



OIG HIGHLIGHTS

AUD-CGI-17-52

August 2017

OFFICE OF AUDITS

Contracts, Grants, and Infrastructure Division

Audit of Pacific Architects and Engineers, Inc., FY 2011 Incurred Cost Proposal for the CIVPOL, AFRICAP I, AFRICAP II, and Embassy Baghdad Contracts

What Was Audited

Pacific Architects and Engineers, Inc. (PAE), has various contracts with the Department of State (Department). Under the Federal Acquisition Regulation, PAE is required to submit an Incurred Cost Proposal (ICP), which is used for reporting costs incurred on Government contracts, reconciling costs to the amounts billed, and calculating an indirect cost rate.

The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), is the cognizant agency for PAE. A/LM/AQM requested that the Office of Inspector General (OIG) conduct an audit of the time and materials labor, direct cost, and the specific application of indirect rates billed by PAE for its FY 2011 ICPs for its Civilian Police, Africa Peacekeeping Program I, Africa Peacekeeping Program II, and Embassy Baghdad Operations and Maintenance contracts. An external audit firm, Kearney & Company, P.C. (Kearney), performed this audit on OIG's behalf.

The objective was to determine whether the direct costs claimed in the PAE FY 2011 ICPs were reasonable, allowable, allocable, and applicable to the contracts.

What OIG Recommends

OIG made four recommendations to address issues related to questioned costs included in PAE's FY 2011 ICPs. Based on A/LM/AQM's response, OIG considers all four recommendations resolved, pending further action.

A synopsis of A/LM/AQM's response and OIG's replies are presented after each recommendation in the Audit Results section of this report. A/LM/AQM's comments are included as Appendix D.

What Was Found

In total, Kearney identified (b) (4) in questioned direct and indirect costs billed to the Department by PAE. Specifically, Kearney identified (b) (4) of questioned direct costs: (b) (4) in unsupported costs and (b) (4) in unallowable costs. These questioned costs related to subcontractor costs, direct labor costs, prior year costs and prepayments, and other non-labor direct costs.

Kearney also identified (b) (4) in questioned indirect costs. Specifically, Kearney found that PAE misapplied its indirect rates on one schedule within the ICP, resulting in unallowable indirect costs included in the ICP.

Furthermore, Kearney found that PAE's certified FY 2011 ICP contained two instances in which information was inaccurate and inappropriately applied across the different schedules of the ICP. First, Kearney identified (b) (4) that was unbilled and was inappropriately included on a specific schedule (Schedule I). Second, Kearney identified a difference of (b) (4) between the Schedule K on the FY 2011 ICP submitted to A/LM/AQM and the revised ICP provided during Kearney's audit. These two errors relate to the presentation of the ICP, rather than the actual direct costs tested during the audit. Therefore, they do not result in questioned costs.

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