award between Lipsey and USACE for the procurement and delivery of water, we reviewed Lipsey's ability to meet contract requirements for supplying water in the event of a domestic emergency, and we determined whether Lipsey owed TRC several million dollars in support of water deliveries. See Appendix A for scope and methodology and prior audit coverage.

Congressional Inquiries Regarding the Emergency Water Contract Awarded to Lipsey Mountain Spring Water Company

USACE New England District personnel fairly and properly awarded the emergency water contract to Lipsey on March 31, 2003, with a base year and 4 option years. Specifically, New England District personnel:

- used the 1999 contract as a template for the solicitation of the 2003 contract;
- properly established the 2003 contract;
- restricted and awarded this contract as a small-business set-aside;
- advertised the solicitation on www.fedbizopps.com;
- provided industry sufficient time to submit their proposal;
- received five proposals to the solicitation, of which two were initially discarded;
- properly conducted and documented the contract pre-award and award; and
- provided the overall best value for the Government through the contract award to Lipsey.

While Lipsey has delivered emergency water to specific sites throughout the United States since April 2003, the company did not consistently meet time performance requirements of the contract. Additionally, Lipsey might not be capable of functioning as the supplier of water for OCONUS locations because Lipsey underestimated OCONUS air transportation costs in their original proposal. As a result, Lipsey could earn fewer profits or potentially default on the contract if tasked to supply water to OCONUS locations.

We also determined that Lipsey no longer owes several million dollars to TRC.

Emergency Water Contract

USACE awarded two requirements contracts for water as part of the ACI. On July 27, 1999, the Wilmington District awarded contract DACW54-99-D-0006 for the procurement and delivery of water by International American Products, Worldwide Services. The New England District resolicited this contract on December 17, 2002, and awarded contract DACW33-03-D-0003 to Lipsey on March 31, 2003.

Pre-1998 Water Delivery Contract. Prior to 1998, contracting for water was performed subsequent to the occurrence of a disaster or emergency. Purchase orders and contracts were entered into using sealed bids or negotiated procedures. Protests and alleged mistakes in the bids delayed the awarding of contracts, and substantial delays in water delivery were common.

1998 Water Delivery Contract. In 1998, the South Atlantic Division in Atlanta, Georgia, tested the use of firm-fixed-price, indefinite delivery-indefinite quantity contracts for performing water missions. Solicitations were issued using negotiated, best value source selection procedures to make multiple source selections and awards. This gave the Government reserved rights to make any such contract awards to the selected sources through November 30, 1998.

1999 Water Delivery Contract. USACE's analysis of the water mission resulted in a determination to award a single, firm fixed-price national requirements contract for use by all USACE Districts. USACE's experience demonstrated that the increased efficiencies achieved under one national contract greatly improved its readiness to perform the water mission. As time is of the essence in responding to a disaster or emergency, this method of contracting fulfills USACE's need to provide water in an immediate, efficient, and cost-effective manner to states and local governments. Furthermore, the contract enabled USACE to better provide water when and where it was needed than with multiple award contracts.

The 1999 contract was solicited and awarded by the Wilmington District to International American Products, Worldwide Services, as a small-business set-aside. The contract line items included the purchase and transportation of water within CONUS, Alaska, Hawaii, the Virgin Islands, Guam, and Puerto Rico. On March 20, 2002, the contract's administration was transferred to the New England District. When the New England District decided to re-solicit the contract in 2002, they followed the format and requirements defined in the original contract.

Single Award Decision. USACE decided to award a single contract rather than multiple contracts to provide water. For both the 1999 and 2003 contracts, USACE contracting officers stated that making multiple awards would have ultimately led to higher administrative costs to the Government. The New England District provided a copy of the Acquisition Plan that documented this decision and is part of the contract files. During disasters, resources for the procurement of water are limited. If multiple awards were made, contractors would compete with each other for the use of subcontractors and ultimately end up incurring additional costs that would be priced into the proposals.

Congressional Inquiries and DoD OIG Responses

The DoD Office of Inspector General (OIG) received two congressional requests to review the award and administration of the water delivery contract between Lipsey and USACE and to determine whether Lipsey owed TRC several million dollars. Specifically, Congressman Shays requested that we review the award process of the contract between USACE and Lipsey for the procurement and

delivery of emergency water and review Lipsey's ability to meet contract requirements for supplying water in the event of a domestic emergency. In addition, Congressman Thompson requested that we determine whether Lipsey owed TRC several million dollars. The three issues identified by Congressmen Shays and Thompson are discussed in the following paragraphs along with DoD OIG responses.

Congressman Shays Inquiry Number 1. Review the award process of the contract between Lipsey and USACE for the procurement and delivery of emergency water.

DoD OIG Response. We determined that the contract between Lipsey and USACE for the procurement and delivery of water was properly awarded. Specifically, New England District personnel properly conducted the contract solicitation, pre-award, and award phases of the firm-fixed price requirements contract, and therefore appropriately awarded contract DACW33-03-D-0003 to Lipsey.

Contract Solicitation. On November 1, 2002, the New England District submitted an announcement for the upcoming contract to www.fedbizopps.com. The announcement stated that the solicitation would be available via the Internet on or about November 18, 2002. On December 17, 2002, the New England District issued Request-for-Proposal (RFP) DACW33-03-R-0005. The RFP included Clause 52.215-1, which stated that the Government was to award the contract without discussion, and also stated that the proposal must be complete and contain the offeror's best terms. The RFP stated that all proposals were due at 4:30 p.m. on February 3, 2003. Thus, adequate response time was given to provide a proposal for this contract.

Prior to release of the RFP DACW33-03-R-0005, USACE issued their Source Selection Plan, which established the technical and cost criteria and the methodology used in the evaluation process to award the contract.

Contract Pre-Award. Five companies submitted a proposal to the New England District in response to RFP DACW33-03-R-0005. USACE evaluated and assessed the proposals solely on factors and subfactors specified in the solicitation. Two proposals were initially determined to be unacceptable. Each of the proposals lacked information as required by the RFP. After reviewing the two proposals, we determined neither proposal adequately provided the necessary information as required by the RFP and concur with USACE's decision. The decision to eliminate the two proposals left three competitive proposals to evaluate. USACE eliminated another proposal from consideration, as the proposal lacked sufficient details, and thus, did not have a reasonable chance of being selected. After reviewing the proposal, we determined that the proposal did not provide adequate information as required by the RFP and concur with USACE's decision not to advance this proposal.

USACE held discussions with the two offerors in the competitive range. After reviewing the information received from the two offerors, the Source Selection Authority in the New England District requested a best and final

offer from each company and then prepared proper documentation that explained the results of the final evaluation of the two proposals. Because price was ultimately the determining factor in the contract award, we reviewed the price analysis spreadsheet that was used by USACE personnel, and also created three spreadsheets of our own to compare the pricing for the Base Year, Option Year 1, and Option Year 2. Based on our calculations, the other bidder's costs in the Base Year, Option Year 1, and Option Year 2 were generally higher than Lipsey's costs.

Company	Base Year	Option Year 1	Option Year 2
Lipsey	Lower	Lower	Lower
Bidder No. 2	Higher	Higher	Higher

Although the other offeror's proposal was technically rated higher than the Lipsey proposal, through a trade-off analysis, the Source Selection Authority in the New England District determined that the other proposal, which was at a higher cost, would not best serve the Government. Therefore, based on the proposals and documentation reviewed, the Lipsey proposal represented the best overall value for the Government and was fairly selected for the award of the emergency water contract.

Contract Award. On March 14, 2003, the Source Selection Authority in the New England District selected Lipsey for contract award, based on the fact that Lipsey provided the overall best value to the Government. On March 31, 2003, contract DACW33-03-D-0003 was signed between the New England District, on behalf of the United States Government, and the Lipsey Mountain Spring Water Company. The effective date of contract DACW33-03-D-0003 was April 1, 2003. The New England District informed the unsuccessful offerors of their decision to select Lipsey for contract award. The notification properly stated the name and address of Lipsey, that the Government would not consider subsequent revisions to the proposal, and that a response was not required unless a basis existed to challenge the small business size status of Lipsey.

Congressman Shays Inquiry Number 2. Review Lipsey's ability to meet contract requirements for supplying water in the event of an emergency.

DoD OIG Response. While Lipsey has delivered emergency water to specific sites throughout the United States since April 2003, the company did not consistently meet time performance requirements of the contract. Additionally, Lipsey might not be capable of functioning as the sole source supplier of emergency water for OCONUS locations because Lipsey underestimated OCONUS air transportation costs in their original proposal under the firm-fixed price contract. As a result, Lipsey could earn fewer profits or potentially default on contract DACW33-03-D-0003 if tasked to supply bottled water to OCONUS locations, which could affect the lives of millions of people.

CONUS Water Deliveries. Based on our analysis, Lipsey has adequately functioned as the sole-source provider of emergency water supplies, based on

the performance delivery requirements set forth in the contract and the scope and nature of the missions assigned to Lipsey.

We examined water delivery documentation dated between September 2003 and January 2006 in support of the 2003 through 2005 hurricane seasons and determined that, while Lipsey was able to deliver many trucks to specific sites, the company did not consistently meet the time performance requirements of the contract. The 2005 hurricane season was significantly more active than predicted during the contract's initial solicitation and may have affected Lipsey's overall performance. However, this issue will be addressed in the second audit report.

OCONUS Water Deliveries. Lipsey might not be capable of functioning as the sole-source supplier of emergency water for OCONUS locations, such as Puerto Rico. For example, in Option Year 3 of the contract, should USACE task Lipsey to procure and ship bottled water by air to Puerto Rico, reimbursement is limited to a firm-fixed price of \$1.84 per liter. Because USACE has never tasked Lipsey to deliver emergency bottled water by air to OCONUS under the contract, factual OCONUS air transportation cost data were not available for analysis. However, we were able to establish that Lipsey charged USACE \$4.61 per liter for air shipments of water within CONUS. Specifically, in September 2005, Lipsey delivered 1,782,000 liters of water by air within CONUS. The Wilmington District and Lipsey negotiated a price of \$4.61 per liter for the air shipment because the original contract did not include a firm-fixed price for air shipments within CONUS. Contract Modification P00002 authorized the price negotiation on CONUS air shipments.

If the \$4.61 per liter accurately reflects Lipsey's expenses for CONUS shipments, then a comparison of the CONUS negotiated price of \$4.61 per liter paid in September 2005 to the firm-fixed price of \$1.84 allowable for OCONUS air shipments shows Lipsey could potentially lose \$2.77 (\$4.61-\$1.84) on each liter shipped by air to Puerto Rico. During Hurricane Georges in September 1998, the Government shipped nearly 34 million liters of water to Puerto Rico. If a similar emergency arose in Option Year 3 of the Lipsey contract and USACE directed an air shipment of 34 million liters, Lipsey could potentially lose more than \$94 million (34 million liters times \$2.77 per liter) (see Table 2). According to Lipsey, the company has already had to borrow several million dollars. Therefore, this potential loss could cause a financial burden for Lipsey or cause Lipsey to default on the contract.

Table 2. Comparison of 2005 CONUS Negotiated Price to the Contract 2006 Option Year 3 OCONUS Cost			
	2005 CONUS Cost	2006 Contract OCONUS Cost	Potential Loss
Quantity	34,000,000	34,000,000	34,000,000
Price per Liter	\$4.61	\$1.84	\$2.77
Total	\$156,740,000	\$62,560,000	\$94,180,000

Lipsey may incur a substantial loss on OCONUS air shipments because the company underestimated air transportation costs in Option Year 3 and Option Year 4. During an emergency, such as in Hurricane Georges, Lipsey could earn fewer profits or potentially default on the contract if tasked to ship similar quantities of water.

Corrective Actions. These issues and recommended corrective actions will be addressed in the second audit report.

Congressman Thompson Inquiry. Determine whether Lipsey owed TRC several million dollars.

DoD OIG Response. We determined that Lipsey no longer owes several million dollars to TRC.

Status of Payments. On March 28, 2006, the DoD OIG mailed an Accounts Receivable confirmation letter to TRC to establish the amount owed to TRC, from Lipsey, as of January 31, 2006. TRC did not complete and return the Accounts Receivable confirmation letter as requested. Alternatively, TRC provided a Microsoft Excel spreadsheet showing that Lipsey had paid all but \$24,687.20 of \$1,547,928.95 billed, as of November 18, 2005. Because TRC did not respond to the Accounts Receivable confirmation letter, we were unable to confirm the status of the remaining \$24,687.20, as of January 31, 2006. Therefore, we relied on Lipsey's Accounts Payable Aging Report, dated March 28, 2006, which showed no past due balance with TRC.

To determine whether Lipsey owed TRC several million dollars in support of water deliveries, a site visit was conducted at TRC. Based on our visit, discussions held with TRC representatives, and review of TRC documentation, we noted the following:

- TRC invoiced Lipsey for a total amount of \$3,425,523.80 (\$1,029,636.79 for ice purchases, \$366,725.31 for ice transportation, \$471,628.80 for water purchases, and \$1,557,532.90 for water transportation). At the time the issue was forwarded to Congress in November 2005, the majority of the \$3,058,798.49 had not been paid. Therefore, based on TRC's documentation, Lipsey owed TRC several million dollars.
- TRC was not able to provide us with documentation to support invoices to Lipsey for \$1,029,636.79 in ice purchases and \$366,725.31 for ice transportation. However, TRC representatives informed us that these outstanding amounts have been paid by Lipsey since November 2005.

- TRC invoiced Lipsey for \$471,628.80 in water purchases. Of this amount, Lipsey paid \$469,036.80 (99 percent). The \$2,592.00 difference was composed of \$6,019.20 in water purchases that were disallowed by Lipsey, \$3,024.00 in water purchase that was added by Lipsey for a non-invoiced shipment, and a \$403.20 overpayment on a single water purchase (see Table 3).

Reason	Amount
Disallowed by Lipsey	\$6,019.20
Non-Invoiced Payment	(\$3,024.00)
Overpayment on Water Purchase	(\$403.20)
Total	\$2,592.00

- TRC invoiced Lipsey for \$1,557,532.90 in water transportation. Of this amount, Lipsey paid \$1,523,241.75 (97 percent) and disallowed approximately \$34,291.15.

According to TRC, the following reasons were cited by Lipsey for the disallowed water purchases and deliveries.

- TRC miscalculated trucker detention charges. Specifically, TRC was charging for both hours and miles simultaneously. Lipsey had also changed these rates based on information provided by the USACE.
- A mandatory deduction of 2 hours per water delivery was applied to TRC water deliveries. TRC documentation showed that Lipsey required that 2 hours be deducted from the total time of the delivery for each water shipment. However, justification for this deduction was not provided to TRC. Furthermore, TRC was unable to provide us with any delivery agreements or contracts TRC had made with Lipsey prior to these shipments.
- Some supporting documentation provided was either inadequate or nonexistent.
- One water product was classified as undeliverable.

Based upon the review of TRC documentation, we determined that water payments to TRC by Lipsey were not timely. Specifically, Lipsey provided TRC with purchase orders dated September 2 and September 9, 2005, with payment terms of 30 days. TRC originally invoiced Lipsey for these purchase orders on September 10 through September 16, 2006. However, payments of these invoices did not begin until October 28, 2005. TRC presented documentation that showed that Lipsey provided payments for this and other work on November 25, December 16, and December 19, 2005. These dates are well after the payment term and indicate significant delays in the payment process. We are unable to determine whether the delay in payment is a result of actions by Lipsey, USACE, or a combination thereof at this time. We are continuing to review this matter to determine if it warrants further attention.

Therefore, we determined that, while Lipsey did at one time owe TRC several million dollars, Lipsey has made payments to TRC and no longer owes this amount to TRC.

Other Matters of Interest

We identified potential contract administration issues related to contractor performance of water deliveries, bottled water storage, and supporting documentation. These issues may have raised the cost to the Government during hurricane recovery efforts. The second report will discuss issues related to the procurement of water and administration of the contract.

Appendix A. Scope and Methodology

At the request of Congressmen Christopher Shays and Bennie Thompson, we conducted a review of the contract between Lipsey and USACE for the procurement and delivery of water to determine Lipsey's ability to meet contract requirements for supplying water in the event of a domestic emergency and to determine whether Lipsey owed TRC several million dollars.

We reviewed applicable sections of the FAR Parts 3 "Improper Business Practices and Personal Conflicts of Interest," 4 "Administrative Matters," 5 "Publicizing Contract Actions," 6 "Competition Requirements," 9 "Contractor Qualifications," 14 "Sealed Bidding," 15 "Contracting by Negotiating," 16 "Types of Contracts," 19 "Small Business Programs," 32 "Contract Financing," 42 "Contract Administrative and Audit Services," 43 "Contract Modifications," and 49 "Termination of Contracts." We also reviewed the "2004 National Response Plan," the "Emergency Support Function #3—Public Works and Engineering Annex," Engineering Federal Acquisition Regulations pertaining to "Federal Acquisition Regulations System," and DoD regulations.

We reviewed contract DACW33-03-D-0003, dated March 31, 2003, to determine whether USACE properly awarded and administered the contract, and properly solicited to small businesses. We obtained and reviewed the acquisition plan, RFP, source selection and evaluation documentation, cost estimates, and proposals from other offerors.

We conducted a site visit to the USACE New England District in Concord, Massachusetts to respond to Congressman Shays' first inquiry. We also visited the USACE Wilmington District in Wilmington, North Carolina, and the USACE Mobile District in Mobile, Alabama, to respond to Congressman Shays' second inquiry and Congressman Thompson's inquiry. These two Districts were responsible for approximately \$135 million out of the \$146 million (92 percent) obligated against this contract. Further, we visited the Lipsey Mountain Spring Water Company in Norcross, Georgia, and one of Lipsey's subcontractors, TRC Incorporated, in New Plymouth, Idaho. Finally, we conducted data calls with the USACE Finance Center in Millington, Tennessee and with seven of Lipsey's subcontractors. We also conducted interviews with USACE, Lipsey, and TRC personnel. We reviewed FEMA Task Orders, USACE Delivery Orders, and supporting documentation to support our conclusions.

We performed this audit from November 2005 through June 2006 in accordance with generally accepted government auditing standards. The audit scope was limited to the two congressional requests.

Use of Computer-Processed Data. We relied on computer-processed data to perform this audit. Specifically, we obtained and analyzed USACE computer processed data originating from the Corps of Engineers Financial Management System (CEFMS) from the USACE Finance Center and the USACE Wilmington and Mobile Districts. We did not assess the reliability of the CEFMS information used nor the general and application controls of CEFMS during this audit. However, not testing CEFMS general and application controls did not affect the results of our audit.

Government Accountability Office High-Risk Area. The Government Accountability Office (GAO) has identified several high-risk areas in DoD. This report provides coverage of the DoD Contract Management high-risk area.

Prior Coverage

During the past 5 years, GAO has published testimonies, and the Naval Audit Service has issued a report relating to the contracts for Hurricane Katrina recovery efforts. Unrestricted GAO testimonies can be accessed over the Internet at <http://www.gao.gov>. Unrestricted Naval Audit Service reports can be accessed at <http://www.hq.navy.mil/NavalAudit>.

GAO

GAO Testimony No. GAO-06-714T, “Improving Federal Contracting Practices in Disaster Recovery Operations,” May 4, 2006

GAO Testimony No. GAO-06-622T, “Planning for and Management of Federal Disaster Recovery Contracts,” April 10, 2006

Naval Audit Service

Naval Audit Service Report No. N2006-0015, “Chartered Cruise Ships,” February 16, 2006

Appendix B. Congressional Requests

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BERNARD SANDERS, VERMONT,
INDEPENDENT

SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS,
AND INTERNATIONAL RELATIONS

Christopher Shays, Connecticut
Chairman

Room B-372 Reborn Building
Washington, D.C. 20515
Tel. 202 225-2548
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November 9, 2005

The Honorable Thomas F. Gimble
Acting Inspector General
Department of Defense
400 Army Navy Drive
Arlington, Virginia 22202

Dear Mr. Gimble:

The Subcommittee on National Security, Emerging Threats and International Relations of the House Committee on Government Reform has received a complaint dated September 6, 2005 (copy enclosed) regarding how Lipsey Mountain Spring Water Company was selected as the sole source contractor for emergency supplies of water. The complaint raised concerns regarding the company's ability to meet contract requirements for supplying water in the event of a domestic emergency.

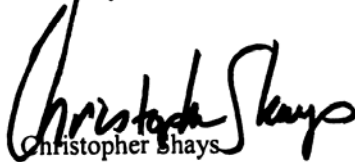
On September 12, 2005, the Subcommittee requested document's from the Army Corps of Engineers regarding the selection of Lipsey Mountain Spring Water Company. Attached please find the Corps' response and computer diskettes containing the documents requested by the Subcommittee.

The contract gives one company the responsibility "to continue developing its strategic plan for the supply of bottled water in natural

disasters and emergencies,” and to provide “all bottled water, nationwide in the event of Presidential declared emergencies.” The Subcommittee requests Office of Inspector General assess the contracting process and the capability of this contractor.

If you have questions regarding this request, please contact Lawrence Halloran or Vincent Chase of the Subcommittee staff at 202-225-2548.

Sincerely,



Christopher Shays
Chairman

cc:

Hon. Dennis J. Kucinich, Ranking Minority Member
Hon. Kenny Marchant, Vice Chairman

Mansfield, Brett A., OIG DoD

From: Olcott, Jacob [Jacob.Olcott@mail.house.gov]
Sent: Thursday, November 17, 2005 10:34 AM
To: 'brett.mansfield@dodig.mil'
Subject: Lipsey Mountain Spring Water - complaint
Attachments: Lipsey Overview.doc

Brett, thank you for your call yesterday. I hope you can pass this on to the investigator who is tracking Lipsey Mountain Spring Water.

As we discussed, a Hurricane Katrina contractor in Idaho, TRC, has expressed to me over several weeks of correspondence that he has not received several million dollars owed to him by the U.S. Army Corps of Engineers primary contractor on emergency bottled water, Lipsey Mountain Water. Lipsey also has ice contracts with several southern states. In a previous hurricane, TRC had contracted with a federal prime to deliver ice and water. They were contacted by Lipsey to assist in the efforts post-Katrina.

After receiving several emails from Scott Moscrip at TRC, I spoke to Joe Lipsey III directly on Wed. Nov. 9, 2005 to get an idea about what the hold-up was on the payments. Lipsey told me that the main problem with the payment was that TRC had not provided him with proofs of delivery. Lipsey told me that Lipsey had not received any money from either FEMA or the Army Corps. Regardless, Lipsey claimed that as long as TRC provided him with the proofs of delivery, he would pay them.

TRC claims that they have provided Lipsey with proofs of delivery on three separate occasions. They are having a hard time understanding why they are not getting their money. Scott Moscrip has raised specific allegations that Lipsey is unfit to do business with the federal government, and requested that Lipsey's federal contract be reviewed. TRC alleges that there are many businesses who now refuse to do business with Lipsey because of his failure to pay them on time. This would pose serious problems during future disasters where bottled water must be delivered in a timely fashion. Lipsey is apparently trying to settle claims with subcontractors at a rate less than the contract demands (for instance, they offered TRC 80% of what was owed to TRC as a settlement).

I am attaching a list of correspondence that I have had with Scott Moscrip, Kelly Rhinehart, and Joe Lipsey III. It is in chronological order. Please use this information as you see fit in your investigation.

TRC has offered to come to Washington to provide you with information on this situation. You can reach them at (208) 278-5097. Scott Moscrip is the President; Kelly Rhinehart is the VP. Both are eager to talk to somebody about their experiences. Joe Lipsey III at Lipsey Water can be reached at (770) 449-0001.

Please contact me if I can provide more information. Please advise me if DOD IG will be investigating this matter. Thank you.

Sincerely,

Jacob Olcott
House of Representatives
Homeland Security Committee (Democrats)
(202) 226-2623

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
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Auditor General, Department of the Army
Chief of Engineers, United States Army Corps of Engineers

Department of the Navy

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Non-Defense Federal Organization

Office of Management and Budget
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Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

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Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Finance, and Accountability
Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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