



Department of Veterans Affairs Office of Inspector General

Follow-Up Audit of VA's Major Construction Contract Award and Administration Process

To Report Suspected Wrongdoing in VA Programs and Operations

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Executive Summary

Results in Brief

The Office of Inspector General (OIG) conducted a follow-up audit to determine whether the Department of Veteran Affairs (VA) implemented the corrective action plans in response to recommendations made in the *OIG Audit of Veterans Health Administration Major Construction Contract Award and Administration Process* (Report# 02-02181-79, February 8, 2005). The 2005 OIG report included 12 recommendations that addressed needed improvements in contract award, administration, and project management. The Under Secretary for Health concurred with the 2005 report recommendations and provided corrective action plans.

VA has strengthened management controls and oversight of the major construction contracting process with the implementation of 10 of the 12 recommendations from the OIG's 2005 report. To address the remaining two recommendations, VA still needs to improve project management oversight to reduce contract schedule slippage and to promptly close out projects so that unneeded funds can be reprogrammed. VA addressed 10 of the 12 recommendations through the establishment of a Quality Assurance (QA) program and procedures to resolve significant differences between bid prices and Architecture and Engineering (A/E) estimates.

Nine of the implemented recommendations required the establishment of a QA program. VA established the QA Service to oversee VA's major construction contracts and ensure the contracts complied with Federal and VA acquisition regulations and VA policies and procedures. However, VA has no assurance that the QA Service is effectively monitoring major construction contracts because it has no written policies, procedures, and performance measures. Further, the QA Service did not have a staffing plan to ensure it met all of its QA program responsibilities. VA will not have adequate assurance that its major construction contracts are being effectively monitored until the QA Service increases its oversight activities; establishes policies, management procedures, and program performance measures; and develops a staffing plan to address all of its QA responsibilities.

Background

As of May 2008, the Office of Construction and Facilities Management (CFM) was responsible for 25 active major construction contracts valued at \$715.6 million and eight completed contracts valued at \$307.6 million that were closed out. Seven of the eight completed contracts valued at approximately \$137.48 million were closed out and had unused funds totaling about \$308,000. The fiscal year (FY) 2008 budget for Veterans Health Administration (VHA) major construction totaled approximately \$1.07 billion.

At the time OIG issued its 2005 report, VHA's Office of Facilities Management (FM) was responsible for managing all major construction projects. In February 2007, FM was reorganized and realigned to the Office of the Secretary as the new Office of Construction and Facilities Management (CFM) under the direction of the Deputy Secretary. In October 2008, VA established the Office of Acquisition, Logistics, and Construction (OAL&C), which now includes CFM. The new office is headed by the Executive Director reporting to the Deputy Secretary.

Findings

Additional actions are needed to further strengthen national oversight of VA's construction program. Specifically, VA needed to implement corrective action to improve monitoring of contract schedule slippage and needs to establish a formal program to close contracts in a timely manner. The QA Service also needed to develop formal written policies, procedures, and program performance measures to guide its QA operations, including needing a formal staffing plan to ensure the QA Service has the resources it needs to fully implement its work requirements. Further details of these issues follow.

Oversight of Contract Schedule Slippage Needed Strengthening. VA did not fully implement the 2005 report recommendation to implement more effective project management oversight to manage and reduce contract schedule slippage from a national perspective. In response to the 2005 report recommendation, VHA advised that a new QA Service oversight function would review the existing process for assessing contract slippage and the method by which feedback is provided to the field. However, QA had not performed these assessments or provided oversight of contract schedule slippage because its efforts were focused on performing field acquisition reviews of construction contracts. This lack of oversight could result in significant contract slippage and increased construction costs.

Close-Out Program for Completed Contracts Needs To Be Established. VA did not fully implement the 2005 report recommendation to establish an effective program to ensure the timely close out of major construction contracts and identify unused funds that could be returned to the construction reserve account. In the 2005 report, VHA responded that they began improving the close-out process before the 2005 OIG audit report was issued, stating that FM reported they implemented a three-step process to identify contracts eligible for close out. FM would continue to reinforce timely close out and identification of unused funds through its QA oversight function. However, this 2008 audit showed that FM did not have a formal three-step process in place. Instead, FM used an informal process to identify completed contracts to be closed out. CFM personnel stated the informal process is still in place. Further, QA did not provide oversight of the close-out process because its resources and efforts were focused on performing field acquisition reviews of construction contracts. Use of an informal process puts unused funds of \$69,379 at risk of not being returned to the construction reserve fund in a timely manner.

Quality Assurance Policy and Procedures Needs To Be Developed. VA has not developed formal written policies, procedures, or program performance measures to guide QA operations in oversight of major construction and quality assurance over CFM's business lines and other responsibilities. In addition to oversight of major construction contracting, the QA Service's Function Statement provides that QA is also responsible for quality assurance over CFM's business lines. Other responsibilities include business planning, performance measures, lessons learned, and benchmarks (that address cost and pricing data, reviews of changes in contract scopes, and additional costs). Discussions with CFM management disclosed they are presently drafting written policy and procedures for its QA field acquisition reviews. However, written policies and procedures covering QA's other responsibilities were not developed. Without written QA policies, procedures, and program performance measures CFM lacks reasonable assurance that the QA Service will provide effective oversight of major construction contracts and quality assurance for CFM operations.

Formal Staffing Plan Needs To Be Developed. The QA Service lacks a staffing plan that addresses all of its responsibilities. The QA Service is responsible for oversight of major construction contracting and providing quality assurance for CFM's business lines. While QA has developed some performance measures, the work in its other areas of responsibilities have been minimal. The primary focus of QA has been on the performance of field acquisition reviews and it is not staffed to perform its other responsibilities. Without a staffing plan that addresses all of its responsibilities, VA lacks assurance that QA has the resources needed to provide effective oversight over VA major construction and quality assurance over CFM operations.

Conclusion

VA's QA Service provided oversight over its major construction contracting process in strengthening areas of contract award, administration, and project management by performing field acquisition reviews of high-risk construction activities identified in our prior audit as needing improvement. VA had not effectively implemented corrective actions in response to 2 of the 12 recommendations made in 2005. Specifically, VA did not fully implement a national corrective action plan to provide the project management oversight needed to manage and reduce contract schedule slippage or establish a program that provides reasonable assurance that major construction contracts close-outs are timely.

In response to nine of the OIG recommendations in 2005, VA proposed and implemented corrective action to establish a Quality Assurance Program. However, the QA Service needs to develop and implement written policies, procedures, and program performance measures for the field acquisition reviews as well as for quality assurance over CFM's other business lines. The QA Service also needs to implement a formal staffing plan to provide effective oversight of major construction contracts and quality assurance over CFM's business lines.

Recommendations

1. We recommend the Executive Director for OAL&C implement an effective mechanism to monitor contract schedule slippage and minimize construction contract delays.
2. We recommend the Executive Director for OAL&C establish an effective mechanism to ensure the timely close out of major construction contracts and identify unused funds that can be returned to the construction reserve account for use on other projects.
3. We recommend the Executive Director for OAL&C develop written QA policies and procedures, and program performance measures addressing all QA Service areas of responsibilities.
4. We recommend that the Executive Director for OAL&C develop a formal staffing plan to ensure all QA Service responsibilities are met.

Management Comments and OIG Response

The Executive Director for OAL&C agreed with our findings and recommendations and provided plans to implement acceptable corrective actions. Specifically, the Executive Director took appropriate action to implement recommendation 2; therefore, consider the recommendation closed. The Executive Director's planned actions for recommendations 1, 3, and 4 were acceptable, and we will follow up on their implementation. The Executive Director reported that the Office of Construction & Facilities Management (CFM) has an aggressive program for tracking schedules, maintaining schedule awareness by senior leadership, and follow-up when schedules are experiencing delays as outlined below. In addition to these efforts, CFM will issue a policy on schedule management as part of the compliance reviews by August 31, 2009. See Appendix C for the full text of the Executive Director's comments.

(original signed by:)

BELINDA J. FINN
Assistant Inspector General
for Auditing

Introduction

Purpose

The OIG conducted a follow-up audit to determine whether VA implemented the corrective action plan in response to recommendations in the OIG *Audit of Veterans Health Administration (VHA) Major Construction Contract Award and Administration Process* (Report#. 02-02181-79, February 8, 2005). The audit objective was to evaluate the effectiveness of VA's corrective actions in response to the prior audit report recommendations.

Background

Major Construction Projects. VA's budget for construction was approximately \$1.08 billion. The FY 2008 budget for Veterans Health Administration (VHA) major construction totaled approximately \$1.07 billion. As of May 2008, the Office of Construction and Facility Management (CFM) was responsible for 25 active major construction contracts valued at \$715.6 million. CFM was also administering seven completed contracts that were closed out. These contracts are valued at approximately \$137.8 million, had unused funds totaling about \$308,000 still obligated against the contracts.

Prior OIG Review. In 2005, the OIG issued the *Audit of Veterans Health Administration Major Construction Contract Award and Administration Process* (Report No. 02-02181-79, February 8, 2005). The audit concluded that major construction contract award, administration, and project management needed to be enhanced to ensure that VA did not pay excessive prices for construction work. The audit identified a risk for excessive prices involving major construction projects valued at \$133.6 million. The audit also identified \$957,164 in unused funds that were required to be returned to the construction reserve fund if no longer needed.

At the time of the prior audit, the VHA's Office of Facilities Management (FM) was responsible for VHA's major construction program and was administering 31 contracts valued at \$594.6 million. The report included 12 recommendations that addressed needed improvements in contract award, administration, and project management. The Under Secretary for Health concurred with the 2005 report recommendations and provided corrective action plans.

Reorganization. In February 2007, FM was reorganized and realigned to the Office of the Secretary as the Office of CFM. This new organization consolidated the execution of all major construction under the direction of the VA Deputy Secretary. In October 2008, VA established the Office of Acquisition, Logistics, and Construction (OAL&C) which now includes CFM. The new office is headed by the Executive Director reporting to the Deputy Secretary.

Quality Assurance. During the course of the 2005 audit, VA initiated action to establish an independent QA oversight function to oversee major construction. The QA Service was established to carry out a QA program for FM's service lines that included major and minor construction, real property management, and VA's state grant and homeless grant program. With the reorganization of FM into CFM, the QA Service responsibilities were revised to reflect the new organization. However, QA's oversight function over VA major construction remained the same.

Scope and Methodology

The scope of our audit work included a review of VA active and completed but not closed out major construction contracts as of May 2008. We performed audit work from June 2008 through December 2008. We also reviewed QA operations as they related to the action plan management implemented in response to our original audit report.

We selected four active major construction contracts valued at \$145.9 million and three completed but not closed out contracts valued at \$54.7 million for review. To assist us in selecting contracts for review, we developed a matrix that included attributes based on findings included in the 2005 audit report. The attributes highlighted potential weaknesses in a number of areas. They included completed contracts that were not closed out and still had unused funds, contract change actions exceeding the Federal Acquisition Regulation (FAR) threshold for cost or pricing data, asbestos and asbestos-related contract changes, forward pricing of contract changes, and contract schedule slippage. The matrix also included contracts reviewed by QA.

We reviewed contract actions as they related to our 2005 recommendations and the corrective actions implemented in response to the report. We reviewed CFM contract logs, and hard copy contract related documents from contract files. We also interviewed CFM officials responsible for implementing the corrective action plan.

Our assessment of internal controls focused only on those controls related to our audit objective. To achieve the assignment's objective, we relied on computer-processed data contained in CFM's Construction and Facilities Management Information System, Paragon Information System, and VA's Financial Management System. We established the reliability of this data by comparing the data to hard copy contract file documentation and interviews with key officials. Our conclusions and recommendations are based on this data.

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

Results and Conclusions

VA Strengthened Management Oversight of Contract Award and Administration but Additional Action Is Needed

VA has implemented effective corrective action plans in response to 10 of the 12 recommendations in the OIG 2005 report. The implementation of these action plans has strengthened management oversight and controls over the VA major construction contract award and administration process. However, additional attention is needed to further strengthen the national oversight and management controls because VA had not effectively implemented corrective actions in response to 2 of the 12 recommendations made in 2005. As a result, improvements are still needed to address the weaknesses we previously reported — to provide oversight of contract schedule slippage and to establish a formal program to close out completed major construction contracts in a timely manner and to reprogram unneeded funds.

Furthermore, in response to nine OIG recommendations in 2005, VHA proposed and implemented corrective action to establish a QA program. VA took action during the course of our 2005 audit and established an independent QA program function, called QA Service, to oversee major construction. We examined the performance effectiveness of VA's QA Service and concluded it is monitoring active VA major construction contracts by performing field acquisition reviews for compliance with Federal and VA acquisition regulations and contract terms and conditions. The scope of the reviews includes oversight of high risk major construction activities we identified in our prior audit as needing improvement. We determined that the QA Service has been generally effective in providing oversight of VA major construction contracting, but there are opportunities for additional improvements. QA did not develop formal written policies, procedures, or program performance measures to successfully guide QA operations and does not have a staffing plan that addresses all of the QA's areas of responsibilities.

We also identified opportunities to strengthen VA's national oversight of major construction projects by strengthening QA oversight of contract schedule slippage and contract close-out process. In this way, VA can gain better assurance that major construction project risks are managed more effectively. VA can also better identify and address any systemic weaknesses that might negatively impact the administration of major construction projects VA-wide.

Quality Assurance Oversight. VA established a QA Service to monitor active construction contracts for compliance with Federal and VA Acquisition Regulation, and contract terms and conditions. The scope of the QA reviews included assessing high risk areas identified in our prior audit as needing improvement. The QA Service is performing independent field acquisition reviews of active major construction contracts.

In FY 2007, QA performed 17 of 18 scheduled reviews. For FY 2008, QA performed 15 of 16 scheduled reviews.

Our review of a sample of major construction contracts showed that VA management has taken corrective action in response to ten of our 2005 recommendations. These actions are highlighted by the following examples:

- **Recommendation 1.** Resolve significant differences between the bid price and the A/E estimate with the original A/E prior to contract award.

The prior report included a finding that a significant difference between a low bid and an A/E estimate was not resolved. One of the contracts we reviewed had a \$4.4 million difference between the low bid for a contract and VA's A/E contract estimate. CFM personnel requested the contractor to resubmit a revised contract offer. The contractor reduced the bid by approximately \$1.5 million. The action taken supports that efforts are being made to resolve significant differences between bid prices and the A/E estimate prior to contract award.

- **Recommendation 2.** Ensure price reasonableness for contracts awarded where only one contractor submits a bid.

The prior report included a finding that addressed award efforts where adequate competition was not achieved and VA did not perform a market survey to determine why the response to the solicitation was so low. One of the contracts we reviewed involved a single bid response to a contract solicitation. In this case, CFM conducted a market survey to determine why more contractors did not bid on the contract.

- **Recommendation 3.** Strengthen construction contract price determinations by: (a) obtaining cost and pricing 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 Price Negotiation Memorandums (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.

We found that QA work steps for field acquisition reviews of construction contracts assess whether certified cost or pricing data was submitted where required, contract changes were reviewed to ensure out-of-scope work was not added to contracts, change orders and supplemental agreements were supported by a PNM narrative and cost estimate, change orders were adequately supported, and a Defense Contract Audit Agency (DCAA) audit was requested to establish price reasonableness. Thus, the implementation and corrective action plans were considered adequate.

- **Recommendation 4.** Maintain a low level of design errors and omissions and ensure that design work is in compliance with contract specifications, terms, and conditions. Hold the A/Es accountable for design work deficiencies.

The prior report included a finding in which contract changes resulting from design errors and omissions and asbestos/hazardous waste-related changes were significant. QA now uses a project management software program to monitor contract changes due to design errors and omissions when the need for a contract change is first identified through the approval of a formal contract change. QA field acquisition reviews evaluate contract change justifications to ensure that design errors and omissions are properly identified. For two contracts where the value of contract changes due to design errors and omissions represented 9 and 12 percent of the contract values, respectively, the QA Service is evaluating VA's position to determine the potential A/E liability. In addition, VA revised its policy and procedures on A/E liability for design and construction period services deficiencies to hold A/Es more accountable for errors and omissions.

- **Recommendation 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.

QA monitors contract changes for asbestos and asbestos-related contract changes and evaluates project management performance during field acquisition reviews. VA also revised its Asbestos Abatement Design Manual in September 2005 to reflect new requirements for asbestos design work. The manual established agency-wide policy on removal and management of asbestos containing material. The manual also specified that VA will use industrial health consultants to assist in developing scope of work for the development of bid documents.

- **Recommendation 6.** Encourage 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.

QA work steps for field acquisition reviews of construction contracts assess whether estimates are timely and included in contract change file documentation.

- **Recommendation 7.** Improve management and control of construction contract changes by: (a) encouraging that contract changes are 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.

The prior report included a finding in which contract changes were not forward-priced. Contract change records of negotiation now require resident engineers to certify that contract changes are forward-priced or justified in writing why forward pricing was not used.

- **Recommendation 8.** Ensure that contract change files include PNMs and that project management and SRE staff is adequately trained in contract administration.

QA work steps for field acquisition reviews of construction contracts assess whether contract change files include PNMs. In addition, we performed a review of training

records for project management and SRE staff and determined that staff had been adequately trained in contract administration. Training courses included Contracting Officer Training Level 1 – Basic Warrant, and Mission Focused Contracting.

- **Recommendation 9.** Ensure that official contract award files include all required documentation.

QA work steps for field acquisition reviews of construction contracts assess whether a contractor's certificate of insurance and subcontracting plan were on file. Also, work steps assessed whether the Contracting Officer Authorization Orders delegating contract administration responsibilities to the SRE and an alternate were on file.

VA's QA Service has been generally effective in monitoring active construction contracts by performing field acquisition reviews for compliance with FAR, VAAR, and contract terms and conditions. However, VA still needs to implement two 2005 recommendations as discussed below:

Oversight of Contract Schedule Slippage Needs Strengthening. VA did not implement corrective action to provide more effective project management oversight to reduce contract schedule slippage. In response to the prior report recommendation, VA stated that a newly established QA oversight function would review the existing process for assessing contract slippage and the method by which feedback was provided to the field. However, QA has not performed these assessments and has not developed policies, procedures, or program performance measures to provide effective oversight of contract schedule slippage.

The 2005 audit report identified seven construction contracts that were delayed from 5 to 23 months. As of May 2008, 16 of 19 active construction contracts appear to be on schedule. However, three active contracts valued at approximately \$98.9 million have experienced contract schedule slippage of between 4 and 5 months. Also, three of seven completed contracts valued at \$45.6 million experienced slippage of between 5 and 12 months. OAL&C later advised us that as of December 2008 one of the active contracts was four months ahead of schedule and a second contract was only two days behind schedule.

The QA Service has not yet addressed the issue of assessing contract slippage because QA has been focusing its efforts on conducting field acquisition reviews of major construction contracts. The Director of the Service Delivery Office and the QA Director indicated that future efforts will include assessing contract slippage and how feedback is provided to the field. The lack of effective QA oversight could result in untimely identification of significant contract slippage and the potential for increased costs to complete construction contracts.

Close-Out Program for Completed Contracts Needs To Be Established. VA did not implement the corrective action plan to establish an effective program to ensure the timely close-out of major construction contracts and identify unused funds that can be returned to the construction reserve account for use on other projects. In response to the

prior report recommendation, FM responded to our 2005 report that they used a three-step process to identify contracts eligible for close-out. The corrective actions plan provided that FM would continue to reinforce the timely close out of major construction contracts and identify unused funds through its QA oversight function.

The Director of the Service Delivery Office advised us that FM did not have a formal three-step process for identifying contracts that should be closed out. However, he advised that since 2002, FM and then CFM have periodically requested that project management staff identify contracts that could be closed out. The process has not been formalized in CFM policies and procedures. The QA Director confirmed that QA does not provide oversight over the close-out process and has not developed policy or procedures to oversee the process.

The VA Project Managers Handbook, Chapter 12.8, "Contract Closeout", states that the closeout process can begin when most outstanding contract-related issues have been resolved. Chapter 12.8 includes procedures for closing out a specific contract. However, the handbook does not include a process for identifying contracts that should be closed out. QA has not provided oversight in this area because they are currently focusing their efforts on conducting field acquisition reviews of major construction contracts.

During our current audit, CFM was responsible for seven completed construction contracts with unused funds totaling \$307,605. The lack of a formal program to identify contracts that can be closed out places unused funds for three contracts totaling \$69,379 at risk for not being returned in a timely manner for use on other construction contracts.

We identified one contract with unused funds totaling \$24,730 that could be closed because construction was completed in July 2004 and all outstanding issues related to the contract have been resolved. CFM advised us that they have initiated close out action for two completed contracts with unused funds totaling \$44,649. Construction was completed for these contracts in November 2004 and November 2007. Four completed contracts with unused funds totaling \$238,226 were not closed out because of pending claims, contract required elevator maintenance that continues through December 2009, a contractor request for an equitable adjustment, and a contract punch list of tasks that have not been completed.

Quality Assurance Policy and Procedures Need To Be Developed. VA has not developed formal written policies, procedures, or program performance measures to guide QA operations in oversight of major construction or its other areas of responsibilities. In addition to major construction contracting oversight, the QA Service Function Statement provides that the QA Service is also responsible for quality assurance over CFM's business lines including design and lease project management, design and construction standards, and historic preservation services. Other responsibilities include business planning, performance measures, lessons learned, and benchmarks (that address cost and pricing data, reviews of changes in contract scopes, and additional costs).

Although the QA Service monitored major construction contracts by conducting field acquisition reviews, written policy needs to be developed to strengthen the QA oversight function. Discussions with CFM management disclosed they are presently drafting written policies and procedures for its QA field acquisition reviews of major construction contracts. CFM management further explained that a number of issues prevented the development and implementation of QA policies and procedures. These issues included staffing, the reorganization, and special impact issues such as the need for professional engineers to be certified under the Federal Acquisition Certification in contracting requirements. The policies and procedures need to be finalized and approved to ensure all reviews are consistently performed in accordance with CFM requirements.

Written policies, procedures, and program performance measures need to be developed and implemented for QA to ensure effective oversight over construction contracting and quality assurance over CFM operations. The General Service Administration (GSA), responsible for \$1.58 billion in new construction for FY 2008 and FY 2009, has developed a Quality Assurance/Quality Control (QAQC) process. Private sector and industry professionals independently evaluate design and construction quality, schedule progress and project management. OAL&C needs to benchmark GSA's process to identify opportunities to enhance QA policies, procedures, and program performance measures.

Formal Staffing Plan Needs to Be Developed. The QA Service lacks sufficient staff to address all of its responsibilities yet it is responsible for oversight of VA's major construction contracting process and for quality assurance over CFM's business lines. Other responsibilities include business planning, performance measures, lessons learned, and benchmarks (that address cost and pricing data, reviews of changes in contract scopes, and additional costs).

QA performs field acquisition reviews of contract award, contract administration, and project management needed to improve the weaknesses we reported in 2005. In conducting field acquisition reviews, QA has developed specific work steps to address contracting weaknesses discussed in the prior report. Further, a QA contract review checklist is also used to strengthen the monitoring of major construction contracts. However, while QA has developed some performance measures, its work in the other areas of responsibility has been minimal since the primary focus of QA has been on the performance of field reviews, and QA has not been staffed to manage all its responsibilities.

The QA Director advised us that when QA was first established in 2004, a formal staffing plan was not developed to address all of its responsibilities. At that time, however, FM proposed to hire a Chief and five to seven staff for its field acquisition reviews. CFM initially hired the Chief and two employees and CFM elected to augment the QA function with staff from other offices to perform field acquisition reviews. Staffing for QA's other responsibilities was not implemented. QA is presently staffed with a Chief and one full-time and one part-time employee. At the time of our original audit and subsequent 2005

audit report VA was responsible for 17 active major contracts valued at approximately \$256 million. As of May 2008, OAL&C was responsible for 25 active contracts valued at approximately \$715.6 million. Without a staffing plan that addresses all of its responsibilities, including the increased construction contract activity, the QA Service will not have the staff needed to fulfill its responsibilities in providing oversight over major construction and quality assurance over VA construction programs and activities.

Conclusion

VA has implemented 10 of the 12 recommendations included in our 2005 report. However, VA did not effectively implement corrective actions in response to 2 of the 12 recommendations. Specifically, VA did not fully implement a corrective action plan to implement the project management oversight needed to manage and reduce contract schedule slippage from a national perspective or establish a program that provides reasonable assurance that major construction contracts are timely regarding close-outs.

Furthermore, in response to nine of the 2005 recommendations, VA proposed corrective action to establish a QA Program. The QA Service has provided oversight over VHA's major construction contracting process by performing field acquisition reviews of high-risk construction activities identified in our prior audit as needing improvement. However, the QA Service needs to develop and implement written policies, procedures, and program performance measures for all its responsibilities including field acquisition reviews as well as CFM's other business lines. The QA Service also needs to implement a formal staffing plan to provide reasonable assurance of effective oversight of major construction contracts and quality assurance over CFM's business lines.

VA does not have adequate assurance that major construction contracts are properly awarded, administered, and managed without: (1) increased QA Service oversight, (2) written QA Service policies and procedures and, (3) a staffing plan addressing all QA Service responsibilities.

Recommendations

1. We recommend the Executive Director for OAL&C implement an effective mechanism to monitor contract schedule slippage and minimize construction contract delays.
2. We recommend the Executive Director for OAL&C establish an effective mechanism to ensure the timely close out of major construction contracts and identify unused funds that can be returned to the construction reserve account for use on other projects.
3. We recommend the Executive Director for OAL&C develop written QA policies, procedures, and program performance measures addressing all QA Service areas of responsibilities.

4. We recommend the Executive Director for OAL&C develop a formal staffing plan to ensure all QA Service responsibilities are met.

Management Comments and OIG Response:

The Executive Director agreed with our recommendations. The Executive Director reported that by August 31, 2009, CFM will issue a policy on schedule management as part of the compliance reviews that provides for QA Service oversight of contract performance against established schedules. The Executive Director reported, "that there are five key elements to CFM's current schedule management program:

- Routine oversight of the project schedule by individual project managers and senior resident engineers in the day-to-day conduct of their duties.
- The use of the Critical Path Method (CPM) to track contractor performance against the established CPM activity network. Each project is required to have an approved CPM plan which for major projects can contain many thousands of individual activity units.
- Monthly leadership review with the project managers. Once each month, the Directors of the Service Delivery Office and the Resource Management Office, along with their key staff, hold a conference call with all project managers to review schedule performance against the Major Construction Operating Plan.
- The Office of the Secretary's Monthly Performance Review focuses on schedule performance as relates to the major construction program. Each month CFM reports on projects that have been delayed in making planned contract awards and identifies mitigation strategies being taken.
- The current Compliance Review Program includes assessments of contract slippage in the review. The Review assesses the current approved construction schedule with the on-site performance and actual schedule to determine if the contract is being executed within the contractual duration. The Compliance Review Team reviews modifications with time increases to assure documentation of the reason for the addition of time to the performance period. These reports are reviewed by senior managers and corrective actions are taken where necessary."

According to the Executive Director, on March 20, 2009, CFM issued procedures requiring contracts be closed out timely and that unused funds be returned to the construction reserve account for use on other projects. By August 31, 2009, CFM will develop written QA policies and procedures for field acquisition reviews.

The Executive Director reported that CFM continues developing program performance measures addressing CFM's key program areas and that the first measures will be rolled out May 18, 2009. The complete list of FY 2010 measures will be rolled out no later than August 31, 2009, and the measures will be adjusted each year as the strategic plan evolves and as areas needing improvement are identified through CFM's compliance review program.

The Executive Director said that CFM will also develop a staffing plan for the QA Service and submit a request for resources to address the additional staffing in the FY 2011 budget. However, without obtaining the additional resources, CFM will not be able to support additional dedicated staff for the QA Service. Appendix C contains the full text of the Executive Director's comments.

The action taken and planned actions are acceptable, and we will follow up on their implementation.

Monetary Benefits in Accordance with IG Act (as amended)

<u>Recommendation</u>	<u>Explanation of Benefit(s)</u>	<u>Better Use of Funds</u>
2	Establishment of an effective program that ensures timely close outs of major VA construction contracts and identifies unused funds that can be returned to the construction reserve account for use on other projects.	\$69,379
	Total:	<u>\$69,379</u>

Prior Audit Report Recommendations

We recommended that the then 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 cost and pricing 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 errors and omissions 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 Senior Resident Engineers 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 are 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 is 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.

Executive Director's for OAL&C Comments to Office of Inspector General's Report

**Department of
Veterans Affairs**

Memorandum

Date: March 26, 2009

From: Executive Director, Office of Acquisitions, Logistics and Construction

Subj: Comments on Draft Report: Follow-up Audit of VA's Major Construction Contract Award and Administration Process (Project No. 2008-01084-D2-0152)

To: Deputy Assistant Inspector General for Auditing (52A)

1. Thank you for the opportunity to review and provide comments to the draft report, "Follow-up Audit of VA's Major Construction Contract Award and Administration Process (Project No. 2008-01084-D2-0152)." We concur with all four recommendations and offer the following comments.

2. The Office of Acquisition, Logistics and Construction (OALC) concurs with the recommendation that an appropriate role should be defined for the Quality Assurance (QA) Service to provide oversight of performance against established schedules.

As drafted, the report leaves the impression that schedule tracking and oversight does not take place. However, the Office of Construction & Facilities Management (CFM) has an aggressive program for tracking schedules, maintaining schedule awareness by senior leadership, and follow-up when schedules are experiencing delays as outlined below. It is recommended that the following information be incorporated into the final report. In addition to these efforts, CFM will issue a policy on schedule management as part of the compliance reviews by August 31, 2009.

"There are five key elements to CFM's schedule management program:

- Routine oversight of the project schedule by individual project managers and senior resident engineers in the day-to-day conduct of their duties.
- The use of the Critical Path Method (CPM) to track contractor performance against the established CPM activity network. Each project is required to have an approved CPM plan which for major projects can contain many thousands of individual activity units. Each month the CPM update tracks progress, calculates the predicted completion date and compares that against the contract performance schedule. CPM analysts support the project manager and the Resident Engineer staff in highlighting for the contractor any items on the critical path that may be causing or potentially causing delay and to identify corrective measures.
- Monthly leadership review with the project managers. Once each month, the Directors of the Service Delivery Office and the Resource Management Office, along with their key staff, hold a conference call with all project

managers to review schedule performance against the Major Construction Operating Plan. This call brings attention to schedule performance, highlights the commitment of leadership to staying on schedule, and identifies areas in which leaders can positively impact schedule management.

- The Office of the Secretary's Monthly Performance Review focuses on schedule performance as relates to the major construction program. Each month CFM reports on projects that have been delayed in making planned contract awards and identifies mitigation strategies being taken.
- The current Compliance Review Program includes assessments of contract slippage in the review. The Review assesses the current approved construction schedule with the on-site performance and actual schedule to determine if the contract is being executed within the contractual duration. Further, the Compliance Review Team reviews modifications with time increases to assure documentation of the reason for the addition of time to the performance period. These reports are reviewed by senior managers and corrective actions are taken where necessary."

3. OALC concurs with the recommendation to establish an effective mechanism to ensure the timely closeout of major construction contracts and identify unused funds that can be returned to the construction reserve account for use on other projects.

On March 20, 2009, procedures were issued to address this recommendation (see attached).

4. OALC concurs with the recommendation to develop written QA policies and procedures, and program performance measures addressing all QA Service areas of responsibilities.

CFM will develop written QA policies and procedures for the conduct of field acquisition reviews. These procedures are expected to be complete by August 31, 2009. CFM continues developing program performance measures addressing CFM's key program areas. As this effort is already underway, the first measures will be rolled out May 18, 2009. The complete list of FY 2010 measures will be rolled out not later than August 31, 2009. Measures will be adjusted each year as the strategic plan evolves and as areas needing improvement are identified through our compliance review programs.

5. OALC concurs with the recommendation to develop a formal staffing plan to ensure all QA Service responsibilities are met.

CFM will develop a staffing plan for the QA Service and submit a request for resources to address the additional staffing in the FY 2011 budget. Without obtaining additional resources, CFM will not be able to support additional dedicated staff for the QA Service.

6. In addition to these concurrences, minor edits to the report are also attached. OALC would like to offer the attached clarifications to the draft report.

7. If you have any questions, please contact Rose Quicker, Director, Resource Management Office at (202) 461-8210.



Glenn D. Haggstrom

Attachments

OIG Contact and Staff Acknowledgments

OIG Contact	Michael Bravman (202) 461-4549
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Acknowledgments	Sheila Brown Jeff McGowan Tonya Shorts-Smith Carla R. Vines
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