Inspection of Perini Management Services, Inc., Billings for Task Order No. P14PD00557 With the National Park Service

This is a revised version of the report prepared for public release.
Memorandum

To: Michael T. Reynolds  
   Acting Director, National Park Service

From: Chris Stubbs  
   Director, Office of Financial and Contract Audits

Subject: Final Report – Inspection of Perini Management Services, Inc., Billings for Task Order No. P14PD00557 With the National Park Service  
   Report No. 2017-FIN-019

This report presents the results of our inspection of the Perini Management Services, Inc. billings for Task Order No. P14PD00557 with the National Park Service (NPS) between March 20, 2014, and May 31, 2016. The objectives of our inspection were to determine whether:

- Perini invoiced for unperformed work
- Perini’s SOV\(^1\) reflected reductions (credits) for work Perini never performed
- Modifications properly reflected changes in the scope of work

We found that Perini did not invoice for unperformed work. We also found, however, that Perini did not properly reflect reductions resulting from unperformed work in its SOV, and did not properly reflect changes to the scope of work in two modifications.

We offer one recommendation to make the change order process more transparent and help prevent overpayment of task order amounts. The attachment provides our audit scope and methodology.

**Background**

NPS awarded a $34,997,502 firm-fixed-price task order to Perini on March 20, 2014, under Multiple Award Task Order Contract (MATOC) No. F09PC60441, to repair damage from Hurricane Sandy to park buildings and landscaping at the Statue of Liberty and Ellis Island National Monument. NPS awarded the task order prior to the completion of a Class A independent Government cost estimate. When the final design drawings were complete, NPS issued Modification 4 to adjust the price of the task order to match the final design drawings. This modification, along with Modifications 1 – 3, brought the task order amount to

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\(^1\) The schedule of values is a detailed statement furnished by a contractor that outlines the cost of each line item of the contract. It is used as the basis for submitting invoices for progress payments.
$36,928,884. The final value of the task order through Modification 20 (invoice date 06/03/2017) was $40,181,910.

In September 2015 we issued a cost audit on this task order in which we found no issues with the contractor (Report No. 2015-ER-020). The audit period for that report was March 2014 through December 2014, and covered the task order and all associated modifications through Modification 6.

The Office of Inspector General’s (OIG’s) Office of Investigations (OI) requested this inspection when it suspected incorrect billing practices. During the course of an investigation, OI could not determine from the SOV the amount of work that NPS had canceled. The necessary reductions resulting from modifications were not easily identifiable in the SOV. OI also learned that another firm provided a transformer that Perini originally included on its SOV. OI wanted to confirm that NPS received a credit for the transformer.

Findings

Perini Did Not Invoice for Unperformed Work

OIG received an allegation that Perini billed for work that was never completed; specifically, contract line item number (CLIN) 7, “Powerhouse Electrical MED/High Voltage.” The allegation also claimed that the conduit for the hospital laundry was not completed. Finally, OI investigators noticed that NPS ordered a transformer that was provided by another contractor and that Perini should have removed from the task order and the associated SOV.

Both Perini and NPS insisted that Perini submitted no invoices for unperformed work. We traced credits from Request for Proposal (RFP) 1 to CLIN 7 for $114,599. This amount included a credit for the laundry conduit. Perini was also able to satisfactorily identify the credits associated with the transformer. We identified $ in credits for the transformer, which we associated with CLINs 64040 and 64060 of the SOV, which Perini listed as totaling $ .

We also performed further testing by comparing a sample of nine invoices with their corresponding monthly baseline reports (i.e., Perini progress reports) to determine whether Perini billed for any unperformed work in a given month. In our review, we found 173 instances where the completion percentage listed for a CLIN on the invoice exceeded the completion percentage on the baseline report. This would indicate that Perini billed for work that was unperformed on individual invoices.

Perini responded by explaining that the baseline report and the invoice could not be compared on a monthly basis because the two documents calculated costs of completed work differently. The baseline report calculated costs based on a formula of days completed. The invoice calculated costs based on the percentage of work completed as determined by negotiations between NPS and Perini. The invoice figure may include materials provided and is more flexible than the formula-driven percentage contained in the baseline report. We agree with this reasoning.
**Perini Did Not Properly Reflect Reductions for Unperformed Work in the SOV**

Credits due to NPS for work not performed by Perini were not properly reflected in the SOV. Specifically, Perini consolidated the credits due NPS within the proposed costs for Turnpike Electrical, a subcontractor to Perini, on CLIN 3 and not as a credit against CLIN 7 of the SOV. Perini did not identify to which CLIN the $120,000 credit for the transformer applied. We associated it with CLINs 64040 and 64060, but there were similar amounts for transformers on CLINs 71300, 72720, and 72840. This resulted in a need for transparency because we could not easily trace the credits to the SOV.

NPS stated that there was no specific requirement that the SOV match the invoice and felt that doing so would introduce complexity into the invoicing process that would cause trouble later. NPS also said that it would note any deficiencies during the final inspection of the repair work.

Perini indicated that in its experience, the original SOV value remains unchanged and any adjustments to those line items are entered on subsequent CLINs. If changes are made to the original SOV figures, this could affect the percentage complete and thus the billing. The due diligence in determining the credits received is done by all parties as part of the RFP process.

It is our opinion that the changes clause, at Federal Acquisition Regulation (FAR) § 52.243-04, requires contractors to reflect changes on the appropriate CLIN. Changes are a bilateral agreement and both parties need to know exactly what they are agreeing to change. Perini’s failure to identify each credit with a CLIN made the process of identifying the credits for the scope changes more complex.

**Perini Did Not Properly Reflect Changes in the Scope of Work in Two Modifications**

We found that Perini did not reflect scope of work changes made to Modifications 4 and 5. Regarding Modification 4, NPS reflected the scope of work changes to CLIN 7 of the modification. Modification 4 reflected two changes on the continuation sheet: RFP 1 for construction drawing changes costing $958,737, and RFP 6 for new central plant cooling towers costing $830,370, for a total of $1,789,107. We noted, however, that the detail of RFP 6, included in the modification, totaled $860,737. No detail was provided for RFP 1. The underlying support (i.e., the certified cost and pricing data) for RFP 1 and RFP 6 were $958,737 and $830,370, respectively.

The SOV contained within the invoices recorded the value of RFP 1 as $928,370, which was $30,367 less than the continuation sheet in Modification 4; and the value of RFP 6 as $860,737, which was $30,367 more than the continuation sheet in Modification 4. While the overall dollar effect was $0, the confusion between the two RFPs incorporated in the SOV and the continuation sheet in the modification made it difficult to trace the required credit and added to the general absence of transparency.
There are also minor differences between the SOV and Modification 5 for scope of work changes related to RFPs 8, 11, and 20. The differences net to zero, which is why the modification is not out of balance with the SOV.

**Conclusion and Recommendation**

Our inspection of Perini’s billings for Task Order No. P14PD00557 with NPS found that Perini’s presentation of the credits on the SOV should be more transparent.

We recommend that:

1. NPS require contractors to develop a method for tracking changes in the SOV that maintains the integrity of the original SOV and reflects all offsets, additions, and reductions taken on various CLINs in order to maintain transparency in any change orders.

Please provide us with your written response to this report within 30 days. The response should provide information on the actions you have taken or planned to address the recommendation, as well as target dates and title(s) of the official(s) responsible for implementation. Please send your response to aie_reports@doioig.gov.

If you have any questions about this report, please contact me at 202-208-5745.

The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit, inspection, and evaluation reports issued; actions taken to implement our recommendations; and recommendations that have not been implemented.
Scope and Methodology

Our inspection focused on Perini Management Services, Inc. billings for Task Order No. P14PD00557 with the National Park Service (NPS) between March 20, 2014, and May 31, 2016. We performed our fieldwork between January 2017 and May 2017.

Our objectives were to determine whether: (1) Perini invoiced for unperformed work, (2) Perini’s schedule of values (SOV) reflected reductions for work Perini never performed, and (3) modifications were executed to reflect changes in the scope of the work.

We conducted our inspection in accordance with the Quality Standards for Inspection and Evaluation as put forth by the Council of the Inspectors General on Integrity and Efficiency. We believe that the work performed provides a reasonable basis for our conclusions and recommendation.

To accomplish our objectives, we:

• Reviewed background information on Perini

• Reviewed the task agreement between Perini and NPS

• Reviewed a relevant September 2015 Office of Inspector General audit report on Perini (Report No. 2015-ER-020)

• Reviewed the Federal Acquisition Regulation (FAR) for regulations pertaining to changes in scope of work

• Compared the modifications to the task order and the SOV to determine whether all offsets, additions, and reductions were properly recorded

• Compared Perini’s monthly invoices with the baseline reports to determine whether Perini invoiced for unperformed work

• Interviewed NPS staff, the contracting officer, contractor personnel, and other appropriate individuals
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