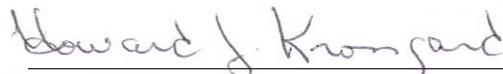


UNCLASSIFIED

**Independent Accountants' Report
On the Application of Agreed-Upon Procedures
of Department of State Procurement Competitions
To Support Armored Vehicles in Iraq**

Report Number: AUD/IQO-06-16

Regis & Associates, PC, Certified Public Accountants, performed the agreed-upon procedures under Department of State, Office of Inspector General, Contract No. S-AQMPD-04-D-0040, and by acceptance becomes a product of the Inspector General.



Howard J. Kronard
Inspector General

January 30, 2006

Date

SUMMARY

The Department of State (Department) purchases vehicles of all types to support its operations worldwide. In some instances, the vehicles require special armoring and other protective features. To coordinate the acquisition planning, procurement, and assignment of vehicles to posts, the Department established an Armored Vehicle Program.

The Department's Office of Inspector General (OIG) engaged Regis & Associates, PC, to perform agreed-upon procedures of the procurement process for armoring services, specialized armored vehicles, and ballistic glass. Although the procurements we reviewed support worldwide requirements, our focus was on those procurement actions performed in support of the Department's Iraq operations. The procurements we reviewed totaled approximately \$43.4 million. The agreed-upon procedures were to determine whether acquisition plans were prepared, whether the procurements were adequately competed, and whether the procurements were performed in accordance with the provisions of the Federal Acquisition Regulation (FAR) and the Department of State Acquisition Regulations (DOSAR).

Our test procedures consisted of an analysis of three procurements: for armoring services, specialized armored vehicles, and ballistic glass. These procurements resulted in the award of five contracts and two General Services Administration (GSA) Multiple Award Schedule contracts. These contracts are detailed in Appendix A.

We found that there were no acquisition plans in the solicitation records for two of the three procurement actions reviewed. These two procurements were for armoring services and ballistic glass. DOSAR requires that any domestic requirement exceeding \$5 million be supported by a formal, written acquisition plan. Two of the solicitations reviewed exceeded \$5 million and therefore required a written advanced acquisition plan.

With regard to the vehicle armoring services, we noted that the Department executed the justifications for less than full and open competition in accordance with the provisions of FAR and DOSAR. With regard to the procurements for

UNCLASSIFIED

ballistic glass, the Department identified adequate competition. Although the current armoring contracts are almost two years beyond their expiration date, the Department's efforts to sponsor prospective bidders that require facility security clearances have justified the delays. This proactive approach should increase competition.

Except as noted above, we found that the Department performed each acquisition reviewed in accordance with the provisions of FAR and DOSAR.

We recommend that the Department require a written advanced acquisition plan for all armored vehicle procurements exceeding \$5 million that are now in process and for all armored vehicle procurements received in the future. We suggest that the Department review existing contracts to identify any requirements expected to lengthen the procurement process and begin the new solicitation process earlier to accommodate those requirements. The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) agreed with the report recommendation and will conduct a random sampling of acquisition plans for procurements exceeding \$5 million to assess the plans' impact.

BACKGROUND

The Department purchases vehicles of all types to support its operations worldwide. In some instances, the vehicles require special armoring and other protective features. To coordinate the acquisition planning, procurement, and assignment of vehicles to posts, the Department has established an Armored Vehicle Program administered by the Bureau of Diplomatic Security, Office of Physical Security Programs, Defensive Equipment and Armored Vehicles Division (DS/PSP/DEAV).

The delegation of authority and the specific duties are described in the Foreign Affairs Manual (FAM), Section 12 FAM 380, Armored Vehicle Program. DS/PSP/DEAV is responsible for coordinating the program and developing standards. It develops standards in coordination with other federal agencies, the Overseas Security Policy Board, and posts. DS/PSP/DEAV provides annual budget estimates to DS. It also coordinates requests for vehicles from posts, provides armor maintenance, and coordinates disposal of vehicles.

All procurement requests issued by geographical bureaus are performed by the A/LM's Office of Operations (A/LM/OPS). Upon receipt of a procurement request, A/LM/OPS determines the most cost-effective source for acquiring the vehicles and armoring services. In general, vehicles are purchased through GSA master contracts with manufacturers. Armoring services and other special safety requirements are secured through competitive procurements. When the vehicle armoring is completed, the vehicles are delivered to DS, where they are inspected, tested, and accepted. The vehicles are then shipped to the posts.

OBJECTIVES, SCOPE, AND METHODOLOGY

OIG engaged Regis & Associates, PC, to perform agreed-upon procedures of the armoring services, specialized armored vehicles, and ballistic glass procurement process. The procedures were to determine whether: an acquisition plan was prepared for each procurement; an effort was made to identify a sufficient number of prospective bidders to ensure competition; and all applicable procurement procedures required by FAR and DOSAR were performed.

The scope was limited to the procurements listed in Appendix A. We requested information on the purchase of the Humvees under the specialized armored vehicles procurement. A/LM/OPS management said that the information could not be retrieved without a contract number. This information was not available at the conclusion of our fieldwork.

To perform our work, we:

- identified the relevant sections of FAR and DOSAR and tested for compliance with the procurement requirements;
- developed solicitation/contract review procedures based on the provisions of the FAR and DOSAR and the procurement procedures described in 14 FAM 220, General Acquisitions;
- interviewed the appropriate procurement personnel to gain an understanding of the overall procurement procedures and background on the specific procurements; and
- obtained documentation and explanations from the Department when there were deviations from the FAR or the DOSAR.

The solicitations reviewed covered the period from November 2000 to the end of our fieldwork in August 2005. We conducted fieldwork at the offices of A/LM/OPS in Arlington, Virginia, from June 14, 2005, through August 12, 2005. We conducted our agreed-upon procedures in accordance with standards established by the American Institute of Certified Public Accountants, government

UNCLASSIFIED

auditing standards, and the Federal Acquisition Regulation and included such procedures as considered necessary in the circumstances. The procedures performed do not constitute an audit. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

On October 19, 2005, OIG briefed the Director of A/LM/AQM on the results the procedures performed, and the Director concurred with the draft report findings and recommendation. In addition, A and DS officials reviewed a draft of this report, and A agreed with the applicable findings and recommendation. DS had no comments on the draft report.

UNCLASSIFIED

AGREED-UPON PROCEDURES RESULTS

PROCUREMENT COMPETITION

The following sections describe the issues and results of our procedures regarding armoring services, specialized armored vehicles, and ballistic glass. The solicitations and resulting contracts reviewed are listed in Appendix A.

Armoring Services

In November 2002, the Department issued a solicitation for multiyear armoring services. A prospective bidder expressed concern, taking exception to the fact that the Department would not sponsor for clearances prospective bidders who did not have an existing facility security clearance. The bidder said that this decision by the Department limited competition in the procurement process. According to A/LM/OPS, the decision against sponsoring prospective bidders was based on the extensive time, effort, and cost of obtaining security clearances for manufacturing facilities. The decision against sponsorship for clearances was also influenced by the unusual and compelling nature of the unanticipated need to replace fully armored vehicles at certain critical threat posts.

The Department decided to withdraw the solicitation, in the best interest of the government, and issued a new solicitation for a one-year period of performance. This new solicitation limited competition to those prospective bidders who had facility security clearances. The Department's justification for this action noted that there was a critical need to provide armored vehicles, and particularly in Iraq. In addition, the estimated time to secure clearances for noncleared firms would have exceeded the expiration of the existing contract. This procurement was referred to as a "bridge solicitation," which resulted in a "bridge contract." This bridge contract and the related procurement actions are the focus of this section of the report.

During the performance period of the bridge contract, the Department planned to issue a new solicitation for multiyear services in which it would clearly define the facility clearance requirements and would sponsor any prospective bidders who

UNCLASSIFIED

did not have clearances. The Department designed this solicitation to replace the initial November 2002 solicitation it had withdrawn. The Department determined that this revised solicitation would broaden the pool of prospective bidders and provide for greater competition.

Because of the time lost addressing the protest and the heightened requirement for armored vehicles at critical threat posts, the Department prepared a justification for less than full and open competition for the bridge solicitation identified above. The solicitation was to be negotiated. A/LM/OPS concluded that this process would result in the most cost-effective method, considering the circumstances. As identified below, this bridge solicitation resulted in three contracts with 12-month periods of performance beginning in August 2003 and ending in August 2004:

- S-LMAQM-03-C-0040,
- S-LMAQM-03-C-0041, and
- S-LMAQM-03-C-0042.

The contracts were indefinite-delivery, indefinite-quantity with fixed unit prices for armoring the vehicles specified in the solicitation. Under the terms of these contracts, the Department would purchase vehicles through GSA Multiple Award Schedule contracts and provide them to the armoring contractors. Six prospective bidders were identified for the bridge contract solicitation.

Our test procedures related to acquisition planning, adequacy of competition, and compliance with the provisions of the FAR and DOSAR identified one instance of noncompliance. Specifically, we noted that the solicitation record did not include an acquisition plan as required under DOSAR 607.103, Acquisition Planning. This provision requires that all procurements in excess of \$5 million include a written advanced acquisition plan. Acquisition plans generally provide for budgetary control over expenditures, including those related to procurement actions. The total of the contracts awarded under the bridge contract was \$30,227,083.

To meet the objectives of FAR, an acquisition plan should, in part, include:

- acquisition background and objectives;
- requirements for compatibility with existing programs;
- cost;
- necessary contractor capabilities;
- delivery or performance requirements;

UNCLASSIFIED

- an explanation for any urgency if the procurement requires a justification for less than full and open competition;
- plans and procedures to encourage industry participation by using draft solicitations, presolicitation conferences, and other means of stimulating industry involvement; and
- consideration of small business, small disadvantaged business, and women-owned small business concerns.

Other Matters Regarding the Planned Multiyear Competitive Solicitation for Armoring Services

With regard to the multiyear armoring services solicitation, A/LM/OPS officials noted that for future acquisitions, the government would issue a solicitation synopsis in advance of the solicitation release to accord potential bidders who did not have clearances the opportunity to apply for them. They further said that future acquisitions would be full and open competition and would include firms that have existing clearances as well as those that are able to obtain clearances before the release of the solicitation. In addition, A/LM/OPS noted that it would sponsor for clearances those firms that it believes have the necessary technical capabilities to furnish the armoring of the vehicles.

With regard to the planned multiyear competitive solicitation discussed above, the Department had undertaken the following as of the conclusion of our fieldwork:

- Issued a presolicitation “expression of interest” notice via FedbizOps on December 4, 2003, requesting that all interested parties, including those who did not have a current security clearance, express their interest in the procurement. This presolicitation notice had a response date of January 5, 2004. The Department said that the planned course of action was to identify firms during this phase and assess their capacity to provide the needed services based on the results of a site survey and a questionnaire that was published with the FedBizOps notice. Firms not responding to this presolicitation notice that did not have a clearance would not be considered when the final solicitation was issued. This is because the final solicitation would include classified information that only those firms who either had a clearance or were granted one under the Department’s sponsorship would be allowed to receive.

- Thirteen firms, including the three incumbents on the bridge contract, responded to the presolicitation notice. Nine of these firms did not have the required security clearances. DS made site visits to the nine firms, concluded that their manufacturing facilities met the requirements, and sponsored all of them for the security clearance. The sponsoring letters were issued in February 2005.

The Department was awaiting the results of the security clearance process before proceeding with the issuance of the solicitation. As the bridge contract was scheduled to expire in August 2004, the Department has periodically extended the term of the bridge contract until the award of a new contract. Each extension has been for three months.

Specialized Armored Vehicles

We also reviewed two types of specialized armored vehicle procurements: prearmored vehicles (known as Bearcats), manufactured by Lenco Industries, Inc., and Hummers (popularly known as Humvees), manufactured by General Motors. With regard to the Humvees, we requested the procurement documents for these vehicles, but A/LM/OPS said it could not provide data without a requisition number or contract number.

We reviewed purchase orders in support of the acquisition of 15 Bearcats priced at \$3,123,030. DS issued these purchase orders using a GSA Multiple Award Schedule in July 2005. DS considered the GSA master contract the most cost-effective and efficient procurement method.

The Bearcat procurements revealed no instances of noncompliance with the significant provisions tested relative to acquisition planning, the adequacy of competition, and compliance with the provisions of FAR and DOSAR.

Ballistic Glass

DS guidelines specify that certain Department vehicles be equipped with transparent ballistic glass. To meet this requirement, A/LM/OPS issued a solicitation in 2000 to obtain these products under multiyear indefinite-delivery, indefinite-quantity contracts with fixed unit prices. The procurement was to be competed on a full and open basis.

UNCLASSIFIED

A/LM/OPS advertised the solicitation in the Commerce Business Daily on July 11, 2000, and also posted it on the Department's State Buy Internet Platform. The Department sent the solicitation to four prospective bidders. A's Office of Small and Disadvantaged Business Utilization had identified two of them. The procurement records further revealed that two bidders responded to the requirement, and the Department made two awards on April 26, 2001, to those bidders totaling \$10,081,621 for a performance period of five years, including options.

Our test procedures related to acquisition planning, the adequacy of competition, and compliance with the provisions of the FAR and DOSAR identified one instance of noncompliance. Specifically, we noted that the solicitation record did not include an acquisition plan as required under DOSAR 607.103. This provision requires that all procurements in excess of \$5 million include a written acquisition plan. A/LM/OPS management said that a new procurement would be initiated in fall 2005 to provide ballistic glass services. To comply with the DOSAR, A/LM/OPS should require a written advanced acquisition plan for this procurement and consider methods to increase competition.

CONCLUSIONS

In summary, A/LM/OPS should obtain, analyze, and assess the impact of acquisition plans when the expected value of a single procurement exceeds \$5 million. This action should be considered for all procurements now under way as well as all future procurements.

Advanced acquisition planning allows an agency to process procurements in a structured and orderly manner and to consider and plan all elements of an acquisition. FAR 7.101, Acquisition Plans, Definitions, defines acquisition planning as:

... the process by which the efforts of all personnel responsible for an acquisition are coordinated and integrated through a comprehensive plan for fulfilling the agency need in a timely manner and at a reasonable cost. It includes developing the overall strategy for managing the acquisition.

A primary objective of acquisition planning is to identify as many qualified sources as possible to enhance competition with the expectation of receiving the specified goods or services at the most competitive price.

For future solicitations, the Department should also assess the time needed to sponsor prospective bidders and factor this into the acquisition plan. This would allow adequate time for conducting security clearances and considering unique contractor technical capabilities while ensuring service continuity. Adequate procurement planning would also serve to spur a competitive environment.

The actions of DS and A/LM/OPS to sponsor prospective bidders for facility security clearances for the armoring contracts represents a proactive approach to improving competition for the services.

Recommendation 1: We recommend that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management obtain, analyze, and assess the impact of acquisition plans when the expected value of a single procurement exceeds \$5 million. This recommendation should be considered for all procurements now under way as well as all future procurements.

UNCLASSIFIED

In response to the draft report, A/LM/AQM agreed to conduct a random sampling of acquisition plans for procurements exceeding \$5 million to assess the plans' impact. This random sampling will be conducted over the next eight months and will be completed for current and future procurements.

On the basis of A/LM/AQM's response, OIG considers the recommendation resolved. It can be closed when A/LM/AQM completes and forwards to OIG the results of the above-mentioned review of acquisition plans for procurements exceeding \$5 million.

Independent Accountants' Report on Applying
Agreed-Upon Procedures

U.S. Department of State
Office of Inspector General
Office of Audits
1700 North Moore Street
Arlington, VA 22209

We have applied certain agreed-upon procedures, as summarized in the Objectives, Scope, and Methodology section of this report, to the U.S. Department of State's Bureau of Administration, Office of Logistics Management, Office of Operations (A/LM/OPS) procurement activities.

The Office of Inspector General agreed to the procedures, which we performed to assess whether A/LM/OPS adequately competed the contracts awarded for the procurement of armoring services, specialized armored vehicles, and ballistic glass and had management controls in place to ensure advanced procurement planning.

We performed this agreed-upon procedures engagement in accordance with standards established by the American Institute of Certified Public Accountants, government auditing standards, Federal Acquisition Regulation, and Department of State Acquisition Regulations. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding their sufficiency, either for the purpose for which this report was requested, or for any other purpose. Our test procedures revealed one finding. The finding and the associated recommendation are presented in the "Results" section of this report.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the U.S. Department of State, Office of Inspector General, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Regis & Associates, PC
August 12, 2005

APPENDIX A

**Schedule of Contracts Reviewed
November 2000-August 2005**

Purpose	Contract Number	Contractor	Contract Value
Armoring Services	S-LMAQM-03-C-0040	Square One Armoring Services Co.	\$7,101,139
	S-LMAQM-03-C-0041	O’Gara-Hess & Eisenhart Armoring Co.	10,083,144
	S-LMAQM-03-C-0042	Scaletta Moloney Armoring Co.	13,042,800
Total			\$30,227,083
Specialized Armored Vehicles	GS-07F-0390M	Lenco Industries, Inc.	\$1,041,010
	GS-07F-0390M	Lenco Industries, Inc.	2,082,020
	Unknown	Humvees	0
Total			\$3,123,030
Ballistic Glass	S-LMAQM-01-D-0074	Pilkington Aerospace Ltd.	\$5,326,299
	S-LMAQM-01-D-0096	Protective Armored Systems, Inc.	4,755,322
Total			\$10,081,621
Grand Total			\$43,431,734

Note: These contract award amounts do not reflect actual orders or other modifications.
Source: A/LM/OPS contract and requisition documents.

UNCLASSIFIED

United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

Office of Audits

**Independent Accountants' Report
On the Application of Agreed-Upon Procedures
of Department of State Procurement Competitions
To Support Armored Vehicles in Iraq**

Report Number AUD/IQO-06-16, February 2006

IMPORTANT NOTICE

This report is intended solely for the official use of the Department of State or the Broadcasting Board of Governors, or any agency or organization receiving a copy directly from the Office of Inspector General. No secondary distribution may be made, in whole or in part, outside the Department of State or the Broadcasting Board of Governors, by them or by other agencies or organizations, without prior authorization by the Inspector General. Public availability of the document will be determined by the Inspector General under the U.S. Code, 5 U.S.C. 552. Improper disclosure of this report may result in criminal, civil, or administrative penalties.

UNCLASSIFIED

UNCLASSIFIED

UNCLASSIFIED