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To: Carrie Hessler-Radelet, Director
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From: Kathy A. Buller, Inspector General 

Date: January 21, 2016

Subject: Final Report on the Audit of Peace Corps' Healthcare Benefits Administration Contract (IG-16-02-A)

Transmitted for your information is our Final Report on the Audit of Peace Corps' Healthcare Benefits Administration Contract.

Management concurred with 14 of the 15 recommendations and five recommendations have been closed. In its response, management described actions it is taking or intends to take to address the issues that prompted each of our recommendations. Please note that in closing recommendations, we are not certifying that the agency has taken these actions or that we have reviewed their effect. Certifying implementation and verifying effectiveness are management's responsibilities. Our Comments, which are addressed in Appendix F, address these matters.

You may address questions regarding follow-up or documentation to Assistant Inspector General for Audit Judy Leonhardt at 202.692.2914 or Expert Consultant Jeffrey Lee at 202.692.2919.

Please accept our appreciation for your assistance and cooperation throughout the audit.

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PEACE CORPS
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Audit of Peace Corps' Healthcare Benefits Administration Contract

IG-16-02-A
January 2016



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Background

The Peace Corps provides Volunteers comprehensive healthcare benefits during their tour of duty. The benefits include the Peace Corps' internal team of onsite doctors and other medical professionals at over 59 Peace Corps posts worldwide. The coverage also includes eligibility for certain authorized medical services when Volunteers or trainees need to seek services outside of the team of Peace Corps medical professionals.

Since 2005, the same contractor has been assisting the Peace Corps with processing claims for medical services received outside of the Peace Corps medical network. Our audit included a review of three contracts awarded to the contractor between 2005 and 2011. The third contract, awarded in 2011, is presently being used and will remain effective through calendar year 2016.

Objectives

Determine whether:

- Medical claims processed for payment are proper, accurate, and valid.
- Contractor payments are made based on eligible claimants and only to authorized providers.
- Invoicing for services rendered is complete, accurate, and sufficiently supported.
- The contractor's internal control over its manual and automated claims processing and payment systems minimizes potential for fraud, waste, and abuse.

Audit of Peace Corps' Healthcare Benefits Administration Contract

IG-16-02-A
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What We Found

Our audit revealed serious flaws in the agency's management of contracts awarded to this contractor. The agency made critical mistakes in the acquisition planning and solicitation phases, during contract formation, in administering and monitoring the contract, and in failing to maintain key contract payment records. The first contract was extended for six months due to the lack of planning, and was followed by the award of an inappropriate noncompetitive contract for a nine-month period. This was done prior to awarding the third contract, and in violation of applicable Federal Acquisition Regulations (FAR) provisions. In addition, we found that the contractor did not follow certain contract terms and conditions. The agency incorrectly categorized the contract type for three contracts. In doing so, it failed to ascertain contracting requirements designed to protect the government's interests. The contract failed to include a mandated FAR clause that requires the contractor to obtain Peace Corps' consent to subcontract. As a result, the contractor subsequently used a subcontractor without proper government consent.

What We Recommend

This audit makes 15 recommendations, which, if implemented, should: strengthen internal control over the Volunteer healthcare benefits contract administration processes; provide for more effective contract monitoring; and improve compliance with the FAR and other applicable laws, regulations, and Peace Corps policies. It is essential that contracts and their associated technical statements of work clearly define the roles of, and are understood by, both contractor and government. We discourage the agency's reliance on contract extensions and use of short term contracts as stopgap measures, and recommend that acquisition planning be initiated early enough to allow for timely contract awards in compliance with FAR requirements. Further, we urge the Peace Corps to improve its monitoring of the present and future healthcare administration contracts, and maintain the required documentation.

EXECUTIVE SUMMARY

BACKGROUND

As a part of the services offered to its Volunteers, the Peace Corps provides comprehensive healthcare benefits during their tour of duty. The benefits include the Peace Corps' internal team of onsite doctors and other medical professionals at each of the 59 Peace Corps posts worldwide. The Peace Corps medical officers (PCMOs) assigned to overseas posts provide Volunteers with primary healthcare, including preventive medical services. The Volunteers' coverage also extends eligibility for authorized medical services not provided by a PCMO. This coverage may be necessary before Volunteers are posted in their overseas assignment or in emergency situations after they arrive at their assigned post. Other instances include specialized medical services not offered by the PCMO, or medical evacuation to the United States or a third country.

The Peace Corps Office of Health Services (OHS) is responsible for overall administration of the Peace Corps' Volunteer healthcare program. OHS provides quality comprehensive medical and mental health services to the Peace Corps Volunteer community. The program helps assure that adequate, timely, and appropriate healthcare services are provided to Volunteers and trainees.

The same contractor has been engaged in assisting the Peace Corps with processing claims for medical services received by Volunteers from external sources since 2005. Our audit included a review of the three contracts awarded to the present contractor between 2005 and 2011. The third contract, awarded in 2011, is presently being used and will remain effective through calendar year 2016.

OBJECTIVES

The objectives of the audit were to determine whether:

- Medical claims that are processed for payment by the contractor are proper, accurate, and valid based on contractual requirements.
- Contractor payments are made based on eligible claimants and only to authorized providers.
- Invoicing for services rendered, including medical claims paid, is complete, accurate, and sufficiently supported.
- The contractor's internal control over its manual and automated claims processing and payment systems is effective in minimizing the potential for fraud, waste, and abuse.

RESULTS IN BRIEF

Overall we found serious flaws in the agency's management of these three contracts, including in the acquisition planning and solicitation process, during contract formation, in the administration and monitoring of the contract, and in failing to properly maintain key contract payment records.

Our review of the Peace Corps acquisition planning and solicitation processes found that management was untimely in preparing for its Volunteer healthcare benefits administration successor contract, resulting in a six-month extension of the earlier contract. Further, after the extension expired, a non-competitive contract was awarded without appropriate justification to

continue contract services for a nine-month period. The noncompetitive contract was used as a stop gap measure prior to awarding a replacement contract and was awarded in violation of applicable Federal Acquisition Regulations (FAR) provisions.

We found there were a number of issues related to the contracts and associated technical statements of work prepared by the Peace Corps:

- The associated contract statements of work (SOWs) prepared by the Peace Corps did not clearly set out how the contractor was to be paid for services related to the application of network pricing.
- The Peace Corps incorrectly categorized the contract type for the three contracts. In doing so it failed to ascertain contracting requirements designed to protect the government's interests.
- A contract line item number used was unclear, misleading, and did not describe what the associated funding was intended to cover.
- The contract did not include the FAR-mandated subcontract clause.
- Responsible Peace Corps staff did not effectively manage and oversee the contracts.
- The Peace Corps failed to detect the contractor's lack of compliance with contract terms.
- The Peace Corps, without specific authority, entered into the three contracts providing for shared savings with the contractor.

Our review of activities performed by the contracting officer's representative (COR) revealed that the Peace Corps did not effectively monitor the contracts to ensure that:

- amounts paid to the contractor were specifically authorized and described in the contract;
- fees charged by the contractor for adjudicating medical claims were submitted in accordance with contract terms and conditions; and
- billings for claims processed were consistent with the supporting documentation.

Further, issues related to weaknesses in contract monitoring that were noted during a 2010 OIG audit were found to persist.¹

We also found that the Peace Corps did not maintain invoicing documentation submitted for payment by the contractor in the government contract files as required by the FAR.

RECOMMENDATIONS

Our report contains 15 recommendations, which, if implemented, should strengthen internal control over the Volunteer healthcare benefits contract administration processes, provide for effective contract monitoring, and improve compliance with the FAR and other applicable laws, regulations, and Peace Corps policies.

¹ IG-10-06-A, Final Audit Report: Peace Corps' Process for Soliciting, Awarding, and Administering Contracts (March 2010).

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BACKGROUND AND AUDIT OBJECTIVES

The Peace Corps provides healthcare benefits as a part of its services to Peace Corps Volunteers and trainees. The Peace Corps Office of Health Services (OHS) is responsible for the overall administration of the Peace Corps' Volunteer healthcare program. OHS's mission is to provide quality medical and mental health services to the Peace Corps Volunteer community. The program helps assure that adequate, timely, and appropriate healthcare services are provided to Volunteers and trainees. This medical care is normally provided through the Peace Corps' internal team of onsite doctors and other medical professionals at the agency's 59 active posts worldwide. The Peace Corps also provides coverage for authorized specialized medical services in their country of service when a PCMO is unable to provide such services, or when Volunteers are sent to the U.S. to seek necessary medical treatment. Further, such coverage is extended to Volunteers when they require medical treatment and are outside of their country of service.

The Peace Corps' Healthcare Program. The Volunteer population consists of applicants, Volunteers and trainees assigned to overseas posts, and returned Peace Corps Volunteers (RPCVs). OHS includes a team of dedicated medical administrative and professional staff at headquarters, as well as overseas medical practitioners and other professionals that directly assist in supporting a comprehensive, accountable, and quality Volunteer healthcare program. OHS is managed by the associate director, a medical doctor who advises Peace Corps management on matters related to the health of applicants, trainees, and Volunteers during and after their service.

An additional OHS responsibility involves the screening of applicants' medical documents to determine whether the PCMOs at posts can accommodate their medical needs and also assess their likelihood of completing Volunteer service. Applicants that have applied to become a Peace Corps Volunteer may be reimbursed for certain costs associated with medical evaluations required to complete medical screening.

Once arriving at their country of assignment Peace Corps trainees immediately becomes eligible for healthcare benefits. Most routine medical services are provided by the PCMO at each post. However, in cases where trainees or Volunteers require urgent or specialized medical care within or outside of their assigned country, or need to be medically evacuated to the United States or a third country, coverage for associated medical services is also provided by the Peace Corps. Although the Peace Corps is self-insured for such coverage, it engages a contractor to assist with processing and paying claims received from medical providers. Most of these providers are located in the U.S. However, some billings received from foreign medical providers are processed and paid by the Peace Corps contractor. This contract includes three plans respectively referred to in the contracts as PLAN I, II, and III. The three plans as described in the present contract appear below:

- **PLAN I.** Applicants for Peace Corps service generally require medical, dental, and vision examinations for use by the Peace Corps Office of Medical Services (OMS) to evaluate health status. Applicants to the Peace Corps are not "reimbursed" for medical, dental, or vision screening expenses; however, Applicants are eligible to receive limited cost-sharing financial assistance based on pre-determined eligibility and proof of out-of-pocket cost. The Peace Corps Applicants submit their medical receipts after paying out-of-pocket or in accordance with their individual insurance, for exams required for clearance for entry into the Peace

Corps. Following the submission of payment receipts, cost-sharing financial assistance is administered and provided directly to the Peace Corps Applicant. The maximum amount of cost-sharing is based on a Peace Corps-provided fee schedule based on an age and gender-specific formula that corresponds to basic medical screening requirements.

- **PLAN II.** During Peace Corps service, PCVs in their country of service receive routine and emergency medical care, preventive health services, and health promotion from health care professionals at the Peace Corps posts overseas. This care is not covered by this contract. However, when Volunteers are away from their posts, either travelling in the U.S. or elsewhere or on medical leave (also known as medical hold), services are provided by international and domestic healthcare providers such as but not limited to doctors, counselors, dentists, and other medical specialists who may be identified, vetted, and compensated via the services provided under this contract.

PCVs who require non-routine or emergency medical, mental health, or dental evaluation or treatment during service may be medically evacuated, aka "med-evaced," to the US or to regional locations worldwide. Please note that most "med-evaced" volunteers in Peace Corps do not specifically require the use of Air Ambulance transportation services.

Services related to PCVs while away from their country of assignment during Peace Corps service are referred to as benefit PLAN II. All services under PLAN II must be authorized in advance by the Peace Corps, and are reimbursed to the PCV or paid to the provider in accordance with the Peace Corps Health Benefits Program fee schedule. PLAN II also includes a pharmacy plan.

- **PLAN III.** Upon completion of Peace Corps service, RPCVs may also be authorized by the Peace Corps for evaluation of certain service-related health conditions (and treatment in very narrowly defined cases) for up to six months after the completion of their Volunteer service. Pre-authorized services are generally provided in the US, but may be provided overseas. Payments made for evaluations provided to eligible claimants are reimbursed by the Peace Corps. In certain pre-defined cases, limited treatment may also be reimbursed by the Peace Corps. Services related to RPCVs are referred to as benefit PLAN III.

The Peace Corps Contracting Function. On March 18, 2014, the Office of Acquisitions and Contracts Management (OACM), formerly an independent Peace Corps component, was placed under the organizational control of the Office of the Chief Financial Officer. OACM is responsible for assisting with Peace Corps procurement requirements and related acquisition program support. OACM's primary mission is to provide acquisition support for planning, soliciting, awarding, and administering contracts. It also establishes agency acquisition policy and helps ensure compliance with applicable policies, federal contracting laws, and regulations. OACM staff consists of contracting officers and other support personnel. OACM assisted OHS with the awarding of the three healthcare contracts and continues to serve in a contract administration role under the present contract.

Healthcare Administration Contract. Since 2005, the contractor has been engaged in assisting the Peace Corps with processing claims for medical services received by Volunteers from external sources. Our audit included a review of the three contracts awarded to the present contractor between 2005 and 2011. Under the present contract, services began in January 2012 and may be continued through December 2016 at the Peace Corps' option (see Figure 1). The contract type dictates which contract provisions and agency policies are applicable and what level of oversight should be performed by government personnel. The type of contract is described in the technical statement of work as a firm fixed-price hybrid with a combination of firm fixed-price and fixed-rate contract line items. However, we do not agree that the contract type is accurately described. Our reasoning is discussed later in this report.

The contractor is engaged to assist Peace Corps with processing and paying medical claims. This includes receiving claims submitted by medical providers, adjudicating them through comparison to medical networks or direct negotiation with providers, and paying providers the final adjudicated amounts. The contractor has engaged a subcontractor to assist in the adjudication process for the majority of Peace Corps claims. The Peace Corps receives a weekly summary invoice from the contractor indicating the Volunteer medical claims paid. The amount paid varies greatly depending on the type of medical procedure performed. The contract also provides for a fixed-fee for contract services provided and variable costs associated with contractor/subcontractor services. The fixed-fee includes the contractor's costs associated with receiving, adjudicating, and processing medical claims for payment. In addition, the contractor invoices include a "network fee." The network fee relates to reductions on the invoiced price for medical services negotiated by the contractor/subcontractor. Network fees are paid to the contractor in the form of a 30 percent fee on savings achieved. These costs are periodically included on an invoice sent to the Peace Corps. The Peace Corps subsequently approves invoices received and reimburses the contractor, normally within 30 days of receipt of an invoice.

Previous Office of Inspector General (OIG) Report. We issued IG-15-03-SR, Management Advisory Report (MAR): Peace Corps' Volunteer Healthcare Administration Contract (March 2015) to bring to Peace Corps management's attention significant concerns we have with the past and present contracts for administering Volunteer healthcare (see Appendix D). Some of our concerns relate to issues regarding FAR compliance, contractor compliance with contract terms and conditions, lack of authority to enter into certain agreements with the contractor, and inadequate monitoring of contractor performance. These and other issues found in the MAR are discussed in more detail in the body of this report. The agency concurred with four of six recommendations and five remain open, awaiting remediation by Peace Corps management.

Audit Objectives

The objectives of the audit were to determine whether:

1. Medical claims that are processed for payment by the contractor are proper, accurate, and valid based on contractual requirements.
2. Contractor payments are made based on eligible claimants and only to authorized providers.
3. Invoicing for services rendered, including medical claims paid, is complete, accurate, and sufficiently supported.
4. The contractor's internal control over its manual and automated claims processing and payment systems is effective in minimizing the potential for fraud, waste, and abuse.

To accomplish our objectives, we also reviewed the Peace Corps' processes for acquisition planning, soliciting, awarding, and administering of the three health benefits contracts to the extent they related to the objectives.

AUDIT RESULTS

ACQUISITION PLANNING

The Peace Corps' acquisition planning and solicitation for its Volunteer healthcare benefits administration successor contract was untimely.

Due to the complexities related to the federal contracting process, agencies must ensure that sufficient time and resources are dedicated to acquisition planning. Government officials engaged in acquisitions planning must initiate the process well ahead of when contract deliverables are needed and follow good contracting practices set out in the FAR. Planning is especially critical for larger, more complex contracts and often requires a higher level of technical expertise, time, and effort. However, acquisition planners did not begin this process early enough, and in some cases assigned personnel lacked the necessary technical expertise. As a result, the contract award was significantly delayed and the contract in place had to be extended six months beyond its intended date of completion. After expiration of the extension a second interim contract was awarded non-competitively to continue services while the agency was performing necessary acquisition planning, soliciting proposals from qualified sources, and evaluating the offers received. The second contract was initially awarded for a three-month period then extended twice, ultimately covering a nine-month period. This non-competitive contract circumvented certain provisions of the FAR related to contract awards that are made under other than full and open competition.²

Planning Was Not Timely or Effective. Acquisition planning for competitively awarded contracts involves completion of a number of steps leading up to the public release of a solicitation package inviting qualified offers. When contracts are complex, acquisition planners must allow enough time to prepare for the solicitation. According to FAR 7.104(a), "Acquisition planning should begin as soon as the agency need is identified, preferably well in advance of the fiscal year in which contract award or order placement is necessary." Planning for significant acquisitions includes identifying requirements, drafting a detailed statement of work specifying what is needed, determining the availability of qualified sources in the market place, and developing an estimate of what it will cost to procure the goods and/or services required. All of these steps take place prior to soliciting proposals from qualified sources and consume significant time and resources.

² FAR 6.303 states: "A contracting officer shall not commence negotiations for a sole source contract, commence negotiations for a contract resulting from an unsolicited proposal, or award any other contract without providing for full and open competition..." unless the contracting officer provides written justification in accordance with FAR 6.302, certifies the accuracy and completeness of their justification, and obtains approval from the appropriate agency authority.

The agency knew in 2005, at the time the initial health care administration contract was awarded to the incumbent contractor, that it would expire on September 30, 2010. However, Peace Corps staff responsible for acquisition planning for a successor contract did not take timely and appropriate actions to ensure that a new contract would be awarded prior to expiration of the old one. Our review disclosed there was no evidence to support formal planning began before the contract expired. As a result, to enable the continuation of contract services, management’s short term solution was to extend the contract in place for six months.

Peace Corps staff responsible for acquisition planning for a successor contract did not take timely and appropriate actions to ensure that a new contract would be awarded prior to expiration of the old one.

Documented evidence shows that the initiation of planning began much later than it should have to enable the timely award of a replacement contract. The “Acquisition Planning Template,” a formal planning tool used by the COR to summarize planning details and milestones, indicated a planned date for the start of a new contract as November 1, 2011, or 13 months after the date of expiration. Since it was clear that acquisition planning would not be completed at the end of the six-month extension, management non-competitively awarded a three-month contract to the incumbent contractor, circumventing FAR 6.303. Subsequently, this second contract was extended twice; six more months were added to it before the present (third contract) was ultimately awarded to the incumbent contractor. The below figure summarizes the timing of the three contracts and associated extensions.

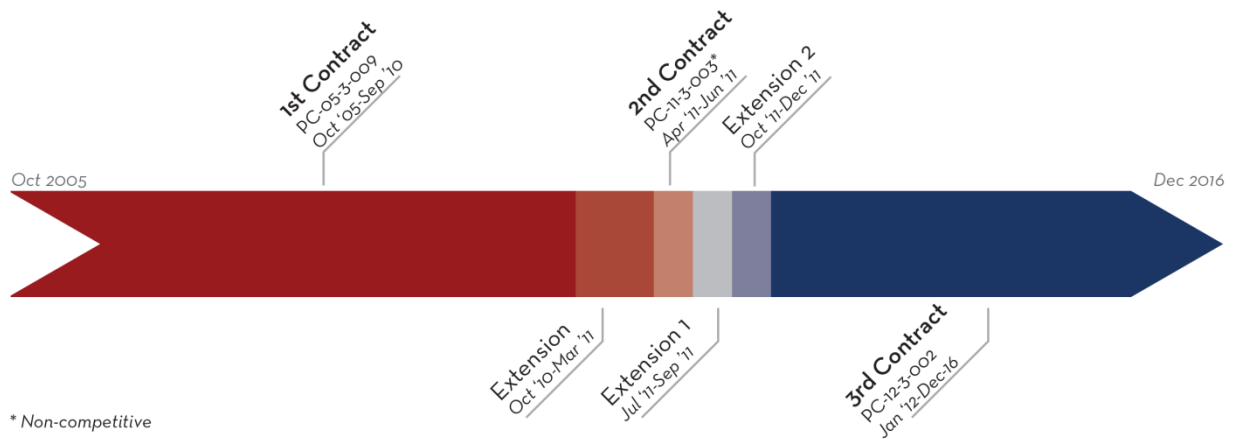


Figure 1. Timeline of Contracts and Extension Periods

Previous OIG Report on Peace Corps Contracting Operations. In IG-10-06-A, Peace Corps' Process for Soliciting, Awarding, and Administering Contracts (March 2010), we reported that the Peace Corps was not always allowing sufficient time to perform adequate acquisition planning. This insufficiency often resulted in unnecessary and costly extensions of existing contracts or the awarding of contracts that may not have been the most cost effective alternative. We also noted that the Peace Corps was not providing adequate surveillance over its active contracts, particularly those contracts deemed as being more complex and higher risk. As a result, we made the following recommendations to address these deficiencies:

Failure to perform timely and effective acquisition planning illustrates issues found during our audit in 2010 have not been fully resolved.

- That the chief acquisition officer revise PCM [Peace Corps manual] section 730: Acquisition Plans to strengthen internal control over the agency's acquisition planning phase of the contracting process. The revision must establish guidance on identifying prospective contracts that because of value, contract complexities, and other factors, may require more time to complete the acquisition planning phase. Further, specific minimums of time for completing acquisition planning should be set based upon the guidance established.
- That the chief acquisition officer increase surveillance over contracts to ensure Peace Corps' requiring activities are following applicable guidance and allowing sufficient time to perform adequate acquisition planning.

Management fully concurred with our recommendations and stated it would update the agency's policy manual to include policies and procedures addressing acquisition

planning, and develop and implement new policy to improve contract surveillance. We followed up on management's plans for remediating these issues and confirmed that its proposed actions were completed by June 2011. We closed the recommendations based on implementation of management's updated and newly established guidance. However, management's failure to perform timely and effective acquisition planning for the successor to the 2005 healthcare administration contract illustrates that the issues found during our audit in 2010 have not been fully resolved.

In June 2012, we issued a report that concluded the Peace Corps' five-year term assignments had compromised the agency's ability to attract and retain highly qualified personnel to perform contracting and certain other core functions.³ The requirement for term assignments continues to negatively impact contracting operations and has contributed to the issues discussed above.

The requirement for term assignments continues to negatively impact contracting operations.

³ IG-12-05-E, Final Evaluation Report: Impacts of the Five-Year Rule on Operations of the Peace Corps (June 2012).

A non-competitive contract awarded to continue services for a nine-month period in between expiration of the initial and present contracts did not comply with applicable FAR provisions.

On March 31, 2011, the second contract was awarded to the incumbent contractor (see Figure 1) using other than full and open competition. Since acquisition planning was not sufficiently complete prior to the end of a six-month extension of the initial contract, the Peace Corps was faced with finding a solution to continue contracted services without disruption. Management opted to award a three-month contract non-competitively to the incumbent contractor. FAR 6.302 indicates there are circumstances that permit awarding contracts under other than full and open competition. However, the authority for taking such contracting action must meet FAR requirements and be specifically cited in the agency's signed and approved justification.

The Peace Corps indicated in its "Justification and Certification" that their purpose was to document justification for awarding a contract under other than full and open competition. Specifically, under paragraph two of the document entitled "Nature and/or description of the action being approved," management stated, "This bridging contract will allow three months additional time for the Peace Corps to fully compete these services through full and open competition and to ensure that there is enough time for a smooth transition between the incumbent and successful offeror."

The Peace Corps cited FAR 6.302-1 as its authority for not competing the contract. Specifically, FAR 6.302-1(2) indicates: "When the supplies or services required by the agency are available from only one responsible source . . . and no other type of supplies or services will satisfy agency requirements, full and open competition need not be provided for."

We do not agree with the agency that FAR 6.302-1 was appropriate authority for justifying award of a contract under other than full and open competition. The explanation provided by the agency did not sufficiently address the criteria for justifying a sole source contract. Other qualified sources for services were available and would have enabled full and open competition under normal circumstances. As discussed above, management had ample notice of when the initial contract would expire and the FAR and Peace Corps policy provide that sufficient time be set aside for acquisition planning so that contracts are timely awarded. However, the agency took a number of contracting actions to extend services for 15 months past the contract's intended expiration. FAR 6.301(c)(1) clearly indicates that a lack of advance planning by the requiring activity does not provide a basis for not providing for full and open competition.

We also found that the Peace Corps' approval process associated with justification for using other than full and open competition was faulty, putting into question the propriety of the decision. The same official who signed as the contracting officer signed in a second place on the

Peace Corps' approval process associated with justification for using other than full and open competition was faulty, putting into question the propriety of the decision.

justification as “Small Business Specialist/Procurement Analyst.” A senior Peace Corps contracting official identified this position title as representing the advocate for competition. FAR 6.304(a)(2) requires that the advocate for competition approve all justifications exceeding \$650,000 up to \$12.5 million. We question the propriety of allowing any Peace Corps official designated as the contracting officer to serve in a dual role as an approver representing both the advocate for competition and the contracting officer. Exercising these dual roles defeats the intent of the provision and presents an organizational conflict of interest.⁴ Further, we found that this same official continued to serve as the advocate for competition while also temporarily serving as the acting chief acquisition officer. FAR 6.501(a) expressly prohibits the senior procurement executive from also serving in a role as the advocate for competition.

We recommend:

- 1. That the chief acquisition officer strengthen the Office of Acquisition and Contract Management’s written policies and procedures to provide greater assurance that:
 - a. all acquisition planning be initiated early enough to allow for timely contract awards, and**
 - b. Peace Corps managers are strongly discouraged from relying on contract extensions.****
- 2. That the chief acquisition officer follow up on OIG recommendations made in IG-10-06-A, Peace Corps’ Process for Soliciting, Awarding, and Administering Contracts (March 2010) to identify remediation measures taken as a result of the report that may have experienced relapses and ensure any deficient areas found are addressed and fully resolved.**
- 3. That the chief acquisition officer ensure that all contracting personnel comply with Federal Acquisition Regulation Part 6, “Competition Requirements.”**
- 4. That the Peace Corps Director, as a matter of policy, before designating an agency advocate for competition, direct the chief financial officer to perform an analysis to determine whether the proposed advocate presently serves in any capacity that could potentially compromise the integrity of the agency’s competition advocacy program as defined in Federal Acquisition Regulation Subpart 6.5. If conflicts are found, the chief financial officer should notify the Peace Corps Director and seek the Director’s concurrence that the proposed advocate be designated.**

⁴ The use of the term conflict of interest is not meant to suggest any violation of the Standards of Ethics for Employees of the Executive Branch. Rather the term is used generally to describe a conflict in the interests and roles of the functions being exerted.

5. **That the chief acquisition officer promptly notify the chief financial officer if there are any changes in the agency advocate for competition’s assigned responsibilities that could potentially impact the integrity of the advocacy program.**

CONTRACTS AND TECHNICAL STATEMENTS OF WORK

The contracting office and other government personnel that are involved in the contracting process must collaborate in developing clear statements of work (SOWs) that ensure that both the contractor and government fully understand all contract terms and conditions. Effective SOWs spell out what services are to be provided, how they will be delivered, payment terms, and define acceptable performance. If any changes occur that may impact contract terms and/or conditions during the period of performance, they must be timely communicated so appropriate actions can be taken that are acceptable to both parties and fully compliant with the FAR and other applicable laws, regulations, and agency policy.

The associated contract statements of work prepared by the Peace Corps did not clearly set out how the contractor was to be paid for services related to the application of network pricing.

We found that the technical SOWs prepared by the Peace Corps did not clearly describe how the contractor was to achieve cost reductions for medical claims processed or the specific basis for payment to the contractor for those services. The Peace Corps SOWs prescribed use of the Medical Data Research database (MDR), a database of usual and customary medical costs, to set a minimum benchmark for potential cost savings negotiated by the contractor. The contractor’s proposal, read into the contract by reference, does not address how the potential cost savings were measured. Specifically, the contractor billed the “network fee” for all potential costs savings, without application of a medical cost benchmark. Using a benchmark for medical procedures, as the contract required, would have given Peace Corps some basis to determine if the savings achieved by the contractor signified an actual costs savings benefit to the Peace Corps. Instead, the contractor claimed cost savings, not on the basis of a customary benchmark, but rather on the difference between the initial billing and the amount paid.⁵ Without a benchmark, the Peace Corps could not determine the level of performance by the contractor with respect to savings achieved. In summary, not all applicable FAR provisions were followed, oversight of the contractor’s performance was insufficient, and the Peace Corps may have paid more for contractor services than was authorized by the contract.

⁵ Using a customary benchmark could also mitigate any potential for fraud. “According to the Center of Medicare and Medicaid Services, the most common forms of Medicare fraud include billing for services not furnished; misrepresenting the diagnosis to justify payment; soliciting, offering, or receiving a kick-back; unbundling or “exploding” charges (charging for items sequentially which should have been included within a single lesser charge); falsifying certificates of medical necessity, plans of treatment, and medical records to justify payment; and billing for a service not furnished as billed (i.e., up-coding).” Patrick J. Miller, *An Overview of Healthcare Fraud and Abuse*, 45 *The Advocate* 15, 15 (May 2002).

The FAR indicates it is essential that service contracts are written clearly when describing requirements. Both parties must be fully aware of what services are to be provided and how services are to be priced and paid. According to FAR 37.102(e):

Agency program officials are responsible for accurately describing the need to be filled, or problem to be resolved, through service contracting in a manner that ensures full understanding and responsive performance by contractors

In addition FAR 37.503(a) states that agency heads or designee should ensure that:

Requirements for services are clearly defined and appropriate performance standards are developed so that the agency’s requirements can be understood by potential offerors and that performance in accordance with the contract terms and conditions will meet the agency’s requirements.

The MDR fee schedule was never used by the contractor as a benchmark for re-pricing claims.

However, the three SOWs for the contracts prepared by the Peace Corps lacked clarity on how certain services were to be performed and priced, specifically for the services related to fees paid to the contractor for re-pricing of claims. These fees were identified on contractor invoices in more recent years as the “network fee.” All three contract SOWs indicated that: “Re-pricing fees for the National PPO [Preferred Provider Organization] Network shall be calculated as a percentage of the difference between the MDR⁶ fee schedule and the re-priced amount.” The SOWs did not, however, specify the percentage.

The total costs for the contract services are significant, costing the Peace Corps approximately \$57.3 million from 2005 to 2014.

Further, we determined that the MDR fee schedule was never used by the contractor as a benchmark for re-pricing claims. Instead the contractor used a subcontractor to assist in the claims adjudication process by re-pricing through comparing claims as billed to rates listed on the subcontractor’s member healthcare PPO networks. During initial interviews with key contracting personnel, Peace Corps officials were initially unable to provide a clear explanation regarding what the “network access services” fee (“network fee”) represented and how it was computed. There is a one-sentence description of this fee in Attachment B of “Solicitation Provisions Incorporated by Reference” into the initial contract. These fees were significant, totaling over \$3.4 million through December 2014. The contracts’ SOWs should have included a more complete and detailed explanation of how such fees

⁶ The MDR is described in the 2005 contract as “Medical Data Research (trademarked) – is an industry recognized fee schedule used by health care insurers, which establishes rates for health care services by geographic location of service providers. It also provides the basis against which the discounts shown here are applied.”

would be calculated and the services that factor into the network fee. In contrast, the contracts clearly explained the nature of the fixed administrative fees. We later learned from the contractor that the network fee represents 30 percent of the savings achieved through re-pricing, which is billed to the Peace Corps as a fee for the re-pricing services. This method of re-pricing has been used by the incumbent contractor since 2005, or the beginning of the initial contract with the incumbent contractor. The total costs for the contract services are significant, costing the Peace Corps approximately \$57.3 million over the period 2005–14. The table below presents the historical costs for these services under the three contracts.

Table 2. Contract Costs (Thousands of U.S. Dollars)

Cost Component	PC-05-3-009 (10/05-3/11)	PC-11-2-003 (4/11-12/11)	PC-12-3-002 (1/12-12/16) ^a			Cost Component Totals
			CY 2012	CY 2013	CY 2014 ^b	
Claims	24,689	4,211	5,459	5,489	6,883	46,731
Network Fees	1,302	515	464	555	521	3,357 ^c
Admin Fees	4,040	602	843	872	902	7,259
Contract Totals	30,031	5,328	6,766	6,916	8,306	57,347

Source: OHS files on healthcare benefits administration contracts.

^aContract period extends through December 31, 2016.

^bContract modification 006, August 1, 2014, required the contractor to use a new usual and customary medical services benchmark as a part of the claims adjudication process.

^cTotal Network Fees 10/01/05-8/31/14 were \$3.2 million. The terms and conditions included under contract modification 006 became effective for billing purposes on 9/01/14 when the contractor implemented use of the new usual and customary benchmark (see note ^b above).

We discussed selected aspects of the contracts’ SOW in our MAR and recommended that the Peace Corps develop a high quality SOW that clearly sets out all of the contract requirements and re-compete the contract (see MAR, Appendix D, page 33). Peace Corps management concurred with this recommendation.

The Peace Corps incorrectly categorized the contract type for the three contracts.

It is important that the contract type be correctly identified and set out in the contracting documents. The contract type dictates which FAR provisions and agency policies are applicable and what level of oversight should be performed by responsible government personnel. There are a number of different types of contracts as defined and authorized for government use in FAR Part 16, “Types of Contracts.” The Peace Corps categorized the initial and second contract as “firm fixed-price/rate” and the present contract as “firm fixed-price hybrid with a combination of firm fixed-price and fixed rate contract line items.” However, as discussed in the MAR (see Appendix D, section B, pages 33-34) we determined that the contract type is inaccurately represented in all of the contractual documents. The chart below illustrates the percentages for costs associated with the firm-fixed-price, network fee, and reimbursement for medical claims cost components over the period from October 1, 2005, through December 31, 2014.

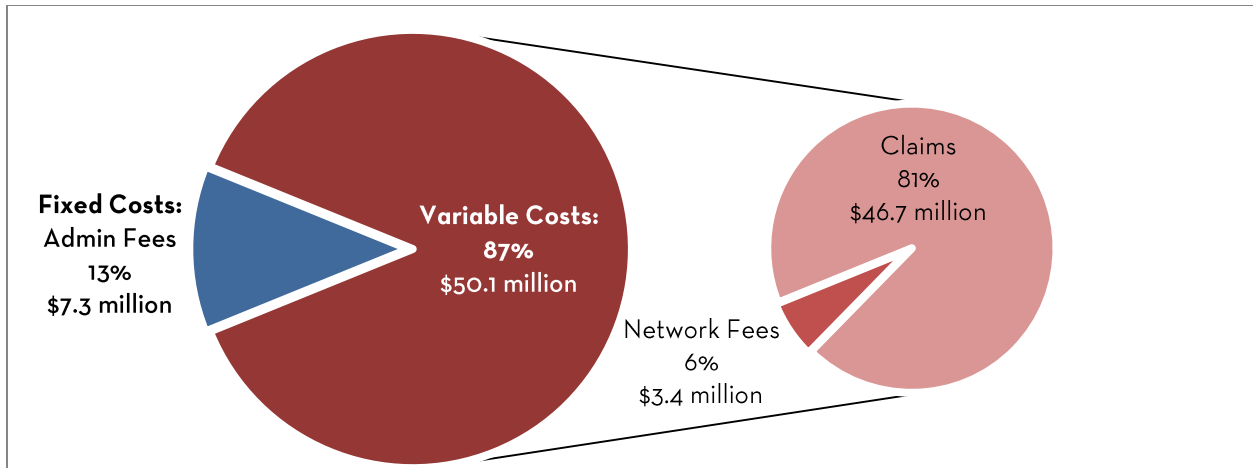


Figure 2. Breakdown of Fixed vs. Variable Contract Costs

Rather than fixed-price contracts, the three contracts should have been considered cost reimbursable. After reviewing the contracting arrangement, it is our opinion that an accurate description of contract type is “cost-plus-fixed-fee” with an incentive fee derived from paying the contractor a percentage commission on savings achieved through re-pricing of medical claims. Selecting the appropriate contract type is critical to defining what requirements must be followed, including how a contract is managed. According to FAR 16.301-3(a)(4) the government must ensure that:

Prior to award of the contract, or order, adequate Government resources are available to award and manage a contract other than firm-fixed-priced This includes appropriate Government surveillance during performance . . . , to provide reasonable assurance that efficient cost controls are used.

Cost-reimbursement contracts require greater scrutiny by the contracting officer and COR and present a greater risk to the government. In contrast, firm fixed-price contracts place much

In selecting an incorrect contract type, the Peace Corps failed to assert certain requirements designed to protect the government’s interests.

greater financial risk on contractors. Also, in many instances requirements for insertion of the various mandatory contract clauses listed in the FAR are dependent on the contract type. Cost-reimbursement contracts place much greater risk on the government to reasonably ensure contractors are using efficient methods in performance of the contract and that they are employing effective cost controls. Fixed-price contracting provides less risk to the government and generally fewer contract requirements. The Peace Corps, in selecting an incorrect contract type, failed to ascertain contracting requirements designed to protect the government’s interests. As a result Peace Corps did not provide appropriate contract surveillance and was not fully compliant with applicable laws, policies, and regulations.

A contract line item number used was unclear and misleading and did not describe what the associated funding was intended to cover.

According to FAR 4.1001, one of the purposes of using contract line item numbers (CLINs) is to identify the different cost components associated with separately identifiable contract deliverables. In the present contract, the Peace Corps indicated two CLINs on its federal contracting form (Standard Form 1449): CLIN 0001, described as “Administer Access to Service Network – Firm Fixed-Price” and CLIN 0002, described as “Medical Claims – Firm Fixed-Rate.” Although we agree that CLIN 0001 was a firm fixed-price cost component, CLIN 0002 was not based on fixed costs as is indicated in the contract. The purpose of the funding included under CLIN 0002 is for reimbursing the contractor for the payment of Peace Corps’ adjudicated medical claims. The description of the CLIN 0002 does not include the 30 percent network fee on any savings achieved through the adjudication process. However we found that such fees were paid under this CLIN.

Moreover, the cost of claims and the commissions earned are highly variable and dependent on the number of claims received, associated costs, and amount of savings achieved. As a result, to identify such costs as fixed is unclear and misleading, making it difficult for anyone unfamiliar with the costs authorized by the contract to understand what CLIN 0002 is intended to cover. Outside of the contracting operation, other personnel should have some level of understanding of the different costs authorized by the contract, including the COR, disbursing and budgeting officials, and applicable program managers. Yet as noted, key contract terms such as the network fee were not clearly defined in the contract.

The contract did not include the FAR-mandated subcontract clause.

As we discussed in our MAR referenced earlier in this report, a subcontractor has been (and continues to be) used to assist in adjudicating a substantial portion of the medical claims processed since the beginning of the initial contract.⁷ Subcontractor services encompass access to Peace Corps Volunteers’ sensitive medical data, including personally identifiable information and Health Insurance Portability and Accountability Act information. However, the Peace Corps did not execute procedures for consenting to such use. FAR 44.201-1 indicates that

- (a) The contracting officer may require consent to subcontract if the contracting officer has determined that an individual consent action is required to protect the Government adequately because of the subcontract type, complexity, or value, or because the subcontract needs special surveillance.
- (b) If the contractor does not have an approved purchasing system, consent to subcontract is required for cost-reimbursement

⁷ See IG-15-03-SR, Management Advisory Report: Peace Corps’ Volunteer Healthcare Administration Contract (March 2015).

Although use of a subcontractor was mentioned in the prime contractor's proposals, we found no documented evidence that the contractor had an approved purchasing system or that use of its subcontractor was specifically authorized by the Peace Corps in accordance with the FAR.

The applicable FAR clause authorizing the government to require consent to subcontract was not inserted into any of the three contracts. Although use of a subcontractor was mentioned in the prime contractor's proposals, we found no documented evidence that the contractor had an approved purchasing system or that use of its subcontractor was specifically authorized by the Peace Corps in accordance with the FAR. Because it is mandatory and expresses a significant strand of public procurement policy, this clause should be incorporated into the contracts by operation of law. Based on applicable Code of Federal Regulations (FAR) requirements the process for subcontractor consent would have initiated evaluating a number of important attributes relating to use of a subcontractor.⁸ The evaluation of this information by the government is designed in part to protect the government's interests in ensuring that use of the subcontractor is cost effective and appropriate given the risks involved.

Peace Corps staff did not effectively manage and oversee the contracts.

As discussed earlier in this report, due to their nature, cost-reimbursement contracts place a much greater risk on the government and require that personnel managing those contracts expend more time and resources ensuring acceptable contractor performance. However, we determined that the type of contract was incorrectly

identified by the Peace Corps as being firm fixed-price and should have properly been identified as a cost reimbursable type contract. Treating this contract as firm fixed-price resulted in less than a sufficient dedication of resources to manage and monitor the contract. Staff were not adequately equipped with the skills necessary to effectively monitor contract performance. A more detailed discussion on contract monitoring is covered in a later section of this report. Effective oversight of any contract is a shared responsibility that includes the designated contracting officer, COR, and agency disbursing personnel that make payments for costs incurred under the contract.

The Peace Corps failed to detect the contractor's lack of compliance with contract terms.

As mentioned earlier in this report, the contractor did not use the MDR fee schedule as a benchmarking tool when adjudicating claims. The contractor billed Peace Corps a fee equal to

⁸ 48 C.F.R. 52.244-2(e)(1) requires the contractor provide the contracting officer several pieces of information regarding its subcontract, but many of those requirements are not found in any of the contracts or proposals incorporated by reference into the contracts.

From October 2005
until August 2014,
non-use of the MDR
may have resulted in
higher costs under the
contracts.

30% of the “savings” achieved between the original provider bill and the final amount paid. However, without a benchmarking tool indicating at what level providers are regularly reimbursed for specific medical procedures, Peace Corps could not be assured that the contractor was achieving “savings” as envisioned by the contract. Although the non-use of the required MDR fee schedule had been ongoing since the initial contract’s inception in 2005, the Peace Corps had not detected this condition. During the course of our audit we brought the deficient condition to the attention of responsible agency staff. As a result, the present contract was modified in August 2014 to replace the MDR with another benchmarking tool. This was accomplished so that going forward the contractor’s noncompliance

could be remedied. However, during the period beginning in October 2005 up to the point the contract was modified in August 2014, non-use of the MDR may have resulted in higher costs under the contracts. A more detailed discussion on this issue is included in our MAR (Appendix D, section E, page 35).

We determined that the Peace Corps paid the contractor approximately \$3.2 million for services related to the network fees. Since the MDR or other benchmarking was not used, and such non-use may have resulted in higher network fees, we question the validity of those costs billed by the contractor during the period from October 2005 through August 2014 (see section on Questioned Costs and Funds to be Put to Better Use).

The Peace Corps paid
the contractor
approximately
\$3.2 million
for services related to
the network fees.

Incorporating Contractor Proposals by Reference.

The contracts incorporated the contractor’s proposal into the contract by reference. The proposal did not address the MDR while the terms of the contract clearly indicated that the MDR should be used when billing Peace Corps for the network access fees. Although there are a few exceptions to employing the practice of incorporating contractor proposals by reference, it is considered a poor contracting practice when those exceptions do not apply. In this instance, the exceptions neither applied to the Peace Corps’ healthcare contracts nor did agency contracting officials present any arguments or advantages for incorporating the contractor’s proposal. On the initial contract it was likely done for convenience and expediency and this practice was continued into the second and current contract. We made a recommendation in our MAR (see Appendix D, page 38) regarding avoiding incorporating contractor proposals by reference. Peace Corps management concurred with this recommendation.

The Peace Corps, without specific authority, entered into the three contracts providing for shared savings with the contractor.

The Peace Corps signed a contract that called for a “Share-in-Savings” agreement. As discussed in our MAR, such agreements require specific legal authority. We questioned whether the agency had authority to enter in this arrangement in the MAR (see Appendix D, section D, page 34) and recommended the Peace Corps refrain from entering into contracts that call for share-in-savings agreements (see Appendix D, page 38), therefore we are not issuing a recommendation here.⁹ However, in its response to this recommendation, the Peace Corps did not concur.¹⁰ Peace Corps indicated it did not agree with us that specific authority needed to be sought and granted. We continue to urge agency management to re-consider the related recommendation made in our MAR.

We recommend:

- 6. That the chief acquisition officer direct the contracting officer to modify the present contract to correctly identify the contract type.**
- 7. That the chief acquisition officer implement policy to ensure that the Peace Corps’ contacting officers follow Federal Acquisition Regulation Subpart 16.1, “Selecting Contract Types.”**
- 8. That the chief acquisition officer direct the contracting officer to modify the present contract to more accurately identify and describe what the contract line item numbers are intended to cover and break out the obligated amounts for billed claims and the network fees under multiple separate contract line item numbers, as appropriate.**
- 9. That the chief acquisition officer implement policy to ensure that the Peace Corps’ contracting officers follow Federal Acquisition Regulation Part 44, “Subcontracting Policies and Procedures,” when subcontracting is proposed by prime contractors.**

⁹ We note we were not able to ascertain any instances in which an agency entered into a “Share-in-Savings” agreement without specific statutory authority.

¹⁰ The Peace Corps asserted that FAR Subpart 37.6 authorizes federal agencies to use performance-based contracting, which is accurate. However, we do not agree that this clause provides the legal authority to enter into share-in-savings provisions or that it is relevant to this contract. Rather, FAR Subpart 37.601(b)(2) requires that “performance-based contracts shall include . . . measurable performance standards (i.e., in terms of quality, timeliness, quantity, etc.) and the method of assessing contractor performance against performance standards.” As we have noted, the contractor was paid 30% of the savings achieved and no benchmarking provision was used or enforced. As a result, there are no performance standards that the contractor was expected to meet.

10. That the chief acquisition officer direct the contracting officer to determine if there has been an overpayment related to the non-use of the MDR benchmark over the period October 1, 2005 through August 31, 2015. If it is determined an overpayment has been made, the chief acquisition officer should seek a recovery of the amount overpaid.

CONTRACT MONITORING

The Peace Corps did not effectively monitor the contracts to ensure that: (1) amounts paid to the contractor were specifically authorized as described in the contract, (2) fees charged by the contractor for adjudicating medical claims were submitted in accordance with contract terms and conditions, and (3) billings for claims processed were consistent with the supporting documentation. Further, issues related to weaknesses in contract monitoring were noted during an OIG audit performed in 2010.

As discussed in our MAR (see Appendix D, section H, page 37), contract monitoring was not adequate and was a significant weak link in the Peace Corps' control environment associated with the services performed under the contracts. As a result, the Peace Corps paid for services that were not specifically authorized by the contract and certain contract terms and conditions were not followed. Invoices were not sufficiently monitored, increasing the risk of inaccurate and unauthorized payments. An effective contract monitoring program is critical to ensuring that the government is receiving acceptable goods and/or services, contractors are meeting contractual requirements, and invoices include an accurate billing of what has been received and authorized by the contract.

In its widely used federal publication, "Standards for Internal Control in the Federal Government," the Government Accountability Office (GAO) stresses the importance of establishing an effective system for internal control and performing monitoring activities to ensure operations are working as intended. One of GAO's important principles for effective internal control indicates that:

Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. Ongoing monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions.

Government contracting officers rely on the experts in the areas related to the contracts they award. This is especially important when designating CORs. CORs must possess the necessary expertise and background to ensure that the technical and financial aspects specified in the contract are accomplished. According to "A Guide to Best Practices for Contract Administration," published by the Office of Federal Procurement Policy (OFPP):

The technical administration of government contracts is an essential activity. It is absolutely essential that those entrusted with the duty to ensure that the government gets all that it has bargained for must be competent in the practices of contract administration and aware of and faithful to the contents and limits of their delegation of authority from the contracting officer. The [COR] functions as the "eyes and ears" of the

contracting officer. It is imperative that the [COR] stay in close communication with the contracting officer, relaying any information that may affect contractual commitments and requirements.¹¹

COR Monitoring Was Not Effective. CORs are responsible for monitoring contractor performance, which includes evaluating the work as it progresses; exercising appropriate technical direction within the scope of the contract; inspecting and accepting completed work for the government; and assisting the contracting officer with the contractor's performance evaluations. OFPP indicates that it is a best practice for program offices to nominate as CORs only those individuals that possess specialized qualifications and expertise in the contacting area they will serve. CORs must have a good technical understanding of what is contained in the contract and what the contractor needs to do to meet the terms and conditions of the contract.. As such, CORs must be able to identify contracting issues related to performance or compliance and bring them to management's and the contracting officer's attention for timely resolution.

It is also essential to effective contract administration and management that CORs perform adequate surveillance and monitoring of the contracts for which they are responsible. Monitoring activities not only encompass contractor performance and compliance, but also include ensuring that invoicing is complete, accurate, and timely. OFPP stresses the importance of developing a plan that specifies the performance outputs contained in the SOW so that contract monitoring focuses on contractor deliverables. Further, the contract administration plan should also include a systematic and structured method to enable a COR to effectively evaluate services and/or products the contractor is required to provide the government. OFPP also indicates it is a best practice for those involved in the contract monitoring process to document the monitoring and surveillance performed.

Reviewing and processing vouchers (contractor invoices submitted for payment) is certainly as important as any other aspect of contract administration. The government expects the contractor to meet all contract requirements under the terms and conditions set out in the contract and the contractor expects the government to meet its contractual obligations through timely and accurate payments for accepted contract deliverables. According to OFPP, "Best Practices" associated with COR review of contractor invoices:

A plan or process for quickly and efficiently meeting this obligation is as essential as the [COR's] oversight monitoring plan. Therefore, it is incumbent upon program, procurement, and finance officials to understand clearly their roles and responsibilities related to reviewing and processing vouchers. This will ensure that payment is only made to contractors who perform in accordance with contract terms and conditions. It is essential that these tasks are discussed with the contractor and [COR] during the post award orientation conference. An important aspect of voucher review, approval, and processing is good communication between the [COR], contracting officer, and finance official to ensure that payment is made on time.

¹¹ Subsequent to publishing the quoted OFPP Guide the term "Contracting Officer's Technical Representative" or COTR, was changed to "Contracting Officer's Representative" (COR) to better align with terminology used in the FAR.

The COR Did Not Have Sufficient Understanding of the Contracts. As a result of our audit work related to contractor performance, examining invoicing, and discussions with the COR, we determined that the COR did not have a sufficient understanding of the contract terms and conditions. For example, as discussed earlier in this report, the contractor failed to follow terms and conditions related to use of the MDR fee schedule specified in the contracts; monitoring of contractor performance was limited to a cursory review of invoices summarizing weekly totals. The COR did not routinely review individual claims or perform monitoring by sampling selected claims transactions to determine if there were any issues related to whether the invoiced amounts were accurate and claims adjudicated by the contractor were authorized under the contract.

The contracting officer's representative did not have a sufficient understanding of the contract terms and conditions.

The Peace Corps erroneously paid a \$179,000 network fee related to contractor-billed cost savings commissions on a claim that had been incorrectly billed to, and subsequently paid by the Federal Medicare Program.

Further, we found that the Peace Corps did not verify that network fees invoiced by the contractor were based on an accurate account of savings achieved and whether the related claims and associated re-priced amounts were properly supported by sufficient source documentation. In one notable case, the Peace Corps erroneously paid a \$179,000 network fee related to contractor-billed cost savings commissions on a claim that had been incorrectly billed to, and subsequently paid by, the federal Medicare program. Further detail on this transaction is included in our MAR (see Appendix D, section F, pages 35-36). We concluded that weaknesses in contractor monitoring significantly contributed to issues relating to noncompliance with contract terms and conditions, unauthorized charges billed and paid by the Peace Corps, and potentially higher overall contract costs.

Ineffective COR Monitoring of Contracts a Systemic Problem. In our 2010 audit of the Peace Corps' contracting operations referenced earlier in this report, we noted the following:

Our review found that Peace Corps contracts were not always effectively monitored. Inadequate monitoring can lead to costly errors, including receipt of unacceptable goods/services and/or noncompliance with applicable guidance. In addition, insufficient [COR] training contributed to the [COR's] general lack of understanding of their responsibilities related to monitoring contracts.

Our audit confirmed that the CORs assigned to the present contract had completed the minimum training required to meet Federal Acquisition Certification standards. Although we did not

perform a comprehensive follow up on COR training at the Peace Corps, we believe the agency has improved in this area since 2010. However, the minimum COR training received is not always sufficient for preparing a COR to manage larger, more complex contracts. In addition, it is critical that CORs selected to oversee these types of contracts possess the necessary experience and skill sets that enable them to monitor performance and understand the complexities they will face in a day-to-day interface with the contractor. The significance is highlighted in the OFPP’s “A Guide to Best Practices for Contract Administration,” which states, “It is essential that program offices designate technically competent people with the specialized qualifications and expertise as [CORs].”

Based on the COR-monitoring issues discussed above we conclude that some of the related problems cited during our 2010 audit are systemic to agency contracting operations and require greater focus by management to correct the weaknesses noted through strengthening the agency’s contract surveillance program.

Unsupported Costs Were Billed to the Peace Corps. Our testing of claims transactions billed to the Peace Corps between 2005 and 2013 disclosed that 25 transactions having a total value of nearly \$1.2 million were not supported by source documentation. We found substantial information regarding each of the 25 transactions within the contractor’s system used for documenting and processing claims. However, the contractor was unable to provide the associated medical provider invoices. Further detail regarding our testing of contractor transactional data appears in our MAR.

Testing of claims transactions billed to the Peace Corps between 2005 and 2013 found that 25 transactions having a total value of nearly **\$1.2 million** were not supported by source documentation.

We recommend:

- 11. That the chief financial officer, chief acquisition officer, and Office of Health Services associate director, assign sufficient resources for purposes of assisting in improving the overall Volunteer healthcare administration contract surveillance program and to provide greater assurance that the contractor is fully complying with the contract and its performance is acceptable.**
- 12. That the Office of Health Services associate director ensure that the contracting officer’s representative develop a detailed plan for reviewing and testing sufficient selected data concerning contractor invoices submitted to the Peace Corps for payment. The plan should be designed to achieve better assurance that the amounts billed are accurate, fully supported, and authorized by the contract.**

- 13. That the chief acquisition officer develop written policy for improving the process for selecting and designating contracting officer's representatives that will better match experience and skill sets with the contracts they are slated to monitor.**
- 14. That the chief acquisition officer and the Office of Health Services associate director establish procedures to ensure that the Office of Acquisitions and Contract Management, contracting officer's representative, and Office of Health Services senior staff collaborate on administering and monitoring the Peace Corps' healthcare administration contract, including maintaining an environment for fostering open and effective communications regarding contractor performance.**

RETENTION OF REQUIRED CONTRACTING RECORDS

The Peace Corps did not maintain copies of invoices submitted for payment by the contractor in the government contract files as required by FAR Subpart 4.8.

The FAR requires federal agencies maintain complete contracting files, including copies of all invoices submitted for payment, for a minimum of six years and three months after final payment. This condition occurred because agency officials responsible for maintaining contracting records did not keep this type of documentation in the government contract files. As a result, any documentation gaps created by records not being retained for the required minimum retention period make it difficult, if not impossible, for agency management to determine whether questioned costs billed under the contract were authorized, complete, and accurate should issues arise. It may also impact the government's ability to resolve disputes with the contractor. Additionally, scope limitations may result if records cannot be found which could affect the government's ability to effectively perform contract close-out audits when required.

Some invoicing records were maintained by the Peace Corps' disbursing activity, but its files were incomplete because some older documents over an approximate two year period had not been retained. Also, we found that OHS was routinely receiving invoices and had retained the vast majority of data received.

FAR Part 4, Administrative Matters, Subpart 4.8 Government Contract Files, prescribes the requirements for establishing, maintaining, and disposing of contract files. Also, Peace Corps Manual section 732 requires that contracting files include written acknowledgement that goods or services were received. Record retention provides a full history of contract activities, and documentation of these activities. Billing records provide for the necessary supporting documentation indicating payments were requested and vendors were subsequently paid. They also provide for a document trail to facilitate internal reviews and audits of contracting activities. Although other federal agency activities may keep invoices, based on FAR requirements the official repository for invoicing documentation are the contract files.

Peace Corps officials did not have sufficient understanding of the FAR and other related federal governance on the retention of contracting records. This condition resulted because records related to contractor billing were not maintained in the government contract files. The absence of complete and accurate invoicing documentation can potentially expose the Peace Corps to risks associated with not being able to accurately validate costs billed over specific periods in question, effectively defend the government's interests during contract disputes that may arise, and effectively perform contract close-out or other required internal reviews and audits related to the contract. Based on historical disbursement data the total amount billed by the contractor from FY 2005 through CY 2014 was about \$57.3 million.

Peace Corps officials did not have sufficient understanding of the FAR and related federal governance on the retention of contracting records.

We recommend:

- 15. That the chief acquisition officer implement policy that requires all invoicing documents be maintained in the official contracting files for the minimum period of time as prescribed in Federal Acquisition Regulation Subpart 4.8.**

QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

We did not identify any funds to be put to better use. We identified the following questioned costs:

Recommendation number	Description	Amount
10	The contractor did not follow contract terms related to using a usual and customary benchmark specified in the contract when adjudicating medical claims. As a result, all network fee charges between October 1, 2005, and July 31, 2014 are unsupported questioned costs.	\$3.2 million
11	The contractor did not maintain full documentation of claims reviewed.	\$1.2 million

The Inspector General Act of 1978, as amended, defines funds to be put to better use and questioned costs as:

- Funds to be put to better use are funds that could be used more efficiently if management took actions to implement and complete the recommendation.
- Questioned costs are costs that are questioned because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement or document governing expenditure of funds; a finding that, at the time of the audit, such cost is not supported by adequate documentation; or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

LIST OF RECOMMENDATIONS

We recommend:

1. That the chief acquisition officer strengthen the Office of Acquisition and Contract Management's written policies and procedures to provide greater assurance that:
 - a. all acquisition planning be initiated early enough to allow for timely contract awards; and
 - b. Peace Corps managers are strongly discouraged from relying on contract extensions when acquisition planning has been deficient and untimely.
2. That the chief acquisition officer follow up on OIG recommendations made in IG-10-06-A, Peace Corps' Process for Soliciting, Awarding, and Administering Contracts (March 2010) to identify remediation measures taken as a result of the report that may have experienced relapses and ensure any deficient areas found are addressed and fully resolved.
3. That the chief acquisition officer ensure that all contracting personnel comply with Federal Acquisition Regulation Part 6, "Competition Requirements."
4. That the Peace Corps Director, as a matter of policy, before designating an agency advocate for competition, direct the chief financial officer to perform an analysis to determine whether the proposed advocate presently serves in any capacity that could potentially compromise the integrity of the agency's competition advocacy program as defined in Federal Acquisition Regulation Subpart 6.5. If conflicts are found, the chief financial officer should notify the Peace Corps Director and seek the Director's concurrence that the proposed advocate be designated.
5. That the chief acquisition officer promptly notify the chief financial officer if there are any changes in the agency advocate for competition's assigned responsibilities that could potentially impact the integrity of the advocacy program.
6. That the chief acquisition officer direct the contracting officer to modify the present contract to correctly identify the contract type.
7. That the chief acquisition officer implement policy to ensure that the Peace Corps' contracting officers follow Federal Acquisition Regulation Subpart 16.1, "Selecting Contract Types."
8. That the chief acquisition officer direct the contracting officer to modify the present contract to more accurately identify and describe what the contract line item numbers are intended to cover and break out the obligated amounts for billed claims and the network fees under multiple separate contract line item numbers, as appropriate.

9. That the chief acquisition officer implement policy to ensure that the Peace Corps contracting officers follow Federal Acquisition Regulation Part 44, "Subcontracting Policies and Procedures," when subcontracting is proposed by prime contractors.
10. That the chief acquisition officer direct the contracting officer to determine if there has been an overpayment related to the non-use of the MDR benchmark over the period October 1, 2005 through August 31, 2015. If it is determined an overpayment has been made, the chief acquisition officer should seek a recovery of the amount overpaid.
11. That the chief financial officer, chief acquisition officer, and Office of Health Services associate director, assign sufficient resources for purposes of assisting in improving the overall Volunteer healthcare administration contract surveillance program and to provide greater assurance that the contractor is fully complying with the contract and its performance is acceptable.
12. That the Office of Health Services associate director, ensure that the contracting officer's representative develop a detailed plan for reviewing and testing sufficient selected data supporting contractor invoices submitted to the Peace Corps for payment. The plan should be designed to achieve better assurance that the amounts billed are accurate, fully supported, and authorized by the contract.
13. That the chief acquisition officer develop written policy for improving the process for selecting and designating contracting officer's representatives that will better match experience and skill sets with the contracts they are slated to monitor.
14. That the chief acquisition officer and the Office of Health Services associate director establish procedures to ensure that the Office of Acquisitions and Contract Management, contracting officer's representative, and Office of Health Services senior staff collaborate on administering and monitoring the Peace Corps' healthcare administration contract, including maintaining an environment for fostering open and effective communications regarding contractor performance.
15. That the chief acquisition officer implement policy that requires all invoicing documents be maintained in the official contracting files for the minimum period of time as prescribed in Federal Acquisition Regulation Subpart 4.8.

APPENDIX A: OBJECTIVES, SCOPE, AND METHODOLOGY

Our purpose in performing an audit of the healthcare benefits administration contracts was to determine whether (1) medical claims that were processed for payment by the contractor were proper, accurate, and valid based on contractual requirements, (2) contractor payments were made based on eligible claimants and to only authorized providers, (3) invoicing for services rendered, including medical claims paid were complete, accurate, and sufficiently supported, and (4) the contractor's internal control over its manual and automated medical claims processing and payment systems was effective in minimizing the potential for fraud, waste, and abuse. We also reviewed the Peace Corps processes for acquisition planning, solicitation, award, and contract administration for the healthcare benefits administration contracts to the extent they related to our objectives.

We conducted this performance audit in accordance with *U.S. Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit scope covered the period FY 2005 through calendar year 2014. Our review included the below listed Peace Corps contracts and amounts billed to the Peace Corps under said contracts during the audit scope:

- PC-05-3-009, awarded August 16, 2005
- PC-11-3-003, awarded March 31, 2011
- PC-12-3-002, awarded December 30, 2011

Audit work was performed at Peace Corps headquarters and the contractor's facility. We interviewed key officials including the OHS acting associate director, deputy CFO, chief acquisition officer, contracting officer, COR, and contractor executives. We communicated issues and areas that need improvement to Peace Corps management and included significant issues noted during our audit in this report.

We used the contractor's system to identify the universe of healthcare claims and for providing detail regarding selected claims. Although we could not independently verify the reliability of all this information, we sampled 604 claims and compared our results with other available supporting documents to determine data consistency and reasonableness. Based on these efforts, we believe the information we obtained is sufficiently reliable for purposes of performing the necessary audit work in accomplishing our objectives.

Our primary sources for criteria were the Federal Acquisition Regulation, Title 41 United States Code, Peace Corps Manual section 730, and the Government Accountability Office Standards for Internal Control in the Federal Government. Throughout the audit, auditors were aware of the possibility or existence of fraud, waste, or misuse significant to the audit objectives and

conducted procedures designed to obtain reasonable assurance of detecting any such fraud as deemed appropriate.

APPENDIX B: LIST OF ACRONYMS

CAO	Chief Acquisition Officer
CFO	Chief Financial Officer
CLIN	Contract Line Item Number
COR	Contracting Officer's Representative
COTR	Contracting Officer's Technical Representative
CY	Calendar Year
GAO	General Accountability Office
FAR	Federal Acquisition Regulation
FY	Fiscal Year
MAR	Management Advisory Report
MDR	Medical Data Research fee schedule
OACM	Office of Acquisitions and Contracts Management
OFPP	Office of Federal Procurement Policy
OHS	Office of Health Services
OIG	Office of Inspector General
OMS	Office of Medical Services
PCM	Peace Corps Manual
PCMO	Peace Corps Medical Officer
PCV	Peace Corps Volunteer
PPO	Preferred Provider Organization
RPCV	Returned Peace Corps Volunteer
SOW	Statement of Work

APPENDIX C: INTERVIEWS CONDUCTED

As part of this audit, we conducted interviews with 14 representatives from Peace Corps headquarters in Washington D.C. and six personnel employed by the contractor/subcontractor.

Table 3. Peace Corps Staff Interviewed

Position	Office
Chief Financial Officer	CFO
Deputy Chief Financial Officer	CFO
Senior Budget Analyst	CFO
Chief Acquisition Officer	CFO/ACM
Former Acting Chief Acquisition Officer	CFO/ACM
Former Supervisory Contract Specialist, Procurement Policy	CFO/ACM
Supervisory Contract Specialist, Domestic Operations	CFO/ACM
Chief Compliance Officer	D
Associate General Counsel	D/GC
Chief Administrative Officer	OHS
Chief, Quality Improvement, Education and Training	OHS
Former Associate Director	OHS
Former/Present Contracting Officer's Representative (2)	OHS

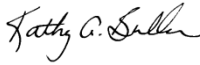
Table 4. Contractor/Subcontractor Staff Interviewed

Position	Office
Claims Processor	Contractor
Corporate Compliance Manager	Contractor
Director of Government Division	Contractor
General Counsel	Contractor
Supervisor, Claims Processing	Contractor
Operations Manager of Repricing	Subcontractor

APPENDIX D: MANAGEMENT ADVISORY REPORT: PEACE CORPS' VOLUNTEER HEALTHCARE ADMINISTRATION CONTRACT (IG-15-03-SR)

Date: March 31, 2015

To: Carrie Hessler-Radelet, Director
Daljit Bains, Chief Compliance Officer

From: Kathy A. Buller, Inspector General 

Subject: Management Advisory Report: Peace Corps' Volunteer Healthcare Administration Contract (IG-15-03-SR)

The purpose of this report is to bring to your attention significant concerns the Office of Inspector General (OIG) has with the Peace Corps' contract for administering Volunteer healthcare. We have determined the present contract's solicitation and award process was flawed, and the second contract was not fully compliant with the Federal Acquisition Regulation (FAR). We also questioned the legitimacy of the contract's "network fee" because the Peace Corps likely lacks legal authority to enter into "shared savings" contracts. Further, the contractor did not comply with the terms of the network fee, which, in our opinion may have resulted in higher costs to the Peace Corps. In addition, we noted that a very large claim related to the hospitalization of a former Volunteer was not processed in accordance with federal law, and we found instances where the contractor did not maintain important documentation supporting costs billed to the Peace Corps. Finally, we noted that the agency's contract monitoring process was inadequate. We will issue a full audit report on this subject discussing our findings and conclusions in greater detail.

This report makes six recommendations to improve the agency's actions regarding the Peace Corps' contract for administering the Volunteer healthcare benefits program. We are requesting your response by **May 15, 2015**. Please provide us with an electronic copy of your signed cover memo and your response. Your response should provide your concurrence or non-concurrence with each recommendation. In addition, please use [TeamCentral](#) to document corrective action and upload documentation supporting any actions planned or implemented to address the recommendations.

I. BACKGROUND

While the Peace Corps is self-insured regarding Volunteer covered healthcare benefits, it engages a contractor ("the Contractor") to administer its program for medical services performed

outside the Peace Corps’ internal medical units. At approximately \$35 million over a five-year period, the current contract (PC-12-3-002) is the largest active Peace Corps award.¹² The Volunteers’ healthcare coverage typically includes a Volunteer’s authorized services prior to leaving the U.S. for assignment; urgent care when med-evac’ed to the U.S. or a third country, or when returned to the U.S. for necessary medical treatment; and health care for a limited time after separating from the Peace Corps and returning home.

A. The Contract. Under the terms of the contract the Contractor is responsible for adjudicating and paying all medical claims the Peace Corps receives from healthcare providers. The Peace Corps then reimburses the Contractor for each payment made. The current contract provides for payment to the Contractor of an annual fixed-fee for administering claims, ranging from \$842,588 for the base year of the contract to \$965,118 in the final option year. The Peace Corps also pays a network fee which varies in amount but is 30 percent of the cost savings achieved by the contractor for each claim. The Contractor is now performing services in the third of four option years provided under its third contract with the Peace Corps. The current contract expires at the end of the fourth option year, if exercised, on December 31, 2016.

B. The Peace Corps’ History with the Contractor. The initial contract with the Contractor (PC-05-3-009) was awarded in August 2005, and was set to expire on September 30, 2010. The contract stipulated it was not to exceed 60 months. However, prior to the contract expiring, the Peace Corps modified the contract twice to extend it for a period of six months beyond the 60-month limit. Prior to the end of the extension period, the Peace Corps awarded the Contractor a noncompetitive contract (PC-11-3-003) for a three-month period as an interim measure to continue services. That contract was then extended for an additional six months. The third and current contract (PC-12-3-002) was awarded on December 30, 2011. The table below summarizes the three contract periods and related extensions.

Table 1. Contracts and Extension Periods

Contract Numbers/Extensions	Time Period
PC-05-3-009	October 1, 2005 – September 30, 2010
Contract Extensions	October 1, 2010 – March 31, 2011
PC-11-3-003	April 1, 2011 – June 30, 2011
Contract Extensions	July 1, 2011 – December 31, 2011
PC-12-3-002	January 1, 2012 – December 31, 2016*

*Through option year four if all options are exercised by the Peace Corps

II. ISSUES

A. Flawed Solicitation and Award Process. The contract extensions and the award of an un-competed and short term second contract resulted from inadequate and untimely acquisition planning. Although it was known in August 2005 that the first contract would expire on September 30, 2010, a replacement contract was not awarded until 15 months after the initial contract expired. During the 15-month period between the expiration of the initial contract and

¹²\$35 million is the projected value of the current contract. As of December 2014, the amount of obligated funds for all contracts listed in Table 1 below total over \$63 million.

the awarding of the present one, the Peace Corps engaged in questionable contracting practices and at times operated outside the parameters of federal guidance and good business practices. The Peace Corps appeared to struggle with performing its planning for a successor contract and, although not documented in associated files, we concluded that it lacked sufficient resources to timely prepare for the contract solicitation and award. We were informed by a Peace Corps management official that the Office of Health Services (OHS) recognized the requirement for a specialized resource from outside the agency to assist in developing an improved statement of work describing the services needed. However, this resourcing was denied. Due to the complexity of medical claims cost reimbursement and health care related fee structures we believe the agency should have sought expert advice on how to develop an effective statement of work that would foster increased competition among contractors and the best value for the services sought by the government. Instead, the agency went forward with the statement of work for the 2012 contract that contained key terms and conditions identical to the 2005 contract.¹³

Contract extensions of competitively awarded contracts should be sufficiently justified. We do not agree with Peace Corps management that there was only one responsible source as indicated in its FAR authority for justifying other than full and open competition. This contracting action was taken because of a lack of adequate and timely acquisition planning, which is not considered appropriate and sufficient justification for contracts that are awarded non-competitively. As a result, the contract awarded in April 2011 and its extensions were not FAR compliant.

B. Contract Type Inaccurately Represented. We have determined that the contracts are inaccurately represented as "...firm fixed-price hybrid contract[s] with a combination of firm fixed-price and fixed-rate contract[s]," and should be identified instead as cost-reimbursement plus fixed-fee contracts with an incentive-fee for cost savings. Properly classifying the contracts is key because it determines which FAR provisions govern and which controls must be in place to protect the government's interest.

A review of the current contract shows only 13 percent of the estimated total cost for option year three (CY 2015) represents the fixed-fee for program administration, while the remaining 87 percent of the contract value varies depending on the total value of the claims paid and the total savings the Contractor achieves when adjudicating claims.¹⁴

Furthermore, the variable portion of the contract does not meet the FAR's definition of a "firm-fixed-price contract":

A firm-fixed-price contract provides for a price that is not subject to any adjustment on the basis of the contractor's cost experience in performing the contract. This contract type places upon the contractor maximum risk and full responsibility for all costs and resulting profit or loss. It provides maximum

¹³ During the audit OHS advised us that they plan to bring on board an insurance specialist to assist in planning for a new contract to administer the Volunteer health care program.

¹⁴ This portion of the contracts are comprised of two fees: (1) funds which the Contractor draws from to pay medical claims, and which are regularly replenished to ensure the Contractor does not incur costs; and (2) network fees which are 30 percent of the savings achieved in adjudicating claims, amounts which vary depending on the value and amount of the claims adjudicated.

incentive for the contractor to control costs and perform effectively and imposes a minimum administrative burden upon the contracting parties.¹⁵

The contracts were amended multiple times to adjust the funding available for the Contractor to pay claims, and the contracts placed only a limited risk or responsibility on the Contractor for profits or losses. On the contrary, the contracts provide for payment of allowable incurred costs (medical claims), and establish a ceiling that the Contractor could not exceed without the Peace Corps' approval. In short, these terms fall squarely within the FAR's definition of cost-reimbursement contracts.¹⁶

C. Contractor Lacked Consent to Subcontract Key Services. Our review also revealed the Contractor engaged a subcontractor ("the Subcontractor") to assist in the adjudication process through re-pricing of the vast majority of Peace Corps' claims.¹⁷ As discussed above, because the contracts in question were cost-reimbursable the contracting officer was obligated to include a clause in the contract mandated by FAR Part 44 requiring the Contractor obtain consent to subcontract.¹⁸ We found no documented evidence that sub-contracting was authorized by the Peace Corps.¹⁹ Even though the provision was not included in any of the contracts, because the FAR clause is mandatory and expresses such a significant strand of public procurement policy, the clause should be incorporated into the contracts by operation of law. Based on applicable FAR provisions, the Contractor should have been required by the contracting officer to submit its subcontractor for consent by the Peace Corps.²⁰ Government approval of subcontractors protects the agency by allowing it to vet the parties which will be performing key aspects of the work, including, in this case, handling sensitive medical information.

D. Peace Corps Lacked Authority to Agree to the Network Fee as Structured. The structure of the contracts' network fee, whereby the Peace Corps pays the Contractor a variable fee based on the savings the Contractor achieves when adjudicating medical claims, can only be defined as a shared savings agreement. Shared savings (a.k.a. Shared-in-Savings) contracting is a technique in which a contractor, rather than a client, normally funds the up-front cost of a project, and, in return, receives a percentage of the savings that the contractor generates.²¹ In the absence of expressed congressional authority, these contracts are unlawful because they allow agencies to spend unappropriated tax dollars. Here, the Contractor funded the up-front cost of adjudicating

¹⁵ 48 C.F.R. 16.202-1.

¹⁶ 48 C.F.R. 16.301-1.

¹⁷ Under its contract with the Subcontractor, the Contractor agreed to pay a commission of 27 percent for all savings the Subcontractor achieved during the adjudication process. The additional three percent is retained by the Contractor.

¹⁸ Additionally, we assess that the savings fee in the contract could also be determined to be an unpriced contracting action, and/or that because the subcontract was of a type, complexity, and value justifying surveillance to protect the government's interest, the mandatory subcontracting clause should have been incorporated into the contract.

¹⁹ The subcontractor has been used since the beginning of the 2005 contract to adjudicate the vast majority of Peace Corps medical claims and, as a result, manages significant amounts of sensitive Volunteer personal medical data.

²⁰ 48 C.F.R. 52.244-2(e)(1) requires the Contractor provide the contracting officer several pieces of information regarding its subcontract, but many of those are not found in any of the contracts or proposals incorporated by reference into the contracts. Merely notifying the Peace Corps of the existence of a subcontractor is not enough to satisfy the requirement.

²¹ Commercial Use of Share-in-Savings Contracting, January 2003, available at <http://www.gao.gov/assets/240/237120.pdf>.

claims, and in return, received a percentage of the savings it generated in the form of “network fees.”²² Since the network fees derive from a shared savings agreement, and we are unable to identify congressional authority for the Peace Corps to enter into such agreements, we question the Peace Corps authority to enter into such arrangements and the legitimacy of those fees.

E. Contractor Did Not Comply with the Terms of the Network Fee. Even if the Peace Corps was authorized to agree to the network fee as structured, the Contractor did not comply with its terms. The contracts defined the network fee as a percentage of the difference between the Medical Data Research (MDR) fee schedule and the re-priced amount.²³

However, our review revealed the Contractor never used the MDR, or any other benchmark, to calculate its savings fee and found no documented evidence that the Peace Corps waived the MDR requirement after signing the contracts. Instead, the Contractor calculated its savings fee as a percentage of the difference between the original medical bill and the re-priced amount. The egregiousness of this practice is difficult to overstate. Without using a benchmark – for example, the average or median costs of medical procedures – the government could not be assured that actual cost savings are being achieved. Under this arrangement providers could charge the highest fee possible only to settle with the Contractor for an amount that could still be high above the market average. The Contractor could receive a significant “savings” fee for achieving no real savings at all, at least when comparing the re-priced amount with the average cost of the medical services or with data (over a number of years) of what the government has paid for such services. Without an adequate benchmark the agency has no assurance the incentive fee is achieving any real value and the arrangement exposes taxpayer funds to the possibility of fraud.

The Peace Corps Office of Acquisitions and Contracts Management agreed with our conclusion that the Contractor’s non-use of the MDR was a contract compliance issue. As a result, in August 2014, the contracting officer modified the contract to replace the MDR with another usual and customary benchmark. The Contractor agreed to this change and signed the bi-lateral contract modification. Although the modification may solve future non-compliance issues, it does not address the impact of the Contractor’s practices since 2005. Also, it is unknown at this time how the modification will impact the Peace Corps’ overall costs under the contract.

F. Large Peace Corps Volunteer Claim Improperly Processed. We reviewed a hospital claim billed to Medicare that the Subcontractor improperly processed on behalf of the Contractor. We concluded that the hospital should not have billed Medicare and the Subcontractor should not have accepted it as the payer. Further, the Subcontractor billed the Peace Corps through the Contractor for a network fee calculated as a percentage of the difference between the original hospital bill and the final bill after the Medicare payment. Network fees are typically derived from adjusting medical provider charges using agreed upon network rates or directly negotiating with the provider when a provider does not accept any of the networks used. In this case, the charges were initially covered by Medicare, a federal program. As a result, there were no savings

²² <http://www.chqpr.org/downloads/SharedSavings.pdf>.

²³ The MDR provided a comprehensive listing of usual and customary medical fees for medical services by geographic area. Its purpose was to compare medical provider billed charges for authorized Volunteer health care services performed to achieve cost reductions through re-pricing.

that could be attributed to services performed by the Subcontractor. Furthermore, the charges billed to the government (Medicare and the Peace Corps), included 99.99 percent of the original hospital-billed amount plus a network fee of just over \$179,000, exceeding the hospital’s original bill by 30 percent. This resulted in total charges to the U.S. government of nearly \$774,000 (see Table 2 below). Such billing practices are prohibited by law.

Table 2. Claim Billing and Payment History (U.S. Dollars)

Billed by Hospital & the Contractor	Amount Billed*	Payments Made by U.S. Government
Hospitalization Charges Originally Billed to Medicare by Hospital	593,409	593,409
Hospitalization Charges Billed to Volunteer’s Estate by Hospital	3,360	-
Hospitalization Charges Billed to Peace Corps by the Contractor	1,132	1,132
Network Fee Billed by the Contractor to Peace Corps	179,031	179,031
Total Amount Paid by U.S. Government before OIG inquiries		773,572

*Amounts rounded to nearest dollar.

We requested further detail about this claim from the Contractor and Subcontractor, ultimately obtaining the related information through an inspector general subpoena.

Subsequent to OIG inquiries on this transaction, we obtained a letter dated April 24, 2014, from the hospital to the Subcontractor indicating that it agreed to accept \$65,298 as payment in full for billed charges of \$612,791 minus a previous payment of \$1,132. Other information contained in the package indicated a re-calculated network fee of \$164,248 derived from Subcontractor-reported savings of \$547,493. Based on further discussions with the Contractor we learned that the hospital had credited Medicare for the full amount originally billed and the Subcontractor re-negotiated the hospital charges. According to the Subcontractor documentation, the charges were significantly reduced from \$612,791 to \$65,298, yielding an 89 percent reduction. There was no explanation given for why the hospital was willing to accept only 11 percent of what was originally billed.

G. Some Medical Claims Tested by OIG Lacked the Required Supporting Documentation.

Based on our testing of two separate samples of Peace Corps medical claims we found 25 claims having a total value of about \$1.2 million that were not supported by a copy of the medical provider invoice. The Contractor explained that their record keeping of such documents had improved in recent years but that older records were sometimes more difficult to locate because they were comingled with other federal clients’ records when archived. While the required, supporting invoices were not available, the Contractor did maintain substantial documentation of the claims and the Contractor review process.

However, the provider invoice is considered key in substantiating the claim. Our sample included claims that were processed by the Contractor between 2005 and 2013 (see Table 3 below for a summary of these testing results).

Table 3. OIG Sampling Test Results

OIG Sample	No. of Claims in Sample	No. of Claims Lacking Support	Value of Claims Lacking Support*
I	197	16	\$345,942
II	57	9	\$844,518
Totals:	254	25	\$1,190,460

*Rounded to the nearest dollar.

H. The Peace Corps’ Monitoring of Contractor Performance is Inadequate. Contract monitoring was inadequate and was a significant weak link in Peace Corps’ control environment associated with these contracts. As a result, the Peace Corps paid for services not authorized by the contract, the Contractor was not following certain contract terms and conditions, and a lack of sufficient oversight of invoices received for payment caused greater risk that they were not accurate or authorized under the contract. An effective contract monitoring program is critical to ensuring that the government is receiving an acceptable level of services, the Contractor is meeting milestones, and invoicing includes an accurate billing of what has been received and authorized by the contract.

The Contractor/Subcontractor claims adjudication process is very complex in regard to how it works and relates to what is billed to the Peace Corps. Costs are highly variable since the medical provider-billed amounts are re-priced through the adjudication process and the Subcontractor’s fees are based on the amount saved on each claim adjudicated. Effective monitoring of this contract requires a high level of understanding of the Contractor/Subcontractor processes and systems used. Further, due to the complexities involved effective monitoring requires that Peace Corps management dedicate sufficient resourcing, including assigning personnel having the appropriate knowledge, skill sets, and experience.

We recommend that:

1. The agency makes it one of its highest priorities to provide sufficient resources to fully assess its needs in administering its Volunteer health care benefits program.
2. The agency thoroughly research feasible alternatives to providing its Volunteers with quality health care benefits, including evaluating the administration needs of this program, and determining the best alternative or combination of alternatives based on its requirements.

3. The agency develop a high quality statement of work that clearly sets out all contract requirements using the assistance of appropriate and necessary technical expertise, including bringing in outside health care insurance experts.
4. The agency ensure that its related research, acquisition planning, solicitation process, evaluation of proposals, and contract award is timely to enable it to transition to a new contract by no later than January 1, 2016.
5. The agency should avoid incorporating all or any part of a contractor's proposal by reference into the related contract for all future contract awards.
6. The agency refrain from entering into shared savings arrangements without specific authority. If such authority is provided, that the agency identify appropriate benchmarks, consider best practices, and assign adequate resources to manage such contracts.

cc: Laura Chambers, Acting Deputy Director/Chief of Staff
Jacklyn Dinneen, White House Liaison
Rudy Mehrbani, General Counsel
Joseph Hepp, Chief Financial Officer
Paul Jung, Associate Director, Office of Health Services
Linda Brainard, Chief Acquisition Officer
Devin Meredith, Chief Administrative Officer, Office of Health Services
Paul Shea, Deputy Chief Financial Officer
Anne Hughes, Deputy Chief Compliance Officer
IGChron
IG

APPENDIX E: AGENCY'S RESPONSE TO THE PRELIMINARY REPORT



Since 1961.

MEMORANDUM

To: Kathy Buller, Inspector General

Through: Anne Hughes, Acting Chief Compliance Officer *[Signature]*

From: Joseph Hepp, Chief Financial Officer *[Signature]*
Paul Jung, Associate Director for the Office of Health Services *[Signature]*
Rudy Mehrbani, General Counsel *[Signature]* *[Signature]* Acting A/D DHS

Date: December 22, 2015

CC: Carrie Hessler-Radelet, Director
Laura Chambers, Chief of Staff
Joaquin Ferrao, Deputy Inspector General
Carlos Torres, Associate Director, Global Operations
Linda Brainard, Chief Acquisition Officer
Paul Shea, Deputy Chief Financial Officer
Colleen Wallace, Associate General Counsel
Devin Meredith, Chief Administrative Officer, Office of Health Services
Claudia Mejia Salamanca, Contract Specialist
Lyzzy Ogunwo, White House Liaison

Subject: Agency Response to the Preliminary Report on the Audit of Peace Corps Healthcare Benefits Administration Contract (Project No. 13-AUD-06)

Enclosed please find the agency's response to the recommendations made by the Inspector General in the Preliminary Report on the Audit of Peace Corps Healthcare Benefits Administration Contract (Project No. 13-AUD-06) sent to the Agency on November 11, 2015.

The relevant offices have addressed and provided supporting documentation for nine of the fifteen recommendations provided by the OIG in its Preliminary Audit Report and will work to address the remaining recommendations by the set target dates.

Recommendation 1

That the chief acquisition officer strengthen the Office of Acquisition and Contract Management's written policies and procedures to provide greater assurance that:

- a. all acquisition planning be initiated early enough to allow for timely contract awards; and**
- b. Peace Corps managers are strongly discouraged from relying on contract extensions.**

Concur:

Response: On December 1, 2015, the Office of Acquisition and Contract Management (OACM) launched a new, streamlined, and transparent process to track the progress of contracts from planning through post-award. This new tool, called the OACM Acquisition Planning Tracker will not only provide visibility into the contract lifecycle, but will serve as a collaboration platform among OACM, Contracting Officer Representatives (CORs), Administrative Officers (AOs) and potentially Technical Points of Contacts (TPOCs) on all acquisition and contract related actions.

This new system, developed in partnership with the Office of the Chief Information Officer (OCIO), replaces office-specific spreadsheets and procurement documents on personal and shared drives by keeping all contract-related information in one easily accessible location. The OACM Acquisition Planning Tracker is a permissions based system, open to authorized personnel only.

Benefits of the OACM Acquisition Planning Tracker include:

- Ease of viewing the status of all contracts on an office or division level from planning through pre-award and post-award phases.
- Centralized version control of documents that eliminates emailing and ensures all are working on the document's latest version.
- Alerts on milestones including renewal and expiration dates and delivery timelines.
- Ability to create a customized contract list for meetings, budget planning and more.
- Controls who can access the tracker and which contract actions they can view through privilege levels.

Documents Submitted:

- Screenshot of OACM Acquisition Planning Tracker Intranet Site
- Email from Chief Acquisition Officer announcing launch of OACM Acquisition Planning Tracker, dated November 10, 2015
- Peace Corps Acquisition Process Flow Chart

Status and Timeline for Completion: Complete

Recommendation 2

That the chief acquisition officer follow up on OIG recommendations made in IG-10-06-A, Peace Corps' Process for Soliciting, Awarding, and Administering Contracts (March 2010) to identify remediation measures taken as a result of the report that may have experienced relapses and ensure any deficient areas found are addressed and fully resolved.

Concur:

Response: The recommendations in the Peace Corps' Process for Soliciting, Awarding, and Administering Contracts (IG-10-06-A) focused on the Adequacy of OACM Resources and the lack of trained CORs.

The OACM Organization Chart from August 2011 reflected a staff comprised of entry level and inexperienced Contract Specialists (1102s). The average General Schedule (GS) grade of 1102s across the Federal Government is a FAC-C Level III GS-13. In 2011, nine of the sixteen OACM specialists and contractors held positions at the FP-1102-7/5 level (GS-1102-7/9). These individuals were not FAC-C trained, had no prior acquisition experience, and were not warranted contracting officers. Consequently, they did not possess the training or experience necessary to conduct appropriate acquisition planning, solicitation, evaluation, award, and administrative functions. The Chief Acquisition Officer in 2011 possessed procurement policy experience but had no operations experience which further exacerbated the situation. Although OACM Organization Charts prior to 2011 are no longer available, discussions with long term OACM staff indicated that OACM had a similar structure back as far as 2008.

The qualifications of the OACM staff have changed substantially since 2011. Although the Chief Acquisition Officer position is no longer an appointed position, in 2014 the Peace Corps hired a very senior individual with thirty years of operations experience as a FP-1102-1. The new CAO implemented minimum FAC-C training requirements for all positions higher than the FP-1102-5 level. As a result, the current OACM structure is predominately FAC-C Level III FP-1102-3s that are managed by highly experienced FP-1102-2 Branch Chiefs. All FAC-C certified OACM staff hold warrants appropriate to their FAC-C certification level. They are able to serve as advisors to client offices and conduct the full range of acquisition functions.

OACM conducted a self-review of its Contracting Officer Representatives (CORs) in FY 2015 and found compliance issues with the Federal Acquisition Institute (FAI) requirements and internal OACM tracking. As a result, a project plan is in place for all Agency CORs to be FAC-COR certified by FY 2016 year end. Presently, Peace Corps has 60 FAC-COR certified staff members with 19 additional staff members registered and in the process of becoming FAC-COR certified in FAITAS. OACM's review rate at Peace Corps for FAC-COR certification requests has resulted in an increase in Federal Acquisition Institute Training Automated System (FAITAS) certifications of 97% over the last year. In addition, Peace Corps leads the Small Agency Council (over 102 Small Agencies) in obtaining FAITAS certified Contracting Officer Representatives, by a margin of 45%.

Documents Submitted:

- Office of Acquisitions and Contract Management (OACM) Organizational Chart (August 18, 2011)
- OACM Organizational Chart (December 13, 2015)
- COR Certification Procedure Guide (April 2012)
- Instructions to Become a COR
- Current listing of CORs

Status and Timeline for Completion: Complete

Recommendation 3

That the chief acquisition officer ensure that all contracting personnel comply with Federal Acquisition Regulation Part 6, “Competition Requirements.”

Concur:

Response: Recognizing the need to formalize OACM’s review process of acquisitions in order to assure compliance with a wide range of Federal Acquisition Regulation requirements, the CAO released a revised Acquisition Review Table on August 20, 2015. These higher level reviews provide oversight before the release of a solicitation; this provides additional reviews and approvals of acquisition strategies proposed by Contracting Officers in order to promote full and open competition in accordance with FAR Part 6. Copies of the Acquisition Review Table as well as the transmitting email are provided with this response.

Documents Submitted:

- Revised Acquisition Review Table
- Transmitting Email for Review Tables

Status and Timeline for Completion: Complete

Recommendation 4

That the Peace Corps Director, as a matter of policy, before designating an agency advocate for competition, direct the chief financial officer to perform an analysis to determine whether the proposed advocate presently serves in any capacity that could potentially compromise the integrity of the agency’s competition advocacy program as defined in Federal Acquisition Regulation Subpart 6.5. If conflicts are found, the chief financial officer should notify the Peace Corps Director and seek the Director’s concurrence that the proposed advocate be designated.

Concur:

Response: In the Spring of 2015, the Policy and Administrative Support Manager (who is also the Competition Advocate for the Peace Corps) and the CAO discussed the conflicts of interest the previous Competition Advocate had in serving in the roles of

Contracting Officer, Acting Chief Acquisition Officer, and Competition Advocate. It was discussed that the role of Competition Advocate should have been delegated to another individual: 1) since this individual held an active warrant and 2) since the individual accepted the role of Acting CAO. To ensure that these conflicts did not continue with the change in tenure, the CAO and new OACM Policy and Administrative Support Manager agreed that 1) the Policy and Administrative Support Manager should be removed as the Contracting Officer on all contracts under her previous position as a Domestic Operations Contracting Officer and 2) her previously granted unlimited warrant for Peace Corps contracts should be revoked. Action was taken and this information flowed down to the Agency's contract writing system, PRISM, preventing the Policy and Administrative Support Manager from awarding any contractual awards or modifications for the Peace Corps. This information was relayed to the OIG by e-mail on June 5, 2015.

As such, it is the Agency's conclusion that the role of the OACM Policy and Administrative Support Manager serving as the Competition Advocate has no conflicts with requirements set out within 41 U.S.C. 1705 which states that "the Competition Advocate/s shall be in position/s other than that of the agency senior procurement executive, and not be assigned any duties or responsibilities that are inconsistent with Federal Acquisition Regulation (FAR) 6.502." The CAO has reviewed the duties of FAR 6.502 and found no conflict of interest with the position of OACM Policy and Administrative Support Manager. The very nature of the OACM Policy and Administrative Support Manager is to ensure that the Agency is complying with all Federal regulation and Agency policies and procedures. As such, this is the most appropriate position within the Agency to hold the role of Competition Advocate. Any individual outside OACM would not have the subject matter expertise to properly advocate for the acquisition of commercial items, promoting full and open competition, challenging requirements that are not stated in terms of functions to be performed, performance required or essential physical characteristics, and challenging barriers to the acquisition of commercial items and full and open competition such as unnecessarily restrictive statements of work, unnecessarily detailed specifications, and unnecessarily burdensome contract clauses. The Policy and Administrative Support Manager has developed checklists and reviews each task and delivery orders over \$1,000,000 issued under multiple award contracts to ensure that the actions are properly planned, issued, and comply with FAR 8.405 and 16.505.

The CAO, as delegated acquisition authority from the Director and the Agency's acquisition expert, will determine if any conflicts of interest regarding this position exist. The CAO will notify the Chief Financial Officer, who will notify the Director and the appropriate parties, of any future potential conflict of interest in position duties of the OACM Policy and Administrative Support Manager, and offer solutions to rectify, including reassigning Contracting Officer and Procurement duties, rescinding Warrants, and advising the Peace Corps Director of a proposed advocate/s designation conflict of interest. This process will be captured in an SOP, to be completed by February 2016.

Documents to be Submitted:

- Standard Operating Procedure addressing the designation of the agency's Competition Advocate

Status and Timeline for Completion: February 2016

Recommendation 5

That the chief acquisition officer promptly notify the chief financial officer if there are any changes in the agency advocate for competition's assigned responsibilities that could potentially impact the integrity of the advocacy program.

Concur:

Response: The CAO will notify the Chief Financial Officer, who will notify the Director and the appropriate parties, of any changes in the agency advocate for competition's assigned responsibilities that could lead to future potential conflict of interest in position duties of the OACM Policy and Administrative Support Manager, and offer solutions to rectify, including reassigning Contracting Officer and Procurement duties, rescinding Warrants, and advising the Peace Corps Director of a proposed advocate/s designation conflict of interest. This process will be captured in an SOP, to be completed by February 2016.

Documents to be Submitted:

- Standard Operating Procedure addressing the designation of the agency's Competition Advocate

Status and Timeline for Completion: February 2016

Recommendation 6

That the chief acquisition officer direct the contracting officer to modify the present contract to correctly identify the contract type.

Do Not Concur:

Response: The Peace Corps does not agree with this recommendation. The Peace Corps' existing contract with Seven Corners is a firm fixed price contract type contract with an Other Direct Cost line item for pass through expenses. This contract type and structure is acceptable for the existing requirement. For the follow on contract which is scheduled to become effective in 2017, the full range of contract types will be considered to ensure the most appropriate fit for the requirement as defined by the Peace Corps' Office of Health Services.

Recommendation 7

That the chief acquisition officer implement policy to ensure that the Peace Corps' contracting officers follow Federal Acquisition Regulation Subpart 16.1, "Selecting Contract Types."

Concur:

Response: All of Peace Corps' Domestic Contracting Officers hold FAC-C certifications, which provide training on contract type. Recognizing a need to further formalize OACM's review process of acquisitions, the CAO released a revised Acquisition Review Table on August 20, 2015. These higher level reviews provide oversight before the release of a solicitation, including additional reviews and approvals of contract types selected by the Contracting Officer.

Rather than producing policy which recites the Federal Acquisition Regulation, the CAO will work with the Policy and Administrative Support Manager to ensure that relevant guidance and examples regarding contract types are provided to OACM Contracting Officers within FY 2016. Further, all Contracting Officers at the Peace Corps will be directed that at least one hour of the Continuous Learning Points (CLPs) required to maintain their certification must cover FAR 16.1. The Agency's Acquisition Career Manager will gather and provide a listing of FAI courses that meet requirements of FAR 16.1.

Documents to be Submitted:

- FAR Part 16 Training Records

Status and Timeline for Completion: September 2016

Recommendation 8

That the chief acquisition officer direct the contracting officer to modify the present contract to more accurately identify and describe what the contract line item numbers are intended to cover and break out the obligated amounts for billed claims and the network fees under multiple separate contract line item numbers, as appropriate.

Concur:

Response: The current contract awarded on December 30, 2011, was awarded with two separate Contract Line Item Numbers (CLIN); they are separately funded, effectively breaking out the obligated amount:

- CLIN 1 Seven Corners Network Service Fee (**network fees**)
- CLIN 2 Seven Corners Claims (**billed claims**)

The contract was modified in April 2014 (Modification 005) to more *accurately identify and describe what the contract line item 1 is intended to cover*; this is described in the modification under purpose "1) Clarify the services included in CLIN 0001".

Please find attached the base award, modification 005 referenced above, and the latest modification 012, which reflects the CLIN structure the contract continues to use and separately allocates funding for Network Service Fee and Claims.

Documents Submitted:

- 2011 award
- Contract modification 005
- Contract modification 012

Status and Timeline for Completion: Complete

Recommendation 9

That the chief acquisition officer implement policy to ensure that the Peace Corps contracting officers follow Federal Acquisition Regulation Part 44, "Subcontracting Policies and Procedures," when subcontracting is proposed by prime contractors.

Concur:

Response: Recognizing the need to formalize OACM's review process of acquisitions in order to assure compliance with a wide range of Federal Acquisition Regulation requirements, the CAO released a revised Acquisition Review Table on August 20, 2015. These higher level reviews provide oversight before the release of a solicitation; providing additional review and approval of acquisition strategies proposed by Contracting Officers in order to ensure subcontracting is conducted in accordance with FAR Part 44. Copies of the Acquisition Review Table as well as the transmitting email are provided with this response.

Documents Submitted:

- Acquisition Review Table
- Transmitting Email

Status and Timeline for Completion: Complete

Recommendation 10

That the chief acquisition officer direct the contracting officer to determine if there has been an overpayment related to the non-use of the MDR benchmark before calculating the network fee over the period October 1, 2005 through August 31, 2015. If it is determined an overpayment has been made, the chief acquisition officer should seek a recovery of the amount overpaid.

Concur:

Response: Because of the contracting officer representative's (COR) extensive experience with the administration of the Health Benefits contract, this task is delegated to the COR. The COR will be assisted by personnel from OCFO and OHS who will

analyze selected claims data to determine if the repricing mechanisms applied by Seven Corners resulted in excess charges to the Agency.

Documents to be Submitted:

- Report of Findings
- Report of Action Taken

Status and Timeline for Completion: August 2016

Recommendation 11

That the chief financial officer, chief acquisition officer, and Office of Health Services associate director, assign sufficient resources for purposes of assisting in improving the overall Volunteer healthcare administration contract surveillance program and to provide greater assurance that the contractor is fully complying with the contract and its performance is acceptable.

Concur:

Response: The Office of Health Services is in the process of hiring a Health Insurance Specialist who as part of their assigned duties would serve as the contracting officer's representative on all Volunteer healthcare contracts. This will provide a dedicated and knowledgeable resource to conduct the necessary oversight and management of the contract.

In October 2015, OACM hired a highly qualified Senior Contract Specialist (FP-1102-3/2) that is FAC-C Level III certified. The individual holds an unlimited warrant issued by the Chief Acquisition Officer.

Documents Submitted:

- Position Description for Health Insurance Specialist

Documents to be Submitted:

- Memorandum from OHS to OIG confirming that the Health Insurance Specialist is onboard.

Status and Timeline for Completion: March 2016

Recommendation 12

That the Office of Health Services associate director, ensure that the contracting officer's representative develop a detailed plan for reviewing and testing sufficient selected data supporting contractor invoices submitted to the Peace Corps for payment. The plan should be designed to achieve better assurance that the amounts billed are accurate, fully supported, and authorized by the contract.

Concur:

Response: The Office of Health Services developed a standard of practice for invoice review in August of 2014 which was last updated in March 2015. This standard is captured in the 'Invoice Approval Process'. We will continue to monitor the effectiveness of the current practice and adjust as necessary factoring in staffing levels and changes to technology.

Documents Submitted:

- Invoice Approval Process for Contract No. PC-12-3-002 from August 2014
- Invoice Review Process for Contract No. PC-12-3-002 from March 2015

Status and Timeline for Completion: Complete

Recommendation 13

That the chief acquisition officer develop written policy for improving the process for selecting and designating contracting officer's representatives that will better match experience and skill sets with the contracts they are slated to monitor.

Concur:

Response: FAC-COR has three levels of certification with varying requirements for training, experience, and continuous learning, depending on the types of contracts being managed. It is the Contracting Officer's discretion as to the COR level of certification required on a subject contract. OACM's current COR Certification Procedure Guide published in April 2012 accounts for this tiered approach and provides guidance as to the FAC-COR certification required for varying contracts. For example, Level I is identified in the guide as being appropriate for "low-risk contract vehicles, such as supply contracts and orders".

The CAO finds that it is not due to lack of guidance that the Agency's COR program needs improvement but due to inconsistent implementation of such guidance. OACM conducted a self-review of its Contracting Officer Representatives (CORs) in FY 2015 and found compliance issues with the Federal Acquisition Institute (FAI) requirements and internal OACM tracking. As a result, a project plan is in place for all Agency CORs to be FAC-COR certified by FY 2016 year end. Presently, Peace Corps has 60 FAC-COR certified staff members with 19 additional staff members registered and in the process of becoming FAC-COR certified in FAITAS. OACM's review rate at Peace Corps for FAC-COR certification requests has resulted in an increase in Federal Acquisition Institute Training Automated System (FAITAS) certifications of 97% over

the last year. In addition, Peace Corps leads the Small Agency Council (over 102 Small Agencies) in obtaining FAITAS certified Contracting Officer Representatives, by a margin of 45%.

As some extremely important information is lost in the voluminous COR guide published in 2012, a separate streamlined set of procedures has been drafted to provide step-by-step guidance for all potential/existing CORs to ensure all CORs are in compliance with FAITAS requirements. The FAITAS portal and certification program ensures that all CORs are appropriately trained via online and classroom training, experience is appropriately documented, and that the Agency's Acquisition Career Manager is reviewing each application to ensure it meets the Agency's minimum requirements.

Additionally, OACM has worked with the OCIO to create a new contract database, which tracks CORs by contract. CORs will only be added to this database if/when the CORs' FAI certification has been validated. This will then ensure that all OACM Contracting Officers are assigning CORs who meet the minimum requirements set out by the Federal Acquisition Institute and Agency guidance.

In the effort to ensure all CORs are compliant and appropriately tracked by FY 2016 end, an individual within the OACM Policy and Administrative Support Branch has been established as the COR Coordinator. The COR Coordinator has been tasked with working with the CORs and their supervisors in FY 2016 to clarify COR responsibilities and certification requirements and verifying that COR nominations and appointments have been processed in accordance with Agency guidance. The COR Coordinator reviews and logs all COR nomination and appointment packages and provides additional oversight to ensure the COR certification identified by the Contracting Officer aligns with FAI and Agency guidance.

OACM via its COR Coordinator is also currently working to provide an update to its COR Certification Procedure Guide and additional references as to what is expected of a COR over the complete contract lifecycle, to include checklists and key points of the COR training as it relates to the Peace Corps contracts environment.

Documents Submitted:

- COR Certification Procedure Guide (April 2012)
- Instructions to Become a COR

Status and Timeline for Completion: Complete

Recommendation 14

That the chief acquisition officer and the Office of Health Services associate director establish procedures to ensure that the Office of Acquisitions and Contract Management, contracting officer's representative, and Office of Health Services senior staff collaborate on administering and monitoring the Peace Corps' healthcare administration contract, including maintaining an environment for fostering open and effective communications regarding contractor performance.

Concur:

Response: Quarterly meetings were established in October 2014 between the Associate Director and the Chief Administrative Officer of the Office of Health Services (OHS) and the Chief Acquisition Officer and Supervisory Contract Specialist assigned to OHS from the Office of Acquisitions and Contract Management. Contracting Officer's Representatives from OHS have met/meet with the Supervisory Contract Specialist or Contract Specialist assigned to their contract/s on an as needed basis. Additionally, a new bi-weekly task force meeting has been established with senior officials to ensure needed communications/actions are being followed up on in regards to the healthcare administrative contract.

Documents Submitted:

- OHS and OACM quarterly meeting Outlook calendar printout
- Meeting agenda

Status and Timeline for Completion: Complete

Recommendation 15

That the chief acquisition officer implement policy that requires all invoicing documents be maintained in the official contracting files for the minimum period of time as prescribed in Federal Acquisition Regulation Subpart 4.8.

Concur:

Response: All invoicing documentation is retained by the Office of Global Accounts Payable after payment is made. The CAO finds that additional policy is not required regarding invoicing documentation and file retention. FAR Subpart 4.8 directs that Contract Files and Actions be retained by Federal Agencies for a specified amount of time. The FAR also dictates that administrative and program records, especially those that cannot be segregated, are to be kept at the longer of the two retention requirements, to ensure Federal Regulations are adhered to. The National Archives and Records Administration (NARA) General Records Schedule (GRS) intersects with the FAR in this important way: The FAR is the final authority on how government personnel carry out the acquisition process, and the GRS is the final authority governing how long records created in that process must be held before being destroyed. Some retention periods are published in the FAR, but these retention periods originate with the GRS. When the GRS alters a retention period (as it did in December 2014), the FAR is altered to remain in agreement with the GRS (the FAR can take time to update, and interim rules are

published to adhere to Federal Regulations, such as the GRS). The GRS (and interim FAR rule) reflect the correct disposition authority, which is six years and three months after final payment under the contract. Any policy issued by the CAO would be duplicative of current Federal Regulation (GRS), which clearly provides for the retention time allotted to all contract files and contract actions.

Documents Submitted:

- Memorandum from the CAO to the Deputy CFO on Records Retention

Status and Timeline for Completion: Complete

APPENDIX F: OIG COMMENTS

Peace Corps management concurred with 14 of the 15 recommendations made in our report and non-concurred with one. In their response, management described actions they are taking or intend to take to address the issues that prompted each of our recommendations. Based on the documentation provided, we closed five recommendations. Please note that in closing recommendations we are not certifying that the agency has taken these actions or that we have reviewed their effect. Certifying implementation and verifying effectiveness are management's responsibilities. However, when appropriate, we may conduct a follow-up review to confirm that action has been taken and to evaluate whether action taken was effective.

Nine recommendations remain open pending implementation of corrective actions. In our opinion, Peace Corps management's comments to the report were generally responsive. However, we disagree with management's basis for non-concurring with recommendation 6. Also, we do not agree that the described corrective actions taken regarding recommendations 8, 12, 14, and 15 are sufficient for closing them. Our analysis of management's comments and the status of each recommendation appear in the table below:

Recommendation	Analysis of Management's Comments	Status
1	Fully responsive.	Closed
2	Fully responsive.	Closed
3	Fully responsive.	Closed
4	Pending corrective actions with an estimated completion of February 2016.	Open
5	Pending corrective actions with an estimated completion of February 2016.	Open
6	Management did not concur. We disagree with management that corrective actions are unnecessary. See our detailed analysis below.	Open
7	Pending corrective actions with an estimated completion of September 2016.	Open
8	Management's described corrective actions are not sufficient for closing the recommendation. See our detailed analysis below.	Open
9	Fully responsive.	Closed
10	Pending corrective actions with an estimated completion of August 2016.	Open
11	Pending corrective actions with an estimated completion of March 2016.	Open
12	Management's described corrective actions were partially responsive. They informed us that further actions would be taken by March 2016. See our detailed analysis below.	Open
13	Fully responsive.	Closed
14	Management's described corrective actions were partially responsive. See our detailed analysis below.	Open
15	Management's described corrective actions are not sufficient for closing the recommendation. See our detailed analysis below.	Open

Detailed Analysis of Management's Comments. Our analysis of some of the proposed corrective actions described in management's response to the audit report require further detailed explanation. These analyses appears below.

- Recommendation 6:** Management did not concur with our recommendation regarding modifying the present contract to correctly identify the contract type. Their position, as indicated in response to the audit report, is that the contract is correctly identified as “. . . *firm fixed price . . . with an Other Direct Cost line item for pass through expenses.*” However, as discussed in the audit report, we determined that based on guidance contained in FAR Part 16, the contract type should have been described as cost type contract, which is a higher risk for government and requires greater scrutiny by the contracting officer and COR. As a result, we urge Peace Corps management to reconsider their position and take appropriate and timely corrective actions to remediate this issue.
- Recommendation 8:** Management concurred with our recommendation to modify the present contract to more accurately identify and describe what the CLINs are intended to cover and break out the obligated amounts for billed claims and the network fees under multiple separate CLINs. However, we disagree with management that this recommendation was fully implemented through two contract modifications as discussed in their response. Modification 005, issued in April 2014, clarified CLIN 0001, but made no mention of CLIN 0002. Although modification 012, issued in December 2015, did separately break out obligated costs for the estimated “network savings fee” and claims, it did not describe or provide any explanation of the network fee represented. A contract modification that sufficiently describes the network fee cost component needs to be accomplished to fully remediate the deficient condition found and implement this recommendation.
- Recommendation 12:** Management concurred with our recommendation to ensure that the COR develop a detailed plan for reviewing and testing sufficient selected data supporting contractor invoices submitted to the Peace Corps for payment. As a part of the remediation package, a written standard operating procedure (SOP) that established specific steps for reviewing and testing supporting cost data was provided to OIG. We agree that the SOP is a significant improvement in ensuring more effective contract monitoring. However, the procedures as written did not include comparing medical provider invoices to cost data input into the contractor’s information system. Management has agreed to revise the SOP to include this important review procedure.
- Recommendation 14:** Management concurred with our recommendation to establish procedures to ensure that OACM, OHS, and the COR collaborate on administering and monitoring the Peace Corps’ healthcare administration contract, including maintaining an environment for fostering open and effective communications regarding contractor performance. In its response to the audit report, management indicated that quarterly meetings between the OHS associate director, chief administrative officer, chief

acquisition officer, and the contracting officer have been established to discuss the contract. In addition, management mentioned that other periodic meetings have been established with Peace Corps senior officials for purposes of maintaining communications on the contract. Although we agree that these regularly scheduled meetings should improve communications, we encourage management to also include the COR as a participant.

- **Recommendation 15:** Management concurred with our recommendation that policy be implemented to require all invoicing documents be maintained in the Peace Corps' official contracting files. In response to this recommendation, management indicated that since FAR Subpart 4.8 already provides that such documentation be retained, establishing specific policy is not required. We do not agree with management's position that agency policy is unnecessary. As discussed in the audit report, our basis for recommending written policy relates to the fact that invoicing documentation has not been consistently kept in the official contracting files. Further, implementation of policy more effectively addresses remediation of the deficient condition found by reinforcing the federal requirement and serving to break the long-standing agency culture of not complying with this mandated requirement.

APPENDIX G: AUDIT COMPLETION AND OIG CONTACT

AUDIT COMPLETION

This audit was initiated under the direction of former Assistant Inspector General for Audit Bradley Grubb and by Expert Auditor Phillippe Darcy. Additional audit work was performed under the direction of Assistant Inspector General for Audit Judy Leonhardt and by Expert Consultant Jeffrey Lee, Lead Auditor Hal Nanavati, and Auditor Ann Lawrence.



OIG CONTACT

If you wish to comment on the quality or usefulness of this report to help us strengthen our product, please contact Assistant Inspector General for Audit Judy Leonhardt at jleonhardt@peacecorps.gov or 202.692.2914.

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