



OIG

Office of Inspector General

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Office of Audits

August 2018

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

MANAGEMENT ASSISTANCE REPORT

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

BACKGROUND

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.⁵ Federal agencies are required by OMB Circular A-131 to implement a VE program.⁶ VE concentrates on improving project value by seeking to optimize life-cycle costs, quality, performance schedule, risk, and initial cost reduction. VE studies can be done at any time in a project's life cycle, but because of the difficulty in implementing recommendations later in the design phase, the greatest value and improvement potential is realized when the VE study occurs during the final planning or early in the design phase.

The goal of VE is to break down a project into parts and identify alternatives to satisfy each part's function. VE can help provide greater knowledge of projected costs, ensure realistic budgets, identify and remove nonessential capital and operating costs, and clarify the economic impact of various project development and design decisions. 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.

Federal Value Engineering Requirements

OMB Circular A-131 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. Consistent with the guidelines in the Circular, senior agency management shall ensure that agency VE policies and practices support effective, efficient, and environmentally sound arrangements for conducting the work of their agencies and provide a sound basis for identifying and reporting accomplishments."⁷

In addition, the Circular states, "Agencies should maintain policies and procedures to ensure VE is considered and integrated, as appropriate, into the planning and development of agency

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

⁵ OMB Circular A-131, § 5.k.

⁶ OMB Circular A-131, § 6.

⁷ Ibid.

programs, projects, activities, as well as contracts for supplies and services, including performance based, architect-engineering, and construction contracts.”⁸

Current OMB policy requires VE for new projects and programs when the cost estimate is at least \$5 million, unless a waiver is obtained from the SAO of the agency.⁹ Furthermore, according to the Circular, certain agencies (including the Department) “shall designate a senior accountable official (SAO) at a level with sufficient authority to coordinate, oversee, and ensure the appropriate consideration and use of VE.” The SAO responsibilities include maintaining agency guidelines and procedures for identifying agency programs and projects with the most potential to yield savings from VE studies, ensuring training, maintaining plans for using VE in the agency, ensuring funds necessary for conducting agency VE studies are identified and included in budget requests, and maintaining files on projects and programs that meet the criteria for VE.

Purpose of the Management Assistance Report and Ongoing Audit

This Management Assistance Report is intended to provide communication of deficiencies that OIG identified during its ongoing audit of OBO’s VE program. The primary objective of that audit is to determine whether OBO, which directs the Department’s overseas building program, complied with Federal and Department VE program requirements and accurately reported VE expenditures, cost savings, and cost avoidances to OMB. OIG is reporting the deficiencies discussed in this Management Assistance Report in accordance with generally accepted government auditing standards. In performing the work related to these deficiencies, OIG interviewed OBO VE personnel, corresponded with senior officials from the Bureau of Administration, and reviewed applicable criteria and supporting documentation. OIG believes that the evidence obtained provides a reasonable basis for the deficiencies identified in this report.

RESULTS

OIG found that the Department has not implemented the requisite VE program beyond OBO, even though VE is supposed to be considered and integrated, as appropriate, into the planning and development of significant projects, programs, and contracts Department-wide. This condition existed despite the fact that multiple Department bureaus have entered into contracts that exceed \$5 million, an amount that is the threshold established by OMB for performing a VE study.¹⁰ Specifically, as of June 7, 2018, USASpending.gov listed 532 procurement actions related to Department contracts that exceed \$5 million,¹¹ but neither a waiver was obtained nor a VE study performed to help identify and remove nonessential capital and operating costs for these contracts. The Department has not implemented a Department-wide VE program, in part,

⁸ OMB Circular A-131, § 1.

⁹ OMB Circular A-131, §§ 7.a.2.i and 7.a.2.iii.

¹⁰ OMB Circular A-131, § 7.a.2.i.

¹¹ The 532 procurement actions were funded by Department of State bureaus other than OBO.

because it has not been attentive to establishing the VE program by designating 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.

Value Engineering Program Not Established Department-wide

OMB Circular A-131 requires agencies to perform VE for new projects and programs when the cost estimate is at least \$5 million.¹² OIG found that OBO has a VE process in place. However, OIG reviewed the Department's organizational structure and policies and did not find evidence that the Department had implemented the VE program at any other bureau. Furthermore, senior officials from the Bureau of Administration, the bureau responsible for the Department's procurement activities, stated that they were unaware of any VE program in the Department other than the one OBO has in place.

As of June 7, 2018, according to USASpending.gov, during FY 2018, the Department had 532 procurement actions related to contracts valued at more than \$5 million and funded by bureaus other than OBO. That means significant projects are being implemented by contractors on behalf of the Department, without a required VE study being performed. For example, the Bureau of Diplomatic Security awarded a contract valued at more than \$1.1 billion for global supply chain management, logistics, and technology development, but the VE process was not used to consider and optimize life-cycle costs, quality, performance schedule, risk, and initial cost reduction. The Bureau of Consular Affairs similarly awarded a contract valued at \$49 million for IT-related services that also failed to implement the VE process. Table 1 details the 10 highest dollar value Department contracts in FY 2018 that did not undergo the required VE study for the purpose of achieving the essential functions at the lowest life-cycle cost.

Table 1: Top 10 Highest Dollar Value Department Contracts in FY 2018 (as of June 7, 2018)

Bureau	Contract Number	Contract Value
Information Resource Management	SAQMMA11F0233	\$1,480,831,447
Diplomatic Security	SAQMMA12C0130	1,110,076,136
Diplomatic Security	SAQMMA12F1044	761,725,004
International Narcotics and Law Enforcement Affairs	SAQMMA12F3616	442,530,479
Diplomatic Security	SAQMMA11C0018	398,071,828
Near Eastern Affairs	SAQMMA14F0721	360,774,738
International Narcotics and Law Enforcement Affairs	SAQMMA13F2643	331,378,603
Diplomatic Security	SAQMMA11F2436	304,929,107

¹² OMB Circular A-131, § 7.a.2.i.

International Narcotics and Law Enforcement Affairs	SAQMMA14F3126	302,818,847
Consular Affairs	SAQMPD07C0009	291,595,378

Source: Generated by OIG from an analysis of Department contract data obtained from USASpending.gov.

Senior Accountable Official Not Designated

The Department has not implemented a Department-wide VE program, in part, because it has not designated an SAO to coordinate, oversee, and ensure that VE is considered Department-wide when the cost estimate for a contract exceeds \$5 million. Specifically, OMB Circular A-131 requires the Department to designate an SAO at a level with sufficient authority to coordinate, oversee, and ensure the appropriate consideration and use of VE.¹³ For OBO, the Department's Head of Contracting Activity—who serves in the Office of Acquisitions Management within the Bureau of Administration's Office of Logistics Management—has been designated by OBO as the official who approves waivers from the required VE study and process.¹⁴ According to OMB Circular A-131, the agency's SAO or the official's designee is the individual authorized to provide waivers.¹⁵ OIG contacted the Office of Acquisitions Management to determine whether an official in that office had been designated as the SAO Department-wide. Senior officials from the Bureau of Administration stated that the office had been unable to find any designation of an SAO for the VE program Department-wide. In addition, OIG was unable to uncover any policies and procedures related to a Department-wide VE program, as required by OMB Circular A-131.¹⁶

Without a Department-wide VE program, the Department may be missing opportunities to optimize both life-cycle costs and possible initial cost reductions. For example, OBO reported to OMB that in fiscal year 2016 OBO had \$47.6 million in cost avoidances as a result of \$1.46 million (3 percent) in VE study expenditures.

CONCLUSION

The only available information regarding the implementation of a VE program within the Department is associated with OBO. However, OMB Circular A-131 requires VE for new projects and programs when the cost estimate exceeds \$5 million, unless a waiver is approved by the SAO. OIG found that, as of June 7, 2018, USASpending.gov listed 532 procurement actions related to Department contracts that exceeded \$5 million,¹⁷ but neither a waiver was obtained nor a VE study performed to help identify and remove nonessential capital and operating costs. Because the Department has not established and implemented the VE program beyond OBO, the Department is not in full compliance with OMB requirements and is missing opportunities to

¹³ OMB Circular A-131, § 7.

¹⁴ OBO Policy and Procedures Directive (P&PD) (revised), "P&PD COST 02: Value Engineering," 4 (July 1, 2015).

¹⁵ OMB Circular A-131, § 7.a.2.iii.

¹⁶ OMB Circular A-131, §§ 6 and 7.a.

¹⁷ The 532 procurement actions were funded by Department of State bureaus other than OBO.

consider and optimize life-cycle costs, quality, performance schedule, risk, and initial cost reduction for major procurements. 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. OIG is therefore making two recommendations to establish and implement a Department-wide VE program.

Recommendation 1: OIG recommends that the Office of the Under Secretary for Management designate a Senior Accountable Official at a level with sufficient authority to coordinate, oversee, and ensure the appropriate consideration and use of value engineering for new projects, programs, activities, and contracts, in accordance with Office of Management and Budget Circular A-131 requirements.

Management Response: The Office of the Under Secretary for Management concurred with the recommendation, stating that it will designate the Head of Contracting Activity as the Senior Accountability Officer for VE at the Department. The Office of the Under Secretary for Management will document this designation in the appropriate sections of the Foreign Affairs Manual.

OIG Reply: On the basis of the Office of the Under Secretary for Management's concurrence with the recommendation and planned actions, OIG considers this recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Office of the Under Secretary for Management designated the Head of Contracting Activity as the Senior Accountability Officer for VE at the Department and formalizes the designation in the Foreign Affairs Manual.

Recommendation 2: OIG recommends that the Office of the Under Secretary for Management, once it has designated a Senior Accountable Official (Recommendation 1), consult with the designated official to develop and implement a Department-wide value engineering program and develop and implement guidelines and policies and procedures for the program, in accordance with Office of Management and Budget Circular A-131 requirements.

Management Response: The Office of the Under Secretary for Management concurred with the recommendation, stating that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, has extensive guidance within its standard operating procedures that requires any acquisitions, valued at or more than \$5 million, "to go through a rigorous evaluation process." The response also explained that "OMB Circular A-131 states 'VE can also be used with acquisition and commodity management techniques to improve performance and quality, lower or manage costs more effectively, and shorten project delivery.' The [Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management,] achieves this currently with the Category Management program." The Office of the Under Secretary for Management will work with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions

Management, "to ensure that VE considerations are taken into account in the standard practices."

OIG Reply: On the basis of the Office of the Under Secretary for Management's concurrence with the recommendation and planned actions, OIG considers this recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Office of the Under Secretary for Management has worked with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, to develop and implement a Department-wide VE program and has implemented policies and procedures for the program, in accordance with Office of Management and Budget Circular A-131 requirements.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Office of the Under Secretary for Management designate a Senior Accountable Official at a level with sufficient authority to coordinate, oversee, and ensure the appropriate consideration and use of value engineering for new projects, programs, activities, and contracts, in accordance with Office of Management and Budget Circular A-131 requirements.

Recommendation 2: OIG recommends that the Office of the Under Secretary for Management, once it has designated a Senior Accountable Official (Recommendation 1), consult with the designated official to develop and implement a Department-wide value engineering program and develop and implement guidelines and policies and procedures for the program, in accordance with Office of Management and Budget Circular A-131 requirements.

APPENDIX A: THE OFFICE OF THE UNDER SECRETARY FOR MANAGEMENT RESPONSE

ATTACHMENT FOR:18 MDA 3113

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201821177
United States Department of State
Washington, D.C. 20520

July 26, 2018

ACTION MEMO FOR THE DEPUTY UNDER SECRETARY FOR MANAGEMENT (M)

FROM: M/PRI – Janice DeGarmo, Senior Bureau Official

SUBJECT: M response to Management Assistance Report: Department of State has not implemented the Required Value Engineering Program for contracts exceeding \$5 Million

Recommendation

That you approve the attached response to the Office of the Inspector General's draft Management Assistance Report, "Department of State Has Not Implemented the Required Value Engineering Program for Contracts Exceeding \$5 Million" (Approve/Disapprove by 7/27/18)

Background

The OIG issued a draft Management Assistance Report (MAR) entitled "Department of State Has Not Implemented the Required Value Engineering Program for Contracts Exceeding \$5 Million." (Tab 2) The draft report cites existing OMB requirements (OMB Circular A-131), and contains two recommendations for M, stating that the Department must institute a Value Engineering program (rec. 2) for the Department, and a Senior Accountability Officer (rec. 1) to oversee that program. The OIG defines Value Engineering as, "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," for contracts valued over \$5 million.

Attached is the draft response to the OIG stating that the Office of the Under Secretary for Management concurs with the recommendations (Tab 1). The response states that the Head of Contracting Activities will be the designated Senior Accountability Officer for Value Engineering, and will work value engineering principles into the Department's Category Management program.

Attachments:

- Tab 1 – Response to the Draft Management Assistance Report: Department Attention Needed to Address Overdue Responses on Selected Open Recommendations
- Tab 2 – Draft MAR "Department of State Has Not Implemented the Required Value Engineering Program for Contracts Exceeding \$5 Million"

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Approved: M/PRI – Janice DeGarmo
Drafted: M/PRI – Katie Kirkpatrick, ext. 7-4725
Cleared: M/PRI Julie Schechter-Torres
M_Clearance Mike Lampel
L/BA Kathleen Martin
A/FO Renee Bemish

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United States Department of State

Washington, D.C. 20520

July 26, 2018

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TO: OIG/AUD – Norman Brown
 FROM: D U/S - M – William E. Todd ⁶⁷

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

The Office of the Under Secretary for Management has reviewed the draft OIG Management Assistance Report. We provide the following comments in response to the recommendation from the OIG.

OIG Recommendation 1: OIG recommends that the Office of the Under Secretary for Management designate a Senior Accountable Official at a level with sufficient authority to coordinate, oversee, and ensure the appropriate consideration and use of value engineering for new projects, programs, activities, and contracts in accordance with Office of Management and Budget Circular A-131 requirements.

Management Response: The Office of the Under Secretary for Management concurs with this recommendation. M will designate the Head of Contracting Activity (**Office of Acquisition Management**) as the Senior Accountability Officer for Value Engineering at the Department of State. M will document this designation in the appropriate sections of the FAM.

OIG Recommendation 2: OIG recommends that the Office of the Under Secretary for Management, once it has designated a Senior Accountable Official (Recommendation 1), consult with the designated official to develop and implement a Department-wide value engineering program and develop and implement guidelines and policies and procedures for the program in accordance with Office of Management and Budget Circular A-131 requirements.

Management Response: The Office of the Under Secretary for Management concurs with this recommendation. The Office of Acquisitions already has extensive guidance within its SOPs that requires any acquisitions, below or above a \$5 million value, to go through a rigorous evaluation process. OMB Circular A-131 (2013) states that “VE can also be used with Acquisition and commodity management techniques to improve performance and quality, lower or manage costs more effectively, and shorten project delivery.” The A/LM/AQM achieves this currently with the Category Management program. M will work with A/LM/AQM to ensure that VE considerations are taken into account in the standard practices.

The point of contact for this memorandum is Katie Kirkpatrick, at kirkpatrickkg@state.gov or 202-647-4725

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ATTACHMENT FOR:18 MDA 3113

Approved: M/PRI – Janice DeGarmo, Senior Bureau Official
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