MARCH 24, 2022

Architect of the Capitol
Repetitively Reimbursed Small-Dollar Amounts of Unallowable Costs to the Contractor on the Cannon House Office Building Renewal Project

Report No. OIG-AUD-2022-01
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

AOC Repetitively Reimbursed Small-Dollar Amounts of Unallowable Costs to the Contractor on the CHOBr Project

March 24, 2022

Objective

The objective of the independent assessment was to identify unallowable costs reimbursed to the Contractor on the Cannon House Office Building Renewal (CHOBr) Project.

To assist us with the independent assessment, the Architect of the Capitol (AOC) Office of Inspector General (OIG) contracted Cotton & Company LLP (Cotton) as a subject matter expert to perform a detailed review of the reimbursable transactions in order to identify unallowable cost types not reviewed in our prior audit of the CHOBr Project’s Reimbursable Costs (Report No. OIG-AUD-2021-04) issued June 8, 2021.

Findings

Overall, we determined that throughout all the CHOBr Project phases the AOC repetitively reimbursed small-dollar amounts of unallowable costs to the CHOBr Project’s Construction Manager as Constructor (CMc).

Specifically, we identified 358 occurrences of costs reimbursed with unallowable cost descriptions. Of those reimbursed, 154 occurrences, amounting to $38,529, were determined to be unallowable costs; while the remaining 204 occurrences, amounting to $48,100, with similar cost descriptions as those previously recognized as unallowable, were not substantiated during the review and therefore questioned. We were also unable to validate the allowability of $7,135 in reimbursable punch list costs during the review, and therefore questioned these costs as well.

In total, we identified $93,764 in unallowable and questioned costs. Per the AOC, the CMc agreed to issue a credit to the AOC for the $38,529 in unallowable costs. The remaining questioned costs of $55,235 require further justification and documentation from the CHOBr Project team as Cotton, during the review, was unable to confirm the allowability and reasonableness for the 204 occurrences with unallowable cost descriptions amounting to $48,100, and $7,135 in reimbursable punch list costs.

We acknowledge that we identified a small-dollar amounts of unallowable and questioned costs based on the total amount of reimbursable costs; however, we are concerned about the number of occurrences of generally unallowable costs reimbursed to the CMc.

In response to our previous Reimbursable Costs audit, the AOC planned to implement a process requiring the CMc to provide detailed support for reimbursable costs that exceed $25,000 on its monthly invoice. With this approach, given the number of occurrences of unallowable reimbursements below $25,000, the AOC may continue to reimburse the CMc for small-dollar amounts of unallowable costs. By strengthening the review of small-dollar reimbursable cost transactions and addressing these known unallowable and questionable reimbursements, the AOC would reduce the likelihood for the unallowable use of taxpayer funds and potential affects to public trust.

Recommendations

We made three recommendations to address the identified area of improvement. Specifically, we recommend:

1. To the extent legally and administratively possible, the CHOBr Project team recover the $38,529 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.

2. To the extent legally and administratively possible, the CHOBr Project team review questioned costs of $55,235 and, 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.

3. The AOC re-evaluate its approach to strengthen the review and internal control process for small-dollar reimbursable cost transactions to help ensure that the CMc does not include, and the CHOBr Project team does not approve, unallowable costs in the pay applications.

Management Comments

We provided the AOC an opportunity to comment in response to this report.

The AOC provided comments on March 21, 2022, see Appendix B. AOC management agrees that reimbursing the contractor for repetitive occurrences of the same types of unallowable costs is an issue that must be addressed and has already taken action to reduce the likelihood that these types of situations reoccur. AOC management concurred with AOC OIG’s three recommendations.

Please see the Recommendations Table on the following page.
**Recommendations Table**

<table>
<thead>
<tr>
<th>Management</th>
<th>Recommendations Unresolved</th>
<th>Recommendations Resolved</th>
<th>Recommendations Closed</th>
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<td>Office of the Chief Engineer</td>
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<td>1, 2 and 3</td>
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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.
DATE:       March 24, 2022

TO:         J. Brett Blanton
Architect of the Capitol

FROM:       Christopher P. Failla, CIG
Inspector General

SUBJECT:    Architect of the Capitol (AOC) Repetitively Reimbursed Small-
Dollar Amounts of Unallowable Costs to the Contractor on the
Cannon House Office Building Renewal (CHOBr) Project (Report
No. OIG-AUD-2022-01)

The AOC Office of Inspector General (OIG) is transmitting this final independent
assessment report on AOC Repetitively Reimbursed Small-Dollar Amounts of
Unallowable Costs to the Contractor on the CHOBr Project. This report contains one
finding and three recommendations on our assessment of unallowable costs
reimbursed to the Contractor on the CHOBr Project.

AOC management has agreed with the report conclusion that overall, the AOC
repetitively reimbursed small-dollar amounts of unallowable costs to Construction
Manager as Constructor (CMc) on the CHOBr Project. We acknowledge identifying a
small-dollar amount of unallowable and questioned costs based on the total amount of
reimbursable costs; however, the number of occurrences of generally unallowable
costs caused concern. Therefore, we conclude that the AOC may continue to
reimburse the CMc for small-dollar amounts of unallowable costs if the AOC does
not consider re-evaluating its approach to strengthening the review and internal
control process for small-dollar reimbursable cost transactions.

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, March 24, 2023.

We appreciate the courtesies extended to our staff during the independent assessment.
Please direct questions to Erica Wardley, Assistant Inspector General for Audits at
202.215.3395 or erica.wardley@aoc.gov, or Nikki Robinson at 202.437.5324 or nikki.robinson@aoc.gov.

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Introduction

Objective

This report presents the results of our independent assessment of the unallowable costs reimbursed to Architect of the Capitol’s (AOC’s) Construction Manager as Constructor (CMc) on the Cannon House Office Building Renewal (CHOBr) Project (Contract No. AOC13C2002). The objective was to identify unallowable costs reimbursed to the Contractor on the CHOBr Project.

Scope and Methodology

The scope of this independent assessment was for all reimbursable transactions included in the CMc’s pay applications (i.e. CMc invoices sent to CHOBr Project invoice) and Detail Construction Costs Reports (DCCRs) for CHOBr Project’s Phases 1, 2 and 3 that were not previously reviewed during the “Audit of the Cannon House Office Building Renewal Project’s Reimbursable Costs” (OIG-AUD-2021-04) issued June 8, 2021. Phase 1’s period of performance was January 2017 to November 2018, Phase 2’s period of performance was January 2019 to November 2020, and Phase 3’s period of performance was January 2021 to June 20, 2022.

We conducted this independent assessment in Washington, D.C., from July to December 2021, in accordance with the OIG’s “Audit Division Policies and Procedures Manual,” dated December 31, 2020. This assessment is not an audit and does not comply with Generally Accepted Government Auditing Standards. However, we believe that the evidence obtained provided a reasonable basis for our findings and conclusions based on our independent assessment objective.

The OIG contracted Cotton & Company LLP (Cotton), as a subject matter expert (SME), to perform a detailed review of the reimbursable transactions in order to identify unallowable cost types found in our prior audit on the CHOBr Project’s Reimbursable Costs, as noted above. To achieve the objective, Cotton obtained and reviewed 124 pay applications and three DCCRs; details of cost types included in project markups; and supporting documentation for the transactions with unallowable cost descriptions.
Background

The Office of Inspector General (OIG) issued the audit report “Audit of the Cannon House Office Building Renewal Project’s Reimbursable Costs” (OIG-AUD-2021-04) on June 8, 2021. Overall, we determined that the CMc billed, and AOC paid CHOBr Project Phases 1 and two reimbursable costs in accordance with the CMc contract terms and conditions; costs were generally allowable, allocable, supportable and reasonable; and the review and approval process for reimbursable costs was adequate. However, we concluded that the CHOBr Project team needed 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.

Specifically, the audit identified a small-dollar amount of unallowable costs ($54,246) and recommended the CHOBr Project team work with the CMc to identify unallowable cost types, as identified in the report, within the remaining project transactions that were reimbursed to the CMc. The AOC also reimbursed the CMc for $234,383 in outside legal costs without the CHOBr Project team determining the allowability and reasonableness of those costs. Lastly, we reported our inability to assess compliance, allowability and reasonableness for an additional $286,933 in reimbursed costs because the CMc either did not provide supporting documentation or did not provide sufficient supporting documentation during the audit. We identified a total of $575,316 in unallowable or questioned costs in that report.

As part of the AOC’s corrective action plan, the AOC planned to evaluate the feasibility of identifying any additional transactions with 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. To reduce the AOCs time and level of effort to identify and evaluate such transactions, the OIG elected to broaden the original scope of the previous audit in order to review the remaining (non-sampled) reimbursable transactions to identify unallowable costs as noted in Recommendation 3 of that report.

The AOC’s primary and most substantial contract for Phases 1, 2 and 3 was with the CMc, a joint venture between two construction companies, Clark Construction Group and the Christman Company. The AOC awarded the base contract with the CMc on October 25, 2012. The CMc contract incorporated 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. Under the contract, the CMc is responsible for
replacing or upgrading all major building systems to include complete modernization to meet all applicable codes.

As part of the audit of the CHOBr Project’s Reimbursable Costs, Cotton reviewed the appropriate criteria and interviewed the CMc and members of the CHOBr Project team that participated in the pay application review and approval process, which included reviewing reimbursable costs.

Reimbursable Costs Review Process

The two construction companies of the joint venture submit monthly pay requests (i.e., invoices) to the CMc Project Controls Manager, who ensures compliance with the companies’ contract with the CMc. The CMc Quality Control (QC) Manager and Project Controls Manager validates pay requests using the backup included in each request. The CMc then 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. Once completed, the CMc uploads the two monthly pay requests into the CHOBr Project’s DCCR. The CMc Business Manager and/or Project Manager drafts the pay application and 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 Construction Manager as Agent (CMa) Project Controls Manager for review.

The CMa Project Controls Manager assigns pay application review tasks to the Financial Analyst. Specifically, the Financial Analyst ensures the pay application meets the financial requirements of the AOC/CMa contract and is mathematically sound. The CMa team reviews the supporting documentation for the actual costs included in the pay application because the CMc invoices for general conditions (GC), general requirements (GR), bonding and insurance are based on actual costs incurred. This documentation includes the CMc’s DCCR and invoices related to GC and GR work performed by pay-when-paid vendors. The Financial Analyst determines if the reimbursable costs appear reasonable and are allowable, allocable to the Project, and supported. Specifically:

- 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 vendors’ invoices and documentation support the amounts included in the pay application.

After the CMa reviews the pay application, recommendations are provided to the AOC COR to approve or reject the pay application. Once the AOC COR approves the pay application, the CMc enters it into the Department of the Treasury’s Invoice Processing Platform. 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 funds to the CMc.

As of June 20, 2021, the AOC had approved approximately $19.8 million in reimbursable costs for Phase 1, approximately $22.7 million for Phase 2 and approximately $7.4 million for Phase 3, for a total of $49.9 million.

**Criteria**

To identify unallowable costs reimbursed to the CMc on the CHOBr Project, we used the Base Contract (AOC13C2002) and Federal Acquisition Regulation (FAR) Part 31, which is incorporated by reference into the contract.

The following are excerpts from the Base Contract:

- **Base Contract Section B.3. – Travel:**
  - B.3.2: For travel to be allowed, it must be authorized by the CO in advance.
  - 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 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.

The following are excerpts from FAR Part 31:

- **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.

- 31.205-3: 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.
- 31.205-6(f): Bonuses and incentive compensation are allowable provided the:
  a) awards are paid or accrued under an agreement entered into in good faith between the contractor and the employees before the services are rendered or pursuant to an established plan or policy followed by the contractor so consistently as to imply, in effect, an agreement to make such payment; and
  b) basis for the award is supported.
- 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.
Throughout all phases, we determined that the AOC repetitively reimbursed small-dollar amounts of unallowable costs to the CHOBr Project’s CMc. Specifically, we identified 358 occurrences of costs reimbursed with unallowable cost descriptions. Of those reimbursements, 154 occurrences, or 43 percent, were determined to be unallowable costs amounting to $38,529. While the remaining 204 occurrences amounting to $48,100, with similar cost descriptions as those previously recognized as unallowable, were not substantiated during the review; and therefore the costs were questioned. Lastly, during the review period, we were unable to validate the allowability of $7,135 in reimbursable punch list costs; therefore, we also questioned these costs. In total, we identified $93,764 in unallowable and questioned costs.

Based on our results, we are concerned about the number of occurrences of generally unallowable costs reimbursed to the CMc on the CHOBr Project. The majority of the costs identified were from commonly known unallowable costs types such as local travel, meals/amusements, and coffee supplies and equipment, and should have been known as unallowable to the CMc, who repeatedly submitted reimbursements for small-dollar unallowable items under the review cap to the AOC. Other costs types included: background checks, immigration, business cards, a baby gift and a bike wheel. In addition to these cost types, we questioned costs related to safety incentives (e.g. meals, gift cards, prizes, etc.). The AOC noted that these costs were allowable according to the FAR; however, we were unable to validate the compliance and documentation to support their allowability. As part of the AOC’s corrective action plan for the previous Reimbursable Costs audit, the AOC planned to implement a process requiring the CMc to provide detailed support for any reimbursable cost that exceeds $25,000 on its monthly invoice; however, this effort would not mitigate this issue.

The CMc agreed to issue a credit to the AOC for the $38,529 in unallowable costs. However, the remaining costs questioned, $48,100, require further justification and documentation from the CHOBr Project team.

Lastly, the CMc was reimbursed for punch list costs amounting to $7,135. Construction punch list is a list of items and deficiencies that must be completed before the project is declared complete and subcontractors can receive final payment. Usually, the subcontractor is responsible for completing the punch list work as part of their contractual agreement. However, we found that the CMc contracted a third party, the Punch Out Team, which accumulated costs amounting to $2.9 million in
punch list/out related costs billed to the AOC. According to the AOC, the Punch Out Team’s scope of work is broader than punch list repair work.

During the review, Cotton was unable to confirm the allowability and reasonableness for the 204 occurrences with unallowable cost descriptions amounting to $48,100, and $7,135 in reimbursable punch list costs; therefore, we questioned $55,235.

We made three recommendations to improve how the CHOBr Project team reviews, approves and supports payment applications for reimbursable costs.
**Finding**

**The AOC Repetitively Reimbursed Small-Dollar Amounts of Unallowable Costs to the CMc**

We determined that the AOC repetitively reimbursed small-dollar amounts of unallowable costs to the CHOBr Project’s CMc. During our review, we identified $86,629 of costs with unallowable cost descriptions; however, there were 358 occurrences of these reimbursed costs. We confirmed that 154 of these occurrences ($38,529) were for unallowable costs and the remaining 204 occurrences ($48,100) were not substantiated during the review; therefore, these costs were questioned. See Table 1 Occurrences of Unallowable/Questioned Costs Reimbursed. In addition, we identified $7,135 in reimbursable punch list costs in which we were unable to validate allowability during the review; therefore, these costs were also questioned. In total, we identified $93,764 in unallowable and questioned costs.

**Table 1 Occurrences of Unallowable/Questioned Costs Reimbursed**

<table>
<thead>
<tr>
<th>Exceptions</th>
<th>Occurrences of Unallowable Costs</th>
<th>Occurrences of Questioned Costs</th>
<th>Questioned Punch List Cost</th>
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<td></td>
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<tr>
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<td>13</td>
<td>59</td>
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<td>Postage</td>
<td>30</td>
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<td>49</td>
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<tr>
<td>Safety Incentives*</td>
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<td>36</td>
<td></td>
<td>36</td>
</tr>
<tr>
<td>Coffee Supplies &amp; Equipment</td>
<td>35</td>
<td>-</td>
<td></td>
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<td>Business card</td>
<td>16</td>
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<td>204</td>
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<td>358</td>
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<td><strong>Costs</strong></td>
<td>$ 38,529</td>
<td>$ 48,100</td>
<td>$ 7,135</td>
<td>$ 93,764</td>
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* Total equals 19 Meals & Beverages plus 17 Incentive Gift Cards & Prizes

1. The CHOBr Project’s approved pay applications and DCCRs contained 154 occurrences of unallowable costs amounting to $38,529.

As of June 20, 2021, the AOC approved approximately $19.8 million in reimbursable costs for Phase 1, approximately $22.7 million for Phase 2 and approximately $7.4 million for Phase 3, for a total of $49.9 million. The OIG contracted Cotton, the SME, to perform a detailed review of the project’s reimbursable costs.

Cotton reviewed the CHOBr project’s reimbursable transactions for Phases 1, 2 and 3 within the approved 124 pay applications and three DCCRs submitted by the CMc. Cotton first identified all reimbursable costs, and then removed any transactions questioned in the prior Reimbursable Costs audit. Upon completion of the review, Cotton provided a detailed listing of transactions with unallowable cost descriptions contained in the DCCRs and 66 invoices to the AOC. Cotton requested justifications and documentation supporting the allowability of these approved costs.

During our review, we identified 154 occurrences where small-dollar amounts of unallowable costs were reimbursed. The majority of the costs identified were from commonly known unallowable costs types such as local travel, meals/amusements, coffee supplies and equipment.

Specifically, we found the following occurrences of unallowable costs in Phases 2 and 3 that were reimbursed to the CMc, totaling $38,529 (also see Table 1 Occurrences of Unallowable/Questioned Costs Reimbursed):

- Five occurrences, $18,170 for legal costs related to testimony before the Committee on House Administration. The CMc did not coordinate with or obtain prior approval from the AOC to incur these costs; therefore, the AOC rejected these costs due to the lack of advance approval.
  - We inquired as to the allowability of a $259,246 lump sum transaction from Phase 2. The AOC noted that $233,990 of the lump sum was reviewed as part of the prior Reimbursable Costs audit. Of the remaining $25,256, the AOC will receive a credit for the $18,170. The AOC determined that the majority of the remaining $7,086 was allowable. Due to the lump sum nature of the amount, however, it is not clear how the
allowable amount was calculated, nor the amount that needed further review.

- One occurrence of legal costs that were unrelated to the CHOBBr Project for $1,118, and therefore unallowable
- 34 occurrences of unallowable local travel costs (e.g., parking, rideshare trips, mileage, E-ZPass.), totaling $4,427
- 13 occurrences of unallowable meal/amusement costs, totaling $2,396
- 35 occurrences of unallowable coffee-making supplies and equipment costs, totaling $4,088
- One occurrence of unallowable florist costs for $70
- Six occurrences of unallowable background check costs, totaling $678
- One occurrence of unallowable immigration costs for $1,255
- 30 occurrences of duplicate postage allocations that were covered in Clark’s overhead rate totaling $1,894, and therefore unallowable
- 12 occurrences of Contracts Management Group allocations that were duplicative of costs covered in Clark’s overhead rate totaling $3,228, and therefore unallowable
- 16 occurrences of unallowable business card costs, totaling $1,205

We explained in the prior audit that the CHOBBr Project’s reimbursable cost procedures, periodic detailed reviews of the DCCR and associated invoices, and the CMc’s procedures for reviewing reimbursable costs were not sufficient to ensure that the AOC identified and removed unallowable costs from its payment applications. The AOC agreed to implement a process requiring the CMc to provide detailed support for any reimbursable cost that exceeds $25,000 on its monthly invoice. However, due to the number of occurrences found during our review, the implementation of a process requiring the CMc to provide support for costs exceeding $25,000 may not mitigate reimbursements of small-dollar unallowable costs to this and other construction projects.

Per AOC, the CMc agreed to issue a credit of $38,529 to the AOC for the unallowable costs identified in our review.

2. The CHOBBr Project’s approved pay application and DCCRs contained 204 occurrences of costs with unallowable cost descriptions amounting to $48,100.

Within our review of the approved pay applications and DCCRs, we identified an additional 204 occurrences of costs with unallowable cost descriptions. The AOC
was unable to provide the justifications and documentation supporting the allowability of these costs during the review; therefore, these costs were questioned.

We found that the majority of these questioned costs had the same unallowable cost descriptions as those determined to be unallowable for which the CMc agreed to issue a credit. Specifically, we found the following occurrences of questioned costs, totaling $48,100 (also see Table 1 Occurrences of Unallowable/Questioned Costs Reimbursed):

- Pre-Construction/Phase 0 Costs (five occurrences)
  - One occurrence, $124 in potentially unallowable local travel costs
  - One occurrence, $26 in potentially unallowable meal/amusement costs
  - One occurrence, $3,110 in unexplained credit card charges for which it is not clear how they were allocable to the project
  - One occurrence, $6 for duplicate postage allocations covered in Clark’s overhead rate and were therefore potentially unallowable
  - One occurrence, $98 for Contracts Management Group allocations that were duplicative of costs covered in Clark’s overhead rate and were therefore potentially unallowable

- Phase 1 Costs (163 occurrences)
  - Four occurrences, $7,940 for legal costs that should be reviewed for allowability.
  - One occurrence, $1,534 in non-local travel costs, but it is unclear if the CMc obtained prior approval from the AOC as required by the base contract
  - 67 occurrences, $1,331 in potentially unallowable local travel costs (e.g., parking, rideshare trips, mileage, E-ZPass, etc.)
  - 58 occurrences, $8,017 in potentially unallowable meal/amusement costs
  - One occurrence, $135 in potentially unallowable baby gift costs
  - One occurrence, $104 for a bike wheel, but it is unclear how this is allocable to the project
  - Three occurrences, $311 in potentially unallowable background check costs
  - Two occurrences, $4,255 in potentially unallowable immigration costs
  - 18 occurrences, $1,287 for postage allocations that were duplicative of costs covered in Clark’s overhead rate and were therefore potentially unallowable
Finding

- Three occurrences, $1,635 for Contracts Management Group allocations that were duplicative of costs covered in Clark’s overhead rate and were therefore potentially unallowable
- Five occurrences, $172 in potentially unallowable business card costs
- Safety incentive amounts from Phases 1 and 2 (36 occurrences)
  - 19 occurrences, $13,707 in costs related to safety incentive meals, beverages, etc.
  - 17 occurrences, $4,308 in costs related to safety incentive gift cards, prizes, etc.

During our review, the AOC was unable to provide documentation for the Pre-Construction/Phase 0 and Phase 1 costs questioned. The AOC did note that the costs related to safety incentives (e.g., meals, gift cards, prizes, etc.) were allowable. However, we found that FAR 31.205-6(f) states compensation for incentives are allowable if paid under an agreement and entered into in good faith before the services are rendered or in accordance with an established plan or policy followed by the contractor consistently, and the basis is supported. We questioned these costs because the AOC did not provide any supporting documentation for these safety incentives nor proof that these costs were approved before the services were rendered during our review.

3. The CHOBr Project’s approved pay applications and DCCRs contained $7,135 in questioned punch list costs.

During our review, we also questioned $7,135 in reimbursable punch list costs. Identifying these costs prompted Cotton to perform an additional review of the DCCRs for Phases 1, 2 and 3, which allowed them to find costs totaling $2,887,880.77 for work performed by the Punch Out Team.

Table 2 Detailed Costs for work performed by the Punch Out Team.

<table>
<thead>
<tr>
<th>Project Phase</th>
<th>Punch Out Team Costs</th>
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</thead>
<tbody>
<tr>
<td>Phase 1</td>
<td>$1,720,330.00</td>
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<tr>
<td>Phase 2</td>
<td>$1,111,486.77</td>
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<tr>
<td>Phase 3</td>
<td>$56,064.00</td>
</tr>
<tr>
<td>Total Costs</td>
<td>$2,887,880.77</td>
</tr>
</tbody>
</table>

During Phases 1 and 2, the costs incurred by the Punch Out Team were billed to the AOC through the Schedule of Values as change orders. During Phase 3, the Punch
Conclusion

The AOC repetitively reimbursed small-dollar amounts of unallowable costs to the CHOBr Project’s CMc. We acknowledge that we identified a small-dollar amount of unallowable and questioned costs based on the total amount of reimbursable costs; however, the number of occurrences of generally unallowable costs caused concern. Therefore, we conclude that the AOC may continue to reimburse the CMc for small-dollar amounts of unallowable costs if the AOC does not consider re-evaluating its approach to strengthening the review and internal control process for small-dollar reimbursable cost transactions. In response to our previous Reimbursable Cost audit,
the AOC planned to implement a process requiring the CMc to provide detailed support for reimbursable costs that exceed $25,000 on its monthly invoice; however, this improvement may not mitigate this issue.

Lastly, Cotton was unable to confirm the allowability and reasonableness for the 204 occurrences with unallowable cost descriptions amounting to $48,100, and $7,135 in reimbursable punch list costs during the review. Specifically, the AOC was unable to fully review the questioned costs identified for Pre-Construction/Phase 0 and Phase 1, provide additional supporting documentation for safety incentives, and definitively identify contractors/subcontractors responsible for punch list work. As a result, we are questioning the total cost of $55,235.

Although the Reimbursable Cost audit report found the Project’s reimbursable costs overall complied with contract requirements, were generally allowable and supported, and adequately reviewed and approved, enhancements are needed to reduce the likelihood of reimbursing repetitive small-dollar value unallowable costs. It is important for the Project team to recognize the potential effects of repetitively reimbursing unallowable costs. By strengthening the review of small-dollar reimbursable cost transactions and addressing these known unallowable and questionable reimbursements, the AOC would reduce the likelihood for the unallowable use of taxpayer funds and potential affects to public trust.

**Recommendations**

**Recommendation 1**

We recommend that, to the extent legally and administratively possible, the Cannon House Office Building Renewal Project (CHOBr) team recover the $38,529 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 1 – AOC Comment**

Concur. The CHOBr Project team has recovered these funds.

**Recommendation 1 – OIG Comment**

We recognize the AOC’s concurrence with the recommendation. The CHOBr Project team stated that the funds were recovered. Therefore, we consider the
recommendation resolved but open. We will close the recommendation upon verification of the proposed actions.

**Recommendation 2**

We are questioning $55,235 in unsupported costs. We recommend that, to the extent legally and administratively possible, the Cannon House Office Building Renewal (CHOBr) Project team review these costs and, 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 2 – AOC Comment**

Concur. The AOC will review the allowability of the questioned costs, recognizing that a great deal of these costs are associated with closed contracts.

**Recommendation 2 – OIG Comment**

We recognize the AOC’s concurrence with the recommendation. The AOC plans to review the allowability of the questioned costs. Therefore, we consider the recommendation resolved but open. We will close the recommendation upon completion and verification of the proposed actions.

**Recommendation 3**

We recommend that the Architect of the Capitol (AOC) re-evaluate its approach to strengthen the review and internal control process for small-dollar reimbursable cost transactions to help ensure that the Construction Manager as Constructor (CMc) does not include, and the Cannon House Office Building Renewal (CHOBr) Project team does not approve, unallowable costs in the pay applications.

(Note: In our “Audit of the Cannon House Office Building Renewal Project’s Reimbursable Costs” (OIG-AUD-2021-04), we recommended that the CHOBr Project team strengthen the review process for small-dollar reimbursable cost transactions to help ensure that the CMc does not include, and the CHOBr Project team does not approve, unallowable costs in the pay applications. As part of its remediation efforts when closing out the recommendation issued in the OIG-AUD-2021-04 report, the AOC should also address the repetitively reimbursed small-dollar amounts of unallowable costs as outlined in this report.)
**Recommendation 3 – AOC Comment**

Concur. The AOC has re-evaluated the actions it previously took in response to the OIG's June 2021 audit report. The CHOBr Project team:

- Reduced the threshold for requiring documentation from $25,000 to $10,000 and will continue to review all billings for legal and consulting costs and any cost submitted as an "allocation" in its monthly pay application review process

- Will review CMc documentation for a random sample of 10 transactions under $10,000 from the CMc's Cost Accounting System Actual Costs report on a monthly basis

- Is piloting a second review of the CMc's pay applications by another CHOBr Project team member to determine if this helps identify any additional potentially unallowable costs

- Will periodically discuss the pay application submission and review processes, including unallowable costs and costs requiring prior CHOBr Project team approval, with the CMc

In addition, the CMc added a step to its pay application process to prevent employees from directly inputting their expense reports into the reimbursable account. Its employees must now use the "non-reimbursable" project code for all expense reports. This account is screened for unallowable costs before the pay application goes to the AOC.

**Recommendation 3 – OIG Comment**

We recognize the AOC’s concurrence with the recommendation. The CHOBr Project team’s prescribed plan meets the intent of our recommendation. Therefore, we consider the recommendation resolved but open. We will close the recommendation upon completion and verification of the proposed actions.
Appendices

Appendix A

Announcement Memorandum

Office of Inspector General
Faithful Ridge
419 S. Capitol St., SW, Suite 518
Washington, D.C. 20515
202.593.1948
www.aoc.gov

MEMORANDUM

DATE: July 14, 2021

TO: J. Brett Blanton
Architect of the Capitol

FROM: Christopher Failla, CIG
Inspector General


This memorandum serves as a notification that the Office of Inspector General plans to initiate an Independent Assessment of Unallowable Costs Reimbursed to Contractors on the CHOBr Project. The objective of the assessment is to identify unallowable cost reimbursed to Contractors on the CHOBr Project.

We will contact your office next week to schedule an entrance conference. If you have any questions, please contact Erica Wardley at 202.593.0081 or erica.wardley@aoc.gov, or Nikki Robinson at 202.593.7478 or niki.robinson@aoc.gov.

Distribution List:

Peter Bahn, Chief of Staff
Mary Jean Pajak, Deputy Chief of Staff
Pete Mueller, Chief Engineer
Antonio Edmonds, Chief of Operations
David Wilder, Superintendent, House Office Buildings
Appendix B

Management Comments

DATE: March 21, 2022

TO: Christopher P. Fauilla
Inspector General

FROM: J. Brett Blanton
Architect of the Capitol

SUBJECT: AOC Repetitively Reimbursed Small-Dollar Amounts of Unallowable Costs to Contractors on the Cannon House Office Building Renewal (CHOBr) Project (Project No. 2021-AUD-009-0)

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

The Architect of the Capitol (AOC) agrees that reimbursing the contractor for repetitive occurrences of the same types of unallowable costs is an issue that must be addressed and has already taken action to reduce the likelihood that these types of situations reoccur. The AOC asserts:

- The OIG’s overall conclusion is important: that 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 adequate.

- We appreciate the OIG’s recognition of $38,529 in unallowable costs, which is well below the threshold suggested by the Government Accountability Office (GAO) and Council of the Inspectors General on Integrity and Efficiency (CIGIE)\(^1\).

- The Cannon House Office Building Renewal (CHOBr) Project’s payment controls are consistent with long-standing public and private sector standards and principles.

Recommendation 1

We recommend that, to the extent legally and administratively possible, the CHOBr Project team recover the $38,529 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.

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\(^1\) "Financial Audit Manual, Volume 1", (GAO/CIGIE, April 2020)
Appendices

AOC Response
The CHOBr Project team has recovered these funds.

Recommendation 2
We are questioning $55,235 in unsupported 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.

AOC Response
The AOC will review the allowability of the questioned costs, recognizing that a great deal of these costs are associated with closed contracts.

Recommendation 3
We recommend that the AOC re-evaluate its approach to strengthen the review and internal control process for small-dollar reimbursable cost transactions to help ensure that the Construction Manager as Constructor does not include, and the CHOBr Project team does not approve, unallowable costs in the pay applications.

AOC Response
The AOC has re-evaluated the actions it previously took in response to the OIG’s June 2021 audit report. The CHOBr Project team:

- Reduced the threshold for requiring documentation from $25,000 to $10,000 and will continue to review all billings for legal and consulting costs and any cost submitted as an “allocation” in its monthly pay application review process
- Will review CMc documentation for a random sample of 10 transactions under $10,000 from the CMc’s Cost Accounting System Actual Costs report on a monthly basis
- Is piloting a second review of the CMc’s pay applications by another CHOBr Project team member to determine if this helps identify any additional potentially unallowable costs
- Will periodically discuss the pay application submission and review processes, including unallowable costs and costs requiring prior CHOBr Project team approval, with the CMc

In addition, the CMc added a step to its pay application process to prevent employees from directly inputting their expense reports into the reimbursable account. Its employees must now use the “non-reimbursable” project code for all expense reports. This account is screened for unallowable costs before the pay application goes to the AOC.
The AOC’s approach reflects long-standing public and private sector principles (reasonable assurance, materiality and cost-effectiveness in designing and implementing internal controls) and is consistent with GAO’s recognition that while some overpayments are “inevitable,” cost-effective control systems are important.\(^2\)

Doc. No. 220217-18-01

# Acronyms and Abbreviations

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<thead>
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<th>Acronym</th>
<th>Description</th>
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<td>AOC</td>
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<tr>
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<td>Cannon House Office Building Renewal</td>
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<td>Construction Manager as Agent</td>
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<td>CMc</td>
<td>Construction Manager as Constructor</td>
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<tr>
<td>CO</td>
<td>Contracting Officer</td>
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<tr>
<td>COR</td>
<td>Contracting Officer’s Representative</td>
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<td>Cotton</td>
<td>Cotton &amp; Company LLP</td>
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<td>DCCR</td>
<td>Detail Construction Costs Report</td>
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<td>Federal Acquisition Regulation</td>
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<td>General Conditions</td>
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<td>Guaranteed Maximum Price</td>
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<td>Subject Matter Expert</td>
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