



HIGHLIGHTS

Office of Inspector General

United States Department of State

AUD-CGI-25-15

What OIG Audited

The Bureau of Overseas Buildings Operations (OBO) directs the worldwide overseas building program for the Department of State (Department). Requests for equitable adjustment (REA) are contractor requests seeking an adjustment to a contract's time or price. The Department reported that contracting officials coordinated REAs totaling \$418 million from October 1, 2020, through June 30, 2023, on overseas construction projects.

The Office of Inspector General (OIG) conducted this audit to determine whether the process used by the Department to reach equitable adjustments with selected construction contractors responsible for large construction contracts complied with the Federal Acquisition Regulation (FAR) and Department guidance. From a universe of 440 REAs processed from October 1, 2020, through June 30, 2023, OIG selected 30 REAs from 5 overseas construction projects for review.

What OIG Recommends

OIG made 20 recommendations to address the issues identified in this report, including 6 recommendations to recover questioned costs. On the basis of management's response to a draft of this report, OIG considers 7 recommendations resolved, pending further action, and 13 recommendations unresolved. A synopsis of management's comments and OIG's reply follow each recommendation in the Audit Results section of this report. OBO's and the Bureau of Administration's responses to a draft of this report are reprinted in their entirety in Appendices C and D. A summary of OBO's technical comments and OIG's replies are presented in Appendix E.

March 2025

OFFICE OF AUDITS

CONTRACTS, GRANTS, AND INFRASTRUCTURE DIVISION

Audit of Selected Contractor Requests for Equitable Adjustment Related to Bureau of Overseas Buildings Operations' Construction Projects

What OIG Found

The Department's process to reach equitable adjustments with selected construction contractors did not fully comply with the FAR and Department guidance. Specifically, of the 30 REAs reviewed for this audit, OIG found 14 constructive changes made by Project Directors (PD) or other OBO officials. Constructive changes occurred when the government expressly or impliedly ordered work outside the scope of the contract. Moreover, these constructive changes led to REAs and ultimately resulted in unauthorized commitments that were not properly ratified.

In addition, OIG found that PDs and Contracting Officers (CO) did not evaluate and resolve selected REAs in accordance with the FAR and Department guidance. Specifically, OIG found that PDs did not always comply with requirements to determine the merit of REAs, prepare sufficient independent government cost estimates, prepare negotiation memoranda or receive CO authorization before beginning to negotiate, and perform required cost analyses. Additionally, OIG found that the Department allowed contractors to improperly use two different bases for indirect cost allocation and did not resolve REAs in a timely manner.

These deficiencies occurred primarily because PDs and COs did not follow established policies and procedures for evaluating and resolving REAs. Additionally, OBO and the Bureau of Administration, Office of the Procurement Executive, Office of Acquisitions Management (AQM), had not developed and implemented a sufficient process to determine whether PDs and COs adhered to requirements. In addition, AQM did not have specific procedures for evaluating and resolving REAs, and the Department did not have sufficient guidance related to allocating overhead costs to construction projects. Until the Department fully complies with REA requirements, it cannot be assured that REAs are settled in a fair and reasonable manner. As a result, OIG is questioning \$837,172 in unsupported costs and \$3,251,891 in unallowable costs associated with 17 of the 30 REAs reviewed for this audit.