



U.S. Department of the Interior
Office of Inspector General

Office of the Public Auditor
Commonwealth of the Northern
Mariana Islands



Evaluation of Saipan Public Health Facility
Project: Oversight of Capital Improvement
Projects, Commonwealth of the Northern Mariana
Islands

Report No. P-GR-NMI-0003-2005

June 2007



U.S. Department of the Interior
Office of Inspector General

Office of the Public Auditor
Commonwealth of the Northern
Mariana Islands



EVALUATION REPORT

June 8, 2007

The Honorable Benigno R. Fitial
Governor of the Commonwealth
of the Northern Mariana Islands
Juan S. Atalig Memorial Building
Isa Drive, Capitol Hill
Saipan, MP 96950

The Honorable Joseph M. Mendiola
Senate President
15th Commonwealth Legislature
P.O. Box 500129
Saipan, MP 96950

Dear Governor Fitial and Mr. Mendiola:

The enclosed report presents the results of our evaluation of the Saipan Public Health Facility Project (Project) by the Office of Inspector General (OIG) and the Office of the Public Auditor for the Commonwealth of the Northern Mariana Islands (CNMI). We conducted the evaluation in response to a request by the CNMI Legislature to recommend appropriate action to ensure Project funds are expended in compliance with applicable laws and regulations. In line with this request, we evaluated CNMI's management of the Project and identified opportunities for improved performance and results. Because of serious management deficiencies, we also evaluated the Office of Insular Affairs' oversight of the Project and are issuing a separate report to the Deputy Assistant Secretary for Insular Affairs. We did not, however, evaluate the claims filed by Project construction contractors because Summit Consulting International (Summit), under contract with CNMI, has reviewed these claims. CNMI is currently using the Summit report in negotiations with Project contractors to settle contractor claims. The scope and methodology of our review are detailed in Appendix 1 of the report.

At \$17.6 million, the Project is one of CNMI's largest capital improvement projects (CIP). Since its inception 6 years ago, the Project's magnitude and scope have changed significantly as it evolved from a hemodialysis center to a state-of-the-art health facility. The construction contract alone increased from \$5.6 million to \$12.5 million, over double the initial contract amount, and Project completion has been delayed to the point that as of the date of this report, it has yet to be completed. Changes in the scope of the Project are only partially responsible for the contract modifications and time delays. Serious deficiencies in the contracting process, including the failure to adhere to established procurement regulations and the lack of qualified and experienced officials to administer the CIP program, significantly affected construction costs and time frames. Some of these issues were noted in U. S. Army Corps of Engineers (Corps) reports,

issued in 2003 and 2005 (Appendix 1), but CNMI failed to use this information to improve its contracting operations. Had CNMI used the 2003 report, for example, it might have mitigated the problems that surfaced on the Project by establishing a strong contracting office and using attorneys trained in procurement regulations to provide critical guidance

The recent downturn in CNMI's economy has heightened our concern, as CNMI has not identified a funding source for the estimated \$5 million to \$8 million needed annually to operate the new facility. CNMI will not be able to improve the quality of care for its sick and most vulnerable patients, including those requiring life-sustaining hemodialysis, without a fully functioning facility. We made four recommendations to help CNMI better manage the contracting process. We believe that implementation of these recommendations can help CNMI minimize contract costs and delays on future CIPs.

In your March 6, 2007 response to our draft report (Appendix 4), you concurred with Recommendations 1, 2, and 3 and directed the Office of the Attorney General, in conjunction with the Secretary of Finance, to take the lead and implement our recommendations within 120 days. Based on the response, we consider these recommendations to be resolved but not implemented. Your response did not address Recommendation 4, and, as such, we consider this recommendation to be unresolved. The status of our recommendations is shown in Appendix 5.

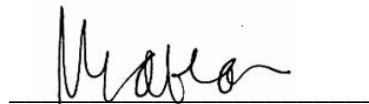
The legislation, as amended, creating the OIG requires that we report to Congress semiannually on all audit reports issued, the monetary effect of audit findings, actions taken to implement audit recommendations, and recommendations that have not been implemented. See Appendix 2 for the monetary impact of the findings in this report.

Please provide a response to Recommendation 4 by July 13, 2007. Your response should state concurrence or nonconcurrence with the recommendation and provide the information requested in Appendix 5. Please address your response to Mr. Kevin Graves, Acting Field Supervisor, Honolulu Field Office, 2800 Cottage Way, Suite E-2712, Sacramento, California 95825. We appreciate the cooperation shown by the CNMI government during our evaluation. If you have any questions regarding this report, please call me at (202) 208-5745 or Mr. Sablan at (670) 322-6481.

Sincerely,



Earl E. Devaney
Inspector General



Michael S. Sablan
Public Auditor, CNMI

Enclosure

cc: David B. Cohen, Deputy Assistant Secretary for Insular Affairs
Nikolao Pula, Director, Office of Insular Affairs
Marina Tinitali, Audit Liaison Officer, Office of Insular Affairs

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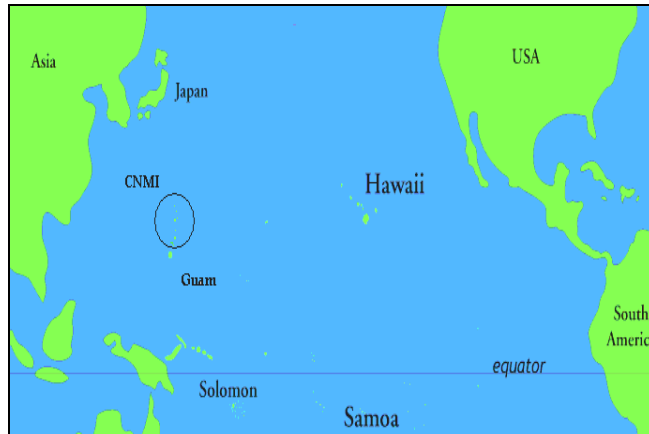
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Acronyms

A&E	Architectural and Engineering
AIC.....	AIC Marianas, Inc.
CIP	Capital Improvement Project
CNMI	Commonwealth of the Northern Mariana Islands
COTR.....	Contracting Officer’s Technical Representative
DPW.....	Department of Public Works, CNMI
IGE.....	Independent Government Estimate
OIA	Office of Insular Affairs, Department of the Interior
OIG	Office of Inspector General, Department of the Interior
SSFM	SSFM International, Inc.

Project History

The Commonwealth of the Northern Mariana Islands (CNMI) is a self-governing Commonwealth of the United States located about 3,300 miles west of Hawaii. CNMI consists of 14 islands, with a total land area of 183.5 square miles and a population of about 70,000. The principal inhabited islands are Saipan, Rota, and Tinian.



Map of Pacific Islands

Figure 1

Source: www.maps-pacific.com
(CNMI reference added by OIG)

The Secretary of the Department of Finance, who is responsible for procurement and supply functions for the CNMI Government, has delegated procurement authority for capital improvement projects (CIP) to the Secretary of the Department of Public Works (DPW). To ensure the efficient functioning of the CIP contracting process, DPW is responsible for (1) reviewing specifications and statements of work to ensure compliance with procurement principles, (2) incorporating required provisions in contracts, (3) negotiating a fair and reasonable contract price, (4) modifying contracts to incorporate changes, and (5) enforcing contract provisions.

At \$17.6 million, the Saipan Public Health Facility Project is one of CNMI's largest CIPs, with 50 percent of the funding (\$8.8 million) provided by the Office of Insular Affairs (OIA) and 50 percent by CNMI. The Project is the first expansion of the Commonwealth Health Center (Center) in about 18 years. Constructed in the mid-1980s on the island of Saipan, the Center was geared for a population of 35,000. Population on the island today is about 62,000.

Based on funding available at the time, the Project was initially conceived as a hemodialysis center.¹ DPW awarded an architectural and engineering (A&E) contract to Leo A. Daly Company to design the Project in October 2000 and a firm, fixed-price construction contract for \$5.6 million to AIC Marianas, Inc. (AIC), in June 2002. Project completion was scheduled for August 2004. To help oversee the Project, CNMI awarded contracts to N. Stanley Good, P.E. dba Azuma Limited (Azuma) and SSFM International, Inc. (SSFM), for construction management services. Project offices, organizations, and responsibilities are shown in Appendix 3.

As funding increased, the Project evolved into a two-tiered, state-of-the-art health facility, with the hemodialysis center on the upper level and executive and administrative offices, bio-terrorism center, and a 10,000 square-foot medical warehouse room on the lower level. A key benefit of the expanded facility was a larger hemodialysis unit. With 29 stations, more than double the stations now available at the Center, hemodialysis patients can receive life-sustaining treatment at reasonable hours of the day. To accommodate its patient workload, the existing hemodialysis center operates 24 hours a day, 7 days a week. In January 2004, a second A&E contract was awarded to Taniguchi Ruth Architects (Taniguchi) to re-design the expanded Project.

As construction began, CNMI encountered design problems which were not resolved by the initial design firm. CNMI modified the Taniguchi contract to re-work portions of the design. The re-work resulted in alleged Project delays and in \$855,535 in claims filed by AIC and its subcontractor for design delays, changes and disruptions. Summit Consulting International (Summit), under contract with CNMI, reviewed these claims, recommended payment of \$267,222, and questioned \$588,313. CNMI is currently using the Summit report in negotiations with Project contractors.

In November 2004, the CNMI Legislature, concerned about cost overruns and delays, asked us to evaluate the Project, a review that we undertook in cooperation with CNMI's Office of the Public Auditor.

¹ Hemodialysis, the most frequently prescribed type of dialysis treatment for patients suffering from kidney failure, involves use of a special filter called a dialyzer or artificial kidney to clean the blood. Most hemodialysis patients require treatment three times a week and an average of 3 hours per dialysis "run."

Results of Evaluation:

Strong Contracting Office Needed to Manage All Capital Improvement Projects

The lack of a strong contracting office impeded construction of the Project from the start. As CNMI's CIP Contracting Office, DPW lacked the contracting expertise, such as a qualified and experienced contracting officer and cost-price analyst, to plan and administer the Project. The costly modifications and delays experienced by the Project as it evolved increased initial contract awards by over \$7 million and delayed Project completion. As shown on Figure 2, the construction contract alone increased from \$5.6 million to \$12.5 million.

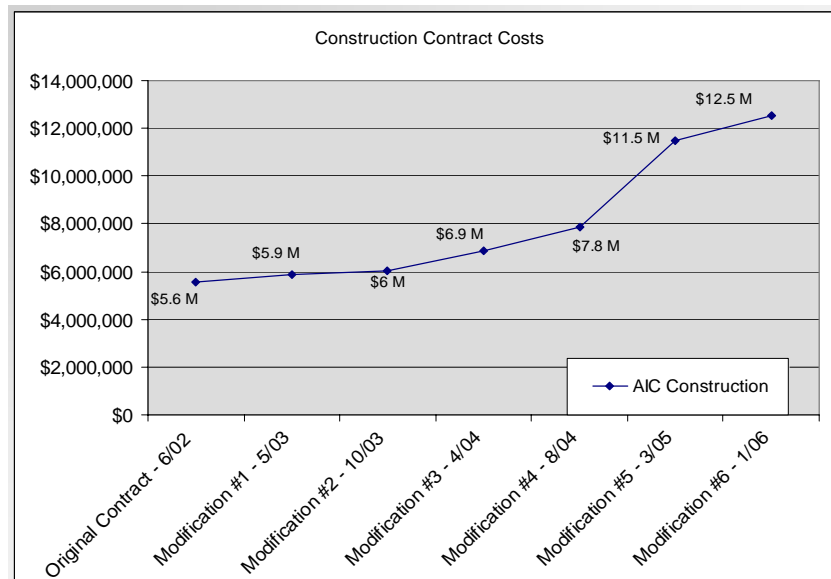


Figure 2

CNMI Failed in Key Areas of Contracting Process

We believe strong contracting office planning and administration could have mitigated the cost overrun and delay problems that surfaced on this Project and ensured compliance with CNMI's procurement regulations. Our evaluation identified significant weaknesses in CNMI's contracting process. Specifically, CNMI officials failed to ensure that (1) contractor proposals were properly evaluated and negotiated, (2) A&E contracts included key provisions to protect government interests, (3) contract modifications were justified and reasonably priced, (4) contractor nonperformance was documented and appropriate corrective

action taken, and (5) costs were properly allocated to the Project.

Evaluation and Negotiation of Contractor Proposals Were Inadequate

The failure of CNMI contracting officials to comply with procurement regulations seriously compromised the evaluation and negotiation of Project contractor proposals. It is CNMI's policy to negotiate contracts for a fair and reasonable price based on demonstrated contractor competence and qualifications. The general process for negotiated contracts is outlined in Figure 3 on page 5.

Deficient Proposal Evaluations. CNMI did not adhere to its procurement regulations involving contractor selection for the two A&E contracts and the Summit contract. To ensure selection of the best contractor, the evaluation process requires (1) qualified evaluators, (2) written evaluation instructions, (3) independent government estimates (IGEs), and (4) oversight by an experienced contracting officer. We found CNMI lacking in all these areas.

Under CNMI regulations, the evaluation team documents the selection decision by assessing the comparative strengths, weaknesses, and risks of each offeror's proposal in terms of the evaluation factors in the solicitation. Our analysis showed that the evaluation team included only numerical scores with minimal comments to support the scores. The scoring system used by the Summit evaluation team was inconsistent; one evaluator, for example, used a one to five scoring system, while a second evaluator used a zero to one scoring system. As a result of deficiencies in proposal evaluations, the contractors selected for the A&E and delayed claim contracts may not have been the best qualified firm.

❖ Develop contract requirement.

❖ Prepare IGE to determine what the contract should cost. The IGE is developed independently without contractor influence, based on the proposed scope of work and historical costs.

❖ Ensure sufficient funds are available.

❖ Conduct market research to determine best method of acquiring goods and services.

❖ Develop acquisition plan to identify key milestones in the acquisition process and address significant technical, management, or other considerations.

❖ Develop source selection plan.

❖ Issue solicitation.

❖ Conduct contractor site visits.

❖ Convene selection team of qualified personnel and provide team with an evaluation plan that includes, at a minimum, (1) statement of evaluation factors and their relative importance, (2) evaluation process methodology and techniques to be used, and (3) documentation requirements.

❖ Evaluate proposals.

❖ Conduct discussions and negotiations.

❖ Prepare post-negotiation memorandum to document the rationale for selecting and awarding the contract and determining reasonability of price.

❖ Award Contract.

❖ Monitor contractor performance.

❖ Close out contract.

General Process for Negotiated Contracts
Figure 3

Poor Negotiation Practices. CNMI did not ensure that contracts, including modifications, were negotiated for a reasonable price, as required by regulations. Specifically, the regulations outline the following types of information that must be reviewed and evaluated when determining price reasonability: (1) the IGE, (2) cost information in sufficient detail to support and justify the contract, and (3) cost information for similar services. CNMI officials stated that A&E contracts were awarded based solely on the contractor's proposed price absent any price or cost analysis or negotiations. CNMI did not develop an IGE or require the contractors to submit a detailed proposal that included a cost breakdown by labor category, labor hours, labor rates, overhead, and profit. Without an IGE and contractor cost breakdown, CNMI could not compare labor hours with labor hours of similar projects, labor rates with labor rate surveys and contractor payroll records, and overhead rates with contractor financial records to determine the reasonability of proposed rates and negotiate a reasonable contract price.

Design Contracts Deficient

As Project construction began, DPW officials and the initial design firm worked to resolve design issues. However, DPW officials said that as the Project moved further along, the firm failed to respond to DPW's numerous requests for information and a key principal of the design team was no longer involved with the Project. Alleged design problems began to surface, and the second A&E firm's scope of work was modified to correct design problems. At the same time, CNMI hired the U.S. Army Corps of Engineers (Corps) to independently assess the Project's design. The Corps' report included an exhaustive list of technical comments on the initial Project design. For example:

- ❖ New site work items, such as roads and parking, were incomplete or not shown.
- ❖ Building finished floor was shown with no possible way for adjacent areas to connect to it.
- ❖ Grading was incorrect.

According to a Corps' official, the absence of key provisions was instrumental in CNMI's inability to resolve alleged design deficiencies with the initial A&E firm. Our evaluation, confirmed by the Corps' report, revealed that

CNMI's A&E contracts lacked key standard provisions usually found in federal government contracts to ensure the professional quality of designs, drawings, specifications, and other services furnished by a contractor. Unfortunately, CNMI uses the same A&E template for all of its CIPs. As a result of CNMI's failure to involve attorneys experienced in procurement, provisions such as those shown in Figure 4 were not included in the contract.

Responsibility of the Contractor
The Contractor shall be responsible for the professional quality, technical accuracy, and coordination of all designs, drawings, specifications, and other services furnished by the Contractor under the contract. The Contractor shall, without additional compensation, correct or revise any errors or deficiencies in its designs, drawings, specifications, and other services (Federal Acquisition Regulation 52.236-23).*
<i>* To further protect its interest, CNMI should add a time frame to this provision for correcting deficiencies</i>
Substitutions of Key Personnel
The Contractor shall provide complete resumes for proposed substitutes and any additional information requested by the Contracting Officer. Proposed substitutes should have comparable qualifications to those of the persons being replaced. The Contracting Officer will notify the Contractor within 15 days after receipt of the required information of the consent of the substitutes. No change in fixed prices may occur as a result of key personnel substitution (Naval Facilities Command (NAVFAC) 52.52.237-9301).

Figure 4

Contract Modifications Were Not Managed Effectively

CNMI management of contract modifications for the Project was also poor. For example, CNMI did not ensure modifications for sole source procurements were justified, reasonably priced, and processed timely, as required by procurement regulations. Effective management of contract modifications is critical, as modifications can significantly increase the cost and duration of a project.

Unsupported Sole Source Procurements. CNMI procurement regulations are designed to promote full and open competition to help ensure the best product or service is obtained at the lowest possible price. In line with these regulations, CNMI awarded the basic contracts for the Project competitively. However, it issued contract

modifications to an incumbent contractor without competition when it should have solicited new bids/contracts. The initial Project plans focused on a fully operational hemodialysis center on the upper level and did not include the completion of the lower level for executive offices and clinics. Examples of lower level items included:

- ❖ Architectural drawings for interior spaces (\$681,600).
- ❖ Additional elevator for lower level (\$110,700).
- ❖ Additional electrical work for lower level (\$398,500).

CNMI contract modifications for these requirements amounted to sole source procurement without a valid reason.

Inadequate Price or Cost Analysis. CNMI did not conduct price or cost analyses² to determine the reasonability of contract modifications and use the analyses in price negotiations. In our opinion, had CNMI conducted such analyses for the following modifications, it may have saved significant costs:

- ❖ Air-Conditioning Equipment - In developing the initial bid, AIC followed the standard contracting practice of soliciting quotes for air-conditioning installation from multiple vendors and selected the lowest priced responsible bidder. However, when CNMI revised the specifications prior to installation and requested AIC to submit a new price proposal, AIC requested only the selected vendor to submit a quote rather than seeking multiple quotes. CNMI eventually approved the modification for \$2,085,481 (\$503,151 more than its engineering estimate). A CNMI official could not provide a valid explanation or post-negotiation documents to explain this significant difference.
- ❖ Construction Management Services - The original management services contract was competitively bid and awarded to SSFM. However, CNMI did not conduct a price or cost analysis or develop an IGE to ensure that modifications to extend the contract were reasonably

² A price analysis evaluates and compares a contractor's proposed price with (1) the IGE, (2) other prices received in response to the solicitation, (3) commercial prices, or (4) previous prices proposed for the same or similar items. A cost analysis analyzes each element of cost in the contractor's proposal and is usually required if a price analysis alone is insufficient to determine reasonability of a proposed price.

priced. CNMI approved a modification for \$186,840 to extend services for 1 year and was in the process of approving a second modification for \$186,840 for an additional 1-year extension at the time of our review. The modification prices were based upon SSFM's initial award. Although CNMI could have negotiated a substantially reduced cost for these modifications based on (1) the expected decline of SSFM's involvement in the Project as it neared completion³ and (2) SSFM's noncompliance with the provisions of the contract, as discussed in the following section, it did not do so. In addition, despite CNMI procurement regulations prohibiting agencies from allowing contractors to work with an expired contract, SSFM was allowed to do so from August 2005 until at least December 2005.

Action Was Not Taken to Address Contractor Nonperformance

CNMI failed to adequately monitor SSFM's performance to ensure compliance with contract terms. CNMI awarded a firm, fixed-price contract to SSFM for project construction management based on SSFM's technical proposal that it had qualified and experienced staff to perform the required tasks and deliverables. These tasks and deliverables included development of IGEs for contract modifications and analyses of contractor delay claims. Despite SSFM's failure to comply with these requirements, CNMI took no action to recover costs from SSFM. CNMI's only reaction to SSFM's nonperformance was to award a \$45,000 fixed-price contract to Summit to analyze construction delay claims that were within the scope of the SSFM contract. As of November 2005, CNMI had not taken any action against SSFM to recoup monies for nonperformance.

Evaluating and documenting contractor performance is a critical contracting best practice. Documentation of deficiencies is vital in seeking corrective actions, including contract deductions and termination. In addition, a contractor's past performance is a key factor in the contractor evaluation process. Federal agencies are required to maintain a contractor performance database that includes the contractor's track record in conforming to contract requirements, schedules, budgets, and standards of good workmanship and demonstrating a commitment to customer

³ SSFM had only one inspector at the construction site on a periodic basis.

satisfaction. CNMI does not have such a database, even though the Corps' 2003 report recommended that CNMI establish one. A contractor performance database would better enable CNMI to evaluate future contract proposals.

Contract Costs Were Improperly Allocated

CNMI did not establish procedures to ensure that project management contract costs were properly allocated to projects. The Project was funded by an OIA-administered grant and is subject to Office of Management and Budget Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments," which states that costs are allocable to a grant or contract in line with the relative benefits received. CNMI failed to comply with this provision. The Azuma contractor was responsible for managing several projects for CNMI. However CNMI improperly charged the entire \$273,600 to the Project instead of allocating the costs to all benefiting projects proportionate to the benefits received and, as a result, overcharged the Project by about \$103,680⁴ over the 2-year period ending June 2005 (see Figure 5).

PROJECT MANAGEMENT COSTS		
Item	Claimed	Questioned
Original Contract	\$86,400	\$34,560
Modification 1, 2 and 3	\$187,200	\$69,120
Totals	\$273,600	\$103,680

Figure 5

Proprietary Information Was Not Safeguarded

CNMI did not ensure that contractor proprietary information was adequately safeguarded against unauthorized use and disclosure. During the evaluation process, government employees analyze contractor proposals, which include privileged or confidential information, such as cost breakdown; direct labor rates; overhead rates; profit margins; trade secrets; and manufacturing processes, operations, and techniques. Release of this information could result in competitive harm to the contractor or impair the government's ability to obtain like information in the future. The importance of safeguarding proprietary information is such that the federal government enacted government-wide legislation stipulating civil and criminal penalties for

⁴ Based on time estimates spent on the respective projects, as provided by an Azuma official.

**Strong
Contracting
Office Essential**

unauthorized disclosure and use of such information. Although we did not find instances of unauthorized disclosure and use, CNMI did not have adequate control over contractor proposals and was, in fact, unable to locate all contractor proposals submitted for the Project.

The lack of a strong contracting office is the root cause for deficiencies identified in CNMI's contract management. The federal government has long recognized the importance of developing a highly skilled professional acquisition workforce. Studies conducted in the 1970s resulted in improved management of the acquisition workforce and the passage of key legislation. In 1990, for example, the Defense Acquisition Workforce Improvement Act established education, training, and experience requirements for the Department of Defense. The 1996 Clinger-Cohen Act established comparable requirements for civilian agencies. As a result, contracting officials in federal agencies today are required to meet education and experience requirements and undergo a rigorous and extensive training program, including continuing education requirements to maintain or enhance their skills. For example, requirements for a Level II⁵ Contracting Officer are listed in Figure 6.

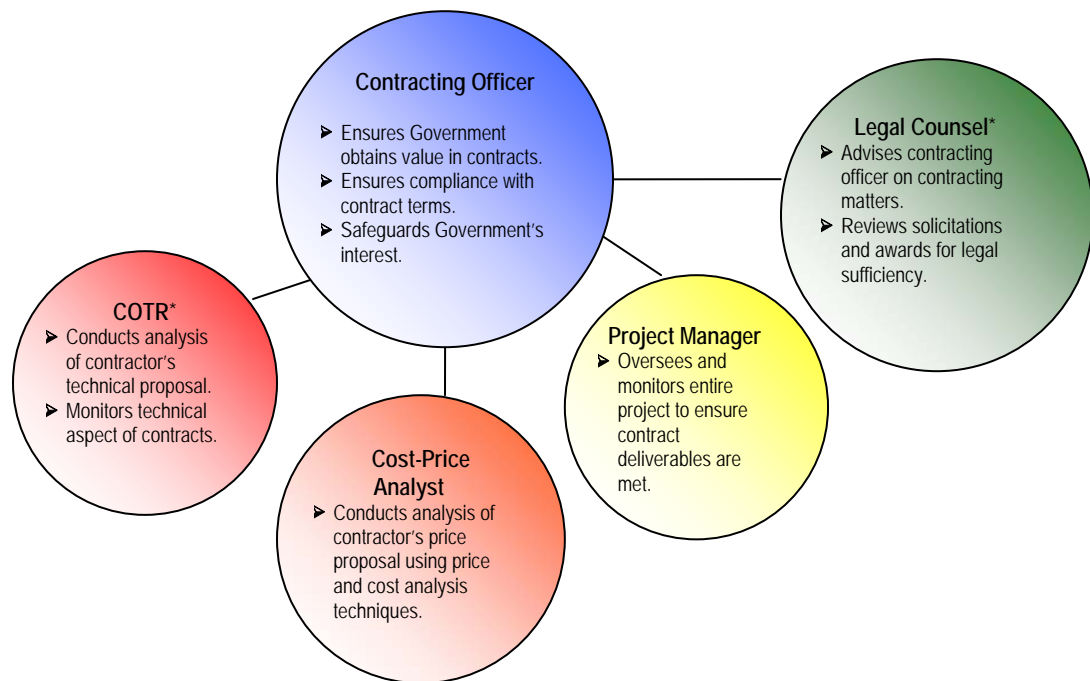
CONTRACTING OFFICER LEVEL II REQUIREMENTS		
Education	Experience	Training
Baccalaureate Degree Minimum of 24 semester hours including accounting, business, law, finance, contracts, purchasing, and industrial management	Two years of contracting experience	Contracting Contract Pricing Government Contract Law

Figure 6

Key contracting officials in CNMI, however, are political appointees and often lack the contracting expertise to plan and administer CIP projects. In this case, DPW did not have a qualified and experienced contracting officer or cost-price analyst to plan and administer the Project. The practice of using political appointees also results in the lack of continuity for complex long-term CIPs, such as this Project. In 2006,

⁵ Level II normally provides signature authority for acquisitions up to \$5 million.

for example, CNMI elected a new administration, and the Project's contracting officer and contracting officer's technical representative (COTR), both political appointees, subsequently resigned. Political appointments may also result in the selection of individuals who may not be the best qualified for the position. Both the contracting officer and COTR positions are critical in developing a strong contracting office and ideally should be filled by individuals who have permanent status and meet requirements comparable to their federal counterparts. In addition, the contracting officer should be assisted by an experienced cost-price analyst and other key advisors, as illustrated in Figure 7.



*Provided, as needed, from departmental offices.

Key Advisors to Contracting Officer
Figure 7

Although CNMI has launched initiatives to improve CIP management in the past, these initiatives were not enough. Like its federal counterparts, CNMI needs top-level commitment to develop a contracting office with highly skilled contracting professionals, capable of effectively managing large-scale CIPs if CNMI is to fulfill development goals and maintain financial support for infrastructure improvements.

Recommendations

We recommend that the Governor of the Commonwealth of the Northern Mariana Islands:

1. Develop a contracting office with highly skilled professionals, along the lines of federal requirements, who are capable of effectively managing large-scale CIPs.
2. Use the Federal Acquisition Regulation as the framework to identify best practices and the general framework for revising A&E contracts.
3. Direct contracting officials to comply with existing grant and procurement regulations, specifically, to:
 - Use full and open competition to the fullest extent possible.
 - Develop and use IGEs as a baseline for negotiating a fair and reasonable price for goods and services and ensuring contractors clearly understand contract requirements.
 - Document the contract and modification price reasonability determination.
 - Select the best qualified contractor by ensuring the evaluation team is 1) knowledgeable and qualified, 2) provided written evaluation instructions, and 3) under the supervision of an experienced contracting officer.
 - Allocate costs to projects based on benefits received.
 - Safeguard proprietary information.
4. Establish and maintain a CNMI-wide contractor performance evaluation database to assist with the evaluation process and document and take appropriate corrective actions for contractor nonperformance.

**Governor's
Response and
OIG Reply**

In his March 6, 2007 response to our draft report (Appendix 4), the Governor concurred with Recommendations 1, 2, and 3 and directed the Office of the Attorney General, in conjunction with the Secretary of Finance, to take the lead in implementing the recommendations within 120 days. The Governor stated that “full compliance will be contingent on the availability of funding required to establish the contracting official position,” but also stated that preliminary discussions with the Office of Insular Affairs “has indicated willingness to provide the necessary funding.” Based on the response, we consider these recommendations to be resolved but not implemented and will follow up with the Office of Attorney General after the 120-day implementation time frame.

The Governor’s response did not address Recommendation 4. As such, we request that the Governor respond to the recommendation and provide the information requested in Appendix 5.

Appendix 1

Objective, Scope, and Methodology

Our objective was to evaluate CNMI's management of the Project and identify opportunities for improved performance and results. Because of significant management deficiencies, we also evaluated OIA's oversight of the Project. We conducted the on-site (fieldwork) portion of our evaluation from November 2005 through March 2006. Our evaluation was conducted in accordance with the January 2005, *Quality Standards for Inspections*, issued by the President's Council on Integrity and Efficiency. To accomplish our objective, we:

- ❖ Reviewed CNMI procurement regulations, public laws, grant documents, contract documents, financial and progress reports, Corps' reports, and the Summit report.
- ❖ Interviewed CNMI officials, staff, and contractors.
- ❖ Reviewed the Department of the Interior's *Fiscal Year 2005 Performance and Accountability Report*, including information required by the Federal Manager's Financial Integrity Act. The Department reported the need to increase economic self-sufficiency for insular areas and address persistent management problems in these programs.
- ❖ Reviewed internal controls and identified weaknesses relating to Project management and identified opportunities for improved performance and results.

We did not evaluate the Project's initial A&E firm's compliance with contract terms because the Corps, under contract with CNMI, had conducted a comprehensive evaluation of the Project design that included coverage of this area. We also did not evaluate the claims filed by Project construction contractors because Summit, under contract with CNMI, had reviewed these claims. CNMI is currently using the Summit report in negotiations with Project contractors to settle the claims.

During the past 5 years, neither OIG nor the Government Accountability Office has issued any procurement reports on the CNMI Government. However, a 2003 OIG report on the

Commonwealth Ports Authority's Saipan Harbor Project⁶ identified significant weaknesses in project management. Specifically, the Authority (1) did not adequately analyze or justify contract change orders and incurred contract cost overruns totaling \$6.9 million, (2) entered into a noncompetitive contract for construction management services, and (3) improperly used liquidated damages of \$980,000 from the Saipan Harbor Project for a project on Rota.

A 2003 OIG report to the Office of Insular Affairs on grant administration⁷ addressed the need for improved monitoring of grants to insular areas. In addition, the following reviews conducted by other entities are relevant to the Project:

- ❖ U.S. Army Corps of Engineers, Honolulu District: *Review of the Operation and Management of the Capital Improvement Program for the Commonwealth of the Northern Mariana Islands*, March 2003. The report identified significant shortcomings that hindered efficient and effective management of projects. These shortcomings included (1) lack of a dedicated project team, (2) absence of a contractor performance evaluation database, and (3) conflicting procurement regulations.
- ❖ U.S. Army Corps of Engineers, Honolulu Engineer District: *Evaluation of the Design of the Public Health Building, Saipan, Commonwealth of the Northern Mariana Islands*, August 2005. The report identified serious deficiencies in A&E contracting procedures for the Project. It also identified the need for a strong contracting office.
- ❖ Summit Consulting International: *CNMI Public Health Center – Change Order Audit and Analysis*, June 2005. The report provided the results of Summit's analysis of the \$855,535 in delay claims submitted by AIC and its subcontractor for alleged Project design delays, disruptions, and changes. Summit questioned \$588,313 of the claimed amount.

⁶OIG: *Commonwealth Ports Authority - Saipan Harbor Improvement Project*, Report No. 2003-I-0073, September 2003.

⁷ OIG: *Report on Grants Administered by the Office of Insular Affairs*, Report No. 2003-I-0071, September 2003.

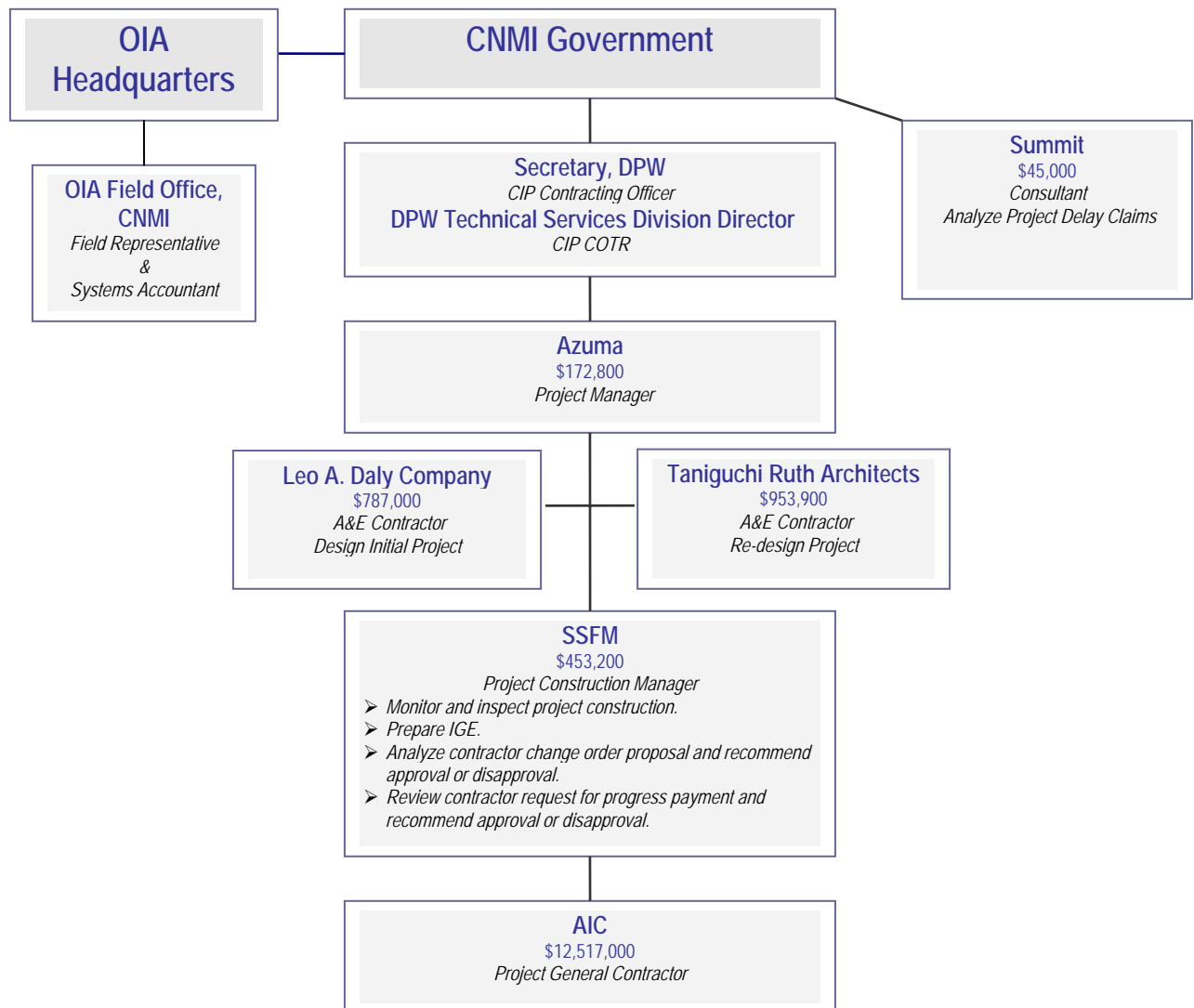
Appendix 2

Monetary Impact

Finding Areas	Questioned Costs
Installation of Air Conditioning	\$ 503,151
SSFM Deduction for Nonperformance	45,000
Allocation of Project Management Contract Costs	103,680
Construction Delay Claim	588,313
Total	<u>\$1,240,144</u>

Appendix 3

Project Offices, Organizations, and Responsibilities



Appendix 4

CNMI Government Response



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Benigno R. Fitial
Governor

Timothy P. Villagomez
Lieutenant Governor

MAR 06 2007

Ms. Anne L. Richards
Assistant Inspector General for Audit
U.S. Department of the Interior
1849 C Street, NW, MS 5341
Washington, D.C. 20240
Fax (808) 525-5322

Re: Evaluation of Saipan Public Health Project
Assignment No. P-GR-NMI-0003-2005 (November 2006)

Dear Ms. Richards:

Since our last communication regarding the audit of the Saipan Public Health Project (Assignment No. P-GR-NMI-0003-2005) ("Audit"), representatives of the Executive Office of the Commonwealth of the Northern Mariana Islands ("Commonwealth") have met with the Public Auditor and your staff to discuss our previously identified concerns.

As a result of these discussions, the Commonwealth has decided not to comment on the statement of facts contained in the Audit and to restrict our comments to the recommendations. Specifically, the Commonwealth endorses the three recommendations contained in the Audit, as are summarized below.

1. Development of a contracting office based on the federal model.
2. Establishment of standards for development and amendment of architect and engineering contracts based on the Federal Acquisition Regulation standards.
3. The establishment of requirements for compliance with existing grant and procurement regulations by contracting officials.

I have directed the Office of the Attorney General to take the lead in the implementation of these recommendations in conjunction with the Secretary of Finance. These changes should be implemented within 120 days of the date of this communication, however full compliance will be contingent on the availability of funding required to establish the contracting official position. Preliminary discussions with the Department of Interior Office of Insular Affairs has indicated willingness to provide the necessary funding.

Please allow this letter to supersede our earlier comments on the Audit. If you have any questions or comments on this matter, please contact me.

Respectfully,


TIMOTHY P. VILLAGOMEZ

c.c. Senate President Joseph M. Mendiola

Caller Box 10007 Saipan, MP 96950 Telephone: (670) 664-2200/2300 Facsimile: (670) 664-2211/2311

Appendix 5

Status of Recommendations

Recommendations	Status	Action Required
1, 2, and 3	Resolved Not Implemented	We will follow up with the Office of the Attorney General after the 120-day implementation time frame.
4	Unresolved	<p>If you concur with the recommendation, please provide a plan of action that includes target dates and the titles of the officials responsible for implementing corrective action.</p> <p>If you do not concur, please state the reason for nonconcurrence and provide a plan of action that includes alternative corrective action and target dates for addressing the underlying deficiencies.</p>

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