

Thames River Bridge Project
Audit Of
Counterweight Extra Work Claim

Final Report





Memo

Date June 22, 2009

To Gary E. Eckenrode

From Gary E. Glosvack, Deputy IG - Audits

Department Office of Inspector General

Subject Thames River Bridge Project
Counterweight Extra Work - [REDACTED] Report

cc Lorraine A. Green, IG

File

Message

The Office of Inspector General has completed an audit of [REDACTED] claim for extra work performed to remove the old counterweight from the Thames River Bridge. This claim was submitted under contract number [REDACTED] between Amtrak and [REDACTED] which Amtrak executed for the rehabilitation of the Thames River Bridge located in [REDACTED]. Our primary audit objective was to determine whether [REDACTED] submitted costs supporting the claim were accurate, complete, and current.

The results of our audit were presented in a draft report which you responded to in your May 8, 2009 memo. We appreciate the excellent corporation and support received from your staff during the audit.

Amtrak OIG is required to make this report available to the public under the Inspector General Reform Act of 2008, 110 P.L. 409; 122 Stat. 4302. To the extent that you believe this report contains confidential or propriety information that should be withheld from public release, you must take the following actions no later than July 6, 2009: 1) highlight any words or phrases recommended for redaction; and 2) provide a written detailed justification for each of your recommendations. If you do not provide written recommendations by July 6, 2009, the report will be made publicly available without redaction on the specified date of the report.

Distribution:

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[REDACTED]

[REDACTED]

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**Thames River Bridge Project
Audit of Counterweight Extra Work Claim**

Final Report

Report Addressed To:

**Gary E. Eckenrode
Senior Director – Procurement
30th Street and Market Streets
Philadelphia, PA 19104**

[REDACTED]

Report Issued By:

**NATIONAL RAILROAD PASSENGER CORPORATION
OFFICE OF INSPECTOR GENERAL - AUDITS
10 G STREET, N.E.
WASHINGTON, DC 20002**

**DATE OF REPORT: June 22, 2009
REPORT NUMBER: 303-2009**

[REDACTED]

This document shall become available to the public on July 17, 2009

Thames River Bridge Project

Audit of Counterweight Extra Work Claim

Executive Summary

We completed an audit of [REDACTED] claim for extra work performed in removing the counterweight on the Thames River Bridge in [REDACTED]. The claim was submitted under contract number [REDACTED] between Amtrak and [REDACTED] for the rehabilitation of the Thames River Bridge. [REDACTED] submitted the [REDACTED] claim, dated July 23, 2008, for extra costs incurred to remove the old counterweight from bridge. [REDACTED] contends that the extra costs incurred are the result of a "change condition" from that which was disclosed in the contract.

Our audit objective was to determine if the cost or pricing data submitted by [REDACTED] in support of the counterweight claim was accurate, complete, and current as of February 12, 2009; the date of certification. The audit was performed in January and February of 2009 at [REDACTED] regional office in [REDACTED]. The audit scope encompassed all cost accounting and financial information necessary to complete the audit objective. In accomplishing the audit objective, we reviewed incurred costs for the cost elements submitted for the claim.

The results of our review indicated that [REDACTED] submitted cost or pricing data was not entirely accurate, complete, or current. We identified adjustments in the amount of \$99,634 that should reduce the amount of the claim.

[REDACTED]

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[REDACTED] Report # 303-2009

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[REDACTED]

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I. BACKGROUND

On June 9, 2008 [REDACTED] provided Amtrak notice of a different site condition in accordance with Contract No. [REDACTED] Article 34. In the notice, [REDACTED] stated that, as a result of a latent condition in the existing counterweight, [REDACTED] prescribed method of saw cutting the existing concrete and steel counterweight (for removal) was unachievable in the allotted time. [REDACTED] had to resort to using jack hammering techniques to break up the counterweight. The jack hammering process was time consuming and more costly than the planned saw cutting. [REDACTED] is also claiming an additional 10 days for impact to the contract period of performance for base contract work.

On June 24, 2008 [REDACTED] provided Amtrak its rationale for the counterweight claim. [REDACTED] insisted it discovered unknown conditions within the counterweight concrete. According to [REDACTED] the original 1917 bridge construction drawings called for the counterweight to consist of a mixture of consolidated concrete and steel. However, [REDACTED] found that the mixture was not consolidated. As a result, steel punchings in the counterweight rolled around loosely and caused the saw to jam, repeatedly breaking the cutting wire.

On December 5, 2008, we received [REDACTED] support for [REDACTED] of costs for extra counterweight removal work. We also received documentation for \$ [REDACTED] of counterweight removal costs that were already included in the base contract amount.

A clause included in Amtrak's contract with [REDACTED] entitled "*Changes in the Work*" (Section 41.8) requires the prime contractor and subcontractors to certify that the cost or pricing data submitted in support of a modification is accurate, complete, and current. This clause also states that in the event that contractor certified cost or pricing data is subsequently found to be inaccurate, incomplete, or not current, Amtrak is entitled to a reduction in the modification price equal to the difference between the modification and the price that the change order would have been, had the contractor submitted accurate, complete, and current data.

II. OBJECTIVE

The objective of this audit was to determine if the cost or pricing data that [REDACTED] submitted in support of the counterweight claim was accurate, complete, and current.

III. SCOPE

The scope of our audit encompassed [REDACTED] February 12, 2009 certification of cost and pricing data submitted in support of [REDACTED] of costs for extra work performed to remove the counterweight on the Thames River Bridge. We did not to review costs associated with base contract counterweight costs incurred since Amtrak's Contract Manager, [REDACTED]

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██████████ considered those costs as reasonable to offset ██████████ estimated costs of ██████████ for counterweight removal.

We conducted this performance audit 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 objective.

IV. SPECIAL CIRCUMSTANCES AFFECTING THIS EVALUATION

The performance of this audit should not be construed as either acceptance or rejection of the validity of ██████████ claim for increased costs. Instead, our objective was to comply with the audit purpose and provide Amtrak procurement personnel information regarding the contractor's costs as they pertain to the subject contract. We provided procurement with preliminary results of our audit on February 17, 2009. Therefore, our results are qualified since we did not request a technical evaluation of the claim. As a result, this report contains no adjustments relating to entitlement, or the quantitative and qualitative aspects of the claim. Settlement negotiations should not be finalized without a technical evaluation of the claim.

V. METHODOLOGY

Our methodology included a review of ██████████ job cost records and other documentation submitted in support of the claimed costs, as well as, interviews of Amtrak project personnel and ██████████ representatives.

VI. EVALUATION OF INTERNAL CONTROLS

We did not review ██████████ system of internal controls. We concluded that the audit objective could be achieved more efficiently by performing substantive audit testing. We also determined that ██████████ cost system provided adequate segregation of costs incurred for the extra work performed from costs incurred for ongoing base contract work.

VII. PRIOR AUDIT COVERAGE

The Office of Inspector General completed an audit of a ██████████ contract modification (Audit Report Number 306-2006) which was executed to perform concrete borings needed to evaluate bridge piers. ██████████ submitted cost data for the concrete boring modification was not considered entirely accurate, complete, or current. We questioned \$16,000 which included overstated material, labor, equipment and subcontractor costs. We also audited a ██████████ proposed modification for a grouting project to stabilize two bridge piers. The results of the audit of grouting costs include questioned costs of \$376,000 pertaining to overstated subcontractor and extended overhead labor costs; and, unallocable performance bond costs.

VII. FINDINGS AND RECOMMENDATIONS

Finding 1 [REDACTED] Submitted Cost or Pricing Data Was not Fully Compliant with Contract Terms.

Discussion

[REDACTED] submitted cost or pricing data used to support the costs of the counterweight extra work claim of [REDACTED] was not considered entirely accurate, complete, or current as required by General Provisions Section 41.8. We identified adjustments of [REDACTED] that decreased [REDACTED] submitted costs resulting in a conclusion that the Amtrak price for this claim should be no more than [REDACTED]. The adjustments are the result of [REDACTED] (i) overstating material costs by including sales tax charges; (ii) submitting labor costs that exceeded incurred costs; and, (iii) charging a labor burden rate that exceeded the actual rate. Details of the recommended adjustments are presented in the Appendix of this report.

Recommendation

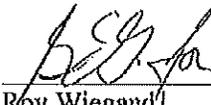
[REDACTED] claimed amount [REDACTED] should be reduced by \$99,634. The resulting claim of [REDACTED] should be used as the beginning amount for settlement negotiations for this claim.

Management Response:

The Contracting Agent, Procurement and Materials management responded to the draft report by stating that "[REDACTED] is currently negotiating with the [REDACTED] concerning the subject claim."

This concludes our report.

Audit Staff:

[REDACTED]


Roy Wiegand
Senior Director -- Audits

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Appendix A:

Analysis of Claim Costs

<u>Cost</u>	<u>Submission</u>	<u>Costs</u>	<u>Audit</u>	
			<u>Recommended</u>	<u>Costs</u>
<u>Element</u>	<u>Submission</u>	<u>Questioned</u>	<u>Costs</u>	<u>Notes</u>
Direct Material	[REDACTED]	[REDACTED]	[REDACTED]	1
Direct Labor	[REDACTED]	[REDACTED]	[REDACTED]	2
Labor Indirect Costs	[REDACTED]	[REDACTED]	[REDACTED]	3
Costs Owned Equipment	[REDACTED]	[REDACTED]	[REDACTED]	
Subtotal	[REDACTED]	[REDACTED]	[REDACTED]	
Overhead [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	4
Subtotal	[REDACTED]	[REDACTED]	[REDACTED]	
Profit [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	5
[REDACTED] Own Costs	[REDACTED]	[REDACTED]	[REDACTED]	
Subcontractor	[REDACTED]	[REDACTED]	[REDACTED]	
Mark-up on Subs [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	
Totals	[REDACTED]	* \$99,633.81	[REDACTED]	

*Differs from submitted costs by \$.01 due to rounding

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Notes:

1. The submitted costs represent paid invoices for counterweight removal costs. The cost questioned amount consists of overstated material costs of [REDACTED] due to unallowable sales tax charges being added. [REDACTED] agreed with this adjustment.
2. The submitted costs of [REDACTED] represent [REDACTED] of craft labor and [REDACTED] of extended overhead labor for the claim period of June 21, 2008 through October 11, 2008. We questioned a total of \$43,811.00. The costs questioned represent: (1) \$939.00 of submitted craft labor costs which is the difference between the submitted amount of [REDACTED] and the incurred amount of [REDACTED] shown in [REDACTED] cost records; and, (2) \$42,872.00 out of the [REDACTED] submitted costs of for extended overhead personnel labor because [REDACTED] cost records only showed [REDACTED] being charged to cost center/phase, [REDACTED] which was established for capturing these costs. The balance of the submitted costs was charged to 21 other cost center/phases established for work performed under the base contract.
3. The submitted costs represent [REDACTED] percent of direct labor. The basis for the rate of [REDACTED] percentage factor was [REDACTED] estimate for its payroll taxes, worker's compensation, pension, and insurance costs for calendar year 2008. We computed the actual labor burden for 2008 to be [REDACTED] percent. Therefore, the amount questioned of [REDACTED] represents the difference between the submitted costs of [REDACTED] and the amount derived by audits of [REDACTED]. The labor burden costs per audit of [REDACTED] were derived by applying the audit recommended labor burden rate of [REDACTED] percent to the recommended direct labor costs of [REDACTED].
4. Submitted costs were based on applying the [REDACTED] percent overhead rate per contract terms to submitted direct costs. The cost questioned adjustment amount of [REDACTED] represents the difference between the submitted costs of [REDACTED] and audit determined amount of [REDACTED]. The overhead costs per audit of [REDACTED] were derived by applying the contract overhead rate of [REDACTED] percent to the recommended direct costs of [REDACTED].
5. The submitted costs were based on applying the [REDACTED] profit rate per contract terms to submitted direct and overhead costs. The cost questioned amount of [REDACTED] represents the difference between the submitted costs of [REDACTED] and audit determined amount of [REDACTED]. The profit costs per audit of [REDACTED] were derived by applying the contract profit rate of [REDACTED] to the recommended costs of [REDACTED].