



**OIG**

**Office of Inspector General**

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# **Management Assistance Report: Cost Controls for Food Services Supporting Department of State Operations in Iraq Require Attention**

**MANAGEMENT ASSISTANCE REPORT**

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## Summary of Review

The Department of State (Department) provides life support services, including food and water, to personnel working in Iraq through Baghdad Life Support Services (BLiSS) food services task order SAQMMA14F0721. The food services task order was awarded on March 1, 2014, with a base year and 4 option years at a total value of \$362.5 million as of December 2017. To control food services costs, the Department established four primary controls: (1) A maximum Basic Daily Food Allowance (BDFA) that the contractor, PAE Government Services, Inc. (PAE), could charge per person, per day for food services, (2) a plan to convert BLiSS food services from a cost-reimbursement to a fixed-price task order, (3) a plan to implement a point-of-sale (POS) cafeteria system, and (4) a requirement to limit the number of Department-subsidized meals for individuals who do not live on Department posts in Iraq.

During an ongoing audit of cost controls for the BLiSS food services task order, the Office of Inspector General (OIG) found that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) did not effectively implement contractually established cost controls to protect the Department's financial interests. With respect to the BDFA, OIG found that Contracting Officer's Representatives approved contractor invoices for payments that exceeded the \$20 allowance by \$3.25 per person, per day during the base year. OIG also found that the Contracting Officer (CO) increased the BDFA for option years 1, 2, and 3 by \$7 per person, per day without performing required analysis to establish that the Department received a fair and reasonable price for these services. As a result, OIG questions \$3.55 million in BDFA costs paid from base year operations and \$37.4 million in BDFA costs paid to PAE for option years 1, 2, and 3.

In addition, OIG found that the CO did not implement the other three contractually established cost controls. Specifically, a plan to convert BLiSS food services from a cost-reimbursement to a fixed-price task order was not implemented, nor was a plan to implement a POS cafeteria system. Furthermore, a requirement to limit the number of Department-subsidized meals for individuals who do not live on Department posts in Iraq was not implemented. For these three cost controls, OIG found that the CO did not modify the task order to formally remove the unimplemented controls or establish alternative controls that would protect the Government's financial interests when procuring food services in Iraq. As a result, cost risk—the degree of cost responsibility and associated risk a contractor assumes when implementing a contract—for BLiSS food services in Iraq remained on the Government through the exercise of option year 3, and the Department paid approximately \$4.1 million for unauthorized meals to local national employees.

OIG made 14 recommendations to the Department to address identified questioned costs totaling approximately \$45 million and noncompliance with the contract terms and conditions. Specifically, 10 recommendations were addressed to A/LM/AQM to determine the allowability of questioned costs identified by OIG, recover those costs determined to be unallowable, and modify the BLiSS food services task order when appropriate. Based on comments from A/LM/AQM, OIG redirected three recommendations to the Bureau of Near Eastern Affairs (NEA) to perform a viability assessment of the POS cafeteria system, establish access controls at dining

facilities, and deter local national employees from removing food items from the dining facilities. OIG addressed one recommendation to the Department's Procurement Executive to implement ratification procedures, if deemed necessary, in accordance with Department policies. On the basis of responses received from A/LM/AQM and NEA/U.S. Embassy Baghdad to a draft of this report, OIG considers all 14 recommendations resolved pending further action. A synopsis of management's comments and OIG's reply follow each recommendation in the Audit Results section of this report, and management's comments are reprinted in their entirety in Appendix A.

## BACKGROUND

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Personnel working at most U.S. embassies and consulates throughout the world do not reside on post<sup>1</sup> and are responsible for obtaining their food from local grocery stores or restaurants. In Iraq, however, personnel typically work and reside on post and are not authorized to independently leave post to purchase food in the local economy. Instead, personnel living on posts in Iraq typically obtain food from Department-owned, contractor-operated dining facilities. To provide food services for its personnel working and residing on its posts in Iraq, the Department awarded the BLiSS contract.

### BLiSS Contract

In July 2013, A/LM/AQM awarded indefinite delivery, indefinite quantity (IDIQ) contract SAQMMA13D0120—referred to as the BLiSS contract—to PAE for the purpose of providing life support services and logistics functions at various sites in Iraq. Life support services include food acquisition, preparation, and service as well as bottled water acquisition and distribution.

The BLiSS contract, awarded on behalf of NEA,<sup>2</sup> has a maximum performance period of 5 years (base year plus 4 option years) and a not-to-exceed cost of \$1 billion (inclusive of all direct costs, indirect costs, and profit/fees). As of December 2017, the Department issued 15 task orders under the BLiSS contract with a total funded value of \$645.6 million. The BLiSS contract includes three food services task orders with a total funded value of approximately \$311 million. The largest of these food services task orders is SAQMMA14F0721, with a maximum value of \$362.5 million as of December 2017.<sup>3</sup>

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<sup>1</sup> Post means a diplomatic or consular mission of the United States of America, administered or managed by the Department of State.

<sup>2</sup> A/LM/AQM awarded the BLiSS contract using funds provided by NEA. Personnel from NEA administer and oversee the contract and associated task orders.

<sup>3</sup> For this audit, OIG reviewed the base year and option years 1, 2, and 3 for task order SAQMMA14F0721. Option year 4 for task order SAQMMA14F0721 as well as the other two food services task orders were not included in the scope of this audit.

**Task Order SAQMMA14F0721**

In March 2014, A/LM/AQM awarded BLiSS food services task order SAQMMA14F0721 to PAE to provide food services for the Baghdad Embassy Compound (BEC), the Baghdad Diplomatic Support Center (BDSC), and U.S. Consulate General in Basrah (Basrah). As of December 1, 2017, A/LM/AQM awarded the base year with a value of approximately \$40.7 million and exercised 4 option years with a total value of approximately \$321.8 million (see Table 1).

**Table 1: BLiSS Food Services Contract Periods and Values for Task Order SAQMMA14F0721 as of December 2017**

Contract Period	Contract Value
Base Year (03/01/2014–11/30/2014)	\$40,657,871
<b>Subtotal</b>	<b>\$40,657,871</b>
Option Year 1 (12/01/2014–11/30/2015)	\$72,590,273
Option Year 2 (12/01/2015–11/30/2016)	\$82,033,642
Option Year 3 (12/01/2016–11/30/2017)	\$83,686,119
Option Year 4 (12/01/2017–11/30/2018)	\$83,519,131
<b>Subtotal</b>	<b>\$321,829,165</b>
<b>Total</b>	<b>\$362,487,036</b>

**Source:** OIG generated from data obtained from modification 024 of the BLiSS food services task order SAQMMA14F0721.

The Statement of Objective<sup>4</sup> for the food services task order explained that the contractor would use the first 9 months of operations (also known as the base year) to evaluate actual operating costs so the Department could estimate food service costs and transition the dining facilities in Iraq to operate similarly to food services available at most Department sites worldwide. To accomplish this objective, A/LM/AQM established four primary cost controls within the BLiSS food services task order:<sup>5</sup>

- A BDFA,<sup>6</sup> which specified the maximum price that PAE could charge per person, per day for food services
- A plan to convert BLiSS food services from a cost-reimbursement to a fixed-price task order
- A plan to implement a POS cafeteria system
- A requirement to limit the number of Department-subsidized meals for individuals who did not live on posts in Iraq

<sup>4</sup> A Statement of Objective is a Government-prepared document incorporated into the solicitation that states the overall performance objectives. The Department incorporated the BLiSS contract's Statement of Objective, by reference, into the food services task order.

<sup>5</sup> A/LM/AQM did not include option years during the award of the BLiSS food services task order. However, the CO prepared a Determination and Finding, dated February 5, 2015, to justify the inclusion of option years before exercising option year 1.

<sup>6</sup> BDFA is an average daily food price per person.

These cost controls were to be implemented at various points throughout the life cycle of the BLiSS food services task order. The controls for the BDFA—and limiting the number of Department-subsidized meals for off-post employees—were to be implemented during the base year, and the control to convert the task order to fixed-price was to be implemented in option year 1. The implementation timeframe for the POS cafeteria system was not specified in the contract.

### ***Contract Administration and Oversight Responsibilities***

A/LM/AQM was responsible for awarding and administering the BLiSS IDIQ contract and associated task orders. COs within A/LM/AQM are the Department's authorized agents for working with contractors and have sole authority to solicit proposals; negotiate, award, administer, modify, or terminate contracts; and make related determinations and findings on behalf of the Department. COs perform duties at the request of the requirements office and rely on that office for technical advice concerning the services being acquired.<sup>7</sup>

NEA, as the requirements office, was responsible for determining contract requirements, providing funding, and performing oversight of the BLiSS IDIQ contract and associated task orders. To assist with that oversight, a CO may designate, in writing, technically qualified personnel as Contracting Officer's Representatives (CORs) or Alternate CORs to be the CO's authorized representatives in the administration of contracts. Collectively, CORs and Alternate CORs serve as the eyes and ears of the CO to ensure that the Department receives high-quality supplies and services on time, within the agreed upon price, and in accordance with all contract requirements. However, the CORs or Alternate CORs have no authority to make any commitments or changes that affect price, quality, quantity, delivery, or other terms and conditions of the contract.<sup>8</sup>

The Procurement Executive in the Bureau of Administration, Office of the Procurement Executive (A/OPE) provides overall acquisition and Federal assistance. For example, the Procurement Executive provides management direction and Department-wide leadership and expertise in the areas of acquisition and Federal assistance. The Procurement Executive also creates and implements strategies to maximize the effectiveness, efficiency, and responsiveness of contracting processes through Department-wide policy development, training, and support. In addition, the Procurement Executive appoints all COs in the Department and provides them with a contracting "warrant," which contains dollar limits on signature authority.

### **Purposes of the Ongoing Audit and Management Assistance Report**

OIG conducted this audit, which is currently underway, to determine whether A/LM/AQM established and implemented cost controls that successfully controlled costs over the life of task order SAQMMA14F0721 and whether A/LM/AQM and NEA held the contractor accountable for complying with the established cost controls, including the contractor's cost control plan.

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<sup>7</sup> 14 Foreign Affairs Handbook (FAH)-2 H-141, "Responsibilities of the Contracting Officer."

<sup>8</sup> Federal Acquisition Regulation (FAR) 1.602-2(d)(5), "Responsibilities."

This Management Assistance Report is intended to provide early communication of deficiencies that OIG identified during its audit as they relate to the first part of this objective. OIG is reporting these deficiencies in accordance with generally accepted government auditing standards and believes that the evidence obtained provides a reasonable basis for the deficiencies identified in this report. This report relates to the overseas contingency operation, Operation Inherent Resolve, and was completed in accordance with OIG's oversight responsibilities described in Section 8L of the Inspector General Act of 1978, as amended.

## RESULTS

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### **Finding A. Unjustified Increases to the Basic Daily Food Allowance Resulted in \$41 Million in Questioned Costs**

The CO<sup>9</sup> and CORs<sup>10</sup> did not comply with Federal regulations and Department policies that required them to protect the financial interests of the Government when implementing the BDFA cost control that was established in BLISS food services task order SAQMMA14F0721. Specifically, CORs within NEA approved contractor invoices for payment that exceeded the \$20 BDFA by \$3.25 per person, per day during the task order's base year. In addition, the CO increased the BDFA for option years 1, 2, and 3 by \$7 per person, per day, without performing required analysis to justify the increase and demonstrate that the Government received a fair and reasonable price. According to the CO, he was aware of the BDFA overage during the base year, but he did not direct PAE to maintain costs at the contractually established BDFA rates or direct CORs to disapprove the excess payments. He took this approach in part because A/LM/AQM and NEA officials wanted to identify actual costs during the base year as a basis for negotiating the costs for option year 1. The CO also stated that he did not conduct market research or pricing analyses prior to exercising option year 1 because he relied on NEA and Post management officials to negotiate the price with PAE, even though the CO has sole authority to negotiate on behalf of the Department. As a result, the Department paid \$3.55 million in unallowable BDFA payments from base year operations and approximately \$37.4 million in BDFA payments during option years 1, 2, and 3, which were not supported with required analysis to demonstrate that the increased costs were fair and reasonable.

#### ***Authorized Basic Daily Food Allowance for the Base Year***

Under the BLISS contract, the Department established the maximum BDFA rate that PAE could charge for the base year at \$20 per person, per day for fully authorized patrons (those who are authorized breakfast, lunch, and dinner) and \$8 per person, per day for partially authorized

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<sup>9</sup> Multiple COs perform administrative functions under the BLISS food services task order; however, OIG will refer to the collective group of designated COs in the singular form in this report.

<sup>10</sup> All references to CORs in this report include the CORs or Alternate CORs involved in oversight and invoice review and approval of the food services task order.

patrons (those who are authorized only lunch).<sup>11</sup> Despite these contractually established prices, PAE did not differentiate between fully or partially authorized patrons when calculating the BDFA and invoicing the Department. Rather, PAE calculated the BDFA as if all patrons were fully authorized, resulting in PAE exceeding the BDFA rate by \$3.25 per person, per day<sup>12</sup> and CORs approving the total invoiced amounts for payment for the base year of food services in Iraq.

Under Federal Acquisition Regulation (FAR) 31.201-2, "Determining Allowability," a cost is not allowable unless it complies with the terms of the contract. In addition, 14 Foreign Affairs Handbook (FAH) 2 H-522.10(b), "Reviewing Invoices," states that the COR should determine the validity of costs claimed when reviewing invoices submitted to the Department for payment. Although the contractor is entitled to latitude and exercise of judgement in managing the contracted work, the CO has the right to "disallow" and thus not reimburse the contractor for costs that exceed those permitted by the terms of the contract. In this case, any amount in excess of the established BDFA would be unallowable under the terms and conditions of the contract unless the CO modified the task order to increase the allowable BDFA rates.

The CO told OIG that he was aware of the BDFA overage during the base year. He further stated that he did not direct PAE to maintain costs at the contractually established BDFA rates or direct CORs to disapprove the excess of \$3.25 per person, per day, invoiced by PAE to the Department because A/LM/AQM and NEA officials wanted to identify actual costs during the base year as a basis for negotiating the exercise of option year 1, among other things. However, the CO did not modify the contract to reflect the adjusted BDFA rates, as required by the FAR.<sup>13</sup> Because the excess costs did not meet contract terms and the BDFA rates were not contractually adjusted, OIG questions the allowability of \$3.55 million<sup>14</sup> paid to PAE in excess of the authorized BDFA for the base year of the food services task order.

**Recommendation 1:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) determine whether the \$3.55 million in questioned basic daily food allowance costs that OIG identified under the base year of Baghdad Life Support Services contract SAQMMA13D0120 food services task order

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<sup>11</sup> Fully authorized patrons (such as U.S. Government personnel) are individuals living and working at the BEC, BDSC, or Basrah, under chief of mission authority. Partially authorized patrons (such as local national employees) are those individuals who work at the BEC, BDSC, or Basrah but do not live on these posts.

<sup>12</sup> PAE reported that the average BDFA rate during the base year was \$23.25 per person, per day. Therefore, OIG took a conservative approach when calculating the BDFA overage by only considering the \$20 BDFA rate, even though, as noted previously, some individuals should have received an \$8 BDFA rate. Specifically, OIG subtracted the contractually established BDFA rate of \$20 from the \$23.25 to obtain the excess rate of \$3.25 charged by PAE per person, per day.

<sup>13</sup> "Contract modifications, including changes that could be issued unilaterally, shall be priced before their execution if it can be done without adversely affecting the interest of the Government. If a significant cost increase could result from a contract modification and time does not permit negotiation of a price, at least a ceiling price shall be negotiated unless impractical." FAR 43.102(b), "Policy."

<sup>14</sup> PAE reported the total number of meals served during the base year and divided that number by three to yield the BDFA head count of 1,091,475. OIG multiplied the BDFA head count by \$3.25 (the average BDFA rate of \$23.25 less the contractually established BDFA rate of \$20 for the base year) for a total of \$3,547,294.



SAQMMA14F0721 was allowable per the contract terms and conditions, and (b) recover all costs determined to be unallowable.

**Management Response:** A/LM/AQM concurred with the recommendation, stating that the proposed target date for the first response of its review is 60 days after the release of the final Management Assistance Report.

**OIG Reply:** On the basis of A/LM/AQM's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM/AQM has (a) determined the allowability of \$3.55 million in questioned BDFA costs and (b) recovered all costs determined to be unallowable.

### ***Authorized Basic Daily Food Allowance for the Option Years***

As previously stated, the BLISS contract established the maximum BDFA for base year operations at \$20 per person, per day. However, the CO increased the BDFA from \$20 to \$27 with the exercise of option year 1 without performing the required pricing analysis to support the cost increase or documenting his rationale within the contract file.

FAR 15.402, "Pricing Policy," states that COs shall purchase services at fair and reasonable prices and outlines the different types of acceptable analyses that COs may use to establish a fair and reasonable price, such as price analysis, cost analysis, or cost realism analysis. Additionally, FAR 17.207, "Exercise of Options," provides that, before exercising an option, the CO shall make a written determination for the contract file that states the exercise is in accordance with the terms of the option and other FAR requirements; that section also provides that COs may exercise an option only after determining that it "is the most advantageous method of fulfilling the Government's need, price and other factors considered."

OIG discussed this matter with the CO, and he confirmed that no market research or pricing analysis was conducted before exercising option years 1, 2, and 3 to determine whether the Department agreed to pay a fair and reasonable price for food services. The CO also confirmed that the official contract file did not contain any documentation to support the increased BDFA rate or the rationale for not conducting the required analysis. Although the official contract file includes a Determination and Finding stating that the exercise of option year 1 was the most advantageous method of fulfilling the Government's need, this document does not meet the requisite standards and was signed 2 months after the Department issued the notice to proceed for option year 1. In addition to the late signature, the statement is not supported by a detailed analysis demonstrating how the CO made his determination on whether the Government received a fair and reasonable price. OIG determined that market research or pricing analysis may not have been conducted, in part, because management officials in Iraq and NEA program officials began negotiating the increased BDFA rate for the exercise of option year 1 with PAE officials without the CO's knowledge, even though the CO is the sole authorized agent to engage in negotiations on behalf of the Department. OIG also established that the CO was



unaware of the negotiations between NEA and PAE until after the BDFA rate of \$27 was proposed.<sup>15</sup> Notwithstanding his lack of involvement in the negotiations, the CO applied the increased BDFA of \$27 with the exercise of option year 1 and subsequently carried the increase into the exercise of option years 2 and 3. At no time did the CO conduct the required analysis to support the increase or document the rationale for not engaging in additional analysis.

OIG reviewed data provided by PAE for the BDFA head counts at the BEC, BDSC, and Basrah—and average BDFA rates charged at those locations—to determine the amount the Department paid PAE in excess of the BDFA rate of \$20 established in the base year for option years 1, 2, and 3 (see Table 2).

**Table 2: Unsupported BDFA Costs Paid to PAE for Option Years 1, 2, and 3**

Contract Period	BDFA Head Count	Average BDFA Rate	Difference <sup>1</sup>	Total Unsupported BDFA Costs <sup>2</sup>
Option Year 1	1,807,824	\$26.65	\$6.65	\$12,022,030
Option Year 2	1,996,895	\$26.88	\$6.88	\$13,738,638
Option Year 3 <sup>3</sup>	1,778,565	\$26.56	\$6.56	\$11,667,386
<b>Total</b>				<b>\$37,428,054</b>

<sup>1</sup> OIG calculated the difference by subtracting the contractually established BDFA rate of \$20 from the average BDFA rate.

<sup>2</sup> OIG calculated these amounts by multiplying the BDFA head count by the difference.

<sup>3</sup> Option Year 3 calculations are from December 2016 through September 2017 and are rounded to the nearest dollar.

**Source:** OIG generated from food service data provided by Taylors on behalf of PAE.

As of September 30, 2017, OIG calculated that the Department paid approximately \$37.4 million in BDFA costs that the CO did not determine was fair and reasonable or otherwise justify in an adequate written determination in the official contract file. OIG therefore concludes that the CO should take immediate action to ensure that the Department is paying a fair and reasonable BDFA rate and document the analysis supporting this determination within the contract file. In addition, if appropriate, the CO should include negotiated requirements within the contract by modifying the current food services task order so that U.S. taxpayers can be assured that the Department has fully considered the price, among other factors, when seeking the most advantageous method of fulfilling the Department's needs.

**Recommendation 2:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) determine whether the \$37.4 million in questioned basic daily food allowance costs paid to PAE Government Services, Inc. during option years 1, 2, and 3 of Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 as identified by OIG are allowable, and (b) recover any costs determined to be unallowable.

<sup>15</sup> PAE officials stated that Department officials asked them what services they could deliver under an increased BDFA of \$27 per person, per day. In response, PAE stated that it developed an operations plan outlining the changes it could make to meal services.

**Management Response:** A/LM/AQM concurred with the recommendation, stating that the proposed target date for the first response of its review is 60 days after the release of the final Management Assistance Report.

**OIG Reply:** On the basis of A/LM/AQM's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM/AQM has (a) determined the allowability of \$37.4 million in questioned BDFA costs and (b) recovered all costs determined to be unallowable.

**Recommendation 3:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management perform price reasonableness determinations prior to the exercise of future option years and bridge contracts for Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 to ensure that the Department receives a fair and reasonable price on food services in Iraq.

**Management Response:** A/LM/AQM concurred with the recommendation and noted that an approved price reasonableness determination was performed prior to exercising option year 4.

**OIG Reply:** On the basis of A/LM/AQM's concurrence with the recommendation and actions taken, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM/AQM conducted a price reasonableness determination prior to exercising option year 4 and has made provision to do so for all future bridge contracts for the BLiSS food services task order to ensure that the Department receives a fair and reasonable price on food services in Iraq.

**Recommendation 4:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management establish and implement internal procedures for Contracting Officers to perform price reasonableness determinations prior to exercising each option year and use that analysis as a tool for negotiating price on the associated option year. The policy should also require the Contracting Officer to maintain the documentation and associated analyses in the contract file.

**Management Response:** A/LM/AQM stated that it will "review and determine the need for implementation of internal procedures for Contracting Officers to perform price reasonableness determinations prior to exercising each option year" and, if appropriate, use those determinations as a tool for negotiating price on the associated option year. A/LM/AQM also stated that, if the need for price reasonableness is determined, then "the policy will require Contracting Officers to maintain the documentation and associated analyses in the contract file." A/LM/AQM stated that the proposed target date for its review is 60 days after the release of the final Management Assistance Report.

**OIG Reply:** On the basis of A/LM/AQM's planned actions, OIG considers this recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM/AQM (a) implemented internal procedures for COs to perform price reasonableness determinations prior to exercising option years and (b) implemented a policy that requires the COs to maintain the analyses of price reasonableness, along with associated supporting documentation, in the contract file.

## **Finding B. A/LM/AQM Did Not Implement Contractually Established Cost Controls for Task Order SAQMMA14F0721**

OIG found that the CO did not implement the other contractually established cost controls. Specifically, the CO did not:

- Convert the task order from cost-reimbursement to fixed-price during the exercise of option year 1 to place the cost risk<sup>16</sup> on PAE rather than the Department.
- Implement a POS cafeteria system.
- Restrict dining facility access for local national employees and for individuals not serving under chief of mission (COM)<sup>17</sup> authority.

Moreover, the CO did not modify the task order to remove the unimplemented cost controls or establish alternative cost controls.

A/LM/AQM and NEA officials provided several explanations as to why these cost controls were not implemented and why modifications to the task order were not executed. For example, the CO stated that he did not convert the contract type because A/LM/AQM officials did not take the steps necessary to determine whether PAE's fixed-price proposal for option year 1 was fair and reasonable. With regard to the POS cafeteria system, Department officials stated that they stopped its implementation because of a security-related crisis in Iraq and that they did not later reinstate efforts to implement it because of concerns with morale. Finally, the CO stated that he was unaware that local national employees and individuals not serving under COM authority were using dining facilities at posts in Iraq in a manner inconsistent with the BLISS food services task order; he moreover stated that he did not know who provided the direction to ignore the contractual limitations. However, OIG could not validate the officials' statements because they did not document the rationale for their decisions. As a result, cost risk for BLISS food services remained on the Government through the exercise of option year 3, and the Department paid approximately \$4.1 million for meals to local national employees that the contract did not permit.

<sup>16</sup> Cost risk measures the degree of cost responsibility and associated risk that the contractor will assume as a result of the contract type. FAR 15.404-4(d)(1)(ii)(A), "Profit."

<sup>17</sup> A COM is the principal officer in charge of a diplomatic mission of the United States or of a U.S. office abroad.

### *Converting the Task Order to Firm-Fixed-Price During the Exercise of Option Years*

COs must safeguard the interests of the Department in its contractual relationships. As previously stated, FAR 17.207 requires COs to exercise an option year only after determining that doing so “is the most advantageous method of fulfilling the Government’s need.” As part of this process, COs must include within the contract file a written determination stating that the “exercise is in accordance with the terms of the option, ... and FAR Part 6, [Competition Requirement].” FAR 17.207(f) further provides that, to satisfy requirements regarding full and open competition, “the option must have been evaluated as part of the initial competition and be exercisable at an amount specified in or reasonably determinable from the terms of the basic contract.”

The CO exercised three cost-reimbursable option years under the BLiSS food services task order without determining the most advantageous method of fulfilling the Department’s needs and without including in the contract file a written determination explaining why cost-reimbursable options were exercised rather than converting the task order to fixed-price to place the cost risk on PAE rather than the Department. For example, for the exercise of option year 1—valued at approximately \$72.6 million—the CO signed a memorandum stating that PAE submitted a firm-fixed-price proposal for option year 1 that was 33-percent higher than that of the base year. However, no information in the contract file explains if A/LM/AQM officials took any steps to determine whether PAE’s proposal was fair and reasonable, as required by the FAR.<sup>18</sup> Instead, the memorandum merely stated that A/LM/AQM officials engaged with officials from Iraq and NEA to consider a cost-reimbursable pricing arrangement in lieu of the firm-fixed-price proposal; that is, the memorandum described what happened rather than providing the requisite justification for the decisions made by A/LM/AQM and ultimately accepted by the CO. In addition, the contract file includes a Determination and Findings that was intended to justify the award, but it was not signed until February 5, 2015, roughly 2 months after the option year began on December 1, 2014. This late signature is in and of itself improper under FAR 17.207(f), which states that the CO shall make a written determination for the contract file before exercising an option.

Email correspondence between the CO and NEA officials in November 2014 showed that PAE’s proposal was higher because of the resignations of 67 employees of PAE’s subcontractor, Taylors International Services, Inc. (Taylors). Taylors replaced most of these employees with middle managers who made salaries of up to three times the budgeted rate for each position. The email further showed that Taylors was using a greater number of American national employees than planned and that those individuals demanded higher salaries than local national and third-country national employees. The CO stated in the email that PAE’s firm-fixed-price proposal appeared reasonable but that he had “no basis on which to measure the pricing and negotiate on behalf of the government.” If a fair and reasonable price cannot be established by

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<sup>18</sup> The CO shall “[purchase] supplies and services from responsible sources at fair and reasonable prices.” FAR 15.402(a), “Pricing Policy.”

the CO from the analyses of the data obtained or submitted, the CO should require additional information that allows for this assessment.<sup>19</sup>

The memoranda provided by A/LM/AQM to OIG to support the exercise of option years 2 and 3—valued at approximately \$82 million and \$65.5 million, respectively—similarly failed to meet the requirements of FAR 17.207. Specifically, they are silent about the type of contract at issue and of any market research or analysis conducted to determine a fair and reasonable price for the option years being exercised. They similarly provide no justification for continuing to place cost-risk on the Department under a cost-reimbursable contracting arrangement. Finally, neither memorandum was signed or dated, so OIG could not determine whether they were prepared before the exercise of the option years.

Finally, the CO stated in an internal email on November 24, 2014, to A/LM/AQM, NEA, and Post Management officials that the BLISS predecessor contract<sup>20</sup> was cost-reimbursable but that the Department of Defense, which administered this contract, had significantly more oversight personnel and the “breadth and depth” of knowledge necessary to monitor and manage the contract. The CO stated that the Department’s ratio of personnel to monitor and manage a cost-reimbursable task order was “not ideal” and that the invoice review and approval process is much more comprehensive under a cost-reimbursable arrangement, requiring greater man hours to fully review each invoice. Additional communications in the same email chain did not address the CO’s comments on this particular issue.

In summary, the contract file included no written determinations containing the CO’s analysis supporting a conclusion that the Department received a fair and reasonable price that would justify the award of additional cost-reimbursable option years. Without this information, the CO had no basis by which to negotiate a price with PAE when exercising those 3 option years at a total value exceeding \$220 million. Therefore, the CO did not adequately protect the financial interests of the U.S. taxpayers and the Department retained full responsibility for the cost risks associated with the BLISS food services task order. Indeed, PAE was actually rewarded for its workforce problems when the Department agreed to pay higher wages for middle managers to serve in staff positions. Finally, the exercise of cost-reimbursable rather than firm-fixed-price option years placed additional burden on the administrative and oversight personnel in the Department, which, according to the CO, lacked the breadth and depth of knowledge necessary to monitor and manage the contract.

**Recommendation 5:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management instruct all Contracting Officers that they must comply with Federal Acquisition Regulation 17.207, “Exercise of Options,” prior to the Bureau of Administration, Office of Logistics Management, Office of Acquisitions

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<sup>19</sup> FAR 15.402(a)(3).

<sup>20</sup> Life support services in Iraq were previously provided under Department of Defense contracts, such as the Logistics Augmentation Program and other supporting Defense Logistics Agency contracts.

Management exercising all future option years or bridge contracts under Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721.

**Management Response:** A/LM/AQM concurred with the recommendation.

**OIG Reply:** On the basis of A/LM/AQM's concurrence with the recommendation, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM/AQM instructed all COs that they must comply with FAR 17.2017, "Exercise of Options," prior to exercising all future option years or bridge contracts under the BLISS food services task order.

### ***Point-of-Sale Cafeteria System Was Not Implemented***

The BLISS contract's Statement of Objective required all contractor proposals to provide a proposed solution for food services in Iraq that would result in a POS cafeteria system.<sup>21</sup> Under the POS system, the Government would provide no funding for the delivery of food services. Instead, the contractor would receive monies from the sale of meals and food items directly from the patrons. The Statement of Objective further provided that a meal card system would be introduced to avoid cash transactions, control costs, manage access, maintain and track accountability, and limit waste.

In accordance with the Statement of Objective, PAE's technical proposal<sup>22</sup> stated that it would implement Blackboard Transact,<sup>23</sup> a POS system. PAE's technical proposal emphasized the benefits of implementing such a system stating, "[it] is well known that there is significant cost saving to [the Department] if their employees receive a budget to spend on meals vs. the current 'eat all you want' from a direct food and healthcare/insurance perspective. Portion control and financial accountability for each patron will reduce waste, which greatly reduces cost."

Despite the known benefits of this approach as well as the contract's specific requirements, the Department stopped the implementation the POS cafeteria system after PAE had procured some of the Blackboard Transact equipment needed to fully implement the system. This equipment included cash drawers, thermal printers, and kiosks valued at approximately \$78,000. According to the CO, the Department stopped the implementation of the POS cafeteria system in 2014 as the result of a security-related crisis in Iraq; however, this decision was not documented in the official contract file. The CO stated that, even though security conditions have improved since 2014, operations have not stabilized enough at the U.S. posts in Iraq to implement a POS cafeteria system. The CO also explained that implementing a POS cafeteria system would require

<sup>21</sup> Under the POS system, each food item would be assigned a price and each customer would be responsible for purchasing food with a Department-subsidized and self-funded meal card.

<sup>22</sup> PAE's technical proposal was incorporated by reference into the BLISS food services task order.

<sup>23</sup> PAE did not fully implement Blackboard Transact as a POS cafeteria system; instead, PAE implemented a component of Blackboard Transact to track meal card swipes at each dining facility.



a significant marketing effort so that patrons would understand and accept the change. Similarly, NEA officials stated that implementing the POS cafeteria system may harm morale, result in patrons demanding higher quality meals, and make it more difficult to fill vacancies in Iraq without providing additional post allowances.

According to the CO, however, A/LM/AQM and NEA officials considered all these risks before establishing the requirement for a POS cafeteria system in the original Statement of Objective, and they remain optimistic that the POS cafeteria system can be implemented once the security conditions in Iraq have improved. In the meantime, though, the CO has not modified the BLiSS food task order to remove the POS cafeteria system requirement, and he has not sought any consideration from PAE for verbally relieving it of this requirement even though doing so has reduced PAE's own contractual obligations without the Department receiving anything in return. As a result, the Department has received no benefit from the expenditure of approximately \$78,000 on equipment that has not been used.

**Recommendation 6:** OIG recommends that the Bureau of Near Eastern Affairs, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management and U.S. Embassy Baghdad, perform a viability assessment on the implementation of a point-of-sale cafeteria system under Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 at Department of State sites in Iraq.

**Management Response:** A/LM/AQM stated that this recommendation should be redirected to NEA, which, in coordination with A/LM/AQM and U.S. Embassy Baghdad, concurred with the recommendation. In separate comments, NEA/Embassy Baghdad described security concerns that may have led to a lack of urgency in implementing the POS cafeteria system.

**OIG Reply:** In a draft of this report, OIG directed this recommendation to A/LM/AQM, in coordination with NEA. On the basis of comments received from A/LM/AQM to a draft of this report, OIG redirected the recommendation to NEA, in coordination with A/LM/AQM and U.S. Embassy Baghdad. On the basis of concurrence received, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that NEA, in coordination with A/LM/AQM and U.S. Embassy Baghdad, performed a viability assessment on the implementation of a POS cafeteria system under the BLiSS food services task order at Department sites in Iraq.

**Recommendation 7:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management modify Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 to update the requirement for a point-of-sale cafeteria system in pertinent contractual documentation, once the results of the viability assessment from Recommendation 6 are determined.

**Management Response:** A/LM/AQM concurred with the recommendation.



**OIG Reply:** On the basis of A/LM/AQM's concurrence with the recommendation, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that, once the viability assessment referenced in Recommendation 6 is completed, A/LM/AQM, if appropriate, modified the BLiSS food services task order to update the requirement for a POS cafeteria system in pertinent contractual documentation.

**Recommendation 8:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management use contractual remedies under Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 and seek adjustment from PAE Government Services, Inc. for relieving them of the requirement to implement the point-of-sale cafeteria system, pending the viability assessment from Recommendation 6.

**Management Response:** A/LM/AQM stated that it would "concur to consider the use of contractual remedies if appropriate . . . and seek adjustment from [PAE], for relieving them of the requirement to implement the [POS] cafeteria system, pending the viability assessment from Recommendation 6."

**OIG Reply:** On the basis of A/LM/AQM's concurrence with the recommendation, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that, once the viability assessment referenced in Recommendation 6 is completed, A/LM/AQM used appropriate contractual remedies under the BLiSS food services task order to seek adjustment from PAE for relieving PAE from the requirement to implement the POS cafeteria system.

### ***Limitations on Dining Facility Access and To-Go Containers Were Not Enforced and Resulted in Unauthorized Commitments***

The Statement of Objective states that local national employees who live on the local economy and individuals not serving under COM authority "have limited access to the [cafeteria] and [snack bars] for lunch and limited snacks from 10:00am to 3:00pm." The Statement of Objective also states that to-go containers or bags of food cannot be taken home and that local staff should eat breakfast before coming to the post and dinner after leaving the post. Despite these contractual limitations, the COR stated that all individuals on posts in Iraq, including local national employees, have unlimited access to the cafeterias and snack bars during the dining facilities' normal hours of operation.<sup>24</sup> In addition, the International Operations Manager for food services from Taylors told OIG that no controls are in place to limit dining facility access<sup>25</sup>

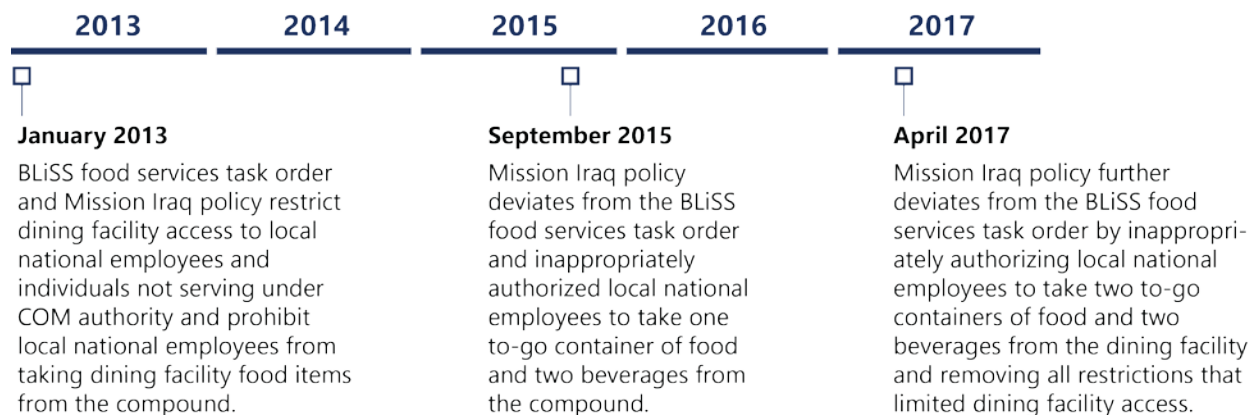
<sup>24</sup> Unlimited dining facility access means that patrons may enter, leave, and reenter the dining facilities as frequently as they choose and no restrictions exist on the quantity of food a patron may obtain during each visit.

<sup>25</sup> Dining facility patrons are requested to swipe their meal cards or to sign a logbook at the cafeteria and snack bar entry points, but access is not controlled with a physical barrier, such as a turnstile gate or door.

to local national employees and anyone not serving under COM authority or to prevent any patron from taking to-go boxes or bags of food from the dining facilities.

According to the COR and PAE's Food Operations Manager, a management official at the BEC provided inappropriate direction that allowed all staff members, including local national employees and individuals not serving under COM authority, to have unlimited dining facility access. This was outside the management official's authority, because only the CO can direct such changes to a contract. OIG obtained copies of Mission Iraq Staff Notices regarding life support services and found that a January 2013 Staff Notice<sup>26</sup> established the same limitations for dining facility access as outlined in the Statement of Objective. However, a September 2015 Staff Notice stated that local national employees "living off-compound are authorized one (1) takeaway container and two (2) beverages when departing the compound, per day."<sup>27</sup> An April 2017 Staff Notice, which superseded the January 2013 and September 2015 notices, increased the number of authorized to-go containers to two and removed all restrictions that limited dining facility access to local national employees and individuals not serving under COM authority.<sup>28</sup> Figure 1 depicts the evolution of Mission Iraq policy regarding BLiSS food services.

**Figure 1: Evolution of Mission Iraq Policy Regarding BLiSS Food Services**



**Source:** OIG generated from the comparison of task order SAQMMA14F0721 and Mission Iraq policies regarding life support services.

OIG found that the COR cleared for release—and the Deputy Management Counselor approved—the September 2015 Staff Notice. Similarly, the acting Deputy Chief of Mission approved the April 2017 Staff Notice. By approving and issuing these notices that, in effect, directed changes to the BLiSS food services task order, these officials operated outside of their authority and created unauthorized commitments. When OIG inquired about the CO's knowledge of these Staff Notices, he stated that he was unaware that local national employees

<sup>26</sup> Staff Notice 013-026, "Access to Basic Life Support Services."

<sup>27</sup> Staff Notice 015-209, "BEC Food Services Operations."

<sup>28</sup> Staff Notice 017-002, "Embassy Cafeteria Use."

and individuals not serving under COM authority were inappropriately accessing dining facilities at posts in Iraq. He also did not know who provided the direction to ignore the contractual limitations. The CO agreed that the direction was inappropriate and that it constituted an unauthorized commitment.

The FAR defines an unauthorized commitment as an agreement that is not binding solely because the Government representative who made it lacked the authority to enter into that agreement on behalf of the Government.<sup>29</sup> The Department of State Acquisition Regulations states that unauthorized commitments are "serious violations that could result in disciplinary action against the transgressor,"<sup>30</sup> which could include the withdrawal of a CO's warrant or a COR's delegation. Although unauthorized commitments are not binding on the Government, they may be approved using ratification procedures. Within the Department, the Procurement Executive is charged with ratifying unauthorized commitments in excess of \$1,000.<sup>31</sup>

By reviewing meal card data collected by Taylors and provided by PAE, OIG verified that local national employees accessed dining facilities in a manner that is inconsistent with the contract. Patrons are typically issued an electronic meal card that they swipe upon entry to each dining facility in Iraq, and individuals without a meal card are requested to sign a paper sign-in sheet upon entry to the dining facility. The meal card system (Blackboard Transact) and paper sign-in sheets capture data on the patron's employment classification, such as direct-hire Department staff, Department of Defense personnel, contractor personnel, and local national employees.<sup>32</sup> On the basis of these data, OIG found that local national employees inappropriately accessed dining facilities by at least 459,102 meal card swipes.<sup>33</sup> OIG could not determine the number of times individuals not serving under COM authority accessed the dining facilities because neither the Department nor PAE and its subcontractor maintain meal card records specific to this category of patrons. Table 3 provides a breakdown of the meal card swipes by local national employees in excess of the one workday meal that they are authorized to obtain under the BLISS food services task order by base and option year; it also includes the associated costs of unallowable meals as calculated by OIG.

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<sup>29</sup> FAR 1.602-3, "Ratification of Unauthorized Commitments."

<sup>30</sup> Department of State Acquisition Regulations 601.602-3, "Ratification of Unauthorized Commitments."

<sup>31</sup> DOSAR 601.602-3-70, "Procedures."

<sup>32</sup> According to Taylors officials, data from the sign-in sheets are manually entered into Blackboard Transact.

<sup>33</sup> This number is likely higher, but OIG could not determine the exact number of local national employee meal card swipes because neither the Department nor PAE maintained any dining facility access records before October 2014 for Basrah, April 2015 for the BEC, and August 2015 for BDSC.

**Table 3: Unauthorized Meal Card Swipes by Local National Employees and Associated Unallowable Costs**

Contract Period	Unauthorized Meal Card Swipes	Daily Average Cost Per Meal <sup>a</sup>	Unallowable Meal Costs Per Contract Period <sup>b</sup>
Base Period	6,234	\$7.75	\$48,314
Option Year 1	93,355	\$8.88	\$828,992
Option Year 2	191,493	\$8.96	\$1,715,777
Option Year 3	168,020	\$8.85	\$1,486,977
<b>Total</b>	<b>459,102</b>		<b>\$4,080,060</b>

<sup>a</sup> OIG calculated the daily average cost per meal by dividing the total BDFA cost for each year by the total head count for the year. The amount presented in this column has been rounded to two decimal points.

<sup>b</sup> OIG calculated the unallowable meal costs per contract period by multiplying the unauthorized meal card swipes by the daily average cost per meal. For example, in the base period, 6,234 unauthorized meal card swipes were multiplied by the daily average cost per meal of \$7.75 for a total of \$48,313.50. Totals may be slightly off due to rounding.

**Source:** OIG generated from meal card data provided by Taylors on behalf of PAE.

As of August 31, 2017, the Department inappropriately paid for a minimum of 459,102 meals to the local staff with a value of approximately \$4.1 million and an unidentified number of meals to individuals not serving under COM authority. The CO should take immediate action to prevent further unauthorized commitments of U.S. taxpayer dollars, including ensuring that controls are established and implemented so that PAE is not serving unauthorized meals to local national employees or individuals not serving under COM authority.

**Recommendation 9:** OIG recommends that the Bureau of Near Eastern Affairs, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management and the U.S. Embassy Baghdad, determine whether it shall (a) establish controls that limit physical access to dining facilities by local national employees and individuals not serving under chief of mission authority to one meal per work day in accordance with Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 or (b) appropriately modify the contract.

**Management Response:** A/LM/AQM stated that this recommendation should be redirected to NEA which, in coordination with A/LM/AQM and U.S. Embassy Baghdad, concurred with the recommendation. In its own comments, NEA/Embassy Baghdad noted generally that security risks, difficulties in procuring food, and travel restrictions on locally employed staff "contributed to prior management teams relaxing food service restrictions for [locally employed staff]. In short, the task order was conceived and executed in an operating environment profoundly different from the one in which it has operated. Successful military operations over the last two years have improved the security situation in country and post Management is bringing post's policy and practices into compliance with the food services task order."

**OIG Reply:** In a draft of this report, OIG directed this recommendation to A/LM/AQM, in coordination with NEA. On the basis of comments received from A/LM/AQM to a draft of this report, OIG redirected the recommendation to NEA, in coordination with A/LM/AQM

and U.S. Embassy Baghdad. On the basis of concurrence received, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that NEA, in coordination with A/LM/AQM and U.S. Embassy Baghdad, has determined whether it will (a) establish controls that limit physical access to dining facilities by local national employees and individuals not serving under COM authority to one meal per work day in accordance with the BLiSS food services task order or (b) appropriately modify the BLiSS contract and/or food services task order.

**Recommendation 10:** OIG recommends that the Bureau of Near Eastern Affairs, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, establish controls that deter and prevent local national employees from removing food items from Department of State dining facilities in Iraq in accordance with Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721.

**Management Response:** A/LM/AQM stated that this recommendation should be redirected to NEA, and that it would "assist with any contractual actions as required for the implementation of this recommendation." In an attachment to A/LM/AQM's response, NEA/U.S. Embassy Baghdad also stated that it concurred with the recommendations in the draft report. As noted in response to Recommendation 9, NEA/U.S. Embassy Baghdad also commented generally on the circumstances leading to the conditions that OIG identified.

**OIG Reply:** In a draft of this report, OIG directed this recommendation to A/LM/AQM, in coordination with NEA. On the basis of comments received from A/LM/AQM to a draft of this report, OIG redirected the recommendation to NEA, in coordination with A/LM/AQM. On the basis of concurrence received from NEA/U.S. Embassy Baghdad, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that NEA has established controls that deter and prevent local national employees from removing food items from Department dining facilities in Iraq in accordance with the BLiSS food services task order.

**Recommendation 11:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management establish a contractual requirement for PAE Government Services, Inc. to maintain records of dining facility access by individuals not serving under chief of mission authority in Iraq.

**Management Response:** A/LM/AQM concurred with the recommendation, stating that, in coordination with NEA, the proposed target date for its first response of this action is 60 days after the release of the final Management Assistance Report.

**OIG Reply:** On the basis of A/LM/AQM's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation

demonstrating that A/LM/AQM, in coordination with NEA, has established a contractual requirement for PAE to maintain records of dining facility access by individuals not serving under COM authority in Iraq.

**Recommendation 12:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) determine whether the \$4.1 million in questioned costs for unauthorized meals paid to PAE Government Services, Inc. under Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 as identified by OIG are allowable and (b) recover any costs determined to be unallowable.

**Management Response:** A/LM/AQM concurred with the recommendation stating that the proposed target date for the first response of its review is 60 days after the release of the final Management Assistance Report.

**OIG Reply:** On the basis of A/LM/AQM's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM/AQM has (a) determined whether the \$4.1 million in questioned costs identified by OIG for unauthorized meals paid to PAE are allowable under the BLISS food services task order and (b) recovered any costs determined to be unallowable.

**Recommendation 13:** OIG recommends that, if the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management does not seek reimbursement for \$4.1 million in unauthorized meals paid to PAE Government Services, Inc. in response to Recommendation 12, the Procurement Executive at the Bureau of Administration, Office of the Procurement Executive implement ratification procedures in accordance with Department of State Acquisition Regulations 601.602-3-70, "[Ratification] Procedures," for Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721.

**Management Response:** A/LM/AQM agreed with the recommendation and stated that it would work with the Office of the Procurement Executive to implement ratification procedures if A/LM/AQM does not seek reimbursement of the \$4.1 million in unauthorized meals paid to PAE.

**OIG Reply:** On the basis of A/LM/AQM's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Procurement Executive implemented ratification procedures in accordance with Department of State Acquisition Regulations 601.602-3-70, "[Ratification] Procedures," for the BLISS food services task order, if A/LM/AQM does not seek reimbursement from PAE for the \$4.1 million in unauthorized meals referenced in Recommendation 12.

**Recommendation 14:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management inform all Contracting Officer's Representatives, Alternate Contracting Officer's Representatives, Bureau of Near Eastern Affairs officials, and Mission Iraq management officials involved with the Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 that they are not authorized to negotiate with or otherwise deal with the contractors on contracting actions, and that the Contracting Officer is the authorized agent with sole authority to negotiate, award, administer, modify, or terminate contracts on behalf of the Department.

**Management Response:** A/LM/AQM concurred with the recommendation.

**OIG Reply:** On the basis of A/LM/AQM's concurrence with the recommendation, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM/AQM informed all CORs, Alternate CORs, NEA officials, and Mission Iraq management officials involved with the BLISS contract and food services task order that they are not authorized to negotiate with or otherwise deal with the contractors on contracting actions and that the CO is the authorized agent with sole authority to negotiate, award, administer, modify, or terminate contracts on behalf of the Department.



## RECOMMENDATIONS

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**Recommendation 1:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) determine whether the \$3.55 million in questioned basic daily food allowance costs that OIG identified under the base year of Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 was allowable per the contract terms and conditions, and (b) recover all costs determined to be unallowable.

**Recommendation 2:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) determine whether the \$37.4 million in questioned basic daily food allowance costs paid to PAE Government Services, Inc. during option years 1, 2, and 3 of Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 as identified by OIG are allowable, and (b) recover any costs determined to be unallowable.

**Recommendation 3:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management perform price reasonableness determinations prior to the exercise of future option years and bridge contracts for Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 to ensure that the Department receives a fair and reasonable price on food services in Iraq.

**Recommendation 4:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management establish and implement internal procedures for Contracting Officers to perform price reasonableness determinations prior to exercising each option year and use that analysis as a tool for negotiating price on the associated option year. The policy should also require the Contracting Officer to maintain the documentation and associated analyses in the contract file.

**Recommendation 5:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management instruct all Contracting Officers that they must comply with Federal Acquisition Regulation 17.207, "Exercise of Options," prior to the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management exercising all future option years or bridge contracts under Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721.

**Recommendation 6:** OIG recommends that the Bureau of Near Eastern Affairs, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management and U.S. Embassy Baghdad, perform a viability assessment on the implementation of a point-of-sale cafeteria system under Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 at Department of State sites in Iraq.

**Recommendation 7:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management modify Baghdad Life Support Services

contract SAQMMA13D0120 food services task order SAQMMA14F0721 to update the requirement for a point-of-sale cafeteria system in pertinent contractual documentation, once the results of the viability assessment from Recommendation 6 are determined.

**Recommendation 8:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management use contractual remedies under Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 and seek adjustment from PAE Government Services, Inc. for relieving them of the requirement to implement the point-of-sale cafeteria system, pending the viability assessment from Recommendation 6.

**Recommendation 9:** OIG recommends that the Bureau of Near Eastern Affairs, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management and the U.S. Embassy Baghdad, determine whether it shall (a) establish controls that limit physical access to dining facilities by local national employees and individuals not serving under chief of mission authority to one meal per work day in accordance with Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 or (b) appropriately modify the contract.

**Recommendation 10:** OIG recommends that the Bureau of Near Eastern Affairs, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, establish controls that deter and prevent local national employees from removing food items from Department of State dining facilities in Iraq in accordance with Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721.

**Recommendation 11:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management establish a contractual requirement for PAE Government Services, Inc. to maintain records of dining facility access by individuals not serving under chief of mission authority in Iraq.

**Recommendation 12:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) determine whether the \$4.1 million in questioned costs for unauthorized meals paid to PAE Government Services, Inc. under Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 as identified by OIG are allowable and (b) recover any costs determined to be unallowable.

**Recommendation 13:** OIG recommends that, if the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management does not seek reimbursement for \$4.1 million in unauthorized meals paid to PAE Government Services, Inc. in response to Recommendation 12, the Procurement Executive at the Bureau of Administration, Office of the Procurement Executive implement ratification procedures in accordance with Department of State Acquisition Regulations 601.602-3-70, "[Ratification] Procedures," for Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721.

**Recommendation 14:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management inform all Contracting Officer's Representatives, Alternate Contracting Officer's Representatives, Bureau of Near Eastern Affairs officials, and Mission Iraq management officials involved with the Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 that they are not authorized to negotiate with or otherwise deal with the contractors on contracting actions, and that the Contracting Officer is the authorized agent with sole authority to negotiate, award, administer, modify, or terminate contracts on behalf of the Department.

## APPENDIX A: THE BUREAU OF ADMINISTRATION, OFFICE OF LOGISTICS MANAGEMENT RESPONSE



United States Department of State

Washington, D.C. 20520

February 14, 2018

UNCLASSIFIED  
**MEMORANDUM**

TO: OIG/AUD – Norman P. Brown

FROM: A/LM – Jennifer A. McIntyre *J.A. McIntyre*

SUBJECT: Draft Report- *Management Assistance Report: Cost Controls for Food Services Supporting Department of State Operations in Iraq Require Attention*

Below is the Office of Logistics Management's response to the subject report. In addition, please note comments from NEA in the attached. 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 (a) determine whether the \$3.55 million in questioned basic daily food allowance costs that OIG identified under the base year of Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 was allowable per the contract terms and conditions, and (b) recover all costs determined to be unallowable.

**Management Response to Draft Report:** The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, concurs with Recommendation 1 to (a) determine whether the \$3.55 million in questioned basic daily food allowance costs that OIG identified under the base year of Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 was allowable per the contract terms and conditions, and (b) recover all costs determined to be unallowable. The proposed target date for the first response of this review is 60 days after release of the official report.

**Recommendation 2:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) determine whether the \$37.4 million in questioned basic daily food allowance costs paid to PAE Government Services, Inc. during option years 1, 2, and 3 of Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 as identified by OIG are allowable, and (b) recover any costs determined to be unallowable.

**Management Response to Draft Report:** The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, concurs with Recommendation 2 to (a) determine whether the \$37.4 million in questioned basic daily food allowance costs paid to PAE Government Services, Inc. during option years 1, 2, and 3 of Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 as identified by OIG are allowable, and (b) recover any costs determined to be unallowable. The proposed target date for the first response of this review is 60 days after release of the official report.



**Recommendation 3:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management perform price reasonableness determinations prior to the exercise of future option years and bridge contracts for Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 to ensure that the Department receives a fair and reasonable price on food services in Iraq.

**Management Response to Draft Report:** The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, concurs with Recommendation 3 to perform price reasonableness determinations prior to issuance of any bridge contracts for Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 to ensure that the Department receives a fair and reasonable price on food services in Iraq. (Note: the Option Year 4 (OY4) period was exercised with approved price reasonableness determination executed prior to issuance of the exercised OY4 period modification prior to the OY4 performance).

**Recommendation 4:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management establish and implement internal procedures for Contracting Officers to perform price reasonableness determinations prior to exercising each option year and use that analysis as a tool for negotiating price on the associated option year. The policy should also require the Contracting Officer to maintain the documentation and associated analyses in the contract file.

**Management Response to Draft Report:** The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management will review and determine the need for implementation of internal procedures for Contracting Officers to perform price reasonableness determinations prior to exercising each option year and, if appropriate, use those determinations one of the tools for negotiating price on the associated option year. If the need for price reasonableness is determined, then the policy will require Contracting Officers to maintain the documentation and associated analyses in the contract file. The proposed target date for the first response of this review is 60 days after release of the official report.

**Recommendation 5:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management instruct all Contracting Officers that they must comply with Federal Acquisition Regulation 17.207, "Exercise of Options," prior to the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management exercising all future option years or bridge contracts under Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721.

**Management Response to Draft Report:** The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, concurs with Recommendation 5 to instruct all Contracting Officers that they must comply with Federal Acquisition Regulation 17.207, "Exercise of Options," prior to exercising all future option years under Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721.

**Recommendation 6:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management in coordination with the Bureau of Near Eastern Affairs, perform a viability assessment on the implementation of a point-of-sale cafeteria system under Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 at Department of State sites in Iraq.

**Management Response to Draft Report:** This recommendation should be reassigned to the Bureau of Near Eastern Affairs who, in coordination with the Office of Logistics Management, Office of Acquisitions Management and the U.S. Embassy in Baghdad, concurs with Recommendation 6 to perform a viability assessment on the implementation of a point-of-sale cafeteria system under Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 at Department of State sites in Iraq.

**Recommendation 7:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management modify Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 to update the requirement for a point-of-sale cafeteria system in pertinent contractual documentation, once the results of the viability assessment from Recommendation 6 are determined.

**Management Response to Draft Report:** The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, concurs with Recommendation 7 to update the requirement for a point-of-sale cafeteria system in pertinent contractual documentation, should the requirement for a point-of-sale cafeteria system be shown as viable as per Recommendation 6.

**Recommendation 8:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management use contractual remedies under Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 and seek adjustment from PAE Government Services, Inc. for relieving them of the requirement to implement the point-of-sale cafeteria system, pending the viability assessment from Recommendation 6.

**Management Response to Draft Report:** The Office of Acquisition Management would concur to consider the use of contractual remedies if appropriate under Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 and seek adjustment from PAE Government Services, Inc. for relieving them of the requirement to implement the point-of-sale cafeteria system, pending the viability assessment from Recommendation 6.

**Recommendation 9:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Bureau of Near Eastern Affairs, determine whether it shall (a) establish controls that limit physical access to dining facilities by local national employees and individuals not serving under Chief of Mission authority to one meal per work day in accordance with Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 or (b) appropriately modify the contract.



**Management Response to Draft Report:** This recommendation should be reassigned to the Bureau of Near Eastern Affairs who, in coordination with the Office of Logistics Management, Office of Acquisitions Management and the U.S. Embassy in Baghdad , concurs with Recommendation 9 to determine whether it will (a) establish controls that limit physical access to dining facilities by local national employees and individuals not serving under Chief of Mission authority to one meal per work day in accordance with Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 or (b) appropriately modify the contract.

**Recommendation 10:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Bureau of Near Eastern Affairs, establish controls that deter and prevent local national employees from removing food items from Department of State dining facilities in Iraq in accordance with Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721.

**Management Response to Draft Report:** This recommendation should be reassigned to the Bureau of Near Eastern Affairs. The Office of Logistics Management, Office of Acquisitions Management will assist with any contractual actions as required for implementation of this recommendation.

**Recommendation 11:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management establish a contractual requirement for PAE Government Services, Inc. to maintain records of dining facility access by individuals not serving under Chief of Mission authority in Iraq.

**Management Response to Draft Report:** The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Bureau of Near Eastern Affairs, concurs to establish a contractual requirement for PAE Government Services, Inc. to maintain records of dining facility access by individuals not serving under Chief of Mission authority in Iraq. The proposed target date for the first response of this action is 60 days after release of the official report.

**Recommendation 12:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) determine whether the \$4.1 million in questioned costs for unauthorized meals paid to PAE Government Services, Inc. under Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 as identified by OIG are allowable and (b) recover any costs determined to be unallowable.

**Management Response to Draft Report:** The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, concurs with Recommendation 12 to (a) determine whether the \$4.1 million in questioned costs for unauthorized meals paid to PAE Government Services, Inc. under Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 as identified by OIG is accurate, (b) to determine if such are allowable and (b) recover any costs determined to be unallowable. The proposed target date for the first response of this review is 60 days after release of the official report.



**Recommendation 13:** OIG recommends that, if the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management does not seek reimbursement for \$4.1 million in unauthorized meals paid to PAE Government Services, Inc. in response to Recommendation 12, the Procurement Executive at the Bureau of Administration, Office of the Procurement Executive implement ratification procedures in accordance with Department of State Acquisition Regulations 601.602-3-70, "[Ratification] Procedures," for Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721.

**Management Response to Draft Report:** The Office of Acquisitions Management agrees with this recommendation and will work with the Office of the Procurement Executive to implement an implement ratification procedures if AQM does not seek reimbursement for the \$4.1 million in unauthorized meals paid to PAE.

**Recommendation 14:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, inform all Contracting Officer's Representatives, Alternate Contracting Officer's Representatives, Bureau of Near Eastern Affairs officials, and Mission Iraq management officials involved with the Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 that they are not authorized to negotiate with or otherwise deal with the contractors on contracting actions, and that the Contracting Officer is the authorized agent with sole authority to negotiate, award, administer, modify, or terminate contracts on behalf of the Department.

**Management Response to Draft Report:** The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, concurs with Recommendation 14 to inform all Contracting Officer's Representatives, Alternate Contracting Officer's Representatives, Bureau of Near Eastern Affairs officials, and Mission Iraq management officials involved with the Baghdad Life Support Services contract SAQMMA13D0120 food services task order SAQMMA14F0721 that they are not authorized to negotiate with or otherwise deal with the contractors on contracting actions, and that the Contracting Officer is the authorized agent with sole authority to negotiate, award, administer, modify, or terminate contracts on behalf of the Department.

**Attachments:**

NEA Embassy Baghdad comments on draft report.

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Tab 1 – NEA/Embassy Baghdad Comments on *Draft Report - Management Assistance Report: Cost Controls for Food Services Supporting Department of State Operations in Iraq Require Attention*

While post concurs with the recommendations in the draft report, we also feel the report, as currently written, understates the severity of the security-related crisis, the armed incursion of ISIS into Iraq, and its impact on post operations.

As ISIS forces advanced rapidly towards Baghdad, the danger to the Embassy and its personnel was very high. This led directly to a drawdown of personnel, impacting a range of post operations, including the then newly-awarded food services task order. Further limiting the number of personnel in country, approval was required by the NSC and Under Secretary for Management for anyone coming to post, including contractor employees. On top of this reduction in human capital at post, the remaining personnel, particularly PAE and its subcontractors such as Taylors International, mobilized to rapidly stand-up life support operations for the renewed DOD presence at Union III, a property which had been essentially abandoned and sitting idle. With these additional duties supporting the vital military effort against ISIS and a reduced staff, the implementation of a point-of-sale cafeteria system became less urgent.

Increased security measures at post and within the Green Zone also impacted the situation. Staff residing on the compound were no longer allowed to leave the grounds for groceries or other outside food, making them increasingly dependent on the food supplied under the task order. The task order prioritized local procurement of fresh foods. This procurement was reduced to zero as most of the farms were in ISIS controlled territory. Similarly, ISIS took control over roads to and from Jordan and Turkey that supported our supply routes. Locally Employed Staff (LE Staff), while still able to travel to and from the Embassy, faced restrictions and screening procedures that regularly took them up to three hours to transit the Green Zone. Post believes that this contributed to prior management teams relaxing food service restrictions for LE Staff. In short, the task order was conceived and executed in an operating environment profoundly different from the one in which it has operated. Successful military operations over the last two years have improved the security situation in country and post Management is bringing post's policy and practices into compliance with the food services task order.

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