

UNCLASSIFIED



Office of Inspector General
United States Department of State

AUD-MERO-19-23

Office of Audits

April 2019

**Management Assistance Report:
Results of 2014 Audit of Bureau of Diplomatic
Security
Worldwide Protective Services Contract
Task Orders 2, 9, and 11**

MANAGEMENT ASSISTANCE REPORT

UNCLASSIFIED

Summary of Review

In 2013, the Bureau of Diplomatic Security (DS) asked the Office of Inspector General (OIG) to conduct an audit of Task Orders 2, 9, and 11 awarded under the Worldwide Protective Services (WPS) contract. These task orders were awarded to the contractor International Development Solutions, LLC (IDS) to provide movement and static security services in Jerusalem and Afghanistan. The objectives of the audit were to determine whether 1) DS adequately monitored IDS's work to ensure it was performing in accordance with contract terms and conditions and 2) DS's invoice review and approval procedures were sufficient to ensure proper payments. During the audit, OIG received allegations of potential civil or criminal violations of Federal law concerning the contract, task orders, and IDS. As a result, the Office of Audits suspended issuing the draft audit report as OIG's Office of Investigations (OIG/INV) worked with the U.S. Department of Justice to investigate the allegations. A copy of excerpts from OIG's 2014 unissued draft report is presented in Appendix A for informational purposes only.

OIG and the Department of Justice ultimately closed the investigation after the Department and IDS's parent company, Constellis, LLC, reached an administrative settlement. However, OIG has not yet received confirmation that the settlement agreements described in the Department's response fully addressed the Defense Base Act (DBA) worker's compensation insurance charges that OIG questioned in its 2014 unissued draft report. Specifically, OIG questioned 13 invoices that charged \$454,578 for overhead and general and administrative (G&A) charges associated with DBA insurance premiums that OIG concluded were unallowable. OIG reached this conclusion because the IDS price proposals incorporated into the Task Order 9 and Task Order 11 contracts, as well as subsequent modifications, did not include these items. Nonetheless, IDS submitted, and the Contracting Officer's Representative (COR) approved, four Task Order 9 invoices for DBA premiums, containing \$179,813 in overhead and G&A costs, and nine Task Order 11 invoices for DBA premiums, containing \$274,765 in overhead and G&A costs.

OIG issued this Management Assistance Report because the audit finding from the 2014 audit report remained relevant and warrants attention, not only for the costs questioned in the audit but because the practice of charging overhead and G&A costs associated with DBA insurance premiums may be occurring in similar Department contracts.¹ OIG therefore recommended that the Department determine whether the \$454,578 in overhead and G&A charged by IDS for DBA insurance premiums was allowable and to seek reimbursement for any amount deemed unallowable. In addition, OIG recommended that the Department review similar Department contract task orders associated with IDS, its parent company, Constellis, LLC, and its subsidiaries to determine if this practice was commonplace and to seek reimbursement for all costs deemed unallowable. The Bureau of Administration, Office of the Procurement Executive (A/OPE), concurred with the recommendations but stated that the identified questioned costs referenced in Recommendation 1 had in fact been addressed in

¹ OIG did not make questioned costs draft recommendations in the 2014 unissued draft report because of INV's then newly opened investigation.

the settlements and that all claims regarding these amounts were released. On the basis of A/OPE's concurrence with the recommendation, OIG considers this recommendation resolved pending further action. With respect to the second recommendation concerning a review of similar Department contract task orders associated with IDS and its parent company, Constellis, LLC, A/OPE stated that AQM required additional information about the specific cost elements questioned. OIG provided A/OPE with copies of the IDS cost proposals furnished to OIG during fieldwork for the 2014 audit, which served as the basis for the task order award, and provided other related information regarding OIG's analysis. On the basis of A/OPE's concurrence with the recommendation and agreement to review other contracts associated with International Development Solutions and its parent company, Constellis, LLC, OIG considers this recommendation resolved pending further action. A synopsis of A/OPE comments and OIG's reply follows each recommendation in the Conclusion section of this report. A/OPE's response to a draft of this report is reprinted in its entirety in Appendix B.

BACKGROUND

In 2013, DS asked OIG to conduct an audit of the WPS task orders. In 2013, OIG conducted a review of WPS Task Orders 2, 9, and 11 in Jerusalem and Afghanistan awarded under the WPS I contract. These task orders were awarded to eight contractors, including IDS. The task orders awarded to IDS were to provide static and movement security services in Jerusalem and Afghanistan. The objectives of the audit were to determine whether 1) DS adequately monitored IDS's work to ensure it was performing in accordance with contract terms and conditions and 2) DS's invoice review and approval procedures were sufficient to ensure proper payments.

During the audit, OIG received allegations of potential civil or criminal violations of law concerning the contract, task orders, and IDS. As a result, the Office of Audits suspended issuing the draft audit report as OIG's Office of Investigations (OIG/INV) worked with the U.S. Department of Justice to investigate the allegations. OIG and the Department of Justice ultimately closed the investigation after the Department and IDS's parent company, Constellis, LLC, reached an administrative settlement.

Purpose of the Audit and Management Assistance Report

This Management Assistance Report is intended to communicate deficiencies that OIG identified during the audit that remain relevant and warrant attention. OIG is reporting the deficiencies discussed in this Management Assistance Report in accordance with generally accepted government auditing standards and believes that the evidence obtained provides a reasonable basis for the deficiencies identified in this report.

RESULTS

OIG Questioned Costs Associated With Defense Base Act Insurance Premiums

OIG is issuing this Management Assistance Report because the audit finding from the 2014 unissued audit report remains relevant and warrants attention, not only for the costs questioned in the audit but because the practice of charging overhead and G&A costs associated with DBA insurance premiums may be occurring in similar Department contracts.

Defense Base Act Workers Compensation Insurance

Federal law² requires all U.S. Government contractors and subcontractors to secure workers compensation insurance for their employees working overseas. Under the WPS base contract,³ the contractor is required to provide workers compensation insurance in accordance with the Federal Acquisition Regulation (FAR)⁴ under the DBA for all contractor employees and subcontractors assigned to the contract. Furthermore, under the Department of State Acquisition Regulation (DOSAR),⁵ the contractor must provide all contractor employees with the compensation benefits that are required by law in the country where the employee and subcontractor are working or by the law of the employee and subcontractor's native country, whichever offers greater benefits, according to FAR 52.228-4 "Worker's Compensation and War-Hazard Insurance Overseas."⁶

In its 2014 unissued audit report, OIG questioned 13 invoices that contained \$454,578 in unallowable costs for overhead and G&A charges associated with DBA insurance premiums. However, the IDS price proposals incorporated into the Task Order 9 and Task Order 11 contracts, and subsequent modifications, did not include these items. Nevertheless, IDS submitted, and the COR approved, four Task Order 9 invoices for DBA premiums, containing \$179,813 in overhead and G&A costs, and nine Task Order 11 invoices for DBA premiums, containing \$274,765 in overhead and G&A costs. See Table 1 for a list of invoices and the associated costs approved by the COR.

² Defense Base Act, 42 U.S.C. § 1651.

³ WPS base contract with IDS - No. SAQMMA10D0098, "Worker's Compensation Insurance," § H.11.

⁴ FAR 52.228-3, "Worker's Compensation Insurance (Defense Base Act)."

⁵ DOSAR 652.228-71, "Worker's Compensation Insurance (Defense Base Act) – Services" and 652.228-76 "Defense Base Act Insurance Rates."

⁶ DOSAR 628.305(e)(1) specifies that the Secretary of Labor has waived the applicability of the Defense Base Act to all DOS service contracts, including construction, for contractor employees who are local nationals or third country nationals.

Table 1: Unallowable Costs Identified by OIG for Task Order 9 and 11 – DBA Insurance Overhead and G&A

| Item Number | Invoice Number | Invoice Category | Unallowable Cost |
|--------------|----------------|--|------------------|
| 1 | 1009-0001-18 | Defense Base Act (DBA) Insurance - Overhead and General & Administrative (G&A) | \$44,953 |
| 2 | 1009-0001-19 | DBA Insurance - Overhead and G&A | \$44,953 |
| 3 | 1009-0001-31 | DBA Insurance - Overhead and G&A | \$44,953 |
| 4 | 1009-0001-32 | DBA Insurance - Overhead and G&A | \$44,953 |
| 5 | 1011-0001-09R2 | DBA Insurance - Overhead and G&A | \$79,619 |
| 6 | 1011-0001-14 | DBA Insurance - Overhead and G&A | \$25,454 |
| 7 | 1011-0001-17 | DBA Insurance - Overhead and G&A | \$24,242 |
| 8 | 1011-0001-25 | DBA Insurance - Overhead and G&A | \$24,242 |
| 9 | 1011-0001-26 | DBA Insurance - Overhead and G&A | \$24,242 |
| 10 | 1011-0001-32 | DBA Insurance - Overhead and G&A | \$24,242 |
| 11 | 1011-0001-38 | DBA Insurance - Overhead and G&A | \$24,241 |
| 12 | 1011-0001-48 | DBA Insurance - Overhead and G&A | \$24,242 |
| 13 | 1011-0001-54 | DBA Insurance - Overhead and G&A | \$24,242 |
| Total | | | \$454,578 |

Source: Generated by OIG from data provided by the Bureau of Diplomatic Security.

In addition to the IDS invoices for Task Orders 9 and 11 above, OIG identified additional task orders that may have included overhead and G&A charges associated with DBA insurance premiums. Specifically, OIG identified 32 task orders, totaling approximately \$4.1 billion in obligations⁷. See Table 2 for a list of the task orders.

Table 2: Contracts Identified by OIG That May Have DBA Insurance Overhead and G&A

| Item Number | Contract ID | Obligation Total | Date Signed | Vendor Name |
|-------------|---------------|------------------|-------------|---------------------|
| 1 | SAQMMA11F0388 | \$94,125,422 | 6-Jan-11 | IDS |
| 2 | SAQMMA11F0392 | \$3,907,627 | 5-Jan-11 | IDS |
| 3 | SAQMMA11F2609 | \$203,077,445 | 10-Aug-11 | IDS |
| 4 | SAQMMA12F1044 | \$754,725,004 | 21-Mar-12 | IDS |
| 5 | SAQMMA16C0140 | \$1,172,770 | 5-Jul-16 | IDS |
| 6 | 19AQMM18F0306 | \$2,656,628 | 18-Dec-17 | Triple Canopy, Inc. |
| 7 | 19AQMM18F0673 | \$2,564,819 | 30-Jan-18 | Triple Canopy, Inc. |
| 8 | 19AQMM18F1286 | \$1,129,462 | 11-Apr-18 | Triple Canopy, Inc. |
| 9 | 19AQMM18F1765 | \$3,694,282 | 16-May-18 | Triple Canopy, Inc. |
| 10 | 19AQMM18F3738 | \$33,350,767 | 24-Sep-18 | Triple Canopy, Inc. |
| 11 | SAQMMA09F1029 | \$392,612,143 | 31-Mar-09 | Triple Canopy, Inc. |
| 12 | SAQMMA11C0039 | \$51,718,300 | 19-Apr-11 | Triple Canopy, Inc. |

⁷ Data obtained by OIG from the Federal Procurement Data System, as of November 9, 2018.

| Item Number | Contract ID | Obligation Total | Date Signed | Vendor Name |
|--------------|---------------|------------------------|-------------|---------------------|
| 13 | SAQMMA11F0677 | \$951,478,336 | 11-Feb-11 | Triple Canopy, Inc. |
| 14 | SAQMMA11F2529 | \$2,914,206 | 5-Aug-11 | Triple Canopy, Inc. |
| 15 | SAQMMA12C0127 | \$7,754,115 | 27-Apr-12 | Triple Canopy, Inc. |
| 16 | SAQMMA12C0128 | \$3,365,076 | 27-Apr-12 | Triple Canopy, Inc. |
| 17 | SAQMMA13F2633 | \$234,813,829 | 9-Sep-13 | Triple Canopy, Inc. |
| 18 | SAQMMA14F2783 | \$99,848,510 | 1-Aug-14 | Triple Canopy, Inc. |
| 19 | SAQMMA16C0189 | \$1,853,023 | 5-Aug-16 | Triple Canopy, Inc. |
| 20 | SAQMMA16F2116 | \$1,221,749 | 20-May-16 | Triple Canopy, Inc. |
| 21 | SAQMMA16F4675 | \$260,027,610 | 29-Sep-16 | Triple Canopy, Inc. |
| 22 | SAQMMA16F5191 | \$27,128,453 | 30-Sep-16 | Triple Canopy, Inc. |
| 23 | SAQMMA17F0832 | \$19,111,675 | 27-Feb-17 | Triple Canopy, Inc. |
| 24 | SAQMMA17F2133 | \$242,999 | 1-Jul-17 | Triple Canopy, Inc. |
| 25 | SAQMMA17F4124 | \$89,339,870 | 29-Sep-17 | Triple Canopy, Inc. |
| 26 | SAQMPD05C1189 | \$510,312,357 | 19-Jul-05 | Triple Canopy, Inc. |
| 27 | SAQMPD05D1109 | \$32,639,272 | 26-Jun-05 | Triple Canopy, Inc. |
| 28 | SAQMPD05F4003 | \$5,089,072 | 19-Jul-05 | Triple Canopy, Inc. |
| 29 | SAQMPD05F5528 | \$76,144,563 | 28-Sep-05 | Triple Canopy, Inc. |
| 30 | SAQMPD05F5534 | \$6,134,656 | 28-Sep-05 | Triple Canopy, Inc. |
| 31 | SAQMPD05M2159 | \$10,000,000 | 1-Jul-05 | Triple Canopy, Inc. |
| 32 | SAQMPD06FC227 | \$212,489,806 | 5-Aug-06 | Triple Canopy, Inc. |
| Total | | \$4,094,507,746 | | |

Source: Generated by OIG from data obtained from the Federal Procurement Data System, as of November 9, 2018.

CONCLUSION

OIG notes it has not received confirmation that the settlement reached between the Department and IDS's parent company, Constellis, LLC, fully addressed the DBA workers compensation insurance charges that OIG questioned in its 2014 unissued draft audit report. On the basis of its 2014 unissued draft report, OIG accordingly makes the following recommendations.

Recommendation 1: OIG recommends that the Bureau of Administration, Office of the Procurement Executive, Office of Acquisitions Management, in coordination with Bureau of Diplomatic Security, (a) determine whether the \$454,578 in questioned WPS Task Orders 9 and 11 costs for International Development Solutions, LLC Defense Base Act insurance overhead and general and administrative charges associated with insurance premiums are allowable, as shown in Table 1 above, and (b) recover all costs determined to be unallowable from International Development Solutions, LLC.

Management Response: The Bureau of Administration, Office of the Procurement Executive (A/OPE) concurred with the recommendation and stated that the referenced questioned costs have already been settled by the Department and that the Department and Constellis

have released claims pertaining to costs incurred during the period of performance in question. A/OPE added that, “in coordination with the Defense Contract Audit Agency (DCAA) and Defense Contract Management Agency (DCMA), AQM [Acquisition Management] has already settled all costs pertaining to International Development Solutions’ Worldwide Protective Services (WPS) contract.” A/OPE noted that the settlement figure was extrapolated from various incurred cost audits in which DBA insurance, overhead, and general and administrative cost were “subject to substantive testing by DCAA.”

OIG Reply: On the basis of A/OPE’s concurrence with the recommendation and statement that the questioned costs have been settled and all claims released pursuant to relevant settlement agreements, OIG considers the recommendation resolved pending further action. The recommendation will be closed when A/OPE provides documentation showing that the June and December 2018 agreements addressed all costs at issue.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of the Procurement Executive, Office of Acquisitions Management—if it is determined that the questioned costs for Defense Base Act insurance overhead and general and administrative charges associated with insurance premiums in Recommendation 1 were unallowable—review all Department open task orders associated with International Development Solutions, LLC, its parent company, Constellis, LLC, and its subsidiaries, as shown in Table 2, to identify all unallowable invoicing charges for overhead and general and administrative charges associated with Defense Base Act insurance premiums and recover those costs determined to be unallowable.

Management Response: A/OPE concurred with the recommendation but requested additional information to identify any deficiencies with Department operations, as well as to pinpoint risk factors with Constellis. Specifically, A/OPE stated that “AQM requests that the OIG elaborate on the specific cost element(s) being questioned” and clarify if the questioned cost 1) is a component of the overhead or G&A rates, 2) is a component of the pool or base, or 3) is a direct cost. In addition, AQM requested “additional information regarding the Federal Acquisition Statute, Cost Accounting Standard, Generally Accepted Accounting Principle, or contractual term the identified costs are violate[d], or if the OIG contention is the costs are unsupported based on its reading of Department policy....”

OIG Reply: On the basis of OPE’s concurrence with the recommendation and agreement to review other contracts associated with International Development Solutions and its parent company, Constellis, LLC, OIG considers the recommendation resolved pending further action.

OIG provided, under separate cover, the additional information A/OPE requested. This information included copies of the IDS cost proposals provided to OIG during fieldwork for the 2014 audit, which, as described in the report itself, did not include G&A and overhead costs for DBA insurance premiums. Specifically, the \$454,578 that OIG questioned in Table 1

of this report was claimed by IDS and was neither a separate component of the pool or base nor direct costs.

With respect to the criteria OIG used during its 2014 audit to identify the questioned costs, OIG relied upon the Department-approved IDS contract and IDS cost proposals. Again, OIG questioned the \$454,578 in DBA costs because this was not included in the cost proposals, which served as the basis for awarding the task order. The contract states under Section B.3 (General Pricing Information) that: "Non-labor/Material/Other Direct costs (e.g., DBA insurance...) will be proposed and negotiated at the task order level. Furthermore, the Contractor shall exclude these costs from its indirect cost pool(s)." To reiterate, because the G&A and overhead DBA insurance premiums costs were not included in the Department-approved IDS cost proposals, OIG concluded it would be prudent for the Department to review the charges invoiced by IDS and other Constellis subsidiaries for DBA insurance premiums to determine if these costs were indeed allowable and, if not, recovered.

This recommendation will be closed when AQM provides OIG documentation demonstrating that A/OPE has: 1) reviewed the task orders associated with International Development Solutions, LLC, its parent company, Constellis, LLC, and its subsidiaries, as shown in Table 2 of this report, 2) made a determination regarding the allowability of administrative charges associated with Defense Base Act insurance premiums, and 3) has recovered all costs determined to be unallowable.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Administration, Office of the Procurement Executive, Office of Acquisitions Management, in coordination with Bureau of Diplomatic Security, (a) determine whether the \$454,578 in questioned WPS Task Orders 9 and 11 costs for International Development Solutions, LLC Defense Base Act insurance overhead and general and administrative charges associated with insurance premiums are allowable, as shown in Table 1 above, and (b) recover all costs determined to be unallowable from International Development Solutions, LLC.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of the Procurement Executive, Office of Acquisitions Management—if it is determined that the questioned costs for Defense Base Act insurance overhead and general and administrative charges associated with insurance premiums in Recommendation 1 were unallowable—review all Department open task orders associated with International Development Solutions, LLC, its parent company, Constellis, LLC, and its subsidiaries, as shown in Table 2, to identify all unallowable invoicing charges for overhead and general and administrative charges associated with Defense Base Act insurance premiums and recover those costs determined to be unallowable.

APPENDIX A: EXCERPTS FROM 2014 OIG UNISSUED DRAFT REPORT¹

Background

The WPS contract provides the Department with protective movement security, specialized emergency services, and static guard services for diplomatic missions worldwide, primarily in high threat areas. Awarded in September 2010, the WPS contract consolidated the requirements of the Department's previous Worldwide Personal Protective Services contract and individual local guard force contracts for security services. The WPS contract is a multi-billion dollar, multiple-award, indefinite delivery, indefinite quantity contract awarded to eight contractors: Aegis Defense Services, DynCorp International, EOD Technology, Global Integrated Security, International Development Solutions LLC, SOC LLC, Torres International Services, and Triple Canopy, Inc. These eight contractors bid for task orders under the base contract to provide specific security services. Of the nine task orders issued as of October 2013, three had been awarded to IDS: Task Order 2 for movement security in Jerusalem, Task Order 9 for movement security in Kabul, and Task Order 11 for movement and static security of Consulates in Herat and Mazar.

This audit report specifically addresses WPS Task Orders 2, 9, and 11. A previous OIG report addressed Task Order 5,² and subsequent audit reports will address additional task orders awarded under the WPS contract.

Worldwide Protective Services Contract

The WPS base contract requires the contractor to plan, manage, and perform personal protective, static guard, and emergency response team services and provide explosives detection services. The contractor is also required to plan, manage, and provide logistics support services. For Task Orders 9 and 11, contractor staffing includes U.S., third-country national (TCN), and local national positions. The estimated value for providing contract security services under Task Orders 2, 9, and 11, including the base year plus all four option years if exercised, will total about \$902 million. As of October 2013, the Department had obligated about \$367 million and had expended about \$192 million for the three task orders. The value, obligated amounts, and expended amounts in total and by task order are shown in Appendix B.

Task Order 2

The Department awarded Task Order 2 on January 5, 2011, to IDS to provide movement security for presidential envoys, special envoys, and other persons operating under chief of mission authority in Jerusalem, with the base period of performance beginning March 28, 2011. As of March 1, 2013, the

¹ OIG has included in Appendix A the text of relevant substantive portions of the 2014 unissued draft report without, for the most part, editing the language of that document. This appendix does not, however, identify substantive omissions from the original document. For example, some paragraphs of this excerpt have omitted information relating to issues unconnected with the matters that are the subject of the current MAR; those omissions are not identified with ellipses, brackets, or similar designations.

² *Audit of Bureau of Diplomatic Security Worldwide Protective Service Contract-Task Order 5 for Baghdad Movement Security* (AUD-MERO-13-25, March 2013).

staffing requirement for Task Order 2 is 47 contractor personnel, of which 43 are responsible for conducting movement security missions. The remaining four contractor personnel are responsible for providing administrative and logistics support. Task Order 2 has no TCN or local national positions. IDS personnel live in contractor-furnished apartment housing with no separate contractor-run guard camp. As of October 2013, the Department had obligated approximately \$44 million and had expended about \$28 million for the task order, with a maximum value of approximately \$80 million over the base-year and four 1-year option periods.

Task Order 9

The Department awarded Task Order 9 on April 9, 2012, to IDS to provide personal protective services for movement security for Embassy Kabul with the base period of performance beginning on August 10, 2012. As of March 1, 2013, the staffing requirement for Task Order 9 is 244 contractor personnel, of which 143 are responsible for conducting movement security and emergency response services, 49 are TCN guards responsible for contractor-run guard camp security, and 10 are local national translators/interpreters. The remaining 42 contractor personnel are responsible for providing management, administrative, training, logistics, and intelligence support. IDS personnel live in a contractor-run guard camp, Camp Grizzly. As of October 2013, the Department had obligated approximately \$193 million and had expended about \$80 million for the task order, with a maximum value of approximately \$463 million over the base-year and four 1-year option periods.

Task Order 11

The Department awarded Task Order 11 on August 10, 2011, to IDS to provide static and movement security for the Consulates in Herat and Mazar with the base period of performance beginning on February 15, 2012.

As of March 1, 2013, the Herat staffing requirement for Task Order 11 is 206 contractor personnel, of which 60 are responsible for conducting movement security and emergency response services, and 37 are local nationals employed as unarmed guards, security screeners, and interpreters. In addition, 73 TCNs and 14 U.S. personnel are responsible for consulate and contractor-run guard camp security. The remaining 22 contractor personnel are responsible for providing management, administrative, training, logistics, and intelligence support. IDS personnel live in a contractor-run guard camp, Camp Kodiak.

As of March 1, 2013, the Mazar staffing requirement for Task Order 11 is 90 contractor personnel, of which 37 are responsible for conducting movement security and emergency response services. In addition, 30 TCNs and 4 U.S. personnel are responsible for contractor-run guard camp security and six are local nationals employed as unarmed guards, security screeners, and interpreters. The remaining 13 contractor personnel are responsible for providing management, administrative, training, logistics, and intelligence support. IDS personnel live in a contractor-run guard camp, Camp Little Bear.

As of October 2013, the Department had obligated a total of approximately \$130 million and had expended about \$83 million for the task order, with a maximum value of approximately \$358 million over the base-year and four 1-year option periods.

Contract Management and Oversight

A/LM/AQM is responsible for administering the WPS base contract and task orders. The A/LM/AQM contracting officer for the WPS contract is co-located with DS High Threat Protection Division (DS/OPO/HTP) in Virginia with responsibility for awarding, negotiating, administering, modifying, terminating, and making related contract determinations and findings on behalf of the U.S. Government.

The WPS contracting officer appointed the DS/OPO/HTP division chief as the primary COR for the WPS base contract. As the primary COR, the DS/OPO/HTP division chief is responsible for providing task order oversight, including inspection and acceptance of contract services; providing technical advice to the contractor; monitoring the contractor's performance; and reviewing and approving contractor's invoices and supporting documentation. The WPS contracting officer also appointed the DS/OPO/HTP Afghanistan Branch Chief as the alternate COR for the base contract and primary COR for Task Orders 2, 9, and 11. On-site CORs in Jerusalem and Afghanistan, Government Technical Monitors (GTM) in Afghanistan, and a team of domestic desk officers that make quarterly in-country site visits to conduct program management reviews and perform initial invoice reviews assist the Virginia-based CORs.

The on-site CORs, alternate CORs, and GTMs monitor the contractor's day-to-day operations to ensure compliance with all task order terms and conditions. The on-site COR is a deputy regional security officer or assistant regional security officer who performs overall oversight of IDS security operations, training, and logistics. In Jerusalem, one on-site COR provides oversight of Task Order 2 because of its smaller mission. In Afghanistan, one on-site COR, five alternate CORs, and three GTMs provide oversight of Task Orders 9 and 11. The alternate CORs and Government Technical Monitors review contract deliverables including the contractor's muster sheets, inventory reports, training, and other administrative reports, as well as assist DS/OPO/HTP in conducting the quarterly program management reviews.

Audit Objectives

We initiated this audit at the request of the Bureau of Diplomatic Security under the authority of the Inspector General Act of 1978, as amended, to determine the effectiveness of the Department's management and oversight of the Task Orders 2, 9, and 11. The audit objectives were to determine whether

- The Department adequately monitored IDS's work,
- IDS was performing in accordance with contract terms and conditions, and
- DS invoice review and approval procedures were sufficient to ensure proper payments.

AUDIT RESULTS

Finding B. The Contracting Officer's Representative Approved Invoices Containing Questionable Costs

OIG reviewed 391 IDS invoices for WPS Task Orders 2, 9, and 11, which consisted of the base year invoices for all three task orders and the first option year for Task Order 2. We questioned 24 invoices (6 percent) that include possibly unallowable or unsupported costs. Specifically, the COR approved 17 invoices containing \$472,675 in costs that may not be allowed by the task order contract and 7 invoices containing \$1,723,779 in costs that are not supported in accordance with contract requirements.³

The COR approved the invoices because he had not adequately verified the contractor's invoices against the supporting documentation. As a result, the Department paid the contractor at least \$472,675 in possibly unallowable costs. In addition, without supporting documentation, we could not determine whether \$1,723,779 in costs were reasonable, allocable, or allowable. Therefore, A/LM/AQM should conduct a comprehensive review of all invoices and supporting documentation to determine whether these or additional funds can be recovered.

Invoice Approval Requirements

Requirements for approving WPS contractor invoices are contained in Department and DS guidance. Department requirements are contained in the *Foreign Affairs Handbook*⁴ (FAH), the *Foreign Affairs Manual*⁵ (FAM), the contract, and the Overseas Contracting and Simplified Acquisition Guidebook.⁶ The FAH states that a COR should determine whether the charges billed are reasonable, allocable, and allowable. To make that determination, the COR should verify calculations, unit prices, labor hours and categories, and back up material required by the contract. The FAM⁷ requires that prepayment examination consist of checking for proper, legal and correct payment and for proper supporting documentation. In addition, Chapter 7 of the Overseas Contracting and Simplified Acquisition Guidebook⁸ states that the COR is required to reject payment if the invoice does not match the terms contained within the contract and requires the COR to guard against contractor attempts to add additional amounts to invoices.

Section G of the WPS base contract requires that training invoices include a certificate of course completion. It also requires that invoices for overseas allowances, such as danger pay and post hardship differential, include deployment, departure and effective dates for each individual.

³ A listing of the 234 invoices as well as the methodology we used to review all invoices, is contained in Appendix A.

⁴ 14 FAH-2, "Contracting Officer's Representative Handbook."

⁵ 4 FAM 425, "Voucher Prepayment Examination."

⁶ The Overseas Contracting and Simplified Acquisition Guidebook is incorporated by reference into 14 FAM 213, "Acquisition Regulations and Directives."

⁷ 4 FAM 425, "Voucher Prepayment Examination."

⁸ This section of the guidebook addresses the Financial Management Officer. However, for the WPS contract, the COR is responsible for the review and approval of invoices.

Furthermore, as of April 19, 2012, it requires a copy of the monthly muster signed by the regional security officer, deputy regional security officer or designee responsible for the location prior to submission of cost reimbursement invoices pertaining to direct labor categories. The base contract also requires a detailed itinerary and receipt or invoice from the travel agency or the airline and hotel to support travel costs.

Possibly Unallowable Costs

OIG questions \$472,675 in costs approved by the COR. Thirteen invoices contained \$454,578 in questionable costs for overhead and general and an administrative (G&A) charges associated with Defense Base Act (DBA) insurance premiums. In addition, two Task Order 2 invoices and one Task Order 9 invoice contained a total of about \$16,454 in questionable costs for deployment completion bonuses, and one travel invoice contained duplicate charges of \$1,643.

The COR approved 13 invoices containing \$454,578 in costs for overhead and G&A costs added to DBA insurance premium cost reimbursable invoices that may not be allowable. The IDS price proposals incorporated into the Task Order 9 and Task Order 11 contracts and subsequent modifications do not include overhead or G&A costs for DBA insurance premiums. IDS submitted and the COR approved four Task Order 9 invoices for DBA premiums containing \$179,813 in overhead and G&A costs, and nine Task Order 11 invoices for DBA premiums containing \$274,765 in overhead and G&A costs.

The IDS price proposal incorporated into the Task Order 2 contract includes incentive bonuses that encourage contractor staff to complete the term of their deployment contract. IDS invoiced and the COR approved \$7,001 for a completion bonus prorated for an individual that ended his contract to take a position as special agent with the Department, and \$9,436 for an individual that IDS decided not to bring back from a rest break in the US to complete his contract. In addition, IDS invoiced and the COR approved a Task Order 9 invoice that included a nominal amount more than IDS's cost for a completion bonus.

The COR approved one Task Order 9 travel invoice that included costs for two airline tickets for the same individual with the same travel dates and itinerary. The cost of one ticket at \$1,643 should be unallowable.

Unsupported Costs

The COR approved seven invoices that contained \$1,723,779 in costs that were not supported by documentation required by the contract. The base contract allows the contractor to bill for training, but the contractor must provide certificates showing the training was completed to support the cost. The COR approved two WPS training invoices containing \$647,206 in unsupported costs as required by the base contract. There were no certificates of completion for 41 of the total 84 training courses included on one invoice, and no certificate for one individual on a invoice.

The COR approved three danger pay and post hardship differential invoices for IDS staff for March 2012 containing \$841,914 in costs. However, IDS withdrew the associated labor invoice for that

month.⁹According to a WPS contracting officer, the COR cannot validate overseas allowance invoices without the approved labor invoice.

The COR also approved \$234,660 in questionable costs on two travel invoices for Task Order 9. Both invoices lacked support required by the base contract. One invoice had airfare costs of \$232,721 with no supporting documentation, and the second invoice included \$2,198 in costs that supporting documentation shows should have been \$259, resulting in \$1,939 in unsupported costs.

Scope and Methodology

The Office of Inspector General (OIG) initiated this audit under the authority of the Inspector General Act of 1978, as amended, to determine the effectiveness of the Department of State's (Department) management and oversight of the Worldwide Protective Services (WPS) Task Orders 2, 9, and 11 in Jerusalem and Afghanistan.

For Task Orders 2, 9, and 11, the audit scope was limited to the period of each task order base year start date thru June 2013 except for the invoice review. For Task Order 2, the base year was March 28, 2011, to March 27, 2012; for Task Order 9 the base year was August 10, 2012, to August 9, 2013; and for Task Order 11 the base year was February 15, 2012, to February 14, 2013. For the invoice review, we reviewed International Development Solutions LLC (IDS) invoices for the base year of all three task orders and the first option year for Task Order 2.

To accomplish the objectives, we reviewed the WPS base contract; Task Orders 2, 9, and 11; related modifications and documents; contract deliverables; contractor performance assessments; program management reviews; incident reports; and other policies. In Virginia, we met with officials from the Bureau of Diplomatic Security (DS) and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), and with representatives from the IDS local program management office.

We conducted this performance audit from February 2013 to March 2014 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 the findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Review of Internal Controls

We performed steps to assess the adequacy of internal controls related to management of Task Orders 2, 9, and 11. We reviewed documentation used by the Department for examining and approving invoices for payment; examined the contractor's personnel, training, deliverables, and reporting records for compliance with the contract, and reviewed and observed onsite monitoring of

⁹ As of October 2, 2013, the withdrawn invoice had not been resubmitted.

task orders. Any internal control deficiencies identified during this audit are detailed in the “Audit Results” section of this report.

Use of Computer-Processed Data

We reviewed 391 invoices available for Task Orders 2, 9, and 11 during the audit to determine whether the Department adequately examined invoices prior to approval and that only allowable costs were approved. We then reviewed information from the Department’s Global Financial Management System and information obtained from A/LM/AQM and DS for each invoice to ensure that the contractor was paid at the approved amount. Although some invoices were erroneously approved, as described in Finding B of this report, we concluded that the contractor was paid at the approved amount on all invoices included within the scope of the audit.

To examine Task Order 9 guard hours reporting, we conducted an analysis of actual worked guard hours against the required and billed guard hours. We reviewed the required numbers of guard hours, guards, and guard posts from the task order and muster sheets. In addition, we reviewed billed guard hours from contractor’s invoices. To assess actual staffed guard hours, guard posts, and the number of guards, we analyzed the contractor’s actual worked guard schedules, guard post logs, and guard post maps. We generated the total guard hours worked from August 2012 through March 2013, based on the actual numbers of guards staffed daily multiplied by an 8-hour shift each guard worked.

Sampling Methodology and Result

We evaluated the invoice review and approval procedures of the Bureau of Diplomatic Security’s High Threat Protection Division for Task Orders 2, 9, and 11 to determine the accuracy and completeness of costs. We reviewed 100 percent of IDS invoices available for the base year of all three task orders and the first option year for Task Order 2. For Task Orders 2 and 11, we reviewed invoices available as of June 3, 2013, and for Task Order 9 we reviewed invoices available thru October 2, 2013. This consisted of 391 invoices dated from March 2011 to August 2013. We found that the COR had approved 24 invoices, totaling about \$2,196,455. As a result, the Department paid the contractor \$472,675 in unallowable costs. Tables 1 and 2 summarize the results.

Table 1: Unallowable Costs

| Item Number | Invoice Number | Invoice Category | Unallowable Cost |
|-------------|----------------|----------------------------------|------------------|
| 1 | 1002-0001-40 | Incentive Bonus | \$7,001.30 |
| 2 | 1002-0001-57 | Incentive Bonus | \$9,435.60 |
| 3 | 1009-0001-18 | DBA Insurance - Overhead and G&A | \$44,953.23 |
| 4 | 1009-0001-19 | DBA Insurance - Overhead and G&A | \$44,953.23 |
| 5 | 1009-0001-31 | DBA Insurance - Overhead and G&A | \$44,953.23 |
| 6 | 1009-0001-32 | DBA Insurance - Overhead and G&A | \$44,953.23 |
| 7 | 1009-0001-92 | Travel | \$1,642.80 |

| | | | |
|--------------------------------|----------------|----------------------------------|---------------------|
| 8 | 1009-0001-90 | Incentive Bonus | \$16.90 |
| 9 | 1011-0001-09R2 | DBA Insurance - Overhead and G&A | \$79,619.11 |
| 10 | 1011-0001-14 | DBA Insurance - Overhead and G&A | \$25,453.97 |
| 11 | 1011-0001-17 | DBA Insurance - Overhead and G&A | \$24,241.87 |
| 12 | 1011-0001-25 | DBA Insurance - Overhead and G&A | \$24,241.87 |
| 13 | 1011-0001-26 | DBA Insurance - Overhead and G&A | \$24,241.87 |
| 14 | 1011-0001-32 | DBA Insurance - Overhead and G&A | \$24,241.87 |
| 15 | 1011-0001-38 | DBA Insurance - Overhead and G&A | \$24,241.39 |
| 16 | 1011-0001-48 | DBA Insurance - Overhead and G&A | \$24,241.87 |
| 17 | 1011-0001-54 | DBA Insurance - Overhead and G&A | \$24,241.87 |
| Total Unallowable Costs | | | \$472,675.21 |

Table 2: Unsupported Costs

| Item Number | Invoice Number | Invoice Category | Unsupported Cost |
|--------------------------------|----------------|--------------------------------|-----------------------|
| 1 | 1009-0001-08 | Training | \$638,759.63 |
| 2 | 1009-0001-71 | Training | \$8,446.28 |
| 3 | 1009-0001-56 | Travel | \$1,938.90 |
| 4 | 1009-0001-95 | Travel | \$232,720.92 |
| 5 | 1011-0001-19 | Danger Pay | \$438,403.12 |
| 6 | 1011-0001-20R1 | Post Differential Hardship Pay | \$360,346.53 |
| 7 | 1011-0001-20R2 | Post Differential Hardship Pay | \$43,163.98 |
| Total Unsupported Costs | | | \$1,723,779.36 |

The invoice review consisted of examination of supporting documentation; comparison of invoices with contract documents; review of policies, procedures, and requirements from the *Foreign Affairs Manual*, the *Foreign Affairs Handbook*, and the Bureau of Diplomatic Security, Office of Overseas Protective Operations, High Threat Protection Division (DS/OPO/HTP) Payment Management Standard Operating Procedure. We reviewed all invoices by contract line item and compared quantities and unit pricing, where applicable, with supporting documentation and contract pricing.

APPENDIX B: BUREAU OF ADMINISTRATION RESPONSE



United States Department of State

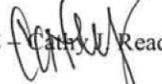
Washington, D.C. 20520

UNCLASSIFIED

February 28, 2019

MEMORANDUM

TO: OIG/AUD – Norman P. Brown

FROM: A/OPE –  Read

SUBJECT: Draft Report on *Management Assistance Report: Results of 2014 Audit of Bureau of Diplomatic Security Worldwide Protective Services Contract Task Orders 2, 9, & 11*

Thank you for the opportunity to provide a management response on the subject draft report. The point of contact for this report is the OPE Front Office (A-OPEFrontOfficeAssistants@state.gov).

Recommendation 1: OIG recommends that the Bureau of Administration, Office of the Procurement Executive, Office of Acquisitions Management, in coordination with Bureau of Diplomatic Security, (a) determine whether the \$454,578 in questioned WPS Task Orders 9 and 11 costs for International Development Solutions, LLC Defense Base Act insurance overhead and general and administrative charges associated with insurance premiums are allowable, as shown in Table 1 above, and (b) recover all costs determined to be unallowable from International Development Solutions, LLC.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of the Procurement Executive, Office of Acquisitions Management—if it is determined that the questioned costs for Defense Base Act insurance overhead and general and administrative charges associated with insurance premiums in Recommendation 1 were unallowable—review all Department open task orders associated with International Development Solutions, LLC, its parent company Constellis, LLC, and its subsidiaries, as shown in Table 2 above, to identify all unallowable invoicing charges for overhead and general and administrative charges associated with Defense Base Act insurance premiums and recover those costs determined to be unallowable.

Management Response to Draft Report (02/28/2019): The Office of the Procurement Executive (OPE) concurs with the recommendations. OPE's Office of Acquisitions Management (AQM) would like to inform the OIG that: 1) the referenced questioned cost have already been settled by the Department; 2) the Department and Constellis have released claims pertaining to cost incurred during the period of performance in question; and, 3) AQM requires more detailed information on the questioned cost from OIG to facilitate an AQM review.

In coordination with the Defense Contract Audit Agency (DCAA) and Defense Contract Management Agency (DCMA), AQM has already settled all cost pertaining to International Development Solutions' Worldwide Protective Services (WPS) contract.

UNCLASSIFIED

UNCLASSIFIED

- 2 -

In the “Summary of Review” section of the OIG’s draft report, the OIG refers to the settlement agreement as the “administrative settlement” and asserts that, “the settlement did not address the Defense Base Act (DBA) worker’s compensation insurance charges that OIG questioned in its 2014 unissued draft report.” That assertion is incorrect. The settlement figure was extrapolated from the historic questioned cost based on a substantial volume of audit history for IDS. This audit history includes the following annual incurred cost audits performed by DCAA.

2006 Incurred Cost Audit – 1281-2006A10100782 – September 26, 2012
2007 Incurred Cost Audit – 1281-2007A10100782 – May 30, 2013
2008 Incurred Cost Audit – 1281-2008A10100782 – April 16, 2015
2009 Incurred Cost Audit – 1281-2009A10100782 – April 15, 2016
2010 Incurred Cost Audit – 1281-2010A10100782 – April 15, 2016
2011 Incurred Cost Audit – 1281-2011P10100782 – January 9, 2018

In each of the above incurred cost audits, DBA insurance, Overhead, and General & Administrative cost were subject to substantive testing by DCAA. Per the settlement agreement with Constellis LLC¹ dated June 11, 2018, both parties agreed to a settlement in full for \$730,629.00. Pursuant to Clause 3 of the settlement agreement, the settlement figure “is inclusive of all Department of State direct and indirect cost pertaining to Academi (including IDS) fiscal years 2011-15...” As such, DBA, Overhead and G&A were included in the referenced settlement agreement and the questioned costs in the OIG’s draft report have already been settled and recovered by AQM.

Regarding reopening settlement discussions, the Department and Constellis have released claims pertaining to costs incurred during the period of performance in question. The release of claims prohibits the Department from issuing any further monetary claims, including any that may pertain to the questioned cost cited in the OIG’s draft report.

In addition to the annual incurred cost audits, AQM requested DCAA perform a termination audit of IDS’ WPS Task Order 11 and executed a settlement agreement on December 13, 2018. That settlement agreement, along with each settlement agreement covering IDS’ fiscal years 2006 through 2015, released the Department and Constellis from monetary claims. Each settlement agreement included a clause stating,

“Upon payment in full of the Settlement Amount, Constellis and the Department (including their respective current and former parent corporations, direct and indirect subsidiaries, divisions, successors in interest, affiliates, shareholders, directors, officers, members, attorneys, partners, employees, independent contractors, insurers, agents, clients, and representatives, if any) agree to relinquish, waive, release, acquit, and forever discharge each other from any and all civil or administrative monetary claims, causes of action, demands, or other relief or compensation of any type the Parties had, may have had, or may have arising out of, relating to, or resulting from the audit, including but not limited to, claims under the Contract Disputes Act, 41 U.S.C. §§ 7101-7109, breach of contract, payment by mistake, and/or unjust enrichment. Notwithstanding any

¹ Constellis LLC is the parent company of Academi LLC and International Development Solutions (IDS).

UNCLASSIFIED

UNCLASSIFIED

- 3 -

other term of this Agreement, the Department specifically reserves and excludes from the scope and terms of this Agreement the following claims: i) claims for fraud including but not limited to those arising under the False Claims Act, 31 U.S.C. 3729-3733 or the Program Fraud Civil Remedies Act, 31 U.S.C. 3801-12; ii) any liability under Title 26 (Internal Revenue Code), and iii) any criminal liability.”

The Department is confident it has already taken prudent action to audit and recover all unallowable costs, and the agreed to release from monetary claims prohibits AQM from taking any further claim.

Lastly, despite the Department having already recovered and released claims pertaining to the questioned cost, the Department values the information provided by the OIG and will utilize it moving forward to identify any deficiencies with Department’s operations as well as pinpoint audit leads and risk factors with Constellis. In order to do so, however, AQM requires additional substantive detail. Specifically, AQM requests that the OIG elaborate on the specific cost element(s) being questioned. At page 3, paragraph 2, the report states that the cost are “unallowable...overhead and G&A charges...associated with DBA insurance premiums.” Based on this information, it is unclear what specific cost the OIG identified as unallowable. Please provide clarification if the questioned cost:

- is a component of the overhead or G&A rates;
- is a component of the pool or base;
- is a direct cost (i.e. reimbursable DBA premium);

In addition, AQM requests additional information regarding the Federal Acquisition Statute, Cost Accounting Standard, Generally Accepted Accounting Principle, or contractual term the identified costs are violate, or if the OIG contention is the costs are unsupported based on its reading of Department policy as described on page 9 of the report.

Lastly, any additional detail pertaining to the substantive testing performed on the referenced invoices, and what specific corroborating documentation was/was not received from IDS and the Department to support Finding B. This information is critical to understanding the audit opinion and investigating the issue moving forward.

UNCLASSIFIED

OIG AUDIT TEAM MEMBERS - MANAGEMENT ASSISTANCE REPORT

James Pollard, Director
Middle East Region Operations
Office of Audits

Mark Peterson, Audit Manager
Middle East Region Operations
Office of Audits

Amy Lowenstein, Management Analyst
Middle East Region Operations
Office of Audits

UNCLASSIFIED



HELP FIGHT

FRAUD, WASTE, AND ABUSE

1-800-409-9926

[Stateoig.gov/HOTLINE](https://stateoig.gov/HOTLINE)

If you fear reprisal, contact the
OIG Whistleblower Coordinator to learn more about your rights.

WPEAOmbuds@stateoig.gov

UNCLASSIFIED