



Office of Inspector General

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**United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General**

Office of Audits

**Audit of Funding Provided by the
American Recovery and Reinvestment Act for
the Foreign Affairs Security Training Center**

Report Number AUD/CG-12-13, December 2011

~~Important Notice~~

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and the Broadcasting Board of Governors

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PREFACE

This report is being transmitted pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared as part of the Office of Inspector General's (OIG) responsibility to promote effective management, accountability, and positive change in the Department of State and the Broadcasting Board of Governors.

This report addresses the Department's compliance with Federal, Department, and American Recovery and Reinvestment Act (Recovery Act) acquisition management practices. The report is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

OIG contracted with the independent public accountant, Cotton and Company, LLP, to perform this audit. The contract required that the accountant perform its audit in accordance with guidance contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The independent public accountant's report is included.

The Department generally managed Recovery Act funds effectively to meet program goals and requirements. We did note, however, that the Department did not adequately post pre-award and post-award notices on the Web site FedBizOpps, have evidence to support the consideration of all architect-engineering firms with indefinite-delivery, indefinite-quantity contracts during the contractor selection process, or evaluate subcontractor eligibility to perform on the contractor's task order. In addition, the Department paid the contractor General and Administrative expenses of (b) (4) that were unallowable.

OIG evaluated the nature, extent, and timing of the independent public accountant's work; monitored progress throughout the audit; reviewed supporting documentation; evaluated key judgments; and performed other procedures as appropriate. OIG concurs with the independent public accountant's findings, and the recommendations contained in the report were developed on the basis of the best knowledge available and were discussed in draft form with those individuals responsible for implementation. OIG's analysis of management's response to the recommendations has been incorporated into the report. OIG trusts that this report will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of the individuals who contributed to the preparation of this report.

A handwritten signature in black ink, appearing to read "H. Geisel", written in a cursive style.

Harold W. Geisel
Deputy Inspector General

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Audit of Funding Provided by the American Recovery and Reinvestment Act for the Foreign Affairs Security Training Center

Office of Inspector General
U.S. Department of State
Washington, DC

Cotton & Company, LLP (referred to as “we” in this letter), has performed an audit of the U.S. Department of State’s (Department) compliance with Federal, Department, and American Recovery and Reinvestment Act (Recovery Act) acquisition management practices on the Foreign Affairs Security Training Center project. We evaluated the Department’s performance in complying with source selection, pre-award and post-award notices, contract administration, and management control processes for contracts funded through the Recovery Act.

This performance audit, performed under Contract No. S-AQMMA-10-F0898, was designed to meet the objective identified in the section “Objective” and in Appendix A, “Scope and Methodology,” of this report.

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We communicated the results of our performance audit and the related findings and recommendations to the U.S. Department of State Office of Inspector General.

We appreciate the cooperation provided by personnel in Department offices during the audit.

COTTON & COMPANY, LLP

A handwritten signature in black ink, appearing to read "Michael W. Gillespie".

Michael W. Gillespie, CPA, CFE
Partner

Alexandria, Virginia
September 2011

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Acronyms

A&E	architect-engineering
A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
CCR	Central Contractor Registration
Department	Department of State
DS	Bureau of Diplomatic Security
EPLS	Excluded Parties List System
FAR	Federal Acquisition Regulation
FASTC	Foreign Affairs Security Training Center
G&A	General and Administrative
GSA	General Services Administration
IDIQ	indefinite-delivery, indefinite-quantity
KCCT	Karn Charuhas Chapman & Twohey
MOU	memorandum of understanding
NEPA	National Environmental Policy Act
OIG	Office of Inspector General
Recovery Act	American Recovery and Reinvestment Act of 2009
WSP	Worldwide Security Protection

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Executive Summary

The Department of State (Department), Office of Inspector General (OIG), Office of Audits, engaged Cotton & Company, LLP (referred to as “we” in this report), to conduct a performance audit of the Foreign Affairs Security Training Center (FASTC) project that received funding provided by the American Recovery and Reinvestment Act of 2009 (Recovery Act). This project will provide a training facility capable of supporting “hard-skills” security-related training for the Department and the wider foreign affairs community. The project is managed for the Department by its Bureau of Diplomatic Security (DS), working with the General Services Administration (GSA), for site acquisition, planning, and selection and the Department’s Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), for contract administration.

The objective of the audit was to determine whether the Department complied with source selection, pre-award and post-award notices, contract administration, and management control processes over contracts issued with Recovery Act funds.

We reviewed controls over Recovery Act funds of \$69,141,848 obligated by the Department for the FASTC project. Our audit included a task order under an indefinite-delivery, indefinite-quantity (IDIQ) contract with the architect-engineering (A&E) firm Karn Charuhas Chapman & Twohey (KCCT). Obligations under the task order were \$10,093,376, and expenditures using Recovery Act funds tested were \$4,956,616. Our audit also included a review of a \$59,048,472 obligation to GSA.

The Department generally managed Recovery Act funds effectively to meet Recovery Act goals and requirements. We did note, however, that the Department did not adequately post pre-award and post-award notices on the Web site FedBizOpps, have evidence to support the consideration of all A&E firms with IDIQ contracts during the contractor selection process, or evaluate subcontractor eligibility to perform on the KCCT FASTC task order. In addition, the Department paid KCCT General and Administrative (G&A) expenses of (b) (4) that were unallowable.

The site-selection process for FASTC initially evaluated 30 sites. A site in Queen Anne’s County, MD, was selected in November 2009. In June 2010, GSA and the Department determined that the Queen Anne’s County site would no longer be considered a potential site for FASTC because of local concerns regarding environmental and other land-use issues that could delay the project for several years. Of the \$5 million spent on the work performed on the initial site, \$2.25 million was site-specific and was not transferrable to another location. GSA and the Department focused their search for an alternative site on public-owned properties to meet the request made through a Presidential Memorandum¹ for agencies to use existing public land instead of purchasing new property. GSA evaluated approximately 40 sites against the revised site criteria, with two sites still under consideration as of March 30, 2011.

¹ Presidential Memorandum, “Disposing of Unneeded Federal Real Estate,” issued on June 10, 2010.

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Department officials stated that the Department is waiting to secure a site before it revises its timeline, since the original timeline will not be met.

We made recommendations for the Bureau of Administration to post pre-award and post-award notices according to requirements, maintain documentation, ensure that all subcontractors are approved prior to working on the Recovery Act project, obtain reimbursement of for unallowable costs, and review future modification proposals.

In its response to the draft report (see Appendix D), the Bureau of Administration agreed with the report's five recommendations, and OIG considers two recommendations closed and three recommendations resolved, pending further action.

Background

The FASTC project will provide a training facility capable of supporting "hard-skills" security-related training for the Department and the wider foreign affairs community. Hard-skills training includes information on firearms familiarization, explosives awareness, surveillance detection, counter-terrorist driving, weapons of mass destruction, and security operations. Specialized requirements for this facility include tracks for developing skills for counter-terrorist driving, indoor and outdoor firing and explosive ranges, mock urban environments, and weapons and explosives storage facilities.

With completion of this project, the facility is expected to be able to provide training for up to 10,000 students per year. It also would consolidate training currently provided and managed by DS at 15 disparate locations throughout the country and create efficiencies in providing essential security training for the foreign affairs community. Department officials stated that the Department's existing security training infrastructure is insufficient to meet present and future training needs.

FASTC is being funded with funds provided by the Recovery Act and the Department's Worldwide Security Protection (WSP) program. Recovery Act funding provided \$70,000,000, and WSP funding of \$43,786,252 is currently obligated. Future phases will be funded with WSP and other Department funds.

DS manages this project for the Department, working with GSA for site acquisition, planning, and selection and with A/LM/AQM for contract administration. All requirements of the agreement between the Department and GSA were specified within a memorandum of understanding (MOU). The main requirements related to construction are as follows:

- Costs will be reimbursed by the Department. GSA will bill the Department on a monthly basis.
- Costs will include reimbursement of vendor invoices paid by GSA as well as standard administrative charges (calculated as a percentage of expenses) for project management and overhead costs.

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- The Department will provide all funding required by GSA to satisfy GSA's obligations via a reimbursable work authorization.
- GSA is responsible for contracting all necessary vendors and managing contracts with those vendors for site acquisition.

Program Review and Observations

The Department procured A&E services from KCCT for the development of a master plan as well as for preparation of design documents for Phase I of the FASTC project. Specifically, the Department issued a task order to KCCT under the Department's existing IDIQ contract for \$10 million in Recovery Act funds for master planning, site-selection support, environmental services, related surveys, cost estimation, and public affairs support for the FASTC project.

The remainder of the Recovery Act funds, \$59 million, was obligated by the Department to GSA through a reimbursable work authorization for FASTC project management, planning, and consulting services to support site identification, evaluation, and acquisition; program development; design; construction; construction management; and commissioning services. The reimbursable work authorization is also subject to GSA standard fees of 4 percent for project management and a sliding scale for overhead cost. An initial reimbursable work authorization was issued for \$2 million on June 24, 2009, for project management, planning, and consultation for project site identification. The first amendment, on November 19, 2009, raised the agreement to \$28 million to provide design and construction services for Phase 1 of the project. The final amendment for the remaining \$29 million raised the total value of the agreement to \$59,048,472 on June 14, 2010, to fund expected site acquisition costs and construction management.

GSA led the site-evaluation project, initially reviewing 30 sites for which property owners had responded to the opportunity posted on FedBizOpps. Numerous levels of detailed analyses were conducted to eliminate sites that did not meet the Department's evaluation criteria. The initial review focused on acreage, distance, contiguous sites, easements, topography, utility access, floodplains, and historic resources. Results eliminated 16 sites, leaving 14 sites that were qualified for the second level of review. The second level of review included an evaluation for costs; climate; transportation; amenities; and environmental, cultural, and geotechnical impacts. Another four sites were eliminated, and 10 sites remained qualified for the third level of review, which included market surveys and assessments for any ownership, legal dispute, transportation, zoning, utilities, or acoustic issues. This third review resulted in three final sites.

A final comparison of the three sites was performed, which outlined advantages and disadvantages of each location and analyzed any known risk factors. Hunt Ray Farm in Queen Anne's County, Maryland, showed low-to-moderate risk factors, while the two other sites had higher risk ratings in some categories. Because of the higher risk factors and because the site configurations were not as suitable for the FASTC functions, the two sites were eliminated. GSA then provided its recommendation for the Queen Anne's County site. The A&E firm began providing support services in the potential site assessment and evaluation process on July 30, 2009. The preferred Queen Anne's County site was selected in November 2009.

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On June 28, 2010, the Department and GSA determined that the Queen Anne's County site would no longer be considered a potential site for FASTC because of local concerns regarding environmental and other land-use issues that could delay the project for several years. Costs of \$5 million were spent on this commercial site-selection process, which included master programming, master planning, the site-selection process, an Environmental Assessment conducted under the National Environmental Policy Act (NEPA),² cost estimation, survey work, and public relations. The Department's Contracting Officer's Representative for the A&E firm estimated that \$2.75 million of the \$5 million spent can be transferred to another site location. The amount incurred on the Queen Anne's County site and the estimated transferrable costs are detailed in Appendix B. According to Department officials, the FASTC team, which comprised officials from the Department, GSA, and KCCT, was able to use the work performed on the Queen Anne County site to refine the site-selection criteria and work processes. However, Recovery Act funding of \$2.25 million was spent on site-specific work that cannot be transferred to a future preferred site.

Because the Presidential Memorandum issued in June 2010 requested agencies to try to use existing public land instead of purchasing new property, GSA and the Department focused the search for FASTC on publicly owned properties. GSA evaluated approximately 40 sites against the revised site criteria, which includes a four-step process to determine site viability for placement of the FASTC project. Step 1 evaluated the site for public ownership, size, ability to support continuous operations, climate conditions, and proximity to DS headquarters. Four sites met step 1 criteria, and initial test fits were performed on these four sites. Two of the sites were eliminated as fully occupied and thus were unable to accommodate FASTC. One of the remaining two sites was then evaluated against and passed step 2 criteria for developable area, compatible surroundings, ease of acquisition, life support and community support, and climate. This site moved onto step 3, in which a feasibility study was completed. The other remaining site is being evaluated under step 2 criteria and will proceed to step 3 if warranted. If it is determined that the site can proceed to step 3, senior-level Department officials will make a recommendation on which site will move to step 4, which is to have an Environmental Impact Statement conducted under NEPA.³

The initial schedule outlined in the U.S. Department of State American Recovery and Reinvestment Act of 2009 External Program Plan, issued on July 10, 2009, indicated that site acquisition would be completed by the end of 2009, a Phase I design-and-build contract would be awarded in May 2010, and Phase I would be completed at the end of 2011. However, because of the difficulties encountered by the Department and GSA in securing a suitable site, the initial schedule will not be met. Department officials stated that they planned to prepare a revised timeline once a site had been secured.

The \$5 million remaining on the A&E firm's FASTC task order was realigned by modifying the existing task order to provide for the same evaluation and design services at a new site. The realignment of the remaining contract dollars as of Modification 11 to the task order is

² The National Environmental Policy Act of 1969, as amended (Pub. L. No. 91-190, 42 U.S.C. § 4321-4347, Jan. 1, 1970, as amended by Pub. L. No. 94-52, July 3, 1975; Pub. L. No. 94-83, Aug. 9, 1975; and Pub. L. No. 97-258 § 4(b), § 102 (42 U.S.C § 4332), Sept. 13, 1982.)

³ Ibid.

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detailed in Appendix C. This modification specifically reallocates funding for the test fits completed under step 2 and performs a cost comparison between two potential sites. An additional modification is expected to allocate the remaining funds to the second feasibility study, environment assessment support, master plan, and construction documents. The Department, as of March 30, 2011, had not determined whether remaining funds on the A&E firm's task order will be sufficient to complete the master plan and construction documents because of the additional feasibility study and test fits. Costs for feasibility studies can vary from site to site depending on whether existing site information is readily available versus having to gather and document site data into a report.

Of the Recovery Act funding of \$59,048,472 provided to GSA through reimbursable work authorizations, \$58,316,570 was still available as of March 31, 2011, in addition to the WSP funding of \$43,786,252 for project management, surveys, title searches, appraisals, site acquisition/lease, construction, and the GSA management fee.

Objective

The objective of the audit was to determine whether the Department complied with source selection, pre-award and post-award notices, contract administration, and management control processes over contracts issued with Recovery Act funds.

Results of Audit

The Department generally managed Recovery Act funds effectively to meet program goals and requirements. The Department contracted with an existing firm with an IDIQ contract for the A&E design work and had controls in place to monitor the contractor. The Department followed Federal procedures for transferring funds to GSA through reimbursable work authorizations. We did note, however, four areas that the Department should address.

Finding A. The Department Did Not Adequately Post FedBizOpps Notices

The Department did not consistently post pre-award and post-award notices on FedBizOpps for A&E services, but when it did post the notices, the postings did not contain all the information required by the FAR.

The FAR⁴ requires the posting of pre-award notices on FedBizOpps for contract actions, including modifications exceeding \$25,000. However, the Department did not post pre-award notices for the three task order modifications, all of which exceeded \$25,000, to the original task order. One modification exceeded \$500,000, which, according to the FAR,⁵ also required a post-award notice. However, that notice was not posted.

The post-award notice on FedBizOpps for the original task order did not include the required rationale for award of a non-fixed-price contract. The FAR⁶ requires any

⁴ FAR 5.704(a), "Publicizing preaward."

⁵ FAR 5.705(a)(1), "Publicizing postaward."

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contract action that “is not both fixed-price and competitively awarded” to be publicized as an award notice that includes “the rationale for using other than a fixed-priced . . . approach.” The description is to include “a statement specifically noting if the contract action . . . was not fixed-price.”

The Contracting Officer stated that he was aware of the posting requirements but that he did not perform this task as intended because of competing priorities.

Without the required postings on FedBizOpps, the public and other A&E firms with Federal IDIQ contracts were not made aware of the rationale for awarding the contract to the A&E firm and the subsequent task order modifications.

Recommendation 1. We recommend that the Contracting Officer for the Department of State, Office of Acquisitions Management, ensure that pre-award and post-award notices are posted as required by the Federal Acquisition Regulation under the American Recovery and Reinvestment Act of 2009 on any future task orders or modifications made to Contract No. SALMEC-05-D-0051 using Recovery Act funds for the Foreign Affairs Security Training Center project.

A/LM/AQM Response: A/LM/AQM agreed with the recommendation, stating that additional training has been provided to the individuals responsible for the solicitation and administration of the Recovery Act-funded actions and that the training and discussion “addressed the special and unique requirements necessary to correctly and successfully process and advertise [Recovery Act]- funded procurements from inception through completion.”

OIG Analysis: Based on the response, OIG considers the recommendation closed.

Finding B. The Department Did Not Have Evidence To Support the Evaluation of All Architect-Engineering Firms

The Department did not maintain documentation to support the evaluation of all A&E firms with IDIQ contracts. While the KCCT contract⁶ requires only that the other A&E firms with IDIQ contracts with the Department be given fair opportunity, the pre-award notice for the original task order implies a potential larger solicitation base outside the Department, as it states that “the requirement will be solicited competitively between companies awarded Indefinite Delivery Indefinite Quantity (IDIQ) contracts for AE Design services within the United States.”

The only documentation available to support source selection did not mention consideration of other firms but stated that the A&E firm would be selected based on its experience and that negotiations were underway. Department personnel stated that they had

⁶ FAR 5.705(b).

⁷ Contract No. SALMEC-05-D-0051, sec.G.3, “Task Order Selection and Award.”

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reviewed all technical qualifications of the other A&E firms on IDIQ contracts with the Department but that they had not documented this review.

The FAR⁸ states that the “documentation in the files shall be sufficient to constitute . . . a complete background as a basis for informed decisions at each step in the acquisition process” and “supporting actions taken.”

Further, the KCCT contract⁹ states that “[c]ontractors shall be given a fair opportunity to receive task orders under the contract” and that “[w]hen a requirement has been identified by the program office, a technical representative(s) shall review/evaluate all of the contractor’s qualifications packages.”

Recommendation 2. We recommend that the Contracting Officer for the Department of State, Office of Acquisitions Management, ensure that documentation is maintained to support evaluation and selection efforts for any contracting action funded by the Recovery and Reinvestment Act for the Foreign Affairs Security Training Center project, including those actions issued under Contract No. SALMEC-05-D-0051.

A/LM/AQM Response: A/LM/AQM agreed with the recommendation, stating that Branch staff have been advised of the requirement to obtain, maintain, and properly file documentation for all contract actions, including those funded by ARRA funds, and that the Branch Chief “places appropriate and necessary emphasis on the need to maintain file documentation.”

OIG Analysis: Based on the response, OIG considers the recommendation closed.

Finding C. The Department Did Not Evaluate Subcontractor Eligibility To Perform on the Contract

The Department did not maintain documentation to show that it had reviewed any of the 18 subcontractors for eligibility purposes through either the Central Contractor Registration (CCR)¹⁰ database or the Excluded Parties List System (EPLS).¹¹

KCCT was awarded A&E work on this project through a task order to its existing IDIQ contract. The contract provided terms, conditions, and rates governing subsequent task orders. Twelve subcontractors were identified in KCCT’s IDIQ contract, and six additional subcontractors were included in the task order or modifications to it. Two of the subcontractors included fixed-price costs in the time-and-materials-based modification, with no details to support how the costs had been determined.

⁸ FAR 4.801(b)(1)-(b)(2), “General.”

⁹ Contract No. SALMEC-05-D-0051, sec. G.3.

¹⁰ CCR is the official on-line registrant database for the U.S. Government.

¹¹ The EPLS includes information regarding entities debarred, suspended, proposed for debarment, excluded or disqualified under the nonprocurement common rule, or otherwise declared ineligible from receiving Federal funds.

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The FAR¹² requires contracting officers to review EPLS prior to contract award to ensure that no award is made to a listed contractor. The FAR¹³ also requires contracting officers to verify subcontractor registration in the CCR database. We were able to obtain assurance through searches of the database and EPLS that the 18 subcontractors who performed on the contract were not identified as ineligible to provide services on this contract.

Additionally, KCCT did not obtain and submit the required Department of Defense (DD) Form 254, Contract Security Clearance Specifications, to the Department of State for approval for 11 of the 18 subcontractors. Section H.10 of KCCT's contract requires that a DD Form 254 be submitted for each subcontractor before the subcontractor performs under the contract.

Without proper vetting of subcontractors, the Department cannot ensure that subcontractors are eligible and qualified for performing work on Department contracts.

Recommendation 3. We recommend that the Contracting Officer for the Department of State, Office of Acquisitions Management, ensure that all subcontractors are approved before they work on the Recovery and Reinvestment Act-funded Foreign Affairs Security Training Center project task order issued under Contract No. SALMEC-05-D-0051.

A/LM/AQM Response: A/LM/AQM agreed with the recommendation, stating that prime contractors and contract specialists for each contract action will be reminded of the contract requirement stating that all subcontractors should be identified before the contractor hires them to perform under the contract. A/LM/AQM also stated that the contract specialist "will be required to review the excluded parties listing and contact [DS] to confirm security clearances as appropriate."

OIG Analysis: Based on the response, OIG considers the recommendation resolved. The recommendation can be closed pending OIG's review and acceptance of AQM's written guidance or procedures showing that prime contractors and contract specialists will review contract requirements and that the contract specialist will review the Excluded Parties List System and contact DS to confirm security clearances.

Finding D. The Department Paid General and Administrative Expenses That Were Unallowable

Modification 3 to Task Order No. SAQMMA-09F-2071 under IDIQ Contract No. SALMEC-05-D-0051 with KCCT included a charge for G&A costs for _____ which is not an allowable cost under contract provisions. KCCT's proposal for Modification 3, providing public relations support, identifies this amount as a G&A cost under the Summary of Total Direct Labor and Costs without any explanation as to how it will be assessed. Of the amount outlined in the contract, Invoice 13057, submitted by KCCT to the Department, included G&A

¹² FAR 9.405(d)(4), "Effect of Listing."

¹³ FAR 4.1103(a)(1), "Procedures."

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costs of (b) (4) or (b) (4) percent of the subcontractor's cost of this invoice. The Department paid this amount.

The KCCT contract¹⁴ states that "rates for the required services shall be in accordance with the fixed fully burdened hourly labor rates" and that the fixed hourly rates "include wages, overhead, G&A, profit."

Additionally, the KCCT contract¹⁵ states: "Reimbursable expenses under this contract shall not be burdened with overhead, G&A, or profit. Contractor's labor associated with reimbursable activities shall be included in the fixed rates of this contract."

The proposal did not identify G&A costs in the G&A markup on the subcontract costs section of the proposal but instead included the G&A charge under Direct Labor Costs. The Contracting Officer said that the unallowable costs had been overlooked during the review of the proposal, as the costs were not identified under the G&A section of the proposal. The Contracting Officer's Representative said that she was not made aware of the IDIQ terms and therefore was not aware that this charge would be unallowable.

The Department paid KCCT unallowable costs of (b) (4). No additional work is expected to be billed on Modification 3; therefore, there is no risk of additional similar erroneous payments.

Recommendation 4. We recommend that the Contracting Officer for the Department of State, Office of Acquisitions Management, obtain reimbursement of (b) (4) paid for unallowable costs to Karn Charuhas Chapman & Twohey on Contract No. SALMEC-05-D-0051.

A/LM/AQM Response: A/LM/AQM agreed to further evaluate the (b) (4) paid for apparent unallowable costs and stated that it will "take the necessary action to recover the funds." A/LM/AQM further stated that "branch personnel will be trained and reminded of the requirement that all elements of price or cost must be reviewed . . . [so] that only allowable and allocable cost and price elements are allowed under the contract."

OIG Analysis: Based on the response, OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing that the (b) (4) has been reimbursed.

Recommendation 5. We recommend that the Contracting Officer for the Department of State, Office of Acquisitions Management, review future modification proposals to Karn Charuhas Chapman & Twohey on Task Order No. SAQMMA-09F-2071 under Contract No. SALMEC-05-D-0051 to ensure that General and Administrative expenses are not included in the proposals.

¹⁴ Contract No. SALMEC-05-D-0051, sec. B.5, "Prices/Costs."

¹⁵ Contract No. SALMEC-05-D-0051, sec. B.7, "Reimbursable Expenses."

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A/LM/AQM Response: A/LM/AQM agreed with the recommendation, stating, “Branch personnel will be trained and reminded of the requirement that all elements of price or cost must be reviewed . . . [so] that only allowable and allocable cost and price elements are allowed under the contract.”

OIG Analysis: Based on the response, OIG considers the recommendation resolved. The recommendation can be closed pending OIG’s review and acceptance of documentation showing that branch personnel have been or are being trained and that the requirement will be a guideline for reviewing future modification proposals.

List of Recommendations

Recommendation 1. We recommend that the Contracting Officer for the Department of State, Office of Acquisitions Management, ensure that pre-award and post-award notices are posted as required by the Federal Acquisition Regulation under the American Recovery and Reinvestment Act of 2009 on any future task orders or modifications made to Contract No. SALMEC-05-D-0051 using Recovery Act funds for the Foreign Affairs Security Training Center project.

Recommendation 2. We recommend that the Contracting Officer for the Department of State, Office of Acquisitions Management, ensure that documentation is maintained to support evaluation and selection efforts for any contracting action funded by the Recovery and Reinvestment Act for the Foreign Affairs Security Training Center project, including those actions issued under Contract No. SALMEC-05-D-0051.

Recommendation 3. We recommend that the Contracting Officer for the Department of State, Office of Acquisitions Management, ensure that all subcontractors are approved before they work on the Recovery and Reinvestment Act-funded Foreign Affairs Security Training Center project task order issued under Contract No. SALMEC-05-D-0051.

Recommendation 4. We recommend that the Contracting Officer for the Department of State, Office of Acquisitions Management, obtain reimbursement of _____ paid for unallowable costs to Karn Charuhas Chapman & Twohey on Contract No. SALMEC-05-D-0051.

Recommendation 5. We recommend that the Contracting Officer for the Department of State, Office of Acquisitions Management, review future modification proposals to Karn Charuhas Chapman & Twohey on Task Order No. SAQMMA-09F-2071 under Contract No. SALMEC-05-D-0051 to ensure that General and Administrative expenses are not included in the proposals.

Scope and Methodology

The Department of State (Department), Office of Inspector General (OIG), Office of Audits, engaged Cotton & Company, LLP (referred to as “we” in this appendix), to conduct a performance audit of the Foreign Affairs Security Training Center (FASTC), which received funding provided by the American Recovery and Reinvestment Act of 2009 (Recovery Act). The audit objective was to determine whether the Department complied with source selection, pre-award and post-award notices, contract administration, and management control processes over contracts issued with Recovery Act funds.

The scope of our audit included a review of the controls in place over Recovery Act funds of \$69,141,848 obligated by the Department for the FASTC project. Our audit included a review of the architect-engineering (A&E) contract with Karn Charuhas Chapman & Twohey (KCCT) and the FASTC task order with obligations of \$10,093,376 and expenditures through October 2010 of \$4,956,617 using Recovery Act funds. The audit also included a review of the obligation of \$59,048,472 to the General Services Administration (GSA). We conducted our audit from June 2010 to March 2011.

We conducted this performance audit 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 our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objective.

To meet the audit objective, we used the following methodology:

- Reviewed the Department’s Recovery Act External Program Plan to ensure that the FASTC project was identified and the plan was complete.
- Conducted discussions with pertinent individuals and reviewed documentation available to determine how contracting opportunities were made available to potential sources and how decisions were made to use competitive practices or existing indefinite delivery, indefinite quantity contracts.
- Reviewed, for each contract and modification, required postings for the pre-award notice for each award to determine whether the pre-award and post-award notices were properly posted on the Web site FedBizOpps and included required Recovery Act clauses.
- Reviewed, for each contract awarded that was other than fixed price or competitively awarded, FedBizOpps to determine whether a post-award notice was posted in a timely manner and included requirements of subsections 5.705 and 5.301 of the *Federal Acquisition Regulation* (FAR), including rationale.

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- Ensured that eligibility requirements were verified for potential subcontractors through discussions with Department personnel and document reviews.
- Obtained copies of all awards to ensure they were executed and included applicable required Recovery Act FAR clauses.
- Evaluated, through discussions with Department personnel and document reviews, the processes used to monitor contractors.
- Obtained and reconciled invoiced amounts to amounts reported on project tracking worksheets maintained for this project.
- Reviewed invoices, supporting documentation, and approval information to determine whether invoices were properly supported, authorized, and considered necessary and/or reasonable under the project.

We discussed the results of our audit with personnel from the Office of Acquisitions Management and the Bureau of Diplomatic Security during our fieldwork and presented the results to Department officials on February 1, 2011.

Work Related to the Agreement With the General Services Administration

The Department used the services of the General Services Administration (GSA) for FASTC construction. All requirements of the agreement between the Department and GSA were specified in a memorandum of understanding (MOU).

GSA's OIG Real Property Office is responsible for auditing the validity and appropriateness of the use of Recovery Act funds and is reviewing amounts spent as part of an audit underway. Therefore, our scope was limited to performing the procedures on the \$59 million obligated to GSA through reimbursable work authorizations as follows:

- Reviewed the MOU and verified appropriate approvals.
- Reviewed funding documents under the reimbursable work authorization.
- Evaluated whether the funds provided through the reimbursable work authorization met obligation requirements.

Review of Internal Controls and Automated Systems

During our review of internal controls, we concluded, overall, that funds were awarded and distributed in a prompt, fair, and reasonable manner and were used for authorized purposes. Federal and Department standard processes and procedures were established. We did, however, identify deficiencies in the execution of established procedures. Controls were not in place to ensure that pre-award and post-award notices were posted in a timely manner. Also, the Department did not properly approve subcontractors prior to performance on the indefinite-

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delivery, indefinite-quantity (IDIQ) contract task order. Additionally, costs considered to be unallowable under the IDIQ contract were approved and paid to the contractor through a modification to the task order.

Implementing the recommendations contained in this report will assist in ensuring compliance with stated Office of Acquisitions Management procedures and contract requirements.

Use of Computer-Generated Data

We used computer-generated data found in the Global Financial Management System, comparing amounts on contractor invoices with amounts posted in the system without exception.

**Estimated Transferable Costs Between
Queen Anne's County and Other Sites
as of October 28, 2010**

Task or Cost Category	Recovery Act Funds Spent on Queen Anne's County Site	Percentage of Work Transferrable to Other Sites	Estimated Dollars Transferrable
Master Programming	\$904,829	100	\$900,000
Master Plan	1,083,043	75	800,000
Site Selection	1,159,685	25	300,000
National Environmental Policy Act (NEPA)	436,154	50	200,000
Cost Estimate	70,448	90	60,000
Direct Costs	189,048	100	190,000
Site Survey	313,465	0	0
Additional NEPA Work	386,566	25	100,000
Public Relations	<u>413,379</u>	50	<u>200,000</u>
Totals	<u>\$4,956,617</u>		<u>\$2,750,000</u>

Source: Contracting Officer's Representative, Bureau of Administration, Office of Logistics Management, for Karn Charuhas Chapman & Twohey Task Order No. SAQMMA09F2071 under Contract No. SALMEC-05-D-0051.

**Karn Charuhas Chapman & Twohey
Task Order No. SAQMMA-09F-2071 Funding as of
Modification 11, Issued on March 8, 2011**

	Funding Allocation as of Modification 11	Total
Queen Anne's County Site		
A&E Services for FASTC Project in Accordance With June 4, 2009, Statement of Work	\$4,181,039	
Environmental Impact Statement	0	
Boundary, Topographical, Utility, and Wetlands Surveys	104,488	
Environmental Compliance Services	257,711	
Public Affairs Support for Workshops, Public Meetings, and Presentations	<u>413,379</u>	
Total Queen Anne's Site Work		<u>\$4,956,617</u>
Other Sites		
Ft. Pickett, Virginia, Planning Workshop	\$77,495	
Site Visits, Test Fits, and Narratives for Three Additional Sites	67,752	
Cost Comparison of Two Sites	18,739	
Recovery Act FASTC Project and Alternative Sites as Directed : Feasibility Study, Master Plan, and Construction Phase 1 Documents	<u>4,972,773</u>	
Total Other Sites		<u>5,136,759</u>
Total		<u>\$10,093,376</u>

Source: Department of State, Office of Acquisitions Management, Order No. SAQMMA09F2071, Modification 11, March 8, 2011.



United States Department of State

Washington, D.C. 20520

AUGUST 3, 2011

MEMORADUM

TO: OIG/AUD – Richard Astor

FROM: A/LM/AQM [REDACTED]

SUBJECT: Draft Report on Audit of Funding Provided by the American Recovery and Reinvestment Act for the Foreign Affairs Security Training Center, (AUD/CG-11-XX, June 2011)

REF: OIG Memo dated 7/7/11 to A/LM/AQM

Please find below the Bureau of Administration's response to the subject report regarding recommendations 1 thru 5.

Recommendation 1: We recommend that the Contracting Officer for the Department of State, Office of Acquisitions Management, ensure that pre-award and post-award notices are posted as required by the Federal Acquisition Regulation under the American Recovery and Reinvestment Act of 2009 on any future task orders or modifications made to Contract No. SALMEC-05-D-0051 using Recovery Act funds for the Foreign Affairs Security Training Center project.

A/LM/AQM Response: AQM agrees with the recommendation. The Branch Chief responsible for award and administration of the ARRA funded contracts in the Facilities Design and Construction Division has provided additional training to the individuals responsible for the solicitation and administration of the ARRA funded actions. The training and discussion addressed the special and unique requirements necessary to correctly and successfully process and advertise ARRA funded procurements from inception through completion.

Recommendation 2: We recommend that the Contracting Officer for the Department of State, Office of Acquisitions Management, ensure that documentation is maintained to support evaluation and selection efforts for any

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contracting action funded by the Recovery and Reinvestment Act for the Foreign Affairs Security Training Center project, including those actions issued under Contract No. SALMEC-05-D-0051.

A/LM/AQM Response: AQM agrees with the recommendation. The requirement to obtain, maintain, and properly file documentation for all contract actions, including those funded by ARRA funds has been addressed with Branch staff. The Branch Chief for the section responsible for administration of this ARRA contract action places appropriate and necessary emphasis on the need to maintain file documentation to evidence and provide history of the acquisition process and contractor performance.

Recommendation 3: We recommend that the Contracting Officer for the Department of State, Office of Acquisitions Management, ensure that all subcontractors are approved before they work on the Recovery and Reinvestment Act-funded Foreign Affairs Security Training Center project task order issued under Contract No. SALMEC-05-D-0051.

A/LM/AQM Response: AQM agrees with the recommendation. Prime contractors and the Contract Specialists for each contract action will be reminded of the contract requirement that all subcontractors be identified prior to them being hired by the contractor to performance under the contract. As a minimum, the Contract Specialist will be required to review the excluded parties listing and contact Diplomatic Security to confirm security clearances as appropriate.

Recommendation 4: We recommend that the Contracting Officer for the Department of State, Office of Acquisitions Management, obtain reimbursement of \$23,127 paid for unallowable costs to Karn Charuhas Chapman & Twohey on Contract No. SALMEC-05-D-0051.

A/LM/AQM Response: A review of this apparent unallowable cost included in the contract price will be conducted. If it is found that this separate element for General and Overhead expense which, by contract must be included in the fully burdened labor rates, the Contracting Officer will take the necessary action to recover the funds. If the element of cost is found to be an allowable expense that is incorrectly described as a General and Overhead expense by the contractor, the contractor will be reminded of the need to attach the correct identifying nomenclature with each element of cost/price. In either eventuality, branch personnel will be trained and reminded of the requirement that all elements of price

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or cost must be reviewed in detail to identify and confirm that only allowable and allocable cost and price elements are allowed under the contract.

Recommendation 5: We recommend that the Contracting Officer for the Department of State, Office of Acquisitions Management, review future modification proposals to Karn Charuhas Chapman & Twohey on Task Order No. SAQMMA-09F-2071 under Contract No.SALMEC-05-D-0051 to ensure that General and Administrative expenses are not included in the proposals.

A/LM/AQM Response: Branch personnel will be trained and reminded of the requirement that all elements of price or cost must be reviewed in detail to identify and confirm that only allowable and allocable cost and price elements are allowed under the contract.

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