

Office of the Auditor General
Performance Audit Report

**Construction and Facilities
Management Office**
Department of Military and Veterans Affairs

November 2015

State of Michigan Auditor General
Doug A. Ringler, CPA, CIA

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

Article IV, Section 53 of the Michigan Constitution



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Report Summary

Performance Audit

Construction and Facilities Management Office

Department of Military and Veterans Affairs

Report Number:
511-0200-15

Released:
November 2015

The Construction and Facilities Management Office (CFMO), Department of Military and Veterans Affairs (DMVA), operates and maintains 43 active and 3 closed State-owned armories, a State-owned training center at Camp Grayling, and a federally owned training center at Fort Custer. These facilities are critical to readiness and support unit administration, maintenance, training, and storage. Also, they serve as command centers during domestic emergencies and as platforms for mobilization during times of war.

Audit Objective			Conclusion
Objective #1: To assess the effectiveness of CFMO in administering facility construction and maintenance projects.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
CFMO did not fully monitor its construction and maintenance projects. CFMO lacked documentation of contractor adherence to project requirements for 43% of contract submittals reviewed (Finding #1).		X	Agrees

Audit Objective			Conclusion
Objective #2: To assess the effectiveness of CFMO's efforts to monitor and maintain facilities.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Without a centralized preventive maintenance program, DMVA may have increased the risk that relatively minor maintenance needs will become more severe and costly, jeopardizing its ability to operate at peak functionality, quality, and readiness levels (Finding #2).		X	Agrees
Without accurately aggregated and maintained inspection data, Army leadership may not be able to ensure that armories are adequately equipped and ready for training or emergency response missions (Finding #3).		X	Agrees

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Auditor General

November 23, 2015

Major General Gregory J. Vahnais, Director
Department of Military and Veterans Affairs
3411 North Martin Luther King Jr. Boulevard
Lansing, Michigan

Dear General Vahnais:

I am pleased to provide this performance audit report on the Construction and Facilities Management Office, Department of Military and Veterans Affairs.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days of the date above to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Doug Ringler
Auditor General

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AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

ADMINISTERING FACILITY CONSTRUCTION AND MAINTENANCE PROJECTS

BACKGROUND

The Construction and Facilities Management Office (CFMO) is authorized by Section 32.716 of the *Michigan Compiled Laws* to plan, negotiate, and contract with the federal government for the maintenance, remodeling, additions to, and construction of armories* and other military, veterans, or related State facilities within the State. From October 1, 2012 through May 31, 2015, 23 projects were approved and completed and 31 projects were approved but remained open. The State expended \$28.1 million and \$9.6 million of federal and State funds, respectively.

AUDIT OBJECTIVE

To assess the effectiveness* of CFMO in administering facility construction and maintenance projects.

CONCLUSION

Effective.

FACTORS IMPACTING CONCLUSION

- Completed all 23 closed projects within budget.
- Maintained a continuous 5-year capital outlay budget plan to prioritize critical construction and maintenance needs.
- Performed all final on-site walk-throughs at project completion.
- Executed a consistent and well-documented bidding process.
- Obtained proper approval from the Environmental Section prior to starting a project.
- Reportable condition* related to an opportunity for improved contract monitoring documentation.

* See glossary at end of report for definition.

FINDING #1

CFMO needs to improve its monitoring of construction and maintenance projects.

CFMO lacked documentation of contractor adherence to project requirements for 43% of contract submittals reviewed.

CFMO did not fully monitor its construction and maintenance projects, thus potentially increasing the risk that projects may not conform to the contract requirements and that unnecessary costs and/or time delays were incurred.

We reviewed 15 construction and maintenance projects approved from October 1, 2012 through May 31, 2015, including 10 completed projects and 5 projects that were still in progress, and noted:

- a. CFMO did not maintain documentation that it received 54 (43%) of the 127 required contract submittals*, ranging from 10% to 86% per contract. Without them, CFMO cannot ensure that the contractors maintained their qualifications and product integrity in accordance with contract specifications.

Each project contract requires that the contractor submit documentation (submittals) of adherence to project requirements, such as product data, project drawings, qualification data for manufacturing agencies, material test reports, and warranties.

We reviewed between 2 and 10 submittals for each of the 15 contracts for a total of 127 submittals and noted that CFMO did not sufficiently maintain contract submittal documentation. For example, for one construction project, CFMO did not obtain 6 of the 7 elements of the construction waste management and disposal submittal, including:

- Waste reduction progress reports.
- Records of donations.
- Records of sales.
- Landfill and incinerator disposal records.
- Leadership in Energy and Environmental Design (LEED) submittal.
- Qualification data for the waste management coordinator.

CFMO staff indicated that, in many instances, past experience with contractors or products reduced the need to obtain all required submittals.

- b. CFMO inspectors did not complete 3 (38%) 11-month warranty inspections and did not document that they completed 3 (38%) additional 11-month warranty inspections for the 8 projects substantially completed for at least 11 months as of July 2015. Therefore, CFMO could not ensure that issues or problems covered under warranty were identified before the project warranty expired.

* See glossary at end of report for definition.

Standard project contract language warrants faulty materials and labor for a one-year period. CFMO inspectors informed us that in order to ensure that any defects are identified and corrected, they perform 11-month inspections of all projects.

CFMO staff indicated that they did not complete inspections because of an oversight and that they document an inspection only if a problem is identified.

- c. CFMO inspectors did not sufficiently document all on-site inspections for 6 (40%) of the 15 projects while in process.

CFMO inspectors indicated that they are responsible for the general supervision of construction and maintenance projects and that routine inspections provide CFMO with assurance of the contractors' adherence to project specifications at any given time.

CFMO did not have any policies or procedures regarding how and when to document project inspections. We noted that some inspectors documented their review with a narrative of the project stage including their observations and pictures; however, other inspectors documented their review with only pictures, without narrative or conclusion regarding the inspection performed. This assurance is particularly important for work that is subsequently hidden, such as rebar* in concrete and electrical wiring.

CFMO inspectors indicated that because of time constraints, they were unable to complete proper documentation for each site visit.

- d. CFMO did not document its approvals for extension of the completion dates for 4 (67%) of the 6 projects that were not completed by the date specified in the contract. The actual completion dates of these 4 projects ranged from 45 days to 185 days past the contracted completion date. Therefore, CFMO may not be able to coordinate building occupancy in an efficient manner.

CFMO staff indicated that the process for extending a contract is difficult and time-consuming and often not worth pursuing.

RECOMMENDATION

We recommend that CFMO fully monitor its construction and maintenance projects.

* See glossary at end of report for definition.

**AGENCY
PRELIMINARY
RESPONSE**

CFMO provided us with the following response:

CFMO agrees with the recommendation:

- a. *CFMO will develop and maintain a standardized submittal log for internal and external projects which the designers will maintain, including indication of waivers. CFMO sometimes waives submittals such as when it engages in repetitive type purchasing from a contractor. CFMO also wishes to clarify that although it may not have retained all submittals at the joint forces headquarters, it does not mean that submittals were not maintained at the project site. Contractors are not allowed to move forward without submitting required approved documents or receiving a waiver.*
- b. *CFMO will develop a process to document end-of-warranty walk-through inspections.*
- c. *CFMO will develop a new short form to document on-site inspections when no problems are identified and will continue using the long form when problems are identified.*
- d. *CFMO will continue its current practice to formally change contracts to reflect extensions when it is cost beneficial to do so based on risk. When contracts are not formally extended, CFMO will ensure that completion date extensions are documented in meeting minutes.*

MONITORING AND MAINTAINING FACILITIES

BACKGROUND

CFMO is responsible for sustaining, restoring, and modernizing facilities at a level that is economically justified with the objectives of supporting mission requirements and preventing deterioration that will require major restoration or replacement. CFMO operates and maintains 43 active and 3 closed State-owned armories, a State-owned training center at Camp Grayling, and a federally owned training center at Fort Custer. These facilities are critical to readiness and support unit administration, maintenance, training, and storage. Also, they serve as command centers during domestic emergencies and as platforms for mobilization during times of war.

AUDIT OBJECTIVE

To assess the effectiveness of CFMO's efforts to monitor and maintain facilities.

CONCLUSION

Moderately effective.

FACTORS IMPACTING CONCLUSION

- Comprehensive tracking occurs of the buildings maintained at each facility.
- Reportable condition related to the lack of a centralized preventive maintenance program.
- Reportable condition related to the lack of properly aggregated installation status report (ISR) scores and maintenance of ISR documentation.

FINDING #2

CFMO needs to design and implement a centralized preventive maintenance program.

CFMO did not design and implement a centralized preventive maintenance program. The Department of Military and Veterans Affairs (DMVA) may have increased the risk that relatively minor maintenance needs will become more severe and costly, jeopardizing its ability to operate at peak functionality, quality, and readiness levels.

U.S. Department of the Army and the Air Force National Guard Bureau publications NG PAM 420-10 and NGR 420-10 require CFMO to implement a preventive maintenance program to augment regularly scheduled maintenance and to preserve and maintain facilities for their designed functions.

Annual inspections completed during fiscal year 2014 identified maintenance needs that potentially could have been prevented, including:

- Leaking doors, windows, and bathroom fixtures.
- Unresponsive heating, ventilation, and air conditioning (HVAC) controls.
- Nonfunctional security systems regulating entry into the building and access to the weapons vaults.

One armory lacked functional security systems regulating building entry and access to the weapons vaults.

CFMO staff informed us that they are working toward implementation of a centralized preventive maintenance program; however, a significant lack of resources, technical equipment, and training and connectivity issues at armories have hindered CFMO's ability to implement it and to address maintenance needs identified through the ISR inspections.

RECOMMENDATION

We recommend that CFMO design and implement a centralized preventive maintenance program.

AGENCY PRELIMINARY RESPONSE

CFMO provided us with the following response:

CFMO agrees with the recommendation:

- CFMO is working to identify funding to design and implement a centralized preventive maintenance program. Current State resources are limited to implement such a program given the costs associated with deploying information technology at the local armories and personnel.*
- In the meantime, CFMO will continue relying on local armory management and CFMO visits to ensure preventive maintenance activities are identified and completed at the armories to the extent scarce maintenance mechanic resources are available and qualified to do the work.*

FINDING #3

Armory inspection data was not accurately aggregated and maintained.

CFMO did not accurately aggregate and maintain all ISR inspection data used for reporting purposes. Army leadership may not be able to ensure that armories are adequately equipped and ready for training or emergency response missions.

Army Regulation (AR) 210-14 Section 1-4.f.(1)(a) and Section 1-5.b. and c. require annual ISR inspections to evaluate the functional capability, quality, and readiness of each facility against Army standards to assist Army leadership in making appropriate and responsible decisions regarding the sustainment or management of facilities. Also, AR 210-14 Section 2-3.a. requires that supporting documents, including inspection records and supplemental work sheets, be retained for six years.

CFMO is required to conduct annual inspections of each of its 43 active armories, rating up to 206 elements as red, amber, or green to determine if an element is partially mission-capable, mission-capable, or fully mission-capable, respectively. CFMO then summarizes the inspection ratings into an overall metric rating for each armory. We selected 16 of the 90 ISR inspections completed during fiscal years 2013 and 2014 and noted:

- a. In 8 (50%) instances, CFMO could not provide the supporting documentation for the ISR inspections. CFMO staff indicated that they had misplaced the documentation.
- b. In 6 (38%) instances, the overall metric rating was different from the scores identified in the supporting documentation. In 4 of these instances, CFMO did not document the rationale for the difference in the scores, and in 2 instances, CFMO staff informed us that the difference in the scores was the result of a keying error.

RECOMMENDATION

We recommend that CFMO accurately aggregate and maintain all ISR inspection data used for reporting purposes.

AGENCY PRELIMINARY RESPONSE

CFMO provided us with the following response:

CFMO agrees with the recommendation:

- a. *CFMO will create a repository for the ISR inspection data to facilitate proper retention. CFMO wishes to clarify that although CFMO could not produce some of the documentation, CFMO met the National Guard Bureau reporting requirements.*

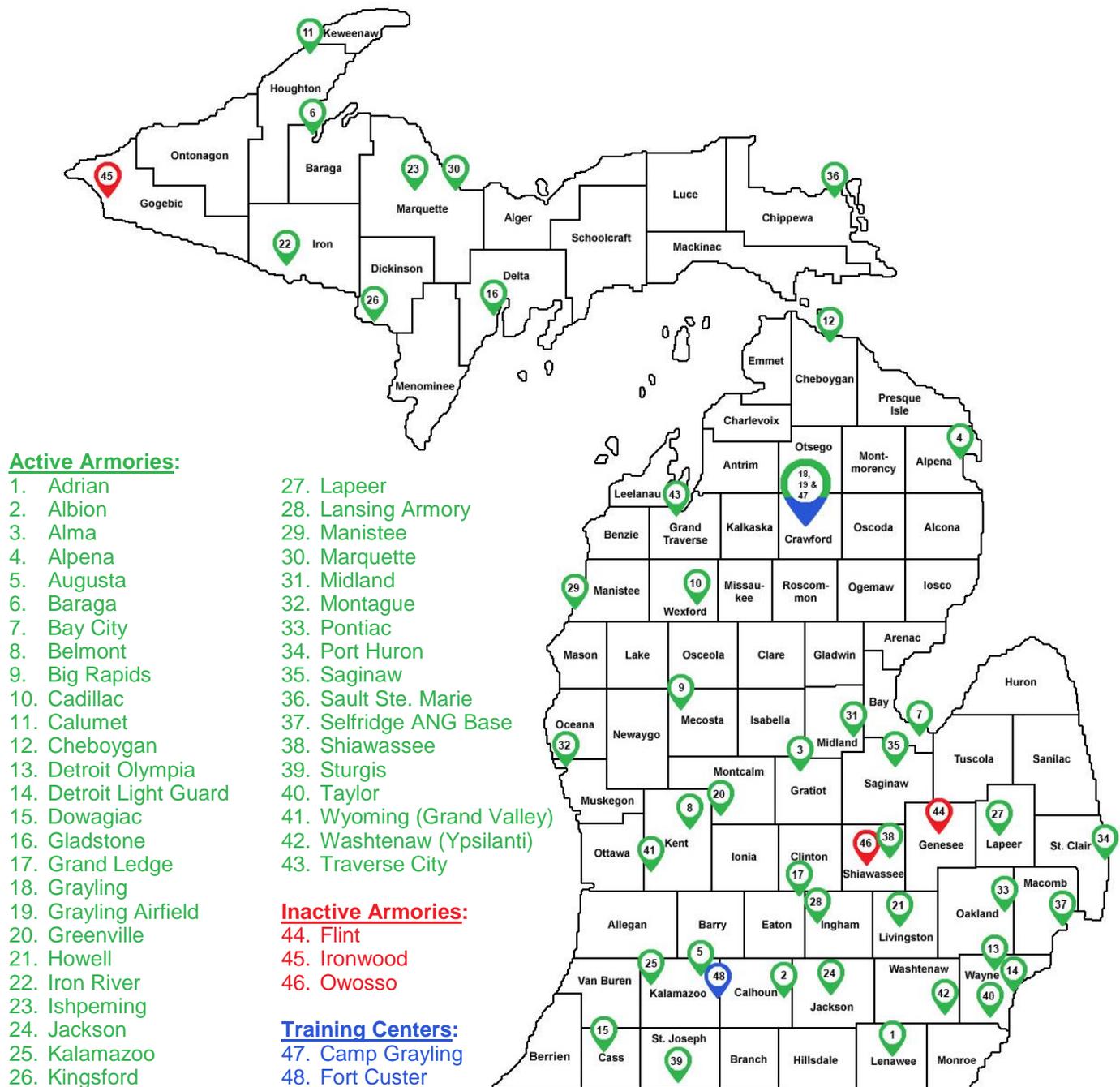
- b. CFMO will remind staff to ensure that scores agree with the supporting documentation and to document rationale for changing scores. CFMO will also instruct certifiers to sample ISR data to ensure accuracy and documented rationale for changes.*

SUPPLEMENTAL INFORMATION

UNAUDITED

CONSTRUCTION AND FACILITIES MANAGEMENT OFFICE Department of Military and Veterans Affairs

Map of Armories and Training Centers



Source: The Office of the Auditor General prepared this map based on fiscal year 2014 CFMO Consolidated Armory Budget Metrics workbook and discussion with CFMO staff.

AGENCY DESCRIPTION

Through a cooperative agreement between the National Guard Bureau (NGB) and the State, federal contribution is secured to supplement State funds for services related to operation, sustainment, restoration, and modernization of State armories. As of October 31, 2014, DMVA armories ranged from less than 5 to 89 years old and were located on parcels of land that ranged in size from 1 acre to more than 58 acres.

The U.S. Department of Defense, on average, provides approximately 75% of total funding, with the State providing the remainder. Total CFMO expenditures for fiscal year 2014 were \$34.7 million. As of August 1, 2015, CFMO had 46 full-time equated employees.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine the program and other records of CFMO. We conducted this performance audit* in accordance with generally accepted government auditing standards. 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.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2012 through May 31, 2015.

METHODOLOGY

We conducted a preliminary survey to gain an understanding of CFMO to establish our audit objectives and methodology. Our preliminary survey included:

- Interviews with CFMO management and staff regarding CFMO functions and responsibilities.
- Examination of CFMO processes and records.
- On-site observation of construction and maintenance projects.
- Review of applicable laws, appropriations acts, and policies and procedures.
- Review of the cooperative agreement between NGB and the State and the 5-year capital outlay budget plan.
- Review of the contract files to obtain an understanding of what is maintained in regard to bid information, contract submittals, and inspections.
- Review of documentation maintained to determine if projects were completed by the contracted end date or if proper extension approval was obtained.
- On-site observation of buildings included in the CFMO building inventory list.
- Analysis of the metric work sheets presented to the Legislature to determine if they tie back to the source documentation included in the ISRs.

* See glossary at end of report for definition.

OBJECTIVE #1

To assess the effectiveness of CFMO in administering facility construction and maintenance projects.

To accomplish our first objective, we:

- Interviewed key CFMO staff to gain an understanding of the facility construction and maintenance process.
- Tested projects to determine whether submittals were obtained, inspections were completed, and warranty information was obtained for further monitoring.
- Reviewed contract documentation to determine whether projects that went past the contracted completion date had proper justification and approval.

We judgmentally selected our samples to ensure that the samples were representative of both open and closed projects as well as for projects conducted at the armories and training centers. Therefore, we could not project the results to the overall population.

OBJECTIVE #2

To assess the effectiveness of CFMO's efforts to monitor and maintain facilities.

To accomplish our second objective, we:

- Reviewed 8 of the 45 ISR inspections completed during fiscal year 2014 to determine whether CFMO had addressed all identified maintenance needs.
- Reviewed 16 of the 90 ISRs completed during fiscal years 2013 and 2014 to assess the corresponding supporting documentation.
- Interviewed key CFMO staff and contracted staff to obtain an understanding of processes used to monitor and maintain facilities.
- Determined if the information recorded on the ISRs regarding the armory functionality and quality matched the information reported in the armory metric work sheets presented to the Legislature.
- Verified the existence of selected buildings listed in the inventory at various facilities.

We randomly and judgmentally (based on geographical location) selected our samples to ensure that the samples were representative. Therefore, we could not project the results to the overall population.

CONCLUSIONS

We base our conclusions on our audit efforts and the resulting material conditions* and reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

**AGENCY
RESPONSES**

Our audit report contains 3 findings and 3 corresponding recommendations. CFMO's preliminary response indicates that it agrees with all 3 recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

**PRIOR AUDIT
FOLLOW-UP**

We released our prior performance audit of the Construction and Facilities Management Office, Department of Military and Veterans Affairs (51-200-01), in January 2002. We rewrote all 4 prior audit recommendations for inclusion in Findings #1 and #2 of this audit report.

**SUPPLEMENTAL
INFORMATION**

As part of our audit, we prepared supplemental information that relates to our audit objectives. Our audit was not directed toward expressing a conclusion on this information.

* See glossary at end of report for definition.

GLOSSARY OF ABBREVIATIONS AND TERMS

armory	A headquarters and drill center for a military unit and a storage place for weapons and equipment.
CFMO	Construction and Facilities Management Office.
DMVA	Department of Military and Veterans Affairs.
effectiveness	Success in achieving mission and goals.
ISR	installation status report.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
NGB	National Guard Bureau.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
rebar	A steel rod with ridges for use in reinforced concrete.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

submittal

Documentation and other evidence, such as contractor certifications and material samples, that demonstrate adherence to contract terms.

