

Audit Report

Recovery Act Report –
Energy Retrofit for the
New Carrollton Federal Building
Review of PBS's Limited Scope
and Small Construction Projects
Funded by the American Recovery and
Reinvestment Act of 2009
Audit Number A090184/P/R/R11010

June 13, 2011

**Office of Inspector General
General Services Administration**



Office of Audits

GENERAL SERVICES ADMINISTRATION OFFICE OF INSPECTOR GENERAL

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Date: June 13, 2011

Reply to: Marisa A. Roinestad
Attn of: Audit Manager
Real Property Audit Office (JA-R)

Subject: Recovery Act Report—Energy Retrofit for the New Carrollton Federal Building
Review of PBS's Limited Scope and Small Construction Projects Funded by the American Recovery and Reinvestment Act of 2009
Audit Number A090184/P/R/R11010

To: Julia E. Hudson
Regional Administrator
National Capital Region (WA)

As part of our oversight of the National Capital Region's limited scope and small construction American Recovery and Reinvestment Act (Recovery Act) projects, we reviewed the contract award¹ for the energy retrofit project at the New Carrollton Federal Building in the amount of \$11,681,779, including options. During our review, we identified several issues that require your attention. Specifically:

- The award document exceeds the underlying bid by \$4,863,443;
- The price reasonableness determination was questionable because of the large variance between the independent government estimate (IGE) and the award amount; and
- An incomplete assessment of one energy conservation measure (ECM) circumvented management controls established to ensure ECMs meet greening strategy goals.

Award Document Exceeds Bid by \$4.9M

The total amount on the award document² exceeds the winning proposal by \$4,863,443 and Public Buildings Service (PBS) officials could not explain how this mistake

¹ Contract number GS-11P-10-YA-C-0197.

² Standard Form 1442 (SF 1442) represents the contract award. The SF 1442 includes both line items that have been funded as well as optional line items that could be funded in the future. These optional line items are considered part of the project's scope and are evaluated for price reasonableness with the base award; however, funding is not yet available for the options. These optional line items can be awarded in the future, without additional price evaluation, if funding becomes available.

occurred. The winning bidder submitted the lowest bid in the amount of \$6,818,336 for the base and 15 optional ECMs. According to the contract specialist, no negotiations occurred during the procurement; therefore, the amounts on the award document should match the winning bidder's price proposal. We confirmed with PBS personnel that the bid and award amount should be the same. Moreover, the price reasonableness determination in the Price Negotiation Memorandum (PNM) was based on the \$6,818,336 bid amount. However, the amount on the award document for options not yet exercised was \$4,863,443 greater than the bid amount. If the higher amounts on the award document represented the actual bid, the awardee would not have been the winning bidder. Rather, another bidder would have been the lowest-priced, technically-acceptable contractor. While we first informed the contract specialist of this error on February 1, 2011, the award document was not corrected upon completion of audit fieldwork. This error should be corrected to ensure award to the lowest-priced, technically-acceptable bidder at the correct amount.

Award Amount Significantly Different Than Independent Government Estimate

According to the PNM, the contracting officer used the final IGE in determining price reasonableness yet the amount on the award document, including the base and options, was 63 percent higher than the IGE. The actual difference between the award documentation and IGE was not addressed in the PNM. The fact that the IGE was significantly different from the award amount should have alerted the contracting officer to a problem with the award. Had the correct bid amount been used in the award, the difference between award and IGE would have only been 5 percent.

Additionally, the final IGE was revised after receipt of proposals, which violates project estimating guidance. During evaluation of bids submitted, there were concerns by the contracting officer and contract specialist that the original IGE was too high. The project manager was requested to review the IGE again, with a complete understanding of the project scope. The IGE was revised on August 15, 2010, based on additional market research and historical work for projects of a similar type, scope, and magnitude. The final IGE was 37 percent lower than the original IGE. The receipt of bids occurred on June 25, 2010, prior to the creation of the final IGE. Per project estimating guidance, a qualified government employee must sign and approve the IGE, which serves as the basis for commitment of funds before the solicitation is issued.

Energy Conservation Measure Not Reviewed by Program Management Office

Prior to contract award, ECM 211,³ which is intended to create and implement measurement and verification protocol with the building automation system, was not vetted through the proper approval process. The project manager indicated that this ECM was not expected to be funded; however, we note that all optional line items on the SF 1442 have the potential to be awarded in the future. The proper process to approve an ECM begins with the creation of an energy study that identifies estimated

³ ECM 211 is an optional line item with a potential value of \$251,303.

savings and payback for ECMs. This information is incorporated in the Limited Scope Approval Request (LSAR), which is reviewed by the National Recovery Program Management Office (PMO). While an energy study was performed for this ECM, the ECM was not incorporated into an LSAR or reviewed by the PMO. This circumvents the management controls established to ensure that only energy measures that meet GSA's greening strategy goals are awarded.

Conclusion

We conclude that certain provisions of the Federal Acquisition Regulation and PBS policy were violated during the award of the contract. Additionally, due to the incomplete assessment of one energy conservation measure, PBS did not adequately determine if the project met the requisite green building investment strategy.

Recommendation

We recommend that the Regional Administrator, National Capital Region:

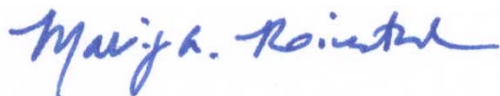
- 1) Ensure that the award amount is corrected.

Management Comments

The Regional Administrator's response to our draft report is included in its entirety in Appendix A. PBS is in agreement with the first two audit findings and the audit recommendation. PBS took exception to the third audit finding, explaining that ECM 211 is not truly an ECM and therefore was not subject to LSAR review. We disagree with this position and provide our rationale in Appendix B.

We appreciate the support that has been provided throughout this review. If you have any questions about this report, please contact me at (202) 219-0088.

Sincerely,



Marisa A. Roinestad
Audit Manager
Real Property Audit Office (JA-R)


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Management Comments



GSA National Capital Region


MEMORANDUM FOR R. NICHOLAS GOCO
DEPUTY ASSISTANT INSPECTOR GENERAL
FOR AUDITING
REAL PROPERTY AUDIT OFFICE (JA-R)

FROM: JULIA E. HUDSON 
REGIONAL ADMINISTRATOR (WA)

SUBJECT: Response to: Recovery Act Report – Energy Retrofit for the
New Carrollton Federal Building Review of PBS’s Limited
Scope and Small Construction Projects Funded
by the American Recovery and Reinvestment Act of 2009
Audit Number A090184-30/P/R

As part of your oversight of the National Capital Region’s Limited Scope and Small Construction American Recovery and Reinvestment Act (Recovery Act) Projects, your office reviewed the contract award for the energy retrofit project at the New Carrollton Federal Building in the amount of \$11,681,779, including options. During your review, you identified several issues that required the attention of this office. This is in response to your memorandum subject above. Specifically:

Audit Issue #1, in part states: The award document exceeded the underlying bid by \$4,863,443.

Response:  the contracting officer currently assigned to these projects, is preparing a modification to the contract so that the award amount can be corrected.

Audit Issue #2, in part states: The price reasonableness determination was questionable because of the large variance between the independent Government estimate (IGE) and the award amount.

Response: The modification mentioned in Audit Issue #1, above, will resolve this item also.

Audit Issue #3, in part states: An incomplete assessment of one energy conservation measure (ECM) circumvented management controls established to ensure ECMs meet greening strategy goals. This ECM #211, which is intended to create and implement a measurement and verification protocol with the building automation system, was not vetted through the proper approval process. The proper process to approve an ECM begins with the creation of an energy study that identifies estimated savings and payback for ECMs. This information is incorporated into the Limited Scope Approval

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Request (LSAR), which is reviewed by the National Recovery Project Management Office (PMO). While an energy study was performed for this ECM, the ECM was not incorporated into an LSAR or reviewed by the PMO.

Response: This issue was addressed by [Redacted] Zone Executive; Zone A, GSA Recovery PMO (PN). [Redacted] indicated that this "measurement and verification" ECM is actually not an ECM, at all. It's only a method for GSA to confirm that the actual construction work was, in fact, completed. Therefore, no LSAR is required for this item.

I appreciate the support that has been provided by your review of PBS's Limited Scope and Small Construction Projects.

If you have any questions or need additional information, please feel free to contact me at (202) 708-9100, or Cathleen Kronopolus, Regional Commissioner, Public Buildings Service. She may be reached at (202) 708-5891.

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OIG Response to Management Comments

We disagree with PBS’s position that ECM 211 “is actually not an ECM, at all...Therefore, no LSAR [Limited Scope Approval Request] is required for this item.” While ECM 211 does represent efforts related to measurement and verification, there is a potential cost associated with the optional line item. The contractor that PBS selected bid \$112,982 for ECM 211. The cost of this service should therefore have been included in the LSAR.

The National Recovery Program Management Office (PMO) established the LSAR in order to set the scope for High-Performance Green Building Limited Scope Energy projects. The PMO noted, “Proposed scopes should be achievable within the ARRA budgeted amount for the building and identify a priority of items to be implemented based on greatest reduction of energy usage, energy cost, and/or lowest life cycle cost.” Given that there was a potential cost for ECM 211, it should have been included in the cost-benefit analysis associated with determining the project scope.

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Background, Objectives, Scope, and Methodology

Background

The American Recovery and Reinvestment Act of 2009 (Recovery Act) provides the General Services Administration (GSA) with \$5.55 billion for its Federal Buildings Fund. In accordance with the Recovery Act, the GSA Public Buildings Service (PBS) is using these funds to convert federal buildings into High-Performance Green Buildings as well as to construct federal buildings, courthouses, and land ports of entry. The Recovery Act mandated that \$5 billion of the funds be obligated by September 30, 2010, and that the remaining funds be obligated by September 30, 2011. The GSA Office of Inspector General is conducting oversight of the projects funded by the Recovery Act.

Objectives

Our objectives were to determine if the project meets the requisite “green building” investment strategy and if GSA’s PBS awarded the contract in accordance with the provisions of the Federal Acquisition Regulation.

Scope

We performed the work for this report between November 2010 and March 2011.

Methodology

To accomplish the objectives we reviewed the contract file and other pertinent project documents, met with project staff, and reviewed applicable guidance and regulations.

We conducted this performance audit in accordance with generally accepted government auditing standards except as noted below. Those 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 based on our audit objectives.

The planning for this review is based on the audit plan for oversight of the Recovery Act projects as well as review guidance being applied to all Limited Scope and Small Construction Recovery Act projects. A separate guide was not prepared for this project.

As this work was performed under the continuing oversight of all GSA Recovery Act projects, management controls are currently under assessment. Only those management controls discussed in the report have been assessed.

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Report Distribution

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Regional Recovery Executive, Public Buildings Service, National Capital Region (WP)

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