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

Office of Audits

Audit of the Contract and Procurement Process for Selected Projects at U.S. Embassy Jakarta

Report Number AUD/IP-09-22, September 2009

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Office of 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 black ink, appearing to read "H. W. Geisel".

Harold W. Geisel
Acting Inspector General

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EXECUTIVE SUMMARY

The Office of Inspector General, Office of Audits (OIG/AUD), performed this audit at the request of Embassy Jakarta officials in conjunction with an investigation related to procurement practices. The objective of the audit was to determine whether Embassy Jakarta's contracting and procurement process complied with applicable laws, regulations, and Department of State policies.

At Embassy Jakarta, the main participants in the procurement process are the General Services Office Procurement and Contracting Unit (GSO/PCU), the Financial Management Center, and the requiring offices. If the Embassy plans to perform construction activity under a contract, the Bureau of Overseas Buildings Operations (OBO) must also get involved.

OIG found that the Embassy did not fully comply with applicable contract and procurement laws and regulations, and Department policies. Specifically, the Embassy did not always obtain appropriate approvals for construction projects, and it used incorrect appropriations amounting to approximately \$397,000 to fund certain projects. In addition, OIG found that the Embassy did not maintain adequate documentation for OIG to determine whether the costs charged to a tenant agency for alterations to office space were supported and necessary. OIG also found that the Embassy did not prepare adequate independent government estimates (IGE). Embassy personnel approved changes to contract specifications without obtaining contract modifications, and they did not always document the reasons for the changes or for their monitoring and inspections of contractor performance. Further, Embassy personnel did not always comply with regulations and policies relating to blanket purchase agreements (BPA).

Noncompliance with contract and procurement regulations affects the Embassy, OBO, and the Department. At the Embassy, there is no assurance that projects constructed without prior OBO approvals meet life and safety requirements, and that the projects are, therefore, safe for the occupants. Also, the Embassy's use of inappropriate funds may have resulted in an augmentation of OBO's funding and inaccurate Department records. Furthermore, the Embassy's actions toward the tenant agency may adversely affect their relationship in the future. Finally, not complying with contract and procurement laws and regulations means that there is no assurance that the Embassy received what it contracted for at a reasonable cost.

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The primary reason for noncompliance was the lack of management oversight of the procurement process. OIG is recommending that the Embassy work with OBO to inspect the construction projects that had not previously been approved to ensure that they comply with relevant building codes, correct the funding for projects for which incorrect funds were used, and review the alterations associated with the tenant agency to determine whether the alterations were supported and appropriate. In addition, OIG is recommending that Embassy Jakarta improve its oversight of procurement activities by instructing Embassy offices on the proper preparation of IGEs, develop a plan to inspect construction projects, review BPA files, emphasize to Embassy management the importance of internal controls, and develop an action plan to address the issues discussed in this report.

Management Comments and OIG Response

In its response (Appendix A) to the draft report, the Embassy agreed with six of the seven recommendations addressed to it, and stated that it had already “substantially implemented” these recommendations, which were designed to improve contract and procurement procedures. OIG considers these recommendations resolved, pending further action. The Embassy disagreed with the recommendation pertaining to construction funding; therefore, the recommendation remains unresolved. Also, the Embassy disagreed with the recommendation for the need to justify the construction costs charged to a tenant agency.

In its response (Appendix B) to the draft report, OBO generally agreed with one of the two recommendations addressed to it. Based on OBO’s comments, OIG modified the other recommendation, which pertained to responsibility for establishing a connection between construction projects and the costs charged to the tenant agency. OIG redirected responsibility for the modified recommendation to the Embassy. Thus this recommendation remains unresolved. Also based on OBO’s comments, OIG added a new recommendation, for OBO to request the Department’s Chief Financial Officer to remind posts that appropriations must be used in accordance with appropriation law.

Comments from the Embassy and from OBO have been considered and incorporated into this report as appropriate. These comments are also summarized after each recommendation, and the responses are presented in Appendices A and B, respectively.

BACKGROUND

The federal government spends almost \$350 billion on formal contracts and simplified acquisitions¹ every year, of which about \$4 billion relates to the Department of State. By law, Congress has established a wide range of goals to be accomplished with the funds it appropriates for contracts and other acquisitions, ranging from competition to customer service. To ensure that all of the requirements are met, participants in the acquisition process must work together as a team.

At Embassy Jakarta, the main participants in the acquisition process are the General Services Office Procurement and Contracting Unit (GSO/PCU), the Financial Management Center (FMC), and the requiring offices. If the Embassy plans to perform construction activity under the contract, the Bureau of Overseas Building Operations (OBO) must also get involved.

- GSO/PCU, headed by the Embassy's contracting officer (CO), provides support for official procurements and contracting for most of the agencies at the Embassy. The goal of GSO/PCU is to obtain the products or services that the requiring office needs at the "best price" and in the "most efficient way possible."
- FMC, which is overseen by the Financial Management Officer (FMO), provides financial services to 32 serviced agencies at the Embassy, including budgeting, accounting records, payroll, vouchering, and cashiering. This office ensures that funding is available for the product or service that is being requested.
- The requiring office could be any office at post that requires goods or services. For instance, the Facilities Maintenance Unit (GSO/FMU) often must hire contractors to facilitate its mission to maintain, repair, and renovate U.S. Government-owned houses and offices. The CO may designate a technically qualified person in the requiring office as the contracting officer's representative (COR) to assist in the administration of a contract.

¹A simplified acquisition is a purchase made from a private commercial business source totaling \$100,000 or less (or \$5.5 million for commercial items).

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- OBO serves as the Department's Real Property Manager. OBO's mission is to provide safe, secure, and functional facilities overseas. OBO provides funds to the posts for maintenance, repair, and improvement projects. Posts must obtain OBO review and approval for construction projects. OBO relies on assistance from the Embassy's Single Real Property Manager (SRPM), who is responsible for the management of U.S. Government-owned real property in the country. The SRPM at Embassy Jakarta is the Management Counselor.

In addition to these main participants, other offices within the Department provide support and assistance related to contracting issues to overseas posts. For instance, embassies may contact the Bureau of Administration's Office of the Procurement Executive (A/OPE) or its Office of Logistics Management, Office of Acquisition Management, to consult on contracting issues.

ACQUISITION PROCESS

The Federal Acquisition Regulation (FAR) is the primary regulation used by federal agencies for acquiring supplies and services with appropriated funds. The FAR provides uniformity in the federal acquisition process. The Department has developed regulations that implement and supplement the FAR, called the Department of State Acquisition Regulation (DOSAR). In addition, other types of guidance are available, including the Overseas Contracting and Simplified Acquisition Guidebook (commonly known as "the Cookbook"). COs should have a working understanding of these regulations, including key processes and requirements.

Embassy Jakarta uses both formal contracts and simplified acquisition methods to obtain goods and services. For formal contracting, the CO and the requiring office at the Embassy share responsibility for ensuring that the process is successful, and each has specific duties and responsibilities. The lead responsibility shifts from one to the other during the various phases of the contracting process.

In the contract pre-solicitation phase, the requiring office is responsible for ensuring that program requirements are clearly defined, but the CO may help the requiring office properly define and describe what is required. The requiring office prepares the statement of work (SOW), which describes the work to be performed. The requiring office also prepares an independent government estimate (IGE), which serves as a basis for reserving funds and which can be used to assess the adequacy and validity of the SOW and to negotiate prices. The Embassy would also

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provide information to OBO for review and approval, if required, during this stage of the acquisition process. The FMO must also certify that funds are available for the project.

The next steps in the contracting process are the solicitation and award phases. The solicitation consists of preparing the solicitation and obtaining offers or quotations from vendors to perform the work. The award includes evaluating the offers and making the award. During the solicitation and award phases, the CO has the lead responsibility, with the requiring office assuming an advisory role. Using information from the requiring office, the CO prepares the request for proposal (RFP), which consists of a description of the services needed, instructions for submission of offers, evaluation criteria, and contract terms and conditions. The requiring office normally reviews the RFP before it is released to the public. Once offers are received, a technical review panel reviews the offers using the evaluation criteria included in the RFP, and it provides an assessment of the offers to the CO. The CO will assess the prices, perform any needed negotiations, select the successful offeror, and award the contract on behalf of the Government. At this point, the FMO obligates funds for the contract.

The final phase is contract administration. The basic goal of contract administration is to ensure that the contract is performed as written by both the contractor and the Government. It is during contract administration that the Government must ensure that it gets what it pays for. During this phase, the requiring office assumes lead responsibility for some of the functions, although the CO remains involved in the process. The COR's responsibilities include monitoring progress, reviewing invoices, approving payments, inspecting deliverables, and maintaining COR files. The CO executes contract modifications and resolves issues of unsatisfactory contractor performance if necessary.

Post also uses simplified acquisitions to support its operations. One type of simplified acquisition used by Embassy Jakarta is a blanket purchase agreement (BPA). A BPA is a simplified method of filling anticipated repetitive needs for supplies and services by establishing "charge accounts" with qualified sources of supply. BPAs are used to order goods and services such as copier and printing supplies, upholstery services, newspaper subscriptions, photocopying services, and building materials. The CO establishes a BPA after determining that it would be advantageous to Embassy Jakarta to do so. Each BPA must list the authorized ordering officials and the per order dollar limitation for each ordering official. Authorized ordering officials need not be members of the CO's staff; therefore, control over BPAs is crucial so that accurate records are maintained and procedures are followed.

PRIOR REPORTS

Two Office of Inspector General (OIG) inspection reports identified issues related to procurement activities at Embassy Jakarta. The June 1999 report *Inspection of Embassy Jakarta, Indonesia and Constituent Post and the U.S. Information Service Indonesia* (ISP/I-99-15) noted that the same four contractors were used on a frequent basis for routine small maintenance and repair projects. OIG advised the Embassy that it could benefit if additional contractors were solicited to perform this work. The Embassy agreed to explore expanding its pool of contractors.

The September 2005 report *Inspection of Embassy Jakarta and Consulate General Surabaya, Indonesia* (ISP-I-05-29A), identified the need for improvement in contract management and administration, especially involving the Embassy's health insurance contract. OIG noted that a COR had not been designated for the health insurance contract, contributing to the weakness identified in contract administration. OIG also noted that the CO had exceeded his or her authorized warrant level in executing option years of a contract. All recommendations relating to procurement issues in these two inspection reports had been closed before the commencement of this audit.

OBJECTIVES, SCOPE, AND METHODOLOGY

OIG's Office of Audits (OIG/AUD) performed this audit at the request of Embassy Jakarta officials in conjunction with an investigation related to procurement practices. The objective of the audit was to determine whether Embassy Jakarta's contracting and procurement process complied with applicable laws, regulations, and Department policies. OIG limited its work to construction contracts and to BPAs.

To obtain background for the audit, OIG researched and reviewed the FAR and other federal laws and regulations, the DOSAR, the Cookbook, and the Embassy's contracting and procurement policies and procedures. As part of this effort, OIG identified which provisions of the procurement regulations it would test. OIG also gained an understanding of the roles and responsibilities of key parties, including OBO and the Embassy, by reviewing the Foreign Affairs Manual (FAM) and the Foreign Affairs Handbook (FAH). In addition, OIG reviewed and analyzed internal OIG and external audit and inspection reports to identify issues relating to procurement that had been reported previously.

As part of OIG's review of internal controls, OIG interviewed current and some former post officials and key personnel at Embassy Jakarta to obtain an understanding of their involvement in the contract and procurement process, including their specific roles and responsibilities. During these interviews, OIG gained an understanding of the Embassy's processes for procurement using both contracts and BPAs. As stated in the report, OIG identified internal control weaknesses with the Embassy's procedures in overseeing and monitoring Embassy employees during the contract and procurement process. OIG also interviewed Department officials in Washington, D.C., from OBO and A/OPE to gain their perspectives of the procurement processes used at Embassy Jakarta.

OIG judgmentally selected for testing the nine GSO/FMU projects, totaling about \$1.2 million, listed in Table 1. OIG chose some of the projects based upon information provided by Embassy officials and other projects based on its review of documentation. For the selected projects, OIG reviewed the GSO/PCU contract files and related supporting documentation located in GSO/FMU to assess whether the Embassy had complied with requirements related to project approvals; project funding; tenant agency additions; IGEs; and contract changes, monitoring, and inspections.

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Table 1. Contract Projects Selected for Testing

Project	Award Date	Contract Amount
Medan ^a	09/22/2006	\$318,815
Snack Bar	09/27/2006	272,325
Information Service Center (ISC) Server Room	06/01/2006	213,138
ISC Office Relocation	01/04/2006	123,500
Multipurpose Room	09/22/2006	89,377
Covered Walkway	09/28/2007	77,795
Customer Service (CSC), Bank, and American Express Office	09/11/2006	41,100
Snack Bar Skylight	09/27/2007	30,600
Hang Tuah 18 Residence ^b	08/20/2007	18,328
Total		\$1,184,978

Source: Prepared by OIG based on its review of the contract files.

^aEmbassy Jakarta constructed an American Presence Post in Medan, Indonesia.

^bThis was a residence undergoing renovation.

OIG also judgmentally selected for testing the 10 BPAs, totaling about \$170,000, listed in Table 2. As a result, OIG did not use computer-processed data to obtain the universe of agreements. OIG selected the BPAs from the universe of agreements used by the Embassy in FYs 2007 and 2008. For the selected projects, OIG reviewed the BPA files, which contained the BPAs, orders, and other related supporting documentation to assess whether the Embassy had complied with requirements, including whether vendors were rotated, use was limited to authorized vendors, and files were complete.

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Table 2. Blanket Purchase Agreements Selected for Testing

BPA Number	Vendor	No. of Orders	Value of Orders
BPA Group - Repair, refurbishment, reconditioning, and reupholstering furniture			
SOID320-07-A-6865	Antik Indah	20	\$52,268
SOID320-07-A-6870	Home Décor	5	6,603
SOID320-07-A-6869	Amardeep	5	4,552
BPA-Group - Transportation for COP13 Conference in Bali			
SID320-08-A-0001	PT Golden Bird Bali	3	56,762
SID320-08-A-0005	CV Autobagus Rent A Car	5	16,059
SID320-08-A-0054	Supra Raga Transport	1	1,091
SID320-08-A-0004	PT Patco Bali	0*	0
BPA Group - Purchasing copier paper			
SOID320-07-A-6368	Astra Graphia	13	30,864
SOID320-07-A-6467	Inti Praba	2	3,700
SOID320-07-A-6469	CV Raharja Mulya	0*	0
Total		54	\$171,899

Source: Prepared by OIG based on its review of BPA files.

* No orders were placed during the time of OIG's audit.

Finally, OIG/AUD assessed whether an office addition made to the Embassy compound for a tenant agency, the Federal Bureau of Investigation (FBI), complied with procurement regulations. Specifically, OIG/AUD interviewed current and former Department personnel involved with the addition and FBI personnel at the Embassy, and in Washington, D.C. OIG/AUD also reviewed the Embassy's contract and financial records, as well as FBI financial records, and other pertinent documentation related to the office addition. Finally, OIG/AUD obtained legal guidance from OIG counsel as appropriate.

OIG/AUD conducted the fieldwork of this performance audit from July 2008 to January 2009² 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 met with officials at Embassy Jakarta in August 2008 and with OBO officials in May 2009 to discuss OIG's findings and proposed recommendations.

²OIG performed work in Jakarta, Indonesia, during July and August 2008.

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AUDIT RESULTS

OIG found that Embassy Jakarta did not fully comply with applicable contract and procurement laws and regulations and Department policies as follows:

- The Embassy did not obtain prior OBO approvals for seven of the nine construction projects that OIG reviewed. As a result, the Embassy does not have assurance that the projects meet relevant building codes needed to ensure that life safety requirements are met.
- The Embassy violated the Purpose Statute³ and inappropriately used funds of about \$397,000 for construction projects, resulting in inaccurate Department records and the Embassy's inability to use the funds for other priorities.
- The Embassy did not maintain documentation for OIG to determine whether the costs the Embassy charged a tenant agency for new offices complied with FAM requirements and whether all alterations made were necessary to establish the offices. The lack of transparency of the Embassy's decisions relating to the alterations could affect the Embassy's relationship with tenant agencies.
- The actual contract amounts for eight of the nine projects that OIG reviewed exceeded their IGEs by at least 25 percent, which negated the IGEs' usefulness as estimates to reserve funds and to compare and negotiate IGE prices against prices proposed by contractors.
- GSO/FMU personnel made changes to contract specifications without obtaining a contract modification, and did not always document the reasons for the changes or their monitoring, inspection, and acceptance of contractors' work. As a result, the Embassy could not ensure that it received what it contracted for at a reasonable cost. In addition, OIG could not determine whether the Embassy ensured that the changes did not impact the structural integrity of the projects or that the work fulfilled the Embassy's needs.
- Embassy personnel did not comply with regulations and policies relating to BPAs, including the requirements to review BPA files and logs on a regular basis, which may lead to inadequate competition, the appearance of preferential treatment, and the use of Government-prohibited contractors.

³31 U.S.C. § 1301(a).

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These instances of noncompliance occurred primarily because of the lack of management oversight of the procurement process. Although the Embassy had taken actions to address procurement deficiencies previously identified by A/OPE⁴ officials during their staff assistance visit in April 2008, additional actions are necessary to improve oversight of the process and ensure that the Embassy complies with procurement regulations and policies.

PROJECT APPROVAL

According to the FAM,⁵ posts must obtain prior OBO approval for construction projects regardless of their cost or funding source. These projects include, but are not limited to, interior alterations affecting public spaces or materially affecting space functions or design; the replacement of or alterations to roof structure, including placement or erection of any structures, equipment, or devices on the roof; and structural and electrical work. The approval includes a review to ensure that the project conforms to building codes. If the project complies with such codes, OBO issues a building permit to be posted at the project site. Specifically, the SRPM obtains these approvals from OBO before work commences.

OIG found that the Embassy did not always seek OBO approval for projects when required. Specifically, the Embassy did not obtain prior OBO approval for seven of the nine projects OIG reviewed that are listed in Table 3.

Table 3. Projects Not Approved by OBO

Project	Project Description
Covered Walkway	A walkway with a roof structure was built in front of a number of offices on the Embassy compound.
Snack Bar	Two existing snack bars (Indonesian and American) were combined into one new snack bar in the former commissary building. Interior alterations were made that materially affected the space function and design.
Snack Bar Skylight	A skylight was installed in the roof of the snack bar.

⁴A/OPE provides overall acquisition and federal assistance to the Department.

⁵15 FAM 641(a), "Post Actions Requiring Prior Approval."

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CSC, Bank, and American Express Office	The former Indonesian snack bar was replaced with a CSC, Bank, and American Express travel office. Interior alterations were made that materially affected the space function and design.
Multipurpose Room	The former American snack bar was replaced with a multipurpose room. Interior alterations were made that materially affected the space function and design.
ISC Server Room	The ISC server was moved to a new location. Interior alterations were made that materially affected the space function and design.
ISC Office Relocation	The ISC office was relocated from one building to the second floor of the former commissary building. Interior alterations were made that materially affected the space function and design.

Source: Prepared by OIG based on its review of contract files.

Based on OIG's review of project files, OIG could not determine why the Embassy did not seek OBO approvals for these projects. The former SRPM said that his impression is that some projects need OBO approvals and funding and some do not, based on scale or cost or type of work. He also said that "the basis has never been clear" to him. However, as shown in Figure 1, installation of the Snack Bar skylight resulted in the type of alterations to the roof structure that, based on FAM requirements, would have required OBO approval regardless of the cost or funding source.



Figure 1. The skylight in the snack bar at Embassy Jakarta.
[OIG photograph]

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Without OBO review and approval, the Embassy does not have assurance that its projects meet relevant building codes to ensure the life and safety of the occupants. In 2004, OBO adopted the 2003 International Code Council's buildings codes, which were "designed to assure that life safety issues have been addressed in the design and construction of . . . overseas facilities." OBO adopted the codes because it had become aware of serious construction problems at posts. OIG did not perform the work necessary to determine whether the seven projects that were not approved by OBO met the code requirements.

OIG discussed the seven projects listed in Table 1 with OBO officials, who also expressed concern that the projects had not been submitted for their review and approval. OBO personnel said that they plan to inspect the projects to ensure that they were built to code, and that life safety issues were addressed. OIG supports this initiative.

Recommendation 1: OIG recommends that the Bureau of Overseas Buildings Operations (OBO) inspect construction projects that it should have approved but had not approved to determine whether the projects meet the relevant building codes. If any projects do not meet building codes, OBO, in coordination with Embassy Jakarta, should immediately take the actions needed to bring the projects into compliance with the building codes.

Bureau and Embassy Responses and OIG Reply

In its response to the draft report, OBO stated that it plans to send a team to Jakarta in the fall that will inspect the projects identified by OIG. OBO will also request design documents from the Embassy, but said that its assessment "will be limited by the accuracy and completeness of the design documents and by weaknesses inherent in visual inspection."

In its response, the Embassy stated that its Facility Managers, who also serve as Post Occupational Safety and Health Officers, had inspected the construction projects and determined that they "meet relevant building codes." The Embassy said, however, that it would "welcome the visit" by OBO "to ensure all relevant building codes have been met."

Based on information in the responses, OIG considers recommendation 1 resolved. OIG will close the recommendation after OBO notifies OIG that it has completed its project review and has developed a plan, if applicable, to bring the projects into compliance with building codes.

PROJECT FUNDING

In general, the Purpose Statute requires that appropriated funds be “applied only to the objects for which the appropriations were made except as otherwise provided by law.”⁶ The FAM further states that OBO “funds special maintenance and improvement projects for U.S. Government-owned long-term leased property” and that Diplomatic and Consular Program (D&CP) funds “may not be used to augment” OBO’s allotment.⁷ In addition, International Cooperative Administrative Support Services (ICASS) funds may be used for building operating expenses, but maintenance and improvement projects should be funded by OBO.⁸ Furthermore, it is the FMO’s responsibility to supervise the obligation of funds available for post’s use and to determine that such funds are used only for the purposes for which they are available.⁹

The Embassy funded maintenance and improvement projects with funds not available for that purpose. Specifically, the Embassy used D&CP and ICASS funds amounting to approximately \$397,000 to help¹⁰ pay for six of the nine projects that OIG reviewed. A list of these projects, their funding source, and their costs are provided in Table 4.

Table 4. Projects Funded With D&CP and ICASS Funds

Project	D&CP Funds Used	ICASS Funds Used	Total
ISC Server Room	\$117,905		\$117,905
Snack Bar	83,193		83,193
Multipurpose Room	70,139		70,139
Covered Walkway	52,795		52,795
CSC, Bank, American Express Office	41,100	\$920	42,020
Snack Bar Skylight	30,600		30,600
Total	\$395,732	\$920	\$396,652

Source: Prepared by OIG.

⁶31 U.S.C § 1301(a).

⁷15 FAM 633(a) and (b), “Funding Responsibilities.”

⁸6 FAH-5 H-341.12(d), “Building Operations, Maintenance and Repair Versus Building Operating Expenses.

⁹4 FAM 021.2-4, Management Officer,” and 4 FAM 021.2-5, “Financial Management Officer.”

¹⁰The Embassy funded several of these projects using more than one fund citation. For example, the ISC Server Room was funded using D&CP and OBO funds. OIG did not question the use of OBO funds because those funds were spent appropriately.

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OIG could not determine, based on its review of project files for the projects listed in Table 4, why the Embassy did not seek OBO funding for these projects. The former SRPM said that OBO funding would be requested for expansion or for major projects. In addition, the former FMO said that he had always direct charged to the office or agency that requested the changes.

Funding construction projects with inappropriate appropriations violates the Purpose Statute. Specifically, the Embassy's actions may have augmented the Embassy's funding by using one appropriation to pay for costs associated with the purposes of another appropriation, resulting in inaccurate Department records. According to OBO officials, OBO's budget structure is designed to track individual construction projects and ensure that the information is properly accounted for in its real property records. Construction projects that are funded from D&CP or other inappropriate appropriations cannot be properly tracked and accounted for in the Department's systems. The Department will have to correct its accounting records.

In addition, the Embassy has lost the opportunity to use approximately \$397,000 to fund other D&CP priorities. The D&CP funds the Embassy used for these projects were FY 2006 and FY 2007 single year funds. As a result, even after funding corrections are made, the Embassy will no longer be able to use the D&CP funds to establish new obligations. Furthermore, if OBO has to repay the \$397,000 with its funds, it may have to delay projects that it had intended to start this year because the funds might no longer be available.

Recommendation 2: OIG recommends that Embassy Jakarta, in coordination with the Bureau of Overseas Buildings Operations, correct the funding for the six projects for which the Embassy used Diplomatic and Consular Program and International Cooperative Administrative Support Services funds.

Embassy Response and OIG Reply

In its response to the draft report, the Embassy stated that correcting the funding issues would be an "extremely complex and time-consuming investigation that has no fiscal purpose." The Embassy also stated that the FY 2006 and 2007 D&CP funds cannot be recovered and that additional work would not necessarily lead to a conclusion that money was improperly charged to ICASS and D&CP. The Embassy provided information on two of the contracts included in the audit, which related to the snack bar and to ISC. The Embassy further stated that it had made a decision to

share the costs between OBO, D&CP, and the FBI because “some elements within the contracts were more appropriately charged to D&CP, such as the tables and chairs in the snack bar, and some IT [information technology] infrastructure in the server room.” The Embassy concluded that it had “found no evidence to contradict the correctness of those judgments,” and that taking action on the recommendation would not be “an appropriate use of [the Embassy’s] scant resources.”

Although it would require some effort to gather the information needed to address this recommendation, the Embassy has to ensure that it is in compliance with the Purpose Statute and appropriation law. While the funds may not be recoverable, the Department must identify amounts that were used inappropriately and take action needed to rectify the situation. The Department also needs to ensure that the construction projects were properly recorded and accounted for in the Department’s property and financial management systems.

The Embassy also stated that portions of two contracts had elements that were appropriately paid by D&CP funds. OIG agrees that D&CP funds can be used to pay for portions of contracts that relate to furniture or to IT infrastructure. However, that is not the situation that OIG identified when it reviewed six construction contracts at the Embassy. For instance, the CSC, Bank, American Express Office, and Multipurpose Room projects were paid for almost entirely using D&CP funds, even though those projects included construction. OIG also found that one contract costing \$30,000, for the snack bar skylight, did not include any requirements for furniture or IT infrastructure. If projects include aspects that are appropriately funded by D&CP funds, the Embassy needs to clearly segregate those costs from other construction costs. The Embassy should not charge the entire amount of projects to D&CP when only a portion of the charges were used for allowable charges.

Based on the Embassy’s response, OIG considers this recommendation unresolved. Embassy Jakarta should work with OBO to correct the funding issues OIG identified during its audit and ensure that future construction projects are properly funded.

Bureau Response and OIG Reply

In its response, OBO stated that ICASS and D&CP funds should not be used to pay for construction projects. OBO stated its concern that the recommendation could “encourage” other posts to disregard established procedures for obtaining OBO funds by using other appropriations to fund construction projects and then request reimbursement retroactively.

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To address OBO's concerns, OIG added a new recommendation (No. 3), which is intended to remind posts of their responsibilities to comply with appropriation law.

Recommendation 3: OIG recommends that the Bureau of Overseas Building Operations request the Department's Chief Financial Officer to remind the posts that appropriations must be used in accordance with the Purpose Statute and Department of State policies (Foreign Affairs Manual). Posts should also be reminded that employees who knowingly or repeatedly fail to use correct appropriations should be referred to the Office of Inspector General, the Office of the Procurement Executive, or the Bureau of Human Resources as appropriate.

TENANT AGENCY OFFICE ADDITION FUNDING

The FAM states that alterations to OBO buildings to meet another agency's requirements "must be funded by the occupying agency."¹¹ Those costs include moving costs, basic fit out of new space for the displaced agency, and lease costs and building operating expenses until funds for the continuing costs of alternative space can be budgeted by the displaced agency.¹²

OIG found that the Embassy did not maintain adequate documentation for OIG to determine whether the costs that the Embassy charged the FBI for its new offices at the Embassy were in compliance with FAM requirements. In June 2005, Embassy Jakarta and FBI officials discussed the FBI's desire to establish a new office at the Embassy. To create the office, Embassy officials planned to reduce the size of the commissary from two floors to one floor, and to relocate one office (the ISC) to the space no longer being used by the commissary. The FBI agreed to pay for the alteration of its new office, for moving the office that was occupying that space, and for any other associated displacement costs.

¹¹15 FAM 642(a), "Approval Required for Special Maintenance and Improvement Projects."

¹²15 FAM 164(a), "Displacement and Changes in Occupancy."

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In September 2005, the Embassy provided the FBI with a preliminary cost estimate of \$810,000 for establishing the new FBI office and for the costs associated with relocating not one office, as originally planned, but several offices and operations to new locations. A breakdown of these costs is provided in Table 5.

Table 5. 2005 Cost Estimates for Alterations and Displacements

Office/Operation	Cost Estimate
Snack Bar Relocation/Combination	\$270,000
ISC Office Relocation	240,000
New FBI Office	231,000
Commissary Relocation	69,000
Total	\$810,000

Source: Prepared by OIG based on its review of Embassy and FBI cost data.

OIG reviewed Embassy and FBI documentation to trace the actual costs paid by the FBI, about \$754,000, to the Embassy costs for the new FBI office and the displaced offices and operations. OIG was able to trace \$427,865, 57 percent, of the \$754,000 to specific offices or operations, as shown in Table 6.

Table 6. FBI Costs Traced to Embassy Offices and Operations

Office/Operation	FBI Costs
Snack Bar Relocation/Combination	\$189,132
ISC Server Room	95,233
Construction Security Technicians	80,000
ISC Office Relocation	63,500
Total	427,865

Source: Prepared by OIG based on its review of Embassy and FBI cost data.

However, Embassy documentation was not sufficient for OIG to trace the remaining \$326,135, or 43 percent, of the \$754,000 to the projects directly associated with the FBI alterations. For example, the Embassy charged the FBI about \$34,000 for work performed under a purchase order that did not specify what work was performed or for what project. Similarly, voucher reports contained general descriptions, such as “purchased misc. building supplies” and “building materials BPA,” with no indication as to which project or building these supplies and materials were applied.

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Further, OIG could not determine whether all alterations made by the Embassy were necessary to establish the new FBI office. OIG reviewed existing documentation and determined that in February 2006, an FBI representative questioned an Embassy official regarding all the costs being charged to the FBI. Specifically, the FBI representative asked the Embassy official why the FBI's relocation would be contingent upon the relocation of the commissary and the snack bar. The Embassy official responded by stating that the ISC office was "being located into a portion of where the commissary was previously located, forcing the commissary to be relocated into another building." OIG attempted to gain additional evidence regarding, and gain a better understanding of, the decision made by Department officials in 2006, but the Embassy did not have additional documentation.

However, during its visit to Embassy Jakarta in July and August 2008, OIG observed the actual locations of the new offices and the commissary and snack bar operations. Based on its observations and documents reviewed, OIG could not find evidence that the commissary relocation and the new snack bar construction had a direct connection to the FBI alterations. Therefore, OIG could not determine whether the costs charged to the FBI for an office addition were all supported and necessary.

The agencies at Embassy Jakarta are the Department's strategic partners in implementing U.S. foreign policy objectives. Regardless of the decisions made as to the validity of the costs in this instance, it is reasonable for the tenant agencies to expect the Embassy to provide fair, high-quality service. Although the Embassy should ensure that each agency bears the cost of its presence overseas, it must do so in a fair and equitable manner. The lack of transparency related to the decisions made for the FBI office addition could adversely affect the Embassy's relationship with the FBI and potentially other agencies.

Recommendation 4: OIG recommends that Embassy Jakarta provide, to the Bureau of Overseas Buildings Operations (OBO), documentation, including information on justification and costs, for the alterations totaling about \$754,000 that were associated with the Federal Bureau of Investigation (FBI) office addition. Embassy Jakarta should notify OIG when this task has been completed. OIG further recommends that OBO review the documentation provided by Embassy Jakarta and determine whether the alterations were supported and necessary. If the alterations were not supported and necessary, Embassy Jakarta should refund to the FBI all costs associated with the unnecessary alterations identified.

Embassy Response and OIG Reply

In its response to recommendation 4 (which was recommendation 3 in the draft report), the Embassy stated that the recommendation is not a “useful exercise” and that OIG is “looking for a paper trail . . . that does not exist.” The Embassy further stated that the costs charged to the FBI were “fair” and “significantly under the estimate” and that further accounting would not “produce measurably different results.” The Embassy stated that it had to move several offices, including the snack bar and the commissary, to provide space to the FBI. Further, the Customer Service Center was a displacement cost to the FBI, although the Embassy used D&CP funds to pay for it.

OIG did not identify any clear link between some of the moves charged to the FBI and the FBI’s new office space. For instance, the Embassy chose to move the commissary to its own small building, which did not impact either the American or the Indonesian snack bars, which were both located in different buildings. The Embassy has a responsibility to ensure that tenant agencies pay only for costs directly associated with the space requested. Based on its work and the Embassy’s response, OIG concludes that there is insufficient evidence to support that all of the costs charged to the FBI were fair and reasonable and in accordance with the Department’s FAM. Therefore, OIG considers the recommendation unresolved.

Bureau Response and OIG Reply

In its response to recommendation 4 (which was recommendation 3 in the draft report), OBO requested that OIG designate the Embassy as the action authority for this recommendation because it believes that the Embassy, not OBO, should be responsible for “establishing a connection” between the commissary and snack bar projects and the FBI relocation. OBO also expressed its concern regarding “the number of projects the action authority should evaluate,” stating that if OIG had “found connections between the projects as claimed, . . . the recommendation should ask the action authority to evaluate only the remaining projects, which in this case, would be the commissary/snack bar projects.”

OIG agrees that the Embassy is responsible for establishing a connection between the commissary and snack bar projects and the FBI relocation, as well as for establishing a connection between all the other projects mentioned in this report. Therefore, OIG has modified the original recommendation 3 to require the Embassy to justify its actions and cost data to OBO. OBO, as the Single Real Property Manager for the Department, can then analyze the information and provide OIG with the results of its analysis.

INDEPENDENT GOVERNMENT ESTIMATES

The FAR requires that an IGE “be prepared and furnished to the CO at the earliest practicable time for each proposed contract.”¹³ At the Embassy, the requiring office prepares the IGE, which serves as the principal cost estimate for the products or services to be acquired. The IGE should include all costs associated with the contract, including direct costs, indirect costs, and the profit or fee amount.

The GSO/FMU did not prepare complete IGEs. Of the nine projects that OIG reviewed, the actual contract amount exceeded the IGE by 25 percent or more for eight of the projects, as shown in Table 7.

Table 7. IGEs Compared With Contract Award Amounts

Project	IGE	Award Amount	Difference (%)
CSC, Bank, American Express Office	\$8,000	\$38,500	381
Multipurpose Room	\$20,000	\$71,100	256
ISC Server Room	\$80,000	\$193,761	142
Covered Walkway	\$39,181	\$77,795	99
Hang Tuah 18 Residence	\$13,000	\$18,328	41
Snack Bar Skylight	\$20,000	\$27,870	39
Snack Bar	\$180,000	\$247,975	38
ISC Office Relocation	\$90,000	\$112,443	25
Medan	\$241,000	\$240,000	-0.4

Source: Prepared by OIG based on its review of the contract files.

The differences occurred primarily because GSO/FMU staff did not follow a standard process for calculating the IGEs. For example, one GSO/FMU employee said that she did not always include all costs associated with the project, such as the indirect costs, in the IGE. The employee further stated that because her work had not been questioned in the past, she only recently discovered that she was developing the IGEs incorrectly.

¹³ FAR 36.203, “Government Estimate of Construction Costs.”

An IGE serves as an estimate for reserving funds for the contract and for comparing and negotiating against the prices proposed by contractors. If the Embassy reserves insufficient funds for a project based on the IGE, it may not be able to award the contract if it does not have the additional funds necessary to cover the difference. In addition, without an accurate IGE, the Embassy cannot use it to evaluate the proposals received or to negotiate a better price with prospective contractors.

Recommendation 5: OIG recommends that Embassy Jakarta instruct all requiring offices at the Embassy, including the General Services Office Facilities Maintenance Unit, on how to properly prepare independent government estimates.

Embassy Response and OIG Reply

In its response to the draft report, the Embassy stated that it had “substantially implemented” recommendation 5 (which was recommendation 4 in the draft report). OIG considers this recommendation resolved and will close this recommendation when the Embassy has completed instructions to all requiring offices on how to prepare IGEs.

CONTRACT CHANGES, MONITORING, AND INSPECTIONS

The FAR assigns the “authority to enter into, administer, or terminate contracts” to the COs to the extent of the authority delegated to them.¹⁴ The FAH further states that the COR does not have the authority to make any changes that will affect the price, quality, quantity, or delivery terms of a contract.¹⁵ In addition, the Cookbook requires that the COR ensure that the contractor follows contract specifications by monitoring, inspecting, and accepting the contractor’s work and by documenting the progress of the work, any difficulties or clarifications that arise during meetings with contractors, and the results of those meetings.

¹⁴FAR 1.602-1(a), “Authority.”

¹⁵14 FAH-2 H-144, “Limitations on Contracting Officer’s Representative Authority.”

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OIG found that GSO/FMU personnel approved changes to contract specifications without notifying and obtaining contract modifications from the CO. For example, OIG identified discrepancies between the contract specifications and the completed work for the covered walkway project. Specifically, during a contract closeout, a GSO/PCU employee found that the number of steel columns, including the concrete foundations and tie beams, was reduced from 87 to 63, a 28 percent reduction, and portions of the walkway cover were redesigned. GSO/FMU staff approved these changes without notifying the CO, and without requesting a contract modification. The staff also verified, through their signatures, that the work was completed per contract specifications.

GSO/FMU personnel also did not always document the reasons for the changes in specifications or their monitoring, inspections, and acceptance of contractors' work. Neither the CO nor the COR contract files for the covered walkway contained documentation that explained why the changes described were made. In addition, OIG reviewed the GSO/FMU files for the other seven projects and noted that three (ISC office relocation, snack bar, and CSC/Bank/American Express Office) of the seven¹⁶ project files contained (a) progress reports that would state that a percentage of the work had been performed but without supporting documentation, and (b) contractor invoices with no supporting documentation.

GSO/FMU staff said that the changes made to the covered walkway were necessary because of flaws in the design that was included in the SOW for the project. Specifically, the original design required an intricate pavement design and covering in front of the snack bar. However, this work could not be completed because of cables under the pavement. Further, as shown by an audit team member in Figure 2, one area of the walkway covering was altered at the request of an Embassy employee because, according to a GSO/FMU employee, the Embassy employee was tall and became concerned that he would bump his head if the covering was not raised above the intended height of the original design. Also, the original design showed where a steel column was to be placed if the walkway covering specifications had not been changed.

¹⁶OIG did not review the ISC server room contract administration file because GSO/FMU was not responsible for the contract changes, monitoring, and inspection of the project. Those responsibilities were assigned to another office that was not included in OIG's scope of audit work.

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Figure 2. The original contract specifications for the covered walkway at Embassy Jakarta did not include the raised covering, but they did include the placement of a steel column where the audit team member is standing. [OIG photograph]

In addition, GSO/FMU staff told OIG that they would sketch designs or make written notes when having discussions with contractors but that they would throw these notes away once the contractor had completed the work to the Embassy's satisfaction.

Changes are often necessary to reflect new requirements or to incorporate improvements in design. However, the Embassy cannot ensure that it receives what it contracts for at a reasonable cost if it makes changes to contract specifications without formally modifying the contract. For example, during the contract closeout for the covered walkway, Embassy staff compared the contract specifications with the actual completed project and determined that if the contract had been modified to reflect these changes, the cost of the project would have been reduced by about \$16,000, which represents about 21 percent of the total cost of the project.¹⁷

¹⁷The \$17,000 reduction in cost assumes that no additional changes were made that would have offset the reduction.

could not determine whether the Embassy ensured that the changes did not impact the structural integrity of the projects or that the actual work performed fulfilled the Embassy's needs.

Recommendation 6: OIG recommends that Embassy Jakarta develop a plan that requires the Management Counselor to inspect construction projects at least quarterly to ensure that contract modifications have been executed as appropriate and that contract files are complete.

Embassy Response and OIG Reply

In its response to the draft report, the Embassy stated that it had “substantially implemented” recommendation 6 (which was recommendation 5 in the draft report). OIG considers this recommendation resolved and will close this recommendation when it receives a copy of the plan.

BLANKET PURCHASE AGREEMENTS

Embassy procurement personnel did not comply with regulations and policies relating to BPAs. As a result, the Embassy failed to equitably rotate vendors; allowed an unauthorized individual to place BPA orders; signed orders on expired BPAs; failed to document required checks of the Excluded Parties List System; and failed to document required reviews of contractor financial resources, performance record, and experience.

- The FAR states that the existence of a BPA does not justify purchasing from a single source.¹⁸ In addition, the Cookbook requires that orders be rotated whenever possible, when there are multiple sources, or when quick shipment is required.¹⁹ The Embassy did not rotate vendors in an equitable manner. For example, the Embassy established BPAs with three vendors to repair, refurbish, recondition, and reupholster furniture. The Embassy placed 20 orders with one of the vendors and five orders each with the other

¹⁸FAR 13.303-5(c), “Purchases Under BPAs.”

¹⁹The Cookbook, Chapter 2, XI, E, “Competition Requirements.”

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two vendors. Similarly, under a BPA for purchasing paper, the Embassy placed 13 orders with one vendor, two orders with the second vendor, and no orders with the third vendor. The CO stated that the GSO/PCU staff was, or should have been, aware of the need to rotate orders among the BPA holders. The CO, however, was not aware of any mechanism (for example, a log) that the staff was using to help track the placement of orders among the vendors.

- Under the FAR, only authorized individuals, that is, persons who have been granted the authority, may acquire supplies and services using BPAs.²⁰ However, the Embassy allowed an unauthorized individual to place BPA orders. Of the 54 individual orders placed under the 10 BPAs reviewed, OIG found that seven had been signed by an individual who was not authorized to place the orders. Specifically, these incidents involved two of the three BPA groups, three instances within the “Transportation for COP 13 Conference in Bali” group, and four instances within the “Purchasing Copier Paper” group.
- According to the FAR, an individual BPA is considered complete when “its stated time period expires.”²¹ However, the Embassy signed two orders on two BPAs under the “Transportation for COP 13 Conference in Bali” group. (One order was signed a month after the BPA expired, and the other order was signed 16 days after another BPA had expired.)
- To determine contractor responsibility, agencies must check to ensure that “contractors debarred, suspended, or posed for debarment, are excluded from receiving contracts.”²² The Embassy did not document whether it verified that vendors for four of the 10 BPAs reviewed were listed on the Excluded Parties List System.²³ (One BPA is from the “Repair, Refurbishment, Reconditioning, and Reupholstering Furniture” group, and the other three BPAs are all from the “Purchasing Copier Paper” group.) The documentation for the remaining four BPAs was incomplete (two BPAs from the “Repair, Refurbishment, Reconditioning, and Reupholstering Furniture” group, and two BPAs from the “Transportation for COP 13 Conference in Bali” group). For example, the forms indicated that the Embassy had checked the Excluded Parties List; however, the forms did not provide the dates checked and the files did not include supporting documents.

20 FAR 13.303-3(a) (4), “Preparation of BPAs,” and FAR 13.001, “Definitions.”

21 FAR 13.303-7, “Completion of BPAs.”

22 FAR 9.405(a), “Effect of Listing.”

23 FAR 9.404, “Excluded Parties List System (EPLS).” The EPLS lists companies or individuals who have been excluded (i.e., debarred or suspended) from federal contracts or other funding.

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Agencies must also determine whether contractors have adequate financial resources, a satisfactory performance record, and the necessary organization and experience to perform the job.²⁴ For seven of the 10 BPAs reviewed, OIG found that the Embassy did not have documentation to support that it had performed these required steps. The seven were as follows: one BPA from the “Repair, Refurbishment, Reconditioning, and Reupholstering Furniture” group; all four BPAs from the “Transportation for COP 13 Conference in Bali” group; and two of the three BPAs from the “Purchasing Copier Paper” group.

The FAR requires that the CO or a designated representative review a sufficient random sample of the BPA files at least annually to ensure that authorized procedures are being followed.²⁵ The DOSAR requires BPA administrators to perform monthly reviews of the BPA logs.²⁶ However, the current CO had not performed a review of any of Jakarta’s BPAs, and for the 10 BPAs that OIG reviewed, OIG could not find any documentary evidence that the BPA administrator for each of these BPAs had ever performed monthly reviews of the BPA logs. The CO told OIG that these reviews were not performed primarily because the workload in the procurement office hampered the ability of the staff to dedicate sufficient time to perform the reviews.

In addition, the Embassy did not maintain adequate separation of employees’ duties and responsibilities. The Government Accountability Office document *Standards for Internal Control in the Federal Government*²⁷ states that key duties and responsibilities should be divided or segregated among different people to ensure that no one individual controls all key aspects of a transaction or event. However, the BPA administrator was also authorized to place BPA orders.

The U.S. Government seeks to promote competition during procurement activities to the maximum extent possible. Noncompliance with BPA regulations and policies may lead to inadequate competition, the appearance of preferential treatment, and the use of prohibited contractors.

Recommendation 7: OIG recommends that Embassy Jakarta immediately review all open blanket purchase agreement files and logs to determine whether required procedures are being followed and take corrective action as appropriate.

²⁴FAR 9.104-1, “General Standards.”

²⁵FAR 13.303-6(a), “Review Procedures.”

²⁶DOSAR 613.303-2, “Establishment of BPAs.”

²⁷GAO/AIMD-00-21.3.1 (11/99), *Standards for Internal Control in the Federal Government*.

Recommendation 8: OIG recommends that Embassy Jakarta prohibit the blanket purchase agreement administrator from placing orders against the current agreements.

Embassy Response and OIG Reply

In its response to the draft report, the Embassy stated that it had “substantially implemented” recommendations 7 and 8 (which were recommendations 6 and 7, respectively, in the draft report). OIG considers these recommendations resolved and will close these recommendations when the Embassy formally replies that it (1) has completed the review of all open BPA files and logs and (2) has taken action to ensure that the blanket purchase administrators do not place orders against current agreements.

MANAGEMENT OVERSIGHT

Agency managers are responsible for, among other things, establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Management is also responsible for communicating the objectives of internal control and ensuring that the organization is committed to sustaining an effective internal control environment. Additionally, agency managers should continuously monitor and improve the effectiveness of internal control, identify deficiencies, and take timely and effective action to correct the deficiencies.²⁸

The instances of noncompliance with procurement regulations and policies discussed in this report occurred primarily because of the lack of oversight over the procurement process. Embassy staff told OIG that they believed their work was satisfactory because they kept their supervisors informed of their actions and they took action only if their supervisors approved.

²⁸OMB Circular A-123, *Management's Responsibility for Internal Control*.

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Deficiencies in the Embassy's procurement activities were brought to the Embassy's attention by A/OPE officials in April 2008, when they visited the Embassy to provide on-site procurement training. The officials said that their overall observations were that Embassy employees had a "lack of respect for the roles and responsibilities" associated with procurement contracting procedures. For example, the officials noted that the COR had exceeded his authority by making changes to contracts without notifying the CO and without obtaining a contract modification from the CO before work had commenced.

The Embassy has taken action to address the concerns raised by A/OPE officials during their site visit. For example, Embassy staff, including GSO/PCU and GSO/FMU officials, meet weekly to discuss contract issues, such as concerns that the Embassy might have with the contractors and any contract modifications that might be needed. However, OIG observed, during its audit, that the deficiencies as presented in this report persisted. For example, FMU employees continued to discuss changes with the contractors without notifying the CO so that modifications could be issued before work commenced. Additional Embassy guidance is needed to improve oversight of the procurement process and ensure that the Embassy complies with procurement regulations and policies.

Recommendation 9: OIG recommends that Embassy Jakarta emphasize to all management levels that their operations should have effective internal controls with respect to the contract and procurement process, including the involvement of the Bureau of Overseas Buildings Operations as applicable.

Recommendation 10: OIG recommends that Embassy Jakarta develop an action plan to improve its oversight and controls over the procurement process. This plan should address the deficiencies identified in this report and include specific ways in which the Embassy will ensure compliance with all procurement regulations and Department of State policies. The action plan should include milestones for each key phase in the contract and procurement process and should be submitted to OIG within 60 days of the issuance of this report.

Embassy Response and OIG Reply

In its response to the draft report, the Embassy stated that it had “substantially implemented” recommendations 9 and 10 (which were recommendations 8 and 9, respectively, in the draft report). OIG considers these recommendations resolved and will close these recommendations when (1) the Embassy has completed its discussion with all levels of management that their operations have internal controls with respect to the contract and procurement process and (2) OIG has reviewed the action plan that describes how the Embassy will improve its oversight and controls over the procurement process.

LIST OF RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Overseas Buildings Operations (OBO) inspect construction projects that it should have approved but had not approved to determine whether the projects meet the relevant building codes. If any projects do not meet building codes, OBO, in coordination with Embassy Jakarta, should immediately take the actions needed to bring the projects into compliance with the building codes.

Recommendation 2: OIG recommends that Embassy Jakarta, in coordination with the Bureau of Overseas Buildings Operations, correct the funding for the six projects for which the Embassy used Diplomatic and Consular Program and International Cooperative Administrative Support Services funds.

Recommendation 3: OIG recommends that the Bureau of Overseas Building Operations request the Department's Chief Financial Officer to remind the posts that appropriations must be used in accordance with the Purpose Statute and Department of State policies (Foreign Affairs Manual). Posts should also be reminded that employees who knowingly or repeatedly fail to use correct appropriations should be referred to the Office of Inspector General, the Office of the Procurement Executive, or the Bureau of Human Resources as appropriate.

Recommendation 4: OIG recommends that Embassy Jakarta provide, to the Bureau of Overseas Buildings Operations (OBO), documentation, including information on justification and costs, for the alterations totaling about \$754,000 that were associated with the Federal Bureau of Investigation (FBI) office addition. Embassy Jakarta should notify OIG when this task has been completed. OIG further recommends that OBO review the documentation provided by Embassy Jakarta and determine whether the alterations were supported and necessary. If the alterations were not supported and necessary, Embassy Jakarta should refund to the FBI all costs associated with the unnecessary alterations identified.

Recommendation 5: OIG recommends that Embassy Jakarta instruct all requiring offices at the Embassy, including the General Services Office Facilities Maintenance Unit, on how to properly prepare independent government estimates.

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Recommendation 6: OIG recommends that Embassy Jakarta develop a plan that requires the Management Counselor to inspect construction projects at least quarterly to ensure that contract modifications have been executed as appropriate and that contract files are complete.

Recommendation 7: OIG recommends that Embassy Jakarta immediately review all open blanket purchase agreement files and logs to determine whether required procedures are being followed and take corrective action as appropriate.

Recommendation 8: OIG recommends that Embassy Jakarta prohibit the blanket purchase agreement administrator from placing orders against the current agreements.

Recommendation 9: OIG recommends that Embassy Jakarta emphasize to all management levels that their operations should have effective internal controls with respect to the contract and procurement process, including the involvement of the Bureau of Overseas Buildings Operations as applicable.

Recommendation 10: OIG recommends that Embassy Jakarta develop an action plan to improve its oversight and controls over the procurement process. This plan should address the deficiencies identified in this report and include specific ways in which the Embassy will ensure compliance with all procurement regulations and Department of State policies. The action plan should include milestones for each key phase in the contract and procurement process and should be submitted to OIG within 60 days of the issuance of this report.

ABBREVIATIONS

A/OPE	Office of the Procurement Executive
BPA	Blanket purchase agreement
CO	Contracting officer
COR	Contracting officer's representative
D&CP	Diplomatic and Consular Program
Department	Department of State
DOSAR	Department of State Acquisition Regulation
FAH	Foreign Affairs Handbook
FAM	Foreign Affairs Manual
FAR	Federal Acquisition Regulation
FBI	Federal Bureau of Investigation
FMC	Financial Management Center
FMU	Facilities Maintenance Unit
GAO	Government Accountability Office
GSO	General Services Office
ICASS	International Cooperative Administrative Support Services
IGE	Independent government estimate
ISC	Information Service Center
OBO	Bureau of Overseas Buildings Operations
OIG	Office of Inspector General
OIG/AUD	Office of Inspector General, Office of Audits
PCU	Procurement Contracting Unit

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RFP	Request for proposal
RSO	Regional security officer
SOW	Statement of work
SRPM	Single real property manager
The Cookbook	Overseas Contracting and Simplified Acquisition Handbook
USC	United States Code

APPENDIX A

MEMORANDUM

Date: August 21, 2009

To: Mark W. Duda, Assistant Inspector General for Audits

From: Michael Mullins, Management Counselor, Embassy Jakarta

Re: **Draft Report on Audit of Contract and Procurement Process for Selected Projects at U.S. Embassy Jakarta (AUD/IP-09-22)**

We wish to thank the OIG for responding to our request to send a team to Embassy Jakarta to assist us with our procurement process. Our work with the team, as well as the extensive out-briefs, provided us a good deal of information and “best practices” that we have already adopted in order to improve our contracting and procurement procedures. This is really the best and truest purpose of OIG assistance.

We received the Draft Report noted above dated August 6. It is our understanding that you request a preliminary response to the Draft Report. Although our final response will be made in answer to the final report, here is our initial response.

There are 9 recommendations in the “List of Recommendations.” Most of the recommendations have already been implemented at post based on our extensive work with the OIG team to establish best practices. We believe that recommendations 4 – 9 are substantially implemented. I will therefore restrict our preliminary observations to recommendations 1 – 3.

Recommendation 1: *OIG recommends that the Bureau of Overseas Buildings Operations (OBO) inspect construction projects that it should have approved but had not approved to determine whether the projects meet the relevant building codes. If any projects do not meet building codes, OBO, in coordination with Embassy Jakarta, should immediately take the actions needed to bring the projects into compliance with the building codes.*

Post's new Facility Managers, who also serve as POSHOs, have inspected the construction projects and determined that they meet relevant building codes. In addition, the previous Facility Managers, as well as Locally Employed Staff engineers and architects well versed in building codes, had key roles in implementing the projects. We believe that the projects are fully in compliance with building codes. Nonetheless, post would welcome the visit of an OBO inspector or inspection team to ensure all relevant building codes have been met. Alternatively, OBO could delegate this role to the OBO Facility Managers and POSHO at post who can make a formal report of their inspection.

Recommendation 2: *OIG recommends that Embassy Jakarta, in coordination with the Bureau of Overseas Buildings Operations, correct the funding for the six projects for which the Embassy inappropriately used Diplomatic and Consular Program and International Cooperative Administrative Support Services funds.*

The OIG report notes that there was not adequate documentation for the OIG to determine whether the costs charged were supported and necessary. The OIG further noted that the Embassy's use of funds may have resulted in inaccurate Department records. However, using these same source documents, the OIG requests that we correct funding, even though the OIG understands that FY06 and FY07 D&CP funds are not recoverable. The OIG proposes an extremely complex and time-consuming investigation that has no fiscal purpose. Post further notes that a detailed review of hundreds of documents would not necessarily lead us to the conclusion that money was improperly charged to ICASS and D&CP.

At the time the contracts for the snack bar and the ISC server room were written, the decision was made by the Facility Manager and Budget Officer to share the costs between OBO, D&CP, and the FBI. The division was made because some elements within the contracts were more appropriately charged to D&CP, such as the tables and chairs in the snack bar, and some IT infrastructure in the server room. As of this writing, post has found no evidence to contradict the correctness of those judgments. To further second guess those decisions serves no purpose. The difficulty and extent of a "funding correction" that would result in no funding changes is not an appropriate use of our scant resources.

Recommendation 3: *OIG recommends that the Bureau of Overseas Buildings Operations (OBO) review the alterations, including the costs of the alterations totaling about \$754,000 that were associated with the Federal Bureau of Investigation (FBI) office addition, to determine whether the alterations were supported and necessary. If OBO finds that the alterations were not supported and necessary, Embassy Jakarta should refund to the FBI all costs associated with the unnecessary alterations identified.*

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We do not believe this is a useful exercise that would provide any meaningful results. OIG is looking for a level of granularity (a paper trail tracing the usage of construction materials and paint to individual agencies) that does not exist. We believe that the cost of building supplies charged to FBI was appropriate to the other office relocations directly caused by the FBI. The amount was fair and significantly under the estimate. We do not believe that further accounting would produce measurably different results.

Parties must understand the causal effects of creating contiguous space for FBI. The gaining agency must make amends for space reallocation and redesign for the losing offices. Often, this is not a quid pro quo with one partner, but it can be a chain of partners – party A displaces party B, which displaces party C, etc. All of this has to be funded by the original party. On whether the series of moves was necessary, we believe the answer is yes. The FBI needed CAA space. In order to create CAA space with sufficient zone of control, two floors of offices were required to vacate (ISC and the commissary) which created other displacements (snack bar and Customer Service Center). These moves were tremendously disruptive to the entire mission and were only carried out with FBI's full commitment to fund the displacements.

Although 7902 project funding can be used, in fact, there was a confluence of circumstances – moving offices, etc. – that made other funding appropriate in this case. Also, when there is spending over and beyond a normal make ready, usually the proper budget to charge is the budget that is causing the work. Several factors helped determine appropriate funding streams, and these were signed off by the experts in the field at post at the time – the Financial Management Officer, the Contracting Officer, the Management Counselor, the S/GSO, and the Facility Manager. While post agrees that the decision making could have been better documented, all parties involved in FY06 and FY07 believed the amount charged to the FBI was fair and appropriate and directly caused by the establishment of new FBI offices. In our 2009 review of the contracts and institutional memory, we believe those decisions remain valid today.

We do believe that the OIG's visit to post, at our request, served the very useful purpose of helping us realign our procedures with best practices and train our staff.

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APPENDIX B



United States Department of State

Washington, D.C. 20520

AUG 20 2009

UNCLASSIFIED MEMORANDUM

TO: OIG/AUD – Mr. Mark Duda

FROM: OBO/RM – Jurg E. Hochuli *J.E.H.*

SUBJECT: Response to the OIG's draft report: Audit of the Contract and Procurement Process for Selected Projects at U.S. Embassy Jakarta

As requested, we have reviewed the subject draft report. We have a number of substantive comments and concerns, which we have compiled and attached to this memorandum.

In particular, we have concerns regarding the OIG's suggestion that post reimburse other accounts from OBO-held funds. OBO's rationale for this concern is further explained in the attached document. For your convenience, we are sending this cover memorandum and the attachment to you in both electronic and hard-copy formats.

Thank you for the opportunity to review and comment on the draft report. We would be pleased to meet with you and/or your staff, if you have questions regarding our response. I can be reached by contacting Paula Harrison, OBO/RM/P, at (703) 875-5128.

Attachment:

As stated.

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Comments from OBO on the Audit of the Contract and Procurement Process for Selected Projects at U.S. Embassy Jakarta

This draft report was received from the OIG on August 6, 2009, with comments requested by August 21, 2009. The draft report establishes OBO as the action authority for recommendation nos. 1 and 3, and as a participant for recommendation no. 2. OBO appreciates the opportunity to comment on the draft report. OBO provides the following comments on these recommendations.

OBO Comments

Request to modify Recommendation 2

Recommendation no. 2 states: “OIG recommends that Embassy Jakarta, in coordination with [OBO], correct the funding [in the amount of \$397,000] for the six projects for which the Embassy inappropriately used [D&CP] and [ICASS] funds.”

OBO agrees with the report’s assertion that funds from ICASS and D&CP accounts should not be used to pay for construction projects.

While OBO understands the OIG’s rationale, this recommendation, and related text, we are concerned that it may encourage similar instances in the future, as posts will know that OBO funds can be used to reimburse other accounts retroactively, even if posts have disregarded established procedures (such as those in the Foreign Affairs Manual). Furthermore, large reimbursements by OBO may require Congressional reprogramming notifications.

Comments on Recommendation 1

Recommendation no. 1 states: “OIG recommends that [OBO] inspect construction projects that it should have approved but had not approved to determine whether the projects meet the relevant building codes. If any projects do not meet building codes, OBO, [and] Embassy Jakarta, should immediately take the actions needed to bring the projects into compliance with the building codes.”

OBO agrees the projects should meet building standards. However, without design documents, OBO cannot conclusively determine whether the contractor(s) met all construction standards, as some criteria (such as metal strength) cannot be determined through a purely visual inspection.

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An OBO architect visited post in February 2009 (for work unrelated to these projects), and he did not notice any obvious signs of substandard work. An OBO team is returning to post in the fall, and staff will visually inspect the projects more thoroughly. OBO will also request design documents from post; however, OBO is limited by the accuracy and completeness of the design documents and by weaknesses inherent in visual inspection.

After the visit, OBO personnel will assist post as needed with any repairs.

Comments on Recommendation 3

“OIG recommends that [OBO] review the alterations, including the costs of the alterations totaling about \$754,000 that were associated with the [FBI] office addition, to determine whether the alterations were supported and necessary. If OBO finds the alterations were not supported and necessary, [the embassy] should refund to the FBI all costs associated with the unnecessary alterations identified.”

As stated previously, an OBO architect visited post in February 2009. At the time of his visit, he did not see any obvious connection between the commissary/snack bar projects and the FBI relocation. OBO believes post is responsible for establishing a connection between these projects. Accordingly, OBO respectfully asks the OIG to re-word the recommendation and designate post as the action authority, so post can explain how the two projects relate to the FBI office relocation.

Another concern relates to the number of projects the action authority should evaluate. The report’s text indicates the OIG has established a nexus between most of the projects and the FBI relocation. However, the recommendation asks the action authority to evaluate the nexus for all of the projects. If the OIG found connections between the projects as claimed, then the recommendation should ask the action authority to evaluate only the remaining projects, which in this case would be the commissary/snack bar projects.

Other Comments

In multiple places, the report indicates post “may” need to notify OBO concerning construction (pgs. 1 and 2, second paragraph on each page). OBO asks the OIG to replace the word “may” with “must,” because posts should always notify OBO of facility construction or improvements, in accordance with 15 FAM 640. (Although OBO previously informed the OIG that post can unilaterally execute certain maintenance and repair projects, OBO does not consider these to be “construction” or improvements projects.)

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The OIG should change text throughout the report to emphasize the responsibility of posts to notify OBO of construction and improvements projects. For instance, the OIG should delete “certain types of” from the following sentence (p. 7): “Posts must obtain OBO review, approval, and permits for *certain types* of construction projects, as required in 15 FAM 640.” (Emphasis added.)

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