



Department of Veterans Affairs Office of Inspector General

Audit of Veterans Health Administration Major Construction Contract Award and Administration Process

VHA needed to improve the major construction contract award and administration process to ensure price reasonableness and prevent fraud, waste, abuse, and mismanagement.

**To Report Suspected Wrongdoing in VA Programs and Operations
Call the OIG Hotline – (800) 488-8244**



DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington, DC 20420

TO: Acting Under Secretary for Health (10B5)

SUBJECT: Audit of Veterans Health Administration Major Construction Contract Award and Administration Process (Report No. 02-02181-79)

1. The Office of Inspector General (OIG) conducted an audit of the Veterans Health Administration (VHA) major construction contract award and administration process.¹ Our objectives were to determine whether major construction contracts were:

- Awarded in accordance with the Federal Acquisition Regulations (FAR).
- Administered in accordance with VA procurement policies and contract terms and conditions.
- Reasonably priced.
- Adequately controlled to prevent fraud, waste, and abuse.

2. The audit found that contract awards, administration, and project management needed to be enhanced to ensure that VA does not pay excessive prices for construction work. The audit identified a risk for excessive prices involving major construction projects valued at \$133.6 million. (See Appendix A on page 17 for details.) The audit also identified \$957,164 in unused funds that should be returned to the construction reserve fund if no longer needed. (See Appendix B on page 18 for details.) Additionally, potential fraud was identified involving certain contract award actions. VHA needs to improve major construction contracting to ensure that contracts:

- Result in reasonable prices for work completed.
- Are in the best interests of the Government.
- Are adequately controlled to prevent fraud, waste, abuse, and mismanagement.

3. The VHA Office of Facilities Management (FM) is responsible for managing all major construction projects. At the time of the audit, FM was administering 31 contracts

¹ Major construction contracts are those that now cost \$4 million or more. One contract valued at over \$3 million was included in the audit since it was considered a major contract when awarded because it exceeded the then \$3 million threshold VA used for major construction contracts.

valued at \$594.6 million where construction had been completed within 24 months of the start of our review or was in process. The audit reviewed each of these contracts and identified contract award and administration problems with 24 contracts.² Contracting officials did not use available tools to ensure that price determinations were adequately supported and that fair and reasonable prices were obtained. Contract award and administration could be improved by:

- Obtaining certified cost and pricing (C/P) data.³
- Ensuring that work not included in the original scope of contracts be considered for competitive bids or negotiated as separate contracts.
- Providing adequate support for determinations of price reasonableness.
- Encouraging that contract changes be forward priced to reduce VA's risk of loss if a contractor exceeds the price agreement.⁴
- Ensuring the adequacy of design work to maintain a low incidence of design errors and omissions (E/Os) and ensure that design work complies with contract specifications, terms, and conditions. Hold Architects/Engineers (A/Es) accountable for design work deficiencies.
- Timely closing out contracts and identifying unused funds that can be returned to the construction reserve account.

4. An independent quality assurance (QA) function is needed to assess and report on the quality of project management and contract administration. Project Managers (PMs) have QA responsibilities and are also directly involved in the overall contract administration process. Poor contractor performance and design E/Os have been identified as the significant contributing causes to construction delays. These deficiencies, as well as the significant number of contract changes, need to be independently evaluated.

5. The report includes a series of recommendations to help strengthen the major construction contract award and administration process. (See the recommendations on pages 14-15.) The former Under Secretary for Health generally concurred with the majority of the audit recommendations. However, he concurred with qualification on recommendations 2, 4, 6, and 7 and provided alternative wording that we found acceptable and that met the intent of our original recommendations. Also, as discussed in the former Under Secretary's comments we eliminated draft report recommendation 12, reducing the number of recommendations in the final report from 13 to 12. (See Appendix D on pages 20-48 for the full text of the former Under Secretary's comments.)

² A detailed review of the contract award and administration process was completed for 8 contracts, and selected aspects of the contracting process were reviewed for the remaining 23 contracts.

³ C/P data is the data needed for contract cost analysis and includes all facts that can be expected to significantly affect price negotiations.

⁴ Under forward pricing, contract change costs are negotiated and approved before or shortly after work commences. This provides the opportunity to lock pricing, with any excess costs borne by the contractor.

In response to the former Under Secretary's comments, we reduced the monetary benefits estimate to reflect VHA's actions to close out contracts where no additional payments were expected. The former Under Secretary's comments provide details on ongoing or planned actions that meet the intent of the recommendations. We will follow up on the planned actions until they are completed.

(original signed by:)

MICHAEL L. STALEY
Assistant Inspector General
for Auditing

Results of Audit

Introduction

We reviewed 31 major construction contracts (\$4 million and higher) valued at \$594.6 million awarded and administered by FM as of July 2002. Property Management Service (PMS) was administering 14 contracts completed in the prior 24 months (but not closed out) valued at approximately \$338.6 million (\$21.8 million of contract changes) and 17 in-process contracts valued at approximately \$256 million (\$8.9 million of contract changes).

Scope of Work

We reviewed individual major construction contract file documentation maintained in VA Central Office (VACO), FM operating procedures, and program management. We also made a site visit to VA Medical Center (VAMC) Sepulveda, CA, and reviewed an in-process construction project. We also observed completion of a final building inspection by the Senior Resident Engineer (SRE) and the inspection team involving construction work at the facility.

The audit determined if there was adequate contract competition, prices were reasonable, contract changes supported, documented, and within contract scope, and that work performed was authorized, performed according to FAR, VA policies and procedures, and contract terms and conditions. We obtained information from responsible project managers, engineers, contracting officials, other agency officials, and contractor personnel. We briefed the Director, PMS, during the review to advise him of the progress of the audit and our findings.

The audit was made in accordance with generally accepted Government Auditing Standards for performance audits.

Results

VHA needed to improve the major construction contract award and administration process to ensure that contract awards result in reasonable prices paid for work completed, are in the best interests of the Government, and are adequately controlled to prevent fraud, waste, abuse, and mismanagement.

Contract Award Issues

FM contracting officials did not utilize available evaluative tools that would ensure that contract price determinations were adequately supported and that fair and reasonable prices were obtained. Defense Contract Audit Agency (DCAA) reviews were not

requested or not effectively used to help establish price reasonableness. The audit reviewed contract awards for four completed contracts valued at approximately \$107.0 million (including \$16.0 million of contract changes) and four in-process contracts valued at about \$88.0 million (including \$9.0 million of contract changes).

In 2 of the 8 contracts reviewed, \$35.5 million in work was authorized that placed VA at risk to incur excessive costs. This amount includes a negotiated contract and a significant contract change, neither of which were subjected to an independent full-scope DCAA audit or the submission of C/P data (\$33.0 million), and a major out-of-scope contract change (\$2.5 million) not subjected to a full-scope independent DCAA audit. The audit also identified the potential for fraud involving these contracts.

Negotiated Contract Award

We reviewed a fixed price contract (V101CC0177) for a clinical addition and renovation at VAMC Ann Arbor, MI, for which the only bid was \$37.7 million. The bid for this contract was \$9.3 million higher than the \$28.4 million A/E estimate. In accordance with FAR 14.404-1, "Cancellation of Invitation After Opening," FM cancelled the solicitation because the Contracting Officer (CO) correctly concluded that price reasonableness could not be determined because only one bid was received. FM converted the sealed bid procurement into a negotiated procurement and began negotiating with the contractor in accordance with FAR 14.404-1(e) (1), which provides that the acquisition process may continue as a negotiated procurement.

Because the bid was significantly higher than the funds available for the proposed contract, FM negotiated scope reductions based on the contractor's initial offer, resulting in a \$32.4 million contract. However, the contractor's price proposal was not subjected to C/P analysis. The following circumstances were noted in the award process that in our view needed additional CO action to better address VA's risk for paying excessive prices.

- **The \$9.3 Million Difference Between the Original A/E Estimate and Low Bid Was Not Adequately Resolved.** VA, with the assistance of an A/E, concluded that the \$9.3 million difference between the bid and the estimate resulted from the original A/E not factoring into the estimate the effects of a lack of competitive pricing (tight labor market and lack of qualified bidders). However, contract file documentation indicates that the original A/E estimate did factor in current market conditions. Specifically, documentation showed that the \$28.4 million A/E estimate was equitable "...for this project in Southwest Michigan at this time." In addition, 1 day before the bid opening, the A/E advised FM by letter: "As we have been indicating for the past 2 years, this part of the country has been experiencing a construction boom like no other in the past and that they had been advised by a number of subcontractors trying to bid the contract that there was only one general contractor bidding." The original A/E advised us that their estimate did consider current market conditions at the time the

estimate was developed and submitted to FM. In our view, the \$9.3 million difference was not adequately resolved.

- **CO Determination for Not Obtaining C/P Data Was Inadequately Supported.** The contract was awarded without requiring the contractor to submit C/P data. FAR 15.403-4, "Requiring Cost or Pricing Data," provides that for negotiated procurements above \$550,000, the CO should obtain C/P data unless he determines price reasonableness based on adequate competition. In our view, the CO did not adequately support a determination of price reasonableness to justify the award without C/P data being submitted. This decision contradicted the CO's earlier determination that price reasonableness could not be determined because only one bid was received.

An Office of General Counsel (OGC) opinion concluded that the CO acted properly in accordance with the FAR and was not required to obtain C/P data. However, we believe that the circumstances of this contract award (lack of competition and significant difference between the bid price and the original A/E estimate) should have prompted the CO to use evaluative tools such as C/P data and an independent DCAA audit to help ensure that VA received a fair and reasonable price. While the CO negotiated a lower price, it resulted from significant scope reductions in construction work to be completed.

- **Documentation Supporting Market Survey Was Inadequate.** FAR 14.408-1, "Award-General," requires that if less than three bids have been received the CO shall determine the reasons why. The CO did not conduct such a survey. There was no documentation in the contract file indicating that a survey was performed or the contractors that were contacted.
- **C/P Data and DCAA Contract Audit Not Obtained on Contract Change Exceeding \$550,000.** In April 2001, approximately 14 months after the contract award, FM executed a \$587,372 contract change to add back work that was eliminated due to the scope reductions previously discussed. The individual line item prices included in the contract change were based on the bid prices included in the original bid. The CO did not require the submission of C/P data for this change based on the determination that there was adequate price competition, and therefore price reasonableness, when the bid was received.

As part of the approval process for contract changes, OGC agreed with the change because of FM's representation that price reasonableness was ensured when the bid was received. However, this representation contradicted FM's original determination that price reasonableness could not be determined because only one bid was initially received. The representation also was not accurate because FM knew that a competitive environment did not exist when the original bid price was submitted. While the OGC agreed with the change, it concluded "...that in the future, all

modifications should be accompanied by a proposal and if over \$550,000, cost or pricing data.”

Expanded Contract Scope

Another contract reviewed (V101DC0163) involved seismic upgrades, retrofitting, and asbestos abatement at VAMC Sepulveda, CA, that was competitively awarded on January 8, 1999, for \$17.8 million. A 1994 earthquake had left the medical center with a great deal of structural damage. The VA Construction Project Management Report showed that this contract was “physically complete” on August 27, 2001.⁵ However, as discussed below, significant additional work for asbestos abatement, seismic upgrades, and retrofitting was added to this completed contract. This work involved a different building not included in the scope of the original contract.

The original contract required seismic upgrades, retrofitting, and asbestos abatement for two VAMC buildings. In October 2001, FM issued a \$297,000 asbestos abatement related contract change for a building not included in the original contract. In June 2002, FM issued a separate contract change for \$2.5 million for seismic upgrades and retrofitting for the additional building. Contract file documentation indicates that VA wanted to complete work on the additional building as soon as possible because of commitments to the local community and veterans groups. The CO was aware that adding the change work to the existing contract rather than competitively bidding the new work would probably result in higher costs. We noted the following circumstances concerning the contract scope change that, in our view, needed additional CO actions to better address VA’s risk for paying excessive prices.

- **The \$2.5 Million Contract Change Was Negotiated without C/P Data.** In December 2001, the SRE prepared a PNM advising that an agreement had been reached with the contractor for a price of \$2.5 million. This agreement was reached without the SRE requiring the contractor to submit C/P data despite the agreement significantly exceeding the FAR \$550,000 threshold for such data.
- **Reliance on DCAA Report to Support Agreement Was Misleading.** Two months after the initial agreement on the \$2.5 million contract change was reached, FM requested that the contractor submit C/P data. FM requested that DCAA perform a review of the C/P data. A \$2.5 million contract change was approved and issued on June 6, 2002. Part of the price justification was that the DCAA report did not question the price proposal. However, FM’s reliance on the DCAA report to support the contract change process is misleading because DCAA was not asked to perform a full-scope audit of the proposal or comment on the reasonableness of the proposed price. DCAA was requested only to perform a limited review to determine the source and basis of the contractor’s proposed prices. A full-scope audit would have

⁵ Physically complete means that building construction is complete and ready for occupancy, with only punch list items remaining to be completed.

determined whether the proposed costs were reasonable, allowable, and allocable to the contract. Key details on the DCAA review follow:

(1) Proposal Review Required Quick Turnaround Time. DCAA initially rejected the contractor's proposal as being inadequate for review because it did not provide adequate support for all of the subcontractor costs. DCAA advised FM that they would issue an adverse opinion if the contractor did not submit additional documentation. The contractor eventually submitted additional documentation on the subcontractor costs. However, since FM needed to get the contract change awarded as soon as possible, DCAA was asked to perform a limited review of the proposal rather than a full-scope audit.

(2) Reasonableness of Subcontractor Prices Not Assured. DCAA reported that approximately 93 percent of the change work was to be performed by subcontractors and that the contractor obtained only one subcontractor bid for each type of required work. In our view, this situation raises a red flag concerning price reasonableness that FM should have addressed. However, DCAA was not asked to complete detailed audit testing needed to determine price reasonableness. Because of this, there was little assurance that VA did not incur excess costs for the work completed.

Project Management and Contract Administration Issues

Improvement in major construction project management and contract administration is needed to ensure that VA pays reasonable prices for work completed. The audit found that construction contract oversight and actions needed to be more effectively completed to limit VA's vulnerability to fraud, waste, abuse, and mismanagement. The audit reviewed 31 contracts valued at \$594.6 million, including \$30.7 million in contract changes. In 14 contracts, \$11.8 million in contract changes needed to be better controlled to ensure that the work was reasonably priced.

Key issue areas needing improvement included: (1) contract changes resulting from design E/Os and asbestos/hazardous waste-related changes, (2) submission of independent cost estimates, (3) forward pricing contract changes, (4) preparation of Price Negotiation Memorandums (PNMs), (5) training for SREs, (6) contract award file documentation, (7) contract schedule slippage, (8) resolution of differences between A/E estimates and contractor bids/proposals, (9) preparation of project management reports, (10) contract close outs, and (11) minor out-of-scope work.

Contract Changes Resulting from Design E/Os and Asbestos/Hazardous Waste-Related Changes

We found that the extent of contract changes resulting from design E/Os and asbestos/hazardous waste-related changes was significant and indicated a need for improved contract/project management and assurances that design work is in compliance with contract specifications, terms, and conditions.

- **Design E/O Contract Changes Added Significant Costs.** We analyzed the causes for contract changes for 6 of the 8 major construction contracts selected for detailed review of the award and administration process. These 6 contracts were valued at approximately \$137.2 million and included 628 contract changes totaling approximately \$17.5 million. There were 182 (29 percent) contract changes resulting from design E/Os at a cost of \$6,157,450 (35 percent). The following examples highlight the extent of design E/O contract changes that occurred. On contract V101BC0174, 22 of 47 (47 percent) of the contract changes were caused by design E/Os. This represented \$2,151,792 (78 percent) of the \$2,749,161 of the contract change costs reviewed. On contract V101AC0145, 19 of 29 contract changes (66 percent) were caused by design E/Os. This represented \$2,461,139 (64 percent) of the \$3,827,836 of the contract change costs reviewed.

The above amounts also include contract changes that were not identified or did not properly reflect the reason for the contract change. For the 6 contract files discussed above, 67 (37 percent) of the 182 contract changes were not properly coded to reflect the causes of the contract changes. On contract V101BC0168, 5 (33 percent) of 15 contract changes were not properly coded to reflect the design E/O. On contract V101AC0156, there were 36 changes resulting from design E/Os. However, 14 of these changes (44 percent) were not identified as design E/Os on the change order report. Chapter 8.4 of the Project Management Handbook, “Contract Modifications,” provides that all contract changes must be coded to reflect the necessity of the work. The correct coding of change order work resulting from design E/Os is critical for effective contract oversight. Incorrect coding of these contract changes could result in a failure to identify poor design work by an A/E and to identify additional costs that could be properly recovered.

The significant number and value of design E/Os indicates that VA may not be getting full value for its construction design costs. FM needs to review design E/O changes to determine whether there are patterns of poor design work. This will help ensure that design work meets with contract specifications, terms, and conditions and will help provide the opportunity for recovery of any unnecessary A/E costs.

- **Asbestos/Hazardous Waste-Related Removal Costs Were Not Accurately Identified.** Asbestos/hazardous waste-related contract work represents a significant cost area that is not being accurately identified in contract design work. We analyzed asbestos/hazardous waste-related contract changes for 14 of the 31 contracts in our audit universe, including all 8 we selected for detailed review of the award and administration process. For the 14 contracts, asbestos/hazardous waste-related costs included in the original contracts were \$10,019,890. However, additional asbestos/hazardous waste-related contract changes totaled another \$5,594,158, raising total costs to \$15,614,048, an increase of approximately 56 percent over the initial contract costs.

For example, on contract V101BC0174, asbestos/hazardous waste-related costs were initially valued at \$2,997,000. However, asbestos/hazardous waste-related contract changes of \$2,788,419 increased total contract change costs to \$5,785,419, a 93 percent increase. On contract V101AC0103, the original price for asbestos removal was \$140,000. Asbestos-related contract changes added another \$166,879 to the contract, a 119 percent increase.

Contract change costs for asbestos/hazardous waste removal as a percentage of total costs also far exceeded contract change costs for general construction work on the same contracts. For general construction work involving these contracts, contract change orders ranged from less than 1 percent to a high of 24 percent of total costs. For asbestos/hazardous waste-related contract changes, the percentages ranged from less than 1 percent to 226 percent.

The fact that far more asbestos is being identified and removed than originally estimated indicates that the original surveys were inadequate and that management of the design contracts needs to be improved. For example, on contract V101DC0163, contract file documentation indicates that the SRE was very dissatisfied with the survey work performed by a subcontractor. According to the SRE, much of the asbestos-related changes should not have been necessary because the additional asbestos detected during the construction contract performance was within easy sight of the asbestos survey subcontractor. The SRE recommended that the subcontractor not be used for any future asbestos survey work.

On contract V101BC0174, VA medical center officials would not let the asbestos contractor complete a full study of asbestos requirements because it would have hampered day-to-day hospital operations. In our opinion, this resulted in at least \$1.4 million of asbestos-related contract change order work.

Senior FM officials also expressed concerns about the high number of asbestos-related change orders and the requisite design work that was not accomplished. FM officials advised that they would review the adequacy of asbestos design work to identify areas that could be improved to reduce change order costs.

Additionally, for contract V101DC0163, the contract file documentation reviewed indicated that the contractor had not promptly submitted to the former SRE required manifests⁶ for asbestos removal for a building included in the contract scope. Contract terms required that the asbestos removal contractor submit manifests to the SRE when asbestos was removed from the site. The timely submission of these manifests is important to ensure adherence with asbestos handling requirements. The timely submission of the manifests would also allow the SRE to ensure that the

⁶ These are documents prepared by contractors in accordance with Federal law governing asbestos removal and disposal. They provide information on the amount of asbestos being removed and where it is being taken for disposal.

quantities of asbestos removed from the site reconcile with base contract and change order asbestos quantities, thereby helping to ensure that VA does not pay excessive costs for the required work.

Submission of Independent Cost Estimates

Chapter 3.24, “Contract Changes,” of FM’s *Resident Engineer Handbook* provides that contract changes shall be supported by an independent detailed cost estimate prepared by the Resident Engineer (RE) or A/E and that in some cases it may be desirable to have the A/E estimate prior to requesting the contractor’s estimate. For 6 of the 8 contracts selected for detailed review of contract award and administration, we found that 17 percent of the A/E cost estimates were received after proposal receipt, with differences ranging from a low of 8 percent on contract V101DC0148 to high of 62 percent on contract V101AC0145.

We also found that for 2 of the 8 contracts reviewed, cost estimates were not adequately supported by independent, detailed cost estimates. On contract V101CC0177, a contract change valued at \$587,372 (discussed on page 3), was supported by a VA estimate of \$583,265 that was based almost entirely on the line item prices included in the contractor’s revised pricing proposal of \$587,320. The negligible difference between the estimate and revised proposal was used as a basis for determining the reasonableness of the contractor’s price. However, since the estimate was based on the contractor’s proposed price, the estimate is not considered independent.

On contract V101DC0163 for a \$2.5 million contract change (discussed on page 4), the SRE prepared a revised estimate 4 months after the contractor agreed to the \$2.5 million price. This estimate reduced the difference between the already negotiated price of \$2.5 million and the revised estimate to less than 10 percent. FM considers proposed amounts to be reasonable if price differences between proposed prices and estimates are within 10 percent of each other. As a result, the revised estimate supported the award of the contract change.

VA estimates that are prepared after contractor proposals have been received or that are based on contractor proposals compromise the integrity of the negotiation process. FM should encourage preparation and delivery of estimates to the SRE prior to receipt of contractor proposals and negotiation of prices. To do otherwise can leave the appearance that the estimate was not independent and the integrity of the negotiation process was compromised.

Forward Pricing Contract Changes

We reviewed contract change reports for all 31 of the contracts included in our audit universe and noted that the costs for contract changes are frequently revised (sometimes up to four times) before a final agreement is reached on the value of the work, placing

VA at risk of additional costs that could be avoided. One reason this occurs is that there is little effort to forward price change order values and agree on a final price when the need for the work is first established. Instead, contract change prices are frequently revised and exceed original negotiated values by hundreds of thousands of dollars or by percentage increases well over 100 percent.

Under the concept of forward pricing, VA's risk of loss is less if the contractor exceeds the price agreement because the contractor bears any additional costs. Changes that are frequently revised and approved long after work has started run the risk of having contractor losses (excessive or unreasonable actual costs) included in the contractor proposal resulting in additional costs to VA.

Preparation of PNMs

FAR 15.406-3, "Documenting the Negotiation," requires that contract negotiations be documented in PNMs that are part of the official contract file. We reviewed 6 of the 8 contracts selected for detailed review of the award and administration process to determine if PNMs were included in the contract change files. We found that 5 of the 6 files included the required PNMs. However, for contract V101DC0148 the file was missing 68 PNMs (37 percent of the required PNMs).

We are aware that only copies of change orders are maintained in VACO and that some of the missing PNMs could be located in field facility files maintained by the SRE or PM. (The former Under Secretary's comments on page 41 indicated that the missing PNMs were found.) Since PNMs are integral to the change order process and official contract file maintained in VACO, copies of PNMs should be included as part of basic change order documentation.

Training for SREs

Chapter 3.2 of FM's *Resident Engineer's Handbook*, "Authority of the Resident Engineer," provides that upon the award of the construction contract the contractor will be advised by letter of the name of the SRE who is designated as the Contracting Officer's Technical Representative (COTR). The SREs are delegated significant contracting authority after contract award, and they are also responsible for the overall day-to-day project management.

However, we found that many SREs lacked formal training necessary to perform contract administration functions. At the time of our review, there were 25 SREs responsible for major construction contracts. Fifteen of these SREs lacked advanced contract administration training, 11 lacked training in C/P data analysis, 8 lacked training in claims avoidance, and 4 lacked training in negotiation. In addition, 13 of 21 PMs also lacked some training in the above subjects. Individuals responsible for contract administration cannot be expected to properly perform this role if they are not adequately

trained. We believe that the lack of contract administration training contributed to the contract oversight and administration problems identified during the audit. (The former Under Secretary's comments on page 41 indicate that FM has taken action to address the training deficiencies identified during the audit.)

The Director, PMS, advised that in the past COTRs were located at contract sites to assist COs and were trained in construction/procurement/administration. However, because of staff reductions over the years and FM's policy decisions to decentralize the contract administration function, SREs have assumed the responsibilities of COTRs. During the audit, the Director, PMS, took action to correct this weakness. An Administrative CO was added to the PM staff, and one of her responsibilities is to identify SRE training requirements and design a plan to complete necessary training as soon as possible.

Contract Award File Documentation

FM utilizes a checklist to ensure that essential contract award documents it has identified are included in the official contract award file. All eight of the contract files we selected for detailed review did not contain the "Technical Clearance of Construction Project Bid Documents," "Contract Synopsis," and the "Contacting Officer Technical Representatives - COTR Designation Letter." Four of the contract files did not contain the "Award Notice to Facility Director," and another contract file was missing the "Bid Abstract." Major construction official contract award files should include supporting documentation required by FM.

Contract Schedule Slippage

While some contracts were completed on time or were on schedule, most were completed well after their scheduled completion dates or were significantly behind schedule. The July 2002 Project Management Information Report (PMIR) indicated that of the 14 completed contracts (valued at \$338.6 million), only 5 (valued at \$122.9 million) were completed on schedule or within 4 months of planned completion. The remaining 9 contracts (valued at \$215.7 million) were completed 6 to 24 months behind schedule. Of the 17 ongoing contracts reviewed (valued at \$256 million), 9 (valued at \$126 million) were on or very close to schedule. However, 8 contracts (valued at \$130 million) were from 4 to 18 months behind schedule.

We reviewed February 2003 PMIR data that showed a continuing pattern of contract slippage. Of 15 completed contracts reviewed, 4 were completed close to schedule, while the other 11 were completed 5 to 23 months late. For the 12 ongoing projects reviewed, PMIR data indicated 5 were close to schedule, while 7 were from 5 to 23 months late.

Contract completion delays resulted from A/E design E/Os, poor general contractor or subcontractor performance, contractor management problems, VA design errors and problems, scheduling conflicts/problems between FM and VA medical center officials,

and a contractor going bankrupt. We found that design delays and errors were major contributors to completion delays for three contracts (contract V101BC0133 valued at \$61,837,000, contract V101AC0166 valued at \$3,207,000, and contract V101AC0172 valued at \$21,299,000).

Contracts completed long after their scheduled completion dates and contracts whose schedules are slipping put VA at risk for additional costs for such problems as future delay/suspension claims and contractor financial problems. In addition, the availability of facilities needed for veteran care is delayed. During the audit, the Director, PMS, initiated actions to more effectively deal with construction delays, including more meetings with contractors to resolve issues, increased monitoring of contract progress, and more aggressive enforcement of contract delivery terms and conditions.

Resolution of Differences between A/E Estimates and Contractor Bids/Proposals

As discussed earlier in the report (contract award issues section on page 4), the SRE made a significant addition to the A/E estimate for a \$2.5 million contract change order on contract V101DC0163 without having the A/E agree with the change. This addition had the effect of reducing the difference between the contractor proposal and the revised estimate to less than 10 percent, a difference that is considered reasonable to support award of the contract. Reducing the difference to less than 10 percent allowed the proposed change order price to be negotiated at the price proposed by the contractor. Also, as discussed earlier in the report (contract award issues section on page 2), in our view an A/E estimate more than \$9.3 million less than the low bid for contract V101CC0177 was not adequately resolved with the A/E.

Chapter 3.24, Paragraph 5, “Contract Changes,” of the FM *Resident Engineer’s Handbook* provides that REs may prepare their own estimate in lieu of the A/E estimate, or in addition to the A/E estimate, for any changes when special conditions render an A/E estimate unrealistic. However, the handbook provides no guidance for controls over the process of changing estimates. To ensure that revisions to A/E estimates are reasonable, valid, and in the best interests of the Government, we believe FM policies and procedures should include a protocol that requires the original estimator be asked to provide written agreement with the change or to document why the change is not warranted. Such documentation should be included in the contract change file. Without this documentation, the integrity of the award and contract change process can be questioned.

Preparation of Project Management Reports

FM’s *Project Management Handbook* provides that the PM conduct periodic inspections to observe quality and progress, solve problems, spot-check project records, and meet with medical center, RE, and contractor personnel. During our onsite visit to VAMC Sepulveda, CA, to review work completed on construction contract V101DC0163, the

SRE told us that the PM periodically visited the site. However, we found no documentation of inspection reports completed by the PM.

In addition to our review, FM's PMS reviewed two major construction contract files involving contracts V101DC0187 and V101DC0176 and reported that required project management inspection reports were not on file. Chapter 8.3 of the *Project Management Handbook*, "Inspections," provides that PMs are to conduct formal intermediate inspections at 60 percent contract completion or as necessary to ensure quality, cost and schedule controls, and that customer needs are being met.

Contract Close Outs

FM does not have an effective program to ensure the timely close out⁷ of major construction contracts and the return of unneeded funds to the construction reserve fund. As a result, contracts are more vulnerable to claims actions or other actions that could put VA funds at risk. In addition, unneeded construction funds may continue to be obligated when they could be made available for other projects.

We reviewed the VHA Financial Management System "Orders Header Inquiry Screen" report and noted that approximately \$1.1 million had been withheld from contract payments involving 14 contracts. In some cases, no contract payments had occurred for several years. As an example, one contract involving over \$455,000 in unused funds had not had a payment against it since May 1993. Our review of contract file information did not find documentation that FM had assessed the continuing need for these funds. (See Appendix B on page 18 for additional details on the contracts involved.) If these contracts are complete, the contractors are not due any additional funds, and there are no outstanding legal issues, FM should return unneeded funds to the construction reserve account for use on other projects. (The former Under Secretary's comments on page 21 indicate that an estimated \$112,000 was being held for potential outstanding issues involving two contracts. As a result, we reduced the reported monetary benefits to \$957,164 to reflect VHA's close out actions on the remaining 12 contracts in response to our findings.)

Minor Contract Scope Change Work

As discussed earlier in the report (contract award issues section on page 4), significant contract scope changes were added to a completed contract (V101DC0163) that, in our view, needed additional actions by the CO to better address VA's risk of paying excessive prices. We also found that other minor scope changes were added to this contract for work that was not included in the original contract scope. Field Supplementary Agreement (FSA) 098 valued at \$17,688 was awarded to the contractor to

⁷ These are construction contracts that are considered complete where all punch list items have been resolved and no further contractor actions are required.

repair an existing structural column in building 22, and FSA 108 valued at \$6,496 was awarded to repair existing brickwork in building 25. Neither of these buildings was included in the original scope of work. The SRE advised us that he requested that the contractor perform the additional work primarily because contractor personnel were at the site already performing work in the buildings included in the contract. However, the contract change justifications do not contain any language indicating the additional work was outside the terms of the contract.

Quality Assurance Issues

FM needs to establish an independent QA function to help ensure the quality of contractor work. Poor contractor performance and design E/Os have been identified as the significant contributing causes to construction delays. These deficiencies, as well as the significant number of contract changes, need to be independently evaluated.

There is no QA function within FM to independently assess and report on the quality of contractor work. Instead, QA responsibilities rest with PM staff. FAR 46.103, "Contract Administration Office Responsibilities," provides that one of the contract administration responsibilities is to develop efficient QA procedures and perform all actions necessary to verify whether supplies and services conform to contract quality requirements. Permitting PM staff to perform the QA function is a potentially serious internal control weakness, since PMs are directly involved in the overall contract process. Without an independent QA function, there is less assurance that construction problems, concerns, safety issues, etc. will be brought to the attention of senior management for timely resolution.

We discussed this problem with the Director, PMS, who acknowledged the lack of an independent QA function. During the audit, he initiated a new program to have COs periodically complete visits to construction sites to independently assess the adequacy of project management and contract administration. A new administrative CO who is not involved in the contract process is in charge of this program. We reviewed the initial two Construction Oversight Reports completed in August 2002 that cited numerous contract administration and project management deficiencies similar to those discussed in this report. For example, one report stated that it was apparent that the contractor was having significant work-related/management problems because it appeared the work and financial requirements were in excess of company capabilities. (The former Under Secretary's comments on page 48 indicate that an FM oversight QA function will play a key role in strengthening program management and contract administration.)

Recommendations

We recommended that the Acting Under Secretary for Health ensure that FM takes action to:

1. Resolve significant differences between the bid price and the A/E estimate with the original A/E prior to contract award.
2. Ensure price reasonableness for contracts awarded where only one contractor submits a bid.
3. Strengthen construction contract price determinations by: (a) obtaining C/P data, (b) ensuring that work not included in the original scope of the contract be considered for competitive bid or negotiated as a separate contract, (c) providing adequate support for determinations of price reasonableness reflected in PNMs, (d) ensuring appropriate documentation to support contract changes, and (e) ensuring that VA requests for DCAA audit assistance to establish price reasonableness be based on full scope audits of contractor proposals.
4. Maintain a low level of design E/Os and ensure that design work is in compliance with contract specifications, terms, and conditions. Hold the A/Es accountable for design work deficiencies.
5. Review the adequacy of asbestos/hazardous waste-related surveys and design work to improve the accuracy of removal estimates that are included in contract specifications and drawings.
6. Encourage that contract change estimates are received by SREs prior to receipt of contractor proposals and that estimates are prepared independent of contractor proposals.
7. Improve management and control of construction contract changes by: (a) encouraging that contract changes be forward priced to reduce VA's risk of loss if a contractor exceeds the price agreement, and (b) improving submission of timely cost proposals on contract changes.
8. Ensure that contract change files include PNMs and that project management and senior resident engineering staff are adequately trained in contract administration.
9. Ensure that official contract award files include all required documentation.
10. Implement more effective project management oversight to reduce contract schedule slippages.
11. Establish an effective program to timely close out major construction contracts and identify unused funds that can be returned to the construction reserve account for use on other projects.

12. Establish a separate QA function to independently assess the quality of project management and contract administration.

Former Under Secretary for Health Comments

The former Under Secretary for Health generally concurred with the majority of the audit recommendations. However, he concurred with qualification on recommendations 2, 4, 6, and 7 and provided alternative wording that we found acceptable and that met the intent of our original recommendations. Also, as discussed in the former Under Secretary's comments, we eliminated draft report recommendation 12, reducing the number of recommendations in the final report from 13 to 12.

Implementation Plan

The former Under Secretary's comments provide details on ongoing and planned implementation actions that meet the intent of the recommendations. A key planned action will be the establishment of an independent FM QA oversight function that can assess the quality of project management and contract administration. Additionally, FM plans to provide a copy of this report to field staff and to hold a national conference call to discuss the report. (See pages 20-48 for the former Under Secretary's general comments and implementation plans. Attachments provided with the former Under Secretary's comments are not included due to the number of documents.)

Office of Inspector General Comments

The implementation plans are acceptable. We will follow up on the planned actions until they are completed.

In response to the former Under Secretary's comments, we revised the report recommendations and the presentation of our findings where appropriate. We believe that the report fairly presents our findings based on the audit results that identified a need for strengthening the major construction contract award and administration process.

As discussed in the former Under Secretary's comments, the OGC provided an opinion concluding that COs followed the FAR concerning the contracts included in the audit.⁸ As discussed in the report findings, our concern is that the circumstances involving the contract awards reviewed (lack of competition and significant scope changes) were not adequately addressed by contracting officials and needed additional analysis and support to better limit VA's potential risk of paying excessive prices. While the general FAR requirements may have been met, COs did not use available evaluative tools (C/P data, DCAA full scope audits, and competitive bids) to help ensure that fair and reasonable

⁸ February 20, 2004, memorandum from Assistant General Counsel to Director, Project Management Service on legal review of OIG draft report, Audit of VHA Major Construction Contract Award and Administration Process.

prices were obtained. The OGC opinion did note that: "...for future similar procurements, the contracting officer is expected to take actions to increase competition."

The former Under Secretary's comments also indicated disagreement with our \$1.1 million estimated monetary benefits involving potentially unneeded construction funds on 14 contracts. He stated that an estimated \$112,000 in unused funds on two of these contracts was needed to cover future expected payments. As a result, we reduced the monetary benefits estimate to \$957,164 to reflect VHA's actions to close out the remaining 12 contracts where no additional payments were expected.

The former Under Secretary's comments also discussed the overall low percentage (less than 1 percent of construction costs) of design E/Os involving 18 contracts that had been recently reviewed by FM. Our concern is that for the contracts we reviewed, the extent and cost of design E/Os were significant relative to other types of contract changes and, therefore, needed management attention to ensure that design work complied with the contracts. We also identified instances where contract changes due to design E/Os were not being properly reported. The focus on design work by the FM QA function should help ensure the adequacy of design work and the reporting of design E/Os to identify areas needing corrective action.

The former Under Secretary's comments also discussed the FM policy on obtaining independent cost estimates that is more stringent than the FAR and highlighted the savings from negotiating contract modifications. While this policy can provide VA additional assurance of price reasonableness and reduced costs, our audit identified instances where cost estimates were not adequately supported by independent cost estimates. We also found that in some cases the reported savings resulting from negotiating contract modifications were associated with contract scope reductions. VA negotiated a lower price but received less construction work.

Summary of Costs Associated with Major Construction Contract Issue Areas

Description	Amount
Negotiated contract not subject to independent contract audit or contractor submission of C/P data. Also, no market survey performed to determine why only one bid/offer received, and inadequate resolution of A/E estimate and original bid/offer. (See pages 2-3 for details.)	\$32,400,000
Contract change (on above contract) not subject to an independent audit or contractor submission of C/P data. (See pages 3-4 for details.)	587,372
Construction contract scope change for work performed involving building not included as part of the original contract. Also, less than full scope audit requested by FM. (See pages 4-5 for details.)	2,500,000
Contract changes resulting from design E/Os. (See page 6 for details.)	6,157,450
Asbestos/hazardous waste-related contract changes exceeding initial contract amounts (\$5,297,158) and an asbestos related contract scope change added to an existing contract (\$297,000). (See pages 4 and 6-7 for details.)	5,594,158
Contract slippage due to design problems. (See pages 10-11 for details.)	86,343,000
Total	<u>\$133,581,980</u>

Summary of Major Construction Contracts with Unused Funds that Should Be Returned to the Construction Reserve Fund

	Contract⁹	Last Action Date¹⁰	Amount
1.	V101DC0119	09/11/1998	\$ 100
2.	V101DC0109	10/20/1998	49,834
3.	V101DC0081	05/20/1999	3,600
4.	V101C1470	09/17/1999	43,209
5.	V101DC0143	06/30/2000	100
6.	V101DC0118	07/31/2000	[100] ¹¹
7.	V101BC0128	08/21/2000	100,000
8.	V101C1553	03/01/2001	6,153
9.	V101DC0142	05/18/2001	[112,049] ¹²
10.	V101CC0083	06/21/2001	81,647
11.	V101DC0087	12/11/2001	10,000
12.	V101CC0028	08/05/2002	6,954
13.	V101C1651	05/19/1993	455,524
14.	V101AC0147	09/30/1998	200,043
	Total		<u>\$957,164</u>

⁹ Source: VHA Financial Management System "Orders Header Inquiry Screen," April 2003.

¹⁰ This is the last date that a contract payment had occurred.

¹¹ These funds are excluded from the total since the former Under Secretary's comments indicate that they have determined that these funds are still needed to cover potential future contract costs. During the audit, FM took action to close out or process close out actions on the remaining contracts.

¹² Ibid.

Monetary Benefits in Accordance with IG Act Amendments

<u>Recommendation</u>	<u>Explanation of Benefit(s)</u>	<u>Better Use of Funds</u>
11	Establish an effective program to timely close out major construction contracts and identify unused funds that can be returned to the construction reserve account for use on other projects.	<u>\$957,164</u>
	Total	\$957,164

Former Under Secretary for Health Comments

Department of Veterans Affairs

Memorandum

Date: March 01, 2004

From: Under Secretary for Health (10/10B5)

Subj.: OIG Draft Report, *Audit of VHA Major Construction Contract Award and Administration Process*, (EDMS Folder 251553)

To: Assistant Inspector General for Auditing (52)

1. Appropriate program offices have reviewed this draft report. We generally concur with the majority of the recommendations, as VHA either already has actions in place or planned that meet the intent of the recommendations.¹ These are outlined in our action plan, included as Attachment A to this response. Please note that in some instances, however, we concur with qualification and provide alternative wording for each affected recommendation, which we believe better reflects the intent. (See attached action plan, recommendations 2,4,6, and 7). We believe the actions outlined in our proposed plan will further strengthen our major construction program contract award and administration process, which is already regarded as highly effective by both the Federal community and the private sector.² We are concerned, however, that the overall tone of the report conveys a very different message and believe it important we work with your staff to address this issue. We are provided under separate cover technical comments, which address what we believe to be technical inaccuracies with the report. Also, we have recently received comments from the General Counsel's office (Attachment A) that addresses several of the draft report findings and recommendations. Specifically, these comments support VHA's position that Facilities Management (FM) contracting officers have acted appropriately in following the Federal Acquisition Regulations (FAR). We hope that you will consider these technical comments as well as comments from the General Counsel before you complete your final report. We discussed with your staff the importance of meeting to discuss these comments, and look forward to that opportunity.

¹ As discussed with your staff, recommendation 12 as shown in the draft report will be deleted in the final report.

² The National Aeronautics and Space Administration, the National Institutes of Health, Arizona State University and the Construction Management Association of America, among others, have all sought instruction from VHA's Facilities Management staff concerning VHA's best practices for contract award and administration process.

2. Assistant Inspector General for Auditing (52)

2. We do not concur with your estimate of monetary benefit of \$1,069,313. Holdback monies from funds already obligated to the contracts reviewed do not represent “unneeded construction funds” that could be obligated to other projects as stated in your report. We believe the miscalculation occurred as a result of your using the last financial activity close date in the Financial Management System as the actual date the contracts were closed. The FMS date shows only the closing date of the last financial activity that occurred on the contracts, not the contract closing dates. Our review of the contracts included in your estimate shows that currently only \$112,000 is being appropriately held on outstanding issues. (See Attachment B)
3. We are also concerned with the information included in the executive summary of the report. Your statement, “We found improper and inadequate contract awards, administration, and project management resulting in potential excessive prices paid by the VA, involving construction projects valued at about \$133.1 million,” could lead the reader to believe that the \$133.1 million figure is an estimate of potential cost savings, not a summary of the costs associated with six contracts reviewed in this audit. We believe you should clarify this statement in the final report, as it could be confused with your estimate of monetary benefits, which is not cited in the executive summary, and which we further clarified in the previous paragraph.
4. While we concur with the recommendation to establish an independent quality assurance function, FM currently has a monitoring process in place that is on-going and ensures that national contracts emphasize meeting the needs of a fundamentally good project management program. For example, a recent FM review of 18 contracts found that the average rate of design errors and omissions was less than one percent of construction cost. If the cost of errors and omissions exceeds two percent of the cost of construction, the contracting officer begins an independent review of the underlying facts to determine if architect/engineer negligence was involved. This FM standard is more stringent than other Federal agencies surveyed. In instances of asbestos removal, Congress established the asbestos fund as a separate line item in the major construction appropriation, in recognition of the difficulty in estimating asbestos removal costs. In another example of the current FM monitoring process, the FAR require independent estimates for changes over \$100,000. FM policy is to obtain independent estimates for changes over \$20,000, and perform a price analysis on changes below \$20,000. For the contracts listed in your report, FM staff has saved approximately \$10 million in negotiating modifications and the contract award mentioned.
5. Thank you for the opportunity to review the draft report. If you have any questions, please contact Margaret M. Seleski, Director, Management Review Service (10B5) at (202) 273-8360.

(original signed by:)

Robert H. Roswell, M.D.

Attachments

Recommendation # 1. The Under Secretary for Health needs to ensure that Facility Management takes action to resolve significant differences between the bid price and the A/E estimate with the original A/E prior to contract award. VHA concurs in principle.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Re-emphasize that significant differences between the bid price and Architects/Engineers (A/E) estimate are resolved to the Contracting Officer's satisfaction.	<p>VHA concurs in principle as Facility Management (FM) is already conforming to Federal Acquisition Regulation (FAR) requirements related to this recommendation. This set of regulations sets the industry guidelines for major construction contracting. FAR does not require the difference between the bid price and A/E estimate to be resolved by the original AE, but simply states that the contractor shall perform such redesign and other services as are necessary to permit the contract award within the funding limitation (FAR 52.236-22). In VHA, every contract award is reviewed by the Contracting Officer to ensure compliance with FAR. This OIG recommendation is based on only one instance. It should be noted that the Office of General Counsel concurred with the contract. However, to reinforce this practice, FM will provide the final OIG report to Project Managers, Senior Resident Engineers (SREs) and contracting officials for review and will discuss the report in an FM national conference call to be held within one month of issuance of this report.</p> <p>In addition, VHA Memorandum 10-95-002 dated April 26, 1995,</p>	N/A			<p>A copy of the OIG report will be sent to the Facility Management (FM) staff in the field upon issuance of the final report.</p> <p>An FM conference call to the field will be held within one month of issuance of the final report.</p> <p>FM VHA Memorandum 10-95-002 dated April 26, 1995 is under (cont)</p>		

Recommendation # 1. The Under Secretary for Health needs to ensure that Facility Management takes action to resolve significant differences between the bid price and the A/E estimate with the original A/E prior to contract award. VHA concurs in principle.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
	entitled, "Management of Major Construction Project Market Conditions Allowance" will be revised to include language outlining procedures to be followed to resolve significant differences between the bid price and the A/E estimate.				revision. The revision is expected to be issued by the end of FY 2004.		

Recommendation # 2. The Under Secretary for Health needs to ensure that Facility Management takes action to conduct independent market surveys regarding <i>sole source bids/offers</i> to determine the cause for a lack of competition. VHA concurs with qualification.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
<p>Ensure price reasonableness by conducting market surveys to determine the reason for the lack of competition when a low number of bids are received.</p>	<p>VHA proposes that the recommendation be reworded to state: "The Under Secretary for Health needs to ensure price reasonableness for contracts awarded where only one contractor submits a bid." This was discussed with OIG staff and they agreed with this wording. VHA is already complying with this recommendation. Existing Project Management Service (PMS) procedures comply with FAR which indicates that independent market surveys are not required, but rather, if less than three bids have been received, the contracting officer shall examine the situation to ascertain the reasons for the small number of responses. Since our procurements are typically competitive, there is not a written policy on market surveys.</p> <p>The OIG recommendation is based on the only contract with a single bidder encountered by FM in the past 3 years. By practice, the FM surveys the marketplace, whenever the offered price and government estimate differ significantly, although they are not required to do so. FM will emphasize the importance of this practice via discussion of this draft report</p>	N/A			<p>The final report will be issued to the field once published.</p> <p>This item has been placed on the agenda of a FM national conference call with the Field to be held within one month of issuance of the OIG final report.</p> <p>Establish an independent FM Quality Assurance oversight function. This is under development, and will be chartered by the end of the third quarter FY 2004.</p>		

Appendix D

Recommendation # 2. The Under Secretary for Health needs to ensure that Facility Management takes action to conduct independent market surveys regarding <i>sole source bids/offers</i> to determine the cause for a lack of competition. VHA concurs with qualifications.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
	<p>with the Project Managers in a FM national conference call to be held within one month of issuance of the final OIG report.</p> <p>The new FM Quality Assurance oversight function will be asked to review the adequacy of this practice and whether additional monitoring or written policy is required.</p>						

Recommendation # 3. The Under Secretary for Health needs to ensure that Facility Management takes action to strengthen construction contract price determinations by a) obtaining C/P data when required; b) ensuring that work not included in the original scope of the contract be competitively bid or negotiated as a separate contract; c) providing adequate support for determinations of price reasonableness reflected in Price Negotiation Memorandums (PNMs); d) ensuring appropriate documentation to support contract charges; e) ensuring that VA requests for Defense Contract Audit Agency (DCAA) audit assistance to establish price reasonableness be based on full scope audits of contractor proposals. VHA concurs in principle.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Ensure compliance with construction contract price (C/P) determinations.	<p>VHA concurs in principle as we are already complying with this recommendation.</p> <p>a) Cost or pricing data (C/P) is required by FAR for negotiated procurements above \$550,000, unless price reasonableness is determined by adequate competition. In the contract reviewed in this recommendation (V101CC0163), a certificate of C/P data was executed on June 5, 2002 and is provided as an attachment to this action plan as Attachment C. The Amendment of Solicitation/Modification of Contract was executed on June 14, 2002. FM will ensure compliance with its contract price (C/P) determination processes through a review of the adequacy of these processes by its QA function.</p> <p>b) OIG and FM interpret FAR guidance differently regarding the handling of this contract price determination. The bid on this contract was submitted with the expectation of competition. Expectation of price</p>				<p>a) FM's current contract audit program is already on going and addresses this. However, the establishment of an independent FM Quality Assurance (QA) function will reinforce the work of the FM contract audit program. This FM QA function is currently under development, and is to be chartered by the end of the third quarter of FY 2004.</p> <p>b) FM will reinforce compliance with FAR in determining price reasonableness in a national conference call with the field within one month of the issuance of the final report.</p>		

Recommendation # 3. The Under Secretary for Health needs to ensure that Facility Management takes action to strengthen construction contract price determinations by a) obtaining C/P data when required; b) ensuring that work not included in the original scope of the contract be competitively bid or negotiated as a separate contract; c) providing adequate support for determinations of price reasonableness reflected in Price Negotiation Memorandums (PNMs); d) ensuring appropriate documentation to support contract changes; e) ensuring that VA requests for Defense Contract Audit Agency (DCAA) audit assistance to establish price reasonableness be based on full scope audits of contractor proposals. VHA concurs with clarification.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Ensure compliance with construction contract price (C/P) determinations (cont)	reasonableness is considered by FAR to be a valid measure of determining price reasonableness. FM will reinforce this practice through discussion of this report in a national FM call to be held within one month of issuance of the final report. c) The contract file provides documentation as to why less than three bids were received. The Contracting Officer (CO) determined that the construction market was saturated beyond local capacity. In a tight market, when the contractor can choose less difficult work, the VA project was not as appealing as less difficult work. A copy of the GLHN, (an independent review firm) analysis of the variance between the estimated probable cost of construction by the A/E and the actual contractor bid amount is provided to this action plan as Attachment D. d) FM will continue following FAR, to ensure proper documentation exists to support contract changes as it currently	N/A			c) FM already addresses this recommendation through its current and on-going contract audit process. This item of the recommendation will be discussed in an FM conference call to the field to be scheduled within one month of the issuance of the final OIG report. d) This item of the recommendation will be reinforced in the FM conference call to the field to be scheduled within one month of the issuance of the final OIG report.		

Recommendation # 3. The Under Secretary for Health needs to ensure that Facility Management takes action to strengthen construction contract price determinations by a) obtaining C/P data when required; b) ensuring that work not included in the original scope of the contract be competitively bid or negotiated as a separate contract; c) providing adequate support for determinations of price reasonableness reflected in Price Negotiation Memorandums (PNMs); d) ensuring appropriate documentation to support contract changes; e) ensuring that VA requests for Defense Contract Audit Agency (DCAA) audit assistance to establish price reasonableness be based on full scope audits of contractor proposals. VHA concurs in principle.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Ensure compliance with construction contract price (C/P) determinations. (cont)	is doing. A combination of DCAA audit data and independent technical data, as was performed in this contract, is permissible by FAR to determine price reasonableness. None of the alternates added to the contract were over the \$550,000 amount, at which point a full DCAA audit would be required. DCAA did perform an audit of the contractors revised proposal to "evaluate the proposed sub-contract labor, material, equipment, and other costs." (DCAA Audit Report # 4141-2002M28000008 & VA Audit Control # 2002-00021-PE-0002-001). Since DCAA does not have the level of expertise to perform an audit in accordance with all VA requirements, the VA construction work practice is to have this performed by the Senior Resident Engineer (SRE) and/or the Architect/Engineer (A/E). VA was satisfied that the negotiated cost for this change was reasonable. The Office of General Counsel also concurred with the determination.						

Recommendation # 3. The Under Secretary for Health needs to ensure that Facility Management takes action to strengthen construction contract price determinations by a) obtaining C/P data when required; b) ensuring that work not included in the original scope of the contract be competitively bid or negotiated as a separate contract; c) providing adequate support for determinations of price reasonableness reflected in Price Negotiation Memorandums (PNMs); d) ensuring appropriate documentation to support contract changes; e) ensuring that VA requests for Defense Contract Audit Agency (DCAA) audit assistance to establish price reasonableness be based on full scope audits of contractor proposals. VHA concurs in principle.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Ensure compliance with construction contract price (C/P) determinations. (cont)	Although already complying with FAR, FM will reinforce the need for appropriate documentation in the planned conference call with the field on this report. In the contract OIG references in this recommendation, FAR does not require cost/price (C/P) data for competitively priced changes. When smaller changes are combined for administrative convenience, FAR does not require audits for the total cost of these changes if they exceed the \$550,000 threshold. e) The pricing for the deduct alternates added to the work were determined to be competitive through the original bid. Therefore, C/P data was not required. This method of determining price reasonableness is important in any major construction contract. FM will review with appropriate staff, FAR and situations in which it is appropriate to invoke the change clause of general conditions for changing the scope of a project, versus the use of competitive bidding or				e) This item will be placed on the agenda of a national FM call to the field to be held within one month of the issuance of the final OIG report.		

Appendix D

Recommendation #3. The Under Secretary for Health needs to ensure that Facility Management takes action to strengthen construction contract price determinations by a) obtaining C/P data when required; b) ensuring that work not included in the original scope of the contract be competitively bid or negotiated as a separate contract; c) providing adequate support for determinations of price reasonableness reflected in Price Negotiation Memorandums (PNMs); d) ensuring appropriate documentation to support contract changes; e) ensuring that VA requests for Defense Contract Audit Agency (DCAA) audit assistance to establish price reasonableness be based on full scope audits of contractor proposals. VHA concurs in principle.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
	negotiations as separate contracts. This will be done through a review of this recommendation in an FM national conference call with the field to be held within one month of issuance of the final OIG report.						

Recommendation # 4. The Under Secretary for Health needs to ensure that Facility Management takes action to implement more effective project management techniques to reduce the number and cost of design E/Os and ensure that design work is in compliance with contract specifications, contract terms, and conditions. Hold responsible Architect/Engineers (A/Es) accountable for design work deficiencies. VHA concurs with qualification.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Ensure effective project management techniques are adhered to in order to maintain a low level of A/E errors and omissions (E/O), hold the A/E accountable for design work deficiencies, and ensure good work design.	VHA proposes that the recommendation be reworded to state: "The Under Secretary for Health needs to ensure that Facility Management takes action to maintain a low level of design E/O's and ensure that design work is in compliance with contract specifications, contract terms, and conditions. Hold the Architects/Engineers (A/Es) accountable for design work deficiencies." VHA concurs with this recommendation, as FM is already taking these actions. Errors and omissions by FM's A/E's are low. FM policy on the oversight of E/Os, is contained in FM Memorandum 08-89-01, dated February 14, 1989. This memorandum outlines FM's policy for tracking and reviewing the errors and omissions by the A/E on individual projects. A recent FM review of the 18 contracts analyzed by the OIG in this report found that the average rate of A/E design E/Os was less than one percent of the construction cost of the contracts. This percentage is low and indicates generally good design. An attachment of these findings is provided with				FM's contract audit program is in place and already on-going and addresses this recommendation. FM Memorandum 08-89-01 will be updated by the end of FY 2004. FM will establish an independent FM Quality Assurance function. This will be chartered by the third quarter of FY 2004. Planning is currently under development.		

Recommendation # 4. The Under Secretary for Health needs to ensure that Facility Management takes action to implement more effective project management techniques to reduce the number and cost of design E/Os and ensure that design work is in compliance with contract specifications, contract terms, and conditions. Hold responsible Architect/Engineers (A/Es) accountable for design work deficiencies. VHA concurs.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Ensure effective project management techniques are adhered to in order to maintain a low level of A/E errors and omissions (E/O), hold the A/E accountable for design work deficiencies, and ensure good work design. (cont)	<p>this action plan as Attachment E.</p> <p>If the errors or omissions exceed 2 percent of the costs of the construction, the Contracting Officer begins an independent review of the underlying facts to determine if any negligence is involved. Some other Federal agencies do not address A/E error and omissions unless they rise to the level of negligence. In A/E errors involving negligence, FM requests compensation from the A/E for the cost impact to the government.</p> <p>FM will reinforce its policies and processes with the contracting officials through: a) updating its memorandum to include additional guidance regarding its use of a 2 percent trigger for VHA independent reviews and b) Continuing its review of existing contract audits and monitors of A/E error and omissions, which include monitoring of coding on contract changes and assessing trends in A/E E/O's. The FM Quality Assurance (QA) function will review the effectiveness of FM's processes with these existing audits and make any needed recommendations.</p>						

Recommendation # 5. The Under Secretary for Health needs to ensure that Facility Management takes action to review the adequacy of asbestos/hazardous waste-related surveys and design work to improve the accuracy of removal estimates that are included in contract specifications and drawings. VHA concurs in principle.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Assess the adequacy of asbestos/hazardous waste removal design work and hazardous waste removal estimates.	<p>VHA concurs in principle as it is already complying with this recommendation. The increased costs associated with asbestos removal are related, in part, to unknown site conditions, and hidden piping. Unknown site conditions are not necessarily indicators of poor management of the design contract. FM enlists the services of certified Industrial Hygienists to perform the asbestos and hazardous waste surveys. Inspections, however, are limited to locations where the operations of the VAMC and patient care will not be adversely affected. The cost of even potential closure of medical center operations even for short periods of time would significantly exceed the increased abatement costs. As noted in the OIG report, at one site, VA medical center officials would not let a full study of asbestos requirements be conducted, for this very reason.</p> <p>VA's Asbestos Fund was set up to address the special problems asbestos removal represents. FM currently has a Directive in place (VHA Directive 97-030) that provides guidance for the use of the Asbestos Abatement Funds on Major Construction</p>				<p>FM VHA Directive 97-030 to be updated by the end of FY 2004 to add FM's practice of conducting specific asbestos reviews during the design phase of each project.</p> <p>An independent FM Quality Assurance function will be chartered by the third quarter of FY 2004. This is under development.</p>		

Recommendation #5. The Under Secretary for Health needs to ensure that Facility Management takes action to review the adequacy of asbestos/hazardous waste-related surveys and design work to improve the accuracy of removal estimates that are included in contract specifications and drawings. VHA concurs in principle.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
	Projects. FM will update this Directive to include guidance on FM's practice of conducting a specific review during the design phase of each project. In addition, FM will regularly monitor emerging industry technology related to conducting asbestos surveys and monitor the timeliness of manifest submissions through its Quality Assurance (QA) oversight function and FM will adjust its procedures to conform to changes in industry practice.				FM will have an Indefinite Delivery In Quantity Architects and Engineers (IDQAE) firm review the IDQAE data from our master specifications, and present their findings to FM officials and the FM Quality Assurance committee by the end of Q4 FY 2004. These are independent firms contracted by agencies for reviews. FM will adjust its procedures as needed to conform with changes in industry practice.		

Recommendation # 6. The Under Secretary for Health needs to ensure that Facility Management takes action to ensure that contract change estimates are received by Senior Resident Engineers (SREs) prior to receipt of contractor proposals, and that estimates are prepared independent of contractor proposals. VHA concurs with qualification.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Ensure contract change estimates are prepared independent of contract proposals.	VHA proposes that the recommendation be reworded to state: "The Under Secretary for Health needs to ensure that Facility Management takes action to encourage that contract change estimates...." This recommendation, as stated, that contract change estimates are to be received by the Senior Resident Engineers (SREs) prior to receipt of contractor proposals, would limit the discretion of the contracting officer. FAR only requires that independent estimates will be received as soon as practical to the contracting officer and then only for changes over \$100,000. For this reason, we concur with qualification. Current FM practice complies with FAR and is more stringent as its practice is to obtain independent estimates for changes over \$20,000, and perform a price analysis on changes below \$20,000. This is currently in the Project Managers (PM) Handbook and is reviewed in PM training. In addition, FM policy is to obtain an independent contract change estimate prior to receipt of a contractor proposal. FM's Project Manager Handbook Sec. 10-9 details the procedure to be followed in processing				FM's contract audit program is in place and already on-going and addresses this recommendation. OIG final report will be issued to the FM field staff once available. This item will be placed on the agenda of an FM national conference call to the field to be held within one month of issuance of the OIG final report, as a part of a discussion of this audit report.		

Appendix D

Recommendation #6. The Under Secretary for Health needs to ensure that Facility Management takes action to ensure that contract change estimates are received by Senior Resident Engineers (SREs) prior to receipt of contractor proposals, and that estimates are prepared independent of contractor proposals. VHA concurs with qualifications.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Ensure contract change estimates are prepared independent of contract proposals. (cont)	contract changes. A recent FM review indicates that in all the contracts referenced by the OIG, the Resident Engineer (RE) or A/E staff prepared independent cost estimates. FM will reinforce its policies and procedures with the contracting officials by reviewing this report and its recommendations with involved field staff in a national FM conference call to be held within one month of issuance of the final report.						

Recommendation #7. The Under Secretary for Health needs to ensure that Facility Management takes action to improve management and control of construction contract changes by a) requiring that contract changes be forward priced to reduce VA's risk of loss if a contractor exceeds the price agreement; b) including language in contract change orders prohibiting the contractor from exceeding the agreed to price prior to agreement on a new price; and c) require contractors to provide notification when costs are close to the price ceiling on contract changes. VHA concurs with qualification.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Improve management and control of construction contract changes.	<p>VHA proposes that the recommendation be reworded to state: "The Under Secretary for Health needs to ensure that Facility Management takes action to improve management and control of construction contract changes by a) encouraging that contract changes be forward priced to reduce VA's risk of loss if a contractor exceeds the price agreement, and c) improve submission of timely cost proposals on contract changes.</p> <p>a) Forward pricing is the concept in which prices are established before work is started. FM follows FAR which states, "Generally Government contracts contain a changes clause that permit the contracting officer (CO) to make unilateral changes in designated areas, within the general scope of the contract. The constructor must continue performance of the contract as changes, (cont)</p>				<p>FM's existing contract audit program is already on going and addresses this.</p> <p>An independent FM Quality Assurance function will be chartered by the end of FY 2004 to monitor the use of forward pricing to ensure it is being used appropriately.</p>		

Recommendation #7. The Under Secretary for Health needs to ensure that Facility Management takes action to improve management and control of construction contract changes by a) requiring that contract changes be forward priced to reduce VA's risk of loss if a contractor exceeds the price agreement; b) including language in contract change orders prohibiting the contractor from exceeding the agreed to price prior to agreement on a new price; and c) require contractors to provide notification when costs are close to the price ceiling on contract changes. VHA concurs with qualification.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Improve management and control of construction contract changes.	except in cost reimbursement or incrementally funded contracts." The FAR also states that forward pricing may be impractical. When time is critical, as it often is in construction projects, the CO exercises this authority. This can prevent time sensitive work from being impacted by the necessary change. FM complies with FAR on this recommendation. FM policy RE Handbook 3.24 outlines procedures to be made in making a contract change and addresses this recommendation. FM will monitor the use of forward pricing to ensure it is being used when appropriate.						

Recommendation # 7. The Under Secretary for Health needs to ensure that Facility Management takes action to improve management and control of construction contract changes by a) requiring that contract changes be forward priced to reduce VA's risk of loss if a contractor exceeds the price agreement; b) including language in contract change orders prohibiting the contractor from exceeding the agreed to price prior to agreement on a new price; and c) requiring contractors to provide notification when costs are close to the price ceiling on contract changes. VHA concurs with qualification.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Improve management and control of construction contract changes.	<p>Monitoring will be a part of the charter of the FM independent Quality Assurance function. The results of this monitor will be shared with FM officials and involved FM staff in the Field for quality improvement actions as indicated.</p> <p>b) Change orders do not require price agreements in them. As noted in item a) above, FM will encourage forward pricing to be used when appropriate and monitor this through the FM Quality Assurance function.</p> <p>c) Current FM policy complies with this recommendation. The FM Resident Engineer's Handbook states, "The Price Negotiation Memorandums (PNMs) should specifically address the reasonableness of price and time, including any unusual conditions which might cause estimates to appear excessive. If it becomes</p>				<p>b) An independent FM Quality Assurance function will be chartered by the end of FY 2004 to monitor the use of forward pricing to ensure it is being used appropriately.</p> <p>c) The FM QA independent function will monitor compliance with FM's policy regarding the reasonableness of price and time on a quarterly basis beginning in fourth quarter FY 2004.</p>		

Recommendation # 7. The Under Secretary for Health needs to ensure that Facility Management takes action to improve management and control of construction contract changes by a) requiring that contract changes be forward priced to reduce VA's risk of loss if a contractor exceeds the price agreement; b) including language in contract change orders prohibiting the contractor from exceeding the agreed to price prior to agreement on a new price; and c) require contractors to provide notification when costs are close to the price ceiling on contract changes. VHA concurs with qualification.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
	evident that performance costs will exceed the fiscal limit of the change order, the original change order shall be superseded by another change order with a higher price which realistically covers the work being performed." The independent QA function will monitor how often this occurs and if any future action is warranted.						

Recommendation # 8. The Under Secretary for Health needs to ensure that Facility Management takes action to ensure that contract change files include Price Negotiation Memorandums (PNMs) and that project management and senior resident engineering staff are adequately trained in contract administration. VHA concurs in principle.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
<p>Ensure that Price Negotiation Memorandums (PNMs) are available at FM Headquarters</p> <p>and field offices, and that resident engineers (RE) are adequately trained to conduct contract administration.</p>	<p>VHA concurs in principle as we are already complying with this recommendation. Existing FM policy is that PNMs are included in contract files at Headquarters and in the field. Documents reported as missing by the OIG were found, upon review, in the field offices where they were written. VHACO FM will conduct a survey of various FM field offices around the country to ensure that the PNMs are located at the field sites as well as Headquarters.</p> <p>FM contract officer training is on going and training records, dated January 2004 included in this response (Attachment F) demonstrate compliance already with this recommendation. Currently of the Eastern Team's 15 SREs assigned to Major, Minor, Cemetery, EU and Leasing projects, 14 have had advanced Contract Administration, 13 have had C & P analysis, and 14 have had Negotiation training. All SRE's have had Simplified Acquisition Training, required for their warrant. Of the 16 SRE's currently assigned to the Western Team, all hold a basic warrant. In addition, all but one has gone</p>				<p>A survey of various FM files is being conducted to ensure that the PNMs are copied to Headquarters as well as field sites, and will be completed by April 30, 2004.</p> <p>The OIG final report will be sent to the FM field staff once issued.</p> <p>Discussion of this audit report will be placed on the agenda of an FM national conference call to the field to be held within one month of issuance of the final report.</p>		

Recommendation # 8. The Under Secretary for Health needs to ensure that Facility Management takes action to ensure that contract change files include Price Negotiation Memorandums (PNMs) and that project management and senior resident engineering staff are adequately trained in contract administration. VHA concurs in principle.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Ensure that Price Negotiation Memorandums (PNMs) are available at FM Headquarters and field offices, and that resident engineers (RE) are adequately trained to conduct contract administration. (cont)	significantly beyond the required minimum requirements. The OIG report states they found 13 of 21 Project Managers who are direct line supervisors of SRE's that lack some training in the above subjects. In FM, no Project Managers are direct line supervisors of SRE's. FM will reinforce the practices of this recommendation through a national FM conference call to be held within one month of issuance of the final report and issuing a copy of this report to appropriate field staff.						

Recommendation # 9. The Under Secretary for Health needs to ensure that Facility Management takes action to ensure that official contract award files include all required documentation. VHA concurs in principle.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Ensure that official contract award files are consolidated to include all required documentation.	VHA concurs in principle, as it is already complying with this recommendation. The files required by FAR have now been relocated to the award files. VHACO FM office will monitor that these contract award files are maintained through an annual report to its FM Quality Assurance function.				FM's existing contract audit program is already ongoing and addresses this recommendation. An FM Quality Assurance function will be chartered by the end of FY 2004. It is currently under development.		

Recommendation # 10. The Under Secretary for Health needs to ensure that Facility Management takes action to implement more effective project management oversight to reduce contract schedule slippages. VHA concurs.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Reduce contract schedule slippages through improved project management oversight.	VHA concurs with qualification as we are currently complying with this recommendation and have significantly improved in meeting or beating the scheduled targets. Contract slippages refer to projects that are not completed or are significantly behind schedule. FM acknowledges that a number of the projects examined by the OIG were delayed, and has already initiated improved practices to address this recommendation. In December 2000, FM adopted source selection as its standard method of selecting contractors. Contracts awarded since that date meet or beat the scheduled targets. FM VHACO enforces the need to keep contract schedule slippages to a minimum through progress reports on the various contracts reviewed monthly by several management levels. FM officials have enforced this practice with e-mails and Information Letters (IL) to the field that point out key causes for contract slippage and how to best address it.				<p>An independent FM Quality Assurance function will be chartered by the end of FY 2004. It will review the existing processes for assessing the contract slippage and the method in which feedback to the field is provided.</p> <p>FM has already taken action to address this issue prior to the date the OIG draft report was issued.</p>		

Recommendation # 10. The Under Secretary for Health needs to ensure that Facility Management takes action to implement more effective project management oversight to reduce contract schedule slippages. VHA concurs .		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Reduce contract schedule slippages through improved project management oversight. (cont)	The independent FM Quality Assurance function will review the processes in which feedback is provided back to the field on these monthly reports to ensure that untimely situations are responded to promptly. It will provide feedback of its review to FM officials for any needed action.						

Recommendation # 11. The Under Secretary for Health needs to ensure that Facility Management takes action to establish an effective program to timely close out major construction contracts and identify unused funds that can be returned to the construction reserve account for use on the other projects. VHA concurs with recommendation, not projected cost savings. VHA concurs.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Ensure timely closeout on major construction contracts and identification of unused funds.	VHA concurs, as it is already complying with this recommendation. Timely close out on construction contracts means that the contracts are considered complete when all punch list items have been resolved and no further contractor action is required. FM instituted a process in the year 2000 to close out major construction contracts. The process consists of three steps: first, the Project Directors review the open contract list at least once a year; second, they determine which contracts should be closed out and note reasons why others should not be closed; third, the PMs are directed to close out certain projects (this is now in their performance plan). In addition, special training on project closeouts was initiated. and some of the training documents are provided with this reply. Extended maintenance on major new systems such as elevators and fire protection often results in contracts remaining				FM began improving its closeout process several years ago. It now uses a three-step process and will complete training on it with its PMs by May 2004.		

Recommendation # 11. The Under Secretary for Health needs to ensure that Facility Management takes action to establish an effective program to timely close out major construction contracts and identify unused funds that can be returned to the construction reserve account for use on the other projects. VHA concurs with recommendation, not projected cost savings. VHA concurs.		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
	open for up to five years after construction work is actually accepted. In addition, it may take up to 18 months to undertake "completion items" which can follow the actual construction contract work. FM will continue to reinforce timely close out and identification of unused funds through its Quality Assurance oversight function to be developed by the end of FY 2004.						

Recommendation # 13. The Under Secretary for Health needs to ensure that Facility Management takes action to establish a separate QA function to independently assess the quality of project management and contract administration. VHA concurs		Recommendation Metrics					
GOAL	STRATEGY	MEASURE	TARGET	STATUS	ACTUAL	BENCHMARK	PRIOR FY
Independently assess quality of project management and contract administration through an independent quality assurance program.	FM currently has a QA function, using both independent consultants and in-house resources. This includes peer reviews of AE designs and construction inspection. In addition, FM contracting officers conduct audits of the field contract administration. These are described in the Project Management Handbook (chapters 4 and 9, revised March 2003). FM will strengthen its existing program through the establishment of an FM oversight QA function that will systematically review and provide feedback to program officials on the quality of its project management and contract administration. This body will make recommendations to FM officials on areas of vulnerability and for improvement.				An FM Quality Assurance independent function will be chartered by the end of FY 2004. It is currently under development.		

OIG Contact and Staff Acknowledgments

OIG Contact	Stephen Gaskell, Director, Central Office Operations Division (202-565-4098)
Acknowledgments	Michael Bravman, Project Manager
	Jeff McGowan
	Tonya Shorts

Report Distribution

VA Distribution

Secretary (00)
Deputy Secretary (001)
Executive Secretariat (001B)
Chief of Staff (00A)
Acting Under Secretary for Health (10B5)
Deputy Under Secretary for Health for Operations and Management (10N)
Assistant Secretary for Public and Intergovernmental Affairs (002)
Acting Assistant Secretary for Management (004)
Assistant Secretary for Policy and Planning (008)
Deputy Assistant Secretary for Congressional Affairs (009C)
General Counsel (02)
Office of the Medical Inspector (10M1)
Deputy Assistant Secretary for Public Affairs (80)
Chief, Facilities Management Officer (18)
Director, Management and Financial Reports Service (047GB2)

Non-VA Distribution

Office of Management and Budget
Government Accountability Office
Congressional Committees (Chairmen and Ranking Members):
 Committee on Governmental Affairs, United States Senate
 Committee on Veterans' Affairs, United States Senate
 Committee on Appropriations, United States Senate
 Subcommittee on VA, HUD, and Independent Agencies, Committee on
 Appropriations, United States Senate
 Committee on Veterans' Affairs, United States House of Representatives
 Committee on Appropriations, United States House of Representatives
 Subcommittee on Oversight and Investigations, Committee on Veterans' Affairs,
 United States House of Representatives
 Subcommittee on Benefits, Committee on Veterans' Affairs, United States House of
 Representatives
 Subcommittee on VA, HUD, and Independent Agencies, Committee on
 Appropriations, United States House of Representatives
 Staff Director, Committee on Veterans' Affairs, United States House of
 Representatives
 Staff Director, Subcommittee on Oversight and Investigations, Committee on
 Veterans' Affairs, United States House of Representatives

Appendix F

This report will be available in the near future on the OIG's Web site at <http://www.va.gov/oig/52/reports/mainlist.htm>. This report will remain on the OIG Web site for at least 2 fiscal years after it is issued.