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**United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General**

Report of Audit

Review of Department's Compliance With the State First Policy for Acquisitions

Report Number AUD/PP-05-42, August 2005

~~IMPORTANT NOTICE~~

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United States Department of State
and the Broadcasting Board of Governors

Inspector General

PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its responsibility to promote effective management, accountability, and positive change in the Department of State and the Broadcasting Board of Governors.

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to the OIG and, as appropriate, have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in cursive script that reads "Howard J. Krongard".

Howard J. Krongard
Inspector General

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Summary

The Department of State (Department) is increasingly using contracts and acquisition services offered by other agencies and paying a fee for these services. The fees paid to the agencies for goods and services can be substantial, and they currently range from 1 percent to 13 percent of the total contract value. For FYs 2003-04, the procurement value of these contracts is significant, totaling about \$651.1 million. Therefore, in support of the Office of Inspector General's (OIG) continuing responsibility to assist management through independent reviews of Department operations, OIG's Office of Audits conducted a review of Department interagency agreements (IAA). The primary purpose of this review was to determine whether domestic bureaus and offices complied with the May 2002 State First Policy for Acquisitions, whose primary purpose is to require bureaus to determine the most cost-effective means of procuring the goods and services, either in-house or through another agency, and whether internal controls for monitoring IAAs were adequate.

Since May 2002, 84.2 percent of domestic bureaus and offices did not comply with the State First policy, and many entered into IAAs without first obtaining a Department waiver. OIG found that domestic bureaus could benefit by evaluating IAAs for possible open market competition, which could result in contract cost-savings and also reduce or eliminate the costs and surcharges associated with IAAs. The Department bureaus and offices using IAAs have the added responsibility to improve contract monitoring.

During FYs 2003-04, domestic bureaus and offices entered into 381 IAAs, yet they could only identify surcharges for 101 of them (26.5 percent), with a value of about \$434 million and about \$7.7 million additional service fees and charges. Therefore, the remaining 280 IAAs (73.5 percent), with contract values of about \$209.4 million, had servicing costs that the Department pays to other agencies but could not identify.

OIG found limited but significant examples of cost-savings achieved by shifting the procurement of goods and services from IAAs to open market competition administered by the Department. For example, the Bureau of Information Resource Management (IRM) reported saving about \$1.2 million in fees on former IAA requirements that were converted to a Department contract.

Department internal controls need strengthening to justify the use of IAAs and to monitor and evaluate contractor performance. OIG found that the Department was not adequately monitoring the cost and delivery of goods and services under IAAs. OIG's review of an IAA in IRM, with a contract value of \$126 million, identified unallowable costs of \$350,000 for passthrough fees paid to the prime contractor; a substantial increase in award fees from \$2.4 million to \$9 million within the same contract dollar level; and significant labor rate changes, some increasing by over 40 percent.

In this report, OIG is recommending that the Bureau of Administration's Offices of the Procurement Executive and Logistics Management, Acquisitions Management ensure greater compliance with the State First policy by refining guidance and providing standardized procedures and forms for processing IAAs. The Office of the Procurement Executive agreed with the recommendation and proposed a creative approach whereby it will dedicate a page on

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its website to the State First Policy and provide additional guidance, including how to prepare IAAs. In addition, IRM concurred with OIG's recommendation to audit the \$126 million IAA, including recovery of \$350,000 in passthrough charges OIG questioned as not eligible under the contract.

Scope and Methodology

During a prior review,¹ OIG identified seven IAAs totaling about \$19 million, none of which had obtained Department waivers as required by the State First policy. This review covered IAAs entered into by domestic bureaus and offices for FYs 2003-04. OIG sent a survey electronically to budget, financial, and administrative officers in 30 domestic bureaus and offices. Twenty-seven of them (90 percent) responded to a questionnaire concerning the number of IAAs and their costs and surcharges. Nineteen of the 27 bureaus and offices (70.3 percent) responded as having entered into IAAs; eight reported no IAAs during the review period; and three bureaus did not respond. (See Appendix A for results.) In addition to the data provided, OIG made follow-up calls to respondents to clarify the reported data.

To assess the reliability and completeness of the respondent data, OIG visited seven bureaus and offices² to verify and analyze IAA costs and surcharges reported in the survey and to assess the adequacy of management's oversight of IAAs and compliance with the State First policy. OIG judgmentally selected 71 IAA records from these seven bureaus to evaluate the process and justification for using another federal agency to obtain goods and services. Based on this fieldwork, OIG found only minor differences from the reported data, and therefore, OIG had confidence that, overall, the reported data were accurate. OIG adjusted the survey results to reflect these minor changes.

OIG met with IAA program and contract officials in A. OIG also met with Bureau of Consular Affairs (CA) and IRM officials concerning best practices in an effort to identify the achievements of bureaus and offices that followed the cost-benefit analyses prescribed under the State First policy and realized cost-savings. In addition, OIG used information from prior audit and inspection reports and from reports by the Government Accountability Office (GAO).

OIG reviewed and analyzed contract file documentation, the Federal Acquisition Regulation (FAR),³ and Department-generated regulations and guidance that pertained to IAAs, such as the Department of State Acquisition Regulation (DOSAR) Part 607, which describes the clearances and authorizations program offices must obtain before transferring funds for an IAA. In addition to the Department's initial notice of the State First policy (May 20, 2002), two subsequent notices, dated July 19, 2002, and January 10, 2003, have provided implementation procedures and additional guidance.

OIG's Office of Audits, Property and Procurement Division conducted this review between January 2005 and June 2005 in accordance with government auditing standards. On

¹ See *Review of Agreed-Upon Procedures for the Bureau of African Affairs Unauthorized Commitments* (AUD/PPA-05-17, Mar. 2005).

² Bureaus of African Affairs (AF); Economic and Business Affairs; IRM; Oceans and International Environmental and Scientific Affairs; Political-Military Affairs; Population, Refugees, and Migration; and Verification and Compliance.

³ The FAR is the primary document for the Federal Acquisition Regulation System, which codifies and publishes uniform policies and procedures for acquisition by all executive agencies.

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April 15, 2005, OIG held an exit conference with senior A officials and a representative from Office of the Legal Adviser on the results of its review. Their comments are incorporated as appropriate. In addition, A and IRM officials reviewed a draft of this report and agreed with the applicable findings and recommendations. The A and IRM comments are attached as Appendices B and C, respectively.

Background

The Department is increasingly using contracts and acquisition services offered by other agencies and paying a fee for these services. These interagency contract services range from those in which a single agency provides limited contracting assistance to a “soup-to-nuts” approach, in which the provider agency’s contracting officer handles all aspects of the procurement. This increased use of IAAs has come about as a result of reforms and legislation, such as the Economy Act of 1932, as amended,⁴ and the Clinger-Cohen Act of 1996.

The Economy Act permits federal agencies to purchase goods or services from other federal agencies or other organizational units within the same agency. Such a purchase is permitted only if:

- (1) amounts for the purchase are actually available, (2) the purchase is in the best interest of the government, (3) the ordered goods or services cannot be provided by contract from a commercial enterprise; i.e., the private sector, as conveniently or cheaply as could be by the Government, and (4) the agency or unit to fill the order is able to provide or get by contract the ordered goods or services.

The Clinger-Cohen Act authorized creation of the government-wide acquisition contract, which is typically a multiple-award contract for information technology that allows an indefinite quantity of goods or services (within specified limits) to be furnished during a fixed period, with deliveries scheduled through orders with the contractor. The providing agency awards the contract, and other agencies order from it.

Because of the increasing amount of acquisition dollars going to other agencies to do the Department’s buying, the State First Policy for Acquisition was enacted on May 20, 2002. The policy requires that bureaus and offices first use the services of A’s Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) and the Office of the Procurement Executive (A/OPE) before transferring money to another agency to conduct an acquisition.⁵

In January 2005, GAO added interagency contracting to its High-Risk Series,⁶ which identifies federal programs and operations that may be vulnerable to waste, fraud, abuse, and mismanagement. GAO noted that at the General Services Administration (GSA), interagency contract sales have increased almost tenfold since 1992, and reached \$32.5 billion during 2004. The *High-Risk* report noted that, in some cases, the agencies administering these contracts have

⁴ 31 U.S.C. § 1535.

⁵ Within the Department, procurement authority is vested in A/OPE, which delegates that authority to officials throughout the Department. The bulk of the Department’s procurement activity is generated by A/LM/AQM. During FY 2000, A/LM/AQM performed 63 percent of all Department contract actions and about 80 percent of the domestic actions. In addition, 15 domestic entities from seven functional bureaus have authority to procure goods and services.

⁶ See GAO-05-207.

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little experience with them, and “they contribute to a much more complex environment in which accountability has not always been clearly established.” GAO reported such improper use of IAAs as in Iraq, where audits of task orders under the GSA schedules found that some contracts and task orders awarded by the Defense Department “did not satisfy legal requirements for competition because the work was not within the scope of the underlying contracts.”⁷

Findings

During FYs 2002-05, domestic bureaus and offices did not comply with the State First policy and made many IAAs without authorization. OIG found that domestic bureaus could benefit by evaluating IAAs for possible open market competition, which could result in contract cost-savings and also reduce or eliminate the costs and surcharges associated with IAAs. The Department bureaus and offices using IAAs have the added responsibility to improve contract monitoring.

State First Policy Compliance

OIG found that for FYs 2003-04, 16 of 19 (84.2 percent) domestic bureau procurement activities, that responded to an OIG questionnaire, did not comply with the Department’s State First Policy for Acquisitions, which requires consultation with and approval by A before entering into an IAA. This occurred primarily because bureau officials were either unaware of the requirement or thought the policy was unduly restrictive. As a result, opportunities are being missed to compare the costs and benefit of procuring goods and services through IAAs or through open market competition administered by the Department.

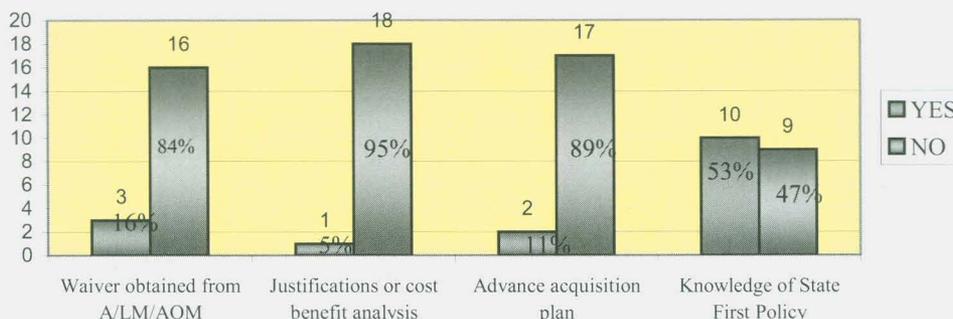
The State First policy recognizes the need for domestic procurement activities to have flexibility in using IAAs, yet it emphasizes the obligation to follow DOSAR requirements and first determine whether the Department can procure the goods and services more cost-effectively than by using an IAA that pays a fee or surcharge to another government agency. Procurement officials said that the effect of better compliance with the policy could lead to contract cost-savings and improved contract monitoring.

Budget and financial officers in 9 of the 19 (47.4 percent) bureaus responding to OIG’s questionnaire indicated that they had no knowledge of the requirements of the State First policy or its existence. (See Table 1.) Further, these officers primarily looked to identify contract requirements for goods and services that could be filled in the most expeditious manner possible.

The survey respondents who knew about the policy said that it was incumbent on Department contracting officials to suggest procurement alternatives, such as IAAs or limited or open competition. The consensus among budget and financial officers in the seven bureaus reviewed was for A/OPE to refine State First guidance by providing standardized procedures and forms for processing IAAs.

⁷ See *Rebuilding Iraq: Fiscal Year 2003 Contract Award Procedures and Management Challenges* (GAO-04-605, June 2004).

Table 1: Summary of Bureaus' Compliance With State First Policy for Interagency Agreements



Note: Nineteen bureaus responded to OIG's survey as having entered into IAAs during FYs 2003-04.
 Source: OIG survey questionnaire.

For bureaus and offices requesting a waiver for an IAA, only 1 of 19 (5 percent) provided information that included either a detailed justification or a cost-benefit analysis. Only one bureau analyzed whether procuring the goods and services through open market competition by the Department would be more cost-effective than using an existing contract through an IAA. Some requests for a waiver did not identify the amount of administrative costs or surcharges associated with IAAs. In one instance, a bureau entered into an IAA during November 2003 for about \$126 million without approval from A. On another occasion, an IAA with a contract value of \$22.5 million over five years did not comply with the State First policy for prior justification, review, and approval even though the bureau had agreed in advance with A to conduct a market study to determine price and competition before entering into the IAA. The annual surcharges would average about half a million dollars.

Some confusion may exist in that DOSAR Part 617.504-70 allows Department deputy assistant secretaries and bureau executive directors to execute Economy Act IAAs. As a result, some bureau officials view memos from these officials as the required justification and waiver for using an IAA. However, the DOSAR states that for such approval, the restrictions and requirements regarding the State First policy must first be met.

Only IRM and CA entered the requirements for IAAs in the advanced acquisition planning process. The review found that the other 17 bureaus and offices did not include IAA acquisitions greater than \$5 million in acquisition plans as required in DOSAR Part 607.103 (d) and FAR 7.103. One bureau officer said that his bureau usually receives Presidential orders for programs that need to be urgently executed and can, therefore, only be carried out by other agencies through IAAs, so no advanced planning can be performed. Advanced acquisition planning provides the opportunity for bureaus and offices to assess their needs and plans and evaluate options for accomplishing their performance goals.

During the review of unauthorized commitments in AF, OIG determined that the AF Executive Office had not obtained Department waivers before entering into seven IAAs as required by the State First policy. AF officials were unaware that the policy required domestic

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bureaus to first use the services of A/LM/AQM or another appropriate Department contracting activity before transferring funds to another agency or before conducting an acquisition. OIG's review of the seven procurements found that they were for information technology services, some of which could be obtained through open competition. At the conclusion of the current review, OIG found that AF withdrew one IAA and converted it to a Department contract, with minor projected savings.

OIG's survey found that two bureaus, IRM and CA, aggressively complied with the policy and shifted a significant number of requirements from IAAs to an open market competition. Bureau officials cited lower contract costs as the predominant reason for rescinding IAAs, with the added benefit of saving IAA fees and surcharges. An IRM official believes that lower contract costs for multiyear procurements were the result of these changes, including multiple IAA actions where about \$1.2 million was saved in avoidance of fees. The IAA requirements have returned to the Department for processing through A/LM/AQM. (See textbox for an IRM best practice.) In follow-up calls to Department financial officers who participated in the survey, OIG learned that most were unaware that the policy applies not only to new procurements, but also before exercising the option years of an existing agreement.

Internal Controls

Internal controls to monitor IAAs by bureaus and offices required strengthening. The contract value of IAAs showed trends of increasing, yet some bureau officials with knowledge of Department requirements were still directly entering into multiyear agreements. Some internal control weaknesses by contractors have been identified, including inadequate or lack of segregation of duties, insufficient program monitoring activities, missing financial and performance reports, and unauthorized use of IAAs. OIG found no record indicating that Department personnel performed site visits, quality assurance tests, analysis of payroll records and time sheets, or other review activities for IAAs to determine whether the contractor provided the deliverables specified in the agreement.

**Best Practice: IRM Actions
To Monitor and Justify IAAs**

IRM managers have increased their oversight of the acquisition process and, as a result of complying with the State First policy, have reduced or eliminated many IAAs. During 2003, IRM established a Procurement Support Division with oversight responsibility for acquisition. The division's functions are to:

- maintain a log of all IAAs;
- establish, develop, and manage all procurement activities;
- plan and develop strategies and standards for program offices to comply with State First policy and evaluate individual transactions;
- coordinate development of the bureau acquisition plan;
- coordinate management and feasibility studies, plan and develop requests for proposals to meet requirements, and develop standard operating procedures to ensure conformance with regulatory requirements government-wide;
- manage and coordinate the bureau's Two-Year Advanced Acquisition Plan; and
- administer the bureau's participation in the Department's SmartPay purchase card program.

Most bureaus officials were not aware of the contract requirements of the IAA or the amount of the fee. Bureau officials said that IAA fees were only part of doing business and should be considered as part of the contract's overhead. Further, one bureau financial officer said that he was only interested in the "bottom-line costs." However, these officials did not understand that the fee was to include having the servicing agency provide contract monitoring and administration.

The review found that domestic bureaus and offices could only identify 101 of the 381 IAAs (26.5 percent), with surcharges that amounted to about \$7.7 million. Therefore, the

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Department bureaus and offices could not account for the servicing costs paid to other agencies for 280 IAAs with contract values of about \$209.4 million.

The fee paid to the servicing agencies for goods and services can be substantial, and in FYs 2003-04, they ranged from 1 percent to 13 percent of the total contract value. OIG reviewed an IAA where IRM officials were not aware that the contractor subcontracted the procurement services and then charged the program office \$350,000 in passthrough fees. OIG reviewed the IAA and the contract⁸ concerning this action and found that this charge had no foundation for reimbursement in the contract and therefore should be recovered as a questioned cost. As a result of OIG's review, in June 2005, IRM officials took steps to initiate a financial review of the IAA pursuant to the State First Policy. Included in the review will be the allowability of the \$350,000 in passthrough fees paid to the prime contractor; a substantial increase in award fees from \$2.4 million to \$9 million within the same contract dollar level; and significant labor rate changes, some increasing by over 40 percent.

Conclusions and Recommendations

A/OPE has issued guidance on the State First policy that most Department bureaus and offices have failed to fully implement. The noncompliance has occurred because of a lack of knowledge of the policy and a clear understanding of the waiver approval process. As a result, officials may have improperly committed Department funds. If more bureau and office executive directors adhere to the State First policy before entering into IAAs, lower contract costs may be realized, and administrative costs associated with the contracts may be used in a more economical manner.

Recommendation 1: OIG recommends that the Bureau of Administration, Office of the Procurement Executive, in coordination with the Office of Logistics Management, Office of Acquisitions Management, ensure greater compliance with the State First Policy for Acquisitions and Department of State Acquisition Regulation Part 607 by refining guidance and providing standardized procedures and forms for processing interagency agreements.

In response to the draft report, A/OPE agreed with the recommendation and will issue a Department notice updating the last notice issued in 2003 on the State First Policy. The Notice will include specific instructions on the criteria required to request a waiver to the State First Policy. Also, A/OPE will post on its website a dedicated page to the State First Policy and additional guidance on how to prepare IAAs, including the *DS-1921*, Award/Modification of Interagency Acquisition Agreement, and a sample determination and findings for an IAA.

On the basis of A/OPE's response, the recommendation is resolved. It can be closed with the issuance the updated Department notice on the State First Policy, and the execution of the website page dedicated to the State First Policy. OIG commends A/OPE for its creative web-based solution and suggests that it periodically solicit feedback from visitors to this site concerning questions or best practices that can be shared with all domestic bureaus and offices.

⁸ GSA-FEDSIM Millennium Task Order GS-T0004AJM049, awarded in support of the U.S. Agency for International Development, M-IRM, Modification 001.

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Recommendation 2: OIG recommends that the Executive Officer, Bureau of Information Resource Management, in coordination with the Bureau of Administration, Office of the Procurement Executive and the Office of Logistics Management, Office of Acquisitions Management, disallow questioned costs of \$350,000 and provide to OIG other questioned costs identified in the financial review of GSA-FEDSIM Millennia Task Order GS-T0004AJM049, awarded in support of the U.S. Agency for International Development, M-IRM, Modification 001.

In response to the draft report, the IRM Executive Director agreed with the recommendation and has developed a task order requirement for an audit of referenced IAA. The findings will be provided to OIG and should address the \$350,000 in questioned costs as well as provide data on other questionable costs. A/OPE acknowledged IRM action on the recommendation and agreed to assist on specific items of the audit as needed.

On the basis of IRM's response and current actions, the recommendation is resolved. It can be closed when IRM forwards to OIG the above-mentioned audit.

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Appendix A

**Summary of OIG Questionnaire: Bureaus and Offices Reporting
Interagency Agreement (IAA) Costs and Surcharges for FYs 2003-04**

Bureau and Offices	IAA With No Fees Identified		IAA With Fees Identified				Total
	Number	Amount ^a	Number	Amount	Surcharges or Fees Paid ^b	Percent Range	
A	21	\$76,587,943	3	\$213,329	\$18,030	3-13	\$76,819,302
AC	5	2,950,000	0	0	0	0	2,950,000
AF ^c	11	29,950,898	2	1,468,716	14,687	1	31,434,301
CA	0	0	37	63,160,717	1,908,449	2-7	65,069,166
DS	9	4,544,449	1	266,553	32,858	12	4,843,860
EAP	0	0	3	2,081,830	40,200	1-2	2,122,030
EB ^c	9	777,248	0	0	0	0	777,248
INR	4	34,000	3	9,054,255	183,746	2	9,272,001
IO	0	0	3	1,147,523	40,865	2-5	1,188,388
IRM ^c	3	5,683,356	14	265,314,865	3,347,222	1-5	274,345,443
MED	4	587,030	0	0	0	0	587,030
NP	93	57,998,900	18	57,224,412	1,397,936	1-11	116,621,248
OBO	71	18,002,989	0	0	0	0	18,002,989
OES ^c	13	1,140,000	0	0	0	0	1,140,000
PA	12	916,705	3	1,176,886	35,307	3	2,128,898
PM ^c	6	842,374	9	4,191,940	98,955	1-5	5,133,269
PRM ^c	5	6,470,164	3	24,317,875	503,133	2-9	31,291,172
RM	2	159,005	2	4,414,716	95,000	2	4,668,721
VC ^c	12	2,733,166	0	0	0	0	2,733,166
Total	280	\$209,378,227	101	\$434,033,617	\$7,716,388		\$651,128,232

Legend

A = Administration	MED = Medical Services
AC = Arms Control	NP = Nonproliferation
AF = African Affairs	OBO = Overseas Buildings Operations
CA = Consular Affairs	OES = Oceans and International Environmental Scientific Affairs
DS = Diplomatic Security	PA = Public Affairs
EAP = East Asian and Pacific Affairs	PM = Political-Military Affairs
EB = Economic and Business Affairs	PRM = Population, Refugees, and Migration
INR = Intelligence and Research	RM = Resource Management
IO = International Organization Affairs	VC = Verification and Compliance
IRM = Information Resource Management	

Note: Thirty bureaus and offices were surveyed and nineteen reported IAAs, eight reported no IAAs, and three did not respond to the OIG questionnaire.

^a Unidentified fees or surcharges for 280 IAAs valued at \$209,378,227.

^b The surcharges or fees of \$7,716,388 are associated with 101 of the 381 IAAs.

^c Denotes bureau reviewed by OIG.

Source: OIG questionnaire responses.



United States Department of State

Washington, D.C. 20520

August 17, 2005

MEMORANDUM

TO: OIG – Mr. Howard J. Krongard, Inspector General

THROUGH: A/EX/MGT – Anna Schuhart

FROM: A/OPE – Corey M. Rindner *Corey M. Rindner*

SUBJECT: OIG Draft Report on the *Department's Compliance with the State First Policy for Acquisitions* (AUD/PP-05-xx)

The attached responds to the subject OIG Report. This response addresses Recommendation 1, for which A/OPE has been designated the action office.

Please contact Bernard Piper of this office if you have any questions or require additional information. Mr. Piper may be reached by telephone at 703-875-4079, by fax at 703-875-6155, or by e-mail.

Attachment: as stated

RECOMMENDATIONS – OIG Draft Report on the *Department's Compliance with the State First Policy for Acquisitions* (AUD/PP-05-xx)

Recommendation 1: OIG recommends that the Bureau of Administration, Office of the Procurement Executive, in coordination with the Office of Logistics Management, Office of Acquisitions Management, ensure greater compliance with the State First Policy for Acquisitions and Department of State Acquisition Regulation Part 607 by refining guidance and providing standardized procedures and forms for processing interagency agreements.

Response: Agree. A/OPE will issue a refresher Department Notice updating the last notice issued in 2003 on the State First Policy. The Notice will include specific instructions on the criteria required to request a waiver to the State First Policy. Also, A/OPE will post on its website a dedicated page to State First Policy and add additional guidance on how to prepare Interagency Acquisition Agreements (IAA) including the *DS-1921*, Award/Modification of Interagency Acquisition Agreement and a sample determination and findings for an IAA.

Furthermore, OIG cited concerns that the approval process for an Interagency Agreement and deviation to the State First Policy could be clearer. A/OPE will also reexamine DOSAR 607 and DOSAR 617 and consider making appropriate modifications to ensure it is clear.

Recommendation 2: OIG recommends that the Executive Officer, Bureau of Information Resource Management, in coordination with the Bureau of Administration, Office of the Procurement Executive and the Office of Logistics Management, Office of Acquisitions Management, disallow questioned costs of \$350,000 and provide to OIG other questioned costs identified in the financial review of GSA-FEDSIM Millennium Task Order GS-T0004AJM049, awarded in support of the U.S. Agency for International Development, M-IRM, Modification 001.

Response: A/OPE has no additional comment to this recommendation. IRM has advised the Office of Acquisition Management that they are working with OIG and FEDSIMM. However, we are available to assist if a specific item requires comment by our office.

United States Department of State

Washington, D.C. 20520

August 15, 2005

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INFORMATION MEMORANDUM FOR MR. KRONGARD - OIG

FROM: IRM – Jay N. Anania, Acting *LSB/jw*

SUBJECT: Draft Report on the *Department's Compliance With the State First Policy For Acquisitions* (AUD/PP-05-xx)

Please find attached IRM's response to Recommendation 2 of the subject report, along with one written comment on the draft report.

Attachment:
As stated.

Review of Department's Compliance
With the State Fist Policy for Acquisitions
AUD/PP-05-XX, July 2005

Recommendation 2: OIG recommends that the Executive Officer, Bureau of Information Resource Management, in coordination with the Bureau of Administration, Office of the Procurement Executive and the Office of Logistics Management, Office of Acquisitions Management, disallow questioned costs of \$350,000 and provide to OIG other questioned costs identified in the financial review of GSA-FEDSIM Millennia Task Order GS-T0004AJM049, awarded in support of the U.S. Agency for International Development, M-IRM, Modification 001.

IRM's Response: The IRM Executive Director working closely with both the OIG and the Office of Acquisitions developed a task order requirement for an audit of this IAA. The findings will be provided to the OIG and should address the \$350,000 referenced above, as well as provide data on the other questionable costs. The Office of Acquisitions issued a task order on behalf of IRM to the audit firm of Leonard G. Birnbaum and Company, LLP for this purpose.

Written Comment on the Draft Report: For clarification purposes, please note on page 6, paragraph 2, reference is made to "including one IAA action where about \$1.2 million was saved in avoidance fees." This savings was not from one IAA, but rather multiple IAAs. Reference to this is correctly stated in the Summary page, paragraph 4.

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