



INSPECTOR GENERAL

SEPTEMBER 28, 2020

AUDIT OF THE RUSSELL SENATE OFFICE BUILDING EXTERIOR ENVELOPE REPAIR AND RESTORATION, SEQ. II (PHASES 2 AND 4) CONTRACT MODIFICATIONS

Report No. OIG-AUD-2020-07

MISSION

The OIG promotes efficiency and effectiveness to deter and prevent fraud, waste and mismanagement in AOC operations and programs. Through value added, transparent and independent audits, evaluations and investigations, we strive to positively affect the AOC and benefit the taxpayer while keeping the AOC and Congress fully informed.

VISION

The OIG is a high-performing team, promoting positive change and striving for continuous improvement in AOC management and operations. We foster an environment that inspires AOC workforce trust and confidence in our work.



Results in Brief

Audit of the Russell Senate Office Building, Exterior Envelope Repair and Restoration, Sequence II (Phases 2 and 4) Contract Modifications

September 28, 2020

Objective

To assess the effectiveness of contract modifications for the Russell Senate Office Building (RSOB) Exterior Envelope Repair and Restoration (ERR) Project, Contract No. AOC16C2007. Specifically, we assessed whether the contract modifications and Potential Change Orders (PCOs) to the contract were 1) reasonable, authorized, supported and in compliance with contract requirements; and 2) effectively awarded and administered by the project team. Our review included Sequence (Seq.) II (Phases 2 and 4) contract modifications and PCOs executed from July 01, 2018 through October 30, 2019.

Construction and contract audits are included in the Architect of the Capitol (AOC) Office of Inspector General (OIG) audit and evaluation plan.

Findings

Overall, the contract modification process for the ERR project was effective. The contract modifications and PCOs were generally 1) reasonable, authorized, supported, and complied with contract requirements; and 2) effectively awarded and administered by the ERR project team. However, we determined that the ERR project team's supporting documentation for the Independent Government Cost Estimates (IGCEs) needs improvement.

We were unable to clearly determine how the IGCE was calculated for three Contract Line Item Numbers (CLINs) within Modification 013. We concluded that the ERR project team modified the review and approval process for this modification by evaluating the contractor's cost proposal without a cost breakdown from the contractor for Seq. II, completing the IGCE after contract negotiations, and not clearly documenting how the unit prices for the IGCE were calculated. As a result, it was difficult for us to determine how the IGCE was calculated and used to determine that the cost proposal was fair and reasonable.

Findings (cont'd)

The ERR project team needs clear documentation on how the IGCE was calculated and clear guidance on 1) when the IGCE is prepared, 2) what a detailed cost breakdown from the contractor entails, and 3) allowed exceptions. Without clear documentation and guidance, it will be difficult for an independent third party reviewer to validate how management attained its final decision.

Recommendations

We made five recommendations to address the identified areas of improvement. Specifically, we recommend:

1. The ERR project team ensure that the Seq. II contract file clearly documents how the IGCE was calculated for Modification 013, CLINs 10, 12 and 13.
2. The ERR project team ensure that the Seq. II contract file include all documentation to support final decisions and/or approvals for Modification 013, CLINs 10, 12 and 13.
3. Planning and Project Management (PPM) revise the PPM Memo 19-4 to clarify 1) how IGCEs are prepared when sufficient information is not available to develop an informed IGCE prior to the issuance of the Request for Proposal and 2) the documentation requirements.
4. The Acquisition and Material Management Division (AMMD) ensure that any guidance and contract language requiring the contractor to provide an itemized breakdown of costs within the cost proposal should address allowable exceptions, justification for the exception, and authorization by an appropriate official. The justification and authorization for the exception should be documented.
5. The ERR project team ensure that the contract file for the project is properly managed, maintained and readily available for examination.



Results in Brief

Audit of the Russell Senate Office Building, Exterior Envelope Repair and Restoration, Sequence II (Phases 2 and 4) Contract Modifications

Management Comments

The AOC was provided an opportunity to comment in response to this report.

The AOC provided comments on September 24, 2020, see Appendix C. Overall, AOC management agreed with the conclusion that while we determined that the ERR project team properly issued the contract modifications and PCOs, we found their documentation for IGCEs needed some improvements. AOC management concurred with the AOC OIG's five recommendations.

Please see the Recommendations Table on the following page.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Architect of the Capitol; Director, Planning and Project Management; Chief, Acquisition and Material Management Division	NONE	1, 2, 3, 4 & 5	NONE

The following categories are used to describe agency management's comments to individual recommendations:

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – The OIG verified that the agreed upon corrective actions were implemented.



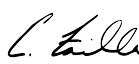
Office of Inspector General
Fairchild Bldg.
499 S. Capitol ST., SW, Suite 518
Washington, D.C. 20515
202.593.1948
www.aoc.gov

UNITED STATES GOVERNMENT

MEMORANDUM

DATE: September 28, 2020

TO: J. Brett Blanton
Architect of the Capitol

FROM: Christopher P. Failla, CIG
Inspector General 

SUBJECT: Audit of the RSOB ERR Seq. II, (Phases 2 and 4) Project's
Contract Modifications (Report No. OIG-AUD-2020-07)

The AOC OIG is providing this final audit report on the ERR Project's Contract Modifications (OIG-AUD-2020-07).

AOC management has agreed with the report conclusion that overall, the contract modification process for the ERR Project was effective. AOC management concurred with the five recommendations in this report.

In our review of AOC's Management Comments, we determined that the proposed corrective actions meet the intent of our recommendations. The next step in the audit resolution process is for AOC management to issue a Notice of Final Action that outlines the actions taken to implement the agreed upon recommendations. This notice is due one year from the date of report finalization, September 28, 2021.

We appreciate the courtesies extended to our staff during the audit. Please direct questions to Erica Wardley, Assistant Inspector General for Audits at 202.593.0081 or erica.wardley@aoc.gov.

Distribution List:

Thomas J. Carroll III, Assistant to the Architect
Peter Bahm, Chief of Staff
William O'Donnell, Chief Administrative Officer
Peter Mueller, Director, Planning & Project Management
Lawrence Barr, Acting Superintendent, Senate Office Buildings
Anthony Hutcherson, Chief Acquisition and Material Management Officer
Mary Jean Pajak, Senior Advisor

Contents

RESULTS IN BRIEF	I
OBJECTIVE	I
FINDINGS	I
RECOMMENDATIONS	I
MANAGEMENT COMMENTS	II
INTRODUCTION	1
OBJECTIVE	1
BACKGROUND	1
INTERNAL CONTROLS	5
CRITERIA	5
AUDIT RESULTS	8
FINDING	10
THE ERR PROJECT TEAM’S SUPPORTING DOCUMENTATION FOR THE IGCES NEEDS IMPROVEMENT. 10	
CONCLUSION	15
RECOMMENDATIONS	15
APPENDIX A	19
SCOPE AND METHODOLOGY	19
REVIEW OF INTERNAL CONTROLS	20
USE OF COMPUTER-PROCESSED DATA	20
PRIOR COVERAGE	20
APPENDIX B	22
ANNOUNCEMENT MEMORANDUM	22
APPENDIX C	23
MANAGEMENT COMMENTS	23
ACRONYMS AND ABBREVIATIONS	26

Introduction

Objective

This report presents the results of our audit of modifications to the RSOB ERR Project Contract No. AOC16C2007. The objective of the audit was to assess the effectiveness of contract modifications. Specifically, we assessed whether the contract modifications and PCOs to the contract were 1) reasonable, authorized, supported and in compliance with contract requirements; and 2) effectively awarded and administered by the project team. Our review included Seq. II (Phases 2 and 4) contract modifications and PCOs executed from July 2018 through October 2019.

We conducted this performance audit in Washington, D.C. from October 2019 through July 2020, in accordance with Generally Accepted Government Auditing Standards (GAGAS). These 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 believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

See Appendix A for discussions on the scope and methodology, review of internal controls, use of computer-processed data and prior audit coverage related to the objective.

Background

The RSOB is the oldest of the three Senate buildings and is identified as a Heritage Asset and Cultural Landscape. The RSOB is located adjacent to the Senate Underground Garage. The exterior of the building consists of a colonnade of Doric columns and a three-story rotunda surrounded by Corinthian columns and topped by a coffered dome, along with several window frame types made of either wood or bronze.

The AOC performed surveys over the years that have shown significant deterioration of the building. Over time, weathering and age have diminished many of the fine details of the facility's exterior stone and allowed water to penetrate into the building. The building's energy efficiency has also been impaired, which has caused operational and safety concerns. The ERR project seeks to repair and restore the

exterior façade to mitigate life safety hazards and improve the building's energy efficiency. The first phase of the project focused on the north side, courtyard work and the C street side of the building. Subsequent project phases will address the east (Phase II), west (Phase III), and south and southwest (Phases IV and V) facades.

The AOC, in conjunction with the Senate Committee on Rules and Administration, have developed this five-phase restoration to preserve the exterior envelope of the century-old building, including its exterior stone, wood windows, and glazed doors. The project also includes the rehabilitation of the balcony flooring, balusters, balustrades and roof chimney. The building and associated landscaping will undergo a complete renovation and restoration. The components of work include, but are not limited to:

- Masonry Cleaning.
- Repoint the entire marble masonry exterior.
- Point failed joints at the limestone walls along the courtyard elevations.
- Point failed joints at the granite masonry walls with a mortar that matches the original composition and color.
- Removal, restoration, re-installation of window sashes and frame restoration.
- Seismic retrofit of perimeter balustrade sections.
- Bronze Restoration.
- Bird Deterrent Systems.
- Scaffold Design and Installation.
- Iron Areaway Grates and Window Grill restoration.
- Restoration of Historic lighting fixtures.
- Replacement of Flashing, drainage and drain cover and waterproofing system.
- Hazardous Material Abatement.
- Seismic Correction/Upgrades at Building Exits.

The RSOB ERR project has three sequences: Seq. I was complete November 16, 2018, Seq. II is currently underway with a scheduled completion of February 2021, and Seq. III was awarded February 2020, with an expected completion of December 2022. The ERR project's total budget is \$77.6M, which includes Seq. I for \$14.5M, Seq. II for \$37.2M, and Seq. III for \$25.9M.¹ The AOC exercised the Seq. II option on April 30, 2018. This sequence is composed of Phases II and IV, with a period of performance from April 30, 2018, through April 29, 2020, for Phase II (First St. and

¹ Actual ERR project's total budget is \$77,642,827, which includes Seq. I for \$14,491,293, Seq. II for \$37,241,275, and Seq. III for \$25,910,259.

Courtyard Façade) and from April 30, 2018 through April 29, 2020, for Phase IV (Constitution Ave and Courtyard Façade).

What is a Contract Modification and PCO?

A modification is a formal, written change issued by the Contracting Officer (CO) to a purchase order, delivery order, task order or contract award. Typically, there are two types of modifications, unilateral and bilateral.

A unilateral modification is a contract modification signed by the CO only. Unilateral modifications are used to (1) make administrative changes; (2) issue change orders under the Changes clause; (3) make changes authorized by other contract clauses (options); and (4) issue termination notices.

A bilateral modification (supplemental agreement) is a contract modification signed by the contractor and the CO. Bilateral modifications are used to (1) make negotiated equitable adjustments resulting from the issuance of a change order; (2) definitize letter contracts; and (3) reflect other agreements of the parties modifying the terms of contracts. A bilateral modification is the preferred process for a change to a contract since it involves both the contractor and government agreeing to the change. A bilateral modification is used for in-scope and out-of-scope changes. For this process, a Request for Proposal (RFP) is issued to the contractor; AOC receives their proposal, concludes negotiations, and then issues a bilateral modification. An IGCE and requisition to commit funds are required prior to issuing the RFP.

The purpose of a PCO is to timely notify leadership and other stakeholders of a potential change to a construction contract for awareness and mitigation of schedule, scope and cost impacts.

Modification and PCO Process

Section 6.2 of the RSOB ERR Project Management Plan (PMP) Seq. II established a Change Management Plan (CMP) that documents how the ERR project team would identify, evaluate and institute changes for the ERR project. The change management goal is to maintain project scope and execution strategy as determined through pre-planning efforts. A change is “any revision to or deviation from an established execution plan.”

Per the CMP, a solicited (AOC) or unsolicited (contractor) request is presented to the Contracting Officer's Technical Representative (COTR), usually the Project or Construction Manager. The COTR reviews the request to determine the validity and if the proposed work is within the scope of the contract. The contractor is compensated for all out of scope work, so the COTR must also identify the availability of funds. The COTR evaluates all change requests and provides the CO with a recommendation for action on the PCO.

Once the CO authorizes the change request, a PCO is initiated by the COTR. The project team develops the IGCE to assist with the negotiations and availability of funds is verified. The CO develops and transmits the RFP to the contractor. Based on the RFP, the contractor submits a cost proposal to the AOC.

After the cost proposal is received, the COTR prepares the Price Negotiation Memorandum (PNM). The PNM is used to document the AOC's pre-negotiation objectives, price concerns, and rationale for providing the contractor additional time and/or costs, and the fairness and reasonability of final price determinations. The appropriately designated project executive(s) must sign the PNM.

Once all PNM signatures are obtained, the PCO is incorporated into a modification. The COTR completes the contract modification package (blue book), to include:

- an IGCE for both price and time, if time is needed,
- a copy of the RFP sent to the contractor,
- the contractor's cost proposal,
- the PNM,
- the complete discussion of the change, and
- any other appropriate documentation.

A Change Board Approval form is prepared, which summarizes the PCOs, the final negotiated amount, and the appropriate officials needed for approval. Those authorized to sign the Change Board Approval form depends upon the amount of the modification. For example, the Branch Chief signs for amounts up to \$50,000; the Director of Project Management Division (PMD) signs for amounts between \$50,000 and \$250,000; and the Jurisdiction Superintendent signs for amounts over \$250,000. Once approved, the CO issues the modification to the contractor for approval. Lastly, the modification is then incorporated into the contract file after the CO and contractor have signed.

For Seq. II, the ERR project team approved eight contract modifications (M012 through M019) from July 01, 2018 through October 30, 2019, for approximately \$7.3M. The total is the value of all modifications and includes increases or decreases to contract funding.

Internal Controls

We reviewed internal controls to obtain an understanding of the AOC's process for reviewing and approving contract modifications and PCOs. We obtained our understanding by reviewing AOC policies and contract specifications and interviewing ERR project team members to determine if controls were properly implemented and working as designed, individually or in combination with other controls. We determined that overall, the controls over the ERR project's contract modification and PCOs review and approval process were sufficient. However, we had difficulty reviewing Modification 013 due to the ERR project team's modified review and approval process and unclear documentation.

Criteria

We used the below criteria to assess whether the contract modifications and PCOs to the contract were: 1) reasonable, authorized, supported and in compliance with contract requirements; and 2) effectively awarded and administered.

AOC Order 34-1, Contracting Manual, dated September 29, 2017, incorporates current legislation, federal regulatory requirements, and AOC policies, orders and best practices. It prescribes uniform policies for the acquisition of supplies, services, construction and related services; and guides personnel in applying these policies.

RSOB ERR Project Contract No. AOC16C2007, awarded June 03, 2016, incorporates the repair and restoration of the RSOB exterior façade to mitigate life safety hazards and improve the building's energy efficiency.

AOC Manual 28-9, Project Management Manual, dated December 13, 2013, provides the user with the information to execute a project according to AOC standards. This manual consolidates the former Project Management Manual, Pre-Design Manual, and Construction Management Branch Manual into one document.

The RSOB ERR PMP documents how the team identifies, evaluates and institutes changes to the project. The PMP outlines the roles and responsibilities for the plan, study, design and construction phases. The plan is a living document and includes

risk identification, project charter and project controls. The PMP is an effective tool for communicating information about the project to the project team and providing the team a reference document for use during project execution and during key transition meetings between phases. The AOC based these procedures on the AOC's entity-wide change management instructions, as documented in the AOC Contracting Manual and provisions of the base contracts.

The following are excerpts from auditing standards, AOC policy and Contract No. AOC16C2007 that are relative to the finding:

Government Accountability Office (GAO) Standards for Internal Control in the Federal Government (Green Book)

Appropriate documentation of transactions and internal control

Management clearly documents internal control, all transactions and other significant events in a manner that allows the documentation to be readily available for examination... Documentation and records are properly managed and maintained.

PPM Memorandum 19-4, PMD Construction Change Order Process, November 21, 2019 (page 4 of 24):

Independent Government Cost Estimate (IGCE)

An IGCE must be performed without any contractor bias or input in advance of any PCO negotiations with the contractor. Typically, an IGCE should be performed before or at the time a Request for Proposal is provided to the contractor for pricing.

AOC52.243-1 Changes - Supplement (June 2014)

(b) Submission of Contractor proposals, cost breakdowns, and time impacts.

- (1) Proposals for changed requirements to the contract shall include a brief description of the change; a breakdown of costs as outlined herein; and a time impact analysis (critical path method (CPM) fragnet).
- (2) For changed requirements involving added elements within the general scope of work, omitted elements of work or any combination thereof, the contractor

shall submit an itemized breakdown of costs, which shall include, but not be limited to:

- (i) Direct labor costs by trade, hours and hourly rate;
- (ii) Social Security and Unemployment Insurance Taxes;
- (iii) Direct material quantities and unit costs;
- (iv) Direct equipment costs by equipment, hours performing, and hourly rate;
- (v) Field and home office overhead;
- (vi) Profit; and
- (vii) Bonds.

Audit Results

We determined that overall, the contract modification process for the ERR project was effective. The contract modifications and PCOs were generally 1) reasonable, authorized, supported and complied with contract requirements; and 2) effectively awarded and administered by the ERR project team. However, we were unable to clearly determine how the IGCE was calculated for three CLINs within Modification 013.

Our assessment included selecting a sample of modifications and the associated PCOs, reviewing the sufficiency of the supporting documentation, as well as the PCOs reasonableness and adherence to contractual requirements, policies and procedures. Specifically, we reviewed three of the eight ERR project Seq. II contract modifications and the associated PCOs executed from July 01, 2018 to October 30, 2019. During this period, the ERR project team approved eight contract modifications (M012 through M019) with an approximate value of \$7.3M. We judgmentally selected three contract modifications (Modifications 012, 013 and 018) amounting to approximately \$6.446M, along with the associated PCOs and other costs not included within a PCO. The ERR project team explained that not all costs included in Modification 013 were associated with a PCO.

We determined that the ERR project team established and administered an effective RSOB ERR PMP, which clearly defined the roles and responsibilities of the team members. The review and approval process that was in place required a review and approval from the appropriate AOC personnel prior to final approval. Overall, the documentation we reviewed during the audit supported appropriate reviews and approvals of the ERR project's contract modifications and PCOs.

While we generally determined that the ERR project team properly issued the contract modifications and PCOs, we had difficulty reviewing Modification 013, amounting to \$6.426M, due to the project team's process to determine the fairness and reasonableness of pricing. Specifically, it was difficult to determine how the IGCE 1) was calculated for three of the four CLINs (CLIN 10, 12 and 13) and 2) was used to determine that the cost proposal was fair and reasonable. We found that the ERR project team made a few exceptions to AOC guidance and did not clearly document how the IGCE was calculated.

Based on the results of our testing and the documentation reviewed, we were ultimately able to conclude that the cost proposal of Modification 013 was generally reasonable, authorized, supported and it complied with contract requirements.

However, the modified review and approval process and unclear documentation for this modification resulted in a difficult external examination. It is important for the ERR project team to maintain clear documentation on how the IGCE was calculated and clarify AOC guidance for allowable exceptions to the requirements. This will allow an independent third party reviewer to validate the ERR project team's final decision that the cost proposal was fair and reasonable.

We made five recommendations to improve the ERR project team's supporting documentation for contract modifications and PCOs.

Finding

The ERR Project Team's Supporting Documentation for the IGCEs Needs Improvement

During our review, we were unable to clearly determine how the IGCE was calculated for three CLINs within Modification 013.

The ERR project executed eight contract modifications (M012 through M019) from July 01, 2018 to October 30, 2019 for approximately \$7.3M. For our review, we judgmentally selected three modifications, (Modifications 012, 013 and 018) amounting to approximately \$6.446M. We determined that the process used to review and approve Modifications 012 and 018 were effective; however, we had difficulty reviewing the supporting documentation for IGCEs within Modification 013 totaling approximately \$6.426M.

The RFP for Modification 013, dated April 27, 2018, stated that the modification incorporated three changes to the existing Phase II and IV pricing, referred to as Seq. II. Specifically, the RFP included the following changes: (i) Revised Scaffolding, (ii) Carry-Over PCOs from Phase I-Lump Sum PCOs and Allowances (Unit Price), and (iii) Integrated Schedule and Coordination of Work by Others. The ERR project team explained that the modification removed a lighter load scaffolding from the contract, incorporated the installation and rental of a heavier load scaffolding from another contractor, and addressed significant gaps identified during the constructability review in 2015.

During a discussion with the ERR project team, it was explained that the approved proposed costs from Seq. I were used to calculate the IGCEs in order to determine if the Seq. II proposals were fair and reasonable. The ERR project team determined that the contractor's proposed costs were fair and reasonable if proposed costs were within +/- 10 percent of the IGCE. The project team tracked these changes by funding line items, CLINs 10, 11, 12 and 13.

The contractor provided a cost proposal, dated June 01, 2018, which included a pricing summary, clarifications and assumptions, and detailed schedule information

for review. The cost proposal also noted that the contractor would submit detailed pricing no later than mid-June 2018. The pricing summary categorized costs that made up each CLIN but did not include a breakdown of costs (i.e., labor, material and equipment). The contractor also acknowledged the complexity of the proposed changes, and noted a need for additional discussions and reviews.

The PNM, signed September 24, 2018, noted seven negotiation dates between June and August 2018, before finalizing costs on August 31, 2018. Final costs for Modification 013 totaled \$6,426,408. The costs for the individual PCOs and work components were incorporated by the following line item descriptions and prices:

- (i) Revised Scaffolding, \$1,678,592 (**CLIN 10**);
- (ii) Carry-Over PCOs from Phase I-Lump Sum PCOs, \$1,071,933 (**CLIN 13**) and Allowances (Unit Price), \$2,873,692 (**CLIN 12**); and
- (iii) Integrated Schedule and Coordination of Work by Others, \$802,191 (**CLIN 11**).

We determined that the ERR project team properly reviewed and approved CLIN 11 and the supporting documentation was sufficient; however, CLINs 10, 12 and 13 were difficult to review due to the ERR project team's process to determine the fairness and reasonableness of pricing using the IGCEs.

Modification 013 CLINs 10 and 13

Our review consisted of requesting and analyzing available contract file documentation to reconcile and assess the reasonableness of costs. The project team provided information to support the costs from Seq. I and II. This information included the executed modification, RFP, various cost proposals (original and revised), assumptions and clarifications, bid schedule, Technical Review Memorandums, IGCE, Change Board Form, Requisition, Fund Allocation Document, Schedule of Values, PNM, modification log, contract requirements and specifications.

We gained an understanding of the ERR project's review and approval process for CLINs 10 and 13 by reviewing all of the supporting documentation provided, along with meetings illustrating the process and calculations used to develop the IGCE. The ERR project team provided supporting documentation indicating an evaluation of the contractor's cost proposal which included the pricing summary, clarifications and assumptions, and detailed schedule information. However, our attempts to reconcile the contractor's proposed costs were unsuccessful.

We made additional requests for detailed supporting documentation and held three meetings to gain clarity on the process used to reconcile costs. The ERR project team provided additional explanations and support noting that the costs within the Seq. I cost proposals were used to calculate the Seq. II IGCE. We compared the unit prices from the Seq. I cost proposals and supporting documentation provided to the IGCE but we were not able to verify all of the unit prices.

We reviewed the IGCE, RFP, contractor's cost proposal and the supporting documentation. The RFP required the contractor to include a detailed cost breakdown for costs proposed. Per the contractor's proposal, detailed pricing would be provided mid-June 2018; however, the ERR project team explained that this information was no longer required based on comparisons made between the pricing summary and IGCE. The ERR project team held negotiations with the contractor from June 2018 to August 2018, and completed the IGCE on September 12, 2018. With the IGCE completed after final negotiations, it was unclear how the IGCE was used to evaluate the contractor's cost proposal without detailed pricing backup to support the summary totals submitted in the cost proposal. Per the ERR project team, a meaningful IGCE could not be developed prior to the completion of the revised scaffolding design. The request for the revised design was incorporated within the RFP; therefore, the IGCE could not be developed prior to the RFP. We also noted that the "AOC RFP Response" questioned several costs, labeling them unacceptable and requiring further explanation. The PNM noted that further pricing analyses were used; however, we were unable to identify and locate the support for this information within the documentation provided.

In accordance with GAO's Green Book, management should clearly document all transactions and other significant events in a manner that allows the documentation to be readily available for examination as well as properly managed and maintained. In addition, while we note that the AOC guidance applicable for this modification did not prescribe the timing for the IGCE, we found that the current PPM Memo 19-4 - PMD Construction Change Order Process, requires the completion of the IGCE on or before the date of the RFP. Lastly, the AOC Change clause and RFP required the contractor to provide a detailed cost breakdown within the cost proposal.

The ERR project team modified the review and approval process for this modification by evaluating the contractor's cost proposal without a cost breakdown from the contractor for Seq. II, completing the IGCE after contract negotiations, and not clearly documenting how the unit prices for the IGCE were calculated. As a result, it was difficult for us to determine how the IGCE was calculated and used to determine

that the cost proposal was fair and reasonable. By working closely with the ERR project team, we were able to ultimately conclude that the cost proposals for CLINs 10 and 13 were generally supported and reasonable. However, without clear documentation on how the IGCE was calculated and clear guidance on 1) when the IGCE is prepared, 2) what a detailed cost breakdown from the contractor entails, and 3) allowed exceptions, management's final decision that the contractor's cost proposal was fair and reasonable is not adequately documented.

Modification 013 CLIN 12

The ERR project team negotiated and approved CLIN 12 for \$2,873,692. Per the ERR project team, the summarized cost proposals submitted by the contractor were evaluated based on the ERR project team's IGCE. As mentioned, the IGCE was prepared using the proposed costs from Seq. I for similar work needed in Seq. II. The ERR project team explained that this method was used to reduce the time needed to review and approve new proposals for subsequent sequences with similar work.

The contractor provided the original cost proposal on June 01, 2018, and a revised proposal on August 31, 2018, with summaries of proposed costs for the work requested in Modification 013. The Project Manager prepared an IGCE-Schedule of Unit Price Allowance (also referred to as IGCE) for Seq. II from the approved Seq. I cost proposals for each PCO and added a 3 percent increase to account for annual inflation. The Project Manager compared its IGCE, calculated using Seq. I unit prices, to the contractor's Seq. II cost proposal to determine whether the proposed costs were fair and reasonable. The Project Manager incorporated the contractor's costs within each line item of the IGCE for comparison and noted when the differences were +/- 10 percent and when unit prices were supported by a document other than the contractor's cost proposal. The Project Manager prepared a schedule of Final Unit Price Allowances. The PNM was signed on September 24, 2018, with ERR Project Executives agreeing that the contractor's proposed costs were fair and reasonable.

As previously mentioned, during our review we requested all the documentation that supported CLIN 12. Throughout the months of March and April 2020, we had difficulty determining how CLIN 12 was prepared and how unit prices were calculated based on the documentation provided. We held a few follow up meetings with the project team to further assist with our understanding of the documentation provided, and how it was used to develop the IGCE and evaluate the contractor's cost proposal. After our follow up meetings, we continued to make unsuccessful attempts

to trace and recalculate all the amounts within the IGCE to the supporting documentation provided.

We made additional inquiries and submitted a request for information in May 2020. The project team responded to our inquiries and provided additional support for CLIN 12. After organizing and reviewing the information received, we were still unable to clearly understand how the amounts within the IGCE were calculated. We held two additional meetings in May and June 2020, to continue to walkthrough the ERR project team's calculations. After our meetings, the project team provided another IGCE, which included additional fields that were not initially provided to us, as well as additional documentation to include a contract bid schedule and the Unit Price Allowance Schedule for Modification 13. The ERR project team stated that they were unable to locate the original IGCE spreadsheet where all of the detailed calculations were noted; however, a hard copy was maintained and it was scanned [as a portable document format (PDF)] and provided.

As previously noted, GAO's Green Book states that documentation should be readily available for examination and properly managed and maintained. In order for us to determine the reasonableness of the approved amounts for CLIN 12, we developed a spreadsheet to recalculate the per unit prices and totals on the IGCE, Final Unit price Allowance Schedule and the PNM. Specifically, we first recalculated the per unit price line items for the 12 PCO's within CLIN 12 by reviewing the detailed supporting documentation for Seq. I. For some of the unit prices, we identified the appropriate costs for each line item within the Seq. I cost proposals and divided by the Seq. I number of units to determine the unit price. We then calculated a 3 percent inflation escalation using Seq. I unit prices and multiplied the total by the number of units for Seq. II. Once the totals for each line item on the IGCE were recalculated, we compared our totals to the per unit totals on the Final Unit Price Allowance Schedule, dated August 31, 2018. In addition, we also compared our recalculation to the IGCE and PNM amounts.

The results of our recalculation found that the approved proposal amount for CLIN 12 was reasonable. Our recalculated amount exceeded \$3M, which is higher than the approved amount of \$2.87M. We noted that the project team included additional qualitative assumptions noted on the IGCE that we could not quantify.

While we were able to generally conclude that \$2.87M of CLIN 012 were reasonable, authorized, supported, and complied with contract requirements, the ERR project team did not clearly document how the unit prices were calculated for the IGCE.

Therefore, it is our conclusion that without clear documentation on how the unit prices were developed to calculate the IGCE it will be difficult for an independent third party reviewer to verify how the ERR project team used the IGCE to determine if the proposed costs were fair and reasonable.

Conclusion

Overall, we were ultimately able to determine that the cost proposals of Modification 013 were generally reasonable, authorized, supported and complied with contract requirements. However, the modified review and approval process and unclear documentation for this modification resulted in a difficult external examination. The audit required extensive staff time for both the ERR project team and OIG auditors to diligently walk through the process and documentation to determine that \$6.4M was fair and reasonable. Therefore, it is our conclusion that the ERR project team needs clear documentation on how the IGCE was calculated and clear guidance on 1) when the IGCE is prepared, 2) the requirement for a detailed cost breakdown from the contractor, and 3) allowed exceptions. Without clear documentation and guidance, it will be difficult for an independent third party reviewer to validate how management attained its final decision.

Recommendations

Recommendation 1

We recommend that the Exterior Repair and Restoration project team ensure that the Sequence II contract file clearly documents how the Independent Government Cost Estimate was calculated for Modification 13, CLINs 10, 12, and 13.

AOC Comment

Concur. The AOC believes that the IGCE for the modifications related to Sequence II was clearly documented, except for a few calculations for which documentation was not retained. The AOC has added documentation, including the calculations the OIG requested, to the contract files.

OIG Comment

We recognize the AOC's concurrence with the recommendation. The AOC adding documentation that included calculations requested by the OIG is responsive to the

recommendation. Therefore, the recommendation is considered resolved and will be closed upon completion and verification of the proposed action.

Recommendation 2

We recommend that the Exterior Repair and Restoration project team ensure that the Sequence II contract file include all documentation to support final decisions and/or approvals for Modification 13, CLINs 10, 12, and 13.

AOC Comment

Concur. The project team will add a document to the contract file approving the costs typically included in overhead as direct costs and confirming that questions raised during the review process have been resolved.

OIG Comment

We recognize the AOC's concurrence with the recommendation. The project team will add a document to the contract file approving the costs typically included in overhead as direct costs and confirming that questions raised during the review process have been resolved. The AOC actions are responsive to the recommendation. Therefore, the recommendation is considered resolved and will be closed upon completion and verification of the proposed action.

Recommendation 3

We recommend that Planning and Project Management revise the PPM Memo 19-4 to clarify how Independent Government Cost Estimates are prepared when sufficient information is not available to develop an informative estimate prior to the issuance of the Request for Proposal and to clarify the documentation requirements.

AOC Comment

Concur. The AOC has revised PPM Memo 19-4, as recommended. The AOC noted that the project team developed a cost estimate for Modification 13 in April 2018 before the RFP was issued and negotiations began.

OIG Comment

We recognize the AOC's concurrence with the recommendation. The AOC revised PPM Memo 19-4, as recommended. The AOC's action is responsive to the recommendation. Therefore, the recommendation is considered resolved and will be closed upon completion and verification of the proposed action.

Recommendation 4

We recommend that Acquisition and Material Management Division ensure that any guidance and contract language requiring the contractor to provide an itemized breakdown of costs within the cost proposal should address allowable exceptions, justification for the exception, and authorization by an appropriate official. The justification and authorization for the exception should be documented.

AOC Comment

Concur. AMMD revised the Changes-Supplement clause in July 2020, as recommended. The AOC noted that the contracting manual currently provides for the use of historical prices in making fair and reasonable pricing determinations.

OIG Comment

We recognize the AOC's concurrence with the recommendation. The AOC revised the Changes-Supplement clause in July 2020, as recommended. The AOC's action is responsive to the recommendation. Therefore, the recommendation is considered resolved and will be closed upon completion and verification of the proposed action.

Recommendation 5

We recommend that the Exterior Repair and Restoration project team ensure that the contract file for the project is properly managed, maintained and readily available for examination.

AOC Comment

Concur. The AOC noted that the contract file is properly managed and maintained and is readily available for examination. Relevant documents are placed in the file. The project team will develop a file checklist by December 31, 2020.

OIG Comment

We recognize the AOC's concurrence with the recommendation. The AOC will develop a file checklist. The AOC's action is responsive to the recommendation. Therefore, the recommendation is considered resolved and will be closed upon completion and verification of the proposed action.

Appendix A

Scope and Methodology

The scope of this performance audit included all modifications and change orders that were a part of RSOB ERR – Seq. II (Phases II and IV) project that either increased/decreased the project value. The ERR project team approved eight modifications totaling \$7,373,306.72 from July 01, 2018 to October 30, 2019. We judgmentally selected three modifications for review in the amount of \$6,446,664 (Modification 012 for \$17,479, Modification 013 for \$6,426,408, and Modification 018 for \$2,777.) We conducted this performance audit of the RSOB located in Washington, DC, from October 2019 through July 2020 in accordance with GAGAS. These 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 believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed and analyzed the AOC policies and procedures, contracts, contract modifications, PCOs and project management documentation. Throughout the audit, we interviewed project team members from the AOC who were responsible for reviewing and issuing contract modifications and PCOs; however, we did not interview officials representing the contractors/subcontractors.

Construction and contract audits are included in the OIG audit and evaluation plan.

Review of Internal Controls

Government Auditing Standards require auditors to obtain an understanding of internal controls that are significant within the context of the audit objectives. For internal controls that are significant within the context of the audit objectives, auditors should assess whether the internal control has been properly designed and implemented and should perform procedures designed to obtain sufficient and appropriate evidence to support their assessment about the effectiveness of those controls. Information system controls are often an integral part of an entity's internal control. The effectiveness of significant internal controls is frequently dependent on the effectiveness of information systems controls. Thus, when obtaining an understanding of internal controls significant to the audit objectives, auditors should also determine whether it is necessary to evaluate information systems controls.

We reviewed internal controls to obtain an understanding of the AOC's processes for modifying the ERR project's contract, and reviewing and approving modifications and PCOs. We obtained our understanding by reviewing AOC policies and contract specifications, and interviewing project team members from the AOC to determine if team members properly implemented controls and that controls were working as designed, individually or in combination with other controls.

The AOC Contracting Manual documents uniform entity-wide policies and practices for processing contract modifications and change orders on AOC projects, while the PMP documents policies and practices specific to the ERR project. We determined that overall, the controls over the project's contract modification and PCO review and approval process were sufficient. However, we had difficulty reviewing Modification 013 due to the ERR project team's modified review and approval process and unclear documentation.

Use of Computer-Processed Data

We did not use a material amount of computer-processed data to perform this audit.

Prior Coverage

During the last five years, the AOC OIG issued a performance audit report on the Cannon House Office Building Renewal (CHOBr) Project.

AOC OIG

Report No. 2019-AUD-004-A, "Audit of the Cannon House Office Building Renewal Project's Contract Modifications," dated April 24, 2020.

The audit assessed the effectiveness of contract modifications to the AOC's Contract No. AOC13C2002 for Construction Manager as Constructor services on the CHOBr Project. Overall, the contract modification process for the CHOBr Project was effective. However, the report noted several instances in which the CHOBr Project team approved PCO proposals that included unallowable costs and found that cost analysis documentation was not always retained. The report issued five recommendations to improve the CHOBr Project team's review and approval process for contract modifications and PCOs.

The OIG also noted in our Statement of Management Opportunities and Performance Challenges as published in the AOC's 2019 Performance and Accountability Report, that auditability and documentation to support decisions remains a problem. There,

we note that the AOC should (1) retain historical information of the transaction or event, (2) mitigate the risk of having the information limited to a few staff and (3) communicate and make available in a timely manner the information to external parties such as external auditors.

Appendix B

Announcement Memorandum




Office of Inspector General
Fairchild Bldg.
499 S. Capitol St., SW, Suite 518
Washington, D.C. 20515
202.593.1948
www.aoc.gov

United States Government

MEMORANDUM

DATE: October 30, 2019

TO: Thomas J. Carroll III
Acting Architect of the Capitol

FROM: Christopher P. Failla, CIG
Inspector General 

SUBJECT: Announcement Memo for the Audit of the Exterior Repair and Restoration – Seq. II, Russell Senate Office Building (Phase 2 and 4) Contract Modifications (Project No. 2020-AUD-003-A)

This memorandum serves as notification that the Office of Inspector General (OIG) plans to initiate a construction audit of the Exterior Repair and Restoration – Seq. II, Russell Senate Office Building (Phases 2 and 4) Contract Modifications. The objective is to assess the effectiveness of contract modifications. Specifically, the audit will determine whether the change orders are reasonable, authorized, supported, and comply with contract requirements.

An OIG auditor will be in contact with your office to set up an audit entrance conference. If you have any questions, please contact Erica Wardley, Assistant Inspector General for Audit, at 202.593.0081.

Distribution List:

Lawrence Barr, Acting Superintendent, Senate Office Buildings
Peter W. Mueller, Director, Planning & Project Management
William O'Donnell, Chief Administrative Officer
Jason Baltimore, General Counsel
Mary Jean Pajak, Senior Advisor to the Chief Operating Officer

Appendix C


Management Comments



Architect of the Capitol
U.S. Capitol, Room SB-16
Washington, DC 20515
202.228.1793
www.aoc.gov

DATE: September 25, 2020

TO: Mr. Christopher P. Failla
Inspector General

FROM: J. Brett Blanton
Architect of the Capitol 

SUBJECT: Official Response to Audit of the Russell Senate Office Building Exterior Envelope Repair and Restoration, Seq. II (Phases 2 and 4) (ERR) Contract Modifications (Project No. 2020-AUD-003-A)

The Architect of the Capitol (AOC) thanks you for the opportunity to review and provide a response to the Office of Inspector General (OIG) draft report in accordance with sections 5.2.6 and 8 of AOC Order 40-1.

The AOC concurs with your overall assessment that the AOC's contract modification process for the ERR project was effective. The AOC also concurs with your finding that the project team needs to improve its documentation of the potential change orders (PCO) review and approval process. Below is our response to the recommendations in the report.

OIG Recommendation 1

We recommend that the Exterior Repair and Restoration project team ensure that Sequence II contract file clearly documents how the Independent Government Estimate (IGE) was calculated for Modification 13 CLIN 10, 12, and 13.

AOC Response

We concur and believe that the IGE for the modifications related to Sequence II was and is clearly documented, except for a few calculations for which documentation was not retained. Previously agreed-upon prices from Sequence I were escalated and used for the Sequence II IGE. This is an acceptable method per the AOC's contracting manual. The AOC has added documentation, including the calculations OIG requested, to the contract files.

OIG Recommendation 2

We recommend that Exterior Repair and Restoration project team ensure the Sequence II contract file include all documentation to support final decisions and/or approvals for Modification 13, CLIN 10, 12 and 13.

AOC Response

We concur. The project team will add a document to the contract file approving the costs typically included in overhead as direct costs and confirming that questions raised during the review process have been resolved.

OIG Recommendation 3

We recommend that Planning and Project Management (PPM) revise the PPM Memo 19-4 to clarify when IGEs are prepared when sufficient information is not available to develop an informative IGE prior to the issuance of the Request for Proposal (RFP) and the documentation requirements.

AOC Response

We concur and have revised PPM Memo 19-4, as recommended. It is important to note that the project team had developed a cost estimate for Modification 13 in April 2018 before the RFP was issued and negotiations began. This cost estimate would have met the requirements in PPM Memo 19-4 had it been in effect in the fall of 2018 when the modification was awarded.

OIG Recommendation 4

We recommend that the Acquisition and Material Management Division (AMMD) ensure that any guidance and contract language requiring the contractor to provide an itemized breakdown of costs within the cost proposal should address all allowable exceptions, justification for the exception, and authorization by an appropriate official. The justification and authorization for the exception should be documented.

AOC Response

We concur. AMMD revised the Changes-Supplement clause in July 2020, as recommended. The AOC's contracting manual currently provides for the use of historical prices in making fair and reasonable pricing determinations. Section 12.1(a) (1) of the AOC's contracting manual states: "Examples of techniques to establish price reasonableness include, but are not limited to:

(1) Comparison. Historical prices found reasonable on other purchases for the same or similar items"

Thus, the project team did not deviate from acceptable practice, and a separate approval to do this was not required.

OIG Recommendation 5

We recommend that the Exterior Repair and Restoration project team ensure the contract file for the project is properly managed and maintained to be readily available for examination.

AOC Response

We concur. The contract file is being properly managed and maintained and is readily available for examination. Relevant documents are placed in the file. The project team will develop a file checklist by December 31, 2020. We recognize that COVID-19-related working conditions did not enable face-to-face meetings, which made it difficult for the audit team to identify and understand relevant documents in the files it was reviewing. Contract files given to OIG generally contained information used to develop the IGEs aside from a few calculations that the team redid and provided to OIG.

Thank you for the opportunity to provide comments on the draft report. Please contact Peter Mueller at 202.226.4119 or peter.mueller@aoc.gov if you have any questions.

Doc. No. 200910-18-01

Acronyms and Abbreviations

AMMD	Acquisition and Material Management Division
AOC	Architect of the Capitol
CHOB	Cannon House Office Building Renewal
CLIN	Contract Line Item Number
CMP	Change Management Plan
CPM	Critical Path Method
CO	Contracting Officer
COTR	Contracting Officer's Technical Representative
ERR	Exterior Repair and Restoration
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
IGCE	Independent Government Cost Estimate
OIG	Office of Inspector General
PCO	Potential Change Order
PMD	Project Management Division
PMP	Project Management Plan
PNM	Price Negotiation Memorandum
PPM	Planning and Project Management
RFP	Request for Proposal
RSOB	Russell Senate Office Building
Seq.	Sequence



INSPECTOR GENERAL

499 S. CAPITOL ST, SW
SUITE 518
WASHINGTON, DC 20515
www.aoc.gov