

May 2006

HURRICANE
KATRINA

Army Corps of
Engineers Contract
for Mississippi
Classrooms



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Highlights

Highlights of [GAO-06-454](#), a report to congressional committees

Why GAO Did This Study

In the wake of Hurricane Katrina, the Federal Emergency Management Agency (FEMA) tasked the Army Corps of Engineers (the Corps) to purchase temporary classrooms for Mississippi schools. To accomplish its task, the Corps placed a \$39.5 million order with Akima Site Operations for the purchase and delivery of 450 such classrooms. GAO received an allegation on its Fraud Hotline that the Corps paid inflated prices for the classrooms, and in response, we reviewed the facts and circumstances related to the Corps' issuance of the order.

What GAO Recommends

GAO is making no recommendations in this report. In written comments, the Department of Army recognized that under trying conditions mistakes are possible and plans to include the temporary classroom procurement in its remedial action program review. In its comments, Akima believes that the report does not provide a complete picture of the circumstances related to the contract to obtain, transport, and set up the classrooms. Our findings are based on information relevant to the review objective.

www.gao.gov/cgi-bin/getrpt?GAO-06-454.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Katherine Schinasi at (202) 512-4841 or schinasi@gao.gov.

HURRICANE KATRINA

Army Corps of Engineers Contract for Mississippi Classrooms

What GAO Found

Corps contracting officials did not expect to be buying classrooms and, in fact, were not assigned the task until after Hurricane Katrina had struck. With no prior experience, no advance notice, and the need to buy the classrooms as quickly as possible, Corps contracting officials lacked knowledge of the industry and information about classroom suppliers, inventories, and prices that would have been useful in negotiating a good deal. Faced with these circumstances, they chose to purchase the classrooms by placing an order, noncompetitively, on an existing agreement with Akima Site Operations, LLC. Because of Akima's special status as a subsidiary of an Alaska Native corporation certified under the Small Business Administration's 8(a) business development program, the Corps could make the award without competition.

The Corps accepted Akima's proposed price of \$39.5 million although it had information that the cost for the classrooms was significantly less than what Akima was charging. Based on our analysis of a quote obtained by Akima from a local Mississippi business, the price that Akima actually paid for the classrooms, and prices for similar units from GSA schedule contracts, we believe the Corps could have, but failed to, negotiate a lower price.

Classroom units being transported



Source: Akima.

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Abbreviations

| | |
|------|-----------------------------------------|
| ANC | Alaska Native corporation |
| BOA | basic ordering agreement |
| FEMA | Federal Emergency Management Agency |
| GSA | General Services Administration |
| MEMA | Mississippi Emergency Management Agency |
| SBA | Small Business Administration |

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United States Government Accountability Office
Washington, DC 20548

May 1, 2006

Congressional Committees:

In the wake of Hurricane Katrina, the Federal Emergency Management Agency (FEMA) tasked the Army Corps of Engineers (the Corps) to purchase temporary classrooms for Mississippi schools.¹ To accomplish its mission, the Corps awarded a \$39.5 million order to Akima Site Operations, LLC (Akima) for the purchase and delivery of 450 temporary classrooms. GAO received a tip on its Fraud Hotline alleging that the Corps paid inflated prices for the classrooms.²

In response to the allegation, we reviewed the facts and circumstances surrounding the Corps' acquisition of the classrooms to determine how the Corps selected Akima and negotiated the price of the classrooms. We reviewed government contract files and obtained pricing information on the classrooms from several sources, including the Corps, Akima, suppliers involved in the transaction, and the General Services Administration (GSA). The results of our review follow. Further details on the scope and methodology of our review are in appendix I. We conducted our review from September 2005 to March 2006 in accordance with generally accepted government auditing standards.

Results in Brief

Faced with a compressed time frame for acquiring classrooms and no prior knowledge about the classroom mission they were assigned by FEMA after Hurricane Katrina struck the Gulf Coast, Corps contracting officials chose to use an existing agreement and placed an order with Akima. Because of Akima's special status as a subsidiary of an Alaska Native corporation under the Small Business Administration's 8(a)

¹ We are using the term "temporary classrooms" in this report. The classrooms were also referred to as relocatable, modular, and portable.

² The purpose of GAO's FraudNET is to facilitate reporting of allegations of fraud, waste, abuse, or mismanagement of federal funds. Allegations are received via e-mail at fraudnet@gao.gov. The allegation we reviewed concerned the price paid by the government, not the contractor's performance under the contract. Accordingly, we did not review contract performance. Both the Corps and Akima represent that Akima performed in accordance with the terms of the contract by delivering the required quantities of classrooms within the time frames agreed to by the Corps.

Business Development Program, the Corps was able to make the award without competition even though the dollar amount of the award would have normally required competition under the program.³

The Corps accepted Akima's proposed price of \$39.5 million although it had information that the cost for the classrooms was significantly less than what Akima was charging. Based on our analysis of a quote obtained by Akima from a local Mississippi business, the price that Akima actually paid for the classrooms, and prices for similar units from GSA schedule contracts, we believe the Corps could have, but failed to, negotiate a lower price.

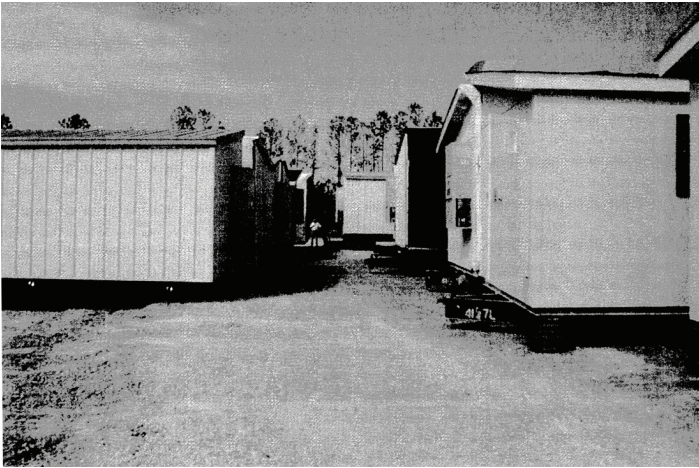
We are not making recommendations in this report. In written comments on a draft of this report, the Department of the Army recognized that under trying conditions mistakes are possible and plans to include the temporary classroom procurement in its remedial action program review. The Army did not endorse our findings, but did not provide any specific concerns. In written comments, Akima believes that the report does not provide a complete picture of the circumstances related to the contract for the classrooms. Our findings are based on information relevant to the review objective. The comments from DOD and Akima, and our responses to them are discussed beginning on page 8 and are reproduced in their entirety in appendices II and III, respectively.

Background

On August 29, 2005, Hurricane Katrina made landfall along the Gulf Coast, causing severe damage and destruction. In addition to damaging areas in Louisiana and Alabama, the hurricane wreaked havoc along the entire Mississippi Gulf Coast. In response, the Mississippi Emergency Management Agency, on September 8, 2005, asked for federal assistance in providing temporary classrooms. On September 10, FEMA delegated the mission for buying the classrooms to the Corps.

³ Alaska Native corporations (ANCs), created under the Alaska Native Claims Settlement Act to help settle Alaska Native land claims and to foster economic development for Alaska Natives, have been accorded special advantages under SBA's 8(a) Business Development Program. ANC 8(a) firms are considered small disadvantaged businesses, and as long as they meet relevant size standards for the procurement and other eligibility requirements, they can be awarded contracts noncompetitively for any dollar amount (see 13 C.F.R. § 124.506(b)). Generally, acquisitions offered to other 8(a) businesses where the contract value is more than \$3 million or \$5 million (for manufacturing) must be competitively awarded.

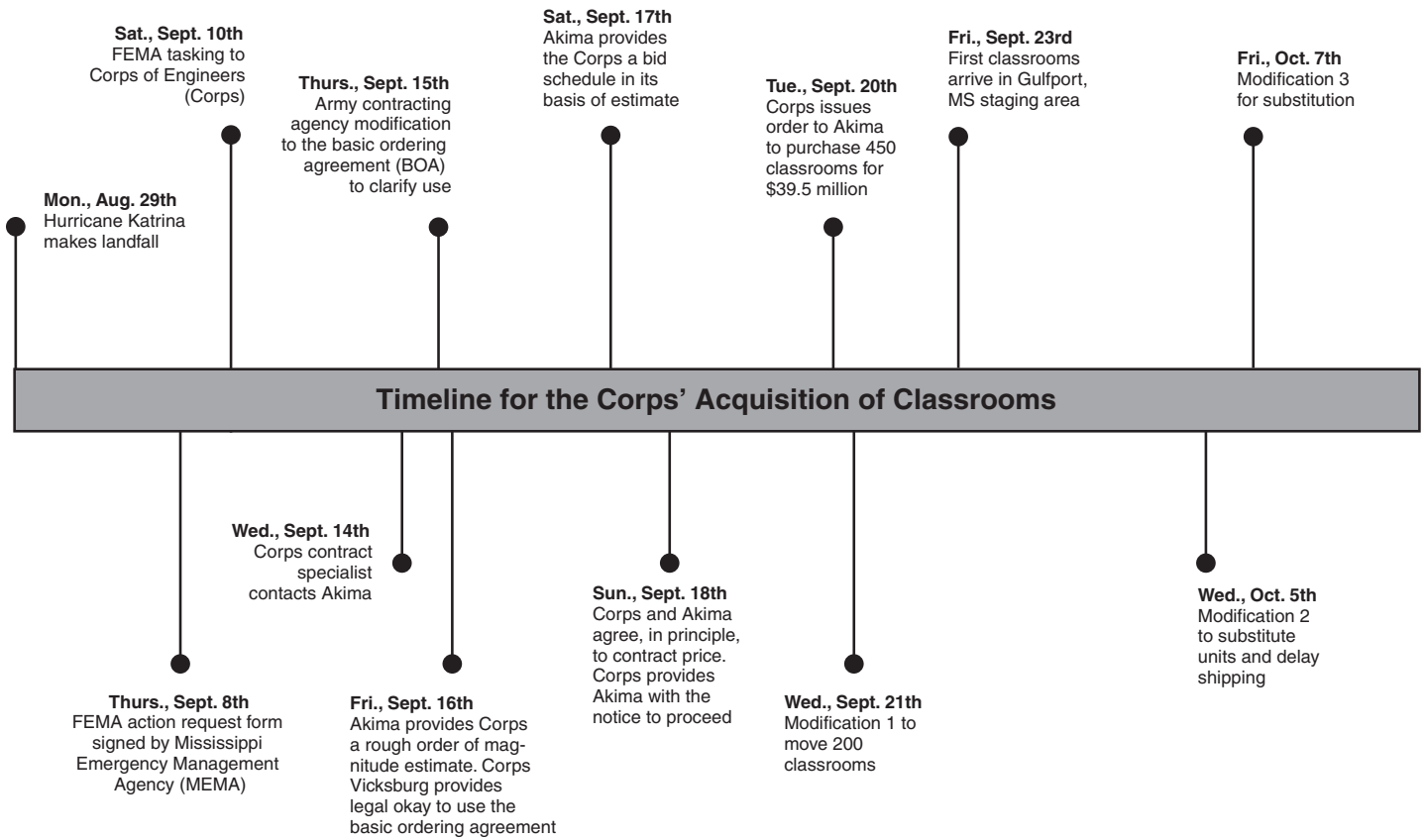
Figure 1: Classroom Units at Staging Area and Units Being Transported.



Source: Akima.

Upon accepting the mission, the Corps proceeded to acquire the classrooms. A chronology of key events surrounding the Corps efforts is shown in the following timeline.

Figure 2: Timeline for Corps' acquisition of classrooms



Source: GAO analysis.

Circumstances Surrounding the Purchase of the Classrooms Resulted in the Corps Paying High Prices

Corps contracting officials did not expect to be buying classrooms and, in fact, were not assigned the task until after Hurricane Katrina had struck. With no prior experience, no advance notice, and the need to buy the classrooms as quickly as possible, Corps contracting officials lacked knowledge of the industry and information about classroom suppliers, inventories, and prices that would have been useful in negotiating a good deal. Faced with the urgent need for classrooms, they chose to purchase them by placing an order, noncompetitively, on an existing agreement with Akima.

Based on our analysis of a price quote obtained by Akima from a local Mississippi classroom supplier, the price that Akima actually paid for the

classrooms, and prices for similar units from GSA Schedule contracts, we believe the Corps could have, but failed to, negotiate lower prices.

Late Assignment of Classroom Mission Hampered the Corps' Ability to Get a Good Price

Once Hurricane Katrina had struck, the Mississippi Emergency Management Agency, on September 8, 2005, identified a need for temporary classrooms. FEMA accepted the requirement. On September 10, FEMA assigned the Corps the mission of acquiring the classrooms and two days later set November 1, 2005, as the deadline for completing the Corps' mission. According to Corps officials, the short completion date drove their decisions about how to acquire the classrooms and did not allow them to follow normal contracting procedures.

To accomplish this task, the Corps awarded an order to Akima through an existing basic ordering agreement established by the Army Contracting Agency intended for acquiring and installing modular buildings.⁴ According to Corps officials, the agreement was selected because it could be used to quickly procure the classrooms. Akima is a subsidiary of an Alaskan Native corporation certified under the Small Business Administration's 8(a) Business Development Program.⁵ Due to its status as an Alaska Native corporation under the 8(a) program, the company could be awarded contracts—without competition—for any dollar value.⁶ While the agreement used by the Corps was already in place, it contained no prices, specifications, or other information the Corps could have used in negotiating the order.

⁴ A basic ordering agreement is a written instrument of understanding between the government and a contractor that contains (1) terms and clauses for future contracts (orders) between the parties during its term; (2) a description, as specific as possible, of supplies or services to be provided; and (3) methods for pricing, issuing, and delivering future orders under the agreement. A basic ordering agreement is not a contract but is used to expedite contracting for supplies or services when specific items, quantities, and prices are not known but a substantial number of requirements are anticipated.

⁵ This program, established by section 8(a) of the Small Business Act, 15 U.S.C. § 637(a), authorizes the Small Business Administration to enter into contracts with procuring agencies and award subcontracts for performing those contracts to eligible firms. These subcontractors, known as 8(a) contractors, must be small disadvantaged business concerns. SBA has delegated to DOD its authority to enter into 8(a) prime contracts and to award the performance of those contracts to eligible 8(a) program participants.

⁶ SBA may accept, on a sole-source basis, a requirement into the 8(a) program on behalf of an Alaska Native corporation even if the value of the acquisition exceeds the normal threshold for competitive 8(a) awards.

Corps Did Not Use Available Information to Negotiate a Lower Price

According to Akima officials, they were contacted by the Corps on September 14 to see if they could provide 450 classrooms. In response, Akima provided the Corps several estimates over the next few days, including an “order of magnitude” estimate on September 16, 2005, and a formal proposal for \$39.5 million on September 17 (which became the contract price). The estimates included classroom prices, freight costs, project management charges, general and administrative expenses, and profit. The price proposal of September 17 was significantly higher than the “order of magnitude” from the day before. While we believe the increase in Akima’s price should have raised questions among Corps contracting officials, we found no evidence they conducted any analysis to determine why the prices had increased. Instead, the Corps’ contracting files attribute the increase to the need to expedite delivery of the classrooms to meet FEMA’s requirements. On the basis of a comparison of Akima’s September 16 and 17 estimates, though, we found the increase could not be attributed to expedited delivery—since we found freight costs remained roughly the same in both estimates. The increase was in the price of the classrooms, as shown in the following table.

Table 1: Classroom Price Increases

| Classroom type | September 16, 2005, estimate | | | September 17, 2005, proposal | | | Percent change |
|---------------------|------------------------------|-----------------------|---------------------|------------------------------|------------|---------------------|----------------|
| | Quantity | Unit price | Total | Quantity | Unit price | Total | |
| Single w/ bathroom | 100 | \$59,750 ^b | \$5,975,000 | 148 | \$84,395 | \$12,490,450 | |
| Single w/o bathroom | 100 | \$55,750 ^b | \$5,575,000 | 52 | \$89,956 | \$4,677,734 | |
| Subtotal | 200 | | \$11,550,000 | 200 | | \$17,168,184 | 49% |
| Double w/ bathroom | 125 ^a | \$91,288 | \$11,411,000 | 125 ^a | \$108,371 | \$13,546,336 | 19% |
| Total | 450 | | \$22,961,000 | 450 | | \$30,714,520 | 34% |

Source: GAO analysis.

Note: Numbers may not add due to rounding.

Note^a: 125 double classrooms are the equivalent of 250 single classrooms.

Note^b: As discussed below, these unit prices reflect a quote Akima received from a local Mississippi classroom supplier.

The increase in classroom estimates between September 16 and 17 was very substantial and should have triggered further questions on the part of the Corps as to the reason. For example, the increase in the price of single

classrooms was particularly significant, increasing about \$5.6 million dollars, or nearly 49 percent.

Akima's September 17 proposal reflected classroom prices substantially higher than the quote Akima had received from a local Mississippi classroom supplier for existing single classrooms that were available to be transported from a supplier in Florida. On September 14, the local Mississippi business received quotes for single classrooms with and without bathrooms for \$49,750 and \$45,750, respectively. On the following day, the local business provided a written quote to Akima reflecting the quotes and its markup. Akima used the local Mississippi business' quote as a basis for its September 16 "order of magnitude" estimate and provided the Corps a copy of the quote. However, there is no evidence that Corps contracting officials used the information to seek reductions during negotiations.

Given that Akima's September 16 estimate was based on a quote for existing single classrooms in Florida, we question why the Corps accepted the higher classroom prices proposed by Akima on September 17 without price negotiation. In addition, Akima purchased the classrooms in Florida directly from the supplier identified by the local Mississippi business at prices lower than the quote.

In addition, we found GSA Schedule contract prices for double classrooms ranged from \$30,000 to \$54,000 each, or amounts considerably less than proposed by Akima and included in the price accepted by the Corps. Clearly, conditions post-Hurricane Katrina were anything but normal and thus may not have allowed the classrooms to have been ordered from the Schedule in the quantities and time frame required. Nevertheless, this information could have been useful to Corps contracting officials in analyzing Akima's prices and in negotiating a lower price.

Conclusion

Acquiring goods and services in any emergency situation can be difficult—particularly in a situation where there is confusion about missions, roles and responsibilities—but those difficulties should not provide an excuse for poor pricing outcomes. By neither using information that was available nor seeking out additional information which would have provided a sound basis to negotiate price, we believe the Corps could have, but failed to, negotiate lower prices.

Agency Comments and Our Evaluation

We provided a draft of this report to the Department of the Army and Akima for review and comment. Their written comments are included as appendices II and III, respectively.

In its comments, the Army recognized that under trying conditions mistakes are possible and stated that it plans to include the temporary classroom procurement in its remedial action program review. The Corps plans to take steps to address deficiencies, if any, identified in after action reports so that future operations can be improved. The Army did not endorse our findings, but did not provide any specific concerns. In its comments, the Army also stated that the Corps was tasked with providing 450 temporary buildings, with approximately 350 of them to be used for classrooms. This statement is not correct. The task order issued on September 20, 2005, clearly states that the contract was for 450 classrooms. In fact Akima's response to our report indicates that this was a fixed price contract to deliver 450 classrooms.

Generally, Akima expressed concern that our report did not use appropriate comparative data pertaining to pricing of the contract, did not recognize the risks faced by Akima, did not recognize that requirements were changing during the negotiations, and did not adequately recognize its contract performance. We are not responding to every aspect of Akima's comments, because our report focuses on the prices the Corp paid for the classrooms and the Corp's actions in awarding the classroom contract to Akima.

Our report recognizes other elements of cost under the contract, but focuses on classroom costs because they comprise over three-quarters of the price negotiated. The difference between Akima's "order of magnitude estimate" and the proposal ultimately accepted by the Corps was significant. We believe that the about \$8 million difference should have prompted an inquiry and price negotiation by the contracting officer. We found no evidence that the contracting officer attempted to negotiate for a better price.


In its comments to our report, Akima has stated that its proposal reflects the unknowns it faced at the time of contract award. We recognize, by entering into a fixed price contract, a contractor assumes the risk of contract performance. Furthermore, the report acknowledged that conditions post-Hurricane Katrina were anything but normal. However, our review found that in spite of these difficult conditions the Corps had available information at the time of the contract award that quoted lower

costs for classrooms, but did not use the information to negotiate a lower price.

Finally, we recognize again, as we did in the report that the Corps and Akima told us that Akima performed in accordance with the terms of the contract by delivering the required quantities of classrooms within the timeframes agreed to by the Corps.

We will make copies of this report available on request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you have any questions concerning this report, please contact me at (202) 512-4841 or by e-mail at schinasik@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

A handwritten signature in black ink that reads "Katherine V. Schinasi". The signature is written in a cursive style with a large initial "K".

Katherine V. Schinasi
Managing Director
Acquisition and Sourcing Management

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Appendix I: Scope and Methodology

GAO received a Fraud Hotline allegation that the Corps of Engineers (the Corps) had paid an inflated price for temporary classrooms for Mississippi in the aftermath of Hurricane Katrina. In response to the allegation, we examined the facts and circumstances surrounding the acquisition to determine how the Corps selected Akima and negotiated the price of the classrooms.

To learn how the Corps selected Akima, we obtained information about the Army Contracting Agency's basic ordering agreement and its intended uses. We contacted the contracting officer who had established the agreement at the Northern Region Contracting Center, Fort Eustis, Virginia. The Army Contracting Agency official provided the agreement and modifications, and described why and how the agreement was established.

We also obtained information about the steps taken by the Corps to meet the requirements for acquisition of the classrooms. We obtained contract and related documents from the Corps of Engineers, Vicksburg District, in Vicksburg, Mississippi. We reviewed these documents to find out what information the Corps had available to acquire the classrooms. We interviewed Corps officials to discuss the available information and ascertain how classroom acquisition-related decisions were made. We also reviewed cost and price information included in the contract file.

We met with representatives of Akima Management Services, Inc., the holding company for Akima Site Operations, LLC—the titular entity awarded the classroom order. Akima representatives provided pertinent documentation, including actual performance cost information. In addition, we held discussions with and collected information from local Mississippi businesses and some of the suppliers that eventually provided the classrooms to Akima. Also, we identified pricing information available on the General Service Administration's Schedule contracts for similar classrooms and modular buildings.

We conducted our review from September 2005 to March 2006 in accordance with generally accepted government auditing standards.

Appendix II: Comments from the Army Corps of Engineers



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
CIVIL WORKS
108 ARMY PENTAGON
WASHINGTON DC 20310-0108

APR 24 2006

Mr. David E. Cooper
Director
Acquisition and Sourcing Management
United States General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Cooper:

This is the Department of Defense (DoD) response to the GAO draft report, GAO-06-454 "HURRICANE KATRINA: Army Corps of Engineers Contract for Mississippi Classrooms" dated March 31, 2006 (GAO Code 120500). We appreciate the opportunity to comment on the draft report.

On September 10, 2005, the Federal Emergency Management Agency tasked the Army Corps of Engineers to provide 450 temporary buildings, with approximately 350 of them to be used as classrooms and the remainder to be used for local government offices. On September 20 an order was awarded under an existing Army Basic Ordering Agreement. Temporary buildings started arriving on the Mississippi Gulf Coast on September 23. The first 200 units were on site within 18 days and all 450 units were on site within 45 days. The successful completion of this mission allowed children to return to school and local government offices to reopen, all in an attempt to attain some degree of normalcy.

The goal in an emergency situation such as this is to provide immediate relief services to the impacted populations. Without endorsing the findings in your draft report, I surely agree that under trying conditions mistakes are possible. For each emergency event, after action reports are prepared to address issues identified from all sources. The Corps will include this particular procurement action in its remedial action program review and seriously consider the report that your office has prepared. The Corps will take steps to address deficiencies, if any, that are identified so that future operations can be improved.

Very truly yours,

A handwritten signature in cursive script that reads "John Paul Woodley, Jr.".

John Paul Woodley, Jr.
Assistant Secretary of the Army
(Civil Works)

Printed on Recycled Paper

Appendix III: Comments from Akima

GAO DRAFT REPORT GAO-06-454
APRIL 2006

“HURRICANE KATRINA – ARMY CORPS OF ENGINEERS CONTRACT FOR MISSISSIPPI CLASSROOMS”

APPENDIX II: RESPONSE OF AKIMA SITE OPERATIONS, LLC

Akima Site Operations, LLC (“Akima”) is pleased to have this opportunity to add our comments to the GAO report “Hurricane Katrina – Army Corps of Engineers Contract for Mississippi Classrooms (GAO-06-454)”. The report (i) cites pricing information that is not an appropriate comparison, (ii) understates the nature and extent of the risks and logistical challenges faced by Akima in pricing and performing this fixed price contract, and (iii) does not fully recognize what occurred between the submittal of rough estimates and the final estimate on September 17, 2005. Finally, the report does not adequately acknowledge the success of the company in exceeding the primary requirement of the contract (the schedule) and ignores the fact that despite extremely abnormal disaster conditions, Mississippi children were back in school far earlier than expected and well ahead of schedule, thus salvaging the 2005 – 2006 school year.

Appropriateness of Comparative Data: Akima does not believe that the USACE could have attained a lower price, one that included all aspects of the task, at the time the contract was negotiated. First, while Akima used the preliminary and nonbinding quote of a local Mississippi business as a partial basis for its bid to the Corps, Akima adjusted its bid for the risks associated with dealing with this unproven vendor and aspects of the work that were not included in this vendor’s bid. In fact, the cited trailers were not available, not under contract, and the referenced pricing was not inclusive of the costs required to actually get the classrooms in place by the date the government required. Akima ultimately determined that the Mississippi contractor in question was simply not a responsible contractor capable of delivering the requirements of the contract in the time required. Second, the GSA prices noted in the report were not based on post-hurricane emergency conditions or a 45-day delivery schedule. Also, the GSA catalogue units are inferior to those delivered - - the government required higher level specifications. The references to the GSA Schedule also assume that the classrooms existed at the time of the order, which was not the case. In fact, Akima has recently contacted the vendors discussed in the report and confirmed that such vendors would not be able to deliver the specified units for the GSA Schedule price within a 45-day delivery window, even in today’s environment.

Pricing risk and scope: This was a fixed price contract to deliver 450 classrooms (900 trailers) within 45 days and under extremely demanding transportation, logistical, and set up challenges. Uncertainties during the time of contract negotiation included: Availability and cost of a portion of classrooms; the logistics of reaching delivery location(s); availability of drivers and trucks; and availability of a qualified local labor force for classroom set up. Also, Akima assumed responsibility for units damaged in transit, pre-financing, and warranty. As often occurs on a fixed price contract, Akima was able to procure some of the classrooms for less than expected, while other costs exceeded our expectations. The GAO report focuses primarily on the cost of the first 200 classrooms, but minimizes the full risks and logistics costs faced by Akima. The key is whether the overall price for the total project is fair and reasonable, and Akima’s price was.

Price Negotiation: The GAO report suggests that Akima's price offerings were arbitrarily fluctuating without reporting that requirements of the contract were simultaneously being finalized by the Government. For example, Akima's first offering was for used trailers; but not until later was it confirmed that only new trailers were acceptable. Moreover, the September 16 "order of magnitude" estimate described in Table 1 of the report reflected delivery of the final classrooms by the end of January, 2006. In addition, the extent of the workload involved in forward transportation to and from the staging area was not finalized until later in the process, and issues surrounding set-up expectations were also in flux. Throughout this ongoing negotiation, Akima continued to obtain new information about market conditions and resource availability, and, to the extent practicable, shared this information with the USACE as the final contract scope and price were being developed.

Finally, while the report relegates discussion of Akima's performance to a footnote, it is important to highlight that Akima met all project milestones and delivered quality units on an expedited basis, fully satisfying the USACE requirements five days ahead of schedule and for a fair and reasonable price.

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Katherine Schinasi, (202) 512-4841 or schinasik@gao.gov

Staff Acknowledgments

In addition to the contact named above, Dave Cooper, Director, Penny Berrier Augustine, Assistant Director, Ralph Roffo, Bob Swierczek, and Adam Vodraska made key contributions to this report.

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