



Office of Inspector General

June 13, 2013

MEMORANDUM

TO: Mission Director, Thomas Staal

FROM: Regional Inspector General/Cairo, Catherine M. Trujillo /s/

SUBJECT: Survey of Security Services Employed by USAID/Iraq's Contractors and Grantees (Report No. 6-267-13-002-S) [REVISED]

This memorandum transmits a revised final report on the subject survey. We have considered your comments on the draft report and included them, without attachments, in Appendix II. In this revised report, we redacted information that constitutes confidential business information and provided clarification on several matters. We also removed one example of unreasonable labor costs. The revisions do not affect the report's recommendations or the mission's management decisions thereon.

The final report includes six recommendations to improve oversight of the largest security and life support subcontractor for USAID/Iraq's contractors. Based on management's comments on the draft report, and other information provided, we acknowledge that the mission made management decisions on all recommendations, and completed final action on Recommendations 5 and 6. They are closed upon issuance of this report.

Please provide the Audit Performance and Compliance Division with the necessary documentation to achieve final action on Recommendations 1, 2, 3, and 4.

Thank you for the cooperation and courtesy extended to the survey team during this survey.

SUMMARY OF RESULTS

Because USAID contractors working in Iraq operate in a hostile environment, they need additional security and life support services to protect them from dangerous events such as car bombs, kidnappings, or improvised explosive devices.

Security services involve two types of protection: mobile and static. Frequently, USAID contractors travel with a convoy of armored vehicles and a protective (or private) security detail (PSD)—a type of mobile security protection. Each PSD team consists of a leader, several expatriates,¹ and a group of Iraqi security specialists; usually all of them carry weapons.

Static protection refers to guards at a compound where contractors live. Each compound also requires life support services that consist of electricity, food, maintenance staff, and other basic living accommodations and services to take care of the buildings and equipment.

The largest provider of security and life support services in Baghdad for USAID contractors is Sallyport Global Services.² It leases and manages a compound of buildings in a neighborhood called Mansour. During 2011, the seven USAID contractors listed in Table 1 lived and worked at Mansour while implementing USAID-funded projects; they contracted with Sallyport under firm fixed-price (FFP) and time and material subcontracts (T&M).³

Table 1. USAID Programs with Sallyport Subcontracts During 2011 (Unaudited)

Contractor	Type of Subcontract	Start Date	End Date	Value (\$)
AECOM	FFP	August 2010	July 2015	12,564,806
ARD Inc./Tetra Tech/DPK	FFP	October 2010	September 2015	14,828,838
Louis Berger Group–Inma	T&M plus FFP*	May 2007	May 2012	33,122,905
Louis Berger Group–Tijara	T&M plus FFP*	April 2008	January 2013	32,496,285
Management Systems International	T&M	June 2011	June 2015	27,581,208
RTI International	FFP	October 2011	November 2012	531,000
University Research Co.	T&M	October 2011	March 2015	9,946,852
University Research Co.	FFP	March 2011	September 2011	1,789,020
Total Value of Subcontracts				132,860,914

* Originally Louis Berger Group had separate subcontracts for security and life support for each program, and they were merged in May 2010.

¹ Expatriate guards are from other countries working under contract with Sallyport Global Services.
² Kaseman-Sallyport International (KSI) formed in 2011, through the merger of Kaseman, LLC; Sallyport Global Services; and Project Management Services Inc.
³ See Federal Acquisition Regulation (FAR), Subparts 16.2 and 16.6, respectively.

A FFP contract is suitable when reasonably definite specifications are available, and fair, reasonable prices can be established from the outset by means of adequate competition, previous purchasing history, or reasonably accurate identification of unexpected events and their probable costs. A T&M contract can be used only when it is not possible to estimate the extent or duration of the work accurately or to anticipate costs with any reasonable degree of confidence. T&M contracts present the highest risk to the U.S. Government (and lowest risk to the contractor), and thus they are the least desirable type for the Government.

The Regional Inspector General/Cairo (RIG/Cairo) conducted this survey to determine whether Sallyport's security and life support costs were allocated reasonably among USAID/Iraq contracts and to follow up on Recommendations 1 and 3 of "Survey of Security Incidents Reported by Private Security Contractors of USAID/Iraq's Contractors and Grantees" (Report No. E-267-11-001-S), issued November 29, 2010.

This survey found that Sallyport did not allocate costs reasonably and that USAID/Iraq should update serious incident reporting to clarify lines of communication since the U.S. military is no longer in Iraq. We found the following problems.

- Sallyport's accounting system was not adequate for government contracting (page 4). Therefore, USAID/Iraq cannot be certain that the security and life support costs the Agency paid prime contractors were allowable, allocable, reasonable, and in accordance with subcontract terms.
- Sallyport's billing practices resulted in overcharges and unreasonable costs paid by USAID (page 6). Sallyport charged some contractors for days its non-dedicated PSD employees did not work. Sallyport also overstated the number of trips taken.
- The survey found a significant deficiency in Sallyport's internal controls over labor time-keeping practices because of the lack of segregation of duties in certifying labor costs (page 12). For example, the finance director approved his own time sheets because nobody else was overseeing him. This practice, coupled with an inadequate accounting system, leaves USAID/Iraq susceptible to improper billing and fraud.
- USAID's serious incident reporting process is outdated (page 12).

To address these problems, this survey report contains six recommendations for USAID/Iraq.

1. Direct prime contractors in writing to perform an accounting system and internal control review of Sallyport that includes verification (1) that Sallyport accounts for all costs by contract and (2) that appropriate internal controls, such as segregation of duties and general ledger reconciliation, are in place and functioning as intended (page 6).
2. Suspend all future security and life support payments for all prime contractors with Sallyport subcontracts until Sallyport implements an adequate cost accounting system (page 6).
3. Make a written determination whether to terminate all security and life support subcontracts with Sallyport, and work with USAID's Compliance and Oversight of Partner Performance to determine whether it should start the process to suspend and/or debar Sallyport (page 6).

4. Determine the allowability of all security and life support costs incurred by Sallyport since 2007 and billed to prime contractors, and issue a bill of collection as appropriate (page 11).
5. Make a written determination about establishing a direct contracting relationship between the mission and Sallyport, or another security and life support provider, to better monitor costs incurred. If USAID/Iraq decides against the direct contracting relationship, it should implement a written plan to make sure contractors are monitoring costs appropriately and proper surveillance is performed (page 12).
6. Issue a mission notice with new serious incident reporting procedures and administratively modify all awards to include them (page 13).

Detailed findings appear in the following section, and the scope and methodology appear in Appendix I. Management comments, without attachments, are included in Appendix II, and our evaluation of them is on page 14.

SURVEY FINDINGS

Sallyport's Accounting System Was Not Adequate

Sallyport has had FFP and T&M subcontracts with different USAID programs. In 2011 Sallyport's active subcontracts were worth about \$133 million.

Each USAID contractor is responsible for negotiating its security and life support subcontracts and then regularly billing USAID for the costs. Because the mix of subcontracts included T&Ms, Sallyport was required to have an accounting system that could accumulate and record costs by contract within the general ledger, which summarizes a company's financial transactions.

For T&M contracts, the material portion of the contract related to other direct costs such as food and equipment is paid according to the contract's allowable cost and payments clause, Federal Acquisition Regulation (FAR) 52.216-7. This clause is required for both cost-reimbursable and T&M contracts, and an adequate accounting system is necessary to carry out the clause's requirements. The system must be able to segregate and accumulate costs separately for any and all various contracts and projects that the contractor is working on.

For the labor portion of T&M contracts, the U.S. Government wants to be certain that the hours submitted for billing were segregated adequately and accumulated only for work performed on a particular contract. Thus, it is necessary to have an accounting system that can validate the hours actually spent working on the contract.

Sallyport's FFP subcontracts varied in requirements for reimbursement. AECOM's FFP subcontract specifically required Sallyport to include in its invoices cumulative costs expended against its budget and the hours or days individuals worked in the preceding month multiplied by hourly or daily rate. DPK's subcontract with Sallyport was designed as a performance-based payment contract in which DPK agreed to pay Sallyport the full amount of its fixed invoices as long as Sallyport met its performance indicators.

Sallyport's accounting system was not adequate for government contracting. To determine whether it accumulated and recorded costs by contract, we tested costs in August 2011. Our analysis concluded that Sallyport's costs billed to contractors funded by USAID did not agree with those recorded in the company's general ledger.

For example, in Table 2 for August 2011, Sallyport billed USAID contractors a total of \$430,098 for services provided to its USAID clients (for fuel, utilities, leases, vehicles, and maintenance). However, that same month Sallyport recorded in its general ledger \$564,053 for these same cost categories, leaving an unreconciled absolute value of \$145,187 that is made up of \$139,736 in costs included in the general ledger but not in the billings and \$5,451 in costs billed but not included in the general ledger.

For this same period, we tried to reconcile procurement costs for items that Sallyport procured directly for Louis Berger Group (LBG) and Management Systems International (MSI). For both items tested, the costs recorded in the general ledger did not agree with the amounts billed.

Finally, it is unclear whether the general ledger Sallyport provided includes all procurements. As discussed in “Labor Rates Were Inflated” (page 9), Sallyport included the costs of some procurements in its labor rates billed to clients. Table 2 summarizes the unreconciled costs.

Table 2. Unreconciled Costs, August 2011 (Unaudited)

Cost Element	Costs per Billings (\$)	Costs Recorded in General Ledger (\$)	Unreconciled Difference* (\$)	Percentage of Billings Unreconciled (%)
shared procurement costs	██████	██████	██████	██████
MSI direct procurements costs	██████	██████	██████	██████
LBG-Tijara direct procurement costs	██████	██████	██████	██████
Totals	██████	██████	██████	██████

* The unreconciled difference represents the absolute dollar value of the transactions we could not reconcile from the billings in the general ledger, and from the general ledger to the billings. Using absolute value shows the total unreconciled differences rather than the net difference.

Sallyport recorded costs for shared procurements, like life support activities, as a lump sum amount within the general ledger rather than recording each subcontract’s share of the cost within the general ledger. For the T&M contracts, Sallyport allocated these costs to the contracts during its billing process, but still did not make these adjustments in the general ledger. However, for its FFP contracts Sallyport invoiced the fixed monthly budget amount illustrated in each of the FFP subcontracts, and did not calculate or record the FFP subcontracts’ allocation of shared procurement costs. There is no way to tell from the general ledger whether Sallyport allocated the shared costs equitably to all contracts.

By not recording the shared costs by subcontract within the general ledger, Sallyport was not able to provide the minimum invoice data to AECOM required by its subcontract terms—cumulative costs expended compared with its budget and the hours or days people worked.

Lastly, Sallyport did not have adequate internal controls for certain labor categories, addressed in more detail in the finding “Sallyport Lacked Oversight for Time Card Approvals” (page 12).

Sallyport did not design its system to track costs by individual contracts because it groups all costs that it cannot bill directly into one pool and then applies a methodology to allocate the costs among its T&M contracts, not its FFPs. We determined that this methodology is not reasonable. It has affected USAID/Iraq’s ability to contract for a full, organization-wide financial audit of Sallyport. In June 2012 USAID/Iraq asked the Defense Contract Audit Agency (DCAA) to conduct a full audit of Sallyport. However, since this could not begin until Sallyport provided a full accounting of its costs, the mission cancelled that request in August 2012.

Because Sallyport’s accounting system is not adequate, USAID/Iraq has no assurance that security and life support costs paid to prime contractors are allowable, allocable, reasonable, and in accordance with subcontract terms. Without an adequate accounting system, there is a risk that Sallyport could charge cost overruns on its FFP contracts to its T&M subcontracts, which according to FAR 31.205-23 is expressly not allowed.

To mitigate the risks for the U.S. Government in the future, the contracting officer can work with USAID's Compliance and Oversight of Partner Performance division to use authority under FAR 9.407-2(c), "Causes for suspension," which allows the Agency to suspend future contract awards for any cause of so serious or compelling a nature that it affects the present responsibility of the subcontractor. Therefore, we make the following recommendations.

Recommendation 1. *We recommend that USAID/Iraq's contracting officer direct prime contractors in writing to perform an accounting system and internal control review of Sallyport Global Services, which includes verification (1) that Sallyport Global Services accounts for all costs by contract, and (2) that appropriate internal controls, such as segregation of duties and general ledger reconciliation, are in place and functioning as intended.*

Recommendation 2. *We recommend that USAID/Iraq's contracting officer suspend all future security and life support payments for all prime contractors with Sallyport Global Services subcontracts until Sallyport Global Services implements an adequate cost accounting system.*

Recommendation 3. *We recommend that USAID/Iraq's contracting officer make a written determination about terminating all security and life support subcontracts with Sallyport Global Services and work with USAID's Compliance and Oversight of Partner Performance division to start suspension and/or debarment procedures on Sallyport Global Services.*

Sallyport's Billing Practices Resulted in Overcharges and Unreasonable Costs

According to FAR, Subpart 16.3, the U.S. Government will reimburse costs to the extent they are reasonable, allocable, and determined to be allowable.

Sallyport overcharged USAID contractors for security and life support costs. In some cases, USAID contractors paid for services they did not receive, for employees who did not work, and for employees whose jobs the contractors had not approved. In addition, the company billed for security services when it did not have a contract. These incidents and others are discussed below.

Contractors Billed for PSD Trips They Did Not Take. Sallyport maintains eight PSD teams that provide protection and security to contractor employees when they travel outside of the Mansour compound. A team consists of a leader, several expatriate guards, and a group of Iraqi security specialists. Sallyport operates these teams from the compound and at times has supported up to seven USAID/Iraq projects whose contractors live and operate on the compound.

Louis Berger Group (LBG) contracted with Sallyport to provide services to support two different USAID/Iraq programs—Inma and Tijara. According to the contract, Sallyport dedicated three PSD teams to support these programs. The remaining non-dedicated teams supported other contractors.

A review of Sallyport’s biweekly invoices confirmed that it was billing LBG for the three dedicated teams. However, we determined that LBG was billed for PSD trips that did not directly support the firm’s contracts. For example, from December 16 to December 31, 2011, Sallyport used two of LBG’s teams to transport five other contractors on 16 different trips. During that same period, LBG used its dedicated teams for only 3 trips—16 percent of the 19 trips those teams made. However, for that billing period, Sallyport billed LBG projects for all 19 trips. As a result, LBG paid ██████ when it should have only paid ██████—resulting in unreasonable costs of ██████ for that 2-week period.

Even though LBG had dedicated PSD teams, in at least one instance Sallyport assigned a nondedicated team to support the Inma program. Instead of billing that program for the trip, Sallyport allocated the cost among the other five USAID/Iraq contractors. While the amount was immaterial, it demonstrates a flaw in Sallyport’s allocation and billing methodology.

Contractors Paid Sallyport Salaries for Nondedicated PSD Employees When They Did Not Work. During an analysis of Sallyport’s allocation methodology, we determined that it was billing contractors for the total number of days that nondedicated PSD teams were in Iraq, including days when they were not working.

For example, in one billing period—August 1 to 15, 2011—five teams each had a PSD team leader in country, and Sallyport charged ██████ per day for each one. The total cost for all five leaders during that period was ██████ which Sallyport allocated among its contracts. One of those, MSI, was billed for 44.44 percent of the total—██████—because its share of the total number of trips for this billing cycle came to 44.44 percent.

Our analysis determined that even though the team leaders were in country a combined 75 days in that billing period, Sallyport recorded in its trip logs that PSD team leaders went on trips only 42 of those 75 days. So MSI should have been billed 44.44 percent of 42 days worked by PSD team leaders at ██████ a day, which comes to ██████ rather than ██████ calculated using 75 days. Just for the team leader, Sallyport billed MSI ██████ for labor that did not directly benefit its contract. Applying this same analysis to two other labor categories that make up the PSD team resulted in MSI being overcharged by a total of ██████ that did not directly benefit its contract, as shown in Table 3 below.

Table 3. Unreasonable Costs Paid by MSI, August 1-15, 2011 (Unaudited)

PSD Labor Category	Days in Country	Days on Trips	MSI Allocation (%)	Daily Labor Rate (\$)	Actual Bill (\$)	Correct Bill (\$)	Unreasonable Cost (\$)
Team leader	75	42	44.44	█████	█████	█████	█████
Expats	184	102	44.44	█████	█████	█████	█████
Iraqis	273	160	44.44	█████	█████	█████	█████
Total							█████

Sallyport’s reasoning for charging the total number of days in the billing cycle for the PSD labor categories is because when not supporting trips these categories are providing static security. If the teams are providing static security, then Sallyport should be charging a lower labor rate because the daily rate for static security guards is much lower than for PSD guards.

Furthermore, our analysis indicated that Sallyport is not using PSD resources efficiently and potentially might be overstaffed. For example, Sallyport’s PSD team leaders supported trips only

56 percent of the time they reported to work; the remaining 33 days they did not support trips and according to Sallyport were used as static support (trips occurred on 42 of 75 days from August 1 to 15, 2011) indicating an underutilization of PSD teams on contract with Sallyport.

Sallyport Overstated Number of PSD Trips. Sallyport frequently transports two or three contractors on the same trip. In cases like this, it makes sense for each contractor to share in the cost of that trip.

However, Sallyport recorded a trip for each contractor—and charged accordingly. For example, Sallyport’s trip log shows that on August 11, 2011, one PSD team transported employees of two different contractors to the Baghdad International Airport. Instead of allocating each contractor half of the trip, Sallyport recorded one trip per contractor. We estimated that during August 2011, Sallyport assigned five PSD teams to support multiple contractors on the same trip on 22 different occasions; in December, this occurred 24 times.

To show the costs resulting from this practice, we recomputed in Table 4 what each USAID/Iraq contractor’s share of total trips should have been if Sallyport had divided the costs equitably among the contractors for the billing period of December 16 through 31, 2011. MSI was billed unreasonable costs of ██████████ and University Research Co. (URC) was billed unreasonable costs of ██████████. Additionally, Sallyport did not allocate any PSD trips to LBG’s Tijara program even though program employees were transported several times during this period.

**Table 4. Costs for PSD Trips With Multiple Contractors
(December 16-31, 2011—Unaudited)**

Contractor	Number of Trips Recorded	Recorded Allocation (%)	Actual Number of Trips	Corrected Allocation (%)	Cost Billed (\$)	Adjusted Costs (\$)	Unreasonable Cost (\$)
MSI	19	38	8.83	21.0	████████	████████	████████
AECOM	16	32	11.83	28.2	████████	████████	████████
DPK	8	16	2.83	6.7	████████	████████	████████
URC	5	10	1.83	4.4	████████	████████	████████
RTI	2	4	1.0	2.4	████████	████████	████████
LBG-Tijara	0	0	15.67	37.3	████████	████████	████████
Totals	50	100	42	100			████████

* Sallyport had firm fixed-price contracts with these three contractors.

Sallyport Did Not Record Personal PSD Trips. Sallyport used PSD teams to transport its own employees. However, when this occurred, Sallyport did not include those trips in the overall count used to calculate the percentage of trips for each user. For example, from August 1 to 15, 2011, Sallyport reported 63 trips in total, but did not include four trips in which PSD teams were used to transport Sallyport employees. This meant that contractors paid more for their trips than they should have. For example, Sallyport completed 28 trips for MSI out of 63 counted, and it allocated MSI 44.44 percent of security labor costs during that period. Had Sallyport included the four trips made for its personnel, then MSI’s percentage for this billing period would have been 41.79 percent (28 out of 67 trips). The overall cost impact, as shown in Table 5, is that Sallyport billed MSI a portion of the PSD labor to move its own personnel amounting to ██████████.

Table 5. MSI's Unreasonable Costs (August 1-15, 2011—Unaudited)

Labor Category	Days Worked	Original Allocation (%)	Adjusted Allocation (%)	Daily Labor Rate (\$)	Actual Bill (\$)	Correct Bill (\$)	Unreasonable Cost (\$)
Security director	5	44.44	41.79	█	█	█	█
"Inter officer"	5	44.44	41.79	█	█	█	█
"Ops controller"	8.55	44.44	41.79	█	█	█	█
PSD team leaders	75	44.44	41.79	█	█	█	█
PSD—Expats	184.25	44.44	41.79	█	█	█	█
PSD—Non-Iraqis	60	44.44	41.79	█	█	█	█
PSD—Iraqis	273	44.44	41.79	█	█	█	█
Vehicles and maintenance	*	44.44	41.79	█	█	█	█
Total							█

* Vehicles and maintenance is a direct procurement cost category that uses the same 44.44 percent cost allocation to assign costs to contractors, and it is affected by the adjusted cost allocation.

Based on our review of December 2011 trip logs, Sallyport stopped tracking trips for its own personnel. Without this data, we could not quantify how this affected contractors that are effectively paying for Sallyport's personal PSD trips during that period. Furthermore, since Sallyport does not account for costs on its FFP contracts, we are not able to determine what impact, if any, these allocation flaws have on how costs were charged to differing types of contracts.

USAID Contractors and Sallyport Did Not Negotiate Some Labor Categories, and Associated Costs Were Not Included in Approved Budgets. Sallyport billed labor for 4 out of █ labor categories for which it did not have the contractor's approval, as shown in Table 6, in August and December 2011. Each contractor was billed unreasonable costs, totaling █

**Table 6. Unreasonable Labor Costs (\$)
(August and December 2011—Unaudited)**

Labor Category	MSI	URC	LBG—Tijara	LBG—Inma	Unreasonable Cost
Security director	█	█	█	█	█
Inter officer	█	█	█	█	█
Ops controller	█	█	█	█	█
Static guard manager	█	█	█	█	█
Total					█

Labor Rates Were Inflated. Our analysis determined that Sallyport develops its daily labor rates by factoring in costs for fringe benefits, overseas allowances (such as danger pay and post allowances), general and administrative expenses, and other direct costs beyond the shared procurement costs that are charged directly. For example, according to Sallyport, those other direct costs included various types of equipment, including AK-47s, 9-millimeter side arms, body armor, distress flares, reserve ammunition, and night vision goggles. However, according to FAR 16.601 direct materials for time-and-material contracts means those materials used directly in connection with the furnishing of the service and should be acquired based on the actual cost of the material. For PSD labor categories requiring these items, the costs are

overstated by billing them as part of the daily labor rates because this method does not take into account actual usage and procurement of these items. Furthermore, these items do not appear to be reasonable costs to include in labor rates associated with non-PSD labor categories, such as the finance manager and life support director.

Furthermore, in the subcontract with URC, Sallyport did not bill URC in the same manner it had proposed during negotiations; Sallyport officials said the fixed daily labor rates included wages, overhead, insurance, and other fringe costs. Sallyport stated in its proposal that general and administrative costs, other fees, and other direct costs would be shown separately, but this did not happen.

Similarly, LBG's subcontract for the Tijara program gave an example of an invoice showing how other direct costs needed to be identified separately from direct labor rates, but Sallyport did not account and bill for the costs in accordance with the prescribed invoice.

Lastly, Sallyport added a final fee to labor rates based on an arbitrary percentage with no explanation for what this fee represented. The arbitrary markup varied per labor category, ranging anywhere from a markdown of [REDACTED] percent to a markup of [REDACTED] percent.

To show the impact of these inflated rates over a 2-month billing cycle, we recalculated the cost for the project leader, shown in Table 7. If the rates had not been inflated, USAID would have paid \$2,395 less for this position.

Table 7. Costs for Project Leader (\$) (August and December 2011—Unaudited)

Labor Category	Inflated Rate	Recalculated Rate	Actual Charge	Correct Charge	Unreasonable Cost
URC	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
MSI	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
LBG-Tijara	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
LBG-Inma	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total					[REDACTED]

* The project leader did not work many days in December. URC did not have a T&M contract in August, and most of what was billed in August and December was for the time the project leader worked in August. The project leader was out of country a few days in December, and his time was allocated among many contractors based on each contractor's headcount at the compound.

Service Costs Varied. All contractors living on the Mansour compound pay for Sallyport life support services, and they all get the same services. However, they were not all paying the same rates. For example, LBG paid a daily rate of [REDACTED] per person for its meals, while MSI and URC paid [REDACTED]—[REDACTED] percent more than LBG. As shown in Table 8, in December 2011 MSI and URC paid \$7,749 more because Sallyport billed them at a higher rate than LBG.

Table 8. Recalculation of Meal Costs for December 2011 (Unaudited)

Contractor	Contractor Rate	Lowest Negotiated Rate	Actual Charge	What Could Have Been Charged	Unreasonable Cost
LBG-Tijara	█	█	█	█	█
MSI	█	█	█	█	█
URC	█	█	█	█	█
Total					█

Sallyport Provided Services to RTI Without a Contract. Initially Sallyport and RTI formed a master agreement, but it was clear that Sallyport would not provide services until a contract was signed. However, according to invoices provided, RTI began incurring security costs totaling █ per month in October 2011—10 months before the contract was signed (July 2012); therefore, the incurred costs were questionable.

In addition, Sallyport billed RTI only for security costs and not for life support costs, even though RTI employees stayed at Mansour. So Sallyport’s costs to provide life support to RTI employees were absorbed by the other USAID contractors.

The problems discussed above went undetected because while USAID/Iraq relied on DCAA and local public accounting firms to conduct financial audits of each of its prime contractors, these individual contract audits only verified costs Sallyport billed to each prime contractor and did not include detailed audit steps of Sallyport’s allocation methods and general ledger. The mission has been in discussions with DCAA since June 2012 planning for a global audit of Sallyport. However, DCAA cannot start until Sallyport provides a full accounting of its costs.

Because USAID/Iraq required each individual contractor to contract separately for security, the mission did not have direct contracting authority over Sallyport. As a result, each USAID contractor negotiated its separate contract with Sallyport—some negotiating FFP contracts and others T&M. Each contractor was responsible for surveillance of Sallyport’s operations and costs. However, no one organization was holding Sallyport accountable to verify that efficient methods and effective cost controls were applied.

Furthermore, most of Sallyport’s subcontracts are T&Ms that, according to FAR 16.601(c)(1), “Government surveillance,” do not give contractors any financial incentives to control costs or be efficient. Therefore, surveillance of contractors with T&Ms is required to give reasonable assurance that efficient methods and effective cost controls are being used. No such surveillance was in place for the overall operations of Sallyport in Iraq.

The survey only examined 2 months of invoices and provided only discrete examples of Sallyport’s flawed cost allocation methodology in sampled biweekly billings. The true magnitude of unreasonable costs billed to USAID/Iraq cannot be determined until a financial audit covering the entire organization is performed. From July 1, 2011, to June 30, 2012, Sallyport billed the U.S. Government—through USAID/Iraq’s contractors—\$13.5 million. Correcting Sallyport’s cost allocation methodology could help the mission recover significant amounts of money.

Recommendation 4. *We recommend that USAID/Iraq’s contracting officer determine the allowability of all security and life support costs incurred by Sallyport Global Services since 2007 and billed to prime contractors, and issue a bill of collection as appropriate.*

Recommendation 5. *We recommend that USAID/Iraq make a written determination about establishing a direct contracting relationship with Sallyport Global Services, or another security and life support provider, to better monitor costs incurred. If USAID/Iraq decides against the direct contracting relationship, USAID/Iraq should develop a written plan to verify that contractors are monitoring costs appropriately and proper surveillance is performed.*

Sallyport Lacked Oversight for Time Card Approvals

The Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control—Integrated Framework* explains that control activities should be divided among different people to reduce the risk of inappropriate or fraudulent actions. This concept is referred to as proper segregation of duties.

The survey found a significant deficiency in Sallyport's internal controls over charging for hours worked because of the lack of segregation of duties in certifying costs. Sallyport uses a biweekly time sheet to record whether an employee attended work or had a day off. As a control activity, a Sallyport director or manager approves the completed time sheet. We saw four from August and December 2011; in three instances, the finance director approved his own time sheet.

We consider this a significant deficiency because this was a practice, not an anomaly. The finance director said because he is the only one who controls the financial activities at Mansour, it is practice for him to approve his time.

Without proper segregation of duties, the director could override controls because he has freedom to make decisions not reviewed by other Sallyport managers. Improper segregation of duties coupled with an inadequate accounting system leaves USAID/Iraq susceptible to improper billings and potentially to fraud. Since we are recommending a full accounting system review in the first finding, we are not making an additional recommendation here.

USAID's Serious Incident Reporting Process Was Outdated

Mission Notice 09-03-001 dated March 15, 2009, established serious incident reporting procedures and required that a clause related to these procedures be included in all award documents, including subcontracts. USAID/Iraq updated those procedures on January 5, 2011, and established a plan to make sure the clause was included in all mission award documents.

Although all awards surveyed included the required reporting procedures, they were out of date because they made frequent reference to Contractors Operations Cell (CONOC) established by U.S. Forces-Iraq (USF-I). USF-I left Iraq in December 2011, and CONOC no longer exists.

USAID/Iraq had not issued a new mission notice or taken proactive measure to officially update the serious incident reporting clause in mission award documents because it decided to handle this informally. As a result, the lines of communication and reporting requirements were no longer clear among contractors and security contractors.

Recommendation 6. *We recommend that USAID/Iraq issue a mission notice with new serious incident reporting procedures and modify all awards with the updated language.*

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/Iraq agreed with all six recommendations. We have acknowledged management decisions on all recommendations. Final action was taken on Recommendations 5 and 6. A detailed evaluation of management comments follows.

Recommendation 1. The mission stated that KSI would start conducting an internal audit in June 2013. The mission further stated that contractors would be responsible for making sure that the audit is thorough and directly addresses this survey's findings. Contractors also will have to explain what systems or processes are in place to verify invoice accuracy. The mission will verify the results of the internal audit by conducting an Agency-contracted audit that should begin around September 2013 and would be finished 4 to 6 months later. Based on the mission's planned actions, we acknowledge that the mission made a management decision. Final action will be taken when the mission receives verification from the Agency-contracted audit, to be completed around January 31, 2014, that Sallyport has an adequate accounting system in place and has appropriate internal controls that are operating effectively.

Recommendation 2. The mission decided that it would suspend payments and/or withdraw consent for cost reimbursements with Sallyport if the KSI internal audit and Agency-contracted audit determine Sallyport does not have an adequate accounting system that allocates costs by contract, and if prime contractors have contingency plans for security and life support services. Based on the mission's planned actions, we acknowledge that the mission made a management decision. Final action will be taken when the mission makes a determination about suspending payments based on the result of the Agency-contracted audit to be completed around January 31, 2014.

Recommendation 3. The mission made a written determination on June 3, 2013, about terminating all security and life support subcontracts with Sallyport. Because USAID does not have authority to directly terminate subcontracts with Sallyport, the contracting officer will instead withdraw consent for the subcontracts through prime contractors if the KSI internal audit and Agency-contracted audit determine Sallyport does not have an adequate accounting system that allocates costs by contract, and if prime contractors have contingency plans for security and life support services. Based on the mission's planned actions and supporting documentation provided, we acknowledge that the mission made a management decision. Final action will be taken when the mission makes a determination about withdrawing consent for subcontracts based on the result of the Agency-contracted audit to be completed around January 31, 2014.

Recommendation 4. The mission stated that based on the results of an Agency-contracted audit, the contracting officer will make a determination regarding the allowability of costs, and a bill of collection will be issued, as appropriate. Based on the mission's planned actions, we acknowledge that the mission made a management decision. Final action will be taken when the mission determines the allowability of costs around January 31, 2014.

Recommendation 5. The mission made a written determination on June 3, 2013, that contracting direct with Sallyport was not feasible. In response, as part of its written

determination, the mission documented a written plan to verify that prime implementing partners are monitoring costs incurred by Sallyport adequately through periodic follow-up measures. Based on the mission's actions and supporting documentation provided, we acknowledge that the mission made a management decision and final action was taken on this recommendation.

Recommendation 6. The mission issued a mission notice on June 3, 2013, with new serious incident reporting procedures. The mission also stated that the contracting officer would notify all implementing partners of the new requirements by June 9, 2013, and modify all awards to incorporate the revised special provision. Based on the mission's actions and supporting documentation provided, we acknowledge that the mission made a management decision and final action was taken on this recommendation.

SCOPE AND METHODOLOGY

Scope

RIG/Cairo conducted this survey in accordance with government auditing standards—specifically, with the general standards in Chapter 3, the evidence standards in Sections 6.56 through 6.59, the documentation standards in Sections 6.79 through 6.83, and the standards for developing elements of a finding in Sections 6.74 through 6.77. These standards require that we plan and perform the work to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our survey objective. We believe the evidence obtained provides that basis.

The purpose of this survey was to determine whether Sallyport's security and life support costs were allocated to USAID/Iraq contracts reasonably and to follow up on Recommendations 1 and 3 of Report No. E-267-11-001-S issued on November 29, 2010.

The survey covered a review of Sallyport accounting and billing practices using the costs recorded in its general ledger and billed to its USAID contractors for August and December 2011, which were selected judgmentally. Our survey did not include tests to determine the allowability, allocability, or reasonableness of the costs for these 2 months. In planning and performing this survey, we reviewed internal controls in place at Sallyport. Those reviewed included but were not limited to controls of payroll, inventory management, segregation of duties, and general ledger reconciliation. We also examined Sallyport's methodology for allocating and billing labor costs.

USAID/Iraq contractors also utilized other security and life support providers besides Sallyport, such as G4S Risk Management Ltd. and Unity Resources Group Pte Ltd. Each operates in similar compounds and provides the same services in other parts of Baghdad. The survey chose to examine Sallyport because of the complexity of its operations, the multiple types of subcontracts used with USAID contractors, and the volume of USAID/Iraq contractors supported.

We conducted fieldwork at USAID/Iraq in Baghdad and at Sallyport's Mansour compound in Baghdad. The work took place from April 22, 2012, to February 25, 2013.

Methodology

To answer the survey objectives, we interviewed personnel from the mission, Sallyport employees in Iraq and the United States, and contractor staff members who live in Mansour. We conducted site visits to the compound and performed walk-throughs of Sallyport's cost allocation process. In addition to interviewing key personnel and making on-site observations, we reviewed documents from the mission and Sallyport. Documents included prime contractor's subcontracts with Sallyport, invoices billed to contractors, PSD trip logs, employee time cards, and accounting system data.

MANAGEMENT COMMENTS



MEMORANDUM

UNCLASSIFIED

DATE: June 6, 2013

TO: Catherine Trujillo, Regional Inspector General/Cairo

FROM: Thomas H. Staal, Mission Director

SUBJECT: Management Response to Draft Survey of Security Services Employed by USAID/Iraq's Contractors and Grantees
Report No. 6-267-13-00X-S

The Mission appreciates the careful attention and hard work of the Regional Inspector General (RIG)/Cairo, and accepts the survey findings with great interest and concern. USAID/Iraq treats findings of potentially fraudulent overcharging of the U.S. Government with the highest level of seriousness. We are fully committed to ensuring the accountability of USAID contractors and subcontractors, and to protecting and potentially recovering USAID funds. In response, USAID has taken the following administrative and contract management actions to address immediately the survey recommendations, as well as the larger issues of whether Kasemen-Sallyport International (KSI) is presently a responsible organization, and whether any USAID implementing partners or KSI may have submitted false claims to USAID:

- In response to a request from the USAID/Iraq front office, USAID/Iraq Regional Legal Advisor, Supervisory Contracting Officer, and Controller drafted a memorandum on May 5, 2013 setting forth the overarching strategy for, and roles and responsibilities of both USAID/Iraq and Washington to address the survey findings;
- USAID/Iraq Regional Legal Advisor sent an Information Memorandum to the U.S. Ambassador to Iraq on May 8, 2013, copying, among others, USAID/W, RIG/Cairo, Department of State, FBI, and Department of Justice;
- The Mission Director, Deputy Mission Director and Regional Legal Advisor briefed the Charge d'Affairs on May 20, 2013;
- USAID/Iraq Regional Legal Advisor and Supervisory Contracting Officer meet with technical Office Directors and cognizant Contracting Officer's Representatives/Agreement Officer's Representatives (CORs/AORs) on a monthly basis to share the survey findings and updates;

- Office of General Counsel provided briefings to senior USAID officials, including the Acting Assistant Administrator for the Middle East Bureau, Alina Romanowski, on May 10, 2013; and Deputy Administrator Donald Steinberg on May 30, 2013;
- USAID/Iraq Contracting Officer sent letters to prime implementing partners and KSI setting forth the survey findings; KSI immediately expressed a high level of commitment to resolve the problems and has sent a senior corporate officer to Baghdad to assist in resolving these issues;
- Office of General Counsel/Office of Litigation and Enforcement (GC/LE) continues to work closely with KSI as they identify and address improvements in internal control accounting systems; GC/LE met with KSI to discuss a strategy to address the survey findings on May 20, 2013;
- GC/LE recommended that KSI perform an internal audit; KSI accepted this recommendation and expects to have auditors at the Sallyport offices in Baghdad in June; KSI sent a draft work plan for an internal investigation and audit of Sallyport's operations on May 30, 2013;
- USAID/Iraq Contracting Officer sent additional guidance to implementing partners on May 23, 2013, instructing them to ensure that KSI's internal audit is robust and addresses the findings of the survey, and to show what systems are in place to verify the accuracy of invoices received from Sallyport;
- USAID/Iraq Regional Legal Advisor and GC/LE Attorney continue to have weekly conference calls with the RIG special agent, in order to coordinate the ongoing investigation with any remedies or claims available to USAID;
- USAID/Regional Legal Advisor continues to work closely with GC/LE regarding potential suspension/debarment of certain organizations and/or individuals; GC/LE in turn coordinates with the Office of Acquisition and Assistance;
- USAID/Iraq arranged for the GC/LE attorney to come to Iraq for two weeks in late June; and
- USAID/Iraq Financial Management Office is in the process of engaging an auditing firm for an Agency Contracted Audit (ACA) of KSI and will begin the audit immediately after KSI completes its internal audit.

The Mission notes that we have taken proactive steps over the years to collect information and respond to concerns about Sallyport operations, as follows:

- USAID/Iraq procured the services of the Defense Contract Audit Agency (DCAA) in 2007 and 2008 to conduct audits for Sallyport billings to two prime contracts totaling \$41 million; no major issues were identified during these audits;
- USAID/Iraq requested DCAA to conduct audits of prime contracts, including Sallyport's billings to the prime contractor, in November 2008; due to a backlog, DCAA was unable to initiate the audits until 2011; however, in March 2011, DCAA declined to include Sallyport billings as part of this audit, as Sallyport had not submitted certified incurred cost submissions for 2007-2010;
- USAID/OAA then instructed Louis Berger Group (LBG), the prime implementing partner with the largest Sallyport subcontracts, to address the lack of certified cost submissions; as a result, LBG issued a cure notice to Sallyport in June 2012;

- In August 2012, USAID/Iraq requested that DCAA conduct a voucher review for Sallyport covering a sample period; on June 2, 2013, DCAA submitted a report covering the period of July-September 2012; DCAA reported no major problems with the cost allocation methodology or accounting system
- On May 14, 2013, KSI notified USAID/Iraq that Sallyport's incurred cost submissions have been certified. USAID/Iraq immediately contacted DCAA regarding a global audit of Sallyport's billings. Once DCAA accepts the certified cost submissions, USAID/Iraq will request DCAA to perform the audit. This audit will be in addition to the planned ACA.

The Mission has taken final action to close four of the recommendations. The Mission initiated action on the other two recommendations and anticipates closing all recommendations by January 31, 2014. We will send RIG an update on progress for the remaining two recommendations by October 31, 2014.

Recommendation 1: *We recommend that USAID/Iraq's contracting officer direct prime contractors in writing to perform an accounting system and internal control review of Sallyport Global Services, which includes verification (1) that Sallyport Global Services accounts for all costs by contract, and (2) that appropriate internal controls, such as segregation of duties and general ledger reconciliation, are in place and functioning as intended.*

Management Response: The Mission has taken the following actions to complete this recommendation. On May 14, 2013, the USAID/Iraq Contracting Officer directed the prime implementing partners (AECOM, Tetra Tech DPK, FHI 360, MSI, and URC) to conduct an accounting system and internal control review of Sallyport that includes verification (1) that Sallyport accounts for all costs by contract; and (2) that appropriate internal controls, such as segregation of duties and general ledger reconciliation, are in place and functioning as intended. The letter established a due date for this review of June 30, 2013.

As noted above, upon USAID's recommendation, KSI agreed to perform a comprehensive internal audit in response to the survey findings, which will subsequently be reviewed by a Mission audit conducted by an ACA firm. Based on this development, the USAID/Iraq Contracting Officer communicated to implementing partners on May 23, 2013 that they do not need to conduct an accounting system and internal control review of Sallyport. Instead, the implementing partners must ensure that KSI's internal review is robust and directly addresses the survey findings. In addition, the Contracting Officer asked the implementing partners to explain what systems or processes were in place to verify the accuracy of invoices submitted by Sallyport.

Based on the above, USAID deems that a management decision has been reached on this recommendation, and final action has been taken. Therefore, we request closure of the recommendation upon issuance of this report.

Recommendation 2: *We recommend that USAID/Iraq's contracting officer suspend all future security and life support payments for all prime contractors with Sallyport Global Services subcontracts until Sallyport Global Services implements an adequate cost accounting system.*

Management Response: USAID/Iraq will suspend payments and/or withdraw consent for cost reimbursement subcontracts with Sallyport if the following two conditions are present as of October 31, 2013:

- (1) The KSI internal audit and the Agency Contracted Audit demonstrate that Sallyport does not have an adequate accounting system to allocate costs by contract; AND
- (2) USAID/Iraq and the prime implementing partners have a contingency plan in place that will prevent any gap in the provision of critical security and life support services.

USAID/Iraq agrees that in order to enter into cost reimbursement contracts, Sallyport must have an adequate accounting system that can allocate costs by contract. However, due to the narrow two month period covered by the survey, USAID/Iraq does not have sufficient information at this time to immediately suspend all payments for expenses incurred by prime implementing partners under cost reimbursement subcontracts with Sallyport. In addition, the June 2, 2013 DCAA report covering vouchers submitted between July-September 2012 did not highlight any major problems with Sallyport's cost allocation methodology.

Target date for completion is October 31, 2013.

Recommendation 3: *We recommend that USAID/Iraq's contracting officer make a written determination about terminating all security and life support subcontracts with Sallyport Global Services and work with USAID's Compliance and Oversight of Partner Performance division to start suspension and/or debarment procedures on Sallyport Global Services.*

Management Response: USAID/Iraq signed a written determination about terminating all security and life support subcontracts with Sallyport on June 3, 2013. This determination concluded that USAID/Iraq does not have any legal authority to terminate the prime implementing partners' subcontracts with Sallyport, as USAID does not have privity of contract with subcontractor Sallyport under FAR 42.505 (b)(1). However, the Contracting Officer does have authority to withdraw consent for the subcontracts, which would in turn force the implementing partners to terminate the subcontracts with Sallyport. The Contracting Officer will withdraw consent for the subcontracts if: (1) the KSI internal audit and the Agency Contracted Audit demonstrates that Sallyport does not have an adequate accounting system to allocate costs by contract; and (2) USAID/Iraq and the prime implementing partners have a contingency plan in place that will prevent any gap in the provision of critical security and life support services.

The USAID/Iraq Regional Legal Advisor continues to work closely with GC/LE, in coordination with the Office of Acquisition and Assistance Compliance Division, to analyze the appropriate action to best protect the U.S. Government's interests based upon the facts and circumstances of this case. At this time, given KSI's cooperative response, the Office of General Counsel/Litigation and Enforcement and the Compliance Division will work closely with KSI as they take steps to improve their accounting system and internal controls, and establish that they are a presently responsible organization.

Based on the above, USAID deems that a management decision has been reached on this recommendation, and final action has been taken. Therefore, we request closure of the recommendation upon issuance of this report.

Recommendation 4: *We recommend that USAID/Iraq's contracting officer determine the allowability of all security and life support costs incurred by Sallyport Global Services since 2007 and billed to prime contractors, and issue a bill of collection as appropriate.*

Management Response: The Mission concurs with this recommendation. The Mission plans to contract with a regional accounting firm to carry out a comprehensive ACA of costs billed by Sallyport to USAID/Iraq implementing partners. The Financial Management Office consulted RIG/Cairo regarding the scope and timing of this audit. As agreed with the RIG, the ACA will immediately follow and verify the results of the KSI internal audit, which will begin work in June. We estimate that work for the ACA will begin on/around September/October 2013 and take four to six months. Based on the findings of the audit, the Contracting Officer will make a determination regarding the allowability of costs, and a bill of collection will be issued, as appropriate. USAID/Iraq will provide an update to RIG/Cairo on the progress of the ACA by October 31, 2014. 41 U.S.C. §605(a), as implemented by FAR 33.120, prohibits the Contracting Officer from settling, paying, compromising or otherwise adjusting any claim involving fraud. Therefore, if the implementing partners knowingly submitted false and inflated costs invoices to USAID, this may limit the ability of the Mission to issue a bill of collection that could be construed as a settlement.

Target date for completion is January 31, 2014.

Recommendation 5: *We recommend that USAID/Iraq make a written determination about establishing a direct contracting relationship with Sallyport Global Services, or another security and life support provider, to better monitor costs incurred. If USAID/Iraq decided against the direct contracting relationship, USAID/Iraq should develop a written plan to verify that contractors are monitoring costs appropriately and proper surveillance is performed.*

Management Response: The USAID/Iraq Contracting Officer made a written determination on June 3, 2013 about establishing a direct contracting relationship with Sallyport. Specifically, USAID/Iraq has determined that it is not feasible to enter into a direct contracting relationship with Sallyport or another security and life support provider, for the following reasons:

- USAID/Iraq is currently scheduled to close by December 2015. It would take approximately a year to draft the scope of work, carry out market research, and conduct a full and open competition. By the time that a contract could be awarded, the Mission would have little more than a year left before closure. Further, the Mission simply does not have sufficient staff to take on the additional responsibility of managing a new contract. As part of the downsizing of the USG presence in Iraq, USAID/Iraq lost 60% of its expatriate staff in February 2013.
- A direct contract for security services makes the U.S. Government directly and legally responsible for assuring the continuing safety of the implementing partners' personnel. A

risk exists that USAID may be potentially liable to those parties (and to third parties) should a USAID-contracted entity fail to perform or perform improperly resulting in personal injury or death or property damage.

- Prime implementing partners should have a direct contractual relationship with the security provider because they are in the best position to judge and make immediate decisions regarding what actions are required in any given situation and how to respond to security threats/incidents.

On June 3, 2013, USAID/Iraq documented a written plan to verify that prime implementing partners are adequately monitoring costs incurred by Sallyport through the following actions:

- Remind implementing partners that they are responsible to establish that costs incurred are allowable, allocable and reasonable;
- Instruct the implementing partners to explain what systems or processes are in place to verify the accuracy of invoices submitted by Sallyport;
- Include in the scope of the ACA a review of the systems and processes used by prime implementing partners to verify the accuracy of invoices submitted by Sallyport;
- In June 2014 and December 2014, contract with DCAA or another audit firm to conduct a voucher review of invoices submitted by Sallyport to USAID prime implementing partners;
- On a spot-check basis, request additional documentation for vouchers submitted by prime implementing partners; and
- Meet on a monthly basis with cognizant COR/AORs to improve oversight and compliance by implementing partners, from now until January 2014.

Based on the above, USAID deems that a management decision has been reached on this recommendation, and final action has been taken. Therefore, we request closure of the recommendation upon issuance of this report.

Recommendation 6: *We recommend that USAID/Iraq issue a mission notice with new serious incident reporting procedures and modify all awards with the updated language.*

Management Response: The Mission concurs with this recommendation. However, the Mission also notes that contractors generally understood that after the departure of the U.S. military, contractors no longer had to report serious incidents to the U.S. Forces-Iraq Contractors Operations Cell (CONOC). When two USAID/Iraq subgrantee employees were killed on March 31, 2013, USAID/Iraq contractor TetraTech DPK understood and followed the proper lines of communication and reporting requirements for serious incidents. USAID/Iraq issued an updated Mission Notice on serious incident reporting on June 3, 2013. The Contracting Officer will issue

a notice to all implementing partners by June 9, 2013 and will individually modify all awards to incorporate the revised special provision. Based on the above, USAID deems that a management decision has been reached on this recommendation, and final action has been taken. Therefore, we request closure of the recommendation upon issuance of this report.