



# HIGHLIGHTS

Office of Inspector General  
United States Department of State

AUD-CGI-24-09

## What OIG Audited

The Bureau of Overseas Buildings Operations (OBO) directs the worldwide overseas building program for the Department of State (Department) and sets worldwide priorities for the design and construction of projects under its purview. In coordination with OBO, the Bureau of Administration, Office of the Procurement Executive, Office of Acquisitions Management (AQM), is responsible for contract administration and oversight of the New Embassy Compound (NEC) Mexico City, Mexico, construction contract and modifications, with a total approved construction budget of \$632.4 million.

The Office of Inspector General (OIG) conducted this audit to determine whether OBO and the Bureau of Administration administered processes involving contract modifications, construction quality management, and progress payment reviews and approvals for the NEC Mexico City construction project in accordance with the Federal Acquisition Regulation (FAR) and Department guidance.

## What OIG Recommends

OIG made six recommendations to OBO and the Bureau of Administration to improve contract modification execution, project reporting, and contract administration for OBO construction projects. Based on the Department's responses to a draft of this report, OIG considers three recommendations resolved, pending further action, and three recommendations unresolved. A synopsis of management's responses to the recommendations offered and OIG's replies follow each recommendation in the Audit Results section of this report. Responses received from OBO and the Bureau of Administration are included in their entirety in Appendices B and C, respectively. A summary of OBO's technical comments with OIG's replies are presented in Appendix D.

January 2024

OFFICE OF AUDITS

CONTRACTS, GRANTS, AND INFRASTRUCTURE DIVISION

## Audit of Select Contract Administration Processes Related to the Construction of New Embassy Compound Mexico City, Mexico

### What OIG Found

Neither OBO nor AQM executed contract modifications for the NEC Mexico City construction contract in accordance with requirements. Specifically, the Project Director (PD) did not assess the impact that the contract modifications would have on the overall construction project timeline. In addition, the Department did not always perform required prenegotiation and negotiation activities to determine fair and reasonable pricing. Finally, the Contracting Officer did not always obtain required contractor release statements to avoid exposing the Department to increased financial risk. The deficiencies occurred, in part, because OBO and AQM management did not sufficiently oversee and enforce adherence to requirements. As a result, the Department executed contract modifications without full awareness of potential consequences to the construction project timeline and associated project costs.

OIG also found that the PD did not comply with construction quality management for project reporting. Specifically, the PD did not complete required daily logs and did not develop the required project procedures manual to guide project administration. The deficiencies occurred, in part, because OBO management failed to ensure that the PD fully complied with requirements. By failing to complete the daily logs and project procedures manual for a large, multimillion-dollar construction project, OBO limited its ability to protect the Department's interests and coordinate project administration.

Lastly, the PD approved progress payments for the NEC Mexico City construction project in accordance with requirements. Specifically, OIG found that the 15 selected progress payments reviewed for this audit contained an itemization of the amounts requested by the contractor and the contractor's certification, as required. In addition, the PD conducted monitoring activities to support the approval of progress payments. Because of the approval structure and the monitoring activities performed, the PD reasonably ensured that the contractor's requests for progress payments were valid and processed in a timely manner, thereby avoiding late payment penalties.