

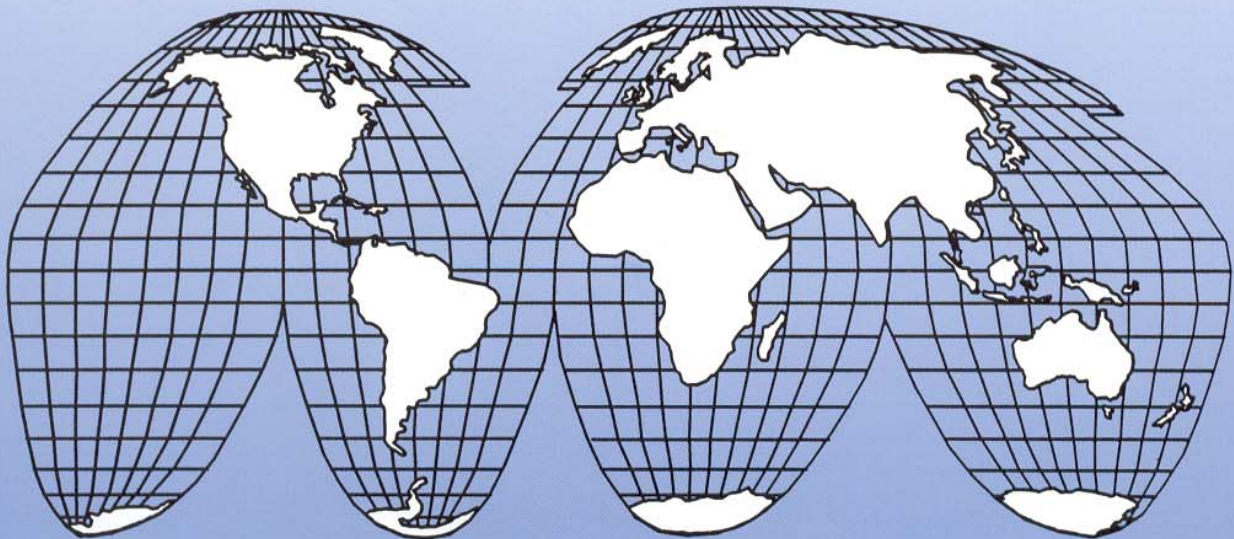
USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID/Washington's Classified Administrative Support Service Contractors

Audit Report Number 9-000-03-008-P

September 17, 2003





September 17, 2003

MEMORANDUM

FOR: M/OP Director, Timothy T. Beans

FROM: IG/A/PA Director, Nathan S. Lokos /s/

SUBJECT: Audit of USAID/Washington's Classified Administrative Support Service Contractors (Report No. 9-000-03-008-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on our draft report and have included your response as Appendix II.

The report contains one recommendation to improve contractor compliance related to security. In your written comments, you concurred with the recommendation and identified planned actions to address our concerns. Consequently, we consider the recommendation to have received a management decision. Information related to your final action on the recommendation should be provided to USAID's Office of Management Planning and Innovation.

I want to express my sincere appreciation for the cooperation and courtesies extended to my staff during the audit.

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Summary of Results

Administrative support service contractors¹ provide a wide variety of useful services that play an important role in helping agencies to accomplish their missions. An administrative support service contractor is a non-personal service contractor² who provides USAID/Washington offices with administrative and technical support for USAID/Washington's administrative and program related activities. (See page 5.)

As part of the Office of Inspector General's multi-year strategy for auditing procurement activities, the Performance Audits Division of the Office of Inspector General conducted this audit to determine whether USAID/Washington ensured that selected classified contractors who provide administrative support services complied with the security requirements of their contracts. (See page 6.)

USAID generally ensured that selected classified contractors providing administrative support services complied with security requirements. However, the Office of Procurement lacked an adequate internal control system to ensure that all contractors were complying with the security requirements relating to visitation letters, termination letters, security training, and the return of USAID building passes. (See pages 6 and 7.)

This report includes one recommendation to assist the Office of Procurement in adopting practices to improve contractor compliance with the security requirements for administrative support services contracts. (See page 9.)

The Office of Procurement concurred with the recommendation and described planned actions to implement the recommendation. Based on the Office of Procurement's written comments, we consider that a management decision has been reached. Management's comments are included in their entirety in Appendix II. (See page 9.)

Background

Administrative support service contractors provide a wide variety of useful services that play an important role in helping agencies to accomplish their

¹ A *service contract* is a contract that directly engages the time and effort of a contractor whose primary purpose is to perform an identifiable task rather than to furnish an end item of supply. A service contract may be either a non-personal or personal contract. It can also cover services performed by either professional or nonprofessional personnel whether on an individual or organizational basis. See Federal Acquisition Regulation 37, Subpart 37.1.

² A *non-personal services contractor* is a contractor, who, while rendering the services, is not subject, either by the contract term or by the manner of its administration to the supervision and control usually prevailing in relationships between the Government and its employees. See FAR 37, Subpart 37.1.

missions. An administrative support service contractor is a non-personal service contractor who provides USAID/Washington offices with administrative and technical support for USAID/Washington's administrative and program related activities. Agencies use these contractors to acquire special knowledge and skills not available in the government, to obtain cost effective services, and to obtain temporary or intermittent services.

Administrative support service contracts exist in many USAID bureaus and are designed to provide essential support for program activities. USAID reported that there were 116 of these contracts during fiscal year 2002 that were considered classified, which required security clearances. Referred to as institutional contracts, they provide contractor personnel who advise and assist in preparing, for example, project papers and internal reports. They also provide services such as secretarial and janitorial support and other administrative support for program-funded personnel, which can include planning and conducting conferences. Individuals performing work under these arrangements remain employees of their parent contractor organizations.

Audit Objective

The Office of Inspector General's Performance Audits Division conducted this audit to answer the following audit objective:

Did USAID/Washington ensure that selected classified contractors that provide administrative support services complied with security requirements?

This audit was initiated for the following reasons: (1) USAID's increasing reliance on administrative support service contractors; (2) the Office of Inspector General's focus on USAID's awarding and administering contracts; and (3) the Office of Federal Procurement Policy Letter 93-1, "Management Oversight of Service Contracting," which encourages inspectors general to conduct assessments of agencies' use of support service contracts.

Appendix I contains a complete discussion of the scope and methodology for the audit.

Audit Findings

Did USAID/Washington ensure that selected classified contractors that provide administrative support services complied with security requirements?

USAID/Washington generally ensured that selected classified contractors that provide administrative support services complied with security requirements. However, there were several instances of noncompliance with regards to four separate security requirements.

The National Industrial Security Program³ requires all federal agencies to ensure that their classified⁴ contractors maintain certain security standards and follow specified procedures. For all tested classified contractors, USAID included the federally mandated security related requirements in the contracts. As part of these requirements, USAID completed the required DD Form 254⁵ for all sampled contracts. Additionally, all tested contractor employees in the sampled contracts had signed the required Standard Form 312⁶.

However, for the sampled contracts, there were several instances of noncompliance concerning visitation letters, termination letters, security training, and the return of USAID building passes. These issues are discussed below.

The Office of Procurement Needs to Ensure Compliance With All Security Related Requirements of Contracts

There were several instances of non-compliance with contractual security regulations. In five of the six contractors that we examined, out of a total of 116 classified contractors reported by USAID, there were noncompliance issues for contractor employees concerning four separate security requirements. This occurred because the Office of Procurement did not have an adequate internal control system to ensure contractor compliance. As a result, the strength of USAID's otherwise well-designed security procedures relating to their classified contractors was weakened.

The National Industrial Security Program requires all federal agencies to ensure that their classified contractors maintain certain security standards and follow specified procedures. USAID incorporated these requirements, as well as certain requirements on DD Form 254, in all six of the contracts that we examined. These procedures included, but were not limited to, the following:

³ Executive Order 12829 (dated January 6, 1993) established a National Industrial Security Program to safeguard federal government classified information that is released to contractors. This program is applicable to all executive departments and agencies, and required the development of the "National Industrial Security Program Operating Manual" (NISPOM), which prescribes requirements, restrictions and safeguards that are necessary to protect classified information.

⁴ *Classified* contractors are contractors that USAID has determined may have access to classified information or classified areas of USAID, and, as a result, the contractor and their employees need to have security clearances and follow procedures specified in the NISPOM.

⁵ DD Form 254 entitled "Contract Security Classification Specification" specifies the conditions for access to classified information under the contract.

⁶ Standard Form 312 entitled "Classified Information Nondisclosure Agreement" prohibits communication or transmission of classified information to any unauthorized person or organization.

- The contractor must certify in writing in a visitation letter that the contract employee has signed an SF 312 and received an initial security briefing.
- Upon termination from the contract, the contractor must submit a termination letter, and immediately upon such termination, contractor employees must return the USAID building pass to USAID.
- The contractor shall provide all employees with security training and briefings commensurate with their access to classified information.

Federal Acquisition Regulations state that contracting officers are responsible for ensuring compliance with the terms of the contracts. In fulfilling this responsibility, contracting officers designate cognizant technical officers (CTO) to assist in ensuring general contract compliance. With respect to security requirements, CTOs work with the USAID Office of Security in ensuring that all contractor security requirements are met, which includes issuing and canceling badges, as well as ensuring that classified contractors have the appropriate clearances before the badges are issued.

A sample of six contractors was used to determine whether USAID/Washington ensured that the contractors were complying with the above-mentioned requirements. An examination of a sample of employees from each of the six contractors indicated that five contractors did not comply to varying degrees with four selected security requirements as shown in the table below.

**Testing Results for
Compliance with Selected Security Requirements**

Description of Security Requirement	Testing Results
Visitation Letter Submitted by Contractor	<ul style="list-style-type: none"> • Five contractors submitted visitation letters for all tested employees. • One contractor did not submit a visitation letter for all tested employees.
Termination Letter Submitted by Contractor	<ul style="list-style-type: none"> • Three contractors submitted termination letters for all tested employees. • Three contractors did not submit termination letters for all tested employees.
Contractor Provided Required Security Training	<ul style="list-style-type: none"> • Two contractors provided training for all tested employees. • One contractor relied on USAID to provide training to tested employees, instead of providing its own training as required. • Three contractors did not provide the required security training to tested employees
Employee Building Passes Returned to USAID	<ul style="list-style-type: none"> • Two contractors returned building passes for all of tested employees. • Four contractors did not return building passes for all tested

employees.

These instances of non-compliance arose because the Office of Procurement's internal control system was not adequate to ensure compliance with all security requirements for classified contractors. CTOs did not ensure that the contractor security officers were clearly aware of the detailed security requirements specified in their contracts and in DD Form 254. Upon further analysis, it was evident that the incidence of non-compliance was more prevalent in smaller contractors who, due to their size, did not have an experienced full-time security officer. CTOs also did not confirm that all required security documentation had been completed.

As a result of this non-compliance, the security controls that USAID's Office of Security has put in place are weakened. Furthermore, these weakened controls could possibly increase the risk of a lapse in security relating to USAID's records, information or facilities. In order to improve the level of compliance with federal security requirements we have the following recommendation.

Recommendation No. 1: We recommend that USAID's Office of Procurement, in coordination with the Office of Security, establish procedures to require classified contractors to comply with all security requirements of their respective administrative support services contracts.

Management Comments and Our Evaluation

In its response to our draft report, the Office of Procurement concurred with our recommendation. To address the recommendation, M/OP will issue a General Notice and an annual reminder notice informing CTOs of their responsibilities related to classified contractors. Additionally, M/OP will revise its CTO appointment memorandums to include a section related to classified contractors, as well as include a security component in the CTO certification program.

Based on the actions that M/OP has planned to address the recommendation, we concluded that a management decision has been reached. Information related to your final action on the recommendation should be provided to USAID's Office of Management Planning and Innovation.

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Scope and Methodology**Scope**

We audited USAID/Washington's compliance with selected regulations and guidance relating to selected classified administrative support service contractors (institutional contractors). This audit was conducted in accordance with generally accepted government auditing standards. We conducted the audit fieldwork at USAID/Washington and at the offices of selected contractors from October 9, 2002 to July 24, 2003. The audit scope was limited to a review of selected classified contracts that were in effect in fiscal year 2002 and that were providing services to USAID/Washington.

The scope of the audit included an examination of management controls associated with contractor compliance with security related requirements as specified in the contractors' individual contracts. We selected a judgmental sample of six contracts out of a reported total of 116 classified contracts as of October 2002.

Methodology

In order to gain an understanding of USAID/Washington's use of administrative support service contractors, we held discussions with USAID officials in the Office of Security, the Office of Procurement, and the Office of Human Resources. In addition, we held discussions with various contract officials of selected contractors.

Specifically, to assess management controls, we performed the following:

- Reviewed relevant laws, regulations, guidance, and directives to gain a better understanding of the compliance issues relating to administrative support service contractors.
- Interviewed cognizant technical officers and officials from the Office of Security to study and evaluate the Office of Procurement's internal control system for ensuring contractor compliance with security requirements.
- Obtained and reviewed a listing of USAID's classified contractors providing administrative support services.
- Reviewed a judgmental sample of individual contracts, DD Form 254s, the Defense Central Investigative Index, and Standard Form 312s.

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- Interviewed contractor facility security officers and examined contractor employee records concerning visitation letters, termination letters, training records, and the return of USAID building passes.

We set the materiality threshold for the audit at one contract with exceptions out of our total sample of six contracts. The audit results did not place any reliance on computer-generated data.

Management Comments

August 27, 2003

MEMORANDUM

FOR: IG/A/PA., Mr. Nathan Lokos

FROM: M/OP Director, Timothy T. Beans /s/

SUBJECT: M/OP Response to USAID/Washington's Classified
Administrative Support Service Contractors
(Report No. 9-000-03-00X-P)

Under subject report, a recommendation was put forth recommending that USAID's Office of Procurement, in coordination with the Office of Security, establish procedures to require classified contractors to comply with all security requirements of their respective administrative support service contracts.

The Office of Procurement concurs with this recommendation and has tasked its Office of Procurement Policy Division (M/OP/P) to coordinate with the Office of Security to issue a General Notice and an annual reminder notice informing the Agency's Cognizant Technical Officials (CTOs) of their responsibilities related to classified contractors. This General Notice is expected to be issued within 30 days.

In addition, M/OP/P will revise its CTO appointment memorandums to include a section related to the CTO's role related to classified contractors and coordinate with the Office of Human Resources, Learning Support Division to include a component in their CTO certification program related to CTO security oversight responsibilities. These actions are expected to be completed within 90 days.

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