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# Aspects of the Invoice Review Process Used by the Bureau of Near Eastern Affairs to Support Contingency Operations in Iraq Need Improvement

## MIDDLE EAST REGION OPERATIONS

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# OIG HIGHLIGHTS

AUD-MERO-17-33

## What OIG Audited

In December 2011, the U.S. Mission to Iraq assumed responsibility from the U.S. Military for supporting all U.S. Government personnel under Chief of Mission authority at Department of State (Department) facilities throughout the country. The support includes medical services, utilities, food, water, equipment and facility maintenance, grounds keeping, and landscaping. The support is provided under several contracts with a combined value of more than \$4 billion.

The Office of Inspector General (OIG) conducted this audit to determine whether the Department's Bureau of Near Eastern Affairs (NEA) invoice review policies and procedures, training and staffing, and practices are sufficient to support overseas contingency operations in Iraq and ensure invoice payments are reviewed in accordance with Federal requirements and NEA guidance.

## What OIG Recommends

To address the deficiencies identified in this report, OIG offered eight recommendations intended to improve the invoice review process, including addressing a backlog of invoices that had not been reviewed and ensuring that contractors are not paid for subpar performance.

NEA and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) concurred with all the recommendations OIG offered. A synopsis of each response and OIG's reply is presented after each recommendation in the Audit Results section of this report. NEA and A/LM/AQM comments to a draft of this report are reprinted in Appendix B and C, respectively.

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March 2017

OFFICE OF AUDITS, Middle East Region Operations

## Aspects of the Invoice Review Process Used by the Bureau of Near Eastern Affairs to Support Contingency Operations in Iraq Need Improvement

### What OIG Found

NEA is generally following Federal requirements and its invoice review procedures to process invoices that support contingency operations in Iraq. Specifically, CMO (Contract Management Office)-Frankfurt is presently reviewing invoices before authorizing payment to ensure that invoiced amounts are allowable, allocable, and reasonable. It also verifies that invoices have proper supporting documentation. However, two aspects of its invoice review process need improvement: First, greater attention is needed to address a backlog of invoices that were initially approved for payment without full review and before CMO-Frankfurt was adequately staffed. As of December 2016, the backlog consisted of at least 138 invoices totaling approximately \$14 million that had been awaiting a post-payment review for more than a year. Because CMO-Frankfurt's invoice reviews have previously identified unallowable costs, delays in conducting these reviews increase the risk that unallowable costs may not be recouped in a timely manner. Second, NEA guidance requiring invoice reviewers to document their invoice reviews must be consistently applied to demonstrate that a thorough review has been performed.

OIG also found that NEA's invoice reviewers have completed required training to prepare them for assessing whether invoiced costs are suitable for payment. However, having an adequate number of invoice reviewers has been a challenge for NEA since the award of the first major contract for services in Iraq in May 2011. The office is presently staffed adequately to keep abreast of its current workload, but additional staff is needed to address the backlog of invoices previously approved for payment without a full review.

In addition, OIG found that NEA has not developed contract performance metrics to provide a basis for reducing invoice payments when problems with contractor performance were identified. Further, A/LM/AQM has not developed a practice or methodology for calculating payment reductions when subpar performance is detected. NEA and A/LM/AQM are working to address both issues.

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## OBJECTIVE

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The Office of Inspector General (OIG) conducted this audit to determine whether the Department of State's (Department) Bureau of Near Eastern Affairs (NEA) invoice review policies and procedures, training and staffing, and practices are sufficient to support overseas contingency operations in Iraq and ensure invoice payments are reviewed in accordance with Federal requirements and NEA guidance.

This is the first in a series of audit reports assessing the invoice review process used to support overseas contingency operations. Upcoming reports will address the invoice review process employed by the Bureaus of South and Central Asian Affairs, Diplomatic Security, and International Narcotics and Law Enforcement Affairs. See Appendix A for the purpose, scope, and methodology of this audit.

## BACKGROUND

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In preparing for the December 2011 transition from U.S. military-led to U.S. civilian-led operations in Iraq, the U.S. Mission to Iraq assumed responsibility for supporting all U.S. Government personnel under Chief of Mission authority at Department facilities throughout the country. This includes Department employees, U.S. direct hires, third country nationals, locally employed staff, and contractor employees. Facilities in Iraq include the Baghdad Embassy Compound, Baghdad Diplomatic Support Center, U.S. Consulate General in Basra, U.S. Consulate General in Erbil, and Union III Compound. The support provided includes medical services, utilities, fuel, hazardous material handling, food, water, equipment and facility maintenance, waste management, grounds keeping, and landscaping. The support is provided under separate and distinct service contracts.

### **Major Service Contracts Supporting Operations in Iraq**

The total value of the service contracts supporting operations in Iraq is more than \$4 billion. The three largest contracts are the Medical Support Services-Iraq (MSSI) contract, the Operations and Maintenance Support Services (OMSS) contract, and the Baghdad Life Support Services (BLISS) contract (see Table 1).

**Table 1: Key Contracts Supporting Department Operations in Iraq**

<b>Contract</b>	<b>Period of Performance</b>	<b>Value</b>	<b>Purpose</b>
<b>Medical Support Services-Iraq</b>	May 2011 to May 2017	Not to exceed \$1 billion	To provide trained and certified health care professionals and administrative service support to U.S. and U.S. sponsored beneficiaries working and residing in Iraq
<b>Operations and Maintenance Support Services</b>	July 2012 to July 2017	Not to exceed \$2 billion	To provide operations and maintenance services to the Baghdad Embassy Compound, Baghdad Diplomatic Support Center, U.S. Consulate General in Basra and Union III Compound
<b>Baghdad Life Support Services</b>	July 2013 to July 2018	Not to exceed \$1 billion	To provide life support and logistics services at various sites in Iraq

**Source:** OIG generated on the basis of NEA data.

These contracts are a combination of firm-fixed-price, cost-reimbursable, and time-and-material elements.

### ***Medical Support Services-Iraq***

In May 2011, the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), awarded the MSSI contract (SAQMMA11D0073) to CHS Middle East LLC. The contract is an indefinite-delivery, indefinite-quantity contract to provide trained and certified health care professionals and administrative service support to U.S. and U.S.-sponsored beneficiaries working and residing in Iraq. The contractor is required to staff, operate, equip, and supply health care facilities in locations prescribed by the Department. The contract is valued at up to \$1 billion over 5 years. NEA officials informed OIG that in May 2016, the MSSI contract was extended until November 2016, at which time a new MSSI contract was expected to be awarded. The contract was extended again from November 2016 to May 2017.

### ***Operations and Maintenance Support Services***

In July 2012, A/LM/AQM awarded the OMSS contract (SAQMMA12D0165) to PAE Government Services, Inc. The contract is an indefinite-delivery, indefinite-quantity contract to provide operations and maintenance services to the Baghdad Embassy Compound, the Baghdad Diplomatic Support Center, the U.S. Consulate General in Basra and the Union III Compound. Operations and maintenance services under the OMSS contract include fuel storage and distribution and sanitary sewer wastewater treatment, among other services. The OMSS contract has a not-to-exceed cost of \$2 billion and a 5-year period of performance (base year plus 4 option years).

### *Baghdad Life Support Services*

In July 2013, A/LM/AQM awarded the BLiSS contract (SAQMMA13D0120) to PAE Government Services, Inc. The contract is an indefinite-delivery, indefinite-quantity contract to provide life support and logistics services at various sites in Iraq.<sup>1</sup> Life support services include food acquisition, preparation, and service as well as bottled water acquisition and distribution, among others. The contract has a maximum performance period of 5 years (base year plus 4 option years) and a not-to-exceed cost of \$1 billion.

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

A/LM/AQM is responsible for the award and administration of the three major service contracts supporting contingency operations in Iraq. According to the Federal Acquisition Regulation (FAR), contracting officers (COs) are responsible for awarding, negotiating, administering, modifying, terminating, and making related contract determinations and findings on behalf of the U.S. Government.<sup>2</sup>

NEA is responsible for U.S. foreign policy and diplomatic relations in 18 countries and the Palestinian Territories, including Iraq, constituting the area the Department defines as the Near East. At U.S. diplomatic facilities in these countries, NEA is responsible for providing support services. These support services include determining contract requirements, providing funding, and performing oversight of contracted services, including nominating contracting officer's representatives (CORs) and alternate CORs (ACORs).<sup>3</sup> CORs and ACORs are required to have Federal Acquisition Certification<sup>4</sup> and to possess sufficient technical expertise on the contract subject matter to perform effective oversight.<sup>5</sup> Program offices are responsible for determining the required level of technical expertise and nominating qualified CORs for the CO's consideration. Collectively, CORs and ACORs serve as the eyes and ears for the CO to ensure that the Department receives high-quality supplies and services on time, at the agreed-upon price, and in accordance with all contract requirements.

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<sup>1</sup> The BLiSS contract originally provided support services to the Baghdad Embassy Compound, the Baghdad Diplomatic Support Center, and the U.S. Consulate General in Basra. Union III was added to the contract via task order SAQMMA15F0568, on January 15, 2015.

<sup>2</sup> FAR 1.602, "Contracting Officers."

<sup>3</sup> Under the Code of Federal Regulations 642.270, the contracting officer may designate a COR to act as his or her authorized representative to assist in the administration of contracts. In addition, one or more ACORs may be designated to assist the COR. The program office (in this case NEA) is responsible for nominating CORs and ACORs and certifying to the CO that the nominees have met the training and technical expertise requirements to qualify for the position.

<sup>4</sup> The Office of Management and Budget, Office of Federal Procurement Policy, "Revisions to the Federal Acquisition Certification for Contracting Officer's Representatives," September 6, 2011, states "The purpose of the Federal Acquisition Certification for Contracting Officer's Representatives is to establish general training, experience, and development requirements for CORs in civilian agencies that reflect the various types of contracts they manage." These requirements also extend to ACORs.

<sup>5</sup> Language in 14 FAH-2, H-113, "Qualifying as a COR: Federal Acquisition Certification: Contracting Officer's Representative," requires CORs to have sufficient technical expertise in the contract subject matter to be able to provide technical direction and to determine whether the contractor is providing conforming goods and services.

NEA created two Contract Management Offices (CMOs) to provide contract oversight for its high-dollar contracts issued by A/LM/AQM in Iraq.<sup>6</sup> One CMO was established in Baghdad, Iraq (CMO-Iraq), and the other was subsequently established in Frankfurt, Germany (CMO-Frankfurt), when Embassy Baghdad was downsized. In conducting oversight of the BLiSS, OMSS, and MSSI contracts, as well as other contracts, NEA's CORs and ACORs report to either CMO-Iraq or CMO-Frankfurt. An NEA program manager leads CMO-Iraq, which has five CORs and seven ACORs, and is responsible for managing the CORs and ACORs.

CMO-Frankfurt personnel, four of whom are certified ACORs, assist NEA and CMO-Iraq by reviewing and approving<sup>7</sup> invoices associated with the BLiSS, OMSS, MSSI, and other Iraq contracts and by training CORs and ACORs prior to their assignments in Iraq. In addition, CMO-Frankfurt personnel serve as alternates for CMO-Iraq oversight personnel during their rest and recuperation travel, home leave, and other transition periods.

## **Federal Requirements and Department Guidance Regarding Invoice Reviews**

The requirements and guidance that drive the invoice review process are derived from the FAR, the Department's Foreign Affairs Manual (FAM), and NEA's CMO-Frankfurt Standard Operating Procedure (SOP).

### ***Federal Acquisition Regulation***

The FAR states that payment will be based on receipt of a proper invoice and satisfactory contract performance.<sup>8</sup> Specifically, a proper invoice must include the following:

- Name and address of the contractor.
- Invoice date and invoice number. (Contractors should date invoices as close as possible to the date of mailing or transmission.)
- Contract number or other authorization for supplies delivered or services performed (including order number and contract line item number).
- Description, quantity, unit of measure, unit price, and extended price of supplies delivered or services performed.
- Shipping and payment terms (for example, shipment number and date of shipment, discount for prompt payment terms). Bill of lading number and weight of shipment will be shown for shipments on Government bills of lading.

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<sup>6</sup> As of November 2016, CMO-Iraq and CMO-Frankfurt only provided oversight for contracts involving contingency operations in Iraq. NEA is considering expanding CMO-Frankfurt's invoice review duties to other countries serviced by the Bureau of Near Eastern Affairs, the Bureau of South and Central Asian Affairs, and possibly to countries in other regions.

<sup>7</sup> Three ACORs within CMO-Frankfurt have been delegated authority by the CO to approve invoices for BLiSS, OMSS, MSSI, and several smaller contracts.

<sup>8</sup> FAR Subpart 32.905.

- Name and address of contractor official to whom payment is to be sent (must be the same as that in the contract or in a proper notice of assignment).
- Name, title, phone number, and mailing address of person to notify in the event of a defective invoice.
- Contractor's taxpayer identification number, if required by agency procedures.
- Electronic funds transfer banking information.
- Any other information or documentation required by the contract.

The FAR also requires payments within 30 days after the receipt of a proper invoice, unless otherwise specified in the contract, if discounts are not taken, and if accelerated payment methods are not used.

### *Foreign Affairs Manual*

The Department's policy for processing vouchers—including the processes for receiving, sorting, approving, and examining vouchers—is contained in 4 FAM 420, "Voucher Examination." This section of the FAM references Government Accountability Office guidance stating that "prepayment examination consists of checking for proper, legal, and correct payment and for proper supporting documentation".

The FAM states that a certifying officer may make payment only after obtaining approval of the voucher from an officer having knowledge of the receipt of the goods or services covered by the voucher. This approval shall be in the form of a signature on the voucher, the invoice, or the documents attached to the voucher.<sup>9</sup>

### *CMO Standard Operating Procedures*

In January 2015, CMO-Frankfurt published its "Invoice Review Processes and Procedures" SOP for reviewing NEA-Iraq invoices. The process has been in effect since October 2014 and was approved by NEA in March 2015.<sup>10</sup> It covers the time from initial receipt of the invoice to final payment and is intended to ensure that invoices are processed in accordance with Prompt Payment Act requirements and that contractor expenses reimbursed by the Government are reasonable, allowable, and allocable.

The SOP states that the CMO-Frankfurt ACOR must verify with the CMO-Iraq COR that all invoiced services have been performed satisfactorily and that any cost-reimbursable labor, materials, or equipment were authorized and appropriately received.

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<sup>9</sup> 4 FAM 420, Voucher Examination.

<sup>10</sup> The SOP lays out different processes depending on the contract. However, the report refers collectively to the "process".

## NEA's Invoice Review Process in Support of Iraq Contingency Operations

The invoice review and approval process begins when the contractor submits a complete and proper invoice to the Bureau of the Comptroller and Global Financial Services, Office of Claims, in Charleston, SC. The vendor also submits all associated supporting documentation to CMO-Frankfurt. Upon receiving the invoice, the Office of Claims performs a review to ensure it meets the requirements of a proper invoice. Personnel at the Office of Claims enter the information into the Global Financial Management System<sup>11</sup> by creating a vendor invoice document number and generating an approval form that corresponds with the invoice number. The Office of Claims sends the invoice package and approval form to NEA's Washington, DC, financial management office. Upon receipt, NEA logs the invoice information (invoice number, invoice date, date received, invoice amount, and document number) into a tracking spreadsheet. It then forwards the approval form to CMO-Frankfurt. NEA also sends a copy of the invoice package to the budget analyst for Iraq in the joint Executive Office of the Bureaus of Near Eastern Affairs and South and Central Asian Affairs. This person is responsible for ensuring funding is available before invoices are paid and coordinates with the Iraq service contractors to resolve questions on invoices.

CMO-Frankfurt invoice reviewers located in Frankfurt, Washington, DC, and Stockholm, Sweden conduct a detailed review of the invoice. CMO-Frankfurt's SOP allows those reviewers to sample invoiced line items if authorized by the CMO Program Manager. Currently, CMO-Frankfurt uses sampling when reviewing cost reimbursable and time and material invoices under the MSSSI, OMSS, and BLISS contracts.<sup>12</sup> CMO-Frankfurt has also developed checklists providing further direction with respect to the sampling process. When sampling is authorized, the SOP and associated checklists direct invoice review staff to:

- Sample between 25 percent and 30 percent of invoiced line items with a focus on high-dollar line items and line items identified as high-risk. (For cost-reimbursable contract invoices, the 25–30-percent sample must include 80 percent or more of the total costs billed.)
- Document the line items reviewed.
- Document the percent of line items sampled per invoice.

Upon completion of the review, the invoice reviewer forwards the invoice package with a recommendation for approval, rejection, or partial payment to the applicable CMO-Frankfurt ACOR. The ACOR reviews the package and fills out an authorization-of-payment form

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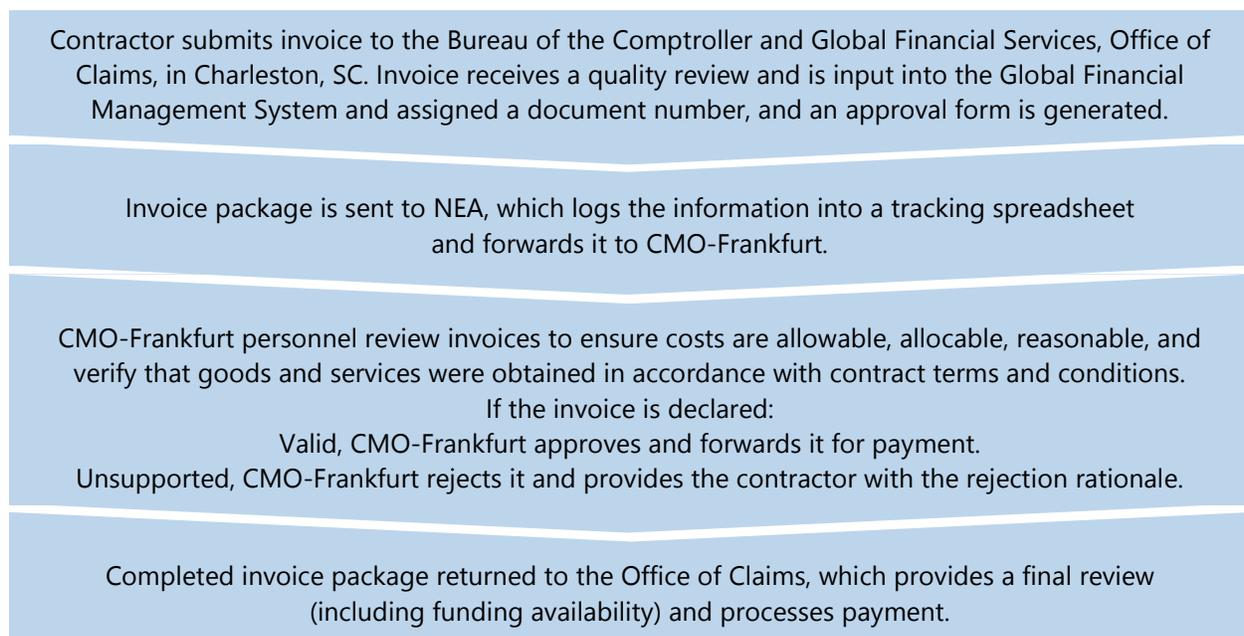
<sup>11</sup> The Global Financial Management System is the system used by the Department to monitor spending, support buying of goods and services and vendor payments, and verify data accuracy.

<sup>12</sup> These contracts are a combination of cost-reimbursable, time-and-material, and firm-fixed-price elements. Sampling is only used in reviewing the cost-reimbursable and time-and-material invoices. Firm-fixed-price invoices receive a 100-percent review.

authorizing either full or partial payment of the invoice. If an invoice is rejected, the CO or CMO-Frankfurt ACOR fills out an invoice rejection form indicating the reasons for rejection.

CMO-Frankfurt sends the authorization form to NEA's financial management office, which processes the invoice for payment by checking available funding in the Global Financial Management System and filling out the payment information in the approval form.<sup>13</sup> NEA requests a confirmation of payment and again checks the approval form to validate funding availability. It then forwards the completed authorization form with the corresponding invoice to the Office of Claims, which provides a final review of the completed invoice approval package, including funding availability, and processes the payment. The Office of Claims provides proof of payment to NEA, which sends it to CMO-Frankfurt. CMO-Frankfurt files the proof of payment in the corresponding invoice folder and records the payment in the tracking spreadsheet. Figure 1 summarizes NEA's invoice review process for contracts supporting Iraq contingency operations.

### Figure 1: NEA's Invoice Review Process for Contracts in Iraq



**Source:** OIG generated on the basis of analysis of the Department's and NEA's CMO-Frankfurt SOP.

## AUDIT RESULTS

### Finding A: Aspects of NEA's Invoice Review Process Need Improvement

NEA generally follows Federal requirements and its own invoice review procedures to process invoices that support contingency operations in Iraq. Specifically, CMO-Frankfurt currently

<sup>13</sup> If an invoice is rejected, the CO or CMO-Frankfurt ACOR indicates the reasons for rejection and returns it to the contractor. The contractor can revise and resubmit the invoice.

reviews invoices before authorizing payment to ensure that invoiced amounts are allowable, allocable, and reasonable. It also verifies that invoices have proper supporting documentation. However, two aspects of its invoice review process need improvement. First, greater attention is needed to address a backlog of invoices that were initially approved for payment without full review and before CMO-Frankfurt was adequately staffed. As of December 2016, CMO-Frankfurt officials explained that the backlog of invoices consisted of at least 138 invoices totaling approximately \$14 million that have been awaiting a post-payment review for more than a year. Because CMO-Frankfurt's invoice reviews have previously identified unallowable costs, delays in conducting these reviews increases the risk that unallowable costs may not be recouped in a timely manner. Second, NEA guidance requiring invoice reviewers to document their invoice reviews needs to be consistently applied to demonstrate that a thorough review has been performed.

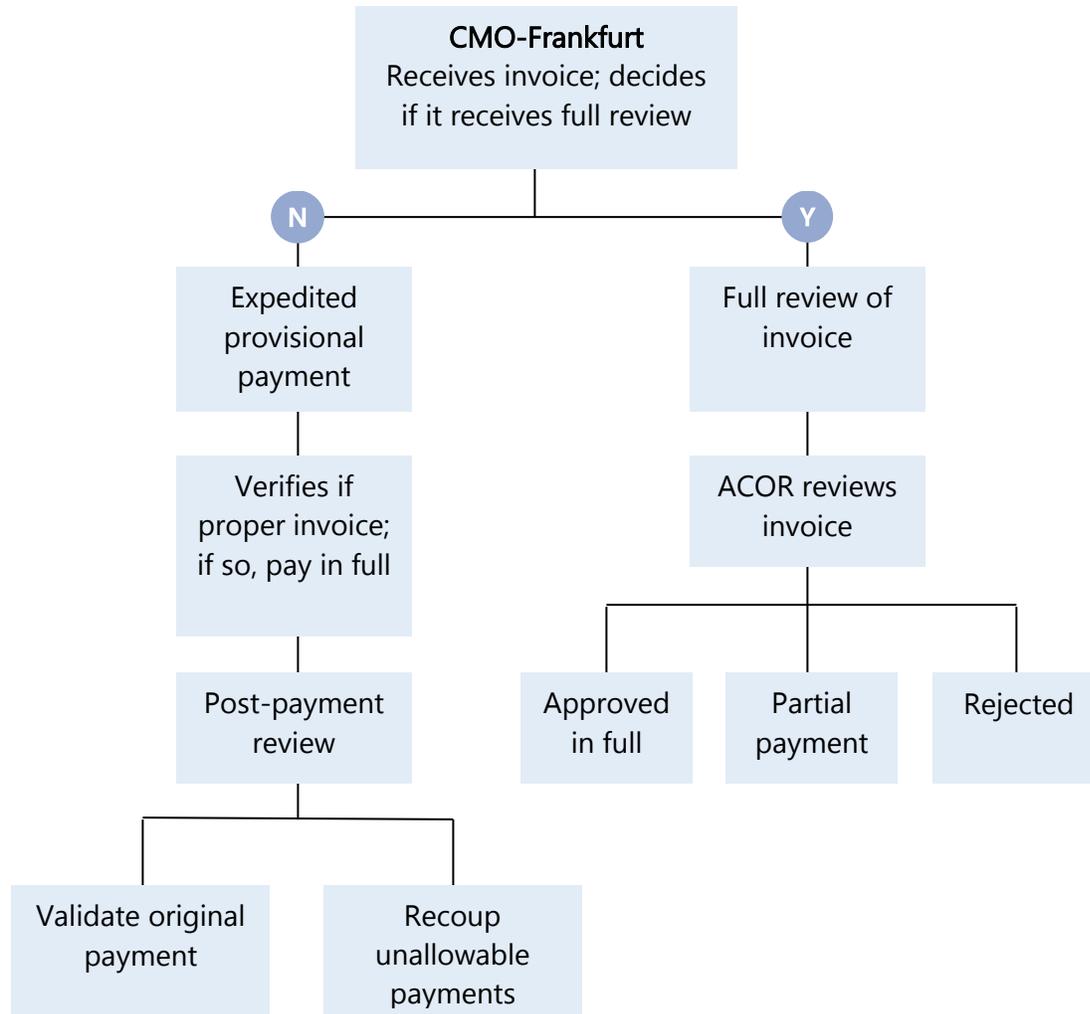
### ***Federal Requirements and NEA Invoice Review Procedures Were Generally Followed***

In accordance with Federal requirements and NEA invoice review procedures, CMO-Frankfurt currently reviews invoices before authorizing payment to ensure that invoiced amounts are allowable, allocable, and reasonable. It also verifies that invoices have proper supporting documentation. Specifically, upon receipt of an invoice, NEA's CMO-Frankfurt office conducts a detailed review using a two-step process. First, its invoice reviewers compare invoiced items to the contract and task orders to verify that the invoiced costs are allowable, allocable, and reasonable. They also check supporting documentation to verify that invoiced costs are properly supported. Upon completion of the review, the invoice reviewer forwards the invoice package with a recommendation for approval, rejection, or partial payment to the applicable CMO-Frankfurt ACOR. The ACOR reviews the package and fills out an authorization-of-payment form authorizing either full or partial payment of the invoice.

### ***Backlog of Invoices Approved for Expedited Provisional Payment Needs Attention***

NEA's CMO-Frankfurt office currently has a significant backlog of invoices that were approved for expedited provisional payment but have not received a post-payment review. The CMO-Frankfurt SOP allows the ACORs to approve an expedited provisional payment to a contractor without a complete invoice review. Figure 2 depicts this process.

**Figure 2: Comparison of Full and Expedited Provisional Payment Invoice Review Process**



Source: OIG generated.

Expedited provisional payments are typically authorized to ensure that CMO-Frankfurt complies with the FAR requirement to pay invoices within 30 days after receipt. Before an invoice is approved for an expedited provisional payment, the CO must certify in writing that the contractor has submitted an invoice that is, on its face, proper and includes documentation substantiating the costs. Any invoices that have received expedited provisional payment without review must have a post-payment review. If the post-payment review identifies missing documentation, CMO-Frankfurt will ask the contractor to provide those documents. To recoup any unallowable costs, action must be initiated within 6 years after accrual of the claim, unless the contracting parties agreed to a shorter time period.<sup>14</sup>

<sup>14</sup> Federal Acquisition Regulation 33.206(b), Initiation of a Claim.

If CMO-Frankfurt identifies questionable costs, it asks the contractor to provide justifications or authorization for such costs. CMO-Frankfurt then takes action to recoup any unallowable costs identified. As of December 2016, CMO-Frankfurt had conducted post payment review of 33 invoices supporting Iraq contingency operations.<sup>15</sup> However, some invoices that were approved for expedited provisional payment have been awaiting post-payment review for more than 2 years. In addition, while CMO-Frankfurt guidance allows for expedited provisional payments to contractors, it also requires that these invoices have a post-payment review but does not indicate when this review must take place.

In September 2014, CMO-Frankfurt began tracking the backlog of invoices that were approved for expedited provisional payment and CMO-Frankfurt personnel stated that they subsequently identified 138 invoices—valued at approximately \$14 million as of December 2016—which were approved for expedited provisional payment between September 2014 and November 2015. These invoices range from \$610 to \$859,106 and await a post-payment review to determine whether the invoiced amounts are allowable, allocable, and reasonable, and have proper supporting documentation. CMO-Frankfurt does not know the number or value of invoices that were approved for expedited provisional payment prior to September 2014 but acknowledged that additional such invoices exist and have not been reviewed post-payment.

A significant number of invoices were paid but not reviewed because, until late 2015, CMO-Frankfurt did not have sufficient staff to review invoices as they were received. As a result, the backlog of unreviewed invoices increased over time. Moreover, CMO-Frankfurt stated that because the Prompt Payment Act<sup>16</sup> requires payment of invoices within 30 days of receipt to avoid interest penalties (and because contractors' expressed concerns about cash flow), CMO-Frankfurt paid these invoices with the understanding that it would later conduct a detailed review. CMO-Frankfurt officials stated that the staffing issue has now been resolved and that it is now positioned to review current, incoming invoices. However, these officials also stated that additional staff is needed to address the backlog awaiting post-payment review. Because CMO-Frankfurt's invoice reviews have previously identified unallowable costs, delays in conducting invoice reviews increase the risk that unallowable costs may not be recouped in a timely manner.

Effective invoice reviews, whether at the time an invoice is received or completed post-payment, can identify unallowable costs that can be recovered. For example, CMO-Frankfurt claims it identified \$3.7 million in unallowable charges in the invoices it reviewed since September 2014. Of this amount, \$841,339 were unallowable charges that were identified between March 2016 and September 2016 prior to payment. An additional \$2.9 million that had been paid since September 2014 was later recouped or is in the process of being recouped on the basis of subsequent invoice review findings. Most unallowable costs were identified (for example, fuel price changes) as new information became available after payments were made. Therefore,

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<sup>15</sup> Although no unallowable charges were immediately identified in these 33 invoices, CMO-Frankfurt believes they do contain unallowable charges and is working with the CO to address them. OIG is reviewing one of the remaining invoices as part of its audit of selected OMSS invoices; the balance is to be reviewed within CMO-Frankfurt.

<sup>16</sup> The Prompt Payment Act requires the government to pay all invoices within 30 days of receipt. Interest begins to accrue if invoices are not paid within 30 days.

delays in conducting post-payment reviews increase the risk that unallowable costs may not be recouped in a timely manner. This is particularly true given that CMO-Frankfurt's invoice reviews have previously identified unallowable costs. Both CMO-Frankfurt management and the CO stated that addressing the post-payment invoice backlog is a priority.

### *Guidance to Document Invoice Reviews is Not Consistently Followed*

NEA guidance that invoice reviewers must document their invoice reviews should be consistently applied to demonstrate that a thorough invoice review has been performed. CMO-Frankfurt developed the checklist, which serves as an important internal control, to document that all review steps were taken. The SOP directs that the invoice sample include between 25 percent and 30 percent of invoiced line items. The checklist adds an additional requirement that the 25–30-percent sample must include 80 percent or more of the total costs billed.<sup>17</sup>

OIG examined a judgment sample of 59 invoices reviewed by CMO-Frankfurt and found that CMO-Frankfurt is not always following its SOP invoice review and associated checklist procedures. Specifically, CMO-Frankfurt did not always document its invoice reviews and at times failed to follow checklist guidance that directs invoice reviewers to review at least 80 percent of the total cost of an invoice for cost-reimbursable contracts. Of the 59 invoices reviewed for this audit, OIG found that the invoice review staff sampled between 25 percent and 30 percent of invoice line items, which is required by the SOP, but did not always document the line items reviewed or the percentage of total value of the invoice sampled; in addition, invoice review staff did not always sample 80 percent of total costs billed on cost-reimbursable contracts as required by the review checklist. Specifically, 6 of 23 (22 percent) cost-reimbursable invoice checklists OIG reviewed did not document that the review sampled 80 percent of total costs billed; 2 (6 percent) left this field blank, and 4 (13 percent) did not confirm review of 80 percent of costs. For example, one checklist for a \$10 million invoice demonstrated that only 58 percent of the costs billed were reviewed, not 80 percent as required.

This occurred because CMO-Frankfurt ACORs, in reviewing the invoice review documentation, did not always require invoice reviewers to complete the checklist as prescribed by the SOP. In addition, in those cases in which less than 80 percent of invoiced costs were reviewed, the ACORs accepted the smaller dollar amount reviewed as sufficient to authorize payment. According to CMO-Frankfurt, it was never its intention to have the percentage of line total invoice costs reviewed included in the checklist. Rather, this information is to be included on the invoice documents, which include a list of each cost reimbursable item. Nevertheless, the methodology currently employed by CMO-Frankfurt does not fully comply with its SOP to document that 25–30 percent of invoiced line items have been sampled and reviewed, and the checklist requirement that at least 80 percent of the total cost of an invoice be reviewed.

**Recommendation 1:** OIG recommends that the Bureau of Near Eastern Affairs develop and include in its invoice review guidance its expectations regarding the timely

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<sup>17</sup> CMO-Frankfurt's Standard Operating Procedure does allow for a lower percentage if the Contracting Officer identifies a required documentation threshold for contract invoices and the 25-30 percent cannot be met.

completion of post-payment reviews of expedited provisional payments and procedures that CMO-Frankfurt may follow to proactively request additional resources when invoice review backlogs are likely to occur.

**Management Response:** The Bureau of Near Eastern Affairs (NEA) concurred with the recommendation, stating that CMO-Frankfurt will revise its guidance to establish projected target dates for completing post-payment reviews for those invoices pending post-payment review. "If needed to complete post-payment reviews of invoices on hand, and if funds are available, CMO-Frankfurt will be authorized and funded to incur overtime." NEA also noted, however, that CMO-Frankfurt will use "all available staffing including individuals in Frankfurt, Stockholm, Washington DC, and Rosslyn VA to clear the current backlog of invoices awaiting post-payment reviews and to mitigate the requirement for overtime."

**OIG Reply:** On the basis of NEA's concurrence and its description of planned actions, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives documentation that demonstrates NEA has updated its invoice review guidance to establish expectations regarding the timely completion of post-payment reviews of expedited provisional payments and has implemented procedures that CMO-Frankfurt may follow to proactively request additional resources when invoice review backlogs occur.

**Recommendation 2:** OIG recommends that the Bureau of Near Eastern Affairs, in coordination with the Bureau of Administration, provide sufficient resources to the Contract Management Office-Frankfurt to ensure all unallowable costs are identified and recovered in a timely manner. This review should begin with those invoices provisionally approved beginning in September 2014 and already identified as awaiting post-payment review and then going back to identify and review those provisionally approved invoices submitted before September 2014 that did not receive full review.

**Management Response:** NEA concurred with the recommendation, stating that, similar to its response to Recommendation 1, overtime will be authorized and funded to accomplish these reviews as needed and if funds are available.

**OIG Reply:** On the basis of NEA's concurrence and its description of planned actions, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives documentation demonstrating that NEA has provided sufficient resources to CMO-Frankfurt to ensure all unallowable costs are identified and recovered in a timely manner and the backlog of invoices awaiting review is remedied.

**Recommendation 3:** OIG recommends that the Bureau of Near Eastern Affairs report the status of the backlog to the Office of Inspector General, Assistant Inspector General for Audits, including the number of invoices reviewed and the dollar value of questioned costs, quarterly until such time as it has been eliminated.

**Management Response:** NEA concurred with the recommendation, stating that a quarterly report will be provided to OIG describing the backlog of invoices requiring a post-payment review. It also noted that CMO has “already provided an initial listing of invoices awaiting post-payment review, the dollar value of the funding withheld and the final dollar value of disallowed expenses after completion of each post-payment review.”

**OIG Reply:** On the basis of NEA’s concurrence and its description of planned actions, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation that demonstrates that the backlog of invoices awaiting review has been remedied.

**Recommendation 4:** OIG recommends that the Bureau of Near Eastern Affairs direct its invoice review staff to fully document sampling done in each applicable checklist and to follow the checklist guidance.

**Management Response:** NEA concurred with the recommendation, stating that it will work with CMO Frankfurt to ensure invoice reviewers fully document their sampling and follow established checklist guidance.

**OIG Reply:** On the basis of NEA’s concurrence and its description of planned actions, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives documentation containing NEA’s direction to its invoice review staff to fully document sampling done in each applicable checklist and to follow the checklist guidance.

## **Finding B: Invoice Review Training is Sufficient but Staffing Has Been a Challenge**

OIG found that NEA’s invoice reviewers have completed required training to prepare them to assess whether invoiced costs are suitable for payment. However, having an adequate number of invoice reviewers has been a challenge for NEA since the award of the first major contract for services in Iraq in May 2011. The office is presently staffed adequately to keep abreast of its current workload. However, as presented in Finding A, additional staff is needed to address the backlog of invoices previously approved for payment without a full review.

### ***Invoice Review Training***

NEA’s CMO-Frankfurt office has developed training for its invoice reviewers that covers assessing whether invoiced costs are allowable, allocable, and reasonable, and have proper supporting documentation. This training is a 3-day training session that addresses contract surveillance, prompt payment, and post payment reviews. The training materials include a detailed overview of the invoice review process, sections in the FAR and the Department of State Acquisition Regulation that are relevant to the invoice review process, as well as an overview of the Prompt Payment Act and the interest penalties that accrue if invoices are not paid within

30 days. The training addresses invoice numbering methods that are exclusive to the specific contractors involved in these contracts. For example, the training includes slides on the particular invoice methods of CHS and PAE invoices. Furthermore, "step-by-step" invoice review guides detail each part of the invoice review process from beginning to end; they also provide guidance on how to conduct line sampling for cost reimbursable invoices and include specific review questions.

### ***CMO-Frankfurt is Now Adequately Staffed but Staffing Had Been a Challenge in the Past***

Although CMO-Frankfurt is now adequately staffed to manage its current invoice review workload to support Iraq operations, empowering a sufficient number of staff members to review invoices has been a challenge for NEA since May 2011. For example, OIG reported in May 2015 that from November 2011 through August 2013, one individual, the COR, was assigned to monitor contractor performance and review and approve all invoices for the MSSSI contract.<sup>18</sup> Some of the invoices submitted by the contractor were hundreds of pages and included hundreds of charges. From May 2013 to February 2014 the Department added two individuals to review invoices. In addition, the invoice review workload significantly increased when the Department awarded the OMSS contract in July 2012 and the BLISS contract in July 2013.

In August 2013, NEA conducted an internal staffing analysis and concluded that four invoice reviewers were required to meet invoice review responsibilities. However, between March 2014 and June 2015, CMO-Frankfurt had only two invoice reviewers, along with two part-time invoice reviewers on loan from the Bureau of the Comptroller and Global Financial Services working in Rosslyn, Virginia, to cover all of the major service contracts in Iraq. Although NEA attempted to address the insufficient number of staff members assigned to review invoices by assigning temporary invoice reviewers from the Defense Contract Audit Agency, it was not until July 2015 that an additional invoice reviewer was assigned, and a third invoice reviewer was not assigned until September 2015. According to CMO-Frankfurt officials, it takes 6 months to train an invoice reviewer, so the new staff members did not achieve full performance until December 2015 and March 2016, respectively. As of October 2016, CMO-Frankfurt had four invoice reviewers and a fifth staff member in training, and continued to utilize the services of the two on-loan invoice reviewers, which officials say is sufficient to meet its current invoice review requirements but not sufficient to address the previously discussed backlog of invoices awaiting post-payment review. CMO-Frankfurt officials said that factors contributing to staffing delays included the relocation of the invoice review function from Iraq to Germany and long hiring lead times.

**Recommendation 5:** OIG recommends that the Bureau of Near Eastern Affairs develop and implement a process to periodically review and address staffing requirements in Frankfurt and in Iraq to ensure invoice oversight staff levels are sufficient to complete effective and timely invoice reviews in accordance with the Federal Acquisition

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<sup>18</sup> OIG, Audit of the U.S. Mission Iraq Medical Services (AUD-MERO-15-25), May 2015.

Regulation, Foreign Affairs Manual, Foreign Affairs Handbook, Contract Management Office-Frankfurt Standard Operating Procedures, and Contract Management Office-Frankfurt invoice checklist.

**Management Response:** NEA concurred with the recommendation, stating that, as part of the Department's annual Bureau Resource Request process, it will solicit unfunded staffing requirements relating to invoice oversight staffing and incorporate such unfunded requirements within its Bureau Resource Request. As invoicing review requirements change, staffing requirements will be reviewed as well.

**OIG Reply:** On the basis of NEA's concurrence and its description of planned actions, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that a process has been implemented to periodically review and address staffing requirements in Frankfurt and in Iraq to ensure invoice oversight staff levels are sufficient to complete effective and timely invoice reviews.

### **Finding C: Lack of Contract Performance Metrics Contributed to Paying Some Invoices without Verification of Contractor Performance**

OIG found that the lack of effective contract performance metrics contributed to instances where invoices were paid for services provided between April 2016 and September 2016 even though field inspection reports identified problems with contractor performance or required inspection reports were not prepared. OIG reviewed invoices and monthly COR reports, in which the COR assesses contractor performance during that month, and noted instances where invoices were paid without evidence that the contractor's performance met requirements. Specifically, CMO-Frankfurt and A/LM/AQM officials explained that some were paid even though CMO-Iraq staff had not conducted required inspections, and some were paid despite performance inspections that identified subpar performance.

According to the COR in Iraq, he has addressed the inspection problem and as of November 2016 all required inspections were being conducted. However, OIG notes the lack of assurance that future staffing will be sufficient to conduct all required inspections. Regarding subpar performance, CMO-Frankfurt officials and the CO acknowledged that the invoices were paid because the contracts lacked measurable performance metrics that could be used to hold the contractor accountable. A/LM/AQM officials said they have made several unsuccessful attempts to develop performance metrics and recently hired a contractor to assist in developing performance metrics. Further, A/LM/AQM has not developed a practice or methodology for calculating payment reductions when subpar performance is detected. The CO stated he is currently working to do so.

### *Federal and Department Requirements for Verifying Contractor Performance*

Requirements for verifying that services meet contract requirements are contained in the FAR, the FAM, and the Foreign Affairs Handbook (FAH). Specifically:

- FAR 46.407, "Nonconforming supplies or services," states that the CO should reject supplies or services not conforming in all respects to contract requirements. This FAR provision authorizes equitable adjustments when supplies or services are accepted with critical deficiencies.
- FAR 52.246-4, "Inspection of Services—Fixed-Price," allows the Government to charge a contractor any cost incurred by the Government that is directly related to the performance of such service that the contractor itself did not perform.
- 14 FAM 221.6 (c), "Performance Based Statements of Work," provides that statements of work for Department performance-based service contracts should "(1) Describe work in terms of results needed" and "(2) Use measureable performance standards."
- 4 FAH-3 H-423.5-1, "Purpose and Scope," states that supporting documentation is required to ensure that the goods were actually received or services actually performed.
- 14 FAH-2 H-523, "Quality Assurance," 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.

### *Performance Inspections Were Not Performed for the BLiSS Contract but Invoices Were Paid*

The April–June 2016 and July–September 2016 quarterly Program Management Review (PMR) reports for the BLiSS contract concluded that overall contractor performance was satisfactory. However, the reports also showed that some required service areas had not been inspected. For example, as shown in Table 2, less than 60 percent of the required performance inspections at the Baghdad Embassy Compound during April–June 2016 and half during July–September 2016 were actually conducted.

**Table 2: BLiSS Performance Inspection Schedule for the Baghdad Embassy Compound**

Type of Inspection	April–June 2016		July–September 2016	
	Required	Conducted	Required	Conducted
Monthly High Risk	18	17	21	13
Bimonthly Medium Risk	14	4	10	2
Quarterly Low Risk	6	1	3	2

**Source:** OIG generated on the basis of performance inspection data from the BLiSS PMR Report, April–June 2016 and July–September 2016.

Although the COR recognized that some service inspections had not been done because of insufficient staff, CMO-Frankfurt officials explained that the invoices were approved for payment.

### ***COR Reports Identified Problems with Contractor Performance but Invoices Were Paid***

OIG's review of COR reports on contractor performance identified instances where contractor performance did not meet contractual performance requirements, yet, as A/LM/AQM and CMO-Frankfurt officials explained to OIG, the contractor was paid anyway. For example, the April–June 2016 quarterly PMR report for the OMSS contract reported that half the janitorial and waste removal services were deficient because common areas, such as bathrooms and offices, were poorly cleaned. In August 2016, the contracting officer for the OMSS contract issued a letter of concern regarding continued unsatisfactory contractor performance of janitorial and landscaping services. The CO wrote that “[t]he purpose of this letter is to communicate Department of State concerns regarding the continued unsatisfactory performance by PAE in providing Janitorial and Landscaping services....” The landscaping service complaint included that the Ambassador was concerned that grass in the Baghdad Embassy Compound was not being maintained. Officials with A/LM/AQM explained to OIG that, nonetheless, the contractor was paid in full.

In another example, the September 2016 monthly OMSS COR report stated that, although the OMSS contractor was responsible for all elevator maintenance, one elevator had not been operable for 2 years. The COR report also identified an average backlog of 350 to 400 work orders in September 2016. Most recently, the combined July–September PMR for the OMSS and BLiSS task orders for one work site reported that the vehicle maintenance service was not meeting contractual requirements.<sup>19</sup> A/LM/AQM officials informed OIG that the contractor was also paid in full notwithstanding these deficiencies.

### ***A/LM/AQM and NEA Have Not Developed Contract Performance Metrics and a Methodology to Reduce Payments When Contractual Requirements under the OMSS and BLiSS Contracts Are Not Being Met***

The lack of performance metrics is not limited to contracts in Iraq. For example, in October 2016, OIG reported that the operations and maintenance contract to support operations in Afghanistan did not have clearly defined and measurable performance metrics in the statement of work that allow reviewers to adequately assess contractor performance.<sup>20</sup> According to A/LM/AQM officials, it has worked with NEA to develop performance metrics for the OMSS and BLiSS contracts but has not been successful. To address the problem, A/LM/AQM on NEA's behalf has now contracted with an outside expert, the Logistics Management Institute, to develop performance metrics for the OMSS and BLiSS contracts.<sup>21</sup> The institute researches,

<sup>19</sup> Both the OMSS and BLiSS contracts contain a task order for services at the Union III Compound. A separate combined PMR is done for these task orders.

<sup>20</sup> OIG, Management Assistance Report: Contract Management-Lessons Learned from Embassy Kabul, Afghanistan, Operations and Maintenance Contract (AUD-MERO-17-04), October 2016.

<sup>21</sup> The MSSi contractor reports monthly on specific performance metrics, including medical metrics. The COR prepares a monthly report assessing contractor performance. The latest COR monthly report, for September 2016, reported satisfactory performance. The MSSi contract requires the contractor to provide trained and certified health care professionals and administrative service support to U.S. and U.S. sponsored beneficiaries working and residing in Iraq.

develops, writes, and delivers performance work statements and quality assurance surveillance plans for task orders that provide OMSS and BLiSS services. Draft performance work statements and quality assurance surveillance plans were submitted to NEA for review in December 2016.

Revised quality assurance surveillance plans were to be delivered in January 2017, and additional performance metrics were to be delivered in February 2017. According to the CO, following NEA review, implementation would require agreement with PAE Government Services, Inc., with negotiations taking additional time. However, unless the performance metrics are over and above the contracts' requirements, lengthy negotiations with the contractor should not be necessary.

In addition to ensuring performance standards are in place, A/LM/AQM needs to develop a methodology for calculating payment reductions for subpar performance. The major service contracts in Iraq are firm-fixed-price contracts and task orders are stated in unit costs, such as dollars per square foot of space to be serviced. According to A/LM/AQM officials, the firm-fixed-price includes a number of inputs—such as labor—and reducing invoice payments for subpar performance would require isolating costs, which could be an expensive task relative to the possible savings attained. Even if true, contractors are hired to perform a task and should be held accountable for doing so in accordance with the terms of the contract. The CO agreed that one area where the Government could recoup payments is in janitorial and landscaping services on the basis of the previously discussed deficiencies. He said the challenge is consistently documenting subpar service and then applying a sensible formula to reduce payment for deficient services on a firm-fixed-price contract. According to the CO, he is trying to develop a methodology to address this issue.

**Recommendation 6:** OIG recommends that the Bureau of Near Eastern Affairs develop and implement a process to a) track and ensure that contracting officer's representative inspections are completed in accordance with the inspection schedule; b) document the inspection results, including deficiencies found; and c) report the inspection results to the Contract Management Office-Frankfurt in a timely manner.

**Management Response:** NEA concurred with the recommendation but requested that OIG revise part c of the recommendation to state that NEA should "share the necessary inspection results to the Contract Management Office-Frankfurt in a timely manner." NEA noted that a "rigorous inspection schedule is already in place to monitor contractor performance in all service areas at each site. The monthly results of these inspections are summarized and briefed during the quarterly Procurement Management Reviews for the two primary contracts (OMSS and BLiSS)." NEA also stated that the "final product of the current Logistics Management Institute study is underway to identify performance metrics that will be incorporated into the inspection schedule and updated requirements to document results."

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The contractor is required to staff, operate, equip, and supply health care facilities in locations prescribed by the Department of State. The contract with the Logistics Management Institute to develop performance metrics does not include the MSSl contract.

**OIG Reply:** On the basis of NEA's concurrence with the recommendation, OIG considers this recommendation resolved, pending further action. In addition, OIG modified part c of this recommendation as requested by NEA. This recommendation will be closed when OIG receives and accepts documentation demonstrating that a process has been implemented to track and ensure that COR inspections are completed in accordance with the inspection schedule, inspection results are documented to include deficiencies found, and inspection results are shared as necessary with CMO-Frankfurt in a timely manner.

**Recommendation 7:** OIG recommends that the Bureau of Near Eastern Affairs, develop reliable, objective, clear, and measurable performance metrics and include these metrics in all current and future Bureau of Near Eastern Affairs Iraq contracts.

**Management Response:** NEA concurred with the recommendation and reported that the Logistics Management Institute is "scheduled to deliver final performance matrices and metrics on March 20, 2017, for two sites within the OMSS and BLiSS contracts": Baghdad Embassy Compound and Baghdad Diplomatic Support Center. From these data and analyses, NEA will work with AQM, CMO-Frankfurt, and CORs to develop "measurable metrics to determine satisfactory contractor performance for all sites within Iraq for all NEA contracts. These metrics can provide a basis for inclusion of similar metrics in future NEA contracts."

**OIG Reply:** On the basis of NEA's concurrence with the recommendation, actions taken, and its description of planned actions, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation that NEA has implemented reliable, objective, clear, and measurable performance metrics and has included these metrics in all current Iraq contracts and provided evidence of a methodology for inclusion of similar metrics in future NEA contracts.

**Recommendation 8:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop and implement a) a methodology to calculate the cost associated with the contractor not meeting performance metrics and b) a process to reduce payment to the contractor when contractual requirements are not being met. This methodology and process should be included in all current and future Bureau of Near Eastern Affairs Iraq contracts.

**Management Response:** The Bureau of Administration, Office of Logistics Management concurred with the recommendation. A/LM, on behalf of AQM, stated that "to meet the intent of this recommendation," AQM will "ensure performance work statement based contracts for NEA Iraq identify the priority tasks that require incentives/disincentives, and negotiate them with the contractor." The quality assurance surveillance plans, within the statement of work, "will contain the process and amount to reduce payment when contractual requirements are not being met. AQM will ensure this process is included in all current and future" NEA Iraq contracts.

**OIG Reply:** On the basis of A/LM's concurrence with the recommendation and its description of planned actions, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that AQM has implemented a methodology to calculate the cost associated with the contractor not meeting performance metrics as well as a process to reduce payment to the contractor when contractual requirements are not being met for both current and future NEA Iraq contracts.

## CONCLUSION

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This is the first in a series of audit reports assessing the invoice review process used to support overseas contingency operations. Upcoming reports will address the invoice review process used by the Bureaus of South and Central Asian Affairs, Diplomatic Security, and International Narcotics and Law Enforcement Affairs. In this first report, OIG found that a growing workload and inadequate staffing led NEA to pay invoices with only a cursory review to be followed by a complete review. OIG found that paying without complete review, along with the delay in conducting complete reviews, creates a risk that the Department is paying costs that are unallowable or not properly supported and that it may not be able to recoup those costs in a timely manner. OIG also found that a lack of performance metrics led NEA to pay for work that did not meet contractual requirements. In its audits of the other bureaus' invoice review process, OIG will be examining whether there are issues similar to what it found at NEA. To the extent that OIG finds that these are systemic issues affecting multiple bureaus it will audit, OIG plans to recommend that the Department determine whether these are issues that affect the entire Department and, if so, OIG will also recommend that the Department develop corrective processes.

## RECOMMENDATIONS

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**Recommendation 1:** OIG recommends that the Bureau of Near Eastern Affairs develop and include in its invoice review guidance its expectations regarding the timely completion of post-payment reviews of expedited provisional payments and procedures that CMO-Frankfurt may follow to proactively request additional resources when invoice review backlogs are likely to occur.

**Recommendation 2:** OIG recommends that the Bureau of Near Eastern Affairs, in coordination with the Bureau of Administration, provide sufficient resources to the Contract Management Office-Frankfurt to ensure all unallowable costs are identified and recovered in a timely manner. This review should begin with those invoices provisionally approved beginning in September 2014 and already identified as awaiting post-payment review and then going back to identify and review those provisionally approved invoices submitted before September 2014 that did not receive full review.

**Recommendation 3:** OIG recommends that the Bureau of Near Eastern Affairs report the status of the backlog to the Office of Inspector General, Assistant Inspector General for Audits, including the number of invoices reviewed and the dollar value of questioned costs, quarterly until such time as it has been eliminated.

**Recommendation 4:** OIG recommends that the Bureau of Near Eastern Affairs direct its invoice review staff to fully document sampling done in each applicable checklist and to follow the checklist guidance.

**Recommendation 5:** OIG recommends that the Bureau of Near Eastern Affairs develop and implement a process to periodically review and address staffing requirements in Frankfurt and in Iraq to ensure invoice oversight staff levels are sufficient to complete effective and timely invoice reviews in accordance with the Federal Acquisition Regulation, Foreign Affairs Manual, Foreign Affairs Handbook, Contract Management Office-Frankfurt Standard Operating Procedures, and Contract Management Office-Frankfurt invoice checklist.

**Recommendation 6:** OIG recommends that the Bureau of Near Eastern Affairs develop and implement a process to a) track and ensure that contracting officer's representative inspections are completed in accordance with the inspection schedule; b) document the inspection results, including deficiencies found; and c) share the necessary inspection results with the Contract Management Office-Frankfurt in a timely manner.

**Recommendation 7:** OIG recommends that the Bureau of Near Eastern Affairs, develop reliable, objective, clear, and measurable performance metrics and include these metrics in all current and future Bureau of Near Eastern Affairs Iraq contracts.

**Recommendation 8:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop and implement a) a methodology to calculate the cost associated with the contractor not meeting performance metrics and b) a

process to reduce payment to the contractor when contractual requirements are not being met. This methodology and process should be included in all current and future Bureau of Near Eastern Affairs Iraq contracts.

## 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) conducted this audit to determine whether the Department's Bureau of Near Eastern Affairs (NEA) invoice review policies and procedures, training and staffing, and practices are sufficient to support overseas contingency operations in Iraq and ensure invoice payments are reviewed in accordance with Federal requirements and NEA guidance. This is the first in a series of audit reports assessing the invoice review process used to support overseas contingency operations. Upcoming reports will address the invoice review process employed by the Bureaus of South and Central Asian Affairs, Diplomatic Security, and International Narcotics and Law Enforcement Affairs.

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.

OIG conducted fieldwork for this audit from August 2016 to December 2016 at NEA headquarters in Washington, DC.; the Bureau of the Comptroller and Global Financial Services, Office of Claims, in Charleston, SC; the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) in Washington, DC; the Bureau of Near East Affairs in Washington, DC; and the U.S. Consulate General in Frankfurt, Germany. OIG's audit work focused on the major contracts providing support services in Iraq—specifically, the Baghdad Life Support Services contract, the Operations and Maintenance Support Services contract, and the Medical Support Services-Iraq contract.<sup>1</sup>

To determine whether NEA was adequately reviewing invoices in accordance with applicable Federal and Department guidance, OIG reviewed and analyzed the Federal Acquisition Regulation, the Foreign Affairs Manual, the Foreign Affairs Handbook, and the Department's Regional Contract Management Office (CMO) Standard Operating Procedures. In addition, OIG reviewed and analyzed quarterly Program Management Reviews (PMRs), contracting officer's representative monthly reports, invoice review training requirements, invoice files, invoice tracking backlog spreadsheet, and staffing reports. In addition, OIG interviewed officials from NEA, CMO-Frankfurt in Germany, A/LM/AQM and the Office of Claims in Charleston, SC. OIG reviewed a judgment sample of 59 invoices processed by CMO-Frankfurt from May 2016 to September 2016 to assess whether NEA's invoice review policies, procedures, training, staffing, and practices are sufficient to support overseas contingency operations and whether invoice payments were reviewed in accordance with Federal requirements and Department guidance.

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<sup>1</sup> In addition to the Baghdad Life Support Services, the Operations and Maintenance Support Services, and the Medical Support Services Iraq contracts, CMO-Frankfurt is responsible for reviewing several smaller contracts. They include linguist contracts, the Sully Compound contract, the Health Informatics and Information Technology Solutions contract, the Subject Matter Expert contracts, and independent validation and verification contracts.

The judgmental sample of 59 invoices was chosen from the total universe of invoices reviewed by CMO-Frankfurt between May and September of 2016. OIG included a mix of high and low dollar invoices with an emphasis on higher dollar value invoices. Consequently, in selecting the sample, OIG included all invoices for \$10 million or more (3 total invoices), every other invoice for \$1 million or more and less than \$10 million (24 invoices), and a mix of invoices for less than \$1 million, including invoices for less than \$10,000 (32 invoices).

## Prior Reports

OIG issued six audit reports between October 2014 and April 2016 that questioned costs on approved invoices for services provided in Iraq or Afghanistan. As shown in Table 1, OIG questioned \$35.6 million in costs, or about 4 percent of the costs reviewed. OIG also issued a management assistance report in October 2016 on lessons learned from the Embassy Kabul, Afghanistan, operations and maintenance contract.

**Table A.1: OIG MERO Audits That Identified Questioned Costs, 10/2014–4/2016**

Report Title	Place of Performance	Report Date	Questioned Costs (Millions)	Questioned Costs as a Percentage of Costs Reviewed (%)
<i>Improvements Needed To Strengthen Vehicle-Fueling Controls and Operations and Maintenance Contract at Embassy Kabul, Afghanistan (AUD-MERO-16-35)</i>	Afghanistan	April 2016	\$1.2	10.4
<i>Bureau of Diplomatic Security Worldwide Protective Services Contract Task Order 8 - Security Services at U.S. Consulate Erbil (AUD-MERO-16-30)</i>	Iraq	March 2016	\$10.8	11.6
<i>Bureau of Diplomatic Security Worldwide Protective Services Contract-Task Order 3 - Baghdad Embassy Security Force (AUD-MERO-16-28)</i>	Iraq	February 2016	\$7.2	1.6
<i>Bureau of International Narcotics and Law Enforcement Affairs Aviation Support Services Contract Iraq (AUD-MERO-15-35)</i>	Iraq	July 2015	\$0.9	1.9
<i>Audit of the U.S. Mission Iraq Medical Services (AUD-MERO-15-25)</i>	Iraq	May 2015	\$6.8	27.2
<i>Bureau of Diplomatic Security Worldwide Protective Services Contract Task Order 10 - Kabul Embassy Security Force (AUD-MERO-15-03)</i>	Afghanistan	October 2014	\$8.6	4.0
<b>Total</b>			<b>\$35.6</b>	
<b>Questioned Costs as a Percentage of All Costs Reviewed</b>				<b>4.1</b>

Source: OIG generated on the basis of findings from previous audit reports.

In an April 2016 OIG report titled *Improvements Needed To Strengthen Vehicle-Fueling Controls and Operations and Maintenance Contract at Embassy Kabul, Afghanistan* (AUD-MERO-16-35), OIG reported that, from March 2013 to May 2015, the embassy Financial Management Office paid at least \$1.21 million in fuel invoices that had no supporting documentation. OIG noted that it had identified Department-wide deficiencies in this area and, in March 2014, issued a management alert on contract file management deficiencies (MA-A-0002) because it had identified significant vulnerabilities that could expose the Department to substantial financial losses. OIG made a series of recommendations to address those deficiencies.

In a March 2016 report titled *Audit of Bureau of Diplomatic Security Worldwide Protective Services Contract Task Order 8 – Security Services at U.S. Consulate Erbil* (AUD-MERO-16-30), OIG questioned \$10.8 million in approved invoice costs. This audit was the fourth in a series of audits performed by OIG at the request of the Bureau of Diplomatic Security. OIG previously reported on three other task orders under this contract: Task Order 5 for Baghdad Embassy movement security services, Task Order 10 for Kabul Embassy security services, and Task Order 3 for Baghdad static security. In those audits, OIG found that contracting officers and their representatives did not thoroughly review supporting documentation when approving invoices, they did not ensure that contractors maintained records, and they did not adequately monitor the contractor's performance. OIG made a series of recommendations to review costs and recoup any costs found to be unallowable (costs that are prohibited by the contract, applicable laws, or regulations) or unsupported (costs not supported with adequate documentation or that did not have required approval as stated in the contract).

In a February 2016 report titled *Audit of Bureau of Diplomatic Security Worldwide Protective Services Contract Task Order 3 – Baghdad Embassy Security Force* (AUD-MERO-16-28), OIG reported that, of the \$466 million invoiced, it questioned nearly \$7.2 million paid on 193 invoices. The questioned costs included \$6.5 million that OIG considered unsupported and \$652,060 that were unallowable. The contracting officer's representative approved these invoices because, in part, he relied on the desk officers' review of invoices and supporting documentation, although they only reviewed 10 percent to 20 percent of the supporting documentation because of time constraints. OIG made a series of recommendations to review costs, recoup any costs found to be unallowable or unsupported, and improve invoice review.

In a July 2015 report titled *Audit of the Bureau of International Narcotics and Law Enforcement Affairs Aviation Support Services Contract in Iraq* (AUD-MERO-15-35), OIG questioned \$932,644 in costs associated with 9 of the 14 invoices it examined. OIG reviewed 14 invoices totaling approximately \$49.7 million of the \$541.5 million in invoices submitted as of October 31, 2013. The questioned costs were missed because DynCorp International was not required to provide documentation supporting its invoices' charges unless the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, specifically requested that it do; moreover the invoice review processes, methodologies, and staffing were insufficient. OIG made a series of recommendations to review costs, recoup any costs found to be unallowable or unsupported, and improve invoice review.

In a May 2015 report titled *Audit of the U.S. Mission Iraq Medical Services* (AUD-MERO-15-25), OIG reviewed the contractor's 12 largest invoices, which totaled approximately \$25 million, or 17 percent of the \$154 million in invoices submitted and approved from September 2011 through December 2013. OIG found a total of \$6,788,027 in questioned costs, including \$15,146 in possibly unallowable expenses. These questioned costs occurred in part because, early in the contract, the Department did not have the appropriate support system in place to adequately manage and monitor the CHS Middle East LLC contract, which included invoice reviews. In addition, the contracting officer's representative initial invoice reviews focused on labor rates, with cursory reviews of other invoice items. Further, CHS Middle East LLC did not always provide sufficient documentation to support its invoices. Since May 2013, the Department has increased the oversight staff, which has helped decrease the amount of questioned costs. However, OIG noted in the report that, because it found consistent issues among the 12 invoices, similar issues were likely to exist among the other 640 invoices. OIG made a series of recommendations to review costs, recoup any costs found to be unallowable or unsupported, and improve invoice review.

In an October 2014 report titled *Audit of the Bureau of Diplomatic Security Worldwide Protective Services Contract Task Order 10 - Kabul Embassy Security Force* (AUD-MERO-15-03), OIG reviewed 368 of the task order's invoices. These invoices accounted for costs of \$217,168,975. OIG questioned \$8,642,485 in costs invoiced and paid on 57 invoices that were possibly unallowable or not supported in compliance with the contract requirements. Specifically, the contracting officer's representative approved invoices that contained \$1,726,155 in costs that may have been unallowable by the contract and \$6,916,330 in costs that were not supported in accordance with contract requirements. The contracting officer's representative approved the invoices without adequately verifying the contractor's invoices against the supporting documentation. The report explained that, at the time, no written guidance or standard operating procedures existed for the in-depth review of invoices and supporting documentation prior to contracting officer's representative approval, although standard operating procedures existed for ensuring the contractor had submitted a proper invoice. OIG made a series of recommendations to review costs, recoup any costs found to be unallowable or unsupported, and improve invoice review.

In an October 2016 management assistance report entitled *Contract Management-Lessons Learned from the Embassy Kabul, Afghanistan, Operations and Maintenance Contract*, (AUD-MERO-17-04), OIG found that the operations and maintenance contract at Embassy Kabul did not have clearly defined and measurable performance metrics in the statement of work to assess accurately contractor performance in fulfilling contract requirements. For example, the statement of work only required the contractor to "operate and maintain" the various utility systems on the embassy compound and did not provide more specific details on what tasks should be executed by the contractor. As a result, the contractor did not consistently perform necessary preventative maintenance functions, which, in some instances, caused major equipment systems to fail or work improperly. These system breakdowns occurred, in part, because the original statement of work did not provide specific performance metrics and indicators to adequately measure contractor performance

## Use of Computer-Processed Data

OIG did not rely on computer processed data to conduct this audit. CMO-Frankfurt provided the audit team with copies of selected invoice packages chosen by OIG covering the period from May 2016 through September 2016. OIG chose these invoices from a spreadsheet listing all invoices processed for all contracts for which CMO-Frankfurt performed invoice review. OIG verified the completeness and accuracy of the invoice documentation by comparing key documents with the requirements of a proper invoice found in the Federal Acquisition Regulation. OIG did not confirm the universe of invoices using an independent system. Specifically, OIG looked at the invoice form, the invoice approval memorandum, the payment authorization form, the dates the invoice arrived at NEA and when the invoice was returned for payment, and the review checklist that the invoice reviewer completes when an invoice is reviewed. OIG cross-checked the information gathered with the internal standard operating procedures for CMO-Frankfurt and the invoice requirements found in the Federal Acquisition Regulation, Subpart 32.905 "Payment Documentation and Process." OIG concluded that the invoice data were adequate to document the invoice reviews.

## Work Related to Internal Controls

OIG performed steps to assess the adequacy of internal controls related to the areas audited. This included whether checklists prepared for each invoice reviewed were completed. In addition, OIG assessed whether, in approving invoices, CMO-Frankfurt was reviewing documentation that would verify that the invoiced services had met contractual requirements. OIG found significant internal control deficiencies that are detailed in Findings A and C in the Audit Results section of this report.

## APPENDIX B: BUREAU OF NEAR EASTERN AFFAIRS RESPONSE

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United States Department of State

Washington, D.C. 20520

February 12, 2017

**MEMORANDUM**  
UNCLASSIFIED

TO: OIG/AUD – Norman P. Brown  
 FROM: NEA – Stuart E. Jones, Acting  
 SUBJECT: Draft Report on *Aspects of the Invoice Review Process Used by the Bureau of Near Eastern Affairs to Support Contingency Operations in Iraq Need Improvement*

This memorandum provides NEA comments on the subject Draft Report. NEA was provided an opportunity to comment on a preliminary draft. These comments have been incorporated into the subject Draft Report.

NEA comments on the OIG recommendations are as follows:

**Finding A: Aspects of NEA’s Invoice Review Process Need Improvement**

**Recommendation 1:** OIG recommends that the Bureau of Near Eastern Affairs develop and include in its invoice review guidance its expectations regarding the timely completion of post-payment reviews of expedited provisional payments and procedures that CMO-Frankfurt may follow to proactively request additional resources when invoice backlogs are likely to occur.

**Management Response.** Concur: CMO-Frankfurt will revise its guidance to establish projected target dates for completing post-payment reviews for those invoices pending post-payment review. If needed to complete post-payment reviews of invoices on hand, and if funds are available, CMO-Frankfurt will be authorized and funded to incur overtime. CMO-Frankfurt will be requested to project these requirements so that funding can be positioned to support overtime hours for both U.S. Direct Hires and contractor personnel. CMO-Frankfurt will use all available staffing including individuals in Frankfurt, Stockholm, Washington DC, and Rosslyn VA to clear the current backlog of invoices awaiting post-payment reviews and to mitigate the requirement for overtime.

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**Recommendation 2:** OIG recommends that the Bureau of Near Eastern Affairs, in coordination with the Bureau of Administration, provide sufficient resources to the Contract Management Office-Frankfurt so that it may promptly complete a post payment review of the invoices paid without review to insure all unallowable costs, such as the \$3.7 million identified between September 2014 and September 2016 are identified and recovered in a timely manner. This review should begin with those invoiced provisionally approved beginning in September 2014 and already identified as awaiting post-payment review and then going back to identify and review those provisionally approved invoiced submitted before September 2014 that did not receive full review.

**Management Response.** Concur. As noted in response to Recommendation 1, NEA will work with CMO Frankfurt to establish target dates for completing post-payment reviews of those invoices that were paid provisionally. As needed and if funds are available, overtime will be authorized and funded to accomplish these reviews. Prior to September 2014, most invoices had been subjected to a full review.

**Recommendation 3:** OIG recommends that the Bureau of Near Eastern Affairs report the status of the backlog to the Office of Inspector General, Assistant Inspector General for Audits, including the number of invoices reviewed and the dollar value of questioned costs, quarterly, until such time as it has been eliminated.

**Management Response.** Concur. CMO has already provided an initial listing of invoices awaiting post-payment review, the dollar value of the funding withheld and the final dollar value of disallowed expenses after completion of each post-payment review. As noted in comments to Recommendation 2, most invoices paid prior to September 2014 were based on a full review. A backlog of invoices with the requested information requiring a post payment review will be provided to the OIG each quarter.

**Recommendation 4:** OIG recommends that the Bureau of Near Eastern Affairs direct its invoice review staff to fully document sampling done in each applicable checklist and to follow the checklist guidance.

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**Management Response.** Concur. NEA will work with CMO Frankfurt to ensure invoice reviewers fully document their sampling and follow established checklist guidance. CMO Frankfurt CORs will ensure this is done.

**Finding B: Invoice Review Training is Sufficient but Staffing Has Been a Challenge**

**Recommendation 5:** OIG recommends that the Bureau of Near Eastern Affairs develop and implement a process to periodically review and address staffing requirements in Frankfurt and Iraq to ensure invoice oversight staff levels are sufficient to complete effective and timely invoice reviews in accordance with the Federal Acquisition Regulation, Foreign Affairs Manual, Foreign Affairs Handbook, CMO Frankfurt Standard Operating Procedures, and CMO Frankfurt invoice checklist.

**Management Response.** Concur. As part of the Department's annual Bureau Resource Request (BRR) process, NEA will solicit unfunded staffing requirements relating to invoice oversight staffing and incorporate such unfunded requirements within its BRR. As invoicing review requirements change, staffing requirements will be reviewed as well.

**Finding C: Lack of Contract Performance Metrics Contributed to Paying Some Invoices without Verification of Contractor Performance.**

**Recommendation 6:** OIG recommends that the Bureau of Near Eastern Affairs develop and implement a process to a) track and ensure that contractor officer's representative inspections are completed in accordance with the inspection schedule; b) document the inspection results, including deficiencies found; and, c) report the inspection results to the Contract Management Office-Frankfurt in a timely manner.

**Management Response.** Concur. Request the recommendation text be changed to reflect “; and c) share the necessary inspection results to the Contract Management Office-Frankfurt in a timely manner.” A rigorous inspection schedule is already in place to monitor contractor performance in all service areas at each site. The monthly results of these inspections are summarized and briefed during the quarterly Procurement Management Reviews for the two primary contracts (OMSS and BLiSS). The final product of the current Logistics Management Institute study is underway to identify performance metrics that will be incorporated into the

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inspection schedule and updated requirements to document results. Such results will be forwarded from CORs and A/CORs to CMO Frankfurt as appropriate.

**Recommendation 7:** OIG recommends that the Bureau of Near Eastern Affairs, develop reliable, objective, clear, and measurable metrics and include these metrics in all current and future Bureau of Near Eastern Affairs contracts.

**Management Response.** Concur. Logistics Management Institute (LMI) is scheduled to deliver final performance matrices and metrics on March 20, 2017 for two sites within the OMSS and BLiSS contracts: BEC and BDSC. From this data and analyses, NEA will work with AQM, the Contract Management Office (CMO Frankfurt) and CORs to develop measurable metrics to determine satisfactory contractor performance for all sites within Iraq for all NEA contracts. These metrics can provide a basis for inclusion of similar metrics in future NEA contracts.

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Drafter: NEA/EX/FM-I WRay, 2-8087 OK  
Cleared: NEA/FO: JPennington OK  
CMO – F: RLeCompte OK  
CMO- I: DHerren OK  
Mission Iraq: JKuschner OK  
AQM: DSchlienz OK  
NEA/EX/FM: CCastro, 2-8081OK  
NEA/EX/PMO: JDockery, 7-2894 OK  
NEA/EX: SInzerillo, 7-2904 OK  
NEA/EX: NAlford, 7-3269 OK

## APPENDIX C: OFFICE OF LOGISTICS MANAGEMENT RESPONSE

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United States Department of State

Washington, D.C. 20520

February 23, 2017

**UNCLASSIFIED  
MEMORANDUM**

TO: OIG/AUD – Norman P. Brown

FROM: A/LM – Jennifer A. McIntyre 

SUBJECT: Draft Report *Aspects of the Invoice Review Process Used by the Bureau of Near Eastern Affairs to Support Contingency Operations in Iraq Need Improvement*

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

**Recommendation 8.** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop and implement a) a methodology to calculate the cost associated with the contractor not meeting performance metrics and b) a process to reduce payment to the contractor when contractual requirements are not being met. This methodology and process should be included in all current and future Bureau of Near Eastern Affairs Iraq contracts.

**Management Response to Draft Report:** The Office of Acquisitions Management (AQM) agrees with this recommendation. Many Federal performance based contracts have Quality Assurance Surveillance Plans (QASPs) that provide both incentives to earn additional payments, as well as, disincentives for missing targets. To meet the intent of this recommendation, AQM will ensure performance work statement based contracts for NEA Iraq identify the priority tasks that require incentives/disincentives and negotiate them with the contractor. The QASP, within the Statement of Work, will contain the process and amount to reduce payment when contractual requirements are not being met. AQM will ensure this process is included in all current and future Bureau of Near Eastern Affairs Iraq contracts.

## ABBREVIATIONS

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A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
ACOR	Alternate Contracting Officer's Representative
BLISS	Baghdad Life Support Services
CMO	Contract Management Office
CMO-Frankfurt	Contract Management Office-Frankfurt
CO	Contracting Officer
COR	Contracting Officer's Representative
FAH	Foreign Affairs Handbook
FAM	Foreign Affairs Manual
FAR	Federal Acquisition Regulation
MSSI	Medical Support Services-Iraq
NEA	Bureau of Near Eastern Affairs
OMSS	Operations and Maintenance Support Services
PMR	Program Management Review
SOP	Standard Operating Procedures

## OIG AUDIT TEAM MEMBERS

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