

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE INSPECTOR GENERAL**

**REPORT ON THE CONSTRUCTION  
MANAGEMENT AT THE  
DISTRICT DEPARTMENT OF  
TRANSPORTATION**



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Office of the Inspector General

Inspector General



March 5, 2013

Terry Bellamy  
Director  
District Department of Transportation  
55 M Street, S.E., Suite 400  
Washington, D.C. 20003

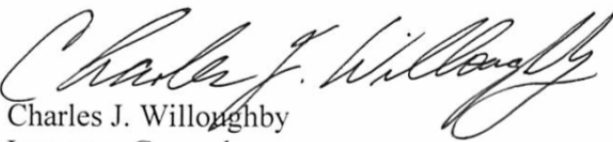
Dear Mr. Bellamy:

Enclosed is the final report summarizing the results of the Office of the Inspector General's (OIG) *Report on the Construction Management at the District Department of Transportation* (OIG No. 11-2-28KA (a)). We issued a Management Alert Report (MAR) *on the District Department of Transportation's Inventory of Capital Equipment*, OIG MAR No. 13-A-01, to you on January 10, 2013, as a part of our overall audit work on construction management at the District Department of Transportation (DDOT). Audit field work is continuing and additional report(s) will be issued.

As a result of the MAR, we directed six recommendations to DDOT. We received DDOT's written response, dated January 25, 2013, to the MAR. DDOT concurred with the recommendations and we consider the actions taken or planned to be responsive and meet the intent of the recommendations. The full text of DDOT's response is included at Exhibit B.

We appreciate the cooperation and courtesies extended to our staff during this audit. If you have any questions, please contact me or Ronald W. King, Assistant Inspector General for Audits at 202-727-2540.

Sincerely,

  
Charles J. Willoughby  
Inspector General

CJW/rw

Enclosure

cc: See Distribution List

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## ACRONYMS

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CO	Contracting Officer
CY	Calendar Year
DCMR	District of Columbia Municipal Regulations
DDOT	District Department of Transportation
DPW	Department of Public Works
MAR	Management Alert Report
OIG	Office of the Inspector General

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## **EXECUTIVE SUMMARY**

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### **OVERVIEW**

Enclosed is the final report summarizing the results of the Office of the Inspector General's (OIG) Management Alert Report (MAR) on the District Department of Transportation's (DDOT) inventory of capital equipment. This report resulted from our review of one of four allegations received during our Audit of Construction Management at the District Department of Transportation (OIG Project No. 11-2-28KA). We will address the remaining allegations in a follow-on report.

However, during the course of our review, we identified a condition that we concluded was not in the best interest of the District and required immediate action on the part of DDOT management. As a result, we issued a MAR to address DDOT's lack of internal control over the inventory of capital equipment.

The allegation that we received claimed that a contractor had an unfair competitive advantage because it had knowledge of and proposed to rent available DDOT-owned equipment prior to the award of Contract No. POKA-2004-B-0020-CB for the Reconstruction of Kenilworth Avenue. The contractor was allowed to use this equipment without the authorization of the Contracting Officer (CO).

### **CONCLUSION**

Internal controls over capital equipment at DDOT are inadequate to ensure that inventory records are properly maintained to fully reflect all equipment under its control. Also, DDOT's decision to rent District-owned capital equipment to a contractor in calendar year (CY) 2007 was not properly authorized by the CO and led to a lack of documentation of terms and conditions, including payment terms. Further, the contractor was allowed to retain possession of the equipment for more than 2 years and 9 months after the project was completed.

As a result, two barrier moving machines that were purchased more than 17 years ago at a price of about \$250,000 each were not reflected in the DDOT inventory records. Also, the payment that DDOT received for the rental of the equipment was \$18,000 less than the amount reflected in the contractor's offer. Further, based on the rental amount the contractor paid the state of Maryland in CY 1999 for the rental of barrier equipment, DDOT could have received approximately \$32,000 more had it determined price reasonableness and negotiated the rental rates.

### **SUMMARY OF RECOMMENDATIONS**

We directed six recommendations to DDOT officials that focused on: 1) the disposition of the barrier equipment, 2) conducting a physical inventory of capital equipment, 3) developing

## **EXECUTIVE SUMMARY**

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written procedures to implement internal controls for fixed assets, and 4) recovering payment from the contractor for the use of District-owned equipment.

### **MANAGEMENT RESPONSE**

DDOT provided us with a written response to the MAR on January 25, 2013, in which it agreed with all six recommendations. DDOT provided target dates to complete its planned actions by April 2013, for Recommendations 1 through 5. Recommendation 6 was closed effective February 2013. The full text of DDOT's response is included at Exhibit B.

### **OIG COMMENT**

We consider the actions planned or taken by DDOT to be responsive and meet the intent of the recommendations.



## INTRODUCTION

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### BACKGROUND

During the audit, the OIG received a complaint alleging several unauthorized and improper actions regarding two contracts. One of the allegations claimed that a contractor had an unfair competitive advantage because it had knowledge of and proposed to rent available DDOT-owned equipment prior to the award of Contract No. POKA-2004-B-0020-CB for the Reconstruction of Kenilworth Avenue. Also, the contractor was allowed to use this equipment without the authorization of the Contracting Officer (CO).

As in the normal course of awarding contracts, the CO notified the contractor that it was the successful bidder. However, prior to contract award and in preparations for performing the work, the contractor submitted a proposal to the DDOT Deputy Chief Engineer to rent two barrier moving machines at rates of \$1,500 per month for the primary machine and \$750 per month for the backup machine. The contractor also offered to rent an unknown quantity of one-meter barrier units at a rate of \$1.00 each per month. In addition, the contractor offered to recondition both barrier moving machines for their use on the project and immediately prior to their return.

Subsequently, the contract was awarded and the DDOT Deputy Chief Engineer permitted the contractor to use the barrier equipment in the performance of the work without proper authorization. DDOT became aware of the contractor's non-payment around March, 2012, and a Change Order was initiated to accept the contractor's proposed settlement in the amount of \$41,650.

### OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of the audit was to determine whether adequate internal controls were in place to effectively monitor, properly account for, and safeguard fixed assets to prevent theft. Audit work to support this report was limited to a review of documentation and circumstances involving the rental of the barrier equipment to the contractor. We focused primarily on the documentation of management actions and decisions that ultimately led to the decision to rent the barrier equipment.

To accomplish the objective, we reviewed applicable laws, policies, and procedures. We conducted interviews with current and former DDOT personnel, and contractor officials. We also made field site visits to contractor facilities and DDOT storage locations. We reviewed contract files and both DDOT and contractor emails.

This audit was performed in accordance with Generally Accepted 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 the audit objective.

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## FINDINGS

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<b>FINDING 1: UNACCOUNTED FOR DISTRICT-OWNED EQUIPMENT</b>
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### DISCUSSION

The District Department of Transportation (DDOT) did not have adequate internal controls over capital equipment under its responsibility. DDOT and the Department of Public Works (DPW) could not account for two District-owned barrier machines with an estimated purchase cost of \$250,000 each in their inventory records. Also, a written authorization or sign-out form did not exist for the release of the two barrier machines to a contractor or its return to DDOT. At the conclusion of our fieldwork, the District-owned equipment remained in the possession of the contractor for more than 2 years and 9 months after the project was completed.

We interviewed inventory managers in DDOT and DPW and the managers were unable to produce an inventory record of the two barrier machines. According to a DPW employee who contacted the manufacturer, the District purchased the two barrier machines about 17 years ago at an estimated cost of \$250,000 each. At that time, DDOT was under the authority of DPW.

Also, we determined that internal controls such as a written authorization and a release or sign-out form did not exist for the release of District-owned equipment to contractors. We interviewed current and former DDOT program officials and learned that the decision to rent the equipment was made without the involvement of the CO and therefore, was not properly authorized and documented in the contract.

Title 27 DCMR § 1200.1 states, “[o]nly a contracting officer is authorized to sign and enter into a contract on behalf of the District.” In addition, 27 DCMR § 1203.2 requires that contract files include documentation “sufficient to constitute a complete history of the transaction for the following purposes: a) [p]roviding a complete background as a basis for informed decisions at each step of the procurement process; b) [s]upporting actions taken; c) [p]roviding information for reviews and investigations; and d) [f]urnishing essential facts in the event of litigation.”

We believe that these conditions existed because DDOT did not have written procedures in place for the transfer of capital equipment at the time transportation authority was transferred to DDOT in 2002. Also, terms and conditions of the rental agreement were not documented because DDOT program officials did not involve the CO in the decision to rent the equipment. In addition, we determined that written procedures did not exist to govern the release of District-owned capital equipment to a contractor.

## **FINDINGS**

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As a result, DDOT was unaware that its inventory records were inaccurate. Also, the agreement to rent the equipment was not properly authorized, rent amounts were not negotiated and, payment and other terms and conditions were not documented in the contract.

## FINDINGS

### FINDING 2: INCOMPLETE PAYMENT FOR THE USE OF DISTRICT-OWNED EQUIPMENT

#### DISCUSSION

DDOT program officials did not verify that the contractor’s proposed settlement amount was accurate and conformed to the terms of the contractor’s written offer. Also, we did not find any documentation to support that contractor’s offer was negotiated by DDOT officials.

The contractor’s offer reflected the rental of two barrier moving machines: one to be used as a primary machine at \$1,500 per month and one as a back-up machine at \$750 per month. The payment amount processed by DDOT covered the rental cost of only the primary machine for a 24-month rental period. (See Figure 1 for details of the payment.) We interviewed several DDOT program officials and the CO, and determined that these officials had not verified that the calculation of the settlement amount offered by the contractor was consistent with the contractor’s original offer to rent DDOT equipment.

**Figure 1: Contractor Proposed Settlement Amounts**

		Rental		Contractor's
Equipment	Months	Rate	Quantity*	Proposed Settlement
Barrier Moving Machine #1	24	\$ 1,500	-	\$ 36,000
Barrier Moving Machine #2	0	\$ 750	-	\$ -
One-meter Barrier Units	10	\$ 1	215	\$ 2,150
One-meter Barrier Units	14	\$ 1	250	\$ 3,500
<b>Total</b>				<b>\$ 41,650</b>

The DDOT construction manager stated that he only verified the time the equipment was on the job and not the total time the contractor had possession of the equipment. He also stated that the second barrier moving machine was never on the job and was not aware that the contractor was to be charged for it. The DDOT’s failure to collect payment for the second machine resulted in a loss of \$18,000 to the District. (See Figure 2 on page 6 for details of the calculation.)

**FINDINGS**

<b>Figure 2: Contractor Proposed vs. OIG Calculated Settlement Amounts</b>				
<b>Equipment</b>	<b>Months</b>	<b>Rental Rate</b>	<b>Quantity*</b>	<b>Contractor's Proposed Settlement</b>
Barrier Moving Machine #1	24	\$ 1,500	-	\$ 36,000
Barrier Moving Machine #2	0	\$ 750	-	\$ -
One-meter Barrier Units	10	\$ 1	215	\$ 2,150
One-meter Barrier Units	14	\$ 1	250	\$ 3,500
<b>Total</b>				<b>\$ 41,650</b>
<b>Equipment</b>	<b>Months</b>	<b>Rental Rate</b>	<b>Quantity</b>	<b>OIG's Calculated Settlement</b>
Barrier Moving Machine #1	24	\$ 1,500	-	\$ 36,000
Barrier Moving Machine #2	24	\$ 750	-	\$ 18,000
One-meter Barrier Units	10	\$ 1	215	\$ 2,150
One-meter Barrier Units	14	\$ 1	250	\$ 3,500
<b>Total</b>				<b>\$ 59,650</b>
<b>Uncollected Rent Amount</b>				<b>\$ 18,000</b>

Also, we determined that the rental rates offered by the contractor were not negotiated by DDOT. We interviewed contractor officials and learned that they had rented barrier equipment from other jurisdictions in the past. The contractor supported its claim by providing a job cost ledger that reflected payments to the state of Maryland in CY 1999, purportedly for a barrier moving machine. The payment amount of \$2,384 per month taken from the ledger was almost 60 percent greater than the \$1,500 per month offered to the District in CY 2007 for the primary barrier machine, almost 8 years later.

The above conditions existed because DDOT did not involve the CO in its decision to rent the equipment. As such, documentation was not available in the contract files to support the decision to rent the equipment, any negotiation that may have taken place, payment terms and any other terms and conditions of the rental agreement.

According to 27 DCMR § 1540.1, the contracting officer shall determine whether the prices offered by a prospective contractor are reasonable. According to the documentation, the CO was not given the opportunity to meet his responsibility of determining the reasonableness of

**FINDINGS**

the contractor's offer prior to DDOT releasing the equipment. There was no evidence of a government estimate or any other indication that the program office performed an analysis of the rental rates offered by the contractor.

Based on the comparison of rates above, we determined that the District lost approximately \$32,000 over the rental period because the rental rates were not negotiated. (See Figure 3 below for details of the calculation.)

<b>Figure 3: Unrealized/Lost Rental Revenue</b>					
		<b>Rate Contractor Paid</b>	<b>Contractor's Proposed Rate</b>	<b>Delta Rate</b>	<b>OIG's Calculated Lost Revenue</b>
<b>Equipment</b>	<b>Months</b>	<b>State of Maryland in 1999</b>	<b>Rate</b>	<b>Rate</b>	<b>Lost Revenue</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>b-c=(d)</b>	<b>a x d</b>
Barrier Machine #1	24	\$ 2,384	\$ 1,500	\$ 884	\$ 21,216
Barrier Machine #2	24	\$ 1,192 *	\$ 750	\$ 442	\$ 10,608
<b>Total Unrealized Rental Revenue without Escalation</b>					<b>\$ 31,824</b>
<p><b>*Calculated at 50% of rental rate of Barrier Machine #1 as per the relationship of the rates of the 2nd barrier machine to the primary barrier machine reflected in the contractor's offer.</b></p>					

## **RECOMMENDATIONS, MANAGEMENT RESPONSE, AND OIG COMMENTS**

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### **RECOMMENDATIONS**

As a result of DDOT's inability to account for major fixed assets in its inventory and its failure to properly authorize and implement the rental agreement, we recommend that DDOT officials:

1. Take immediate possession of the District-owned barrier moving machines from the contractor.
2. Determine whether to surplus the barrier moving machines and offer them for sale.
3. Conduct a complete inventory of all construction capital equipment.
4. Discontinue the practice of allowing contractors to use District-owned equipment by lease or any other means without appropriate documentation of terms and conditions in a contract issued by the DDOT chief contracting officer. The documentation is essential for monitoring and oversight to ensure payment and other terms of the agreement are complied with.
5. Develop written procedures to implement adequate internal controls over fixed assets. The procedures should provide guidance for allowing contractors to utilize District-owned equipment when government furnished equipment is not included in the solicitation or invitation for bid.
6. Recover payment for equipment rental using the verified period of equipment use and the complete offer made by the contractor for the rental of both DDOT-owned barrier moving machines and equipment.

### **DDOT RESPONSE**

DDOT officials provided us with a written response to the MAR on January 25, 2013, in which it agreed with all six recommendations. DDOT indicated it intends to implement all planned actions by the end of April 2013. The full text of DDOT's response is included at Exhibit B.

### **OIG COMMENTS**

We consider the actions planned or taken by DDOT to be responsive and meet the intent of the recommendations.

**EXHIBIT A. SUMMARY OF POTENTIAL BENEFITS  
RESULTING FROM THE AUDIT**

<b>RECOMMENDATION</b>	<b>DESCRIPTION OF BENEFIT</b>	<b>AMOUNT AND TYPE OF BENEFIT</b>	<b>AGENCY REPORTED ESTIMATED COMPLETION DATE</b>	<b>STATUS<sup>1</sup></b>
1	<b>Internal Controls, Requires establishing internal controls to recover and control capital assets.</b>	Non-Monetary	April 30, 2013	Open
2	<b>Economy and Efficiency.</b>	Monetary (Indeterminable)	April 30, 2013	Open
3	<b>Internal Controls. Requires accounting for inventory.</b>	Non-Monetary	April 30, 2013	Open
4	<b>Compliance and Internal Controls.</b> Requires establishing internal controls and complying with existing procedures to determine price reasonableness.	Monetary \$32,000	April 30, 2013	Open
5	<b>Internal Controls.</b> Requires establishing internal controls over fixed assets.	Non-Monetary	April 30, 2013	Open
6	<b>Compliance.</b> Requires DDOT to comply with the rent agreement and collect payment	Monetary \$18,000	February 1, 2013	Closed

<sup>1</sup> This column provides the status of a recommendation as of the report date. For final reports, “Open” means management and the OIG are in agreement on the action to be taken, but action is not complete. “Closed” means management has advised that the action necessary to correct the condition is complete. If a completion date was not provided, the date of management’s response is used. “Unresolved” means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.



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## EXHIBIT B. DDOT'S RESPONSE TO THE MANAGEMENT ALERT REPORT

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**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
DEPARTMENT OF TRANSPORTATION**



**d. Office of the Director**

January 25, 2013

Mr. Charles Willoughby  
Inspector General  
Office of the Inspector General  
717 14th Street, NW, Fifth Floor  
Washington, DC 20005

Dear Mr. Willoughby,

I am responding to your January 10, 2013 letter regarding the District Department of Transportation's (DDOT) inventory of capital equipment. In that letter, you expressed concerns about the rental of District-owned barrier moving machines to a contractor.

The two open cab barrier moving machines were stored in the Third Street Tunnel unused for approximately 15 years. They were moved there after the District purchased a new close cab machined for daily operation on the Theodore Roosevelt Memorial Bridge. When the machines were released to a contractor for use DDOT's rehabilitation of Kenilworth Avenue project, neither was operational. The contractor repaired the machines for use on the DDOT project.

DDOT concurs with your recommendations and will implement them as follows:

- DDOT has determined that the barrier moving machines are no longer needed, and has contacted the District's Property Disposal Unit about selling the equipment. Depending on the time that it will take to see the property, DDOT will either transfer the equipment to District for storage or surplus it from its current location. DDOT hopes to complete this action by April 2013. (Recommendations 1 and 2)
- DDOT concurs that a complete inventory of DDOT construction equipment is a good practice, and will conduct an inventory by April 2013. (Recommendation 3)
- DDOT rarely allows contractors to use District-owned equipment, and will add requirements in the DDOT Standard Specifications manual that will govern the use of District-owned equipment that is not included in a contract solicitation. This will include

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## EXHIBIT B. DDOT'S RESPONSE TO THE MANAGEMENT ALERT REPORT

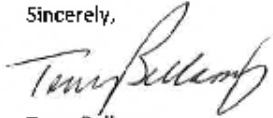
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a requirement for documentation of terms and conditions and approval by the contracting officer. This will be complete by April 2013. (Recommendations 4 and 5)

- DDOT will contact the vendor and request payment for the use of the second barrier machine. The letter will be sent before the end of January 2013. (Recommendation 6)

I appreciate the opportunity to provide this information to you. Should you have additional questions, please let me know.

Sincerely,



Terry Bellamy  
Director  
District Department of Transportation

CC: [REDACTED], OIG  
[REDACTED], OIG  
[REDACTED], DDOT  
[REDACTED], DDOT  
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