FEDERAL BUREAU OF PRISONS
MANAGEMENT OF CONSTRUCTION CONTRACTS

EXECUTIVE SUMMARY

The Federal Bureau of Prisons’ (BOP) mission is to protect society by confining offenders in the controlled environments of prisons and community-based facilities that are safe, humane, and appropriately secure. The BOP houses about 159,000 inmates in 103 prisons and other facilities. According to the BOP, these prisons are seriously overcrowded, averaging 33 percent above rated capacity. To reduce overcrowding, the BOP has undertaken a large and complex prison construction program. Currently, 13 prisons costing an estimated $1.6 billion are under construction.

The Office of the Inspector General (OIG), Audit Division, conducted this audit to determine whether the BOP: (1) is adequately managing new construction-related contracts and has improved its management since our last audit in 1998, and (2) is making accurate and timely payments to contractors. To determine the adequacy of the BOP’s management of construction-related contracts, we focused on three key areas: cost, timeliness, and quality. We reviewed documents and files at a recently completed facility and three ongoing projects.

We found that the BOP’s management of prison construction contracts had generally improved since our last audit in 1998; the BOP has strengthened management controls and has improved its overall monitoring of the contractor’s performance. We also found that the BOP has a quality assurance program in place that adequately monitors the work of the general contractor. However, we identified exceptions related to contract modifications and late payments that were similar to those found in the 1998 audit as follows:

- A $1.6 million proposed contract modification that, in our judgment is unnecessary.

- Three modifications, negotiated for $306,679 above the independent government estimates that were not adequately justified as required by the Federal Acquisition Regulations (FAR).

- Four payments that did not comply with the prompt payment requirements of the FAR because the BOP used incorrect invoice receipt dates to calculate the due dates.
As a result of these issues, we made specific recommendations that the BOP: not approve the unnecessary $1.6 million proposed modification, remedy the $306,679 in costs that were negotiated above independent estimates, ensure that future modifications that exceed estimates are properly justified, and ensure that payment due dates are calculated based on the correct invoice receipt dates.

The details of the audit results are contained in the Findings and Recommendations section of the report. Additional information on our audit objectives, scope, and methodology is contained in Appendix III.
# FEDERAL BUREAU OF PRISONS
## MANAGEMENT OF CONSTRUCTION CONTRACTS

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INTRODUCTION

The Federal Bureau of Prisons’ (BOP) mission is to protect society by confining offenders in the controlled environments of prisons and community-based facilities that are safe, humane, and appropriately secure. As of January 2002, the BOP employed a staff of approximately 33,000 and operated about 103 correctional facilities. The BOP has facilities located in 37 states across the country and in Puerto Rico. In addition to these facilities, personnel are assigned to the Central Office in Washington, D.C., 6 regional offices, 2 staff training centers, and 29 Community Corrections Management offices.

Between 1998 and 2002, the federal inmate population grew more than 31 percent from about 122,000 to about 159,000, largely due to increased federal law enforcement efforts and the transfer of District of Columbia inmates to the BOP. To meet the demand for increased bed-space, the BOP has undertaken a large and complex construction program. During our audit, the BOP was in the process of building 13 new prisons, which are expected to be completed during fiscal years 2002 to 2004, at a cost of about $1.6 billion.

Prison overcrowding has been identified as a material weakness within the Department since 1985 and new construction is a key part of the BOP’s strategy to meet its bedspace needs. We initiated this audit as part of our continuing responsibility for oversight of mission-critical management issues in the Department of Justice. Our objectives were to determine whether the BOP: (1) is adequately managing new construction-related contracts and has improved its management since our last audit in 1998, and (2) is making accurate and timely payments to contractors.

BOP’s Prison Construction Program

To meet its needs for new bed space, as well as to replace obsolete facilities, the BOP has an ongoing construction program. Since 1985, the BOP has constructed 49 new prisons. The 13 new construction projects will add 6 high-security facilities, known as U.S. Penitentiaries (USP) and 7 low-to medium-security facilities, known as Federal Correctional Institutions (FCI). USPs have highly secure perimeters, multiple- and single-occupant

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1 The BOP operates institutions at four security levels (minimum, low, medium, and high). It also has administrative facilities, such as pretrial detention centers and medical referral centers, which have specialized missions and confine offenders of all security levels.

2 The BOP will add minimum-security camps at four of the six USPs and at four of the seven FCIs being built.
cell housing, the highest staff-to-inmate ratio, and close control of inmate movement. FCIs have double fenced perimeters, dormitory or cell housing, and a lower staff-to-inmate ratio than high-security facilities.

As the table below shows, the 13 institutions are expected to add, at a minimum, 14,848 beds at a total cost of about $1.6 billion. The estimated cost to build an institution varies between $98 million and $162 million, depending upon the level of security required, capacity, and other site-specific factors.

**BOP NEW PRISON CONSTRUCTION PROJECTS**

<table>
<thead>
<tr>
<th>PROJECTS</th>
<th>RATED BED CAPACITY</th>
<th>ESTIMATED COST (IN MILLIONS)</th>
<th>PERCENT COMPLETE (DEC. 2001)</th>
</tr>
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<tbody>
<tr>
<td>BOP NEW PRISON CONSTRUCTION PROJECTS</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>FEDERAL CORRECTIONAL INSTITUTIONS (low to medium-security)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Bennettsville, SC</td>
<td>1,280</td>
<td>$102</td>
<td>0</td>
</tr>
<tr>
<td>2. Forrest City, AR</td>
<td>1,152</td>
<td>98</td>
<td>37</td>
</tr>
<tr>
<td>3. Glenville, WV</td>
<td>1,280</td>
<td>117</td>
<td>89</td>
</tr>
<tr>
<td>4. Herlong, CA</td>
<td>1,280</td>
<td>130</td>
<td>38</td>
</tr>
<tr>
<td>5. Victorville, CA</td>
<td>1,152</td>
<td>108</td>
<td>40</td>
</tr>
<tr>
<td>6. Williamsburg (Salters, SC)</td>
<td>1,280</td>
<td>111</td>
<td>16</td>
</tr>
<tr>
<td>7. Yazoo City, MS</td>
<td>1,152</td>
<td>103</td>
<td>27</td>
</tr>
<tr>
<td>U.S. PENITENTIARIES (high-security)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Big Sandy (Inez, KY)</td>
<td>1,088</td>
<td>162</td>
<td>80</td>
</tr>
<tr>
<td>9. Canaan (Waymart, PA)</td>
<td>1,088</td>
<td>141</td>
<td>46</td>
</tr>
<tr>
<td>10. Hazelton, WV</td>
<td>1,088</td>
<td>142</td>
<td>48</td>
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<tr>
<td>11. McCreary County, KY</td>
<td>1,088</td>
<td>135</td>
<td>87</td>
</tr>
<tr>
<td>12. Terre Haute, IN</td>
<td>960</td>
<td>109</td>
<td>4</td>
</tr>
<tr>
<td>13. Victorville, CA</td>
<td>960</td>
<td>118</td>
<td>63</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14,848</strong></td>
<td><strong>$1,576</strong></td>
<td><strong>--</strong></td>
</tr>
</tbody>
</table>

Source: BOP Design and Construction Branch

In total, approximately 160 BOP employees, located in the Central Office and at construction sites around the country, are involved in managing the new prison construction program. The employees—mostly architects, engineers, contract specialists, and administrators—are organizationally assigned to two branches within the Administrative Division. The first branch, Property and Construction, is responsible for the acquisition of the design and construction services in accordance with the Federal Acquisition Regulation (FAR). The second branch, Design and Construction,

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3 The FAR is the primary regulation used by federal agencies for their acquisition of supplies and services.
is responsible for the overall management of the project, to include budgeting, programming, planning, and monitoring of the design and construction process. Project Administrators within this branch, located within the Central Office, oversee several projects and supervise Project Managers. The Project Managers also located in the Central Office are responsible for the overall management of one or more projects, including supervising staff on-site.

A typical BOP construction site team consists of a Contracting Officer, Supervisory Construction Representative, also known as the Contracting Officer’s Technical Representative, two Construction Representatives, and an Inspector. The Contracting Officer is the only individual empowered to sign contracts on behalf of the BOP, and therefore, is ultimately responsible for ensuring the legal and financial integrity of the contracts. The Contracting Officer must approve all contract modifications and progress payments to contractors. The Supervisory Construction Representative is responsible for the on-site management of the project and serves as the liaison between the construction contractor and the Contracting Officer. The Construction Representatives help the Supervisory Construction Representative with on-site management, including working with the construction management firms in performing inspections.

In the past, the BOP utilized the “design-bid-build” contracting method; however, since September 1998 it began to use the “design-build” contracting method. The basic difference between the two methods is that in the former, the BOP contracted with an architectural-engineering firm to design a prison facility and then separately contracted with a construction firm to build. According to BOP officials, this method often resulted in disputes over who was responsible for errors and omissions in the design or construction of a prison. Under the new “design-build” method the BOP contracts with one firm, known as a general contractor, that is responsible for both the design and construction of the prison.

Officials at the BOP contend that the use of the design-build method offers many advantages over the use of a design-bid-build process. Among them: (1) there is a single point of responsibility for both design and project construction; (2) synergy resulting from a contractor who is designer and builder; (3) faster project completion because construction starts while the facility is being designed; and (4) reduced claims and litigation. As part of this new approach, BOP officials told us they developed a Partnering Program to improve the quality of the construction projects, streamline the design and construction schedule, and alleviate unwanted adversarial relationships with contractors.
To help oversee the design and construction, the BOP contracts with construction management firms that are organizationally independent of the general contractors. These firms assist the BOP by performing quality reviews, monitoring daily activity, and exercising oversight over the general contractor. Specifically, the firms are required to regularly monitor the construction schedule, review the design and any design changes, prepare independent cost estimates for any modifications to the design-build contract, and regularly inspect material and workmanship to ensure that quality standards are met. The management firm staff is co-located with BOP staff at each project, providing continuous feedback on the contractor’s performance.

To build new prisons, the BOP contracts with construction firms through open competition and awards firm-fixed-priced contracts. Separate contracts are issued for each project and construction management. According to the FAR, a firm-fixed-price contract generally does not provide for price adjustments based on the costs incurred by the contractor. The price is established at the time of the award. However, during the life of a construction contract, certain requirements or terms and conditions may have to be revised for any number of reasons; such as a mistake in fact, additions to the scope of work, and unforeseen events – changes in building codes, environmental concerns, etc. These changes, which may increase the cost or length of a project, must be in writing and are referred to as contract modifications.

In addition to the general FAR requirements that the BOP is required to follow when issuing and monitoring a contract, the FAR includes requirements that are specific to Government construction projects. For example, FAR Part 36, Construction and Architect-Engineer Projects, includes requirements for the special aspects of Government construction contracting, Design-Build contract selection procedures, and contract clauses to be added to a construction contract.

Prior Reviews

We previously audited the BOP’s prison construction program in 1998. The audit identified weaknesses in the BOP’s planning, monitoring and administration of prison construction contracts, resulting in unnecessary contract modifications, inaccurate and untimely payments, and other costs that were considered to be avoidable. In total, we questioned about $18.5 million in costs. Specifically, we reported that the BOP:

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• could have saved over $7.1 million in construction costs at one site, had it not compressed the construction schedule;

• did not evaluate potential errors and omissions totaling $6.6 million committed by the architectural-engineering firms;

• incurred about $3 million in costs for contract modifications that could have been avoided;

• inappropriately paid contractors about $1.5 million in advance, resulting in $2,232 of lost interest;

• did not withhold funds for non-conforming work valued at $1.2 million;

• did not justify modifications that exceeded independent estimates by $521,976; and

• did not always comply with the Prompt Payment Act resulting in a small amount of unnecessary interest payments to contractors.

We recommended that the BOP take appropriate corrective actions. Subsequently, the BOP provided substantiation that corrective actions were implemented and, as a result, the report recommendations were closed. In addition, as previously discussed, the BOP changed its method of contracting for architectural and construction services. Consequently, our review focused on the BOP’s new contracting system and those areas from the prior report that were still applicable.

In March 2002, the U.S. General Accounting Office (GAO) reported on the results of its review of the BOP's payments to construction contractors.5 GAO found that internal controls were in place and operating and that payment amounts were correct, or, that if errors occurred, they were detected and corrected promptly as a normal part of the payment system. GAO also concluded that the risk of undetected overpayments did not appear to be significant based on the controls in place and operating at the time of its review.

Audit Approach

In this audit, we focused on the BOP’s management of awarded construction contracts; we did not specifically examine the BOP’s management of the precontract-award process. The audit specifically assessed the processes and controls the BOP had established for ensuring that contract modifications are properly approved, projects will be completed on time, and the construction adheres to contractual requirements. In addition, we reviewed the BOP’s payments made to its contractors to determine whether they were accurate, represented the percentage of progress completed, and were paid timely in accordance with the FAR prompt payment requirements. We reviewed documents and files at the BOP Central Office and at four construction locations representing various phases of prison construction. The site visits included the recently completed USP facility in Coleman, Florida and at three ongoing construction sites located in McCreary County, Kentucky (USP) and Victorville, California (FCI and USP). Lastly, we determined whether any of the 13 projects had experienced or were experiencing significant delays. See Appendix III for the details of our scope and methodology.

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6 The FAR Subpart 32.9 prescribes policies and procedures for implementing prompt payment regulations relating to invoice payments on all contracts.
FINDINGS AND RECOMMENDATIONS

BOP MANAGEMENT OF PRISON CONSTRUCTION PROJECTS

We audited the BOP’s management of construction contracts in effect as of December 2001 and determined that, in general, contract management had improved since our 1998 audit. Specifically, the BOP has strengthened controls over contract modifications, quality control, and progress payments to contractors. However, of the 31 contract modifications reviewed, we identified a $1.6 million proposed contract modification at the Victorville USP that, in our judgment, is unwarranted. We also noted three modifications that exceeded the Independent Government Estimates by $306,679 without required justification. Similar exceptions were reported in our 1998 audit report.

CONTRACT MODIFICATIONS

A contract modification can increase the cost or length of a project, or both and it can either be initiated by the BOP or at the request of the contractor. The BOP may initiate contract modifications to change the scope of work that results from new regulations, policy decisions, or changes in technology. Similarly, the contractor may request a change due to unforeseen building conditions or circumstances that could not be reasonably anticipated when the contract was awarded. BOP Construction Management Guidelines require that all contract modifications be evaluated and approved by the Supervisory Construction Representative at the construction site and by BOP management in its Central Office. If approved, the modification is forwarded to the Contracting Officer for final approval. The Contracting Officer is the only individual with authority to modify the contract. The sections that follow discuss our review of contract cost modifications and contract time modifications.

Cost Modifications

A contract modification can have a significant effect on the final cost of a prison construction contract. Therefore, it is important that the BOP approve only modifications that are necessary and reasonably priced. The BOP Central Office reviews requested modifications to determine if they are

7 The officials who are required to approve a modification vary depending on the value of the modification. Modifications up to $50,000 must be approved by the Project Manager and modifications up to $100,000 must be approved by the Project Administrator. Modifications of $100,000 or more, or modifications that extend the length of a contract, must be approved by the Chief of the Design and Construction Branch.
necessary. In addition, BOP staff on-site ensures that the price of a modification is fair and reasonable by obtaining an Independent Government Estimate (IGE). An IGE, an estimate usually prepared by a construction management firm, is used by the BOP to negotiate a fair and reasonable price for a contract modification.\(^8\) FAR Subpart 4.803(a)(2) requires that the contract file contain all justifications and approvals. In our judgment, this requirement includes the justification for negotiating a modification price above an IGE.

For the four projects we reviewed, the BOP issued a total of 68 modifications: 43 that increased the cost of the contracts by $9.9 million, 3 that decreased the cost of the contracts by $203,436, and 22 that had no dollar effect.\(^9\) The net effect of the increases and decreases in costs resulting from the modifications was $9.7 million as shown in the following table.

<table>
<thead>
<tr>
<th>PROJECTS(^10)</th>
<th>CONTRACT AWARD AMOUNT</th>
<th>TOTAL MODIFICATION AMOUNT</th>
<th>NUMBER OF MODIFICATIONS</th>
<th>TOTAL CONTRACT AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>USP Coleman, FL</td>
<td>$77.5</td>
<td>$2.4</td>
<td>28</td>
<td>$79.9</td>
</tr>
<tr>
<td>USP McCreary County, KY</td>
<td>119.6</td>
<td>1.1</td>
<td>9</td>
<td>120.7</td>
</tr>
<tr>
<td>FCI Victorville, CA</td>
<td>99.8</td>
<td>1.6</td>
<td>9</td>
<td>101.4</td>
</tr>
<tr>
<td>USP Victorville, CA</td>
<td>102.0</td>
<td>4.6</td>
<td>22</td>
<td>106.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$398.9</strong></td>
<td><strong>$9.7</strong></td>
<td><strong>68</strong></td>
<td><strong>$408.6</strong></td>
</tr>
</tbody>
</table>

Source: BOP contract files

We examined 31 of the 43 modifications that increased the cost of the contract. Our sample represented 84 percent of the increased costs. We found that six modifications were not adequately supported in accordance with FAR. Specifically, three modifications exceeded the IGE without justification and four, including two that also exceeded the IGE, lacked adequate documentation showing why the modification was necessary. Finally, we identified a $1.6 million proposed modification that, in our judgment, is unnecessary. As a result, we are questioning the amount that exceeded the IGEs and recommending that the BOP not approve the proposed modification. We are not questioning the inadequately documented modifications because BOP officials’ explanations for why they

\(^8\) The BOP is required by FAR Subpart 36.203 to obtain and IGE for contract modifications that are anticipated to cost $100,000 or more.

\(^9\) Modifications that have no dollar effect may result from administrative changes such as appointing a new Contracting Officer for the contract.

\(^10\) As of October 18, 2001, for USP Coleman; June 29, 2001, for USP McCreary; and December 4, 2001, for USP and FCI Victorville.
were necessary appeared reasonable. These modifications are discussed in more detail below.

**Modifications in Excess of IGEs** - At the USP Victorville and USP Coleman projects, the total costs for three contract modifications were not reasonable, in our judgment, because the negotiated price exceeded the IGEs by a total of $306,679 without written justification by the Contracting Officer as required by FAR. Specifically:

- At the USP Victorville, a $2,035,000 contract modification to add security enhancements and install additional closed-circuit televisions was $259,191 above two IGEs. In addition, at the USP Coleman, a $136,154 contract modification to change landscaping features in the interior of the facility was $17,254 above the IGE. BOP officials did not provide an explanation as to why they paid $276,445 more than the IGEs for these contract modifications.

- At the USP Coleman, a $279,097 contract modification to provide a sealant finish to the exterior and interior walls of the prison and install fiber optic cabling was issued for $30,234 above two IGEs. According to BOP officials, the IGEs were understated. However, the contract files contained no supporting documentation to substantiate their assertions.

**Unwarranted Modification** - At USP Victorville, the BOP was considering issuing a $1.6 million contract modification that, in our judgment, is unwarranted. If approved, this proposed modification would unnecessarily increase the cost of the project.

Specifically, BOP officials stated that in an effort to facilitate the construction of this prison, they provided all bidders with design documents for which the BOP had paid an architect $2.5 million. Bidders were expected to take these documents into account in bidding on the design and construction of the prison. In September 2000, the BOP awarded the contract for $102 million, which included $3.7 million for additional design work. However, 1 year after the contract was awarded, the general contractor requested a $2 million modification to remedy what it perceived as design omissions and deficiencies in the original architects’ work.

Officials from the Design and Construction Branch initially rejected the contractor’s request based on the fact that the contractor examined the design documents before submitting a bid. However, they later recommended that the Contracting Officer approve a modification for $1.6 million. According to BOP officials, their rationale for recommending
approval was partly to preclude any future claims that the contractor might bring against the BOP. In addition, officials told us that the total amount spent by the BOP for the design of the facility after the modification would not exceed the amount incurred for design work on similar projects. Furthermore, BOP officials said that the situation at Victorville occurred because they were transitioning to the design-build contracting method and they were no longer providing design documents to bidders. At the time of our review, the Contracting Officer had not approved the modification.

In our judgment, BOP management should not approve this proposed modification for the following reasons. First, the contractor had previously worked with the architect who prepared the design documents at another USP and should have been familiar with the architect’s work during the solicitation and contract-awarding phase. Second, the contractor’s own cost proposal indicated that the contractor reviewed the design documents before submitting a bid and noted that no significant adjustments were needed. Finally, recommending approval of a modification to preclude any future claims or because total design costs after the modification will fall within a range of design costs on similar projects are, in our judgment, not valid justifications. Rather, a modification should be based on a determination that the work is necessary and is not covered under the terms of the original contract. We saw no evidence in the contract files that such a determination had been made and, consequently, we recommend that the Contracting Officer not approve the modification.

Inadequately Documented Modifications - At USP Coleman we found that four contract modifications, including the landscaping and sealant modifications discussed above, lacked adequate documentation explaining why they were considered necessary. However, BOP officials’ reasons for the modifications, as explained to us during our site visit, appeared reasonable. For example, BOP officials stated that the landscaping modification was necessary to enhance security. The original contract specified that areas between housing units be covered with grass. The warden was concerned that prisoner maintenance of these areas would have required additional security because they were not easily visible from guard towers. Consequently, BOP officials told us they submitted the modification, which called for replacing the grass with gravel, to address the warden’s security concerns.

BOP officials stated there was no BOP policy or procedure requiring written justification for modifications. Nevertheless, FAR Subpart 4.803(a)(2) states that the contract file should contain justifications and approvals. In our judgment, the reasons why modifications are needed
should be documented to strengthen internal controls and help ensure that only necessary modifications are approved.

**Time Modifications**

BOP construction contracts specify a completion date that the general contractor is expected to meet. However, extensions to the due date can be approved through a contract modification for reasons such as labor strikes, inclement weather, and BOP directed changes in the scope of the work. Before awarding a time extension, the construction management firm is required to analyze each request to determine the effect it has on the work schedule, known as the critical path. Because a change to the critical path affects the completion date of the project, it is important that time-related modifications be properly justified and evaluated to ensure that only warranted modifications are approved.

At three of the four projects visited, we reviewed seven time extension modifications. Our review revealed that these modifications were supported and properly approved. In addition, the changes made had a minimal impact on the completion dates for each of the three projects, adding between 22 to 47 days to the overall completion date, or an increase of 2.9 to 5 percent. The remaining project reviewed was completed 60 days ahead of schedule.

**CONTRACTOR TIMELINESS**

According to the BOP, its facilities are dangerously overcrowded at 33 percent above rated capacity nationwide. Moreover, high security facilities are overcrowded by 51 percent. Consequently, the timely completion of prison construction projects is critically important to help reduce prison overcrowding in the federal prison system.

To determine if any of the 13 ongoing projects were experiencing significant delays, we compared the amount of time that had elapsed to the percentage of work that had been completed. While this is not a definitive measure of timeliness, in our judgment, it can provide a reasonable indication as to whether a project is experiencing delays or has the potential to be delayed.

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11 For a construction contract, the BOP and the contractor agree up front to a series of milestone dates for each construction activity to occur. The contractor must meet essential milestones dates and related tasks in order to complete the project on time. These essential dates and tasks are called the Critical Path.
Our comparison did not find significant delays in 12 of the 13 projects. The USP Canaan project, however, was at least 1-year behind schedule. According to BOP officials, the delay was caused, in part, when local citizen groups voiced concerns, not previously raised by local public officials, that the project could damage historic structures on the site. The local groups appealed to the Pennsylvania State Historic Preservation Office (SHPO) to ensure that the BOP complied with the National Historic Preservation Act. As a result, the SHPO required the BOP to perform a study of the potential impact its construction activity would have on these structures. Construction was also delayed because of disagreement between the BOP and the U.S. Army Corps of Engineers (Corps) over a wetlands permit under the Clean Water Act. The Corps wanted to designate a larger section of the construction site as a wetlands area than what the BOP was willing to give up, based on its interpretation of the regulations.

Based on our review of the project files, the BOP made a determined effort to come to an agreement with SHPO and the Corps. The BOP conducted the study for SHPO and entered into a Memorandum of Agreement on steps it would take to protect the historic structures. The files also showed that the BOP met regularly with officials from the Corps and ultimately the wetlands disagreement was resolved. BOP officials estimated that the delay increased the cost of the project by $5-10 million. They stated that the problems encountered for this project were not typical of past experiences on construction projects.

**BOP QUALITY ASSURANCE OF CONSTRUCTION PROJECTS**

The FAR, Part 46 requires that the BOP institute a quality assurance program. The need for a quality assurance program is especially important on firm-fixed-price contracts—the type of contract the BOP awards to construct prisons. Under such contracts, the general contractor is paid a fixed amount to design and build a prison within a specified period of time. The contractor’s anticipated profit margin at the start of the contract can be reduced by higher than expected costs or penalties assessed for untimely completion. Thus, a contractor could have an incentive to reduce its costs by eliminating required work or using inferior materials. Without an adequate quality assurance program, the BOP may have projects that are built on time and within cost, but lack the necessary quality to ensure a safe and secure facility.

The BOP is responsible for the overall quality program and has final say in corrective actions. The BOP’s quality program begins before contracts are awarded when the BOP ensures that it selects only qualified contractors. After contractors are selected and construction is in progress, the BOP relies
on management firms to oversee the contractors’ daily operations. In
addition, general contractors are required to have their own quality
programs.

**Contractor Integrity** - Before awarding a contract, the BOP is
required by the FAR to determine whether the prospective contractor is
qualified to receive the contract. This includes determining whether the
contractor has been debarred from doing business with the federal
government. BOP officials told us they check the debarment list\(^\text{12}\) to verify
that the prospective contractor has not been debarred. At the four locations
visited, we verified that the contractors were not on the list.

Because the construction management firm is closely involved in
performing inspections and observations of material and work being
performed by the general contractor and its subcontractors, it is important
that the firm be independent. Therefore, the BOP requires the management
firm to provide a certificate attesting to its organizational independence from
the general contractor. At each of the four projects visited, we verified that
the firm provided the certificate to the BOP.

**Inspection Process** - Each project has a quality team consisting of
BOP and the construction management firm personnel, who observe the
work of the general contractor to ensure it conforms to contract
requirements. At the four locations reviewed, we verified that inspections
were being conducted by examining daily inspection records and other
relevant reports. In addition, we interviewed inspectors to determine how
they performed the inspections and what they looked for. Furthermore, we
observed the process for documenting and resolving exceptions.

To perform their functions, the quality team must be familiar with the
contract documents and requirements, the construction drawings, time
schedules, the BOP Technical Design Guidelines, and applicable building
codes. If staff from either the BOP or the construction management firm
identifies contractor non-conformance in material or workmanship, one of
two reports are prepared to notify the general contractor and track
corrective action. One report, the Field Observation Report, is used to
inform the general contractor of minor non-conformance or other
observations. The other report, the Deficiencies and Omissions Report, is
prepared for more serious issues when the work was performed incorrectly
or omitted. The BOP provides these reports to the contractor who is
expected to take corrective actions. Then the BOP verifies that the

\(^{12}\) The U.S. General Services Administration maintains the List of Parties Excluded from
Federal Procurement and Nonprocurement Programs.
corrections are made; uncorrected deficiency reports may result in a monetary penalty.

We reviewed all 214 Field Observation Reports at the four projects visited as well as all 20 Deficiencies and Omissions Reports at USP Coleman to determine whether corrective actions were taken. We found that the general contractors acted on all the problems noted in the reports and the items reported were resolved. BOP officials told us the reason there were no Deficiencies and Omissions Reports issued at USP McCreary County, USP Victorville, and FCI Victorville was because BOP management, at these locations, had been successful in resolving possible non-conformance issues before they warranted the more serious deficiency report.

**General Contractors’ Quality Programs** - Under the terms of the contract, general contractors are also required to have a quality assurance process, which includes using their own inspectors to review the work. These inspectors prepare reports for all non-conformance issues identified. Before April 2000, the general contractors were not required to share these reports with the BOP. However, the BOP now requires general contractors to provide a list of all deficiencies.

The BOP had received these lists at three of the four locations visited. To determine if the BOP was adequately monitoring the contractors’ corrective actions, we reviewed the BOP’s follow up actions. We found that in each instance the BOP followed up on the deficiencies by meeting with the general contractor on a regular basis, reviewing related documents, and physically verifying that corrective actions had occurred.

**REVIEW OF CONTRACTOR PAYMENTS**

The FAR Subpart 32.101 authorizes the BOP to make monthly progress payments to its contractors based on the percentage of work completed. To achieve this, the BOP and the general contractor agree to a schedule of tasks that need to be performed and their value. At the conclusion of each month, the contractor submits a payment request that identifies the materials delivered and the percentage of work performed for each task.

A single payment can involve millions of dollars. Therefore, it is important that the BOP adequately review the contractors’ payment requests to ensure that work is billed accurately, reflects the materials used, and the work has been performed. In addition, when processing these payment

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13 We did not perform this review at the USP Coleman project because, as discussed earlier, the general contractor was not required to submit such reports to the BOP.
requests, the BOP is required to adhere to the FAR Subpart 32.9. According to the FAR, if the BOP makes a late payment, it is required to pay interest to the contractor.

**Accuracy of Payments** – Upon receipt of the contractor’s payment request, the BOP’s procedure is to compare, with the assistance of the construction management firm, the percentage of work the general contractor claims to have completed to the actual work performed. If discrepancies are identified, the BOP meets with the general contractor to discuss and negotiate revisions to the percentage claimed. Once the differences are resolved, the contractor submits a revised payment request incorporating the negotiated revisions. The BOP Contracting Officer approves the revised payment request and forwards it to the Central Office for payment.

At three of the four projects visited, we tested the payments made to the general contractors and the construction management firms. To determine if the payments made were accurate and reflected the percentage of completion, we judgmentally selected 58 payments totaling over $110 million from the 91 payments totaling over $154 million that had been made at the time of our audit. We examined the BOP’s and the construction management firms’ review of payment requests and the revisions resulting from the negotiations with the contractors to determine if the revised payment requests were accurate. We found that all payments made were accurate and were reviewed and approved in accordance with the process established by the BOP. At the remaining location, we did not test payment requests, but we identified the internal controls over the payment review and approval process and these controls appeared to be adequate.

**Timeliness of Payments** – The FAR Subpart 32.904(d) requires the Government to make payments on construction contracts within 14 days of receipt of the billing invoice and within 30 days for all other types of contracts. If the Government makes a late payment, the FAR Subpart 32.907 requires that interest be paid to the contractor.

We tested the 58 sample payments described above to determine whether the BOP was complying with the prompt payment requirements of the FAR. We found that the BOP paid 51 of the invoices on time. Three others were 2 to 31 days late, but interest was paid to the contractor as required. The BOP did not comply with the prompt payment requirements for the remaining four payments as follows:

- At USP Victorville, a $5,373,256 payment and a $4,988,369 payment to the general contractor were paid 25 days late and 1 day late,
respectively. In addition, at FCI Victorville, a $20,000 payment to the general contractor was paid 14 days late. The BOP did not pay the contractors interest for these late payments.

- At USP Coleman, the BOP erroneously paid late interest totaling $614 to the general contractor for a payment that was paid on time.

These errors occurred because the BOP’s Central Office used incorrect dates for the receipt of the billing invoices when they calculated payment due dates. In our judgment, these errors were not significant and resulted from not applying the FAR requirements when calculating payment due dates. We advised the BOP to recoup the $614 overpayment and to pay the appropriate interest for the late payments; they agreed to do so. We also advised the BOP to take steps to ensure that payment due dates are calculated based on the correct invoice receipt dates.

CONCLUSION

In our judgment, the BOP has generally strengthened controls over its management of construction projects since our last audit in 1998. The BOP has a quality assurance program in place and appears to adequately monitor the quality and timeliness of the general contractors’ work. In addition, payments made to contractors were accurate and most were paid on time.

Generally, contract modifications were adequately supported, properly approved, and the amounts were either below the IGE or if not, were adequately justified. However, we identified a $1.6 million proposed modification that in our judgment was unnecessary and three modifications that were negotiated for $306,679 above the IGES without adequate justification.
RECOMMENDATIONS

We recommend that the BOP Director:

1. Remedy the $306,679 in questioned costs for contract modifications that exceeded the IGEs.

2. Ensure that future contract modifications that exceed the IGE are properly justified.

3. Ensure that the unnecessary $1.6 million proposed modification for additional design and construction work at the USP Victorville project is not approved.

4. Ensure that future contract modifications have documented reasons for why they are needed.

5. Remedy the $614 erroneous interest payment and pay interest to the contractor for the three late payments we identified.

6. Ensure that payment due dates are calculated based on the correct invoice receipt dates.
OTHER REPORTABLE MATTERS

Our audit did not specifically address the precontract-award side of the BOP’s management of construction contracts. However, during our review we noted that the Big Sandy, Kentucky construction project is expected to cost the BOP $162 million to complete, or about $20 million more than similar construction projects. BOP officials explained that the costs are higher for this project because extensive work was needed to stabilize the ground the prison was to be constructed on; the site was a former coalmine. BOP officials further stated that although other sites in Eastern Kentucky were considered, only the Big Sandy location met the BOP’s requirements. They did not select other nearby sites for reasons that included unacceptable soil conditions and locations, inadequate acreage, and negative effects from past mining activity. In our judgment, it is unclear why some of the other locations were excluded, taking into consideration the overall condition found in Big Sandy. The BOP files did not show that the costs of conditioning these properties were considered when BOP officials made their selection.
# SCHEDULE OF DOLLAR-RELATED FINDINGS

<table>
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<tr>
<th>QUESTIONED COSTS:</th>
<th>AMOUNT</th>
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<tr>
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<tr>
<td>Erroneous interest payment</td>
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<td><strong>TOTAL QUESTIONED COSTS</strong></td>
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<td>Unwarranted modification</td>
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<tr>
<td><strong>TOTAL FUNDS TO BETTER USE</strong></td>
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<tr>
<td><strong>TOTAL DOLLAR-RELATED FINDINGS</strong></td>
<td><strong>$1,907,293</strong></td>
<td></td>
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</tbody>
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**QUESTIONED COSTS** are expenditures that do not comply with legal, regulatory or contractual requirements, or are not supported by adequate documentation at the time of the audit, or are unnecessary or unreasonable. Offset, waiver, recovery of funds, or the provision of supporting documentation may remedy questioned costs.

**FUNDS TO BETTER USE** are future funds that could be used more efficiently if management took actions to implement and complete audit recommendations.
APPENDIX I

STATEMENT ON COMPLIANCE WITH LAWS AND REGULATIONS

We audited the BOP’s management of construction contracts and performed audit work between July 2001 and April 2002. Our audit included a review of selected new prison construction projects and related transactions.

In connection with the audit, and as required by the Government Auditing Standards issued by the Comptroller General of the United States, we tested transactions and records to obtain reasonable assurance about the agency’s compliance with laws and regulations that, if not complied with, in our judgment could have a material effect on program operations. Compliance with laws and regulations applicable to the contracting for and construction of new prisons is the responsibility of BOP management.

Our audit included examining, on a test basis, evidence concerning laws and regulations. The specific laws and regulations for which we conducted tests were the Federal Acquisition Regulations.

Our tests indicated that, for the contracts and records tested, the BOP generally complied with the provisions of applicable laws, and guidelines, except as noted in the report. With respect to those transactions not tested, nothing came to our attention that caused us to believe the BOP was not in compliance with applicable laws.
STATEMENT ON MANAGEMENT CONTROL STRUCTURE

In planning and performing our audit of the BOP’s management of construction contracts, we considered the management control structure for the purpose of determining our audit procedures. This evaluation was not made for the purpose of providing assurance on the BOP’s overall management control structure. However, we noted certain matters involving the management control structure and management of the BOP’s construction contracts that we consider to be reportable conditions under generally accepted government auditing standards.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design and operation of the management control structure that, in our judgment, could adversely affect the BOP’s ability to manage new prison construction contracts. We identified the following deficiencies: (1) the BOP did not always document the necessity for a contract modification, and (2) the BOP did not always justify why it negotiated modifications for a higher amount than the Independent Government Estimate.
Audit Objectives

Our objectives were to determine whether the BOP: (1) is adequately managing new construction-related contracts and has improved its management since our last audit in 1998; and (2) is making accurate and timely payments to contractors.

Scope

The audit was conducted in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. To accomplish our audit objectives, we performed audit work at the BOP Central Office located in Washington, D.C., a recently constructed USP facility in Coleman, Florida, and three ongoing prison construction projects in McCreary County, Kentucky (USP) and Victorville, California (FCI and USP).

Our audit work focused on the BOP’s management of construction contracts after they were awarded; we did not audit the pre-award process. As a result, we did not make a determination as to whether the contract award amount, which was competitively bid, was reasonable. Instead, we focused on four areas: the cost of contract modifications, the timeliness of ongoing projects, the quality-control process, and payments made to contractors.

Methodology

We assessed the processes and controls that the BOP established over prison construction projects by interviewing staff at both the BOP Central Office and at the four sites that we visited. We also examined contract files, which included modifications, justifications, and other related documentation at these locations.

In our review of modification costs, we selected a judgmental sample of the ten highest dollar changes to the contract at each of the four sites we visited. The universe of contract changes that we selected from included only those changes that resulted in an increase in the total contract amount. We did not test contract changes that decreased or did not affect the cost of the contract.
APPENDIX III

In our review of project schedules, we determined whether each project site that we visited was on schedule by interviewing BOP staff and reviewing progress measurements. In addition, we selected all modifications that increased the contract duration and reviewed them to determine whether they were adequately supported and justified. For the ten ongoing projects that we did not visit, we analyzed progress measurements in the BOP’s weekly progress reports to determine whether the ten ongoing projects are scheduled to be completed on time.

To review the BOP’s quality control process, we examined its oversight and inspections of contractors at the four locations we visited. In addition, we reviewed all available Field Observation Reports and Deficiency and Omissions Reports at three of the construction sites.

In our review of contractor payments, we selected 20 payments at the USP Coleman project; 10 payments made to the general contractor and 10 payments made to the construction management firm. Each sample included the five highest dollar payments with the remaining five payments selected judgmentally. We reviewed all 38 payments at the FCI and USP Victorville projects.
APPENDIX IV

ONGOING CONSTRUCTION PROJECTS

Legend:

FCI = Federal Correctional Institution

USP = United States Penitentiary
MEMORANDUM FOR GUY K. ZIMMERMAN
ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM: Kathleen Hawk Sawyer, Director
Federal Bureau of Prisons

SUBJECT: Response to the Office of Inspector General’s
Management of Construction Contracts

The Bureau of Prisons (BOP) appreciates the opportunity to respond to the recommendations from the OIG’s draft report entitled Federal Bureau of Prisons Management of Construction Contracts. We appreciate the professionalism of your staff and the detail and insights shown in their review of our program. The BOP has reviewed the recommendations of the report and will address them in our national training event scheduled this July for new institution development program staff. The Bureau concurs with the report and offers the following comments.

Recommendation #1: Remedy the $306,679 in questioned costs for contract modifications that exceeded the IGEs.

Response: The BOP agrees with the OIG recommendation, with the exception of the reference to Modification 26U regarding security enhancements and additional CCTV cameras at USP Victorville.

At the time of the OIG review, the modification had not been executed by the contracting officer. The contracting officer had remedied all issues prior to award of the modification. Since all issues were solved prior to award, we believe the questioning of these costs is moot.
APPENDIX V

BOP agrees with the recommendations regarding the below modifications:

Modification 25 -

The contracting officer has since properly documented the file clarifying justification for exceeding the IGE. The documentation was completed June 4, 2002.

Modification 13 -

The contracting officer has since properly documented the file clarifying justification for exceeding the IGE. The documentation was completed April 25, 2002.

Recommendation #2: Ensure that future contract modifications that exceed the IGE are properly justified.

Response: The BOP agrees with the OIG recommendation. A memorandum dated May 31, 2002, (Attachment 1) was sent to all contracting officers to ensure that they follow the requirements in the FAR directing that the file contain proper justification to support the agreed to price. Compliance will be monitored through the QA process.

Recommendation #3: Ensure that the unnecessary $1.6 million proposed modification for additional design and construction work at the USP Victorville project is not approved.

Response: The BOP agrees with the OIG recommendation, and the modification as proposed will not be approved. Concerns similar to those identified by OIG were noted in our QA review of proposed Modification 28U conducted on April 18, 2002. Our review identified deficiencies in the submitted documentation that do not support executing a $1.6 million modification under Contract JX00c-395. The BOP will not approve this modification without proper justification and documentation.

Recommendation #4: Ensure that future contract modifications have documented reasons for why they are needed.

Response: The BOP agrees with the OIG recommendation. It is good management/business practice to include more specific information to support modifications. A memorandum dated May 31, 2002, (Attachment 1) was sent to all contracting officers to ensure they include rationale for why a modification is necessary.
Recommendation #5: Remedy the $614 erroneous interest payment and pay interest to the contractor for the three late payments we identified.

Response: The BOP agrees with the OIG recommendation. The $614 interest payment was recovered under bilateral Modification Number 29, dated December 28, 2001. The contractor received interest for the three late payments on June 20, 2002.

Recommendation #6: Ensure that payment due dates are calculated based on the correct invoice receipt dates.

Response: The BOP agrees with the OIG recommendation. The BOP issued written guidance to all contracting officers in memorandums dated December 7, 2001, and May 31, 2002, (Attachment 2) to bring uniformity to the designation of the “billing office” where the invoices are to be submitted for all design-build contracts. This should eliminate any future problems.

If you have any questions regarding this response, please contact Michael W. Garrett, Senior Deputy Assistant Director, Program Review Division, at (202) 616-2099.

Attachments
MEMORANDUM FOR ALL CONTRACTING OFFICERS  
CONSTRUCTION CONTRACTING SECTION

FROM:  Demetress F. Smith, Chief  
       Property and Construction Branch

SUBJECT: Contract Modifications

This is in reference to Contract Modifications.

Recently, documentation needed for Contract Modifications have been the subject of review and discussion. Therefore, this memorandum is being issued to provide guidance.

Please ensure that future Contract Modifications have documented reasons for why they are needed (see Attachment A). Additionally, ensure that future Contract Modifications, that exceed the Independent Government Estimates, are properly justified (see Attachment B). In an effort to assist you with this documentation, the attached documents have been developed and are being issued for your use. These documents should help to strengthen internal controls and help ensure that only necessary modifications are approved.

If you have any questions, please let me know.

Attachments
APPENDIX V

FINDINGS OF FACT FOR CONTRACT MODIFICATION

Contract Number:_________  Modification Number:_________

Project Name and Location: ______________________________________

Contractor ____________________________________________________

Reason for Change:

☐ FBOP Design Change  ☐ Project Acceleration

☐ Unforeseen/Differing Site Conditions  ☐ Suspension of Work/Government Caused Delay

☐ Security Enhancement  ☐ Value Engineering

☐ Time Extension  ☐ Other _______________________________________

Description of Modification:

________________________________________________________________

________________________________________________________________

________________________________________________________________

________________________________________________________________

Why is it in the best interest to accomplish this work and under this contract? (Include rationale for time extension if applicable)

________________________________________________________________

________________________________________________________________

________________________________________________________________

________________________________________________________________

As a result of this modification, the performance period will be extended (calendar days): __________

Present Completion Date:_______  Revised Completion Date:_______  Amount:_________

Contracting Officer:____________________________________  Date:__________________

Attachment A
<table>
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<tr>
<th>Category (EXAMPLES)</th>
<th>INDEPENDENT GOVERNMENT ESTIMATE</th>
<th>CONTRACTOR PROPOSAL</th>
<th>DCAA AUDIT (IF APPLICABLE)</th>
<th>TECHNICAL ANALYSIS</th>
<th>AWARD AMOUNT</th>
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<td>Field Conditions (Field Overhead)</td>
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<td>Labor</td>
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In this block the contracting officer summarizes the negotiations and explains any differences between independent government estimate/audit/technical analysis and award amount. The contracting officer must also document "fair & reasonableness of award."

Contracting Officer

Date
MEMORANDUM FOR ALL CONTRACTING OFFICERS
CONSTRUCTION CONTRACTING SECTION

FROM:  Wilmot F. Smith, Chief
        Property and Construction Branch

SUBJECT:   Processing Payment Applications

This memorandum concerns the processing of Payment Applications.

Recently, the payment application process has been the subject of review and discussion. Therefore, this memorandum is being issued to provide further clarification of previously issued policy and procedures.

As you all know, processing of payments begins with submission of invoices or vouchers by the contractor, usually monthly, with documentation supporting the claimed costs.

The Contracting Officer and the Contracting Officer’s Technical Representative (COTR) should review the invoices or vouchers to determine whether the amounts are appropriate for payment. The COTR’s technical background and knowledge of the contractor’s progress will aid in evaluating the items and amounts submitted for payment. The depth of the Contracting Officer’s review depends on the contract type, but at a minimum the following specific actions should be accomplished before payment is made:

1. Date stamp all copies of the invoice the day of receipt and process the invoice for payment in a timely manner as prescribed by the prompt Payment Act;
2. Check the mathematical computations of the invoice for accuracy, and balance to modified contract amount and previously paid invoice amounts;
3. Check the invoice against the contract prices and terms;
4. Reject the invoice if it is incorrect, and return it to the contractor within 7 days of receipt;
5. Check to assure that the requirement for which the invoice covers has been received and accepted;
6. Route a copy to the COTR by close of business the day of receipt, and obtain a payment recommendation from the COTR within 5 days of receipt by their respective office;
7. Identify and document any required withholdings or deductions (liquidated damages, deductions for services not received, retainage);
8. Approve payment amount and forward to the Central Office Business Office (COBO) for payment within 2 days of receipt from COTR.
9. Explain to the contractor any differences between the amount of the invoice and what is approved for payment; and
10. Retain copies of all payment files in the contract file under flap D.

It is the Contracting Officer's responsibility to ensure that COBO receives a memorandum, when transmitting the initial contract award and each approved payment application, indicating the appropriate Prompt Payment Act payment terms (14 or 30 days). In addition, the approved payment application memo should also identify the designated billing office per the contract, and indicate when the correct payment application was received by the designated billing office.

Please review, retain, and utilize this memorandum as appropriate. If you have any questions, please let me know.
MEMORANDUM FOR ALL CONTRACTING OFFICERS
CONSTRUCTION CONTRACTING SECTION
FROM: 

Deborah P. Smith, Chief
Property and Construction Branch

SUBJECT: Design-Build Contracts - Billing Invoices

This memorandum concerns Design-Build contract billing invoices.

Recently, it has come to my attention that there may be some confusion regarding determining the location that invoices should be submitted to by the contractor to determine payment due dates on our Design-Build contracts. Therefore, this memorandum is being submitted to provide clarification.

Once the Design-Build contract has been awarded and the modification executed to transfer administration to the construction site, invoices should be submitted to that construction site. Additionally, the modification (Standard Form 30) should also clearly state the address (construction site) for where the invoices should be submitted.

This clarification is intended to help ensure payments are processed timely and in accordance with the Prompt Payment Act.

If you have any questions, please let me know.
Recommendation Number:

1. **Resolved.** According to the BOP, its contracting officers have properly documented the justifications for exceeding the IGEs for the three modifications noted in this report. This recommendation can be closed when we receive supporting documentation confirming that the BOP adequately documented the negotiated amounts exceeding the IGEs.

2. **Closed.**

3. **Resolved.** The BOP stated that it would not approve the $1.6 million modification without proper justification and documentation. This recommendation can be closed when the BOP provides supporting documentation at the completion of the USP Victorville project that confirms that the modification in question was not approved.

4. **Closed.**

5. **Resolved.** According to the BOP, it recovered the erroneous $614 interest payment by issuing a bilateral modification, Number 29, dated December 28, 2001. In addition, on June 20, 2002, the BOP paid interest for the three late payments. This recommendation can be closed when we receive supporting documentation confirming that these actions have been taken.

6. **Closed.**