

~~SENSITIVE BUT UNCLASSIFIED~~

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

Report of Inspection

Bureau of Administration's Office of the Procurement Executive, Office of Acquisitions Management, and Office of Small and Disadvantaged Business Utilization

Report Number ISP-I-07-12, December 2006

~~IMPORTANT NOTICE~~

~~This report is intended solely for the official use of the Department of State or the Broadcasting Board of Governors, or any agency or organization receiving a copy directly from the Office of Inspector General. No secondary distribution may be made, in whole or in part, outside the Department of State or the Broadcasting Board of Governors, by them or by other agencies or organizations, without prior authorization by the Inspector General. Public availability of the document will be determined by the Inspector General under the U.S. Code, 5 U.S.C. 552. Improper disclosure of this report may result in criminal, civil, or administrative penalties.~~

~~SENSITIVE BUT UNCLASSIFIED~~

TABLE OF CONTENTS

KEY JUDGMENTS	1
CONTEXT	3
PROGRAM DIRECTION	5
OFFICE OF THE PROCUREMENT EXECUTIVE	7
Oversight of Procurement	8
Policy Guidance and Assistance	9
Federal Assistance	10
Office of the Procurement Executive Initiatives	11
OFFICE OF ACQUISITIONS MANAGEMENT	15
Office of Acquisitions Management Organization	17
Overseas Buildings Program	23
Local Guard Program	27
Streamlining Procurement	29
OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION	35
Responsibilities of the Office of Small and Disadvantaged Business Utilization	35
Federal Goals	36
Department Achievements	37
The Process	39
Mentor-Protégé Program	40
INFORMATION MANAGEMENT AND INFORMATION SECURITY	41
Joint Assistance Management System	41
Integrated Logistics Management System	42
Dedicated Internet Network	45
Web Site Maintenance	45
MANAGEMENT CONTROLS	47
Contract Administration	47

Contract Closeout 50
Ratification of Unauthorized Commitments 51
Personal Services Contracts 52
Incremental Funding 53
FORMAL RECOMMENDATIONS 55
INFORMAL RECOMMENDATIONS 57
PRINCIPAL OFFICIALS 61
ABBREVIATIONS 63

KEY JUDGMENTS

- The procurement function in the Department of State (Department) is approaching a crisis situation, despite the best efforts of managers and staff in the Bureau of Administration's Office of Acquisitions Management (AQM) and Office of the Procurement Executive (OPE). The acquisition and federal assistance workload has grown dramatically in the past five years, both in terms of dollar amounts and complexity, while professional contracting staffing has remained relatively static. Strategic solutions are required to address what has become a government-wide problem.
- OPE provides policy guidance and support on contracting and federal assistance to Department employees worldwide. In response to critical weaknesses in overseas procurement identified in the early 1990s, OPE has focused much of its energy on overseas procurement activities. It now needs to turn its attention to AQM, where 80 percent of the Department's contracting dollars are spent.
- AQM is struggling to keep pace with an ever-increasing workload, made more complex by a proliferation of changes in the policies and regulations that govern the federal acquisition process. Acquiring additional staff to meet these requirements has become problematic as the pool of qualified federal procurement specialists has dwindled in recent years—a trend that is expected to continue as the bulk of these professionals reach retirement age.
- The Small Business Administration (SBA) considers the Department to be one of the federal agencies that works hardest and most successfully on behalf of small and disadvantaged firms. Credit goes to the Department's leadership as well as the Office of Small and Disadvantaged Business Utilization (SDBU).

- The Department's overseas buildings program is key to the safe deployment of diplomacy overseas. There is great pressure placed on AQM to award contracts expeditiously, and it has repeatedly risen to the occasion, making awards despite late receipt of requirements from the Bureau of Overseas Buildings Operations (OBO). The amount of money involved—\$2.4 billion in FY 2005—calls for care and prudence in the contracting process.
- Few areas of procurement call so obviously for reform as local guard contracting, estimated to cost the Department approximately \$218 million. Budgetary pressures appear to be forcing change, and the cost savings could total millions if contracting is done by AQM rather than by individual posts overseas.
- Despite considerable effort by the Procurement Executive and the small competitive sourcing staff in OPE, the Department has yet to embrace competitive sourcing as a practical tool to improve its operations and achieve cost savings.
- New information management systems and initiatives currently deployed or in the planning stages should lead to improvements in the Department's ability to manage its acquisition and federal assistance programs.
- Management of contracting officer representatives (CORs) has been a persistent weakness in the Department, despite a number of improvements made by OPE and AQM in response to previous Office of Inspector General (OIG) recommendations. Changes are underway to further enhance the tracking, training, and supervision of CORs, but the cooperation of senior managers throughout the Department will be necessary for full implementation of these improvements.

The inspection took place in Washington, DC, between April 17 and June 30, 2006.

(b) (6)(b) (6)(b) (6)(b) (6)(b) (6)(b) (6)(b) (6)(b) (6)
(b) (6)(b) (6)(b) (6)(b) (6)(b) (6)(b) (6)(b) (6)(b) (6)(b) (6)

CONTEXT

There has been a dramatic change in the procurement function of the Department since the last inspection in 1993.¹ At the time, procurement totaled approximately \$1 billion. Thirteen years later, procurement is edging towards \$6 billion, and the combined total for procurement and grants exceeds \$10 billion as the cost of new embassies and worldwide security grows ever more expensive.

Not only have procurement and grant totals ballooned, but the Department has and is dramatically modernizing the way it conducts and accounts for procurement, moving from an undesirable condition of “material weakness” in 1988,² to a promising threshold whereby purchasing and accounting will be managed and linked electronically, anticipated to occur by 2007. Two far-reaching decisions were critical in this process: the concept of an integrated logistics management system and an ability to take advantage of the vast potential of the Internet. Logistics were reformed in the 1990s, but the Internet was not embraced until the recent tenure of Secretary Powell. Today, procurement and grants provide platforms for diplomacy and put the weapons of transformational diplomacy in the hands of diplomats, whether for war-ravished Darfur or training civilian police forces worldwide.

Notwithstanding improved systems and communication, procurement remains a personnel intensive process, with a burgeoning workload and staffing shortages bedeviling good procurement practices. Total contract spending has grown dramatically in recent years—from \$1.87 billion in FY 2000 to \$5.85 billion in FY 2005, an increase of 213 percent.³ During the same five-year period, the Department’s professional contract staffing increased by only 16 percent—going from 130 to 150 full-time equivalents (FTE).⁴ As a result, the procurement function in the Department is approaching a crisis situation.

¹*Inspection of the Bureau of Administration*, ISP/I-94-05, November 1993.

²*Federal Managers’ Financial Integrity Act*, 1988 Report to the President and the Congress, U.S. Department of State, December 1988. The weakness was corrected and closed in 1993.

³As reported in the Federal Procurement Data System-Next Generation (FPDS-NG).

⁴From the Office of Personnel Management’s FEDSCOPE database.

This partial inspection of the Bureau of Administration focused on the procurement portion of the logistics chain, AQM, and its policy and oversight counterpart, OPE, including competitive sourcing and grants management. An inspection conducted between September and December 2006 will complete the logistics process, reviewing logistics operations and program management. Competitive sourcing, which was transferred from OPE to the front office of the Assistant Secretary for Administration during the inspection, received attention because of its prominence on the President's Management Agenda. While grants management merits the attention given procurement, only now is the Department moving to develop a worldwide database to keep track of what is a very decentralized process. The OIG inspection team also inspected SDBU, which plays an important role in the Department's procurement process by providing opportunities to the small business community.

PROGRAM DIRECTION

A newly arrived Assistant Secretary, who reports to the Under Secretary for Management, heads the Bureau of Administration. The bureau, divided into seven offices, is one of the Department's largest, with 829 direct-hire employees and an FY 2005 budget of almost \$379 million.⁵ In addition to worldwide contracting and grants responsibilities, the bureau's responsibilities include supervision of allowances, operation of the Department's domestic buildings, oversight of travel and transportation services, provision of translation services, and management of the Department's records. The size and complexity of the bureau led the OIG inspection team to split its inspection into several parts. This inspection highlighted the procurement function that organizationally covers one office reporting to the deputy assistant secretary for logistics management, AQM; and two offices that report directly to the assistant secretary, OPE and SDBU.

⁵Figures from FY 2007 Bureau Performance Plan (as of 8/4/2005).

OFFICE OF THE PROCUREMENT EXECUTIVE

Established in 1987, OPE is responsible for evaluating and monitoring the performance of the Department's acquisition and federal assistance activities and programs. The importance and complexity of this oversight responsibility cannot be overstated. In FY 2005, the Department disbursed over \$10 billion in acquisitions and federal assistance, ranging from simple purchases of office supplies and equipment, to multimillion dollar embassy construction projects, to grants for emergency humanitarian assistance in hot spots around the world.

OPE is headed by the Procurement Executive, a member of the Senior Executive Service, who reports directly to the Assistant Secretary for Administration in his capacity as the Department's Chief Acquisition Officer. The office is comprised of three divisions—Evaluation and Assistance, Policy, and Federal Assistance—with a total of approximately 20 employees. This relatively small staff provides guidance, assistance, and oversight for all of the Department's domestic and overseas procurement and federal assistance activities.

OVERSIGHT OF PROCUREMENT

Oversight is the most important function for which OPE is responsible, and is also its most problematic. The largest contracting activity in the Department is AQM, which awarded 80 percent of the Department's total contracting dollars in FY 2005.⁶ Most of OPE's oversight function, however, has been focused on overseas procurement activities. This focus originated in the early 1990s to address weaknesses in overseas procurement identified by both OIG⁷ and the Government Accountability Office (GAO).⁸ Four basic problems were cited, foremost being that the overseas procurement system was operating autonomously with little centralized oversight and review. Once focused on overseas procurement, it became difficult for OPE to pull back. Most overseas procurements are performed by general services officers, who have myriad other duties to attend to and receive minimal training in contracting as compared to the professional contracting officers in AQM, making their need for oversight and guidance that much greater.

For its part, while acknowledging OPE's role in the procurement process, AQM has not been eager in the past to accept or seek more oversight from OPE. The relationship between the two offices has improved in recent years, and the current directors have established a professional partnership that is being emulated by their respective division managers. In February 2006, the two offices collaborated on a joint procurement management review of the Regional Procurement Support Office (RPSO) in Frankfurt, Germany, which reports organizationally to AQM and awarded close to \$200 million in contracts in FY 2005. The report yielded a number of findings and recommendations to improve RPSO's operations and strengthen its procurement management system. A similar review was conducted on the contracting function in the Bureau of International Narcotics and Law Enforcement.

OPE is currently planning for a comprehensive and long-overdue review of AQM in early FY 2007, with the cooperation of AQM. Its planning document is a recently published GAO framework for assessing acquisition functions in federal agencies.⁹ The framework was developed to help senior agency executives identify areas needing greater management attention and is organized around four cornerstones that previous GAO work has shown promote an efficient, effective, and

⁶As reported in the Federal Procurement Data System-Next Generation (FPDS-NG).

⁷*Overseas Procurement Operations*, AUD-1-PP-004, January 1991

⁸*Status of Actions to Improve Overseas Procurement*, GAO/NSIAD-92-24, October 1991

⁹*Framework for Assessing the Acquisition Function at Federal Agencies*, GAO-05-218G, September 2005

accountable acquisition function: (1) organizational alignment and leadership; (2) policies and processes; (3) human capital; and (4) knowledge and information management.

Recommendation 1: The Bureau of Administration should conduct a comprehensive review of the Office of Acquisitions Management in accordance with the Government Accountability Office Framework for Assessing the Acquisition Function at Federal Agencies (GAO-05-218G). (Action: A)

POLICY GUIDANCE AND ASSISTANCE

OPE's strong suit is customer service, and the office received high marks from overseas posts in response to an OIG survey conducted during the inspection. The Procurement Executive has set a high standard for the office—establishing a policy of never saying no to a query or request without offering an alternative to the customer—and the staff takes its guidance and assistance responsibilities seriously. The OPE web site, available to customers around the world 24 hours a day, is noteworthy for its practicality and extensive policy information. It is a primary source of information for contracting and grants officers overseas with limited training and experience in these functions, and a valuable resource to employees with contracting and federal assistance duties in the Department's domestic offices.

A few of the numerous resources and tools available on the web site include model contracts and solicitations developed by OPE; the Overseas Contracting and Simplified Acquisition Guidebook and the Contracting Officer Representative (COR) Toolkit, also developed by OPE; information on grants policy, the Purchase Card Program, advanced acquisition planning, and competitive sourcing; and links to the Federal Acquisition Regulation (FAR), the Department of State Acquisition Regulation (DOSAR), which is prescribed by OPE, Grants.gov, and the Federal Procurement Data System.

In addition to the web site, which is a microcosm of the many services provided by OPE, the office offers guidance and assistance via e-mail correspondence and on-site visits to posts. Employees from each of the three divisions travel overseas as often as their limited time and resources will allow, training American and locally

employed staff, assessing post procurement and federal assistance operations, and addressing specific post or regional needs. The office also partners with the Foreign Service Institute to develop and participate in training sessions on procurement and federal assistance and with the regional bureaus to conduct regional procurement conferences.

Other specific OPE responsibilities include, but are not limited to, developing a procurement career management program to maintain an adequate professional work force; managing the Department's procurement reporting system; promoting the acquisition of commercial items, the use of simplified acquisition procedures, and innovation in the acquisition process; managing the ratification process; appointing qualified contracting and grants officers; and managing the Purchase Card Program.

FEDERAL ASSISTANCE

OPE's federal assistance workload has grown dramatically over the past few years, with the increase in federal assistance funding and implementation of new initiatives in the Department, including a new Joint Assistance Management System (JAMS) with the U.S. Agency for International Development (USAID) and Grants.gov. The office has worked steadily to increase its oversight over federal assistance programs and staff in the Department. Last year, OPE held its first annual federal assistance conference, which was well received by participants. The office also offers quarterly grants meetings and training for all of its customers, has launched an on-line grants training program that is readily available to overseas posts, and initiated a federal assistance steering group to manage grants policy across the Department. All of these initiatives pose challenges for the office, and staffing has become an issue. OPE has requested two additional positions to work on JAMS, which would allow its existing federal assistance specialists to accomplish their core responsibilities and keep pace with new requirements.

In 2003, OIG conducted an audit of the Department's spending on federal financial assistance programs, as well as the structure and processes in place for managing such assistance.¹⁰ The Department's response to the report has led to

¹⁰*Review of the Department's Management of Financial Assistance*, AUD/CG-03-29, March 2003

improvements in management of federal assistance programs. For example, the Department's implementation of Grants.gov, the initiative to standardize terms and conditions and procedures, and the policy on indirect costs rates were direct or related actions to recommendations in the audit report. The Bureau of Administration and the Bureau of Resource Management (RM) have also achieved substantial progress in clarifying their respective financial assistance roles and responsibilities, and coordinate well together, which was also a recommendation in the report.

OFFICE OF THE PROCUREMENT EXECUTIVE INITIATIVES

OPE is heavily involved in several initiatives in the Department to streamline processes, save costs, and achieve efficiencies, including local guard program contracts, bulk funding of purchase cards, contracting warrants for Foreign Service nationals, and development of JAMS with USAID. While the office recognizes the need for these initiatives and is uniquely qualified to participate on them, the work involved is an additional drain on OPE's already stretched resources.

Local Guard Program Contract Pilot

OPE, working in coordination with the Bureau of Diplomatic Security (DS) and AQM, implemented a pilot program to award and administer local guard program contracts both regionally and in Washington. Six local guard contracts have been awarded by AQM; moreover, OPE, DS, and AQM are currently exploring a pilot to award a regional contract in Europe that will provide guard services for three to five posts. The goal of these efforts is to relieve overseas contracting officers of the burden for awarding these complex contracts and realize cost savings. Some success has been achieved, as discussed in greater detail elsewhere in this report, but transfer of this function from posts—and OPE—to AQM will, by necessity, be a gradual process. In the interim, OPE, in coordination with DS, has taken measures to improve local guard contracting by working with posts to streamline the process and adding COR training for local guard contracts to several regional security officer training classes. The workload in OPE associated with local guard contracts has been tremendous; assumption of some of this burden by AQM should alleviate this situation and allow OPE to focus on other priorities.

Bulk Funding of Purchase Cards and Blanket Purchase Agreements

Another initiative to streamline the procurement process is through the increased use of purchase cards and blanket purchase agreements, which OPE has advocated for a number of years and is consistent with the FAR. OPE has worked closely with RM to resolve a longstanding issue concerning bulk funding, a mechanism for funding blanket purchase agreements and purchase cards. Interpretations of financial regulations have, in many cases, hindered posts from using bulk funding. The issue concerns the recording of reservations and commitments, for which the overseas financial software system does not have capability. FAR 13.101(b) (4) states the following:

Use bulk funding to the maximum extent practicable. Bulk funding is a system whereby the contracting officer receives authorization from a fiscal and accounting officer to obligate funds on purchase documents against a specified lump sum of funds reserved for the purpose for a specified period of time rather than obtaining individual obligational authority on each purchase document. Bulk funding is particularly appropriate if numerous purchases using the same type of funds are to be made during a given period.

Because overseas Department financial systems are not set up to reserve funds, bulk funding of purchase cards and blanket purchase agreements overseas is not an option with the current software. RM prefers the earmark or reservation of funds rather than funds obligation. RM is working closely with OPE to resolve this issue.

Warrants for Locally Employed Staff

In conjunction with Embassy Brussels, OPE is currently piloting the issuance of contracting warrants to locally employed contracting staff, primarily for simplified purchases. The primary goal of the pilot is to determine if delegated authority would achieve efficiencies at overseas posts and allow American officers to spend more time on other aspects of managing the procurement portfolio. As part of the evaluation process, Embassy Brussels plans to establish baselines for the measures being considered in the pilot, produce a report discussing these metrics, and recommend implementation of subdelegation as a permanent program at the pilot's conclusion. The Office of Global Support Services and Innovation is interested in the pilot as part of its rightsizing and regionalization initiatives to achieve efficiencies and cost savings in the Department's procurement processes.

The results of the pilot thus far are mixed, and it is not clear if the benefits will outweigh the risks associated with providing even limited contracting warrants to locally employed staff. OPE has concerns about the lack of consistent oversight of the employees due to rotation of American supervisors, possible legislative restrictions, and inadequate training requirements for locally employed staff in comparison with the comprehensive training curriculum for American officers serving as contracting officers. There are other, less risky procurement efficiencies and streamlining mechanisms already available in the FAR that Embassy Brussels is not using that could provide the same benefits as subdelegation of contracting authority.

Recommendation 2: The Bureau of Administration should expand the warranted locally employed staff procurement pilot to additional posts and evaluate the success of the pilot before making the program permanent. The evaluation should include consideration of expanded training requirements for Foreign Service national contracting staff and the oversight procedures necessary for internal controls. (Action: A)

Joint Assistance Management System

In early 2004, the Office of Management and Budget (OMB) directed the Department and USAID to “join forces to select a common grants management solution, similar to the efforts that resulted in a joint financial management system.” Included in the FY 2005 Federal Manager’s Financial Integrity Act report for the Department is a reportable condition on the lack of a Department-wide management system that (1) captures federal financial assistance information from solicitation through closure, (2) provides comprehensive and timely information on the Federal Foreign Assistance programs, (3) meets the Joint Financial Management Improvement Program core system requirements, and (4) interfaces with the Department’s financial management system and Grants.gov. JAMS is part of the Department’s action plan in response to this reportable condition.

JAMS is designed to automate the grants process and will be linked to both the Department’s financial system and Grants.gov, a government-wide initiative that will allow organizations to electronically find and apply for competitive grant opportunities from all federal grant-making agencies. OPE has taken the lead in initiating Grants.gov for the Department. One goal of JAMS is to provide the information needed for the Department and USAID to manage and report on financial assistance

programs. JAMS should be able to generate reports that can identify the number and types of grants issued to a specific grantee, as well as grants by bureau, type, and dollar amount. The current database used by OPE does not have this capability. JAMS should result in transparency and checks and balances in the system. JAMS is scheduled to be launched in January 2008. RM and OPE are working to ensure that the needs of its customers are considered in the development of JAMS, particularly those bureaus with established grants management systems. Technical issues related to JAMS deployment are discussed elsewhere in this report.

OFFICE OF ACQUISITIONS MANAGEMENT

While OPE is the policy and oversight arm of the Department's procurement and federal assistance functions, AQM is the operational workhorse, responsible for 80 percent of the Department's worldwide acquisitions. The office provides a full range of professional contract management services, including acquisition planning, contract negotiations, cost and price analysis, and contract administration, to all of the Department's domestic bureaus and overseas posts. Despite the best efforts of its staff, not all of these functions are being performed fully and appropriately.

This is not a Department-specific problem. Numerous reports and articles in recent years have lamented the dwindling pool of qualified federal procurement specialists in a period when the complexity and dollar value of government acquisitions have increased dramatically. As stated in a 2003 GAO report on workforce trends:¹¹

Beginning in the early 1990s, a number of factors emerged that created a dynamic and challenging acquisition environment with ramifications that are just beginning to be recognized. First, acquisition personnel increasingly purchase services, such as information technology or management support. Second, Congress passed several significant pieces of reform legislation, including the Federal Acquisition Streamlining Act of 1994¹² and the Clinger-Cohen Act of 1996¹³ to provide agency procurement officials with greater flexibility and tools to acquire goods and services more efficiently. Third, the end of the Cold War and efforts to reduce the size of government led to significant acquisition workforce reductions in many agencies, most notably the Department of Defense. These reductions, coupled with procurement reforms, have placed increasing demands on the acquisition workforce. For example, contracting specialists must have a greater knowledge of market conditions, industry trends, and the technical details of the commodities and services they procure.

While contract awards are keeping pace with demand, contract management is being neglected, putting millions of dollars at risk.

¹¹ *Federal Procurement: Spending and Workforce Trends*, GAO-03-443, April 2003.

¹² P.L. 103-355, October 13, 1994.

¹³ P.L. 104-106, February 10, 1996.

The director of AQM, a member of the Senior Executive Service, has been covering two jobs for most of the past year, managing the day-to-day operations of AQM and serving as the acting deputy assistant secretary for the Office of Logistics Management. This dual role has forced the director, and AQM, to be more reactive than proactive, meeting the Department's basic requirements for goods and services in a timely manner, while having to forgo the strategic planning necessary to ensure that AQM has the staffing and expertise to provide the full range of acquisition services effectively and efficiently in today's complex environment. The recent appointment of a new deputy assistant secretary has relieved the director of that added role, but the time diverted from AQM has taken its toll on the office as it strives to keep pace with its burgeoning workload. The OPE review of AQM, cited earlier in this report, will provide an excellent opportunity for AQM management to reassess its operations and develop short and long-range plans to address its current and anticipated staffing needs in response to the changing contracting environment.

OFFICE OF ACQUISITIONS MANAGEMENT ORGANIZATION

AQM's 125 domestic employees are spread across five divisions: facilities, design, and construction; worldwide operations; international programs; information technology; and business operations. The division titles are somewhat misleading, as AQM has been transitioning to a more customer-centric organization. For example, the information technology division is no longer just responsible for purchasing information technology equipment, but procures a full range of goods and services for specific bureaus and offices, including the Bureau of Information Resource Management (IRM), the Office of Medical Services, and the Bureau of Consular Affairs. The OIG inspection team informally recommended that AQM update its web site and the Foreign Affairs Manual to better reflect its current organization.

In addition to the Washington-based acquisitions staff, AQM maintains RPSOs in Frankfurt, Germany, and Fort Lauderdale, Florida, providing forward-deployed procurement support to overseas posts, OBO and other domestic bureaus, and overseas activities of several other agencies, including the Centers for Disease Control. The RPSOs were not included in this inspection, other than a limited review of how they are managed from AQM Washington.

Facilities, Design, and Construction Division

The Facilities, Design, and Construction Division (FDCD) provides contracting services to OBO to build and furnish diplomatic facilities around the world, often in very dangerous places. The work could hardly be more important to the deployment of diplomacy overseas. The solid partnership of FDCD and OBO has produced notable successes, with 30 new embassy/consulate compounds completed since 2001.

FDCD deserves to be proud of the role it plays in supporting the Department's imperative to improve facilities overseas. From the contracting perspective, however, the process would be far more orderly if the annual end-of-year rush to sign contracts could be stretched out more evenly, giving contracting officers more time to vet their projects. The exigencies of overseas construction, coupled with complex congressional oversight and funding requirements, take precedence. Specific issues related to construction contracts are discussed in the overseas buildings program section of this report.

FDCD consists of three branches: the Construction and Design-Build branch, the Architectural-Engineering branch, and the Major Support branch. The Construction and Design-Build branch handles major construction projects as well as smaller construction projects that include mechanical, electrical, and security installations and upgrades. The Architectural-Engineering branch acquires architectural and engineering services through task orders awarded under existing contracts or new contracts. Because the Department has opted for its new embassies to be built through design-build contracts with standardized designs, the Architectural-Engineering branch has fewer major design projects and so has taken on some major design-build construction projects. The third division, the Major Support branch, handles the mainly routine, repetitive OBO needs for goods and services acquired through personal services contracts, contracts, delivery orders, and purchase orders.

FDCD has a respected manager and dedicated staff of 31, with skill levels that go from very experienced to relatively new to the job. In the Major Support branch, for example, only four of the nine employees have warrants; of the remaining staff, three are contractors and two are interns. Although FDCD has a solid mentoring program aimed at advancing the skill levels of its less senior staff, the branch would benefit from having more experienced contracting officers who can help develop newer personnel and provide the guidance needed on complex contracting. In the past two years, the number of transactions processed by the branch increased by 35 percent and the total value of the transactions increased by 55 percent, without any changes in staff composition or numbers.

Morale is somewhat mixed in FDCD because of the pressure-cooker nature of the contracting, a need for more staff, and limited time to ensure competitiveness in contracts. Employees in the Construction and Design-Build and the Architectural branches are troubled most by the practice of awarding contracts late in the fiscal year, without a full vetting of the technical requirements. Some affirm that offerors are progressively more advantaged the closer the award is to the end of the fiscal year, which could result in costlier projects. FDCD staff had high praise for their OBO program counterparts, who are under equivalent pressure to improve the safety and security of mission personnel at U.S. facilities overseas. When OBO's programming office misses a planned date for a technical package, FDCD has less time to review and correct errors in these packages, which can lead to unnecessary claims, costs, and contract amendments. With a compressed schedule, it is difficult to negotiate for a best price. Recommendations elsewhere in this report call for a review of the contracting process and for FDCD to better document its concerns.

OBO acknowledges the pressure FDCD is under but points to the realities it too faces, including passage of a budget, approval of a financial plan by the Department, and reviews by OMB and Congress. Late congressional action on the Department's budget, or a prolonged delay in obtaining OMB or congressional support of OBO's financial plan, contribute to a compression of time schedules in which requests for proposals (RFPs) are issued and awards are made. Also contributing to the delays of technical packages are difficulties in acquiring sites, obtaining host government approvals, changes in Department political priorities, civil unrest overseas, natural disasters, and other factors that force unwanted, last-minute changes in the capital construction program.

Worldwide Operations Division

The Worldwide Operations Division (WWD) handles a diverse mix of high priority, high cost procurements. During FY 2005 the division completed 4,739 tasks totaling \$1.9 billion – a significant achievement for an office of 43 personnel and ongoing staffing shortages. WWD deserves credit for innovative use of indefinite delivery/indefinite quantity (IDIQ) contracts, but, as with other divisions in AQM, it appears too overwhelmed to provide adequate contract administration or contract closeout.

WWD is divided into three branches: Security, International Narcotics and Law Enforcement, and Domestic Acquisitions. There is a fourth quasi-branch headed by an independent contracting officer that handles priority security issues usually related to Iraq and Afghanistan. Turnover in managers has added to uncertainty in WWD, notwithstanding the qualifications of newly promoted personnel. Mentoring is limited because managers do not have the time to make this a priority. If AQM is to retain a WWD staff that is in high demand elsewhere in government, it must seek to mitigate workloads.

Workload is the driving force in WWD, and it impacts heavily on morale. A typical inbox in the division contains several complex contracts to be competed, requirements to be developed for a new contract, and 15 to 40 other tasks. Under these circumstances, contract administration is handled unevenly and contract closeout done only occasionally. Breaking security contracting out of WWD might be one way to ease the division's workload, but AQM would still be faced with finding the resources to support a security division. Improved use of purchase cards, as well as better management of the Department's contracting officers (the 1102 series), as discussed elsewhere in this report, would be steps in the right direction.

Based on the responsibility and the size and scope of contracts in WWD over the years, some of the positions may not be appropriately graded. The OIG inspection team made informal recommendations to perform position classification reviews for the two positions in security and the two branch chiefs.

International Programs Division

The International Programs Division (IPD) awards, administers, and oversees contracts and financial assistance (grants and cooperative agreements) for a variety of complex, highly visible programs. The division's customers include bureaus that are at the forefront of transformational diplomacy in the Department, such as the Bureau of Political-Military Affairs, the Bureau of International Security and Non-proliferation, the Bureau of Democracy, Human Rights, and Labor, and the component bureaus of the Under Secretary for Public Diplomacy and Public Affairs, among others. IPD assists these organizations in carrying out their missions through contracts and federal assistance programs with goals such as promoting democracy and providing humanitarian assistance. In FY 2005, IPD processed about 1,800 procurement actions valued at \$450 million.

IPD has three branches—Overseas Grants, Overseas Contracts, and Educational/Cultural Affairs—with a total of 21 positions, plus an independent contracting officer who awards and administers contracts for the Export and Border Security Program. IPD's leadership has placed strong emphasis on communications and cross training in the division. As with other AQM divisions, the workload in IPD is heavy and staffing is insufficient, with significant turnover in the grants and contracts branches. Morale is generally good however, and the staff is highly motivated and customer service oriented.

The growth in federal assistance in the Department, from 23 grants issued in FY 1999 to over 400 grants issued in FY 2005, with a total value of over \$4 billion, and new initiatives to improve management over federal assistance programs, have significantly increased the workload in the Overseas Grants branch. As a result, some areas are not getting the attention they need, such as negotiated indirect cost rate

agreements. The Department is the cognizant agency¹⁴ for 68 nonprofit organizations. Only 24 of the cost rate agreements for these organizations are current while the other 44 are operating on provisional rates, many since 1999. At the most recent federal assistance management steering committee meeting, a recommendation was made that this issue become a reportable condition under the Federal Manager's Financial Integrity Act.

IPD is in the process of hiring experienced grants specialists, and two new specialists reported for duty during the inspection. The addition of these employees will allow the branch to address the backlog of negotiated indirect cost rate agreements and other grants management issues and keep up with its expanding workload.

The Overseas Contracts Branch also has a pressing need for additional staff to handle its increasing workload. The branch's portfolio includes several high visibility contracts, such as the Africa Regional Peacekeeping Operations contract (with a \$500 million ceiling, of which \$250 million is for Darfur) and the Weapons Removal and Abatement Program and Humanitarian Demining contracts (with a \$500 million ceiling). The branch has two vacant positions and has requested an additional position for Darfur. As in other areas of AQM, staff shortages are leading to problems in contract administration in the branch. For example, there is \$2 million in missing equipment in the Weapons Removal and Abatement Program, yet the program office wants to give the contractor additional funds. OIG's Office of Audits is aware of this issue and has prepared a proposal to review the contract. Another concern involves the Africa Peacekeeping, Capacity Enhancement, and Surveillance Efforts contract, which may be operating as much as \$40 million in arrears. This issue is discussed further in the management controls section of this report.

The Educational/Cultural Affairs branch is largely composed of the procurement and acquisitions staff from the former U.S. Information Agency. It primarily handles small purchases and simplified acquisitions, mostly related to public diplomacy, and processes about 1,000 procurement actions per year. The number of positions for the branch is adequate for its present workload, but this may change if the branch assumes responsibility for procurements currently processed by the regional program office in Vienna, Austria, upon closure of that facility.

¹⁴To simplify relations between federal grantees and awarding agencies, OMB established the cognizant agency concept, under which a single agency represents all others in dealing with grantees in common areas. In this case, the cognizant agency reviews and approves grantees' indirect cost rates.

Information Technology Division

The Information Technology Division (ITD) has 38 employees responsible for contracts worth \$669 million. As noted earlier, ITD is no longer just responsible for information technology acquisitions but also supports several functional bureaus in the Department and handles secure post procurement requests. The division awarded 5,110 actions in FY 2005 and is experiencing increasing demands from program offices in FY 2006. Adding to this workload is the designation of the division chief as the coordinator for Iraq contracts for the Department of State and the Department of Defense.

The division has three branches—Information Systems, Telecommunications, and IT Commerce—plus a fourth quasi-branch headed by an independent contracting officer that handles Iraq work exclusively. The staff are generally well trained, experienced, and customer service-oriented. However, as with other AQM divisions, ITD is struggling to cope with a burgeoning workload and static staffing. As a result, priority must be given to awarding contracts, while less attention is paid to contract administration and closeout. Repeated appeals for additional staffing have gone unanswered because of competing demands elsewhere in the Bureau of Administration. During the inspection, however, one of the key vacancies—the chief of the IT Commerce branch—was filled. The position had been vacant for the past year, with some duties covered by the chief of the Information Systems Branch. The leadership vacancy in the IT Commerce branch was causing an operating weakness, and secure procurements were singled out for criticism by posts in responding to OIG's inspection survey.

Business Operations Division

The Business Operations Division (BOD) plays a vital role in ensuring that AQM has the tools and resources necessary to carry out its stated mission: to support U.S. diplomacy by providing efficient and effective acquisition and assistance services to customers worldwide. The division's three branches—Quality Assurance, Contract Management, and Special Projects Support—cover a broad range of responsibilities, including strategic planning, coordination of training, management of the intern program, liaison with OPE and OIG, quality assurance programs and internal controls, cost and price analysis, vendor evaluations and partnering agreements, and procurement systems administration.

The recently appointed division chief is customer focused and well suited for the position, with extensive experience in both contracting and logistics management. As in other AQM divisions, BOD's small staff of less than 20 employees struggles to keep up with its challenging and increasingly complex workload, and the division has several vacant positions that should be filled. However, as is also the case in other divisions, its accomplishments are many, and the division has made significant contributions to improving acquisition and federal assistance operations.

In February 2006, BOD partnered with OPE to conduct a procurement management review of RPSO Frankfurt, setting the stage for future partnerships. In FY 2005, the division processed a total of 294 training requests from contracting officers throughout the Department and sent 101 AQM employees to 268 classes. The division also managed the successful Outstanding Scholars Program that brought 12 entry-level interns into the office to supplement its corps of professional contracting specialists. BOD has been at the forefront of modernizing the procurement function, supporting the Integrated Logistics Management System (ILMS) and Comprozon automated procurement systems, and piloting an e-filing concept using Procurement Desktop.

OVERSEAS BUILDINGS PROGRAM

FDCD negotiates, awards, and administers contracts on behalf of OBO, its primary customer, to construct, enhance, renovate, maintain, and furnish U.S. diplomatic facilities overseas. OBO's ambitious program drives the process. For its part, FDCD has just managed to keep pace with the program's contracting requirements. The shortness of deadlines in the sometimes headlong rush to award construction contracts before the end of the fiscal year poses serious challenges to FDCD and OBO. While FDCD has never failed to meet the required contract awards within year-end deadlines, its staff expressed concerns that the hasty process may prevent them from delivering high quality, best-value new embassy compounds and other capital projects.

In FY 2005, FDCD awarded design-build contracts totaling in excess of \$1 billion for seven new embassy compounds, including the compound in Baghdad, one new office annex, and five USAID annexes. The pace of awards was in line with FY 2004, which had a similar number of awards, and a continuation of a trend begun several years earlier when Congress increased OBO's funding following the bombings of two U.S. embassies in East Africa. Since 2001, Congress has tripled OBO's

funding. OBO, with FDCD's assistance, has responded with an aggressive construction program that delivers an average of nine new embassies and consulates per year. As a point of reference, only one new embassy compound was delivered in 2001.

The Process

Approximately one year prior to FDCD's involvement in the process, OBO will have gone to Congress with a long-range overseas building plan. The plan includes funding estimates for specific projects and the anticipated fiscal year when the contract will be awarded. Subsequent meetings between OBO and FDCD lead to OBO's adoption of an acquisition plan.

In October of each year, OBO publishes its construction plan for the fiscal year. FDCD advertises the major construction projects in the Federal Business Opportunities web site. Interested firms submit documentation showing their technical qualifications, and those found acceptable by OBO are prequalified. For the next 10 to 11 months, OBO planners and designers work to meet their milestones and ultimately produce the technical bid package. In a conscious effort to make the process as orderly as possible, OBO's planned dates for submission of the technical bid packages are staggered during the months of March through June.

When the OBO technical bid package is ready, it is combined with the appropriate standardized FDCD contract sections to create the RFP. Due to time constraints and the need to issue the RFPs as soon as possible, the RFPs cannot always be vetted extensively by FDCD before they are entered into Project ExtraNet.¹⁵ Although OBO provides draft documents for FDCD to review prior to RFP issuance, this is not a substitute for a review of the final documents. RFPs are generally on the street for 45 days.

When the proposals are received, OBO conducts a follow-up technical evaluation and issues a pass/fail for each firm. FDCD prepares a competitive range of prices that includes the independent government estimate. Construction projects that are over \$10 million or that include technical security requirements are usually limited to U.S. firms under the Omnibus Diplomatic Security and Antiterrorism Act of 1986. Depending on the sensitivity of the work involved, foreign firms may

¹⁵Project ExtraNet is a web service that allows the secure exchange of design and construction information among authorized business partners in the context of specific business processes.

compete against U.S. firms, but the latter receive a 10 percent preference on projects valued over \$5 million, unless covered under the Omnibus Act. Awards are made to the firm with the lowest priced, technically acceptable proposal. Most contracts are awarded in late September.

The Competitive Environment

FDCD views the competitive environment as less than ideal, but improving, while OBO views it as satisfactory. Many construction firms are not attracted by the challenges that are intrinsic to the Department's overseas buildings projects, due to the nature of the buildings themselves and the often dangerous conditions under which the construction must take place. For the past two fiscal years, 29 major capital construction project awards have gone to only 11 firms. Seven firms received multiple awards, and two firms received five awards apiece. OBO has been engaged in a successful effort to attract new construction firms, with the pool of prequalified firms expanding from only five in FY 2001 to a healthy 19 in FY 2006.

There are a variety of reasons why construction firms may shy away from work overseas. For example, OBO prefers contracts to be awarded as fixed price, because this allows risk to be allocated upfront to the contractors and is the method preferred by the Congress and OMB. Construction firms prefer cost-plus contracts, because they shift all cost risk to the U.S. government.

Another possible deterrent is the length of time firms have to construct capital projects, which OBO reduced in FY 2004. Previously, firms were given 36 months to construct a new embassy compound. The time is now generally 24 months, with USAID annexes allotted 18 months. A recent GAO report on embassy construction¹⁶ noted that construction industry representatives and contractors have concerns over whether these shorter cycle times can be met and indicated that the new time frames increase performance risks for them, which could expose them to financial losses and result in higher future bids. OBO believes that shorter cycle times can reduce performance risk and also points to the overriding need to move U.S. government employees out of harm's way into secure, safe, and functional facilities as quickly as possible.

¹⁶ *Embassy Construction: State has Made Progress Constructing New Embassies, but Better Planning Is Needed for Operations and Maintenance Requirements*, GAO-06-641, June 2006.

FDCD specialists expressed concern that firms can profit from the Department's need to sign contracts by the end of the fiscal year and take advantage of what becomes a sellers' market. With projects scrubbed insufficiently, technical inconsistencies become apparent only after a contract is signed, which can lead to contractor claims.

Awards in FY 2005

FDCD staff informed the OIG inspection team that OBO was late with several of its FY 2005 technical submissions, but no documentation was available to substantiate these claims. This is critical information and should be maintained if contracting procedures are to be improved. The OIG inspection team made an informal recommendation to correct this.

For FY 2005 project awards, FDCD requested that OBO technical packages be provided no later than April 18, but did not stipulate specific submission dates for each of the planned projects. Going forward, FDCD and OBO should jointly set submission dates. The chief of FDCD has taken this matter up with OBO, which appears to support the idea but may need to include it more formally in OBO's planning procedures.

OBO would like RFPs to be issued as early as March. Its management plan calls for RFPs to be timely and for awards to be made throughout the last quarter of the fiscal year. A preliminary RFP schedule prepared by OBO for FY 2005 projects clearly shows a plan for two RFPs to be issued as early as March 15, three others by April 15, and the remainder by May 30. The schedule also called for staggered dates for contract awards with two being awarded in June, three in July, and the remainder by September 1, 2005. Most awards, in fact, were not made until late September. Several negotiations were conducted and awards made with very little processing time. To a great extent, amendments to proposals, negotiations, and awards take place in September under hurried circumstances. The process demands more discipline but will continue to be plagued by external forces, such as funding shortfalls and changing requirements, over which neither FDCD nor OBO has control.

A review by OIG of capital projects awards made in FY 2005 revealed just how demanding and concentrated the process is and how limited funding can impact the contracting process and have negative consequences for the projects concerned. Both FDCD and OBO deserve enormous credit for their ability to navigate successfully in a very unpredictable world.

Recommendation 3: The Bureau of Administration, in coordination with the Bureau of Overseas Buildings Operations, should establish written timelines for the submission of technical requirements packages, contract negotiations, and contract award. (Action: A, in coordination with OBO)

Recommendation 4: The Bureau of Administration should institute procedures to monitor and enforce the timeliness and completeness of technical requirements packages, provide timely feedback to the Office of Overseas Buildings Operations, and take corrective action as necessary. (Action: A)

LOCAL GUARD PROGRAM

Few areas of procurement call so obviously for reform as local guard contracting, estimated to cost the Department approximately \$218 million¹⁷ in FY 2006. Budgetary pressures appear to be forcing change, and the cost savings could total millions if professional contracting officers are used rather than less experienced, embassy personnel. The result should be essential protective services at the most cost-effective price.

As noted earlier in this report, OPE, DS, and AQM implemented a pilot program to move local guard contracting from individual posts to AQM and other regional offices, as appropriate. At the time of the inspection, six local guard contracts had been awarded by AQM. AQM cut the costs in half for one post, saving

¹⁷Of this \$218 million, approximately \$103 million relates to contracts that are centrally handled, such as the contracting for Iraq and Afghanistan. The remaining \$115 million represents contracts handled at posts.

over \$600,000, and realized savings of \$60,000 at another post. Going forward, potential savings are difficult to estimate, but experience so far indicates that worldwide savings could be in the tens of millions of dollars.¹⁸ AQM contracting officers have unlimited contracting authority and are in a position to solicit offers for more than one post, thereby creating economies of scale (e.g., a contractor can spread its overhead costs over a large base and propose a lower fully loaded hourly rate). Furthermore, AQM has the capability to award multiple, large-scale IDIQ contracts using individual task orders for local guard programs in specific countries.

Overall contract management should also improve. The number of contract modifications, averaging 1,500 a year, could be reduced. Expensive, short-term contract extensions could also be minimized. Moreover, multicountry contracts could be awarded. For example, the local guard contract for Embassy Berlin could be modified to apply in nearby countries such as the Czech Republic, the Netherlands, and Belgium. RPSO Frankfurt, which is part of AQM, is ideally suited to group European local guard contracts. RPSO Florida is similarly well situated to award regional contracts in Central and South America.

For some countries, it will be difficult to contract for local guard services from Washington or the RPSOs. These are in countries where an American company is not currently operating or cannot obtain a license to operate. One size will not fit all local guard contracts, but enormous benefits should accrue from consolidating the work for most overseas posts. The regional security officers on site would continue to be the CORs for the local guard contracts at their posts.

Recommendation 5: The Bureau of Administration, in coordination with the Bureau of Diplomatic Security, should establish a plan to progressively consolidate local guard contracting in the Office of Acquisitions Management. (Action: A, in coordination with DS)

¹⁸Cost savings can only be estimated; however, a senior contracting officer projected savings of 10 to 20 percent of the annual base of \$218 million, for a total dollar amount of \$21 million to \$42 million per year.

Resources Required

AQM will need resources to successfully assume responsibility for the local guard program on a larger scale.¹⁹ Initial estimates indicate that three additional contracting officers will be needed at the outset, as well as travel funds for site visits by the officers to obtain and refine post requirements, conduct presolicitation conferences and site surveys, hold post-award meetings, and resolve contracting issues. Local guard contracts could be transferred to AQM as they expire over the next eight years, or sooner if options are not exercised. As more contracts move to AQM, more resources will be needed.

In defining its resource requirements for local guard contracting, AQM will need to review its internal procedures and organizational structure to identify where efficiencies can be realized. At present, the Security branch in WWD manages most security functions, pulling contracting officers from other WWD branches as needed. In FY 2005, the branch processed 234 transactions totaling \$27 million for security programs such as weapons, vehicles, training, armor, and administrative support staff, and another 468 transactions totaling \$358 million for the Anti-Terrorism Assistance Program. The expansion of its local guard program activities might qualify the branch to be upgraded to the division level, similar to the division devoted to OBO programs. Alternatively, contracting officers might be detailed to DS to work exclusively on local guard contracts, but with contracting officers in short supply this might detract from AQM's flexibility in managing its workload.

STREAMLINING PROCUREMENT

Purchase Card Program

By not enforcing use of government purchase cards,²⁰ the Department is not making the best use of the valuable time of its professional contracting officers. Instead of focusing their full attention on complex, high dollar value contracts,

¹⁹There are 117 local guard contracts worldwide, with many being managed by a local company. American companies manage about 60, which is where AQM could start.

²⁰Department Notice 2006-11-023 mandates the use of purchase cards by bureaus for commercial items up to the micropurchase level.

procurement staff are distracted by time spent on smaller purchases. Moreover, administration and close out of major contracts gets ignored. If domestic bureaus use the card as intended, Department-wide savings could be more than \$902,000 annually.²¹

Purchase cards are not being used because AQM accepts requests that it should return to bureaus and/or bureaus do not have a threshold limit above \$2,500, the micropurchase level. In FY 2005, AQM processed 7,344 requests for procurements under \$25,000. Purchase card procurements could have reduced the labor costs for each transaction by \$122.77.²² A cost that is not quantified is the loss in quality in a contracting action when contracting officers in AQM are diverted from working on a multimillion-dollar contract to purchase, for example, a \$247 item for a bureau. Some domestic bureaus use AQM for procurements rather than using their purchase card authority. Other domestic bureaus, like the Office of Medical Services, actively use their purchase cards, reducing the time contracting officers in AQM need to spend on smaller purchases.

The Government Purchase Card Program is a simplified procurement tool designed to save time and administrative costs. Using the purchase card for purchases under \$2,500 allows nonprocurement employees with authority granted by OPE to make purchases within designated limits. FAR 13.3 encourages agencies to use purchase cards to the maximum extent possible and to use limits above the micropurchase level of \$2,500²³ when needed. The Department has 443 domestic cardholders eligible to make purchases under \$2,500, and 15 domestic cardholders eligible for purchases up to \$25,000.²⁴ In a few cases a \$100,000 limit has been given when a domestic bureau has a warranted contracting officer. The new computer system, ILMS, includes a module for purchase card transactions that improves internal controls and is user friendly. This module will allow tracking, receipt, and reconciliation of the purchase card account.

²¹The cost savings would be spread over multiple bureaus within the Department.

²²The administrative cost was identified in 1996 by a DOD audit (*Savings from Acquisition Reform*, U.S. Army Audit Agency, audit report AA 97-58, January 7, 1997), published in Department notice 2000_06042, in June 2000, and used in an OIG memorandum report 01-FMA-M-081 in 2001. The initial figure, \$92.40 administrative costs calculated by a reduction in labor costs, adjusted with inflation is in 2006 a \$122.77 cost savings.

²³OPE expects that the FAR will adjust the limit to \$3,000 in the near future.

²⁴The requirements for a cardholder are described in Procurement Information Bulletin 2000-26, which lists two thresholds for a cardholder, up to \$2,500 and up to \$25,000.

Recommendation 6: The Bureau of Administration should instruct the domestic bureaus that the use of purchase cards is mandatory for all appropriate domestic purchases up to the established micropurchase threshold. (Action: A)

Recommendation 7: The Bureau of Administration should instruct all domestic bureaus to reevaluate historical, current, and projected use of purchase cards to determine if any cardholder limits should be increased above \$2,500. (Action: A)

FedBid

In a May 2004 memo to senior procurement executives, the Office of Federal Procurement Policy encouraged agencies to use online procurement services, such as reverse auctions, to increase operational efficiencies in acquiring goods and services for the government. AQM was an early advocate of reverse auctions, having first contracted with FedBid, a provider of reverse auction services, in FY 2001. In a reverse auction, potential contractors bid against each other for government business, lowering their bids multiple times during a specified period of time. The potential advantages to the government include cost savings, increased competition, less time required by contracting specialists for procurements, and expansion of opportunities for small businesses.

Under the current contract, the Department's use of FedBid's reverse auction tool is free. The winning vendor pays FedBid three percent of their successful bid, up to a maximum of \$10,000. AQM estimates that price savings from acquisitions made through FedBid average about 10 percent. In FY 2005, the Department made 1,695 buys through FedBid, for a total cost of \$64.5 million. Assuming that AQM's savings estimate is correct, using FedBid for these purchases saved the Department over \$6 million.

A recent article in *Government Executive* magazine,²⁵ however, raised questions about the accuracy of savings estimates for reverse auctions. The article cites experts who suggest that savings are overstated by as much as 50 to 75 percent because managers are not looking at total cost, which should include quality control, turnover, fees to the online auction companies, and other factors.

Some employees in AQM also question the benefits of using FedBid, saying that the tool is overused in the office—to the exclusion of other procurement tools that might be more appropriate for a specific acquisition. Concerns about FedBid were particularly evident in the IT Commerce branch, where two FedBid employees are physically located for the purpose of assisting AQM staff in entering actions into FedBid. Branch personnel, some of whom conduct secure acquisitions, are uncomfortable with this arrangement, citing security and ethical concerns. Staff question whether it is appropriate for FedBid employees to be onsite, aggressively promoting the use of FedBid, when there may be personal financial gain for them in improving FedBid's revenues. There are also concerns about the FedBid employees having ready access to the AQM employees' work areas and the sensitive procurement information contained therein. Because AQM heavily promotes the use of FedBid, branch employees have been reluctant to discuss their concerns with AQM management. AQM began taking steps during the inspection to remedy this situation.

Indefinite Delivery/Indefinite Quantity Contracts

AQM is making smart use of IDIQ contracts as part of its effort to keep pace with its increasing workload. IDIQ contracts allow the government to acquire an indefinite quantity of supplies or services, within stated limits, during a fixed period, with deliveries or performance to be scheduled by placing orders with the contractor. In using these contracting vehicles, agencies can realize the benefits of an ongoing competitive environment throughout the duration of the contract, while minimizing the delays of conducting a separate procurement for each requirement. IDIQs limit the government's obligation to the minimum quantity or dollar amount specified in the contract. Multiple awards under a single solicitation are generally required for IDIQs, with some exceptions.

²⁵ *Bidding Wars*, *Government Executive*, June 15, 2006.

The efficiencies that can be realized by using IDIQ contracts are particularly apparent in two WWD branches. The Security branch has awarded multiple IDIQ contracts for DS's Worldwide Personal Protective Services Program. There are currently three contracts totaling over \$3.6 billion, including option years. When the need arises for protective services a task order is prepared and each of the three companies submits a proposal. Competition is ensured, and the paperwork is reduced because the companies were prequalified when the IDIQ contracts were awarded.

The International Narcotics and Law Enforcement branch is using IDIQ contracts for civilian police force requirements and has three each for \$9 billion. The use of task orders has improved controls and reduced paperwork in the branch. Looking ahead, WWD plans to have an IDIQ for administrative support services for the Department ready by December of this year. The Security branch plans to award several additional IDIQs, both for services and specialized staffing.

OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION

The SBA considers the Department to be one of the federal agencies that works hardest and most successfully on behalf of small and disadvantaged firms. Credit goes to the Department's leadership as well as SDBU, which seeks opportunities to increase procurement opportunities for all sectors of small business. In the words of the Secretary (March 10, 2005 message), the Department's small business goals are "a floor, not a ceiling."

SDBU consists of a dedicated, experienced, and effective office director and a staff of six. The office budget for FY 2006 is \$139,000, a lion's share of which is spent on outreach travel to small business conferences throughout the United States. SDBU believes it is rightsized and appropriately funded. The OIG inspection team concurs.

It is the policy of the United States that all small businesses have the maximum practical opportunity to participate in providing goods and services to the federal government. In furtherance of that policy, Congress enacted procurement goals for prime contractors and subcontractors for each of five small business program categories, namely Small Business, Small Disadvantaged Business, Women-Owned Small Business, Historically Underutilized Business Zone (HUBZone) Business, and Service-Disabled Veteran-Owned Small Business.

RESPONSIBILITIES OF THE OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION

The Small Business Act required each federal agency with contracting authority to establish an Office of Small and Disadvantaged Business Utilization. The Department's SDBU is responsible for: (1) advocating for the small business program; (2) making recommendations as to whether a particular acquisition should be awarded as a small business set-aside, as a section 8(a) award, as HUBZone set-aside, or as a service-disabled veteran-owned small business set-aside; (3) ensuring that prime contractor plans for subcontractor use are in order; (4) assisting small businesses in

obtaining payments under their contracts; and (5) identifying proposed solicitations that involve bundling. SDBU is performing all these core functions well, with two notable success stories in preventing bundling in the past year.

Preventing Bundling

The Small Business Reauthorization Act of 1997 defines contract bundling as “consolidating two or more procurement requirements for goods or services previously provided or performed under separate, smaller contracts into a solicitation of offers for a single contract that is unlikely to be suitable for award to a small business concern.” Accordingly, SDBU successfully opposed a proposal by Global Financial Services-Charleston to bundle its seven labor-hour contracts, which included three 8(a) contracts, into one large contract. Several of the current labor-hour contracts are with small businesses. A bundled labor-hour contract would have effectively denied small business the opportunity to compete. As a result, an 8(a) solicitation was just released. SDBU also objected to consolidation of the Washington Visa Office requirement for contract personnel with that of the National Visa Center and the Kentucky Consular Center. As a result, a service-disabled veteran-owned firm was awarded a \$34 million contract to provide contract personnel for the Washington Visa Office.

FEDERAL GOALS

The Small Business Act gave SBA the role of ensuring that small businesses get a fair proportion of government prime contracts and subcontracts. Congress enacted the first procurement goal in 1988. There have been extensive changes since then. By statute, for prime contracts, agencies must set their goal no lower than 23 percent for small business, five percent for small disadvantaged and women-owned small businesses, and three percent each for HUBZone and service-disabled veteran-owned small businesses. The statutory goals for subcontracts are the same as for prime contractors except there are no established SBA goals for small business or HUBZones. The Department unilaterally elected to establish subcontracting goals for these business categories. After negotiating with each agency, SBA is responsible for establishing goals for prime contractors and subcontractors for all federal agencies, and the agencies are responsible for meeting their goals. SBA does not penalize agencies if they miss their goals.

DEPARTMENT ACHIEVEMENTS

SDBU has strong and effective small business programs. The tables below provide proof of its achievements. SDBU works well with program and contracting officers to identify viable small business programs and ensures that prime contractors have viable subcontracting plans.

SBA awarded the Department the prestigious Gold Star award in 2005 for exemplary performance in achieving small business goals. The Department won the award in 2000 and 2003 as well and is recognized by SBA as one of its two most accomplished agency programs. The Department's achievements in awarding contracts to service-disabled, veteran-owned small businesses, a relatively new procurement program, also received SBA's praise. In 2000, the Department received the SBA Frances Perkins Vanguard award for outstanding achievement in meeting women-owned business goals.

The Department's FY 2004 and 2005 goals and achievements for prime and subcontracting are as follows:

Fiscal Year 2004				
Program	Prime Goals	Achievements	Subcontracting Goals	Achievements
Small business	40%	28.7%	40%	55.9%
Small disadvantaged business	14%	13.1%	5%	5.6%
8(a) small disadvantaged business	7%	1.4%	--	--
Non 8(a) small disadvantaged business	7%	11.7%	--	--
Women-owned small business	5%	3.7%	5%	5.3%
HUBZone business	3%	2.2%	3%	0.4%
Service-disabled veteran-owned small business	3%	1.5%	3%	0.4%

Fiscal Year 2005				
Program	Prime Goals	Achievements	Subcontracting Goals	Achievements
Small business	40%	23.9%	40%	52.5%
Small disadvantaged business	14%	7.9%	5%	6.8%
8(a) small disadvantaged business	7%	3.8%	--	--
Non 8(a) small disadvantaged business	7%	4.2%	--	--
Women-owned small business	5%	3.4%	5%	5.5%
HUBZone business	3%	2.7%	3%	0.7%
Service-disabled veteran-owned small business	3%	1.5%	3%	.02%

For FY 2004 and 2005 the Department missed all of its prime contractor small business goals. Nevertheless, SBA applauded the Department's accomplishments because SBA's criteria for meeting goals excludes contracts that are awarded domestically but performed overseas—a category that the Department included in its statistics. According to FAR 19.000 (b) and SBA guidance, such contracts should not have been included in the statistics provided to SBA. The Department met all its goals for subcontracting in FY 2004 and 2005 except for HUBZones and service-disabled, veteran-owned small business, which SDBU considers "hard to reach" goal categories.

SDBU's FY 2006 goals remain the same despite some having been missed in prior years. SDBU believes the goals are achievable because its FY 2006 numbers will no longer include domestically awarded contracts with performance overseas.

THE PROCESS

Through its continual interfacing with Department contracting offices and reviews of their procurement plans, SDBU endeavors to influence contracting officers early on in the procurement process. For their part, contracting officers know that FAR 19.202-2 requires them, to the extent practicable, to encourage maximum participation by all small business sectors in Department contracts. While FAR 19.000(b) states that FAR Part 19 applies only in the United States or its outlying areas, the Department has taken the view that contracting officers at domestic contracting activities shall apply the principles of FAR 19 to all awards, regardless of where performance takes place (Procurement Information Bulletin Number 2004-30).

Because the FAR requires acquisitions between \$2,500 and \$100,000 be set aside for small businesses unless the contracting officer justifies otherwise, SDBU does not have direct oversight responsibility for them. SDBU does have a review and advisory role for planned acquisitions exceeding \$100,000, and task and delivery orders under multiple award contracts exceeding \$2 million. Department procedures require contracting officers to submit such contract proposals to SDBU for consideration as small business set-asides. Contracting officers complete a DS-1910, Small Business Review Form, which states a proposed acquisition method for SDBU concurrence. If SDBU does not concur with the contracting officer, discussions will ensue to work out the differences. If at the end of discussions the two parties cannot agree, the matter is taken to the procurement executive. Such impasses are rare.

SDBU estimates that it receives approximately 90 percent of all required DS-1910s. When SDBU discovers contracts advertised on Federal Business Opportunities for which it had not received a DS-1910, it will request that one be prepared. The delayed receipt of information needlessly complicates the process. The OIG inspection team made an informal recommendation on this.

MENTOR-PROTÉGÉ PROGRAM

The Department's Mentor-Protégé Program was developed and implemented by SDBU in 2005 to assist small businesses to successfully compete for prime contract and subcontract awards by partnering with larger companies under individual, project-based agreements. The agreements outline the protégé's needs and describe the assistance the mentor has committed to provide for a minimum one-year period. Program goals include improving the performance of Department contractors and subcontractors, fostering the establishment of long-term business relationships between small businesses and prime contractors, and increasing the overall number of small businesses that receive Department contract and subcontract awards.

The program appears to be working well with 13 agreements already in place and is expected to be a useful tool for advancing small business participation in Department contracts. One protégé firm has already reported its appreciation for the program. The OIG inspection team informally recommended that SDBU solicit more such success stories and make them available on its web site.

INFORMATION MANAGEMENT AND INFORMATION SECURITY

Information management and information security could be improved to ensure effective and efficient management of information technology operations and initiatives in OPE, AQM, and SDBU. Specifically, the deployment of JAMS is at risk of being delayed as long as functional issues with the software and problems relating to integration with the Global Financial Management System (GFMS) persist. There are also integration issues that may delay software upgrades in ILMS. In addition, ILMS does not have a documented patch management plan, and a recent vulnerability assessment identified weaknesses with the system's default configurations. Finally, OPE was operating a dedicated Internet network that had not been approved by the Department, and OPE, AQM, and SDBU do not have standard operating procedures for managing and updating web page content.

JOINT ASSISTANCE MANAGEMENT SYSTEM

The JAMS initiative is a collaborative effort between the Department and USAID to develop a common grants management solution. USAID is the lead agency, and OPE is leading the development efforts in the Department. JAMS received \$500,000 for development in FY 2005 and FY 2006, respectively. In FY 2007, the initiative received an increase in funds to \$8 million.

This system supports the President's Management Agenda in two of five areas by expanding electronic government and improving financial management. JAMS implementation also supports the State/USAID Joint Strategic plan, which calls for common solutions to be used across both agencies. Once implemented, JAMS will automate the assistance process from the solicitation and award to closeout. JAMS will also be integrated with the financial systems for both agencies, as well as replace the current Grants Database Management System in OPE.

The scheduled deployment of JAMS is at risk and may be delayed due to functional issues with the software and integration with GFMS. The JAMS project manager in the Department coordinates with USAID and other Department offices to ensure that the processes for managing assistance programs, and user and

business requirements, are fully identified and incorporated as appropriate into the development plans for JAMS. Based on the consolidated list of requirements for USAID and the Department, a joint review panel selected a commercial off-the-shelf product called Grantium 3.1, as it appears to have the functionality to manage grants across the two agencies. Developers of the software, however, lack sufficient experience with financial integration, and the software does not have the component needed to integrate with GFMS. Integration with GFMS, Grants.gov, and other functional issues—report templates, data migration, and recipient portal—in Grantium 3.1 are being negotiated as part of the updated release, Grantium 3.2.

RM is experiencing problems with the Momentum financial management software for GFMS and is delaying deployment of GFMS until the problems with Momentum have been resolved. JAMS will be linked to GFMS pending the resolution of current problems with Momentum. The delay with GFMS could undoubtedly delay deployment of JAMS.

INTEGRATED LOGISTICS MANAGEMENT SYSTEM

ILMS was deployed in May 2003 and has been successfully implemented thus far. ILMS is a web-based information system developed to centralize management of the Department's supply chain and unify processes by allowing one-time data entry and shared information. The system is the backbone of the Department's supply-chain management process and provides state-of-the-art modular functionality using three commercial-off-the-shelf products (Ariba Buyer, AMS Procurement Desktop, and PeopleSoft) to support Department logistics. ILMS is owned and supported by the Bureau of Administration's Office of Logistics Management (A/LM), which is responsible for the technical architecture, implementation support, and security oversight at the application level for ILMS. In addition, A/LM provides ILMS training in-house and through the Foreign Service Institute's distance-learning program. Currently, the cost for development and implementation of the system is approximately \$100 million.

The majority of respondents to an OIG survey rated ILMS as “outstanding.” Users praised ILMS for eliminating some of the tedious aspects of procurement and requisitions in their everyday contracting operations. (b) (2)(b) (2)(b) (2)

(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)

(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)

(b) (2)(b) (2)(b) (2)(b) (2)

(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)

²⁶OIG Report, AUD/FM-06-XX, *Information Technology Vulnerability Assessment of the Integrated Logistics Management System*.

(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)

Recommendation 8: (b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)

Information System Security Officer

The system manager and information system security officer positions for ILMS are not appropriately separated, as required by 12 FAM 621.3-2. The security officer function is an important element of assessing and maintaining management, operational, and technical controls for the information system. This position is often a collateral duty, which results in increased workloads for the individual (b) (2) (b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2) Because of position vacancies, A/LM's security officer is also the system manager, which makes it difficult to stay abreast of information system security requirements. (b) (2)(b) (2) (b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2) (b) (2)(b) (2)(b) (2)(b) (2) A/LM plans to separate the system manager and security officer duties as soon as its currently advertised positions are filled.

Recommendation 9: The Bureau of Administration should assign the duties of the Integrated Logistics Management System manager and the information systems security officer to two different positions to provide an adequate separation of duties. (Action: A)

DEDICATED INTERNET NETWORK

OPE uses a dedicated Internet network to support a local area network that consists of 11 stand-alone computers. The network operates independently of OpenNet and is supported by staff in OPE. OPE submitted a waiver request for the network to IRM in December 2004, which was approved in July 2006. IRM's web site has several waiver requests that have been pending review for more than two years. These pending requests have resulted in several dedicated Internet networks operating without the necessary approval. Because these networks are not required to have any of the mandated security controls that the Department's unclassified or classified networks do, posts and bureaus run the risk of transmitting computer viruses, worms, and Trojans to those networks via "sneaker net."²⁷ Unauthorized networks were identified as a Department-wide issue in an OIG report on OpenNet Plus in September 2005.²⁸

WEB SITE MAINTENANCE

OPE, AQM, and SBDU have no standard operating procedures for managing and updating web page content. Each office has a different content management tool and process for keeping its web content current, with a total of five different content management tools in use. The Bureau of Administration's Office of the Executive Director maintains the bureau web site, but no guidance is provided to the individual content managers regarding maintenance or use of content management tools on the site. According to 5 FAM 776.2, designated editors or content managers should ensure that information published on their web sites is current, relevant, and accurate. The lack of standard operating procedures for updating and maintaining information on the bureau's web site has resulted in outdated information being posted on the site. Specific bureau guidance on monitoring web page content would ensure that information remains current.

²⁷Sneaker net is a slang term used for transfer of electronic information by physically carrying removable media from one computer to another. Sneaker refers to the shoes of the person carrying the media.

²⁸OIG-IT-I-05-08, *Evaluation of State's Public Diplomacy Network Conversion to OpenNet Plus*, September 2005.

Recommendation 10: The Bureau of Administration should develop standard operating procedures for web site maintenance for all bureau offices to include guidance concerning content managers' responsibilities for proper maintenance and monitoring of information on the web pages. (Action: A)

MANAGEMENT CONTROLS

AQM, OPE, and SDBU each completed RM's risk assessment questionnaire before the inspection. The scores by function were above the acceptable 75 percent. Some areas within the functions scored slightly lower, but those scores were attributable mostly to offices answering questions not applicable to their operations. Internal controls in each of the offices appear satisfactory, and the OIG inspection team found no material weaknesses. However, the heavy workloads and staffing shortages described elsewhere in this report are creating vulnerabilities in operations.

CONTRACT ADMINISTRATION

Contracting Officer Representatives

Management of CORs continues to be a weak area in the Department, despite actions taken by AQM and OPE to make improvements. CORs, who are appointed in writing by contracting officers, work in program offices throughout the Department and at overseas posts providing technical guidance on contracts, monitoring contractor performance, accepting work on behalf of the U.S. government, and reviewing and approving contractor invoices.

Weaknesses in the Department's COR function have been addressed in numerous OIG audit and inspection reports. Recommendations from these reports directed the Department to maintain accurate records of COR appointments, to ensure that CORs are properly trained, to provide adequate resources to monitor contractor performance, and to ensure that contracting officers and CORs coordinate with each other throughout the contracting process.

While most of the recommendations have been addressed since the reports were issued, problems persist. Some recent examples of COR problems cited by contracting officers include failure of CORs to provide objective evaluations, CORs soliciting the advice of contractors rather than the appropriate contracting officer, and CORs approving payments without verifying that the contract terms had been

met. Outreach and training on the part of OPE and AQM have been emphasized and appear to be making some progress; however, the frequent turnover of CORs in the Department, due in part to Foreign Service rotations, adds to the challenge of properly managing CORs. Because CORs generally have other duties, often unrelated to their COR responsibilities, supervisors may give a lower priority to proper performance of the COR duties—and may not even rate employees on their performance of this important function.

These problems are not unique to the Department, as was highlighted in a recent U.S. Merit Systems Protection Board report²⁹ on management of CORs in federal agencies. The report is based on surveys of CORs from 10 agencies, including the Department, and contains recommendations aimed at improving COR management through better selection, training, and supervision of CORs. The recommendations are directed to a wide range of agency officials, and are empirically related to more positive contract outcomes in terms of the quality, completeness, timeliness, and cost of contract deliverables.

OPE is the lead office for the Department on responding to the recommendations in the Merit Systems Protection Board report, and implementation is already underway. However, the cooperation of senior Department managers will be necessary to ensure full compliance with the report because direct management of CORs, including evaluation of their performance, is the responsibility of the supervisors in the offices and overseas posts where CORs are located, not of OPE. As stated by the Merit Systems Protection Board: “Failure to consider COR management as a critical component of the agency’s contracting function will inevitably limit the agency’s overall success in contracting.”

Recommendation 11: The Bureau of Human Resources, in coordination with the Bureau of Administration, should require that the Employee Performance Plan, Progress Review and Appraisal Report (for Civil Service employees) or the Employee Evaluation Report (for Foreign Service employees) for each appointed contracting officer representative includes a critical job element or work requirement on the employee’s contracting officer representative duties. (Action: DGHR, in coordination with A)

²⁹*Contracting Officer Representatives: Managing the Government’s Technical Experts to Achieve Positive Contract Outcomes*, U.S. Merit Systems Protection Board, May 2006.

International Programs Division Contracts

Two significant contract administration issues were noted in IPD. The first involved the Weapons Removal and Abatement Program contract, for which the contract closeout is delayed because of missing equipment and vehicles valued from \$ 2.5 million to \$4 million and no corresponding paperwork. However, IPD is working closely with the program office to address the issue, and OIG's Office of Audits has a job proposal in its work plan to review the contract.

The second contract administration issue in IPD involves the Africa Peacekeeping, Capacity Enhancement, and Surveillance Efforts contract. Contracting staff estimate that the contract is operating in arrears, at times as much as \$40 million. The two contractors for this IDIQ contract are performing tasks such as building base camps and buying millions of dollars worth of equipment and services (e.g., vehicles, protective gear, generators, supplies for the camps, global positioning system devices, communications equipment, recreation equipment, radios, French interpreter services, and training). It is estimated that \$10 million per month is being spent on this tasking. However, everyone involved recognizes that the situation in Darfur affects the lives of countless human beings. The justification for operating this way has been the urgent and compelling need and the emergency situation.

The contractor appears to be operating at its own risk, on the good faith of the U.S. government; to date, the funding has been received. AQM does not want to jeopardize the flow of emergency assistance but believes that the contract should be audited because this has become the normal way of doing business for the past two years. OIG's Office of Audits is aware of the situation and is currently auditing a related task order from the same contract.

Embassy Security Contract

The Embassy Security contract was awarded as a time and materials contract in 2003. This sole source procurement contract provides security systems installation and related maintenance services for all U.S. embassies. In November 2003, the contract was switched from time and materials to an IDIQ firm-fixed-price contract. Since then, there have been a number of problems with improper invoices, including double billings for equipment, travel itineraries being submitted without the names of those traveling, hotel invoices being submitted for contract employees who stayed in government quarters, and questionable costs for excess baggage charges. The Department has made recoveries totaling more than \$1.4 million on improper invoices. Because the contractor is meeting the contract requirements and has corrected the invoicing errors, the contract cannot be terminated for cause. AQM and OBO

would like to re compete the contract, and are exploring ways to obtain the resources to do the necessary market research on alternative ways to perform the work and get a better performance work statement. This contract has been referred to OIG's Office of Audits for further review.

International Maintenance Assistance Program Contract

Disconnects between OBO's requesting offices and AQM have resulted in some hurried contracts in which basic elements such as labor rates or other types of costs are not discussed at length. This was the case in the International Maintenance Assistance Program contract, which provides technical information and maintenance support to overseas posts. The contractor is also responsible for training post personnel in condition monitoring techniques and procedures.

Due to the short deadline for awarding this contract, AQM was unable to conduct a thorough research and analysis of the proposed prices for reasonableness and some of the direct labor rates appear to be high. It also appears that the contractor has double billed the Department for expenses of the contractor's personnel already covered in the contract. As with the Embassy Security contract, AQM would like to renegotiate or re compete the Internet Message Access Protocol contract but has not had the resources to complete the necessary market research and performance work statement. This contract has also been referred to OIG's Office of Audits for further review.

Contract Files

The OIG inspection team reviewed a sample of contracts throughout AQM and found that most of them were administered in accordance to FAR standards. However, contract files are not organized uniformly within AQM or even, in some cases, within divisions. In some contract files, key documents were included, while in other files they were missing or found in a different file. The checklist used for contract administration was included in some contract files but not in others. The OIG inspection team made an informal recommendation on this issue.

CONTRACT CLOSEOUT

Contract closeout is a less noted phase of the procurement process; yet, when performed efficiently and effectively, it can protect the government's interests and identify significant funds for current-year program priorities. The contract closeout

process in AQM can vary from very simple, in the case of a fixed-price supply order using simplified acquisition procedures, to very complex, in the case of a multiyear, cost-reimbursement contract.

According to DOSAR 604.804-70, the contract closeout process should begin as soon as possible after a contract has been physically completed, but this is the exception rather than the rule in AQM because of its heavy workload. Priority is given to awarding contracts, with closeouts being performed as time allows. Although AQM has a contract closeout checklist to ensure that all necessary steps in the closeout process are completed, it is rarely used. Also there are no priorities established for which contracts to closeout first. The OIG inspection team addressed these issues and other minor deficiencies through informal recommendations.

Despite these shortcomings, most contracts, especially those of high value, are being deobligated properly. The OIG inspection team did not find evidence of large sums of money being tied up in contracts that had not been closed out. RM has developed a procedure to retrieve funds that would have been deobligated if the contracts had been closed out. RM reviews the payment schedules for contracts, and, if no payments have been made for a period of time, the funds are deobligated, after consultation with the contracting officer.

Because AQM does not have the resources at present to properly perform contract closeouts as a general practice, other options should be considered. One would be for the Department to enter into an agreement with the Defense Contract Management Command or other federal agency to perform contract closeout functions. Using contractor support may also be an efficient way to accomplish contract closeouts.

RATIFICATION OF UNAUTHORIZED COMMITMENTS

OPE is responsible for reviewing and approving requests for ratification of unauthorized commitments. While time did not permit an in-depth review of the process, the OIG inspection team found no significant problems. During the inspection survey there were a few complaints about the time it takes for approval ratification requests. While it is OPE's policy to turn requests around within 10 days, requests are often sent back to requesting offices because additional information is needed. OIG's Office of Audits has conducted two reviews of unauthorized commitments

in the Department over the past several years: *Review of the Department's Unauthorized Commitments and Ratification Process* in October 2003 and *Review of the Bureau of African Affairs Unauthorized Commitments* in March 2005.

The Bureau of African Affairs audit resulted from an OPE request for OIG to review the bureau's compliance with federal and Department regulations on the ratification of unauthorized commitments after the office found in April 2002 that a contract employee improperly purchased information technology equipment for African posts. The audit confirmed that the contractor made unauthorized commitments for 46 posts that totaled about \$3.5 million. OIG auditors found no evidence of unauthorized commitments after FY 2002, but noted that the Bureau of African Affairs had not taken the required steps to ratify all unauthorized commitments in accordance with Department policy. The audit report recommended that the bureau comply with FAR and DOSAR requirements to ratify all outstanding unauthorized commitments. The bureau concurred with the recommendation. As of February 2006, the recommendation was still outstanding, but the bureau was working with OIG on the issue.

OPE has increased attention on preventing unauthorized commitments and made some improvements to management of the ratification process as a result of the OIG audits mentioned above. OPE continues to issue guidance in worldwide cables, Department notices, and Procurement Information Bulletins. OPE also tracks requests and approvals for ratifications and uses the information to identify where targeted training may be necessary.

PERSONAL SERVICES CONTRACTS

AQM does not appear to have standard procedures for awarding personal services contracts. In one example, the contract file did not contain a justification for doing a new contract or any supporting documentation showing that the position was recompeted by OBO after the initial five-year contract expired. This does not comply with FAR 17.204(e), which limits services contracts to five years. Not all contracting officers are aware that the contracts need to be recompeted, and that it is their responsibility, not the program offices', to ensure that competition or proper justification is included in the files before any action is taken. AQM agreed to address this weakness by adding the competition or justification requirement to the existing program offices' processing checklist. Supporting documentation of recompetition or justification will be kept in the personal services contract files.

INCREMENTAL FUNDING

FAR 32.7 requires that contracting officers either obtain written assurance from responsible fiscal authority that adequate funds are available, or expressly condition the contract upon availability of funds. However, due to budget shortfalls caused by continuing resolutions or delays in receiving funding from supplemental bills, fixed price contracts and cost reimbursement contracts are often funded incrementally in the Department.

Incremental funding causes more work for contracting officers. Each time there is a new funding document, contracting staff must review the original document to ensure that there are no changes that might require a contract modification. Such changes may involve no more than the addition or deletion of staff, or a change in pay rates, but the entire file must be reviewed to ensure that the incremental funding has not altered the original document or previous modifications.

The resultant workload is particularly significant in WWD, because of the constantly changing requirements of the Worldwide Personal Protective Services and local guard contracts. DS and AQM work closely together to address funding shortfalls, which can be high at times; for example, \$20 million a month for one task order under the Worldwide Personal Protective Services IDIQ contract. With or without funds, both the Department and private contractors know that security services cannot be shut down. Often private contractors work at their own risk because the consequences of not doing so could be great. Notwithstanding the frustrations and complexities of incremental funding, AQM and DS appear to be doing everything in their power to mitigate the financial risk for contractors and reduce the workload caused by such funding.

FORMAL RECOMMENDATIONS

Recommendation 1: The Bureau of Administration should conduct a comprehensive review of the Office of Acquisitions Management in accordance with the Government Accountability Office Framework for Assessing the Acquisition Function at Federal Agencies (GAO-05-218G). (Action: A)

Recommendation 2: The Bureau of Administration should expand the warranted locally employed staff procurement pilot to additional posts and evaluate the success of the pilot before making the program permanent. The evaluation should include consideration of expanded training requirements for Foreign Service national contracting staff and the oversight procedures necessary for internal controls. (Action: A)

Recommendation 3: The Bureau of Administration, in coordination with the Bureau of Overseas Buildings Operations, should establish written timelines for the submission of technical requirements packages, contract negotiations, and contract award. (Action: A, in coordination with OBO)

Recommendation 4: The Bureau of Administration should institute procedures to monitor and enforce the timeliness and completeness of technical requirements packages, provide timely feedback to the Office of Overseas Buildings Operations, and take corrective action as necessary. (Action: A)

Recommendation 5: The Bureau of Administration, in coordination with the Bureau of Diplomatic Security, should establish a plan to progressively consolidate local guard contracting in the Office of Acquisitions Management. (Action: A, in coordination with DS)

Recommendation 6: The Bureau of Administration should instruct the domestic bureaus that the use of purchase cards is mandatory for all appropriate domestic purchases up to the established micropurchase threshold. (Action: A)

Recommendation 7: The Bureau of Administration should instruct all domestic bureaus to reevaluate historical, current, and projected use of purchase cards to determine if any cardholder limits should be increased above \$2,500. (Action: A)

Recommendation 8: (b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)
(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)(b) (2)

Recommendation 9: The Bureau of Administration should assign the duties of the Integrated Logistics Management System manager and the information systems security officer to two different positions to provide an adequate separation of duties. (Action: A)

Recommendation 10: The Bureau of Administration should develop standard operating procedures for web site maintenance for all bureau offices to include guidance concerning content managers' responsibilities for proper maintenance and monitoring of information on the web pages. (Action: A)

Recommendation 11: The Bureau of Human Resources, in coordination with the Bureau of Administration, should require that the Employee Performance Plan, Progress Review and Appraisal Report (for Civil Service employees) or the Employee Evaluation Report (for Foreign Service employees) for each appointed contracting officer representative includes a critical job element or work requirement on the employee's contracting officer representative duties. (Action: DGHR, in coordination with A)

INFORMAL RECOMMENDATIONS

Informal recommendations cover operational matters not requiring action by organizations outside the inspected unit and/or the parent regional bureau and are not subject to the OIG compliance process. However, any subsequent OIG inspection or on-site compliance review will assess the mission's progress in implementing the informal recommendation.

Office of Acquisitions Management

AQM's division titles on its web site and in the Foreign Affairs Manual do not accurately reflect the responsibilities and functions of the divisions.

Informal Recommendation 1: The Bureau of Administration should update its web site and the Foreign Affairs Manual to better reflect the responsibilities and functions of the divisions in the Office of Acquisition Management.

FDCD does not routinely record the date it receives technical requirements packages from OBO.

Informal Recommendation 2: The Bureau of Administration's Facilities, Design, and Construction Division should record the date it receives technical requirements packages from the Bureau of Overseas Buildings Operations.

The Department does not have consolidated local guard contracts by regional bureaus.

Informal Recommendation 3: The Bureau of Administration should establish a working group, to include representatives from the regional bureaus, to promote the consolidation of local guard contracting and keep the Department apprised of the benefits.

AQM has security responsibilities in two branches.

Informal Recommendation 4: The Bureau of Administration should consolidate the Office of Acquisitions Management's security responsibilities in one branch to better serve the Bureau of Diplomatic Security.

The duties of the branch chiefs for WWD's Domestic Acquisitions branch and International Narcotics and Law Enforcement branch have changed dramatically over the years. The complexity and responsibilities of these positions may not be reflected in the grades.

Informal Recommendation 5: The Bureau of Administration should request a position classification review for the Domestic Acquisitions branch chief and the International Narcotics and Law Enforcement branch chief in the Worldwide Operations Division.

The positions in WWD for the special projects contracting officer and the contracting officer managing the Worldwide Personal Protective Services contracts and task orders do not reflect the level of responsibility for the contracting programs managed.

Informal Recommendation 6: The Bureau of Administration should request a position classification review for the Worldwide Operations Division's special projects officer and the contracting officer position at present managing the Worldwide Personal Protective Services contract and task orders.

Some of AQM's policies and procedures on contracting issues are not standardized or published.

Informal Recommendation 7: The Bureau of Administration's Office of Acquisitions Management should standardize policies and procedures on contracting issues and publish them.

The content of contract files throughout AQM are inconsistent.

Informal Recommendation 8: The Bureau of Administration should establish and implement standard procedures governing the content and organization of all contract files.

Employees in AQM have concerns regarding the FedBid contract and the location of FedBid employees in sensitive work areas.

Informal Recommendation 9: The Office of the Procurement Executive and the Office of Acquisitions Management should ensure that Office of Acquisitions Management employees are provided the opportunity to fully and openly discuss their concerns regarding the FedBid contract.

Informal Recommendation 10: The Bureau of Administration should relocate FedBid's on-site representatives' away from areas where they may have access to sensitive information.

There are no formal written procedures established for contract closeout in AQM, and contracts are not closed out within the FAR time standards.

Informal Recommendation 11: The Bureau of Administration should establish written procedures, including appropriate time standards, for contract closeouts.

The quick closeout procedures are not used for qualified contracts.

Informal Recommendation 12: The Bureau of Administration should use the quick closeout method for qualified contracts.

There are no milestones or priorities established for contract closeouts.

Informal Recommendation 13: The Bureau of Administration should establish milestones and priorities for contract closeout.

Office of Small and Disadvantaged Business Utilization

There are indications that not all DS-1910s, Small Business Review Forms, are being provided by contracting officers to SDBU for its review and determination as required.

Informal Recommendation 14: The Bureau of Administration should ensure that all contracting officers provide DS-1910s, Small Business Review Forms, to the Office of Small and Disadvantaged Business Utilization for review and determination as required.

SDBU does not solicit program success stories from its participants in the Mentor-Protégé Program.

Informal Recommendation 15: The Bureau of Administration's Office of Small and Disadvantaged Business Utilization should solicit success stories from participants of its Mentor-Protégé Program and make them available on its web site.

SDBU's timekeeper is not signing the time and attendance reports as required.

Informal Recommendation 16: The Bureau of Administration's Office of Small and Disadvantaged Business Utilization's timekeeper should sign the office's time and attendance reports as required as an internal control measure.

PRINCIPAL OFFICIALS

	Name	Arrival Date
Assistant Secretary	Rajkumar Chellaraj	06/2006
Deputy Assistant Secretary for Logistics Management	Will H. Moser	07/2006
Procurement Executive	Corey M. Rinder	08/2003
Director, Office of Acquisitions Management	Cathy J. Read	09/2002
Director, Office of Small and Disadvantaged Business Utilization	Gregory N. Mayberry	11/2005

ABBREVIATIONS

A/LM	Office of Logistics Management
AQM	Office of Acquisitions Management
BOD	Business Operations Division
COR	Contracting officer representative
Department	Department of State
DOSAR	Department of State Acquisition Regulation
DS	Bureau of Diplomatic Security
FAR	Federal Acquisition Regulations
FDCCD	Facilities, Design, and Construction Division, AQM
FTE	Full-time equivalent
GAO	Government Accountability Office
GFMS	Global Financial Management System
HUBZone	Historically Underutilized Business Zone
IDIQ	Indefinite delivery/indefinite quantity
ILMS	Integrated Logistics Management System
IPD	International Programs Division
IRM	Bureau of Information Resource Management
ITD	Information Technology Division
JAMS	Joint Assistance Management System
OBO	Bureau of Overseas Buildings Operations
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPE	Office of the Procurement Executive
RFP	Request for proposals

RM	Bureau of Resource Management
RPSO	Regional Procurement Support Office
SBA	Small Business Administration
SDBU	Office of Small and Disadvantaged Business Utilization
USAID	U.S. Agency for International Development
WWD	Worldwide Operations Division

FRAUD, WASTE, ABUSE, OR MISMANAGEMENT
of Federal programs
and resources hurts everyone.

Call the Office of Inspector General
HOTLINE
202-647-3320
or 1-800-409-9926
or e-mail oighotline@state.gov
to report illegal or wasteful activities.

You may also write to
Office of Inspector General
U.S. Department of State
Post Office Box 9778
Arlington, VA 22219
Please visit our Web site at:
<http://oig.state.gov>

Cables to the Inspector General
should be slugged "OIG Channel"
to ensure confidentiality.