



**AMTRAK** | Office of  
Inspector General  
[www.amtrakoig.gov](http://www.amtrakoig.gov)

# **INCURRED-COST CONTRACT AUDIT:** Contract Modification Charges for Extended Indirect Overhead Costs Not Supported


**Audit Report No. OIG-A-2012-006 | February 17, 2012**





# Memorandum

**To:** Jeff Martin  
Chief Logistics Officer

**From:** David R. Warren  
Assistant Inspector General, Audits 

**Date:** February 17, 2012

**Subject:** *Incurred-Cost Contract Audit: Contract Modification Charges for Extended Indirect Overhead Costs Not Supported*  
(Audit Report No. OIG-A-2012-006)

This is our report entitled *Incurred-Cost Contract Audit: Contract Modification Charges for Extended Indirect Overhead Costs Not Supported* (Audit Report No. OIG-A-2012-006). The objective of this audit was to determine if the contractor had adequate documentation to support the extended indirect overhead costs included in contract modification 24 (extended overhead modification). The contract modification was to cover additional costs associated with revisions to the scope of work in the original contract necessary to complete the overall project. Amtrak requested, and we agreed, to perform this audit to ensure that Granite Construction Northeast, Inc. (the contractor) had adequate documentation to support its claimed costs. Details of our scope and methodology are described in Appendix I.

## BACKGROUND

In December 2002, Amtrak entered into contract C-082-83501 with the contractor for a firm-fixed amount totaling \$66,340,000. As of December 31, 2011, contract modifications had increased the contract value to \$84,548,927. The contract's purpose was to reconstruct and upgrade the ventilation shaft facilities servicing the four East River tunnels in Long Island City, New York. This upgrade required a design change to the original scope of work that extended the critical path of the project. Since the design

*Amtrak Office of Inspector General*  
**Incurred-Cost Contract Audit: Contract Modification Charges for Extended Indirect  
Overhead Costs Not Supported**  
Audit Report No. OIG-A-2012-006, February 17, 2012

change altered the original scope of work, the contractor submitted contract modification 6 for the additional work specified in the design change. The contractor later submitted contract modification 11 to increase the contract period of performance by 312 calendar days due to the additional scope of work included in the design change. The increase to the period of performance precipitated an extended overhead modification, the subject of this audit, which allowed the contractor to charge for extended indirect overhead costs not to exceed \$2,027,446. On November 19, 2008, Amtrak signed the extended overhead modification to contract C-082-83501.<sup>1</sup>

## **EXTENDED OVERHEAD CLAIM WAS NOT SUPPORTED**

Our analysis of the documentation supporting the extended overhead claim showed that the claim was not adequately supported. The extended overhead modification allowed charges to be billed for extended indirect overhead costs resulting from the increase in the contract's period of performance. However, the contractor claimed direct costs, general and administrative costs, and profit, instead of submitting extended indirect overhead costs. Therefore, we concluded that the contractor's claimed costs were not allowable under the terms of the contract modification. As a result, Amtrak paid the contractor \$2,027,446 for charges that were not adequately supported.

We held discussions with the contractor's representatives and Amtrak contracting officials. From these talks—and the fact that the construction work was completed—we recognize that the contractor likely incurred some unidentified overhead costs associated with the extension to the period of performance. This is despite the fact that the contractor's claim was not adequately supported. We had no basis, however, for calculating an allowable amount absent documented overhead charges.

---

<sup>1</sup> Contract C-082-83501 and contract modification 24 include, by reference, General Provisions for Construction Contracts that states in Section 56, Audit and Inspection of Records, "Amtrak reserves the right to inspect, copy and audit the records of Contractor and subcontractor(s) ("Contractor's Records") in connection with all matters related to the Contract."

*Amtrak Office of Inspector General*  
**Incurred-Cost Contract Audit: Contract Modification Charges for Extended Indirect  
Overhead Costs Not Supported**  
Audit Report No. OIG-A-2012-006, February 17, 2012

## RECOMMENDATIONS

We recommend that Amtrak's Chief Logistics Officer

1. work with the contractor to establish an appropriate claim amount for the extended indirect overhead that is supportable and verifiable; and
2. based on the results of that review, recover any unsupported portion of the \$2,027,446 paid to the contractor under the extended overhead contract modification.

## MANAGEMENT COMMENTS AND OIG RESPONSE

In commenting on a draft of this report, Amtrak's Chief Logistics Officer agreed with our finding and recommendations. The planned action and milestone for completion identified by Amtrak are responsive to our recommendations. Amtrak's letter in response to the draft is reprinted as Appendix II.

Thank you for your cooperation during the course of this audit. If you have any questions, please contact me ([david.warren@amtrakoig.gov](mailto:david.warren@amtrakoig.gov), 202.906.4742) or Matthew Simber, Senior Director ([matt.simber@amtrakoig.gov](mailto:matt.simber@amtrakoig.gov), 215.349.1077).

cc: Gordon Hutchinson, Acting Chief Financial Officer  
Diane Herndon, Managing Deputy General Counsel  
William Herrmann, Managing Deputy General Counsel  
Bernard Reynolds, Deputy Chief Logistics Officer  
Mark Wurlpel, Deputy Chief Engineer, Construction  
Gary Eckenrode, Senior Director, Procurement  
Eve Nacinovich, Assistant Controller, Revenue Accounting  
Jessica Scritchfield, Senior Director, Internal Controls/Audit  
Clavel Crump, Program Director, Fire & Life Safety

*Amtrak Office of Inspector General*  
**Incurred-Cost Contract Audit: Contract Modification Charges for Extended Indirect  
Overhead Costs Not Supported**  
Audit Report No. OIG-A-2012-006, February 17, 2012

## Appendix I

### SCOPE AND METHODOLOGY

This report provides the results of an Amtrak Office of Inspector General (OIG) review of costs claimed under contract C-082-83501, modification 24. This report addresses whether Granite Construction Northeast, Inc., had adequate documentation to support the \$2,027,446 overhead claim included in the contract modification. We performed audit work starting in April 2009 and completed it in December 2011. Our work was delayed for a period of time due to several unsuccessful attempts by our office to obtain supporting documentation for claimed costs from the contractor.

To determine if the contractor had adequate documentation to support the extended overhead claimed in the contract modification, we reviewed accounting data and financial information, including the contractor's prepared schedule entitled *Calculation of Time-Related Project Overhead Costs and Daily Rate*. We interviewed the contractor's staff at its corporate offices in Tarrytown, New York, and a field location in Long Island City, New York. We also reviewed Amtrak's General Provisions for Construction Contracts and Supplementary General Provisions for Construction Contracts, Procurement and Materials Management Department's files and applicable policies and procedures, as well as portions of the Federal Acquisition Regulation. Finally, we interviewed Amtrak personnel to obtain an understanding of the contract and project requirements.

Our work 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 our audit objectives.

#### **Internal Controls**

In conducting the audit, we assessed certain internal controls pertinent to our audit objective with respect to Granite Construction Northeast, Inc.'s, policies and

*Amtrak Office of Inspector General*  
**Incurred-Cost Contract Audit: Contract Modification Charges for Extended Indirect  
Overhead Costs Not Supported**  
Audit Report No. OIG-A-2012-006, February 17, 2012

procedures. This assessment was performed in concert with work we performed as recorded in Audit Report OIG-A-2012-002. Specifically, we identified and assessed management controls for preventing multiple claims for the same costs and developing requests for equitable adjustment.

### **Computer-Processed Data**

We relied upon computer-processed information from the contractor's accounting system, but did not review the overall system's data reliability. We relied on the results of our tests performed as recorded in Audit Report OIG-A-2012-002, in which we tested 1,102 transactions and identified no exceptions. We concluded that the test results for the transactions in question provided sufficient assurance that we could rely on the computer-processed information to accomplish our audit objective.

### **Prior Audit Reports**

We reviewed the following prior audit reports for potential relevance to our work:

*Incurred-Cost Contract Audit: Bridge Construction Modification Settlement Agreement Cost is Adequately Supported*, Audit Report OIG-A-2012-002, November 7, 2011.

*New York Tunnel Inspection Trains*, OIG Audit Report 211-2003, February 20, 2004.

*Amtrak Office of Inspector General*  
**Incurred-Cost Contract Audit: Contract Modification Charges for Extended Indirect  
 Overhead Costs Not Supported**  
 Audit Report No. OIG-A-2012-006, February 17, 2012


**Appendix II**

**COMMENTS FROM AMTRAK'S CHIEF LOGISTICS OFFICER**

NATIONAL RAILROAD PASSENGER CORPORATION  
 30<sup>th</sup> Street Station, 5<sup>th</sup> Floor Southeast, Philadelphia, PA 19104

# Memo



<p>Date February 13, 2012</p> <p>To David Warren          Assistant Inspector General, Audits</p>	<p>From           Jeff Martin          Chief Logistics Officer</p> <p>Department Procurement and Materials Management</p> <p>Subject Logistics Response to Amtrak Office of          Inspector General's (OIG) Draft Report          No. 208-2009, dated January 20, 2012</p> <p>cc G. Hutchinson</p>
---	---

The Procurement and Materials Management Department has reviewed the OIG's Draft Report No. 208-2009, "Incurred-Cost Contract Audit: Contract Modification Charges for Extended Indirect Overhead Costs Not Supported" dated January 20, 2012. Procurement and Materials Management fully concurs with the OIG recommendations stated herein.

Procurement and Materials Management has entered into discussions with the contractor regarding this matter and expects closure by April 30, 2012. Note that Procurement and Materials Management has retained an adequate amount of funds to recover any unsupported amount. Procurement and Materials Management would like to thank the Office of the Inspector General for conducting this audit that was requested by this department.

*Amtrak Office of Inspector General*  
**Incurred-Cost Contract Audit: Contract Modification Charges for Extended Indirect  
Overhead Costs Not Supported**  
Audit Report No. OIG-A-2012-006, February 17, 2012

**Appendix III**

**OIG TEAM MEMBERS**

David R. Warren, Assistant Inspector General, Audits

Matthew Simber, Senior Director, Eastern Region

Cheryl Chambers, Audit Manager

Thelca Constantin, Senior Auditor

Mark Scheffler, Senior Auditor

Dorian Herring, Senior Auditor

Michael P. Fruitman, Principal Communications Officer



*Amtrak Office of Inspector General*  
**Incurred-Cost Contract Audit: Contract Modification Charges for Extended Indirect  
 Overhead Costs Not Supported**  
 Audit Report No. OIG-A-2012-006, February 17, 2012

## OIG MISSION AND CONTACT INFORMATION

---

<b>Amtrak OIG's Mission</b>	<p>The Amtrak OIG's mission is to</p> <ul style="list-style-type: none"> <li>▪ conduct and supervise independent and objective audits, inspections, evaluations, and investigations relating to agency programs and operations;</li> <li>▪ promote economy, effectiveness, and efficiency within Amtrak;</li> <li>▪ prevent and detect fraud, waste, and abuse in Amtrak's programs and operations;</li> <li>▪ review security and safety policies and programs; and</li> <li>▪ review and make recommendations regarding existing and proposed legislation and regulations relating to Amtrak's programs and operations.</li> </ul>
<b>Obtaining Copies of OIG Reports and Testimony</b>	Available at our website: <a href="http://www.amtrakoig.gov">www.amtrakoig.gov</a>
<b>To Report Fraud, Waste, or Abuse</b>	<p>Report suspicious or illegal activities to the OIG Hotline (you can remain anonymous):</p> <p>Web: <a href="http://www.amtrakoig.gov/hotline">www.amtrakoig.gov/hotline</a>          Phone: 800-468-5469</p>
<b>Congressional and Public Affairs</b>	<p>E. Bret Coulson, Senior Director          Congressional and Public Affairs</p> <p>Mail: Amtrak OIG          10 G Street, N.E., 3W-300          Washington, D.C. 20002</p> <p>Phone: 202-906-4134          Email: <a href="mailto:bret.coulson@amtrakoig.gov">bret.coulson@amtrakoig.gov</a></p>

---