



OIG

Office of Inspector General

U.S. Department of State • Broadcasting Board of Governors

AUD-MERO-17-45

Office of Audits

June 2017

Audit of Baghdad Diplomatic Support Center Task Orders Awarded Under Operations and Maintenance Support Services Contract SAQMMA12D0165

MIDDLE EAST REGION OPERATIONS

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OIG HIGHLIGHTS

AUD-MERO-17-45

UNCLASSIFIED

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Middle East Region Operations

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What OIG Audited

The Department of State (Department) awarded two task orders to PAE Government Services, Inc. (PAE) under the Operations and Maintenance Support Services (OMSS) contract to provide transition and sustainment services at the Baghdad Diplomatic Support Center (BDSC). Task order SAQMMA13F3862 for transition services and task order SAQMMA14F0096 for sustainment services had a total estimated value of \$174.1 million as of August 2016.

OIG conducted this audit to determine whether the Bureau of Near Eastern Affairs (NEA) approved invoices that contained unsupported and/or unallowable costs submitted by PAE for these two task orders.

What OIG Recommends

OIG made six recommendations to the Department to address actual and estimated questioned costs identified in this audit relating to task orders SAQMMA13F3862 and SAQMMA14F0096. Specifically, OIG made five recommendations to the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) and one to NEA. On the basis of comments to a draft of this report received from NEA and the Bureau of Administration, Office of Logistics Management (A/LM), which responded on behalf of A/LM/AQM, OIG considers all recommendations resolved pending further action. A synopsis of management's comments and OIG's reply follow each recommendation in the Results section of this report. A/LM and NEA responses are reprinted in Appendices C and D, respectively.

What OIG Found

OIG found that NEA approved invoices submitted by PAE that were generally supported and allowable. Specifically, OIG reviewed a statistical sample of 46 invoices totaling \$43.1 million paid to PAE through August 2016 and found that \$40.8 million of sampled costs was supported and allowable. Additionally, OIG found that the percentage of supported and allowable costs approved for payment by NEA improved over time. For example, 93 percent of the total sampled invoice amounts in 2014 and 2015 were supported and allowable, which increased to 99 percent in 2016.

However, OIG also found that NEA approved 21 invoices that contained \$2.3 million in questioned costs. Of this amount, OIG questions \$2.2 million in costs that was not adequately supported as required by contract terms. OIG also questions \$118,000 in costs considered unallowable based on the contract terms, applicable laws, or regulations. On the basis of testing a statistical sample of invoices, OIG estimates that the untested invoices NEA approved for payment could contain approximately \$2.2 million in additional questioned costs, of which \$2.1 million is unsupported and \$109,000 is unallowable. This brings the total questioned costs identified in this report to \$4.5 million, putting the Department's BDSC task orders at increased risk of waste.

OIG reported on aspects of NEA's invoice review policies and procedures in March 2017 (AUD-MERO-17-33), finding that NEA generally followed Federal requirements and its invoice review procedures to process invoices. However, OIG made eight recommendations in that report to improve the invoice review process, including completing post-payment reviews on aging invoices and requiring invoice examiners to consistently document their invoice reviews. NEA and A/LM/AQM concurred with all eight recommendations from that report, and OIG considers each recommendation resolved, pending further action. Accordingly, OIG is not making additional recommendations related to these issues in this report.

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OBJECTIVE

The Office of Inspector General (OIG) conducted this audit to determine whether the Department of State's (Department) Bureau of Near Eastern Affairs (NEA) approved invoices that contained unsupported and/or unallowable costs submitted by the contractor, PAE Government Services, Inc. (PAE), for task orders SAQMMA13F3862 and SAQMMA14F0096 awarded under the Operations and Maintenance Support Services (OMSS) contract. See Appendix A for the purpose, scope, and methodology of this audit.

BACKGROUND

In July 2012, the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) awarded indefinite-delivery/indefinite-quantity (IDIQ) contract¹ number SAQMMA12D0165 to PAE to continue providing operations and maintenance services at the U.S. Embassy in Baghdad,² with the flexibility to expand to other U.S. Government sites within Iraq. The OMSS IDIQ contract, awarded on behalf of NEA,³ has a "not to exceed cost" of \$2 billion (inclusive of all direct costs, indirect costs, and profit/fees) and a 5-year period of performance (base year plus 4 option years). As of March 2017, the Department had issued 19 task orders under the OMSS IDIQ contract with a total estimated value of \$668.7 million. Two of the 19 task orders⁴ are for operations and maintenance services at the Baghdad Diplomatic Support Center (BDSC).

Task Orders for the Baghdad Diplomatic Support Center

A/LM/AQM awarded task orders SAQMMA13F3862 and SAQMMA14F0096 under the OMSS IDIQ contract on September 27, 2013, and December 5, 2013, respectively, to provide transition and sustainment services at the BDSC. Transition services encompassed the transfer of responsibility from the incumbent contractor to PAE during a 90-day period. Sustainment services require PAE to provide all-inclusive operations and maintenance support services for all BDSC systems and facilities, including:

- Electrical generation and distribution
- Heating, ventilation, and air conditioning

¹ An IDIQ contract is awarded when the Government cannot predetermine the precise quantities of supplies or services required. These contracts should be used when a recurring need is anticipated, as an IDIQ sets the contract scope, terms, and conditions and acts as an umbrella contract. Task orders are issued under the IDIQ contract to order supplies and services and can be either firm-fixed price or cost reimbursable (see Federal Acquisition Regulation [FAR] 16.504).

² From 2007 to 2012, PAE provided operations and maintenance services at the U.S. Embassy in Baghdad under Department of State contract number SALMEC07D0033.

³ A/LM/AQM awarded the OMSS contract using funds provided by NEA. Personnel from NEA administer and oversee the contract and associated task orders.

⁴ OIG reported on task orders SAQMMA15F0567 and SAQMMA15F1245 in the *Audit of Task Orders for the Union III Compound Awarded Under the Operations and Maintenance Support Services Contract* (AUD-MERO-16-41, July 2016).

- Water supply, purification, and distribution
- Fire alarm and suppression systems
- Sanitary sewer and waste water treatment
- Aircraft hangar maintenance
- Fuel storage and distribution
- Refuse and hazardous material management and removal
- Grounds maintenance, design, and installation
- Vehicle maintenance
- Facility, building, and structure maintenance, including janitorial services
- Roads, parking lots and sidewalks, cleaning, maintenance and repair
- Structural inspections and repairs

The 325-acre BDSC, located adjacent to Baghdad International Airport, consists of 1,500 separate facilities—primarily temporary facilities that the U.S. military transferred to the U.S. Mission in Iraq in 2011.⁵ BDSC facilities requiring operations and maintenance services include:

- Office buildings and a warehouse
- Housing pods
- Power plants and a fuel farm
- Water wells, a water treatment system, water storage tanks, and a waste water treatment plant
- A dining facility
- A medical urgent care center
- A fire station
- Vehicle maintenance shops
- Parking lots and roads
- Various recreation center and gymnasium facilities

As of August 2016, the total value of task order SAQMMA13F3862 for transition services was \$1.5 million, of which the Department had obligated \$1.5 million and expended \$969,159. As of the same date, the total value of task order SAQMMA14F0096 for sustainment services (base year plus 4 option years) was \$172.6 million, of which the Department had obligated \$114.4 million and expended \$72.2 million.⁶ Table 1 shows the BDSC task order values, obligated amounts, and expended amounts as of August 2016.⁷

⁵ U.S. military forces withdrew from Iraq in December 2011 in accordance with an agreement between the U.S. Government and the Republic of Iraq.

⁶ As of March 2017, task order SAQMMA13F3862 had an estimated value of \$1.5 million, of which the Department expended the entire amount; and task order SAQMMA14F0096 had an estimated value of \$227.6 million, of which the Department had obligated \$138.6 million and expended \$105.4 million.

⁷ OIG selected a statistical sample of 46 invoices from the universe of 117 invoices approved for payment by the Department for BDSC task orders SAQMMA13F3862 and SAQMMA14F0096 through August 9, 2016, to review for this audit. See Finding A of this report for the results of OIG's invoice reviews and Appendix A for OIG's sampling methodology.

Table 1: BDSC Task Order Values, Obligations, and Expenditures as of August 2016

Task Order	Contract Period	Contract Value	Obligated	Expended
Transition Services				
SAQMMA13F3862	06/01/2013 to 12/05/2013	\$1,513,564	\$1,513,564	\$969,159
Subtotal		\$1,513,564	\$1,513,564	\$969,159
Transition Service				
SAQMMA14F0096	Base Year (12/06/2013-12/05/2014)	\$30,881,890	\$29,163,696	\$26,812,009
	Option Year 1 (12/06/2014-12/05/2015)	\$53,010,211	\$49,174,328	\$32,060,597
	Option Year 2 (12/06/2015-12/05/2016)	\$39,111,790	\$36,022,585	\$13,334,165
	Option Year 3 (12/06/2016-12/05/2017)	\$24,857,270	-	-
	Option Year 4 (12/06/2017-12/05/2018)	\$24,741,565	-	-
Subtotal		\$172,602,726	\$114,360,609	\$72,206,771
Totals		\$174,116,290	\$115,874,173	\$73,175,930

Source: OIG generated on the basis of analysis of August 2016 data obtained from A/LM/AQM and the Department's Global Financial Management System.

Contract Management and Oversight

A/LM/AQM is responsible for awarding and administering the OMSS IDIQ contract and the BDSC task orders. The contracting officer in A/LM/AQM is responsible for awarding, negotiating, administering, modifying, and terminating contracts, and making related contract determinations and findings on behalf of the U.S. Government.

NEA is responsible for providing oversight of the OMSS IDIQ contract and the BDSC task orders. Task order oversight includes inspecting and accepting contract services, providing technical advice to the contractor, monitoring the contractor's performance, and reviewing and approving the contractor's invoices and supporting documentation. NEA established contract management offices (CMOs) in Baghdad, Iraq, and Frankfurt, Germany, with dedicated full-time contracting officer's representatives (CORs) and alternate CORs (ACORs) for this purpose. According to NEA officials, the CMO in Baghdad has the primary role in developing requirements and conducting contract quality assurance and the CMO in Frankfurt (CMO-Frankfurt) performs oversight functions that can be conducted outside of Iraq, such as invoice reviews. CMO-Frankfurt ACORs authorize invoices for full or partial payment or rejection on the basis of detailed invoice reviews conducted by CMO-Frankfurt invoice examiners. In addition, NEA officials stated that CMO-Frankfurt personnel provide backup coverage for oversight personnel from the CMO in Baghdad during their rest and recuperation travel, home leave, and other transition periods.

CMO Invoice Review Processes and Procedures

In October 2014, CMO-Frankfurt implemented its "Invoice Review Processes and Procedures" standard operating procedures (SOP) for processing invoices for contracts managed by the CMO. NEA approved the SOP in March 2015. The SOP and associated checklists draw guidance from the Federal Acquisition Regulation (FAR), the Foreign Affairs Handbook, and the Foreign

Affairs Manual, as well as applicable contract provisions, to ensure that invoices are processed in accordance with the Prompt Payment Act⁸ and that contractor expenses reimbursed by the Government are reasonable, allowable, and allocable.⁹ OIG reported on NEA's invoice review process in March 2017, finding that NEA generally followed Federal requirements and its invoice review procedures to process invoices. However, the eight recommendations OIG made to improve the invoice review process included addressing the processing of invoices awaiting post-payment review¹⁰ and requiring invoice examiners to consistently document invoice reviews.¹¹ NEA and A/LM/AQM concurred with all eight recommendations, and OIG considers each recommendation resolved, pending further action.

AUDIT RESULTS

Finding A. Alternate Contracting Officer's Representatives Approved Invoices That Contained \$2.3 Million in Questioned Costs

OIG reviewed a statistical sample of invoices submitted by PAE—and approved for payment by ACORs—for BDSC task orders SAQMMA13F3862 and SAQMMA14F0096 from their award through August 9, 2016. Specifically, OIG selected 46 of 117 invoices (39.3 percent), which totaled \$43.1 million of \$73.2 million (58.9 percent) of paid invoices for review. Of the \$43.1 million in invoices reviewed, OIG found that \$40.8 million (94.6 percent) of sampled costs was supported and allowable. However, OIG questions \$2.3 million (5.3 percent) paid on 21

⁸ The Prompt Payment Act (31 U.S.C. § 3903) requires the Federal Government to make timely payments. Invoices are to be paid within 30 days of receipt and acceptance of materials and/or services or after receipt of a proper invoice, whichever is later. Interest begins to accrue if invoices are not paid within 30 days.

⁹ Under FAR 31.201-2, "Determining Allowability," a cost is allowable if it is determined to be reasonable, allocable, and otherwise allowable under the cost principles listed in FAR 31.2. To be reasonable, the cost must: be generally recognized as an ordinary or necessary part of the business; follow sound business practices; comply with Federal, state, and local laws; and be consistent with the contractor's established practices. A cost is allocable if it is incurred specifically for the contract, benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received or if it is necessary to the overall operation of the business even though a direct relationship to any particular objective cannot be shown. If a cost is reasonable and allocable (chargeable) to the contract, then it will be allowable unless specifically prohibited by cost regulations.

¹⁰ OIG's report, *Aspects of the Invoice Review Process Used by the Bureau of Near Eastern Affairs to Support Contingency Operations in Iraq Need Improvement* (AUD-MERO-17-33, March 2017), found that as of December 2016, CMO-Frankfurt had a backlog of at least 138 invoices totaling approximately \$14 million that were approved for expedited provisional payment, as allowed by the SOP, but had been awaiting a post-payment review for more than a year. According to the SOP, expedited provisional payments are typically authorized to ensure that CMO-Frankfurt complies with the FAR requirement to pay invoices within 30 days after receipt. Before an invoice is approved for an expedited provisional payment, the contracting officer must certify in writing that the contractor has submitted an invoice that is, on its face, proper and includes documentation substantiating the costs. Any invoices that have received expedited provisional payment without review must have a post-payment review to determine whether the invoiced amounts are allowable, allocable, and reasonable and have proper supporting documentation.

¹¹ OIG found that invoice examiners did not always document their invoice reviews and at times failed to follow checklist guidance that directs invoice examiners to review at least 80 percent of the total cost of an invoice for cost reimbursable contracts.

invoices (45.7 percent).¹² The questioned costs include approximately \$2.2 million that OIG considers unsupported (costs not supported with adequate documentation or that did not have required approval as stated in the contract) and about \$118,000 that is considered unallowable (costs that are prohibited by the contract, applicable laws, or regulations).

On the basis of testing a statistical sample of invoices, OIG estimates that the remaining 71 of 117 invoices (60.7 percent) in our universe that were not tested contain approximately \$2.2 million in questioned costs. Of these questioned costs, OIG estimates that \$2.1 million is unsupported and \$109,000 is unallowable, which puts the Department's BDSC task orders at increased risk of waste. See Appendix A for statistical projections and Table 2 for the questioned costs by task order and contract line item number (CLIN) for the invoices reviewed as part of our sample.

Table 2: Questioned Costs by BDSC Task Order and Contract Line Item Number

Task Order	CLIN	Invoices with Questioned Costs	Unsupported Costs ^a	Unallowable Costs ^a	Total Questioned Costs ^a
SAQMMA13F3862	CLIN 001 (Cost reimbursable)	1	\$425,746	\$192	\$425,938
SAQMMA13F3862	CLIN 002 (Fixed fee)	1	\$25,545	\$12	\$25,557
SAQMMA14F0096	CLINs 001, 101, 201 (Firm-fixed-price)	1	\$0	\$54,152	\$54,152
SAQMMA14F0096	CLINs 002, 102, 202 (Cost reimbursable)	19	\$1,723,014	\$62,800	\$1,785,814
SAQMMA14F0096	CLINs 003, 103, 203 (Fixed fee)	6	\$23,102	\$837	\$23,939
Total		28^b	\$2,197,407	\$117,993	\$2,315,400

^a Questioned costs do not include invoiced amounts withheld from payment by ACORS.

^b The total exceeds the actual number of invoices with questioned costs (21) because some invoices contain more than 1 CLIN type.

Source: OIG generated on the basis of analysis of PAE invoices and associated cost-support documentation provided by NEA.

Sampled Invoice Costs Were Generally Allowable and Supported

OIG found that \$40.8 million (94.6 percent) of sampled costs approved for payment by ACORs was allowable and supported. Additionally, OIG identified no questioned costs on 25 of the 46 sampled invoices and recognized that the percentage of allowable and supported costs approved by ACORs for payment improved over time. Specifically, OIG found that 93 percent of the total sampled invoice amounts approved for payment by ACORS in 2014 and 2015 were allowable and supported. OIG found the total sampled invoice amounts approved for payment

¹² The methodology OIG used to review all invoices is contained in Appendix A, and the listing of invoices reviewed with questioned costs is in Appendix B.

by ACORS in 2016 that were allowable and supported increased to 99 percent. This improvement can be attributed, in part, to NEA's approval of CMO's SOP in March 2015 and to CMO-Frankfurt regularly updating its corresponding invoice review checklist guidance and developing and providing invoice examiner training.¹³

Questioned Transition Services Invoice

Of the 46 invoices sampled, 1 was for transition services costs totaling \$451,495 under task order SAQMMA13F3862. The invoice contained charges for cost reimbursable direct labor, other direct costs such as travel-related expenses, and indirect costs under CLIN 001; the invoice also contained fixed fees under CLIN 002, which reflect a percentage of total CLIN 001 charges. Although the ACOR approved the invoice, OIG questions \$451,495 (100 percent) of the sampled invoice costs, of which \$451,291 is unsupported and \$204 is unallowable. Table 3 shows the questioned costs for this task order by CLIN.

Table 3: BDSC Transition Task Order SAQMMA13F3862 Questioned Costs by CLIN

CLIN	Unsupported Costs	Unallowable Costs	Total Questioned Costs
CLIN 001 (Cost reimbursable)	\$425,746	\$192	\$425,938
CLIN 002 (Fixed fee)	\$25,545	\$12	\$25,557
Total	\$451,291	\$204	\$451,495

Source: OIG analysis of PAE invoices and associated cost-support documentation provided by NEA.

For CLIN 001, OIG determined that \$425,746 in charges—including charges for direct labor, other direct costs, and indirect costs—was unsupported because either PAE did not provide cost-support documentation or cost-support documentation did not comply with IDIQ contract requirements. Specifically, cost-support documentation for direct labor costs did not include the employee's title, internal labor category, or actual unloaded hourly labor rate, even though the IDIQ contract requires these elements when payment is made on the basis of actual costs incurred. OIG also determined that PAE cost-support documentation for travel-related charges did not comply with IDIQ contract requirements to (1) attribute travel costs to the task order CLIN and sub-CLIN when payment is made on actual costs incurred or (2) obtain advance authorization from the COR or Government Technical Monitor for travel that occurred after task order award. OIG further determined that other direct costs for Defense Base Act insurance¹⁴ were unsupported because documentation did not include the covered employee name, title, and designation as required by the IDIQ contract. Finally, OIG determined that \$185 for internet charges (and associated indirect costs of \$7) submitted under CLIN 001 as "miscellaneous travel" was unallowable because the expenditures did not qualify as a travel cost per the IDIQ contract,

¹³ AUD-MERO-17-33 reported that CMO-Frankfurt invoice examiners were trained and achieved full performance after 6 months on the job.

¹⁴ FAR 28.309 requires Workers' Compensation Insurance (Defense Base Act) in public work contracts performed outside the United States. This is compensation-type insurance for various classes of employees performing under these contracts.

which defines travel as “contractor air and ground transportation, lodging, meals and incidental expenses, travel time, and passport/visa costs.”

Because it questions the entire amount invoiced under CLIN 001, OIG also questions the corresponding \$25,557 in fees charged under CLIN 002. Of this amount, \$25,545 is unsupported and \$12 is unallowable.

Questioned Sustainment Services Invoices

Of the 46 invoices sampled, 45 totaling \$42.67 million were for sustainment services under task order SAQMMA14F0096. The task order includes five CLINs for the base and subsequent option year periods:

- CLINs 001-201 are firm-fixed-price for operations and maintenance services
- CLINs 002-202 are cost reimbursable for other direct costs (such as materials, supplies, equipment, and travel) and indirect costs
- CLINs 003-203 are fixed fee based on costs related to CLINs 002-202
- CLINs 004-204 are cost reimbursable for Iraqi taxes¹⁵
- CLINs 005-205 are firm-fixed-price for airfield support services

OIG questions more than \$1.8 million in costs across 3 CLIN categories in 20 sampled invoices, of which \$1.7 million was unsupported and \$118,000 was unallowable. Table 4 shows the questioned costs for this task order by CLIN category.

Table 4: BDSC Sustainment Services Task Order SAQMMA14F0096 Questioned Costs by CLIN

CLIN	Unsupported Costs ^a	Unallowable Costs ^a	Total Questioned Costs ^a
CLIN 001, 101, 201 (Firm-fixed-price)	\$0	\$54,152	\$54,152
CLIN 002, 102, 202 (Cost reimbursable)	\$1,723,014	\$62,800	\$1,785,814
CLIN 003, 103, 203 (Fixed fee)	\$23,102	\$837	\$23,939
Total	\$1,746,116	\$117,789	\$1,863,905

^a Questioned costs do not include invoiced amounts withheld from payment by ACORS.

Source: OIG analysis of PAE invoices and associated cost-support documentation provided by NEA.

Questioned Costs for Firm-Fixed-Price Operations and Maintenance Services (CLINs 001, 101, and 201)

OIG questions \$54,152 on one invoice approved by the ACOR for firm-fixed-price operations and maintenance services. OIG determined that the \$54,152 was unallowable because PAE inappropriately included a CLIN 005 charge for airfield support services under CLIN 001. OIG found that PAE inappropriately submitted charges for CLIN 005 under CLIN 001 on another sampled invoice. However, the CMO-Frankfurt invoice examiner identified the billing error for

¹⁵ FAR 52.229-6 establishes the taxes that may be reimbursed under a foreign fixed-price contract.

this second instance during the invoice review process and the ACOR withheld the CLIN 005 amount from payment. Therefore, OIG did not question that amount.

Questioned Costs for Cost Reimbursable Materials, Supplies, Equipment, Travel, and Other Direct Costs (CLINs 002, 102, and 202)

OIG questions \$1,785,814 in cost reimbursable charges for direct costs and indirect costs under CLINs 002, 102, and 202, of which \$1.7 million was unsupported and \$62,800 was unallowable. CLINs 002-202 contain cost reimbursable direct costs as well as indirect costs and general and administrative expenses that reflect a percentage of direct costs. OIG found that ACORs approved 19 invoices that contained \$1.7 million in unsupported costs, which were generally unsupported because of the lack of COR-approved requisitions for purchase orders of \$5,000 or greater, as required by the contract and the SOP. For example, cost-support documentation totaling \$213,500 for the purchase of air conditioners did not include a COR-approved requisition, as required by the contract and the SOP. Additionally, freight charges totaling \$272,770 did not include a COR-approved requisition for items on purchase orders exceeding \$5,000.

OIG identified additional unsupported costs because PAE did not always provide sufficient evidence to support invoiced costs. For example, PAE did not provide adequate cost-support documentation for \$163,075 charged for subcontractor services, \$3,500 charged for office equipment, and \$1,882 charged for hazardous material removal. Similarly, OIG found instances where PAE submitted bulk freight (shipping) charges associated with multiple task orders but did not provide support to demonstrate the allocation of charges across the task orders. For example, one bulk freight charge in the amount of \$21,044 included items purchased and shipped for two different task orders. However, the associated cost-support documentation did not include an itemized breakdown of freight costs attributed to each task order. As a result, OIG questioned the total cost as unsupported.

On the basis of the reviews of invoices containing cost reimbursable CLINs 002, 102, and 202, OIG also determined that ACORs approved 13 invoices that included \$62,800 in unallowable costs. These costs were primarily related to purchases made outside the task order's periods of performance. For example, on an invoice covering the base year period of performance (12/05/2013 to 12/06/2014), PAE submitted cost-support documentation for the lease of equipment totaling \$21,600 for February 2015. In another example, PAE provided cost-support documentation for \$6,137 for coolant and associated freight charges purchased 1 month before the invoice's period of performance began.

OIG identified other unallowable charges associated with these CLINs, such as those of different task orders that were charged to the BDSC task order. For example, an ACOR-approved invoice paid under the BDSC task order contained \$1,187 in charges for automobile repair equipment and an associated freight charge of \$250, although the cost-support documentation indicated that the items were for the OMSS Basrah task order.

Finally, OIG identified purchases associated with CLINs 002, 102, and 202 approved by the ACOR that were not within the scope of the contract but were instead for PAE's private use and, therefore, deemed by OIG as unallowable. For example, OIG found that PAE submitted cost-support documentation for \$475 in charges for the shipment of business cards, as well as cost-support documentation for \$255 for a cake to celebrate PAE's 60th anniversary.

Questioned Costs for Fixed Fees (CLINs 003, 103, and 203)

OIG questions \$23,939 in fixed fees, charged on six invoices,¹⁶ of which \$23,102 was unsupported and \$837 was unallowable. Fixed fees invoiced under CLINs 003, 103, and 203 reflect a percentage of total reimbursable costs invoiced under CLINs 002, 102, and 202,¹⁷ as described in the preceding section.

Aspects of Invoice Review Process Need Improvement

The questioned costs OIG identified were paid for several reasons, some of which were identified in OIG's March 2017 audit that addressed certain NEA invoice review processes.

First, the SOP for conducting invoice reviews was not implemented until October 2014, more than 1 year after task order SAQMMA13F3862 was awarded and more than 10 months after task order SAQMMA14F0096 was awarded. CMO-Frankfurt officials acknowledged that invoices approved and paid prior to September 2014 require a post-payment review because they likely contain errors not identified by the invoice examiners since the SOP had not yet been implemented. OIG's review of 14 invoices approved for payment in 2014 account for approximately \$884,000 of \$2.3 million (38 percent) of identified questioned costs, indicating the need for a thorough post-payment review of invoices paid prior to the implementation of the SOP.

Second, OIG identified questioned costs on invoices that were approved for expedited provisional payment. The SOP authorizes expedited provisional payments of the total invoice amount to ensure that CMO-Frankfurt complies with the FAR requirement¹⁸ to pay invoices within 30 days after receipt of a proper invoice. Invoices that fall under this category require a post-payment review to determine whether the invoiced amounts are allowable, allocable, and reasonable and have proper supporting documentation. As noted previously, in March 2017, OIG reported on CMO-Frankfurt's use of expedited provisional payments and the need for post-payment invoice reviews and made recommendations to address the backlog of invoices

¹⁶ Fees were not charged by PAE on all invoices with CLIN 002, 102, or 202 charges.

¹⁷ FAR 31.201-6 (a), "Accounting for Unallowable Costs," states that a directly associated cost is any cost that is generated solely as a result of incurring another cost and would not have been incurred had the other cost not been incurred.

¹⁸ FAR 32.904, "Determining Payment Due Dates."

awaiting post-payment reviews. Therefore, OIG did not include additional recommendations regarding this issue in this report.¹⁹

Finally, OIG identified questioned costs on cost reimbursable invoices that ACORs approved for payment because they relied on the work of CMO-Frankfurt invoice examiners who (1) only sampled a percentage of invoiced line items on cost reimbursable invoices because of time constraints and (2) did not always document sampling methodology for and results of their reviews of cost reimbursable invoices. With regard to the sampling approach, according to the SOP, invoice examiners are to sample between 25 percent and 30 percent of invoiced line items, and focus on high-dollar-value line items and high-risk areas. Several factors—including time constraints associated with Prompt Payment Act requirements, limited manpower, and the large volume of cost support documentation for cost-reimbursable invoices—prohibited CMO-Frankfurt’s invoice examiners from reviewing 100 percent of all invoices, increasing the likelihood that they would not identify all unsupported and unallowable costs and recommend that the ACOR reject payments of those amounts. With regard to documentation requirements, OIG found that CMO-Frankfurt’s invoice examiners did not document sampling methodologies and results for 6 of the 23 sampled cost reimbursable invoices. The SOP requires invoice examiners to document the actual percentage sampled and the reason a lower sampling percentage occurred, if applicable, as well as the overall invoice review results. Invoice examiners who did not always document their methodologies and results may have left ACORs with insufficient or incomplete information by which to approve those invoices. In March 2017, OIG reported on CMO-Frankfurt’s use of sampling and made a recommendation to address the need for invoice examiners to fully document sampling methods and results. Therefore, OIG did not include additional recommendations regarding this issue in this report.²⁰

Increased Risk of Waste

Using the combined sample results and the untested invoice projections, OIG estimates approximately \$4.5 million in questioned costs²¹ out of the \$73.1 million paid to PAE, putting the Department’s BDSC task orders at increased risk of waste. Therefore, the Department should review and recover the \$2.3 million in costs reviewed by OIG that are determined to be unsupported and unallowable, perform post-payment reviews of the untested expenditures to

¹⁹ AUD-MERO-17-33 reported that “[a]s of December 2016, the backlog consisted of at least 138 invoices totaling approximately \$14 million that had been awaiting a post-payment review for more than a year. Because CMO-Frankfurt’s invoice reviews typically identify unallowable costs, delays in conducting these reviews increase the risk that unallowable costs may not be recouped in a timely manner.” OIG recommended that NEA “develop and include in its invoice review guidance its expectations regarding the timely completion of post-payment reviews of expedited provisional payments and procedures that CMO-Frankfurt may follow to proactively request additional resources when invoice review backlogs are likely to occur.”

²⁰ In AUD-MERO-17-33, OIG recommended that NEA direct invoice examiners to fully document sampling done in each applicable checklist and follow the checklist guidance. NEA concurred with the recommendation, stating that it will work with CMO-Frankfurt to ensure invoice reviewers fully document their sampling and follow established checklist guidance.

²¹ Total questioned costs of \$4.5 million include the \$2.3 million identified in our sample and \$2.2 million from the projections of the untested portion of expenditures.

identify the actual unsupported and/or unallowable costs paid to PAE, and recover any identified questioned costs.

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) determine whether the \$1,746,116 in unsupported costs related to task order SAQMMA14F0096 as identified by OIG in Appendix B, Table B.2 is supported and (b) recover any costs determined to be unsupported.

Management Response: A/LM concurred with the recommendation, stating that during the next 90 days, A/LM/AQM would begin working with NEA "to obtain additional information to address the unsupported costs and evaluate additional information to determine if the costs remain unsupported and therefore unallowable." A/LM also stated that the contracting officer would initiate action to recover any costs determined to be unsupported before the end of FY 2017.

OIG Reply: Based on A/LM concurrence and actions planned to implement the recommendation, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM/AQM has made a determination regarding unsupported costs for task order SAQMMA14F0096 and recovered any costs determined to be unsupported.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) determine whether total questioned costs of \$451,495, of which \$451,291 are considered unsupported and \$204 are considered unallowable, related to task order SAQMMA13F3862 as identified by OIG in Appendix B, Table B.1 is supported and allowable and (b) recover any costs determined to be unsupported and unallowable.

Management Response: A/LM concurred with the recommendation, stating that during the next 90 days, A/LM/AQM would begin working with NEA "to obtain additional information to address the unsupported costs and evaluate additional information to determine if the costs remain unsupported and therefore unallowable." A/LM also stated that the contracting officer would initiate action to recover any costs determined to be unsupported before the end of FY 2017.

OIG Reply: Based on A/LM concurrence and actions planned to implement the recommendation, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM/AQM has made a determination regarding unsupported and unallowable costs for task order SAQMMA13F3862 and recovered any costs determined to be unsupported and unallowable.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) determine whether the

\$117,789 in unallowable costs related to task order SAQMMA14F0096 as identified by OIG in Appendix B, Table B.2 is allowable and (b) recover any costs determined to be unallowable.

Management Response: A/LM concurred with the recommendation, stating that during the next 90 days, A/LM/AQM would begin working with NEA to “evaluate the allowability of the OIG identified unallowable costs.” A/LM also stated that the contracting officer would initiate action to recover any costs determined to be unallowable before the end of FY 2017.

OIG Reply: Based on A/LM concurrence and actions planned to implement the recommendation, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM/AQM has made a determination regarding unallowable costs for task order SAQMMA14F0096 and recovered any costs determined to be unallowable.

Recommendation 4: OIG recommends that the Bureau of Near Eastern Affairs perform a post-payment review of the invoices related to task orders SAQMMA13F3862 and SAQMMA14F0096 that were not tested by OIG to identify unsupported and/or unallowable costs projected by OIG to be \$2.1 million in unsupported costs and \$109,000 in unallowable costs.

Management Response: NEA stated that it did not concur with the recommendation at this time and instead will conduct a post-payment review of the 20 invoices in OIG’s audit on the basis of detailed information OIG provided the Frankfurt Regional Contract Support Office (RCSO)²² relating to the audited invoices. NEA further stated that this post-payment review will have the purpose of gathering supporting documentation from PAE and that it could be completed within 60 days. NEA also stated that, “should reimbursable costs to the U.S. Government be identified by RCSO during this review, NEA will submit results to all parties for review to determine appropriate action(s)” and will request that OIG “extrapolate a revised projection of unallowable costs” for the untested invoices related to task orders SAQMMA13F3862 and SAQMMA14F0096 on the basis of those results.

In addition, NEA requested that invoice 25840, which was part of the invoices sampled by OIG, be removed from “this discussion” on the basis of evidence that RCSO “provided regarding appropriate CLIN allocation within this invoice.”

OIG Reply: Although NEA did not concur with the recommendation at this time, it offered a multi-step approach to assess the extent that PAE can provide supporting documentation for the costs OIG questioned. In other words, NEA proposes to conduct what is essentially a cost-benefit analysis to determine whether the error rate in these

²² As of March 24, 2017, the CMO in Frankfurt was rebranded as the Frankfurt RCSO.

invoices is high enough to justify NEA's expenditure of additional resources to re-review invoices that OIG did not test. OIG agrees that this initial approach is responsive to the recommendation, because it will enable the Department to make an informed decision regarding how to proceed with respect to the remaining invoices. Accordingly, this proposal generally meets the intent of the recommendation and OIG considers this recommendation resolved, pending further action as described by NEA with respect to the post-payment review of the invoices that were part of OIG's original sample, which will be conducted within 60 days of the issue date of this report.

As noted above, NEA also stated that it will request that OIG extrapolate a revised projection of unallowable costs for the untested invoices related to task orders SAQMMA13F3862 and SAQMMA14F0096. It is not feasible for OIG to perform the audit again, which would be required for OIG to extrapolate a revised projection of unallowable costs for the untested invoices. However, OIG will consider NEA's proposed action for the untested invoices on the basis of the results of RCSO's post-payment review during the audit compliance follow-up process. With regard to the invoices related to task orders SAQMMA13F3862 and SAQMMA14F0096 that were not tested by OIG in this audit, OIG statistically projects that these task orders may contain an additional \$2.1 million in unsupported costs and \$109,000 in unallowable costs.

With respect to NEA's request that OIG remove invoice 25840 from "this discussion," which OIG construes as a request to remove invoice 25840 from the sample, OIG cannot retroactively remove an invoice from the audit once that audit is completed. OIG suggests that NEA provide the evidence it received from RCSO regarding appropriate CLIN allocation for invoice 25840 to A/LM/AQM, as it may assist that office in determining the extent to which unallowable costs exist for task order SAQMMA14F0096 in response to Recommendation 3.

This recommendation will be closed when OIG receives and accepts documentation demonstrating that NEA has completed a post-payment review of the invoices included in this audit and has made a reasonable determination regarding whether specific testing of untested invoices for task orders SAQMMA13F3862 and SAQMMA14F0096 is warranted. If it is determined that invoice testing for the untested invoice for these task orders is indeed warranted, this recommendation will be closed when testing is complete and NEA, in collaboration with A/LM/AQM, has recovered all costs determined to be unallowable.

Recommendation 5: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management recover any questioned costs identified by the Bureau of Near Eastern Affairs during its post-payment review of invoices not tested by OIG related to task order SAQMMA14F0096.

Management Response: A/LM concurred with the recommendation stating that, after evaluating the unsupported and unallowable costs that OIG identified and discussed in

Recommendations 1 and 3, as well as NEA's response to Recommendation 4, the contracting officer will initiate action to recover any costs determined to be unallowable.

OIG Reply: Based on A/LM concurrence and actions planned to implement the recommendation, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM/AQM has recovered any costs determined to be unallowable for invoices not tested by OIG related to task order SAQMMA14F0096.

Recommendation 6: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management recover any questioned costs identified by the Bureau of Near Eastern Affairs during its post-payment review of invoices not tested by OIG related to task order SAQMMA13F3862.

Management Response: A/LM concurred with the recommendation stating that, after evaluating the unsupported and unallowable costs that OIG identified and discussed in Recommendation 2, as well as NEA's response to Recommendation 4, the contracting officer will initiate action to recover any costs determined to be unallowable.

OIG Reply: Based on A/LM concurrence and actions planned to implement the recommendation, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM/AQM has recovered any costs determined to be unallowable for invoices not tested by OIG related to task order SAQMMA13F3862.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) determine whether the \$1,746,116 in unsupported costs related to task order SAQMMA14F0096 as identified by OIG in Appendix B, Table B.2 is supported and (b) recover any costs determined to be unsupported.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) determine whether total questioned costs of \$451,495, of which \$451,291 are considered unsupported and \$204 are considered unallowable, related to task order SAQMMA13F3862 as identified by OIG in Appendix B, Table B.1 is supported and allowable and (b) recover any costs determined to be unsupported and unallowable.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) determine whether the \$117,789 in unallowable costs related to task order SAQMMA14F0096 as identified by OIG in Appendix B, Table B.2 is allowable and (b) recover any costs determined to be unallowable.

Recommendation 4: OIG recommends that the Bureau of Near Eastern Affairs perform a post-payment review of the invoices related to task orders SAQMMA13F3862 and SAQMMA14F0096 that were not tested by OIG to identify unsupported and/or unallowable costs projected by OIG to be \$2.1 million in unsupported costs and \$109,000 in unallowable costs.

Recommendation 5: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management recover any questioned costs identified by the Bureau of Near Eastern Affairs during its post-payment review of invoices not tested by OIG related to task order SAQMMA14F0096.

Recommendation 6: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management recover any questioned costs identified by the Bureau of Near Eastern Affairs during its post-payment review of invoices not tested by OIG related to task order SAQMMA13F3862.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Office of Audits within the Office of Inspector General (OIG) for the Department of State (Department) and the Broadcasting Board of Governors conducted this audit to determine whether the Bureau of Near Eastern Affairs (NEA) approved invoices that contained unallowable and/or unsupported costs submitted by the contractor, PAE Government Services, Inc. (PAE), for task orders SAQMMA13F3862 and SAQMMA14F0096 awarded under the Operations and Maintenance Support Services (OMSS) contract.

OIG conducted fieldwork for this audit from August 2016 to March 2017 at the U.S. Consulate General Frankfurt (Germany). OIG conducted this performance 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 obtain background information for this audit, OIG researched and reviewed Federal laws and regulations, as well as internal Department policies and procedures and other guidance. Specifically, OIG reviewed the Code of Federal Regulations, the Federal Acquisition Regulation, Office of Management and Budget circulars, the Foreign Affairs Handbook, and the Department of State Acquisition Regulations.

To determine whether NEA approved invoices with unsupported and/or unallowable costs, OIG reviewed and analyzed OMSS indefinite-delivery/indefinite-quantity contract number SAQMMA12D0165, Baghdad Diplomatic Support Center (BDSC) task orders SAQMMA13F3862 and SAQMMA14F0096, modifications to the OMSS contract and individual task orders, statements of work, the PAE invoicing process standard operating procedure, as well as the Department of State Regional Contract Management Office (CMO) "Invoice Review Processes and Procedures" Standard Operating Procedures. Additionally, OIG tested a statistical sample of 46 PAE invoices (from a total of 117 invoices paid against task orders SAQMMA13F3862 and SAQMMA14F0096) paid through August 9, 2016 (see the Detailed Sampling Methodology section below for more details on the tests performed).

Prior Reports

OIG reviewed prior audit reports to identify information previously reported on NEA's invoice review process and the OMSS contract.

A March 2017 OIG report, *Aspects of the Invoice Review Process Used by the Bureau of Near Eastern Affairs to Support Contingency Operations in Iraq Need Improvement* (AUD-MERO-17-33), stated that NEA generally follows Federal requirements and its invoice review procedures to process invoices that support contingency operations in Iraq. However, OIG determined that two aspects of its invoice review process needed improvement. First, OIG found that greater

attention was needed to address a backlog of invoices that were initially approved for payment without full review but required a post-payment review to ensure that questioned costs are identified and recouped. Second, OIG found that NEA guidance requiring invoice reviewers to document their reviews must be consistently applied to demonstrate that a thorough review has been performed. OIG made eight recommendations that have all been resolved, pending further action.

A December 2016 OIG report, *Audit of the Oversight of Fuel Acquisition and Related Services Supporting Department of State Operations in Iraq* (AUD-MERO-17-16), determined, among other things, that the invoice review process implemented by NEA for fuel-related invoices generally complied with Federal and Department guidance for conducting invoice reviews. However, OIG found that the process did not include an independent verification of domestic fuel prices. Regarding this issue, OIG recommended that (1) NEA, in coordination with CMO-Frankfurt, update its standard operating procedures with the requirement for invoice reviewers to verify that domestic fuel prices invoiced by contractors correspond to the domestic fuel prices for all fuel purchased and invoiced in Iraq and (2) the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) recover the remaining fuel overpayment in the amount of \$2,265,095 from PAE. OIG made 16 additional recommendations to these 2 bureaus, all of which were intended to improve the oversight of fuel acquisition and related services. On the basis of responses from both bureaus, OIG considers 1 recommendation closed; 16 recommendations resolved, pending further action; and 1 recommendation unresolved.

A July 2016 OIG report, *Audit of Task Orders for the Union III Compound Awarded Under the Operations and Maintenance Support Services Contract* (AUD-MERO-16-41), determined that A/LM/AQM did not adequately plan for task order oversight activities or comply with statutory and Department requirements to definitize the task orders and that NEA approved invoices for payment that included unallowable contractor fees of approximately \$500,000. OIG made four recommendations to NEA to improve oversight processes and six recommendations to A/LM/AQM to include definitizing the task orders and recovering unallowable contractor fees. As of March 2017, OIG considers six recommendations resolved and four closed.

An August 2012 OIG report, *Evaluation of Invoices and Payments for the Embassy Baghdad Operations and Maintenance Contract* (AUD-MERO-12-43), evaluated whether the Department paid PAE for the Embassy Baghdad operations and maintenance contract¹ in accordance with authoritative guidance and the contract terms and conditions. OIG determined that the contracting officer's representative approved contractor invoices, which included approximately \$2.7 million for costs that were unallowable and unsupported and for goods not delivered. OIG issued five recommendations to A/LM/AQM, including recommendations to recover unallowable costs, review all invoices under the contract, and take administrative actions, if warranted. As of March 2017, three of the five recommendations were closed because they had been

¹ Contract number SALMEC07D0033, awarded in 2007, is the predecessor of OMSS contract number SAQMMA12D0165.

implemented. Two recommendations remained open, pending further action, including a determination regarding approximately \$1.7 million in questioned costs.

OIG also reviewed prior Defense Contract Audit Agency reports related to the OMSS contract and corresponding task orders. An August 2014 report, *Examination of PAE Government Services, Inc. (PAE) Fiscal Year (FY) 2013 Direct Costs Claimed on the Operations and Maintenance Services Contract No. SAQMMA-12-D-0165*, evaluated whether \$1,759,403 in direct costs claimed on FY 2013 invoices complied with contract terms. As a result of the examination, auditors questioned \$150,485 of the total \$835,856 claimed direct labor costs and \$125,539 of the total \$747,578 claimed direct material costs.

Work Related to Internal Controls

OIG performed steps to assess the adequacy of internal controls related to the management and oversight of task orders SAQMMA13F3862 and SAQMMA14F0096, including reviewing policies, procedures, and processes applicable to the areas audited. OIG gained an understanding of the process for reviewing invoices and expenditures and tested the controls to ensure that the Department approved expenditures on the basis of their allowability and supportability. OIG summarized internal control deficiencies and weaknesses found from the invoice reviews under the Audit Results section of this report.

Use of Computer-Processed Data

OIG used data obtained from non-automated sources provided by CMO-Frankfurt to identify the universe of PAE invoices for BSDC task orders SAQMMA13F3862 and SAQMMA14F0096. To assess the completeness of the obtained universe, OIG accessed the Department's Global Financial Management System to identify all PAE invoices paid for the two task orders as of August 9, 2016. OIG compared both data sets and found no material differences. From this analysis, OIG concluded that the universe obtained from CMO-Frankfurt was complete and adequate to execute our testing in support of the conclusions made in this report. CMO-Frankfurt also provided the cost-support documentation for sampled invoices, which supplied the dollar values for the findings and recommendations detailed in the Audit Results section of this report.

Detailed Sampling Methodology

OIG's sampling objective was to determine to what extent expenditures for BDSC task orders SAQMMA13F3862 and SAQMMA14F0096 were supported and allowable in accordance with the contract, Department guidance, and the Federal Acquisition Regulation. In addition, OIG verified that all invoices were approved by a Department official to ensure that contractors were not performing inherently governmental functions.

To determine if task order SAQMMA13F3862 and SAQMMA14F0096 invoices were allowable and supported, OIG tested a statistical sample of invoices from a universe of 117 invoices with total payment value of \$73.2 million. Specifically, for task order SAQMMA13F3862, OIG

identified seven invoices paid from September 27, 2013, to August 9, 2016, totaling \$969,159. For task order SAQMMA14F0096, OIG identified 110 invoices paid from December 5, 2013, to August 9, 2016, totaling \$72,206,771. See detailed information regarding the universe of invoices in Table A.1.

Table A.1: Invoice Sample Summary

Task Order	Total Invoice Count	Total Dollar Value
SAQMMA13F3862	7	\$969,159
SAQMMA14F0096	110	\$72,206,771
Total	117	\$73,175,930

Source: OIG generated on the basis of transactions from the Department's Global Financial Management System.

Using the universe of 117 invoices, OIG selected a sample using a partially dollar-weighted sampling design.² The dollar unit used to weight the sample was the payment amount for each invoice. The second variable used to select the sample was a risk score based on the invoice type and the date the invoice was paid.³ A sample size of 75 invoices was chosen to ensure a "worst-case precision" of plus or minus 10 percent, given a 95-percent confidence level. Because of the sampling design, some invoices were selected more than once. After removing the duplicates, the sample size of unique invoices selected for review and testing was 46. Table A.2 shows the numeric attributes of the unique sample by task order.

Table A.2: Numeric Attributes of the Sample by Task Order

Task Order	Sample with Duplicates	Unique Samples	Sum of Payments
SAQMMA13F3862	1	1	\$451,495
SAQMMA14F0096	74	45	\$42,668,728
Total	75	46	\$43,120,223

Source: OIG generated on the basis of output from the R Statistical Program.⁴

The findings, by invoice, are summarized in Appendix B, Tables B.1 and B.2.

² For the partially dollar-weighted design used to select the sample, the dollar-weighted portion was combined with the risk score. The weights were computed by allocating 90 percent of the sample design to the dollar unit and 10 percent to the risk score for each individual invoice.

³ The risk score for each unique invoice was calculated by averaging the risk factors assigned to each invoiced contract line item number (CLIN) and the date the invoice was paid. In particular, cost reimbursable CLINs were considered a higher risk than fixed price CLINs, and invoices paid prior to September 2014 were considered high-risk on the basis of statements by CMO-Frankfurt personnel that these invoices would likely have more errors than those paid after September 2014.

⁴ The R statistical program is a language and environment for statistical computing. The program provides a wide variety of statistical (linear and nonlinear modeling, classical statistical tests, time-series analysis, classification, clustering) and graphical techniques.

Invoice Testing

OIG performed the following series of tests to meet our sampling objective. To determine if sampled invoices approved for payment were supported, OIG traced invoiced amounts to PAE's cost-support documentation, such as receipts, sub-contractor invoices, timesheets, and travel vouchers. The OMSS contract and SOP do not require PAE to provide the Government with cost-support documentation for purchases of supplies and materials equaling \$5,000 or less; however, PAE is required to provide this documentation upon request. Per OIG's request, CMO-Frankfurt obtained cost-support documentation from PAE for the sampled invoices that included purchases equaling \$5,000 or less. However, PAE did not always provide complete and sufficient documentation to support its invoices, as discussed in Finding A of this report.

To determine if sampled fixed price invoices approved for payment were allowable, OIG tested whether line items corresponded to applicable task order fixed price negotiated rates. To determine if sampled cost reimbursable invoices approved for payment were allowable, OIG tested whether line items were within the scope of the operations and maintenance support service requirements established in the contract and task orders. OIG also validated whether the cost reimbursable line items were supported by a purchase order that corresponded to the invoice's period of performance and the task order.

To determine if sampled fixed price charges were calculated correctly, OIG recalculated the charges to determine if they corresponded to the negotiated rates established by the task order and contract. To determine if sampled cost reimbursable invoice charges were calculated correctly, OIG reviewed and recalculated charges on the basis of the quantities and unit prices listed on cost-support documentation.

Finally, OIG verified that a Department official—not a contractor—accepted the invoices to ensure that contractors were not performing inherently governmental functions and thereby committing the payment of Department funds.

Statistical Projections

The audit team provided the statistician the questioned costs results of all 46 sampled invoices. These results were used by the statistician to compute projections within a 95-percent confidence range for all the samples selected in the sample design, including the duplicate selections.⁵ All projections were conducted using the R statistical program.

Attribute Projections

Attribute projections were tested two ways: (1) to determine whether the costs were supported and (2) to determine whether the costs were allowable. The sample results for these tests were

⁵ The sample projections relied on the duplicate selection to reduce bias when estimating the point estimate. See Pfeiffermann, D. (1993).

projected using the `svydesign()`⁶ function from the `survey()` library.⁷ Since the sample was selected using sampling weights, the sampling probability was accounted for by designating the field with the sampling weights in the "probs" parameter. The `svyglm()`⁸ function was used to compute the point estimate and standard error for each attribute test. The standard error and point estimate were transformed from the logit scale to the standard normal (0,1) scale using a custom function. The output from this function was the point estimate and the 95-percent confidence range as a percentage. These percentages were multiplied to the untested number of invoices (71 invoices).

Variable Projections

Variable testing of monetary values were tested two ways: (1) to determine what amount was unsupported and (2) to determine what amount was unallowable. For each invoice, the proportion of the invoice dollar amount found to be unsupported and unallowable was computed by dividing the invoice dollar amount to the value found unsupported or unallowable. The sample results for these tests were projected using the `boot()`⁹ function from the `boot()` library. The 95-percent confidence range was computed using the `boot.ci()`¹⁰ function. The output was the percentage that was multiplied to the untested dollar total of \$30,055,707.

Table A.3 shows the projected estimated questioned costs and 95-percent confidence ranges for the untested invoices.

Table A.3: Projected Results of Questioned Costs for the Untested Invoices

Questioned Cost	Projected Estimate ^a	95-Percent Confidence Range
Unsupported	\$2,096,062	\$1,036,433 - \$3,159,164
Unallowable	\$109,062	\$45,554 - \$172,511
Total	\$2,205,124	\$1,081,987 - \$3,331,675

^a Dollar value point estimate

Source: OIG generated on the basis of output from the R Statistical Program.

⁶ The function specifies a complex survey design.

⁷ Lumley, T. (2014), *Survey: Analysis of Complex survey samples*. R package version 3.30 and Lumley, T. (2004), *Analysis of complex survey samples*. *Journal of statistical software*, 9(1), 1-19. R package version 2.2.

⁸ The function fits a generalized linear model to data from a complex survey design, with inverse-probability weighting and design-based standard errors.

⁹ This function is used to perform bootstrapping and generates R bootstrap replicates of a statistic applied to the data. For the projections, R was 100,000 and the statistic was the mean.

¹⁰ This function returns and computes various types of confidence intervals for bootstrap samples. The type parameter was "norm," which computed the confidence range using the normal approximation.

APPENDIX B: INVOICES WITH QUESTIONED COSTS

The following tables list the sampled invoices that included unsupported and/or unallowable costs paid against BDSC Transition Task Order SAQMMA13F3862 and BDSC Sustainment Task Order SAQMMA14F0096. OIG summarized internal control deficiencies and weaknesses identified during our invoice reviews in Finding A of this report.

Table B.1: Questioned Costs for BDSC Task Order SAQMMA13F3862 Invoice

Item Number	Invoice Number	Unsupported Costs	Unallowable Costs	Total Questioned Costs
1	INV-00000014293	\$451,291	\$204	\$451,495
Total		\$451,291	\$204	\$451,495

Source: OIG generated on the basis of reviews of the BDSC Transition Task Order SAQMMA13F3862 invoice and cost-support documentation provided by CMO-Frankfurt.

Table B.2: Questioned Costs for BDSC Task Order SAQMMA14F0096 Invoices

Item Number	Invoice Number	Unsupported Costs ^a	Unallowable Costs ^a	Total Questioned Costs ^a
1	OMBDS-O1CR-0416-74317	\$81,561	\$126	\$81,687
2	OMBDS-BYCR-0615-41730	\$233,273	\$6,406	\$239,679
3	OMBDS-BYCR-0415-36886	\$17,081	\$22,485	\$39,566
4	OMBDS-O1CR-0215-33181	\$13,679	\$1,863	\$15,542
5	OMBDS-O1CR-0616-82175	\$20,969	-	\$20,969
6	OMBDS-BYCR-0215-33465	\$208,359	\$11,498	\$219,857
7	OMBDS-O1CR-0316-68099	\$2,275	\$2,321	\$4,596
8	OMBDS-BYCR-0315-35340	\$24,199	\$5,174	\$29,373
9	OMBDS-BYCR-0614-20595-R1	\$53,957	\$4,226	\$58,183
10	OMBDS-BYFP-1014-25840	-	\$54,152	\$54,152
11	OMBDS-O1CR-1015-54910	\$281,493	\$212	\$281,705
12	OMBDS-BYCR-0614-20595	\$202,837	-	\$202,837
13	OMBDS-BYCR-1014-25833	\$38,926	\$679	\$39,605
14	OMBDS-O1CR-0216-65592	\$523	-	\$523
15	OMBDS-BYCR-0515-38753	\$426,727	-	\$426,727
16	OMBDS-O1CR-1215-59228	\$19,336	-	\$19,336
17	OMBDS-BYCR-0814-22618-R1	\$70,122	\$8,022	\$78,144
18	OMBDS-O1CR-1115-57915	\$21,906	\$265	\$22,171
19	OMBDS-O2CR-0516-76231	\$28,619	-	\$28,619
20	OMBDS-O1CR-0516-76227	\$275	\$359	\$634
Totals		\$1,746,117	\$117,788	\$1,863,905

^a Numbers have been rounded to the nearest dollar amount. Therefore, figures may not add due to rounding and may not correspond with total questioned costs in Finding A, Tables 2 and 4.

Source: OIG generated on the basis of reviews of BDSC Sustainment Task Order SAQMMA14F0096 invoices and cost-support documentation provided by CMO-Frankfurt.

APPENDIX C: BUREAU OF ADMINISTRATION, OFFICE OF LOGISTICS MANAGEMENT RESPONSE



United States Department of State

Washington, D.C. 20520

May 11, 2017

UNCLASSIFIED
MEMORANDUM

TO: OIG/AUD – Norman P. Brown

FROM: A/LM – Jennifer A. McIntyre

SUBJECT: Draft Report *Audit of Baghdad Diplomatic Support Center Task Orders Awarded Under Operations and Maintenance Support Services Contract*
SAQMMA12D0165

Below is the Office of Logistics Management's response to the subject report. The point of contact for this response is Jim Moore who may be reached at 703-875-6285.

Recommendation 1. OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (AQM) (a) determine whether the \$1,746,116 in unsupported costs related to task order SAQMMA14F0096 as identified by OIG in Appendix B, Table B.2 is supported and (b) recover any costs determined to be unsupported.

Management Response to Draft Report: AQM concurs with this recommendation. During the next 90 days, AQM will begin to work with the Bureau of Near Eastern Affairs (NEA) to obtain additional information to address the unsupported costs and evaluate the additional information to determine if the costs remain unsupported and therefore unallowable. The Contracting Officer will initiate action to recover any costs determined to be unsupported before the end of FY17.

Recommendation 2. OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) determine whether total questioned costs of \$451,495, of which \$451,291 are considered unsupported and \$204 are considered unallowable, related to task order SAQMMA13F3862 as identified by OIG in Appendix B, Table B.1 is supported and allowable (b) recover any costs determined to be unsupported and unallowable.

Management Response to Draft Report: AQM concurs with this recommendation. During the next 90 days, AQM will begin to work with the Bureau of Near Eastern Affairs (NEA) to obtain additional information to address the unsupported costs and evaluate the additional information to determine if the costs remain unsupported and therefore unallowable. The Contracting Officer will initiate action to recover any costs determined to be unsupported before the end of FY17.

Recommendation 3. OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) determine whether the \$117,789 in unallowable costs related to task order SAQMMA14F0096 as identified by OIG in Appendix B, Table B.2 is allowable and (b) recover any costs determined to be unallowable.

Management Response to Draft Report: AQM concurs with this recommendation. During the next 90 days, AQM will begin to work with the Bureau of Near Eastern Affairs (NEA) to evaluate the allowability of the OIG identified unallowable costs. The Contracting Officer will initiate action to recover any costs determined to be unallowable before the end of FY17.

Recommendation 5. OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management recover any questioned costs identified by the Bureau of Near Eastern Affairs during its post-payment review of invoices not tested by OIG related to task order SAQMMA14F0096.

Management Response to Draft Report: AQM concurs with this recommendation. Upon conclusion of our evaluation of the OIG identified unsupported and unallowable costs (See Recommendations 1 and 3) and the Bureau of Near Eastern Affairs (NEA) subsequent response to Recommendation 4, the Contracting Officer will initiate action to recover any costs determined to be unallowable.

Recommendation 6. OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management recover any questioned costs identified by the Bureau of Near Eastern Affairs during its post-payment review of invoices not tested by OIG related to task order SAQMMA13F3862.

Management Response to Draft Report: AQM concurs with this recommendation. Upon conclusion of our evaluation of the OIG identified unsupported and unallowable costs (See Recommendations 2) and the Bureau of Near Eastern Affairs (NEA) subsequent response to Recommendation 4, the Contracting Officer will initiate action to recover any costs determined to be unallowable.

APPENDIX D: BUREAU OF NEAR EASTERN AFFAIRS RESPONSE



United States Department of State

Washington, D.C. 20520

UNCLASSIFIED

May 8, 2017

INFORMATION MEMO FOR OIG/AUD – Norman P. Brown

FROM: NEA – Executive Director Edward M. Alford *ea*

SUBJECT: Response to Draft Report on *Audit of Baghdad Diplomatic Support Center Task Orders Awarded Under Operations and Maintenance Support Services Contract SAQMMA12D0165*

This memorandum provides NEA's follow-up response to recommendation 4 of the subject report. AQM will respond to recommendations 1, 2, 3, 5, and 6. The original recommendation is also included for reference.

Recommendation 4 Draft: OIG recommends that the Bureau of Near Eastern Affairs perform a post-payment review of the invoices related to task orders SAQMMA13F3862 and AQMMA14F0096 that were not tested by OIG to identify unsupported and/or unallowable costs projected by OIG to be \$2.1 million in unsupported costs and \$109,000 in unallowable costs.

Management Response: Non-Concur at this time. Based on the OIG information made available to NEA, the Frankfurt Regional Contract Support Office (RCSO) determined that a post payment review should be done for 20 invoices sampled in the OIG audit. The specific purpose of this post-payment review, which can be completed within 60 days, will be to gather supporting documentation from PAE. Should reimbursable costs to the U.S. government be identified by RCSO during this review, NEA will submit results to all parties for review to determine appropriate action(s), and request OIG-Audit extrapolate a revised projection of unallowable costs based on those results. NEA requests that Invoice 25840 be removed from this discussion based on evidence that RCSO has provided regarding appropriate CLIN allocation within this invoice (Tab 1 – 5).

Attachments:

- Tab 1 – Invoice 25840 Response
- Tab 2 – Sample No. 27 Auditor's Analysis
- Tab 3 – OMBDS-BYFP-1014-25840 Invoice
- Tab 4 – OMBDS-BYFP-0914-23748 Invoice
- Tab 5 – OMBDS-BYCR-1014-25833 Invoice

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Attachments and tabs are available upon request, consistent with applicable law.

ABBREVIATIONS

A/LM	Bureau of Administration, Office of Logistics Management
A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
ACOR	Alternate contracting officer's representative
BDSC	Baghdad Diplomatic Support Center
CLIN	Contract line item number
CMO	Contract Management Office
COR	Contracting officer's representative
FAR	Federal Acquisition Regulation
IDIQ	Indefinite-delivery/indefinite-quantity
NEA	Bureau of Near Eastern Affairs
OMSS	Operations and Maintenance Support Services
PAE	PAE Government Services, Inc.
RCSO	Regional Contract Support Office
SOP	Standard operating procedures

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