



Office of Inspector General  
United States Department of State

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AUD-MERO-19-33

Office of Audits

September 2019

# **Audit of Cost Management of Embassy Air in Afghanistan and Iraq**

MIDDLE EAST REGION OPERATIONS



# HIGHLIGHTS

Office of Inspector General  
United States Department of State

AUD-MERO-19-33

## What OIG Audited

The Embassy Air program was established in 2009 to provide aviation support to Embassies Kabul, Afghanistan, and Baghdad, Iraq. Since 2012 in Afghanistan and 2011 in Iraq, Embassy Air operations have been funded via the Aviation Working Capital Fund (AWCF), which is overseen by the Aviation Governing Board (AGB). For FY 2019, the costs of Embassy Air services totaled approximately \$321.7 million—almost \$170 million in Afghanistan and \$152 million in Iraq.

Generally, supplies and services purchased under the Department Working Capital Fund are reimbursed at rates that will approximate the expense of operations (known as “full cost recovery”). However, OIG determined that the Department’s AWCF is not required to operate as a traditional working capital fund because Congress permitted Embassy Air to operate on either a reimbursable or a non-reimbursable basis. Accordingly, OIG conducted this audit to determine the extent to which Embassy Air services were managed to effectively support embassy operations and mission.

## What OIG Recommends

OIG made three recommendations to the AGB. The Under Secretary of State for Management, the Bureau of International Narcotics and Law Enforcement Affairs, and Embassy Baghdad provided written responses to a draft of this report. On the basis of Management’s response, OIG considers all three recommendations resolved, pending further action. A synopsis of the Department’s response to the recommendations offered and OIG’s reply follow each recommendation in the Audit Results section of this report. Department responses are reprinted in Appendices B, C, and D. The Under Secretary for Management also provided technical comments to the draft of this report; those comments and OIG’s response are presented in Appendix E.

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OFFICE OF AUDITS

MIDDLE EAST REGION OPERATIONS

## Audit of Cost Management of Embassy Air in Afghanistan and Iraq

### What OIG Found

According to the Mission Security Travel Policies for Embassy Kabul and Embassy Baghdad, Embassy Air is required for air travel within these countries because of the tenuous security environment. OIG accordingly does not question the overall need for Embassy Air services, but OIG identified concerns regarding the management of the program. In particular, the Department has not applied a consistent methodology and lacks procedures for making certain decisions in this area.

First, despite the authority to operate on either a reimbursable (i.e., full cost recovery) or a non-reimbursable basis, the AGB incrementally increased Embassy Air ticket fees with the goal of covering a larger percentage of operational costs via ticket fee collections. That is, it sought to achieve full cost recovery via ticket fees. To analyze whether Embassy Air services were managed to support embassy operations and mission, OIG assessed the services by reviewing data to determine whether the rising ticket fees affected ridership levels. On the basis of this assessment, OIG found that, when the AGB increased Embassy Air ticket fees with the goal of covering a larger percentage of operational costs, ridership declined. As an alternative to Embassy Air, some passengers, who were able to do so, used other means of transportation such as the Department of Defense’s aviation program (Military Air) or commercial air, thereby causing Embassy Air services to become significantly underused.

Moreover, the high cost of ticket fees harmed embassy operations. For example, some officials told OIG that their bureaus could not afford ticket fees and that, as a result, they were unable to travel to conduct site visits of Government projects and programs under their purview.

Finally, OIG found that the frequency of Embassy Air flights and the number of aircraft in country were not routinely adjusted to align with demand. Until this is done, the Department will continue to pay for significant costs associated with Embassy Air operations that are underused in addition to paying the costs associated with alternative modes of transportation.

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## OBJECTIVE

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Generally, supplies and services purchased under the Department of State’s (Department) Working Capital Fund are reimbursed at rates that will approximate the expense of operations (known as “full cost recovery”).<sup>1</sup> However, the Department’s Aviation Working Capital Fund (AWCF) is not required to operate as a traditional working capital fund because Congress permitted Embassy Air to operate on either a reimbursable or a non-reimbursable basis. Having determined that the AWCF was not required to comply with general working capital fund regulations, the Office of Inspector General (OIG) conducted this audit of the Department Embassy Air program in Afghanistan and Iraq to determine the extent to which Embassy Air services were effectively managed to support embassy operations and mission.

## BACKGROUND

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Embassy Air—which is administered by the Department’s Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation (INL/A)—provides aviation support to Embassies Kabul, Afghanistan, and Baghdad, Iraq. Embassy Air services include scheduled flights to domestic locations within these countries, such as Bagram, Afghanistan, as well as international flights to Amman, Jordan. Embassy Air also supports medical evacuations, search and rescue operations, quick reaction force transportation, route reconnaissance and convoy escorts, and freight transportation. Embassy Air is used by personnel from the Department as well as other Government agencies. As of June 2019, the Embassy Air-Afghanistan fleet consisted of 3 airplanes and 17 helicopters (referred to as fixed-wing and rotary-wing aircraft, respectively, in this report) valued at approximately \$60 million and the Embassy Air-Iraq fleet consisted of 4 fixed and 8 rotary-wing aircraft valued at approximately \$58 million.



**Figure 1:** De Havilland DHC-8 fixed-wing aircraft that is used in both Afghanistan and Iraq.

**Source:** OIG photograph taken on September 13, 2017, in Kabul, Afghanistan.



**Figure 2:** CH-46 rotary-wing aircraft, one of two helicopter models used in Afghanistan.

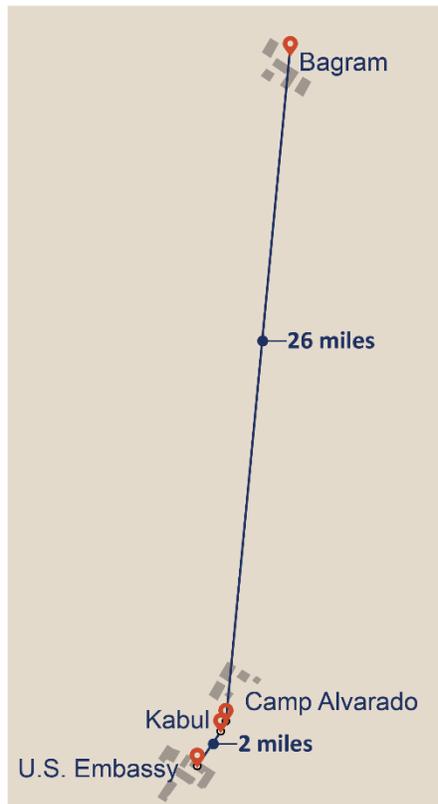
**Source:** OIG photograph taken on September 13, 2017, in Kabul, Afghanistan.

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<sup>1</sup> Foreign Assistance Act of 1963, Pub. L. No. 88-205, Part IV, “Amendments to Other Laws,” § 405, codified at 22 U.S. Code § 405.

To support Embassy Air operations, maintenance, and logistics, INL/A administers and oversees a worldwide aviation support services contract that provides a workforce of more than 1,500 personnel.<sup>2</sup> For FY 2019, the estimated costs of Embassy Air were almost \$169.7 million in Afghanistan and \$152 million in Iraq, for a total of \$321.7 million.

## Embassy Air Services in Afghanistan and Iraq



In Afghanistan, Embassy Air works mainly as an air shuttle, transporting personnel via rotary-wing aircraft from Camp Alvarado<sup>3</sup> to Embassy Kabul and other nearby areas such as Bagram. In addition to scheduled flights, Embassy Air-Afghanistan supports special flight requests to areas that are not regularly serviced. Depending on the destination, flights may be on either fixed- or rotary-wing aircraft. The Chief of Mission (COM) decides how personnel serving under this authority can travel to and within the country.<sup>4</sup> COM personnel are authorized to use the Hamid Karzai International Airport for commercial international travel, but all air travel within the country must be via Embassy Air or the Department of Defense's aviation program (Military Air).<sup>5</sup> Military Air may be used only in very limited circumstances. In particular, COM personnel may use Military Air only with authorization from the Regional Security Office and the Ambassador. Additionally, if Military Air is used by COM personnel, at least two Embassy Protective Detail personnel are required to accompany the flight.<sup>6</sup> That number may be higher, depending on the venue and number of COM passengers flying.

**Figure 3:** Routes to and from Embassy Kabul, Camp Alvarado, and Bagram.

**Source:** OIG generated.

<sup>2</sup> AAR Airlift Group, Inc. is the current INL/A worldwide aviation support services contractor.

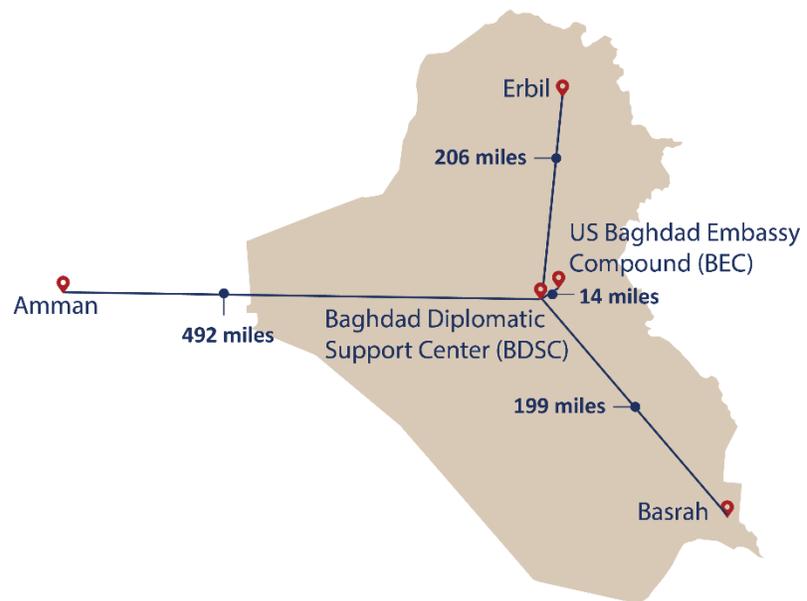
<sup>3</sup> Camp Alvarado is located near the Kabul airport and serves as the main aviation hub for Embassy Air-Afghanistan.

<sup>4</sup> Mission Security Travel Policy, Embassy of the United States of America, Kabul-Afghanistan, February 13, 2019, 4.

<sup>5</sup> Military Air is the Department of Defense's aviation program that transports Department of Defense personnel within Afghanistan and Iraq and around the world.

<sup>6</sup> Embassy Protective detail personnel are part of the Regional Security Office and are required to assist with some transportation of COM personnel.

In Iraq, Embassy Air offers fixed-wing domestic flights to Erbil and international flights to Amman, Jordan, and, until September 2018, it offered fixed-wing domestic flights to Basrah.<sup>7</sup> Additionally, except for Fridays, Embassy Air-Iraq operates multiple daily rotary-wing flights between the Baghdad Diplomatic Support Center (BDSC)<sup>8</sup> and the embassy heliport (located at the Baghdad Embassy Compound [BEC]). Embassy Air-Iraq also supports special flight requests on either fixed- or rotary-wing aircraft to areas that are not regularly



**Figure 4:** Routes to and from locations in Iraq and Amman, Jordan.

**Source:** OIG generated.

served. As in Afghanistan, the COM decides how personnel serving under this authority can travel to and within the country. For example, the COM determined that personnel arriving for an assignment or temporary duty to Baghdad, Iraq, for the first time must use Embassy Air to fly from Amman, Jordan, into Baghdad and cannot fly commercially into the Baghdad International Airport.<sup>9</sup> For subsequent visits, COM personnel can fly into and out of the Baghdad International Airport using commercial air, including for rest and recuperation trips. For domestic travel, COM personnel may use only Embassy Air or Military Air. As in Afghanistan, Military Air may be used only in limited circumstances with the approval of the COM and the Regional Security Office.<sup>10</sup> In some instances, ground transportation may be used instead of air travel.<sup>11</sup>

## Embassy Air Funding

When it was first created, Embassy Air was fully funded by INL and the Bureaus of South and Central Asian Affairs, Near Eastern Affairs, and Diplomatic Security with funds appropriated directly by Congress. Since 2012 in Afghanistan and 2011 in Iraq, Embassy Air operations have been funded via the AWCF and overseen by the Aviation Governing Board (AGB). The AGB was

<sup>7</sup> In September 2018, operations at the Basrah Consulate and Embassy Air flights to the consulate were suspended.

<sup>8</sup> The Baghdad Diplomatic Support Center is the U.S. Mission to Iraq's primary platform for aviation, medical, maintenance, munitions storage, and property disposition services.

<sup>9</sup> The embassy stated that this is for "accountability and safety reasons" and to ensure that personnel have the correct paperwork. The embassy did not provide additional details on this rationale.

<sup>10</sup> Uniformed military personnel, and a limited number of their support staff assigned to Embassy Baghdad under COM authority, do not need written approval to use Military Air.

<sup>11</sup> Requests for ground movements require a Protective Security Detail Request and an Action Memo cleared through the Regional Security Office and approved by the COM. If, however, Embassy Air-Iraq flights are canceled, contingency plans for moving passengers between the BEC and BDSC are immediately implemented by the Regional Security Office.

established to approve policies, budgets, and strategic plans for the Department's aviation assets and activities. Under the AWCF, passengers using Embassy Air for air transportation services are charged ticket fees. According to an INL/A official, the Bureaus of South and Central Asian Affairs, Near Eastern Affairs, and Diplomatic Security use their appropriated funds to pay operating and overhead expenses not covered by the ticket fees—an arrangement known as the “backstop.”

## **Relevant Guidance Governing Working Capital Funds and the Embassy Air Program**

A working capital fund, also known as a revolving fund, is a mechanism used to finance business-type operations whereby the products or services provided are directly paid by the users rather than a congressional appropriation. Typically, a working capital fund is funded with reimbursements or advanced payments for “supplies and services at rates which will approximate the expense of operations.”<sup>12</sup> It encourages economies of scale and more consistent business practices and customer services, which, in turn, is intended to control costs and avoid duplication.<sup>13</sup> Additionally, the fees collected from customers are used to pay for assets and services needed to ensure the continuous operation of the various Government activities.

The Foreign Assistance Act of 1963 established the Department’s Working Capital Fund. The Fund “shall be reimbursed, or credited with advance payments, from applicable appropriations and funds of the [Department], other Federal agencies, and other sources authorized by law, for supplies and services at rates which will approximate the expense of operations.”<sup>14</sup> Fees collected by the Fund can be used in any fiscal year.

The Foreign Affairs Handbook provides further guidance on the general operation of working capital funds. It states that the Department’s Working Capital Fund is intended to:

- Provide a more effective means for controlling the costs of goods and services produced by commercial-type activities.
- Provide an effective and flexible way to finance, budget, and account for commercial-type activities.
- Encourage cost consciousness and efficiency for users and suppliers of services.
- Promote a buyer-seller relationship between the producing activity and the customer.<sup>15</sup>

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<sup>12</sup> Foreign Assistance Act of 1963, Pub. L. No. 88-205, Part IV, “Amendments to Other Laws,” § 405, codified at 22 U.S. Code § 405.

<sup>13</sup> Congressional Budget Justification, Department of State, Foreign Operations, and Related Programs, Fiscal Year 2018, 58.

<sup>14</sup> Foreign Assistance Act of 1963, Pub. L. No. 88-205, Part IV, “Amendments to Other Laws,” § 405, codified at 22 U.S. Code § 405.

<sup>15</sup> 4 Foreign Affairs Handbook-3 H-113.4-3(a), “Working Capital Fund.”

According to the Foreign Affairs Handbook, users must obligate budgetary resources for the Working Capital Fund activities so that there is revolving working capital to sustain activity and operations. The Handbook also states that “charges for working capital fund services must be sufficient to cover all operating and overhead expenses.”<sup>16</sup>

### *Special Provisions for the Aviation Working Capital Fund*

Although it is, in fact, a working capital fund, the AWCF is not subject to all of the ordinarily applicable provisions because, in the Consolidated Appropriation Acts of 2014 through 2019, Congress permitted Embassy Air to operate on either a reimbursable or a non-reimbursable basis, with any funds collected from ticket fees credited to the AWCF.<sup>17</sup> When referring to the use of Department aircraft, each of the Appropriations Acts stated:

That such aircraft may be used to transport, on a reimbursable or non-reimbursable basis, Federal and non-Federal personnel supporting Department of State and [U.S. Agency for International Development] programs and activities: Provided further, That official travel for other agencies for other purposes may be supported on a reimbursable basis, or without reimbursement when traveling on a space available basis.<sup>18</sup>

Although other language of more general applicability states that working capital funds should be paid in advance or reimbursed at rates that will “return the full cost of each service,”<sup>19</sup> the more specific language regarding the AWCF is effectively an exception to this rule. That is, although Congress generally intended for the Department to achieve full cost recovery for each service funded by the Working Capital Fund, it permitted the Department, as an exception, to achieve less than full cost recovery in the particular case of aviation services. OIG notes that the Department’s Office of the Legal Adviser likewise concluded that the ticket fees charged for use of Embassy Air flights do not need to result in full cost recovery, provided all Embassy Air costs can be paid for with backstop payments. Notwithstanding this language, OIG found in the course of its work that the Department effectively sought to obtain full reimbursement through ticket fees.

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<sup>16</sup> 4 Foreign Affairs Handbook-3 H-113.4-3(b), “Working Capital Fund.”

<sup>17</sup> The Foreign Affairs Manual further explains that when Department aircraft are used to support other agencies, the Department may be required to recover the costs (2 Foreign Affairs Manual 816.1-3(C)). When cost recovery is required, INL/A, the AWCF, and those organizations receiving or funding the support must establish a cost reimbursement agreement.

<sup>18</sup> Consolidated Appropriations Act, 2014, § 7052(c); Consolidated Appropriations Act, 2015, § 7052(c); Consolidated Appropriations Act, 2016, § 7052(c); Consolidated Appropriations Act, 2017, § 7052(c); Consolidated Appropriations Act, 2018, § 7052(c); Consolidated Appropriations Act, 2019, § 7052(c).

<sup>19</sup> Consolidated Appropriations Act, 2014, § 7034(p); Consolidated Appropriations Act, 2015, § 7034(n); Consolidated Appropriations Act, 2016, § 7034(l); Consolidated Appropriations Act, 2017, § 7006(b); Consolidated Appropriations Act, 2018, § 7006(b); Consolidated Appropriations Act, 2019, § 7006(b). Notwithstanding this general language, OIG agrees with the Department’s conclusion that the more specific statutory language governs the AWCF, an approach that is consistent with standard principles of statutory construction. See, e.g., *Green v. Bock Laundry Mach. Co.*, 490 U.S. 504, 524 (1989).

## AUDIT RESULTS

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### **Finding A: Embassy Air Services Were Not Managed To Effectively Support Embassy Operations and Mission Because the Department Did Not Apply Consistent Methodologies When Making Decisions**

According to the Mission Security Travel Policies for Embassy Kabul and Embassy Baghdad, Embassy Air is required for air travel within these countries because of the tenuous security environment. OIG accordingly does not question the overall need for Embassy Air services, but OIG identified concerns regarding the management of the program. In particular, the Department has not applied a consistent methodology and lacks procedures for making certain decisions in this area. First, despite the authority to operate on either a reimbursable (i.e., full cost recovery) or a non-reimbursable basis, the AGB incrementally increased Embassy Air ticket fees with the goal of covering a larger percentage of operational costs via ticket fee collections. That is, it sought to achieve full cost recovery via ticket fees. To analyze whether Embassy Air services were managed to support embassy operations and mission, OIG assessed the services by reviewing data to determine whether the rising ticket fees affected ridership levels. On the basis of this assessment, OIG found that, when the AGB increased Embassy Air ticket fees with the goal of covering a larger percentage of operational costs, ridership declined. As an alternative to Embassy Air, some passengers, who were able to do so, used other means of transportation such as the Department of Defense's aviation program (Military Air) or commercial air, thereby causing Embassy Air services to become significantly underused. Moreover, the high cost of ticket fees harmed embassy operations. For example, some officials told OIG that their bureaus could not afford ticket fees and that, as a result, they were unable to travel to conduct site visits of Government projects and programs under their purview. Finally, OIG found that the frequency of Embassy Air flights and the number of aircraft in country were not routinely adjusted to align with demand. Until this is done, the Department will continue to pay for significant costs associated with Embassy Air operations that are underused in addition to paying the costs associated with alternative modes of transportation.

#### ***Increased Ticket Fees Led to Decreased Ridership***

Despite the authority to operate on a reimbursable or a non-reimbursable basis, the AGB incrementally increased ticket fees in an effort to achieve full cost recovery via ticket fees.<sup>20</sup> In Afghanistan, the ticket fee for a rotary-wing aircraft for a one-way trip from the Embassy Heliport to Camp Alvarado (an approximately 7-minute trip) increased from \$300 to \$1,485, or 395 percent from 2015 to 2019. In Iraq, the ticket fee for a fixed-wing aircraft for a one-way trip from BDSC to Basrah (an approximately 1-hour trip) increased from \$550 to \$4,785, or 770 percent. Table 1 summarizes the ticket fee increases for the six scheduled flights in Afghanistan and Iraq.

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<sup>20</sup> According to several Department officials, the former Under Secretary of State for Management made the decision to increase ticket fees with this goal.

**Table 1: Embassy Air Ticket Fee Increases from October 2014 to March 2019**

Route	Lowest Fee	Increase #1	Increase #2	Increase #3	Increase #4	Increase #5	% Increase
Bagram - Camp Alvarado	\$875	\$915	\$1,350	\$1,485	-	-	70%
Kabul - Camp Alvarado	300	900	1,350	1,485	-	-	395
Basrah - BDSC	550	575	1,445	2,888	\$4,350	\$4,785	770
Erbil - BDSC	500	525	922	1,950	2,145	-	329
Amman – BDSC	1,050	1,100	1,555	3,115	4,650	5,115	387
BEC - BDSC	575	600	775	1,545	2,325	2,558	345

Source: Generated by OIG based on Embassy Air ticketed fee data provided by INL/A.

OIG assessed the management of Embassy Air services by reviewing ridership data to determine whether the rising ticket fees affected ridership levels. On the basis of this assessment, OIG found that when the AGB increased Embassy Air ticket fees to cover a larger percentage of operational costs, ridership declined.

From FY 2015 to FY 2019, the AGB increased ticket fees three times in Afghanistan and five times in Iraq. During that same period, ticket fees for the scheduled routes increased between 329 percent and 770 percent for five of the six routes. The related interviews suggest that increased ticket fees discouraged passengers from using Embassy Air because their agencies or offices did not have the budgets to pay for those increased costs.<sup>21</sup> For example, when Embassy Air ticket fees were raised in June 2018, ridership declined 34 percent for most of the scheduled routes and declined as much as 56 percent for flights to and from Amman, Jordan, and Baghdad, Iraq. Table 2 presents the Embassy Air ticket fee that would be needed in FY 2018 to achieve full cost recovery via ticket fees of Embassy Air operational costs and shows the lowest and highest ticket fees charged from October 2014 to March 2019, as well as the corresponding ridership data for each of the six scheduled flights.

**Table 2: Embassy Air Ticket Fees in Afghanistan and Iraq and Corresponding Ridership**

Route	Full Cost Recovery Ticket Fee <sup>a</sup>	Lowest Ticket Fee	Average Monthly Ridership	Highest Ticket Fee	Average Monthly Ridership	% Decrease in Ridership
Bagram - Camp Alvarado	\$5,145	\$875	60	\$1,485	49	18%
Kabul - Camp Alvarado	5,145	300	2,618	1,485	1,647	37
Basrah - BDSC	8,265	550	115	4,785	65	44
Erbil - BDSC	3,705	500	195	2,145	188	4 <sup>b</sup>
Amman – BDSC	8,835	1,050	284	5,115	125	56
BEC - BDSC	4,418	575	962	2,558	634	34

<sup>a</sup> This refers to what the ticket fee would need to be to reach full cost recovery based on 100% ticket fees with no backstop contribution for FY2018.

<sup>b</sup> The Erbil flight ridership changed minimally with price increases because the main user of this flight is the Department of Defense, whose ridership levels have remained relatively stable.

Source: Generated by OIG from Embassy Air data obtained from INL/A.

<sup>21</sup> Bureaus and other Government agencies were not always given time to account for the fee increases in their budget request to Congress. For instance, according to Embassy Kabul's Senior Financial Management Officer, in May 2018, the AGB gave less than 1 week's notice for the ticket fee increase.

Because of the increased ticket fees, some embassy personnel who were able to do so turned to other modes of transportation that were less expensive, such as Military Air or commercial air. For example, in Iraq, some embassy personnel took international flights on commercial aircraft directly to or from the Baghdad International Airport rather than taking the Embassy Air flight to or from Amman. They were allowed to do this because Mission Iraq only required personnel to use Embassy Air to fly into Iraq for the first arrival in country.<sup>22</sup> In this instance, the Embassy Air price was \$5,115, while at the same time a commercial flight for the same route was \$300. In other words, a user would have saved 94 percent by taking commercial air. Some passengers also used Military Air instead of Embassy Air to travel within Afghanistan and Iraq.<sup>23</sup> For example, in Afghanistan, the Drug Enforcement Agency has blanket approval to travel via Military Air on Special Missions Wing rotary- and fixed-wing aircraft as long as there is an American pilot and an American presence at the destination. A Drug Enforcement Agency official stated that, because of the cost, he only uses Embassy Air for rest and recuperation trips or, on occasion, to speak with officials in Bagram. In Iraq, an Office of Security Cooperation-Iraq official stated that his office primarily uses Military Air because the COM allows it and because the cost of Embassy Air is prohibitive.

Because the ticket fees are calculated in part on the basis of usage, when ridership decreases to a level that is less than expected, the full cost of the program can never be recovered via ticket fees. OIG therefore concludes that the AGB's efforts to achieve full cost recovery via ticket fees of operating and overhead expenses was impractical.

### ***Monitoring and Oversight of Mission Programs and Projects Affected***

As a result of the high ticket fees, OIG determined that Embassy Air did not always effectively support Embassy operations. Although some embassy personnel told OIG that the increased ticket fees had no effect on their ability to carry out their mission in country, others stated that they were unable to conduct monitoring and oversight because their agency could not afford to pay the increased ticket fees. In September and October 2018, Embassies Kabul and Baghdad submitted Reports of Potential Material Weakness (Afghanistan) and Potential Significant Deficiency (Iraq) to Department leadership to notify them of the consequences of the high cost of Embassy Air on mission operations. For example, Embassy Kabul reported that:

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<sup>22</sup> In February 2019, Embassy Baghdad examined Mission Iraq's requirements for flying into the country. The Embassy found that "with daily, direct flights available from Royal Jordanian airlines, and backup indirect flights available from several others, it is conceivable to eliminate the Amman ring-route with a commercial alternative. Scheduled flight times are often early in the morning or late in the evening, which would require changes to the expediting contract in Baghdad, but the costs to operate a longer shuttle service would be offset by the considerable savings in Embassy Air costs. Post would also need to work with the Orientation and In-Processing (OIP) center to determine the best approach to processing new-hire and first-time [Temporary Duty] employees prior to entering Iraq." The Embassy further concluded that "the most immediate complication with removing regular [Embassy Air-Iraq] Amman service would be the degradation of Post's ability to import cold-chain and other medical supplies."

<sup>23</sup> There is no cost to the Department when personnel affiliated with the Department of Defense use Military Air.

- The Bureau of Population, Refugees, and Migration section was “curtailing program oversight and services due to the high cost of operations.”
- Embassy support for the Peace and Reconciliation effort was unable to make “essential site visits” to provinces, including Helmand and Kandahar.
- The Special Inspector General for Afghanistan Reconstruction was unable to hold its meetings in Kabul to conduct “the vital oversight, inspections, and investigations necessary to ensure the millions of dollars spent on assistance is properly utilized.”

Embassy Baghdad reported that:

- The Bureau of Population, Refugees, and Migration was unable to manage its programs because the Embassy Air costs between Baghdad and Erbil were cost prohibitive.
- The Federal Bureau of Investigation is struggling “to fund trips for its criminal investigators due to budget constraints.”
- The Department of the Treasury was “unable to travel for all meetings related to Iran sanctions because of the [Embassy Air] costs.”

When OIG asked officials from the Bureaus of Near Eastern Affairs and South and Central Asian Affairs why the impact on monitoring and oversight was not reported as a significant management control weakness on the annual statement of assurance,<sup>24</sup> the Office of the Executive Director stated that the issue was not included because the AGB was working on a proposal to reduce the ticket prices and they expected a resolution.<sup>25</sup>

### ***Embassy Air Services and Fees Require Routine Review***

As noted, Mission Security Travel Policies for Embassy Baghdad and Embassy Kabul, state that Embassy Air is required for air travel within these countries because of the tenuous security environment. OIG accordingly does not question the overall need for Embassy Air services. OIG does, however, question the management of the program. Along with information regarding usage of the aircraft in Afghanistan and Iraq, OIG examined the frequency in which services and assets were adjusted to align with demand. OIG identified a lack of 1) routine adjustments to the frequency of Embassy Air flights and the number of aircraft in country to align with demand and 2) a documented methodology for setting ticket fees.

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<sup>24</sup> According to 2 Foreign Affairs Manual 024, “Annual Management Assurance Process,” the Federal Managers’ Financial Integrity Act (FMFIA) requires the Secretary to submit an annual statement of assurance to the President and Congress (at the close of the fiscal year) on the overall adequacy and effectiveness of the management controls within the Department. According to 2 Foreign Affairs Manual 021.3, “Definitions,” a significant deficiency is a “deficiency, or combination of deficiencies, that in management’s judgment should be communicated because they represent significant weaknesses in the design or operation of internal control that could adversely affect the organization’s ability to meet its internal control objectives.”

<sup>25</sup> In fact, as discussed subsequently, in April 2019, the AGB lowered Embassy Air ticket prices.

*Embassy Air Services Not Consistently Adjusted To Match Demand*

OIG found that when Embassy Air ridership decreased, the frequency of flights and the number of aircraft in country were not consistently adjusted to reflect the decrease in demand. Although ridership declined markedly for most scheduled flights, OIG identified only two instances in which flight routes were decreased because of low demand: (1) In June 2017, the flights to and from Bagram, Afghanistan, were decreased from 4 days a week to 3 days a week and (2) in May 2019, flights to and from Iraq from Amman decreased from 3 days a week to 2 days a week. Additionally, in Afghanistan, although no scheduled fixed-wing flights have occurred since September 2015, fixed-wing aircraft continue to remain in country as part of the Embassy Air program to be used primarily for the occasional medical evacuation or special flight request.<sup>26</sup> As a result, according to an INL/A official, pilots fly empty fixed-wing planes around the Kabul area to maintain their flight training hours because mission-related flights are not frequent enough to maintain those hours during their regular course of duties.

Decreasing the number of flights could result in cost savings for the Embassy Air program and, if appropriate, reducing aircraft in country and the associated contractors required to operate those aircraft would also potentially result in greater savings. OIG notes that, as recently as 2017, INL/A made five recommendations to reduce costs for Embassy Air-Iraq operations. These recommendations included reducing both the number of aircraft and the number of routes.<sup>27</sup> However, the COM at the time only approved one recommendation that reduced the number of aircraft; the remaining four recommendations, representing an additional \$1.35 million to \$5.6 million in annual cost savings, were not implemented. An INL/A official stated that embassy officials are not likely to reduce the number of flights because they prefer flexibility. At the same time, an Embassy Baghdad Management Section official explained that Embassy Air is part of the Post Emergency Action Plan, which requires Embassy Air to maintain an adequate number of aircraft in working order to ensure that the embassy can be evacuated in an emergency. OIG notes, however, that Military Air and commercial air are other viable options for transportation in certain circumstances. Chartered flights have also been proposed as a possible alternative. OIG is not prescribing a specific course of action or even a specific methodology for assessing Embassy Air services and aviation assets needed in country. However, OIG concludes that some procedure and methodology should be developed to ensure routine assessments are conducted in the future and consider the demand for Embassy Air services.

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<sup>26</sup> Even though fixed-wing aircraft can be used for medical evacuations, all 34 evacuations carried out in Afghanistan between June 9, 2018, and April 3, 2019, used rotary-wing aircraft.

<sup>27</sup> INL/A's Senior Aviation Advisor for Iraq submitted a memorandum titled "Recommended Embassy Air-Iraq Cost Cutting Measures" to the COM. The memorandum recommended the following: (1) the removal of two B-1900D (Beechcraft) fixed-wing aircraft from the Embassy Air-Iraq aviation program; (2) multiple changes to the Embassy Air-Iraq flight schedule to allow all rotary-wing flights to be accomplished by one set of aircrews instead of two; (3) a change to the Embassy Air-Iraq fixed-wing flight schedule, ending the Tuesday flights from the BDSC to Amman; (4) a change to the Embassy Air-Iraq fixed-wing flight schedule to reduce scheduled flights from the BDSC to Basrah from twice to once per week; and (5) a change to the Embassy Air-Iraq rotary-wing flight schedule to reduce flights from six to four times per week. Only the first recommendation was approved.

### *Embassy Air Ticket Fees Set Without Documented Methodology*

In February 2019, the AGB recognized that full cost recovery via ticket fees of operating and overhead expenses was impractical and subsequently lowered Embassy Air ticket fees in both Afghanistan and Iraq. The new ticket fees went into effect in April 2019. However, OIG found that the AGB set the ticket fee for a scheduled rotary-wing flight at \$500 without using any documented methodology.<sup>28</sup> Instead, an INL/A official presented different pricing scenarios, which included potential ticket fees and their associated backstop amounts. The AGB ultimately determined that the ticket fee would simply be the lowest amount possible for which the Bureau of Diplomatic Security had sufficient funds to pay the backstop. For the scheduled fixed-wing flights, and special flight requests on either rotary- or fixed-wing, the AGB decided that Embassy Air ticket fees would be set at a level to cover the variable costs of those operations. Although this method lowered Embassy Air ticket fees as intended, it does not consider all factors necessary to promote cost control and avoid duplication of air transportation options and associated costs for Government personnel serving in Afghanistan and Iraq. Furthermore, setting ticket fees with no principled methodology does not lend itself to sound decision-making.

### *Costs of Air Transport in Afghanistan and Iraq*

OIG concludes that, until Embassy Air services and fees are routinely assessed and adjusted on the basis of demand, the Department will continue to pay for the significant costs associated with Embassy Air operations that are underused, in addition to paying the costs associated with alternative modes of transportation selected by Embassy personnel. OIG is not prescribing a specific course of action or even a specific methodology for assessing the differing costs and benefits of approaches given financial considerations and security issues. However, OIG found that currently, the Department is not applying *any* sound methodology for determining Embassy Air ticket fees.

**Recommendation 1:** OIG recommends that the Aviation Governing Board develop and implement (1) a policy to routinely review and adjust ticket fees for Embassy Air flights and (2) a methodology for doing so on the basis of ridership demand and total operational and overhead costs, including the backstop amount applied from appropriated funds, to determine appropriate ticket fees that support the embassies' missions while acknowledging that other air transportation services may be available and more economical.

**Management Response:** The Under Secretary of State for Management, who responded on behalf of the AGB, concurred with the recommendation, stating that "the AGB will continue to review ticket prices and assets, consistent with the Working Capital Fund as authorized by the State Department Basic Authorities Act of 1956 (P.L. 84-885), Section 13 (22 U.S.C. § 2684), and relevant appropriate legislation." INL stated that it "believes that the audit report does not fully recognize the extensive efforts already made by the [AGB] to continually analyze the status and trends of flight ticket prices," but "is prepared to work in partnership with other members of the AGB's AWCF Committee to document a formal policy for the ticket pricing review to include frequency and methodology going forward." Embassy Baghdad stated that, with the ordered

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<sup>28</sup> The previous ticket fee for the same flight was \$1,485 in Afghanistan and \$2,558 in Iraq.

departure in May 2019, the passenger numbers have been lower “given the limitation on the number of staff members on the ground in Iraq”; however, once “Mission Iraq returns to normal operations, [it] will be able to more accurately review the passenger numbers and make further adjustments to the costs as necessary in conjunction with the [AGB].”

**OIG Reply:** On the basis of the Under Secretary of State for Management’s concurrence and INL’s and Embassy Baghdad’s stated actions, OIG considers this recommendation resolved, pending further action. OIG notes that the report did not suggest that the Department had not attempted to analyze appropriate prices; rather, the report emphasizes the need to have a consistent, defined policy for doing so. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the AGB has implemented (1) a policy to routinely review and adjust ticket fees for Embassy Air flights and (2) a methodology for doing so on the basis of ridership demand and total operational and overhead costs, including the backstop amount applied from appropriated funds, to determine appropriate ticket fees that support the embassies’ missions while acknowledging that other air transportation services may be available and more economical.

**Recommendation 2:** OIG recommends that the Aviation Governing Board develop and implement a procedure to routinely review Embassy Air-Afghanistan services, assets, and cost effectiveness that includes a methodology for assessing and adjusting the number of flights and aviation assets needed in country, to make informed decisions about the administration of the Embassy Air-Afghanistan program. This policy and methodology should be developed and implemented with a full understanding of the demand for Embassy Air flights and an acknowledgement that other air transportation services may be available and more economical.

**Management Response:** The Under Secretary of State for Management concurred with the recommendation. INL neither concurred nor non-concurred but stated that it has “previously conducted analyses to identify possible fleet and schedule adjustments for cost effectiveness and made recommendations to Post, and will continue to do so.” INL further stated that it “will develop and document formal policy and procedures in coordination with other stakeholders for future reviews” and has “initiated a monthly aviation call that will serve as a forum for discussions regarding the fleet size and flight scheduling.”

The action entity for this recommendation was originally INL/A, in coordination with Embassy Kabul, the Bureaus of Near Eastern Affairs and South and Central Asian Affairs, Office of the Executive Director, and the Bureau of Diplomatic Security. In its written response to a draft of this report (see Appendix B), the Under Secretary of State for Management requested that the recommendation be redirected to the AGB because “[d]irecting these findings to four specific bureaus risks duplicating or circumventing roles and responsibilities outlined in the updated AGB charter.”

**OIG Reply:** OIG agrees to redirect the recommendation to the AGB and, on the basis of the Under Secretary of State for Management’s concurrence and INL’s stated actions, considers the recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the AGB has implemented a

procedure to routinely review Embassy Air-Afghanistan services, assets, and cost effectiveness that includes a methodology for assessing and adjusting the number of flights and aviation assets needed in country, to make informed decisions about the administration of the Embassy Air-Afghanistan program.

**Recommendation 3:** OIG recommends that the Aviation Governing Board develop and implement a procedure to routinely review Embassy Air-Iraq services, assets, and cost effectiveness that includes a methodology for assessing and adjusting the number of flights and aviation assets needed in country, to make informed decisions about the administration of the Embassy Air-Iraq program. This policy and methodology should be developed and implemented with a full understanding of the demand for Embassy Air flights and an acknowledgement that other air transportation services may be available and more economical.

**Management Response:** The Under Secretary of State for Management concurred with the recommendation. INL neither concurred nor non-concurred but stated that it has “previously conducted analyses and made recommendations with regard to fleet sizing and flight scheduling to improve cost efficiency, but Post has not always accepted the recommendations due to other considerations.” INL further stated that it “will develop and document formal policy and procedures in coordination with other stakeholders for future reviews” and that it has “a monthly aviation call that will serve as a forum for discussions regarding the fleet size and flight scheduling.” Additionally, Embassy Baghdad stated that it “continues to work with the [Bureau of Near Eastern Affairs] and other stakeholders on reviewing the Embassy Air program in its entirety and making adjustment as merited by the data.” In support of this point, it cited the closure of Consulate Basrah in 2018 and the submission of a business case to the Bureaus of Near Eastern Affairs and South and Central Asian Affairs, Office of the Executive Director, for potential commercial and charter alternatives to Embassy Air in February 2019. Embassy Baghdad also noted that Embassy Air continues to be a “vital part” of its mission in Iraq given the security situation and volatility of politics in Iraq. It noted limitations in use of charter and military aircraft and specifically stated that, “[w]ithout Embassy Air, post would have been unable to comply with the deadlines set by the Secretary of State to evacuate and close Consulate Basrah, as well as evacuate Embassy Baghdad and Consulate Erbil under ordered departure.”

The action entity for this recommendation was originally INL/A, in coordination with Embassy Kabul, the Bureaus of Near Eastern Affairs and South and Central Asian Affairs, Office of the Executive Director, and the Bureau of Diplomatic Security. In its written response to a draft of this report see Appendix B, the Under Secretary of State for Management requested that the recommendation be redirected to the AGB because “[d]irecting these findings to four specific bureaus risks duplicating or circumventing roles and responsibilities outlined in the updated AGB charter.”

**OIG Reply:** OIG agrees to redirect the recommendation to the AGB and, on the basis of the Under Secretary of State for Management’s concurrence and INL’s stated actions, considers the recommendation resolved pending further action. OIG reiterates that, in making this and other recommendations, OIG is not prescribing any particular approach or decisions but rather is

encouraging the Department to develop consistent and sound methodologies for assessing air transportation needs in these environments. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the AGB implemented a procedure to routinely review Embassy Air-Baghdad services, assets, and cost effectiveness that includes a methodology for assessing and adjusting the number of flights and aviation assets needed in country, to make informed decisions about the administration of the Embassy Air-Iraq program.

## RECOMMENDATIONS

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**Recommendation 1:** OIG recommends that the Aviation Governing Board develop and implement (1) a policy to routinely review and adjust ticket fees for Embassy Air flights and (2) a methodology for doing so on the basis of ridership demand and total operational and overhead costs, including the backstop amount applied from appropriated funds, to determine appropriate ticket fees that support the embassies' missions while acknowledging that other air transportation services may be available and more economical.

**Recommendation 2:** OIG recommends that the Aviation Governing Board develop and implement a procedure to routinely review Embassy Air-Afghanistan services, assets, and cost effectiveness that includes a methodology for assessing and adjusting the number of flights and aviation assets needed in country, to make informed decisions about the administration of the Embassy Air-Afghanistan program. This policy and methodology should be developed and implemented with a full understanding of the demand for Embassy Air flights and an acknowledgement that other air transportation services may be available and more economical.

**Recommendation 3:** OIG recommends that the Aviation Governing Board develop and implement a procedure to routinely review Embassy Air-Iraq services, assets, and cost effectiveness that includes a methodology for assessing and adjusting the number of flights and aviation assets needed in country, to make informed decisions about the administration of the Embassy Air-Iraq program. This policy and methodology should be developed and implemented with a full understanding of the demand for Embassy Air flights and an acknowledgement that other air transportation services may be available and more economical.

## APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

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Generally, supplies and services purchased under the Department of State's (Department) Working Capital Fund are reimbursed at rates which will approximate the expense of operations (known as 'full cost recovery').<sup>1</sup> However, the Department's Aviation Working Capital Fund (AWCF) is not required to operate as a traditional working capital fund because Congress permitted Embassy Air to operate on a reimbursable or a non-reimbursable basis. Having made this determination, the Office of Inspector General (OIG) conducted this audit of the Department's Embassy Air program in Afghanistan and Iraq to determine whether Embassy Air services were managed in support of embassy operations and mission.

OIG conducted this audit from February 2019 to August 2019 in Washington, DC; Arlington, VA; Melbourne, FL; Amman, Jordan; Kabul, Afghanistan; and Baghdad, Iraq. This report relates to Overseas Contingency Operations Inherent Resolve and Freedom's Sentinel and was completed in accordance with OIG's oversight responsibilities described in Section 8L of the Inspector General Act of 1978, as amended. OIG conducted this audit in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

To answer the audit objectives, OIG analyzed Federal regulations and Department policies to obtain background information and criteria. OIG also analyzed other relevant documents such as Aviation Governing Board meeting minutes, Embassy Air fee-setting methodology documentation, Embassy Air financial plans, Embassy Air manifest billing data, and Security Travel Policies for Afghanistan and Iraq. Additionally, OIG reviewed invoices for maintenance, IT, labor, materials, and travel for the worldwide aviation support services contract, in conjunction with other worldwide support services contract documents and Embassy Air financial data for FY 2015 to FY 2019 to determine whether costs included in the fee setting formulas were appropriate. OIG conducted 75 interviews with Department officials and other Federal agency users of Embassy Air. For example, OIG spoke with the Ambassador and the Deputy Chief of Mission, aviation program staff, Regional Security Office staff, and Financial Management Office staff. OIG also spoke with individuals from the Bureaus of Diplomatic Security; Near Eastern Affairs; South and Central Asian Affairs; Budget and Planning; Population, Refugees, and Migration; Consular Affairs; Administration, Office of the Executive Director, Working Capital Fund Division; and International Narcotics and Law Enforcement Affairs, Office of Aviation. OIG also spoke with officials from the Department of Defense, the Department of the Treasury, the Drug Enforcement Agency, and the Special Inspector General for Afghanistan Reconstruction.

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<sup>1</sup> Foreign Assistance Act of 1963, Pub. L. No. 88-205, Part IV, "Amendments to Other Laws," § 405, codified at 22 U.S. Code § 405.

## **Prior Reports**

In a September 2018 report titled *Audit of the Department of State's Administration of its Aviation Program* (AUD-SI-18-59), OIG reported that significant aviation operations were undertaken without the knowledge or approval of the Aviation Governing Board and that the Board was not fulfilling its responsibilities to evaluate the usage and cost effectiveness of aircraft services, as required. OIG also reported that, in Afghanistan, Embassy Air used its fixed-wing aircraft only at 15–35 percent of capacity during FY 2017. OIG determined that the ineffective administration of the aviation program resulted, in part, from the Department's lack of an adequate strategic plan. OIG made 25 recommendations to address deficiencies identified. As of June 2019, 6 recommendations have been closed and 19 recommendations remain open and are considered resolved, pending further action.

In a June 2018 report titled *Audit of the Department of State's Process to Identify and Transfer Excess Working Capital Funds* (AUD-FM-18-44), OIG reported that the Bureau of Administration, Office of the Executive Director, Working Capital Fund Division, did not have policies and procedures in place to determine the appropriate carry-forward fund amounts for working capital fund cost centers or the amount in excess earnings to transfer to the Department of the Treasury. OIG reported that, for the Aviation cost center, the carry-forward amount totaled almost \$195.7 million from FY 2015 to FY 2017, or approximately 20 percent of the revenue collected. OIG concluded that, by not having policies and procedures in place, the Department was unable to provide an effective means for controlling the costs of goods and services or encourage cost consciousness by users and suppliers of services. OIG made four recommendations to improve pricing methodologies, internal controls, and processes for the Working Capital Fund. As of June 2019, all four recommendations remain open and are considered resolved, pending further action.

In an August 2014 report titled *Inspection of Embassy Kabul, Afghanistan* (ISP-I-14-22A), OIG reported that a 2013 decision to recover the costs related to Embassy Air through ticket prices undercut its viability, even though security concerns were increasing. OIG reported that the Working Capital Fund's goal of full cost recovery via ticket fees had effectively reduced the ability of embassy personnel to travel and forced contractors to travel using commercial air. OIG concluded that the impact of increased ticket fees reduced oversight of programs and forced contractors to use commercial air. OIG recommended that the Department review the full cost recovery method and consider alternative cost models to promote greater use of Embassy Air. The recommendation was closed on the basis of the Bureau for Budget and Planning's coordination with the Aviation Governing Board's financial working group to study alternate cost models. Representatives from Embassy Kabul and the Bureaus of Administration; Budget and Planning; Comptroller and Global Financial Services; Diplomatic Security; Near Eastern Affairs; South and Central Asian Affairs; and International Narcotics and Law Enforcement Affairs, Office of Aviation, reviewed three cost models and presented the findings to the Aviation Governing Board in which voting members approved cost model adjustments to the passenger seat charges and the charge for the use of aircraft for Special Mission Requests.

In a September 2013 report titled *Audit of Selected Working Capital Fund Cost Center Financial Results* (AUD-FM-13-36), OIG reported that one cost center did not collect sufficient fees to cover its costs and that its expenses exceeded revenue by \$8.8 million from FY 2005 through FY 2012. This occurred, in part, because the cost center had delayed the implementation of fee increases when obtaining customer buy-in for the fees and had not reassessed its fees since FY 2005. OIG also reported that another cost center collected fees in excess of the amount needed to cover the costs to sustain its operations. OIG made 15 recommendations to the Department related to improving the cost centers' fee-setting and calculation methodologies and identifying and properly charging all cost center operating expenses. All recommendations are closed.

## **Work Related to Internal Controls**

OIG performed steps to assess the adequacy of internal controls related to the cost management and recovery efforts of Embassy Air in Afghanistan and Iraq. OIG interviewed officials from the Bureau of Administration, Office of the Executive Director, Working Capital Fund Division; the Bureau of Budget and Planning; the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation; the Bureaus of Near Eastern Affairs and South and Central Asian Affairs, Executive Office; and the Financial Management Offices in Kabul and Baghdad. OIG also reviewed policies and procedures from the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation; the Bureau of Administration, Office of the Executive Director, Working Capital Fund Division; and the Aviation Governing Board that are relevant to Embassy Air's operations and funding. In addition, OIG reviewed relevant Foreign Affairs Manual and Foreign Affairs Handbook chapters, as well as Government-wide criteria, including OMB Circular A-126, the Foreign Assistance Act of 1963, and the Consolidated Appropriations Acts from 2012 through 2019. Internal control areas needing attention are described in the Audit Results section of this report.

## **Use of Computer-Processed Data**

OIG used computer-processed data in its review. Specifically, OIG reviewed manifest billing reports between October 2014 and April 2019 that were obtained from the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, via the Department's Flight Operations Management Information System (Embassy Air's ticketing system). OIG reviewed related documentation and interviewed agency officials knowledgeable about the data and learned that the Flight Operations Management Information System provides recordings of flight operations and passenger activity. OIG also learned that the data are compared to the actual collection files that are submitted monthly to the Bureau of the Comptroller and Global Financial Services.

OIG verified the completeness of the data by confirming that the number of rows in the individual spreadsheets matched the number of rows in the merged spreadsheets. OIG reviewed the data to ensure information was present for all the months and years requested. OIG also checked for missing data by reviewing the columns that would be relevant to its analysis to ensure no cells were blank. OIG noticed that in some instances, pricing information was not included for the passenger or flight, or it was incorrectly entered. However, OIG was

able to extrapolate the missing and inaccurate data. OIG determined that the data obtained were sufficiently reliable for the purposes of this audit.

### **Detailed Sampling Methodology**

From the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, via the Flight Operations Management Information System, OIG obtained and reviewed 253,529 flight bookings of scheduled and special request flights in Afghanistan and Iraq between October 2014 and April 2019. OIG reviewed 100 percent of the flight bookings.

## APPENDIX B: UNDER SECRETARY OF STATE FOR MANAGEMENT RESPONSE

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United States Department of State

Under Secretary of State  
for Management

Washington, D.C. 20520

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September 6, 2019

### MEMORANDUM

TO: OIG – Steve Linick

FROM: M – Brian J. Bulatao *Bill Todd, for*

SUBJECT: Response to the Draft Report – Audit of Cost Management of Embassy Air in Afghanistan and Iraq (AUD-MERO-19-XX, August 2019)

Thank you for the opportunity to review the draft report of the Audit on Cost Management of Embassy Air dated August 2019 (Tab 1). The Department concurs with the three recommendations outlined in the draft report, which are consistent with the coordination and oversight functions outlined in the Aviation Governing Board (AGB) Charter, as revised on December 19, 2018 (See Tab 2).

The Bureau of International Narcotics and Law Enforcement Affairs (INL) provided comments on the draft under separate cover, also attached (see Tab 3).

*Recommendation 1: OIG recommends that the Aviation Governing Board develop and implement (1) a policy to routinely review and adjust ticket fees for Embassy Air flights and (2) a methodology for doing so on the basis of ridership demand and total operational and overhead costs, including the backstop amount applied from appropriated funds, to determine appropriate ticket fees that support the embassies' missions while acknowledging that other air transportation services may be available and more economical.*

The Department concurs with this recommendation. In complying with Recommendation 1, the AGB will continue to review ticket prices and assets, consistent with the Working Capital Fund as authorized by the State Department Basic Authorities Act of 1956 (P.L. 84-885), Section 13 (22 U.S.C. § 2684), and relevant appropriations legislation.

*Recommendation 2: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, in coordination with Embassy Kabul, the Bureau of Near Eastern Affairs and South and Central Asian Affairs, Office of the Executive Director, and the Bureau of Diplomatic Security, develop and implement a procedure to routinely review Embassy Air-Afghanistan services, assets, and cost effectiveness that includes a methodology for assessing and adjusting the number of flights and aviation assets needed in country, to make informed decisions about the administration of the Embassy Air-Afghanistan program. This policy and methodology should be developed and implemented with a full understanding of the*

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*demand for Embassy Air flights and an acknowledgement that other air transportation services may be available and more economical.*

*Recommendation 3: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, in coordination with Embassy Baghdad, the Bureaus of Near Eastern Affairs and South and Central Asian Affairs, Office of the Executive Director, and the Bureau of Diplomatic Security, develop and implement a procedure to routinely review Embassy Air-Iraq services, assets, and cost effectiveness that includes a methodology for assessing and adjusting the number of flights and aviation assets needed in country, to make informed decisions about the administration of the Embassy Air-Iraq program. This policy and methodology should be developed and implemented with a full understanding of the demand for Embassy Air flights and an acknowledgement that other air transportation services may be available and more economical.*

The Department concurs with these recommendations in principle, but requests that they be redirected to the AGB. The AGB charter includes similar review and oversight procedures, enabling members to making informed decisions about the administration of the program, to include covering assets, flights, and cost effectiveness. Directing these findings to four specific bureaus risks duplicating or circumventing roles and responsibilities outlined in the updated AGB charter. The Department also recommends that the report acknowledges which of these procedures are outlined in the Charter, and direct any further recommendations to the AGB as a whole.

In accepting these recommendations, the AGB would also urge your consideration of additional comments and clarifications on specific findings and statements in the draft report.

Although the draft report stated that the Department, “effectively sought to obtain full reimbursement through ticket fees,” neither the Department nor the AGB formally proposed full cost recovery through ticket fees during the audit period. Regardless of positions taken by previous State Department officials or individual AGB members, the AGB did not formally adopt such a policy. Most notably, the Department’s budget requests did not assume full cost recovery through tickets over the four most recent budget cycles (FY 2017- FY 2020). In each Congressional Budget Justification, the NEA, SCA, and DS budget chapters continued to request backstop for the aviation program. Therefore, we respectfully recommend that the draft report state that the Department sought “increased” cost recovery or reimbursement.

On page 10 of the draft report, it states, “OIG found that the AGB set the ticket fee for a scheduled rotary-wing flight at \$500 without using any documented methodology.” While the AGB will seek to better document future pricing methodologies, AGB’s Aviation Working Capital Fund working group did discuss various pricing models and methodologies prior to the AGB’s approval, weighing the tradeoffs among cost-recovery, security, ridership, and mission impact.

Further, page 11 states that “until Embassy Air services and fees are routinely assessed and adjusted based on demand, the Department will continue to pay for the significant costs associated with Embassy Air operations that are underused, in addition to paying the costs associated with alternative modes of transportation,” but note that the Department utilizes

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existing budget processes to manage funding impacts and cash flow. An important part of managing the Working Capital Fund (WCF) is evaluating customers' demands and pricing methodologies, and adjusting as necessary. For example, the WCF Carryover Handbook dated December 2018 addresses rates and pricing methodologies in the Department. As the WCF policy was just implemented, the Service Centers and Cost Centers are diligently working on documentation, and have procedures in place. WCF Carryover Policy Page 6 states:

*"In January of each fiscal year the Service Centers will brief BP [Bureau of Budget and Planning] on rates and their Capital Investment plans for the next two fiscal years."*

WCF Carryover Policy Page 7 states:

*"Rates are a value that will purchase a finite quantity, weight, or other measure of a good or service. All rates should take into consideration full cost recovery, recoveries, and carryover projections, and be adjusted accordingly to approximate breakeven with appropriate carry forward levels. The Service Centers shall submit rates with pricing methodologies to Bureau of Budget and Planning (BP) with Bureau Resource Request (BRR) each fiscal year for approval. The Service Centers should meet with BP in January to discuss customers' rates for next two fiscal years prior to publishing for customers to include in budget planning."*

On page 6, the report concludes that ridership declined as direct result of increased ticket fees. Recognizing the inherent linkage between price and demand, the report did not consider any other potential causes for declining ridership, such as reduced staffing levels or the increasing convenience of commercial options connecting to other cities. Notwithstanding concerns articulated by other agencies, aviation ticket prices generally remain a small fraction of per capita operating expenses in Afghanistan and Iraq. For example, the FY 2019 ICASS average per capita invoice at Embassy Kabul is \$484,122, inclusive of security, housing, and other support costs. An employee taking ten rotary trips per year (at \$1,485 per trip) would incur charges to their agency equaling three percent of this annual ICASS bill.

Attachments

- Tab 1 - Draft Report – Audit of Cost Management of Embassy Air in Afghanistan and Iraq (AUD-MERO-19-XX, August 2019)
- Tab 2 - Revised Aviation Governing Board Charter – December 19, 2018
- Tab 3 - INL Response on Draft Report

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Approved: M/PRI – Jim Schwab (Ok)

Drafted: M/PRI – Camille Pellegrino 202-647-1285

Cleared:

BP: ALewis (ok)  
M/PRI: BPomainville (ok)  
A/WCF: GHagmann (ok)  
CGFS: RStanley (info only)  
SCA/NEA/EX: JSmith (ok)  
DS: MBohac (ok)  
DS/IP: CChasten (ok)  
INL: REtheridge (ok)  
M: METokumasu (ok)

APPENDIX C: BUREAU OF INTERNATIONAL NARCOTICS AND LAW  
ENFORCEMENT AFFAIRS RESPONSE

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United States Department of State

Washington, D.C. 20520

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August 23, 2019

**MEMORANDUM FOR NORMAN P. BROWN, ASSISTANT INSPECTOR  
GENERAL FOR AUDITS**

FROM: INL/EX – Jeffrey C. Lee, Acting Executive Director 

SUBJECT: INL Response to the Draft Report, Audit of Cost Management  
of Embassy Air in Afghanistan and Iraq (AUD-SI-19-XX,  
August 2019)

As requested, the Bureau of International Narcotics and Law Enforcement Affairs (INL) is providing the comments below in response to the subject draft report.

**Recommendation 1:** OIG recommends that the Aviation Governing Board (AGB) develop and implement (1) a policy to routinely review and adjust ticket fees for Embassy Air flights and (2) a methodology for doing so on the basis of ridership demand and total operational and overhead costs, including the backstop amount applied from appropriated funds, to determine appropriate ticket fees that support the embassies' missions while acknowledging that other air transportation services may be available and more economical.

**INL Response (August 2019):** INL believes that the audit report does not fully recognize the extensive efforts already made by the Aviation Governing Board to continually analyze the status and trends of flight ticket prices and the overall funding posture of the Aviation Working Capital Fund (AWCF) to adjust prices periodically based on Department guidance and other situational factors. The most recent price reduction was made in recognition of the decreased ridership cited in the report. However, INL is prepared to work in partnership with other members of the AGB's AWCF Committee to document a formal policy for the ticket pricing review to include frequency and methodology going forward. Additionally, INL would like to comment regarding the verbiage in the recommendation dealing with "...acknowledging that other air transportation services may be available and more economical." It should be noted that in some cases an alternative air transportation service may not be available (unless through DoD) because the Department-owned

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aircraft have Aviation Survivability Equipment (ASE) that provides defensive measures against missiles. Such a capability is not available through Commercial Aviation Services and may be required by DS due to the threat level.

**Recommendation 2:** OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, in coordination with Embassy Kabul, the Bureaus of Near Eastern Affairs and South and Central Asian Affairs, Office of the Executive Director, and the Bureau of Diplomatic Security, develop and implement a procedure to routinely review Embassy Air-Afghanistan services, assets, and cost effectiveness that includes a methodology for assessing and adjusting the number of flights and aviation assets needed in country, to make informed decisions about the administration of the Embassy Air-Afghanistan program. This policy and methodology should be developed and implemented with a full understanding of the demand for Embassy Air flights and an acknowledgement that other air transportation services may be available and more economical.

**INL Response (August 2019):** INL has previously conducted analyses to identify possible fleet and schedule adjustments for cost effectiveness and made recommendations to Post, and will continue to do so. INL will develop and document formal policy and procedures in coordination with other stakeholders for future reviews. Post, SCA, DS and INL/A have initiated a monthly aviation call that will serve as a forum for discussions regarding the fleet size and flight scheduling. Meanwhile, a reduction of the aircraft fleet in Afghanistan by seven helicopters and three airplanes is currently underway.

**Recommendation 3:** OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, in coordination with Embassy Baghdad, the Bureaus of Near Eastern Affairs and South and Central Asian Affairs, Office of the Executive Director, and the Bureau of Diplomatic Security, develop and implement a procedure to routinely review Embassy Air-Iraq services, assets, and cost effectiveness that includes a methodology for assessing and adjusting the number of flights and aviation assets needed in country, to make informed decisions about the administration of the Embassy Air-Iraq program. This policy and methodology should be developed and implemented with a full understanding of the demand for Embassy Air flights and an acknowledgement that other air transportation services may be available and more economical.

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**INL Response (August 2019):** As noted in the report, INL/A has previously conducted analyses and made recommendations with regard to fleet sizing and flight scheduling to improve cost efficiency, but Post has not always accepted the recommendations due to other considerations. INL/A will develop and document formal policy and procedures in coordination with other stakeholders for future reviews. Post, NEA, DS and INL/A already have a monthly aviation call that will serve as a forum for discussions regarding the fleet size and flight scheduling.

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## APPENDIX D: EMBASSY BAGHDAD RESPONSE

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*Embassy of the United States of America*

August 21, 2019

Dear Mr. Brown:

Thank you for sending the draft report of the OIG Audit of the Embassy Air program. I have conferred with my staff about the recommendations and other comments in the report and have included our feedback below.

Regarding Recommendation 1, which discusses the review of ticket pricing, we would like to highlight the point (provided to us as a footnote in the report) that the Aviation Governance Board reviewed the cost of Embassy Air flights, both fixed and rotary-wing, in early 2019 due to falling passenger numbers and negative feedback regarding costs. As a result, new pricing was instituted as of April 1, 2019, with fares reduced as much 40 percent for fixed wing aircraft and 80 percent for rotary wing aircraft. The institution of ordered departure in May 2019 and its subsequent continuation means that our passenger numbers continue to be lower given the limitation on the number of staff members on the ground in Iraq at present. We believe that once Mission Iraq returns to normal operations, we will be able to more accurately review the passenger numbers and make further adjustments to the costs as necessary in conjunction with the Aviation Governance Board.

Regarding Recommendation 3, post continues to work with the NEA Bureau and other stakeholders on reviewing the Embassy Air program in its entirety and making adjustments as merited by the data. Since December 2017, post has reduced the number of aircraft, contract personnel, and scheduled flights to align the Embassy Air program with our needs, understanding that its use for all travel within Iraq is a security requirement. The closing of Consulate Basrah in 2018 reduced services and costs. In February 2019, post submitted a business case to

Mr.

Norman P. Brown,  
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NEA-SCA/EX regarding potential commercial and charter alternatives to Embassy Air's fixed wing service. The case is still under review, but post did implement a reduction to twice weekly (from three times per week) for flights between Baghdad and Amman due to passenger volume. We have removed several aircraft from our fleet due to high maintenance costs and mission requirements, thereby reducing our annual contract costs for air service from over \$100 million to approximately \$73 million per year.

Embassy Air continues to be a vital part of our mission in Iraq. Given the security situation and the volatility of politics in Iraq, post needs to have the ability to travel quickly to parts of Iraq not accessible by commercial air. The use of passenger demand as the sole metric from measuring the efficacy of the program does not fully reflect this need. While charter service and military aircraft have been explored as alternate options, as mentioned in the report, we face several hurdles in making their use effective. The bureaucracy of the Iraqi Government makes the clearance of charter aircraft time-consuming and there is a high probability it will not be approved. Given the priority of military aircraft for military operations, we would be unlikely to secure their use quickly. Without Embassy Air, post would have been unable to comply with the deadlines set by the Secretary of State to evacuate and close Consulate Basrah, as well as evacuate Embassy Baghdad and Consulate Erbil under ordered departure.

I would like to thank the OIG for its insights during this audit and we look forward to working with you on the recommendations in the report.

Sincerely,



Brian McFeeters, CDA

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## APPENDIX E: OIG'S REPLY TO THE UNDER SECRETARY OF STATE FOR MANAGEMENT TECHNICAL COMMENTS

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In addition to responding to the recommendations offered in the report, the Under Secretary of State for Management provided technical comments. Below is a summary of the Under Secretary of State for Management's comments and the Office of Inspector General's (OIG) replies.

### **Under Secretary of State for Management General Comment**

The Under Secretary of State for Management stated that the "AGB charter includes similar review and oversight procedures, enabling members to making informed decisions about the administration of the program, to include covering assets, flights, and cost effectiveness" and asks "that the report acknowledge[] which of these procedures are outlined in the Charter."

### **OIG Reply**

OIG acknowledges that the AGB Charter generally directs the AGB to review aviation services and cost effectiveness, stating that the AGB will evaluate "existing and future aviation requirements for federal aircraft"; "oversee the operation of aviation assets funded through the AWCF, to include approving the annual reimbursements and other charges for aircraft use"; and "will review and approve, as appropriate, recommendations addressing the ownership and utilization of federal aircraft." However, the Charter does not detail a procedure for routine review of Embassy Air-Afghanistan services, assets, and cost effectiveness. It also does not include a methodology for assessing and adjusting the number of flights and aviation assets needed in country. OIG made no changes to the report based on this comment.

### **Under Secretary of State for Management General Comment**

The Under Secretary of State for Management stated that "neither the Department nor the [Aviation Governing Board (AGB)] formally proposed full cost recovery through ticket fees during the audit period" and that, "[r]egardless of positions taken by previous [Department] officials or individual AGB members, the AGB did not formally adopt such a policy." The Under Secretary of State for Management further stated that the "Department's budget requests did not assume full cost recovery through tickets over the four most recent budget cycles (FY 2017-FY 2020)," and that, "[i]n each Congressional Budget Justification, the [Bureaus of Near Eastern Affairs, South and Central Asian Affairs, and Diplomatic Security] budget chapters continued to request backstop for the aviation program." Finally, the Under Secretary of State for Management requested that the report state "that the Department sought 'increased' cost recovery or reimbursement."

**OIG Reply**

During fieldwork for this audit, OIG found that the AGB incrementally increased Embassy Air ticket fees with the goal of covering a larger percentage of operational costs via ticket fee collections. This effort to cover a larger percentage of costs was described as a step in the overall effort to achieve full cost recovery through ticket fees. For example, the minutes from the October 13, 2016, AGB meeting state

Both [Bureau of Budget and Planning] and [Office for the Under Secretary of State for Management] senior level management strongly believe that the [Working Capital Fund] Aviation programs need to accelerate the use of full cost recovery so that everyone is paying their fair share and thus reducing the cost burden to the Department. [A Bureau of Budget and Planning official] proposed a path to full cost recovery by FY19. This would be accomplished by adjusting prices to 50% of full costs in FY17, 75% costs in FY18 and 100% in FY19.

After much back and forth, the general consensus was that the Department must move towards full cost recovery by FY19, but the Department should give other agencies enough time to anticipate and adjust to the increases. As a result, it was decided to take the following action:

**Iraq Pricing:**

January 1, 2017 seat prices will be 25% of actual costs

April 1, 2017 seat prices will be 50% of actual costs

October 1, 2017 seat prices will be 75% of actual costs

October 1, 2018 seat prices will be 100% of actual costs

**Afghanistan Pricing:**

Current approved price structure remains in place until April 1, 2017

April 1, 2017 seat prices will be 50% of actual costs

October 1, 2017 seat prices will be 75% of actual costs

October 1, 2018 seat prices will be 100% of actual costs”

The meeting minutes also state that the board unanimously approved an increase to seat charges with the understanding that 100 percent of full cost recovery would begin October 1, 2018, in both Iraq and Afghanistan.

In another example, the minutes for the AGB meeting on April 26, 2018, state “BP felt strongly that the Department needs to implement the 75% price immediately so that the Department would be moving towards full cost recovery and not subsidizing other agencies.”

In short, OIG reviewed documentation demonstrating that there was an intent to move toward full cost recovery via ticket fees from October 2016 through February 2019 and, based on this information, concluded that the Department was attempting to achieve full cost recovery via ticket fees for Embassy Air. OIG made no changes to the report based on this comment.

**Under Secretary of State for Management General Comment**

The Under Secretary of State for Management stated that, “While the AGB will seek to better document future pricing methodologies, AGB's Aviation Working Capital Fund working group did discuss various pricing models and methodologies prior to the AGB's approval, weighing the tradeoffs among cost-recovery, security, ridership, and mission impact.”

**OIG Reply**

OIG agrees with the Under Secretary that the AGB discussed various pricing models and methodologies. However, in addition to discussions, a *documented* methodology and policy for determining ticket fees would improve transparency and consistency in the methodology to establish ticket fees. OIG made no changes to the report based on this comment.

**Under Secretary of State for Management General Comment**

The Under Secretary of State for Management stated that

... the Department utilizes existing budget processes to manage funding impacts and cash flow. An important part of managing the [WCF] is evaluating customers' demands and pricing methodologies, and adjusting as necessary. For example, the WCF Carryover Handbook dated December 2018 addresses rates and pricing methodologies in the Department. As the WCF policy was just implemented, the Service Centers and Cost Centers are diligently working on documentation, and have procedures in place.

**OIG Reply**

OIG acknowledges that the Department uses existing budget processes to manage funding impacts and cash flow for the WCF. However, as the Under Secretary acknowledged, documentation and procedures are still needed. Accordingly, a documented AGB policy and methodology are crucial to ensure that Embassy Air ticket fees are set at the appropriate amount. OIG made no changes to the report based on this comment.

**Under Secretary of State for Management General Comment**

The Under Secretary of State for Management stated that “the report did not consider any other potential causes for declining ridership, such as reduced staffing levels or the increasing convenience of commercial options connecting to other cities” and that “aviation ticket prices generally remain a small fraction of per capita operating expenses in Afghanistan and Iraq. For example, the FY 2019 ICASS average per capita invoice at Embassy Kabul is \$484,122, inclusive of security, housing, and other support costs. An employee taking ten rotary trips per year (at \$1,485 per trip) would incur charges to their agency equaling three percent of this annual ICASS bill.”

**OIG Reply**

OIG does not claim that the increased ticket fees were the sole cause of the decline in ridership. Rather, OIG reviewed data to determine whether increasing ticket fees affected ridership levels. In doing so, OIG found that when Embassy Air ticket fees increased, ridership declined. Combined with testimonial evidence from passengers stating that the higher ticket fees discouraged them from using Embassy Air, OIG concludes that higher ticket fees played a role declining ridership. OIG made no changes to the report based on this comment.

## ABBREVIATIONS

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AGB	Aviation Governing Board
AWCF	Aviation Working Capital Fund
BDSC	Baghdad Diplomatic Support Center
BEC	Baghdad Embassy Compound
COM	Chief of Mission
INL/A	Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation

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