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and the Broadcasting Board of Governors
Office of Inspector General

Office of Audits

Application of Agreed-Upon Procedures Relating to DECO, Inc., Task Order No. SALMEC-04-F-0996

Report Number AUD/IQO-06-17, February 2006

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Independent Auditor's Report on the Application of Agreed-Upon Procedures Relating to DECO, Inc., Task Order No. SALMEC-04-F-0996

To: Bureau of Administration, Office of Logistics Management,
Office of Acquisitions (A/LM/AQM)

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, Section 209 of the Foreign Service Act of 1980.

At your request, OIG performed the procedures described in this report, which were agreed to by your office and OIG, solely to determine whether the loaded hourly rates for Deco, Inc. (Deco), duplicated what the Bureau of Overseas Buildings Operations (OBO) paid as direct travel reimbursement and whether DECO's policies for including costs in the hourly rate comply with the Federal Acquisition Regulation Part 31.

OIG conducted this agreed-upon procedures engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and the *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of A/LM/AQM. Consequently, OIG makes no representations regarding the sufficiency of the procedures either for the purpose for which they were requested or for any other purpose.

OIG was not engaged to and did not perform an audit, the objective of which would be the expression of an opinion on the matters addressed herein. Accordingly, OIG does not express such an opinion. Had OIG performed additional procedures, other matters might have come to its attention that would have been reported to you.

This report is intended solely for the information and use of A/LM/AQM and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Howard J. Krongard
Howard J. Krongard
Inspector General

Date: FEB 24 2006

Summary

In response to a request from the Department of State (Department), Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), the Office of Inspector General (OIG) performed certain agreed-upon procedures. OIG determined whether DECO's loaded hourly rate on task order no. SALMEC-04-F-0996 was duplicative of what the Bureau of Overseas Buildings Operations (OBO) paid as direct travel reimbursement for the performance period August 2, 2004, to May 31, 2005, and whether DECO's costs in the hourly rate complied with the Federal Acquisition Regulation (FAR) Part 31.

OIG found that DECO's loaded hourly rate did not duplicate what OBO paid as direct travel reimbursement. However, OIG found that DECO's costs included in the hourly rate did not always comply with FAR Part 31. For example, the contractor billed the fully loaded rate for all hours worked on the task order, even though the employee was paid a lower base hourly rate for time spent in training or travel status. This was unreasonable under FAR 31.201-3 and therefore unallowable per FAR 31.201-2(a)(1). In addition, DECO (1) based its general and administrative (G&A) rate on the FY 2002 actual rate rather than the rate for the most recently completed fiscal year, 2003; (2) could not support the calculation of its material handling rate; and (3) billed costs for employees who did not work on this task order. As a result, OIG questioned costs totaling $13,458. Of that amount, OIG classified $12,808 as unallowable and $650 as unsupported because of either inadequate or a lack of documentation.

OIG is recommending that A/LM/AQM require DECO to reimburse the Department for unallowable costs and provide additional documentation for the unsupported costs. OIG conducted exit conferences with DECO and A/LM/AQM on December 8, 2005. Their comments are incorporated in the body of the report as applicable.

Background

DECO began as Dorr Electric Company in 1986 and was incorporated in Minnesota in 1998. DECO is a provider of security services, which includes security guards, system monitoring, and electrical contracting work to federal, tribal, and corporate clients throughout the world. Currently, DECO has three divisions: security services, security systems, and electrical systems. The security services division is the primary division of DECO, with nearly 90 percent of annual revenues.

On July 19, 2004, A/LM/AQM solicited proposals from several companies for security services in Baghdad, Iraq. The proposals were due July 20, 2004. On July 26, 2004, A/LM/AQM awarded a task order in the amount of $300,000 to DECO for construction site security monitoring services in Baghdad, Iraq, under General Services Administration (GSA) contract no. GS-07F-0103M. DECO billed $104,722 under this task order during the period August 2, 2004, to February 13, 2005. During August 2005, OBO's Internal Review and Operations Research Office performed a review on Baghdad New Embassy Compound project activities. The purpose of these reviews was to ensure that OBO was in total compliance with all policies, procedures, and best practices. On August 26, 2005, OBO asked A/LM/AQM to request an audit, citing unallowable costs and possible overcharges.

Purpose, Scope, and Methodology

The purpose of this work was to determine whether DECO's loaded hourly rates duplicated what OBO paid as direct travel reimbursement and whether DECO's policies for including costs in the hourly rate complied with FAR Part 31. Specifically, OIG's procedures included:

- determining what cost elements were included in the labor rate;
- determining whether the cost elements in the labor rate were allowable under FAR Part 31;
- determining whether any item of cost included in the labor rate was also billed as part of travel costs or other direct costs;
- determining whether other direct costs billed were allowable under FAR Part 31; and
- determining whether the contractor had a GSA schedule that included the required services at the time of contract award.

The scope included task order no. SALMEC-04-F-0996 for the period August 2, 2004, to May 31, 2005, with total costs of $104,722 (award amount of $300,000). OIG tested the following claimed costs: (1) labor totaling (b) (4) (2) per diem totaling (b) (4) ; (3) travel totaling (b) (4) ; (4) danger pay totaling (b) (4) ; (5) living quarters expense totaling (b) (4) ; (6) other direct costs totaling (b) (4) ; and (7) material handling charge totaling (b) (4) .

Criteria included FAR Part 31, *Contract Cost Principles and Procedures*, and the terms and conditions of the task order.

OIG's Office of Audits, Contracts and Grants Division conducted onsite fieldwork in Ramsey, MN, from October 31 to November 1, 2005. OIG conducted the procedures in accordance with attestation standards established by the American Institute of Certified Public Accountants and the *Government Auditing Standards* issued by the Comptroller General of the United States. On December 8, 2005, OIG conducted exit conferences with DECO and A/LM/AQM. In preparing this report, OIG considered the comments made by DECO and A/LM/AQM and incorporated them as applicable.

Results

OIG found that DECO did not double-charge hourly rates as labor hours or travel and other direct cost. However, OIG found that DECO's cost included in the hourly rate did not always comply with FAR Part 31. For example, the contractor billed the full rate for all hours worked on the task order, even though the employee was paid a lower base hourly rate for time spent in training or travel status. This is unallowable per FAR 31.201-2(a)(1), Reasonableness.

In addition, DECO based its G&A costs included in the labor rate on the FY 2002 actual G&A rate rather than the rate for the most recently completed fiscal year, 2003. DECO also could not support the calculation of its material handling rate. Further, DECO billed additional airline tickets and hotel charges for employees who did not work on this task order. As a result, OIG questioned costs totaling $13,458. Of that amount, OIG classified $12,808 as unallowable and $650 as unsupported because of either inadequate or a lack of documentation as shown in Table 1. The results of OIG's specific procedures follow the table.

Table 1 – Schedule of Claimed and Questioned Costs

		Questioned Costs			
Cost Element	**Claimed Costs**	**Unallowable**	**Unsupported**	**Total**	**Notes**
Labor	(b) (4)(b) (4)	$10,629		$10,629	2
Per Diem	(b) (4)(b) (4)				
Insurance	(b) (4)(b) (4)				
Medical	(b) (4)(b) (4)				
Exam/Immunizations	(b) (4)(b) (4)				
Uniforms	(b) (4)(b) (4)				
Danger Pay	(b) (4)(b) (4)				
Guard Travel	(b) (4)(b) (4)	1,663		1,663	4
Reimbursements	(b) (4)(b) (4)				
Quarters Expense	(b) (4)(b) (4)	516		516	4
Industrial Fund Fee	(b) (4)(b) (4)				
Material Handling	(b) (4)(b) (4)		650	650	4
Rounding	(b) (4)(b) (4)				
Total	(b) (4)(b) (4)	**$12,808**	**$650**	**$13,458**	

Source: DECO, Inc., Invoices for Task Order No. SALMEC-04-F-0996.

Notes to Table 1:

1. Determine what cost elements were included in the labor rates

DECO proposed three labor categories (site security coordinator, cleared American guard, and construction surveillance technician); however, only the site security coordinator worked on the contract and was billed at (b) (4) per hour. The loaded labor rate of (b) (4) consists of both direct and indirect costs, plus profit.

OIG reviewed the breakdown of the labor rate provided by DECO. Direct costs included in the rate were: direct labor of (b) (4) per hour, holiday pay, vacation pay, health insurance, payroll taxes, and liability insurance. Indirect costs included in the rate were: indirect labor, health insurance, FICA, unemployment insurance, workers' compensation insurance, team award, liability insurance, project office expenses, office telephone, postage, courier, recruiting, site supplies, batteries, flashlights, training, and G&A.

2. Determine whether the cost elements in the labor rates are allowable under FAR Part 31

OIG reviewed 100 percent of labor billed, totaling (b) (4) . All individual cost elements included in the loaded labor rate were discussed with DECO's vice president/co-owner. All costs included in the loaded labor rate were allowable under FAR Part 31. However, labor and G&A costs billed were unreasonable under FAR 31.201-3 and, therefore, unallowable per FAR 31.201-2(a)(1).

The contractor based the loaded labor rate of (b) (4) per hour on a base pay rate of $47.50 per hour, plus additional direct and indirect costs. AQM issued the delivery to DECO in July 2004. The contractor's GSA schedule rate for the site security coordinator position was $29.50 per hour. GSA published this rate in September 2004. The contractor could not support the addition of - - - to the GSA schedule rate of $29.50 per hour to arrive at the base pay rate of $47.50 per hour, but said that the extra pay was a recruitment incentive to find someone willing to work in Iraq.

The site security coordinator was paid $47.50 per hour while working in Iraq. While in training, the employee was paid (b) (4) per hour. However, the contractor billed at the fully loaded labor rate of (b) (4) whether the employee was working in Iraq or on training or travel. Using the ratio of base pay to the total loaded rate would result in a calculation of base pay being (b) (4) percent of the total pay ($47.50/(b) (4)). This would mean that the burden on (b) (4) per hour would be $7.21 for a total loaded rate of (b) (4) , or (b) (4) per hour less than the contract rate of (b) (4) per hour. The difference in rate applied to 96 hours billed for training and travel equals (b) (4) . OIG questioned this amount as unreasonable in accordance with FAR 31.201-3 and, therefore, unallowable per FAR 31.201-2(a)(1).

G&A of (b) (4)(b) (4) included in the loaded labor rate was based on the actual G&A rate for FY 2002, which was higher than the most recent year-end actual FY 2003 G&A rate of (b) (4)(b) (4) , a difference of (b) (4)(b) (4) In fact, this rate was determined before July 2004, the date of the proposal for the Department's task order. OIG reviewed the audited financial statements for FY 2002 and FY 2003 that contained the G&A calculation and noted that the audit report on those financial statements was issued April 1, 2004, before the July 20, 2004, date of DECO's proposal. Thus, OIG questions the (b) (4) difference between what was billed to the Department and what would have been billed using the lower rate.

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions contracting officer require DECO, Inc., to:

- reimburse the Department for unallowable labor costs totaling (b) (4) and
- reimburse the Department for unallowable G&A costs totaling (b) (4)

3. Determine whether any item of cost included in the loaded labor rate was also billed as part of travel costs or other direct costs

No item of cost included in the loaded labor rate was also billed as part of travel costs or other direct costs. OIG compared the costs billed as other direct costs to the costs included in the loaded labor rate and noted no duplications.

4. Determine whether travel and other direct costs billed are allowable under FAR Part 31

DECO billed $2,829 for travel and other direct costs that were not allocable to this contract. OIG reviewed 100 percent of travel and other direct costs totaling $33,372. DECO inappropriately billed the Iraq task order for travel costs for other employees working on a Department contract for security services in East Timor. The total billed for the other employees was $2,179 ($1,663 for airfare and $516 for hotel). OIG questions the amount of $2,179 as unallowable because these travel costs were not allocable to task order no. SALMEC-04-F-0996.

In addition, DECO could not support the development of the two-percent material handling rate but said that it was standard practice. Total material handling billed was $650. OIG questions $650 as unsupported.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions contracting officer require DECO, Inc., to:

- reimburse the Department for unallowable travel costs totaling $2,179; and
- provide additional information so that an appropriate determination can be made regarding unsupported material handling costs totaling $650.

5. Determine whether the contractor had a GSA schedule that included the required services at the time of contract award

The contractor did not have a GSA schedule that included the required services at the time of contract award. The contractor started the process to add the professional services category to its GSA schedule on June 7, 2004, before the July 19, 2004, solicitation. However, the schedule was not finally updated until September 1, 2004, after the date of award.

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