

H. CARL McCALL
STATE COMPTROLLER



A.E. SMITH STATE OFFICE BUILDING
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE
COMPTROLLER

September 23, 1998

Mr. James L. Stone
Commissioner
Office of Mental Health
44 Holland Avenue
Albany, NY 12229

Mr. Thomas J. Murphy
Executive Director
Dormitory Authority of the State of New York
515 Broadway
Albany, NY 12207

Re: Manhattan Psychiatric Center
Dunlap Building Rehabilitation Project
Report 98-S-27

Dear Messrs. Stone and Murphy:

Pursuant to the State Comptroller's authority as set forth in Section 1, Article V, of the State Constitution, Section 8, Article 2 of the State Finance Law, and Section 2503 of the Public Authorities Law, we have audited selected aspects of the management of the rehabilitation of the Dunlap Building at the Manhattan Psychiatric Center. Our audit covered the period September 15, 1995 through May 8, 1998. We also reviewed prior events for their effect upon the progress of construction.

A. Background

The New York State Office of Mental Health (OMH) serves and supports individuals with mental health problems and their families. Both inpatient and outpatient services are delivered through a network of State psychiatric centers and State-operated programs based in the community. OMH provides services through 17 adult psychiatric centers, 6 children's units, 3 forensic facilities and 2 research facilities. In 1984, OMH initiated a \$1 billion capital improvement plan designed to modernize patient living areas, after a consultant's study of OMH facilities in the New York City area concluded that the facilities were in danger of losing their accreditation from the Joint Commission on the Accreditation of Healthcare Organizations,

because they provided inadequate living conditions.

The capital improvement plan included renovation of selected buildings at Manhattan Psychiatric Center (MPC) on Wards Island. This project was originally designed to renovate the mechanical systems in three buildings at a cost of \$40.9 million. OMH received the New York State Division of the Budget's (DOB) approval for the \$40.9 million project on November 22, 1985. Over the next few years, the project was expanded to include complete rehabilitation of space for 500 beds at a new estimated cost of \$76.8 million. The major construction contracts were not awarded until the summer of 1992, with an anticipated completion for the revised project in December 1995. As construction began in August 1992, work fell behind schedule with the detection of asbestos in the basement and the replacement of the heating, ventilation and air conditioning contractor in January 1993. The renovation of the Dunlap Building, initially managed by the New York State Facilities Development Corporation (FDC), is now being handled by the Dormitory Authority of the State of New York (DASNY). As of May 8, 1998, DASNY estimated the final cost of the project at \$133.6 million.

Our prior audit entitled "Office of Mental Health - Capital Improvement Program at Psychiatric Centers" (95-S-99), issued September 30, 1996, discussed construction delays at MPC through September 15, 1995. This audit expands upon the information reported in our prior audit, with regards to MPC.

B. Audit Scope, Objectives, and Methodology

We limited our audit to selected aspects of the management of the Dunlap Building rehabilitation for the period September 15, 1995 through May 8, 1998. In some cases, we also reviewed prior events that management considered to have had an effect upon the progress of construction. The objectives of our audit were to determine the status of the project as of May 8, 1998 and to identify significant events causing delay. We also sought to identify management's current estimates for project completion, both in terms of time and cost, as well as future plans for the project. To accomplish these objectives, we interviewed DASNY and OMH officials, visited the construction site, reviewed financial and management related records, and verified a sample of transactions.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of DASNY and OMH which are included within the audit scope. Further, these standards require that we understand DASNY's and OMH's internal control structure and compliance with those laws, rules and regulations that are relevant to the operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings and conclusions.

C. Results of Audit

As of May 8, 1998, the Dunlap project was approximately 80 percent complete with an anticipated completion date of January 1999 and an estimated final cost of \$133.6 million, or \$530,000 per bed. Based on our review of DASNY's management of the project since it took over, nothing has come to our attention that would lead us to conclude that these current estimates may be materially inaccurate.

The project began on November 22, 1985 with DOB approval of \$40.9 million to renovate mechanical systems in three buildings. Bidding for the project was then expected to be done in November 1986 with construction to be completed by March 1990. However, in 1990, OMH expanded the scope of the project to include complete renovation of space for 500 beds. When contracts were awarded in 1992, estimated costs had grown to \$76.8 million, or \$154,000 per bed. DASNY merged with FDC on September 1, 1995 and took over management of the MPC project at that time. When the takeover occurred, the major renovation of the Dunlap Building (both Phases I and II) was approximately 30 percent complete and the projected completion date was February 1998. Two of the prime contractors had already been replaced and the project was well behind schedule.

We found that numerous factors contributed to the extensive delays and cost escalations that were experienced on the rehabilitation and space conditioning project at MPC. Chief among the problems were major changes in the scope of the project from a mechanical reconditioning of three buildings to the complete rehabilitation of one-half of one building, several bankruptcies among the prime contractors, and unanticipated field conditions.

1. Changes in Scope of MPC Project

OMH changed the scope of this project, both prior to the start of construction and as the work proceeded. The following constituted the two major scope changes referred to previously.

Before the project was started, OMH determined that more extensive renovations were needed to provide a more suitable living environment for the patients and a better work environment for their employees, and to continue to meet health care accreditation requirements. In May 1990, OMH submitted a request to DOB to change the scope of the project to a complete space rehabilitation of the Dunlap Building. The new project involved rehabilitating the building in two phases and to eventually provide rehabilitated space for 500 beds. Each phase of the construction involved rehabilitating one half of the building from top to bottom. The first phase also included construction of a mechanical tower to hold the heating, ventilation and air conditioning equipment for the entire building.

DOB authorized \$111.3 million for the design and construction of the expanded project. Bidding was expected to be completed in November 1990 and the rehabilitation was expected to be completed in September 1994. However, the approval process was not completed for the project's design development until February 1991 and for the construction drawings until January

1992. Bids for nine prime contractors were received and accepted in May 1992. As a result, the start of construction was delayed over 5½ years from November 1986 until August 1992. As of the latter date, the actual contract expenses for the nine prime contractors, along with the anticipated costs for the construction manager, design of the project, and window replacement, totaled \$76.8 million.

In December 1996, while construction was in progress on the first phase, OMH decided to reduce the scope of the project. According to OMH officials, when faced with a decline in the inpatient census and cost escalations that were experienced on Phase I of the project, their agency decided to eliminate Phase II. DASNY's project manager on-site at the Dunlap Building informed us that OMH decided to leave the top four floors of Phase I as shelled out storage space. However, in its response to our draft report, OMH officials stated that these floors would be used for Administration and Support functions. The net effect of the various changes would supply the facility with rehabilitated space for 252 beds instead of 500 beds. This change required extensive revisions to the plans and specifications to fundamentally seal off the renovations from the remainder of the building. For example, duct work and sprinkler systems that were designed to service both sides of the building had to be redesigned to terminate within the renovated section. OMH estimated that by canceling Phase II, 35 percent of the construction work and the associated costs would be eliminated from the project. However, OMH officials were unable to quantify the cost savings generated by this major scope change. These changes resulted in numerous change orders and additional delays to the completed portion of the project. In responding to our draft report, OMH officials stated that they, "compared the Dunlap Project with the results of a similar Space Conditioning Project, . . . which was recently renovated. OMH estimated that 35 percent of the work on the Dunlap Project would be deleted and would amount to savings of \$37.7 million when compared to the cost of the [other] project." However, this information was not available for our review during the course of our audit field work. Therefore, we are unable to attest to its reasonableness.

2. Construction Delays

Construction delays increased the cost of the project from the \$76.8 million anticipated after the contracts were awarded in 1992 to a May 8, 1998 estimate of \$133.6 million. Construction delays on this project fall into two major categories - those due to changes of the prime contractors and those due to field conditions. These, together with miscellaneous other delays, occurred as construction progressed and accounted for approximately 38 months of delay beyond the December 1995 anticipated completion date. The following is a discussion of the most significant delays.

a) Contractor Changes

Nine prime contracts were awarded in May 1992 for different segments of the MPC project. During the course of the construction, FDC and DASNY replaced four of the prime contractors either for reason of bankruptcy or for non-performance, and DASNY replaced the construction manager when it took over the project from FDC. Since FDC is no longer in

existence, we were not able to determine if it assessed, prior to awarding the contracts, the original contractors' abilities to perform.

The Heating, Ventilation and Air Conditioning (HVAC) contractor is one of the lead contractors on this type of construction project. This work must be completed first so that the other trades, such as plumbing and electrical, can route their work around the HVAC duct work. All three of these trades are in turn lead contractors for the construction contractor who is responsible for the interior floors, walls, ceilings and finish work. When the lead work falls behind, it delays the work of the contractors that follow. This proved to be a particular problem on this project.

In January 1993, five months after the first HVAC contract was awarded, the contractor formally gave notice that it could not complete the project. This contractor also held the original contract for the fire protection system. FDC released the contractor and its surety when two new contracts were negotiated in July 1993, resulting in a six-month delay.

The second HVAC contractor filed for bankruptcy in November 1993 - four months after the contract was awarded. After ten months of bankruptcy hearings, the contractor returned to the project in September 1994 and was subsequently terminated for non-performance in March 1995. A third HVAC contract was negotiated in July 1995, delaying the project by four months. As of May 1998, this contractor was expected to complete the work.

Similar problems were also experienced with the fire protection, fire alarm, and electrical contracts. The contractor who took over the original fire protection contract (from the first HVAC contractor) was terminated for non-performance in April 1996. A new contract to complete the unfinished work was negotiated in November 1996, resulting in a seven-month delay. The original fire alarm and electrical contracts were held by a single contractor. In March 1997 this contractor signed a separation agreement in lieu of bankruptcy. The contractor was subsequently replaced in June 1997, resulting in an additional three-month delay.

Also, one of the first actions taken by DASNY when it took over management of the project from FDC, was to terminate the original construction manager's contract and bring in a new construction manager. Damage claims submitted by several contractors indicated that there had been general dissatisfaction with the performance of the original construction manager. There were indications that the work was not being coordinated properly and that decisions on problems were not being made. While this changeover did not directly affect the work of the prime contractors, it represented one more problem that was experienced on the project.

b) Field Conditions

The term "field conditions" is used to categorize problems that arise as a result of conditions found at the construction site. In a renovation project such as the one at MPC, these conditions generally are not known until demolition work begins and previously hidden areas are exposed. Several such conditions at MPC resulted in additional work that delayed the progress

of the project. According to DASNY records, approximately four months of net delays are attributable to field conditions.

As the interior demolition work on the building proceeded, it was determined that additional asbestos abatement would be required and additional fireproofing was needed. There was also significant deterioration of the masonry around the window sills. Each of these conditions called for additional work to be performed at an added expense. Work of this nature, that is beyond the specifications of the original contracts and shop drawings, is added to the project through a series of "change orders."

According to documents filed by the construction contractor, FDC and its design consultants did not address the fireproofing problem in a timely manner. The 1992 pre-bid design input from OMH indicated that the fire resistance of existing structures should have been verified and necessary corrections to the drawings should have been made before the project was bid. Until late 1993, FDC had not identified the need for this additional fireproofing and change orders were not issued until October 1994.

When the existing walls and ceilings were removed, many of the structural steel beams were confirmed to be inadequately fireproofed to meet current fire protection codes. Each of these beams had to be coated with a spray-on fireproofing material. This process had to be completed before other work could proceed to ensure that no exposed areas were missed. Likewise, the underside of the floor slabs, technically referred to as republic arches, were found to have deteriorated masonry protecting the structural components. Similar fireproofing measures had to be applied to these structures.

Asbestos was found in several areas of the building as construction progressed. Work in these areas was held up as abatement measures were taken to contain and remove the material.

The rehabilitation of the Dunlap Building included replacement of all windows in the building. This work was handled as an ancillary project to the main renovation and was to be completed as the other work progressed. As the windows were being replaced, extensive deterioration was found in the window sill masonry. The sills had to be rebuilt and the window anchors had to be redesigned before the windows could be installed. This additional work and the time spent redesigning the windows delayed their installation and delayed interior partitioning work that could be performed only after the windows were in place.

3. Cost Escalations

Since the original contracts were awarded, project costs increased by \$56.8 million to an anticipated \$133.6 million in the most recent DASNY estimate. The major reasons for the cost escalations were the bankruptcies or releases of several major contractors, damage claims paid to the original contractors, the replacement of the original construction manager, field conditions and scope and design changes, as follows.

Nine construction contracts, totaling \$57.1 million, were originally let for the space conditioning project. As the project progressed, construction costs rose by about \$32 million and the scope of the project was cut to half the original number of beds. Several of the contractors had to be replaced before their portion of the work was completed, and new contractors had to be brought in to complete the work, usually at a higher cost. For this project, costs increased \$7.6 million because of these changes. In addition, damage claims and field conditions (such as fire proofing and asbestos removal) increased the construction costs by \$20.8 million. Claims for damages represent a substantial portion of the change orders on this project. These damage claims primarily resulted from delays to the work progress. For example, while the termination of one of the HVAC contractors was delayed by the bankruptcy court, other contractors on the project were unable to proceed with their work. This lost productivity resulted in losses to the contractors which had to be reimbursed. Another \$3.6 million in miscellaneous construction related escalations is anticipated.

DOB's project approval included \$14.8 million for payment to the original construction manager. When DASNY removed the original construction manager, the replacement construction manager was awarded two contracts totaling \$9.9 million to complete the work. In addition, approximately \$600,000 of change orders were also attributed to this replacement construction manager.

Various changes to the project scope, including the two major scope changes for the complete rehabilitation of the Dunlap Building and the eventual scaling back of that rehabilitation to just one-half of the building, added an additional \$8.7 million to the cost of designing the project. This amount is made up of change orders totaling \$6.9 million and a projected \$1.8 million in future escalations. In response to our draft report, OMH officials indicated that we "misstated the \$8.7 million as an additional cost." The response went on to say that "the design contract was amended to \$6.2 million from the original \$2.4 million prior to bidding and the remaining \$2.5 million . . . represents the amount of design work to accommodate change orders." During our audit field work, we reviewed DASNY paperwork that documented the increased costs for this project and interviewed DASNY and OMH officials. We were not made aware of any design contract amendments totaling \$6.2 million prior to bidding. Due to the limited scope of our audit, we are unable to attest to the accuracy of OMH's response in this matter.

There were also cost escalations totaling \$5.2 million for miscellaneous change orders, and \$400,000 for additional expenses related to window replacement.

4. Unnecessary Work Due to Project Scope Changes

As illustrated below, some of the work that was completed during the Phase I construction became unnecessary when OMH officials decided on the final scope changes to the project. The cost of this work cannot readily be determined since it generally relates to the extent of work called for in larger contracts, rather than discretely identifiable components.

The original design for the project included construction of a mechanical tower which contained the HVAC equipment for each floor. The equipment that was installed was designed to perform this function for both sides of the building. With the second half of the building being deleted from the project, this equipment is larger than is needed to service only half of each floor. Likewise, a stairway that would have been used on the Phase II part of the building was constructed at an early stage to facilitate the construction of a nearby recreation yard (a separate project).

Conclusion

The Dunlap project is a good example of many of the significant problems noted in our previous audit of OMH's capital construction program. Over the 13 year course of this project, total costs have increased more than three-fold to a point where per bed costs will total more than \$500,000. Similarly, construction time lines have been extended by almost nine years from original expectations. While it appears that the project is now progressing better since DASNY assumed the management role originally held by FDC, we still urge DASNY and OMH to bring this project to conclusion as expeditiously as possible. The delays and cost escalations associated with this project demonstrate the importance of advance planning to properly set the scope of projects and to ensure that they meet all requirements, as well as of a system to ensure that bidders are reliable and capable of performing the work for which they are being considered. Attention to these areas can help prevent the type of major delays and cost escalations that have occurred with the Dunlap Building renovation.

Draft copies of this report were provided to OMH and DASNY officials for their review and comment. Their comments were considered in preparing this report, and are included as Appendix A and Appendix B, respectively. OMH and DASNY officials generally agreed with our conclusions regarding the importance of advance planning and ensuring that bidders are reliable and capable. OMH officials stated in their response that we should either delete or modify our statements regarding the importance of advance planning since the report does not suggest that advance planning for the Dunlap Building rehabilitation project should have been handled any differently. OMH officials also stated that most of the issues described in the report which caused construction delays and cost escalations were under the authority of the construction agencies, not OMH. OMH officials restated language contained in our prior audit report 95-S-99, Office of Mental Health - Capital Improvement Program at Psychiatric Centers, which defined the roles of OMH (program development and capital budgeting) and the construction agencies (selecting and contracting with consultants, developing and enforcing project schedules, bidding and awarding construction contracts, supervising and approving the completion of construction, and approving all payments to consultants and contractors).

We have not revised our statements regarding the importance of advance planning to the Dunlap Building rehabilitation project as suggested by OMH officials. First, although we do not state that advance planning for the Dunlap Building should have been handled differently, we believe that proper advance planning is crucial to the successful completion of major projects such as the Dunlap Building rehabilitation project. Second, the objectives of our limited scope audit

were to determine the status of the project as of May 8, 1998 and to identify significant events contributing to delays in project completion. We did not attribute responsibility for the delays. In this regard, our prior audit report, 95-S-99, Office of Mental Health - Capital Improvement Program at Psychiatric Centers, presents a more complete assessment of OMH's capital improvement program.

DASNY officials included a copy of a Memorandum of Understanding with OMH regarding the OMH Capital Program and a copy of DASNY's Procurement Contract Guidelines with their response to this report. Because of the size of these documents, we have not appended them to this report. These documents are on file at the Office of the State Comptroller and available for review.

Major contributors to this report were Howard Feigenbaum, John Buyce, Stuart Dolgon, Peter Schmidt, Clyde Bynoe, Thomas Kulzer and Paul Bachman.

We wish to thank the management and staff of the Office of Mental Health and the Dormitory Authority of the State of New York for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

Kevin M. McClune
Audit Director

cc: Robert L. King



James L. Stone, MSW, CSW, Commissioner

44 Holland Avenue
Albany, New York 12229

July 20, 1998

Mr. Kevin McClune
Audit Director
Management Audit
Office of the State Comptroller
A.E. Smith Building
Albany, NY 12236

Dear Mr. McClune:

The Office of Mental Health has reviewed draft audit report 98-S-27 entitled, Manhattan Psychiatric Center - Dunlap Building Rehabilitation Project. Our comments to the observations and conclusions contained in the report are enclosed.

The Office of Mental Health appreciates the Office of the State Comptroller's continuing efforts to recommend improvements in our operations.

Many thanks for your continued help and cooperation.

Sincerely yours,

A handwritten signature in cursive that reads "Alan Weinstein for James L. Stone". Below the signature, the name "James L. Stone" and the title "Commissioner" are printed.

James L. Stone
Commissioner

Enclosure
cc: Diana Jones Ritter

AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER



OMH 28 01 (1-97)

Appendix A

**OFFICE OF MENTAL HEALTH
RESPONSE TO THE OFFICE OF THE STATE COMPTROLLER'S
DRAFT AUDIT REPORT 98-S-27
MANHATTAN PSYCHIATRIC CENTER
DUNLAP BUILDING REHABILITATION PROJECT**

Overall Comments

The Office of Mental Health agrees with OSC's general conclusion that advance planning is important to set the scope of construction projects. Indeed, as described in detail to the OSC auditors, OMH engaged in a thorough advance planning process for the Dunlap Project at Manhattan Psychiatric Center, and ensured that the resulting plans were approved by the Division of the Budget. Moreover, as the environment for mental health care evolved, and new projections forecast a significant reduction in Manhattan P.C.'s inpatient census, OMH appropriately reduced the scope of the project from 500 to 252 beds.

OSC's report chronicles the history of the Dunlap Project, including initial plans and scope changes, but does not suggest that OMH should have made different decisions in its initial planning, or in subsequent changes to the Dunlap Project. Accordingly, OMH can find no basis for the report's concluding statements that, "The delays and cost escalations associated with the project demonstrate the importance of advance planning . . .", and, ". . . we still urge DASNY and OMH to bring this project to conclusion as expeditiously as possible." Since the report does not suggest that advance planning should have been handled differently, or that OMH could do anything more than it has already done to complete the project, OSC should either modify those statements or delete them from the report.

OMH also agrees with OSC's other overall conclusion that a system must be in place to ensure that bidders are reliable and capable of performing the work for which they are being considered. However, as noted below, the process for bidding and awarding construction contracts is not the responsibility of OMH, but is under the purview of the construction agencies. To OMH's knowledge, the construction agencies (the Office of General Services and the Facilities Development Corporation/DASNY) followed State requirements in bidding and awarding contracts for the Dunlap Project. Apparently, OSC reached that same conclusion when they initially approved the construction contracts and, later, through the audit process, since the report does not suggest that any of the bidders should have been considered unreliable. In light of the ensuing contractor bankruptcies which seriously delayed this project, it might be helpful for OSC to revisit the relevant criteria used to verify the reliability and capability of bidders, and work with the construction agencies to strengthen the guidelines governing the bidding and contract award process.

Most of the issues described in the report which caused delays and cost escalations were under the authority of the construction agencies, not OMH. As correctly described by OSC, "The major reasons for the cost escalations were the bankruptcies or releases of several major contractors, damage claims paid to the original contractors, the replacement of the original construction manager, [unknown] field conditions and scope and design changes . . .". Accordingly, OSC should revise

its report by clearly defining the roles of the various agencies in the capital process. An accurate representation of responsibility is of special importance to OMH given the issues described. We suggest that OSC incorporate the following language, which appeared on page 1 of OSC's prior audit report 95-S-99 entitled, "Office of Mental Health - Capital Improvement Program at Psychiatric Centers", into the current report:

For each individual capital project, either the Office of General Services (OGS) or the Facilities Development Corporation (FDC), which merged with the New York State Dormitory authority (DASNY) in August 1995, is assigned the responsibility as the State's design and construction agency. OMH is responsible for program development and capital budgeting for the projects. The construction agencies (OGS and FDC/DASNY) are responsible for selecting and contracting with consultants, developing and enforcing project schedules, bidding and awarding construction contracts, supervising and approving the completion of construction and approving all payments to consultants and contractors. [emphasis added]

To help ensure fair and balanced reporting, that information should be included prominently in the report (e.g., in the Background section), as it was in the prior audit.

Background Information

In addition to adding a description of the roles of the various State agencies in the capital process, OSC's Background section should also note that the Dunlap Project is part of OMH's Space Conditioning Program, which is intended to modernize patient living areas in OMH facilities. The Space Conditioning Program has been instrumental in helping OMH maintain full accreditation status from the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). Accreditation by JCAHO not only indicates that OMH provides quality care, it makes OMH eligible to receive several hundred million dollars in Federal reimbursement each year for inpatient care provided in its facilities.

Comments to Specific OSC Statements

The following comments represent clarifications and corrections of specific OSC statements, (*shown in italics*), which should be revised in the final report.

[OMH] . . . decided to eliminate Phase II and leave the top four floors of Phase I as shelled out storage space. (Page 4)

The top four floors were never intended to be used for storage space. OMH's Bureau of Capital Operations life-safety code personnel have made it very clear that storage in these areas is a direct code violation and cannot be allowed. These areas will be used for Administration and Support functions when those staff are relocated to Building 102 as part of the campus consolidation.

OMH officials were unable to quantify the cost savings generated by this major scope change (i.e., Phase II cancellation). (Page 4)

- We have compared the Dunlap Project with the results of a similar Space Conditioning Project, Building 40 at Creedmoor Psychiatric Center (a building nearly identical in size and shape to Building 102), which was recently renovated. OMH estimated that 35 percent of the work on the Dunlap Project would be deleted and would amount to savings of \$37.7 million when compared with the cost of the Creedmoor project.

Various changes to the project scope, . . . and the eventual scaling back of that rehabilitation to just one-half of the building, added an additional \$8.7 million to the cost of designing the project. This amount is made up of change orders totaling \$6.9 million and a projected \$1.8 million in future escalations. (Page 7)

- OSC has misstated the \$8.7 million as an additional cost. The \$8.7 million includes the original design contract amount of \$2.4 million. That contract was amended to \$6.2 million at the time the project was bid in 1992 (prior to the start of construction). It would be fair to say that the design contract was amended to \$6.2 million from the original \$2.4 million prior to bidding, and the remaining \$2.5 million (\$8.7 less \$6.2 million) represents the amount of design work to accommodate change orders.

There were also cost escalations totaling \$5.2 million for miscellaneous change orders, such as furniture, fixtures and equipment (Page 7)

- There was a cost reduction, not an escalation, for furniture fixtures and equipment (FF&E). OMH's original budget for FF&E was \$9.0 million. This total was reduced over the past two years to its current level of \$3.8 million. As with every other Space Conditioning Project, budgets for FF&E are clearly established prior to the start of construction.

The HVAC duct work was completed on floors 14 through 17 at an early stage of the construction. When OMH officials decided to eliminate the renovation of the floors from the final plan, this work also became obsolete. (Page 7)

- OMH takes exception to this statement because space on these floors will be used for Administration and Support functions when the Manhattan P.C. campus consolidation relocates all inpatients and staff to Building 102.



Dormitory Authority
State of New York

Thomas J. Murphy, Chairman
John L. Buono, Executive Director

July 16, 1998

Mr. Kevin M. McClune
Audit Director
Office of the State Comptroller - 13th Floor
A.E. Smith State Office Building
Albany, NY 12236

Re: Manhattan Psychiatric Center
Dunlap Building Rehabilitation Project
Reports 98-S-27

Dear Mr. McClune:

The Dormitory Authority - State of New York (the "Authority") has reviewed your draft audit report on the limited scope audit of the Manhattan Psychiatric Center Dunlap Building Rehabilitation Project (Report 98-S-27).

We are in agreement with your conclusion that advance planning to properly set the scope of projects and to ensure they meet all requirements is an important element in the successful completion of projects. In June 1996, shortly after assuming responsibility for the capital projects previously managed by the Facilities Development Corporation, the Authority executed a Memorandum of Understanding (MOU) with the Office of Mental Health (OMH) regarding the OMH Capital Program. The MOU clearly defines OMH's responsibility for setting the scope and cost estimates of its program, and determining that design documents comply with applicable codes and standards. Under the MOU, the Authority is responsible for reviewing the scope and cost estimates, and inspecting construction work as it progresses for compliance with applicable codes and contract documents. Any changes to scope, and any impact on the project budget attributable to such changes, must be approved in advance by OMH, the Authority and the Division of the Budget. Since its inception, the MOU has facilitated the Authority and OMH's efficient and effective management of the planning, design and construction of OMH projects. A copy of the MOU is enclosed for your reference.

In addition, we are seeking further enhancements to the efficient and effective management of OMH capital projects beyond those provided by the MOU through increased operating flexibility. The Authority is working with OSC to identify and implement improvements in the oversight of OMH projects. The Authority and OSC are discussing a protocol that more closely follows the Authority's Unified Business Plan, which would expedite the flow of funds and contract approvals within existing statutory restraints.

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Mr. McClune
July 16, 1998

The Authority is also in agreement with OSC's conclusion that a system to ensure that bidders are reliable and capable of completing the work for which they are being considered is also important to the successful completion of projects. The Authority has developed written procedures and standards designed to assure contracts are awarded to contractors evidencing: (1) proven experience with projects of the scope, magnitude and complexity of the facilities that are the subject of the contract, and (2) the ability to perform all work required in a professional and timely manner. This process to determine the responsibility of bidders is consistent with the guidelines established by Executive Order No. 170.1. A copy of the Authority's Procurement Contract Guidelines is enclosed for your reference.

There are two specific factual matters in your report that we would like to clarify:

- Page 3: "*DASNY merged with FDC in August 1995.*"

Under the Health Care Financing Consolidation Act, Title 4B of Article 8 of the Public Authorities Law, as enacted by Chapter 83 of the laws of 1995, the Authority and FDC were merged on September 1, 1995.

- Page 4: "*. . . to leave the top four floors of Phase I as shelled out storage space.*"

The shelled out space on the 14th through 17th floors is not intended, nor is it properly equipped, to be used for storage.

The Authority appreciates this opportunity to respond to your evaluation of our management of the Dunlap Building rehabilitation project.

Sincerely,


Thomas J. Murphy
Executive Director

Enclosures

cc: Gail H. Gordon, Esq. - Chair
Philip W. Wood - Deputy Executive Director
Douglas Van Vleck - Acting Managing Director Construction
Karen Graber - Director, Internal Audit