



OIG

Office of Inspector General

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

AUD-MERO-16-41

Office of Audits

July 2016

# Audit of Task Orders for the Union III Compound Awarded Under the Operations and Maintenance Support Services Contract

## MIDDLE EAST REGION OPERATIONS

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# OIG HIGHLIGHTS

AUD-MERO-16-41

UNCLASSIFIED

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OFFICE OF AUDITS

Middle East Region Operations

## Audit of Task Orders for the Union III Compound Awarded Under the Operations and Maintenance Support Services Contract

### What OIG Found

A/LM/AQM and NEA officials did not adequately plan for oversight activities of the Union III Compound task orders awarded under the OMSS contract. This occurred, in part, because A/LM/AQM and NEA personnel did not implement requirements prescribed in Federal regulations and Department policies for proper and adequate oversight of these task orders. Specifically, A/LM/AQM and/or NEA officials did not:

- prepare a comprehensive performance work statement;
- develop a comprehensive quality assurance surveillance plan specifically tailored to conduct quality assurance and surveillance procedures at the Union III Compound;
- formally and consistently assign oversight personnel;
- develop and implement a process to ensure that personnel properly conducted oversight activities or adequately documented PAE's performance.

In addition, A/LM/AQM did not comply with negotiated schedules to definitize—that is, finalize the contractual terms and price—the task orders to comply with statutory and Department requirements to definitize the Union III Compound task orders within 180 days or prior to PAE completing 40 percent of the work to be performed, whichever occurs first. As of March 15, 2016, task orders SAQMMA15F0567 and SAQMMA15F1245 exceeded the authorized 180-day definitization period by 245 days and 146 days, respectively, and exceeded the 40 percent of work performed date by 257 and 166 days, respectively.

Further, NEA approved invoices for payment under task order SAQMMA15F1245 that included unallowable contractor fees representing 7 percent of the total invoiced amount, totaling \$381,658. After OIG brought this issue to the Department's attention, NEA identified an additional \$122,341 in unallowable contractor fees paid to PAE against task order SAQMMA15F1246. As a result, the Department paid PAE \$503,999 in contractor fees deemed unallowable.

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### What OIG Audited

On behalf of the Department of Defense, the Department of State (Department) awarded two task orders to PAE Government Services, Inc. (PAE) under the Operations and Maintenance Support Services (OMSS) contract in Iraq for the revitalization, transition, and sustainment of the Union III Compound in Baghdad, Iraq.

OIG conducted this audit to determine whether Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) and the Bureau of Near Eastern Affairs (NEA) were administering and overseeing the task orders for the Union III Compound, awarded under the OMSS contract, in accordance with acquisition regulations and Department requirements.

### What OIG Recommends

OIG made four recommendations to NEA to improve its oversight processes for the Union III Compound task orders, to include developing a performance work statement and quality assurance surveillance plan in accordance with acquisition regulations. OIG made six recommendations to A/LM/AQM, including taking action to definitize the task orders, recovering approximately \$500,000 in unallowable contractor fees paid to PAE, and properly designating oversight personnel. Based on responses received from NEA and A/LM to a draft of this report (see Appendices C and D, respectively), OIG considers seven recommendations resolved and three recommendations unresolved. Bureau responses and OIG replies are presented after each recommendation in the Audit Results section of this report.

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## OBJECTIVE

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The Office of Inspector General (OIG) conducted this audit to determine whether the Bureaus of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) and Near Eastern Affairs (NEA) administered and oversaw the task orders for the Union III Compound in Baghdad, Iraq, awarded under the Operations and Maintenance Support Services (OMSS) contract, in accordance with acquisition regulations and Department of State (Department) requirements. See Appendix A for the purpose, scope, and methodology of this audit.

## BACKGROUND

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In July 2012, A/LM/AQM awarded Indefinite Delivery/Indefinite Quantity (IDIQ) contract<sup>1</sup> number SAQMMMA12D0165 to PAE Government Services, Inc. (PAE) to continue its provision of operations and maintenance services at the U.S. Embassy in Baghdad,<sup>2</sup> with the flexibility to expand to other U.S. Government sites within Iraq. Operations and maintenance services under the OMSS contract include, but are not limited to, the following systems, facilities, and activities:

- fire alarm and suppression systems;
- sanitary sewer and waste water treatment plant;
- water supply, purification, and distribution;
- fuel storage and distribution;
- electrical generation and distribution; and
- facility/building/structure maintenance, to include janitorial services.

The OMSS IDIQ contract 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).

Due to advances of the Islamic State of Iraq and Syria within Iraq, U.S. military forces returned to Iraq in June 2014 to advise the Government of Iraq and its military on addressing the threat.<sup>3</sup> In support of this mission, Department of Defense (DoD) and coalition forces re-occupied the 45-acre Union III Compound located within the International Zone of Baghdad and adjacent to the Baghdad Embassy Compound (BEC). The Union III Compound, a property owned by the Government of Iraq and provided to the U.S. Government through a Land-Use Agreement, previously served as a headquarters for various DoD components. In 2013, the compound was decommissioned and returned to the Government of Iraq, after which the existing buildings,

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<sup>1</sup> 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.

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

<sup>3</sup> 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.

grounds, infrastructure, and physical security structures deteriorated. This resulted in DoD identifying an urgent need to revitalize the compound for reoccupation by U.S. and coalition forces. Figure 1 shows the Union III Compound in relation to the BEC.

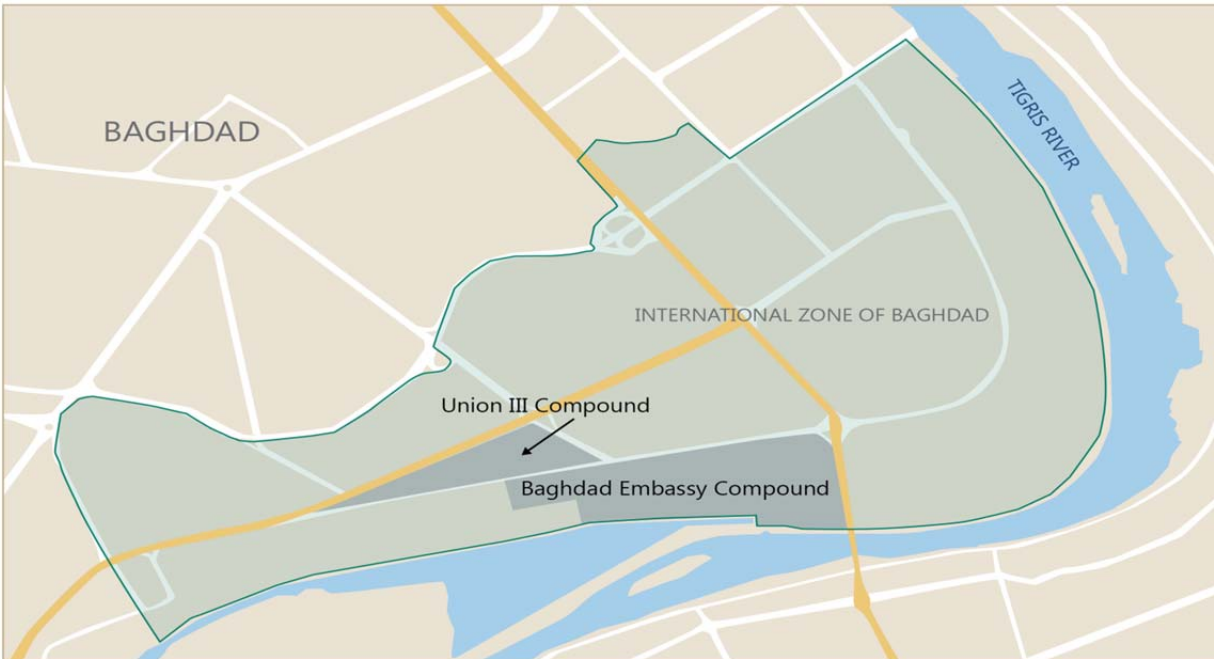


Figure 1: Map of Union III Compound and BEC. (OIG generated map)

As a result of the increased presence of U.S. forces in Iraq, the Department entered into an Interagency Agreement with DoD in November 2014 to provide support services<sup>4</sup> for DoD personnel through existing Department IDIQ contracts. Operations and maintenance services for DoD personnel at the Union III Compound were provided through two undefinitized<sup>5</sup> task orders under the OMSS IDIQ contract<sup>6</sup> in early 2015. Specifically, A/LM/AQM awarded task order SAQMMA15F0567 to PAE on January 15, 2015, for the revitalization and transition of the Union III Compound, and task order SAQMMA15F1245 to PAE on April 24, 2015, for sustainment of the Union III Compound. Through the Interagency Agreement, DoD agreed to reimburse the Department for the cost of the services provided under the Union III Compound OMSS task orders; however, the Department performs administration and oversight of the task orders.

<sup>4</sup> Support services include Operations and Maintenance Support Services, Baghdad Life Support Services, and Medical Service Support in Iraq.

<sup>5</sup> A contract is considered to be undefinitized if contract terms, specifications, and/or price are not agreed upon prior to the start of performance. The Federal Acquisition Regulation requires definitization of the contract within 180 days after the date of the letter contract or before completion of 40 percent of the work to be performed, whichever occurs first.

<sup>6</sup> The Department and DoD agreed to award these two task orders for the Union III Compound to PAE because the contractor was already performing operations and maintenance services at the BEC. According to Department personnel, one benefit of this arrangement was that given the proximity of the Union III Compound to the BEC, PAE could leverage its existing resources to revitalize and establish the site for DoD's use in a timely manner.

The obligated amount for the two OMSS Union III Compound task orders totaled \$15.1 million at the time of the award. A/LM/AQM subsequently modified the task orders by increasing the value, with the obligated amount more than doubling to \$36.3 million. Table 1 shows the total amounts obligated and paid to PAE for each task order as of March 15, 2016.

**Table 1: Total DoD Funds Obligated and Paid on OMSS Task Orders for the Union III Compound**

Task Order No.	Description	Obligated Amount at Award	Obligated Amount as of March 2016	Amount Paid to PAE as of March 2016
SAQMMA15F0567	Revitalization and Transition	\$6,757,511	\$8,705,511	\$8,218,652
SAQMMA15F1245	Sustainment	\$8,370,923	\$27,622,173	\$12,252,857
<b>Total</b>		<b>\$15,128,434</b>	<b>\$36,327,684</b>	<b>\$20,471,509</b>

**Source:** Generated by OIG from data provided by the Department.

### Union III Compound and Task Order Phases

DoD personnel are the primary recipients of operations and maintenance support at the Union III Compound. The compound includes more than 300 containerized housing units and 24 facilities including office space, a communication facility, a dining facility, a gym, a bulk laundry facility, a dog kennel, and recreation facilities. The work performed under the two OMSS Union III Compound task orders was divided into three phases—revitalization, transition, and sustainment.

- Revitalization – This phase enabled the re-occupation of the compound and required the contractor to perform operational inspections and assessments of facilities on the compound, initial cleaning of facilities, refuse removal, and maintenance of fuel tanks and generators, as well as maintenance of climate control, electrical, water, and wastewater systems.
- Transition – This phase initiated limited operation and maintenance services for a growing number of personnel and continued repairs of infrastructure identified in the revitalization phase.
- Sustainment – This phase required the contractor to provide all-inclusive operations and maintenance support and services for the Union III Compound, including the following systems and facilities: electrical generation and distribution; water supply, purification, storage, and distribution; fuel storage and distribution for power generators and motor vehicles; vehicle maintenance; janitorial services; structural inspections and repairs; and communications equipment and infrastructure.

### Administration and Oversight of the Union III Compound Task Orders

A/LM/AQM is responsible for awarding and administering the OMSS IDIQ contract and the OMSS Union III Compound task orders. The contracting officer in A/LM/AQM is responsible for awarding, negotiating, administering, modifying, terminating, 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 corresponding task orders. NEA established Contract Management Offices (CMOs) in Baghdad, Iraq, and Frankfurt, Germany, with dedicated full-time Contracting Officer's Representatives (CORs) for this purpose. According to NEA officials, the CMO in Baghdad, Iraq, has the primary role in developing requirements and conducting contract quality assurance; NEA states that the CMO in Frankfurt, Germany, performs oversight functions that can be conducted outside of Iraq, such as invoice reviews. However, due to staff shortages at the CMO in Baghdad, the OMSS contracting officer appointed multiple Alternate Contracting Officer's Representatives (Alternate CORs) from NEA's CMO located in Frankfurt to oversee the OMSS Union III Compound task orders.<sup>7</sup> 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.

To assist the rotating Alternate CORs, the contracting officer also appointed several Assistant Contracting Officer's Representatives (A/CORs) to monitor and inspect PAE's progress and performance. The A/CORs are DoD personnel who reside on the Union III Compound. According to NEA officials, DoD agreed to provide CORs, but the individuals could only serve as A/CORs "due to procurement policy that dictates certification levels for high-value contracts." DoD agreed to appoint A/CORs and aligned the appointees to monitor tasks "related to their military specialties."<sup>8</sup>

## AUDIT RESULTS

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### Finding A: Improvements Needed to Ensure Comprehensive Oversight

A/LM/AQM and NEA officials did not adequately plan to ensure that comprehensive oversight could be conducted for the Union III Compound task orders awarded under the OMSS contract. This occurred, in part, because A/LM/AQM and NEA personnel did not implement requirements prescribed in Federal regulations and Department policies for proper and adequate oversight of the task orders. Specifically, A/LM/AQM and/or NEA officials did not:

- prepare a comprehensive Performance Work Statement (PWS) in accordance with the *Foreign Affairs Handbook* (FAH) to outline task order requirements in clear, specific, and objective terms with measurable outcomes, so that oversight officials could monitor and evaluate the progress and final results of the project effectively;

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<sup>7</sup> According to NEA officials, the timing of the award of the Union III Compound task orders exceeded the Baghdad, Iraq, CMO's "immediate capacity to provide complete oversight due to mandated staffing and security restrictions." Therefore, a temporary COR and Alternate CORs from the CMO in Frankfurt, Germany, conducted Union III task order oversight in Iraq for periods ranging between 3 weeks to 3 months, until a full-time COR could be hired for the CMO in Baghdad, Iraq. In April 2016, a permanent COR was assigned to the CMO in Baghdad, Iraq and assumed primary contract oversight responsibilities for the Union III Compound task orders.

<sup>8</sup> According to NEA officials, the DoD A/CORs worked for DoD units that were assigned to the Union III Compound for periods ranging from 5 to 9 months.

- develop a comprehensive Quality Assurance Surveillance Plan (QASP) in accordance with the Federal Acquisition Regulation (FAR), tailored to conducting quality assurance and surveillance procedures specifically for the Union III Compound;
- formally and consistently assign A/CORs as oversight personnel for the Union III Compound task orders in accordance with Department policies, with a delegation memorandum that outlined the A/COR's duties, responsibilities, and prohibitions; and
- develop and implement a process to ensure that oversight personnel properly conducted oversight activities, and adequately documented PAE's performance in accordance with the FAR and FAH.

Because oversight personnel were unable to conduct adequate, comprehensive oversight of the OMSS task orders for the Union III Compound, the Department had no basis or justification for holding PAE accountable for identified weaknesses in its performance. The inability to hold PAE accountable for contract performance could result in increased costs to the U.S. Government and ultimately U.S. taxpayers, affect life and safety activities for DoD personnel, and potentially hinder DoD's mission at the Union III Compound.

### ***Inadequate Development of the Performance Work Statement and Quality Assurance Surveillance Plan***

It is the COR's responsibility, as the technical representative of the contracting officer,<sup>9</sup> to ensure that the Department receives satisfactory contractor performance.<sup>10</sup> In addition, the COR is to promptly notify the contracting officer of unsatisfactory contractor performance so appropriate action can be taken. This responsibility requires the COR to ensure that the proper contract monitoring plans are in place that reflect the complexity and criticality of the contract. The proper monitoring plans also ensure that the COR is timely in performing contract administration responsibilities.<sup>11</sup>

Acquisition guidance<sup>12</sup> explains that it is the COR's responsibility to assist in developing performance requirements and quality levels/standards since the COR is ultimately responsible for conducting oversight. This includes the development of the PWS and corresponding QASP, both of which are paramount to the successful evaluation of the contractor's performance and protection of the U.S. Government's and taxpayers' interests.

### ***Performance Work Statement***

According to acquisition guidance, "the PWS comprises the 'heart' of any service acquisition and the success or failure of a contract is greatly dependent on the quality of the PWS."<sup>13</sup> The FAH states that the PWS serves as the foundation for the acquisition and explains what is to be accomplished in terms of results so that the U.S. Government can monitor and evaluate the

<sup>9</sup> 14 FAH-2 H-513(a), "The Contracting Officer's Representative's (COR) Role in Contract Administration."

<sup>10</sup> 14 FAH-2 H-511, "Administration."

<sup>11</sup> 14 FAH-2 H-521(b), "Elements of Contract Administration."

<sup>12</sup> Defense Acquisition University, *Guidebook for the Acquisition of Services*.

<sup>13</sup> Ibid.



progress and final results of the project effectively.<sup>14</sup> The FAH further states that the PWS should describe the required results in clear, specific, and objective terms with measurable outcomes.<sup>15</sup> The FAR provides examples of measurable performance standards, which include quality, timeliness, and quantity.<sup>16</sup>

The FAH states that the COR is to define project requirements and develop the PWS.<sup>17</sup> Despite this requirement, NEA's oversight personnel were not actively involved in the task orders' early planning stages. According to the lead Alternate COR, he did not think he should be involved with writing the PWS and relied upon DoD to develop these documents.<sup>18</sup> In addition, NEA's oversight personnel did not ensure that the PWS included measurable performance standards or described the requirements specific to the Union III Compound in clear, specific, and objective terms with measurable outcomes, as required by Federal regulations and Department policies. For example, the PWS for sustainment services, dated September 2015, requires the contractor to provide "communication equipment and infrastructure," but does not specify the actual requirement or desired outcome. Without a comprehensive PWS that articulates expected results in clear, specific, and objective terms with measurable outcomes, the Department cannot effectively monitor and evaluate PAE's progress in providing OMSS at the Union III Compound.

### *Quality Assurance Surveillance Plan*

The FAR requires the development of a QASP in conjunction with the preparation of the PWS.<sup>19</sup> Acquisition guidance states that the QASP is the key government-developed surveillance document that is used to assess contractor performance by ensuring that systematic quality assurance methods are utilized to validate that the contractor's efforts are timely, effective, and are delivering the results specified in the contract or task order. The QASP should directly correspond to the performance objectives and standards (i.e., quality, quantity, timeliness) specified in the PWS and detail how, when, and by whom the Government will survey, observe, test, sample, evaluate, and document contractor performance results to determine whether the contractor has met the required standards for each objective in the PWS. Furthermore, a well-designed QASP should contain the methods of surveillance to properly monitor performance and quality; written procedures stating what will be checked, how it will be checked, and the acceptable quality level; and checklists to record the results.<sup>20</sup>

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<sup>14</sup> 14 FAH-2 H-341(a), "General."

<sup>15</sup> Ibid.

<sup>16</sup> FAR 37.601(b), "General."

<sup>17</sup> 14 FAH-2 H-142(b)(1), "Responsibilities of the Contracting Officer's Representative (COR)," states that someone in the requirements office is to define project requirements and develop a PWS, whether it is the COR or not. For administrative convenience, all requirements office functions are referred to as COR functions.

<sup>18</sup> PWSs were developed for each of the three phases and were subsequently revised to incorporate changing requirements.

<sup>19</sup> FAR 46.4, "Government Contract Quality Assurance."

<sup>20</sup> Defense Acquisition University, *Guidebook for the Acquisition of Services*.

The FAH states that the COR is responsible for developing quality assurance procedures, verifying whether the supplies or services conform to contract quality requirements, and maintaining quality assurance records.<sup>21</sup> However, NEA oversight personnel did not develop or implement a QASP for the revitalization and transition phases under task order SAQMMA15F0567. Similarly, NEA did not develop a formal QASP for the sustainment phase under task order SAQMMA15F1245 until 98 days after the task order was awarded. In addition, the QASP that was developed was not usable because it referred to the requirements of the BEC task order awarded under the OMSS contract rather than the Union III Compound. Furthermore, the inspection checklists, which are used by the A/CORs to perform surveillance activities outlined in the QASP, similarly reflected the requirements for the BEC rather than the Union III Compound, thereby rendering them ineffective for monitoring contractor performance specific to Union III Compound requirements.

Because the PWS lacked clear, specific, and objective terms with measurable outcomes, and the QASP was not prepared in conjunction with a well-developed PWS, oversight personnel did not have a solid foundation from which to conduct oversight activities. Specifically, DoD personnel at the Union III Compound assigned as A/CORs did not perform or document inspections for the revitalization and transition phases because there was no QASP or associated inspection checklists. Similarly, A/CORS temporarily stopped performing inspections during the sustainment phase because COR inspection checklists referred to the BEC's requirements, rather than requirements for the Union III Compound. One specific example where the lack of clear and specific requirements within the PWS resulted in inadequate oversight is PAE's procurement of bulk fuel tanks. OIG found that the PWS required PAE to purchase ten 20,000-gallon fuel tanks and nine 5,000-gallon fuel tanks, but the PWS did not provide any further specifications. As a result, the initial fuel tanks purchased by PAE were not usable without significant modifications. According to DoD personnel, the inoperable fuel tanks were delivered and accepted at the Union III Compound despite the fact that they did not meet DoD's needs. The fuel tanks remained inoperable when OIG conducted its site visit in January 2016. This, in turn, has prolonged the period in which the Union III Compound will remain reliant upon the BEC for daily fuel deliveries. This situation could create life and safety issues for DoD personnel on the Union III Compound if daily fuel deliveries become impeded for any reason, such as prohibited vehicular movements or entrance blockages at either the Union III Compound or the BEC.

In addition, an inadequate PWS and QASP place the Department in the position of being unable to hold PAE accountable for its performance or ensuring U.S. taxpayer money is expended appropriately. Oversight officials should immediately correct these deficiencies to ensure that PAE performance can be properly overseen and documented, not only for accountability purposes, but also so that the U.S. Government can take prompt action to correct unsatisfactory performance and protect its rights and interests in support of the DoD mission.

**Recommendation 1:** OIG recommends that the Bureau of Near Eastern Affairs develop Performance Work Statements for task orders SAQMMA15F0567 and SAQMMA15F1245 that

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<sup>21</sup> 14 FAH-2 H-523(b).

comply with requirements identified in Federal Acquisition Regulation 37.602, "Performance Work Statement," and Foreign Affairs Handbook Volume 14-2, Subchapter H-340, "The Performance Work Statement," and provide the revised Performance Work Statements to the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, for incorporation and implementation via task order modifications.

**NEA Response:** NEA concurred with the recommendation, stating that fully compliant Performance Work Statements were developed for Union III task orders and submitted to A/LM/AQM in March 2016 to support the award of the second option year in April 2016. NEA noted that as of March 2016, DoD was considering changing requirements and standards for the contract and that NEA and the CMO in Iraq would continue to work with DoD to resolve such issues so that PWSs could be finalized.

**OIG Reply:** OIG considers this recommendation resolved. This recommendation will be closed when OIG receives and accepts documentation that demonstrates the revised Performance Work Statements are compliant with requirements identified in FAR 37.602, "Performance Work Statement," and FAH Volume 14-2, Subchapter H-340, and have been implemented for both Union III Compound task orders.

**Recommendation 2:** OIG recommends that the Bureau of Near Eastern Affairs develop and implement a Quality Assurance Surveillance Plan in accordance with Federal Acquisition Regulation 46.4, "Government Contract Quality Assurance," and the revised Performance Work Statements, to guide oversight of all ongoing and future revitalization, transition, and sustainment requirements for task orders SAQMMA15F0567 and SAQMMA15F1245.

**NEA Response:** NEA concurred with the recommendation, stating that a new QASP delineating the requirements of the OMSS and Baghdad Life Support Services task orders at the Union III Compound was developed for the sustainment phase in March 2016 and included in the Option Year 2 award. NEA also stated that implementation of the new QASP was reflected in an April 2016 Program Management Review and that the CMO in Iraq is now responsible for ensuring that the QASP can be implemented with proper metrics and surveillance.

**OIG Reply:** OIG considers this recommendation resolved. This recommendation will be closed when OIG receives and accepts (1) documentation that demonstrates NEA's new QASP has been developed in accordance with FAR 46.4, "Government Contract Quality Assurance," and aligns with the revised Performance Work Statement; and (2) documented results of the April 2016 Program Management Review that demonstrates implementation of the new QASP.

### ***Oversight Personnel Were Not Consistently Delegated Authority***

Two of the seven DoD A/CORs performing oversight duties at the Union III Compound were not delegated authority to do so by the contracting officer. According to the FAR, contracting officers are responsible for ensuring performance of all necessary actions for effective

contracting, compliance with terms of the contract, and safeguarding the interests of the United States in its contractual relationships. In order to perform these responsibilities, contracting officers designate and authorize, in writing, a COR on all contracts and orders other than those that are firm-fixed price.<sup>22</sup> The Department of State Acquisition Regulation (DOSAR)<sup>23</sup> also states that contracting officers may designate technically qualified personnel as their authorized representatives to assist in the administration of contracts.

The FAH states that the contracting officer is to prepare a COR delegation memorandum that outlines the scope of the COR's authority to act on behalf of the contracting officer, including duties, responsibilities, and prohibitions.<sup>24</sup> While OIG found that each of the five Alternate CORs were properly delegated their authority through a delegation memorandum from the contracting officer, two of the seven DoD A/CORs who were responsible for performing oversight activities at the Union III Compound during the time of our fieldwork in Iraq were not. The A/CORs were DoD personnel who resided on the Union III Compound and monitored and inspected PAE's performance of the Union III Compound task orders. Without a signed delegation memorandum, the DoD A/CORs may not understand their responsibilities and limitations regarding task order oversight. This condition ultimately hinders the contracting officer's ability to ensure that PAE is complying with contract terms or ensure the Government's interests are secured.

**Recommendation 3:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management properly assign all Assistant Contracting Officer's Representatives via a delegation memorandum to conduct oversight activities at the Union III Compound for Operations and Maintenance Support Service task orders SAQMMA15F0567 and SAQMMA15F1245, in accordance with the Foreign Affairs Handbook.

**A/LM Response:** A/LM/AQM concurred with the recommendation, stating that the contracting officer, with assistance from the CMO in Frankfurt, intends to (1) issue A/COR letters to the DoD personnel for the period for which they performed A/COR duties, and (2) validate all A/COR delegation memorandums on file.

**OIG Reply:** OIG considers this recommendation resolved. This recommendation will be closed when OIG receives and accepts documentation that demonstrates all A/CORs from DoD have received delegation memoranda from the contracting officer to perform oversight activities for Union III Compound task orders SAQMMA15F0567 and SAQMMA15F1245.

### ***Contractor Performance Was Not Properly Documented***

COR responsibilities include verifying whether the supplies or services conform to contract quality requirements and maintaining quality assurance records.<sup>25</sup> Specifically, the FAR requires

<sup>22</sup> FAR 1.602, "Contracting Officers."

<sup>23</sup> DOSAR 642.270(a), "Contracting Officer's Representative (COR)."

<sup>24</sup> 14 FAH-2 H-143.2(a)(2), "COR Appointment Procedures."

<sup>25</sup> 14 FAH-2 H-142, "Responsibilities of the Contracting Officer's Representative (COR)."

the contract administrative office (NEA) to maintain copies of the quality assurance records.<sup>26</sup> The FAR further requires the COR to maintain, as part of the performance records of the contract, suitable records of contractor performance.<sup>27</sup> This could include (1) the nature of Government contract quality assurance actions, including, when appropriate, the number of observations made and the number and types of defects; and (2) decisions regarding the acceptability of the products, the processes, and the requirements, as well as action to correct defects. The FAH also states that the COR should notify the contracting officer at the earliest moment when, as a result of monitoring the contractor's progress, it appears that the contractor may become, or is in fact, delinquent so that the contracting officer can be prepared to take formal written action, depending on the facts.<sup>28</sup>

Despite frequent communication between DoD personnel at the Union III Compound and NEA officials, oversight personnel did not regularly document DoD's concerns about PAE's performance. Communication included regularly scheduled meetings between Government and PAE officials, email correspondence, and site inspections. However, the Alternate CORs did not transcribe significant meetings and correspondence, regularly archive noteworthy emails in the COR file, or consistently prepare monthly COR reports, which impact the Government's ability to direct corrective actions and hold PAE accountable for its performance.

For example, DoD personnel stated that deficiencies with PAE's manpower and organizational skills impacted DoD's mission, and placed the burden of performing critical tasks, such as generator maintenance, back onto U.S. Forces at the Union III Compound. DoD personnel also stated that PAE had not procured adequate resources in a timely manner and provided no visibility on the status of procured items. For instance, PAE was slow to procure mission-essential safety items, such as drinking water testing supplies and fire extinguishers. According to DoD personnel, the lack of visibility over PAE procurements resulted in misunderstandings between DoD and PAE about whether equipment orders had been placed and when items were to be delivered. While emails between DoD and NEA existed regarding these performance deficiencies, they were not properly documented as part of the COR file or timely transmitted to the contracting officer who could take appropriate actions against PAE.

Without formal, written documentation concerning PAE performance, NEA has no basis for evaluating PAE's performance on the Union III Compound task orders and limits the contracting officer's ability to take corrective actions on identified deficiencies. In this case, undocumented and unresolved performance deficiencies by PAE created a significant risk for the U.S. Government, through either life and safety issues at the Union III Compound or overall risk of mission failure for DoD. In addition, a lack of formal documentation inhibits the Department's ability to provide a complete and accurate description of PAE's performance in the Contractor Performance Assessment Reporting System, which requires annual reviews and a final contract

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<sup>26</sup> FAR 4.803(b)(15), "Contents of contract files."

<sup>27</sup> FAR 46.104, "Contract Administration Office Responsibilities."

<sup>28</sup> 14 FAH-2 H-541(c), "General."

closeout review.<sup>29</sup> The contractor performance evaluations in this system are used by source selection officials throughout the entire U.S. Government when awarding contracts and orders. Therefore, it is critical that the Department submit current, complete, and accurate performance information in the system to help ensure that the U.S. Government does business only with companies that provide quality products and services in support of the agency's missions.

**Recommendation 4:** OIG recommends that the Bureau of Near Eastern Affairs develop and implement a process to validate, at a minimum on a quarterly basis, that oversight personnel perform and document in the contract files all required oversight tasks in accordance with Federal regulations, Department policies, and their delegation memoranda.

**NEA Response:** NEA concurred with the recommendation, stating that NEA has assigned a permanent, full-time COR who resides at the BEC and oversees the Union III task orders. NEA also stated that Alternate CORs were revising the OMSS and Baghdad Life Support Services Union III sustainment Performance Work Statement to establish measurable performance outcomes, and developing a comprehensive QASP that reflects requirements at the Union III Compound.<sup>30</sup> NEA officials stated this will include a process to validate quarterly that the COR and Alternate CORs perform and document all oversight tasks in accordance with Federal regulations, Department policies, and their COR delegation memoranda.

**OIG Reply:** OIG considers this recommendation resolved. This recommendation will be closed when OIG receives and accepts documentation that demonstrates the revised Performance Work Statement and QASP include a process for validating oversight tasks are performed and documented in the contract file on a quarterly basis and in accordance with Federal regulations, Department policies, and their COR delegation memoranda.

## **Finding B: Undefined Task Orders Could Result in Increased Risk and Cost for the Government**

As of March 15, 2016, contracting personnel from A/LM/AQM had not complied with negotiated definitization schedules<sup>31</sup> or with FAR and Department requirements to definitize the Union III Compound task orders within 180 days or prior to the contractor completing 40 percent of the

<sup>29</sup> According to 14 FAH-2 H-572, "Final Evaluation," the Contractor Performance Assessment Reporting System is used to capture contractor performance reports. Past performance evaluation reports are required for all completed contracts. Additionally, contracts over 1 year in duration require annual reports that are due within 60 days of the anniversary of the contract award date. The contracting officer is responsible for ensuring that the evaluation takes place, but the COR may be tasked with evaluating contractor performance.

<sup>30</sup> During the course of fieldwork, NEA officials stated that they initiated corrective actions on oversight issues identified by OIG at the Union III Compound, to include hiring a permanent COR to oversee the Union III task orders, revising the PWS to establish measurable performance outcomes, and planning to develop a comprehensive QASP once the PWS was complete.

<sup>31</sup> Definitization schedules are agreed upon by the Government and the contractor at award of the contract action. The schedules include the date the contractor will submit a final proposal with certified cost and/or pricing data for the contracted work, the date the Government and the contractor will start negotiating the proposal, and the target date for definitization.



work, whichever occurred first. Specifically, task orders SAQMMA15F0567 and SAQMMA15F1245 exceeded the 180-day authorized definitization period by 245 days and 146 days, respectively. Further, task orders SAQMMA15F0567 and SAQMMA15F1245 reached 40 percent of completion of the work<sup>32</sup> on July 2, 2015, and October 1, 2015, thereby exceeding this requirement by 257 and 166 days, respectively. According to A/LM/AQM officials, this occurred because definitizing the task orders was a low priority. In addition, A/LM/AQM officials stated that definitization was delayed by frequently changing contract requirements. Delays in definitization could result in the Government paying increased costs because PAE has little incentive to control costs, which creates the potential for wasted taxpayer dollars. Further, changes in requirements can delay the delivery of urgently needed goods and services, increasing the risk that DoD personnel may not possess the life and safety provisions necessary to sustain DoD's mission.

### *Definitization of Letter Task Order*

Task orders SAQMMA15F0567 and SAQMMA15F1245 were specifically designated as letter contracts.<sup>33</sup> According to FAR Part 16.603, "Letter Contracts," a letter contract is a written preliminary contractual instrument that authorizes the contractor to begin immediately manufacturing supplies or performing services. The FAR states that a letter contract may be used when (1) the Government's interests demand that the contractor be given a binding commitment so that work can start immediately, and (2) negotiating a definitive contract is not possible in sufficient time to meet the requirement.<sup>34</sup>

The FAR also states that each letter contract shall contain a negotiated definitization schedule including, among other requirements, a target date for definitization, which shall be the earliest practicable date. Specifically, the FAR requires that the schedule provide for definitization of the contract within 180 days after the date of the letter contract or before completion of 40 percent of the work to be performed, whichever occurs first. In other words, the FAR allows the Department to issue undefinitized task orders to rapidly fill needs by authorizing contractors to begin work before reaching a final agreement on the contract terms, specifications, and/or price. The process of reaching agreement on the contract terms, specifications, and/or price is called definitization.

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<sup>32</sup> For the purpose of this report, OIG defines "40 percent of the work" as the expenditure of 40 percent of the obligated amount at award. The Department obligated \$6,757,511 at the time of award for task order SAQMMA15F0567, and 40 percent (\$2,703,005) of the obligated amount at award was reached on July 2, 2015. Similarly, the Department obligated \$8,370,923 at the time of award for task order SAQMMA15F1245, and 40 percent (\$3,348,369) of the obligated amount at award was reached on October 1, 2015. See Table 2, "Definitization Schedules for OMSS Union III Compound Task Orders in Comparison to Federal Requirements, as of March 2016."

<sup>33</sup> In particular, A/LM/AQM prepared a "Determination and Finding for the Use of a Letter Contract/Task Order Type Arrangement" for both task orders and cited FAR 16.603 as authority in those documents. Moreover, in keeping with FAR 16.603's requirement for letter contracts, A/LM/AQM incorporated the contract clause found at FAR 52.216-25, "Contract Definitization," into those task orders.

<sup>34</sup> DOSAR Part 616.603-2(c) reiterates statutory requirements in FAR Part 16.603, "Letter Contracts."

The Government Accountability Office (GAO)<sup>35</sup> and the DoD OIG<sup>36</sup> previously reported that contracting personnel place the Government at risk of increased costs when they definitize letter task orders beyond the allowable 180-day or 40 percent completion of work time frames. Contracting personnel are responsible for ensuring that the Government's negotiation position reflects the reduced risk of incurred costs during a prolonged undefinitized period. According to GAO, the Government bears the majority of the cost and risk during the undefinitized period and risks paying increased costs during this period because the contractor has little incentive to control costs, creating a potential for wasted taxpayer dollars. Furthermore, delayed definitization transfers additional cost and performance risk to the Government because contractors are typically reimbursed for all allowable costs incurred before definitization.

### ***A/LM/AQM Did Not Follow Definitization Requirements***

Task orders SAQMMA15F0567 and SAQMMA15F1245 included negotiated definitization target dates of March 15, 2015, and June 30, 2015, respectively, in compliance with FAR 16.603. However, A/LM/AQM allowed both target dates to expire without taking action to definitize either task order, causing the target definitization dates to surpass the 180-day requirement. Specifically, as of March 15, 2016, task orders SAQMMA15F0567 and SAQMMA15F1245 exceeded the authorized definitization period by 245 days and 146 days, respectively. Similarly, A/LM/AQM did not definitize either task order prior to PAE completing 40 percent of the work and exceeded that requirement by 257 and 166 days, respectively. Instead, the CMO approved PAE invoices for payment that totaled, as of March 11, 2016, 122 percent of the amount obligated at award for task order SAQMMA15F0567, and 146 percent of the amount obligated at award for task order SAQMMA15F1245.<sup>37</sup> Table 2 provides additional details on A/LM/AQM's noncompliance with the definitization requirements in FAR 16.603.

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<sup>35</sup> *Use of Undefinitized Contract Actions Understated and Definitization Time Frames Often Not Met* (GAO-07-559, June 2007).

<sup>36</sup> *Summary Report of DoD's Management of Undefinitized Contractual Actions* (DoDIG-2012-039, January 13, 2012).

<sup>37</sup> The amounts obligated when the task orders were awarded exclude modifications that obligated additional funding.

**Table 2: Definitization Schedules for OMSS Union III Compound Task Orders in Comparison to Federal Requirements, as of March 2016**

	Task Order SAQMMA15F0567	Task Order SAQMMA15F1245
Award Date	15-Jan-15	24-Apr-15
Target Definitization Date	15-Mar-15	30-Jun-15
Maximum Definitization Date Per FAR's 180-Day Requirement	14-Jul-15	21-Oct-15
Maximum Definitization Date Per FAR's 40 Percent of Work Performed Requirement	2-Jul-15	1-Oct-15
Number of Days beyond FAR's 180-Day Requirement for Definitization <sup>a</sup>	245	146
Number of Days beyond FAR's 40 Percent of Work Performed Requirement for Definitization	257	166
Obligated Amount at Award	\$6,757,511	\$8,370,923
40 Percent of Obligated Amount at Award	\$2,703,005	\$3,348,369
Amount Paid to PAE <sup>b</sup>	\$8,218,652	\$12,252,857
<b>Percentage Invoiced Against the Amount Obligated at Award<sup>b</sup></b>	<b>121.62%</b>	<b>146.37%</b>

<sup>a</sup> Days elapsed as of March 15, 2016.

<sup>b</sup> As of March 11, 2016.

**Source:** Generated by OIG from data provided by the Department.

A/LM/AQM officials stated that they were familiar with the FAR requirements for definitization; however, they cited several reasons for their delay in definitizing the task orders. A/LM/AQM officials stated that the overarching reason for the delay was that definitization of the task orders was a lower priority when compared to other contracts and task orders they administered. Additionally, A/LM/AQM officials stated that they did not track the number of days past award or the percentage of work completed on undefinitized task orders. Instead, A/LM/AQM officials stated that they used an Excel-generated status report to prioritize and monitor ongoing tasks for the OMSS IDIQ contract and the Baghdad Life Support Services contract and associated task orders. However, the status report developed by A/LM/AQM did not establish milestones and target completion dates for the ongoing priority tasks, or include the negotiated definitization schedule for each task order.

In addition, A/LM/AQM officials stated that definitization was delayed by DoD's frequently changing task order requirements and by PAE's inability to timely provide revised cost proposals that reflected the changing requirements. Nevertheless, in order to, among other things, add additional funding and extend the periods of performance, A/LM/AQM elected to modify undefinitized task order SAQMMA15F0567 twice and modify undefinitized task order SAQMMA15F1245 six times, rather than definitizing them. In hindsight, A/LM/AQM officials stated that they should have definitized the task orders in accordance with their original negotiated definitization schedules and issued modifications as DoD's requirements evolved. Regardless, as of March 15, 2016, definitization had not occurred for either task order and the risk that U.S. taxpayer funds could be wasted persisted.

### ***Extensions of the Definitization Periods***

According to the FAR,<sup>38</sup> the contracting officer may, in extreme cases and according to agency procedures, authorize an additional period for contract definitization. The DOSAR<sup>39</sup> states that the contracting officer is authorized to extend the period to definitize a contract in accordance with the FAR and when the action is in the best interest of the Government after obtaining approval of the Head of Contracting Activity. However, A/LM/AQM's Head of Contracting Activity did not issue written authorizations to extend the definitization periods until 154 and 55 days after the definitization periods expired for task orders SAQMMA15F0567 and SAQMMA15F1245, respectively. The approved authorizations<sup>40</sup> extended the target definitization date for task order SAQMMA15F0567 to January 31, 2016, and the target definitization date for task order SAQMMA15F1245 to February 29, 2016. Despite the extended definitization dates, A/LM/AQM officials stated that they did not expect to definitize either task order until March 1, 2016. However, as previously stated, as of March 15, 2016, A/LM/AQM officials had not definitized either task order. According to A/LM/AQM officials, definitization of these task orders has not occurred because the Department and PAE continue to negotiate and analyze cost data. At the end of our audit fieldwork on March 15, 2016, A/LM/AQM officials stated that task order SAQMMA15F0567 was expected to be definitized by March 18, 2016, and task order SAQMMA15F1245 was expected to be definitized by April 10, 2016.

### ***Undefinitized Task Orders Transfer Risk to the Government***

As GAO and DoD OIG reported, the use of undefinitized task orders transfers additional risk to the Government because all costs during the undefinitized period are considered allowable.<sup>41</sup> Further, changes in requirements that delay definitization can also delay the delivery of urgently needed goods and services, increasing the risks of unsupported personnel and mission failure. OIG is bringing this matter to the attention of the Department to not only address the two task orders identified in this report, but also because OIG has learned that task orders SAQMMA15F0568 and SAQMMA15F1246 awarded under the Baghdad Life Support Services contract in Iraq also remain undefinitized.<sup>42</sup> Therefore, not only should the Department immediately remedy the undefinitized Union III Compound task orders under the OMSS contract, but it also needs to ensure that it is using undefinitized contracts only when necessary and that these contract actions are then negotiated as quickly as possible.

**Recommendation 5:** OIG recommends that the Bureau of Near Eastern Affairs, in coordination with the Department of Defense, identify requirements for task orders SAQMMA15F0567 and SAQMMA15F1245 and milestone dates for completion, and

<sup>38</sup> FAR 16.603-2(c).

<sup>39</sup> DOSAR 616.603-2(c).

<sup>40</sup> A/LM/AQM did not formalize its authorization to extend the definitization periods for the Union III Compound task orders until after OIG asked if a waiver of FAR 16.603 existed.

<sup>41</sup> GAO-07-559, June 2007, and DoDIG-2012-039, January 13, 2012.

<sup>42</sup> OIG is conducting a separate audit of the Baghdad Life Support Services contract, but has not reviewed these two task orders specifically for compliance with FAR and Department definitization requirements.

communicate the defined requirements to the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management by the established milestone dates.

**NEA Response:** NEA concurred with the recommendation, stating that it is working with DoD and A/LM/AQM to define and finalize task order requirements, noting that as DoD's mission evolves, the requirements for the Union III Compound continue to change. Further, NEA stated that NEA and A/LM/AQM officials will develop a milestone plan to issue a modification award for option year 1 (April 24, 2016, through April 23, 2017) and will communicate this milestone plan to the participating office from DoD.

**OIG Reply:** OIG considers this recommendation resolved. This recommendation will be closed when OIG receives and accepts documentation demonstrating that task order requirements have been identified and a milestone plan for awarding modifications based on these requirements has been developed and communicated to both A/LM/AQM and the participating office from DoD.

**Recommendation 6:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management promptly definitize task orders SAQMMA15F0567 and SAQMMA15F1245 for the Union III Compound once defined requirements are obtained from the Bureau of Near Eastern Affairs.

**A/LM Response:** A/LM/AQM concurred with the recommendation, stating that task order SAQMMA15F0567 for revitalization and transition services at the Union III Compound was definitized and distributed on May 4, 2016, via the issuance of Modification 003. To enable definitization of the other task order, A/LM stated that A/LM/AQM will validate the PAE proposal data submitted as current, complete, and accurate; conduct additional fact-finding exchanges to determine the adequacy of PAE's updated proposal; prepare a structured approach to determine reasonable profit and fee rates to enter into negotiation; and make a final determination that the prices proposed are fair and reasonable.

A/LM officials added that, based on these anticipated actions, A/LM/AQM expects completion of negotiations with PAE and definitization of the awards for the Base and Option Year 1 performance periods during July 2016.

**OIG Reply:** OIG considers this recommendation resolved. This recommendation will be closed when OIG receives and accepts documentation demonstrating that task orders SAQMMA15F0567 and SAQMMA15F1245 have been definitized.

**Recommendation 7:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management develop and implement a process to ensure undefinitized task orders are definitized within 180 days after the date of the letter contract or before completion of 40 percent of the work to be performed, whichever occurs first, as required by the Federal Acquisition Regulation. This process should include a method for tracking elapsed time frames on undefinitized contract actions.

**A/LM Response:** A/LM/AQM disagreed with the recommendation, stating that the FAR provides all relevant guidance to definitize contract actions and that no additional process is required. In addition, A/LM stated that AQM Policy 16-12 establishes the requirement for Contracting Officers to distribute signed copies of all procurement actions to vendors and requesting customers via email. As an alternative to meet the intent of the recommendation, A/LM/AQM requests that OIG consider A/LM/AQM implement a continuous learning training session for Contracting Officers on the subject of letter contracts, definitization, and the need to effectively communicate with program offices during the definitization process.

**OIG Reply:** Based on A/LM/AQM's response, OIG considers this recommendation unresolved. While OIG agrees that the FAR provides all relevant guidance to definitize contract actions, the intent of this recommendation is to ensure that A/LM/AQM complies with those FAR requirements for timely definitization of contract actions, as delays in definitization could result in the Government paying increased costs since the contractor has little incentive to control costs. Although a continuous learning training session on the subject of letter contracts and definitization may help reinforce these FAR requirements, a standard operating procedure or process would better ensure that contracting officers track time frames on undefinitized contract actions to ensure that they are definitized as required by the FAR. This recommendation will be resolved when A/LM/AQM agrees to develop a process to ensure that contracting officers monitor elapsed time frames on undefinitized contract actions to ensure timely definitization as required by the FAR, and will be subsequently closed when OIG receives and accepts documentation demonstrating that such actions have been taken.

### **Finding C: The Department Paid \$503,999 in Unallowable Contractor Fees**

OIG found that officials from NEA's CMO approved six invoices for payment under OMSS task order SAQMMA15F1245 that included unallowable contractor fees representing 7 percent of the total invoiced amount. The FAR prohibits an agency, through the contracting officer, from agreeing to pay fees or profit on an undefinitized task order. According to CMO officials, they approved invoices with the fees in error because they were unaware that the Union III Compound task orders were undefinitized. On December 16, 2015, the contracting officer directed PAE to stop invoicing for these fees and directed CMO not to approve fee payments under the task order until it is definitized. Nevertheless, the Department paid PAE \$381,658 in unallowable contractor fees under this task order. After OIG brought this issue to the Department's attention, NEA's CMO identified an additional \$122,341 in unallowable contractor fees that were paid against undefinitized Union III Compound task order SAQMMA15F1246<sup>43</sup> awarded under the Baghdad Life Support Services contract.<sup>44</sup> As of March 2016, the Department had not taken action to recover any of the total \$503,999 in funds inappropriately paid under

<sup>43</sup> A/LM/AQM designated task order SAQMMA15F1246 as a letter contract.

<sup>44</sup> OIG did not independently verify the contractor fees paid against Baghdad Life Support Services task order SAQMMA15F1246 because it was outside the scope of this audit. OIG is conducting a separate audit of the Baghdad Life Support Services contract, but has not reviewed undefinitized task order SAQMMA15F1246 or verified the amount of unallowable contractor fees paid to PAE.



these task orders.<sup>45</sup> Therefore, OIG is questioning this amount, as the payment of these fees prior to definitization violates the FAR, and is not in the best interest of the taxpayer.

### ***Federal Regulations Prohibit Fee Payments on Undefinitized Task Orders***

According to the FAR,<sup>46</sup> the contracting officer shall not agree on profit or fee without concurrent agreement on cost and type of contract, i.e., contract definitization. The contracting officer also stated that profit or fee should not be obligated or paid during the undefinitized period and directed PAE to cease such charges until the task orders are definitized. GAO explained in its 2007 report that the reason profit or fee is not allowed on an undefinitized contract is because all undefinitized contracts are essentially cost-reimbursement contracts until definitized.<sup>47</sup> In other words, the Government will reimburse the contractor for all of its incurred costs that are determined to be reasonable, allocable, and allowable during the undefinitized period. However, profit or fee is not paid during the undefinitized period because this contract type places the greatest cost risk on the Government, not the contractor. When the task order is definitized, the contract type and the contractor's profit (fixed-price contracts) or fee (cost-type contracts) are determined. The Government applies the profit rate or fee derived at definitization across the entire period of performance, including the undefinitized period.<sup>48</sup>

### ***Approval and Payment of Unallowable Contractor Fees***

Officials from NEA's CMO approved six invoices for payment under task order SAQMMA15F1245 that included \$381,658 in unallowable contractor fees, contrary to the FAR. OIG determined that the unallowable fees charged represented 7 percent of the total invoice amount. These fees were for contractor profit, which, as previously stated, are unallowable because the contract type and price had not yet been negotiated and definitized. According to CMO officials, they were unaware that the Union III Compound task orders were undefinitized, and that they were approving invoices with unallowable fees until OIG brought it to their attention in December 2015. Once OIG discussed the matter with CMO officials, they acknowledged that the invoices had been mistakenly approved and informed the contracting officer of the error. The contracting officer subsequently directed PAE to cease invoicing for such charges until he could further assess the matter and definitize the task order. The contracting officer further directed CMO officials to reject any such fees in current unpaid invoices, and to take steps to identify and reject such fees in future invoices.

In response to OIG's inquiries about the fees paid to PAE under the OMSS Union III Compound task order, on December 16, 2015, the contracting officer requested that PAE independently

<sup>45</sup> Both task orders discussed were funded by DoD. Therefore, any recovered funds would be returned to DoD.

<sup>46</sup> FAR 15.405(c), "Price negotiation."

<sup>47</sup> Report GAO-07-559.

<sup>48</sup> The GAO report addressed DoD contracts. For DoD and other specified agencies' contracts, Title 10, United States Code, section 2326(e), "Allowable Profit," requires profit or fee on an undefinitized contract action to be determined during definitization of the task order. This later determination of profit or fee allows the agency to take into consideration the contractor's reduced cost risk for both the undefinitized period and the remaining portion of the contract, to ensure that an appropriate profit or fee is applied.

identify "all monies currently invoiced and paid out by the Department of State as 'fees.'" Similarly, the contracting officer requested that the CMO also independently identify such fees approved for payment to PAE. When the respective analysis was completed, PAE's and CMO's identification of fees generally agreed. See Appendix B, Table B.1 for the listing of OMSS Union III Compound invoices and associated amount of unallowable contractor fees paid to PAE under task order SAQMMA15F1245.

The reviews performed by PAE and CMO at the request of the contracting officer identified an additional \$122,341 in unallowable contractor fees paid against undefinitized Union III Compound task order SAQMMA15F1246 awarded under the Baghdad Life Support Services contract.<sup>49</sup> At the end of our audit fieldwork, A/LM/AQM officials had not taken action to recover the \$381,658 paid under task order SAQMMA15F1245, or the \$122,341 paid under task order SAQMMA15F1246, totaling \$503,999 in unallowable contractor fees paid to PAE under the two task orders. However, A/LM/AQM officials explained that once task order SAQMMA15F1245 was definitized, the contractor's negotiated profit would be reduced by the amount of unallowable fees already paid.

Because the Department is now aware of the additional fees paid against the undefinitized Baghdad Life Support Services task order, which were identified and verified by PAE and the CMO, we are making corresponding recommendations to A/LM/AQM to recover all funds associated with task orders SAQMMA15F1245 and SAQMMA15F1246. Similarly, the Department should develop and implement a process to ensure that all pertinent parties are aware of the status of undefinitized task orders so that improper payments are not inadvertently approved and funds are not unnecessarily spent.

**Recommendation 8:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management recover \$381,658 of unallowable fees invoiced and paid under the Department of Defense-funded task order SAQMMA15F1245 to PAE Government Services, Inc., and return the funds to the Department of Defense.

**A/LM Response:** A/LM/AQM agreed that the disputed amount needs to be reviewed and that unallowed fees should be returned to the Government, but disagreed with the specific proposed methodology outlined in the recommendation for the return of funds. A/LM stated that A/LM/AQM will provide OIG with a plan for an alternative resolution during the fourth quarter of FY 2016.

**OIG Reply:** Based on A/LM's response, OIG considers this recommendation unresolved. Although A/LM/AQM agreed that unallowable fees needed to be reviewed and returned to the Government, the response was not satisfactory to resolve the recommendation because management did not provide a decision (dollar value allowed and/or disallowed) on the \$381,658 of unallowable fees or an acceptable alternative solution. This recommendation will be considered resolved when OIG receives an acceptable alternative solution that addresses

<sup>49</sup> See Appendix B, Table B.2, for the listing of invoices with unallowable contractor fees paid under undefinitized Baghdad Life Support Services Contract Task Order SAQMMA15F1246.

the intent of the recommendation, and it will be closed when OIG receives documentation demonstrating that A/LM/AQM has taken appropriate action to recover the unallowable fees.

**Recommendation 9:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management recover \$122,341 of unallowable fees invoiced and paid under the Department of Defense-funded Baghdad Life Support Services task order SAQMMA15F1246 to PAE Government Services, Inc., and return the funds to the Department of Defense.

**A/LM Response:** A/LM/AQM agreed that the disputed amount needs to be reviewed and that unallowed fees should be returned to the Government, but disagreed with the specific proposed methodology outlined in the recommendation for the return of funds. A/LM stated that A/LM/AQM will provide OIG with a plan for an alternative resolution during the third quarter of FY 2016.

**OIG Reply:** Based on A/LM's response, OIG considers this recommendation unresolved. Although A/LM/AQM agreed that unallowable fees needed to be reviewed and returned to the Government, the response was not satisfactory to resolve the recommendation because management did not provide a decision (dollar value allowed and/or disallowed) on the \$122,341 of unallowable fees or an acceptable alternative solution. This recommendation will be considered resolved when OIG receives an acceptable alternative solution that addresses the intent of the recommendation, and it will be closed when OIG receives documentation demonstrating that A/LM/AQM has taken appropriate action to recover the unallowable fees.

**Recommendation 10:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management develop and implement a process to ensure that Department offices performing invoice reviews, including the Contract Management Office within the Bureau of Near Eastern Affairs, are provided timely notification of undefinitized task order awards and subsequent definitization actions.

**A/LM Response:** A/LM/AQM disagreed with the recommendation, stating that the FAR provides all relevant guidance to definitize contract actions, and that A/LM/AQM works closely with its program offices to ensure timely notification of executed contract actions. As an alternative to meet the intent of the recommendation, A/LM/AQM requested that OIG consider A/LM/AQM implementing a continuous learning training session for contracting officers on the subjects of letter contracts, definitization, and the need to communicate with program offices during the definitization process.

**OIG Reply:** OIG considers this recommendation resolved based on documentation provided by A/LM in response to Recommendation 7. Specifically, OIG verified that AQM Policy 16-12 requires contracting officers to distribute signed copies of all procurement actions to vendors and requesting customers via email. In addition, OIG accepts A/LM/AQM's alternative action to implement a continuous learning training session for contracting

officers that will promote awareness of undefinitized task order awards and subsequent definitization actions. This recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM/AQM has implemented a continuous learning training session for contracting officers on the subjects of letter contracts, definitization, and the need to communicate effectively with program offices during the definitization process.

## RECOMMENDATIONS

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**Recommendation 1:** OIG recommends that the Bureau of Near Eastern Affairs develop Performance Work Statements for task orders SAQMMA15F0567 and SAQMMA15F1245 that comply with requirements identified in Federal Acquisition Regulation 37.602, "Performance Work Statement," and Foreign Affairs Handbook Volume 14-2, Subchapter H-340, "The Performance Work Statement," and provide the revised Performance Work Statements to the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, for incorporation and implementation via task order modifications.

**Recommendation 2:** OIG recommends that the Bureau of Near Eastern Affairs develop and implement a Quality Assurance Surveillance Plan in accordance with Federal Acquisition Regulation 46.4, "Government Contract Quality Assurance," and the revised Performance Work Statements, to guide oversight of all ongoing and future revitalization, transition, and sustainment requirements for task orders SAQMMA15F0567 and SAQMMA15F1245.

**Recommendation 3:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management properly assign all Assistant Contracting Officer's Representatives via a delegation memorandum to conduct oversight activities at the Union III Compound for Operations and Maintenance Support Service task orders SAQMMA15F0567 and SAQMMA15F1245, in accordance with the Foreign Affairs Handbook.

**Recommendation 4:** OIG recommends that the Bureau of Near Eastern Affairs develop and implement a process to validate, at a minimum on a quarterly basis, that oversight personnel perform and document in the contract files all required oversight tasks in accordance with Federal regulations, Department policies, and their delegation memoranda.

**Recommendation 5:** OIG recommends that the Bureau of Near Eastern Affairs, in coordination with the Department of Defense, identify requirements for task orders SAQMMA15F0567 and SAQMMA15F1245 and milestone dates for completion, and communicate the defined requirements to the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management by the established milestone dates.

**Recommendation 6:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management promptly definitize task orders SAQMMA15F0567 and SAQMMA15F1245 for the Union III Compound once defined requirements are obtained from the Bureau of Near Eastern Affairs.

**Recommendation 7:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management develop and implement a process to ensure undefinitized task orders are definitized within 180 days after the date of the letter contract or before completion of 40 percent of the work to be performed, whichever occurs first, as required by the Federal Acquisition Regulation. This process should include a method for tracking elapsed time frames on undefinitized contract actions.

**Recommendation 8:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management recover \$381,658 of unallowable fees invoiced and paid under the Department of Defense-funded task order SAQMMA15F1245 to PAE Government Services, Inc., and return the funds to the Department of Defense.

**Recommendation 9:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management recover \$122,341 of unallowable fees invoiced and paid under the Department of Defense-funded Baghdad Life Support Services task order SAQMMA15F1246 to PAE Government Services, Inc., and return the funds to the Department of Defense.

**Recommendation 10:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management develop and implement a process to ensure that Department offices performing invoice reviews, including the Contract Management Office within the Bureau of Near Eastern Affairs, are provided timely notification of undefinitized task order awards and subsequent definitization actions.



## APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

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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 Bureaus of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) and Near Eastern Affairs (NEA) were administering and overseeing the task orders for the Union III Compound in Baghdad, Iraq, awarded under the Operations and Maintenance Support Services (OMSS) contract in Baghdad, Iraq, in accordance with acquisition regulations and Department requirements.

OIG conducted fieldwork for this audit from October 2015 to March 2016 at the U.S. Consulate General Frankfurt (Germany) and U.S. Embassy Baghdad (Iraq). 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*; the Department of State Acquisition Regulations; and Department of State Regional Contract Management Office (CMO) Invoice Review Processes and Procedures.

To determine whether A/LM/AQM and NEA were administering and overseeing the task orders for OMSS at the Union III Compound in accordance with acquisition regulations and Department requirements, OIG coordinated with or interviewed officials from A/LM/AQM; NEA, including CMO officials in Germany and Iraq; the Department of Defense (DoD); and PAE Government Services, Inc. (PAE). OIG reviewed and analyzed OMSS Indefinite Delivery/Indefinite Quantity contract number SAQMMA12D0165, task order SAQMMA15F0567, task order SAQMMA15F1245, modifications to the OMSS Indefinite Delivery/Indefinite Quantity contract and individual task orders, performance work statements, quality assurance surveillance plans, quality assurance checklists, and Department and PAE program management review documentation. OIG also reviewed and analyzed delegation letters issued to individuals responsible for oversight activities. In addition, OIG reviewed all invoices submitted for payment by PAE under task orders SAQMMA15F0567 and SAQMMA15F1245 through October 1, 2015.

### Prior Reports

OIG reviewed prior OIG audit reports to identify information previously reported on the OMSS contract and corresponding task orders. 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 contract<sup>1</sup> in accordance with authoritative guidance and the contract terms and conditions. OIG determined that the contracting officer's representative approved 86 contractor invoices, totaling about \$4.4 million, that included unallowable and unsupported costs and costs for goods not delivered. As a result, the Department paid the contractor at least \$2.7 million for costs not authorized and for goods not provided. OIG issued five recommendations to A/LM/AQM, which included recommendations to recover unallowable costs, review all invoices under the contract, and take administrative actions, if warranted. Three of the five recommendations were closed because they have been implemented. However, two recommendations remain open pending further action, including a determination about \$1.7 million in questioned costs.

OIG also reviewed prior Government Accountability Office (GAO) and DoD OIG reports relating to undefinitized contract actions. A June 2007 GAO report, *Use of Undefinitized Contract Actions Understated and Definitization Time Frames Often Not Met*,<sup>2</sup> assessed DoD's use of undefinitized contract actions. GAO found that while DoD was generally using undefinitized contract actions to rapidly fill urgent needs as permitted, DoD did not meet the definitization time frame requirement of 180 days after award on 60 percent of the 77 undefinitized contract actions reviewed. The most common reasons for the delays were untimely receipt of an adequate proposal from the contractor, acquisition workforce shortfalls, and changing requirements. In addition, GAO found that DoD did not track whether it met the Federal Acquisition Regulation requirement to definitize letter contracts before 40 percent of the work is complete.

A January 2012 DoD OIG report, *Summary Report on DoD's Management of Undefinitized Contractual Actions*,<sup>3</sup> summarizes five prior DoD OIG reports discussing DoD compliance with restrictions on undefinitized contractual actions imposed by Title 10, United States Code, section 2326. Among other things, DoD OIG found that that DoD contracting personnel did not definitize 132 of 251 undefinitized contracting actions reviewed within the 180-day definitization time frame because of inadequate contractor proposals, staffing shortages, and changing Government requirements. As a result, DoD assumed additional cost risk and may have paid excessive profit and more than fair and reasonable prices.

## Work Related to Internal Controls

OIG performed steps to assess the adequacy of internal controls related to the administration and oversight of task orders SAQMMA15F0567 and SAQMMA15F1245, including reviewing policies, procedures, and processes applicable to the areas audited. OIG performed tests of internal controls, including a review of the contract documentation regarding the contractor's performance, the Department's oversight, and invoice reviews and approvals. OIG summarized

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

<sup>2</sup> Report GAO-07-559.

<sup>3</sup> Report DoDIG-2012-039.

internal control deficiencies and weaknesses found from the invoice reviews and contracting officer's representative oversight under the Audit Results section of this report.

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

OIG used data obtained from non-automated sources provided by the CMO in Frankfurt to identify the universe of PAE invoices for the Union III Compound task orders SAQMMA15F0567 and SAQMMA15F1245, as of October 1, 2015. To assess the completeness of the obtained universe, OIG accessed the Department's Global Financial Management System to identify all invoices for task orders SAQMMA15F0567 and SAQMMA15F1245 paid as of October 1, 2015. OIG compared both data sets and found no material differences. From this analysis, OIG concluded that the universe obtained from the CMO was complete. Consequently, OIG did not use computer-processed data to support the findings, conclusions, or recommendations presented in this report.

### **Detailed Sampling Methodology**

For the invoice review, no sampling was used as OIG reviewed 100 percent (29) of the invoices submitted against task orders SAQMMA15F0567 and SAQMMA15F1245 that were paid to PAE through October 1, 2015. The findings, by invoice, are summarized in the Audit Results section of this report and in Appendix B.

## APPENDIX B: INVOICES WITH QUESTIONED COSTS

This appendix lists invoices with unallowable contractor fees paid against task orders SAQMMA15F1245 and SAQMMA15F1246. OIG summarized internal control deficiencies and weaknesses identified during our invoice reviews in Finding C of this report. Specifically, OIG's independent review of task order SAQMMA15F1245 identified \$381,658 in unallowable contractor fees paid to PAE. Table B.1 identifies the six OMSS Union III Compound invoices and associated unallowable fees paid to the contractor under undefinitized task order SAQMMA15F1245.

**Table B.1: Questioned Costs for OMSS Task Order SAQMMA15F1245**

Item Number	Invoice Number	Date	Invoiced Amount	Unallowable Contractor Fees	Total Questioned Costs
1	42112	3-Jul-15	\$9,570.01	\$626.07	\$626.07
2	44324	5-Aug-15	\$492,059.13	\$32,190.79	\$32,190.79
3	49843	2-Sep-15	\$535,309.29	\$35,020.25	\$35,020.25
4	52862	1-Oct-15	\$2,156,495.47	\$141,079.16	\$141,079.16
5	55233	6-Nov-15	\$1,204,699.29	\$78,812.12	\$78,812.12
6	57785	7-Dec-15	\$1,435,777.66	\$93,929.39	\$93,929.39
<b>Total</b>			<b>\$5,833,910.85</b>	<b>\$381,657.78</b>	<b>\$381,657.78</b>

**Source:** Generated by OIG from data provided by the Department.

PAE and CMO reviews of invoices per the contracting officer's request also identified \$122,341 in unallowable contractor fees paid against undefinitized Union III Compound task order SAQMMA15F1246 awarded under the Baghdad Life Support Services contract. Table B.2 identifies the five Baghdad Life Support Services contract Union III Compound invoices and associated unallowable fees paid to the contractor under undefinitized task order SAQMMA15F1246 according to CMO's validation of PAE's billing and payment information.

**Table B.2: Questioned Costs for Baghdad Life Support Services Contract Task Order SAQMMA15F1246**

Item Number	Invoice Number	Date	Invoiced Amount	Unallowable Contractor Fees	Total Questioned Costs
1	53243	7-Oct-15	\$58,447.13	\$3,823.62	\$3,823.62
2	53251	7-Oct-15	\$381,178.44	\$24,6.91	\$24,936.91
3	54932	3-Nov-15	\$527,661.67	\$34,519.93	\$34,519.93
4	54938	2-Nov-15	\$105,426.33	\$6,873.84	\$6,873.84
5	58087	4-Dec-15	\$797,717.58	\$52,187.12	\$52,187.12
<b>Total</b>			<b>\$1,870,431.15</b>	<b>\$122,341.42</b>	<b>\$122,341.42</b>

**Source:** Generated by OIG from data provided by the Department.

## APPENDIX C: BUREAU OF NEAR EASTERN AFFAIRS RESPONSE

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United States Department of State

Washington, D.C. 20520

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June 15, 2016

### MEMORANDUM

TO: OIG/AUD – Norman P. Brown  
FROM: NEA – Anne W. Patterson   
SUBJECT: Draft Report on *Audit of Task Orders for the Union III Compound Awarded Under the Operations and Maintenance Support Services Contract*

This memorandum provides NEA comments on the subject Draft Report. In order to provide a better perspective of the overall findings, NEA suggests that the following text be included in the background section titled “Administration and Oversight of the Union III Compound Task Orders.”

BEGIN TEXT: NEA established the Contract Management Office (CMO) with dedicated full time Contracting Officer Representatives (COR) to provide effective and proper oversight for the Operations and Maintenance Support Services (OMSS) contract in Iraq. The CMO is divided into two locations: Iraq (CMO-I) and Frankfurt, Germany (CMO-F) with CMO-I having the primary role in developing requirements and quality assurance and CMO-F performing oversight functions that can be off-shored, such as invoice review. The OMSS task orders at Union III initiated in December 2014 exceeded CMO-I’s immediate capacity to provide complete oversight due to mandated staffing and security restrictions. CMO-F provided TDY COR and Alternate COR support for contract oversight until CMO-I could hire a full time COR in Iraq. Despite staffing constraints, CMO-F was able to field three different CORs to provide this oversight. The duration of TDY COR coverage in-country ranged from three weeks to three months at a time.

Union III presented special challenges to contract oversight as security constraints severely limited the amount of time a direct hire COR could spend at Union III. On-site work was limited to three hours each day and required coordination of a personnel security detachment. Department of Defense (DOD), the requiring agency for Union III, agreed to provide CORs but the individuals could only serve as assistant CORs, not as primary or alternate CORs due to procurement policy



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that dictates certification levels for high-value contracts. DOD aligned assistant CORs to monitor tasks related to their military specialties. DOD units were assigned at Union III for five to nine months at a time, which involved a high level of turnover, including DOD CORs. To offset this, NEA hired a full-time contract specialist to assist at Union III. The same security restrictions did not apply to contractor personnel at Union III. In April 2016, permanent contract staff were assigned to Union III and CMO-I assumed primary contract oversight for Union III. END TEXT.

NEA comments on the OIG recommendations are as follows:

**Recommendation 1:** OIG recommends that the Bureau of Near Eastern Affairs develop Performance Work Statements for task orders SAQMMA15F0567 and SAQMM15F1245 that comply with requirements identified in Federal Acquisition Regulation 37.602, "Performance Work Statement," and Foreign Affairs Handbook Volume 14-2, Subchapter H-340, "The Performance Work Statement," and provide the revised Performance Work Statements to the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management, for incorporation and implementation via task order modifications.

**Management Response:** NEA concurs with the recommendation. Fully compliant Performance Work Statements (PWS) were developed for Union III task orders and submitted in March 2016 to the Office of Acquisition Management to support the award of Option Year 2 in April 2016. It should be noted, however, that as of March 2016, the Department of Defense Mayor cell from the 101<sup>st</sup> Airborne Division was considering changing requirements and standards for the contract. For example, the 101<sup>st</sup> Commanding General disagreed with the fuel storage plan funded and agreed to by the 82<sup>nd</sup> Airborne Division. This particular change was based on required days of fuel supply and safety concerns with the original planning which have since been addressed. NEA and CMO-I will continue to work with DOD to resolve such issues so that PWS can be finalized.

**Recommendation 2:** OIG recommends that the Bureau of Near Eastern Affairs develop and implement a Quality Assurance Surveillance Plan in accordance with Federal Acquisition Regulation 46.4, "Government Contract Quality Assurance," and the revised Performance Work Statements, to guide oversight of all ongoing and future revitalization, transition and sustainment requirements for task orders SAQMMA15F0567 and SAQMMA15F1245.

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**Management Response:** NEA concurs with the recommendation. The Quality Assurance Surveillance Plan (QASP) developed during the Phase IV sustainment period did not reflect the requirements of the Baghdad Embassy Compound (BEC) in every instance. Many DOD requirements were reflected in the Performance Standards Summary of the PWS. The central problem with the original QASP submitted in July 2015 centered on the lack of separation of OMSS versus Basic Life Support Services (BLiSS) requirements and differences between BEC and Union III requirements. A new QASP that delineated the requirements of BLiSS and OMSS at Union III was developed in March 2016 and included in the Option Year 2 award. Implementation of the new QASP was initiated in March 2016 as evidenced by the Program Management Review (PMR) conducted in April 2016. CMO-I is now responsible for ensuring that the QASP can be implemented with proper metrics and surveillance.

**Recommendation 4:** OIG recommends that the Bureau of Near Eastern Affairs develop and implement a process to validate, at a minimum on a quarterly basis, that oversight personnel perform and document in the contract files all required oversight tasks in accordance with Federal regulations, Department policies and their delegation memoranda.

**Management Response:** NEA concurs with the recommendation. NEA consulted with DOD on appointing DOD personnel to serve as Assistant CORs (A/CORs). Department of State and DOD jointly identified A/CORs from the participating DOD office prior to the assessment. Pending availability of a full-time COR at the BEC, CMO-F led this review. NEA has assigned a permanent full-time COR who resides at the BEC and oversees the Union III task orders. The COR is a Personal Services Contractor who has been performing this duty since April 2016. Additionally, alternate CORs are revising the OMSS and BLiSS Union III Sustainment PWS to establish measurable performance outcomes and develop a comprehensive QASP that reflects requirements at the Union III Compound. This will include a process to validate quarterly that COR/ACORs perform and document all oversight tasks in accordance with Federal regulations, Department policies, and their COR delegation memoranda.

**Recommendation 5:** OIG recommends that the Bureau of Near Eastern Affairs, in coordination with the Department of Defense, identify requirements for task orders SAQMM15F0567 and SAQMMA15F1245 and milestone dates for completion, and communicate the defined requirements to the Bureau of

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Administration, Office of Logistics, Office of Acquisitions Management by the established milestone dates.

**Management Response:** NEA concurs with the recommendation. NEA notes that the text of the recommendation should change from “Acquisitions Management” to “Acquisition Management” in order to accurately reflect its name. NEA is working with DoD and the Office of Acquisition Management to define and finalize task order requirements. As the counter-Da’esh campaign evolves, DOD’s requirements for Union III continue to change. CMO-F will incorporate additional training in requirements definition as part of their three-day Iraq COR training program.

NEA will develop with AQM a milestone plan to issue a modification award for option year 1 (April 24, 2016 through April 23, 2017). NEA and AQM will communicate this milestone plan to the DOD participating office.

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## APPENDIX D: BUREAU OF ADMINISTRATION, OFFICE OF LOGISTICS MANAGEMENT RESPONSE

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United States Department of State

Washington, D.C. 20520

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June 22, 2016

### MEMORANDUM

TO: OIG/AUD – Norman P. Brown

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

SUBJECT: Draft Report on *Audit of Task Orders for the Union III Compound Awarded Under the Operations and Maintenance Support Services Contract*

Thank you for the opportunity to provide comments on the subject Union III draft report. The points of contact for this response are Mr. Matthew Colantonio who may be reached at 703-875-[REDACTED] (b)(6) and Mr. James Moore who may be reached at 703-875-[REDACTED] (b)(6).

**Recommendation 3:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management properly assign all Assistant Contracting Officer's Representatives via a delegation memorandum to conduct oversight activities at the Union III Compound for Operations and Maintenance Support Service task orders SAQMMA15F0567 and SAQMMA15F1245, in accordance with the Foreign Affairs Handbook.

**Management Response to Draft Report (06/22/2016):** The Office of Acquisitions Management (AQM) concurs with the recommendation. The Contracting Officer (CO), with assistance from the Contract Management Office (CMO) in Frankfurt, intends to: 1) issue Alternate Contracting Officer Representative (A/COR) letters to the Department of Defense (DOD) personnel for the period for which they performed A/COR duties; and, 2) assist the CMO to validate all A/COR delegation memorandums on file.

**Recommendation 6:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management promptly definitize task orders SAQMMA15F0567 and SAQMMA15F1245 for the Union III Compound once defined requirements are obtained from the Bureau of Near Eastern Affairs.

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**Management Response to Draft Report (06/22/2016):** AQM concurs with the recommendation. Task order SAQMMA15F0567 was definitized and distributed on May 4, 2016 via the issuance of Modification 003. The modification definitized the OMSS Union III revitalization and transition services.

The following are steps AQM will complete to enable definitization of the task order:

- validate the PAE proposal data submitted as current, complete, and accurate;
- conduct additional fact-finding exchanges to determine PAE's updated proposal is adequate;
- prepare a structured approach to determine reasonable profit and fee rates to enter into negotiation; and,
- make a final determination that the prices proposed are fair and reasonable.

Based on these anticipated actions, AQM expects completion of negotiation and definitized modification award for the Base (4/24/15- 4/23/2016) and Option Year 1 (4/24/16- 4/23/2017) performance periods during July 2016. AQM will provide its updated justification and revised definitization schedule to the OIG in its first compliance update.

**Recommendation 7:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management develop and implement a process to ensure undefinitized task orders are definitized within 180 days after the date of the letter contract or before completion of 40 percent of the work to be performed, whichever occurs first, as required by the Federal Acquisition Regulation. This process should include a method for tracking elapsed time frames on undefinitized contract actions.

**Management Response to Draft Report (06/22/2016):** AQM disagrees with the recommendation. The FAR provides all relevant guidance to definitize contract actions, and no additional process is required. In addition, AQM policy 16-12 (see Tab 1) establishes the requirement for CO's to distribute signed copies of all procurement actions to vendors and requesting customers via email. As an alternative to meet the intent of the recommendation, AQM requests the OIG consider AQM implementing a continuous learning training session for CO's on subject of letter contracts, definitization, and the need to effectively communicate with program offices during the definitization process.

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**Recommendation 8:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management recover \$381,658 of unallowable fees invoiced and paid under the Department of Defense-funded task order SAQMMA15F1245 to PAE Government Services, Inc., and return the funds to the Department of Defense.

**Management Response to Draft Report (06/22/2016):** AQM agrees that the disputed amount needs to be reviewed and unallowed fees returned to the Government, but disagrees with the specific proposed methodology outlined in the recommendation for such return. AQM will provide the OIG a plan for an alternative resolution during fourth quarter of Fiscal Year 2016.

**Recommendation 9:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management recover \$122,341 of unallowable fees invoiced and paid under the Department of Defense-funded Baghdad Life Support Services task order SAQMMA15F1246 to PAE Government Services, Inc., and return the funds to the Department of Defense.

**Management Response to Draft Report (06/22/2016):** AQM agrees that the disputed amount needs to be reviewed and unallowed fees returned to the Government, but disagrees with the specific proposed methodology outlined in the recommendation for such return. AQM will provide the OIG a plan for an alternative resolution during third quarter of Fiscal Year 2016.

**Recommendation 10:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management develop and implement a process to ensure that Department offices performing invoice reviews, including the Contract Management Office within the Bureau of Near Eastern Affairs, are provided timely notification of undefinitized task order awards and subsequent definitization actions.

**Management Response to Draft Report (06/22/2016):** AQM disagrees with the recommendation. The FAR provides all relevant guidance to definitize contract actions, and AQM works closely with its program offices to ensure timely notification of executed contract actions. As an alternative to meet the intent of the recommendation, AQM requests the OIG consider AQM implementing a continuous learning training session for CO's on subject of letter contracts, definitization, and the need to effectively communicate with program offices during the definitization process.

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Attachment:

Tab 1 – AQM Policy 16-12.

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## ABBREVIATIONS

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A/COR	Assistant Contracting Officer's Representative
A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
Alternate COR	Alternate Contracting Officer's Representative
BEC	Baghdad Embassy Compound
CMO	Contract Management Office
COR	Contracting Officer's Representative
DoD	Department of Defense
DOSAR	Department of State Acquisition Regulation
FAH	Foreign Affairs Handbook
FAR	Federal Acquisition Regulation
GAO	Government Accountability Office
IDIQ	Indefinite Delivery/Indefinite Quantity
NEA	Bureau of Near Eastern Affairs
OIG	Office of Inspector General
OMSS	Operations and Maintenance Support Services
PAE	PAE Government Services, Inc.
PWS	Performance Work Statement
QASP	Quality Assurance Surveillance Plan



## OIG AUDIT TEAM MEMBERS

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Melinda Perez, Director  
Middle East Region Operations  
Office of Audits

Holly Engebretsen, Audit Manager  
Middle East Region Operations  
Office of Audits

Christopher Groubert, Auditor  
Middle East Region Operations  
Office of Audits

Celia Powell, Auditor  
Middle East Region Operations  
Office of Audits

William (Preston) Jacobs, Management Analyst  
Middle East Region Operations  
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