

Management Assistance Report: Department of State Has Not Implemented the Required Value Engineering Program for Contracts Exceeding \$5 Million

AUD-CGI-18-52, August 2018

Summary of Review

Value engineering (VE) is a systematic process of reviewing and analyzing the requirements; functions; and elements of systems, projects, equipment, facilities, services, and supplies for the purpose of achieving the essential functions at the lowest life cycle cost consistent with required levels of performance, reliability, quality, or safety. Office of Management and Budget (OMB) policy requires agencies to implement a VE program and to designate a Senior Accountable Official (SAO) to oversee and monitor VE efforts. Specifically, OMB Circular A-131¹ provides agencies with guidance for the implementation of a VE program. According to the Circular, "Federal agencies shall consider and use VE as a management tool to ensure realistic budgets, identify and remove nonessential capital and operating costs, and improve and maintain acceptable quality in program and acquisition functions." Moreover, implementing a VE program is important to demonstrate to U.S. taxpayers that the U.S. Government is prudently using U.S. taxpayer funds to advance its mission.

During its ongoing audit of the Bureau of Overseas Buildings Operations (OBO) VE program, the Office of Inspector General (OIG) found that the Department of State (Department) had not implemented the requisite VE program beyond OBO. Specifically, OMB policy requires VE for new projects and programs when the cost estimate exceeds \$5 million, unless the SAO approves a waiver. OIG found that, as of June 7, 2018, USASpending.gov² listed 532 procurement actions related to Department contracts that exceed \$5 million³ but neither a waiver was obtained nor a VE study performed to help identify and remove nonessential capital and operating costs.

The Department has not implemented a Department-wide VE program, in part, because it had not designated an SAO to coordinate, oversee, and ensure that VE is considered when the cost estimate for contracts exceeds \$5 million. Because the Department has not established and implemented the VE program beyond OBO, the Department is missing opportunities to consider and optimize life-cycle costs, quality, performance schedule, risk, and initial cost reduction for major procurements. For example, OBO reported to OMB that in FY 2016 OBO had \$47.6 million in cost avoidances as a result of \$1.46 million (3 percent) in VE study expenditures.

OIG made two recommendations to prompt the establishment of a Department-wide VE program. On the basis of responses received from the Office of the Under Secretary for Management to a draft of this report, OIG considers both recommendations resolved pending further action. A synopsis of management's comments and OIG's reply follow each

¹ OMB Circular A-131 (revised), "Value Engineering" (December 26, 2013). OMB Circular A-131 was issued in 1988 and was revised in 1993 and 2013.

² USASpending.gov is the official source for spending data for the U.S. Government. Its mission is to show the public what the Federal Government spends every year and how it spends the money.

³ The 532 procurement actions were funded by Department of State bureaus other than OBO.

recommendation in the Results section of this report. Management's comments are reprinted in their entirety in Appendix A.⁴

⁴ Management's comments refer to "tab 2." This attachment consisted only of the draft report and is not included in Appendix A.