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AND THE BROADCASTING BOARD OF GOVERNORS
OFFICE OF INSPECTOR GENERAL

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Audit of the Contract Closeout Process for Contracts Supporting the U.S. Mission in Iraq

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United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

PREFACE

This report is being transmitted pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared as part of the Office of Inspector General's (OIG) responsibility to promote effective management, accountability, and positive change in the Department of State (Department) and the Broadcasting Board of Governors.

This report addresses whether the Department effectively and efficiently closed out contracts supporting the U.S. Mission in Iraq. The report is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

OIG contracted with the independent public accountant Kearney & Company, P.C., to perform this audit. The contract required that Kearney & Company perform its audit in accordance with guidance contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Kearney & Company's report is included.

Kearney determined that the Contract Closeout Teams and the Contracting Officers had not consistently met Federal and Department contract closeout requirements for the 115 Iraq-related contract task orders included in the review.

OIG evaluated the nature, extent, and timing of Kearney & Company's work; monitored progress throughout the audit; reviewed Kearney & Company's supporting documentation; evaluated key judgments; and performed other procedures as appropriate. OIG concurs with Kearney & Company's findings, and the recommendations contained in the report were developed on the basis of the best knowledge available and were discussed in draft form with those individuals responsible for implementation. OIG's analysis of management's response to the recommendations has been incorporated into the report. OIG trusts that this report will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of the individuals who contributed to the preparation of this report.

A handwritten signature in black ink, appearing to read "N. P. Brown".

Norman P. Brown
Acting Assistant Inspector General
for Audits



Audit of the Contract Closeout Process for Contracts Supporting the U.S. Mission in Iraq

Office of Inspector General
U.S. Department of State
Washington, D.C.

Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) has performed an audit of the contract closeout process for contracts supporting the U.S. Mission in Iraq. This performance audit, performed under Contract No. SAQMMA09D0002, was designed to meet the objective identified in the report section titled “Audit Objective” and further defined in Appendix A, “Scope and Methodology” except where specific limitations were noted.

We conducted this performance audit from November 2012 through May 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The purpose of this report is to communicate the results of our performance audit and its related findings and recommendations.

We appreciate the cooperation provided by personnel in Department offices during the audit.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is stylized and cursive.

Kearney & Company, P.C.
Alexandria, Virginia
May 10, 2013

Acronyms

A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
A/OPE	Bureau of Administration, Office of the Procurement Executive
CCT	Contract Closeout Team
CO	contracting officer
COR	contracting officer's representative
DCAA	Defense Contract Audit Agency
DOSAR	Department of State Acquisition Regulation
FAR	Federal Acquisition Regulation
FPDS-NG	Federal Procurement Data System–Next Generation
GFMS	Global Financial Management System
OIG	Office of Inspector General

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Executive Summary

Since March 2003, the Department of State (Department) has contracted for goods and services to support the U.S. Mission in Iraq. According to USASpending.gov, the Department's contracting activity for Iraq increased from 50 contract actions, totaling approximately \$311 million in FY 2004, to 1,604 contract actions, totaling approximately \$1.3 billion in FY 2012. Contract closeout, which is the final phase in a contract's life cycle, is a key step in ensuring that the Department has received the appropriate goods and services at the agreed-upon price.

The audit objective was to determine whether the Department had effectively and efficiently closed contracts supporting the U.S. Mission in Iraq. An external audit firm, Kearney & Company, P.C. (Kearney), acting on behalf of the Office of Inspector General (OIG), performed this audit. Kearney specifically determined whether the Department had complied with Federal and Department contract closeout requirements and whether the Department had reviewed and identified funds remaining on physically completed contracts that could be deobligated.

Kearney determined that the contract closeout teams (CCT) and the contracting officers (CO) had not consistently met Federal and Department contract closeout requirements for the 115 Iraq-related contract task orders included in the review. Specifically,

- contract files for 33 of the 115 task orders could not be located,
- contract files for five of the 115 task orders did not include the data needed to determine physical completion,
- evidence for initial funds review was missing for 43 of the 53 physically completed task orders,
- contract closeout timelines were not met for 25 of the 53 physically completed task orders, and
- contract files for all 30 of the closed task orders were missing required closeout data.

These issues occurred because the Department had not established comprehensive procedural guidance for contract closeout or ensured that existing guidance was accurate. In addition, the Department did not have a system in place for tracking the contract and task order periods of performance so that the COs could identify and monitor contracts and task orders nearing physical completion. As a result, the risk of financial mismanagement was increased, and as of May 10, 2013, \$38.7 million had not been deobligated timely and had expired, preventing its use for other purposes.

OIG made nine recommendations to the Bureau of Administration, which included recommendations for the Department to revise guidance to include detailed and comprehensive procedures for closing contracts, require COs to insert Federal Acquisition Regulation (FAR) Clause 52.216-7 ("Allowable Cost and Payment") in all cost-reimbursable contracts, and reflect the proper steps for requesting an incurred cost audit. OIG also recommended that the

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Department develop and implement an automated application to track contract status from award through contract closeout and an e-Filing policy and document management system to provide effective contract file management.

The Bureau of Administration, Office of Logistics Management, directed its response to the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), and the Bureau of Administration, Office of the Procurement Executive (A/OPE). Based on responses provided by A/LM/AQM (see Appendix D) and A/OPE (see Appendix E) on November 7, 2013, OIG considers Recommendations 1–3 and 5–8 resolved, pending further action, and Recommendations 4 and 9 unresolved. Management's responses and OIG's replies to those responses are included after each recommendation.

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Background

Since March 2003, the Department has contracted for goods and services to support the U.S. Mission in Iraq. According to USASpending.gov, the Department's contracting activity for Iraq increased from 50 contract actions, totaling approximately \$311 million in FY 2004, to 1,604 contract actions, totaling approximately \$1.3 billion in FY 2012. Contract closeout, which is the final phase in a contract's life cycle, is a key step in ensuring that the Department has received the appropriate goods and services at the agreed-upon price. Contract closeout is triggered by the physical completion of a contract. According to FAR Clause 4.804-4, a contract is considered physically complete when the U.S. Government has issued a contract termination notice to the contractor or when the following three actions have occurred:

- The contractor has completed the required deliveries, and the Government has inspected and accepted the goods and materials.
- The contractor has completed all services, and the Government has accepted those services.
- All option provisions¹ have expired, or the Government has given the contractor notice of complete contract termination.

Once the contract is physically complete, the CO is required to conduct an initial funds status review and determine whether the contract has excess funds that should be deobligated. The CO then initiates administrative action in accordance with Federal and Department contract closeout guidance.

Contract Closeout Guidance

Contract closeout guidance is contained in the FAR, Part 4; the Department of State Acquisition Regulation (DOSAR) Part 604; the Foreign Affairs Handbook (FAH); and the Department's Overseas Contracting and Simplified Acquisition Guidebook (Overseas Guidebook). FAR 4.804-5 contains a list of 15 administrative actions that must be completed and documented during the closeout process if applicable (see Appendix B). Once the CO confirms that the applicable administrative actions have been completed, a contract completion statement is prepared and the contract is designated as closed. FAR 4.804-1 also contains timelines for closing out different types of contracts. Those timelines range from 6 months for fixed-price contracts to 36 months for cost-reimbursable contracts. Cost-reimbursable contracts generally take longer to close because the CO must wait for the final incurred cost audit² to be completed, as the results of that audit could affect the contractor's final payment. For base

¹ "Options" allow the Government to extend contract terms, to include additional quantities or work effort, without further negotiation or further agreement with the contractor.

² An incurred cost audit is conducted to ensure that the contractor correctly allocated its indirect costs, such as overhead and general and administrative costs, to the contract. Because the contractor estimated those costs at the beginning of its fiscal year, the actual cost allocation may be more or less than what was billed to the contract. If the cost allocation is more, the Department may owe the contractor additional funds; if the cost allocation is less, the contractor may owe the Department additional funds.

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contracts that have multiple task orders, the CO does not need to wait for completion of the base contract before closing the task orders; the task orders can be closed individually as they are physically completed. Closing task orders individually can result in the timely identification of unexpended funds that could potentially be used for other purposes.

Additional Department guidance is in 14 FAH-2 H-570, which contains limited guidance on contract closeout roles and responsibilities and dollar thresholds for reporting contractor performance, and in the Overseas Contracting and Simplified Acquisition Guidebook (Overseas Guidebook), which contains more specific guidance and examples of documents needed to properly close out a contract or task order. The Overseas Guidebook was developed to aid overseas posts in performing contracting actions because of the decentralized nature of contracting activities overseas.

Roles and Responsibilities

The contracting office that awarded the contract is responsible for its closeout. A/LM/AQM is responsible for closing out approximately 98 percent of the total dollar value of the contracts awarded to support the U.S. Mission in Iraq. A/LM/AQM has two CCTs that are responsible for facilitating contract closeout procedures with administering bureaus, COs, and their representatives. The CCTs interface directly with administering bureaus and COs to complete the necessary contract closeout forms and administrative information. Once a contract is physically complete, the CO is responsible for notifying the CCT of the contract status and required closeout actions. The embassy and other Department bureaus, such as the Bureau of International Narcotics and Law Enforcement Affairs, are responsible for awarding and closing out the remaining 2 percent of contracts administered in support of the U.S. Mission in Iraq.

Audit Objective

The overall audit objective was to determine whether the Department had effectively and efficiently closed out contracts supporting the U.S. Mission in Iraq. Specifically, we determined whether the Department had complied with Federal and Department contract closeout requirements and whether the Department had reviewed and identified funds remaining on physically completed contracts that could be deobligated.

Audit Results

Contract Closeout Requirements Were Not Met Consistently

The CCTs and the COs had not consistently met Federal and Department contract closeout requirements for the 115 Iraq-related task orders included in our review. Specifically,

- contract files for 33 of the 115 task orders could not be located,
- contract files for five of the 115 task orders did not include the data needed to determine physical completion,
- evidence for the initial funds review was missing for 43 of the 53 physically completed task orders,
- contract closeout timelines were not met for 25 of the 53 physically completed task orders, and
- contract files for all 30 of the closed task orders were missing required closeout data.

These conditions occurred because the Department had not established comprehensive procedural guidance for contract closeout or ensured that existing guidance was accurate. In addition, the Department did not have a system in place for tracking the contract and task order periods of performance so that COs could identify and monitor contracts and task orders nearing physical completion. As a result, the risk of financial mismanagement was increased, and as of May 10, 2013, \$38.7 million had not been deobligated timely and had expired, preventing its use for other purposes.

Task Orders Reviewed

We selected 115 task orders, which represented about \$7.58 billion in obligated task order value, for our review from a universe of Iraq-related task orders awarded between FY 2005 and FY 2011. We identified task orders awarded both domestically and overseas by U.S. Embassy Baghdad as two distinct populations to assess whether contracting office location was a determinate factor in contract closeout compliance.³ Because our results were generally systemic in nature, we combined the sample populations when presenting the overall results. The overall results are categorized by contracting office location in Table 1.

³ Additional data concerning the sample selection are contained in Appendix A.

Table 1. Contract Sample Breakdown

Discrepancy	Overall*	Domestically Located Contracting Offices	U.S. Embassy Baghdad Contracting Office
Contract Files Could Not Be Located	33	25	8
Physical Completion Could Not Be Determined	5	0	5
Initial Funds Reviews Were Missing	43	34	9
Closeout Timelines Were Not Met	25	25	0
Contract Files Were Missing Supporting Documentation	30	16	14

*The total count is greater than the sample size of 115 because of multiple errors noted within each sample.
Source: Prepared by Kearney based on information provided by the Department.

Contract Files Could Not Be Located

The CCTs and COs could not locate contract files for 33 of the 115 task orders included in our review. The DOSAR⁴ states that all contracts, regardless of dollar value, should be properly documented to provide a complete record of contracting activities, including solicitation, award, and administration of the contract through closeout. For the 25 contract files that should have been maintained at A/LM/AQM, contracting officials stated that they were primarily unable to provide the files in a timely manner because of an office move that took place in February 2013. However, as of April 5, 2013, after the move was completed, A/LM/AQM officials were still unable to provide the files, stating that they needed several more weeks to locate the files and place them in an organized filing system.⁵ For the eight contract files that should have been maintained at Embassy Baghdad, contracting officials stated that it was difficult for post to maintain records in accordance with the DOSAR requirement because of the turnover of both American and locally engaged staff. Embassy Baghdad officials also stated that some of the contract files may have been lost or misplaced during the move from the old presidential palace to the new embassy compound in 2009.

Physical Completion Could Not Be Determined

For five of the task orders that were issued by Embassy Baghdad, the contract files did not contain adequate information to determine whether the task orders were physically complete. Specifically, the files were missing key information, such as the task order award, the evidence of receipt and acceptance for goods ordered, and the basic task order provisions to determine the

⁴ Requirements for the content of contract files and the storage, handling, and disposal of these files are contained in the DOSAR, Subpart 604.803, "Contents of Contract Files," and the FAR, Subparts 4.801, "General," 4.802, "Contract Files," 4.803, "Content of Contract Files," and 4.805, "Storage, Handling, and Disposal of Contract Files."

⁵ Kearney did not continue to follow up regarding these contracts, as sufficient and appropriate evidence had been obtained to come to a conclusion on the audit objective. Further, the Department was unable to provide an exact date as to when the remaining 25 (of 78) domestic contracts would be available for review.

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proper period of performance. The missing information prevented us from completing audit procedures on those five task orders.

Initial Funds Reviews Were Missing

Of the 53 physically completed task orders, 43 had no evidence in the contract files that an initial funds review had been conducted. The FAR and DOSAR require that the contracting office conduct a funds review upon initiating the contract closeout process to determine whether excess funds are available for deobligation. For the 34 domestically managed task orders, contracting officials stated that they lacked specific procedures on how to conduct a funds review and that limited access to data maintained in the Department's legacy Central Financial Management System had made conducting a funds review a cumbersome process. For the nine task orders managed by Embassy Baghdad, contracting officials stated that the previous contracting officials assigned to the embassy had not ensured that the funds review was conducted and documented. The contracting officials added that they did not have enough experienced personnel to retroactively correct the errors of contracting officials assigned to the embassy in the past.

Closeout Timelines Were Not Met

Of the 53 physically completed task orders, 13 were closed within the timelines prescribed by the FAR and DOSAR, 25 were not within the timelines, and 10 were missing the documentation necessary to determine the closeout status.⁶ The specific number of task orders closed within and outside those timelines is shown in Table 2.

Table 2. Closeout Timeframe Summary

Contract Type	Closed Within Guidance	Exceeded Guidance	Pending Closeout	Total Physically Complete
Fixed Price	11	20	0	31
Cost Reimbursable/Time and Materials*	2	5	5	12
Subtotals	13	25	5	43

*A time and materials contract is used when the amount of work or costs cannot be reasonably estimated. On time and materials contracts, the contractor is paid based on agreed labor rates and material costs regardless of the actual costs.

Source: Prepared by Kearney based on information provided by the Department.

⁶ Of the 53 physically complete task orders, only 43 could be tested for timeliness. The contract files for the other 10 task orders did not contain sufficient documentation to determine open/close status.

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Contract Files Were Missing Supporting Documentation

Of the 30 task orders considered closed by the Department, none of the corresponding contract files contained all of the documentation required by the FAR and DOSAR to support closeout. Specifically, we identified the following discrepancies in the task orders:

- 2 referenced the existence of classified material but contained no documentation to support that the Bureau of Diplomatic Security had been notified of the need for potential disposition of classified material.
- 2 referenced the existence of Government Furnished Equipment or Contractor Acquired Property but contained no property clearance report.
- 4 did not contain a termination docket.⁷
- 13 did not contain a completed Contractor Release of Claims.
- 23 did not contain a completed Final Payment and Closeout Memorandum.
- 21 did not contain a completed Contracting Officer's Representative (COR) Completion Certificate certifying that all goods and services had been received.
- 16 did not contain a completed Contract Performance Assessment and Reporting System or equivalent evaluation form.
- 4 did not contain the Small Business Administration contract completion form.
- 22 did not contain a completed Closeout Checklist.

Closeout Guidance Was Not Comprehensive or Accurate

The CCTs and COs were not consistently meeting contract closeout requirements for the 115 Iraq-related task orders because the Department's guidance was not comprehensive or always accurate. Although the FAH, DOSAR, and Overseas Guidebook contain general closeout requirements, the Department did not have a single-source manual or guidebook containing all the steps and actions needed to correctly close out contracts and contract task orders.

The Foreign Affairs Handbook

FAH guidance concerning contract closeout is limited to describing the general closeout responsibilities for the CO and the COR and defining the threshold for reporting contractor performance. The FAH⁸ states that the CO is responsible for contract closeout and will "initiate administrative closeout actions, e.g. requesting final audits, negotiating final settlements, etc." There are no specific steps provided for the CO to follow and no description of what "etc." includes. The FAH states that the COR is responsible for notifying the CO when work has been completed and for completing contract closeout documentation; however, the only contract closeout documentation specifically noted is an "assessment report." The FAH does not define

⁷ A termination docket is used when the CO terminates the contract prior to the period of performance as defined by the base period and any exercised option periods. The CO should document the termination date, cause for termination, and remaining actions required of each party to the contract.

⁸ 14 FAH-2 H-570.

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what an assessment report is, what data are included in the report, or where the report can be found. In addition, the FAH does not reference where additional closeout guidance can be found, to include the DOSAR or the Overseas Guidebook. As the Department's primary procedural guidance, the FAH should contain more specificity concerning contract closeout or provide reference to where additional procedural guidance can be found.

Department of State Acquisition Regulation

The DOSAR restates some of the FAR guidance and provides additional guidance on Department-specific contract closeout procedures. However, the DOSAR does not comprehensively address all FAR-required closeout activities. Further, it contains inaccurate information concerning the coordination of incurred cost audits, which are key to timely closeout for cost-reimbursable contracts and task orders.

One of the closeout activities not comprehensively addressed in the DOSAR is the initial funds review. As stated previously, the COs cited the lack of procedures as a reason for not conducting the reviews. The initial funds review is a closeout activity necessary for ensuring that excess funds are identified and deobligated for potential use elsewhere. Not identifying and deobligating excess funds can result in the funds expiring, which makes them unavailable for use elsewhere. The Department must ensure that comprehensive procedures are in place for the initial funds review to reduce the risk of the funds expiring.

The DOSAR also does not comprehensively address closeout procedures for cost-reimbursable contracts and task orders. Because the year end and final invoices cannot be paid without the settlement of the indirect cost rates, it is imperative that those rates be timely audited by the cognizant audit agency.⁹ According to the Office of Federal Procurement Policy's document, "A Guide to Best Practices for Contract Administration," notifying the cognizant audit agency whenever a cost-reimbursable contract is awarded assists the audit agency in forecasting future requirements into its workload projections. If the Department is the cognizant audit agency, the CO should be coordinating with the Defense Contract Audit Agency (DCAA)¹⁰ from the time a contract is awarded instead of waiting for the physical completion of a contract or task order, as was the case for most of the task orders we reviewed. If the Department is not the cognizant audit agency, the CO should likewise coordinate with the agency responsible for auditing the contractor's indirect cost rates. The DOSAR should require that the CO identify the cognizant audit agency at contract award and begin coordinating with that audit agency to help prevent large backlogs of pending or unscheduled incurred cost audits.

Further, the DOSAR does not specifically require the CO to include FAR Clause 52.216-7, "Allowable Cost and Payment," in cost-reimbursable contracts. FAR Clause 52.216-7 requires that the contractor submit its annual indirect cost rates to the CO within 180 days of the

⁹ The agency that has the highest dollar amount of contracts with the respective contractor is responsible for conducting the incurred cost audit. If that is an agency other than the Department, the Department COs should coordinate with that agency.

¹⁰ The Department has an agreement with DCAA to conduct incurred cost audits for contracts requiring audits per Federal and Departmental requirements.

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end of its fiscal year and submit its final invoice within 120 days after settlement of the rates. The FAR Clause also provides remedies to the Government for contractor noncompliance should the contractor fail to submit a final invoice within the required timeframe. Inadequate indirect cost rate submissions by the contractor, particularly when the contractor is not required to make those annual submissions in a timely manner, can further delay the incurred cost audit and the closeout process. Therefore, the DOSAR should be updated to require COs to include FAR Clause 52.216-7, "Allowable Cost and Payment," in all cost-reimbursable contracts.

Lastly, the DOSAR incorrectly states that requests for incurred cost audits should be submitted through the Department's OIG, a requirement that has not been in effect since 2011. In October 2011, the Department entered into an agreement with DCAA to conduct incurred cost audits for those contractors in which the Department has audit cognizance. However, the Department did not update the DOSAR to reflect the DCAA agreement and instruct the COs to coordinate and submit their incurred cost audit requests through DCAA and not through the OIG. To ensure that the CO has accurate information and to reduce the opportunity for confusion, the DOSAR should be revised to reflect the terms of the DCAA agreement.

Overseas Contracting and Simplified Acquisition Guidebook

Although the Overseas Guidebook contains more detailed information than the FAH and the DOSAR, it does not comprehensively address all FAR- and DOSAR-required closeout activities. Further, while intended for COs overseas, to include COs in contingency operation locations, the Overseas Guidebook does not specifically address contract closeout problems that are often unique to overseas and contingency operation locations.

The Overseas Guidebook does not address the need to conduct an initial funds review or an incurred cost audit when closing cost-reimbursable contracts and task orders. Conducting an initial funds review is imperative, especially with cost-reimbursable contracts, because it can take months and sometimes years for the incurred cost audit to be completed. When an initial funds review is not conducted, it increases the risk that excess contract or task order funds might expire before they can be identified and potentially used to meet other needs. Likewise, if the CO is not informed that an incurred cost audit needs to be performed, it could further extend the contract closeout process.

While the Overseas Guidebook contains standardized templates and checklists to assist the CO in the closeout process, the Contract Closeout Checklist (see Appendix C) does not include all of the activities necessary to adequately close a contract or task order. Specifically, the checklist does not include the following closeout activities required by the FAR and DOSAR:

- Patent report.
- Royalty report.
- Plant clearance report.
- Completed price revision.
- Termination docket.
- Completed contract audit.

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Checklists are an excellent tool for ensuring that all required closeout activities are accomplished; however, the checklists need to be comprehensive and should be reviewed periodically to ensure that they do not contain outdated or inaccurate information.

Although the Overseas Guidebook was designed for use overseas, it does not specifically address contract closeout problems that are often unique to overseas and contingency operation locations. For example, CORs in Iraq rotate annually, if not more frequently, and an opportunity for a transition period before departure was not always available. However, the Overseas Guidebook did not contain guidance to address this risk by requiring CORs to formally document the status of a contract or provide an interim evaluation of contractor performance before departing the post. Without such information and because of the frequent turnover, CORs at Embassy Baghdad did not have the knowledge of work performed on a contract before they arrived at the post, making it difficult to complete the contract closeout steps required by the FAR and the DOSAR.

To improve contract closeout overall, the Department should develop and issue a guidebook that contains contract closeout procedures for use by COs located domestically as well as overseas. To address the unique challenges experienced overseas and in overseas contingency operation locations, the guidebook should have chapters specific to those challenges. Other agencies, such as the Department of Health and Human Services and the Department of Defense, have developed all-inclusive guidebooks for contract closeout. Use of a single, comprehensive guidebook would standardize contract closeout across the Department and help to increase compliance with the FAR and DOSAR contract closeout requirements.

Department Lacked a Unified Contract Management System

The Department lacked a unified contract management system capable of tracking contract and task order periods of performance, which hindered the COs' visibility into contracts at or near physical completion and those nearing FAR-mandated timeframes for closeout. Further, the CCTs, which were responsible for the majority of Iraq-related task order and contract closeouts, had to rely heavily on COs and vendors for notification of contract physical completion. Although one of the CCTs utilized a Microsoft Access database called the "Contract Closeout Tracking System" to store information about contracts identified for closeout processing, the system was not populated with contract information and key milestones upon award to facilitate efficient and effective closeout. In addition, the system included information only on contracts that were in process by the CCT and did not include a complete inventory of contracts that were physically complete awaiting contract closeout. To ensure that task orders nearing physical completion are identified in a timely manner, COs should use management information systems and existing contract writing systems to track contract closeout tasks and status from physical completion through final payment.

Further, the COs did not have a sufficient process in place to monitor the location of contract files or ensure that sufficient information was included in each file. A/LM/AQM

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officials stated that electronic copies of certain documents were available but that the documents were not the official, signed versions. A/LM/AQM officials explained that A/LM/AQM was in the process of digitizing all contract files; however, officials estimated that it would take 3–5 years to complete this task. Although the digitization effort may improve records management, additional monitoring by COs will be required to ensure appropriate contract documentation is maintained to facilitate and support contract closeout. Therefore, the Department should develop and implement an e-Filing policy and document management system to provide effective contract file inventory control and documentation standards while allowing for ready accessibility through a central locator system.

Risk of Financial Mismanagement and Expiration of Funds Was Increased

Noncompliance with Federal and Department contract closeout guidance increased the Department's risk of financial mismanagement and the expiration of funds for Iraq-related contract task orders. For example, the Department was unable to locate \$2.1 billion in Iraq-related contract files. Poor records management can have major impacts on the Department, as it can lead to unnecessary costs via improper payments and increased risk. When contract closeout requirements are not followed, the risk of late payments to contractors increases, as does the risk that improper payments may not be identified or recovered from contractors. In addition, closing a contract years after the performance is complete can be more time consuming because key documentation, such as invoices and receiving reports, and contracting personnel with first-hand knowledge of the contract may no longer be available.

Specifically, for the Iraq-related task orders, because funds were not deobligated in a timely manner, the Department wasted funds that could have been put to better use. As detailed in Table 3, if the initial funds review had been completed in a timely manner, \$38.7 million could have been deobligated to meet other needs; instead, those funds were allowed to expire.

Table 3. Expired Funding

Task Order Number	Physical Completion Date (mm/yyyy)	Ending Budget Fiscal Year	Expired Funding That Could Have Been Used Elsewhere
SAQMPPD06FB120	05/2009	2009	\$2,462,214.60
SAQMPPD06FC230	02/2009	2009	\$4,240,466.81
SAQMMA09F1029	05/2011	2012	\$22,348,522.73
SAQMPPD06FC227	06/2011	2011	\$9,199,947.58
SALMEC07C0002	07/2011	2011	\$418,822.56
Subtotal			\$38,669,974.28

Source: Kearney analysis of cost reimbursable/Time and Materials contracts.

Recommendation 1. OIG recommends that the Bureau of Administration update the Foreign Affairs Handbook to include detailed, comprehensive, and all-inclusive guidance for performing an initial funds review and closing contracts, or provide reference to where additional procedural guidance can be found. The guidance should contain best practices as defined by entities such as the Office of Federal Procurement Policy.

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Management Responses: A/LM/AQM and A/OPE concurred, and A/OPE stated that it would “update the Foreign Affairs Handbook to include additional guidance on performing an initial funds review and contract closure.”

OIG Reply: OIG considers this recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that the Foreign Affairs Handbook has been updated.

Recommendation 2. OIG recommends that the Bureau of Administration, Office of the Procurement Executive, update the Department of State Acquisition Regulation to include detailed desktop procedures on how to perform an initial funds review.

Management Response: A/OPE concurred, stating that it would update the DOSAR to reference the updated Foreign Affairs Handbook provisions.

OIG Reply: OIG considers this recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that the DOSAR has been updated to include detailed desktop procedures on how to perform an initial funds review.

Recommendation 3. OIG recommends that the Bureau of Administration, Office of the Procurement Executive, update the Department of State Acquisition Regulation to require that the contracting officer identify the cognizant audit agency at contract award and begin coordinating with that audit agency to help prevent large backlogs of pending or unscheduled incurred cost audits.

Management Response: A/OPE concurred, stating that it would “update the DOSAR to require identification of the cognizant audit agency” and coordination with that audit agency early in the process.

OIG Reply: OIG considers this recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that the DOSAR has been updated to require that the CO identify and begin coordinating with the cognizant audit agency at contract award.

Recommendation 4. OIG recommends that the Bureau of Administration, Office of the Procurement Executive, update the Department of State Acquisition Regulation to require contracting officers to include Federal Acquisition Regulation Clause 52.216-7, “Allowable Cost and Payment,” in all cost-reimbursable contracts.

Management Response: A/OPE did not concur, stating that Federal Acquisition Regulation 16-307(a)(1) already requires that the CO insert Clause 52.216-7 in the solicitations and contracts and that the clause should therefore not be included in the DOSAR.

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OIG Reply: OIG considers this recommendation unresolved. OIG agrees that FAR 16-307(a)(1) requires Clause 52.216-7 be included in solicitations and contracts, even if the Department is only contemplating use of a cost-reimbursable contract. However, OIG determined that the clause was not consistently included in cost-reimbursement contracts, which had a direct impact on the timeliness of contract closeout. This recommendation can be considered resolved when A/OPE concurs with the recommendation or provides alternative actions that meet the intent of the recommendation and can be closed when OIG reviews and accepts documentation showing that A/OPE has included the FAR 52.216-7 clause requirement in the DOSAR.

Recommendation 5. OIG recommends that the Bureau of Administration, Office of the Procurement Executive, revise the Department of State Acquisition Regulation to reflect the interagency agreement between the Department of State and the Defense Contract Audit Agency for conducting incurred cost audits.

Management Response: A/OPE concurred, stating that it would update the DOSAR.

OIG Reply: OIG considers this recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that the DOSAR has been revised to reflect the interagency agreement between the Department and DCAA for conducting incurred cost audits.

Recommendation 6. OIG recommends that the Bureau of Administration, Office of the Procurement Executive, formally document and implement a process to periodically review contract closeout guidance and tools, such as the Overseas Contract Closeout Checklist, for accuracy and consistency with Federal and Department of State requirements.

Management Response: A/OPE did not concur, stating that it currently reviews the Overseas Simplified Acquisition Guidebook and has historically updated this information every 3 years. A/OPE further stated that the DOSAR is under revision to include contract closure guidance and that the frequency of review for both the Guidebook and the DOSAR is dependent on resources and changes to processes and regulations.

OIG Reply: OIG considers the recommendation resolved. Although A/OPE did not concur, A/OPE's Guidebook update process, combined with planned corrective actions from Recommendations 1-3, 5, and 7 contained in this report are sufficient to meet the intent of the recommendation. The recommendation can be closed when OIG reviews and accepts documentation showing that A/OPE has updated contract closure guidance, including the DOSAR and related guidebooks.

Recommendation 7. OIG recommends that the Bureau of Administration, Office of the Procurement Executive, develop a detailed and consolidated guidebook that contains contract closeout procedures for use by contracting officers located domestically and

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overseas. The guidebook should have individual chapters addressing specific risks faced by contracting officials based on geographic location.

Management Response: A/OPE concurred, stating that it would “update contract closure guidance to include more detailed information on initial funds review and closure.”

OIG Reply: OIG considers this recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that A/OPE has developed a detailed and consolidated contract closeout guidebook.

Recommendation 8. OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop an automated application to track contract status upon award, to include estimated and actual physical completion dates and Federal Acquisition Regulation (FAR)-mandated timeframes for closeout based on actual physical completion. The application should include functionality to notify responsible officials of key contract dates, to include notifications to responsible officials when physically completed contracts are approaching the FAR’s mandated deadline.

Management Response: A/LM/AQM concurred, stating that an automated application would assist in monitoring due dates and that it would continue to work with the Momentum Acquisition software developer to provide the additional capabilities needed for a notification system.

OIG Reply: OIG considers this recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that an automated application to track contract status upon award has been developed.

Recommendation 9. OIG recommends that the Bureau of Administration, Office of the Procurement Executive, in conjunction with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop and implement an e-Filing policy and document management system to provide effective contract file inventory control and documentation standards while allowing for ready accessibility through a central locator system. The policy should include minimum guidance over the completeness of data contained in the files and a schedule of milestones identifying mandatory implementation dates.

Management Response: A/OPE stated that it was working with A/LM on “a pilot program to evaluate the feasibility of creating electronic files for overseas posts” and that the new e-Filing capability would be ready for worldwide deployment once a thorough evaluation of the pilot was completed and enhancements have been implemented. A/OPE further stated that A/LM/AQM would examine the feasibility of this type of system for domestic contracts.

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OIG Reply: OIG considers the recommendation unresolved. Although A/OPE stated that an e-Filing system is in a pilot phase for overseas posts, A/OPE did not address the need to implement an e-Filing system for all contract documentation and to develop and implement a policy related to the e-Filing system. This recommendation can be considered resolved when A/OPE concurs with the recommendation or provides alternative actions that meet the intent of the recommendation and can be closed when OIG reviews and accepts documentation showing that the policy and the e-Filing solution have been deployed worldwide.

Scope and Methodology

The Office of Inspector General (OIG) initiated this audit to determine whether the Department of State (Department) had effectively and efficiently closed out contracts supporting the U.S. Mission in Iraq. Specifically, OIG determined whether the Department had complied with Federal and Department contract closeout requirements and whether the Department had reviewed and identified funds remaining on physically completed contracts that could be deobligated. An external audit firm, Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this appendix), acting on behalf of OIG, performed this audit.

We conducted fieldwork for this performance audit from December 2012 through May 2013 at the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM); the Bureau of Administration, Office of the Procurement Executive (A/OPE); the Bureau of Diplomatic Security (DS); the Bureau of International Narcotics and Law Enforcement Affairs (INL); the Bureau of Overseas Buildings Operations (OBO); and the Bureau of Near Eastern Affairs (NEA), including Embassy Baghdad. The audit scope was limited to contracts performed in Iraq that were physically completed between October 1, 2007, and September 30, 2011. Except as otherwise noted in this appendix, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We determined that the Department’s contract writing and reporting systems did not track contract physical completion imposing certain information limitations on the target population. In addition, A/LM/AQM was unable to provide a listing of Iraq-specific contracts from a single system and was unable to accurately identify all activity recorded within a system as Iraq related. Specifically, A/LM/AQM had to perform key word searches (for example, Iraq) in description fields to identify additional Iraq-related contracts because of inaccuracies in key fields such as place of performance.

Further, after the submission of testing follow up questions and requests, Embassy Baghdad officials acknowledged that additional information may exist. However, they elected not to locate and provide complete supporting documentation and responses noting limited available staff, access to archived records, and reluctance to remediate historical contracting closeout issues. In some instances, because the Department elected not to provide this information, it was necessary for us to draw conclusions based on the partial documentation that the Department did provide.

We were unable to positively identify all physically completed contracts in Iraq between October 1, 2007, and September 30, 2011, because the Department was unable to provide the requested target population in combination with known data inaccuracies and partial access to

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overseas contract files that created certain information limitations. We developed alternative approaches to analyze, compare, and confirm various data populations and to select samples to mitigate these limitations. Computer-processed data utilization is discussed further in this appendix.

To obtain background information for this audit, we researched and reviewed the Federal Acquisition Regulation (FAR), the Department of State Acquisition Regulation (DOSAR), and the Government Accountability Office's Principles of Federal Appropriations Law. We met with officials from A/LM/AQM, A/OPE, DS, INL, OBO, NEA, and Embassy Baghdad to obtain an understanding of their contract closeout and funds review processes. We also met with the officials from the Defense Contract Audit Agency (DCAA) to obtain an understanding of the incurred cost audit process, including frequency and impact of errors identified, alternatives to performing DCAA incurred cost audits, best practices of client agencies, and vendor-specific constraints noted based on past performance.

We performed testing over domestic and overseas contracts¹¹ separately. We identified significant risks and key controls within the contract closeout and funds review processes. We noted findings in which identified risks were not mitigated by controls. To assess control design, we performed walkthroughs of each significant control with process owners. For all controls found to be designed effectively, we developed procedures to test the operation of these controls. Controls that were found to be ineffectively designed, such as the initial funds review, were further assessed for impact, including short- and long-term risks as applicable.

Use of Computer-Processed Data

As noted in the preceding paragraphs, a universe of domestic contracts performed in Iraq that were physically completed between October 1, 2007, and September 30, 2011, was not readily available. The Department's contracting systems do not track physical completion, which prevented the acquisition of the specific universe requested in the audit objective. We could not confirm completeness or accuracy of the data. Specifically, the audit team used computer-processed data from the Federal Procurement Data System–Next Generation (FPDS-NG). We obtained FPDS-NG information from A/LM/AQM on domestic contracts awarded from FY 2008 to FY 2011 for the U.S. Mission in Iraq. A/LM/AQM used FPDS-NG to maintain, collect, and report contract activity. Because FPDS-NG does not contain certain fields of data needed for the audit, A/LM/AQM appended the FPDS-NG domestic contract information for the U.S. Mission in Iraq with information from other systems, including the Department's Global Financial Management System (GFMS)¹² and the Synchronized Pre-Deployment Operational Tracker–Enterprise Suite. Manual analysis was used to identify additional contracts involving Iraq that did not have accurate data entries for place of performance. Specifically, A/LM/AQM had to perform key word searches (for example, Iraq) in description fields. In

¹¹ The terms "domestic contract" and "overseas contract" are determined based on the geographic location of the awarding bureau and/or post. In both instances, the place of performance was Iraq.

¹² GFMS integrates overseas and domestic financial management into one system to obtain a single view of financial data. GFMS is the primary contract writing system and accounting system of record.

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addition, A/LM/AQM completed a manual comparison between each system queried to determine which contracts should be included in the population.

Because of the data limitations and the manual nature in which our populations were developed, we took several additional steps to obtain assurance that the manual files were reasonably complete for purposes of the audit. Specifically, we acquired contract information from USASpending.gov and queried for Iraq-related contracts. Contract data from USASpending.gov was then matched with information from the domestic population, and significant discrepancies were not identified. FPDS-NG was a primary source for USASpending.gov procurement information, providing an additional source to support completeness. In accordance with the Federal Funding Accountability and Transparency Act of 2006, all unclassified Federal award data must be publicly accessible and Executive agencies are required to use FPDS-NG to maintain such award data and any modifications. Per Office of Management and Budget Memorandum M-09-19, contract data from FPDS-NG should be provided to populate USASpending.gov. In addition, consistent with Office of Management and Budget Circular No. A-123, agencies should apply appropriate internal controls to effectively manage the accuracy, integrity, timeliness, and appropriate privacy of all data submitted to USASpending.gov. The audit team was unable to confirm the completeness and accuracy of the data acquired through USASpending.gov. However, based on how the data was used in the audit, we concluded that the data was sufficient for our needs of assessing whether the domestic population was reasonably complete.

For overseas contracts, we obtained computer-processed data for the FY 2008 and FY 2009 population from WebPass archived files and the FY 2010 and FY 2011 population from the Integrated Logistics Management System/Ariba. WebPass was the Department's overseas procurement system prior to the implementation of Integrated Logistics Management System/Ariba in FY 2009. In both sets of data, requested fields (that is, period of performance, last date of activity, and total unliquidated obligations) could not be provided. In addition, the WebPass archived files did not include the vendor, bureau, contract type, and contracting officer fields. We did not test the information provided to ensure that it was accurate. Based on the significance of the overseas population and how the data was used in the audit, we concluded that the data was sufficient for our needs.

Review of Internal Controls

We performed steps to assess the adequacy of internal controls related to the areas audited. Specifically, we gained an understanding of and tested the controls over contract closeout and initial funds review. Work performed on internal controls was detailed in the Audit Results section of the report. In addition, selected controls identified during the audit, their descriptions, and determinations over design and operating effectiveness are documented in Table 1.

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Table 1. Key Controls Over the Contract Closeout and Funds Review Processes

Processes	Key Documents	Description	Designed Effectively	Operating Effectively
Contract Closeout	COR Completion Certificate	The contracting officer's representative (COR) documented that all goods and/or services were received in accordance with contract specifications by completing a COR completion certificate.	Y	N
	COR Performance Evaluation	The COR documented the contractor's performance by assessing the quality and timeliness of the contractor's actions against requirements identified in the statement of work.	Y	N
	Contractor Release of Claims	The CO obtained a signed release of claims from the contractor to protect the Government against future liabilities.	Y	N
	Final Payment and Closeout Memorandum	The COR reviewed the final voucher/invoice for accuracy. The COR documented the review by approving payment of final invoice/voucher.	Y	N
	CO Contract Closeout Checklist	The CO completed a Contract Closeout Checklist certifying that all required closeout items had been accomplished and were adequately supported by appropriate documentation. Key items covered in the checklist that were not mentioned previously included ensuring the proper disposition of classified material, the return of Government-owned property (for example, Government-furnished equipment), and the settlement of prior year indirect cost rates.	N	N
Funds Review	Standard Form (SF) 30	The Federal Acquisition Regulation, 4.804-5, mandated that an initial funds review be performed by the contract administration office at the outset of the initiation of the contract closeout process. We noted that the Department performed an Unliquidated Obligation (ULO) review on an annual basis and deobligated excess funds via an SF-30. While the ULO review was a valuable control, it was largely intended as a tool to review significantly aged obligations and did not serve the same purpose as a funds review, which should have been completed when the contract closeout process was initiated.	N	N
	SF 30 and CO Contract Closeout Checklist	The Department performed a final funds review at contract closeout once final payment and indirect cost rates had been settled. Remaining funds were deobligated via an SF-30, and a remaining balance of zero was indicated on the Contract Closeout Checklist.	Y	Y

Source: Prepared by Kearney based on its understanding of the Department's control environment and its test of controls.

Sampling Methodology

The audit objective was to determine whether the Department had complied with Federal and Department contract closeout requirements for the U.S. Mission in Iraq, which included reviewing and identifying funds remaining on physically completed contracts that could be deobligated. To obtain sufficient evidence to conclude whether the Department performed contract closeout procedures and complied with Federal and Departmental provisions, we implemented a judgmental sample for both domestic and overseas task orders with a total sample size of 115 items associated with approximately \$7.58 billion in value. We selected a judgmental sample due to, as noted above, the Department's limitations in providing contract population data, and based on the purpose of the audit. A statistical sample with extrapolated substantive results related to the funds review process was not possible due to these data limitations.

The following sections summarize the process used to define a population subject to sampling given the information limitations previously noted, select judgmental samples for domestic and overseas testing, and examine supporting documentation to conclude on the audit objective.

Population Definition and Sample Selection

We identified domestic and overseas contracts as two distinct populations based on differences in the contract initiation and closeout control environments. In addition, overseas-initiated contracts are generally lower in value, given restrictions on contracting officials' warranted authority to enter into contracts at post. Overseas contracts were separately sampled to address these differences and provide results specific to the overseas control environment.

Domestic Population and Sample Selection. We requested from audit liaison officials in the A/LM/AQM, a population of domestic-generated contracts for the period and location in the scope. As previously noted, we could not obtain a complete target population consisting of Department contracts performed in Iraq that were physically completed between October 1, 2007, and September 30, 2011, because of system limitations. The Department's contract systems do not track physical completion. Department officials undertook alternative procedures to provide domestic Iraq contracts information. A/LM/AQM provided a population from FPDS-NG for Iraq contracts awarded, rather than physically complete, during FY 2008 to FY 2011. Neither A/LM/AQM nor we could confirm the completeness and accuracy of the Iraq-specific FPDS-NG data provided.

We independently extracted contract information for the U.S. Mission in Iraq from USASpending.gov to assess the FPDS-NG population provided by the Department and perform additional analytical procedures over contract status, specifically for indicators of physical completion. As discussed in the section "Use of Computer Processed Data" in this appendix,

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FPDS-NG was one of several sources used to populate information in USASpending.gov. We queried USASpending.gov with the following parameters:

- Agency: Department of State
- Procurement Type: Contracts
- Timeframe: FY 2000 to FY 2011
- Place of Performance: Iraq

We expanded the timeframe when contracts were awarded to attempt to capture contracts awarded prior to FY 2008 that would be physically complete between FY 2008 and FY 2011.

We elected to use the USASpending.gov population for judgmental sampling, given the data restrictions of the provided FPDS-NG population and the objective of this audit. Additionally, the FPDS-NG population was customized by A/LM/AQM and represented only contracts awarded in FY 2008 to FY 2011 rather than those that were physically complete. The USASpending.gov population afforded the opportunity to expand the fiscal years when task orders were awarded to complete analytical procedures and attempt to capture contracts that were physically complete for the years in our scope.

The domestic population consisted of 581 task orders, totaling \$10.83 billion, prior to additional analytical procedures and targeted stratification. To identify a judgmental sample, we analyzed contract activity, including remaining obligation balances, expenditure patterns, and aging. We utilized unliquidated obligation (ULO) databases¹³ from FY 2009 through FY 2012 to identify task orders that were fully liquidated during our timeframe in scope or had extended periods of inactivity. Fully liquidated and inactive task orders were determined to have a greater likelihood to be physically complete. Task orders meeting these criteria were compared with the domestic population to identify those with a higher probability to be physically complete. We also performed qualitative reviews of contract data for indicators of physical completion. To maximize coverage, we also selected all items greater than \$500 million after samples from prior strata were selected. In addition, the number of resources available and the level of effort required to perform a detailed inspection of supporting documents were taken into account when developing sample sizes to facilitate the completion of this audit within the designated timeframe.

We selected for testing 78 domestic task orders, totaling \$7.539 billion. The sub-populations and judgmental sample sizes are summarized in Table 2.

¹³ The ULO database is a customized report generated from GFMS that presents financial information on open obligations at the point in time that the report is created. The ULO database is reconciled to the GFMS trial balance to confirm accuracy.

Table 2. Domestic Sample Selection Summary

Definition	Total Count	Total Value	Sample Size	Sample Value
Physically Complete	105	\$78,103,326	33	\$75,380,957
Inactive	23	\$1,011,964,094	10	\$982,144,579
Low Activity and Low Available Balances	30	\$1,316,944,397	30	\$1,316,944,397
Greater Than \$500 million	5	\$5,164,961,732	5	\$5,164,961,732
Less Than \$500 million and Open/Active	418	\$3,256,020,677	0	\$0
Subtotal	581	\$10,827,994,226	78	\$7,539,431,665

Overseas Population and Sample Selection. We requested from U.S. Embassy Baghdad officials a population of overseas-generated contracts for the period and location in scope. Similar to the domestic population, we could not obtain a complete target population consisting of Department overseas contracts performed in Iraq that were physically completed between October 1, 2007, and September 30, 2011, because of system limitations. The Department's contract systems did not track physical completion. Embassy officials undertook alternative procedures to provide overseas Iraq contract information. Post provided a population extracted from the WebPass Archived Files for FY 2008 and FY 2009 and from the Integrated Logistics Management System (ILMS)/Ariba for FY 2010 and FY 2011. As noted in preceding sections, WebPass was the overseas procurement system prior to the implementation of ILMS/Ariba in FY 2009. We could not confirm the completeness and accuracy of the overseas contract data. Based on the significance of the overseas population compared with domestic contracts and how the data was used in the audit, we concluded that the data was sufficient for our needs.

To prepare the overseas population for judgmental sampling, we excluded all task orders under \$10,000; task orders with a status of "Denied" or "Composing" (FY 2010 and 2011 only, as this information was not available in WebPass); and Petty Cash, Purchase Orders, and Purchase Cards (FY 2010 and 2011 only, as this information was not available in WebPass). Contracts with a status of "Denied" or "Composing" were not finalized and thus were considered outside our audit scope. Contracts with a value of \$10,000 or less, petty cash, purchase orders, and purchase cards were considered to likely be irrelevant to the contract closeout process and also involved inconsequential dollar amounts. The population less these exclusions totaled 865 items and \$79.71 million.

To identify a judgmental sample similar to the domestic selection process, we further analyzed the overseas population for contract activity, including remaining obligation balances, expenditure patterns, and aging. We utilized unliquidated obligation databases from FY 2009 through FY 2012 to identify task orders that were fully liquidated during our timeframe in scope or had extended periods of inactivity. Task orders meeting our criteria were compared with the overseas population to identify those with a higher probability of being physically complete.

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We initially selected for testing a total of 30 overseas task orders, totaling \$34.64 million. We expanded the sample selection for an additional seven items given the sufficiency of evidence received on the initial 30 items. Table 3 summarizes the sub-populations and judgmental sample sizes, including the expanded sample.

Table 3. Overseas Sample Selection Summary

Definition	Total Count	Total Value	Sample Size*	Sample Value
Physically Complete–FY 2010 and FY 2011	242	\$23,062,689	11	\$9,474,823
Open Task Orders–FY 2010 and FY 2011	46	\$2,993,558	10	\$1,563,751
Physically Complete–FY 2008 and FY 2009	577	\$53,652,180	16	\$23,604,529
Subtotal	865	\$79,708,427	37	\$34,643,103

*Includes seven additional items based on sufficiency of evidence received.

Federal Acquisition Regulation Contract Closeout Requirements and Contracting Officer Responsibilities

According to Federal Acquisition Regulation (FAR) 4.804-5, “Procedures for Closing out Contract Files,” the contract administration office is responsible for initiating (automated or manual) administrative closeout of the contract after receiving evidence of its physical completion. At the outset of this process, the contract administration office must review the contract funds status and notify the contracting office of any excess funds the contract administration office might deobligate. When complete, the administrative closeout procedures must ensure the following:

- (1) Disposition of classified material is completed;
- (2) Final patent report is cleared;
- (3) Final royalty report is cleared;
- (4) There is no outstanding value engineering change proposal;
- (5) Plant clearance report is received;
- (6) Property clearance is received;
- (7) All interim or disallowed costs are settled;
- (8) Price revision is completed;
- (9) Subcontracts are settled by the prime contractor;
- (10) Prior year indirect cost rates are settled;
- (11) Termination docket is completed;¹
- (12) Contract audit is completed;
- (13) Contractor’s closing statement is completed;
- (14) Contractor’s final invoice has been submitted; and
- (15) Contract funds review is completed and excess funds deobligated.

FAR 4.804-5 also states that the contracting officer administering the contract must ensure that a contract completion statement is prepared. When the statement is completed, the contracting officer must ensure that the signed original statement is placed in the contracting office contract file.

Further, Department of State Acquisition Regulation (DOSAR) 604-804-70, “Contract Closeout Procedures,” requires the contracting officer to verify that all work under the contract has been completed, to obtain the contracting officer’s representative’s assessment of the contractor’s performance, and to complete the Small Business Administration’s Contract Completion Form when applicable. The DOSAR also explicitly identifies the contracting officer as the responsible party for completing the Contract Closeout Checklist, which outlines the normal steps for closing out a physically completed contract.

¹ A termination docket is used when the contracting officer terminates the contract prior to the period of performance as defined by the base period and any exercised option periods. The contracting officer should document the termination date, cause for termination, and remaining actions required of each party to the contract.

Contract Closeout Checklist

The contracting officer is responsible for preparing contract closeout documentation as previously defined in Appendix B. The Contract Closeout Checklist, a key document included in the Overseas Contracting and Simplified Acquisition Guidebook, was a standardized tool designed to be utilized by the contracting officer to ensure that all contract closeout documentation required by the Federal Acquisition Regulation (FAR) had been completed. The contract closeout checklist is shown in Table 1.

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Table 1. Contract Closeout Checklist

CONTRACT CLOSEOUT CHECKLIST			
DEPARTMENT OF STATE CONTRACT NO.:	CONTRACTING ACTIVITY		
LAST MODIFICATION NO.			
LAST CALL OR ORDER NO.			
CONTRACTOR NAME AND ADDRESS:	OTHER CLOSEOUT ACTIONS, IF REQUIRED	COMPLETED	N/A
TOTAL AMOUNT OF EXCESS FUNDS, IF ANY:	DISPOSITION OF CLASSIFIED MATERIAL		
\$			
FINAL PAYMENT HAS BEEN MADE (THIS MAY BE IN THE FORM OF A PRINT OUT FROM FMC)	PROPERTY CLEARANCE REPORT RECEIVED		
COPY OF PRINT-OUT DATED:	SUBCONTRACTS SETTLED BY PRIME CONTRACTOR		
FINAL INVOICE NUMBER:	PRIOR YEAR INDIRECT COST RATES SETTLED		
FINAL INVOICE DATE:	CONTRACTOR'S CLOSING STATEMENT		
CONTRACTOR RELEASE OF CLAIMS	COMPLETE		
DATE:	CONTRACTOR'S FINAL INVOICE SUBMITTED		
COR DOCUMENTS	DEOBLIGATION OF EXCESS FUNDS		
CONTRACTOR EVALUATION (PRINT OUT FROM CPARS)	FOR CONSTRUCTION CONTRACTS		
NOTE: A copy of the performance evaluation should remain in the contract files for future responsibility and past performance determinations	PUNCH LISTS CORRECTED		
DATE:	ALL AS-BUILT DRAWINGS, SHOP DRAWINGS, OPERATING MANUALS, PARTS LISTS, ETC. SUBMITTED		
COMPLETION CERTIFICATE	FINAL ACCEPTANCE LETTER ISSUED		
DATE:	ALL WARRANTIES AND GUARANTEES SUBMITTED		
FINAL PAYMENT AND CLOSEOUT OF CONTRACT STATEMENT	OTHER:		
DATE:			
ALL CONTRACTUAL ACTIONS REQUIRED UNDER THIS CONTRACT HAVE BEEN COMPLETED.			
CONTRACTING OFFICER	DATE		

Source: Overseas Contracting and Simplified Acquisition Guidebook, Exhibit 8-117, "Contract Closeout Checklist (Overseas)."

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Appendix D

**Bureau of Administration, Office of Logistics Management,
Office of Acquisitions Management, Response**



United States Department of State

Washington, D.C. 20520

November 7, 2013

**UNCLASSIFIED
MEMORANDUM**

TO: OIG/AUD – Norman P. Brown, Acting

FROM: A/LM – Catherine I. Ebert-Gray *RSZ for*

SUBJECT: Draft Report – Audit of the Contract Closeout Process for Contracts Supporting the U.S. Mission in Iraq

Thank you for the opportunity to address the draft report concerning the contract closeout process for contracts supporting the U.S. Mission in Iraq. Mr. Ray Bouford is the point of contact on this response and he can be reached at (703) 875-5429.

Recommendation 1. OIG recommends that the Bureau of Administration update the Foreign Affairs Handbook to include detailed, comprehensive, and all inclusive guidance for performing an initial funds review and closing contracts, or provide reference to where additional procedural guidance can be found. The guidance should contain best practices as defined by bodies such as the Office of Federal Procurement Policy.

A/LM/AQM response (11/5/2013): The Office of Acquisitions Management (AQM) concurs with the recommendation. AQM looks forward to participating in efforts by policy offices within the Bureau of Administration to develop detailed, comprehensive, and all inclusive guidance for performing an initial funds review and closing contracts.

Recommendation 8: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop an automated application to track contract status upon award, to include estimated and actual physical completion dates, and Federal Acquisition Regulation (FAR)-mandated timeframes for closeout based on actual physical completion. The application should include functionality to notify responsible officials of key contract dates, to include notifications to responsible officials when physically completed contracts are approaching the FAR's mandated deadline.

A/LM/AQM response (11/5/2013): AQM concurs that the recommended automated application would be helpful for monitoring due dates. However, we must point out that development of the system requires extensive human and financial resources that will require a long lead time. AQM currently utilizes Momentum Acquisitions as our contract writing and administration system and it has several of the suggested administrative milestones built into it. Additional notification functions were postponed due to financial constraints. AQM will continue to work, within resources, with the software developer and the integrator to provide the additional capabilities needed for a suitable notification system.

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Bureau of Administration, Office of the Procurement Executive, Response



United States Department of State

Washington, D.C. 20520

November 7, 2013

MEMORANDUM

TO: OIG/AUD-Norman P. Brown, Acting

FROM: A/OPE-Corey M. Rindner *Corey M. Rindner*

SUBJECT: Draft Report on *Audit of the Contract Closeout Process for Contracts Supporting the U.S. Mission in Iraq*

Thank you for the opportunity to comment on the subject draft audit report. The point of contact for this report is Eric N. Moore.

Specific comments on recommendations follow:

Recommendation 1. OIG recommends that the Bureau of Administration update the *Foreign Affairs Handbook* to include detailed, comprehensive, and all inclusive guidance for performing an initial funds review and closing contracts, or provide reference to where additional procedural guidance can be found. The guidance should contain best practices as defined by bodies such as the Office of Federal Procurement Policy.

Response:

OPE will update the Foreign Affairs Handbook to include additional guidance on performing an initial funds review and contract closure.

Recommendation 2. OIG recommends that the Bureau of Administration, Office of the Procurement Executive, update the Department of State Acquisition Regulation to include detailed desktop procedures on how to perform an initial funds review.

Response:

OPE will update the DOSAR to refer to the updated FAH provisions.

Recommendation 3. OIG recommends that the Bureau of Administration, Office of the Procurement Executive, update the Department of State Acquisition Regulation to require that the contracting officer identify the cognizant audit agency at contract award and begin coordinating with that audit agency to help prevent large backlogs of pending or unscheduled incurred cost rate audits.

Response:

OPE will update the DOSAR to require identification of the cognizant audit agency and early coordination.

Recommendation 4. OIG recommends that the Bureau of Administration, Office of the Procurement Executive, update the Department of State Acquisition Regulation to require contracting officer to include Federal Acquisition Regulation Clause 52.216-7, Allowable Cost and Payment, in all cost reimbursable contracts.

Response:

Federal Acquisition Regulation (FAR) 16.307(a) (1) already requires that the Contracting Officer shall insert the clause 52.216-7 Allowable Cost and Payment in solicitations and contracts when a cost reimbursement contract is contemplated. The Department of State Acquisition Regulation supplements FAR guidance, but does not repeat that same guidance.

Recommendation 5. OIG recommends that the Bureau of Administration, Office of the Procurement Executive, revise the Department of State Acquisition Regulation to reflect the interagency agreement between the Department of State and Defense Contract Audit Agency for conducting incurred cost audits.

Response:

A/OPE will update the DOSAR.

Recommendation 6. OIG recommends that the Bureau of Administration, Office of the Procurement Executive, formally document and implement a process to periodically review contract closeout guidance and tools, such as the Overseas Contract Closeout Checklist, for accuracy and consistency with Federal and Department requirements.

Response:

A/OPE does not concur with the need for a process to separately review contract closeout guidance. A/OPE currently reviews the Overseas Simplified Acquisition (Cookbook) contract

guidance, including the Overseas Contract Closeout Checklist, on a regular basis. We have historically updated this information about every three years. The frequency of review is based on resources and changes to processes and regulations.

The DOSAR is currently under revision and contract closure guidance will be part of that revision. DOSAR changes require publication in the Federal Register and reconciliation of comments received. The DOSAR is updated as dictated by changes to rules and requirements.

The Directives office requires periodic review of existing FAM and FAH guidance.

Recommendation 7. OIG recommends that the Bureau of Administration, Office of the Procurement Executive, develop a detailed and consolidated guidebook that contains contract closeout procedures for use by contracting officers located domestically and overseas. The guidebook should have individual chapters addressing specific risks faced by contracting officials based on geographic location.

Response:

OPE will update contract closure guidance to include more detailed information on initial funds review and closure. OPE believes the format of that guidance (FAH change, DOSAR change, handbook) and structure (separate chapters versus consolidated guidance) should be left to the discretion of the policy office.

Recommendation 8. OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop an automated application to track contract status upon award, to include estimated and actual physical completion dates, and Federal Acquisition Regulation (FAR)-mandated timeframes for closeout based on actual physical completion. The application should include functionality to notify responsible officials of key contract dates, to include notifications to responsible officials when physically completed contracts are approaching the FAR's mandated deadline.

Response:

A/LM/AQM will respond.

Recommendation 9. OIG recommends that the Bureau of Administration, Office of the Procurement Executive, in conjunction with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop and implement an e-Filing policy and document management system to provide effective contract file inventory control and documentation standards, while allowing for ready accessibility through a central locator system. The policy should include minimum guidance over the completeness of data contained in the files and a schedule of milestones identifying mandatory implementation dates.

Response:

There are two different filing environments, domestic (A/LM/AQM) and overseas posts. The Bureau of Administration, Office of Logistics Management (A/LM) and the Office of the Procurement Executive (A/OPE) are engaged in a pilot program to evaluate the feasibility of creating electronic files for overseas posts. Contents of electronic files must be the same as hardcopy files required by the Federal Acquisition Regulation (FAR). A/LM/PMP is the lead organization for implementing an electronic filing (eFiling) solution for overseas posts leveraging the Integrated Logistics Management System (ILMS). eFiling supports the Department's Green Initiatives through the option of paperless processing using new electronic procurement checklists. Currently in pilot deployment at select overseas sites, the eFiling capability is built upon ILMS Document Management which is a centralized repository for key supply chain documents. Within Document Management users can access not only a copy of the award/order, but also Despatch Agency shipping information and copies of post Receiving Reports. Document Management provides post the ability to upload additional attachments such as invoices which provides post with one centralized location to store pertinent documents. Ultimately the ILMS eFiling solution will provide a better linkage between the procurement system and Document Management to facilitate elimination of hard copy files. The new eFiling capability will be ready for worldwide deployment once a thorough evaluation of the pilot is completed and enhancements have been implemented. Implementation of electronic filing will be dependent on the success of pilot programs and the adequacy of funding and other resources to implement new worldwide systems and monitor their implementation.

Domestically, the Office of Acquisitions Management (A/LM/AQM) agrees that an e-filing system is desirable. A/LM/AQM will examine the feasibility of acquiring and implementing a system within the constraints of human and financial resources. In the interim, A/LM/AQM will emphasize the importance of maintaining adequate contract files and documentation, will increase the use of scanned records, and will increase controls over contract files.

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