

In Brief

Contract Modifications Process for the Pod 6 Construction Contract

OIG-A-26-04, March 16, 2026

Background

The Smithsonian Institution (Smithsonian) partnered with the National Gallery of Art (NGA) to construct a shared storage facility known as Pod 6 at the Smithsonian's Museum Support Center. Under the partnership, the Smithsonian will occupy approximately 58 percent of the new storage space, and NGA will house collections in the remaining 48 percent.

On September 28, 2022, the Smithsonian awarded a firm-fixed-price contract with an initial value of \$105,767,000 for the construction of Pod 6. As of September 4, 2024, the Smithsonian had modified the contract 15 times, increasing its value to \$107,277,812.

A contract modification is an agreement to modify a contract to change its price, schedule, or scope. On this contract, the Smithsonian used Proposed Change Numbers (PCNs) to track work conditions that had the potential to exceed the base contract. The Smithsonian typically incorporated several PCNs into a single contract modification.

What OIG Did

The Office of the Inspector General contracted with Sikich CPA LLC (Sikich) to determine whether contract modifications for the Pod 6 construction contract were reasonable, necessary, within the scope of the contract, and effectively awarded and administered.

What Was Found

Sikich found that the Smithsonian did not consistently administer contract modifications in accordance with the terms of the contract. Specifically, the Smithsonian approved 2 of the 20 PCNs incorporated into the contract without first determining whether overhead and profit markups were included in credit amounts owed to the Smithsonian. As a result, the credits that the Smithsonian received were up to \$14,112 less than the amount to which it was entitled.

This occurred because the Smithsonian's PCN reviews focused on scope of work, quantity, and equipment issues and did not consider whether the Contractor or subcontractors applied the appropriate overhead and profit markup to credits owed to the Smithsonian. Further, the Smithsonian did not request or obtain documentation from the Contractor or subcontractors showing the applicable overhead and profit markup they used to calculate the original cost of the changed work.

What Was Recommended

Sikich made two recommendations to improve the Smithsonian's process for reviewing and approving contract modifications. These recommendations will help ensure that the Smithsonian obtains appropriate documentation before approving PCNs for future fixed-price construction contracts. Management concurred with both recommendations.

**OFFICE OF THE
INSPECTOR GENERAL**

Memo



Date: March 16, 2026

To: Ron Cortez, Under Secretary for Finance & Administration
Thomas Dempsey, Director, Office of Contracting & Personal Property Management (OCon&PPM)
Derek Ross, Director, Office of Planning, Design, and Construction (OPDC)

Cc: Carol LeBlanc, Acting Deputy Secretary and Chief Operating Officer
Craig Blackwell, Chief of Staff, Office of the Deputy Secretary and Chief Operating Officer
Natascha Syre, Deputy Director, OCon&PPM
Khalid Alsarraj, Assistant Director for Policy and Compliance, OCon&PPM
Stephanie Stefanik, Supervisory Senior Construction Manager, OPDC

From: Nicole Angarella, Inspector General

Signed by:

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Subject: *Contract Modification Process for the Pod 6 Construction Contract (OIG-A-26-04)*

This memorandum transmits the final audit report of Sikich CPA LLC (Sikich), on the Smithsonian Institution's (Smithsonian) controls over the Pod 6 construction project's contract modifications.

Under a contract monitored by this office, the Office of the Inspector General engaged Sikich, an independent public accounting firm, to perform the audit. Sikich found that the Smithsonian approved Proposed Change Numbers—tentative change orders used to track work that has the potential to be above the base contract—without determining whether credit amounts owed to the Smithsonian included reimbursement for overhead and profit markups. Sikich made two recommendations for Smithsonian management to improve controls over the contract modification process. Management concurred with both recommendations.

Sikich is responsible for the attached report and the conclusions expressed in the report. We reviewed Sikich's report and related documentation and interviewed their representatives. Our review disclosed no instances in which Sikich did not comply, in all material respects, with the U.S. Government Accountability Office's *Government Auditing Standards*.

We appreciate the courtesy and cooperation of all Smithsonian management and staff during this audit. If you have any questions, please contact me or Joan Mockeridge, Assistant Inspector General for Audits, Inspections, and Evaluations.



■ Smithsonian Institution

Office of the Inspector General

Performance Audit Report of the Contract Modifications for the
Pod 6 Construction Contract

MARCH 12, 2026

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Performance Audit of Contract Modifications for the Pod 6 Construction Contract Smithsonian Institution Office of the Inspector General

I. Executive Summary

The Smithsonian Institution (SI) partnered with the National Gallery of Art (NGA) to construct a shared storage facility at SI's Museum Support Center. The main objective of the shared storage facility—commonly known as “Pod 6”—is to address SI and the NGA's storage needs. Under the partnership, SI will occupy approximately 58 percent of the new storage facility, and the NGA will house collections in the remaining 42 percent. On September 28, 2022, SI awarded a firm-fixed-price construction contract to Clark Construction Group, LLC (Contractor), for completion of the Pod 6 construction.

The SI Office of the Inspector General (OIG) engaged Sikich¹ to conduct a performance audit to determine whether contract modifications² issued as of September 4, 2024, for the Pod 6 construction contract were reasonable, necessary, within the scope of the contract, and effectively awarded and administered by SI. Based on our audit, we found that SI did not receive up to \$14,112 in credits due to it because the Pod 6 Project team approved two Proposed Change Numbers (PCNs)³ without verifying credit amounts owed to SI included markups for overhead and profit.

We communicated the results of our audit and the related findings and recommendations to SI and the OIG. SI's management provided comments on February 12, 2026. See Appendix B: Management's Response.

¹ Effective December 14, 2023, we amended our legal name from “Cotton & Company Assurance and Advisory, LLC” to “Sikich CPA LLC” (herein referred to as “Sikich”).

² A contract modification is an agreement by the parties involved to modify the contract to change the price, schedule, and/or scope.

³ A PCN is a tentative or informal change order created to track a work condition that has the potential to be over and above the base contract. A PCN does not create a legal and binding contract between the owner of the project and the Contractor. PCNs are incorporated into the contract through a contract modification.

II. Objectives, Scope, and Methodology

Objective

The objective of this performance audit was to determine whether Pod 6 construction contract modifications were reasonable, necessary, within the scope of the contract, and effectively awarded and administered.

Scope

The scope of this performance audit included modifications to the Pod 6 construction contract (Contract No. 333302-22CF-0010453) that SI issued from the project's inception (September 28, 2022) to September 4, 2024.

Methodology

We reviewed SI's policies and procedures regarding contracts for goods and services, the Pod 6 Project's Change Management Plan, and the executed contract between SI and the Contractor. We also interviewed personnel from SI's Pod 6 Project team to obtain an understanding of the review and approval process for PCN requests.

We reviewed and performed testing on the 15 contract modifications SI had issued on the Pod 6 contract as of September 4, 2024, including all 20 PCNs included in the contract modifications. The contract modifications represented an absolute value of \$1,695,182 and increased the firm-fixed-price by \$1,510,812, from \$105,767,000 to \$107,277,812.

We conducted this performance audit in Alexandria, VA, from September 2024 through July 2025, in accordance with Generally Accepted Government Auditing Standards (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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

III. Background

The Museum Support Center⁴

The Museum Support Center is SI's principal off-site collections preservation and research facility. The building was completed in 1983 and originally included four pods, offices, and laboratories at its campus in Suitland, Maryland.

The first addition to the Museum Support Center, commonly referred to as Pod 5, was completed in 2007. Pod 5 added 125,000 square feet to the original building and houses

⁴ We obtained the background for the Museum Support Center from information available on the National Museum of Natural History's website (<https://naturalhistory.si.edu/research/msc>) and the National Capital Planning Commission's website (https://www.ncpc.gov/files/projects/2020/MP135_Suitland_Collections_Center_Master_Plan_Submission_Materials_Jun2020.pdf).

collections from the National Museum of Natural History, Smithsonian Environmental Research Center, and the National Zoological Park and Conservation Biology Institute.

By 2011, SI had renovated Pod 3, converting the space into a two-level repository for art collections, physical anthropology, and collections requiring specialized environments for the National Museum of Natural History and the National Zoological Park and Conservation Biology Institute. These collections included items such as Antarctic meteorites, paleobiology core samples, frozen tissue samples, DNA and related materials preserved at ultra-low temperatures, and anthropological objects requiring low humidity.

The Pod 6 Project⁵

In 2011, SI began a project to address its collections space needs throughout its 2.1 million square feet of collections space at more than 35 properties. In 2014, SI issued the Collections Space Framework Plan as part of a planning initiative to review its collections space, future needs, and management strategies to help ensure its collections are preserved and remain accessible for current and future generations.

In looking to expand its investment and plan for growth more holistically, SI commissioned the Suitland Collections Center Master Development Plan, which was completed in 2020. The plan recommended that SI add Pod 6 to address its current and future storage needs. The Pod 6 addition at the Museum Support Center is a joint effort between SI and the NGA, which share similar requirements for collections storage. SI will occupy approximately 58 percent of Pod 6, and the NGA will house collections in the remaining 42 percent.

On September 28, 2022, SI awarded a firm-fixed-price construction contract with an original value of \$105,767,000 to the Contractor. The Pod 6 construction project began in September 2022 and has a target completion date of March 31, 2026.⁶

Guidance Related to the Pod 6 Project Contracting and Contract Modification Processes

We reviewed SI's policies and procedures related to contracting and the contract modification processes for the Pod 6 Project. Specifically, we reviewed:

- Smithsonian Directive 314, which provides guidance to the personnel responsible for awarding and managing SI contracts. It outlines the different contract types, details document retention policies, and provides other similar information.
- The Pod 6 Project's Change Management Plan, which establishes how changes will be proposed, accepted, monitored, and controlled throughout the life of the project.

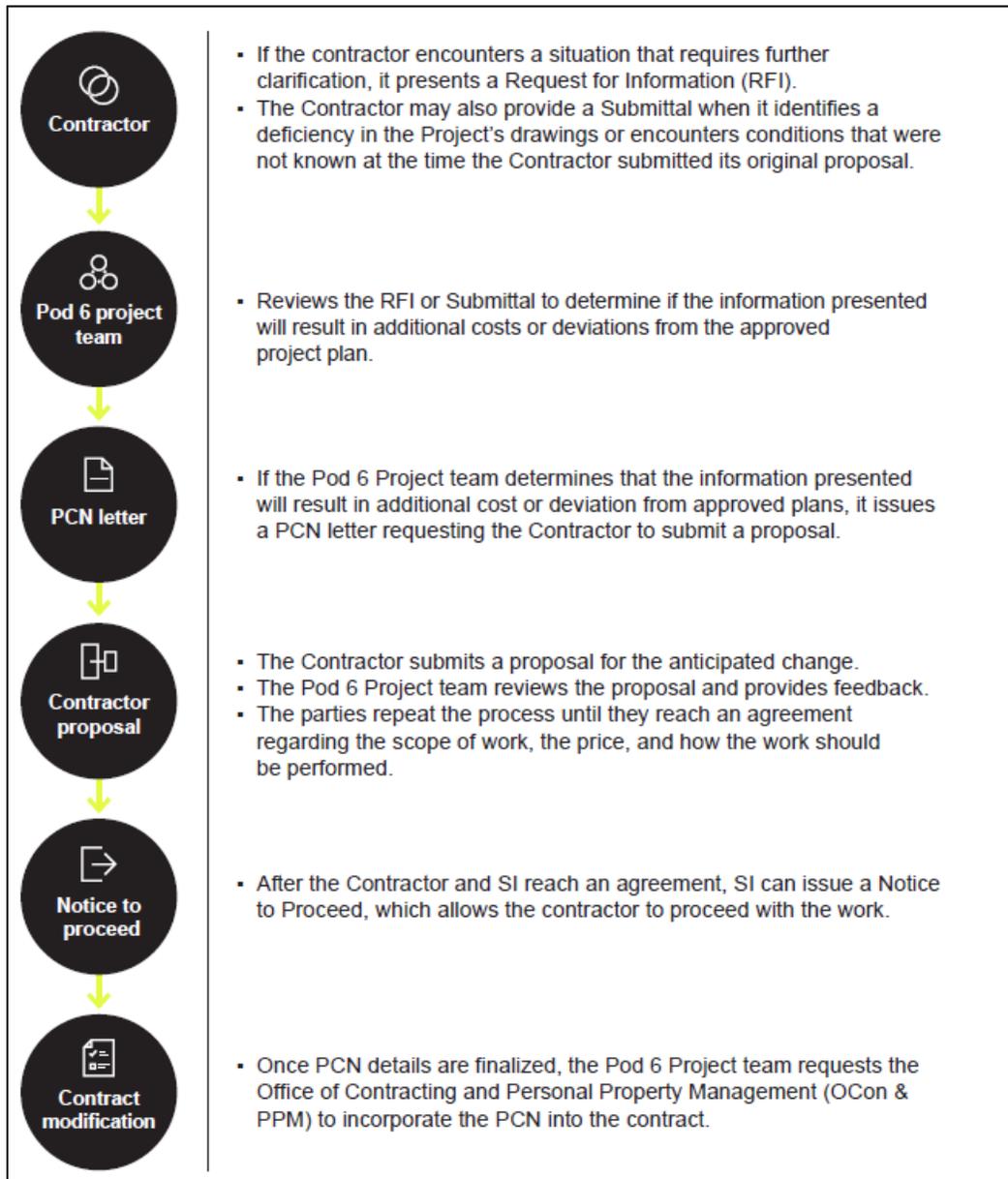
The Pod 6 Project Contract Modification Process

The beginning of the contract modification process for the Pod 6 Project varies slightly based on the party initiating the change. **Figure 1** shows the processes that the Pod 6 Project team uses when the Contractor encounters a project issue that may require a change.

⁵ We obtained the background for the Museum Support Center and the Pod 6 Project from information available in the Project's Request for Proposal (RFP) and construction contract.

⁶ The Pod 6 Project was originally contracted to be completed by September 19, 2024. Contract modifications extended the completion date to March 31, 2026.

Figure 1: Pod 6 Contract Modification Process



Source: Sikich created graphic based on discussions with the Pod 6 Team.

In instances when SI requests a change, the Pod 6 Project team simply submits a PCN letter to the Contractor without going through the RFI or Submittal process described in **Figure 1**.

After SI and the Contractor reach an agreement on price, SI can issue a Notice to Proceed, which allows the Contractor to immediately proceed with its work and establishes a ceiling for the work the Contractor can perform prior to the PCN's incorporation into the construction contract. Once the PCN details have been finalized, the Pod 6 Project team requests OCon & PPM to incorporate the PCN(s) into the contract through a contract modification.

IV. Internal Controls

Generally Accepted Government Auditing Standards require auditors to obtain an understanding of internal controls that are significant within the context of the audit objectives. Auditors should assess whether the organization has properly designed and implemented these internal controls, as well as perform procedures designed to obtain sufficient and appropriate evidence to support their assessment about the effectiveness of those controls. Auditors should also plan and perform audit procedures to assess internal controls to the extent necessary to address the audit objectives.

We reviewed internal controls to obtain an understanding of the Pod 6 Project team's process for reviewing and approving changes. This included reviewing SI's contracting policies, the Pod 6 Change Management Plan, and contract requirements, as well as interviewing the Pod 6 Project team members. We also reviewed documentation maintained by the Pod 6 Project team to determine whether the Pod 6 Project team complied with the applicable policies and procedures. These steps allowed us 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 review and approval process for the Pod 6 Project's contract modifications were generally sufficient to ensure that the contract modifications were reasonable, necessary, within the scope of the contract, and effectively awarded and administered. However, we noted one exception, which we describe in detail in the **Audit Results** section of this report.

V. Audit Results

We determined that the Pod 6 Project team did not consistently award and administer contract modifications in accordance with SI policies and procedures and contract requirements. Specifically, the Pod 6 Project team approved two PCNs without verifying that credit amounts owed to SI included markups for overhead and profit, as required by SI's policies and procedures.

The Pod 6 construction contract requires that any PCNs resulting in deductions from, or credits to, the contract amount include the applicable overhead and profit. However, we identified two instances where credits issued to SI did not include reimbursement for a subcontractor's markups for overhead and profit when we reviewed the 20 PCNs that the Pod 6 Project team incorporated into the contract through contract modifications.

In response to this finding, we made two recommendations to improve the Pod 6 Project team's review, approval, and monitoring of contract modifications.

Finding #1: The Pod 6 Project Team Approved PCNs Without Determining Whether Credit Amounts Owed to SI Included Reimbursements for Overhead and Profit Markups.

Condition

For 2 of the 20 PCNs that SI incorporated into the contract, the Pod 6 Project team approved the PCN without first determining whether overhead and profit markups were appropriately included in credits owed to SI. In accordance with contract clause 52.243-S0044, *Equitable Adjustments (Jun 2000) (a) (12)*, this determination is important to ensure that the Contractor or subcontractor returns to SI the total amount initially awarded, including overhead and profit markups, for revised or deleted scopes of work.

The documentation provided showed that one of the Contractor’s subcontractors did not include overhead and profit markups in its calculation of the credit amounts owed to SI for two PCNs. We were unable to determine the subcontractor’s original markup rate because SI could not provide documentation detailing the markup. However, if the subcontractor had applied the 21 percent contractual rate approved for overhead and profit, the credit amounts due to SI would be \$14,112 more than the amounts received by SI, as shown in

Table 1. If the subcontractor used a lower overhead and profit markup when developing the original cost for the changed work, the questioned costs of \$14,112 would be lower.

Table 1. PCNs for Which SI Did Not Determine Whether Markups Were Included in Credit Amounts

PCN	Proposal Reference	Credit Amount	Maximum Markup at 21%	Description
4	PCO 001	\$43,845	\$9,207	Deletion of Telecom Duct Bank
17	PCO 002	23,359	4,905	Electrical Duct Bank Revisions
Total		\$67,204	\$14,112	

Cause

The Pod 6 Project team’s PCN reviews focused on the scope of work, quantities, and equipment and did not consider whether the Contractor or subcontractors applied the appropriate overhead and profit markup to credit amounts. Further, the Pod 6 Project team did not request or obtain documentation from the Contractor or subcontractors showing the applicable overhead and profit markup used to calculate the original cost of the changed work.

Effect

As shown in

Table 1, the credits received by SI may be up to \$14,112 less than the amount to which SI was entitled. Further, without verifying whether credited PCN amounts include overhead and profit markups, the Contractor and/or subcontractors could continue to issue credits to SI at amounts that are less than those to which SI is entitled.

Recommendations

We recommend that the Director, Office of Planning, Design, and Construction, and the Director, OCon & PPM:

Recommendation 1

For the questioned PCNs and any future firm-fixed-price construction contracts, require the Project team to obtain documentation supporting overhead and profit markups on work for which SI is entitled to a credit and ensure that the contractors and/or subcontractors credit SI the appropriate markup amount.

Recommendation 1 – SI Comment (See Appendix B)

Both of the questioned Project Change Notices (PCNs) have been removed from the project, so there is no need to request repayment for them. The pricing for PCNs 4 and 17 was established when the contract was awarded and was based on the contractor's initial bid figures. The base contract language (Section B.3.1) specifies that the pricing submitted by the contractor must be comprehensive. Therefore, the pricing associated with PCNs 4 and 17 included overhead and profit. As a result, removing these priced items also means the overhead and profit associated with them are no longer applicable. Since these two PCNs were removed, no bills were received.

For future projects, we will provide documentation that shows that we were not charged profit and overhead for work not completed.

Recommendation 1 – Sikich Comment

We acknowledge SI's response; however, SI's position that the overhead and profit markup were included in the contractor's initial bid figures contradicts responses provided during fieldwork for this audit. At that time, SI was unable to provide any documentation to demonstrate that the proposed credits included the overhead and profit markup and noted that these markups were erroneously overlooked during its review and approval process. Specifically, SI provided the following responses for PCN 4 and PCN 17:

- **PCN 4:** *Based on our review of the estimate and our take-off of the work, we felt like this value was fair and reasonable and included mark ups. Going back to review this it was clear that we were focused on capturing the complete scope and getting a detailed breakdown showing how the credit was arrived and we **inadvertently overlooked that mark ups were not included in the Flippo proposal** (emphasis added).*
- **PCN 17:** *Our review of the proposal was based on scope of work, quantities and equipment. We felt like the add portion and the credit portion of the change accurately reflected the changed work. **Unfortunately, we inadvertently missed that mark-ups weren't included on the overall proposal.** However, as a total, we felt like the value was reasonable for the scope that was changed (emphasis added).*

SI has not provided any documentation to demonstrate that the PCNs were removed from the project. Therefore, we consider this recommendation to be unresolved and open until the OIG can validate that the PCNs were removed from the project.

Recommendation 2

Determine and document the allowability of the \$14,112 in questioned costs (or less if the proposed price used a markup that was less than 21 percent) for the overhead and profit markup that should have been accounted for when calculating the total credits due from PCNs 4 and 17, and recover any amount determined to be unallowable.

Recommendation 2 – SI Comment (See Appendix B)

Management agrees in principle. Since these two PCNs were removed, no bills were received, so no payment was made. Documentation that these two PCNs were removed will be provided to OIG.

Recommendation 2 – Sikich Comment

We acknowledge SI's response; however, SI has not provided any documentation to demonstrate that the PCNs were removed from the project. Therefore, we consider this recommendation to be unresolved and open until the OIG can validate that the PCNs were removed from the project.

Sikich CPA LLC

March 12, 2026

Appendix A: Criteria

Finding	Source	Criterion	Description
1	333302-22CF-0010453	52.243-S0044 Equitable Adjustments (Jun 2000) (a) (10)	Where the Contractor's or Subcontractor's portions of a Change involve credit items, such items must be deducted prior to adding overhead and profit for the party performing the work.
1	333302-22CF-0010453	52.243-S0044 Equitable Adjustments (Jun 2000) (a) (12)	If the Change in the Work will result in a decrease in the Contract Price, the Contracting Officer's Technical Representative (COTR) may request a quotation by the Contractor of the amount of such decrease for use in preparing a Change Order. The Contractor's quotation shall be forwarded to the COTR within (10) days of the COTR's request and, if acceptable to the Contracting Officer (C.O.), shall be incorporated in the Change Order. If not acceptable, the parties shall make every reasonable effort to agree as to the amount of such decrease, which may be based on a properly itemized proposal as specified by this Construction Contract Clause, or on such other basis as the parties may mutually determine. If the parties are unable to agree, the amount of such decrease shall be the total of the estimated reduction in actual cost of the Work, as determined by the C.O.'s judgment, plus up to twenty-one percent (21%) thereof for Overhead and Profit.

Appendix B: Management's Response

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 **Smithsonian**
Office of the Under Secretary for Finance and Administration

OFFICIAL MEMO

DATE: February 12, 2026

TO: Nicole Angarella, Inspector General

FROM: Ron Cortez, Under Secretary for Finance and Administration/CFO 

CC: Joan Mockeridge, Assistant Inspector General for Audits, Inspections, and Evaluations
Derek Ross, Director, Office of Planning, Design and Construction
Catherine Chatfield, Program Manager, Enterprise Risk Management and Audit Liaison

SUBJECT: OIG Formal Draft – Performance Audit of the Contract Modifications for the Pod 6 Construction Contract

Thank you for providing the Office of the Inspector General (OIG) formal draft for the Performance Audit of the Contract Modifications for the Pod 6 Construction Contract.

Recommendation #1:

- For the questioned PCNs and future firm-fixed-price construction contracts, require the Project team to obtain documentation supporting overhead and profit markups on work for which SI is entitled to a credit and ensure that the contractors and/or subcontractors credit SI the appropriate markup amount.

Management Response:

Both of the questioned Project Change Notices (PCNs) have been removed from the project, so there is no need to request repayment for them. The pricing for PCNs 4 and 17 was established when the contract was awarded and was based on the contractor's initial bid figures. The base contract language (Section B.3.1) specifies that the pricing submitted by the contractor must be comprehensive. Therefore, the pricing associated with PCNs 4 and 17 included overhead and profit. As a result, removing these priced items also means the overhead and profit associated with them are no longer applicable. Since these two PCNs were removed, no bills were received.

For future projects, we will provide documentation that shows that we were not charged profit and overhead for work not completed.

Recommendation #2:

- Determine and document the allowability of the \$14,112 in questioned costs (or less if the proposed price used a markup that was less than 21 percent) for the overhead and profit markup that should have been accounted for when calculating the total credits due from PCNs 4 and 17, and recover any amount

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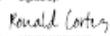
determined to be unallowable.

Management Response:

Management agrees in principle as indicated in the discussion above. Since these two PCNs were removed, no bills were received, so no payment was made. Documentation that these two PCNs were removed will be provided to OIG.

As always, we appreciate your insights as we continue to improve our processes.

With appreciation,

Signed by

Roni Cortez

OFFICE OF THE INSPECTOR GENERAL



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