



# Florida Department of TRANSPORTATION

Office of Inspector General  
Kristofer B. Sullivan, Inspector General

DocuSigned by:

*Kristofer B. Sullivan*

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Audit Report No. 20C-008-G  
Audit of Duplicate Payments to CEI Firms  
H.W. Lochner, Inc.

November 30, 2022

## What We Did

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The Office of Inspector General conducted an Audit of Duplicate Payments to Construction Engineering Inspection (CEI) firms to determine if invoiced non-labor direct project costs were excluded from the firm's direct expense and overhead rates per Federal Acquisition Regulations (FAR) 31.201-2 and FAR 31.202, and the Department's governing directives. This audit was conducted as part of the Fiscal Year (FY) 2020-21 annual audit plan.

We examined H.W. Lochner, Inc. project job cost records for Standard Professional Services Agreement CA338. We tested four rent expenses and an information technology installation equipment expense transaction invoiced from January 2, 2020, to October 16, 2020, totaling \$27,300.08, or 6.59% of the total maximum limiting amount of \$414,141.

## What We Found

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**We determined** H.W. Lochner, Inc. properly excluded the tested non-labor direct project costs from the audited overhead and direct expense rates for FY ending April 30, 2020, and April 30, 2021, in compliance with FAR 31.202, Direct Costs and FAR 31.201-2, Determining Allowability.

## What We Recommend

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This report does not contain any recommendations as the results of the audit found H.W. Lochner, Inc. was compliant with the FAR and Department governing directives.

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**BACKGROUND AND INTRODUCTION**

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The Office of Inspector General conducted an Audit of Duplicate Payments to Construction Engineering Inspection (CEI) firms to determine if invoiced non-labor direct project costs were excluded from the firm's direct expense and overhead rates per Federal Acquisition Regulations (FAR) 31.201-2 and FAR 31.202 and the Department's governing directives. This audit was conducted as part of the Fiscal Year (FY) 2020-21 annual audit plan.

On March 28, 2019, H.W. Lochner, Inc. entered into contract CA338 as the Prime consultant with the Department. The purpose of this contract was for CEI of "I-10 Add Lanes and Reconstruct (I-295 to I-95) Design-Build."

The original anticipated length of service was 60 months. For satisfactory completion of service authorized under this contract, the Department agreed to pay the total fee for all accumulated task assignments not to exceed \$11,299,416. The contract allowed a reimbursement of field office rent, utilities, and miscellaneous expenses up to a maximum limiting amount<sup>1</sup> of \$414,141.

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<sup>1</sup> The consultant is reimbursed the actual costs incurred in the performance of the contract. A "maximum limiting amount" is normally established to cap the amount the Department will pay for the services.

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**RESULTS OF REVIEW**

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**Finding – Other Direct Cost [Field Office Rent and IT Equipment Expense]**

**We determined** H.W. Lochner, Inc. properly excluded the tested non-labor direct project costs from the audited overhead and direct expense rates for FY ending April 30, 2020, and April 30, 2021, in compliance with FAR 31.202, Direct Costs and FAR 31.201-2, Determining Allowability.

**Federal Acquisition Regulation Part 31.202(a) and (b), (1) and (2) Direct costs states:**

- a) No final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose in like circumstances have been included in any indirect cost pool to be allocated to that or any other final cost objective. Direct costs of the contract shall be charged directly to the contract. All costs specifically identified with other final cost objectives of the contractor are direct costs of those cost objectives and are not to be charged to the contract directly or indirectly.
- b) For reasons of practicality, the contractor may treat any direct cost of a minor dollar amount as an indirect cost if the accounting treatment
  - (1) is consistently applied to all final cost objectives; and
  - (2) produces substantially the same results as treating the cost as a direct cost.

**FAR 31.201-2 Determining allowability states that**

(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.

**Florida Department of Transportation Reimbursement Rate Audit Guidelines Part II – Accounting Systems and Procedures states:**

To meet FDOT standards, an accounting system must separate and accumulate direct and indirect costs and must be adequate to support billings to the Department and other clients.

A direct cost is typically any cost that can be identified to a single cost objective (job, contract, project), regardless of whether it is allowable or billable. Any cost not directly identified to the production of a specific product or service, but an essential cost of doing business, is classified as an indirect cost.

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**AASHTO Uniform Audit and Accounting Guide – Chapter 4 – Cost Principles - 4.6 Direct and Indirect Costs [References: Federal Acquisition Regulation 31.202 and 31.203]**

A direct cost is any cost that can be identified specifically with a particular contract or project. Costs identified specifically with a contract or project are direct costs and must be allocated/charged directly to the contract or project. All costs specifically identified with a project are direct costs of that project and may not be allocated to another project, either directly or indirectly. Finally, a cost may not be charged as direct and be included in an indirect cost pool.

**Direct Expense Rate**

Florida Department of Transportation, Negotiation Handbook, Professional Services Contracts, Section 4, Negotiation of Cost of Services, (c) Direct expenses (2021):

Direct project expenses will be compensated using the direct expense rate which is required as a part of annual overhead audits performed for fiscal years ending December 31, 2002, and after. All professional services contracts negotiated since October 1, 2003, have included reimbursement of direct expenses by application of a direct expense rate based on the audit listing of direct costs in relation to the direct labor base. Separate audited rates are required for home office expenses and field office expenses. These rates represent the ratio of direct expenses to actual direct labor excluding premium overtime.

As reported in the governing directives above, an incurred cost related to a project or contract is required to be recorded in the accounting system as a direct cost. The Department reimburses CEI firms for certain project related incurred costs, such as rent, utilities, mobilization, and certain approved CEI pay items.

We examined H.W. Lochner, Inc. project job cost records for Standard Professional Services Agreement CA338.<sup>2</sup> We tested four rent expenses and a field office information technology installation equipment expense transaction invoiced from January 2, 2020, to October 16, 2020, totaling \$27,300.08, or 6.59% of the total maximum limiting amount of \$414,141. See Figure 1.

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<sup>2</sup> H. W. Lochner, Inc. was the Prime consultant on the professional services agreement executed.

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Figure 1: H.W. Lochner, Inc. Test Items

H.W. Lochner, Inc.					
Contract CA338					
Invoice Period Begin	Invoice Period End	FY Ending April 30	Invoice Number	Invoice Amount	Cost Description
1/2/2020	1/10/2020	20	10	\$2,306.48	IT Installation Equipment
1/2/2020	1/10/2020	20	10	\$6,207.89	Rent
1/2/2020	1/10/2020	20	10	\$6,189.81	Rent
2/8/2020	4/3/2020	20	12	\$6,406.09	Rent
9/19/2020	10/16/2020	21	18	\$6,189.81	Rent
<b>Total:</b>				<b>\$27,300.08</b>	

Source: Consultant Invoice Transmittal System (CITS), CA338

We traced the four invoiced rent expenses and an invoiced field office information technology equipment installation expense to the job cost detail report and found the costs were recorded as direct costs for the project. We also found the costs were excluded from cost pools used to compute the audited overhead and direct expense rates for FY ending April 30, 2020, and April 30, 2021, in compliance with FAR 31.202, Direct Costs and FAR 31.201-2, Determining Allowability.

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**APPENDIX A – Purpose, Scope, and Methodology**

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The **purpose** of this engagement is to determine if invoiced non-labor direct project costs were excluded from the firm's direct expense and overhead rates.

The **scope** of this audit included the contract between the Department and H.W. Lochner, Inc. for contract CA338, executed March 28, 2019.

The **methodology** included:

- reviewing applicable laws, rules, and regulations, including Federal Acquisition Regulation, Part 31, Contract Cost Principles and Procedures;
- examining and testing job cost records, invoices submitted through the Department's Consultant Invoice Transmittal System, and other direct cost supporting documents; and
- reviewing the Schedule of Direct Labor, Fringe Benefits, and General Overhead audit report.

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**APPENDIX B – Affected Entity Response**

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On November 14, 2022, H.W. Lochner, Inc. responded in an email stating they had no comments.



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**APPENDIX C – Management Response**

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On November 16, 2022, the Procurement Office responded by email stating, “Thank you and the Office of Inspector General for looking into the potential duplicate payment issue. It is encouraging that the report on H.W. Lochner did not have any findings or observations.”

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**DISTRIBUTION**

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Carla Perry, P.E., Manager, Procurement Office  
Jeffrey Owens, C.P.A., Audit Administrator, Procurement Office

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Steven R. Blount, P.E., Vice President, H.W. Lochner, Inc.  
Lynette Mantey, Controller, H.W. Lochner, Inc.

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**PROJECT TEAM**

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Engagement was conducted by:  
Corbitt Lyons, Auditor

Under the supervision of:  
Ryan Moore, Senior Audit Supervisor  
Bill Pace, Deputy Audit Director for Contracts  
Joseph W. Gilboy, Director of Audit

Approved by:  
Kristofer B. Sullivan, Inspector General

**STATEMENT OF ACCORDANCE**

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The Department's mission is to provide a safe transportation system that ensures the mobility of people and goods, enhances economic prosperity, and preserves the quality of our environment and communities.

The Office of Inspector General's mission is to provide independent and objective investigative and audit services that promote accountability, integrity, and efficiency within the Florida Department of Transportation and its partners.

This work product was prepared pursuant to section 20.055, Florida Statutes, in accordance with the Association of Inspectors General *Principles and Standards for Offices of Inspector General*, and conforms with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Please address inquiries regarding this report to the Department's Office of Inspector General at (850) 410-5800.