



OIG HIGHLIGHTS

AUD-SI-17-54

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OFFICE OF AUDITS
Security and Intelligence Division

Audit of the FY 2011 Incurred Cost Proposals for the Bureau of Diplomatic Security's Contract With Olgoonik Global Security, LLC

What Was Audited

Olgoonik Global Security, LLC (OGS) supports the Department of State's (Department) Countermeasures program. Under the Federal Acquisition Regulations (FAR), OGS is required to prepare and submit an Incurred Cost Proposal (ICP), which is used for reporting costs incurred on Government contracts, reconciling costs to the amounts billed, and calculating an indirect cost rate.

The Department's Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) is the cognizant Federal agency for OGS. A/LM/AQM requested that the Office of Inspector General (OIG) conduct an audit of the OGS cost representation for its FY 2011 ICPs for contract SAQMMA11C0018. An external audit firm, Kearney & Company, P.C. (Kearney), performed this audit, acting on behalf of OIG.

The objective of the audit was to determine whether the indirect costs and direct costs claimed in the OGS FY 2011 ICPs were reasonable, allowable, allocable, and applicable to the contract.

What OIG Recommends

OIG made six recommendations to A/LM/AQM to address issues related to questioned costs included in the OGS FY 2011 ICPs. A/LM/AQM concurred with the six recommendations, and on the basis of the responses, OIG considers all six recommendations resolved, pending further action. A/LM/AQM's and OGS's comments are included as Appendices D and E, respectively. A summary of OGS's comments and Kearney's responses is included as Appendix F.

What Was Found

In total, Kearney identified (b) (4) in questioned direct and indirect costs billed to the Department by OGS. Specifically, Kearney identified (b) (4) of questioned direct costs, including (b) (4) in unsupported costs and (b) (4) in unallowable costs. These questioned costs related to subcontractor costs, direct labor costs, travel costs, and other direct costs (ODC).

Kearney also identified (b) (4) in questioned indirect costs. Specifically, Kearney identified (b) (4) in unsupported indirect costs and (b) (4) in unallowable indirect costs, which includes both non-labor and labor-related indirect costs. As a result of questioned indirect costs, Kearney concluded that the OGS General & Administrative (G&A) indirect rate was overstated by (b) (4) percent. Kearney also found errors in the OGS certified FY 2011 ICP. For example, some Bids & Proposal costs were included as direct costs rather than indirect costs. As a result of the misclassified Bids & Proposal costs, Kearney concluded that the OGS G&A indirect cost rate was understated by (b) (4) percent. In total, Kearney found that the OGS G&A rate was overstated by (b) (4) percent. Kearney applied the new rate to the adjusted travel costs and determined an additional (b) (4) in questioned costs, including (b) (4) in unsupported and (b) (4) in unallowable costs billed to the Department.

Furthermore, the ICP did not reconcile with the OGS general ledger and the difference could not be explained. Kearney concluded that direct material costs were overstated and ODCs were understated. Because a (b) (4) percent burden rate is applied to all material costs, Kearney considered an additional (b) (4) as unallowable costs.

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