



U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

June 20, 2011

MEMORANDUM FOR: JIM WELLER
REGIONAL COMMISSIONER, PBS
GREATER SOUTHWEST REGION (7P)

FROM: ADAM GOOCH *Adam Gooch*
REGIONAL INSPECTOR GENERAL FOR AUDITING
GREAT LAKES REGION (JA-5)

SUBJECT: Procurement of Air Handling Units at the U. S. Post Office
Building in Oklahoma City, OK in Support of the American
Recovery and Reinvestment Act of 2009¹
Memorandum Number A090184-17

This memorandum presents the results of our review of a \$566,126 firm fixed price design build task order, awarded to Caddell & Co., LLC (Caddell) of Norman, Oklahoma, under contract number GS-07P-08-HH-D-0055.

Our review identified an area of concern related to the procurement process which we believe should be brought to your attention. We determined that the task order award amount was about \$103,000 (22 percent) higher than the independent government estimate (IGE). The discrepancy between the IGE and the award amount casts doubt on the reliability of the IGE and the determination of whether the price is fair and reasonable.

The task order called for the replacement and relocation of two mezzanine air handling units (AHUs) in the U.S. Post Office in Oklahoma City. The work included the design, management, labor, tools, material, and supervision necessary to complete the project. The IGE was based on relocating the units to the basement; however, the request for proposal left it up to the contractor to explore all options for the best location. Four contractors received a copy of the request for proposal and were present at the pre-

¹ The American Recovery and Reinvestment Act of 2009 (ARRA) provides the General Services Administration (GSA) with \$5.55 billion for the Federal Buildings Fund. In accordance with ARRA, the GSA Public Buildings Service (PBS) is using the funds to convert Federal buildings into High-Performance Green Buildings as well as to construct Federal buildings, courthouses, and land ports of entry. The ARRA mandates that \$5 billion of the funds must be obligated by September 30, 2010 and that the remaining funds be obligated by September 30, 2011. The GSA Office of Inspector General (OIG) is conducting oversight of the projects funded by the ARRA. One objective of this oversight is to determine if PBS is awarding and administering contracts for limited scope and small construction and modernization projects in accordance with prescribed criteria and ARRA mandates.

proposal meeting, but only Caddell submitted what was considered an acceptable proposal. That proposal had two options: (1) replace the coils and fans and add a containment pan under the new coils with detection sensors or (2) replace and relocate the AHUs and create a mechanical room. The latter option was selected; however, there were no records of negotiations. According to the project manager, this option is an easier installation and less disruptive to the tenants.

In accordance with FAR 36.203, an IGE of construction costs shall be prepared and furnished to the contracting officer at the earliest practicable time for each proposed contract and for each contract modification anticipated to exceed the simplified acquisition threshold (\$100,000). The IGE of \$463,320 was created on July 30, 2009 and the award was made on December 21, 2009 for \$566,126, \$102,806 higher than the IGE. The procurement file documented a discussion of the difference between the IGE and the award on an electronic mail dated December 18, 2009, from the Project Manager to the Contracting Officer. It stated:

The government estimate is between the two contractors [*sic*] proposal price at \$463,320 and \$102,806, [*sic*] less than Caddell's proposal. Without a design to estimate from, the government estimate is to be considered a budget estimate rather than a construction estimate taken from a set of plans and specs.

We asked the Project Manager if another estimate was done due to the large discrepancy (higher than ten percent). He said that another estimate had not been done.

According to FAR 13.106-3, the contracting officer must determine that the proposed price is fair and reasonable. Because there was only one acceptable proposal there is a greater need for a close evaluation of the bid prices to protect the interests of the Government. Comparing the prices with an IGE is one of the best ways to do this. The IGE should be within a reasonable range of the bids or offers submitted by commercial contractors. PBS defined "a reasonable range" as plus or minus ten percent of the IGE. In this case, the discrepancy between the IGE and the award amount casts doubt on the reliability of the IGE and the determination of whether the price is fair and reasonable.

In response to our draft memo, the region responded as follows:

This was a Design Build project for the replacement and relocation of two air handling units (AHUs). The IGE was based solely on the Service Center's preferred design approach outlined in the Statement of Work. However, contractors were given the option to explore other design approaches. Three of the four contractors receiving a copy of the proposal participated in the site visit. All participants reported the preferred design approach of relocating the units to the basement was not feasible. Ultimately, two of the four did submit proposals

based on alternate design approaches. One of these two was considered unacceptable; it was submitted a day late and did not contain requested source selection information.

The remaining proposal contained two design approaches with cost breakdowns for each approach. The first option called for retrofitting the existing units to keep them from malfunctioning while the second option was to relocate the units to the first floor. Per the Service Center, a determination was made that the second option was necessary to prevent any further water damage to tenants located below the AHUs.

Based on FAR 15.404-1 (b)(2)(vii), examples to ensure a fair and reasonable price include an analysis of pricing information provided by the offeror. The GSA Project Manager (PM) did provide a technical and price analysis, and did determine the costs to be fair and reasonable based on past experience with construction projects. As part of this analysis, the PM did reference the original IGE, but it was not the sole basis for an award recommendation. In addition, the cost factors for the award option were reviewed and approved by the Supervisory PM, the Small Projects Branch Manager, and the Supervisory Contracting Section Chief.

We appreciate the support that has been provided throughout this review. If you have any questions about this memorandum, please contact me at (312) 353-0500 or Audit Manager John Langeland at (312) 353-6691.