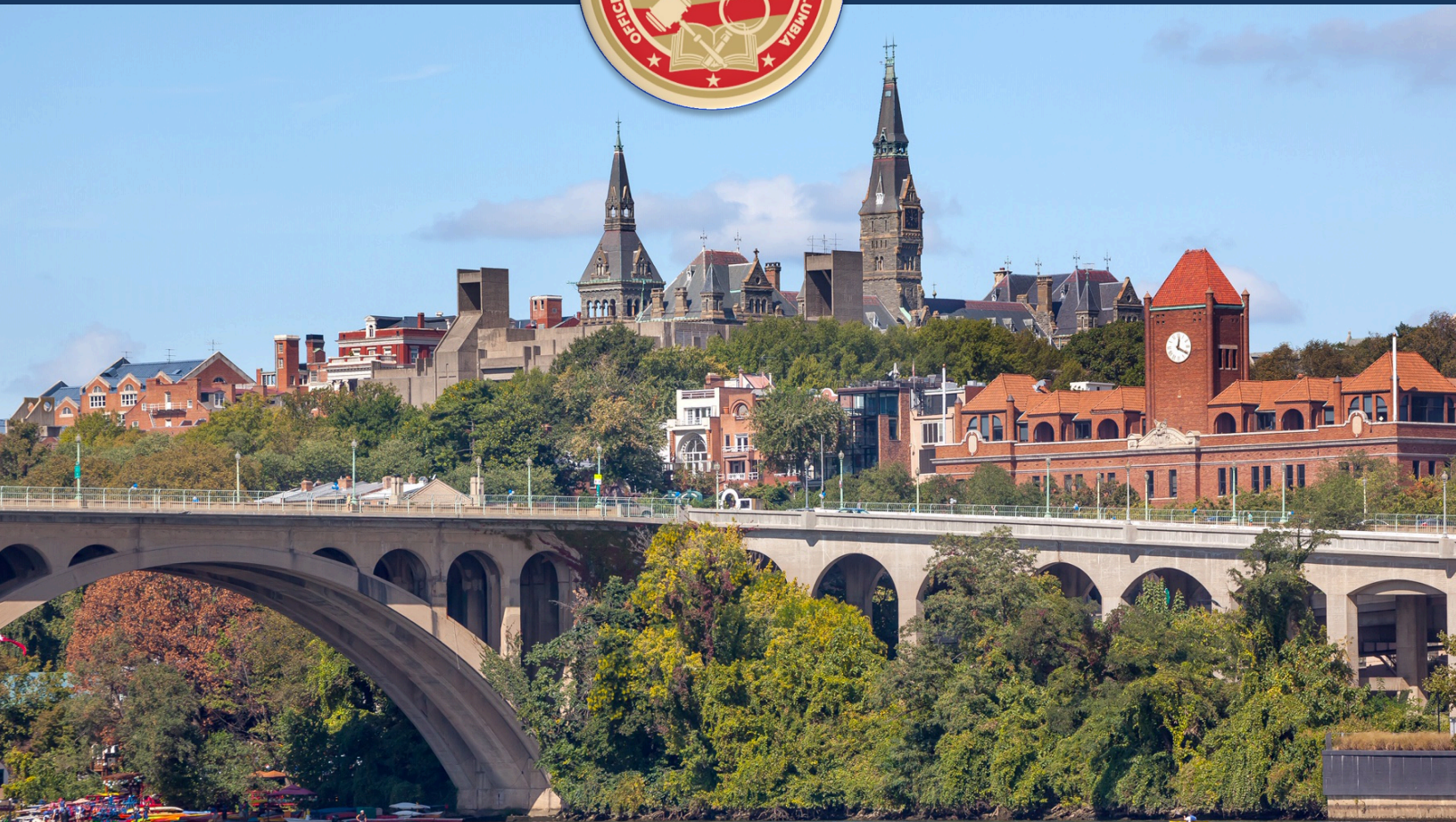


DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 19-2-22KA

September 2020



DISTRICT DEPARTMENT OF TRANSPORTATION

Prime Contractor for the Streetcar Program Billed and Received \$5.2 Million in
Improper Payments from the District

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*Workforce Engagement * Stakeholders Engagement * Process-oriented * Innovation
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Our mission is to independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

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- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District programs and operations; and
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* Transparency * Empowerment * Courage * Passion
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Prime Contractor for the Streetcar Program Billed and Received \$5.2 Million in Improper Payments from the District

EXECUTIVE SUMMARY

WHY WE DID THIS AUDIT

The Office of the Inspector General (OIG) issued a November 27, 2019, report on the District Department of Transportation's (DDOT) management of the Streetcar Program. The report identified weaknesses in DDOT's invoice review and approval process that required additional review.



This audit examined the accuracy of the Streetcar Program prime contractor's billing practices and quantified the impact of DDOT's invoice review and approval weaknesses.

OBJECTIVES

Our audit objective was to determine whether the contractor submitted invoices for services performed at the rates stipulated in the contract.

WHAT WE FOUND

From September 2010 through March 2019, the contract ceiling price substantially increased from \$10 million to \$68.5 million. As of March 31, 2019, the prime contractor billed and received payments from DDOT valued at \$55.3 million. Our review of the prime contractor's certified invoices and related supporting documentation indicated that DDOT should recoup \$5.2 million in improper payments it paid to the prime contractor. We calculated the \$5.2 million as follows:

- \$1,431,231 in duplicate charges for services related to managing subcontracting work;
- \$764,843 in unauthorized subcontracting work;
- \$935,544 in services that may not have been rendered;
- \$94,413 in direct labor costs not specifically incurred for the contract;
- \$1,334,017 in overhead exceeding actual costs, or usual and customary charges;
- \$584,012 in excessive fees for service;

- \$73,250 in unallowable first-class air accommodations;
- \$11,772 in unreasonable lodging expenses; and
- \$3,267 in unallowable employee meal and entertainment expenses.

WHAT WE RECOMMEND

The OIG made 10 recommendations for DDOT to recoup amounts paid to the prime contractor above the rates or adjustments stipulated in the contract and those in District and federal regulations.

MANAGEMENT RESPONSE

DDOT concurred with eight of 10 recommendations.

EXECUTIVE SUMMARY

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



September 23, 2020

Jeff Marootian
Director
District Department of Transportation
55 M Street, S.E., Suite 400
Washington, DC 20003

Dear Director Marootian:

Enclosed is our final report, *Prime Contractor for the Streetcar Program Billed and Received \$5.2 Million in Improper Payments from the District* (OIG Project No. 19-2-22KA). Our audit objective was to determine whether the contractor submitted invoices for services performed at the rates stipulated in the contract. We conducted this audit in accordance with generally accepted government auditing standards (GAGAS).

We provided the District Department of Transportation (DDOT) with our draft report on August 27, 2020, and received its response on September 10, 2020. We appreciate that DDOT officials began addressing some of our findings immediately upon notification during the audit. DDOT's responses to the draft report are included in its entirety in Appendix E.


Our draft report included 10 recommendations we made to DDOT for action deemed necessary to recoup \$5,232,349 in improper payments that DDOT paid to the prime contractor. DDOT agreed with Recommendations 1-4, 6, and 8-10, which totals \$4,067,822 of the \$5,232,349 in improper payments. DDOT actions taken and/or planned are responsive and meet the intent of the recommendations. Therefore, we consider these recommendations resolved, but open pending evidence of stated actions.

DDOT disagreed with Recommendations 5 and 7 and does not intend to seek reimbursement for the remaining \$1,164,527. DDOT actions taken and/or planned are nonresponsive and do not meet the intent of the recommendations. Therefore, we consider Recommendations 5 and 7 open and unresolved. DDOT stated that it does not have sufficient information to support the \$580,515 in excess of actual overhead costs. However, DDOT did not provide what additional information it would need other than the information presented in *Table 2: Calculation of Overhead Charged to the Contract in Excess of Actual Costs* and *Appendix D: Required Overhead Adjustments* of this report. DDOT also stated that the contract established a 12 percent fee; therefore, the \$584,012 was not an excessive fee for service. However, DDOT did not provide the contract provision(s) that established a 12 percent fee. We request that DDOT reconsider its position and provide additional responses to Recommendations 5 and 7 within 30 days of the date of this final report.

Director Marootian
Prime Contractor for the Streetcar Program Billed and
Received \$5.2 Million in Improper Payments from the District
Final Report OIG Project No. 19-2-22KA
September 23, 2020
Page 2 of 3

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

Sincerely,


Daniel W. Lucas
Inspector General

DWL/tag

Enclosure

cc: Distribution List

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BACKGROUND

On September 20, 2010, the government of the District of Columbia, Office of Contracting and Procurement, on behalf of the District Department of Transportation (DDOT), engaged a prime contractor to perform “Program Management, Planning, Operations, Financial Planning, Legal Counsel, Strategic & Project Communications, Governance and Management, and Procurement in support of the District’s Streetcar Initiative.”¹ DDOT initially awarded this requirements contract² with a not-to-exceed amount of \$10 million, for a maximum duration of five (5) years, including the exercise of any options. The contract was modified several times to a final ceiling price of \$68.5 million.

The Office of the Inspector General (OIG) issued a November 27, 2019, report on the District Department of Transportation’s (DDOT) management of the Streetcar Program. The report identified weaknesses in DDOT’s invoice review and approval process. The prime contractor certified invoices and received payments from DDOT valued at \$55.3 million as of March 31, 2019.³ This audit evaluated the prime contractor’s claims of incurred costs (direct labor, overhead, and profit) under this contract per the terms of the agreement and applicable District and federal laws.⁴

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit period of review was from September 20, 2010, to March 31, 2019. We conducted this audit from March 19, 2019, to May 13, 2020.

¹ District of Columbia, Contract Number DCKA-2010-C-0145, Section C: Statement of Work.

²Per 27 DCMR 2499.1, a requirements contract “provides for the filling of all actual purchase requirements of designated District agencies for specific goods or services during a specified contract period, with deliveries to be scheduled by placing orders with the contractor as required.”

³ The period audited was September 20, 2010, through March 31, 2019.

⁴ Per 27 DCMR § 3307.2, “[i]n determining the reasonableness of a given cost, the [District] shall consider [, among others,] the following factors: ... restraints or requirements imposed by . . . federal and District laws and regulations, and contract terms and specifications” *Id.* at (b).

FINDINGS

PRIME CONTRACTOR FOR THE STREETCAR PROGRAM BILLED AND RECEIVED \$5.2 MILLION IN IMPROPER PAYMENTS FROM THE DISTRICT

The prime contractor charged, and DDOT paid, \$5.2 million in improper payments. This condition occurred because DDOT project managers lacked the expertise to review and approve invoices for payments.⁵ Instead, DDOT relied on the prime contractor to certify the accuracy of invoices for payment. The prime contractor acknowledged its understanding of DDOT's reliance by stating within each billing invoice, "[t]he undersigned consultant certifies that to the best of the consultant's knowledge, information and belief, the work covered by this invoice for payment, has been completed in accordance with the contractual agreement, and all amounts have been reviewed, that the current payment shown is now due."

While this contract has ended, the District should recover duplicate, excessive, and unreasonable expenses per the terms of the agreement and applicable District laws. Section C.6 of the contract states:

Neither the District's review, approval or acceptance of, nor payment for, any of the services required under the contract shall be construed to operate as a waiver of any rights under the contract or of any cause of action arising out of the performance of this contract, and the contractor shall be and remain liable to the District in accordance with applicable law for all damages to the District caused by the contractor's negligent performance of any of the services furnished under the contract.

We discuss a breakdown of the \$5.2 million in subsequent sections.

Prime Contractor Charged DDOT Twice for Prime Contractor's Services Related to Managing Subcontracting Work

The prime contractor charged DDOT twice for managing subcontracting work. Subcontractors were allowed to bill the prime contractor for the subcontractors' direct and indirect costs, overhead, and fee. The prime contractor, in turn, was authorized to charge DDOT the subcontractors' billed amount plus the negotiated administration fee.⁶ In addition to a negotiated administration fee, as outlined in the contract, the prime contractor billed DDOT 5 percent of the subcontractor's billed amount, which resulted in duplicate charges for managing subcontracting work.

⁵ The cause stated here was previously addressed in the OIG Report entitled, *DDOT Struggled to Manage Streetcar Program and Could not Adapt and Respond to Changes in the Project Scope, Schedule, and Budget*, (OIG No. 18-1-01KA), and is not within the scope of this audit. Recommendations made under the prior audit fully addressed identified weaknesses in DDOT's invoice review and approval process. As such, the OIG makes no recommendations related to why the conditions identified in this audit occurred.

⁶ Contract Section G.3.4 allows subcontracted work to be billed to the District "at cost (including direct and indirect costs, overhead, and profit), plus a negotiated administration fee."

For example, one subcontractor performed work under Task Order (TO) 27, for which the subcontractor billed the prime contractor \$128,620.47.⁷ The prime contractor billed DDOT \$138,014.36, which included \$9,393.89 in prime contractor administration fees. The prime contractors’ administration fees included a negotiated administration fee of \$2,962.86, as shown in Table 1, and a duplicate fixed administration fee of \$6,431.02 (5 percent of \$128,620.47).

Table 1: Analysis of Negotiated Administration Fee for Task Order 27

Prime Contractor Job Category Billed Under TO 27	Approved Billing Rates A	Actual Prime Contractor’s Hours to Manage the Subcontractor B	Subcontractor Administration Fees = A x B
Transit Planner II	\$122.67	8	\$981.36
Transit Planner III	\$142.04	6	\$852.24
Transit Planner IV	\$162.95	2	\$325.90
Transit Planner IV	\$171.10	2	\$342.20
Sr. Administrative	\$76.86	6	\$461.16
Total Negotiated Administration Fee			\$2,962.86

Source: OIG Analysis of Prime Contractor’s Billing Records.

Per contract terms, the prime contractor should have charged DDOT only the negotiated administration fee of \$2,962.86. The prime contractor should not have charged the \$6,431.02 fixed administration fee on TO 27. In total, we calculated that the prime contractor charged and DDOT paid an additional \$1,431,231 in fixed administration fees that were duplicate charges for managing subcontractors.

We recommend that the DDOT Director:

1. Recoup \$1,431,231 in additional fixed administration fees.

Prime Contractor Charged DDOT for Unauthorized Subcontractors' Work

According to contract section I.7.1, the prime contractor should not subcontract any work or services without prior written consent from the Contracting Officer. We noted that the prime contractor did not obtain written authorization to engage four subcontractors as required. The prime contractor charged DDOT \$764,843 involving the subcontractors’ work.

We recommend that the DDOT Director:

2. Recoup \$764,843 in unauthorized subcontracting charges.

⁷ This amount includes the subcontractor’s direct and indirect costs, overhead, and profit billed to the prime contractor.

Prime Contractor Charged DDOT for Services that may not have been Rendered

The prime contractor charged DDOT for copying, printing, parking, local travel, incidentals, and other miscellaneous expenses. However, due to the lack of underlying supporting documentation, the prime contractor was unable to demonstrate certain expenses were incurred as required by District regulations. Title 27 DCMR § 3305.2, states that “[i]n ascertaining what constitutes a cost, the [District] may consider any generally accepted method of determining or estimating costs that is equitable and is consistently applied.” It is the prime contractor’s practice to use documentation such as sales receipts, purchase invoices, and subcontractor labor detail reports to demonstrate that costs claimed had been incurred. However, we calculated that the prime contractor charged DDOT \$935,544 for expenses that were not supported by documentation.

We recommend that the DDOT Director:

3. Recoup \$935,544 or obtain evidence demonstrating that these expenses were incurred as required by District regulations.

Prime Contractor Charged DDOT Direct Labor Costs not Specifically Incurred for the Contract

According to 27 DCMR § 3308.2, a cost is allocable to a District contract if the cost is incurred specifically for the contract. The prime contractor billed DDOT direct labor costs not specifically incurred for this contract. For example, the prime contractor utilized 86 employees and spent a total of 34,984 hours on TO 33. According to the prime contractor's payroll records, those employees were paid \$1,703,991 in total direct labor costs. However, the prime contractor charged DDOT \$1,757,332 for the same 34,984 hours. The prime contractor should not have charged DDOT \$53,341 (\$1,757,332 - \$1,703,991) in direct labor costs not specifically incurred for TO 33. In total, we calculated that the prime contractor should not have charged DDOT \$94,413 (\$8,149,095 of direct labor charged less \$8,054,682 in direct labor paid) in direct labor costs not specifically incurred for the contract.

We recommend that the DDOT Director:

4. Recoup \$94,413 in direct labor costs not specifically incurred for the contract.

Prime Contractor Charged DDOT Overhead in Excess of Actual Costs

The prime contractor charged DDOT overhead costs using an overhead rate established at the beginning of the contract without subsequent adjustments during the life of the contract, as required by contract terms and conditions. According to section G.3.5 of the contract, the prime contractor's provisional fixed overhead costs should have been adjusted to actual overhead costs. We calculated that the prime contractor should have charged DDOT \$12,575,385 instead of the \$13,155,900. The prime contractor charged \$580,515 in excess of actual overhead costs. (See Table 2, below.)

Table 2: Calculation of Overhead Charged to the Contract in Excess of Actual Costs

Calendar Year	Total Overhead Charged	Actual Overhead	Over or (Under) Charges
2010	\$75,001	\$74,856	\$145
2011	\$839,666	\$872,484	(\$32,818)
2012	\$1,272,395	\$1,261,250	\$11,145
2013	\$2,323,851	\$2,247,027	\$76,824
2014	\$3,434,250	\$3,221,881	\$212,369
2015	\$2,428,422	\$2,232,986	\$195,436
2016	\$1,467,356	\$1,409,881	\$57,475
2017	\$776,269	\$730,692	\$45,577
2018	\$538,690	\$524,328	\$14,362
Total	\$13,155,900	\$12,575,385	\$580,515
Net Excess Overhead Costs			\$580,515

Source: OIG Analysis of Prime Contractor’s Billing Records and Audited Overhead Rates.

We recommend that the DDOT Director:

- Recoup \$580,515 in excess of actual overhead costs.

Prime Contractor Charged DDOT Overhead in Excess of Usual and Customary Charges

According to 27 DCMR § 3313.4(c), separate cost groups may be necessary to distribute the contractor’s costs to the appropriate cost objective. The prime contractor did not charge DDOT lower overhead rates (field rates)⁸ for staff augmentation⁹ services rendered at DDOT’s location. Instead, the prime contractor charged a higher, fixed overhead rate of 161.44 percent. Because the contract was silent on acceptable field rates, we evaluated similar DDOT contractors to establish usual and customary field rates. On average, DDOT vendors have charged field rates that were 23.31 percent lower than 161.44 percent on staff augmentation services. Based on our evaluation, the prime contractor should not have charged \$753,502 in excess of usual and customary field rates DDOT experienced.

We recommend that the DDOT Director:

- Recoup \$753,502 in excess of usual and customary overhead charges for staff augmentation services.

⁸ Field office rates reflect the reduced overhead costs allocable to the engineering consultant’s employees who are not working out of their own offices and do not receive prime contractor office support in their daily activities.

⁹ The prime contractor’s employees supplement DDOT’s staffing requirements.

Prime Contractor Charged DDOT an Excessive Fee for Service

The prime contractor improperly charged a 12 percent fee for service on direct and indirect costs during the life of the contract. According to DDOT, the prime contractor should have charged DDOT a maximum fee of 10 percent, which is consistent with DDOT’s practices for similar contracts and federal regulations.¹⁰ The prime contractor also should not have charged DDOT a 12 percent fee on labor costs not specifically incurred for the contract and overhead charged in excess of actual costs as discussed above. Below, we present calculations of excessive fees by cost element (direct labor in Table 3, overhead in Table 4, and overhead on staff augmentation services in Table 5).

Table 3: Calculation of Excessive Fee on Direct Labor Cost

Fee Description	Direct Labor Cost A	Fee Rate B	Fee Amount = A x B
Direct Labor Charged	\$8,149,095	12%	\$977,891
Less: Unreasonable Direct Labor Cost (See p. 3)	\$94,413		
Reasonable Direct Labor Cost	\$8,054,682	10%	\$805,468
Excessive Fee			\$172,423

Source: OIG Analysis of Prime Contractor’s Billing Records.

Table 4: Calculation of Excessive Fee on Overhead

Fee Description	Overhead Cost A	Fee Rate B	Fee Amount = A x B
Overhead Charged	\$13,155,899	12%	\$1,578,708
Less: Unreasonable Overhead Costs (See p. 4)	\$580,515		
Reasonable Overhead Cost	\$12,575,384	10%	\$1,257,539
Excessive Fee			\$321,169

Source: OIG Analysis of Prime Contractor’s Billing Records and Audited Overhead Rates.

¹⁰ Per Federal Regulation 48 CFR § 15.404-4(c)(4)(i)(C): “For other [i.e., not experimental, developmental, or research] cost-plus-fixed-fee contracts, the fee shall not exceed 10 percent of the contract’s estimated cost, excluding fee.”

Table 5: Excessive Fee on Overhead - Staff Augmentation Services

Fee Description	Overhead Cost A	Fee Rate B	Fee Amount = A x B
Overhead Charged ¹¹	\$3,232,528		
Less: Reasonable Overhead Cost	\$2,479,026		
Unreasonable Overhead Cost (See p. 5)	\$753,502	12%	\$90,420
Excessive Fee			\$90,420

Source: OIG Analysis of Prime Contractor’s Billing Records and Usual and Customary Field Overhead Rates.

The excessive fees that DDOT paid, as set forth in Tables 3, 4, and 5 totaled \$584,012 (\$172,423 + \$321,169 + \$90,420).

We recommend that the DDOT Director:

7. Recoup \$584,012 in excessive fees for service.

Prime Contractor Charged DDOT Unallowable First-Class Air Travel

According to 27 DCMR § 3358.4, the difference in cost between first-class air accommodations and less than first-class air accommodations shall not be allowable. Our review of airline receipts identified that the prime contractor charged \$73,250 in first-class air accommodations during the life of the contract. The prime contractor should provide DDOT the cost of less than first-class accommodations during the life of the contract to establish the unallowable amount.

We recommend that the DDOT Director:

8. Recoup the difference in cost between \$73,250 in first-class air travel charges and the applicable cost of less than first-class accommodations.

¹¹ The overhead on staff augmentation is a subset of all overhead charges on direct labor. To avoid duplication, the “Overhead Charged” is net of the adjustment to audited overhead rates.

Prime Contractor Charged DDOT Unreasonable Lodging Expenses

We determined that the prime contractor's lodging expenses exceeded the maximum U.S. General Services Administration (GSA) daily rates for the District of Columbia.¹² Since GSA establishes these rates on market studies, we consider using GSA rates to be an appropriate standard for the actions of a prudent business person when making travel arrangements for District government business. Title 27 DCMR § 3307.2(c) states, “[i]n determining the reasonableness of a given cost, the [District] shall consider ... the action that a prudent business person would take, considering responsibilities to the owner of the business, employees, customers, the District, and the public at large.” Based on our review of hotel receipts, we calculated that the prime contractor charged \$11,772 in excess of GSA's maximum daily per diem rates. The lodging expenses are unreasonable because they exceeded GSA's maximum daily rate for the District.

We recommend that the DDOT Director:

9. Recoup \$11,772 in unreasonable lodging expenses.

The Prime Contractor Charged DDOT for Unallowable Employee Meal and Entertainment Expenses

According to DCMR § 3358.1, “[c]osts for transportation, lodging, meals, and incidental expenses incurred by contractor personnel in official company business related to the District contract shall be allowable.” However, the prime contractor charged DDOT for meals purchased when employees were not traveling but instead were conducting meetings or working overtime at the prime contractor's office. It has been the prime contractor's business practice to exclude non-travel employee meal charges from billings. Based on our review of employee expense reports and receipts, we identified \$3,014 in unallowable employee meal charges.

Title 27 DCMR § 3353.1 (Entertainment Costs) states, the “[c]osts of amusement, diversion, social activities, and any directly associated costs, such as meals . . . shall not be allowable.” Based on our review of employee expense reports and receipts, the prime contractor charged DDOT \$253 in alcohol expenses, which we considered entertainment costs. In total, we identified \$3,267 (\$3,014 + \$253) in unallowable employee meal and alcohol charges.

We recommend that the DDOT Director:

10. Recoup \$3,267 in unallowable employee meal and alcohol charges.

¹² Per 48 CFR § 31.205-46(a)(2), lodging costs shall be considered reasonable and allowable only to the extent that they do not exceed maximum daily per diem rates.

CONCLUSION

DDOT officials bore oversight responsibility regarding the contract for program management services of the Streetcar Program to ensure the quality of the work performed met applicable contract specifications. The prime contractor charged DDOT for expenses that were duplicative, unauthorized, excessive, unallowable, and unreasonable. Accordingly, DDOT should recoup a total of \$5.2 million in improper payments from the prime contractor.

AGENCY RESPONSES AND OFFICE OF THE INSPECTOR GENERAL COMMENTS

We provided the District Department of Transportation (DDOT) with our draft report on August 27, 2020, and received its response on September 10, 2020. We appreciate that DDOT officials began addressing some of our recommendations immediately upon notification during the audit. DDOT's responses to the draft report are included in their entirety in Appendix E.

Our draft report included 10 recommendations we made to DDOT for actions deemed necessary to recoup \$5,232,349 in improper payments that DDOT paid to the prime contractor. DDOT agreed with Recommendations 1-4, 6, and 8-10, which totals \$4,067,822¹³ of the \$5,232,349 in improper payments. DDOT actions taken and/or planned are responsive and meet the intent of the recommendations. Therefore, we consider these recommendations resolved, but open pending evidence of stated actions.

DDOT disagreed with Recommendations 5 and 7 and does not intend to seek reimbursement for the remaining \$1,164,527. DDOT actions taken and/or planned are nonresponsive and do not meet the intent of the recommendations. Therefore, we consider Recommendations 5 and 7 open and unresolved. DDOT stated that it does not have sufficient information to support the \$580,515 in excess of actual overhead costs. However, DDOT did not provide what additional information it would need other than the information presented in *Table 2: Calculation of Overhead Charged to the Contract in Excess of Actual Costs* and *Appendix D: Required Overhead Adjustments* of this report. DDOT also stated that the contract established a 12 percent fee; therefore the \$584,012 was not an excessive fee for service. However, DDOT did not provide the contract provision(s) that established a 12 percent fee.

ACTIONS REQUIRED

We request that DDOT reconsider its position and provide additional responses to Recommendations 5 and 7 within 30 days of the date of this final report.

¹³ We note a difference of \$18,000 between what DDOT agreed to as part of its response to Recommendations 1-4, 6, and 8-10, and the summarized total reimbursement not to exceed amount of \$4,049,822.

APPENDIX A. OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted our audit work from March 19, 2019, through May 13, 2020 in accordance with generally accepted government auditing standards (GAGAS). 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(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Our audit objective was to determine whether the contractor submitted invoices for services performed at the rates stipulated in the contract (DCKA-2010-C-0145). To accomplish our audit objective, we:

- reviewed applicable laws and regulations governing the contracting and procurement process and functions assigned to DDOT;
- reviewed the program management services contract between DDOT and the prime contractor;
- reviewed contract modifications made during the contract period;
- interviewed DDOT, Office of the Chief Financial Officer, Office of Contracting and Procurement, and the prime contractor's officials to gain an understanding of the deliverable and invoice review and approval process;
- reviewed 2010 to 2018 independent overhead audit reports to determine if the indirect costs rates for the prime contractor were allocated to the contract correctly. We used the overhead rate charged to the contract to determine the total overhead costs charged and we used the prime contractor's audited overhead rates to determine the total actual overhead costs (see Table 2 for the totals and see Appendix D for the rates);
- reviewed 26 Task Orders to determine whether the prime contractor conformed to all material provisions of the task orders as specified in the scope of work;
- evaluated over 350 deliverables to ensure they met Task Order requirements; and
- conducted a 100 percent review of the prime contractor's and subcontractors' expenses billed to DDOT from 2010-2018, including direct labor and other direct costs. We reviewed over 400 invoices to determine whether the prime contractor and its subcontractors billed the District for allowable, reasonable, and allocable expenses.

APPENDIX A. OBJECTIVES, SCOPE, AND METHODOLOGY

We assessed the validity and reliability of computer-processed data and performed limited testing to verify the accuracy and completeness of the data. We relied on job cost data generated by the prime contractor and the District's System of Accounting and Reporting to determine the amounts paid. We determined that the data were sufficiently reliable for the purposes of this report.

APPENDIX B. ACRONYMS AND ABBREVIATIONS

CFR	Code of Federal Regulations
DCMR	District of Columbia Municipal Regulations
DDOT	District Department of Transportation
GAGAS	Generally Accepted Government Auditing Standards
GSA	U.S. General Services Administration
OIG	Office of the Inspector General
TO	Task Order

APPENDIX C. RECOMMENDATIONS

We recommend that the Director, DDOT:

1. Recoup \$1,431,231 in additional fixed administrative fees.
2. Recoup \$764,843 in unauthorized subcontracting charges.
3. Recoup \$935,544 or obtain evidence demonstrating that these expenses were incurred as required by District regulations.
4. Recoup \$94,413 in direct labor costs not specifically incurred for the contract.
5. Recoup \$580,515 in excess of actual overhead costs.
6. Recoup \$753,502 in excess of usual and customary overhead charges for staff augmentation services.
7. Recoup \$584,012 in excessive fees for service.
8. Recoup the difference in cost between the \$73,250 in first-class air travel charges and the applicable cost of less than first-class accommodations.
9. Recoup \$11,772 in unreasonable lodging expenses.
10. Recoup \$3,267 in unallowable employee meal and alcohol charges.

APPENDIX D. REQUIRED OVERHEAD ADJUSTMENTS

Summary of Required Overhead Adjustments by Calendar Year

Calendar Year	Overhead Rate Charged A	Actual Audited Overhead Rates B	Required Adjustment = B - A
2010	161.44%	163.04%	1.60%
2011	161.44%	165.00%	3.56%
2012	161.44%	157.88%	-3.56%
2013	161.44%	157.93%	-3.51%
2014	161.44%	156.85%	-4.59%
2015	161.44%	150.35%	-11.09%
2016	161.44%	157.28%	-4.16%
2017	161.44%	149.93%	-11.51%
2018	161.44%	156.40%	-5.04%

Source: OIG Analysis of Prime Contractor's Audited Overhead Rates.

APPENDIX E. DDOT RESPONSES TO THE DRAFT REPORT

Government of the District of Columbia Department of Transportation



d. Office of the Director

September 10, 2020

Mr. Daniel W. Lucas
Inspector General
Office of the Inspector General
717 14th Street, NW, Fifth Floor
Washington, DC 20005

Dear Mr. Lucas:

I am writing in response to your August 27, 2020, letter summarizing the results of the Office of the Inspector General's (OIG)'s draft report, *Prime Contractor for the Streetcar Program Billed and Received \$5.2 Million in Improper Payments from the District (OIG Project No. 19-2-22KA)*.

We have reviewed the draft audit report and provided responses to each of the nine recommendations that can be found below. At this time, we have not yet reached out to the contractor for explanation or documentation for these matters.

OIG Recommendation 1: Recoup \$1,431,231 in additional fixed administrative fees

DDOT Response: Agree to the extent that the costs were duplicative. We will seek reimbursement for any duplicative charges once we have sufficient information to verify if additional fixed administrative fees were inappropriate. To do so, DDOT will reach out to the contractor to determine the administrative components of such cost to ascertain whether the actual costs were duplicative. It should be noted that DDOT eliminated the 5% subcontracting fee starting with the FY17 A/E Schedule. It had previously been an administrative practice.

OIG Recommendation 2: Recoup \$764,843 in unauthorized subcontracting charges

DDOT Response: Agree. We would like to seek reimbursement. The Office of Contracting and Procurement (OCP) is working with Office of the Attorney General (OAG) on the best method to seek reimbursement. Additionally, in the alternative, OCP will research whether the contractor was authorized by the contracting officer.

OIG Recommendation 3: Recoup \$935,544 or obtain evidence demonstrating that these expenses were incurred as required by District regulations

APPENDIX E. DDOT RESPONSES TO THE DRAFT REPORT

DDOT Response: Agree. To the extent not supported by documentation, we will seek reimbursement. But DDOT presently believes all services were rendered and all deliverables received.

OIG Recommendation 4: Recoup \$94,413 in direct labor costs not specifically incurred for the contract

DDOT Response: Agree. To the extent costs were submitted in excess of the appropriate amount for the task order, we will seek reimbursement.

OIG Recommendation 5: Recoup \$580,515 in excess of actual overhead costs

DDOT Response: Disagree. We do not wish to seek reimbursement because we do not have sufficient information to support that the overhead charges were excessive. However, while the contract did not provide for field office rates, DDOT will attempt to negotiate a reasonable deduction in accordance with the information provided.

OIG Recommendation 6: Recoup \$753,502 in excess of usual and customary overhead charges for staff augmentation services

DDOT Response: Agree. While the contract did not establish a field rate for overhead charges for staff augmentation services, DDOT will seek to negotiate such a rate with the contractor.

OIG Recommendation 7: Recoup \$584,012 in excessive fees for service

DDOT Response: Disagree. While the contract established a 12% fee, it was not in excess of fee (i.e., profit) amounts permitted by DDOT at the time. However, the FY17 A/E Schedule put a cap on fee amount at a not to exceed 10%.

OIG Recommendation 8: Recoup the difference in cost between the \$73,250 in first-class air travel charges and the applicable cost of less than first-class accommodations

DDOT Response: Agree. We would like to seek reimbursement from the contractor. OCP is working with OAG on the best method to seek reimbursement. In accordance with the OIG's recommendation, DDOT will ask the contractor to calculate the cost of less than first-class travel and seek reimbursement of the difference.

OIG Recommendation 9: Recoup \$11,772 in unreasonable lodging expenses

DDOT Response: Agree. We would like to seek reimbursement. OCP is working with OAG on the best method to seek reimbursement.

OIG Recommendation 10: Recoup \$3,267 in unallowable employee meal and alcohol charges

DDOT Response: Agree. We would like to seek reimbursement. OCP is working with OAG on the best method to seek reimbursement.

Further, the company (HDR) received final payment before we received the draft OIG report. We are seeking reimbursement measures through OCP. In summary, DDOT is seeking a total reimbursement amount not to exceed \$4,049,822.


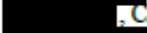
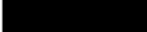
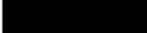

APPENDIX E. DDOT RESPONSES TO THE DRAFT REPORT

We appreciate the opportunity to work with the OIG staff on this audit. If you should have any additional questions, please do not hesitate to contact me.

Sincerely,



Jeff Marootian
Director

CC: , Chief Administrative Officer, DDOT
, Chief Project Delivery, DDOT
, Transit Delivery Division Associate Director, DDOT
, Agency Fiscal Officer, OCFO
, Chief Contracting Officer, OCP