



OIG HIGHLIGHTS

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What OIG Audited

The Office of Inspector General (OIG) conducted this audit to determine whether the Department of State (Department) is effectively managing and monitoring the contractor's performance on the U.S. Mission Iraq medical services contract and whether the Department is adequately reviewing and approving contractor invoices to ensure that costs are reasonable, allowable, and allocable.

What OIG Recommends

OIG made recommendations for the Department to require the contractor to develop and implement a process for pharmaceutical and property inventories that accurately records and maintains transactions. OIG also made recommendations for the Department to review all invoices and recover questioned costs and any costs deemed unallowable. OIG considers one recommendation resolved and three recommendations unresolved based on responses provided by the Bureau of Administration, Office of Logistics Management.

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May 2015

OFFICE OF AUDITS

Middle East Region Operations

Audit of the U.S. Mission Iraq Medical Services

What OIG Found

In preparing for the December 2011 transition from military-led to civilian-led operations, the U.S. Mission to Iraq (Mission) awarded a contract to CHS Middle East LLC (CHS) for medical services valued at up to \$1 billion over 5 years. Between August 2011 and September 2012, the Department issued 15 task orders under the base CHS contract to provide medical services at 14 Mission facilities. The 15 task orders have a total authorized value of \$197 million, of which \$186 million has been obligated and \$181 million expended, as of November 6, 2014. Of those 15 task orders, 9 have since been terminated due to the Mission's planned staff reductions and facilities consolidation.

OIG found that the contractor generally performed in accordance with the terms and conditions of the contract and task orders. Early in the contract, 1 person was overseeing all 15 task orders, including monitoring contractor performance, and reviewing and approving invoices. Additional personnel were subsequently assigned to oversee the contract. In June 2014, all oversight personnel were relocated from Baghdad due to security threats, negatively affecting contract oversight. From June 18 to December 4, 2014, there were no individuals in Baghdad authorized to oversee the contract. In December 2014, OIG issued a Management Assistance Report* to the Bureau of Administration expressing concerns about the lack of authorized contract oversight personnel in Baghdad. Following our Management Assistance Report, a Contracting Officer's Representative for the contract was assigned to the embassy.

OIG also found discrepancies between the actual and recorded amounts of inventory that CHS staff could not explain. The discrepancies could result in CHS sites running out of needed medications or unnecessarily ordering medications already on hand. In addition, OIG questioned \$6,772,881 in invoice charges paid to the contractor. These questioned costs occurred, in part, because CHS did not always provide sufficient documents to support the invoice charges and the Department lacked personnel to complete thorough invoice reviews. OIG noted that as additional personnel were assigned to review the invoice charges, the amount of questioned costs decreased.

* Management Assistance Report: Concerns With the Oversight of Medical Support Service Iraq Contract No. SAQMMA11D0073 (AUD-MERO-15-20)



OIG

Office of Inspector General

U.S. Department of State • Broadcasting Board of Governors

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Office of Audits

May 2015

Audit of the U. S. Mission Iraq Medical Services

MIDDLE EAST REGION OPERATIONS

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OBJECTIVE

The overall audit objective was to evaluate the management and oversight of the Medical Support Services-Iraq (MSSI) contract. Specifically, the audit focused on whether:

- the Department of State (Department) is effectively managing and monitoring the contractor's performance to ensure that CHS Middle East LLC (CHS) is performing in accordance with the contract terms and conditions;
- the Department is adequately reviewing and approving contractor invoices to ensure that costs are reasonable, allowable, and allocable.

BACKGROUND

In preparing for the December 2011 transition from U.S. military-led to U.S. civilian-led operations in Iraq, the U.S. Mission to Iraq (Mission) assumed responsibility for supporting all U.S. Government personnel under Chief of Mission (COM) authority, which includes American direct hires, third-country nationals, locally employed staff, and contractor employees. The Department provides COM personnel significant levels of life support services, including medical services. In May 2011, the Department awarded contract number SAQMMA11D0073 to CHS for Iraq medical services. The MSSI is an indefinite delivery, indefinite quantity contract,¹ valued at up to \$1 billion over 5 years. The contract requires CHS to determine what pharmaceuticals, medical supplies, and medical equipment are required to sustain patient care operations. The contract further specifies that CHS provide:

- trained and certified health care professionals;
- on-site primary, urgent, and initial emergency care for general medical, surgical, orthopedic, gynecologic, and mental health conditions;
- triage, stabilization, and evacuation of patients to the next level of medical care; and
- small and large medical/trauma care hospitals with basic X-ray, diagnostic ultrasound, trauma treatment, surgical, and overnight bed capabilities.

As of September 15, 2012, the Department had issued 15 time and materials² task orders under the base CHS contract to provide medical services at 14 Mission facilities.³ The 15 task orders⁴

¹ Specific services under this contract are provided by separate task orders. The contract allows for a variety of delivery options—firm-fixed price, cost-reimbursement, labor hour, and time and materials—depending on the type, complexity, and urgency of the task order requirements. In addition, some task orders may be performance based.

² Time and materials contracts are a type of cost-reimbursable contract in which contractors are reimbursed for (a) direct labor costs, including wages, overhead, general and administrative expenses, and profit; and (b) actual costs for materials. See Federal Acquisition Regulation 16.600 – 601.

³ One task order provided general program management services, such as billing, ordering, and personnel services.

⁴ Through August 2012, the Department awarded 12 task orders and awarded 3 additional task orders in September 2012 for an awarded total of 15 task orders.

have a total authorized value of \$197 million, of which \$186 million has been obligated and \$181 million expended, as of November 6, 2014. Of those 15 task orders, 9 have been terminated as a consequence of the Mission's planned and continued effort to reduce mission staffing and consolidate facilities.⁵ Table 1 shows the total authorized, obligated, and expended funds for each task order as of November 6, 2014.

Table 1: Total Authorized, Obligated, and Expended Funds as of November 6, 2014, for Task Orders Issued Under the Medical Support Services-Iraq Contract

Task Order SAQMMA	Date Issued	Service Location	Date Terminated	Amount (\$ millions)		
				Authorized	Obligated	Expended
11F2181	08-17-11	Program Management	NA	\$40.1	\$38.7	\$37.3
11F2182	08-11-11	Sather Diplomatic Support Hospital	NA	60.2	60.2	58.6
11F2183	08-12-11	Basrah Diplomatic Support Hospital	NA	27.4	27.4	27.1
11F2184	08-12-11	Erbil Diplomatic Support Center	06-30-13	4.0	4.0	3.8
11F2186	09-29-11	Tikrit	04-30-13	15.4	15.4	15.3
11F2187	09-28-11	Consulate General Kirkuk	09-30-12	8.7	8.7	8.7
11F2188	09-28-11	Baghdad Police Assistance Annex	09-15-12	1.8	1.8	1.8
11F2190	09-28-11	Besmaya	09-30-13	3.7	3.7	3.6
11F2191	09-28-11	Umm Qasr	12-15-13	3.3	3.3	3.2
11F2192	09-28-11	Embassy Military Attaché Security Assistance Annex	9-30-13	7.1	3.3	3.3
11F2193	09-30-11	Taji	09-30-13	3.9	3.9	3.9
12F0427	02-22-12	Embassy Annex Prosperity	03-14-13	3.1	3.1	3.1
12F0725	09-07-12	Chancery Health Unit	NA	8.4	6.0	5.7
12F2808	09-15-12	Condor Health Unit	NA	8.2	4.2	4.0
12F2809	09-15-12	Ankawa Health Unit	NA	2.0	2.0	1.7
Total				\$197.3	\$185.7	\$181.1

Source: OIG analysis of contract documents and Global Financial Management System reports.

⁵ *Audit of the U.S. Mission Iraq Staffing Process* (AUD-MERO-13-33, August 2013).

AUDIT RESULTS

Finding A: Contractor Generally Complied With Contract Terms and Conditions, but Contract Oversight and Inventory Management Need Improvement

CHS generally performed in accordance with the terms and conditions of the contract and task orders. The Office of Inspector General (OIG) confirmed that CHS established the required number of hospital and health unit sites throughout Iraq, and maintained the required qualified medical staff, equipment, service capacities, and supplies. Initially, only one Contracting Officer's Representative (COR) in Baghdad monitored all 15 task orders. Additional oversight staff were added over time. From May 2013 to February 2014, the Department increased oversight staff for the MSSSI contract by (a) adding two individuals under an independent validation and verification (IV&V) contract to assist with invoice reviews, (b) establishing a Contract Management Office (CMO) to provide additional management oversight of the MSSSI contract and two other embassy support contracts, and (c) appointing an Assistant Contracting Officer's Representative (A/COR) to provide additional day-to-day help overseeing CHS's performance. However, in June 2014, all oversight staff assigned to the contract were relocated from Iraq due to deteriorating security conditions. In the absence of the COR and A/COR, various embassy personnel, without designated authority from the CO⁶ or in coordination with the Contracting Officer (CO) or the COR, were directing CHS to perform tasks that were either outside the contract's scope of work or impacted the contractor's performance.

OIG noted a deficiency with CHS's medical inventory system. OIG found that the quantities, expiration dates, and lot numbers of medication did not always match inventory records. The discrepancies were relatively small in numbers and value, were random in nature, and appeared to be a result of clerical errors and not deliberate actions. However, the discrepancies between the amount of medication on hand and incorrect expiration dates could increase the risks that CHS sites have inadequate supplies of medication or unnecessarily order medication already on hand.

CHS Met the Contract's Service Provision Requirements

To provide patient care, the contract and task orders required CHS to establish 11 Health Units (HUs), 1 large Diplomatic Support Hospital (DSH), and 2 small DSHs. The contract also required CHS to establish a program management office. OIG found the contractor established each of the required hospitals and health units. However, from August 2012 to December 2013, the

⁶ Federal Acquisition Regulation (FAR) 1.602-2(d) and Department of State Acquisition Regulation 642.270(a) and (b) allow contracting officers to designate and authorize technically qualified Department personnel as CORs to assist in the administration of contracts.

Department closed nine CHS facilities as the Mission reduced its staffing and facilities,⁷ leaving one large DSH, one small DSH, three HUs, and the program management office.

Each task order also identified the number of staff required for the facility and the staff qualifications. For example, the HUs required a physician's assistant/nurse practitioner, and the DSHs required a physician's assistant/nurse practitioner; family, emergency, or internal medicine providers; and a general surgeon. The contract also required that all medical personnel providing services be properly licensed and credentialed.⁸ In February 2014, OIG visited five facilities, three in Baghdad, one in Basrah, and one in Erbil, and reviewed staff records to verify that all staff were appropriately accredited and licensed as required by the task orders. Contractor records indicated that all staff were qualified and possessed the appropriate licenses or credentials for their positions.

In addition, the task orders identified the medical equipment, service capacities, and supplies required for each facility. For example, each health unit is required to maintain medical and medical emergency equipment, basic formulary and vaccines, clinical supplies, and laboratory equipment and supplies. The contract required the small DSH to have additional equipment such as a basic x-ray machine, and a laboratory with a blood bank. In addition, the contract also required the large DSH to have the capability to manage two surgical patients, multiple injured or ill patients, and competency in performing and interpreting electrocardiogram stress tests. OIG found that CHS met the requirements for medical equipment, beds, clinical supplies, and emergency and service vehicles at each of the five facilities visited. Finally, OIG interviewed the Consul General and the Management Officer in Basrah, the Deputy Principal Officer and the Regional Medical Officer in Erbil, the Director of the Baghdad Diplomatic Support Center, and the Management Minister Counselor and the Regional Medical Officer at Embassy Baghdad and requested feedback on the CHS services provided. Without exception, the embassy and consulates general officials provided positive feedback and had no issues to report. In addition, OIG randomly reviewed customer satisfaction comments and generally found them to be positive.

Staffing Constraints Have Affected the Department's Contract Oversight

On two occasions, oversight of the MSSSI contract has been affected by the Department's ability to have sufficient staff dedicated to monitoring contractor performance in Iraq. From November 2011 through August 2013, only the COR, located at Embassy Baghdad, was assigned to monitor the 15 task orders covering 14 facilities throughout Iraq. According to the COR's appointment letter, he was responsible for verifying contractor performance by conducting site

⁷ OIG's August 2013 report, *Audit of the U.S. Mission Iraq Staffing Process* (AUD-MERO-13-33), included a recommendation for Embassy Baghdad to conduct a systematic analysis of staffing requirements based on the policy priorities, programs, operations, conditions, and other relevant factors specific to U.S. Mission Iraq.

⁸ The task orders require providers to be licensed to U.S. or equivalent standards and physicians be qualified by U.S. or equivalent specialty boards. The task orders also require all primary care providers (Physician(s), Physician Assistants, Nurse Practitioners) to hold current credentials in trauma care (e.g., Advanced Trauma Life Support or equivalent) and cardiac care (Advanced Cardiovascular Life Support or equivalent).

visits, performing pharmaceutical and equipment inventories, and reviewing management and personnel status reports. In addition, the COR was responsible for reviewing and approving all invoices, which were sometimes hundreds of pages and included hundreds of charges. However, the COR was unable to fully address the workload required to oversee a contract of this size and scope. According to Department communications, as early as April 2012, the Department was aware that the COR needed assistance just to keep up with reviewing and approving invoices. Between August 2012 and May 2013, the Department began downsizing the contract by terminating eight task orders.⁹ Coinciding with the reduced number of task orders, in May 2013, the Department awarded an IV&V contract that added two individuals to review invoices and provide the results to the CO and the COR.¹⁰ In August 2013, the Mission established the CMO to provide general oversight of embassy support contracts, and the CO appointed an A/COR in February 2014 to provide additional support solely for the MSSSI contract. As a result, the COR was able to better monitor the contractor's performance by conducting regular site visits, performing quarterly inventories, approving invoices in a timely manner, and verifying the contractor completed contractual requirements.

In June 2014, due to deteriorating security conditions in Iraq, the Bureau of Near Eastern Affairs and Embassy Baghdad reduced and relocated COM personnel in Baghdad by 1,379—from 3,988 direct hires and contractors to 2,609. These personnel were relocated either to Basrah, Iraq; Erbil, Iraq; Amman, Jordan; Kuwait City, Kuwait; or their countries of origin.¹¹ To determine which COM personnel would be relocated, Embassy Baghdad and the Bureau of Near Eastern Affairs developed a minimal staffing list based on the number of personnel the embassy could support in an emergency. Staff not on the minimal staffing list were relocated.

At the time of the relocation, the COR for the contract was outside Iraq on leave. According to the CMO Program Manager, the MSSSI COR position was initially included on the embassy's minimal staffing list so the COR could return to Iraq following his leave and resume his oversight responsibilities. However, embassy management decided to remove the COR position from the minimal staffing list and the COR was not authorized to return to the embassy.¹²

In addition, in June 2014, the A/COR was relocated to Amman, and the IV&V contractors returned to Washington, DC. Although the CMO Program Manager subsequently made two requests to have the COR or A/COR positions added to the minimal staffing list so they could return to Iraq, the Deputy to the Management Counselor denied the requests. In June 2014, the

⁹ Terminating these task orders coincided with the overall reduction in staff of the U.S. Mission to Iraq. See OIG, *Audit of the U.S. Mission Iraq Staffing Process* (AUD-MERO-13-33), August 2013.

¹⁰ According to the Bureau of Near Eastern Affairs, the two IV&V contractors also supported the Baghdad Life Support Services and the Operations and Maintenance Support Services contracts.

¹¹ The Bureau of Near Eastern Affairs and Embassy Baghdad developed a "minimal staffing" list to identify the personnel who would remain in Baghdad and those who would be required to relocate.

¹² On June 30, 2014, the minimum staffing level in Baghdad was 2,687, and on September 9, 2014, the minimal staffing level was 2,983—an increase of 296 positions.

A/COR was allowed to return to Basrah to assist the Consulate General's Management Office with duties unrelated to the MSSSI contract. The A/COR also resumed limited oversight of the MSSSI contract from Basrah, but was allowed only limited travel, not to exceed 10 days at any given location. As a result, no MSSSI contract oversight personnel were located in Baghdad, where the central operations for the contract were based.

Reducing oversight to only one authorized position in Iraq, on a contract with average monthly expenditures of \$4.4 million, increased the risk of fraud, waste, and abuse for the Department. In December 2014, OIG issued a Management Assistance Report¹³ to Embassy Baghdad and the Bureau of Administration regarding our concerns with the oversight of the MSSSI contract. OIG also expressed concern that in the absence of the COR and A/COR, various embassy personnel, without designated authority from the CO¹⁴ or coordination with the CO or the COR, were directing CHS to perform tasks that were either outside the contract's scope of work or impacted the contractor's performance. OIG concluded that, because there were no Embassy Baghdad personnel authorized by the CO to direct the contractor, there was increased risk that unauthorized commitments¹⁵ might be initiated, with subsequent claims by CHS for work performed outside the scope of the contract. In addition, without adequate in-country monitoring and oversight by a designated COR or A/COR, there was increased risk the contractor may not perform work in accordance with the terms and conditions of the contract.

As a result, OIG recommended that Embassy Baghdad include the COR and the A/COR positions, as appropriate, on the embassy's minimal staffing list. OIG also recommended that the Bureau of Administration, in coordination with Embassy Baghdad, designate a qualified COR and A/COR for the MSSSI contract, as appropriate, to provide onsite contract oversight from Baghdad. In addition, OIG recommended that the Bureau of Administration communicate to U.S. Embassy Baghdad (a) the identities of the designated COR and A/COR authorized by the Contracting Officer to direct CHS; (b) guidance to embassy staff to ensure all direction provided to CHS is through these authorized personnel only; and (c) the consequences and penalties for embassy staff engaging in unauthorized contractor commitments. OIG subsequently closed two of the three recommendations because the CO designated a new COR for the contract, and Embassy Baghdad approved the new COR's assignment to Baghdad. OIG considers the third recommendation as resolved based on the Bureau of Administration, Office of Logistics Management's statement that it would provide U.S. Embassy Baghdad written procedural guidance.

¹³ OIG, Management Assistance Report—Concerns with the Oversight of Medical Support Service Iraq Contract (SAQMMA11D0073) (AUD-MERO-15-20), December 2014.

¹⁴ FAR 1.602-2(d) and Department of State Acquisition Regulation 642.270(a) and (b) allow contracting officers to designate and authorize technically qualified Department personnel as CORs to assist in the administration of contracts.

¹⁵ 14 FAH-2 H-132 b states an unauthorized commitment occurs when someone other than a warranted contracting officer commits the U.S. Government to a contractual action, such as directing a contractor to perform work or deliver items.

OIG's Review of Inventory Records Revealed Inaccuracies

OIG noted a deficiency in the contractor's inventories of medications, supplies, and property. The contract requires CHS to complete a physical inventory of all Government-furnished property in its possession on an annual basis, in accordance with the *Foreign Affairs Handbook* (FAH).¹⁶ On a monthly basis, CHS conducts inventories of controlled substances,¹⁷ other medications,¹⁸ clinical supplies,¹⁹ clinical property,²⁰ and non-clinical property,²¹ and reports the results to the COR. To determine whether the contractor could account for the Government-owned supplies and equipment used to provide medical services, OIG tested 1,171 of the 8,768 items (13 percent) reported in the contractor's inventory records for the 5 facilities OIG visited. The results of this testing are presented in Tables 2 and 3, and a detailed description of OIG's methodology is provided in Appendix A.

OIG found discrepancies between the recorded inventories and inventory on hand for both the quantities and expiration dates of some medications, supplies, and equipment at all five facilities (see Table 2). For example, the actual quantities for 13 of the 339 (4 percent) sampled clinical supplies and 46 of the 460 (10 percent) sampled "other medications" were either overstated and others were understated. However, the discrepancies between the recorded and on hand inventories were generally small. For example, the quantity on hand for blood collection tubes was less than the recorded number of units by one box. In addition, for estrogen replacement tablets, the actual number of units on hand exceeded the recorded quantity by two bottles. OIG found that the differences between recorded and on hand quantities likely resulted from data entry and clerical errors and did not appear to be a result of deliberate actions.

¹⁶ 14 FAH-1 H-621a. Inventories are taken and reconciled on an annual basis.

¹⁷ Controlled substances are medications and other substances that have a potential for abuse and psychological and physical dependence.

¹⁸ Other medications include prescription medications, over the counter medications, and other general health items not classified as controlled substances.

¹⁹ Clinical supplies include items used to assist with medical diagnoses or treatments, such as dressings, sterile gloves, syringes, catheters, surgical tape, and other general items.

²⁰ Clinical property includes equipment used to assist with medical diagnosis or treatments, such as portable x-ray machines, ultrasound equipment, defibrillators, and sterilizers.

²¹ Non-clinical property includes items such as IT equipment and vehicles.

Table 2: Summary Results of OIG Inventories of Contractor Medications, Supplies, and Property

Item	Total Number of Items ^a	Sample Size	Count Discrepancy ^b	Expiration Date Discrepancy ^c	Actual Expired Date
Controlled Substances	107	107	0	3	0
Other Medications	3,305	460	46 (10%)	9	1
Clinical Supplies	3,126	339	13 (4%)	23	0
Clinical Property	901	126	0	0	0
Non-Clinical Property	1,329	139	1 (1%)	0	0
Total	8,768	1,171	60 (5%)	35	1

^a Totals are for aggregate number of item types within the category counted at multiple locations.

^b Discrepancies include both overstated and understated counts.

^c Discrepancies included expiration dates erroneously recorded.

Source: OIG inventory count and CHS documented count.

OIG also found instances in which the expiration dates for some batches of medications and clinical supplies did not match the expiration dates on the inventoried units. OIG found discrepancies between the recorded and actual expiration dates for 23 of the 339 (approximately 7 percent) items of the clinical supplies tested, 9 of the 460 (approximately 2 percent) items of the other medications, and 3 of the 107 (approximately 3 percent) items of the controlled substances. The three instances of inaccurate dates for controlled substances occurred for a single type of narcotic: morphine sulfate. OIG verified that the total amount of morphine sulfate on hand matched inventory records (see Table 3). However, we also found that morphine sulfate recorded as expiring in July and August 2015 was overstated by a total of 932 ampules (see Table 3).²² Conversely, the morphine sulfate ampules recorded as expiring in December 2015 were understated by 932 ampules. Thus, the net result is a correct total ampules count but incorrectly recorded expiration dates likely due to a pharmacist erroneously recording the controlled substance name and expiration date.

Table 3. Discrepancies Between Actual and Recorded Quantities of Controlled Substances at Baghdad Diplomatic Support Hospital

Controlled Substance	Expiration Date	Recorded Quantity (Ampules)	Actual Quantity (Ampules)
Morphine Sulfate 10 mg/ml	July 2015	1,870	960
Morphine Sulfate 10 mg/ml	August 2015	34	12
Morphine Sulfate 10 mg/ml	December 2015	0	932
Total		1,904	1,904

Source: Recorded count taken from CHS controlled substance inventory logs and OIG inventory.

²² An ampule is a small sealed bulbous glass vessel that is used to hold a solution for hypodermic injection.

OIG also reviewed CHS's processes for managing controlled substances. CHS provided OIG with inventory records showing that its staff conducts monthly inventories and uses independent parties, such as consulate staff or other contractor staff, to perform inventory checks on a quarterly basis to ensure accuracy of the count and documentation. The controlled substances are kept in locked cabinets and CHS allows only a few specified individuals to have key access to these cabinets. The specified individuals are responsible for the inventory and are required to sign a log every time the controlled substance cabinets are opened. When an individual with access to the controlled substances cabinets leaves the facilities for any reason, a replacement is assigned and that individual taking over performs a 100-percent inventory count before taking possession of the cabinet keys.

CHS staff could not explain why differences existed between the actual and recorded amounts of controlled substances and other inventory discrepancies. While CHS used an automated inventory management system, including barcodes, to track Government-furnished and contractor acquired non-expendable and personal property, it also used manual processes (e.g., Microsoft Excel) for managing inventories of non-controlled medications and both clinical and non-clinical supplies. OIG found that incorrect spreadsheet formulas caused errors in the expiration dates for these items. In addition, OIG found CHS staff in Iraq used hand-written records to manage inventories and transactions for controlled medications, which reflected errors in expiration dates for these substances. The manual inventory process that CHS used lacked sufficient input controls, such as formula checks and date formats, to prevent the errors noted by OIG. CHS staff acknowledged that a more accurate inventory system was needed and CHS was working on implementing a new automated system.

The discrepancies in the amounts on hand and erroneous expiration dates could risk CHS sites running out of needed medications or unnecessarily ordering medications and supplies already on hand.

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management direct CHS Middle East LLC to fully implement an automated inventory control system—which could include bar coding and other internal controls to minimize human error—to accurately record and maintain pharmaceutical and other property inventories.

Management Response: The Bureau of Administration, Office of Logistics Management (A/LM) concurred with OIG's recommendation, stating that it will require CHS to have an automated inventory control system in a follow-on task order. A/LM added that from the outset of the MSSI contract, CHS used an automated inventory control system to track furnished and contractor acquired non-expendable and personal property. A/LM also stated CHS utilized barcode and Wi-Fi technology for data collection and retention, and for tracking most assets. A/LM's response is reprinted in full in Appendix B.

OIG Reply: OIG considers this recommendation resolved because A/LM agreed to implement it. The recommendation can be closed when OIG receives and accepts documentation demonstrating an automated inventory system has been installed and implemented.

With respect to A/LM general comments, OIG added information to clarify that CHS uses an automated inventory control system that includes barcode technology to track Government-furnished and contractor acquired non-expendable and personal property. However, our primary point that CHS uses a manual inventory system, both electronic and handwritten, to manage its pharmaceutical and clinical supplies remains unchanged.

Finding B: The Department's Review of Invoices Needs Improvement

OIG reviewed the contractor's 12 largest invoices totaling approximately \$25 million, which represent 17 percent of the \$154 million in invoices submitted and approved from September 2011 to December 31, 2013. OIG found a total of \$6,788,027 in questioned costs including \$15,146 in possibly unallowable expenses. These questioned costs occurred in part because early in the contract the Department did not have the appropriate support system in place to adequately manage and monitor the CHS contract, which included invoice reviews. In addition, the COR's initial invoice reviews focused on labor rates with cursory reviews of other invoice items. Further, CHS did not always provide sufficient documentation to support its invoices. Since May 2013, the Department has increased the oversight staff, which helped decrease the amount of questioned costs. However, because OIG found consistent issues among the 12 invoices, it is likely that those issues could also exist among the other 640 invoices.

Invoice Review Requirements and Processes

The FAH²³ states, "Under cost-reimbursement type contracts, the U.S. Government is entitled to ask the contractor for information that is necessary to understand whether the charges billed are "reasonable," "allocable," and "allowable" — the basic tests that the contractor's costs must pass to be reimbursed." To make that determination, the COR should verify calculations, unit prices, labor hours and categories, supplies and equipment to include delivery and acceptance, and other backup material such as time cards. The Federal Acquisition Regulation (FAR) defines an allowable cost as one that is reasonable, is allocable, meets the standards promulgated by the Cost Accounting Standards Board, and meets the terms of the contract. The FAR states a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. The FAR also states a cost is allocable if it is incurred specifically for the contract, benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or is necessary to the overall operation of the business. The Bureau of International Narcotics and Law Enforcement Affairs (INL) Standard Operating Procedure, Invoice Validation, which was used by the COR as the basis for MSSSI invoice reviews, requires the validation of the Defense Base Act (DBA)

²³ 14 FAH-2 H-522.4 b (1), "Questioning the Reasonableness of Costs."

insurance, danger pay, and hardship differential charges. INL's Standard Operating Procedure also requires the validation of labor charges, travel, training, housing, immunization, medical and psychological expenses, and cost reimbursement supplies and services.

According to the COR, when reviewing invoices from November 2011 to May 2013 he focused on verifying the labor charges against time sheets and the labor rates stated in the contract. The COR also stated that because of time constraints, he could perform only cursory reviews of items valued at \$5,000 or more of other invoice categories. In May 2013, the Department awarded an IV&V contract to assist the COR in reviewing invoices; and in February 2014 designated an A/COR to provide additional assistance. The IV&V staff developed a checklist, based on INL's Standard Operating Procedure, for use in reviewing invoices and requested additional documentation and clarifications from the contractor, as needed.

OIG Invoice Review Found Possibly Unallowable Costs and Unsupported Costs

OIG reviewed a judgment sample of CHS invoices to determine whether the costs were reasonable, allocable, and allowable. OIG reviewed the 12 highest valued invoices that CHS submitted and the COR approved between September 7, 2011, and December 31, 2013. The 12 invoices constituted 2 percent of the 652 invoices submitted during that timeframe. However, the 12 invoices were valued at approximately \$25 million or 17 percent of the \$154 million for all 652 invoices submitted during this timeframe. A list of the 12 invoices, as well as the methodology OIG used to select them, is provided in Appendix A.

OIG questions \$6,788,027 in paid invoices to CHS. Specifically, OIG found \$15,146 in possibly unallowable costs related to CHS's payment of penalties assessed by the Government of Iraq. In addition, OIG could not determine the reasonableness of invoice charges totaling \$6,772,881 due to the lack of supporting documentation.

The possibly unallowable costs consist of \$15,146 for penalties assessed by the Iraqi government when contractor employees depart Iraq after their visas expire. The contractor was reimbursed for the penalties assessed by the Government of Iraq for expired visas and associated general and administrative (G&A) costs. The contractor charges the Government 12.2 percent for G&A, which was applied to the penalty amounts and should not have been billed separately. FAR 31.205-15 states that fines and penalties for failing to comply with foreign laws are unallowable except when incurred in compliance with specific terms and conditions of a contract or with the written consent of the contracting officer.²⁴ The contract requires the contractor to "comply fully with all laws, decrees, labor standards, and regulations of said country or countries during the performance of this contract."²⁵ OIG found no evidence of the contracting officer authorizing reimbursements for penalties associated with contractor

²⁴ FAR 31.205-15 states, "Costs of fines and penalties resulting from violations of, or failure of the contractor to comply with, Federal, State, local, or foreign laws and regulations, are unallowable except when incurred as a result of compliance with specific terms and conditions of the contract or written instructions from the contracting officer."

²⁵ SAQMMA11D0073, DOSAR 652.242-73 Authorization and Performance – Alt 1 (Aug 1999).

violations of Iraqi visa requirements as allowable costs. Therefore, OIG questions the allowability of these costs.

OIG also found the supporting documentation for \$6,087,633 in submitted charges was incomplete for the 12 invoices. For example, the contractor did not always submit documentation to support charges for travel, Other Direct Costs (ODC), danger pay, and hardship differential. The contractor also charged \$685,249 in associated G&A charges. The contract allows the contractor to bill for labor, travel, ODC, and DBA insurance. G&A expenses may be applied to travel, ODC, and DBA. The contract does not specifically address the submission of supporting documentation. However, the FAH requires the COR to determine that invoice charges are reasonable and INL's Standard Operating Procedure requires the COR to validate invoice charges. The COR did not require the contractor to submit documentation to support some invoice charges. Without supporting documentation, there would not be adequate assurance that invoice charges were reasonable. These invoices did not include complete supporting documentation. For these 12 invoices, the questioned costs totaled \$6,772,881,²⁶ including:

- \$51,048 in labor charges, which included incorrect labor rates for some employees and calculation errors;
- \$419,793 in overtime charges without the required CO's preapproval;
- \$41,069 in unsupported travel costs, such as missing hotel receipts;
- \$5,231,353 in ODC, such as missing support for danger and hardship differential pay;
- \$344,370 in DBA insurance, with no supporting documentation; and
- \$685,249 in G&A expenses on the unsupported costs for travel, ODC, and DBA insurance.

These questioned costs occurred because the contractor did not always provide supporting documentation for claimed expenditures or the information the contractor provided was insufficient (claims for DBA insurance without supporting schedules and claims for freight charges with only some supporting documents) and the Department did not have the appropriate support system in place to assist the COR with reviewing invoices to ensure that costs were allowable, as required by the FAR. According to INL's Standard Operating Procedure, the COR should have verified or requested all supporting documentation for expenditures included in the invoices to ensure that invoices were properly reviewed.

OIG's review of 12 invoices found that the Department paid \$15,146 for possibly unallowable costs and \$6,772,881 in questioned costs, including \$685,249 in associated G&A charges. It is likely that additional unallowable and unsupported costs exist in the remaining 640 invoices. The lack of sufficient oversight staff could have resulted in inadequate monitoring of contractor

²⁶ Amounts of questioned costs may vary slightly due to rounding.

performance and put the Department at risk of making inappropriate payments to the contractor and increased the potential risk of fraud. Appendix A lists the possibly unallowable and unsupported costs by invoice and cost category for the 12 invoices reviewed.

Contractor Did Not Pay Employees for Overtime Hours Worked and Invoiced

OIG found that the contractor submitted claims for overtime worked without obtaining the CO's prior approval as required by Section L.10.1.2.5 (v) of the contract solicitation.²⁷ As noted above, the Department paid \$419,793 in overtime charges in 8 of 12 invoices; however, OIG found no documentation demonstrating that the CO approved such overtime prior to the CHS employees working those hours. Therefore, OIG questions the costs associated with these payments.

In discussing overtime charges with CMO managers and Defense Contract Audit Agency (DCAA) staff,²⁸ we also learned that although CHS invoiced the Department for the overtime hours, it did not compensate its staff for the additional hours worked. CHS's pricing proposal stated that all salaries are based on a 72-hour work week, and labor rates for the MSSI contract are based on the CHS annual salaries prorated to 72-hour work weeks. That is, CHS incurs costs for the employees' first 72 hours worked in a given week but does not incur costs for employees' additional hours worked. For the 8 invoices OIG reviewed, CHS realized a 13.6 percent profit rate associated with labor, which is 36 percent greater than the contract's 10 percent profit negotiated rate. This finding is consistent with DCAA's estimate that in 2012 the contractor received reimbursements of approximately \$7 million for CHS employees' overtime for which the employees were not compensated.

FAR 16.101 (b) defines two broad categories of contracts: fixed-price and cost-reimbursement. Time and materials contracts are one type of cost-reimbursement contract, which "provide for payment of allowable incurred costs."²⁹ In addition, FAR 52.216-7(b)(1)(i) states that a contractor may be reimbursed only for recorded costs for actual payments "for items or services purchased directly for the contract." Reimbursement for overtime hours is allowed under the contract. However, given that the contractor neither incurred costs nor paid its employees for the overtime worked, OIG questions whether it is reasonable to reimburse the contractor for the additional hours.

²⁷ Section L.10.1.2.5(v) of the contract solicitation states, "Overtime is defined as time worked in excess of the number of hours in a normal workweek, as defined under FAR 22.103-1. Overtime must be authorized in advance and in writing by the Contracting Officer. Unless otherwise stated in the task order, if authorized individuals work in excess of the number of hours constituting a normal workweek, then payment under this contract shall be at the labor rates negotiated in the task order."

²⁸ According to its website, DCAA performs all necessary contract audits for the Department of Defense (DoD) and other Federal agencies, as appropriate. The services provided are in connection with negotiation, administration, and settlement of contracts and subcontracts to ensure taxpayer dollars are spent on fair and reasonable contract prices. As of May 6, 2014, DCAA provided audit services for the MSSI contract, including reviewing the appropriateness of the CHS overtime claims.

²⁹ FAR 16.301-1.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether \$15,146 for expired visa penalties are allowable under contract SAQMMA11D0073 and (b) recover any costs determined to be unallowable.

Management Response: A/LM concurred with the recommendation, stating that DCAA would perform an audit of the expired visa penalty costs as part of an overarching audit of CHS cost submissions required under the contract terms. A/LM also stated that it would suspend the questioned amount and require CHS to support the allowability of the costs, as required by the FAR. In addition, A/LM stated that during the period of performance of this audit, rather than renewing the visas prior to their expiration date, the host nation law made it more cost effective for the contractor to pay the fine incurred by allowing their employees' visas to expire. A/LM added that paying the fines for the expired visas also eliminated the possibility of these medical professionals not being allowed back in country, which A/LM asserts is a better option toward the health and safety of U.S. Government personnel in country. A/LM's response is reprinted in full in Appendix B.

The Bureau of Near Eastern Affairs (NEA) commented that all invoice payments are considered provisional until DCAA completes a final incurred cost audit. NEA's comments are reprinted in full in Appendix C.

OIG Reply: Although A/LM stated it agreed with OIG's recommendation, the response was not satisfactory to resolve the recommendation because A/LM did not provide a decision with respect to the validity of the \$15,146 in questioned costs OIG identified related to visa penalties. The recommendation can be closed when OIG receives and accepts documentation that demonstrates A/LM has determined whether the \$15,146 in expired visa penalties is allowable or recovers the cost if found unallowable.

With respect to A/LM general comments, OIG acknowledges that reimbursing CHS for fines associated with expired visas may be more cost-effective than requiring CHS staff to exit the country prior to the visa expiration. However, as noted in the report, FAR 31.205-15 prohibits such costs, and the contract requires the contractor to comply with all Iraqi laws, decrees, labor standards, and regulations. OIG found no evidence, either within the contract or in written instructions from the contracting officer, authorizing reimbursements for penalties associated with contractor violations of Iraqi visa requirements.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether \$6,087,633 in unsupported charges and \$685,249 in associated General and Administrative charges are allowable under contract SAQMMA11D0073 and (b) recover any costs determined to be unallowable.

Management Response: A/LM concurred with the recommendation, stating that it would request an audit by DCAA for the unsupported charges and associated general and

administrative costs OIG identified. In addition, A/LM requested that OIG provide information on the specific charges it questioned. Once provided, A/LM stated it would (1) request that CHS provide supporting documentation for the unsupported costs, (2) suspend the amount of unsupported costs from CHS billings, and (3) require CHS to provide data to support the allowability of the costs, as required by FAR 31.201-2. A/LM also stated that DCAA would evaluate the related records and advise the Department on whether the costs should be disallowed or provisionally approved pending a final decision during the incurred cost audit. A/LM's response is reprinted in full in Appendix B.

NEA commented that all invoice payments are considered provisional pending completion of a DCAA incurred cost audit. NEA's comments are reprinted in full in Appendix C.

OIG Reply: Although A/LM stated that it agreed with OIG's recommendation, the response was not satisfactory to resolve the recommendation because management did not provide a decision with respect to the validity of the \$6,772,882 in questioned costs OIG identified related to unsupported charges and associated General and Administrative charges. This recommendation can be resolved because A/LM agreed to implement it. When A/LM provides a determination (dollar value agreed to or not agreed to) on the validity of the \$6,772,882 in questioned costs, it can be closed when OIG receives and accepts documentation that demonstrates whether \$6,087,633 in unsupported costs and \$685,249 in associated general and administrative costs are allowable or recovers these cost if found unallowable.

On May 6, 2015, OIG provided A/LM a list of questioned charges, as requested.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) determine whether overtime charged by the contractor under contract SAQMMA11D0073 and not paid to contractor employees constitutes incurred costs under the Federal Acquisition Regulation; and (b) recover any costs not incurred.

Management Response: A/LM stated that it could neither agree nor disagree with the recommendation until OIG clarifies a number of items. First, A/LM requested that OIG provide a reference to the contract sections in which the contractor and the Department agreed to 10 percent as the negotiated profit ceiling to include the requirement that the contracting officer pre-approve overtime. A/LM also questioned whether OIG, in its reference to overtime, meant "the premium portion of the overtime rates" or other overtime. Finally, A/LM requested that OIG identify its bases for stating that, under the time portion of a time and materials task order/contract, payment to a contractor for overtime, which is not subsequently paid to contractor employees, may not be a reasonable expense and for suggesting that the effective profit percentage cannot differ from the negotiated profit percentage. A/LM's response is reprinted in full in Appendix B.

NEA commented that CMO and DCAA will review incurred costs and determine whether the costs associated with the contractor's employees' overtime hours are allowable costs. NEA's comments are reprinted in full in Appendix C.

OIG Reply: OIG considers this recommendation unresolved. It can be closed when OIG receives and accepts documentation demonstrating that A/LM has determined whether overtime charged by CHS, and not paid to employees, constitutes incurred costs and recovers the costs if deemed not incurred.

With respect to A/LM general comments, OIG questions \$419,793 in overtime costs because A/LM could not provide supporting documentation that shows the Contracting Officer's preapproval of overtime, as required by Section L.10.1.2.5(v) of the contract solicitation. Both the questioned costs and the general discussion of the overtime hours reimbursed refer only to the hours that CHS employees worked beyond the first 72 hours in a work week. OIG acknowledges that under a time and materials contract, a contractor may realize profits at a higher rate than the negotiated profit rate. However, OIG questions whether it was appropriate to reimburse CHS for the overtime hours because the contractor neither incurred costs nor paid its employees for those overtime hours. As a result, CHS increased its profits by approximately 36 percent over the negotiated profits rate for labor. OIG added language to the report to clarify the issue, and modified Recommendation 4 by eliminating a reference to excess profit and focusing on whether costs were incurred according to FAR requirements.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management direct CHS Middle East LLC to fully implement an automated inventory control system—which could include bar coding and other internal controls to minimize human error—to accurately record and maintain pharmaceutical and other property inventories.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether \$15,146 for expired visa penalties are allowable under contract SAQMMA11D0073 and (b) recover any costs determined to be unallowable.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether \$6,087,633 in unsupported charges and \$685,249 in associated General and Administrative charges are allowable under contract SAQMMA11D0073 and (b) recover any costs determined to be unallowable.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) determine whether overtime charged by the contractor under contract SAQMMA11D0073 and not paid to contractor employees constitutes incurred costs under the Federal Acquisition Regulation; and (b) recover any costs not incurred.

APPENDIX A: SCOPE AND METHODOLOGY

The Office of Inspector General (OIG) initiated this audit under the authority of the Inspector General Act of 1978, as amended, to evaluate the management and oversight of the Department of State's (Department) medical services contract in Iraq.

OIG conducted this audit from January to December 2014 in Iraq and Washington, D.C. The audit team focused on the Department's management and oversight of the contractor's performance from May 2011 through December 2014, and its invoice review process. To determine the contractor's performance and the Department's management and oversight of the contract, OIG interviewed Department officials and contractor employees, reviewed documents and correspondence, and conducted site visits to contractor's facilities in Baghdad, Basrah, and Erbil. The team identified the requirements and provisions of the base contract and the six active task orders identified in the Background section of this report and evaluated the contractor's performance against the terms and conditions of the contract. In June 2014, all OIG staff were relocated from Baghdad, Iraq to Amman, Jordan, and subsequently returned to the OIG office in Washington, D.C. The relocation did not impact the audit.

To determine how the Department managed contractor performance, OIG reviewed contractor staff qualifications, certifications, contractor locations, and facility and equipment type against contract requirements. To determine how the Department managed and monitored contractor inventory process, OIG compared the contractor's actual inventory records against the contract requirements and the *Foreign Affairs Handbook* (FAH).

To determine how the Department reviewed contractor invoices, OIG reviewed the Department's contract administration and management practices, the Federal Acquisition Regulation, and the Bureau of International Narcotics and Law Enforcement Affairs (INL) invoice and voucher review procedures. OIG also reviewed a non-statistical sample of paid contractor invoices. The award solicitation and selection process were not included in the audit scope.

OIG conducted this audit in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Review of Internal Controls

OIG performed steps to assess the adequacy of internal controls related to the areas audited. For example, OIG performed inventory checks to verify the accuracy of CHS Middle East LLC (CHS) recorded inventory. OIG performed inventories of items such as controlled substances, other medications, clinical supplies, clinical property, and non-clinical property. Any internal control deficiencies identified are detailed in the Audit Results section of this report.

Use of Computer-Processed Data

OIG used computer-processed data from the Department's Global Financial Management Systems to obtain a list of all paid contractor invoices for the medical contract. OIG used the total invoices list to select a sample for review but did not use computer-processed data to evaluate the accuracy of those invoices.

Sampling Methodology

OIG evaluated the invoice review and approval procedures of the Department's medical services contract in Iraq. OIG reviewed a total of 12 contractor invoices and the results are in Tables A.1 and A.2.

The invoice review consisted of examining supporting documentation; comparing invoices with contract documents; and reviewing policies, procedures, and requirements from the FAH, Federal Acquisition Regulation, and the INL's Standard Operating Procedure, Invoice Validation. OIG reviewed invoices by contract line item and compared quantities and unit pricing, where applicable, with supporting documentation and contract pricing.

For the invoice review, OIG used a non-statistical sampling method known as judgment sampling. Because this method uses discretionary criteria to effect sample selection, the audit team was able to use information garnered during its preliminary audit work to aid in making informed selections. The prime consideration in determining the sample was the invoice amount. The audit team selected the 12 largest invoices, valued at \$25 million, from the universe of 652 invoices totaling \$154 million, choosing all invoices above \$1.6 million as a cutoff mark. These 12 invoices represent 2 percent of the total invoices and 17 percent of the total value of all invoices submitted and approved between May 2011 and December 2013. OIG obtained the invoices and supporting documentation from the Contracting Officer's Representative (COR). The documents the COR provided were the same documents he used to review and approve invoices.

OIG reviewed all charges for the 12 invoices, except for Other Direct Costs (ODC) charges less than \$1,000 for invoice MSAT201209. These ODC charges were voluminous and not in the same format as all other invoices. The questioned costs were for charges with an aggregate cost of \$5,000 or greater. The contract did not require the contractor to submit supporting documentation for charges less than \$5,000 in aggregate costs. OIG reviewed charges for labor; travel; ODC, such as danger pay, freight charges, communications costs, and passport and visa fees; Defense Base Act (DBA) insurance; and general and administrative (G&A) costs.

To determine whether the contractor could account for the Government-owned supplies and equipment used to provide medical services, OIG tested 1,171 of the 8,768 items reported in the contractor's inventory records at the 5 facilities visited to verify their existence via direct observation. This effort included a 100-percent inventory of controlled substances reported in the records (i.e., 107 items). For the remaining 1,064 items, OIG generally employed random

selection to sample supplies and property including other medications, clinical supplies, clinical property, and non-clinical property.

Table A.1: Unallowable Costs for 12 Invoices Approved Under Contract Number SAQMMA11D0073

Item Number	Invoice Number	Cost Category	Unallowable Costs
1	MSAT201204R	ODC	\$ 0
2	MSAT201208	ODC	202
3	MSAT201209	ODC	1,818
4	MSAT201210	ODC	1,010
5	MSAT201211	ODC	2,420
6	MSAT201212A	ODC	1,414
7	MSAT201301	ODC	1,010
8	MSAT201302	ODC	1,212
9	MSAT201307	ODC	606
10	MSAT201308	ODC	1,616
11	MSAT201309	ODC	2,020
12	MSAT201310	ODC	1,818
Total Unallowable Costs			\$ 15,146

Source: OIG Analysis

Table A.2: Unsupported Costs for 12 Invoices Approved Under Contract Number SAQMMA11D0073*

Item Number	Invoice Number	Cost Category	Unsupported Costs
1	MSAT201204R	Labor, Travel, ODC, DBA,	\$573,567
2	MSAT201208	Labor, Travel, ODC, DBA,	618,572
3	MSAT201209	Labor, Travel, ODC, DBA,	168,033
4	MSAT201210	Labor, Travel, ODC, DBA,	521,623
5	MSAT201211	Labor, Travel, ODC, DBA,	625,769
6	MSAT201212A	Labor, Travel, ODC, DBA,	778,709
7	MSAT201301	Labor, Travel, ODC, DBA,	492,337
8	MSAT201302	Labor, Travel, ODC, DBA,	407,098
9	MSAT201307	Labor, Travel, ODC, DBA,	647,945
10	MSAT201308	Labor, Travel, ODC, DBA,	780,243
11	MSAT201309	Labor, Travel, ODC, DBA,	604,992
12	MSAT201310	Labor, Travel, ODC, DBA,	553,994
Total Unsupported Costs			\$6,772,881

*Amounts of questioned costs may vary slightly due to rounding.

Source: OIG Analysis

APPENDIX B: BUREAU OF ADMINISTRATION, OFFICE OF LOGISTICS MANAGEMENT RESPONSE



United States Department of State

Washington, D.C. 20520

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March 10, 2015

MEMORANDUM

TO: OIG/AUD – Norman P. Brown

FROM: A/LM – Catherine I. Ebert-Gray 

SUBJECT: Draft Report on *Audit of the U.S. Mission Iraq Medical Services*

Thank you for the opportunity to review and comment on the subject audit report. The Office of Logistics Management is submitting comments in response to each recommendation and is providing additional comments from the Bureau of Near Eastern Affairs & South and Central Asian Affairs Executive Office, Iraq Contract Management Office – Frankfurt.

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management direct CHS Middle East LLC to implement an automated inventory control system – which could include bar coding and other internal controls to minimize human error – to accurately record and maintain pharmaceutical and property inventories.

Management Response: The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (AQM) concurs with Recommendation 1. From the outset of the contract CHS Middle East, LLC (CHS) has utilized e-Maint software to track Government Furnished and Contractor Acquired Non-Expendable and Personal Property. The e-Maint software is an automated inventory control system that includes functionality for generating work orders and work requests, managing preventive and predictive maintenance, purchasing and inventory control as well as tracking asset history. The software program utilizes barcode technology. E-Maint has the capability to utilize mobile device Wi-Fi technology for data collection and retention. At the time of E-Maint's initial deployment the Wi-Fi data collection and retention features were only use for biomed asset tracking; however, in October 2013, CHS implemented Wi-Fi tracking as the primary tracking tool for most assets.

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In October to November 2014, CHS introduced the AMMS software program to augment the E-Maint system. AMMS is designed to provide detailed activity history information which enables historical tracking as well as the ability to plan and manage both maintenance and inventory efficiently. The AMMS system is currently in a test phase by CHS for its operations at the Baghdad Diplomatic Support Center (BDSC). Full implementation is pending and will be based upon the outcome of the tests and recommended adjustments from field testing. Follow up visits are planned in the coming weeks to observe the system, how it works and whether the steps and processes implemented adequately address FAR Part 45 and FAR Clause 52.245-1 requirements and best business practices.

As stated, the Contractor has moved forward with implementing new capabilities with existing asset tracking software as well as began testing for another asset management control system which will mitigate risks associated with human error. The Contracting Officer will make it a written requirement in the follow-on task order for Option Year 4 services (starting May 19, 2015) that the Contractor must have an automated inventory control system. The attachments below include Contractor SOPs for asset tracking and management:

- Tab 1 – CHS MSSSI Property Control SOP;
- Tab 2 – CHS MSSSI Property Accountability SOP;
- Tab 3 – CHS MSSSI Property Management Plan SOP; and,
- Tab 4 – CHS MSSSI Subcontractor Property Control SOP.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether \$15,146 for expired visa penalties are allowable under contract SAQMMA11D0073 and (b) recover any costs determined to be unallowable.

Management Response: The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management concurs with Recommendation 2. As a result, the Defense Contract Audit Agency (DCAA) perform an audit of the expired visa penalty costs as part of an overarching request by AQM for DCAA to audit the CHS incurred cost submissions required under the contract terms. In the interim, AQM will suspend the amount from CHS billings and require CHS to provide data to support the allowability of the costs as required by FAR 31.201-2, Determining Allowability, Paragraph (d), which states in part that a contractor is responsible for "...maintaining records, including supporting documentation, adequate to demonstrate that costs claimed [...] comply with applicable cost principles." FAR 31.205-15, Fines, Penalties, and Mischarging

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Costs, Paragraph (a) generally makes the cost of fines and penalties unallowable. During the period of performance covered in this audit, the rules and regulations within the nation of Iraq concerning visas were, and still are, in a considerable state of flux. For example, host nation law made it more cost effective for a contractor to allow a visa to expire and pay the cost of the subsequent exit visa fine than to go through the process and expense of timely renewal. Additionally, due to unforeseen obstacles and evolving host nation law, having medical professionals leave Iraq due to an expired visa without the assurance that the individual would be allowed back in the country would have jeopardized the health and safety of U.S. government personnel at Post. DCAA will review the costs for allowability upon receipt of the records and advise AQM if the costs should ultimately be disallowed (i.e., questioned) or provisionally approved pending final determination during the annual incurred cost audit.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether \$6,087,633 in unsupported charges and \$685,249 in associated General and Administrative charges are allowable under contract SAQMMA11D0073 and (b) recover any costs determined to be unallowable.

Management Response: The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management concurs with Recommendation 3. As a result, AQM will request DCAA perform an audit of the \$6,087,633 in unsupported charges and \$685,249 in associated General and Administrative charges, identified by OIG, as part of an overarching request by AQM for DCAA to audit the CHS incurred cost submissions required under the contract terms.

For AQM to correctly identify the cost concerns to DCAA, AQM requests the OIG provide additional details to include the invoice number, invoice date, invoice page number(s), cost element(s), and line item(s), for the \$6,087,633 in unsupported charges and \$685,249 in associated General and Administrative charges. Once furnished, AQM will request CHS to provide documentation for these unsupported costs. AQM will notify CHS of its intent to suspend the amount from CHS billings in 30 days and require CHS to provide data to support the allowability of the costs as required by FAR 31.201-2, Determining Allowability, Paragraph (d), which states in part that a contractor is responsible for "...maintaining records, including supporting documentation, adequate to demonstrate that costs claimed [...] comply with applicable cost principles." DCAA will evaluate the costs and related records and advise State if the costs, plus associated indirect costs, should ultimately be

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disallowed (i.e., questioned) or provisionally approved pending final determination during the annual incurred cost audit.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether overtime charged by the contractor under contract SAQMMA11D0073 but not paid to contractor employees was reasonable or constituted profit in excess of the contract's negotiated profit ceiling of 10 percent and (b) recover any costs determined unreasonable or in excess of the contract's negotiated profit ceiling.

Management Response: The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management cannot agree or disagree with Recommendation 4 until clarification is provided by the OIG. AQM respectfully bases the need for clarification on the following points:

- It is not clear what portion of the contract OIG is referencing when it states that the contractor has earned profit in excess of the contract's negotiated profit ceiling of 10 percent. AQM requests that OIG provide the referenced contract section and paragraph.
- Page 15 of the draft audit report states in pertinent part, "...the contractor submitted claims for overtime worked without obtaining the CO's prior approval as required by the contract." It is not clear what portion of the contract OIG is referencing. AQM requests that OIG provide the referenced contract section and paragraph.
- It is not clear whether OIG, in its reference to overtime, means "the premium portion of the overtime labor rates" or other. AQM requests that OIG clarify.
- Page 15 of the draft audit report states in pertinent part, "...the contractor was invoicing the Department for overtime hours although the contractor does not compensate its staff for the additional hours worked." AQM requests that OIG provide the basis for suggesting that U.S. government payment to a contractor for overtime, which is not subsequently paid to contractor employees under the time portion of a time-and-materials task order/contract, may not be reasonable.
- Page 15 of the draft audit report states in pertinent part, "...the contractor increased its negotiated profit by an additional 36 percent..." AQM requests

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that OIG identify its basis for suggesting that, under the time portion of a time-and-materials task order/contract, the effective profit percentage cannot differ from the negotiated profit percentage.

On receipt of the above clarifications, AQM will take the action(s) necessary to address this recommendation.

Attachments:

- Tab 1 – CHS MSSSI Property Control SOP
- Tab 2 – CHS MSSSI Property Accountability SOP
- Tab 3 – CHS MSSSI Property Management Plan SOP
- Tab 4 – CHS MSSSI Subcontractor Property Control SOP

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Approved by: A/LM – Catherine I. Ebert-Gray

Drafter: A/LM: [Redacted], 703-875-[Redacted] (b) (6)

Cleared: A/LM/AQM: [Redacted] (6) (03/06/2015)
A/LM/AQM: [Redacted] (b) (6) (03/06/2015)
A FO: [Redacted] (b) (6) (03/06/2015)
M: [Redacted] (b) (6) (03/10/2015)
M/PRI: [Redacted] (b) (6) (03/09/2015; edits)

APPENDIX C: BUREAU OF NEAR EASTERN AFFAIRS RESPONSE



United States Department of State

Washington, D.C. 20520

March 6, 2015

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MEMORANDUM

TO: OIG/AUD – Norman P. Brown

FROM: NEA-SCA/EX Executive Director Edward M. Alford *EA*

SUBJECT: NEA Response to February 2015 Draft Report on Audit of the U.S. Mission Iraq Medical Services

Below is NEA-SCA/EX and Mission Iraq's response to the subject report. The point of contact for this response is Tom Canahuate, who can be reached at 202-647-[REDACTED] (6)

Prior to responding to OIG's four recommendations concerning the Medical Service Support Iraq (MSSI) contract, some of the information presented within the subject report should be revised to make the environmental situation within Iraq clearer. Additionally, the Department believes that the final point mentioned at the bottom of the first page of the report needs to be emphasized, "OIG found as additional personnel were assigned, the amount of questioned costs decreased."

Although a Baghdad Mission policy established the Contract Management Office (CMO) in August 2013, the CMO within Iraq was not fully resourced until several months later. Specifically, a medically experienced Assistant Contracting Officer's Representative (ACOR) was hired, but not available until February 18, 2014. The medical ACOR was hired to provide greater oversight and serve as a contract property administrator. As noted in the OIG report, two independent validation and verification contractors (IV&V) were added to serve as a contract specialist and an invoice reviewer. Lastly, Defense Contract Audit Agency (DCAA) auditor services were obtained through an interagency agreement to assist with the overall CMO contract oversight and invoice review efforts, with two auditors being assigned to the Embassy in Baghdad in February 2014.

Although the two IV&V contractors were obtained in May 2013, initial IV&V services focused on the Baghdad Life Support (BLiSS) Technical Evaluation Panel

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(TEP) being held in Washington D.C. The IV&V contractors did not arrive in Iraq until August 2013. Once the two IV&V contractors arrived, they had to in-process and begin supporting the transitions to BLiSS and the Operations and Maintenance Support Services (OMSS) contracts. The one invoice specialist assisted with the review of invoices but a draft invoice review standard operating procedure (SOP) was not developed until December 2013. Invoice SOP refinements continue to be developed based on changing circumstances and acquired experience.

Standard CMO procedures utilize DCAA auditors for the review of cost proposals and the conduct of business operations audits on the MSSSI, BLiSS and OMSS contracts. DCAA also supports the review of contract invoices at times. Regarding recommendation four in the OIG report, the CMO program manager, the MSSSI COR, and the DCAA supervisor at the Embassy met with OIG personnel concerning the reported CHS overtime issue. DCAA discovered this issue as a result of a requested CMO audit. Per the current CMO invoice processing SOP, all invoice payments made to a CMO contractor are considered “provisional” payments until a DCAA incurred cost audit is completed, see Tab – Authorization of Payment Template.

Attachment:

Tab - Authorization of Payment Template

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Drafted: NEA-SCA/EX/Iraq: [Redacted] (b) (6) Cell: [Redacted] (b) (6)

Cleared: NEA-SCA/EX/Iraq: [Redacted] ok
EMB Baghdad: [Redacted] (b) (6) ok
CMO Frankfurt: [Redacted] (b) (6) ok

Authorization of Payment for Contracted Work Completed and/or Deliverables Received

Contract Number: SAQMMA-
Task Order Number: SAQMMA-
Invoice Number:
Invoice Date:
Billing Period:
Total Amount Approved: \$

I certify that, to the best of my knowledge and belief, the service that has been invoiced has been performed and/or the goods or supplies invoiced have been received, and this invoice may be processed for provisional payment. However, this payment approval, including verification of service performed and/or goods or supplies received, is subject to any service audits that may be subsequently conducted by the Defense Contract Audit Agency (DCAA) and/or the Contract Management Office (CMO) to determine allowability, reasonableness, and allocability of costs claimed.

[Redacted] (b) (6)

_____ Date

The following item(s) were identified as suspended or disallowed (see explanation provided for each item). Withhold the following amount(s) until the contractor has provided sufficient evidence to allow for provisional payment approval.

[Redacted] (b) (6)

_____ Date

Revised November 17, 2014

ABBREVIATIONS

A/COR	Assistant Contracting Officer's Representative
A/LM	Bureau of Administration, Office of Logistics Management
CHS	CHS Middle East LLC
CMO	Contract Management Office
CO	Contracting Officer
COM	Chief of Mission
COR	Contracting Officer's Representative
DBA	Defense Base Act
DCAA	Defense Contract Audit Agency
DSH	Diplomatic Support Hospital
<i>FAH</i>	<i>Foreign Affairs Handbook</i>
FAR	Federal Acquisition Regulation
G&A	general and administrative
HU	Health Unit
INL	Bureau of International Narcotics and Law Enforcement Affairs
IV&V	independent validation and verification
MSSI	Medical Support Services-Iraq
NEA	Bureau of Near Eastern Affairs
ODC	Other Direct Costs
OIG	Office of Inspector General

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