



UNITED STATES GENERAL ACCOUNTING OFFICE

REGIONAL OFFICE

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SEATTLE, WASHINGTON 98104



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Mr. Mark C. Smith, Area Director
Western Area Office
Economic Development Administration
413 First Avenue North
Seattle, Washington 98109

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Dear Mr. Smith:

We have completed our survey of construction management activities in the Western Area office of the Economic Development Administration. The purpose of our survey was to review and evaluate the policies and procedures of the Construction Management Branch in administering public work projects. To determine whether these policies and procedures were being properly implemented by the Construction Management Branch, we reviewed 16 selected project files for completed and in-process public works projects.

We appreciate our recent opportunity to discuss with your staff the results of our survey. We found that the policies and procedures of the Construction Management Branch include several controls to adequately protect the Government's interest prior to and during the construction of EDA public works projects. Generally, we found that these policies and procedures were being properly implemented by the Construction Management Branch; however, we noted two items which may be of interest to you in improving the management of construction activities. These matters, which we have discussed with members of your staff, are briefly discussed below.

Disbursement of Grant Funds

You may wish to obtain approval of the current disbursement practice being followed on projects with overruns financed by the Grantee/Borrower. The practice now being followed by your office may be an acceptable alternative to established procedures which could be implemented by other EDA offices.

Present procedures require that, in the event of an overrun funded by the Grantee/Borrower, grant disbursements are to be based on a revised grant rate that is equal to the EDA approved grant amount divided by the revised total project costs. We noted that on three projects with large overruns financed by the Grantee/Borrower, the revised grant rate was computed based upon the cost of selected line items rather than total project costs. This procedure does not affect

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the total amount of EDA disbursement but does result in removing funds from the Treasury sooner than required. We were advised by your staff that the grant rate was computed on the basis of a revised grant budget which included only selected line items, usually only construction and A/E costs, since (1) these selected line items exceeded the original cost estimate for the entire project, and (2) EDA would have to determine the eligibility of only the selected line item costs rather than all project costs. Your staff commented that the most difficult costs to review to determine eligibility are administrative and legal costs and that the above procedure usually eliminates the need to treat them as eligible project costs requiring review.

Obtaining required evidence

Local controls and filing procedures could be improved to assure that all required evidence is being obtained by project managers.

In our review of project files we were, in some instances, unable to find evidence to show that (1) the Grantee/Borrower had secured land, rights-of-way and easements necessary to complete the project prior to advertising for bids, (2) all project costs were supported by invoices, cancelled checks, etc., (3) EDA had approved the Grantee/Borrower's line plan for financing the project, and (4) the Grantee/Borrower had submitted monthly statements of its project bank account. In some cases, we found that evidence and/or approval required prior to advertisement for bids was not being obtained until after advertising for bids; however, generally such evidence or approval was obtained prior to bid award. For example, on nine projects we were unable to locate in the project file any evidence to indicate that the Grantee/Borrower had obtained necessary land, rights-of-way, and easements prior to advertising for bids as required by existing policies. On six of these projects, such evidence was obtained prior to the bid award.

We wish to thank you and your staff for the courtesy and cooperation given our representatives during this survey. We are available for further discussion of the foregoing matters, if you so desire.

Sincerely yours,

WILLIAM N. CONRARDY

William N. Conrardy
Regional Manager

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Chief, Publications Branch, OAS