

Office of Inspector General



July 27, 2001
Audit Report No. 01-019

**Audit of Ecker Square Building
Renovation Contract Modifications**



DATE: July 27, 2001

TO: Arleas Upton Kea, Director
Division of Administration

FROM: Russell A. Rau [Electronically produced version; original signed by Russell A. Rau]
Assistant Inspector General for Audits

SUBJECT: *Audit of Ecker Square Building Renovation Contract Modifications*
(Audit Report No. 01-019)

The Office of Inspector General (OIG) completed an audit of contract modifications to the Federal Deposit Insurance Corporation's (FDIC) contract 99-00318-CS7 with Turner Construction (Turner) for the building renovation of 25 Ecker Square in San Francisco, California. We had previously audited billings submitted by The Ratcliff Architects (Ratcliff) for architectural and engineering services related to the Ecker Square building renovation. On January 10, 2001, the OIG issued Audit Report No. 01-001, *Audit of The Ratcliff Architects' Professional Fee Billings Under Contract 97-00384-S-JW*. The report identified unallowable costs and recommended that the FDIC improve contract administration and oversight. Consequently, the OIG decided to audit the renovation contract itself.

BACKGROUND

On July 21, 1999, the FDIC executed contract 99-00318-CS7 to Turner to renovate the interior of the FDIC-owned building located at 25 Ecker Square in San Francisco, California. The renovation of the 23-story, high-rise commercial office tower included 127,215 square feet of gross building area. The contractor was to demolish existing partitions and install new ones; provide and install all required millwork, carpet, paint, wall coverings, plumbing, electrical wiring and fixtures, computer and telecommunication cabling; replace the heating, ventilation, and air conditioning system (HVAC); and upgrade the Fire/Life/Safety systems. The renovation also incorporated bringing the building in compliance with the Americans with Disabilities Act requirements.

The FDIC's Division of Administration (DOA), Acquisition and Corporate Services Branch, Acquisition Section, Washington, D.C., awarded the contract. However, DOA's San Francisco Acquisition Services Branch was responsible for contract management and the San Francisco DOA Chief, Corporate Services Branch, was responsible for contract oversight. The FDIC awarded the contract as a fixed-price contract for \$11,700,428 and all work was to be completed by January 20, 2001. However, through a contract modification the FDIC extended the contract period of performance to March 31, 2001.

To assist in its oversight of the Turner construction contract, the FDIC engaged Ratcliff at a fixed-price of \$1.4 million to complete the interior design of the planned renovation and to provide contract administration and oversight of Turner. According to FDIC's contracting officer, Ratcliff was to periodically inspect Turner's construction work, respond to contractor requests for information (RFI), review materials/products to determine adherence to contract specifications, inspect the workmanship as each of the five phases was completed, and prepare the "punch list" of items requiring correction. Ratcliff was also to determine whether contract changes were needed and issue bulletins directing the change; review, evaluate, and recommend change order requests and pricing of same; review and recommend progress payment estimates; and attend weekly owner, architect, contractor meetings to discuss job status and resolve outstanding issues and conditions.

As of December 8, 2000, DOA had executed 19 contract modifications to the Turner construction contract involving 51 approved change orders. The total cost of the 19 modifications was \$918,927. The modifications addressed changes that were within the contract's original scope of work with one exception. Modification 010 for \$115,681 added rooftop renovation work that was not included in the original contract. Renovation of the roof was planned to be done later under a separate contract, but heavy rains and construction activity required that the roof be replaced sooner than planned. The Corporation chose to include the roofing work under the Turner contract.

Generally, the contract modifications were fixed-priced. However, we identified four exceptions. Specifically, modification 001 for \$145,570 was issued on a not-to-exceed basis with the final amount to be adjusted to reflect the actual costs incurred. Further, although modifications 017, 018, and 019 (totaling \$161,511) appeared to be fixed-priced, they contained a provision limiting reimbursement if the contractor's actual costs were less than the fixed-price amount by 10 percent or more. Turner was to notify the FDIC if its actual cost on each of these three modifications fell below the 10 percent level.

Chapter 7 of the FDIC's Acquisition Policy Manual (APM) sets forth the policy and procedures for contract administration and oversight with Section 7.H. addressing contract changes and modifications. Section 7.H. states that a contract change is either administrative or substantive. An administrative change is within the scope of the contract, does not affect the rights of the parties, and is executed by the FDIC on a unilateral basis. A substantive change does alter the rights and obligations of the parties and requires a written bilateral modification to the contract. Before a change is executed, Section 7.H.3.e. states that the oversight manager is to (1) identify the requirement for a modification; (2) determine whether the FDIC's cost for the change will exceed the expenditure ceiling and, if so, obtain additional expenditure authority; (3) prepare a detailed, written explanation of the reason for and nature of the change or modification; and (4) jointly (with the contracting officer) participate in any contractor negotiations pursuant to the need for the modification.

Section 7.H.1.c. provides that the warranted contracting officer is the only official with delegated authority to modify/change a contract. The contracting officer is responsible for determining whether a proposed modification is within the scope of the contract and shall consult as necessary

with the Legal Division in making the determination. The contracting officer is also to negotiate changes required by the modification and execute the modification with the contractor. However, the APM does not provide any guidance for the contracting officer on pricing contract change orders and modifications.

If the contracting officer determines that a request for modification is not within the scope of work, the oversight manager shall provide the contracting officer with a complete and approved justification for noncompetitive procurement. Procedures for approving noncompetitive requirements are stated in APM 4.G.

A general overview of the Turner construction contract modification process is as follows:

- Turner or one of its subcontractors originated a request for information (RFI) and submitted it to the FDIC oversight manager for consideration. An RFI could result from unforeseen conditions, changed work site conditions, an unclear or contradictory scope of work, or a request for clarification by a subcontractor.
- The oversight manager then consulted with Ratcliff, which reviewed the request to determine whether the proposed work was outside of the original contract scope and whether the estimated price appeared to be reasonable. Ratcliff could seek input from its outside consultants on electrical, mechanical, hardware, structural, and acoustical items.
- The FDIC, Turner, and Ratcliff met to discuss the validity of any proposed modifications. After an agreement was reached to modify the contract, Ratcliff issued a bulletin to summarize any changes to the plans and specifications.
- The FDIC next requested a formal price proposal from Turner and, when received, the oversight manager distributed copies to the contracting officer and Ratcliff for review. The oversight manager, contracting officer, and Ratcliff then met to discuss pricing, scope, and negotiation strategy. The FDIC would then ask Turner to resubmit the proposal or request additional information. The FDIC could also reject the proposal and not modify the contract.
- After negotiations were completed and agreement reached, Turner submitted a revised proposal that was incorporated into a contract modification that could include one or more change orders. The oversight manager and contracting officer signed the final proposal.
- The oversight manager documented the modification with a procurement requisition and other supporting documentation, which was reviewed by the contracting officer. The contracting officer then executed the modification.

OBJECTIVES, SCOPE, AND METHODOLOGY

We performed an audit of the first 19 contract modifications under contract 99-00318-CS7 with Turner for the building renovation of Ecker Square. The effective dates of Modifications 001 and 019 were October 1, 1999 and November 21, 2000, respectively. The objectives of the audit were to determine whether: (1) contract modifications and change orders were based on accurate and adequate pricing data, (2) contract modifications and change orders were consistent with FDIC acquisition policies, (3) change orders were actually for work outside the scope of the original statement of work, and (4) the FDIC was validating the costs billed under modifications that contained a monetary return provision based on actual costs.

We interviewed FDIC personnel from the San Francisco DOA office. We researched and reviewed contract modification and change order files maintained by both the oversight manager and contracting officer. We also reviewed the APM, paying particular attention to Chapter 7.H. on contract modifications and changes.

Although the contract was not covered by the Federal Acquisition Regulation (FAR), we researched parts of the FAR that relate to construction and architectural/engineering contracts (Part 36), contract modifications (Part 43), and subcontracting (Part 44) to determine whether any of the FAR guidance could be used as a best practice to improve the FDIC procurement policy. To compare labor rates charged by Turner's subcontractors and passed on to the FDIC with the prevailing labor rates for San Francisco, we obtained occupational wage rate estimates for various categories of construction workers in San Francisco as of 1999 from the Department of Labor's web site.

We also interviewed Turner and Ratcliff officials. We obtained contract billing and modification cost data from Turner. Specifically, we spoke with Turner's senior project manager and senior accountant about the contractor's ability to segregate actual costs for Modifications 017, 018, and 019. As we previously stated, the FDIC's contracting officer added a provision to the three modifications requiring Turner to notify the FDIC in the event that the actual costs were less than the negotiated, fixed-price amount by 10 percent or more.

We visited the Ratcliff office in Emeryville, California, to review its modification and change order files. Our audit focused on the adequacy of documentation to support the accuracy of contract modification and change order pricing. We also considered whether DOA's oversight and contract administration activities were consistent with FDIC acquisition policies. During our audit, we judgmentally sampled 12 approved change orders priced at \$696,318 for detailed review. The 12 change orders represented 75.8 percent of the total value of \$918,927 for the 19 modifications.

During the renovation, we physically observed Turner and its subcontractors at work on various floors of the Ecker Square building. We witnessed the installation of carpeting, electrical fixtures, walls, and kitchen appliances. We also encountered painting, fire/safety system upgrading, and HVAC activities in progress.

Overall, we designed our audit work to gain an understanding of the FDIC's controls over the contract modification process. Our audit techniques related to evaluating whether such controls were in place and working as intended. The OIG conducted the audit in San Francisco from October 6, 2000 to May 3, 2001 in accordance with generally accepted government auditing standards.

RESULTS OF AUDIT

Except for Modification 010 related to the installation of a new roof, we concluded that there was insufficient documentary evidence to determine whether contract modifications and change orders were based on accurate and adequate pricing data. As a result, we do not have reasonable assurance that the FDIC received the best prices for additional renovation work included in the contract modifications with Turner. We believe this condition likely developed because the FDIC did not define specific procedures needed to determine the validity of modification and change order pricing in the Ratcliff and Turner contracts.

We did find that the FDIC generally complied with all existing procurement policies, procedures, and delegations of authority governing contract modifications and change orders. The oversight manager and contracting officer adhered to the requirements of Chapter 7 of the APM for administering and overseeing the Turner contract. The oversight manager properly identified the modification requirements, adhered to the expenditure ceiling, described the reasons for the modifications, and participated in contractor negotiations. The contracting officer appropriately determined that the proposed modifications were within the overall scope of the building renovation contract, consulted with the Legal Division in making determinations, participated in contractor negotiations, and executed the modifications.

We also found that the FDIC properly determined that change orders were for renovation work not specified in the original statement of work. We found no evidence of unnecessary changes caused by design flaws, nor did we find any change order work that duplicated tasks defined in the original statement of work.

Lastly, we determined that the FDIC was not validating the actual costs billed under Modifications 017, 018, and 019 in order to monitor the provision that required Turner to notify the FDIC in writing when actual modification costs were less than 10 percent or more below the negotiated prices. This provision obligated Turner to credit the FDIC with the difference between the negotiated price and the actual costs when the 10-percent threshold was reached. Furthermore, we found that Turner was not able to identify the total actual costs by modification as required by the provision. Therefore, the FDIC may find it difficult to enforce the provision for possible monetary returns or credits and largely left it up to Turner, itself, to determine when the 10-percent threshold was met.

FDIC NEEDS TO STRENGTHEN CONTROLS OVER THE PRICING OF CONTRACT MODIFICATIONS AND CHANGE ORDERS

There is insufficient evidence to determine that contract modifications and change orders were based on accurate and adequate pricing data. Therefore, we do not have reasonable assurance that the FDIC obtained the best prices on the modifications to the Ecker Square building renovation contract with Turner.

In our review of FDIC/DOA and Ratcliff files and our discussions with Turner, we found little or no evidence of analysis and verification of pricing support for contract modifications and change orders. It is important to note that the FDIC's contracts with Turner and Ratcliff are silent concerning the specific procedures to be followed to determine whether contract modifications and change orders were based on accurate and adequate pricing data.

We reviewed the FDIC contract modification files maintained separately by both the contracting officer and the oversight manager. The files contained copies of the modifications and change orders that Turner submitted. Attached to the modifications were price quotations from Turner's suppliers and subcontractors. However, the files did not contain any evidence of additional price analysis and verification of the proposed prices for labor and materials.

We also reviewed Ratcliff's contract modification and change order files maintained at its office in Emeryville, California. Like the FDIC's files, the Ratcliff files contained copies of the modifications and change orders, but little or no additional information was available that would support what Ratcliff actually did to verify or confirm the reasonableness of Turner's proposed price estimates. We did find several unattributed, undated, handwritten comments on the modifications and change orders. For example, next to the line items listed on Change Order 33 under Modification 013 were handwritten comments such as "ok" or "no" without any further explanation related to pricing. On a price quotation from a vendor in Ratcliff's Change Order 33 file was the following unsigned, handwritten comment: "Ask Glumac to refine their comment." (Glumac was the consultant Ratcliff used for electrical and mechanical items.) Ratcliff was not able to provide us any additional documentation indicating whether Glumac, in fact, ever did refine their comment. Another vendor quotation in the Change Order 33 file contained the handwritten remark, "OK per Dasse." (Dasse Design was Ratcliff's consultant for structural matters.) Again, no additional information could be found indicating the basis on which the consultant made its determination. Change Order 29 under Modification 011 had the following handwritten comment: "Please verify that Yamas & Paganini have not duplicated costs." (Yamas was a subcontractor to Columbia Mechanical, one of Turner's electrical subcontractors. Paganini was also a Turner electrical subcontractor.) The file did not contain any further indication that the requested verification was performed.

Our review of Ratcliff's files raised several questions about the absence of documentation for what steps the contractor had actually taken to determine the reasonableness of Turner's pricing of modifications and change orders. Thus, we met with Ratcliff's assistant project supervisor to try to answer our questions and learned that formal procedures and documentation for reviewing and verifying modification and change order pricing and requirements did not exist. Ratcliff's representative stated that the handwritten comments on the change orders were made by its assistant project supervisor and Turner representatives. Regarding the possible duplication of costs by Yamas and Paganini, Ratcliff's

assistant project supervisor stated that the issue was discussed at a change order meeting with the FDIC and Turner, but it had not yet been resolved. The FDIC's contracting officer did not recall this issue and minutes of the periodic change order meetings were not kept.

According to Ratcliff's assistant project supervisor, Ratcliff rendered opinions on proposed modifications and change orders to the FDIC based on experience, consultations with subcontract specialists, and periodic change order meetings with the FDIC and Turner. Ratcliff did not prepare written descriptions of its review and price verification actions for contract modifications and change orders. The FDIC, Ratcliff, and Turner relied primarily on oral communication to determine whether there were accurate and adequate pricing data in support of modifications and change orders.

Turner's senior project manager stated that Turner negotiated lump sum prices with its subcontractors and suppliers for change order work. Turner billed the FDIC the same lump sum prices on approved change orders. Turner reimbursed its vendors after receiving payment from the FDIC. Turner could not provide any detailed pricing support or analyses of how it determined the reasonableness of the lump sum prices negotiated with its subcontractors.

A concern we have regarding the lump sum pricing of the change order work is that Turner's subcontractors added overhead and profit (totaling 15 percent) to labor rates that appeared to be already fully burdened. The FDIC agreed to such markups by Turner's subcontractors in Modification 008. We believe the subcontractor's labor rates were likely fully burdened because of the differences we noted by comparing the labor rates stated in the change orders with the labor rates we identified by reviewing the Department of Labor's Occupational Employment Statistics (OES) for various types of construction workers in San Francisco in 1999. For example, in one change order, Turner's electrical subcontractor used a journeyman electrician rate of \$65.72 as compared to a base OES electrician rate of \$26.80. When asked about the subcontractor labor rates used in the modifications, FDIC, Turner, and Ratcliff representatives stated that the rates used to price out the modifications were in accordance with labor union agreements. However, we could not find any evidence that either the FDIC or Ratcliff verified that the rates conformed to union agreements or whether the rates were fully burdened.

SPECIAL PROVISIONS ADDED TO CONTRACT MODIFICATIONS SHOULD BE VERIFIABLE

According to the FDIC's contracting officer, the FDIC did not validate or monitor the actual costs incurred under Contract Modifications 017, 018, and 019, which stipulated a cost adjustment should Turner's actual cost of the modifications be 10 percent or more below the negotiated prices. If this threshold was met, Turner was to notify the FDIC and credit the Corporation with the difference between the negotiated price and the actual cost. The negotiated prices were \$5,192 for modification 017, \$93,686 for modification 018, and \$62,633 for modification 019.

With assistance from the Legal Division, the contracting officer created the 10-percent provision in an attempt to prevent the contractor from "over-profiting" on change orders. The monetary return provision contained in Contract Modifications 017, 018, and 019 reads as follows: "The agreement to modify this contract is based on the good faith representations and negotiations of the contractor as well as on the attached information submitted by the contractor. In the event the final and true cost is less

than the price agreed to in this modification by 10% or more, the contractor shall notify the FDIC Contracting Officer in writing and shall credit the FDIC with the difference between the price stated in this modification and the actual final price.” However, the FDIC would find it difficult to enforce this preventive measure because the actual costs on modifications containing this provision were not being monitored or verified.

In a memorandum to the OIG dated March 21, 2001, the contracting officer stated: “With this new clause, the contractor must notify the FDIC of any price adjustments. If the FDIC audits the contract and discovers a discrepancy, the contractor would be subject to the False Claims Act, the fraud provisions of the contract, and other civil penalties determined by Legal.”

We interviewed Turner’s senior project manager and senior accountant to determine whether the contractor could accumulate actual costs by contract modification to meet the requirements of the 10-percent provision of Modifications 017, 018, and 019. We learned that Turner did not have a job order cost system that could identify costs to a specific modification or change order. Moreover, when we asked Turner representatives to attempt to identify actual costs to specific modifications, they were unable to do so. Therefore, Turner was not able to comply fully with the requirements of Modifications 017, 018, and 019. This condition rendered ineffective the contracting officer’s intent to prevent overcharging on modifications by limiting reimbursement to actual costs.

Without previously verifying that Turner’s accounting system could identify actual costs by contract modification or requiring in the contract that Turner maintain such a system, the FDIC was in the position of having to rely on the contractor to disclose if and when the contractor’s actual cost was 10 percent or more below the negotiated price. The FDIC has not instituted specific procedures for monitoring the costs to ensure compliance with the special modification provision that could result in monetary returns to the FDIC.

Because of the inability of Turner to track actual costs incurred on Modifications 017, 018, and 019, the actual costs of the modifications are unknown and cannot be verified. Consequently, the 10-percent provision instituted by the contracting officer is basically unenforceable.

CONCLUSION AND RECOMMENDATIONS

There is insufficient evidence to determine whether the FDIC received the best prices for modification work on the Ecker Square building renovation contract with Turner. The FDIC relied on Ratcliff to provide advice on the reasonableness of contract modification work and pricing. However, very little documentary evidence of any detailed analysis of labor rates and material quantities could be found in the files maintained by the FDIC or Ratcliff. It is important for the FDIC to ensure that contractors engaged to oversee projects like a building renovation provide sufficient evidence and justification for their decisions concerning contract modifications and change orders. In future construction contracts, the FDIC would benefit by better defining the contractor's specific duties and responsibilities and by verifying that they are implemented and documented as intended.

In seeking to prevent excess profits on change orders from accruing to the contractor, the FDIC added a special provision to certain modifications that could not be completely verified. However, neither the FDIC nor Ratcliff was monitoring actual costs to ensure compliance with the provision. In essence, the FDIC relied on Turner to monitor itself and to notify the FDIC when the provision threshold was met. Unfortunately, Turner could not accurately identify actual costs by modification. Even with fixed price contracts, modifications that add special provisions can change the nature of the contract type to the extent that additional FDIC oversight and administration would be required. Before adding such a provision, it would be beneficial for the FDIC to know that the contractor's accounting system is capable of segregating costs in accordance with the provision's terms, or to require such a system as a function of the contract.

We believe that the conditions we encountered in auditing the Turner contract modifications could be avoided by adding specific language to the APM and to the contracts themselves that spells out the detailed steps to be taken to ensure accurate and adequate contract modification pricing. The FDIC may also want to consider augmenting the APM with some of the guidance contained in the Federal Acquisition Regulation. Specifically, FAR Part 36 on construction and architect-engineer contracts, Part 43 on contract modifications, and Part 44 on subcontracting policies and procedures may prove helpful. For example, FAR Part 43.203 (a) states: "Contractors' accounting systems are seldom designed to segregate the costs of performing changed work. Therefore, before prospective contractors submit offers; the contracting officer should advise them of the possible need to revise their accounting procedures to comply with...cost segregation requirements..." Also, FAR Part 44.303 states, "Special attention shall be given to--...(b) Pricing policies and techniques, including methods of obtaining accurate, complete, and current cost or pricing data and certification..." FAR Part 44.304 goes on to state: "(a) The [Administrative Contracting Officer] shall maintain a sufficient level of surveillance to ensure that the contractor is effectively managing its purchasing program (b) Surveillance shall be accomplished in accordance with a plan developed by the [Administrative Contracting Officer] with the assistance of subcontracting, audit, pricing, technical, or other specialists as necessary."

Accordingly, to better control the contract modification process, we recommend that the Director, DOA:

- (1) Ensure that contract provisions for modifications and change orders include criteria and procedures for what constitutes accurate and adequate pricing data.
- (2) Enhance the APM by adding a requirement that sufficient documentary evidence be obtained and/or prepared to support the pricing of modifications and change orders.
- (3) Consider augmenting the APM with information from the relevant sections of FAR Parts 43 and 44.
- (4) Before adding special provisions to contract modifications, ensure that the contractor has an accounting system that is capable of providing the information needed to meet the provision's requirements

CORPORATION COMMENTS AND OIG EVALUATION

On July 13, 2001, the Director of DOA provided a written response to the draft report. The response is presented in Appendix I of this report. The Director stated that DOA management concurred with the audit recommendations. By July 31, 2001, DOA will issue guidance in memorandum form to all contracting officers on documentation requirements for ensuring that prices related to modifications and change orders are reasonable and fully supported. The guidance will also require any special provisions contained in contract modifications to be consistent with the capabilities of the contractor's accounting systems. The Director added that DOA intends to formally update the APM in 2002.

The Corporation's response to the draft report provided the elements necessary for management decisions on the report's recommendations. Therefore, no further response to this report is necessary. Appendix II presents management's proposed action on our recommendations and shows that there is a management decision for each recommendation in this report.



July 12, 2001

MEMORANDUM TO: Sharon M. Smith
Assistant Inspector General

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

SUBJECT: Management Response to Draft Report: *Audit of Ecker Square Building
Renovation Contract Modifications*

The Division of Administration (DOA) has completed its review of the subject Office of Inspector General (OIG) draft report. We appreciate the review performed by the OIG, and its conclusion that the DOA generally complied with all existing procurement policies, procedures, and delegations of authority governing contract modifications and change orders, and that the Oversight Manager and Contracting Officer adhered to the requirements of Chapter 7 of the Acquisition Policy Manual for administering and overseeing the contract. In the report, the OIG made four recommendations to DOA related to two audit findings.

This response summarizes our planned corrective actions with respect to the audit recommendations made by the OIG, and provides expected completion dates and the documentation that will confirm completion.

Management Decision:

Recommendation # 1: Ensure that contract provisions for modifications and change orders include criteria and procedures for what constitutes accurate and adequate pricing data.

Management Response # 1: DOA management concurs with this recommendation. We agree that the Contracting Officer has the obligation to ensure that all contractual prices are reasonable. Chapter 6.D.2.e provides that the method and level of detail needed for cost reasonableness is determined at the discretion of the Contracting Officer. As this requirement is an important aspect in determining if the costs of goods and services are fair and reasonable, the Assistant Director, Acquisition Section, will issue a memorandum reiterating to Contracting Officers the requirements for determining price reasonableness. Further, this memorandum will include procedures and documentation requirements for ensuring that prices related to modifications and change orders are likewise reasonable and fully supported. This memorandum will be issued by July 31, 2001.

Recommendation # 2: Enhance the APM by adding a requirement that sufficient documentary evidence be obtained and/or prepared to support the pricing of modifications and change orders.

Management Response # 2: DOA management agrees with this recommendation. We agree that all Contracting Officers should ensure that all contractual prices are reasonable and follow competitive procedures where appropriate. DOA intends on conducting a formal update of the APM in 2002. In the interim, to be immediately responsive, the Assistant Director, Acquisition Section, will issue a memorandum to all Contracting Officers reemphasizing this requirement and include procedures and documentation requirements for ensuring that prices related to modifications and change orders are likewise reasonable and fully supported. The memorandum will be issued by July 31, 2001. DOA will deem this recommendation to be complete as of the date of issuance of the memorandum.

Recommendation # 3: Consider augmenting the APM with information from the relevant sections of FAR Parts 43 and 44.

Management Response # 3: DOA management concurs with this recommendation in part. DOA, Acquisition Section has reviewed the Federal Acquisition Regulations, Parts 43 and 44, specifically, Part 43.203 – Change Order Accounting Procedures, Part 44.303 – (Contractors’ Purchasing Systems Review) Extent of Review, and Part 44.304 – Surveillance. DOA believes that the existing language in the APM and the subsequent guidance to be issued by the Assistant Director, Acquisition Section, to be the appropriate action to ensure compliance. This memorandum will include the requirement that any contract modification special provisions are consistent with the contractor’s accounting systems. The memorandum will be issued by July 31, 2001.

Recommendation # 4: Before adding special provisions to contract modifications, ensure that the contractor has an accounting system that is capable of providing the information needed to meet the provision’s requirements.

Management Response # 4: DOA management concurs with this recommendation. The Assistant Director, Acquisition Section, will issue a memorandum to all Contracting Officers requiring that any special provisions contained in contract modifications are consistent with the capabilities of the contractor’s accounting systems to ensure compliance. The memorandum to all Contracting Officers will be issued by July 31, 2001.

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: Michael Rubino
Vijay Deshpande

MANAGEMENT RESPONSES TO RECOMMENDATIONS

The Inspector General Act of 1978, as amended, requires the OIG to report the status of management decisions on its recommendations in its semiannual reports to the Congress. To consider FDIC's responses as management decisions in accordance with the act and related guidance, several conditions are necessary. First, the response must describe for each recommendation

- the specific corrective actions already taken, if applicable;
- corrective actions to be taken together with the expected completion dates for their implementation; and
- documentation that will confirm completion of corrective actions.

If any recommendation identifies specific monetary benefits, FDIC management must state the amount agreed or disagreed with and the reasons for any disagreement. In the case of questioned costs, the amount FDIC plans to disallow must be included in management's response.

If management does not agree that a recommendation should be implemented, it must describe why the recommendation is not considered valid. Second, the OIG must determine that management's descriptions of (1) the course of action already taken or proposed and (2) the documentation confirming completion of corrective actions are responsive to its recommendations.

This table presents the management responses that have been made on recommendations in our report and the status of management decisions. The information for management decisions is based on management's written response to our report.

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Documentation That Will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
1	DOA will provide guidance to contracting officers on procedures and documentation requirements for ensuring that contract modification and change order prices are reasonable and fully supported.	July 31, 2001	Guidance memorandum	N/A	Yes
2	DOA will formally update the APM in 2002 and, in the interim, will provide guidance to contracting officers reemphasizing the importance of ensuring the reasonableness of contract modification and change order prices.	July 31, 2001	Guidance memorandum	N/A	Yes
3	DOA reviewed FAR Parts 43 and 44 and will issue guidance requiring any special provisions contained in contract modifications to be consistent with the contractor's accounting systems.	July 31, 2001	Guidance memorandum	N/A	Yes
4	DOA will issue guidance requiring contracting officers to ensure that a contractor's accounting system is capable of providing the information needed to meet the requirements of special provisions contained in contract modifications.	July 31, 2001	Guidance memorandum	N/A	Yes