



OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

AUDIT OF NATIONAL PARK SERVICE CONTRACT PI5PC00612 WITH KANE COMMUNICATIONS, LLC.



**OFFICE OF
INSPECTOR GENERAL**
U.S. DEPARTMENT OF THE INTERIOR

MAR 31 2017

Memorandum

To: Patrick Breen
Bureau Procurement Chief, National Park Service

From: Chris Stubbs *Chris Stubbs*
Director, Office of Financial and Contract Audits

Subject: Final Report – Compliance Audit of National Park Service Contract P15PC00612
with Kane Communications, LLC
Report No. 2016-CG-033

This report presents the results of our audit of Contract No. P15PC00612 between Kane Communications, LLC (Kane) and the National Park Service (NPS). On June 12, 2015, NPS issued a 17-month firm-fixed-price contract for \$2,708,125 to Kane to replace outside plant telecommunications infrastructure damaged by Hurricane Sandy at work sites at the Sandy Hook Unit at Gateway National Recreation Area (Gateway) in New Jersey, as well as Great Kills and Jacob Riis Parks at Gateway in New York. When we conducted our audit, Kane had only started construction on the Sandy Hook site. The contract received one modification during the audit period for a net increase of \$38,311, making the total contract amount \$2,746,436. Kane is certified as a women-owned small business under the Small Business Administration's 8(a) Business Development Program.

We identified five issues related to Kane's contract compliance, and issued Notices of Findings and Recommendations (NFRs) for each. Kane agreed with all five and its response has been incorporated into this report.

Objective

Our objective was to determine whether Kane complied with applicable Federal laws, contract clauses, and U.S. Department of the Interior (DOI) guidance.

Audit Results

We found that Kane did not always comply with the applicable laws, contract clauses, and DOI guidance. Specifically, we found that Kane—

1. did not provide an environment specialist;
2. did not provide the data necessary to determine Kane's compliance with the Federal Acquisition Regulations' (FAR) "Limitations on Subcontracting" clause;
3. submitted incorrect invoices;
4. did not complete the percentage-of-completion sections in the invoices; and
5. made mathematical and labor category errors in the certified payroll submissions.

1. Kane Did Not Provide an Environmental Specialist

Kane did not provide an on-site environmental-sustainability (ES) specialist as required by the contract. That person would have been responsible for providing the environmental and sustainability requirements to the Kane jobsite foremen and subcontractors and ES training to its employees. Consequently, those duties were not performed. The contract's statement of work also requires the ES specialist to be familiar with federally legislated requirements, executive orders, and DOI and NPS ES policies.

When interviewed, the NPS contract management representative said that no one was performing these duties even though NPS had designated Kane's vice president or project manager as the on-site parties responsible for doing so. Kane stated, however, that the ES specialist duties were being fulfilled informally at one time or another by one of three people—the project manager, superintendent, or quality control manager. Due to Kane's informal approach, its failure to officially designate an onsite representative, and its failure to document or in any other way provide evidence that the ES specialist duties were being performed, we concluded that Kane was not filling the ES specialist position.

NPS overlooked the contract requirement because it did not consider the ES position significant enough to identify as a separate labor category. NPS maintained that it mitigated the risk of an environmental incident by having a contract management representative observe construction activities and ensure the contractor performs in accordance with the above stated contract requirements

In response to our NFR, Kane stated that it would submit a letter to NPS identifying the quality control specialist as the onsite ES. Kane also said it will make sure all its personnel and subcontractors are familiar with all the environmental requirements. While Kane's vice president stated that he believed the quality control specialist had some ES training, we are concerned that this individual will not have the technical expertise to oversee the ES requirements because he was one of the individuals designated to do the job previously, but was not fulfilling the requirements correctly.

2. Kane Did Not Provide the Data Necessary To Determine its Compliance With the FAR's Limitations on Subcontracting Clause

Kane did not provide actual labor costs to NPS for NPS to evaluate Kane's compliance with the FAR's Limitations on Subcontracting clause. Kane submitted to NPS a document entitled "Prime Contractor Certification of Payments to Subcontractors" to comply with the clause; however, Kane prepared the form using total costs (comprising labor, material, equipment, and other costs) and did not remove material costs from the calculation as required by FAR § 52.219-14(c)(4). Kane also attempted to complete the "Subcontracting Percentage Worksheet" (DOI Acquisition Policy Release 2011-06), but only filled out the portion of the worksheet that gave its costs for the invoiced period. It left the amount paid to the subcontractors blank.

Kane stated that it was by NPS' direction that Kane submitted worksheets with each subsequent pay estimate based on its labor billing costs for only the time covered within the billing cycle. NPS clarified that the worksheet is not clear how often it is supposed to be used; however, we feel that, while it is not required to be used with every invoice, it should

be filled out properly if it is used. Proper completion of the worksheet should have included contract costs to date and the labor amount paid to subcontractors. Without a properly completed worksheet, we were unable to determine whether Kane met the requirements set forth by the FAR.

In response to our NFR, Kane stated that it plans to work with the NPS contracting officer to ensure that the Prime Contractor Certification of Payments to Subcontractors form and the Subcontracting Percentage Worksheet are complete and accurate.

3. Kane Submitted Incorrect Invoices

Kane did not complete invoices according to contract terms. The contract states that “if no specific line item exists for a portion of the work, include the costs in a related item.” On the invoice, however, Kane removed bonding and wetlands permitting from the contract line item number (CLIN), a number used to specify services or products to be acquired on a Government contract. Kane removed the costs from CLIN 4, and created two new CLINs to track those costs separately without a contract modification. Kane then invoiced NPS with the CLINs that were not originally part of the contract.

Kane created the new CLINs because it felt the costs of bonding and wetlands permitting did not belong in CLIN 4. Kane was unfamiliar with NPS’ invoicing procedures and did not realize that it was improper to create new CLINs without a modification to the contract.

As a result, the CLINs in the contract and the CLINs in the invoices do not match. In addition, the CLINs do not accurately reflect the costs associated with them. It is much more difficult to manage the contract if the costs depicted through the CLINs are not consistent with the contract itself.

In response to our NFR, Kane plans to revise its detailed schedule of values (SOV) to move the costs back into CLIN 4 as a separate line item. An SOV is a detailed list of each CLIN’s costs, how much is budgeted to each CLIN, how much has been spent, and a total of all costs to date. Kane also plans to revise the invoice to remove the CLINs for bonding and wetlands permitting and track those costs in CLIN 4.

Findings After Review of Response to the NFR

After issuing the NFR, we discovered that the SOV and the pay estimate form indicated two modifications as separate CLINs with no CLIN numbers, calling them Modification 1 and Modification 2. Specifically, Kane used Modification 1 to partially activate a contract option and to increase funding to an already existing CLIN. It activated Option J of CLIN 19 and added the installation of fiber optic strands to an additional building without separating the costs into a specific CLIN.

To stay consistent with the original contract, the SOV and pay estimate form should have labeled Modification 1 as CLIN 19 and created a separate CLIN to add the additional work. Further, it used Modification 2 to list several CLINs that had additional funds awarded to them. In both cases, Kane should have distributed these funds to the appropriate CLINs and reflected those changes in the SOV and pay estimate form instead of stating them simply as modifications. Such organization is necessary to provide consistency between the contract and the invoice and enable effective cost tracking.

4. Kane Did Not Complete the Percentage-of-Completion Sections in the Invoices

Kane did not include the percentage complete on the pay estimate form as required by 48 Code of Federal Regulations 52.232-5. When Kane attempted to submit the form with the percentage of completion section, it was unable to navigate the formulas on the form. NPS told Kane to leave that portion of the form blank. Leaving it blank, however, is not a viable option as it leaves an incomplete pay estimate and the Government cannot be sure if it properly reimbursed Kane for the percentage of work completed.

5. Kane Made Mathematical and Labor Category Errors in the Certified Payroll Submittals

We selected 12 employees and tested Kane's payroll for compliance with the Wage Determination Act requirements. Kane generally complied, except for the following:

- Kane did not include the fringe benefit cash payment for 2 hours of work on this project on the March 20, 2016 certified payroll (box 7 "This Project") as required by the instructions for completing the U.S. Department of Labor Certified Payroll Form. Because the payroll manager erred in filling out the certified payroll, the employees' reported pay on the certified payroll does not include all the required reportable income.
- For 6 of the 12 samples provided, the Wage Determination labor category did not agree with the certified payroll. The certified payroll uses the category title "Common or General Laborer;" but the 2015 Wage Determination decision divides that certified labor category into the subcategories "Tool Operator" and "Pipelayer." The rates of pay for each of these subcategories differ. The certified payroll needs to be more specific to determine the appropriate payment rate.
- Kane did not have timesheets that supported the certified payroll. Instead, the supervisor called in the hours of the employees to the payroll department. While it is not a requirement on the contract that Kane maintain timesheets, we feel this is a best practice as the employees cannot be certain that Kane is paying them for all hours worked, nor is Kane protected from employees who may argue that Kane paid them for fewer hours than actually worked.

In response to the NFR, Kane provided a copy of its updated certified payroll that showed the corrected hourly rate paid and cash paid in lieu of fringe benefits. It also showed that Kane corrected the labor categories for each employee. Kane accepted our recommendation for timekeeping and implemented a timesheet procedure that requires employees to complete and sign a weekly timesheet. Kane also provided an example of the new timesheet and a description of the new procedure. As a result, we consider this finding resolved.

Conclusion and Recommendations

We identified five issues related to Kane's compliance with applicable Federal laws, contract clauses, and DOI guidance. Specifically, we found that Kane did not provide an environment specialist, did not provide the data necessary to determine Kane's compliance with the Federal Acquisition Regulations' (FAR) "Limitations on Subcontracting" clause, submitted incorrect invoices, did not complete the percentage-of-completion sections in the invoices, and made mathematical and labor category errors in the certified payroll submissions. We submitted five Notices of Findings and Recommendations to Kane and they concurred with all five. Kane's response to the certified payroll submissions was complete enough that we consider the finding resolved. For the other four findings, we recommend that NPS:

1. Evaluate the individual who Kane identified as the environmental specialist to determine whether that person meets the technical requirements of the agreement, and require the chosen individual to develop and/or provide the appropriate sustainability documentation and the required environmental training to the employees on the jobsite.
2. Instruct Kane how to complete all forms and pass appropriate information to NPS to comply with FAR's Limitations on Subcontracting clause and take appropriate actions if NPS finds Kane noncompliant.
3. Coordinate with Kane to ensure the CLINs in the invoices are consistent with the CLINs in the contract.
4. Instruct Kane how to properly complete the percentage of completion section of the invoice.

Please respond to this report by May 15, 2017. Your written response should provide detailed information on the actions you have taken, or plan to take, to address each recommendation, as well as target dates and titles of officials responsible for implementing these actions. Please send your response to aie_reports@doioig.gov.

Although we will not approve extensions to this 45-day response period, we will contact your office to schedule a meeting on or before April 13, 2017, to discuss any questions or issues you may have about the report. If you have any questions before we contact you, please call me at 202-208-5745.

The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit, inspection, and evaluation reports issued; actions taken to implement our recommendations; and recommendations that have not been implemented.

Background

The Disaster Relief Appropriations Act of 2013 provided \$829.2 million (\$786.7 million post-sequester) for the U.S. Department of the Interior (DOI) to address impacts of Hurricane Sandy. On June 12, 2015, the National Park Service (NPS) awarded a competitive, firm-fixed-priced contract to Kane Communications, LLC (Kane), for \$2,708,125 to replace the outside plant telecommunications infrastructure damaged by Hurricane Sandy. During the first 5 months of the 17-month contract period, Kane requested and received one modification that increased the contract value to \$2,746,436.

Kane's primary line of business is designated as an "Electrical Contractor and other Wiring Installation" (NAICS 238210), but Kane also specializes in "Power and Communication Line and Related Structures Construction" (NAICS 237130).

Scope and Methodology

We focused our audit on Kane's compliance with the terms of Contract No. P15PC00612 with NPS, from September 17, 2015, to July 31, 2016. We reviewed Kane's compliance with applicable Federal regulations, contract terms and conditions, and NPS policies and procedures. We conducted our audit fieldwork from July 2016 to October 2016.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. The standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We determined that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. To accomplish our objectives, we—

- interviewed the NPS contracting officer, NPS contract personnel, contractor personnel, and other appropriate individuals;
- reviewed the contract for compliance requirements;
- reviewed the terms of the agreement;
- reviewed the support related to contractor compliance;
- reviewed the Federal Acquisition Regulations and DOI contract compliance guidance;
- reviewed the contractor's internal controls for monitoring the contract;
- reviewed computer-generated documentation; and
- visited Sandy Hook Unit at Gateway National Recreation Area in New Jersey.

We reviewed Kane's internal controls for contract monitoring by interviewing project managers and reviewing weekly progress meeting minutes. We also reviewed the organizational structure as part of the control environment.

Kane provided us with a general ledger (July 2016). To test the accuracy and completeness of the computer-generated documentation provided, we obtained and analyzed revenue, expenditures, and vendors on the general ledger and reconciled them with appropriate supporting documentation (Federal Business Management System, certified cost and pricing data, or invoice). We used the general ledger to select our sample for review of material conformity with contract requirements and to determine if the contractor complied with the limitation on subcontract clause.

Report Fraud, Waste, and Mismanagement



Fraud, waste, and mismanagement in Government concern everyone: Office of Inspector General staff, departmental employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to departmental or Insular Area programs and operations. You can report allegations to us in several ways.



By Internet:	www.doioig.gov	
By Phone:	24-Hour Toll Free:	800-424-5081
	Washington Metro Area:	202-208-5300
By Fax:	703-487-5402	
By Mail:	U.S. Department of the Interior Office of Inspector General Mail Stop 4428 MIB 1849 C Street, NW. Washington, DC 20240	