OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

Audit

The Bureau of Reclamation Generally Conducted Necessary Oversight of Two Water Supply Project Contracts

Report No. 2024-WR-042

August 2026

OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

AUG 04 2026

Memorandum

To: Aubrey J.D. Bettencourt
Principal Deputy Commissioner, Exercising the Delegated Authority of the Commissioner
Bureau of Reclamation

From: Nicki Miller
Assistant Inspector General for Audits, Inspections, and Evaluations

Subject: Final Audit Report –*The Bureau of Reclamation Generally Conducted Necessary Oversight of Two Water Supply Project Contracts*
Report No. 2024-WR-042

This memorandum transmits our audit report on the Bureau of Reclamation's oversight of contractor performance to ensure the contractor performed in accordance with applicable laws, regulations, and contract terms and conditions.

We will track open recommendations for resolution and implementation. We will notify Congress of our findings, and we will report semiannually, as required by law, on actions you have taken to implement the recommendations and on recommendations that have not been implemented. We will also post a public version of this report on our website.

If you have any questions about this report, please contact me at aie_reports@doioig.gov.

Audit

The Bureau of Reclamation Generally Conducted Necessary Oversight Of Two Water Supply Project Contracts

Objective

To determine whether the Bureau of Reclamation's (BOR's) oversight ensured that S.J. Louis Construction, Inc. performed work in accordance with applicable laws, regulations, and contract terms and conditions.

Recommendations

We make two recommendations that, if implemented, will help BOR comply with Buy American Act requirements. Both recommendations are resolved.

Monetary Impact

$1,177,888 Unsupported Costs

Risk Area

Contract & Financial Assistance Oversight

Findings

We found that BOR generally conducted necessary oversight of S.J. Louis' performance on two contracts through annual performance assessments and frequent inspections, which entailed reviewing compliance with Navajo preference hiring, safety, project status, and progress, as well as invoice reconciliation.

However, we found that BOR did not verify that the construction material used in the projects complied with Buy American Act requirements. No BOR official was assigned to verify that these requirements were met, and officials from two offices we spoke to stated that they relied on the other to perform the verification. As a result, BOR cannot ensure that approximately $1.18 million in supplies were manufactured domestically.

Impact

We concluded that BOR's oversight activities contributed to less safety violations by S.J. Louis. According to BOR, its actions also improved S.J. Louis' safety culture. While safety and contract compliance improved over time due to BOR oversight, we found that BOR failed to confirm whether S.J. Louis complied with the Buy American Act. Noncompliance with this Act may undermine its stated purpose of promoting demand for domestically produced goods and supporting the growth of domestic manufacturing.

Contents

Introduction 1
Objective 1
Background 1
Infrastructure Investment and Jobs Act 1
Navajo Gallup Water Supply Project 1
S.J. Louis Construction, Inc. 2
BOR Contracting Organization 3
Results of Audit 5
BOR Generally Performed Necessary Oversight 5
Safety 5
Hiring 6
Payment and Performance Oversight 6
Invoice Accuracy 6
Contract Performance Assessment Reports 7
BOR Did Not Verify Compliance with Buy American Requirements 7
Conclusion and Recommendations 10
Conclusion 10
Recommendations Summary 10
Appendix 1: Scope and Methodology 12
Scope 12
Methodology 12
Appendix 2: Monetary Impact 14
Appendix 3: Abbreviations 15
Appendix 4: Response to the Draft Report 16

Introduction

Objective

The objective of our audit was to determine whether the Bureau of Reclamation's (BOR's) oversight ensured that S.J. Louis Construction, Inc. performed work in accordance with applicable laws, regulations, and contract terms and conditions.

See Appendix 1 for our audit scope and methodology, Appendix 2 for a breakdown of the monetary impact, and Appendix 3 for the list of abbreviations used in this report.

Background

Infrastructure Investment and Jobs Act

The Infrastructure Investment and Jobs Act (IIJA)[1] was signed into law on November 15, 2021, and authorizes the Secretary of the Interior, through the BOR Commissioner, to make available $8.3 billion for western water infrastructure through fiscal year 2026. The IIJA also established the Indian Water Rights Settlement Completion Fund, from which the U.S. Department of the Interior (DOI) allocated nearly $460 million for different settlement projects in 2023.

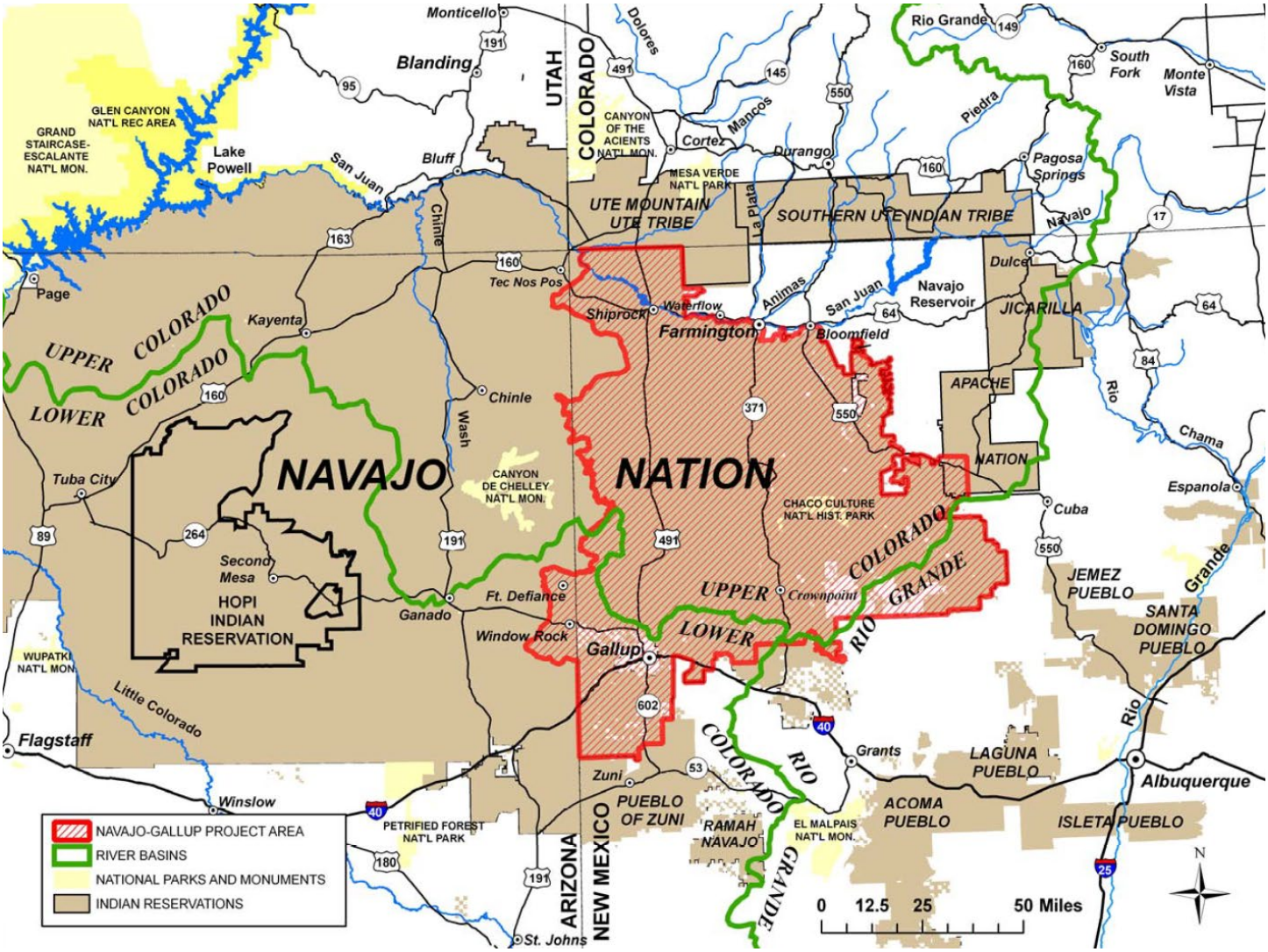
Navajo Gallup Water Supply Project

The Indian Water Rights Settlement Completion Fund financed the Navajo-Gallup Water Supply Project (NGWSP). Authorized in 2009 through the Omnibus Public Land Management Act,[2] NGWSP is a major infrastructure project that is intended to construct a reliable water supply from the San Juan River to two Tribal nations, Navajo and Jicarilla Apache, as well as Gallup, New Mexico (see Figure 1). The project entails approximately 300 miles of pipeline, 19 pumping plants, and two water treatment plants.

[1] Pub. Law No. 117-58.

[2] Pub. Law No. 111-11.

Figure 1: NGWSP Map



Source: BOR

S.J. Louis Construction, Inc.

S.J. Louis is a Minnesota-based national general contractor that, since 1983, has specialized in underground utility construction. BOR awarded two fixed-price contracts with economic price adjustments, totaling $151 million,[3] to S.J. Louis to construct portions of the NGWSP. BOR's Upper Colorado Basin Region is one of five regional offices and encompasses Utah, New Mexico, western Colorado, northeastern Arizona, southwestern Wyoming, west Texas, and small portions of Nevada and Idaho. For the first project, the region awarded a $76 million contract in December 2021 to construct a pipeline and water storage tank for the NGWSP between December 2021 and March 2024. This was S.J. Louis' first IIJA contract. For the second project, the Upper Colorado region awarded a $66.8 million contract in March 2023 to construct pipelines between a treatment plant and a pumping plant in San Juan County, New Mexico, to be performed between

[3] Federal Acquisition Regulation 16.203-1 states that "a fixed-price contract with economic price adjustment provides for upward and downward revision of the stated contract price upon the occurrence of specified contingencies." Adjustments may reflect changes in actual costs of labor or material or in specific indices of labor or material costs. This amount reflects economic price adjustments to base award amounts at the time of our audit. While assessing the type of contract used was outside the scope of our audit and we do not express an opinion on the contract vehicle selected by BOR, BOR stated that it was using a fixed-price contract because BOR personnel do not have the time or expertise to oversee a cost contract.

March 2023 and October 2025. These contracts made S.J. Louis the largest recipient of funds from the IIJA's Indian Water Rights Settlement Completion Fund as of September 2025.

Before these contracts were awarded, S.J. Louis had received less than $1 million in Federal contracts. Due to its lack of Federal contracting experience, BOR determined that S.J. Louis represented "slightly more elevated risk to the Government" and established specific oversight measures in the contracts. These included holding weekly and monthly meetings on project progress, using specification books and drawings to determine adequate quality assurance, and reviewing inspectors' daily reports to track progress and safety and ensure compliance and efficiency.

Both contracts received multiple bids and proposals. Specifically, Contract No. 140R4022C001 was negotiated, and Contract No. 140R4023C005 was a sealed bid below the Independent Government Cost Estimate.[4] S.J. Louis provided the lowest proposal for both contracts. BOR conducted a price analysis for both contracts and determined S.J. Louis' prices were fair and reasonable.[5]

BOR Contracting Organization

BOR construction and contract administration staff are organized by regions. BOR's Four Corners Construction Office is in the Upper Colorado Basin Region and is responsible for NGWSP projects. The contracting officer for these projects was a BOR regional employee until that position moved to DOI's Office of Policy, Management, and Budget as part of a consolidation[6] of financial management and other personnel that began in April 2025.

BOR's Technical Service Center (TSC) consists of over 575 scientists, engineers, and other professional and office staff who work on water and power projects. TSC develops designs, specifications, and drawings, and assists in reviewing submittals for completeness and responding to questions to ensure that BOR's requirements are accurately reflected in the specifications. See Figure 2 for BOR's organizational chart.

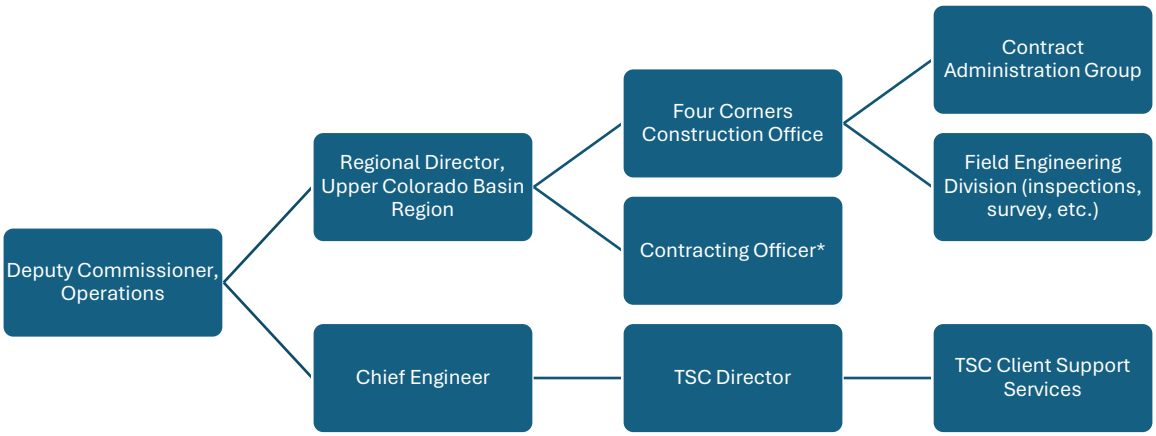
BOR policy states that regional directors and the director of TSC will collaborate to optimize maintenance of technical capabilities from a BOR-wide perspective.

[4] Federal Acquisition Regulation 36.203 requires independent government estimates of construction costs to be prepared in as much detail as though the Government was competing for award.

[5] Federal Acquisition Regulation 15.404-1(a)(2) states that price analysis shall be used when certified cost or pricing data are not required to ensure that the final agreed-to price is fair and reasonable. Federal Acquisition Regulation 14.408-2 states that price analysis techniques may be used as guidelines and the price analysis shall consider whether bids are materially unbalanced.

[6] Secretarial Order 3429, *Consolidation, Unification and Optimization of Administrative Functions*, issued April 17, 2025.

Figure 2: BOR Organization Chart



Source: OIG created based on BOR information.

*This position was moved to DOI in May 2025.

Results of Audit

We found that BOR generally performed required oversight, in accordance with the contract terms, necessary to ensure that S.J. Louis performed and complied with contract terms and conditions. However, we also found that BOR failed to confirm that one of S.J. Louis' suppliers provided steel and iron materials that were manufactured in the United States or a designated country as required by the Buy American Act.

BOR Generally Performed Necessary Oversight

While there were issues with contractor compliance, safety, and performance early in the period of performance from 2022 through 2024, BOR's oversight and the corrective actions taken by S.J. Louis resolved those issues by the time we conducted this audit in 2025.

As required by both contracts, BOR and S.J. Louis met weekly to review progress, difficulties in performing work, contract documents, progress reports, and other items determined by the Contracting Officer. S.J. Louis and the Contracting Officer's Representative also met monthly to review progress made on the project and to discuss and agree on changes to the schedule.

At the time of our audit, the Contracting Officer stated that S.J. Louis made significant improvements in safety, contractor compliance, and performance and that any delays were caused by the Government. For example, BOR revised drawings to accommodate a gas company's easement and for slope realignment that was required due to harsh ground surface conditions. These contract modifications resulted in an extension of the period of performance.

At the time of our audit, BOR told us that it did not have any ongoing concerns regarding timeliness or S.J. Louis' safety program.

Safety

We reviewed BOR inspection officials' monthly, weekly, and daily reports of site conditions for both contracts[7] and found that safety concerns prompted by a number of incidents that occurred early in the contract's performance decreased over time. In addition, we reviewed monthly accident summary reports documenting injuries and illnesses and we found that those incidents also decreased.

Consistent with our findings, BOR officials stated that safety was a concern on the first project, but through BOR's oversight process, safety adherence improved during the performance period. BOR told us that during the first six months of the project, there was confusion on what was required to be reported. BOR's safety concerns included a subcontractor who fell off a ladder next to a trench box,[8] causing him to hit his head and lose consciousness. Other concerns related to noncompliance included unsecured trench box and ladder connections, gaps between the trench walls and trench box, and conducting work during low-light conditions.

In February 2023, BOR issued a letter of concern to S.J. Louis that noted multiple safety issues, what it termed as S.J. Louis' disregard of safety protocols and BOR concerns regarding unsafe practices, and BOR's attempts to enforce safety requirements. The letter said that if the issues were not resolved, a default notice would be

[7] We reviewed reports for the first contract dating from May 2022 through December 2024 and the second contract dating from August 2023 through December 2024.

[8] A trench box is a steel or aluminum protective structure placed in an excavation to prevent trench walls from collapsing and to safeguard workers during pipe installation or other underground construction. It resists soil pressure, creating a stable, enclosed workspace that reduces the risk of cave-ins. See https://www.osha.gov/trenching-excavation.

issued, which could result in a contract termination. In April 2023, BOR issued a Contract Non-Compliance Notice to S.J. Louis. While the notice acknowledged positive actions S.J. Louis took in response to BOR's recommendations, it described unresolved items and called for some remaining improvements to be made. BOR met with S.J. Louis to address the remaining issues and reported to us that S.J. Louis management changed its attitude on safety. Specifically, S.J. Louis appointed a new safety manager who, according to BOR, followed safety standards. Previously, S.J. Louis had five onsite safety managers in less than eight months on the project. As of December 2023, BOR reported that S.J. Louis improved its compliance with safety standards and met all safety requirements, which BOR stated will likely improve S.J. Louis' performance rating. BOR also reported safety concerns early in the second project, including hitting a pipe while excavating and a suspected heat stroke incident, but noted that S.J. Louis improved its safety culture to comply with contract terms. S.J. Louis' inspection and accident reports show that incident numbers have declined since the contract began, confirming the company's focus on safety.

BOR requires contractors to develop customized site safety plans, hold regular safety meetings, and report safety incidents to BOR. S.J. Louis submitted customized site safety plans for both projects and held safety meetings as required by BOR's health and safety manual. At the time of our audit, BOR told us that S.J. Louis significantly improved its reporting of safety incidents and emphasized transparency.

Hiring

While evaluating project proposals in October 2021, BOR assessed how contractors planned to comply with Navajo hiring preferences. BOR rated S.J. Louis' hiring plan as a "significant weakness" due to its lack of development. For instance, the plan did not fully address how S.J. Louis planned to adhere to the Navajo Preference in Employment Act, which requires all employers doing business within the territorial jurisdiction of the Navajo Nation to give employment preference to Navajo Nation members.[9] Both projects were located within the Navajo Nation.

The Office of Navajo Labor Relations, a Tribal office within the Navajo Nation government, is responsible for enforcing Tribal labor laws and promoting fair employment practices. BOR cited guidance from the Office of Navajo Labor Relations when it issued a Contract Non-Compliance Notice to S.J. Louis in April 2023 that stated that S.J. Louis was not adhering to the Act or fulfilling the associated reporting and hiring requirements. By February 2025, the Office of Navajo Labor Relations stated that S.J. Louis was in compliance. The Office of Navajo Labor Relations stated to us that S.J. Louis' management was initially resistant to implementing the Act, but conditions improved with S.J. Louis' human resources involvement and new onsite management.

Payment and Performance Oversight

BOR officials are responsible for ensuring that work is satisfactory and adheres to established contract benchmarks, such as meeting milestones and adhering to the schedule. BOR demonstrated oversight of performance, ensured required performance and cost documentation was submitted, and implemented changes to the period of performance when necessary. Additionally, no liquidated damages were identified for delays, and BOR reported that it did not observe quality issues with the work.

Invoice Accuracy

BOR reviewed contractor costs as part of its contract oversight. We reviewed all 43 invoices for both contracts and associated supporting documentation from December 2021 through September 2024—including pay applications, supply reconciliations, schedules, and as-built maps—for accuracy and compliance with Federal Acquisition Regulation (FAR) standards. All required submissions were present, and we determined that transactions were properly documented, reasonable, and allocable.

[9] Navajo Preference in Employment Act, 15 N.N.C. §§ 601–620 (as amended Jan. 1, 2015).

S.J. Louis submitted an economic price adjustment request to BOR for each contract. We reviewed the requests to determine if they complied with FAR and contract requirements, including verifying eligible material,[10] unit and total price adjustments, and quantity modifications. The new price increases of $1.5 million and $1.2 million signed June 20 and 24, 2024, respectively, were approved by BOR, and we determined that they were allowable under the contract terms.

S.J. Louis met all invoicing requirements. Specifically, its payment summaries reconciled within the acceptable deviation range.[11] We also verified unit-based charges, such as concrete volume, pipe length, rebar weight, lump-sum percentages, and valve installations.

BOR stated that it ensured payments were made after work was completed and that it conducted a layered review. According to BOR, this review involved contractors submitting formal requests for payment, field staff verifying quantities of material weekly, administrators reconciling material counts, and the Contracting Officer authorizing payments after confirming quantities matched contract pricing to prevent premature billing and overpayment.

Contract Performance Assessment Reports

BOR is responsible for issuing *Contractor Performance Assessment Reports* annually in accordance with the FAR.[12] BOR completed several reports for S.J. Louis' two contracts.

The first contract received a "Marginal" rating for the management of the contract in the initial performance year, which was from December 2021 through December 2022. That rating improved to "Very Good" in the subsequent year. Additional data confirmed that S.J. Louis sustained its positive performance into the third year.

The second contract received a "Marginal" rating for the management of the contract in the initial performance year, which was from March 2023 through March 2024, with comments indicating an upward trend in performance. Follow-up data showed S.J. Louis improved to a "Satisfactory" rating in the second year.

BOR Did Not Verify Compliance with Buy American Requirements

Although BOR generally performed necessary oversight, it did not verify whether S.J. Louis complied with the Buy American Act. The Buy American Act was enacted to "create demand for domestically produced goods, helping to sustain and grow domestic manufacturing and the millions of jobs domestic manufacturing supports throughout product supply chains."[13] The FAR implements the Buy American Act with requirements to use domestic materials in construction performed in the United States.[14]

The FAR uses a two-part test to define domestic construction materials. They must be manufactured in the United States and they must meet various thresholds on the percentage of domestic components depending

[10] Eligible materials are concrete, steel, lumber, PVC pipe (high-density polyethylene products), ductile iron pipe, and fuel for both contracts. Aluminum, and copper were also eligible for the second contract.

[11] FAR 52.211-18 states if the actual quantity of the unit-priced item varies more than 15 percent above or below the estimated quantity, an equitable adjustment in the contract price shall be made upon demand of either party.

[12] FAR 42.1501(b) requires Federal agencies to monitor their compliance with past performance evaluation requirements.

[13] 41 U.S.C. § 8301.

[14] FAR 25.201.

on whether the material consists wholly or predominately of iron or steel.[15] When contracting officers determine that free trade agreements apply, as the BOR Contracting Officer did for the S.J. Louis contracts, the FAR waives Buy American requirements for the designated country's[16] construction materials. The FAR also provides exceptions to Buy American Act requirements that contracting officers may allow, including exceptions based on availability or unreasonable cost.[17] There were no Buy American exceptions requested or approved for either S.J. Louis contract. While the contracting officer must review allegations of noncompliance and take appropriate actions to address any issues,[18] the FAR does not address specific monitoring practices of Buy American requirements and contract clauses.

The Contracting Officer for these contracts told us that the Contracting Officer did not have access to the contract management system containing information necessary to verify the country of origin for construction materials and believed that the verification would be performed by onsite inspectors upon material delivery. However, we found that onsite inspectors were not present at all material deliveries and did not have the information needed to verify the country of origin. The BOR contracting administration staff stated that the verification would likely happen through TSC's review process. A TSC official, however, told us that TSC does not typically check for Buy American compliance. BOR contract administration officials and BOR TSC officials told us that they rely on the other office to verify compliance with Buy American requirements. When we followed up on Buy American verification, a BOR onsite inspection official told us that BOR primarily relies on the contractors' quality control officers to ensure supplies are properly sourced domestically or through designated countries. In short, each party with a potential role in this process stated that it assumed that the other was performing this required task.

All but one of S.J. Louis' suppliers for these projects specified production locations in the United States or other designated countries. One of the suppliers, which provided $1,177,888 in materials consisting predominately of steel for the projects, did not identify production locations. The supplier's fiscal year 2023 *Annual Financial Report* stated that the supplier buys its products and supplies "from suppliers that manufacture and source products from the U.S. and abroad." The report did not specify the international locations. Because we could not determine whether the material was manufactured in the United States or a designated country, we question the full amount of $1,177,888.

We found a lack of adequate controls to ensure the contractor and subcontractors met Buy American requirements. The Contracting Officer told us that no formal policy or checklist exists to ensure supply sources are verified and BOR policy and DOI Acquisition Regulation do not specify Buy American procedures.

[15] FAR 25.201(b)(2)(i) states, "Except for construction material that consists wholly or predominantly of iron or steel or a combination of both, the cost of domestic components must exceed 60 percent of the cost of all the components, except that the percentage will be 65 percent for items delivered in calendar years 2024 through 2028 and 75 percent for items delivered starting in calendar year 2029." FAR 25.201(b)(2)(ii) states, "For construction material that consists wholly or predominantly of iron or steel or a combination of both, the cost of foreign iron and steel must constitute less than 5 percent of the cost of all the components used in such construction material."

[16] FAR 52.225-11. Designated countries fall under the following categories: (1) World Trade Organization Government Procurement Agreement country, (2) Free Trade Agreement country, (3) least developed country, and (4) Caribbean Basin country.

[17] FAR 25.202.

[18] FAR 25.206 (a) – (c). Appropriate action may include (1) processing a determination concerning the inapplicability of the Buy American statute, (2) considering requiring removal and replacement of the unauthorized foreign material, (3) making a determination to retain foreign construction material (see FAR 25.206(c)(3), or (4) considering terminating the contract for default.

Recommendations

We recommend that BOR:

1. Develop and implement Bureau of Reclamation-wide guidance regarding Buy American Act verification procedures for construction projects that are subject to the Buy American Act requirements and provide training to appropriate officials to ensure proper application and documentation of these procedures.

2. Resolve the questioned costs of $1,177,888 for materials provided by one of S.J. Louis' suppliers that did not identify production locations.

Conclusion and Recommendations

Conclusion

We found that BOR performed required oversight, in accordance with the contract terms, necessary to ensure that S.J. Louis performed and complied with contract terms and conditions for the two contracts awarded to S.J. Louis for the NGWSP. While there were issues with contractor compliance, safety, and performance early on, BOR's oversight and the corrective actions taken by S.J. Louis resolved those issues by the time we conducted this audit. However, we found that BOR did not verify compliance with Buy American requirements for either S.J. Louis contract. As a result, $1.18 million in construction materials were not verified and may have violated Buy American requirements. The deficiencies we found occurred because BOR lacked adequate controls to ensure that contractors and subcontractors meet Buy American requirements.

While we reviewed only two contracts, our findings highlight issues that may be present in past or current BOR construction contracts impacting undetermined quantities of construction material.

We make two recommendations to help BOR comply with Buy American requirements.

Recommendations Summary

We provided a draft of this report to BOR for review. BOR did not concur with Recommendation 1; we discussed this recommendation with BOR and agreed on an alternate solution that met the intent of our original recommendation. As result, we revised Recommendation 1. BOR concurred with Recommendation 2. We consider Recommendation 1 and Recommendation 2 resolved. Below we summarize BOR's response to our recommendations, as well as our comments on its response. See Appendix 4 for the full text of BOR's response.

We recommend that BOR:

1. Develop and implement Bureau of Reclamation-wide guidance regarding Buy American Act verification procedures for construction projects that are subject to the Buy American Act requirements and provide training to appropriate officials to ensure proper application and documentation of these procedures.

   BOR Response: BOR did not concur with our original recommendation to modify the *Reclamation Manual*, stating that additional controls are not necessary, given the questioned materials represent approximately 1 percent of overall contract costs. BOR stated that it believes that the small percentage of questioned materials does not warrant the costs nor time required to modify the *Reclamation Manual*. During a follow-up discussion with DOI[19] officials, DOI agreed to issue a BOR-wide memorandum with guidance regarding Buy American Act verification procedures for construction projects that are subject to Buy American Act requirements. It also stated that the contracting officer will ensure that Buy American Act verification requirements are clearly communicated and understood during both pre- and post-award conferences and reiterated in post-award meetings. In addition, the contracting officer will routinely review the prime contractor's Buy American Act submissions to verify that both the prime contractor and its subcontractors have met all Buy American Act requirements prior to authorizing payment for any materials.

   BOR's response also stated that the head of contracting activity will ensure that Buy American Act verification is incorporated into a contracting officer representative targeted training and that this

[19] Previously, these officials served as BOR officials; however, following Secretarial Order 3429 issued on April 17, 2025, their positions were moved when administrative functions, including financial management, were consolidated within the Office of the Secretary.

training will provide appropriate officials a refresher on the Buy American Act verification, designated country application, and documentation sufficiency requirements to support acceptance and payment decisions.

BOR initially set June 15, 2026, as the target date to communicate Buy American Act verification requirements at both pre-and post-award stages. Since this date has passed, we will follow-up with BOR on the status of this recommendation. BOR targeted November 2026 for training implementation.

Status: Resolved. We will track implementation under Recommendation No. 2024-WR-042-01.[20]

OIG Comment: Based on the follow-up discussion with DOI, we agree that a BOR-wide guidance memorandum, communication during pre- and post-award conferences and post-award meetings, and associated training meet the intent of our original recommendation and we modified the recommendation accordingly. This recommendation will be implemented when BOR provides documentation demonstrating it has issued written guidance establishing Buy American Act verification procedures and incorporated those verification procedures in its training materials.

2. Resolve the questioned costs of $1,177,888 for materials provided by one of S.J. Louis' suppliers that did not identify production locations.

   BOR Response: BOR concurred with the recommendation and stated the subcontractor has not provided sufficient documentation to demonstrate the production locations complied with the Buy American Act requirements. BOR stated the contracting officer will issue a letter to S.J. Louis, the prime contractor, requiring immediate submission of adequate country of origin documentation for the materials and for all future deliveries, reaffirming applicable Buy American Act clauses and designated country determinations.

   BOR provided an August 15, 2026, target implementation date.

   Status: Resolved. We will track implementation under Recommendation No. 2024-WR-042-02.

   OIG Comment: This recommendation is resolved. It will be implemented when BOR provides documentation demonstrating it has verified the production location for questioned costs of $1,177,888 to be compliant with Buy American Act requirements and recover any portion of the questioned costs that are found to be in violation of Buy American Act requirements.

[20] The numbering convention we use to track recommendations is the report number followed by sequential recommendation digits.

Appendix 1: Scope and Methodology

Scope

We audited the funds provided under Section 40901 of the IIJA for water conveyance and rural water projects administered by DOI. Our audit focused on the construction activities S.J. Louis performed for BOR.

The scope included Contract Nos. 140R4022C0001 and 140R4023C0005 between BOR and S.J. Louis from December 2021 to September 2024. For 140R4022C0001, we assessed 30 invoices comprising 83 transactions, with total obligations of $79,538,292 and payments totaling $74,740,764. For 140R4023C0005, we reviewed 13 invoices covering 18 transactions, with obligations of $70,974,844 and payments of $42,977,757. Altogether, our scope included 43 invoices and 101 transactions, representing $150,513,136 in total obligations and $117,718,521 in payments across both contracts.

Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We tested whether the contractor complied with applicable laws, contract terms, and conditions, and determined whether BOR's oversight ensured that the contractor performed in accordance with contract terms and conditions. Our tests and procedures included:

- Verifying that solicitations were properly published and advertised in accordance with FAR 5.101 and FAR 5.102 and that the solicitation processes complied with FAR Parts 14, 15, and 36 as applicable.
- Obtaining and reviewing the documentation supporting technical evaluations and past performance assessments to confirm that contracting officers applied consistent evaluation techniques.
- Obtaining documentation of any safety issues or stop-work orders and verifying whether the contractor adhered to Occupational Safety and Health Administration requirements and contract-specified safety postings, including labor-and-safety hotline notices.
- Examining the competition requirements and ensuring that price competition standards were met and that sufficient evidence supported each contractor selection decision. For example:
    - Reviewing the price determination and reasonableness by obtaining the Contracting Officer's rationale for negotiated prices and confirming compliance with FAR 15.402.
    - Reviewing all contract price adjustments, specifically those for concrete, steel, lumber, PVC pipe, and ductile iron pipe, as well as any labor-rate changes, to ensure none exceeded 3 percent of the then-total contract value.
    - Identifying any instances where the contractor's actions may have unnecessarily increased costs.
- Determining whether quality assurance and performance monitoring procedures confirm that a *Quality Assurance Surveillance Plan* had been prepared in line with FAR 46.401. For example:
    - Examining contractor-submitted progress reports and tracking work timeliness against award deadlines and noting whether liquidated damages were assessed for delays.

- Evaluating oversight and analyzing progress reports and minutes from monthly BOR-contractor meetings to gauge work completion and timeliness.
- Interviewing BOR officials and assessing whether the contracting officer adequately monitored contractor performance and ensuring the submission of all required performance and cost documentation.

- Compiling all expenditures from December 2021 through September 2024 for Contract No. 140R4022C0001 and No. 140R4023C0005 using DOI's Invoice Processing Platform. For example:
  - Testing every invoice to match transaction dates and final amounts with invoice records; confirming signatures and dates from BOR approvers, BOR reviewers, and the contractor; and assessing the reasonableness, allocability, and documentation of each transaction.
  - Performing supply-purchase reconciliations of both contracts.
  - Analyzing all invoices for data reliability and FAR compliance and ensuring payments were only paid for completed work and advance payments were avoided.
  - Examining as-built maps, quantity surveys, and line-item quantity sheets to verify completeness and accuracy.
- Reviewing compliance with the Buy American Act by checking contract provisions, submitted exemptions, and updates obtained through interviews with BOR officials.
- Reviewing employment and hiring records to determine compliance with contractual labor provisions, such as Navajo hiring preferences, and identifying any significant labor-related issues.
- Reviewing allowable price increases. The two contracts had 21 modifications that were increases or decreases in price and economic price adjustments. The Contracting Officer determined all price increases were necessary, and we determined all increases complied with the FAR.

We relied on computer-generated data BOR and S.J. Louis provided from their official accounting system. We tested the data by sampling expenditures and verifying them to source documents such as contract documents, invoices, and S.J. Louis reports. While we assessed the accuracy of the transactions tested, we did not assess the reliability of the accounting system as a whole.

We conducted an exit conference on April 21, 2026, with BOR. During the conference, responsible officials were given the opportunity to provide their views on our results.

Appendix 2: Monetary Impact

Description	Unsupported Costs
Unauthorized purchases	$1,177,888
Total	**$1,177,888**

Source: OIG.

Appendix 3: Abbreviations

Abbreviation	Definition
BOR	Bureau of Reclamation
DOI	U.S. Department of the Interior
FAR	Federal Acquisition Regulation
IIJA	Infrastructure Investment and Jobs Act
NGWSP	Navajo-Gallup Water Supply Project
TSC	Technical Service Center

Appendix 4: Response to the Draft Report

BOR's response to our draft report follows on page 17.

United States Department of the Interior

BUREAU OF RECLAMATION
Washington, DC 20240

JUN 23 2026

IN REPLY REFER TO:
UC-800
4.4.13

VIA ELECTRONIC MAIL

Memorandum

To: Nicki Miller
Assistant Inspector General for Audits, Inspections, and Evaluations

From: Aubrey J.D. Bettencourt
Principal Deputy Commissioner
Exercising the Delegated Authority of the Commissioner
Bureau of Reclamation

Subject: Response to the Draft Audit Report-The Bureau of Reclamation Generally Conducted necessary Oversight of Two Water Supply Project Contracts Report No. 2024-WR-042

The Bureau of Reclamation (Reclamation) acknowledges the Office of the Inspector General's (OIG) findings that Reclamation generally conducted the necessary oversight of contractor performance on the Navajo-Gallup Water Supply Project (NGWSP), including sustained improvements in safety, compliance, and timeliness. We also recognize the OIG's observation that there may be a verification control gap regarding Buy American Act (BAA) documentation specific to a subcontractor, and that OIG has raised questions about $1,177,888 of iron and steel materials that were installed without confirmation of their production locations. We note that the materials were delivered successfully, met specification requirements, and are compliant with the contract specifications; however, the subcontractor did not provide a place of origin for the materials to demonstrate compliance with the BAA.

Reclamation concurs with certain recommendations presented in the draft report but does not concur with all aspects.

1) Reclamation will implement controls to verify domestic sourcing of construction materials by contractors and subcontractors to the extent those controls fall within Reclamation's authority, are consistent with Federal Acquisition Regulations (FAR), and Reclamation's contractual relationship and limited privity with its contractors and subcontractors. Reclamation and the Department of the Interior (DOI) will not engage directly with subcontractors or material suppliers but will continue to implement BAA requirements through its prime contractors as allowed for by law and policy.

2) Reclamation does not concur with modifying the Reclamation Manual, noting that additional controls are not necessary, given the questioned materials represent approximately one percent

of the overall NGWSP, approximately $150 million. As indicated by the OIG draft report all but one supplier on this contract identified U.S. or designated-country production locations as required by the BAA. Reclamation believes that the small percentage of questioned materials does not warrant the costs nor time required to modify the Reclamation Manual. However, recognizing the importance of the BAA requirements, Reclamation and DOI Acquisitions have implemented additional oversight steps within the NGWSP to reinforce the BAA compliance throughout the NGWSP.

3) Reclamation and DOI Acquisitions concur with the recommendation to resolve the question of origin pertaining to $1,177,888 of materials provided by the subcontractor who has not provided sufficient documentation to demonstrate the production locations complied with the BAA requirements. Due to privity of contract, Reclamation will work with the Prime Contractor (PC), who is ultimately responsible for verifying and enforcing the BAA requirements with its subcontractors, to resolve this matter in accordance with FAR 42.202(e)(2).

Working with the Office of Acquisition Management in the DOI, Reclamation will implement the following actions. Where implementation may exceed one year, we have established interim mitigating measures and identified responsible officials.

1) Immediate Corrective Controls (through June 15, 2026). The Contracting Officer (CO), now operating within the DOI Office of Policy, Management, and Budget following the 2025 unification pursuant to Secretary's Order 3429, will ensure that the BAA verification requirements are clearly communicated and understood during both pre and post award conferences, and reiterated in post-award meetings. In addition, the CO will routinely review the PC's BAA submissions to verify that both the PC and its subcontractors have met all BAA requirements prior to authorizing payment for any materials.

   Reclamation's Contracting Officer's Representative (COR), the Four Comers Construction Office inspectors, and the Technical Service Center (TSC) have implemented a verification process to validate the PC's documentation upon receipt of materials and reconcile all quantities against pay applications. In addition, the Reclamation COR will routinely review the PC's acceptance procedures and its review of subcontractor submissions to ensure the PC is appropriately enforcing the BAA requirements and maintaining complete documentation demonstrating subcontractor compliance. The COR will not authorize payment for any quantities that have not been validated by the PC as compliant with BAA requirements.

2) Documentation Repository/Access – The CO will enforce the requirement to provide a centralized repository containing the PC's BAA enforcement records, including its review of country-of-origin evidence for all subcontractors and its self-performed work (e.g., mill test reports, manufacturer attestations). This repository must provide a clear link between supporting documentation, line item deliveries and corresponding pay applications.

3) Resolution of the origin question pertaining to the $1,177,888 of materials that did not have adequate BAA documentation, by August 15, 2026 – The CO will issue a letter to S.J. Louis, the PC, requiring immediate submission of adequate country of origin documentation for the

materials and for all future deliveries, reaffirming applicable BAA clauses and designated country determinations. For the materials at issue, the CO will review all the supporting evidence submitted by S.J. Louis and will determine allowability consistent with FAR BAA requirements, issuing a final determination on the materials (e.g., removal/replacement, retaining foreign material by determination, or disallowance). All Government enforcement actions will proceed through the PC in accordance with Federal privity requirements.

4) Training and Workflow Integration (by November 2026) – The Head of the Contracting Activity (HCA) will ensure that BAA verification training is incorporated into a COR Targeted Training. This training will provide COR/inspectors/TSC a refresher on the BAA verification, designated country application, and documentation sufficiency requirements to support acceptance and payment decisions.

As a final note, the HCA and Reclamation will operate in a manner consistent with Federal privity, that is, Reclamation will enforce BAA requirements exclusively through the PC(s), including requiring documentation, corrective action, and any necessary price or acceptance remedies. Reclamation and DOI will not engage directly with subcontractors or material suppliers.

We appreciate the OIG's collaborative approach and believe these actions will close the identified control gap while sustaining the improvements in safety, performance oversight, and invoice accuracy recognized in the draft report. If you have any questions about this response, please contact Diana Terrell at Diana_Terrell@ios.doi.gov. If you are deaf, hard of hearing, or have a speech disability, please dial 7-1-1 to access telecommunications relay services.

cc: 84-27000 (HMMorrow), 84-27800 (DTerrell), 84-27410 (BOverdiek), 84-27420 (AHumphreys), 82-27820 (MFyffe), FCCO-100 (BDeming), UC-800 (JDurrant), UC-857 (ALoveless)

OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

REPORT FRAUD, WASTE, ABUSE, AND MISMANAGEMENT

The Office of Inspector General (OIG) provides independent oversight and promotes integrity and accountability in the programs and operations of the U.S. Department of the Interior (DOI). One way we achieve this mission is by working with the people who contact us through our hotline.

WHO CAN REPORT?

Anyone with knowledge of potential fraud, waste, abuse, misconduct, or mismanagement involving DOI should contact the OIG hotline. This includes knowledge of potential misuse involving DOI grants and contracts.

HOW DOES IT HELP?

Every day, DOI employees and non-employees alike contact OIG, and the information they share can lead to reviews and investigations that result in accountability and positive change for DOI, its employees, and the public.

WHO IS PROTECTED?

Anyone may request confidentiality. The Privacy Act, the Inspector General Act, and other applicable laws protect complainants. Specifically, 5 U.S.C. § 407(b) states that the Inspector General shall not disclose the identity of a DOI employee who reports an allegation or provides information without the employee's consent, unless the Inspector General determines that disclosure is unavoidable during the course of the investigation. By law, Federal employees may not take or threaten to take a personnel action because of whistleblowing or the exercise of a lawful appeal, complaint, or grievance right. Non-DOI employees who report allegations may also specifically request confidentiality.

If you wish to file a complaint about potential fraud, waste, abuse, or mismanagement in DOI, please visit OIG's online hotline at **www.doioig.gov/hotline** or call OIG's toll-free hotline number: **1-800-424-5081**