



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID'S DEFENSE BASE ACT INSURANCE PROGRAM

AUDIT REPORT NO. 9-000-13-005-P
SEPTEMBER 18, 2013

WASHINGTON, D.C.



Office of Inspector General

September 18, 2013

MEMORANDUM

TO: M/OAA, Director, Aman Djahanbani

FROM: IG/A/PA, Director, Steven Ramonas /s/

SUBJECT: Audit of USAID's Defense Base Act Insurance Program
(Report No. 9-000-13-005-P)

This memorandum transmits our final report on the subject audit. In finalizing the audit report, we considered your comments on the draft version and have included them in their entirety in Appendix II.

This report contains five recommendations to help strengthen the administration of USAID's Defense Base Act insurance program. Management decisions have been made on all five recommendations. However, we disagreed with the management decision not to implement Recommendation 5 because, in our opinion, the significant amount of questioned costs (\$6,586,427) from premium refunds warrants proactive measures to recover these funds in a timely manner.

Please have the responsible contracting officer provide us within 30 days information on actions planned or taken regarding Recommendation 5. Please provide the Audit Performance and Compliance Division with the necessary documentation to determine final actions on the remaining recommendations.

I want to thank you and your staff for the cooperation and assistance extended to us during this audit.

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SUMMARY OF RESULTS

The Defense Base Act (42 U.S.C. 1651; DBA) requires federal contractors and subcontractors working outside the continental United States to provide the equivalent of workers' compensation insurance to their employees. The U.S. Government reimburses DBA insurance carriers for claims paid in connection with injuries or deaths from war hazards.

According to the Federal Acquisition Regulation (FAR 28.305), contracting officers must include DBA (workers' compensation) insurance in each contract approved or financed under the Foreign Assistance Act of 1961 (Public Law 87-195) unless the Secretary of Labor approves a waiver of coverage.

USAID uses a single carrier, Allied World National Assurance Company, which processes claims through Broadspire Services Inc. USAID policy requires contracting officers to insert DBA-related clauses into Agency-approved or -financed contracts.¹ Contractors can pass on these expenses to USAID.

Although the requirement to purchase DBA insurance does not apply to cooperative agreement and grant recipients, they are required to obtain DBA coverage if they award subcontracts to organizations that hire employees under their assistance instruments. Notwithstanding, USAID officials encourage DBA insurance coverage for these recipients. Officials from Allied said they offer cooperative agreement and grant recipients the same rates that USAID's contractors and subcontractors pay for insurance premiums.

Allied reported that the Agency's contractors, subcontractors, and cooperative agreement and grant recipients that bought insurance paid \$45.4 million in premiums from March 1, 2010, through March 31, 2013. During this period, Allied reported that it had paid or expected to pay \$22.3 million in benefits to claimants.

The Office of Inspector General (OIG) conducted this performance audit to determine whether USAID has appropriate internal controls to administer its DBA insurance program in compliance with federal laws and regulations. OIG found that, except for internal controls over the costs of the DBA insurance (page 3) and a lack of controls over refunds—which occur because premiums are based on estimates (page 6)—USAID has appropriate internal controls to administer its DBA insurance program in compliance with federal laws and regulations. In the sample tested, contracting officers complied with Agency guidance when issuing contracts. Similarly, contracts tested included the appropriate DBA clauses, and contractors purchased DBA policies as required.

In evaluating Broadspire's internal controls for processing Allied's claims, OIG relied on the work of external auditors. For the year ended September 30, 2012, the external auditors concluded that controls were suitably designed to provide reasonable assurance that payments processed on claim files were properly authorized and related to claims.

¹ According to *USAID's Guidelines for DBA Coverage for Direct and Host Country Contracts* (an Additional Help document for ADS Chapter 302), personal services contracts are exempt from DBA coverage because such contractors are covered by the Federal Employees Compensation Act.

In addition, Labor officials responsible for the DBA insurance program said that USAID contract or subcontract employees have not lodged any complaints about not receiving benefits to which they were entitled under DBA.

However, as stated above, the audit found areas in which to strengthen certain aspects of USAID's DBA insurance management:

- The cost of insurance significantly exceeded benefits (page 3). The ratio of benefits to premiums was only 20 percent, well below recent nationwide workers' compensation ratios, which on average exceed 100. Factors including the way premiums are calculated and the fact that benefits to recipients are capped explained the disparity. Those in the Office of Acquisition and Assistance (OAA), which manages the insurance program, were not aware of the disparity in ratios and did not have insurance expertise to negotiate more favorable terms in the contract with the provider.
- USAID did not have controls over insurance premium refunds (page 6). As much as \$6.6 million in refunds were due to USAID as of April 24, 2013, because estimates on which premiums were based proved inaccurate. The insurance provider sends refunds to contractors without notifying USAID.

The audit recommends that USAID's Office of Acquisition and Assistance:

1. Evaluate cost-effective alternatives to the present system of administering and complying with the DBA insurance program, including self-insuring (page 5).
2. Modify its follow-up contract with the next DBA insurance provider to place adjustable limits on the amount of overseas employee remuneration used to determine premiums so as not to exceed current Department of Labor benefit levels (page 5).
3. Request that USAID management evaluate and document transferring responsibilities for DBA insurance management to another division in the Office of Acquisitions and Assistance or to a more appropriate USAID office with expertise in matters related to workers' compensation insurance (page 6).
4. Issue written guidance to its contracting officers in the field to increase oversight of its contractors and implementing partners that purchase DBA insurance, including receiving a copy of the final invoice showing adjusted premium amounts from the insurance provider prior to the mission's closeout of the contract (page 7).
5. Determine the allowability of \$6,586,427 in ineligible questioned costs arising from DBA insurance premium refunds, and recover any amount determined to be unallowable (page 7).

Detailed findings appear in the following section. Appendix I contains information on the scope and methodology. OIG's evaluation of management comments is on page 8, and the full text of management comments appears in Appendix II.

AUDIT FINDINGS

Cost of Insurance Significantly Exceeded Benefits

In the insurance industry, the term “loss” refers to the basis of a damages claim under the terms of an insurance policy. From the claimant’s perspective, a loss is the monetary benefits the claimant is entitled to receive. In dollar terms, “loss” and “benefit” are interchangeable. Loss ratios measure the relationship between claims payments (losses or benefits) and premiums paid; ratios are expressed as percentages, benefits to premiums.

The audit reviewed recent industry standards for loss ratios for workers’ compensation insurance. Fitch Ratings² concluded that the nationwide ratio was 117 percent in 2011. The Workers’ Compensation Insurance Rating Bureau of California calculated that the ratio in California during 2011 was 122 percent.³ This means that, according to two independent rating agencies, workers’ compensation losses exceed premiums paid by about 20 cents to the dollar. In other words, insurers in the private sector pay more in workers’ compensation benefits than they receive in premiums from employers they insure.

Allied reported that from March 1, 2010, through March 31, 2013, USAID’s contracting organizations—contractors, subcontractors, and cooperative agreement and grant recipients—paid \$45.4 million in DBA insurance premiums. During this period, Allied reported total incurred losses (both paid and expected to be paid) of \$22.3 million. Of this total, non-war hazard losses totaled \$9.1 million from 287 non-war hazard claims. This is a loss ratio of approximately 20 percent, as shown below. This means that for every dollar in premiums received, the carrier paid or expected to pay claimants 20 cents in non-war hazard losses.⁴

Defense Base Act Insurance Loss Ratio, March 1, 2010, through March 31, 2013 (Audited)

Component	Cost (\$ millions)
Non-War Hazard Losses	9.1
Premiums	45.4
Loss Ratio (Losses to Premiums)	20%

Source: As Reported by Allied World National Assurance Company for USAID’s overseas contracting organizations.

Given the disparity in loss ratios—industry standards of approximately 120 percent compared with USAID’s 20 percent—USAID’s DBA insurance premiums are unreasonably high, leading to waste of funds that could be put to better use.

² Fitch Ratings is a global ratings agency that provides independent credit opinions, research, and data.

³ Both ratios were reported in the July 27, 2012 edition of *Business Journal*.

⁴ In determining the ratio, we do not separate war hazard and non-war hazard premiums because the U.S. Government reimburses carriers for war hazard losses, as explained in the summary section. In effect, all premiums are non-war hazard.

Further, most of the total losses incurred during the period were from war hazards (\$13.2 million war hazard losses of the \$22.3 million total losses). This is significant because, as stated above, the U.S. Government reimburses carriers for losses stemming from claims classified as war hazards (as shown in Appendix III). Furthermore, the U.S. Government pays carriers an additional 15 percent of administrative costs. When disputes arise, the insurers also collect reimbursement for their expenses in contesting claims.

These reimbursements effectively make the U.S. Government a self-insurer with respect to war hazard losses. Thus, insurance carriers bear no risk from war hazard losses, making the associated loss ratio effectively zero. In addition, the insurance carrier has the ability to recover losses it may sustain by reinsuring.⁵ Furthermore, insurers typically profit from investing premiums held in reserves, rather than from underwriting gains (the difference between premiums earned and losses incurred). Given these two factors, insurance providers have flexibility in determining premiums.

USAID personnel responsible for administering the DBA insurance program were not aware of these loss ratios because of the complexity of both the insurance industry and DBA laws and structure. For example, neither the contracting officer nor the chief of the division responsible for procurements knew that the U.S. Government reimbursed the carrier for war hazard claims.

Loss Ratios Not Factored Into Premiums. According to officials in OAA, they considered premium rates in the carrier's proposal reasonable because they were less than the prior carrier's rates and because they were less than those that other federal agencies were paying. Having little experience in insurance matters, the OAA officials did not factor loss ratios into USAID's contract with Allied, as at least one other federal agency whose contractors and subcontractors purchase DBA insurance does, OAA's personnel are experienced in government contracting and provide valuable services in OAA's Evaluations Division, which is responsible for maintaining the integrity of USAID's procurement system. Yet this division has nothing to do with insurance.

This lack of awareness of loss ratios has resulted in the U.S. Government paying unnecessarily and unreasonably high premiums. Loss ratio data for 2011 show it would be reasonable for private employers to purchase workers' compensation insurance instead of self-insuring, which would cost them an additional 20 cents per dollar on average to pay benefits. On the other hand, it is not reasonable to expect the U.S. Government to pay insurance premiums to private insurers when self-insuring would save it an average of 80 cents per dollar in benefits.

Furthermore, insurance is about transferring risk. With war hazard losses, the U.S. Government is assuming the risk from the carrier (as well as from its contractors, subcontractors, and other implementing partners) when it reimburses the carrier for related losses. If the U.S. Government opts to assume such risks, there is no need to purchase outside insurance. In fact, precedent exists for the U.S. Government to self-insure when doing so is considered beneficial to the U.S. Government, even when private insurance is available.⁶ Under a self-insurance model, the U.S. Government would assume the risk held by contractors and subcontractors for injuries or deaths to their employees.

⁵ Reinsurance insures insurance companies, allowing them to recover their losses.

⁶ For example, the federal government self-insures for risks associated with property damage, employee litigation and contract disputes, even though private insurance covering such matters is available.

Had the U.S. Government self-insured during the above-referenced period, it would have incurred \$9.1 million in losses from non-war hazard claims and saved \$36.3 million in premium costs (\$45.4 million in premiums paid less \$9.1 million in losses incurred) less the costs to process such claims (for which carriers are reimbursed 15 percent). This is a conservative estimate since it excludes reimbursements for war hazard losses.

Premiums Not Capped. Another factor contributing to the unfavorable loss ratios is that unlike benefits, premiums are not capped. Under DBA insurance contracts, the carrier charges premium rates based on “overseas employee remuneration.” Overseas employee remuneration includes salary and benefits such as recruitment incentives, post differential, and danger pay, but excludes items such as per diem and housing. Aside from excluding these items, neither USAID regulations nor the contract with Allied places any caps on employee remuneration for determining premiums. Hence, premiums can rise indefinitely whereas insurance benefits cannot.

USAID personnel administering the DBA insurance program did not place caps on employee remuneration in the contract with Allied. The reason was that these administrators, not being familiar with workers’ compensation, did not know DBA insurance benefits were capped. OAA’s Evaluations Division chief, when asked why her division was responsible for managing the DBA insurance program, did not know. She said only that her division had been managing the program since 1993.

The chief further explained that the DBA insurance management role should not belong to the Evaluations Division because it has no bearing on the typical duties and responsibilities of this particular division. OAA’s Evaluations Division is responsible for maintaining the integrity of USAID’s procurement process. Staff members’ duties include issuing warrants to individuals so they can perform the duties of contracting officers. Therefore, Evaluations Division personnel do not and cannot be expected to know about insurance program intricacies like the limits for death and disability benefits for injured or deceased contracted employees. She suggested that either another OAA division or USAID’s Human Resources Office should administer DBA insurance; presumably, the latter would have more expertise in workers’ compensation matters.

The maximum compensation rate applicable to claimants is 200 percent of the current national average weekly wage as calculated by the Secretary of Labor. For fiscal year 2012, the current national average weekly wage was \$647.60. Therefore, the maximum compensation rate for total disability and death benefits is \$1,295.20 ($\647.60×200 percent) or \$67,350 a year. In our opinion, USAID should limit employee remuneration to these statutorily limited benefit amounts for determining premium rates and adjust the rates annually to reflect changes in the caps.

Recommendation 1. We recommend that USAID’s Office of Acquisition and Assistance evaluate cost-effective alternatives to the present system of administering and complying with the Defense Base Act insurance program, including the option to self-insure with congressional approval, and document the results.

Recommendation 2. We recommend that USAID’s Office of Acquisition and Assistance modify its follow-on contract with the selected Defense Base Act insurance provider to place adjustable limits on the amount of overseas employee remuneration used to determine premiums, so that remuneration does not exceed current Department of Labor benefit levels.

Recommendation 3. *We recommend that USAID’s Office of Acquisition and Assistance evaluate and document with USAID management whether to transfer responsibilities for Defense Base Act insurance management to another division within the Office or to a more appropriate USAID Office with expertise in matters related to workers’ compensation insurance.*

USAID Did Not Have Controls Over Insurance Refunds

According to USAID’s Automated Directives System Chapter 596, “Management’s Responsibility for Internal Control,” USAID management is responsible for implementing internal controls to provide reasonable assurance that assets are safeguarded against waste and loss. In addition, FAR 31.201-5 states: “The applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund.” In other words, contractors must remit or credit refunds of expenses charged to their agreements received from vendors back to USAID.

In the case of DBA insurance, refunds are calculated at the end of the insurance year (Appendix IV). Refunds are in order if contractors’ estimates of employee remuneration for that year were inflated and caused premiums to be too high. Estimates may be inaccurate—inflated or too low—because the calculation of remuneration is complex.

OAA’s Acquisition & Assistance Policy Directive 12-01, November 1, 2011, outlines three rates for determining DBA insurance premiums, depending on the nature of the services provided under the particular contract or agreement. The rates are calculated per \$100 of employee remuneration. Estimates of employee remuneration can be overstated, for example, when the number of employees hired is less than the budgeted number on which premium estimates were based.

From March 10, 2010, to April 24, 2013, Allied issued refunds of \$6.6 million to USAID contractors and subcontractors and to cooperative agreement and grant recipients that opted to purchase DBA insurance. However, OAA had no internal controls to provide OAA management with reasonable assurance that refunds issued to these organizations by Allied were remitted to or credited to USAID on time. Furthermore, the USAID DBA insurance contract with Allied does not require Allied to report to the contracting officer’s representative any refunds issued to contracting organizations. OAA officials administering the DBA insurance program were unaware of this refund process and did not know Allied had issued any refund to any contractor during the performance of this contract.

The OAA Evaluations Division chief explained that the lack of internal controls resulted from USAID’s no-cost award with Allied. A no-cost award means that no exchange of funds occurs between USAID and Allied (financial transactions are between Allied and USAID’s contracting organizations). Consequently, she said there was no need for internal controls such as reviewing costs, which would include reviewing refunds, at contract completion. Cost contracts, on the other hand, require internal controls, which would include a comprehensive review once all performance is complete and all vouchers have been received.

If the contracting organization receives a refund from Allied while still being paid the original amount agreed to by USAID, USAID is paying more than it should, and the contracting

organization is receiving double reimbursement. As much as \$6.6 million is due to USAID from its contractors and subcontractors and from implementing partners that opted to purchase DBA insurance.

To recoup refunds due to USAID, the audit makes the following recommendations.

Recommendation 4. We recommend that USAID's Office of Acquisition and Assistance issue written guidance to its contracting officers to increase oversight of its contractors and of implementing partners that purchase DBA insurance, including obtaining before contract closeout a copy of the insurance provider's final invoice showing adjusted premium amounts.

Recommendation 5. We recommend that USAID's Office of Acquisition and Assistance determine the allowability of \$6,586,427 in ineligible questioned costs arising from Defense Base Act insurance premium refunds issued to USAID contracting organizations and recover from them any amounts determined to be unallowable.

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, OAA officials agreed with four of the report's five recommendations. OAA disagreed with Recommendation 5.

After evaluating management comments, we acknowledge management decisions on all five recommendations. However, Recommendation 5 involving the allowability of questioned costs stemming from DBA insurance premium refunds remains without a target date for completion, pending a final determination by the responsible contracting officer. Our evaluation of management comments follows.

Recommendation 1. OAA officials agreed to evaluate cost-effective alternatives for complying with DBA but requested that we omit the option of self-insuring. They pointed out that self-insuring is not an option under the law. Our recommendation, however, acknowledges that the self-insuring option would require congressional approval—a fact that should not prohibit them from exploring this as an option. OAA officials further wrote: “Price competition results in the lowest and most cost-effective price for the Government’s DBA requirements.” We agree with their reasoning, provided they consider self-insurance alongside bids submitted by private insurers. In our opinion, the self-insurance model would be the most cost-effective option based on the U.S. Government’s inherent ability to self-insure, as discussed on page 4 of this report. OAA officials set a target date for completion of February 1, 2015. We acknowledge OAA’s management decision on Recommendation 1 and urge the office to evaluate self-insurance.

Recommendation 2. OAA officials agreed that in the follow-on contract they will limit the amount of overseas employee remuneration used for determining premiums so as not to exceed Department of Labor benefit levels. Officials set a target date for completion of February 1, 2015, before the next contract is awarded. Therefore, we acknowledge OAA’s management decision on Recommendation 2.

Recommendation 3. OAA officials agreed to evaluate and document transferring responsibilities for DBA insurance management to another OAA division or to another USAID office with expertise in matters related to workers’ compensation insurance. OAA officials set a target date of January 31, 2014, for completion. We acknowledge OAA’s management decision on Recommendation 3.

Recommendation 4. OAA officials agreed to issue written guidance to contracting officers in the field to increase their oversight of contractors’ and implementing partners’ DBA insurance coverage. Officials agreed to several actions, including issuing policy guidance worldwide to coincide with the start of the follow-on DBA contract, and set a target date of February 1, 2015, for completion. We acknowledge OAA’s management decision on Recommendation 4.

Recommendation 5. OAA officials disagreed with this recommendation—to determine the allowability of \$6,586,427 in ineligible questioned costs arising from DBA insurance premium refunds issued to USAID contracting organizations and recover from them any amounts determined to be unallowable—and made a management decision not to implement it. Officials asserted that all cost contracts between missions and contractors undergo cost audits, subject

to dollar thresholds; any cost changes identified in these audits, including DBA insurance premium refunds, would be adjusted accordingly. Officials also said they had communicated with other federal agencies and concluded that this practice is adequate to ensure that refunds are properly credited to the U.S. Government. They asserted that implementing our recommendation would be time-consuming and demanding and would detract from their ability to streamline USAID's procurement process.

We acknowledge but respectfully disagree with this management decision. We are aware of at least one oversight agency that issued a cost-recovery recommendation to a federal department after auditing that department's DBA insurance program; that recommendation pertained to refunded premiums. In that instance, the federal department agreed to determine and recover the amount of refunds due and established a timeline for doing so. Given this precedent, we believe our recommendation is reasonable and would not place an undue burden on OAA officials. In addition, we know from experience that the Defense Contract Audit Agency, which generally performs USAID's contract cost audits, is often years behind in performing such audits. For that reason, a proactive approach to recover these refunds in a timely manner is warranted.

SCOPE AND METHODOLOGY

Scope

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, in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of the audit is to determine whether USAID has appropriate internal controls to administer its DBA insurance program in compliance with federal laws and regulations. USAID awarded a fixed-rate, zero-dollar-requirement-type contract⁷ to Allied on March 1, 2010. The base period of the award is the 2-year period ending February 28, 2012, and includes three option years ending February 28, 2015. Our audit scope was the period starting with Allied's contract inception on March 1, 2010, and ending on April 24, 2013.

USAID's DBA insurance carrier reported that the Agency's contractors and subcontractors, as well as cooperative agreement and grant recipients that bought insurance, paid \$45.4 million in premiums cumulatively from contract inception through the quarter ended March 31, 2013. During this same period, USAID's carrier reported that it had paid or expected to pay \$22.3 million in benefits to claimants.

We performed the audit at OAA at USAID/Washington. We also interviewed officials from Labor and from Allied and AON. Audit fieldwork was conducted from March 15 through June 26, 2013.

To answer the audit objective, the audit assessed USAID's internal controls over its administration of its DBA insurance program. This assessment included reviewing USAID's acquisition directive policies and procedures over obtaining DBA insurance and related portions of USAID's ADS. The audit also examined a selection of USAID contracts for the required DBA clauses and for whether these contractors obtained DBA policies. The audit assessed internal controls over DBA insurance claims processing by relying upon the work of external auditors. The audit reviewed Ernst & Young's Independent Service Organization Auditor's Report on Broadspire's Transaction Processing System, which included claim payment processing and standard client loss data reporting for the year ended September 30, 2012.

The audit also examined relevant laws such as the Defense Base Act, the Longshore and Harbor Workers' Compensation Act, the War Hazards Compensation Act, and the Federal Acquisition Regulations. Additionally, the audit examined laws and regulations related to employee benefits that fall under these acts. The audit also reviewed and performed analytical procedures of financial information of premiums and benefits prepared by the insurance carrier. The audit also considered DBA-related findings as reported by other audit organizations and DBA reports prepared by other U.S. Government organizations.

⁷ This means that the contract is not subject to price adjustments, and USAID pays nothing to its DBA insurance provider, Allied. The contract sets the premium rates that USAID's contractors, subcontractors, and cooperative agreement and grant recipients will pay when entering into agreements with Allied.

Methodology

To answer the audit objective, the audit tested a judgmentally selected sample of 20 contracts, active as of March 2013, for work outside the continental United States. Most of the selections were from Iraq and Afghanistan because these countries are not on the list of exempted countries put out by Labor for DBA insurance for locally hired employees.

The audit tested whether the sample contracts included the DBA-related clauses from USAID Acquisition Regulations 752.228-3 which mandates that DBA insurance clauses be included in contracts and subcontracts. The audit also tested for whether the sampled contractors purchased a DBA insurance policy in accordance with Acquisition and Assistance Policy Directive 12-01.

The audit found that all 20 sampled contracts contained the appropriate clauses and that all 20 sampled contractors purchased a DBA insurance policy related to the specific sampled contract.

For USAID contracts and subcontracts for work overseas, as of March 2013, not tested, nothing came to our attention during the course of the audit indicating that a contract or subcontract omitted the appropriate DBA-related clauses. Also, with one exception⁸, nothing came to our attention indicating that a USAID contractor or subcontractor failed to purchase a DBA insurance policy for eligible employees working overseas. Results of this sample cannot be projected to the unknown intended population of all USAID active contracts and subcontracts for work performed outside the United States. Finally, we did not define materiality thresholds.

To determine the reasonableness of premiums, we compared loss data ratios provided by Allied with ratios reported by the Workers' Compensation Rating Bureau of California and Fitch Rating for 2011.

⁸ OAA officials brought to OIG's attention a matter involving a plane crash that occurred within the last year in one of USAID's critical priority countries in which ten people working for a USAID contracting organization were killed. Only eight of the ten individuals were allegedly covered under the organization's DBA insurance policy. An OAA official told OIG that the contracting organization settled with the non-covered employees' surviving dependents. OAA officials declined to provide further details.

MANAGEMENT COMMENTS

From: Aman Djahanbani
Sent: Monday, September 09, 2013 5:13 PM
To: (IG/A/PA)
Subject: Re: Transmittal of OIG Draft Audit Report on Defense Base Act 08-05-2013

Please see attached comments from M/OAA to the draft report on the Audit of USAID's DBA Program. Once again, my apologies for the delay. Best, Aman

M/OAA Comments on Draft Audit of DBA Insurance Program dated August 5, 2013

The audit recommendations are shown; OAA responses are in blue:

1. Evaluate cost-effective alternatives to the present system of administering and complying with the Defense Base Act insurance program, including self-insuring (page 5).

Agree except delete "including self-insuring" as we have no authority to change the Congressionally mandated DBA legislation. Government self-insuring is not an option presently under the law.

Corrective action: Cost effectiveness will be further explored and achieved through competition for this award. Price competition results in the lowest and most cost effective price for the Government's DBA requirements. The lowest priced responsible offeror will be selected.

Target completion date: February 1, 2015.

2. Modify its follow-up contract with the next Defense Base Act insurance provider to place adjustable limits on the amount of overseas employee remuneration used to determine premiums so as not to exceed current Department of Labor benefit levels (page 5).

Agree.

Corrective action: Will plan accordingly before next contract award.

Target completion date: February 1, 2015.

3. Request that USAID management evaluate and document transferring responsibilities for Defense Base Act insurance management to another division within the Office of Acquisitions and Assistance or to a more appropriate USAID Office with expertise in matters

related to workers' compensation insurance (page 6).

Agree.

Corrective action: Assess if DBA expertise exists within another OAA functional area or somewhere else in the Agency. As DBA is very similar to Worker's Compensation (for US employees), the alternative will be to recommend placement within HR as it is quite familiar with domestic workers' compensation laws and requirements.

Target completion date: January 31, 2014

4. Issue written guidance to its contracting officers in the field to increase oversight of its contractors and implementing partners that purchase DBA insurance, including receiving a copy of the final invoice showing adjusted premium amounts from the insurance provider prior to the mission's final closeout of the contract (page 7).

Agree in concept but recommend revision similar to the following:

Issue written guidance to its contracting officers (both in the field and in Washington) to increase oversight of the purchase of DBA insurance by contractors and implementing partners. This entails that COs obtain a copy of the policy's cover page and include it in the appropriate award file. In addition, COs are to obtain a copy of the final voucher showing that the adjusted premium credits from the insurance carrier have been credited to the Agency. This must be done prior to final payment and prior to award closeout.

Corrective action plan: M/OAA/P will issue detailed policy guidance USAID world-wide to coincide with the next contract award.

Target date: - Estimated February 1, 2015 (when successor contract is awarded).

5. Determine the allowability of \$6,586,427 in ineligible questioned costs arising from DBA insurance premium refunds, and recover any amount determined to be unallowable (pg. 7).

Disagree as stated in prior comments---Recommend removal of this recommendation fully. Our previous detailed comments are reiterated below:

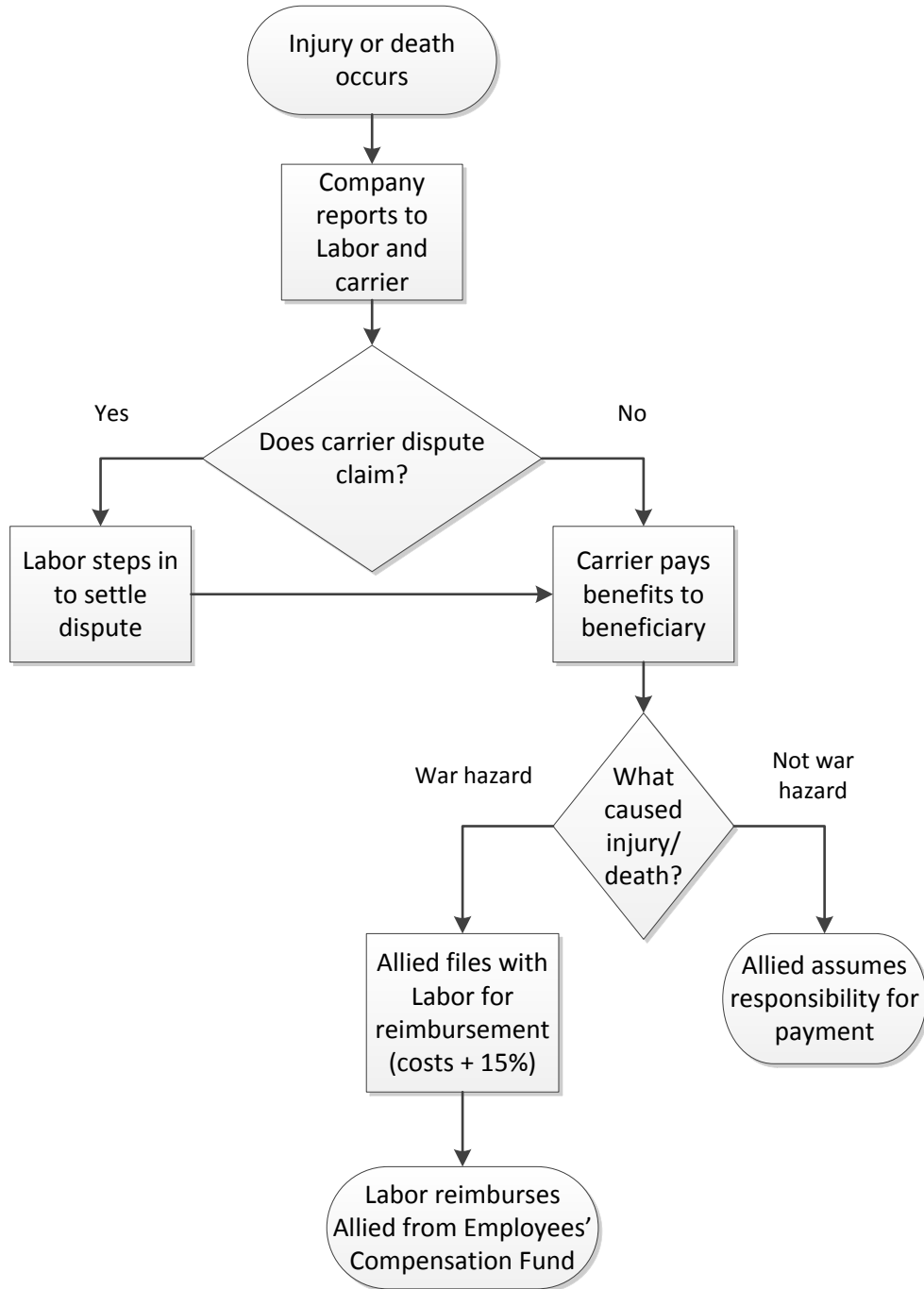
Request removal of this recommendation given that audits are performed on cost contracts. Cost contracts are audited thoroughly and in great detail at the end of the contractual period of performance before being closed out. During this process, all expenses and billings are reviewed thoroughly; any

additions or deletions to cost items that occurred during the life of the contract (including those related to changes or refunds to DBA premiums) are adjusted accordingly. The Federal Government procurement process uses this sole methodology effectively and with confidence for every Agency's cost contracts (at a specified dollar threshold). USAID adheres to this and follows the approved regulations/procedures and feels this is an adequate safeguard to ensure DBA refunds are credited properly to the USG. Anything more would be excessive, go beyond what is deemed acceptable, and would be duplicative of the audit at best.

In addition, in checking with other Federal Agencies and all rely on the final closeout audit of the specific contracts as a fully adequate system of checks and balances to ensure credits to the Government are accurately and completely recorded and such amounts deducted on vouchers submitted.

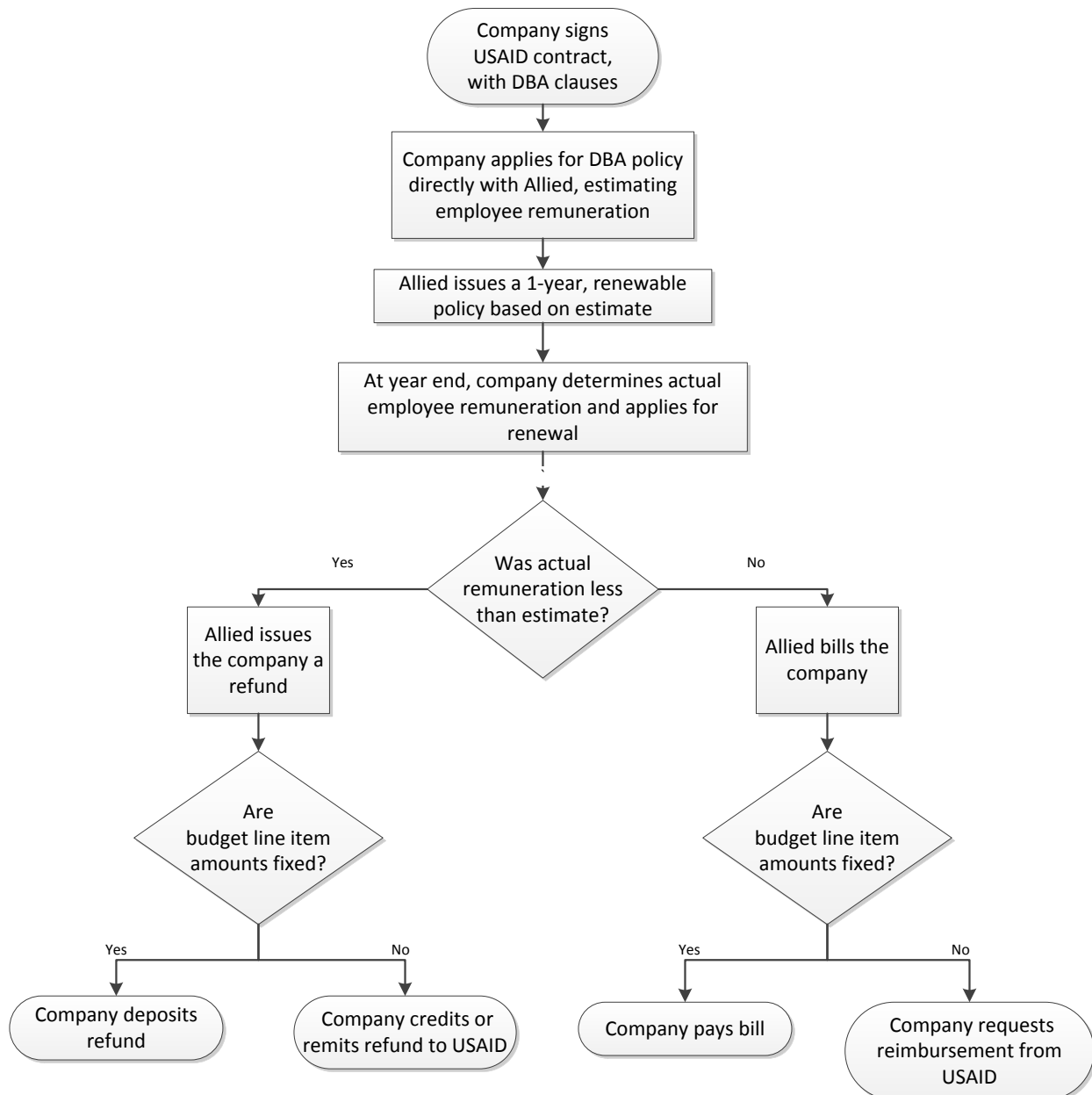
To do otherwise is to institute more stringent , time consuming and more demanding regulatory requirements as opposed to simplifying and expediting the procurement procedures and processes .

Claims Process



Source: OIG's Analysis of the DBA, the War Hazards Compensation Act, information provided by USAID and Labor, and an adaption from an audit report issued by the Special Inspector General for Afghanistan Reconstruction, *Weaknesses in the U.S. Army Corps of Engineers Defense Base Act Insurance Program Led to as Much as \$58.5 Million in Refunds Not Returned to the U.S. Government and Other Problems*, July 28, 2011..

Premium Application and Refund Process



Source: OIG Analysis of the DBA, including information provided by USAID and Allied, and an adaption from an audit report issued by the Special Inspector General for Afghanistan Reconstruction, *Weaknesses in the U.S. Army Corps of Engineers Defense Base Act Insurance Program Led to as Much as \$58.5 Million in Refunds Not Returned to the U.S. Government and Other Problems*, July 28, 2011.

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