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June 2019

Audit of the Bureau of Diplomatic Security's Expenditures for Third-Party Contractors and Personal Services Contractors Supporting the Office of Training and Performance Standards

SECURITY AND INTELLIGENCE DIVISION

UNCLASSIFIED



HIGHLIGHTS

Office of Inspector General
United States Department of State

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What OIG Audited

The Department of State's (Department) Bureau of Diplomatic Security (DS), Training Directorate, Office of Training and Performance Standards (TPS), in coordination with the Foreign Service Institute, develops and implements training and professional development programs related to security topics for the Department and other U.S. Government personnel and dependents deployed overseas. From October 1, 2015, to March 31, 2017, TPS expended \$52.5 million for training-related activities, of which \$51.4 million was paid to third-party contractors (TPC) and personal services contractors (PSC).

The Office of Inspector General (OIG) conducted this audit to determine whether TPS expended funds to selected TPCs for training-related activities in accordance with Federal regulations, Department guidance, and the terms and conditions of the contracts and whether TPS selected, employed, and paid PSCs in accordance with Department guidance and the terms of the contracts. The scope period for this audit encompassed TPS activity with TPCs and PSCs between October 1, 2015, and March 31, 2017.

What OIG Recommends

OIG is not making any recommendations in this report as a result of TPS's effective management and oversight of TPCs and PSCs. During the audit, OIG issued a Management Assistance Report¹ relating to the management of accountable personal property. In that report, OIG made five recommendations that are all considered resolved pending further action. Implementation of those recommendations is currently being tracked through the audit compliance follow-up process. OIG provided a draft of this report to DS and requested a written response, which was to be included as an appendix to this report. DS informed OIG that it did not have any comments and a written response was not provided.

June 2019

OFFICE OF AUDITS

SECURITY AND INTELLIGENCE DIVISION

Audit of the Bureau of Diplomatic Security's Expenditures for Third-Party Contractors and Personal Services Contractors Supporting the Office of Training and Performance Standards

What OIG Found

OIG verified that during the scope period of this audit (October 1, 2015, through March 31, 2017) TPS expended funds to selected TPCs for training-related activities in accordance with Federal regulations, Department guidance, and terms and conditions of the contracts. Specifically, OIG tested a sample of 43 expenditures from the 4 largest TPCs and did not identify any exceptions. No exceptions were identified because of TPS's effective system of internal controls in overseeing expenditures, including contract monitoring; records management oversight; and an automated system for review, approval, and timely payment of contractor invoices. Collectively, the internal controls TPS employed helped ensure funds expended to TPCs were done so in accordance with Federal regulations and guidance and therefore reduced the risk of unallowable or unsupported transactions.

In addition, OIG found that TPS selected, employed, and paid PSCs in accordance with Department policies and the terms and conditions of the contracts reviewed for this audit. Specifically, OIG tested two PSCs that earned more than \$100,000 during the audit scope period to determine whether TPS complied with Department policies and the terms of the contracts. OIG identified no exceptions because TPS had strong management controls in place for hiring and vetting PSCs, reviewing timekeeping records, and paying PSCs in accordance with the Office of Personnel Management's general schedule. Consequently, TPS appropriately managed and oversaw PSCs in accordance with Department guidance and the terms of the contracts.

¹ OIG, *Management Assistance Report: The Bureau of Diplomatic Security's Office of Training and Performance Standards Should Improve Property Management Over Equipment Provided During High-Threat Training* (AUD-SI-18-49, July 2018).

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OBJECTIVE

The Office of Inspector General (OIG) conducted this audit to determine: (1) whether the Bureau of Diplomatic Security, Training Directorate (DS/T), Office of Training and Performance Standards (TPS), expended funds to selected third-party contractors (TPC) for training-related activities in accordance with Federal regulations, Department of State (Department) guidance, and the terms and conditions of the contracts and (2) whether TPS selected, employed, and paid personal services contractors (PSC) in accordance with Department guidance and the terms of the contracts.

BACKGROUND

DS/T, in coordination with the Foreign Service Institute, develops and implements training and professional development programs. One office within DS/T, TPS, is an accredited training organization that provides training at three main locations—Dunn Loring, VA; Newington, VA; and the Interim Training Facility (ITF) in Summit Point, WV. TPS offers approximately 70 security-related courses for Department personnel, their dependents, employees from other foreign affairs agencies, and other participants. According to a DS official, the majority of the course instruction is provided by TPCs and PSCs.

As shown in Table 1, TPS expended \$52.5² million from Worldwide Security Protection funds³ between October 1, 2015, and March 31, 2017, on the development and implementation of training and professional development programs for U.S. Government employees and their dependents.

² In addition to the accounts identified in Table 1, TPS uses funds from the International Law Enforcement Academies Support account. The network of International Law Enforcement Academies throughout the world was designed to assist in combating international drug trafficking, criminality, and terrorism through strengthened international cooperation. During the audit scope period, International Law Enforcement Academies Support expenditures totaled \$44,154, which is less than 1 percent of the total TPS expenditures. Additionally, the Bureau of International Narcotics and Law Enforcement Affairs reimburses DS/T for all funds spent on this program. Therefore, OIG excluded these expenditures from the scope of this audit.

³ DS uses Worldwide Security Protection funds to support a safe and secure environment for the conduct of American diplomacy by designing and maintaining a security program for every U.S. diplomatic mission in the world. Specifically, funds from Worldwide Security Protection support security programs located at more than 275 overseas posts and 125 domestic offices, including a guard force protecting overseas diplomatic posts, residences, and domestic offices.

Table 1: TPS Expenditures by Account for the Audit Scope Period

Account	Number of Expenditures	Amount of Expenditures
Training and Performance Support	158	\$3,329,477
Administration Support	781	8,951,021
Overseas Training	2,198	12,508,694
Domestic Training Branch	2,054	10,347,046
Special Skills*	1,886	12,033,276
Security Engineering and Computers	534	5,304,065
Total	7,611	\$52,473,579

*Relates to specialized training programs, including firearms, explosives countermeasures, defensive tactics and room entry, and driver training programs.

Source: Prepared by OIG on the basis of its analysis of information obtained from the Department's financial system, the Global Financial Management System (GFMS), as of August 10, 2017.

TPS expends funds for training programs using TPCs, PSCs, and Department personnel. As of August 2017, TPS was composed of 300 Department employees, 58 TPC employees, and 83 PSCs. In addition to funding TPC employees, TPS also provides funding to TPCs for leases and travel. As shown in Table 2, TPS spends the majority of its funds (91 percent) on services and supplies provided by TPCs; it spends 7 percent on PSCs and 2 percent on Department employees.

Table 2: TPS Expenditures by Type of Expenditures

Type	Number of Expenditures	Amount of Expenditures	Percent of Total Expenditures
TPCs	2,784	\$47,993,725	91
PSCs	3,468	3,439,304	7
Employees	1,359	1,040,550	2
Total	7,611	\$52,473,579	100

Source: Prepared by OIG on the basis of information from GFMS.

Third-Party Contractors

Of the \$52.5 million expended by TPS during the scope period of this audit (October 1, 2015, through March 31, 2017), about \$48 million was paid to TPCs. As shown in Table 3, the top four TPCs in expenditures were All Native, Inc. (ANI), Bill Scott Raceway (BSR), Virginia Industries for the Blind (VIB), and OBXtek, Inc. (OBXtek).

Table 3: Top Four TPC Vendors by Amount

Vendor	Number of Invoices	Amount of Expenditures	Percentage of Total TPC Expenditures
ANI	118	\$17,816,957	37
BSR	507	10,287,255	21
VIB	5	2,291,688	5
OBXtek	100	1,805,630	4
Total	730	\$32,201,530	67

Source: Prepared by OIG on the basis of an analysis of TPS expenditures in GFMS.

All Native, Inc.

In March 2014, the Bureau of Administration, Office of the Procurement Executive, Office of Acquisitions Management (AQM) awarded an indefinite-delivery, indefinite-quantity performance-based,⁴ fixed-price contract⁵ to ANI for the purpose of providing professional service employees.^{6,7} The ANI contract had a maximum performance period of 3 years (base year plus 2 option years) and a cost of \$87.5 million. For example, TPS used an ANI task order to obtain firearms instructors, special skills tactics instructors, and explosive countermeasures instructors.

Bill Scott Raceway

In May 2014, AQM awarded a firm-fixed price indefinite-delivery, indefinite-quantity contract to BSR for the purpose of providing a contiguous training facility (namely, the ITF) close to the Washington, DC, metropolitan area. The contract required the training facility to be contractor-owned and include qualified driving instructors; vehicles and a vehicle maintenance facility; high-speed, unimproved, and off-road driving tracks; dedicated secure vehicle storage; firearm and explosives demolition ranges; administrative and training facilities; and a gymnasium. The BSR contract had a maximum performance period of 5 years (base year plus 4 option years) and a cost of \$95 million.

Virginia Industries for the Blind

In September 2012, AQM awarded a hybrid, firm-fixed price time-and-materials contract⁸ to VIB that required VIB to deliver custom-built deployment kits. The custom-built kits included items such as body armor, a helmet, a medical kit, a backpack, and a sleeping bag system. The contractor was to acquire,

⁴ According to Federal Acquisition Regulation (FAR) 37.602(b)(1) and (2), "Performance work statement," and FAR 37.603, "Performance Standards," performance-based acquisitions describe the work in terms of the required results rather than how the work is to be accomplished or the number of hours to be provided. Furthermore, performance acquisitions enable the assessment of work performed against performance standards, which establish the performance level required by the Government to meet the contract requirements.

⁵ According to 48 Code of Federal Regulations 16.202-1, "Description," "a firm-fixed-price contract provides for a price that is not subject to any adjustment on the basis of the contractor's cost experience in performing the contract."

⁶ According to 48 Code of Federal Regulations 16.501-2(a), "General," indefinite-delivery contracts are used to acquire supplies or services when the exact times or exact quantities of future deliveries are not known at the time of contract award. Indefinite-quantity contracts also permit flexibility in both quantities and delivery scheduling.

⁷ Professional service employees include administrative, computer, executive, and other analogous employees.

⁸ According to 48 Code of Federal Regulations 16.601(b)(1) and (2), "Time-and-materials contracts," a time and materials contract provides for acquiring supplies or services on the basis of direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit, and actual cost for materials.

inventory, and assemble the kit before issuing it to the Department. The contract included warranties for the full replacement and customer support necessary to account for the delivery and tracking of all deployment kits purchased. The VIB contract had a maximum performance period of 5 years (base year plus 4 option years) and a cost of approximately \$12 million.

OBXtek Inc.

In February 2014, AQM awarded a professional, management, and administrative support services indefinite-delivery, indefinite-quantity contract to OBXtek. The contract required OBXtek to provide individuals to manage training programs and instructors for training courses. The contract also provided for travel and other direct costs, such as leased space and business expenses. The OBXtek contract had a maximum performance period of 4 years (base year plus 3 option years) and a cost of \$14.6 million.

Personal Services Contractors

A personal services contract is characterized by the employer-employee relationship it creates between the Government and the contractor's personnel.⁹ According to the Foreign Affairs Manual (FAM),¹⁰ a personal services contract can be used for certain work of a continuing nature as well as for temporary services. DS has PSC hiring authority under the Emergency Supplemental Appropriations Act of 1998.¹¹ PSCs must be U.S. citizens and are selected on the basis of their education, experience, and suitability for the particular contract to be filled.¹² PSCs may not be contracted for periods to exceed 1 year, but their contracts can be renewed annually for up to an additional 4 option years.¹³

PSCs are not considered Civil Service or Foreign Service employees but may be deemed Federal employees under certain circumstances.¹⁴ DS has a hiring process for PSCs. Specifically, DS determines a need for a service and advertises for a position according to the qualifications required. Applicants submit their resumes, and the Bureau of Human Resources screens the resumes and then prepares a list of qualified candidates for a TPS selection board to review. The selection board interviews the candidates and ranks them in order of preference from highest to lowest. Once the decision is made to hire a PSC, the PSC is paid through the Department's payroll system in the same manner as Department employees. PSCs submit time and attendance documents biweekly to their managers for approval.

TPS spent \$3.4 million from October 1, 2015, to March 31, 2017, on 83 PSCs. Total expenditures for PSCs ranged from \$552 to \$163,434. The eight highest earning PSCs each made more than \$100,000 during the audit scope period, as shown in Table 4.

⁹ 48 Code of Federal Regulations 37.104(a), "Personal services contracts."

¹⁰ 3 FAM 9111(a), "General."

¹¹ 3 FAM 9113(h), "Other Department Bureaus/Offices/Programs With PSC Authority."

¹² 3 FAM 9114(a) and (c), "Basic Requirements for Employment."

¹³ 3 FAM 9114.2, "Duration of Contract."

¹⁴ 3 FAM 9112(b), "Authority."

Table 4: Expenditures Related to Eight Highest Earning PSCs

PSC Number*	Amount of Expenditures	Percentage of Total Expenditures
PSC 1	\$163,434	5
PSC 2	163,434	5
PSC 3	155,154	4
PSC 4	125,772	4
PSC 5	120,303	3
PSC 6	109,589	3
PSC 7	104,289	3
PSC 8	103,178	3
Subtotal	\$1,045,153	30

*OIG did not include the names of the individual PSCs in this report.

Source: Prepared by OIG on the basis of information from GFMS.

Contract Administration

AQM plans and directs the Department's acquisition programs and conducts contract operations that support worldwide activities. AQM provides a full range of contract management services, including acquisition planning, contract negotiations, cost and price analysis, and contract administration. Most domestic offices, including TPS, rely on AQM for the majority of their procurement support.

Federal and Department Guidance for Contract Management

The Department and its contractors must comply with Federal regulations and Department policy when managing contracts. The Federal Acquisition Regulation (FAR) establishes the uniform policies and procedures for acquisition by all executive agencies. The Department supplements the FAR through the Department of State Acquisition Regulations (DOSAR) and the Foreign Affairs Handbook (FAH). The Department's Bureau of Administration, Office of the Procurement Executive, is responsible for providing the Department with management direction, leadership, and expertise in the areas of acquisition and issuing contract management policy.

Roles and Responsibilities for Administering and Overseeing Contracts

The FAR, the DOSAR, and Department policies describe the roles and responsibilities of Government personnel who award, administer, and oversee contracts. The two individuals with primary oversight and monitoring responsibilities with respect to any contract are the Contracting Officer (CO) and the Contracting Officer's Representative (COR). The CO is the U.S. Government's authorized agent for dealing with contractors and has sole authority to solicit proposals and negotiate, award, administer, modify, or terminate contracts. The CO performs duties at the request of the offices that require the contract and relies on those offices for technical support concerning the products or services being acquired.¹⁵

¹⁵ 14 FAH-2 H-141.a, "Responsibilities of the Contracting Officer."

COs may designate in writing a COR.¹⁶ The COR is delegated limited authority to act on behalf of the CO and conduct contract surveillance to verify that the contractor is fulfilling requirements and to document performance for the contract record.¹⁷ The CO may also appoint a Government Technical Monitor to assist the COR in monitoring contractor performance.¹⁸

AUDIT RESULTS

Finding A: DS's Office of Training and Performance Standards Expended Funds to Selected Third-Party Contractors, in Accordance With Requirements

OIG verified that during the scope period of this audit (October 1, 2015–March 31, 2017), TPS expended funds to selected TPCs for training-related activities in accordance with Federal regulations, Department guidance, and terms and conditions of the contracts. OIG tested a sample of 43 expenditures from the 4 largest TPCs and did not identify any exceptions. No exceptions were identified because of TPS's effective system of internal controls in overseeing expenditures, including contract monitoring; records management oversight; and use of an automated system for review, approval, and timely payment of contractor invoices. Collectively, the internal controls employed by TPS helped ensure funds for TPCs were expended in accordance with Federal regulations and guidance and thereby reduced the risk of unallowable or unsupported transactions.

TPC Expenditures Reviewed

OIG examined a sample of expenditures from ANI, BSR, OBXtek, and VIB, the four largest TPCs managed by TPS, totaling \$32.2 million, to determine whether the funds were expended in accordance with Federal requirements, Department guidance, and contract terms and conditions. OIG tested 43 expenditures, totaling \$4.1 million, for the TPCs selected.¹⁹

Oversight of the Invoice Process

OIG obtained copies of DS's invoice approval forms²⁰ for the 43 selected expenditures to determine if the COR approved the invoices to be paid, thus signifying that the COR received the property or service on time, within the contract-specific price and in accordance with all contract requirements, including the Prompt Payment Act. OIG found that COR approval for all 43 selected expenditures was timely. In addition, OIG found that the CORs interviewed were generally knowledgeable about requirements of the contracts assigned. Specifically, for the selected TPCs, OIG found that the majority of the CORs assigned had prior contract management experience and provided adequate oversight of contract expenditures. Furthermore, OIG found that contract records and supporting documentation maintained by TPS in GFMS were complete. For example, documentary support for the labor services charges under the ANI contract included the invoices, detail payrolls, time sheets, and modifications.

¹⁶ FAR 1.602-2 (d), "Responsibilities."

¹⁷ 14 FAH-2 H-142, "Responsibilities of the Contracting Officer's Representative (COR)."

¹⁸ DOSAR 642.271, "Government Technical Monitor (GTM)."

¹⁹ Details of the sample are included in Appendix A: Purpose, Scope, and Methodology.

²⁰ The invoice approval form is part of the DS web-enabled application that tracks invoices from the time they are received until they are approved for payment, including a step for COR approval before the invoice is ultimately approved for payment.

Required Documentation

Supporting documentation is required to ensure that all payments are authorized, accurate, legal, correct and that the goods were actually received or services actually performed.²¹ Examples of supporting documentation include purchase orders and contracts, invoices and vouchers, receiving reports and approvals. The supporting documentation must be attached to the invoice. OIG reviewed the supporting documentation for 43 expenditures from the 4 contractors selected for testing.

Labor Hours

OIG considered labor hours charged by the selected TPCs to be allowable if the positions covered in the invoices were required by the contract and the hourly rates for the positions matched the amount allowed in the contract. Of the 43 expenditures selected for testing, 15, collectively valued at \$2.2 million, were related to labor hours (ANI and OBXtek). The labor hours were for individuals working for TPS as technicians, analysts, instructors, and program and project managers. For each item selected, OIG compared the positions billed for the invoices to the contracts and found that all the positions were required by the contract and that the hourly bill rates in the contracts were the same as the amount charged in the invoices.

OIG also tested the 15 items to ensure that they were sufficiently supported. OIG considered the labor hours to be supported if the hours billed were substantiated by time and attendance (T&A) documents and the billed amounts were calculated using the hourly rate approved in the contract for the stated labor category. OIG obtained T&A documents for each of the 15 labor hour expenditures selected for testing. Each T&A document supported the hours charged for that employee on the invoice. In addition, each of the T&A documents was appropriately approved by a supervisor. Using the hourly rates in the contract and the hours identified in the T&A documents, OIG independently calculated the amount that should have been charged. OIG did not identify any exceptions in the amounts charged.

Leases

OIG considered lease costs to be allowable if the amounts charged for the lease complied with the contract requirements. Of the 43 expenditures selected for testing, 12, collectively valued at \$332,568, were related to lease costs associated with the BSR contract. For example, TPS leases an urban driving grid for training purposes from BSR. OIG compared the 12 invoiced lease costs to the BSR contract and found that the amount charged matched the contract terms. To ensure that the lease costs were supported, OIG performed an on-site inspection to ensure that the facilities that were leased were being used.

Construction Expenditures

OIG considered construction expenditures to be allowable if the amounts charged complied with the contract requirements. OIG tested eight construction-based²² expenditures, valued at \$299,382. All eight construction expenditures were related to the BSR contract. For example, one of the expenditures, valued at \$14,420, was for firing range maintenance and another expenditure tested, totaling \$167,006,

²¹ 4 FAH-3 H-423.5-1(a), "Purpose and Scope."

²² OIG considered construction expenditures to include expenditures for the construction of new structures and maintenance of or improvements to existing facilities.

was related to the installation of a simulation system for firearms at the DS ITF. OIG compared the eight invoiced construction charges to the BSR contract terms and conditions and found that all the construction projects were allowed by the contract. OIG considered the construction expenditures to be sufficiently supported if BSR provided supporting documentation for the costs. For each construction expenditure, OIG examined the detailed invoice and confirmed the allowability of the item and that the billing rate used was in accordance with the contract terms. In addition, OIG performed a site visit to the ITF to confirm that the construction projects had been performed and, in each case, found that they had.

Miscellaneous Expenditures

OIG tested two auto repair expenditures, totaling \$21,940, and two training expenditures, totaling \$244,990.²³ The four expenditures were related to the BSR contract. To test if these expenditures were allowable and supported, OIG compared the use of funds to terms and conditions of the contract and ensured the invoiced amounts were adequately supported. OIG did not identify any exceptions.

High-Threat Kit Purchases

Two expenditures selected under the VIB TPC, totaling \$916,675, were for high-threat kits that were provided to students during high-threat training courses.²⁴ Each expenditure was for the purchase of 50 kits. OIG considered expenditures for the kits to be allowable if the amounts charged complied with the contract requirements. OIG compared the two invoices for the kits and found that the amounts charged matched the contract terms. To ensure that documentation was sufficient to support each invoice, OIG reviewed documentation to confirm that officials at the ITF (where the high-threat kits are delivered) documented the receipt of all 50 kits for each invoice.

Other Direct Costs

Two of the 43 expenditures sampled, totaling \$28,630, were a combination of administrative expenditures related to the OBXtek contract. The contract allowed OBXtek to combine administrative expenditures for travel, lease, and materials into one category called "Other Direct Costs." The contract stated that travel arrangements must be in accordance with the Federal Travel Regulation and approved in advance. Additionally, the contract stated that OBXtek will provide leased space as part of the other direct costs. OIG reviewed all the supporting documentation for each of these individual types of expenses to determine if the overall expenditure was allowable and sufficiently supported. OIG found that for the travel and other related expenditures, OBXtek complied with Federal Travel Regulations and Department policies related to travel. Furthermore, administrative expenses examined were supported by invoices and were allowed on the basis of the contract's line item summary of allowable Other Direct Costs.

OIG reviewed the travel expenditures separately from the other administrative expenditures. Specifically, for the six travel-related transactions, OIG reviewed the supporting documentation to determine if OBXtek complied with the Federal Travel Regulation and Department policies related to

²³ The 2 training programs consisted of 16 DS antiterrorist training classes (\$150,000) and Special Agent and Motorcade training (\$94,990).

²⁴ As part of this training, students are provided with kits containing equipment for their use during and after the course. Each kit contains 50 items, including a vest with 2 armor plates, gloves, a tactical helmet, sunglasses, a medical kit, and a global positioning system unit.

travel. For example, the Federal Travel Regulation allows a traveler to be reimbursed for actual lodging costs that do not exceed the maximum lodging rate for the temporary duty location. OIG reviewed the travel vouchers related to the sampled expenditures and confirmed that the rates expended for lodging and meals and incidental expenses matched the U.S. Government rates for the temporary duty locations. OIG also reviewed all the miscellaneous and transportation expenses included in the travel vouchers and found that they were supported by receipts and invoices, as applicable. Finally, OIG confirmed that the monthly lease and business internet expenses were sufficiently supported by invoices and were allowed on the basis of the contract's line item summary of allowable Other Direct Costs.

Effective Standard Operating Procedures and Controls

OIG did not identify exceptions during its work primarily because TPS implemented effective standard operating procedures and controls that helped to ensure compliance with contract terms and conditions. For example, TPS had standard operating procedures for processing and paying invoices. TPS uses the Department's EZ-Suite application to review, process, and pay invoices. According to a TPS official, the EZ-Suite application is designed to provide effective operating procedures and controls for the timely payment of contractor invoices. The EZ-Suite application is designed to track an invoice through required processes, timing its progress along the way to help ensure compliance with the Prompt Payment Act. EZ-Suite notifies the COR, by email, when an invoice is ready for the COR's inspection and approval. The COR can approve the invoice with changes or reject it. The COR can also view the contents of the invoice. Once approved by the COR, EZ-Suite sends an invoice approval form to the Vendor Claims Office where the invoice is reviewed and approved for payment.

Because of the effective standard operating procedures and management controls in place, the risk of unallowable or unsupported expenditures to TPCs was reduced and helped ensure funds were expended to TPCs, in accordance with Federal regulations and guidance. OIG is therefore not making any recommendations related to this finding.

Finding B: The Office of Training and Performance Standards Selected, Employed, and Paid Personal Services Contractors, in Accordance With Requirements

OIG found that TPS selected, employed, and paid PSCs in accordance with Department policies and the terms and conditions of the contracts reviewed for this audit. Specifically, OIG tested two PSCs that earned more than \$100,000 during the audit scope period to determine whether TPS complied with Department policies and the terms of the contracts. OIG identified no exceptions because TPS had management controls in place for hiring and vetting PSCs, reviewing timekeeping records, and paying PSCs, in accordance with the Office of Personnel Management's general schedule. This effective system of management controls ensured that TPS appropriately expended funds for PSCs, in accordance with Department guidance and the terms of the contract.

Selecting PSCs

The FAM requires that PSCs be selected on the basis of “their education, experience, and suitability for the particular contract to be filled.”²⁵ To determine whether TPS complied with the FAM when it selected the two PSCs tested, OIG reviewed supporting documentation, such as original requests and advertisements for the PSC positions, statements of work, resumes, and review board selection documentation for eligible candidates. OIG found that TPS reviewed the applicants’ resumes and identified the knowledge, skills, and abilities of the applicants. TPS also compared this information to the education and experience sought as identified in the PSC announcements for the positions.

OIG also interviewed a member of the review board panel for one of the two PSCs tested and confirmed that the PSC hired met all the qualifications included in the advertised announcement. In addition, OIG reviewed DS policy for hiring PSCs. For example, according to the policy, TPS works with a Human Resource specialist who will prepare a job announcement, statement of work, and advertisement. After the job closes, the Human Resource specialist will issue a certificate of eligible candidates for the hiring manager. The hiring manager will review and select the candidates for hire and send that information back to the Human Resource specialist. OIG found that for both PSCs tested, DS prepared statements of work and job announcements and advertised the positions. OIG also found that a certificate of eligible candidates was prepared for each position and that the PSCs’ names were included in each of those certificates. For the items tested, OIG found that TPS complied with all the key requirements of Department guidance.

Employing PSCs

TPS must ensure that authorizing officials or supervisors authorize, in advance, premium pay, such as overtime, and review and approve T&A reports.²⁶ The two PSCs selected for testing had a total of \$16,538 of premium pay and \$175,009 of basic pay during 2016. OIG reviewed a sample of pay periods²⁷ for each PSC to determine if premium pay was authorized in advance and the T&A documentation was complete. OIG obtained supporting documentation that showed that TPS officials had approved premium pay for the two PSCs in advance. Furthermore, OIG obtained supporting documentation that showed that TPS officials had reviewed and approved the two PSCs’ T&A reports, as required. Therefore, for the individuals tested, OIG found that TPS complied with all the key requirements of Department guidance.

²⁵ 3 FAM 9114(c), “Basic Requirements for Employment.”

²⁶ 4 FAH-3 H-523.2, “Authorization,” and 4 FAH-3 H-525.2-3, “Reviewing and Approving Time and Attendance Reports.”

²⁷ For one PSC, OIG tested pay period 10 (May 15, 2016, to May 28, 2016), pay period 21 (October 16, 2016, to October 29, 2016), and pay period 23 (November 13, 2016, to November 26, 2016). For the other PSC, OIG tested pay period 4 (February 21, 2016, to March 5, 2016), pay period 13 (June 26, 2016, to July 9, 2016), and pay period 25 (December 11, 2016, to December 24, 2016).

Paying PSCs

The PSC contracts require PSCs to be paid on the basis of hourly and overtime rates identified in the Office of Personnel Management's 2016 general schedule with locality pay included for Federal Government employees living in the Washington, DC, metropolitan area. To determine whether TPS paid its PSCs in accordance with the PSC contract terms, OIG compared the pay history reports obtained from the Department's domestic payroll system for the selected pay periods to the Office of Personnel Management's 2016 general schedule for basic and overtime hourly rates and also to the PSC contract award documentation. OIG found that the amounts paid to the PSCs were consistent with each contract's terms and conditions and appropriately recorded in the Department's records. OIG also obtained information from the Department's domestic payroll system and confirmed that the amount actually paid to the two PSCs tested reconciled to the T&A documentation.

Management Controls Were in Place

OIG did not identify any exceptions primarily because TPS had management controls in place for hiring and vetting PSCs, reviewing timekeeping records, and paying PSCs in accordance with the Office of Personnel Management's general schedule. This effective system of management controls ensured that TPS appropriately expended funds for PSCs, in accordance with Department guidance and the terms of the contract. OIG is therefore not making any recommendations related to this finding.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Office of Inspector General (OIG) conducted this audit to determine whether the Bureau of Diplomatic Security (DS), Training Directorate, Office of Training and Performance Standards (TPS), expended funds to selected third-party contractors (TPC) for training-related activities, in accordance with Federal regulations, Department of State (Department) guidance, and the terms and conditions of the contracts and whether TPS selected, employed, and paid personal services contractors (PSC) in accordance with Department guidance and the terms of the contracts.

OIG conducted this audit from September 2017 through November 2018 in the Washington, DC, metropolitan area and at TPS's Interim Training Facility in Summit Point, WV. The scope of the audit encompassed TPS activity with TPCs and PSCs between October 1, 2015, and March 31, 2017. Issuance of this report was delayed because of the lapse in OIG's appropriations that occurred from 11:59 p.m. December 21, 2018, through January 25, 2019. OIG conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

To obtain background information, OIG researched and reviewed Federal laws and regulations related to acquisitions, such as the Federal Acquisition Regulation (FAR). OIG also researched and reviewed Department policies included in the Foreign Affairs Manual (FAM), Foreign Affairs Handbook (FAH), and other Department guidance regarding DS's invoice processing.

To gain an understanding of the administration and oversight of TPS's contracts, OIG interviewed officials from the Bureau of Diplomatic Security and the Bureau of Administration, Office of the Procurement Executive, Office of Acquisitions Management (AQM). Specifically, OIG discussed the TPC and PSC contracts that OIG selected for review as well as the TPC and PSC invoice processes used to approve expenditures. Additionally, OIG reviewed a sample of expenditures from four TPCs—All Native, Inc. (ANI), Bill Scott Raceway (BSR), Virginia Industries for the Blind (VIB), and OBXtek, Inc. (OBXtek)—and two PSCs.

To perform this work, OIG reviewed available supporting documentation, such as TPC contract awards and modifications, invoices, invoice approval forms, time and attendance documents, and travel documents. In addition, for PSC expenditures, OIG compared the total expenditures incurred by each PSC to the amount allowed in the contract and reviewed the qualifications of each PSC to determine if they were qualified for their selected positions. OIG also compared basic and overtime hourly rates to the Office of Personnel's 2016 general schedule basic and hourly rates with locality rates included for the Washington, DC, metropolitan area.

Prior Reports

While conducting this audit, OIG issued a Management Assistance Report¹ that demonstrated TPS was not complying with Department policies and procedures for managing accountable personal property with respect to high-threat kits. Specifically, OIG reported that TPS did not record accountable property

¹ OIG, *Management Assistance Report: The Bureau of Diplomatic Security's Office of Training and Performance Standards Should Improve Property Management Over Equipment Provided During High-Threat Training* (AUD-SI-18-49, August 2018).

in the Department's inventory system, perform annual physical inventories or process accountable property, as required, or issue the high-threat kits to DS Special Agents, using required Department procedures. OIG made five recommendations to DS intended to address the underlying cause of the deficiencies and help ensure that controls over TPS accountable property are in compliance with property management requirements. As of April 2019, all five recommendations were resolved, pending further action, and implementation of those recommendations is currently being tracked through the audit compliance follow-up process.

Work Related to Internal Controls

OIG performed steps to assess the adequacy of internal controls related to the areas audited. For example, OIG reviewed TPS's invoice process to identify the controls in place when processing invoices. In addition, OIG reviewed relevant FAR sections regarding contract cost principals and procedures as well as FAM and FAH sections on vouchers and claims. OIG also met with AQM and DS officials, including the TPS Contracting Officer and Contracting Officer's Representatives responsible for selected TPC contracts. OIG used this information to develop procedures to test controls over expenditures. Additionally, to gain a better understanding of the overall invoice process and controls in place, OIG selected a "pilot" expenditure to review from each of the four TPC contracts. As part of that "pilot" testing, OIG assessed whether the selected expenditure matched the original invoice, supporting documentation was sufficient to support the expenditure, and the expenditure was allowable under the existing contract award or modification. OIG also tested whether TPS provided sufficient oversight of the selected TPCs.

For the PSC objective, as previously identified in the body of the report, OIG selected two PSC awards for testing. OIG reviewed the timesheets and other supporting documentation for selected pay periods² during 2016 to ensure that both basic and overtime hours worked were approved and that overtime hours were authorized in advance of the end of each pay period. OIG also compared hourly rates for basic and overtime pay used by the Department's payroll office to rates listed in the Office of Personnel Management's general schedule for 2016, adjusted for locality pay. OIG also compared the contracts' maximum hours allowed to actual hours worked. Finally, OIG reviewed the qualifications of the contractors to ensure that they met the requirements listed in the job announcements.

Overall, OIG found that TPS had strong internal controls with respect to all the expenditures reviewed. Details of the testing performed, and the associated results, are included in the Audit Results section of this report.

Use of Computer-Processed Data

During the course of this audit, OIG used electronically processed data from the Department's accounting system, the Global Financial Management System (GFMS), and the Department domestic payroll system, the Consolidated American Payroll Processing System.

² As previously noted in the body of the report, for one PSC, OIG tested pay period 10 (May 15, 2016, to May 28, 2016), pay period 21 (October 16, 2016, to October 29, 2016), and pay period 23 (November 13, 2016, to November 26, 2016). For the other PSC, OIG tested pay period 4 (February 21, 2016, to March 5, 2016), pay period 13 (June 26, 2016, to July 9, 2016), and pay period 25 (December 11, 2016, to December 24, 2016).

Global Financial Management System

GFMS is the Department's accounting system of record. It is a web-based application that was designed to provide for financial accounting, funds control, management accounting, and financial processes. OIG ran GFMS expenditure reports for each of the four TPCs selected for examination. As a pilot sample, OIG chose one expenditure, representing a single invoice amount for each of the four selected TPCs and compared each of those expenditures to the related contracts, contract modifications (when applicable), invoices, and supporting documentation. OIG found that all four expenditures in GFMS matched the invoice amounts, supporting documentation, and contract terms and conditions. Therefore, OIG concluded that the expenditure data associated with the TPS accounts obtained from GFMS were reliable for the purposes of this audit and tested all the sampled expenditures similarly.

Consolidated American Payroll Processing System

The Consolidated American Payroll Processing System is the Department's payroll system for American employees. OIG obtained payroll history reports from the Consolidated American Payroll Processing System from the Bureau of the Comptroller and Global Financial Services, Office of Oversight Management Analysis, Financial Coordination and Reports. The reports include information such as gross pay, regular duty hours and hourly rates, annual leave, sick leave, overtime hours and hourly rates, and night differential hours and rates. OIG selected one PSC as a pilot and another PSC as a sample and compared selected pay periods for those individuals to payroll history reports derived from the Consolidated American Payroll Processing System, actual time and attendance reports, overtime authorization documents, and other supporting documentation to determine if the hours reported in the payroll history documents were accurate and authorized. OIG also compared the hourly rates used in the payroll history documents to the 2016 Salary Table for general schedule employees adjusted for the locality pay area of Washington, DC, metropolitan area. OIG found that the data were in all material respects accurate and concluded that the data in the payroll history reports were reliable for the purposes of this audit.

Detailed Sampling Methodology

The objectives of the sampling process were to select a sample of TPC and PSC expenditures for review. OIG employed non-statistical sampling methods to carry out its audit fieldwork.

OIG obtained TPS expenditures by account for the audit scope period—between October 1, 2015, and March 31, 2017—from GFMS. OIG removed duplicate rows that it identified during this process. As shown in Table A.1, TPS uses 6 expenditure accounts and, for the audit scope period, TPS had 7,611 line item expenditures, totaling \$52.5 million.³

³ OIG excluded from its audit scope funds from the International Law Enforcement Academies Support account. The network of International Law Enforcement Academies throughout the world was designed to assist in combating international drug trafficking, criminality, and terrorism through strengthened international cooperation. During the audit scope period, International Law Enforcement Academies Support expenditures totaled \$44,154, which represents less than 1 percent of the total TPS expenditures. Additionally, the Bureau of International Narcotics and Law Enforcement Affairs reimburses DS/T for all funds spent on this program.

Table A.1: TPS Expenditures by Account for the Audit Scope Period

Account Description	Number of Expenditures	Amount of Expenditures
Training and Performance Support	158	\$3,329,477
Administration Support	781	8,951,021
Overseas Training	2,198	12,508,694
Domestic Training Branch	2,054	10,347,046
Special Skills*	1,886	12,033,276
Security Engineering and Computers	534	5,304,065
Total	7,611	\$52,473,579

*Relates to specialized training programs, including firearms, explosives countermeasures, defensive tactics and room entry, and driver training programs.

Source: Prepared by OIG on the basis of information obtained from GFMS.

OIG sorted the TPS expenditures by type, as shown in Table A.2. The audit scope related only to TPCs and PSCs; therefore, OIG did not consider expenditures related to employees.

Table A.2: TPS Expenditures by Type

Type	Number of Expenditures	Amount of Expenditures	Percent of Total Dollars
TPC	2,784	\$47,993,725	91
PSC	3,468	3,439,304	7
Employees	1,359	1,040,550	2
Total	7,611	\$52,473,579	100

Source: Prepared by OIG on the basis of information from GFMS.

Third-Party Contractor Selection Methodology

OIG identified 58 different TPCs with expenditures totaling about \$48 million during the audit scope period. OIG selected all TPCs that received more than \$1 million from TPS during the audit scope period.⁴ OIG identified four TPCs that met those requirements—ANI, BSR, VIB, and OBXtek. These four TPCs made up 67 percent of the expenditures incurred by TPCs during the audit scope period (\$32.2 million of \$48 million). OIG further limited its testing to expenditures greater than \$10,000.

Using haphazard sampling,⁵ OIG selected one expenditure initially, for a pilot sample item, from each of the four TPCs to perform testing to gain an understanding of how DS records and documents expenditures in GFMS, as well as how DS reviews and processes invoices prior to payment. After the preliminary assessment was complete, as shown in Table A.3, OIG selected a random sample of expenditures for testing from each of the four TPCs. OIG determined that it would randomly select a total of 10 percent (including the initial expenditure selected) of the number of expenditures in excess of \$10,000 for each contractor.

⁴ OIG excluded funds paid to U.S. Government entities. For example, TPS spent more than \$1 million on working capital fund charges, which are paid to the Department's Bureau of Administration.

⁵ "Haphazard sampling is a nonstatistical technique used by auditors to simulate random sampling when testing the error status of accounting populations." Thomas W. Hall et al., "Haphazard Sampling: Selection Biases and the Estimation Consequences of These Biases," *American Accounting Association's Current Issues in Auditing*, vol. 7, issue 2, 2013, at Practitioner's Summary.

Table A.3: Number and Amount of TPC Expenditures Selected for Testing

TPC	Number of Expenditures (Amount)	Number of Expenditures Over \$10,000 (Amount)	Number of Expenditures Selected (Amount)
ANI	118 (\$17,816,957)	86 (\$17,719,609)	10 (\$2,120,010)
BSR	507 (\$10,287,255)	231 (\$9,057,564)	24 (\$898,880)
VIB	5 (\$2,291,688)	5 (\$2,291,688)	2 (\$916,675)
OBXtek	100 (\$1,805,630)	64 (\$1,647,120)	7 (\$119,345)
Total	730 (\$32,201,530)	386 (\$30,715,981)	43 (\$4,054,910)

Source: Prepared by OIG on the basis of information from GFMS.

Personal Services Contract Selection Methodology

OIG identified 83 PSCs, with total expenditures of \$3.4 million during the audit scope period, between October 1, 2015, and March 31, 2017. OIG limited its review to PSCs that made more than \$100,000 during that period. Specifically, OIG identified eight PSCs that met that criteria, which represented a total of \$1 million, or 30 percent of all PSC expenditures. Of the eight, OIG haphazardly selected one PSC, as a pilot transaction to gain an understanding of how DS records, documents, reviews, and processes PSC expenditures. In addition, a second PSC was also selected for testing using a random sampling method. Unlike the other vendors, TPS pays the PSCs every 2 weeks using the Department's payroll system. As a result, OIG modified its methodology for testing the PSCs and, instead of testing individual expenditures, OIG used a simple random sample design and selected 3 pay periods from a total of 26 pay periods in 2016⁶ to test the 2 PSCs that were selected for review, which in total were valued at \$192,640.

⁶ For one PSC, OIG tested pay period 10 (May 15, 2016, to May 28, 2016), pay period 21 (October 16, 2016, to October 29, 2016), and pay period 23 (November 13, 2016, to November 26, 2016). For the other PSC, OIG tested pay period 4 (February 21, 2016, to March 5, 2016), pay period 13 (June 26, 2016, to July 9, 2016), and pay period 25 (December 11, 2016, to December 24, 2016).

ABBREVIATIONS

ANI	All Native, Inc.
AQM	Bureau of Administration, Office of the Procurement Executive, Office of Acquisitions Management
BSR	Bill Scott Raceway
CO	Contracting Officer
COR	Contracting Officer's Representative
DOSAR	Department of State Acquisition Regulations
DS/T	Bureau of Diplomatic Security, Training Directorate
FAH	Foreign Affairs Handbook
FAM	Foreign Affairs Manual
FAR	Federal Acquisition Regulation
GFMS	Global Financial Management System
ITF	Interim Training Facility
OIG	Office of Inspector General
PSC	personal services contractors
T&A	time and attendance
TPC	third-party contractors
TPS	Office of Training and Performance Standards
VIB	Virginia Institute for the Blind

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