

Management Assistance Report: Cost Controls for Food Services Supporting Department of State Operations in Iraq Require Attention, AUD-MERO-18-31, March 2018

Summary of Review

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

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

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

OIG made 14 recommendations to the Department to address identified questioned costs totaling approximately \$45 million and noncompliance with the contract terms and conditions. Specifically, 10 recommendations were addressed to A/LM/AQM to determine the allowability of questioned costs identified by OIG, recover those costs determined to be unallowable, and modify the BLiSS food services task order when appropriate. Based on comments from A/LM/AQM, OIG redirected three recommendations to the Bureau of Near Eastern Affairs (NEA) to perform a viability assessment of the POS cafeteria system, establish access controls at dining facilities, and deter local national employees from removing food items from the dining facilities. OIG addressed one recommendation to the Department's Procurement Executive to implement ratification procedures, if deemed necessary, in accordance with Department policies. On the

basis of responses received from A/LM/AQM and NEA/U.S. Embassy Baghdad to a draft of this report, OIG considers all 14 recommendations resolved pending further action. A synopsis of management's comments and OIG's reply follow each recommendation in the Audit Results section of this report, and management's comments are reprinted in their entirety in Appendix A.