

United States Department of State
Office of Inspector General

**Agreed-Upon Procedures Review of Daily Direct Labor, Aerial Support Equipment and
Indirect Expense Rates Proposed by
Blackwater Security Consultants, Incorporated,
Contractor's Accounting System & Timekeeping Procedures**

**Report Number
AUD/IQO-05-13
January 2005**

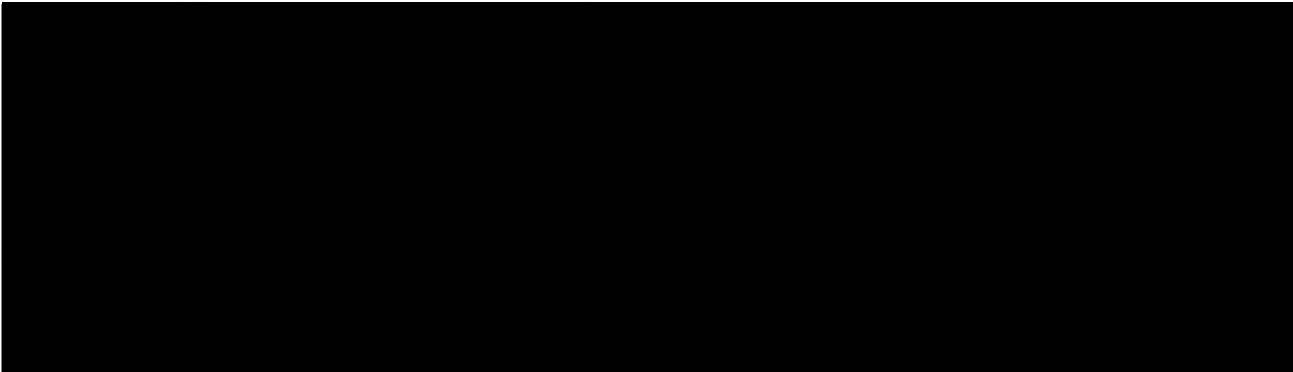
Leonard G. Birnbaum and Company, LLP, Certified Public Accountants, performed the review under Department of State, Office of Inspector General, Contract No. SAQMPPD04DO033, and by acceptance this report becomes a product of the Office of the Inspector General.



Cameron R. Hume
Acting Inspector General

Jan 31 05

Date



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INDEPENDENT ACCOUNTANT'S REPORT

Subject: Agreed Upon Procedures Report on the Review of Daily Direct Labor, Aerial Support Equipment and Indirect Expense Rates Proposed by Blackwater Security Consultants, Incorporated, Contractor's Accounting System & Timekeeping Procedures.

Summary

We performed the procedures described below in review of the proposed rates at the request of the Office of Inspector General (OIG). Although we did not take exception to the proposed base labor rates, our review did disclose differences in the proposed indirect expense rates and other direct costs proposed as an element of the proposed total daily rates.

The proposed rates and the results of our review are contained in Exhibits A, B & C and related Schedules.

We recommend that the contracting officer consider the adjustments presented in the exhibits and schedules of this report in the negotiation of a definitive contract.

Our review also disclosed that the contractor's current timekeeping procedures in Iraq are deficient and that its current accounting system is not considered adequate for accumulating costs on government contracts or to support billings under this contract without the use significant ancillary records and worksheets.

The results of our review of, and related recommendations on, the contractor's timekeeping procedures and accounting system are contained in Appendices 1 and 2, respectively.

We recommend that the contracting officer require Blackwater Security Consultants, Inc. to correct the deficiencies noted in Appendices 1 and 2 related to its timekeeping procedures and accounting system.

Background

This proposal was submitted to definitize letter contract number S-AQMPD-04-D-0061 awarded to Blackwater Security Consultants, Inc., pursuant to section 16.603 of the Federal Acquisition Regulation (FAR). The contract provides for Protective Security Services for the American Diplomatic Mission in Iraq and the American Ambassador to Iraq and his residence in Iraq, including aerial, administrative and logistical support. The period of performance contemplated under this contract is June 11, 2004, to June 10, 2005.

Purpose, Scope, and Methodology

We performed this agreed-upon procedures engagement in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of OIG. Consequently, we make no representation regarding the sufficiency of procedures described below either for the purpose for which this report has been requested or any other purpose. The procedures we performed are summarized as follows:

- a. We verified the mathematical accuracy and validated the formulas used by the contractor in the pricing of this proposal.
- b. We verified the proposed base direct labor rates of those positions identified as expected to participate in the contemplated contract, where appropriate, to payroll records or other supporting documentation.
- c. We evaluated the proposed indirect cost rates by comparison to the most current actual historical or forecasted rates as considered appropriate.
- d. We evaluated the underlying supporting documentation for the proposed other direct costs included in the contractor's proposed daily labor rates.
- e. We evaluated other rates and factors used by the contractor in the development of the proposed daily rates as considered appropriate.
- f. We reviewed the contractor's timekeeping procedures in Iraq to determine if they are adequate to ensure reliable billings under this contract.
- g. We reviewed the contractor's accounting system to determine if it is adequate for accumulating costs under government contracts and to support billings under this contract.

Because the above procedures do not constitute an audit conducted in accordance with generally accepted government auditing standards, we do not express an opinion on the adequacy and compliance of the reviewed cost or pricing data. In connection with the procedures referred to above, no matters came to our attention that caused us to believe that there were significant inadequacies or noncompliance related to the areas reviewed other than noted. This report relates only to the rates, procedures, and systems specified above.

Our review was performed during the period October 22 through November 20, 2004, at Blackwater's facilities in Moyock, North Carolina, and our office in Alexandria, Virginia.

Leonard G. Birnbaum and Company, LLP



Leslie A. Leiper, CPA, Senior Partner

(b) (4)



Explanatory Notes

EXHIBIT A

Note 1 – Direct Labor

All of the positions listed are classified as independent contractors by Blackwater. All are paid at a specified daily independent contractor contract rate for each day they are deployed in Iraq and physically present at their duty station. Blackwater priced out the proposed daily labor cost on the premise that the independent contractors are paid for seven days per week although they are only required to work six days in accordance with the statement of work. The proposed “daily” labor rates are computed to recover the seven days pay over six “billing” days. This method is considered acceptable as long as these individuals only actually work six days and Blackwater bills for the six out of seven days actually worked. Our review of timekeeping procedures (Appendix 1), however, disclosed that, at present, Blackwater only accounts for the number of days these individuals are physically present while deployed at their duty station and not the days actually worked. Billings to the Department are manually adjusted to ensure that the Department is billed only for six days for each seven days deployed.

For purposes of our review, we compared the proposed rates to the contract rates specified in the “Independent Contractor Service Agreement” executed by Blackwater and the individual contractors, and to actual amounts paid and verified Blackwater’s calculations. Based upon our review, we have not taken any exception to the daily direct labor cost as proposed.

In the event that the Department chooses to pay Blackwater for “deployment” days in lieu of “days worked,” Blackwater would have to be required to resubmit its proposal to adjust these labor rates downward.

Note 2 – Holiday Premium Pay & Bonus

Holiday Premium Pay. (b) (4)

(b) (4)

(b) (4)

We verified the proposed incentive to the amounts specified in the current Independent Contractor Service Agreement and have not taken any exception to the amount as proposed.

Bonus. (b) (4)

(b) (4)

(b) (4)

We verified the proposed incentive to the amounts specified in the current Independent Contractor Service Agreement and have not taken any exception to the amount as proposed.

Note 3 – Health & Welfare and Uniform Maintenance

Blackwater included estimated costs for health and welfare and uniform maintenance in its daily proposed rates. Health and welfare costs are estimated cost for the general health and welfare of personnel, while on deployment status. (b) (4)

(b) (4)

(b) (4)

(b) (4) Based upon our review, we have not taken any exception to the amounts proposed for Health & Welfare and Uniform Maintenance.

Note 4 – Dedicated Overhead

For this proposal, Blackwater did not use an “overhead” rate in the traditional sense. That is, an overhead rate based on an overhead expense pool applied to direct labor. Blackwater instead “identified” those indirect individuals and other costs that it deemed are “dedicated” to this contract and grouped these costs into a “pool” entitled “Dedicated Overhead.” The base used to allocate these costs is the estimated total direct costs over the period of performance of this contract. (b) (4)

Based upon our review, we have questioned 3.36 percent of the proposed rate as follows:

(b) (4)

a. Represents estimated labor cost for personnel that have been designated as dedicated to this contract. We compared the proposed labor cost to current payroll records and have not taken any exception to the amounts as proposed.

b. As part of its proposed equipment costs, Blackwater included costs equating to (b) (4) to purchase five armored vehicles plus operating expenses to be used to transport personnel to and from Baghdad Airport in Iraq. The contractor indicated that it purchased these vehicles to provide some protection for its personnel as it felt that vehicles currently available in Iraq were not adequate for this purpose. We discussed this with the contracting officer, who indicated that the contractor was not required to purchase these vehicles as they are not called for in the statement of work. Our review of the statement of work also did not disclose a requirement for these vehicles. The contracting officer also indicted that the government has sufficient vehicles in Iraq that can be used for this purpose. As a result, we have questioned the

costs included in the contractors' proposal to purchase these vehicles plus the operating costs (i.e., maintenance, repair, etc.)

Blackwater also included costs equating to (b) (4) to operate these vehicles. Our review disclosed that these "drivers" are the protective security specialists deployed in Iraq. The cost for these personnel is already being recovered in the daily rates being proposed. As a result, inclusion of additional costs for drivers in dedicated overhead is, in effect, a duplication of labor costs. Consequently, we have questioned the costs included in the contractor's proposed Dedicated Overhead in total.

c. Blackwater included an estimated Management Reserve in its proposal "to cover unforeseen occurrences such as loss of transport vehicles, multiple helicopter incidents, emergency evacuation or re-deployment of personnel, etc." The contractor did not provide a basis for this estimate except to indicate that it "is equal to less than (b) (4) of total expenditures forecasted for this contract at the time of bid proposal."

It is our opinion that these costs fall under the definition of contingencies under FAR 31.205-7. FAR further states that contingencies "that may arise from presently known or unknown conditions, the effect of which cannot be measured so precisely as to provide equitable results to the contractor and to the Government" are to be excluded from cost estimates. As a result, we questioned the proposed Management Reserve in total.

In the event that these unforeseen conditions do occur, the contractor should be required to submit a separate claim detailing the resultant costs.

d. Our review disclosed that in addition to profit in Note 6 applied to total costs proposed, Blackwater included profit in its "dedicated overhead." This results not only in a duplication of profit, but also a pyramiding of profit because, in effect, Blackwater is applying profit to profit. As a result, we have questioned the proposed amount in total.

e. As stated in Note 3 to Schedule A-1, we have questioned Administrative Processing Costs as an Other Direct Costs as it is our opinion that these are indirect costs. As a result, we included an estimate of these indirect administrative costs (based on the contractor's calculations) in the Dedicated Overhead pool.

f. As stated above, Blackwater only allocated Dedicated Overhead expenses to total direct costs proposed. Because we have questioned other direct costs included in total direct costs proposed, we have adjusted the proposed base to reflect elimination of the direct costs questioned except for the ODCs questioned as part of the Daily Rate in Note 4 to Schedule A-1. For these costs, we have only questioned their inclusion as part of the Daily Rate, not the costs themselves.

Questioned Dedicated Overhead represents the application of the:

1. questioned rate to total direct costs proposed; and
2. recommended rate to total direct costs questioned.

Details of our calculations are contained in Schedule A-2.

Note 5 – General & Administrative (G&A) Expenses

The contractor proposed G&A expenses by applying a proposed G&A rate of (b) (4) to total direct costs proposed, exclusive of dedicated overhead. (b) (4)

(b) (4)
Our review of the contractor's actual experience as of August 2004 disclosed that the forecasted rate was in line with its forecast. (b) (4)

(b) (4) Interest is expressly unallowable in accordance with FAR 31.205-20.

For purposes of our review, we have used the contractor's forecasted rate, less the unallowable interest, resulting in a questioned rate as follows:

(b) (4)

Questioned G&A expenses represents application of the:

1. questioned rate to total direct costs proposed; and
2. recommended rate to total direct costs questioned.

Details of our calculations are contained in Schedule A-2.

Note 6 - Profit

(b) (4)

Profit is a matter under the purview of the contracting officer.

Note 7 – Difference

The amounts in this section are presented solely for the convenience of the contracting officer in developing a negotiation objective. They represent only the arithmetic difference between the amounts proposed and the related questioned amounts. These amounts should not be considered as audit approved or recommended amounts because the amounts depend partly on factors outside the realm of auditing expertise, such as opinions on technical matters and other requirements under the contract.

(b) (4)



Explanatory Notes

SCHEDULE A-1

Note 1.

Our review disclosed that in addition to G&A costs applied to total direct costs in Note 5 to Exhibit A, the contractor included G&A expenses in its proposed ODCs. This results not only in a duplication of G&A, but also a pyramiding of G&A because, in effect, Blackwater is applying G&A to G&A. The contractor contends that it is "entitled" to do this because the ODCs are being incurred by a "separate" business unit with a separate Tax ID Number (Blackwater Training Center) and then billed to Blackwater Security Consulting, which is responsible for the operational aspects of this contract.

We find no basis to accept this contention. Blackwater Training Center, although it does have a separate Tax ID Number, is in effect a profit center under Blackwater Lodge and Training Center, Inc., under common management control. In fact, the G&A expense pool identified in Note 5 to Exhibit A contains the management costs for both Blackwater Security Consulting and Blackwater Training Center. As a result, we have questioned the G&A expenses included in ODCs in total.

Note 2.

In addition to G&A in Note 1 above, the contractors also included profit in its ODCs for the same reasons above. For the same reasons discussed above we have questioned the profit included in ODCs in total.

Note 3.

The contractor also included what it termed "administrative processing" costs in its proposed ODCs. Our review disclosed that these types of costs are actually indirect costs and are accumulated in an indirect expense pool. As a result, we have questioned these costs included in ODCs in total, but have provided for these costs to be recovered as part of Dedicated Overhead expense pool. (See Note 4e to Exhibit A)

Note 4.

The contractor included its proposed other direct costs as part of its proposed daily rates. We do not believe that this practice is appropriate. ODCs by their nature are nonrecurring charges that have no beneficial or causal relationship to labor units (hours or days) incurred. The balance of the ODCs include training, equipment, and cost of deployment. These costs are incurred based upon the direct relationship of number of personnel and not labor units. As a result, we have questioned the inclusion of these ODCs as part of the daily rate. We believe that the contractor should have proposed and billed these costs separately. For informational purposes, we have estimated, based on the contractor's proposal, the ODCs, as costs plus applicable Dedicated Overhead and G&A, per position and presented them in Schedule A-3.

(b) (4)



(b) (4)



(b) (4)



Explanatory Notes

SCHEDULE A-3

Note 1.

Represents ODCs per person identified in the contractor's proposal at proposed costs.

Note 2.

Represents allocable Dedicated Overhead at the recommended rate of (b) (4)

Note 3.

Represents allocable G&A at the recommended rate of (b) (4)

(b) (4)



Explanatory Notes

EXHIBIT B

Note 1 – Presidential Airways

The Aerial services for this contract are to be provided by what the contractor claims is an “affiliated” company. This company, Presidential Airways, a.k.a. Blackwater Aviation, currently maintains its own separate payroll and accounting system. However, it is still under the same general management and control as Blackwater Security Consulting and Blackwater Training Center, although to a lesser degree. All of the companies fall under The Prince Group and Blackwater USA and its president.

Note 2 – Labor

The proposed labor was based on the contractor’s Independent Contractor Service Agreement for contract personnel and current payroll for employees. Unlike labor for Embassy PSD, Ambassador PSS and Support, Aerial Support daily labor rates are based on a straight seven-day, in-country “workweek” and billings are handled accordingly. The contractor explained that these individuals are expected to “work” seven days while “in country.”

For purposes of our review, we compared the proposed rates to the contract rates specified in the current Independent Contractor Service Agreement and to actual amounts paid. Based upon our review, we have not taken any exception to the daily direct labor cost as proposed.

Note 3 – Health & Welfare Costs

(b) (4)
(b) (4) Our review of the contractor’s proposed daily rate for health and welfare did not disclose any basis to question the amounts as proposed. We did note, however, that the contractor omitted health and welfare costs in its calculation of the daily rate for the “Door Gunner.” This appears to be an error in the contractor’s calculations, and we have adjusted the daily rate for the Door Gunner accordingly.

Note 4 - Travel

(b) (4)
(b) (4) These costs are normally classified as ODCs. For the same reasons as discussed in Note 4 to Schedule A-1, we have questioned these costs in total as an element of the proposed daily rate. These costs should be billed separately as incurred, including applicable G&A.

Note 5 – Management Fee

(b) (4)
(b) (4) rate proposed for aerial support functions is reasonable.

Questioned Management Fee expenses represent the application of the proposed/accepted rate to total direct costs questioned as follows:

(b) (4)



Note 6 – Profit

(b) (4) Profit is a matter under the purview of the contracting officer.

Note 7 – Difference

The amounts in this section are presented solely for the convenience of the contracting officer in developing a negotiation objective. They represent only the arithmetic difference between the amounts proposed and the related questioned amounts. These amounts should not be considered as audit approved or recommended amounts because the amounts depend partly on factors outside the realm of auditing expertise, such as opinions on technical matters and other requirements under the contract.

(b) (4)



Explanatory Notes

EXHIBIT C

Note 1 - Equipment

(b) (4)

(b) (4)

(b) (4) We reviewed the underlying documentation in support of the estimated "war" risk insurance and have not taken exception to the amount as proposed. Although we requested details for the "lease" costs proposed, the contractor declined and simply stated that this estimate was what it believed is a reasonable lease charge for the use of the aircraft. As a result, lacking any other data to support these costs, we have set the proposed lease costs out as unsupported. The contractor should be required to provide a cost breakdown detailing the elements included in this "lease" cost.

We have not quantified the "Management Fee" applicable to these unsupported costs.

(b) (4)

Note 2 – ODCs and Start-Up Costs

The contractor included in its proposed daily rate costs for various ODCs such as uniforms, equipment, etc., and costs for what it described as "start-up" costs which are primarily for spare parts and training. Based upon our review, we have not taken exception to the proposed costs. We have, however, taken exception to the inclusion of these costs in the daily rates. As stated in Note 4 to Schedule A-1, these types of costs by their nature are nonrecurring charges that have no beneficial or causal relationship to the number of days these aircraft are deployed or in operation. As a result, we have questioned the inclusion of these costs as part of the daily equipment rate. For informational purposes, the total amount of these costs included in the proposal plus applicable management fee is as follows:

(b) (4)

Note 3 – Management Fee

As stated in Note 5 to Exhibit B, we have not taken exception to the proposed management fee for Aerial Support. (b) (4)

(b) (4)

Note 4 – Profit

(b) (4) Profit is a matter under the purview of the contracting officer.

Note 5 – Difference

The amounts in this section are presented solely for the convenience of the contracting officer in developing a negotiation objective. They represent only the arithmetic difference between the amounts proposed and the related questioned amounts. These amounts should not be considered as audit approved or recommended amounts because they depend partly on factors outside the realm of auditing expertise, such as opinions on technical matters and other requirements under the contract.

Note 6 – Reconnaissance Flight Hour Cost

The proposed costs represent an estimate of the maintenance and repair costs required for the normal operation of these aircraft. Based upon our review of the underlying supporting documentation, we have not taken exception to the cost per flight hour as proposed.

Blackwater Security Consultants, Inc.
Timekeeping Procedures – Iraq

Summary Results of Review

Our review disclosed that the contractor's timekeeping procedures in Iraq are lacking significant internal controls to ensure both accurate recordation of labor costs on this contract and billings to the government as detailed below.

1. Lack of Time Sheets, Employee Certification and Approval.

Condition. The contractor does not employ the use of individual employee "time sheets" for labor performed in Iraq. Rather, the contractor uses a system whereby a "muster" sheet is prepared by the agent in charge (AIC), (detail leader) simply indicating whether the individuals are physically present at their duty station or in travel or other status on a daily basis. At the end of every pay period, the muster sheet is transmitted to the assistant program manager at Blackwater in Moyock, NC. The assistant program manager reviews the muster sheet to verify that each person is actually "in-country" and not in some other status. The assistant program manager uses other data, such as itineraries, travel vouchers, etc., to perform this task. The assistant program manager indicated that there have been instances where an individual was reported as being in-country at the duty station but was in fact in a travel status or otherwise not physically present at the duty station.

As a result, there is no individual employee certification of actual days worked or the hours actually worked. There is no approval of employees' time other than, as the contractor explained, the muster sheet is e-mailed to Blackwater by the AIC.

Recommendation. We recommend that the contractor initiate procedures whereby individuals performing work under this contract are required to prepare daily time sheets for the hours worked in Iraq. The time sheets should provide sufficient detail to both indicate the individual's status (in-country, travel, etc.) and the actual hours worked. The individuals should be required to certify their time by signing the time sheet. The time sheet should be approved, at a minimum, by the individual's immediate supervisor. The cumulative time sheets should then be approved by the program manager or appropriate government representative in Iraq before they are submitted to payroll for payment.

Blackwater Security Consultants, Inc.
Timekeeping Procedures – Iraq

2. Lack of Written Procedures

Condition. The contractor does not have any written procedures for timekeeping in Iraq.

Recommendation. We recommend that the contractor, once it has developed adequate timekeeping procedures for effort performed in Iraq, develop written policies and procedures detailing the procedures and responsibilities of each individual in the execution of those procedures.

**Blackwater Security Consultants, Inc.
Accounting System**

Summary Results of Review

Our review disclosed that the contractor is currently using a Deltek accounting system for the accumulation of and reporting of costs. The system was "brought on line" in August 2004. Although this system is considered inherently capable of producing adequate cost information if properly configured, our review disclosed that the current system, as configured, is not considered adequate for accumulating costs on government contracts or to support billings under this contract without the use significant ancillary records and worksheets as detailed below.

1. Allocation of Indirect Costs

Condition. Although it appears that the contractor is grouping indirect costs in homogeneous expense pools, the contractor, in our opinion, is not allocating these costs to final cost objectives using a base that best represents the "causal or beneficial" relationship between those costs and the base as explained below.

Overhead. "Overhead" expenses are being grouped in homogeneous expense pools classified as "Administration" by profit center; however, the expenses are allocated to final cost objectives over a "Total Direct Cost Basis." We do not believe that this allocation base is appropriate. This is a labor-intensive organization, and all of the overhead expenses incurred are for the benefit of and as a result of the direct labor incurred. As a result, we believe that an allocation base that best represents the causal or beneficial relation between these costs and the allocation base is direct labor cost.

If, as may be the case with "Blackwater Targets," which manufactures targets, material is significant, such indirect expenses, associated with material purchases, should be grouped in separate homogeneous expense pools and allocated to final cost objectives over a base that best represents the "causal or beneficial" relationship such as direct material.

General & Administrative Expenses. G&A expenses are accumulated in a homogeneous expense pool classified as G&A; however, the expenses are not allocated to final cost objectives over a total cost input base. Rather, the contractor first allocates G&A expenses to the Administrative Overhead pool of each "profit center," using an arbitrary estimate of what it believes is the relationship of the G&A expense to the individual Administrative Expense pools. G&A is then allocated to "projects" based on the total direct costs as explained above.

We do not believe that this method is appropriate. G&A expenses are general expenses, the relationship of which to individual expense pools or elements of costs cannot be readily or accurately determined. These expenses are allocable to all work, and the base that most represents the "causal or beneficial" relationship is total cost input. Total cost input is defined as total direct and indirect (overhead) costs charged to individual projects in the accounting period.

**Blackwater Security Consultants, Inc.
Accounting System**

Recommendation. We recommend that the contractor revise its accounting system to allocate overhead costs over a direct labor cost base and allocate G&A expenses to final cost objectives over a total cost input base without any intermediary allocation.

2. Costs by Contract Line Item – Other Direct Costs (ODCs)

Condition. Our review disclosed that although ODCs (i.e., training, equipment, cost of deployment, etc.) are accumulated in total by project; they are not recorded in sufficient detail to allow the individual identification of the classification of these costs as proposed without the use of significant ancillary records and worksheets. Our review also disclosed that the contractor records as “labor” total amounts paid to contract individuals. These payments include other costs, such as per diem, which is an ODC.

Recommendation. We recommend that the contractor revise its accounting system to provide for the level of detail to separately identify the individual other direct costs charged to this contract.

3. Payroll and Labor Recording

Condition. At present, payroll and labor distribution is not generated within the Deltek system. Payroll is generated in a separate application and then entered into the Deltek system by journal voucher. Labor hours or units are not recorded. As a result, the current system provides no visibility of the labor hours or units incurred on any project without the use of significant ancillary records and worksheets.

Our review also disclosed that the contractor records as “labor” total amounts paid to contract individuals. These payments include other costs such as per diem, which is an ODC.

Recommendation. We recommend that the contractor (1) make full use of the capabilities of the Deltek system by implementing its labor functions, and (2) exclude other direct costs from labor and charge it to the appropriate account.

4. Exclusion of Unallowable Costs

Condition. At present, the contractor does not exclude nor does it have a plan to identify and exclude FAR unallowable costs from government contracts.

Recommendation. We recommend that the contractor immediately develop a plan and institute procedures to identify and exclude FAR unallowable costs from costs charged to government contracts.

**Blackwater Security Consultants, Inc.
Accounting System**

5. Adequate, Reliable Data

Condition. At present, the contractor is in the process of integrating historical data from its legacy system into the Deltek system. Not all prior expense has been adequately identified and charged to the appropriate account in the new system. As a result, the reliability and accuracy of the data produced by the new system may not be adequate. The contractor's representative stated this condition to the auditor and also indicated that he is not presently providing Deltek reports to Blackwater management because of this condition.

Recommendation. We recommend that the contractor complete its integration of legacy historical information into the new system to insure accurate and reliable data.

6. Blackwater Aviation

Condition At present, although there are plans in place, Blackwater Aviation (Presidential Airways) is not included in the Deltek system. Blackwater Aviation uses its own accounting system, which is currently based on Quick Books. Although we did not review Blackwater Aviation's accounting system in detail, we did note that it appears Blackwater Aviation is using the cash method of accounting, which is not in accordance with generally accepted accounting principles, and it also appears that the same condition noted above relating to unallowable costs exists in this system.

Recommendation. We recommend that the contractor execute its plan to integrate Blackwater Aviation into the Deltek accounting system.

7. Inconsistencies Between the Proposal and Accounting System

Condition. The contractor's proposal was prepared prior to the implementation of this current accounting system. As a result, there are inconsistencies between the way costs were proposed and the way costs are recorded in the system. For example, the contractor's proposal included indirect expense titled "Dedicated Overhead" allocated to direct costs of this contract only. The contractor's current accounting system does not have such a "Dedicated Overhead" pool allocated only to this contract. Another example is G&A expenses in this proposal are allocated to direct costs. As stated above, the contractors' current accounting system first allocates G&A expenses to overhead pools and then allocates such G&A expenses to projects. Additionally the contractor has proposed "Administrative Processing Costs" as "other direct costs." The contractor's current accounting system accounts for these type of costs as an indirect cost in the Administrative Expense pool and not as a direct cost.

We also note that, even if the contractor corrects the inherent deficiencies in its present accounting system discussed above, it would still be difficult to extract and report data on costs

**Blackwater Security Consultants, Inc.
Accounting System**

incurred on this contract because of the way the proposal was prepared, without the use of significant ancillary records and worksheets.

Recommendation We recommend that the contractor correct the inherent deficiencies in its accounting system as discussed in this appendix and price out future proposals in a manner that is consistent with its accounting system.