



INSPECTOR GENERAL

JUNE 08, 2021

Audit of the Cannon House Office Building Renewal Project's Reimbursable Costs

Report No. OIG-AUD-2021-04

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 Cannon House Office Building Renewal Project's Reimbursable Costs

June 08, 2021

Objective

Construction and contract audits are included in the Architect of the Capitol (AOC) Office of Inspector General (OIG) audit and evaluation plan. As such, the AOC OIG contracted Cotton & Company LLP (Cotton) to review the reimbursable costs that the AOC's Construction Manager as Constructor (CMc) invoiced for its work on the Cannon House Office Building Renewal (CHOB) Project (Contract No. AOC13C2002). Cotton assessed whether the CMc had billed, and the AOC had paid, reimbursable costs for Phase 1 and Phase 2 of the CHOB Project in accordance with the CMc's contract terms and conditions; whether these costs were allowable, allocable and supportable; and whether the costs appeared reasonable.

Cotton's policy requires that it obtain a management representation letter associated with the issuance of a performance audit. They requested a management representation letter from the AOC on April 12, 2021, a copy of which is included in this report as Appendix D. AOC management did not sign the management representation letter that was provided and instead provided a letter, included as Appendix E, stating that the information provided for the audit was complete and accurate.

Findings

Cotton determined that overall, the CMc billed, and the AOC paid, reimbursable costs for Phase 1 and Phase 2 of the CHOB Project in accordance with the CMc contract terms and conditions, and that the costs were generally allowable, allocable, supportable and reasonable. We also determined that the CHOB Project team's review and approval process for reimbursable costs was adequate overall. However, we concluded that the CHOB Project team needs to strengthen its review and approval process

Findings (cont'd)

for these costs and ensure supporting documentation for all reimbursed costs is sufficient, maintained and readily available for examination.

Our assessment included reviewing supporting documentation for reimbursable costs the CMc invoiced for Phase 1 and Phase 2. We tested a sample of labor and non-labor transactions that the CMc billed for each phase. During our review, we noted that the CHOB Project team had reimbursed \$54,246 in unallowable costs, as well as an additional \$234,383 in legal costs incurred in preparation for a Congressional hearing that the team paid without first determining whether the costs were allowable and reasonable. In addition, we were unable to assess compliance, allowability and reasonableness for \$286,933 in costs that the CHOB Project team reimbursed because the CMc either did not provide supporting documentation or did not provide sufficient supporting documentation for these costs. In total, we identified \$575,562 in unallowable and questioned costs for AOC to determine how much of those costs are reasonable and allowable or must be recovered.

Recommendations

We made seven recommendations to address the identified areas of improvement.

Specifically the AOC OIG recommends:

1. The CHOB Project team strengthen the review process for small-dollar reimbursable cost transactions to help ensure that the CMc does not include, and the CHOB Project team does not approve, unallowable costs in the pay applications.
2. To the extent legally and administratively possible, the CHOB Project team recover the \$54,246 of unallowable costs reimbursed and, if applicable, any additional unallowable amounts resulting from the



Results in Brief

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application of items such as overhead and fees to the unallowable costs.

3. The CHOBr Project team work with the CMc to identify any additional transactions for unallowable cost types identified in our report for which the AOC reimbursed the CMc. We also recommend that, to the extent legally and administratively possible, the CHOBr Project team recover these costs and, if applicable, any additional amounts resulting from the application of items such as overhead and fees to the unallowable costs.
4. The CHOBr Project team review all of the costs that the CMc incurred and billed to the AOC related to the hearing and determine if the costs are allowable and reasonable as reimbursable costs. We are questioning the full \$234,383 in outside legal costs.
 - If the CHOBr Project team determines that any of the costs that the CMc incurred for the hearing are allowable, the CHOBr Project team should determine whether the AOC should fund the costs through a contract change order and what funding source the AOC should use to fund the costs (e.g., contingency, allowance).
 - If any of the costs that the CMc incurred for the hearing are unallowable, the CHOBr Project team should recover the costs to the extent legally and administratively possible. If applicable, the CHOBr Project team should also recover any additional amounts resulting from the application of items such as overhead and fees to the unallowable costs.
5. The CHOBr Project team consider implementing a policy requiring the CMc to provide detailed support for any reimbursable costs that exceed an appropriate dollar threshold, at the time the CMc submits the pay application.
6. The CHOBr Project team review insufficiently supported costs identified during the audit and, to the extent legally and administratively possible, recover

any amounts for which the CMc cannot provide support. If applicable, the CHOBr Project team should also recover any additional amounts resulting from the application of items such as overhead and fees to the unsupported costs. We are questioning \$286,933 in insufficiently supported costs.

7. The AOC's CHOBr Project team ensure that the supporting documentation for all costs that the CMc actually incurred and for the amounts reported in its invoices related to the project is sufficient, maintained and readily available for examination.

Management Comments

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

The AOC provided comments on May 10, 2021, see Appendix F. AOC management agreed with the conclusion that overall, the CMc billed, and the AOC paid, CHOBr Project Phase 1 and Phase 2 reimbursable costs in accordance with the CMc contract terms and conditions, and that the costs were generally allowable, allocable, supportable and reasonable, but the CHOBr Project team needs to strengthen its review and approval process for these costs and ensure supporting documentation for all reimbursed costs is sufficient, maintained and readily available for examination. AOC management concurred with the AOC OIG's seven recommendations.

Please see the Recommendations Table on the following page.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Office of the Chief Engineer	NONE	1, 2, 3, 4, 5, 6 and 7	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.



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UNITED STATES GOVERNMENT

MEMORANDUM

DATE: June 08, 2021

TO: J. Brett Blanton
Architect of the Capitol

FROM: Christopher P. Failla, CIG
Inspector General

SUBJECT: Audit of the Cannon House Office Building Renewal (CHOB) Project's Reimbursable Costs (Report No. OIG-AUD-2021-04)

The Office of the Inspector General (OIG) is transmitting Cotton & Company, LLP's (Cotton) final audit report on the Cannon House Office Building Renewal (CHOB) Project's Reimbursable Costs (OIG-AUD-2021-04). Under contract AOC19A3002-T004 monitored by my office, Cotton, an independent public accounting firm, performed the audit in accordance with auditing standards generally accepted in the United States of America. In connection with the contract, we reviewed Cotton's report and related documentation and inquired of its representatives. Although Cotton is responsible for the report dated June 08, 2021, and the conclusions expressed in the report, our review disclosed no instances where Cotton did not comply, in all material respects, with generally accepted government auditing standards.

Architect of the Capitol (AOC) management has agreed with the report conclusion that overall, the CHOB Project's Phase 1 and Phase 2 reimbursable costs were billed and paid in accordance with the Construction Manager as Constructor (CMc) contract terms and conditions, and the costs were generally allowable, allocable, supportable and reasonable. However, the CHOB Project team needs to strengthen its review and approval process for these costs and ensure supporting documentation for all reimbursed costs is sufficient, maintained and readily available for examination. AOC management concurred with the seven recommendations in this report.

In our review of AOC Management Comments, we determined that the proposed corrective actions do 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, June 07, 2022.

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



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UNITED STATES GOVERNMENT

MEMORANDUM

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Introduction

Objective

This report presents the results of our audit of reimbursable costs that the AOC's CMc invoiced for its work on the CHOBr Project (Contract No. AOC13C2002). The objective of this audit was to determine whether the CMc had billed, and the AOC had paid, reimbursable costs for Phase 1 and Phase 2 of the CHOBr Project in accordance with the CMc's contract terms and conditions; whether these costs were allowable, allocable and supportable; and whether the costs appeared reasonable.

We conducted this performance audit in Washington, D.C. from August 2020 through February 2021, in accordance with Generally Accepted Government Auditing Standards (GAGAS) (per the 2018 revision of the Government Accountability Office's Government Auditing Standards). Those 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 require the AOC to provide a management representation letter associated with the issuance of a performance audit report citing GAGAS¹. The letter is intended to confirm representations, both oral and written, made to us during the audit. We requested a management representation letter from the AOC on April 12, 2021. We have included a copy of this letter in this report as Appendix D. AOC management did not sign the management representation letter that was provided and instead provided a letter, included as Appendix E, stating that, "The information provided by the AOC as part of this audit is complete and accurate to the best of its knowledge." AOC management did not explain why they were unable to make the requested representations that included routine representations such as their knowledge of any fraud or suspected fraud, instances of noncompliance with laws or regulations and any pending or threatened litigation.

See Appendix A for a discussion of the scope and methodology, review of internal controls and prior audit coverage related to the objective.

¹ Section 8.97 of the 2018 revision of the GAGAS states that "Auditors may request that management provide written representations as to the accuracy and completeness of information provided."

Background

The Cannon House Office Building was designed in the Beaux Arts architectural style by Carrere and Hastings and built in 1906 for the AOC. It is part of the Capitol campus in Washington, D.C. and is fully occupied by more than 2,000 people. It is one of a series of buildings occupied by the U.S. House of Representatives, with Member suites, committee support offices and utility support space. The building has five stories and a full basement. There is a multi-level parking garage in the courtyard area housing approximately 300 vehicles, with car access from the south. The total square footage of the building, including the parking garage, is approximately 800,000 square feet.

The AOC undertook the CHOBBr Project to ensure the building continues to provide space for members to perform their legislative business. The building has not received a comprehensive systems upgrade since the 1930s, and many of the building's systems are original. The CHOBBr Project is scheduled to take approximately 10 years to complete, with five phases (0 through 4) aligned to fall between congressional move cycles.

The AOC entered into three base contracts for the CHOBBr Project: Architect-Engineer (AE), Construction Manager as Agent (CMa) and CMc.² The primary and most substantial contract for Phases 1 and 2 was with the CMc. The AOC contracted with a joint venture (JV) between two construction companies, Clark Construction Group (hereafter, "Company 1") and the Christman Company (hereafter, "Company 2"), to perform CMc services. The AOC awarded the base contract with the CMc on October 25, 2012. The CMc contract incorporates a guaranteed maximum price (GMP), or a cap on how much the owner (i.e., the United States Government via the AOC) will pay the contractor. The scope of this contract is design assistance and pre-construction services, as well as additional contract options for a pre-installation phase (Option 0); four option periods of staged construction, each addressing roughly one of the four wings of the building; and a closeout option. Under the contract, the CMc is responsible for replacing or upgrading all major building systems to include complete modernization to meet all applicable codes.

² The CHOBBr Project team awarded the AE contract (AOC10C0090) to Shalom Baranes Associates. It awarded the CMa contract (AOC13C1000) to a JV between McDonough Bolyard Peck and AECOM and the CMc contract (AOC13C2002) to a JV between Clark Construction Group and the Christman Company.

As part of our audit, we reviewed appropriate criteria and interviewed the CMc and members of the CHOBr Project team that participated in the invoice (known as pay application) review and approval process, which included reviewing reimbursable costs.

Company 1 and Company 2 submit monthly pay requests (i.e., invoices) to the CMc Project Controls Manager. Prior to submission, Company 1 and Company 2 identify non-reimbursable costs within the pay requests. Upon receipt of the pay requests, the CMc Project Controls Manager ensures that Company 1 and Company 2 prepared the pay requests in accordance with their contracts with the CMc, then provides the pay requests to the CMc Quality Control (QC) Manager, Project Manager and Business Manager. The CMc QC Manager and Project Controls Manager validate the back-up included in the pay requests. When loading Company 1 and Company 2 pay requests into the CHOBr Project's Detail Construction Costs Report (DCCR), the CMc first posts the costs to the phase's control job code, which allows the CMc to identify any non-reimbursable costs before posting them to the actual job code. The CMc Business Manager, Project Manager and cost engineering department are responsible for determining which costs are reimbursable. The CMc Business Manager and/or Project Manager drafts the pay application based on input from Company 1 and Company 2 invoices and information from CMc personnel. The CMc QC Manager ensures that the pay application meets the requirements of the CMc's contract with the AOC. The CMc Business Manager and/or Project Manager then provides a draft pay application to the AOC Contracting Officer's Representative (COR) and CMA Project Controls Manager for review.

The CMA Project Controls Manager assigns pay application review tasks to the Financial Analyst.³ Specifically, the Financial Analyst ensures the pay application meets the financial requirements of the AOC/CMA contract and is mathematically sound. Because the CMc invoices for general conditions (GC), general requirements (GR), bonding and insurance based on actual costs incurred (i.e., reimbursable costs), the CMA team reviews the supporting documentation for the actual costs included in the pay application. This documentation includes the CMc's DCCR and invoices related to GC and GR work performed by pay-when-paid vendors. The CMA team's review does not currently include invoices submitted by Company 1 or Company 2 (i.e., self-performed work). The Financial Manager determines if the reimbursable costs appear reasonable and are allowable, allocable to the Project and supported. Specifically:

³ Prior to January 2020, the Financial Manager performed this task.

- The Financial Analyst ensures that the reimbursable costs included in the pay application are supported by amounts recorded in the CMc's DCCR.
- For pay-when-paid vendors, the Financial Analyst also verifies that the amounts included in the pay application are supported by the vendors' invoices, including supporting documentation.

The Financial Analyst forwards comments regarding reimbursable costs to the CMA Project Controls Manager.

The CMA Project Controls Manager communicates the pay application review comments to the CMc. If the CMc needs to gain a better understanding of the comments, the CMA holds a pay application review meeting with the CMc. If revisions to the pay application are necessary, the CMc Business Manager revises the pay application and resubmits it to the CMA. The CMA reviews the pay application and provides a recommendation to the AOC COR regarding whether the AOC COR should approve the pay application. The AOC COR determines whether to approve or reject the pay application. If the AOC COR rejects the pay application, the CMc Business Manager must again revise the pay application and resubmit it to the CMA. Once the AOC COR approves the pay application, the CMc enters it into the Department of the Treasury's Invoice Processing Platform (IPP). The AOC COR must then determine whether to approve or reject the pay application in IPP. If the AOC COR rejects the pay application, the CMc must reenter the pay application in IPP. Once the AOC COR approves the invoice, the AOC Contracting Officer (CO) provides second-level approval for the invoice. After the CO has approved the pay application, the AOC releases the funding to the CMc.

As of August 31, 2020, the CHOBr Project team had approved approximately \$19.1 million (net) in reimbursable costs for Phase 1 (\$12.0 million in labor and \$7.1 million in non-labor) and approximately \$16.6 million (net) in reimbursable costs for Phase 2 (\$9.8 million for labor and \$6.8 million for non-labor).

Internal Controls

We reviewed internal controls to obtain an understanding of the CHOBr Project team's and CMc's processes for reviewing and approving pay applications (i.e., invoices), including those for reimbursable costs. We obtained our understanding by reviewing policies and contract specifications and interviewing CHOBr Project team members from the AOC and the CMA, as well as CMc employees, to determine

whether controls were properly implemented and working as designed, individually or in combination with other controls. We determined that the controls over the CHOBBr Project team's review and approval process for the CMc's reimbursable cost pay applications were generally sufficient; however, the CHOBBr Project team: 1) approved CMc pay applications that included small amounts of unallowable costs; 2) reimbursed the CMc for significant outside legal costs without determining the allowability and reasonableness of the costs; and 3) needs to ensure that the CMc maintains sufficient supporting documentation that is readily available for examination.

Criteria

To assess the effectiveness of the reimbursable cost review and approval process and determine whether the reimbursed costs: 1) complied with the CMc's contract terms and conditions and other relevant guidance and 2) were allowable, allocable and supported and appeared to be reasonable within the scope of contract requirements, we relied upon relevant criteria from the following sources:

- The Base Contract (AOC13C2002) between the AOC and the CMc and its subsequent modifications, including Federal Acquisition Regulation (FAR) Part 31, which is incorporated by reference into the contract.
- The Inspector General Act of 1978, as incorporated into the Architect of the Capitol Inspector General Act of 2007.
- The Government Accountability Office's *Standards for Internal Control in the Federal Government* (known as the Green Book).

Appendix B includes a detailed listing of the references from each of these sources that are relevant to our findings.

Audit Results

We determined that overall, the CMc billed, and the AOC paid, CHOBr Project Phase 1 and Phase 2 reimbursable costs in accordance with the CMc contract terms and conditions, and that the costs were generally allowable, allocable, supportable and reasonable. We also determined that the CHOBr Project team's review and approval process for reimbursable costs was adequate overall. However, we concluded that the CHOBr Project team needs to strengthen its review and approval process for these costs and ensure supporting documentation for all reimbursed costs is sufficient, maintained and readily available for examination.

During our review, we found that the CHOBr Project team approved CMc pay applications that included small amounts of unallowable costs. Specifically, we identified a total of \$54,246 in unallowable costs that the CHOBr Project team paid to the CMc. Of these costs, we identified \$33,867 within 12 of the 60 sampled non-labor transactions, and the remaining \$20,379 through our review of other supporting documentation and reconciliations. In addition, the AOC reimbursed the CMc for \$234,383 in outside legal costs without the CHOBr Project team determining the allowability and reasonableness of the costs. Lastly, we were unable to assess compliance, allowability and reasonableness for \$286,933 in reimbursed costs because the CMc either did not provide supporting documentation or did not provide sufficient supporting documentation during the audit.

Although we concluded that the CHOBr Project team's review and approval process for reimbursable costs was adequate overall,⁴ it is essential that the CHOBr Project team refine its process to obtain greater assurance that: 1) the CMc bills, and the AOC pays, reimbursable costs in accordance with the CMc contract terms and conditions and 2) reimbursable costs are allowable, allocable, supportable and appear to be reasonable. The CHOBr Project team should also ensure that the CMc maintains sufficient supporting documentation that is readily available for examination. Without refining the review and approval process and ensuring that the CMc maintains sufficient supporting documentation for reimbursed costs, the AOC continues to be at risk of reimbursing the CMc for unallowable costs.

⁴ As discussed in the Prior Audit Coverage section of this report, Report No. OIG-AUD-2020-05, "Audit of the Cannon House Office Building Renewal (CHOBr) Project's Contract Invoices," dated August 25, 2020, previously reviewed the CHOBr Project team's process for reviewing the CMc payment applications. That report also reached the conclusion that the overall process appeared to be adequate and appropriate. However, that audit did not involve testing actual costs, instead focusing on the process and contract compliance.

As such, we made seven recommendations to improve how the CHOBr Project team reviews, approves and supports payment applications for reimbursable costs.

Finding A

The AOC's CHOBr Project Team Needs to Strengthen the Review and Approval Process for Reimbursable Costs

We determined that the CHOBr Project team needs to strengthen its review and approval process for reimbursable costs. During our review of the reimbursable costs for Phase 1 and Phase 2 of the CHOBr Project, we found the CHOBr Project team approved payment applications that contained \$54,246 in unallowable costs and reimbursed the CMc for \$234,383 in outside legal costs without determining the allowability and reasonableness of the costs.

1. The CHOBr Project's CMc submitted, and the CHOBr Project team approved, payment applications that contained \$54,246 in unallowable costs.

The CHOBr Project's CMc is a JV between Company 1 and Company 2. There are two sources of reimbursable costs on the CHOBr Project: 1) costs posted directly to the CMc's DCCR and 2) invoices that Company 1 and Company 2 submit to the CMc (i.e., self-performed work), which the CMc reviews and subsequently posts to the DCCR.

As of August 31, 2020, the CHOBr Project team had approved approximately \$19.1 million (net) in reimbursable costs for Phase 1 (\$12.0 million in labor and \$7.1 million in non-labor) and approximately \$16.6 million (net) in reimbursable costs for Phase 2 (\$9.8 million for labor and \$6.8 million for non-labor).

For both Phase 1 and Phase 2, we selected 20 transactions from the DCCR (40 transactions total) and 10 transactions from each of the two construction companies' invoices (20 transactions total), for a total of 60 sampled reimbursable non-labor cost transactions across both phases. The total value of the sample was \$2,366,788. We received sufficient documentation to complete our testing for 54 sample items that had a total value of \$2,287,265. Of the 54 transactions that we were able to test, 11 were for amounts in excess

of \$50,000. We did not identify any unallowable costs in these transactions. The remaining 43 transactions were for amounts less than \$50,000, with a total value of \$285,458. Within this data set, we identified \$33,867 in unallowable costs (i.e., 11.9 percent of the value of the sample) incurred in a total of 12 transactions, as follows:

- In four instances, the AOC reimbursed the CMc for a total of \$9,448 in unallowable meal/amusement costs.
- In one instance, the AOC reimbursed the CMc for \$2,939 in unallowable costs related to a subcontractor's bankruptcy.
- In one instance, the AOC reimbursed the CMc for \$2,382 for a scheduling allocation that was duplicative of costs covered in Company 1's overhead rate and was therefore unallowable.
- In one instance, the AOC reimbursed the CMc for \$2,316 in unallowable major repair costs to rental equipment.
- In one instance, the AOC reimbursed the CMc for \$2,035 in unallowable travel costs.
- In one instance, the AOC reimbursed the CMc for \$1,589 in unallowable gift costs.
- In one instance, the AOC reimbursed the CMc for \$600 in unallowable public relations costs.
- In one instance, the AOC reimbursed the CMc for \$102 in unallowable parking costs.
- In one instance, the AOC reimbursed the CMc for \$12,456 in costs incurred to support a Building Information Modeling research project conducted by a public university in Virginia. These costs were not allocable to the CHOBr project.

In addition to the unallowable costs we identified in our sample, we identified further unallowable costs while analyzing other supporting documentation and reconciling the two CMc companies' invoice amounts to the CMc's DCCR. These other unallowable costs totaled \$20,379, as follows:

- In 17 instances, the AOC reimbursed the CMc for a total of \$16,884 (net) in unallowable scheduling allocation costs (Note: Following the unallowable scheduling allocation costs noted during our non-labor

testing, we expanded our testing to analyze additional Company 1 invoices).

- In two instances, the AOC reimbursed the CMc for a total of \$2,930 in unallowable meal costs.
- In one instance, the AOC reimbursed the CMc for \$272 in unallowable parking costs.
- In one instance, the AOC reimbursed the CMc for \$194 in unallowable sympathy flower costs.
- In one instance, the AOC reimbursed the CMc for \$99 in unallowable alcohol costs incurred during overseas travel. (Note: Varying exchange rates may cause slight fluctuations in this amount.)

When providing its response to the scheduling allocation transaction selected for non-labor testing, the CMc noted that these transaction types are already covered by its overhead rate (i.e., the costs were duplicative). We expanded our testing by reviewing the remainder of the unallowable scheduling allocations and discovered an additional \$16,884 in duplicative, unallowable costs identified above. However, we were not able to expand our testing to include any of the other transaction types comprising the remaining unallowable costs, whether uncovered during our non-labor testing or other audit procedures. Therefore, the CHOBr Project team should consider examining other instances of the transaction types for which we noted unallowable costs. Additionally, because the CMc directly billed the AOC for costs covered by the CMc's overhead rate, the CHOBr Project team should consider examining other directly billed costs that could be duplicative of costs covered by the CMc's overhead rate.

The CHOBr Project team's current reimbursable cost procedures do not require the CMc to provide supporting documentation for all of its reimbursable costs when submitting its pay applications to the AOC and CMA for review and approval. Additionally, the CMc's procedures for reviewing reimbursable costs are not sufficient to ensure that it identifies and removes all unallowable costs from its payment applications. Another contributing factor for this issue is that the CHOBr Project team allows the CMc to bill for reimbursable costs based on the amounts recorded in its DCCR. The CHOBr Project team stated that it periodically performed more detailed reviews of the DCCR and associated invoices; however, due to a lack of time and resources,

the team was unable to perform this detailed review on a regular basis. Instead, on a limited basis, the team reviewed selected invoices associated with the DCCR. The team also stated that this review may have included the Company 1 and Company 2 invoices, pay-as-performed invoices, self-performed-work invoices and other limited transactions (e.g., coffee, parking, meals).

2. The AOC reimbursed the CMc for \$234,383 in outside legal costs that the CHOBr Project team did not review for allowability and reasonableness.

On August 22, 2019, the Committee on House Administration (CHA) requested that a representative from the CHOBr Project's CMc appear at a hearing titled "Oversight of the Renovations of the Cannon House Office Building." Per the CMc, it had not anticipated testifying before Congress as part of this project (i.e., it incurred unanticipated costs). On September 10, 2019, the CMc representative provided oral and written testimony to the CHA. From August 22, 2019, until sometime after the September 10, 2019, testimony, to allow time for follow-up questions from the CHA, the CMc incurred \$234,383 in outside legal costs. These costs do not include any labor costs for time CMc employees may have spent preparing for and attending the hearing.

The CMc recorded these costs in its DCCR using reimbursable cost codes, then included these costs in subsequent payment applications that it submitted to the AOC. The AOC reimbursed the CMc for the full amount of these legal costs, although the CO in place at the time was not aware of the costs. The CHOBr Project team did not review the costs to determine if they were allowable, reasonable and properly funded by the contract.

The CHOBr Project team's current reimbursable cost procedures do not require the CMc to provide supporting documentation for all of its reimbursable costs when submitting its pay applications to the CHOBr Project team for review and approval. Instead, the AOC and CMa allow the CMc to bill for reimbursable costs based on the amounts that the CMc recorded in its DCCR. This intermittent billing is an appropriate method during a project, if the CHOBr Project team performs more detailed reviews on a periodic basis to identify unallowable costs. However, as previously noted, the CHOBr

Project team stated that while it performs limited reviews on a monthly basis, it has not been able to perform these detailed reviews on a regular basis due to limited time and resources.

Additionally, although the CMc did not anticipate testifying before Congress as part of its contract, it did not request that the CHOBr Project team issue a potential change order (PCO) to pay for the costs it incurred as a result of the hearing. Submitting a PCO request would have required the CMc to prepare a proposal for the costs associated with the hearing and submit this proposal to the CHOBr Project team for review and approval.

Conclusion

The AOC reimbursed the CMc for unallowable costs. Although we acknowledge that we only identified a small percentage of unallowable costs in a population of \$13.9 million in reimbursable non-labor costs, the questioned costs were only based on the sampled transactions tested, as well as a limited expansion of that testing. Further, many of the questioned costs were expressly unallowable. We conclude that the AOC could realize continued savings if the CHOBr Project team strengthens its reimbursable cost review process to reduce unallowable costs in future payment applications over the remaining four years of the construction project.

Additionally, the AOC paid the CMc for \$234,383 in outside legal costs related to a Congressional hearing, and potentially paid for labor costs for the time CMc employees spent preparing for and attending the hearing, without reviewing the costs to determine if they were allowable, reasonable and properly funded within the contract. As a result, the AOC reimbursed the CMc for costs that are potentially non-reimbursable. We are therefore questioning \$234,383 for allowability and reasonableness.

Recommendations

Recommendation 1

We recommend that the CHOBr Project team strengthen the review process for small-dollar reimbursable cost transactions to help ensure that the Construction Manager as Constructor (CMc) does not include, and the CHOBr Project team does not approve, unallowable costs in the pay applications.

Recommendation 1 – AOC Comment

Concur. The CHOBr Project team stated it has already implemented a number of steps to strengthen its review process, including requesting that the CMC submit additional supporting documentation with each monthly invoice, such as Company 1 and Company 2 invoices and direct costs, consultant invoices, support for all allocations and support for all other reimbursable costs over \$25,000.

Recommendation 1 – OIG Comment

We recognize the AOC's concurrence with the recommendation. The CHOBr Project team will: review labor positions, rates and hours to confirm calculations; review consultant invoices and allocation documentation for proper calculations, reasonableness and allowability; confirm costs are allowable per contract requirements; and monitor reimbursable cost billings against the awarded contract value per line item. The AOC actions appear to be responsive to the recommendation. Therefore, the recommendation is considered resolved but open. The recommendation will be closed upon completion and verification of the proposed action.

Recommendation 2

We recommend that, to the extent legally and administratively possible, the CHOBr Project team recover the \$54,246 of unallowable costs reimbursed and, if applicable, any additional unallowable amounts resulting from the application of items such as overhead and fees to the unallowable costs.

Recommendation 2 – AOC Comment

Concur. The CHOBr Project team stated that the AOC received a credit of \$21,490 for the unallowable costs billed under Phase 2 of the project plus applicable overhead and fees, and also noted that one Phase 2 invoice in the amount of \$1,599 was determined to be allowable as the CMC received prior approval from the Contracting Officer (CO). The CHOBr Project team stated that the AOC is unable to recover \$31,157 for the unallowable costs under Phase 1 of the project because those costs were part of a negotiated settlement of requests for an equitable adjustment (REA).

Recommendation 2 – OIG Comment

We recognize the AOC's concurrence with the recommendation. The AOC obtained a credit of \$21,490 for unallowable Phase 2 costs and determined that the remaining unallowable costs are not recoverable because they were part of a settled REA or

received prior approval from the CO. The AOC actions appear to be responsive to the recommendation. Therefore, the recommendation is considered resolved but open. The recommendation will be closed upon completion and verification of the proposed action.

Recommendation 3

We recommend that the CHOBr Project team work with the Construction Manager as Constructor (CMc) to identify any additional transactions for unallowable cost types identified in our report for which the AOC reimbursed the CMc. We also recommend that, to the extent legally and administratively possible, the CHOBr Project team recover these costs and, if applicable, any additional amounts resulting from the application of items such as overhead and fees to the unallowable costs.

Recommendation 3 – AOC Comment

Concur. The CHOBr Project team stated the AOC is evaluating the feasibility of identifying any additional transactions for unallowable cost types, including the time and level of effort required, the likelihood of identifying significant amounts of unallowable costs, and the legal and administrative challenges associated with recovering any unallowable costs that might be identified.

Recommendation 3 – OIG Comment

We recognize the AOC's concurrence with the recommendation. To lessen the burden placed on the AOC, the AOC OIG plans to conduct its own review of the remaining non sampled transactions to identify any additional unallowable cost types identified during the audit for which the AOC reimbursed the CMc. The recommendation is considered resolved and may be closed upon completion of the proposed action.

Recommendation 4

We are questioning the full \$234,383 in outside legal costs. We recommend that the CHOBr Project team review all of the costs that the Construction Manager as Constructor (CMc) incurred and billed to the AOC related to the hearing and determine if the costs are allowable and reasonable as reimbursable costs.

- If the CHOBr Project team determines that any of the costs that the CMc incurred for the hearing are allowable, the CHOBr Project team should determine whether the AOC should fund the costs through a contract change

order and what funding source the AOC should use to fund the costs (e.g., contingency, allowance).

- If any of the costs that the CMc incurred for the hearing are unallowable, the CHOBr Project team should recover the costs to the extent legally and administratively possible. If applicable, the CHOBr Project team should also recover any additional amounts resulting from the application of items such as overhead and fees to the unallowable costs.

Recommendation 4 – AOC Comment

Concur. The CHOBr Project team stated that the AOC determined \$35,426 in legal fees and markups were neither allowable nor reasonable, so it is pursuing a credit from the CMc. The allowable legal fees and markups will be funded by the Construction Contract Cost budget line item. The AOC determined that the remainder of the legal fees were allowable and reasonable. To prevent similar issues in the future, the AOC instituted a tracking system to identify reimbursable costs that have been billed but not previously approved. Additionally, the CHOBr Project team stated that the CMc has added a secondary review of its proposed billings to the AOC prior to submission and has committed to retraining its staff to recognize potentially unallowable costs.

Recommendation 4 – OIG Comment

We recognize the AOC's concurrence with the recommendation. After reviewing the legal costs for allowability and reasonableness, the AOC is now pursuing a credit of \$35,426 from the CMc. The AOC also instituted a tracking system to identify reimbursable costs that have been billed but not previously approved. The AOC actions appear to be responsive to the recommendation. Therefore, the recommendation is considered resolved but open. The recommendation will be closed upon completion and verification of the proposed action.

Recommendation 5

We recommend that the CHOBr Project team consider implementing a policy requiring the Construction Manager as Constructor (CMc) to provide detailed support

for any reimbursable costs that exceed an appropriate dollar threshold, at the time the CMC submits the pay application.

Recommendation 5 – AOC Comment

Concur. The CHOBr Project team stated that the AOC implemented a process requiring the CMC to provide detailed support for any reimbursable cost that exceeds \$25,000 on its monthly invoice.

Recommendation 5 – OIG Comment

We recognize the AOC's concurrence with the recommendation. The AOC implemented a process requiring the CMC to provide detailed support for any reimbursable cost that exceeds \$25,000 on its monthly invoice. The AOC actions appear to be responsive to the recommendation. Therefore, the recommendation is considered resolved but open. The recommendation will be closed upon completion and verification of the proposed action.

Finding B

The AOC's CHOBr Project Team Needs to Ensure Supporting Documentation for All Reimbursed Costs is Sufficient, Maintained and Readily Available

The CHOBr Project team's process for ensuring the CMc's supporting documentation is sufficient and maintained needs improvement. We were unable to assess compliance, allowability, and reasonableness for reimbursed costs amounting to \$286,933 due to no or insufficient supporting documentation provided during the audit.

We reviewed reimbursable non-labor and labor costs, as well as reconciled supporting documentation to the reimbursable costs that the CMc included in the pay applications submitted to the AOC.

Non-Labor Sample. For our Phase 1 and Phase 2 non-labor testing, we sampled 40 total transactions from the DCCRs and 10 transactions from each of the two construction companies' invoices, for a total of 60 reimbursable non-labor cost transactions. These transactions had a total value of \$2,366,788.

We did not receive sufficient documentation for six of the 60 transactions sampled (i.e., 10 percent) to determine if the costs were reimbursable. These six transactions had a total value of \$79,523, which included:

- Phase 1 Company 2 Invoices: Two transactions totaling \$5,582
- Phase 2 DCCR: Four transactions totaling \$73,941

The time that the CMc required to respond to our initial request for supporting documentation for some of the transactions hindered our ability to review the documentation and follow up as necessary. We initially requested support for each of the 60 non-labor transactions on November 20, 2020. The CMc provided its initial support for these transactions between December 7, 2020 and January 22, 2021, 11 days after the end of fieldwork. During this period,

we evaluated the information as it was provided, and sent follow up requests to the CMc as needed. We summarized these additional requests in writing on January 25, 2021, and again on a phone call with the CMc on January 26, 2021. During that call, the CMc agreed to provide the information requested by January 29, 2021. However, the CMc did not provide sufficient documentation for the six transactions noted above.

Labor Sample. For our Phase 1 labor testing, we selected one pay period from the Summary of Labor Billing – Field Labor report (i.e., the detail for labor transactions posted directly to the DCCR) and the full amount of the labor costs reported on an invoice for Company 1.⁵ For our Phase 2 labor testing, we selected one pay period from the Summary of Labor Billing – Field Labor report and one pay period from an invoice for Company 2.

The four labor periods included in our sample contained a total of \$599,805 in labor costs. The documentation that the CMc provided only supported \$569,837 of this amount, leaving \$29,968 unsupported (five percent of the total value of the sample). We generally noted two reasons for the unsupported labor amounts: 1) We noted differences between the amounts that the CMc invoiced to the AOC and the amounts that we recalculated using the support that the CMc provided (i.e., the labor rate multiplied by the labor hours); or 2) the CMc did not provide the requested supporting documentation (e.g., timesheets, salary/hourly rate information).

Below, we provide detailed information regarding the unsupported labor costs.

- Phase 1 Field Labor: \$4,419
 - The CMc did not provide salary/hourly rate information for six employees. As a result, we were unable to validate the amounts that the CMc charged for these employees' hours during the selected pay period. We are therefore questioning the full \$4,419 that the CMc charged the AOC for these employees' hours.
- Phase 1 Company 1 Invoice: \$22,536
 - For all 55 employees:

⁵ Because the CMc did not provide us with sufficient documentation to compare the labor costs based on the supporting documentation to the invoiced labor costs for a single pay period, we instead compared the costs for the entire Company 1 invoice.

- We noted differences between the amounts that the CMc invoiced to the AOC and the amounts that we recalculated using the support that the CMc provided. These differences resulted in \$22,536 in questioned costs.
- The CMc did not provide support for the hours worked (e.g., timesheets, certified payroll). This did not contribute to the \$22,536 difference cited above; however, it did prohibit us from verifying the hours that Company 1 billed.
- Phase 2 Field Labor: \$3,013
 - We were unable to validate the amounts that the CMc charged for five employees during the selected pay period. We are therefore questioning the \$3,013 that the CMc charged to the AOC for these employees' hours.
 - The CMc did not provide salary/hourly rate information for three employees. The unsupported amounts totaled \$2,079.
 - The CMc did not provide support for an overtime adjustment or hours worked for two employees. The unsupported amounts totaled \$934.

DCCR-to-Pay-Application Reconciliations. When the CHOB Project team provided the DCCR for Phase 1 Pay Application No. 79 as of September 22, 2020, the cutoff point for our Phase 1 testing, it noted that the CMc would provide a reconciliation for a difference in cost code 010713 – Liability Insurance. While attempting to reconcile the DCCR to Phase 1 Pay Application No. 79, we noted the previously mentioned difference for cost code 010713. The pay application reported job-to-date costs of \$1,091,808, while the DCCR reported job-to-date costs of \$943,136 (i.e., the costs that the CMc charged to the CHOB Project were \$148,672 greater than the costs it recorded in the DCCR). On February 11, 2021, the CMc provided detail from the DCCR that showed \$943,136 in costs incurred as of the date of Phase 1 Pay Application No. 79, as well as \$358,194 in transactions that the CMc had recorded in the DCCR subsequent to this date. We were unable to identify the \$148,672 difference within the \$358,194 in transactions. We are questioning the \$148,672 in additional costs billed.

Company-Invoices-to-DCCR Reconciliations. While attempting to reconcile the Company 1 and 2 invoices to the Phase 1 and 2 DCCRs, we

noted differences between the reimbursable costs reported on the invoices and the costs reported in the DCCRs. Specifically, the Company 1 invoice for December 2019 appeared to include \$256,715 in reimbursable costs, but was recorded as \$285,485 in the DCCR, for a difference of \$28,770. Additionally, the invoice contained labor costs that the CMc had struck through. We requested that the CMc explain: 1) why it had struck through some of the labor costs on the invoice and 2) any other factors that led to the difference identified. The CMc provided an explanation for the struck-through labor costs; however, it did not provide an explanation regarding any other factors that led to the difference between the amount reported in the DCCR and the amount reported on the Company 1 invoice. Because the CMc did not provide an explanation for the difference between the \$285,485 in reimbursable costs reported in the DCCR and the \$256,715 in reimbursable costs reported in the December 2019 Company 1 invoice, we are questioning the \$28,770 in additional costs posted to the DCCR.

Conclusion

We were unable to determine if the insufficiently supported transactions were allowable, allocable, supported and whether they appeared to be reasonable within the scope of contract requirements. The documentation needed to sufficiently support the costs incurred on the project was not readily available, per the requirements of the contract and Section 10.03 of the Green Book. Specifically, the CMc either did not provide the requested documentation in a timely manner or did not provide it at all.

Another factor contributing to the lack of supporting documentation is that the CHOBr Project team's current reimbursable cost procedures do not require the CMc to provide supporting documentation for all of its reimbursable costs when submitting its pay applications to the CHOBr Project team for review and approval. This is appropriate for intermittent billings on a cost-reimbursable contract; however, it does increase the risk that support for the costs included on pay applications will not be readily available for examination.

The potential effect of this finding is that the AOC may have reimbursed the CMc for amounts in excess of the actual costs incurred. With a population of approximately \$35.7 million in reimbursable costs, it is important to ensure that all costs billed are allowable, allocable, supported and reasonable for the CHOBr project.

We are questioning \$286,933 in costs that the CMc charged and the AOC paid.

Recommendations

Recommendation 6

We are questioning \$286,933 in insufficiently supported costs. We recommend that the CHOBr Project team review these costs and, to the extent legally and administratively possible, recover any amounts for which the Construction Manager as Constructor cannot provide support. If applicable, the CHOBr Project team should also recover any additional amounts resulting from the application of items such as overhead and fees to the unsupported costs.

Recommendation 6 – AOC Comment

Concur. The CHOBr Project team stated that the AOC determined that \$215,263 of the billed \$286,933 is supportable under the contract. The AOC recovered a credit of \$71,670 for the unallowable costs plus associated markups.

Recommendation 6 – OIG Comment

We recognize the AOC's concurrence with the recommendation. The AOC determined that \$215,263 of the billed \$286,933 was supported, so it obtained a credit of \$71,670 for the remaining unallowable costs plus associated markups. The AOC actions appear to be responsive to the recommendation. Therefore, the recommendation is considered resolved but open. The recommendation will be closed upon completion and verification of the proposed action.

Recommendation 7

We recommend that the AOC's CHOBr Project team ensure that the supporting documentation for all costs that the Construction Manager as Constructor (CMc) actually incurred and for the amounts reported in its invoices related to the project is sufficient, maintained and readily available for examination.

Recommendation 7 – AOC Comment

Concur. The CHOBr Project team stated that the AOC will ensure that the supporting documentation for all costs contractually incurred and the amounts reported in its invoices related to the project is sufficient, maintained and readily available for examination. The CHOBr Project team will perform test checks of the documentation

periodically, depending on resource availability. The CHOBr Project team acknowledged that the CMc did not provide the AOC OIG with all the necessary documentation requested during the course of the audit, but noted that this was inconsistent with the Project team's experience with the CMc.

Recommendation 7 – OIG Comment

We recognize the AOC's concurrence with the recommendation. The AOC will ensure that the supporting documentation for reimbursable costs is sufficient, maintained and readily available for examination. It will also perform periodic test checks of the supporting documentation. The AOC actions appear to be responsive to the recommendation. Therefore, the recommendation is considered resolved but open. The recommendation will be closed upon completion and verification of the proposed action.

COTTON & COMPANY LLP

A handwritten signature in black ink, appearing to read 'J Boberg', with a stylized, cursive script.

Jason Boberg, CPA, CFE
Partner
June 8, 2021

Appendix A

Scope and Methodology

The scope of this performance audit was the reimbursable costs included in pay applications that the CMC submitted to the AOC during Phases 1 and 2 of the CHOB Project for Contract AOC13C2002 (awarded on October 25, 2012). We conducted this performance audit of the CHOB Project, located in Washington, DC, from August 2020 through February 2021, in accordance with GAGAS (per the 2018 revision of the Government Accountability Office's *Government Auditing Standards*). Those 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 the CHOB Project team's documented policies and procedures for the review and approval of reimbursable costs included in pay applications and concluded regarding the adequacy of those procedures. We discussed and documented the roles and responsibilities of those responsible for reviewing and approving reimbursable costs and tested a sample of 60 non-labor transactions and four labor periods to identify the policies and procedures actually followed. We selected the sampled non-labor and labor costs on a judgmental basis. Phase 1's period of performance was January 2017 to November 2018, while Phase 2's period of performance was January 2019 to November 2020.

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

Review of Internal Controls

Government Auditing Standards requires 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 system 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 system controls.

We reviewed internal controls to obtain an understanding of the CHOBr Project team's and CMc's processes for reviewing and approving reimbursable costs included in payment applications submitted by the CMc. We obtained our understanding by reviewing policies and contract specifications and interviewing CHOBr Project team members from the AOC and the CMA, as well as CMc employees, to determine if controls were properly implemented and working as designed, individually or in combination with other controls.

As discussed in Findings A and B, the CHOBr Project team: 1) approved CMc pay applications that included small amounts of unallowable costs; 2) reimbursed the CMc for significant outside legal costs without determining the allowability and reasonableness of the costs; and 3) needs to ensure that the CMc maintains sufficient supporting documentation that is readily available for examination. Despite this, we determined that overall, the controls over the CHOBr Project's review and approval processes for reimbursable costs were adequate.

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 Government Accountability Office (GAO) issued an update to its previous report on the AOC's efforts to revise the CHOBr Project's cost and schedule estimates. In addition, the AOC OIG issued reports on its performance audits of: 1) three CHOBr Project plans, 2) CHOBr Project contract modifications and 3) CHOBr Project contract invoices.

GAO

Report No. GAO-19-712T, "Efforts Are Ongoing to Update Cannon House Office Building's Renovation Cost and Schedule Estimates," dated September 10, 2019:

In March 2014, the GAO issued a report recommending that the AOC incorporate additional leading practices from the GAO's *Cost Estimating and Assessment Guide* into its cost-estimating guidance and submit the confidence levels of project estimates (including the CHOBr Project) to Congress. As part of its monitoring of the CHOBr

Project, the GAO issued Report No. GAO-19-712T, noting that the AOC had implemented the recommendations from the March 2014 report. The GAO also noted that the AOC was updating its CHOBr Project cost estimate by undertaking an Integrated Cost Schedule Risk Analysis (ICSRA).

Note: The AOC completed the ICSRA in December 2019. The 90 percent confidence level for the revised budget estimates total costs for the CHOBr Project to be \$890.1 million, or approximately \$137.4 million over the original budget of \$752.7 million.

AOC OIG

Report No. A-2016-01, “Cannon House Office Building Renewal Project,” dated June 24, 2016:

The AOC Chief Operating Officer requested that the AOC OIG review the CHOBr Project’s Partnering Fee Plan (PFP), Project Management Plan (PMP) and Tower Crane Procurement Plan. In its review of the PFP, PMP and Tower Crane Procurement Plan, the AOC OIG found no significant issues in the execution of the plans. With regard to the Change Management Plan section of the PMP, the AOC OIG recommended that the CHOBr Project team further define approval responsibilities for “Priority 2 Urgent Changes” and “Priority 3 Mandatory Tier 3” (Note: The CHOBr Project team no longer uses this terminology in the current version of the Change Management Plan).

Report No. OIG-AUD-2020-04, “Audit of the Cannon House Office Building Renewal (CHOBr) Project’s Contract Modifications,” dated May 29, 2020:

The AOC OIG contracted with Cotton to examine contract modifications and PCOs that the AOC’s CMc submitted on the CHOBr Project. Cotton determined that overall, the contract modification process for the CHOBr Project was effective. However, Cotton identified \$102,189 in unallowable costs included in approved PCOs, as well as 19 PCO proposals that did not contain the required level of cost detail. In addition, Cotton & Company found that the CHOBr Project team did not always retain cost analysis documentation as part of the PCO review and approval process.

Report No. OIG-AUD-2020-05, “Audit of the Cannon House Office Building Renewal (CHOB) Project’s Contract Invoices,” dated August 25, 2020:

The AOC OIG contracted with Cotton to examine invoices (also known as pay applications) that the AOC’s CMc submitted on the CHOB Project. Cotton determined that the CHOB Project team’s review and approval process for the CHOB Project invoices during Option Periods 1 and 2 was adequate, that the costs reviewed were allowable and supported, and that the costs reviewed appeared to be reasonable. However, Cotton also determined that the CHOB Project team’s review and approval process did not adhere to the CMc contract requirements. The CMc contract terms and conditions for the construction phases reflected a fully cost-reimbursable GMP contract with an option to convert to a firm-fixed-price contract, but the CHOB Project team administered the CMc contract as a hybrid cost-reimbursable/firm-fixed-price GMP contract.

Appendix B

Criteria

We used the below criteria to assess the effectiveness of the reimbursable cost review and approval process, and to determine whether the reimbursed costs 1) complied with the relevant guidance and 2) were allowable, allocable, supported and appeared to be reasonable within the scope of contract requirements.

Finding A, Part 1

The Base Contract (AOC13C2002) and its subsequent modifications lay out the terms of the AOC's contract with the CMc. The following excerpts from Contract No. AOC13C2002 and its modifications relate to Finding A, Part 1:

- Base Contract Section B.3. – Travel:
 - B.3.2: For travel to be allowed, it must be authorized by the Contracting Officer (CO) in advance.
- Base Contract Section I – AOC52.244-1(b):
 - *The Contractor shall be responsible for all acts of subcontractors employed by him under this contract, and for their compliance with all terms and provisions of the contract applicable to their performance.*
- Modification 026 to the Base Contract (AOC13C2002) moved unused obligated funds for parking from the Phase 0 GMP General Conditions line to an Allowance line because the CMc was given access to a parking lot and no longer needed to be reimbursed for parking costs.
- Modification 077 to the Base Contract (AOC13C2002) updated Section C.6 – Definitions, item N to define *Costs*¹ as:

¹ The Base Contract originally defined *Costs* as the direct, actual cost of amounts that the CMc actually paid to its subcontractors and vendors for work performed by subcontractors and contractor purchase orders. However, based on changes made in Modification No. M077 (dated August 8, 2020) as the result of a prior audit finding, the CHOB Project team updated the *Costs* definition to the definition included in the *Criteria* section. Under the CHOB Project's current operating procedures, the main basis for reimbursable costs are work self-performed by the CMc and general conditions. Per AOC, the updated *Costs* definition in Modification No. M077 is applicable to all periods of the project.

- *Allowable costs in accordance with Part 31 of the Federal Acquisition Regulation (FAR) in effect on the date of this Contract. The applicable subparts of part 31 shall be used in the pricing of fixed-price contracts, subcontracts, and modifications to contracts and subcontracts whenever (a) cost analysis is performed, or (b) a fixed-price contract clause requires the determination or negotiation of costs. However, application of cost principles to fixed-price contracts and subcontracts shall not be construed as a requirement to negotiate agreements on individual elements of cost in arriving at agreement on the total price. The final price accepted by the parties reflects agreement only on the total price.*

FAR Part 31 – Contract Cost Principles and Procedures contains cost principles and procedures for the determination, negotiation or allowance of costs when required by a contract clause. The following excerpts from FAR Part 31 relate to Finding A, Part 1:

- 31.105(d)(2)(ii)(B): *Costs incident to major repair and overhaul of rental equipment are unallowable.*
- 31.201-2 – Determining allowability:
 - (a) *A cost is allowable only when the cost complies with all of the following requirements:*
 - (1) *Reasonableness.*
 - (2) *Allocability.*
 - (3) *Standards promulgated by the CAS [Cost Accounting Standards] Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.*
 - (4) *Terms of the contract.*
 - (5) *Any limitations set forth in this subpart [see FAR Part 31.201-2 (b) through (d)].*

- 31.201-3 – Determining reasonableness:
 - (a) *A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Reasonableness of specific costs must be examined with particular care in connection with firms or their separate divisions that may not be subject to effective competitive restraints. No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If an initial review of the facts results in a challenge of a specific cost by the contracting officer or the contracting officer's representative, the burden of proof shall be upon the contractor to establish that such cost is reasonable.*
 - (b) *What is reasonable depends upon a variety of considerations and circumstances, including-*
 - (1) *Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance;*
 - (2) *Generally accepted sound business practices, arm's-length bargaining, and Federal and State laws and regulations;*
 - (3) *The contractor's responsibilities to the Government, other customers, the owners of the business, employees and the public at large; and*
 - (4) *Any significant deviations from the contractor's established practices.*
- 31.201-4 – Determining allocability: *A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it-*
 - (a) *Is incurred specifically for the contract;*
 - (b) *Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or*

(c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.

- 31.205-1 – Public relations and advertising costs:

(e) Allowable public relations costs include the following:

(1) Costs specifically required by contract.

(2) Costs of-

(i) Responding to inquiries on company policies and activities;

(ii) Communicating with the public, press, stockholders, creditors and customers; and

(iii) Conducting general liaison with news media and Government public relations officers, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern such as notice of contract awards, plant closings or openings, employee layoffs or rehires, financial information, etc.

(3) Costs of participation in community service activities (e.g., blood bank drives, charity drives, savings bond drives, disaster assistance, etc.) (But see paragraph (f)(8) of this section.)

(4) Costs of plant tours and open houses (but see paragraph (f)(5) of this subsection).

(5) Costs of keel laying, ship launching, commissioning, and roll-out ceremonies, to the extent specifically provided for by contract.

- 31.205-3: *Bad debts, including actual or estimated losses arising from uncollectible accounts receivable due from customers and other claims, and any directly associated costs such as collection costs, and legal costs are unallowable.*

- 31.205-13(b): *Costs of gifts are unallowable. (Gifts do not include awards for performance made pursuant to 31.205-6(f) or awards made in recognition of employee achievements pursuant to an established contractor plan or policy.)*
- 31.205-14: *Costs of amusement, diversions, social activities, and any directly associated costs such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable.*

Finding A, Part 2

The following excerpts from Contract No. AOC13C2002 and its modifications relate to Finding A, Part 2:

- Base Contract Section I – 52.243-4 – Changes:
 - (a) *The Contracting Officer may, at any time, without notice to the sureties, if any, by written order designated or indicated to be a change order, make changes in the work within the general scope of the contract, including changes-*
 - (1) *In the specifications (including drawings and designs);*
 - (2) *In the method or manner of performance of the work;*
 - (3) *In the Government-furnished property or services; or*
 - (4) *Directing acceleration in the performance of the work.*
 - (b) *Any other written or oral order (which, as used in this paragraph (b), includes direction, instruction, interpretation, or determination) from the Contracting Officer that causes a change shall be treated as a change order under this clause; Provided, that the Contractor gives the Contracting Officer written notice stating-*
 - (1) *The date, circumstances, and source of the order; and*
 - (2) *That the Contractor regards the order as a change order.*
 - (c) *Except as provided in this clause, no order, statement or conduct of the Contracting Officer shall be treated as a change under this clause or entitle the Contractor to an equitable adjustment.*

- (d) *If any change under this clause causes an increase or decrease in the Contractor's cost of, or the time required for, the performance of any part of the work under this contract, whether or not changed by any such order, the Contracting Officer shall make an equitable adjustment and modify the contract in writing. However, except for an adjustment based on defective specifications, no adjustment for any change under paragraph (b) of this clause shall be made for any costs incurred more than 20 days before the Contractor gives written notice as required. In the case of defective specifications for which the Government is responsible, the equitable adjustment shall include any increased cost reasonably incurred by the Contractor in attempting to comply with the defective specifications.*
- (e) *The Contractor must assert its right to an adjustment under this clause within 30 days after (1) receipt of a written change order under paragraph (a) of this clause or (2) the furnishing of a written notice under paragraph (b) of this clause, by submitting to the Contracting Officer a written statement describing the general nature and amount of the proposal, unless this period is extended by the Government. The statement of proposal for adjustment may be included in the notice under paragraph (b) of this clause.*
- (f) *No proposal by the Contractor for an equitable adjustment shall be allowed if asserted after final payment under this contract.*
- **Modification 077 to the Base Contract (AOC13C2002) updated Section C.6 – Definitions, item N to define Costs as:**
 - *Allowable costs in accordance with Part 31 of the Federal Acquisition Regulation (FAR) in effect on the date of this Contract. The applicable subparts of part 31 shall be used in the pricing of fixed-price contracts, subcontracts, and modifications to contracts and subcontracts whenever (a) cost analysis is performed, or (b) a fixed-price contract clause requires the determination or negotiation of costs. However, application of cost principles to fixed-price contracts and subcontracts shall not be construed as a requirement to negotiate agreements on individual elements of cost in arriving at agreement on the total price. The final price accepted by the parties reflects agreement only on the total price.*

The following excerpts from FAR Part 31, which are incorporated into the CMC contract, relate to Finding A, Part 2:

- 31.201-2 – Determining allowability:
 - (a) *A cost is allowable only when the cost complies with all of the following requirements:*
 - (1) *Reasonableness.*
 - (2) *Allocability.*
 - (3) *Standards promulgated by the CAS [Cost Accounting Standards] Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.*
 - (4) *Terms of the contract.*
 - (5) *Any limitations set forth in this subpart [see FAR Part 31.201-2 (b) through (d)].*
- 31.201-3 – Determining reasonableness:
 - (a) *A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Reasonableness of specific costs must be examined with particular care in connection with firms or their separate divisions that may not be subject to effective competitive restraints. No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If an initial review of the facts results in a challenge of a specific cost by the contracting officer or the contracting officer's representative, the burden of proof shall be upon the contractor to establish that such cost is reasonable.*
 - (b) *What is reasonable depends upon a variety of considerations and circumstances, including-*
 - (1) *Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance;*

- (2) *Generally accepted sound business practices, arm's-length bargaining, and Federal and State laws and regulations;*
 - (3) *The contractor's responsibilities to the Government, other customers, the owners of the business, employees, and the public at large; and*
 - (4) *Any significant deviations from the contractor's established practices.*
- 31.205-33 – Professional and consultant service costs:
 - (d) *In determining the allowability of costs (including retainer fees) in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the contracting officer shall consider the following factors, among others:*
 - (1) *The nature and scope of the service rendered in relation to the service required.*
 - (2) *The necessity of contracting for the service, considering the contractor's capability in the particular area.*
 - (3) *The past pattern of acquiring such services and their costs, particularly in the years prior to the award of Government contracts.*
 - (4) *The impact of Government contracts on the contractor's business.*
 - (5) *Whether the proportion of Government work to the contractor's total business is such as to influence the contractor in favor of incurring the cost, particularly when the services rendered are not of a continuing nature and have little relationship to work under Government contracts.*
 - (6) *Whether the service can be performed more economically by employment rather than by contracting.*

(7) *The qualifications of the individual or concern rendering the service and the customary fee charged, especially on non-Government contracts.*

(8) *Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, termination provisions).*

The following excerpt from The Inspector General Act of 1978² relates to Finding A, Parts 1 and 2:

- As defined in the Section 5(f)(1) of the IG Act, *the term “questioned cost” means a cost that is questioned by the Office because of—*
 - (A) *an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds;*
 - (B) *a finding that, at the time of the audit, such cost is not supported by adequate documentation; or*
 - (C) *a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.*

Finding B

The GAO’s *Standards for Internal Control in the Federal Government* (known as the Green Book) sets internal control standards for federal entities. The following excerpt from the Green Book relates to Finding B:

- Section 10.03: *Management clearly documents internal control and 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.*

The following excerpts from Contract No. AOC13C2002 and its modifications relate to Finding B:

²See 2 USC 1808(d)(1) Duties, responsibilities, authority, and reports, Architect of the Capitol Inspector General Act of 2007. The AOC IG Act of 2007 incorporates sections of the IG Act of 1978.

- Base Contract Section B.1 – General: *This is an “open book” contract whereby the totality of the CMC’s financial and accounting records for this project shall be open and auditable at all times by the Government. ‘Open book’ however, does not include the firm’s general ledger but does include the pool for home office and field indirect costs.*
- Base Contract Section B.3. – Travel:
 - B.3.3: The CO will not authorize travel reimbursement unless the CMC provides sufficient written evidence of costs incurred, including receipts, registers or other information as may be required by the COR.
- Base Contract Section C.12.C.12.d – Subcontracting Plan: *All self-performed work by the CMC that exceeds \$50,000.00 shall be audited by the AOC. The AOC reserves the right to audit all subcontractor work including subcontractor bids.*
- Base Contract Section I – 52.215-2, Audit and Records:
 - (b) *Examination of costs. If this is a cost-reimbursement, incentive, time-and-materials, labor-hour, or price redeterminable contract, or any combination of these, the Contractor shall maintain and the Contracting Officer, or an authorized representative of the Contracting Officer, shall have the right to examine and audit all records and other evidence sufficient to reflect properly all costs claimed to have been incurred or anticipated to be incurred directly or indirectly in performance of this contract. This right of examination shall include inspection at all reasonable times of the Contractor’s plants, or parts of them, engaged in performing the contract.*
...
 - (f) *Availability. The Contractor shall make available at its office at all reasonable times the records, materials, and other evidence described in paragraphs (a), (b), (c), (d) and (e) of this clause, for examination, audit, or reproduction, until 3 years after final payment under this contract or for any shorter period specified in Subpart 4.7, Contractor Records Retention, of the Federal*

Acquisition Regulation (FAR), or for any longer period required by statute or by other clauses of this contract.

- Base Contract Section I – 52.222-4(d), Contract Work Hours and Safety Standards Act - Overtime Compensation:
 - (d) Payrolls and basic records*
 - (1) The Contractor and its subcontractors shall maintain payrolls and basic payroll records for all laborers and mechanics working on the contract during the contract and shall make them available to the Government until 3 years after contract completion. The records shall contain the name and address of each employee, social security number, labor classifications, hourly rates of wages paid, daily and weekly number of hours worked, deductions made and actual wages paid.*
- Modification 077 to the Base Contract updated Section C.6 – Definitions, item N to define *Costs* as:
 - *Allowable costs in accordance with Part 31 of the Federal Acquisition Regulation (FAR) in effect on the date of this Contract. The applicable subparts of part 31 shall be used in the pricing of fixed-price contracts, subcontracts, and modifications to contracts and subcontracts whenever (a) cost analysis is performed, or (b) a fixed-price contract clause requires the determination or negotiation of costs. However, application of cost principles to fixed-price contracts and subcontracts shall not be construed as a requirement to negotiate agreements on individual elements of cost in arriving at agreement on the total price. The final price accepted by the parties reflects agreement only on the total price.*

The following excerpt from FAR Part 31, which is incorporated into the CMc contract, relates to Finding B:

- 31.201-2 – Determining allowability:
 - (d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost*

principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.

The following excerpt from The Inspector General Act of 1978³ relates to Finding B:

- As defined in the Section 5(f)(1) of the IG Act, *the term “questioned cost” means a cost that is questioned by the Office because of —*
 - (A) *an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds;*
 - (B) *a finding that, at the time of the audit, such cost is not supported by adequate documentation; or*
 - (C) *a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.*

³ See 2 USC 1808(d)(1) Duties, responsibilities, authority, and reports, Architect of the Capitol Inspector General Act of 2007. AOC IG Act of 2007 incorporates sections of the IG Act of 1978.

Appendix C

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: August 5, 2020

TO: J. Brett Blanton
Architect of the Capitol

FROM: Christopher P. Failla, CIG 
Inspector General

SUBJECT: Announcement Memo for the Audit of the Architect of the Capitol Cannon
Renewal Project's Contract Reimbursable Costs (2020-AUD-008-A)

This memorandum serves as notification that the Office of Inspector General (OIG) is working with the independent audit and accounting firm, Cotton & Company LLP, to initiate a construction audit of the Cannon Renewal Project's Contract Reimbursable Costs. The objective is to determine if the reimbursable costs in Phase I and Phase II were billed and paid in accordance with the Construction Manager as Constructor's contract terms and conditions, and the costs were allowable, allocable, supportable and appear reasonable.

We will be in contact with your office to set up an audit entrance conference. If you have any questions, please contact Sharmaine Carter, Auditor at 202.538.1830 or sharmaine.carter@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
Joseph Campbell, Acting Superintendent, House Office Buildings
Anthony Hutcherson, Chief Acquisition & Material Management Officer
Mary Jean Pajak, Senior Advisor

Appendix D

Cotton & Company's Management Representation Letter

Insert AOC letterhead

[Date of Report and Completion of the Performance Audit]

Christopher P. Failla
Inspector General
Architect of the Capitol
Office of Inspector General
499 S Capitol St. SW, Suite 518
Washington, DC 20515

Attention: Mr. Failla

We are providing this representation letter in connection with Cotton & Company's performance audit of Phase 1 and 2 costs AOC reimbursed the Construction Manager as Constructor's (CMc) for on the Cannon House Office Building Renewal (CHOB) Project.

Certain representations in this letter are described as being limited to matters that are significant. Significance is defined as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. Such factors include the magnitude of the matter in relation to the subject matter of the audit, the nature and effect of the matter, the relevance of the matter, the needs and interests of an objective third party with knowledge of the relevant information, and the impact of the matter to the audited program or activity. Items are considered significant regardless of size if they involve an omission or misstatement of information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. The term "significant" is comparable to the term "material" as used in the context of financial statement engagements.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves, as of [date of report]:

Our Responsibilities¹

- We acknowledge our responsibility for the sufficiency of the subject matter in achieving its objectives. Specifically, management is responsible for ensuring that costs are reimbursed on the CHOB Project in accordance with the terms and conditions of the CMc contract, and are allowable, allocable, reasonable, and are supportable.

Information Provided

- We assert that the information provided to you for this audit is complete and accurate to the best of our knowledge.
- We assert that we have no knowledge of any information regarding fraud, instances of noncompliance with laws or regulations, or any pending or threatened litigation related to the reimbursement of costs on the CHOB Project.
- We assert that we are not aware of any matters that it believes would invalidate our conclusions.

¹ The responsibilities discussed in this section are based on the responsibilities included in our representation letter for financial audits, as GAGAS includes little discussion of management's responsibilities related to performance audits. The responsibilities discussed in this section also include language from Office of Management and Budget (OMB) Bulletin 19-03, even though that Bulletin applies only to financial statement audits.

- Upon information and belief all known deficiencies in the design or operation of internal controls were disclosed to you by management.

[Responsible Party and Title]
Architect of the Capitol

[Responsible Party and Title]
Architect of the Capitol

cc: Jason Boberg, Cotton & Company

Appendix E

AOC's Management Representation Letter



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

May 10, 2021

Christopher P. Failla
Inspector General
Architect of the Capitol
Office of Inspector General
499 S. Capitol St., SW, Suite 518
Washington, DC 20515

Dear Mr. Failla,

The Architect of the Capitol (AOC) provides this letter as requested concerning the Office of Inspector General performance audit of the Cannon House Office Building Renewal Project's reimbursable costs (Project No. 2020-AUD-008-A).

The information provided by the AOC as part of this audit is complete and accurate to the best of its knowledge.

Sincerely,

Peter W. Mueller, PE, PMP
Chief Engineer

Doc. No. 210423-18-01

Appendix F

Management Comments




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

United States Government

MEMORANDUM

DATE: May 10, 2021

TO: Christopher P. Failla
Inspector General

FROM: J. Brett Blanton 
Architect of the Capitol

SUBJECT: Audit of the Cannon House Office Building Renewal Project's (CHOB) Reimbursable Costs (Project No. 2020-AUD-008-A)

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG) official draft of the subject report.

The Architect of the Capitol (AOC) is pleased the OIG found that overall the AOC was billed and subsequently paid reimbursable costs in accordance with the contract terms and conditions and that internal controls over payments were generally sufficient. The following comments concerning the OIG's recommendations are provided.

Recommendation 1

We recommend that the CHOB Project team strengthen the review process for small-dollar reimbursable cost transactions to help ensure that the Construction Manager as Constructor (CMc) does not include, and the CHOB Project team does not approve, unallowable costs in the pay applications.

AOC Response

The Project team has already implemented a number of steps to strengthen its review process. These include requesting that the CMc submits, with each monthly invoice, the following supporting documentation:

- Clark and Christman labor invoices and direct costs
- Consultant invoices
- Supporting documentation for all "allocations"
- Supporting documentation for all other reimbursable costs over \$25,000

The CHOBBr Project team will:

- Review labor positions, rates and hours to confirm calculations
- Review consultant invoices and allocation documentation for proper calculations, reasonableness and allowability
- Confirm costs are allowable per contract requirements
- Monitor reimbursable cost billings against the awarded contract value per line item

Recommendation 2

We recommend that, to the extent legally and administratively possible, the CHOBBr Project team recover the \$54,246 of unallowable costs and, if applicable, any additional unallowable amounts resulting from the application of items such as overhead and fees to the unallowable costs.

AOC Response

The AOC has received a credit of \$21,490 for the unallowable costs billed under Phase 2 of the project plus applicable overhead and fees. The AOC is unable to recover \$31,157 for the unallowable costs under Phase 1 of the project because these costs were part of a negotiated settlement of requests for an equitable adjustment. One Phase 2 invoice in the amount of \$1,599 was determined to be allowable as the contractor had prior approval by the contracting officer.

Recommendation 3

We recommend that CHOBBr Project team work with the CMc to identify any additional transactions for unallowable cost types identified in our report for which the AOC reimbursed the CMc. We also recommend that, to the extent legally and administratively possible, the CHOBBr Project team recover these costs and, if applicable, any additional amounts resulting from the application of items such as overhead and fees to the unallowable costs.

AOC Response

The AOC is evaluating the feasibility of identifying any additional transactions for unallowable cost types (to include the time and level of effort required, the likelihood of identifying significant amounts of unallowable costs, and the legal and administrative challenges associated with recovering any unallowable costs that might be identified).

Recommendation 4

We are questioning the full \$234,383 in outside legal costs. We recommend that the CHOB Project team review all of the costs that the CMc incurred and billed to the AOC related to the hearing and determine if the costs are allowable and reasonable as reimbursable costs.

- If the CHOB Project team determines that any of the costs that the CMc incurred for the hearing are allowable, the CHOB Project team should determine whether the AOC should fund the costs through a contract change order and what funding source the AOC should use to fund the costs (e.g., contingency, allowance).
- If any of the costs that the CMc incurred for the hearing are unallowable, the CHOB Project team should recover the costs to the extent legally and administratively possible. If applicable, the CHOB Project team should also recover any additional amounts resulting from the application of items such as overhead and fees to the unallowable costs.

AOC Response

The AOC determined that the majority of the legal costs are allowable and reasonable. The AOC is recovering a credit of \$35,426 for the portion of outside legal costs and markups that are not allowable or reasonable. The allowable legal fees and markups will be funded by the Construction Contract Cost budget line item.

To prevent a reoccurrence of this type of issue, the AOC has instituted a tracking system to identify reimbursable costs that have been billed but not previously approved. The CMc has added a secondary review of its proposed billings to the AOC prior to submission and has committed to retraining its staff to recognize potentially unallowable costs.

Recommendation 5

We recommend that the CHOB Project team consider implementing a policy requiring the CMc to provide detailed support for any reimbursable costs that exceed an appropriate dollar threshold, at the time it submits the pay application.

AOC Response

The AOC has implemented a process requiring the CMc to provide detailed support for any reimbursable cost that exceeds \$25,000 on its monthly invoice.

Recommendation 6

We are questioning \$286,933 in insufficiently supported costs. We recommend that the CHOB Project team review these costs and, to the extent legally and administratively possible, recover any amounts for which the CMc cannot provide support. If applicable, the CHOB Project team should also recover any additional amounts resulting from the application of items such as overhead and fees to the unsupported costs.

AOC Response

The AOC determined that \$215,263 of the billed \$286,933 is supportable under the contract. The AOC has recovered a credit of \$71,670 for the unallowable costs plus associated markups.

Recommendation 7

We recommend that the AOC's CHOB Project team ensure that the supporting documentation for all costs that the contractor actually incurred and for the amounts reported in its invoices related to the project is sufficient, maintained and readily available for examination.

AOC Response

The AOC will ensure that the supporting documentation for all costs contractually incurred and the amounts reported in its invoices related to the project is sufficient, maintained and readily available for examination. CHOB discussed this issue with the CMc. Its requisition process now includes storing all corresponding supplier/vendor invoices for requisitions in one location prior to the draft requisition submission. The CHOB Project team will perform test checks of the documentation periodically, depending on resource availability.

The CHOB Project team acknowledges that the CMc did not provide OIG with all the necessary documentation requested during the course of the OIG audit and notes that this was inconsistent with the Project team's experiences with the CMc. During the course of OIG's audit, a number of factors, including the end-of-year holiday period, impacts from COVID-19, and the priority given to completing Phase 2 construction work, unfortunately converged to contribute to the issue. The CHOB Project team expects the actions noted above will prevent a reoccurrence of the problem.

Doc. No. 210423-18-01

Acronyms and Abbreviations

AE	Architect-Engineer
AOC	Architect of the Capitol
CHA	Committee on House Administration
CHOB	Cannon House Office Building Renewal
CMA	Construction Manager as Agent
CMc	Construction Manager as Constructor
CO	Contracting Officer
COR	Contracting Officer's Representative
Cotton	Cotton & Company LLP
DCCR	Detail Construction Costs Report
FAR	Federal Acquisition Regulation
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GC	General Conditions
GMP	Guaranteed Maximum Price
GR	General Requirements
ICSRA	Integrated Cost Schedule Risk Analysis
IPP	Invoice Processing Platform
JV	Joint Venture
OIG	Office of Inspector General
PCO	Potential Change Order
PFP	Partnering Fee Plan
PMP	Project Management Plan
QC	Quality Control



OFFICE OF THE INSPECTOR GENERAL

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