



INSTALLATION REPORT OF AUDIT

F2010-0018-FDD000

**American Recovery and
Reinvestment Act of 2009
Military Construction
117th Air Refueling Wing
Alabama Air National Guard
Birmingham AL**

Gulf Coast Area Audit Office

25 November 2009

INTRODUCTION

On 17 February 2009, the President signed into law the American Recovery and Reinvestment Act of 2009 (Recovery Act). This provided the Department of Defense with \$2.3 billion in funding for military construction (MILCON) projects. The 117th Air Refueling Wing (117 ARW) received approximately \$2.3 million to construct a mobility processing center (MPC).

OBJECTIVES

The overall objective of this centrally directed audit review was to determine whether 117 ARW personnel properly managed Recovery Act MILCON requirements. Specifically, we determined whether personnel:

- Properly justified the Recovery Act project.
- Reported contract information so it was transparent to the public.
- Properly scoped and supported primary and supporting facility costs identified on the Department of Defense (DD) Form 1391, Military Construction Project Data.
- Conducted environmental studies for the project.
- Prepared an economic analysis (EA) or obtained a certificate of exception.
- Included all new Federal Acquisition Regulation clauses in the contract.
- Met the goals of the Recovery Act by fostering competition, expeditiously awarding the contract, and creating or retaining jobs.¹

¹ Because the contract had not been awarded as of the completion of audit fieldwork, we could not assess this area.

CONCLUSIONS

The 117 ARW civil engineering (CE) personnel overall properly managed the Recovery Act MILCON requirement for the MPC, but improvements could be made. Specifically, wing personnel had properly justified the MPC Recovery Act project; reported contract solicitation² information so that it was transparent to the public; properly scoped the size of the MPC consistent with Air National Guard guidelines; and conducted an environmental study which included the MPC Recovery Act project. However, management of Recovery Act MILCON requirements could be improved as 117 ARW personnel:

- Did not maintain adequate documentation to fully justify supporting facility cost estimates totaling \$255,000. Adequately scoping and justifying facility data is essential to successful MILCON project development and execution for the Recovery Act. (Tab A, page 1)
- Had not prepared an EA or certificate of exception for the MPC facility requirement as required for MILCON projects estimated to cost over \$2 million. Preparing an EA or a certificate of exception assures resources are expended in the most efficient and effective manner. (Tab A, page 2)
- Had not included one of the Federal Acquisition Regulation (FAR) clauses required for Recovery Act projects. Proper inclusion of required FAR clauses provides contractors full disclosure of all Recovery Act requirements associated with the project. (Tab A, page 3)

MANAGEMENT CORRECTIVE ACTIONS

During the audit, management took corrective action to add the required FAR clause to the project solicitation. (Reference Tab A for specific corrective actions.)

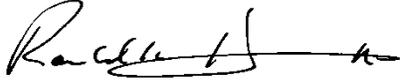
RECOMMENDATIONS

This report contains two recommendations to improve the management of Recovery Act MILCON requirements.

² As of completion of audit fieldwork the contract had not been awarded, but solicitation information was properly made available on the Federal Business Opportunities website.

MANAGEMENT'S RESPONSE

Management officials agreed with the audit results and recommendations in Tab A of this report, and the corrective actions taken are responsive to the issues included in this report. Therefore, this report contains no disagreements requiring elevation for resolution.



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BACKGROUND

The CE programmers are responsible for overseeing the MILCON planning, for developing costs estimates, and recording the data on the DD Form 1391, Military Construction Data. The DD Form 1391, by itself, should explain and justify the project to all levels of the Air Force, Office of the Secretary of Defense (OSD), Office of Management and Budget, and Congress. Justification data should clearly describe the impact on mission, people, productivity, life-cycle cost, etc., if the project is not accomplished.

Costs must be closely scrutinized to assure estimates are in line with the *OSD Pricing Guide* or fully justified with historical cost data. The CE programmer is responsible for submitting the DD Form 1391 to the major command (MAJCOM) CE program manager. The MAJCOM CE program manager is required to review and validate the DD Form 1391 primary and supporting facility cost prior to submission to Air Staff. The *Historical Air Force Construction Cost Handbook* is prepared by the Air Force Civil Engineer Support Agency, updated annually, and includes data for Air Force unique facility costs, supporting facility costs, and supporting facility percentages.

Air Force Instruction (AFI) 65-501, *Economic Analysis*, 10 November 2004, requires an EA be prepared for MILCON projects with costs expected to equal or exceed \$2 million. An EA must be performed when more than one alternative exists to satisfy the requirement. The EA is designed to confirm which alternative is in the best interest of the Air Force. When only one solution is available to accomplish the objective, AFI 65-501 allows for submittal of a request for waiver (certificate of exception) from an EA.

To implement controls over Recovery Act funding and reinforce the goals of the act, the Government established FAR clauses specifically related to Recovery Act contract actions. Contracting officials are required to insert applicable clauses in all contracts funded by the Recovery Act. These clauses include requirements for contractor reporting; contractor requirements related to the Buy American Act; requirements for contractor records to be available for examination and audit by appropriate government personnel; and whistleblower protection provisions for Recovery Act funded projects.

AUDIT RESULTS 1 – SUPPORTING FACILITY COSTS

Condition. The 117 ARW CE personnel did not maintain adequate documentation to fully justify supporting facility cost estimates totaling \$255,000. Specifically, the DD Form 1391 included allowances for utilities of \$175,000, site improvements of \$40,000, and communications support of \$40,000 which could not be substantiated. These costs, when combined with an estimate for pavements of \$150,000, provided a total estimate for supporting facility costs of \$405,000 which was 25 percent of the primary facility cost estimate of

\$1.6 million. For comparison, the *Historical Air Force Construction Cost Handbook* indicated an average cost for supporting facilities of 17.77 percent for the same facility category code.³

Cause. This condition occurred because the CE personnel had not established adequate procedures to fully justify MILCON projects submitted for Recovery Act funds.

Impact. Adequately scoping and justifying facility data is essential to successful MILCON project development and execution for the Recovery Act.

Recommendation A.1. The Commander, 117th Civil Engineer Squadron, should establish procedures to fully justify future MILCON project cost estimates to include specific documentation of estimated amounts which exceed Air Force historical standards.

Management Comments. The Commander, 117th Air Refueling Wing, concurred with the audit results and recommendation, and stated, “The CE squadron personnel will strive to improve documentation of estimated amounts to the extent practicable at project development. At project development detailed plans are not available and ‘order of magnitude’ costs are provided. Doing better than ‘order of magnitude’ during project development is impractical. The National Guard Bureau, Installations and Mission Support Directorate is the final approval authority for the DD Form 1391 that is submitted to Congress, and their experience drove them to use 25 percent for supporting facility costs. Their use of 25 percent is just as reasonable as using 17.77 percent by averaging two projects from the Historical Cost Guide (one project was a 1997 project at Dover, Delaware and the other was a 2004 project at Shaw South Carolina). Until the final building location is determined an engineering estimate cannot be provided. That location will determine the amount of earthwork required; the amount of pavement demolition required; the amount of utility relocations required; the amount of new pavement to tie into existing pavement, etc. For this project the final building location required the relocation of a 60 inch diameter storm drain with a new 72 inch diameter storm drain. Knowing this one conceptually simple fact at project development is impossible because the final building location is not known and can’t be known until the designers establish turning radii around and into the facility based on the design vehicle (forklifts, K-loaders, etc) for the project, etc. The designers tried to avoid the storm drain, but were unable to do so and meet all the project requirements (facility size, one-story building, vehicle circulation, finished floor elevation that has a reasonable cost and is operational for vehicles and people, etc). (CLOSED)”

AUDIT RESULTS 2 – ECONOMIC ANALYSIS

Condition. The 117 ARW personnel had not prepared an EA or certificate of exception for the MPC facility requirement as required for MILCON projects estimated to cost over \$2 million.

³ The category code on the DD Form 1391 was 141-786 which is identified as Air Freight Terminal, Deployment Processing Center in the *Historical Air Force Construction Cost Handbook*.

Specifically, the MPC had an estimated total cost of \$2.3 million per DD Form 1391, but an EA or certificate of exception was not available or in process.

Cause. This condition occurred because narrative information contained in the DD Form 1391 stated no other options could meet mission requirements and an EA was not required, and 117 ARW personnel believed this sufficiently addressed the EA certificate of exception requirement. However, the DD Form 1391 did not provide for the appropriate financial management and CE endorsements to properly certify the applicability of the exception to perform an EA.

Impact. Preparing an EA or a certificate of exception assures resources are expended in the most efficient and effective manner.

Recommendation A.2. The Commander, 117th Civil Engineer Squadron, should coordinate with the 117 ARW comptroller to prepare and submit a certificate of exception in accordance with AFI 65-501 for the MPC, and utilize the EA process for any future MILCON projects meeting the \$2 million threshold.

Management Comments. The Commander, 117th Air Refueling Wing, concurred with the audit results and recommendation, and stated, “Per National Guard Bureau, Installation and Mission Support Directorate, Program Development Branch email dated 25 September 2009, Economic Analysis Request Due No Later Than 1 November 2009, an EA was prepared and forwarded to the Program Development Branch for this project. **(CLOSED)**”

AUDIT RESULTS 3 – FAR CLAUSES

Condition. The 117 ARW personnel had not included one of the FAR clauses required for Recovery Act projects. Specifically, the contract solicitation for the MPC did not include FAR 52.214-26, *Audit and Records-Sealed Bidding*, although inclusion of this clause was specifically required by the Recovery Act.

Cause. This condition occurred because guidance was not clear specifying the required FAR clauses and the requirements for using each clause. For example, Recovery Act funding documents noted required FAR clauses, but identified FAR cases and did not identify specific clauses.

Impact. Proper inclusion of required FAR clauses provides contractors full disclosure of all Recovery Act requirements associated with the project.

Corrective Actions and Audit Comment. During the audit, 117 CES personnel facilitated timely coordination with the contracting officer at the United States Property and Fiscal Office-Alabama to add the FAR clause to the contract solicitation. As a result, no audit recommendation was required. However, the lack of clear guidance specifying required FAR

clauses was reported to the audit control point for possible inclusion in an Air Force report of audit.

Management Comments. The Commander, 117th Air Refueling Wing, concurred with the audit results, and stated, “The required FAR clause was included in the solicitation by the contracting officer as noted in the audit report and no further action is necessary by CE or the contracting office. (CLOSED)”

Evaluation of Management Comments. Management comments addressed the issues presented in this tab, and actions taken should correct the problems.

AUDIT SCOPE

Audit Coverage. To determine whether 117 ARW personnel effectively managed Recovery Act requirements, we reviewed documentation dated from October 2004 through August 2009. We obtained an understanding of the management control structure by identifying regulatory criteria and discussing Recovery Act project requirements with CE, financial management, and contracting personnel. We reviewed the DD Form 1391 and available supporting documentation to assess project justification, scoping, and adequacy of support. We also examined environmental assessment documentation to validate inclusion of the Recovery Act project in required studies. To assess transparency of contract information and contract inclusion of required FAR clauses, we reviewed contract solicitation data posted on the Federal Business Opportunities website. We conducted fieldwork from 10 August through 28 September 2009 and issued management a draft report on 2 November 2009.

Sampling Methodology.

- **Sampling.** The Department of Defense Inspector General developed an American Recovery and Reinvestment Act military construction sample based on predictive analysis of critical risk factors (a form of judgmental sampling). The Air Force Audit Agency received a sample of 10 military construction projects at Air National Guard bases from the Inspector General. The \$2.3 million MPC at the 117 ARW was one of the 10 selected projects.
- **Computer-assisted Auditing Tools and Techniques (CAATTs).** We did not use CAATTs to analyze data or project results.

Data Reliability. We did not rely on computer-generated data for our audit results.

Auditing Standards. We accomplished this audit in accordance with generally accepted Government auditing standards and accordingly included tests of internal controls considered necessary. Specifically, we evaluated the controls over documentation of transactions, document retention, and management oversight for the 117 ARW MPC.

Discussion with Responsible Officials. We discussed/coordinated this report with the Commander, 117th Air Refueling Wing; Commander, 117th Mission Support Group; Commander, 117th Civil Engineer Squadron; Commander, 117th Comptroller Squadron; and other interested officials. Management's formal comments were received on 24 November 2009 and are included in this report. Management was advised this audit was part of an Air Force-wide evaluation of American Recovery and Reinvestment Act of 2009 Military Construction (Project F2009-FD1000-0659.000). Therefore, selected data not contained in this report, as well as data contained herein, may be included in a related Air Force report of audit.

PRIOR AUDIT COVERAGE

We did not identify any Air Force Audit Agency, Department of Defense Inspector General, or Government Accountability Office reports issued to the 117 ARW within the past 5 years which related to our specific objectives.

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PROJECT NUMBER

We accomplished this audit under project number F2009-FD1000-0659.002.

FREEDOM OF INFORMATION ACT

The disclosure/denial authority prescribed in AFPD 65-3, *Internal Auditing*, will make all decisions relative to the release of this report to the public.