



Office of Inspector General

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

**Office of Audits  
Middle East Region Operations**

**Evaluation of Invoices and Payments  
for the Embassy Baghdad  
Operations and Maintenance Contract**

**Report Number AUD-MERO-12-43, August 2012**

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and the Broadcasting Board of Governors**

*Office of Inspector General*

PREFACE

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

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

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

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

A handwritten signature in black ink, appearing to read "H. W. Geisel".

Harold W. Geisel  
Deputy Inspector General

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**Acronyms**

|          |   |
|----------|---|
| A/LM/AQM | Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management |
| COR      | contracting officer's representative  |
| OIG      | Office of Inspector General   |
| FAH      | <i>Foreign Affairs Handbook</i>   |
| FAM      | <i>Foreign Affairs Manual</i>   |
| FAR      | <i>Federal Acquisition Regulation</i>   |
| O&M      | operations and maintenance  |
| PAE      | Pacific Architects and Engineers  |

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### **Executive Summary**

The Office of Inspector General (OIG) initiated this evaluation under the authority of the Inspector General Act of 1978, as amended, to review the Embassy Baghdad operations and maintenance (O&M) contract awarded to Pacific Architects and Engineers<sup>1</sup> (PAE). The evaluation objective was to determine whether the Department of State (Department) paid PAE in accordance with authoritative guidance and the contract terms and conditions.

OIG determined that the contracting officer's representative (COR) approved 86 contractor invoices, totaling about \$4.4 million, that included unallowable and unsupported costs and costs for goods not delivered. As a result, the Department paid the contractor at least \$2.7 million for costs not authorized and for goods not provided.

OIG recommended that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), recover the costs for unallowable and undelivered goods and services. OIG also recommended that A/LM/AQM institute a mechanism to ensure that the CORs follow Departmental requirements for approving and certifying the payment of invoices and that the Department conduct a comprehensive review of all invoices to determine whether additional costs should be recovered. Further, OIG recommended that A/LM/AQM undertake a review and, if warranted, take appropriate administrative actions against the CORs who did not follow Departmental guidance concerning contractor invoice certification and approval.

In its July 23, 2012, response to the draft report (see Appendix B), A/LM/AQM stated that it "was not in a position" to concur with the recommendations until it identifies an auditing firm to assist it with reviewing the issues addressed in the report. OIG does not consider A/LM/AQM's comments to be responsive, and the recommendations are considered unresolved. OIG requests that A/LM/AQM provide additional comments to each of the recommendations.

### **Background**

On April 30, 2007, A/LM/AQM awarded a \$177.0 million contract (No. SALMEC07D0033) to PAE for O&M services at Embassy Baghdad. The contract is an indefinite-delivery, indefinite-quantity contract with firm-fixed price and cost-reimbursable elements consisting of a base year plus 4 option years. The contract was to end on May 1, 2012, but A/LM/AQM extended it until October 31, 2012, to allow more time to award a new contract. As of April 30, 2012, the total contract value had increased to about \$258 million.

At the time of contract award, the embassy compound consisted of 27 buildings, one service station, and eight guard towers on approximately 64 acres of the 104 total acres allocated to the U.S. Government by the Government of Iraq. As of March 2012, the embassy compound had increased in size to 38 buildings and 16 guard towers. Because municipal services have not been available from the city of Baghdad, the embassy compound has two power plants, seven water wells, water holding tanks, and a water treatment facility.

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<sup>1</sup> The former Pacific Architects and Engineers is now a wholly owned subsidiary of Lindsay Goldberg, LLC, doing business as PAE.

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The Embassy Baghdad O&M contract requires PAE to provide, on a 24-hours-a-day, 7-days-a-week basis, engineering, management, logistics, and administrative services to operate and maintain the embassy compound and its support facilities. Specific services provided include building maintenance; janitorial, landscaping, and trash removal services; building automation system monitoring; service desk operations; construction and preventive maintenance; life-support services; elevator servicing; pool maintenance; parts and material purchasing and storage; and pest control. The contract also requires PAE to maintain man camps<sup>2</sup> for its staff and the life support<sup>3</sup> for those man camps.

The A/LM/AQM contracting officer, who is located in Washington, DC, has overall responsibility for contract administration and oversight of the Embassy Baghdad O&M contract. The contracting officer appoints the CORs, who are responsible for providing oversight of the contractor's day-to-day operations. Those responsibilities include monitoring the contractor's technical progress, inspecting and accepting the work on behalf of the U.S. Government, ensuring that the contractor is meeting the contract terms and conditions, and reviewing and approving the contractor's vouchers and invoices. The COR for the Embassy Baghdad O&M contract is the Senior Facilities Manager at Embassy Baghdad.

### **Evaluation Objective**

The evaluation objective was to determine whether the Department paid the Embassy Baghdad O&M contractor in accordance with authoritative guidance and the contract terms and conditions.

### **Evaluation Results**

#### **Contracting Officer's Representative Approved and Paid Contractor Invoices That Included Unallowable and Unsupported Costs**

The COR approved 86<sup>4</sup> PAE invoices, totaling about \$4.4 million, that included unallowable and unsupported costs and costs for goods not delivered. Specifically, the COR erroneously approved the following:

- 80 invoices containing about \$2.7 million in unallowable transportation costs,
- 6 invoices containing about \$1.7 million in unsupported reimbursable costs, and
- 2 invoices containing about \$34,000 in costs for goods not delivered.

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<sup>2</sup> Man camps consist of communal housing, bathrooms, and other support facilities utilizing modular temporary structures provided to contractor personnel.

<sup>3</sup> The term "life support" within the context of this contract refers to those essential services necessary for maintaining habitable living quarters, such as water, sewer, electric power, heating, cooling, and ventilation.

<sup>4</sup> Although 80 invoices contained unallowable transportation costs, six invoices contained unsupported reimbursable costs, and two invoices contained costs for goods that were not delivered, the total number of erroneously approved invoices was 86 rather than 88. This is the case because two invoices, No. PAE-IRAQ-078 and No. PAE-IRAQ-87, had both unallowable transportation costs and unsupported reimbursable costs.

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The invoices were erroneously approved because the COR did not verify the contractor's invoices against supporting documentation and did not ensure that the contractor billed for only valid contract costs. As a result, the Department paid the contractor at least \$2.7 million for goods and services that were unallowable or not provided. Those funds should be recovered from the contractor, and the Department should conduct a comprehensive review of all invoices and supporting documentation to determine whether additional funds should be recovered.

### **Invoice Approval Requirements**

Department requirements for approving contractor invoices are contained in the *Foreign Affairs Handbook*<sup>5</sup> (FAH), the contract, and the Overseas Contracting and Simplified Acquisition Guidebook.<sup>6</sup> The FAH states that a COR should determine whether the charges billed are reasonable, allocable, and allowable. To make that determination, the COR should verify calculations, unit prices, labor hours and categories, supplies and equipment, and other backup material such as time cards. In addition to the FAH requirements, section G of the O&M contract requires the contractor to submit supporting documentation for the reimbursable material and equipment costs. According to Chapter 7 of the Overseas Contracting and Simplified Acquisition Guidebook, the COR<sup>7</sup> is required to reject payment if the invoice does not match the terms contained within the contract and requires that the COR guard against contractor attempts to add additional amounts to invoices.

### **Unallowable and Unsupported Costs**

The COR approved 86 PAE invoices, totaling about \$4.4 million, that included unallowable and unsupported costs and costs for goods not delivered. Specifically, OIG identified 80 invoices that contained about \$2.7 million in unallowable transportation costs, six invoices that contained about \$1.7 million in unsupported reimbursable costs, and two invoices that contained about \$34,000 in costs for goods not delivered. (See "Sampling Methodology and Results" section in Appendix A for testing details.)

#### **Unallowable Transportation Costs**

The COR approved 80 PAE invoices that contained about \$2.7 million in unallowable transportation costs. According to section H of the Embassy Baghdad O&M contract, PAE was required to bear the cost of all material transportation charges in the performance of the contract. Additionally, subsequent contract modifications specify that the transportation costs are free on board (FOB) – destination, which means that the seller, PAE, was responsible for the transportation costs and remained responsible for the materials until the buyer, the Department, took possession of the materials. However, PAE improperly charged the Department for transporting materials and equipment, including compressors, hoists, and replacement pump

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<sup>5</sup> 14 FAH-2, "Contracting Officer's Representative Handbook."

<sup>6</sup> The Overseas Contracting and Simplified Acquisition Guidebook is incorporated by reference into the *Foreign Affairs Manual* (FAM), 14 FAM 213, "Acquisition Regulations and Directives."

<sup>7</sup> This section of the Guidebook is addressed to the Financial Management Officer. However, for the Embassy Baghdad O&M contract, the COR located in Baghdad is responsible for the review and approval of invoices. The COR forwards approved invoices to the Financial Management Officer to initiate payment to the contractor.

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motors, which were used in the performance of the contract. As such, the transportation portion of the cost was not reimbursable under the contract terms.

### **Unsupported Reimbursable Costs**

The COR approved six invoices that contained about \$1.7 million in unsupported reimbursable costs. The reimbursable portion of the contract allows the contractor to bill for certain materials and equipment used during the course of the contract. The contract requires that the contractor provide supporting documentation to enable the COR to verify that the cost relates to work completed and goods delivered during the period invoiced. OIG identified about \$1.7 million of reimbursable costs for items such as vehicles, equipment, spare parts and materials, medical supplies and maintenance, and repair work orders that did not have supporting documentation. Therefore, OIG could not verify whether those costs were allowable and reasonable under the contract terms.

### **Undelivered On-the-Job Training Handbooks**

The COR approved two invoices that contained about \$34,000 for on-the-job training handbooks that were never provided to the Government. According to PAE officials, the contract line item for the handbooks was never exercised, and PAE was therefore not obligated to provide the handbooks. OIG verified that the contract line item was not exercised; however, PAE billed the Department for providing the handbooks in option years 1 and 2 of the contract. OIG found evidence that PAE intended to issue a credit to the Department for these funds on a later invoice, but OIG did not find additional evidence indicating PAE had done so.

### **Insufficient Review of Contractor Invoices**

The COR approved contractor invoices for payment without verifying supporting documentation and ensuring that the contractor billed only valid contract costs. The COR did not verify that the costs were allowable under the contract terms and conditions and did not require the contractor to provide supporting documentation to substantiate the reimbursable costs.

According to the COR, the invoice review consisted of mathematical checks for accuracy but did not include a determination of the validity of the costs claimed or a determination of whether invoiced amounts accurately reflected the work performed. In reviewing vouchers, the COR did not request sufficient information from the contractor to determine whether the charges billed were reasonable, allocable, and allowable. To make that determination, the COR should have verified calculations, unit prices, labor hours, and categories and requested vendor invoices for supplies and equipment and other supporting documents, such as time cards for labor charges.

A/LM/AQM should ensure that the COR is following Departmental invoice approval and certification procedures to preclude the payment of similar unallowable costs during the

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remainder of the contract. The *Federal Acquisition Regulation*<sup>8</sup> (FAR) also permits the contractor to submit a claim for valid expenses after the period of performance ends. Therefore, there is sufficient time for the contracting officer to conduct a more detailed review of reimbursable costs. To validate those costs, the contracting officer should request supporting vendor invoices and determine whether the invoices were for valid expenses that related to work PAE performed within the respective billing period.

### **Unallowable and Unsupported Costs Should Be Recovered**

OIG identified about \$2.7 million paid to the contractor for costs not authorized and for goods not provided. Those costs should be recovered from the contractor. In addition, the contracting officer should perform a comprehensive review of all invoices to determine whether the costs are allowable and fully supported, to include the \$1.7 million in costs identified by the OIG that lacked adequate support. If those costs are not allowable and fully supported, those costs should also be recovered from the contractor.

**Recommendation 1.** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, direct the contracting officer to conduct a comprehensive review of all contractor invoices before the Embassy Baghdad operations and maintenance contract is closed to ensure that all unallowable transportation costs, including the approximately \$2.7 million identified in this report, are recovered from the contractor.

**Recommendation 2.** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, direct the contracting officer to conduct a comprehensive review of all contractor invoices before the Embassy Baghdad operations and maintenance contract is closed to determine whether all goods paid for were in fact delivered. If the goods were paid for, all such payments for undelivered goods should be recovered from the contractor, including the approximately \$34,000 identified in this report.

**Recommendation 3.** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, direct the contracting officer to conduct a comprehensive review of all contractor invoices before the Embassy Baghdad operations and maintenance contract is closed to determine whether the contractor submitted adequate supporting documentation for all reimbursable costs, to include the \$1.7 million identified in this report. If not, the contracting officer should request supporting documentation from the contractor and determine whether the costs were allowable under the contract terms. If the reimbursable costs cannot be supported or are not allowable under the terms of the contract, the costs should be recovered from the contractor.

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<sup>8</sup> FAR 33.206 (a) and (b) allows both the Government and the contractor to submit claims within 6 years after accrual of a claim. Accrual of a claim means the date when all events that fix the alleged liability by either the Government or the contractor were known or should have been known.

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**Recommendation 4.** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, institute a mechanism to ensure that the contracting officer's representatives follow all appropriate Federal and Department of State guidance for approving and certifying the payment of invoices.

**Recommendation 5.** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, undertake a review and, if warranted, take appropriate administrative actions against the contracting officer's representatives who did not follow Department of State guidance concerning the contractor invoice certification and approval process.

**Management Response:** The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, stated that it "was not in a position" to concur with the recommendations until it identifies an auditing firm to assist it with reviewing the issues addressed in the report. The Bureau also stated that because of end of year closeout, it does not anticipate the review to be completed for 3 months.

**OIG Reply:** OIG does not consider the Bureau's comments to be responsive, and the recommendations are considered unresolved. OIG requests that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, provide additional comments for each of the recommendations.

## **Scope and Methodology**

The Office of Inspector General (OIG) initiated this evaluation under the authority of the Inspector General Act of 1978, as amended, to determine whether the Department of State (Department) paid the Embassy Baghdad operations and maintenance contractor Pacific Architects and Engineers<sup>1</sup> (PAE) in accordance with authoritative guidance and the contract terms and conditions.

To determine whether the contractor was paid in accordance with the contract terms and conditions, OIG met with officials from the Department's Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM); personnel from sections of Embassy Baghdad, including the facilities management office; and PAE management and service technicians. In Baghdad, OIG reviewed program documents, financial reporting data, invoices, and vouchers. In Washington, DC, OIG examined the physical contract files located at A/LM/AQM.

OIG performed this evaluation from November 2010 to July 2012; however, the evaluation was suspended from February–June 2011 to address other priority projects. The evaluation was conducted in accordance with the *Quality Standards for Inspection and Evaluation*, issued in January 2011 by the Council of the Inspectors General on Integrity and Efficiency. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the evaluation objective.

### **Use of Computer-Processed Data**

OIG did not require the use of any computer-processed data in the execution of the sampling plans or in the conduct of this evaluation.

### **Prior OIG Report**

In its March 2007 report, *Independent Accountant's Report Agreed-Upon Procedures on PAE Government Services, Inc., Invoices Under Contract No. SLM-AQM-03-C0033 September 14, 2004, through November 14, 2005* (AUD/CG-07-14), OIG concluded that cumulative totals on some invoices contained mathematical errors but that the errors did not result in underbillings or overbillings.

### **Work Related to Internal Controls**

OIG performed steps to assess the adequacy of internal controls related to the areas evaluated. For example, OIG gained an understanding of and tested the controls for reviewing and approving contractor invoices for payment. Significant deficiencies identified during the evaluation are reported in the "Evaluation Results" section of the audit report.

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<sup>1</sup> The former Pacific Architects and Engineers is now a wholly owned subsidiary of Lindsay Goldberg, LLC, doing business as PAE.

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**Sampling Methodology and Results**

OIG conducted an evaluation of contract costs to determine whether the items of costs were reasonable, allowable, and allocable under applicable authoritative guidance and contract terms. From the 179 invoices paid from October 1, 2007, to September 30, 2010, under the Embassy Baghdad O&M contract, OIG tested selected expenditures and found that the contracting officer's representative had approved 86<sup>2</sup> PAE invoices that included unallowable and unsupported costs and costs for goods not delivered. Specifically, the COR erroneously approved the following:

- 80 invoices containing about \$2.7 million in unallowable transportation costs,
- 6 invoices containing about \$1.7 million in unsupported reimbursable costs, and
- 2 invoices containing about \$34,000 in costs for goods not delivered.

To determine the transportation costs billed to the contract for the period under review, OIG obtained the detailed billing sheets PAE used to prepare the 179 invoices and examined each for transportation-related expenses billed to the Department. In total, OIG identified 80 invoices containing about \$2.7 million in unallowable transportation costs, as shown in Table 1.

**Table 1. Unallowable Transportation Costs**

| Item Number | Invoice Number | Unallowable Transportation Amount | Item Number | Invoice Number | Unallowable Transportation Amount |
|-------------|----------------|-----------------------------------|-------------|----------------|-----------------------------------|
| 1           | PAE-IRAQ-002R  | \$18,507.93                       | 41          | PAE-IRAQ-177   | \$15,202.99                       |
| 2           | PAE-IRAQ-009   | 20,429.99                         | 42          | PAE-IRAQ-179R  | 880.00                            |
| 3           | PAE-IRAQ-017   | 650.00                            | 43          | PAE-IRAQ-180   | 17,568.95                         |
| 4           | PAE-IRAQ-021   | 64,418.74                         | 44          | PAE-IRAQ-181   | 11,254.07                         |
| 5           | PAE-IRAQ-033   | 19,985.88                         | 45          | PAE-IRAQ-183   | 31,753.56                         |
| 6           | PAE-IRAQ-036   | 4,000.00                          | 46          | PAE-IRAQ-185   | 33,079.70                         |
| 7           | PAE-IRAQ-042   | 1,005.87                          | 47          | PAE-IRAQ-187   | 3,389.24                          |
| 8           | PAE-IRAQ-065   | 54,128.70                         | 48          | PAE-IRAQ-189   | 93,777.96                         |
| 9           | PAE-IRAQ-067   | 7,850.00                          | 49          | PAE-IRAQ-192   | 3,452.70                          |
| 10          | PAE-IRAQ-071   | 3,999.00                          | 50          | PAE-IRAQ-197   | 3,462.46                          |
| 11          | PAE-IRAQ-078   | 88,940.88                         | 51          | PAE-IRAQ-198   | 1,818.49                          |
| 12          | PAE-IRAQ-079   | 7,235.38                          | 52          | PAE-IRAQ-199   | 15,169.55                         |
| 13          | PAE-IRAQ-086   | 800.00                            | 53          | PAE-IRAQ-204   | 41,547.75                         |

<sup>2</sup> Although 80 invoices contained unallowable transportation costs, six invoices contained unsupported reimbursable costs, and two invoices contained costs for goods that were not delivered, the total number of erroneously approved invoices is 86 rather than 88. This is the case because two of the invoices, No. PAE-IRAQ-078 and No. PAE-IRAQ-87, had both unallowable transportation costs and unsupported reimbursable costs.

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|   |                  |            |    |               |                       |
|---|------------------|------------|----|---------------|-----------------------|
| 14  | PAE-IRAQ-087     | 1,423.52   | 54 | PAE-IRAQ-205  | 9,736.07              |
| 15  | PAE-IRAQ-091     | 6,670.48   | 55 | PAE-IRAQ-210  | 5,000.00              |
| 16  | PAE-IRAQ-097     | 3,850.00   | 56 | PAE-IRAQ-211R | 39,541.66             |
| 17  | PAE-IRAQ-100     | 15,370.00  | 57 | PAE-IRAQ-212  | 27,676.12             |
| 18  | PAE-IRAQ-103     | 52,856.27  | 58 | PAE-IRAQ-218  | 296,071.32            |
| 19  | PAE-IRAQ-104     | 3,076.75   | 59 | PAE-IRAQ-220  | 1,450.00              |
| 20  | PAE-IRAQ-105     | 46,775.08  | 60 | PAE-IRAQ-225  | 150.00                |
| 21  | PAE-IRAQ-109     | 102,800.63 | 61 | PAE-IRAQ-226  | 3,243.86              |
| 22  | PAE-IRAQ-110     | 560.00     | 62 | PAE-IRAQ-227R | 51,467.89             |
| 23  | PAE-IRAQ-112     | 89,115.78  | 63 | PAE-IRAQ-228  | 3,537.00              |
| 24  | PAE-IRAQ-116     | (21.48)    | 64 | PAE-IRAQ-231  | 150.00                |
| 25  | PAE-IRAQ-117     | 70,850.08  | 65 | PAE-IRAQ-235  | 600.00                |
| 26  | PAE-IRAQ-121     | 47,247.77  | 66 | PAE-IRAQ-238  | 16,675.00             |
| 27  | PAE-IRAQ-124/125 | 6,087.53   | 67 | PAE-IRAQ-239  | 3,420.00              |
| 28  | PAE-IRAQ-126     | 12,099.49  | 68 | PAE-IRAQ-243  | 41,858.48             |
| 29  | PAE-IRAQ-129     | 188,950.97 | 69 | PAE-IRAQ-245  | 1,250.00              |
| 30  | PAE-IRAQ-139     | 585.00     | 70 | PAE-IRAQ-249  | 14,795.65             |
| 31  | PAE-IRAQ-148     | 62,005.39  | 71 | PAE-IRAQ-250  | 272.29                |
| 32  | PAE-IRAQ-163     | (1,781.83) | 72 | PAE-IRAQ-251  | 115,228.49            |
| 33  | PAE-IRAQ-153     | 48,890.69  | 73 | PAE-IRAQ-252  | 950.00                |
| 34  | PAE-IRAQ-157     | 38,726.44  | 74 | PAE-IRAQ-253  | 2,370.43              |
| 35  | PAE-IRAQ-161     | 50.00      | 75 | PAE-IRAQ-257  | 81,032.37             |
| 36  | PAE-IRAQ-164     | 91,965.65  | 76 | PAE-IRAQ-258  | 1,148.25              |
| 37  | PAE-IRAQ-172     | 4,631.78   | 77 | PAE-IRAQ-262R | 400.00                |
| 38  | PAE-IRAQ-173     | 99,495.84  | 78 | PAE-IRAQ-265  | 148,258.73            |
| 39  | PAE-IRAQ-174     | 76,335.33  | 79 | PAE-IRAQ-266  | 13,681.46             |
| 40  | PAE-IRAQ-176     | 15,031.39  | 80 | PAE-IRAQ-272  | 5,000.00              |
| <b>Total Unallowable Transportation Cost</b>                    |                  |            |    |               | <b>\$2,532,923.41</b> |
| <b>Contractual Markup of 6.65%</b>                              |                  |            |    |               | <b>6.65%</b>          |
| <b>Total Transportation Related Cost Inclusive of 6.65% Fee</b> |                  |            |    |               | <b>\$2,701,362.82</b> |

To determine the unsupported reimbursable costs, OIG judgmentally sampled 60 transactions from six invoices. Specifically, this sampling process entailed first reviewing the 179 invoices and randomly selecting the six invoices, which contained \$5,310,742.21 in reimbursable costs. Next, within the six invoices, OIG selected 60 transactions for review based on factors such as indicators of cost duplication and large disbursements. From the 60 transactions, OIG identified 14 unsupported disbursements, totaling about \$1.7 million, as shown in Table 2.

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**Table 2. Unsupported Reimbursable Costs**

| <b>Item</b> | <b>Invoice Number</b> | <b>Task</b> | <b>Account Category</b> | <b>Transaction Date</b>                               | <b>Amount</b>         |
|-------------|-----------------------|-------------|-------------------------|---|-----------------------|
| 1           | PAE-IRAQ-005          | 00-2600-00  | MATERIAL                | 5/14/2008   | \$12,700.00           |
|             |                       | 00-2600-00  | ODC                     | 5/14/2008   | 6,000.00              |
| 2           | PAE-IRAQ-058          | 10-2600-00  | MATERIAL                | 1/21/2009   | 111,560.00            |
|             |                       | 10-2600-00  | MATERIAL                | 1/22/2009   | 111,560.00            |
|             |                       | 10-2600-00  | MATERIAL                | 1/21/2009   | 311,475.00            |
|             |                       | 10-2600-00  | MATERIAL                | 1/22/2009   | 311,475.00            |
| 3           | PAE-IRAQ-070          | 10-3700-00  | MATERIAL                | 5/12/2008   | 131,996.25            |
|             |                       | 10-2600-00  | MATERIAL                | 3/14/2009   | 84,640.00             |
|             |                       | 10-2600-00  | MATERIAL                | 3/21/2009   | 55,800.00             |
| 4           | PAE-IRAQ-078          | 10-2600-00  | MATERIAL                | 4/4/2009  | 333,756.45            |
|             |                       | 10-2600-00  | MATERIAL                | 4/28/2009   | 90,000.00             |
| 5           | PAE-IRAQ-087          | 20-5400-00  | TRAVEL                  | 5/14/2009   | 310.00                |
| 6           | PAE-IRAQ-093          | 20-5400-00  | LABOR                   | 6/5/2009  | 9,375.35              |
|             |                       | 20-2600-00  | EQUIPMENT               | 6/20/2009   | 1,300.00              |
|             |                       |             |                         | <b>Unsupported Sample Items</b>                       | <b>\$1,571,948.05</b> |
|             |                       |             |                         | <b>Contractual Markup of 6.65%</b>                    | <b>6.65%</b>          |
|             |                       |             |                         | <b>Total Unsupported Costs Inclusive of 6.65% Fee</b> | <b>\$1,676,482.60</b> |

To determine the goods that were not delivered but that were paid for, OIG compared documentation supporting goods that were received by Embassy Baghdad with information on the 179 invoices. Through this comparison, OIG found that Embassy Baghdad was billed \$34,481 for on-the-job training handbooks that had never been delivered, as detailed in Table 3.

**Table 3. Cost of Goods Not Provided**

| <b>Item</b> | <b>Invoice Number</b> | <b>Task</b> | <b>Account Category</b> | <b>Transaction Date</b>                               | <b>Amount</b>      |
|-------------|-----------------------|-------------|-------------------------|---|--------------------|
| 1           | PAE-IRAQ-111          | 10-4300-00  | Material                | 9/15/2009   | \$15,317.00        |
| 2           | PAE-IRAQ-171R         | 20-4300-00  | Material                | 7/01/ 2010  | 17,014.19          |
|             |                       |             |                         | <b>Cost of Undelivered Items</b>                      | <b>\$32,331.19</b> |
|             |                       |             |                         | <b>Contractual Markup of 6.65%</b>                    | <b>6.65%</b>       |
|             |                       |             |                         | <b>Total Undelivered Costs Inclusive of 6.65% Fee</b> | <b>\$34,481.21</b> |



United States Department of State

Washington, D.C. 20520

July 23, 2012

MEMORANDUM

TO: OIG/AUD – Evelyn Klemstine

FROM: A/LM – Catherine Ebert-Gray 

SUBJECT: Draft Report on Evaluation of Invoices and Payments for the Embassy Baghdad Operations and Maintenance Contract

Thank you for the opportunity to review and comment on the draft report addressing the Evaluation of Invoices and Payments for the Embassy Baghdad Operations and Maintenance Contract. John Stever is the point of contact on this Audit and he can be reached at 703-875-6845.

The Office of Acquisitions Management (AQM) plans to address the issues raised in the report's five Recommendations. AQM is currently in the planning stages of identifying an auditing firm to assist with researching the specific issues addressed; however, we are not in a position to indicate that we concur with the Recommendations until AQM's preliminary analysis is completed. With the end of the fiscal year approaching (month of September dedicated to procurements), we anticipate that it will take approximately three months to complete this review.

**Major Contributors to This Report**

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