January 07, 2013

MEMORANDUM FOR CY HOUSTON
ACTING REGIONAL COMMISSIONER, PBS
HEARTLAND REGION (6P)

FROM ADAM R. GOOCH
REGIONAL INSPECTOR GENERAL FOR AUDITING
GREAT LAKES REGION (JA-5)

SUBJECT Review of Procurements of Roof Replacement and Masonry Work at the Goodfellow Road Federal Complex in Saint Louis, Missouri in Support of the American Recovery and Reinvestment Act of 2009[1]
Audit Memorandum Number A090184-13

During our review of the award and administration of the subject contracts, we identified three issues warranting your attention. First, building surveys indicate that some of the work was unnecessary (e.g., some of the roofs did not need to be replaced). Second, two sole source contracts could have been combined and competed. Finally, the selection of a single contractor for a number of sole source procurements indicates a disregard for competition requirements.

Background

On December 30, 2009, GSA's Heartland Region (Region 6) awarded contracts GS-06P-10-GYC-0004 and GS-06P-10-GYC-0005 to Johnson Roofing and Construction, Inc. (Johnson Roofing), a Small Business Administration (SBA) 8(a) firm[2]. The contracts, which called for replacing eleven roofs at the Goodfellow Road Federal Complex (Goodfellow Complex) in Saint Louis, Missouri, were valued at $1,584,752 and $2,720,340 respectively. On December 14, 2009, Johnson Roofing was also awarded contract number GS-06P-09-GZC-0012, valued at $834,597, for masonry repairs at four

[1] The American Recovery and Reinvestment Act of 2009 (Recovery Act) provides the General Services Administration (GSA) with $5.55 billion for the Federal Buildings Fund. In accordance with the Recovery Act, the GSA 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 Recovery Act mandates that $5 billion of the funds be obligated by September 30, 2010. The GSA Office of Inspector General is conducting oversight of the projects funded by the Recovery Act. 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 Recovery Act mandates.

[2] 8 (a) is the classification used for small businesses that are owned and controlled at least 51 percent by socially and economically disadvantaged individual or individuals.

230 South Dearborn Street, Suite 408, Chicago, IL 60604

buildings in the Goodfellow Complex. All three contracts were awarded on a sole-source basis under Federal Acquisition Regulation (FAR) Subpart 19.8.

Physical Condition Surveys indicate that some roofs did not need to be replaced

Physical Condition Surveys performed before the roof replacement show that six of the eleven replaced roofs needed little or no work.

The acquisition plans for the two roofing contracts state:

> Life Cycle analysis was performed during scope development and resulted in the following conclusion:
>
> The existing roofs are ballasted ePDM-type, between 10 and 25 years old, so they are past their projected useful lives.
>
> The ePDM roof membranes have shrunk over their lives, resulting in separation between the ePDM flashing materials at the parapets and the adjacent roofs, around the roof drains, etc. The separations have caused the ballast materials to be pulled up, away from the parapets, and caused roofs leaks between ePDM sheets across roofs, as well as between the ePDM material and the parapet flashings.

We asked a number of PBS officials for the source of these statements, including the contracting officer and project manager. PBS only provided roof moisture surveys for five of the buildings. These surveys do not mention "Life Cycle Analysis" nor do they contain recommendations or cost estimates. The contract files are incomplete regarding the rationale for replacing these roofs.

Example of Roof Replacement

Consequently, we obtained the Physical Condition Surveys[3] for each of the buildings to verify the need for the roof replacement. Each building had both an enhanced survey conducted in 2008 and a routine survey conducted in 2009. There are discrepancies between the results of the two surveys with regard to the square footage that needed to be replaced and the estimated value of the work (Cost per Survey in table below) required for each building. Table 1 summarizes the more extensive recommendation of the two surveys for each building (i.e. supports the need for repairs).

[3] These surveys were downloaded from VFA, Inc.'s Physical Condition Survey web application for GSA.

Table 1: Roof replacements at the Goodfellow Complex

Building Number	Recommended SQ FT need replaced	Cost per Survey	Recommended Timeframe for Replacement	Government Estimate	Award Amount	Actual SQ FT replaced	Notes
106	0	$0	6+ years	$173,250	$151,041	3,800	1
104F	1,620	$13,020	1-2 years	$497,574	$507,621	8,100	1
102E	7,311	$70,454	3-5 years	$373,296	$452,155	6,900	1
103E	12,000	$192,238	1-2 years	$445,322	$473,935	6,800	1
105F	0	$0	6+ years	$528,898	$557,639	8,700	2
122B	0	$0	6+ years	$467,914	$585,595	13,000	2
105E	330	$3,179	3-5 years	$477,523	$604,874	7,100	2
141C	611	$10,952	6+ years	$28,228	$65,663	550	2
108A	1,600	$12,911	1-2 years	$154,031	$174,868	2,400	2
108B	1,600	$12,911	1-2 years	$122,199	$158,314	2,400	2
105L	20,000	$147,516	1-2 years	$1,081,080	$573,387	17,550	2
Grand Totals		$463,181			$4,305,092		
Total for 1-2 years		$378,596			$1,888,125		3

Notes:
1 - Replacement performed under Contract GS-06P-10-GYC-0004.
2 - Replacement performed under Contract GS-06P-10-GYC-0005.
3 - Buildings requiring roof replacement within the next two years. This includes buildings 104F, 103E, 108A, 108B, and 105L.

As shown, the Physical Condition Surveys indicate that the roofs for six of the buildings did not need to be replaced for at least three years. In fact, three of the surveys indicate that the roofs were good for 6 or more years and that no square footage needed to be replaced. For the remaining five buildings, the Physical Condition Surveys recommended work on the roofs be performed within 1-2 years at a total cost of $378,596. The eventual award amounts for these five buildings totaled $1,888,125, $1,509,529 more than the estimated value from the surveys.

Since PBS was unable to provide the Life Cycle analysis described in the acquisition plans and the Physical Condition Surveys indicate that the majority of these roof replacements were unnecessary at the time of those surveys, we question whether this work represents the best use of Recovery Act funds.

In its response, PBS stated:

> Roof moisture surveys were completed in September 2005 by a third party roofing expert, Asset Management Technologies, for six (6) of the eleven (11) buildings [attached with response]. The roof condition reports consistently indicated the following issues:
>
> 1. Ballast distribution was extremely heavy in some places, but thin spots and completely bare areas of membrane existed in others, particularly at the building perimeter. (The bare areas at the perimeter are caused by the membrane shrinking and are one indication that the membrane is degrading. The shrinking will typically cause tears in the membrane and seam failure. This will allow water to penetrate the roofing system and building.)

2. Some chalking of the exposed membrane was noted and defective field laps were observed in the exposed membrane. (Chalking of the membrane is another indication that the membrane is degrading.)
3. The membrane flashing at the penthouse bases, parapet walls and at equipment curbs had delaminated from the substrate and was bridging severely.
4. There was no metal counterflashing at the parapet walls, but an existing copper through-wall flashing was badly deteriorated due to age. In addition, the caulk seals at this metal were dried and cracked, with numerous voids and large pieces missing.
5. Concrete coping caps had significant problems at the joints in terms of dried, cracked and missing sealant.
6. Base flashings throughout showed significant wear, including holes, splits, slipping and surface deterioration.

Problems with flashings around the perimeter of a roof, or at penetrations through a roof system, are the greatest cause of roof leaks. Five (5) out of the six (6) roof condition reports indicated that a certain percentage of the roof was wet.

The sixth roof, where no wet areas were detected, still had all the same problems as the other roofs: "[W]e found holes and defective vertical laps in both wall and curb flashing." It is expected that 4½ years after the September 2005 report, when the roof replacement was completed, a certain percentage of this sixth roof system was also wet.

Four (4) of the five (5) buildings that were not surveyed had roof areas of less than 3,800 square feet.

A visual inspection conducted in 2009 of the five (5) buildings that were not surveyed in September 2005 identified many of the same problems that were identified in the roof condition reports of the other buildings. Based on the roof condition reports completed in September 2005, these roofs should have been replaced FY2006. By the time the construction occurred for the replacement of these roofs in the spring of 2010, the conditions would have clearly deteriorated further. The recommended timeframes and estimated costs for replacement that are identified in Table 1 (page 3 of the attached Audit Memorandum Number A090184-13) must be adjusted based on the time of the report.

A life cycle cost analysis was completed in approximately 2004 to 2005. The life cycle cost analysis that was completed was a roofing system/material analysis that helped GSA determine the most beneficial roofing system for the Government and tax payer. We compared a 10-year roof system, a 20-year roof system, and a 30-year roof system. The analysis indicated that the 10-year roof system was the least initial cost; however, the 30-year roof system had the lowest average yearly cost. The analysis helped GSA determine the best roofing system for the Goodfellow Federal Center Complex. The 30-year roof system that was selected was planned to be used on all of the buildings in the complex when it was time to replace any building's existing roof system. There was no need to repeat this exercise for each separate roofing project.

In its response, PBS attached the six roof moisture surveys. The surveys confirm the information in their response. There was no attachment regarding the Life Cycle Analysis and no explanation of discrepancies between the different inspections.

The Two Roofing Projects Could Have Been Combined and Competed

Two sole-source contracts were awarded to the same contractor on the same date for the same type of work within the same federal building complex. By handling the projects in this manner, the advantages of competition were not obtained because other contractors were not given an opportunity to bid. Thus, the government may have paid more for the roof replacement than it otherwise would have.

Although the two procurements were awarded as separate contracts, numerous documents for both contracts were signed and dated on the same day, including funding documents, acquisition plans, offer forms, negotiations, award documents, and notices to proceed. These similarities demonstrate that the contracts could have been awarded as one.

While the scope of work for the two contracts was essentially identical (e.g., replacing roofs within the same complex), PBS decided not to combine the work into a single procurement. They may have done this to keep the award value below the dollar threshold requiring the use of competition.

FAR subpart 19.8 establishes the criteria that PBS must follow for acquisitions offered to the SBA under the 8(a) program, such as the roof replacement procurements with Johnson Roofing. FAR 19.805-1(2) requires that all SBA procurements not assigned manufacturing North American Industry Classification System (NAICS) codes be competed amongst eligible 8(a) firms if the awarded base and options are valued over $3.5 million. Individually, the two roofing projects are below this threshold; together they total approximately $4.3 million. FAR 19.805-1(c) states: "A proposed 8(a) requirement with an estimated value exceeding the applicable competitive threshold amount shall not be divided into several requirements for lesser amounts in order to use 8(a) sole source procedures for award to a single firm."

When we asked Region 6 procurement personnel why the two roof procurements could not have been combined, they told us that it was due to time restrictions. Essentially, they "had the requirement that they [the contracts] be awarded by December 31, 2009 or risk losing the funds completely." They further stated that, "GSA Central Office allocated funding for these projects based on the ability to meet this deadline. If the projects were not awarded by December 31 it was our understanding that Central Office would possibly divert the funds to other projects." [4]

[4] Documentation shows that PBS had an internal goal of awarding $2 billion by December 31, 2009.

Performing two separate sole-source procurements may have violated FAR regulations by avoiding requirements for 8(a) competition. Other contractors were not given an opportunity to bid and the government may have paid more for the roof replacement than it otherwise would have.

In its response, PBS stated:

> The purpose of ARRA was to stimulate the economy by providing construction projects that employ individuals while completing needed energy saving and sustainable projects for the Federal Government.
>
> These roofing projects were selected for 8(a) participation due to their limited scope, the availability and experience of a contractor to successfully complete the work, and the need to meet our regional obligation to provide opportunities to small businesses as part of ARRA. Separation of the roofing projects was done at the Work Item Description (WIDS) level to procure as two different projects. They could have been combined, but they were separated by building/locations on the Goodfellow Complex. This was done so that they could be phased and roof work wouldn't be occurring on the entire complex at once.
>
> Using one contractor to stagger the separate building projects made logistical sense and reduced the price to reflect completely separate mobilization costs that would be charged using different contractors. Procuring work per building or in groups is not atypical given our normal budgetary process; this provides flexibility to GSA when completing the BA54 program in accordance with our five-year planning cycle.
>
> We were given a list of roofs at the Goodfellow Complex that surveys indicated were in various stages of deterioration. We had successfully completed previous roofing projects with a firm, Johnson Roofing, which also happens to be in the 8(a) program. Considering the need for the work, the limited funding availability, previous experience with the Contractor, and the additional benefit of awarding to a socio-economically disadvantaged firm, it was determined to be in the Government's best interest to award the two roofing procurements to Johnson Roofing. The alternative risk was to forego completing the work due to potential lack of funding until the roofs were in such deteriorated condition that the tenant agencies were detrimentally affected, thereby preventing them from carrying out their missions successfully.

Given this explanation, there is no reason the procurements could not have been combined and competed as this memo advocates.

Multiple sole source awards to a single contractor indicate a disregard for competition

From June 2009 to May 2010, Johnson Roofing received 83 percent of all Region 6 sole-source 8(a) Recovery Act construction awards. These awards included the three Goodfellow Complex contracts totaling over $5 million, as well as additional sole-source

Recovery Act-funded awards totaling $4 million.[5] The preponderance of awards to one contractor seems to contradict the spirit and letter of the competition goals of the Recovery Act and the requirements of the FAR.

In its response, PBS stated:

> Sole source awards, whether to one firm or multiple firms, are still sole source, non-competitive awards. To the extent that competition is obtained, we routinely require the selected contractor to provide multiple bids for any subcontracted work, and all of the work is subject to negotiation, thus ensuring a fair and reasonable price is obtained by the Government for the work.

We maintain that awarding the majority of sole-source awards to one contractor contradicts the intention of the Recovery Act. Additionally, it should be noted that competition requirements of the FAR are not met by ensuring the contractor obtains bids from multiple subcontractors.

If you have questions regarding this memorandum, please call me at (312) 353-0500 or audit manager Hilda Garcia at (312) 353-6695.

[5] Totals taken from data provided by PBS of all 8(a) awards from June 2009 through May 2010, excluding all competitively awarded and non-construction (janitorial, grounds keeping, etc.) awards.

Report Distribution

Regional Administrator (6A)

Regional Commissioner, Public Buildings Service (6P)

Regional Recovery Executive (6P)

Senior Accountable Official for Recovery Act Activities (P)

National Program Office ARRA Executive, PBS (PCB)

Chief of Staff, PBS Office of Construction Programs (PCB)

PBS Audit Liaison (PFF)

Heartland Region PBS Audit Liaison

Assistant Inspector General for Auditing (JA)

Deputy Assistant Inspector General for Investigations (JID)