



Office of Inspector General

April 22, 2004
Report No. 04-018

Control Framework for the Virginia Square
Phase II Project

AUDIT REPORT



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DATE: April 22, 2004

MEMORANDUM TO: Arleas Upton Kea, Director
Division of Administration

[Electronically produced version;
original signed by Russell Rau]

FROM: Russell A. Rau
Assistant Inspector General for Audits

SUBJECT: *Control Framework for the Virginia Square Phase II Project*
(Report Number 04-018)

The Federal Deposit Insurance Corporation (FDIC) Office of Inspector General (OIG) has completed an audit of the control framework for the Virginia Square Phase II construction project. This audit is one in a series of completed and planned audits related to the FDIC's construction of the Virginia Square Phase II building.¹ The audit objective was to determine whether the control framework was adequate to minimize the risk that financial and time budgets may not be met. Additional details on our objective, scope, and methodology are provided in Appendix I.

BACKGROUND

Phase I of the development of Virginia Square, an FDIC-owned property in Arlington, Virginia, was the construction of an office building and student housing facility. The FDIC Board of Directors approved Phase I in 1987, and the FDIC occupied the facility in 1991.

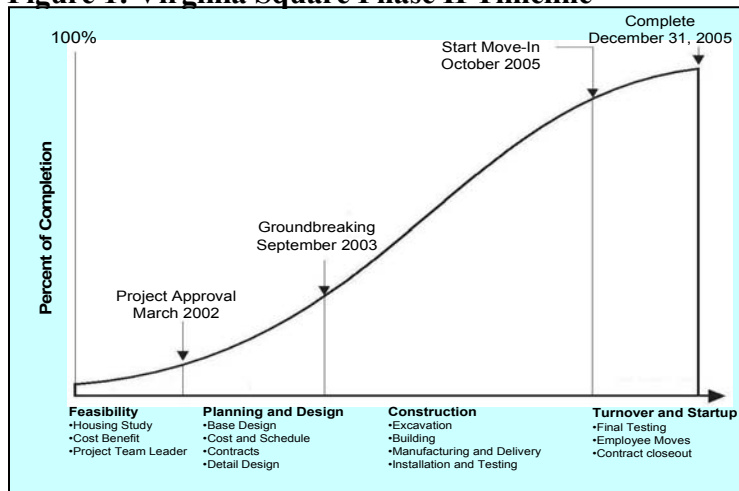
Project Initiation

In 1997, the FDIC Board of Directors directed that the Division of Administration (DOA) develop a long-term strategy for future headquarters housing requirements. An FDIC task force was established in August 1997 to identify and evaluate options and propose a cost-effective, long-range housing plan. The task force recommended that the FDIC construct another building at Virginia Square to accommodate future office space requirements. From 1998 through March 2002, the FDIC selected a project team leader, established cost and time constraints, evaluated funding sources, and determined the oversight structure for the project.

¹ We have completed two audits involving contractor proposals for the Virginia Square Phase II project and a third audit related to the FDIC's review of the contractor's cost estimate for the project. In addition, we plan to conduct audits of contractor billings, contract closeout, construction oversight and change order management as the project progresses. We may conduct other audits as the need arises or if additional risks become apparent.

In March 2002, the FDIC Board of Directors authorized \$106.5 million for Phase II of the Virginia Square development — the design and construction of a second office building and a special-purpose facility to be completed in December 2005. Figure 1

Figure 1: Virginia Square Phase II Timeline



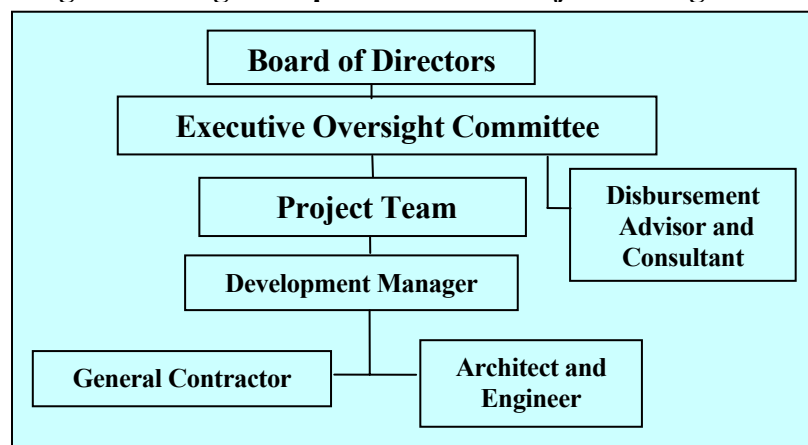
illustrates the project’s stages and major milestones. The FDIC established an FDIC project team and contracted with three primary contractors — a development manager, an architecture and engineering firm, and a general contractor. The FDIC also contracted with a fourth contractor to provide independent review and consulting services. The four contractors and their general responsibilities are listed in Appendix II. Groundbreaking for

the new building occurred in September 2003, and the FDIC anticipates relocating employees from its Washington, D.C., offices starting in October 2005.

Project Oversight Structure

FDIC oversight of the project is provided by the Board of Directors, the Executive Oversight Committee, and the FDIC project team. The Board of Directors authorized the project, provides funding, and monitors the project through quarterly progress reports. The Executive Oversight Committee is composed of the FDIC Chief Operating Officer, Chief Financial Officer, and the Deputy to the Chairman and is responsible for monitoring adherence to the project budget, schedule, and internal controls over construction activities. The Executive Oversight

Figure 2: Virginia Square Phase II Project Management



Committee also approves change orders in excess of \$100,000. The Executive Oversight Committee receives project updates from the project team and the contractors. The project oversight structure is shown in Figure 2.

The FDIC also established a project team to ensure that the FDIC’s requirements are met. The FDIC project team is composed of FDIC employees who are also the oversight managers and technical monitors for the four major contractors. The project team is headed by the Associate

Director of DOA who also oversees the work of the general contractor. The team works closely with the contractors and meets weekly with them to discuss progress and issues. The development manager provides a monthly status report to the project team, which gives the Executive Oversight Committee a monthly briefing.

Project Management Guidance

The Project Management Institute² has conducted extensive research and analysis in the field of project management and published a standards guide in 2000, *A Guide to the Project Management Body of Knowledge* (PMBOK[®] Guide). The PMBOK[®] Guide documents proven practices, tools, and techniques that have become generally accepted³ in the field of project management. The Project Management Institute also published a construction extension, supplementing the PMBOK[®] Guide with knowledge areas, practices, tools, and techniques for managing construction projects.

We used the PMBOK[®] Guide and the construction extension to the Guide as the primary criteria for our review of the Virginia Square Phase II construction control framework. The FDIC is not required to comply with the PMBOK[®] Guide and construction extension; however, we used them because they contain sound and prudent practices related to the successful management of construction projects. Appendix I contains additional information on these guidelines.

RESULTS OF AUDIT

The FDIC established an adequate control framework for the Virginia Square Phase II construction project that, if consistently and effectively implemented, should minimize the FDIC's risk that financial and time budgets may not be met (see **Finding A: Project Control Framework**). In evaluating the overall control framework, we observed that the FDIC withheld less than the contract entitled the FDIC to retain on progress payments to the general contractor (see **Finding B: Progress Payments to the General Contractor**). Consequently, the FDIC disbursed about \$447,445 more than required by the contract as of the end of our audit field work. Although the Corporation modified the contract to resolve the issue, the premature payments add minimally to the financing costs of the project and to the risk of incomplete or unsatisfactory performance by the general contractor. Further, should there be a lack of familiarity with contract terms and insufficient monitoring of compliance with all contract provisions, the success of the project could be hindered.

² The Project Management Institute was established in 1969 as a not-for-profit project management professional association. The Project Management Institute has over 95,000 members in 125 countries worldwide.

³ The PMBOK[®] Guide defines the term "generally accepted" as being applicable to most projects, most of the time, and having widespread consensus regarding value and usefulness.

FINDINGS AND RECOMMENDATION

FINDING A: PROJECT CONTROL FRAMEWORK

The FDIC established an adequate control framework that included monitoring by the FDIC and monitoring and progress reporting by contractors to minimize the risks that financial goals and targeted completion dates are not met. The FDIC’s establishment of a project control framework, if consistently and effectively implemented, should ensure that the project will be completed on time and within budget.

Project Management Processes

The PMBOK® Guide and construction extension identify 56 processes associated with 13 construction project management knowledge areas. The processes are organized into five groups: initiating, planning, execution, controlling, and closing. To evaluate the FDIC control framework, we compared the PMBOK® Guide’s processes in the controlling group, applicable to 10 of the 13 knowledge areas, to activities and documentation for the Virginia Square Phase II construction project. As shown in Table 1, the controlling processes had been established for the project.

Figure 3: Project Management Process Groups

Initiation-authorizing the project or phase.
Planning-defining and refining objectives and selecting the best of the alternative courses of action to attain the objectives that the project was undertaken to address.
Execution-coordinating people and other resources to carry out the plan.
Controlling-ensuring that project objectives are met by monitoring and measuring progress regularly to identify variances from the plan so that corrective action can be taken when necessary.
Closing-formalizing acceptance of the project or phase and bringing it to an orderly end.

Table 1: Controlling Processes for the Virginia Square Phase II Project

PMBOK® Controlling Process	FDIC Activity and Documentation for Comparable Process
Integration Management	
Integrated Change Control	On March 22, 2002, the FDIC Board of Directors approved the Virginia Square Phase II construction and established oversight bodies that meet regularly to review the overall project. The development manager provides minutes of meetings to the FDIC and all contractors (the responsibilities of the various contractors are described in Appendix II), coordinating the distribution of progress information among all the involved parties. Task order changes and contract modifications are formally documented and processed.
Scope Management	
Scope Verification	General contractor progress payments and work products are verified and approved in a formal review process.
Scope Change Control	Scope changes undergo a formal review and authorization process that includes approval by appropriate FDIC management levels. The DOA Associate Director approves changes up to \$50,000; the DOA Contracting Officer approves changes up to \$100,000; and the Executive Oversight Committee approves changes in excess of \$100,000.

Time Management	
Schedule Control	Current status and progress are monitored continuously and documented in the monthly development manager's reports.
Progress Curves Development	The development manager prepares a time line chart to track planned and actual progress.
Progress Monitoring	The development manager accompanies other contractors and an FDIC technical monitor in inspecting progress before invoices are paid.
Cost Management	
Cost Control	<p>The monthly progress reports prepared by the development manager include a comparison of updated cost and budget estimates with the original cost and budget estimates.</p> <p>Monthly invoices from the general contractor include the estimated cost at completion for the general contractor's work. These billings include owner allowances for expected costs that have not been finalized. The general contractor's invoices also provide total amounts billed to the FDIC for each of the billing schedule items and the amount to be billed by completion of the schedule item.</p>
Quality Management	
Quality Control	The general contractor has a quality control plan that includes checklists for quality control items. In addition, the development manager has subcontracted for independent quality control services such as testing the soil compaction and concrete quality. Finally, government building inspectors review construction quality, and the contractors must correct defects before construction continues.
Communications Management	
Performance Reporting	The FDIC project team and contractor representatives hold weekly meetings to discuss current progress and issues. At this meeting, the general contractor provides a forecast of work that will be performed during the following 2 weeks. The FDIC technical monitor and contractor representatives also conduct a monthly walk-through of the site and discuss the general contractor's request for a progress payment in relation to the physical evidence of progress. These formal meetings along with the day-to-day interactions ensure continuous communications among the FDIC project team and the major contractors. Minutes of the weekly meetings, a monthly project status report, and formal presentations to the Executive Oversight Committee document project progress and issues.
Risk Management	
Risk Monitoring and Control	The FDIC addresses risk through contractual arrangements such as a firm fixed price contract for the general contractor and contractor insurance and bonds. The FDIC also provides monetary and schedule allowances for predictable events, such as weather delays, and for unforeseen events, such as discovery of a previously unknown construction obstacle. The major contractors are responsible for identifying issues; the development manager records them during the weekly status meetings. The issues are numbered and corrective action is assigned, and the issues are tracked to resolution.
Environmental Management	
Environmental Control	The FDIC obtained geotechnical, environmental, and traffic impact studies before beginning construction and took appropriate action to ensure compliance with environmental requirements at the site.

Financial Management	
Financial Control	The FDIC Board of Directors authorized the project. DOA documented the cost savings over 20 years. DOA also evaluated the impact on the funding sources — the Bank Insurance Fund (BIF) and the Saving Association Insurance Fund (SAIF) — and determined that the building could be funded through interest on the funds and without affecting the insurance reserves.
Claim Management	
Claim Prevention	Any potential claims by the major contractors, subcontractors, or FDIC would be identified early through disagreements made known in the weekly meetings attended by the FDIC and representatives from all the major contractors. The meeting minutes are documented in the development manager’s monthly progress reports. As of the end of our audit field work, there had been no claims.

Source: OIG interviews and analysis of project documentation.

Overall, the FDIC established a control framework for the Virginia Square Phase II project that is generally consistent with the PMBOK® Guide.

FINDING B: PROGRESS PAYMENTS TO THE GENERAL CONTRACTOR

The contract with Turner Construction Company (Turner) on the Virginia Square Phase II construction project entitled the FDIC to retain a portion of all amounts billed (direct and indirect costs⁴) by Turner and due for payment. However, the FDIC retained less than the contract permitted from the progress payments made to Turner. In billings to the FDIC for the period December 1 through December 31, 2003 and contrary to the terms of the contract, Turner invoices did not include retainage⁵ for indirect costs billed, and personnel responsible for reviewing Turner’s invoices did not reject the invoices as being incorrect. As a result, the FDIC disbursed more than it should have under the contract provisions.

Review of Turner Invoices

Section 4.3.7 of the FDIC contract with Turner states that the FDIC is entitled to retain 10 percent of all amounts invoiced and due for payment until 50 percent of the work is substantially completed. Thereafter, the FDIC would retain 5 percent of all amounts invoiced for the remaining work on the project.

To receive progress payments during construction, Turner submitted a monthly application and certification for payment as an invoice to the FDIC for work performed and materials stored. The invoice included cumulative amounts for all prior billings, retainage, and FDIC payments. Turner’s December 2003 invoice included retainage on direct costs but did not include retainage on the indirect costs included in the billings for Task Order 3 and Modification 5. As shown in Table 2, the FDIC retained \$337,640 but was entitled to withhold an additional \$447,445.

⁴ Indirect costs include costs for bonds, taxes, builder’s risk, general conditions and fees, insurance, and security.

⁵ Retainage is a portion of a government contractor’s payment that is withheld by a government authority until the contract is satisfactorily completed.

Table 2: Amount Retained From Turner Construction Through February 13, 2004

Work Description	Amount Billed ^a	Amount Paid	Retention		
			Actual	Allowed	Difference
Pre-Construction ^b	\$ 410,000	\$ 410,000			
Task Order 3	4,032,651	3,727,831	\$304,820	\$403,265	\$ 98,445
Modification 1	57,544	51,790	5,754	5,754	0
Change Order 1	270,659	243,593	27,066	27,066	0
Modification 5	3,490,000	3,490,000	0	349,000	349,000
Totals	\$8,260,854	\$7,923,214	\$337,640	\$785,085	\$447,445

Source: OIG analysis of paid invoices as of February 13, 2004.

^aAmount billed for work completed and material stored.

^bIncludes Task Orders 1 and 2 and other pre-construction work.

Turner invoices are subject to numerous reviews by FDIC and contractor personnel with oversight responsibility. The FDIC contracting officer and the oversight manager are responsible for ensuring that the amounts invoiced are in agreement with the contract terms. For the Virginia Square Phase II construction project, the development manager, the architect, and the disbursements advisor contractors are also responsible for reviewing the invoices. If the invoices are not correct, the process requires that they be rejected and returned to Turner for correction and resubmission. However, the reviewers did not reject the invoices as incorrect. Rather, the reviewers focused on the amounts billed in relation to progress on the project and did not address the retainage related to amounts billed for indirect costs. The reviewers indicated that they did not question Turner's retention calculation because the majority of contracts they had been involved with for other construction projects did not apply retainage to indirect costs. The billing reviewer for Heery International, the contractor responsible for advising the Executive Oversight Committee, said that if he had been more familiar with the contract's retainage clause, he may have challenged the retention calculation.

According to an American Institute of Architects⁶ attorney, there is no industry standard that identifies costs subject to retention. Accordingly, contract terms are normally applied as written. If the contract states that retainage applies to all amounts billed, as is the case with the Turner contract, then retainage should be taken on both direct and indirect costs.

According to the FDIC Virginia Square Phase II project team leader and the FDIC attorney for the project, the FDIC never intended to withhold funds related to the general contractor's indirect costs. The project team leader said that the purpose of retainage was to help ensure the performance and the quality of the work performed by subcontractors. Subcontractor billings to the general contractor are direct costs, and the FDIC intended to have withheld about 7.5 percent of these costs by the end of the contract. Because retainage is taken from billings for work performed by subcontractors and because the FDIC required performance bonds for Turner, the project team leader and attorney said that there is no significant increase in risk to the project by limiting

⁶ The American Institute of Architects publishes more than 80 contracts and administrative forms recognized throughout the design and construction industry as the benchmark documents for managing transactions and relationships involved in construction projects.

retainage to direct costs. The project team leader and attorney said that, therefore, the contract terms should be modified to exclude indirect costs from retainage.

After we brought this issue to the attention of the project team, the FDIC included provisions in contract Modification 6, dated February 26, 2004, which changed contract section 4.3.7, Retainage. The modification states that indirect costs would not be subject to retainage. We estimated that the reduction in retainage adds \$32,122 to the cost of financing the project through December 31, 2005.⁷

Although the additional financing costs and increase in risk may not be significant in this case, the insufficient attention to the contract's provisions could have an impact on other areas of the project. Hence, DOA should ensure that all reviewers are fully aware of and understand the terms of the contract and bring any instances of noncompliance to the division's attention prior to invoice payment.

Recommendation

We recommend that the Director, DOA:

Emphasize that invoices be reviewed for compliance with all contract terms, including retainage provisions, and that discrepancies be documented and resolved before payment.

CORPORATION COMMENTS AND OIG EVALUATION

DOA management concurred with the recommendation and has taken corrective action. The DOA Director has emphasized, to the project team leader, the need to ensure that the proper amount is retained for each invoice and that any discrepancies be appropriately documented and resolved prior to payment. The project team leader has similarly emphasized these matters to all team members with contract oversight responsibilities. The response is presented in its entirety in Appendix III of this report.

Management's action was responsive to the recommendation. The recommendation is resolved, dispositioned, and closed. Based on management's comments and our further review of the contract, we clarified our Appendix II description of the Disbursements Advisor and Consultant's general responsibilities.

⁷ Retainage on the project is reduced by \$346,621 (7.5 percent of the project's indirect costs of \$4,621,611) for a 2-year period. Using 4.53 percent, which is the annualized interest rate earned on BIF and SAIF investments through the first 3 quarters of 2003, we estimated the earnings on the \$346,621 to be \$32,122.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of the audit was to determine whether the control structure was adequate to minimize the FDIC's risk that financial and time budgets may not be met. We performed our audit from December 16, 2003 through March 12, 2004 in accordance with generally accepted government auditing standards.

Scope

The scope of the audit covered the FDIC's Virginia Square Phase II construction project activities from March 2002 through February 2004. To assess the FDIC's project control framework, we interviewed FDIC and contractor personnel at FDIC headquarters and reviewed project documentation. Specifically, we interviewed members of the project team and key contractor personnel from David Orr Associates, Inc. (Orr); Ellstreet Corporation (Ai); and Heery International (Heery). We reviewed the following project documentation:

- The March 22, 2002 FDIC Board Memorandum approving the Phase II construction.
- The contracts between the FDIC and Turner, Orr, Ai, and Heery.
- Turner's contract proposal, including Turner's quality and safety management plans.
- Orr's monthly status reports for October 2003 through January 2004.
- Turner invoice payments for the period January 2002 through January 2004.
- The FDIC's geotechnical engineering analysis, dated October 1, 2002.
- The October 23, 2002 Traffic Impact Analysis prepared for the FDIC.
- The Environmental Site Assessment, dated December 31, 2002, performed for the FDIC by Engineering Consulting Services, LTD.
- The May 8, 2003 assessment of the FDIC Security Levels Appropriate for FDIC at Virginia Square, performed by Systech Group, Inc.

Methodology

The PMBOK[®] Guide describes 13 knowledge areas for construction project management. These 13 areas include inputs, tools and techniques, and outputs for project management processes. PMBOK[®] classifies the processes into five fundamental process groups: initiating, planning, executing, controlling, and closing. To evaluate whether a control framework existed, we looked for controlling process outputs or related processes within the project that would indicate that a control framework had been established. Also, we gained an understanding of the internal control activities, such as the FDIC-created oversight bodies and delegated responsibilities and authorities as approved by the FDIC Board of Directors to monitor construction and billing activities. Consistent with our audit objective, however, we did not test the effectiveness of these internal control activities.

We reviewed applicable laws and regulations and concluded that the FDIC's Virginia Square Phase II project complied with the necessary permit and preliminary studies required before beginning construction activity. We corroborated automated information used to support our audit findings, conclusions, and recommendations with other sources to ensure they were sufficiently reliable. For example, we discussed information contained in project status reports and plans with key project personnel. Further, we assessed the Corporation-established performance measures related to the construction of the Virginia Square Phase II project. The construction budget is consistent with the 2003 Annual Performance Plan Operational Efficiency and Effectiveness financial stewardship initiative to reduce facilities costs. According to the plan, the project will provide an estimated net savings of about \$78 million over 20 years compared to projected costs associated with 2003 leasing arrangements. Additionally, our audit procedures detected no fraudulent or illegal acts.

Project Management Criteria

The Project Management Institute issued the PMBOK[®] Guide, which contains generally accepted practices, tools, and techniques related to project management and is an approved standard of both the American National Standards Institute and the Institute of Electrical and Electronics Engineers. The PMBOK[®] Guide identifies the following nine distinct knowledge areas associated with successful project management:

- **Integration Management:** The processes that ensure various elements of a project are properly coordinated. Integration management consists of project plan development and execution and integrated change control.
- **Scope Management:** The processes that ensure a project includes all of the work required, and only the work required, to complete the project successfully. Scope management consists of initiation and scope planning, definition, verification, and change control.
- **Time Management:** The processes that ensure timely completion of a project. Time management consists of activity definition, sequencing, and duration estimating as well as schedule development and schedule control.
- **Cost Management:** The processes that ensure a project is completed within the approved budget. Cost management consists of resource planning and cost estimating, cost budgeting, and cost control.
- **Quality Management:** The processes that ensure a project will satisfy the needs for which it was undertaken. Quality management consists of quality planning, assurance, and control.
- **Human Resource Management:** The processes that make the most effective use of the people involved with a project. Human resource management consists of organizational planning, staff acquisition, and team development.
- **Communications Management:** The processes that ensure timely and appropriate generation, collection, dissemination, storage, and ultimate disposition of project

information. Communications management consists of communications planning, information distribution, performance reporting, and administrative closure.

- **Risk Management:** The processes concerned with identifying, analyzing, and responding to project risk. Risk management consists of risk management planning, risk identification, qualitative and quantitative risk analysis, risk response planning, and risk monitoring and control.
- **Procurement Management:** The processes related to acquiring goods and services from outside the organization. Procurement management consists of procurement and solicitation planning, solicitation, source selection, contract administration, and contract closeout.

The Project Management Institute has also issued guidance in the form of a construction project extension to cover the construction industry project management practices. In addition to discussing the construction industry application of the nine project management areas above, the guidance addresses the following four knowledge areas:

- **Safety Management:** The processes required to assure that the construction project is executed with appropriate care to prevent accidents that cause or have the potential to cause personal injury or property damage.
- **Environmental Management:** The processes required to ensure that the impact of the project execution to the surrounding environment will remain within the limits stated in legal permits.
- **Financial Management:** The processes to acquire and manage the financial resources for the project. Financial management, as compared to cost management, is more concerned with revenue source and analyzing/updating net cash flows for the construction project.
- **Claim Management:** The processes required to eliminate or prevent construction claims from arising and for the expeditious handling of claims if they do occur.

We used the PMBOK[®] Guide and construction extension as criteria for auditing the establishment of the Virginia Square Phase II construction project controls. The FDIC is not required to comply with the PMBOK[®] Guide; however, we used it as criteria because it contains sound and prudent practices related to successful project management.

VIRGINIA SQUARE PHASE II FDIC PROJECT MANAGEMENT CONTRACTORS

Contractor	Description	General Responsibilities
David Orr Associates, Inc. (Orr)	Development Manager	<p>Provides technical assistance to the FDIC project team during procurements for contracts, including procurements for the general contractor, architect, engineers, and others.</p> <p>Provides construction project management and coordinates day-to-day design and construction activities.</p>
Ellstreet Corporation (Ai)	Architecture and Engineering	Provides architectural and engineering design services and related duties for the project.
Turner Construction Company (Turner)	General Contractor	<p>Provides the labor, materials, and equipment needed to construct the building.</p> <p>Provides information, recommendations, and advice to the project team and contractors regarding current industry practices and ensures the project team is aware of options during the design and construction of the project.</p>
Heery International (Heery)	Disbursements Advisor and Consultant	Provides the Executive Oversight Committee with independent quality assurance of development manager's review of work, verification of project progress, and advice on potential risk issues and proposed change orders. Heery also verifies that subcontractors' waivers or releases of mechanic liens have been obtained.*

Source: OIG analysis of project documentation.

*Mechanic liens are claims created by state statutes for the purpose of securing priority of payment of the price or value of work performed and materials furnished in erecting, improving, or repairing a building or other structure, and as such, attaches to the land as well as buildings and improvements erected thereon.

CORPORATION COMMENTS

**FDIC**

Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429

Division of Administration

DATE: April 13, 2004

MEMORANDUM TO: Stephen M. Beard
Deputy Assistant Inspector General for Audits

FROM: Arleas Upton Kea, Director [Electronically produced version;
Division of Administration original signed by Arleas Upton Kea]

SUBJECT: Management Response to Draft OIG Report entitled *Control Framework for the Virginia Square Phase II Project* (Assignment No. 2004-003)

The Division of Administration has reviewed the subject Office of Inspector General (OIG) draft report. We appreciate the OIG acknowledging in its report that the FDIC has established a control framework for the Virginia Square project that should minimize risks and ensure the project continues to meet the financial and time budgets established. Below is our detailed response that addresses the report recommendations and any corrective action taken.

MANAGEMENT DECISION**Finding B: Progress Payments to the General Contractor**

Condition: In billings to the FDIC for the period December 1-31, 2003, Turner invoices did not include retainage for indirect costs billed. The invoices were not rejected for being incorrect, and as a result FDIC disbursed \$447,445 more than it should have under the contract provisions.

Recommendation: OIG recommends that the Director, Division of Administration emphasize that invoices be reviewed for compliance with all contract terms, including retainage provisions, and that discrepancies be documented and resolved before payment.

Management Response:

DOA management concurs with the recommendation. Although it was never the intent of the FDIC to withhold retainage on indirect costs, this was not clearly reflected in the contract language. On February 16, 2004, the Turner Contract was modified to include explicit language that retainage will be calculated on direct costs only. The DOA Director has emphasized to the Virginia Square Phase II Project Team Leader the need to ensure that proper retainage is withheld for each invoice, and that any discrepancies are appropriately documented and resolved prior to payment. In addition, the Project Team Leader has emphasized this with all Team members that have contract oversight responsibilities.

Overall, we believe the current invoice review process is effective. Our review practice is to conduct a walk-through of the project site with each draft invoice received from Turner Construction (Turner). Participating in the walk-through are representatives from the Project Development Manager, the Architectural Firm, the Disbursement Advisor, as well as the FDIC Technical Monitor for the Turner contract. Adjustments deemed necessary are documented on the draft invoice copy, which is then signed by all walk-through participants. Upon submission of Turner's official monthly invoice, the FDIC Oversight Manager reviews the draft walk-through documents (supporting documentation); ensures compliance with the contract terms and conditions; and approves or rejects the amount billed.

Also, we want to correct an incorrect statement made in Appendix II of the report. Appendix II consists of a table that describes the general responsibilities of the primary contractors for the project based on the OIG's analysis and interpretation of project documentation. The last section of the table that pertains to the responsibilities of Heery International (Heery), project Disbursement Advisor, states that Heery "obtains subcontractors' waivers or releases of mechanic liens." This responsibility does not rest with Heery. Rather, it is a joint responsibility of the FDIC Contracting Officer and Oversight Manager to ensure that lien releases are obtained prior to payment.

If you have any questions regarding the response, our point of contact for this matter is Andrew Nickle, Audit Liaison for the Division of Administration. Mr. Nickle can be reached at (202) 942-3190.

cc: Glen Bjorklund, DOA
Michael Rubino, DOA
Ann Bridges Steely, DOA
Paul K. Sherman, DOA

MANAGEMENT RESPONSE TO THE RECOMMENDATION

This table presents the management response that has been made on the recommendation in our report and the status of the recommendation as of the date of report issuance. The information in this table is based on management’s written response to our report.

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Monetary Benefits	Resolved:^a Yes or No	Dispositioned:^b Yes or No	Open or Closed^c
1	The DOA Director has emphasized, to the Virginia Square Phase II project team leader, the need to ensure that the proper amount is retained for each invoice and that any discrepancies be appropriately documented and resolved prior to payment. Similarly, the project team leader has emphasized these matters to all team members that have contract oversight responsibilities	April 13, 2004	None	Yes	Yes	Yes

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- Resolved – (1) Management concurs with the recommendation and the planned corrective action is consistent with the recommendation.
 (2) Management does not concur with the recommendation but planned alternative action is acceptable to the OIG.
 (3) Management agrees to the OIG monetary benefits or a different amount, or no (\$0) amount. Monetary benefits are considered resolved as long as management provides an amount.

Dispositioned – The agreed-to corrective action must be implemented, determined to be effective, and the actual amounts of monetary benefits achieved through implementation identified. The OIG is responsible for determining whether the documentation provided by management is adequate to disposition the recommendation.

Once the OIG disposes the recommendation, it can then be closed.