

**UNCLASSIFIED**

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

# Middle East Regional Office

PAE Operations and  
Maintenance Support  
at  
Embassy Kabul,  
Afghanistan

## Performance Evaluation

Report Number MERO-I-11-05, December 2010

### **IMPORTANT NOTICE**

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

**UNCLASSIFIED**



**United States Department of State  
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

**TABLE OF CONTENTS**

KEY FINDINGS . . . . . 1

INTRODUCTION . . . . . 3

EXECUTIVE SUMMARY . . . . . 5

    Results . . . . . 5

    Recommendations . . . . . 8

    Management Comments and OIG Response . . . . . 10

BACKGROUND . . . . . 13

    Operations and Maintenance Area of Responsibility . . . . . 15

OVERSIGHT OF CONTRACTOR PERFORMANCE . . . . . 17

    Award Fees . . . . . 18

    Labor Charges . . . . . 20

    Tax Relief . . . . . 22

PAE PERFORMANCE . . . . . 23

    Fuel Deliveries and Distribution . . . . . 23

        Fuel Deliveries . . . . . 23

        Fuel Distribution . . . . . 24

    Elevator Maintenance . . . . . 25

    Sanitation and Sewage Systems and Water Purification . . . . . 25

    Fire Protection Systems . . . . . 27

    Escort Services . . . . . 29

    U.S. Government-Furnished Property . . . . . 29

    Work Order System . . . . . 30

CONVERTING TO KABUL CITY POWER . . . . . 31

TRAFFICKING IN PERSONS . . . . . 35

ABBREVIATIONS . . . . . 37

APPENDIX I – PURPOSE, SCOPE, AND METHODOLOGY . . . . . 39

APPENDIX II – TRAFFICKING IN PERSONS SURVEY . . . . . 43

APPENDIX III – COMMENTS FROM THE BUREAU OF OVERSEAS

    BUILDINGS OPERATIONS . . . . . 45

## KEY FINDINGS

- The Department of State's (Department) oversight of PAE's performance has been affected by the contracting officer's lack of on-site management and by gaps in coverage and a lack of continuity in contracting officer's representatives (COR).
- From September 2006 to September 2009, expenditures for PAE operations and maintenance support exceeded funds transferred to the contract by an estimated \$10 million.
- OIG found problems with the administration of award fees paid to PAE including the lack of involvement of either the contracting officer or the COR in the process, payment of unauthorized award fees, and award fees paid for training that was not conducted.
- Embassy Kabul may be paying PAE twice for labor tasks under two sections of the contract.
- Embassy Kabul has been reimbursing PAE for taxes the contractor has paid to the Government of Afghanistan although Department policy directs U.S. missions to make their best efforts to obtain tax relief from host governments.
- The Afghan fuel vendor has been billing PAE for more generator and vehicle fuel than it has been delivering, and embassy procurement officers have been signing PAE invoices for fuel without reviewing them.
- PAE generally manages distribution of vehicle fuel effectively, but has not been recording the metered amount of fuel issued from the pumps. Moreover, fuel pumps have not been calibrated for several years and may not be accurate.
- PAE has properly maintained embassy elevators, but obtaining specification information and procuring elevator parts has been challenging.

## **UNCLASSIFIED**

- PAE has effectively maintained the embassy sewage systems and waste water treatment plant, and has provided an adequate and constant supply of purified water.
- Fire protection systems have been adequately maintained. However, there is a potential fire hazard in the embassy's west compound.
- Although PAE has not provided contractually required escort services to individuals without security clearances for at least one year, the embassy has continued to pay the contractor for such services.
- PAE has effective control over U.S. Government-furnished property.
- PAE has been unable to ensure timely completion of work orders using the Work Order System for Windows.
- Embassy Kabul could realize significant cost savings by converting from PAE's diesel fuel-generated electrical power system to Kabul City Power to meet its current and future electricity needs.
- There is no evidence that PAE has engaged in trafficking in persons by recruiting or maintaining labor through the use of force, fraud, or coercion.

## INTRODUCTION

In September 2005, Pacific Architects and Engineers Government Services, Inc. (PA&E, now called PAE)<sup>1</sup> was awarded the Department of State's (Department) Embassy Kabul operations and maintenance contract for various embassy buildings and life support functions in the east and west sections of the embassy compound. From the start of the contract in September 2005 until September 2009, Embassy Kabul has obligated a total of \$29 million on the PAE contract. Currently, PAE has more than 50 employees dedicated to the contract in Kabul. Approximately 27 of these employees are locally employed staff. The contract is currently in its final option year which will extend from September 2010 to March 2011. In July 2010, the Department issued a solicitation for continued operations and maintenance services.

The Middle East Regional Office (MERO) of the Office of Inspector General (OIG) initiated this evaluation under the authority of the Inspector General Act of 1978, as amended,<sup>2</sup> due to concerns about the Department's control over the performance of contractors. Specifically, the objectives of this evaluation were to determine: (1) the requirements and provisions of the contract and task orders; (2) the amount of funding the Department has obligated and expended to provide embassy facility operations and maintenance through contracts for FY 2005–2009; (3) the effectiveness of PAE's contract performance in providing facility operations and maintenance to Embassy Kabul; (4) how well the Department administers and manages the contract and task orders to provide oversight of PAE's performance in Afghanistan; (5) how the Department ensures that costs are properly allocated and supported; and (6) whether the Department contract includes Federal Acquisition Regulation (FAR) clause 52.222-50, which provides administrative remedies if, during the term of the contract, the contractor or subcontractor engages in severe forms of trafficking in persons.<sup>3</sup>

---

<sup>1</sup> The former PA&E is now a wholly-owned subsidiary of Lockheed Martin Corporation and is called PAE, a Lockheed Martin Company (PAE).

<sup>2</sup> 5 U.S.C. app. 3.

<sup>3</sup> 22 U.S.C. § 7104 (g) Termination of certain grants, contracts and cooperative agreements.

The President shall ensure that any grant, contract, or cooperative agreement provided or entered into by a Federal department or agency under which funds are to be provided to a private entity, in whole or in part, shall include a condition that authorizes the department or agency to terminate the grant, contract, or cooperative agreement, without penalty, if the grantee or any subgrantee, or the contractor or any subcontractor

(i) engages in severe forms of trafficking in persons or has procured a commercial sex act during the period of time that the grant, contract, or cooperative agreement is in effect, or  
(ii) uses forced labor in the performance of the grant, contract, or cooperative agreement.

## **UNCLASSIFIED**

In developing this evaluation, OIG met with Department officials from the Office of Acquisitions Management (AQM), personnel from various sections of Embassy Kabul, including the facilities management office, and with PAE management and service technicians. In Kabul, the OIG team reviewed program documents, financial reporting data, invoices and vouchers, and quality assurance and maintenance service reporting documents. The team evaluated the quality of the services provided by PAE to determine whether they met contract specifications, such as power generation, sanitation and sewage systems, and fire protection. The team also inventoried U.S. Government-furnished property. Finally, OIG met with U.S. Army Corps of Engineers staff and other technical experts to determine the feasibility of moving the embassy onto the city of Kabul's public electrical grid. OIG conducted this performance evaluation in accordance with the quality standards for inspections and evaluations issued in January 2005 by the Council of Inspectors General on Integrity and Efficiency.

**UNCLASSIFIED**

## EXECUTIVE SUMMARY

### RESULTS

The Department of State's (Department) oversight of PAE's performance has been affected by the contracting officer's lack of on-site management and by gaps in coverage and a lack of continuity in contracting officer's representatives (COR). Since September 2005, there have been four contracting officers assigned to the PAE contract. The current contracting officer, who has been in place for 18 months, has never been to Embassy Kabul. Five CORs have been assigned to the contract, with a 2-month gap in coverage between each COR. In addition, each COR takes 2 months of rest and relaxation leave in the course of a 12-month assignment, and during these leave periods no one has been overseeing contractor performance. Finally, contract files have not been well-maintained and are missing required documents.

From September 2006 to September 2009, the embassy expended an estimated \$10 million for PAE operations and maintenance support. These funds were expended without modifying the contract to transfer obligated funds, so the contract was not fully funded. Although the FAR prohibits such actions, Embassy Kabul routinely paid PAE invoices when the contract was not fully funded. In September 2009, AQM issued written procedures requiring the embassy to fully fund the contract in option year 4 (October 1, 2009 – March 31, 2011).

Problems with administration of award fees paid to PAE include the lack of involvement of either the contracting officer or the COR in the award fee process, retroactive payment of award fees before they were established or authorized, and award fees paid for training that was not conducted. Although the COR is required to review and assess PAE's reported level of performance to support award fees, no COR has ever prepared an assessment. Instead, the current COR relies on PAE's self-assessment and submits PAE's proposed award fee directly to the embassy financial management office. The contracting officer, who is supposed to determine the final award fee, has not been involved in the process. The embassy paid PAE \$193,600 in award fees for performance in the base year of the contract, 2005, before such fees were established or authorized. Finally, although PAE completed its contractually required training-related work at the end of 2005, the embassy continued to pay \$41,730 in award fees for training from 2006-2009.



## **UNCLASSIFIED**

Embassy Kabul may be paying PAE twice for labor under two sections of the maintenance and support contract. OIG's review of work orders revealed that although PAE employees record the number of hours spent on repairs and unexpected tasks, they do not record when the work is done. Thus, OIG could not determine whether this work was completed under the fixed-price section of the contract, the section specified for repairs and unexpected tasks, or both sections. Under the current practice, PAE may be "double dipping" for labor charges.

Embassy Kabul has been reimbursing PAE for taxes the contractor has paid to the Government of Afghanistan, although Department policy directs U.S. missions to make their best efforts to obtain tax relief from host governments. The *Foreign Affairs Manual* (FAM) directs posts to designate a responsible officer to hold discussions with the host government regarding tax relief,<sup>4</sup> but Embassy Kabul has not designated such an individual. The Department has reimbursed PAE \$325,474 for taxes it paid to the Government of Afghanistan, and is expecting further such expenditures.

The Afghan fuel vendor, National Fuel, Inc., has been billing PAE for more generator and vehicle fuel than it has been delivering, and embassy procurement officers have been signing PAE invoices for this fuel without reviewing them. By comparing vouchers and invoices with fuel level sensor records, OIG found that from December 2008 to April 2010, the embassy overpaid PAE \$81,841 for fuel deliveries. These PAE invoices were paid without review or reconciliation by any procurement officer at the embassy.

PAE generally manages distribution of vehicle fuel effectively, but is not recording the metered amount of fuel issued from the pumps. Moreover, fuel pumps have not been calibrated for several years and may not be accurate. PAE's fuel storage, operations, and the work environment are safe and secure. However, the fuel pumps lack "totalizers" to record all fuel issued. Metered recordings from totalizers of issued fuel could be compared to amounts recorded on paper to ensure no unrecorded fuel has been issued. Failure to calibrate fuel pumps since at least 2006 may be leading to inaccuracies in the amounts of fuel issued.

---

<sup>4</sup> 2 FAM 262 a.

## **UNCLASSIFIED**

PAE properly maintains eight embassy elevators in five buildings, but obtaining specification information and procuring elevator parts has been challenging because the elevators were manufactured by three separate companies. Maintenance, spare parts procurement, and warehousing would be more efficient if a single manufacturer was used, and the embassy has begun examining possible companies. Furthermore, a company other than PAE might be able to provide less expensive elevator maintenance.

Fire protection systems are adequately maintained, however, OIG found a potential fire hazard in the embassy's west compound related to the location of overhead sprinklers. In the generator and control rooms of the west compound, fire suppression pipes are located over electric switchgears; if the sprinklers were activated, there could be an explosion. The fire suppression system in the west compound is powered by one water pump. Although OIG initially identified the lack of a backup water pump as a problem, Embassy Kabul and the Bureau of Overseas Buildings Operations (OBO) noted in comments on a draft of this report that a single pump meets OBO standards and that the pump had been rebuilt in 2006. The PAE plant supervisor reported, however, that finding parts for the water pump has been difficult, and waiting for parts could increase the risk of system failure.

Although PAE is required to provide escort services for individuals without security clearances, it has not done so for at least one year, but the embassy has continued to pay PAE for these services. PAE has never filled an escort position vacated in February 2009, but has continued to invoice the embassy for escort services. The embassy has paid PAE \$248,820 for services that were not rendered.

PAE has effective control over U.S. Government-furnished property. An OIG inventory confirmed that PAE accounted for 100 percent of property inventoried, and all numbers matched inventory lists. OIG noted that special chemical-biological filters were safely and securely stored.

PAE has been unable to ensure timely completion of work orders using the Work Order System for Windows employed by OBO. In this system, routine tasks are automatically assigned 5 days for completion, although the contract requirement allows 30 days. Emergency repairs are also assigned 5 days, although they need to be completed immediately. These skewed assignments result in inaccurate 30-day PAE overdue reports which show completed and uncompleted tasks. In its comments on a draft of this report, OBO noted that these problems could be resolved if PAE staff members knew how to properly operate the system.

## UNCLASSIFIED

Embassy Kabul could realize significant cost savings by converting from PAE's diesel fuel-generated electrical power system to Kabul City Power (KCP) to meet its current and future electricity needs. To lessen air pollution in Kabul, the Government of Afghanistan has requested that embassies and other organizations convert from diesel generators to KCP's electric power grid. In 2009, the embassy supported a conversion, but cited technical issues that needed to be resolved. OIG determined that KCP should now be able to provide reliable and adequate electricity to meet the embassy's current and future needs, and the embassy should be able to integrate this power source into existing systems. OIG estimates current annual cost savings of \$2.3 million. When new construction at the embassy's east compound is complete, resulting in increased demand, annual cost savings could rise to approximately \$3.3 million.

Although the required clause regarding combating trafficking in persons is not in the PAE contract, OIG found no evidence that PAE has engaged in trafficking in persons by recruiting or maintaining labor through the use of force, fraud, or coercion.

## RECOMMENDATIONS

**Recommendation 1:** The Bureau of Administration should ensure that Embassy Kabul has sufficient contracting officer's representatives to provide proper oversight of PAE activities and that only authorized personnel approve invoice payments on behalf of the Department of State. (Action: Bureau of Administration)

**Recommendation 2:** The Bureau of Administration should seek reimbursement of \$193,600 from PAE for award fees paid for all four quarters of the base year of the contract (September 2005-September 2006), since performance criteria had not yet been established or authorized for that year. (Action: Bureau of Administration)

**Recommendation 3:** The Bureau of Administration should seek reimbursement of \$41,730 from PAE for award fees granted based on points earned for training in option years 1-3 (September 2006-September 2009), since all training-related work was completed at the end of the base year (September 2005-September 2006). (Action: Bureau of Administration)

**Recommendation 4:** Embassy Kabul should stop payment of labor fees to PAE for repairs and other unexpected tasks when this work by is performed by PAE personnel during routine duty hours under the firm fixed-price portion of the contract. (Action: Embassy Kabul)

## UNCLASSIFIED

**Recommendation 5:** Embassy Kabul should designate a U.S. Government direct-hire staff member to monitor and implement diplomatic tax relief from the Government of Afghanistan and seek reimbursement from PAE for \$325,474 paid under the contract for taxes assessed by the Government of Afghanistan. (Action: Embassy Kabul)

**Recommendation 6:** Embassy Kabul should seek reimbursement for overpayment of \$346,682 to the Afghan fuel vendor, National Fuel, Inc., for fuel from September 2005 through April 2010. (Action: Embassy Kabul)

**Recommendation 7:** Embassy Kabul should direct U.S. Government direct-hire procurement officers in the general services office to review and reconcile PAE fuel delivery records with vouchers submitted by the Afghan commercial fuel vendor, National Fuel, Inc., before clearing invoices for payment. (Action: Embassy Kabul)

**Recommendation 8:** The Bureau of Administration, in consultation with the Bureau of Overseas Buildings Operations, should direct the contractor responsible for building the new office and apartment buildings on Embassy Kabul's east compound to standardize and procure its elevator systems from one of the U.S. elevator manufacturers currently used by the embassy. (Action: Bureau of Administration, in consultation with OBO)

**Recommendation 9:** Embassy Kabul should determine whether an elevator maintenance company registered with the General Services Administration's Federal Supply Schedule offers a more cost competitive elevator maintenance service package than PAE and should consider this information when negotiating and finalizing the follow-on Embassy Kabul elevator operations and maintenance contract. (Action: Embassy Kabul)

**Recommendation 10:** Embassy Kabul, in consultation with the Bureau of Overseas Buildings Operations, should determine whether the location of fire suppression sprinklers over the high voltage switchgear in the power plant is a potential fire hazard that needs to be addressed. (Action: Embassy Kabul, in consultation with OBO)

**Recommendation 11:** The Bureau of Administration, in consultation with Embassy Kabul, should immediately modify the PAE contract and remove the escort services requirement. (Action: Bureau of Administration in consultation with Embassy Kabul)

## UNCLASSIFIED

**Recommendation 12:** The Bureau of Administration should seek reimbursement of \$248,820 from PAE for escort services invoiced and paid for, but not rendered, from March 2009 through June 2010. (Action: Bureau of Administration)

**Recommendation 13:** Embassy Kabul, in consultation with the Bureau of Overseas Buildings Operations, should ensure PAE personnel know how to operate the Work Order System for Windows, and that the system's software allows tracking of PAE's work orders. (Action: Embassy Kabul, in consultation with OBO)

**Recommendation 14:** Embassy Kabul should consider taking steps to convert its electrical power system to the Kabul City Power public grid which could result in potential annual cost savings of \$2.3 million in the short term and \$3.3 million in the medium to long term. (Action: Embassy Kabul)

**Recommendation 15:** Embassy Kabul should evaluate whether the \$1.36 million planned purchase of four generators to meet the electrical needs of new construction in the embassy's east compound is necessary. (Action: Embassy Kabul)

**Recommendation 16:** The Bureau of Administration should modify the PAE contract to include Federal Acquisition Regulation clause 52.222-50 (Combating Trafficking in Persons). (Action: Bureau of Administration)

## MANAGEMENT COMMENTS AND OIG RESPONSE

OBO provided formal written technical comments and management comments to this report, Embassy Kabul provided technical comments, and the Bureau of Administration did not provide comments. Overall, OBO and the embassy generally concurred with recommendations 1, 2, 3, 5, 6, 7, 8, 9, 12, 13, and 17 in the draft report. OIG adjusted the report text and recommendations based on input and technical comments from OBO and the embassy. Management comments from OBO are included verbatim in Appendix III.

In technical comments concerning recommendation 4, Embassy Kabul stated that additional labor charges are appropriate for work outside the fixed labor portion of the contract. Although this statement is correct, Embassy Kabul does not record when the work is completed. Thus, OIG could not determine whether this work was completed under the firm fixed-price section of the contract, the section specified for additional repairs and unexpected tasks, or both sections. Under the current practice PAE may be "double dipping" for labor charges. OIG believes this recommendation remains valid.

## **UNCLASSIFIED**

In its comments regarding recommendation 10, OBO noted that it cannot determine if the positioning of a fire suppression sprinkler over high voltage switchgear in the embassy's power plant is a deficiency. Embassy Kabul noted in its technical comments that the installation meets relevant codes for fire and electricity safety. Based on these diverging opinions on a potentially high risk safety issue, OIG believes this recommendation remains valid.

In OBO's and Embassy Kabul's comments on draft recommendation 11 concerning acquiring a backup for the aging water pump for the fire suppression system, they stated that the pump was rebuilt in 2006 and regardless, fire safety standards do not require a backup. The intent of the draft recommendation was to ensure the safety of embassy personnel. Based on OBO and embassy assurances that safety is not compromised, OIG has withdrawn this recommendation.

In comments on recommendation 13 (recommendation 14 in the draft report), OBO and Embassy Kabul stated that the Work Order System for Windows (WOW) is an application that has been used worldwide for many years without problems. OBO added that OIG's concerns with WOW could be better addressed through remedying access and training deficiencies. During this performance evaluation, OIG found problems that suggest deficiencies beyond training, including default settings that prevent segregation of PAE work orders from the embassy's general services office work orders and the ability to set specific timeframes for completion of tasks. However, since the intent of this recommendation is to improve Embassy Kabul's ability to ensure PAE's timely completion of work orders as specified in the contract, OIG has revised the recommendation accordingly.

In comments on OIG's recommendations that Embassy Kabul take steps to convert its electrical power system to the Kabul City Power public grid (recommendations 15 and 16 in the draft report, now recommendations 14 and 15), Embassy Kabul stated it fully supports the effort to move to commercially available electricity. However, the embassy also noted it could take several years to confirm the reliability of the electricity supply and convert. Embassy Kabul further stated it would not be prudent to suspend the purchase of generators for the east compound, since backup will be required even if the embassy is connected to the grid. Based upon OIG's discussion with electrical engineering experts in Kabul, most of the electrical reliability infrastructure issues have been resolved. Nonetheless, OIG expects that Embassy Kabul will conduct proper due diligence in determining the feasibility and timing of the conversion. As part of this due diligence, Embassy Kabul should carefully evaluate whether the major purchase of backup generators for the embassy's east compound is warranted. OIG believes the current recommendation 14 remains valid, and has revised the current recommendation 15 accordingly.

**UNCLASSIFIED**

**UNCLASSIFIED**



## BACKGROUND

On September 12, 2005, the Department awarded the Embassy Kabul operations and maintenance support contract to PA&E Government Services, Inc., now called PAE, a Lockheed Martin Company (PAE). Under this contract, PAE operates and maintains the utility systems for the embassy's west and east compounds (formerly known as the new embassy compound and café compound, respectively). Specifically, PAE provides support services 24 hours a day, 365 days a year, for electrical generation and distribution; heating and ventilation; water supply purification and distribution; fire protection; sewage and waste water treatment; elevator maintenance; and fuel storage and distribution for generators and vehicles. PAE also provides unscheduled services to embassy offices and living quarters and escort services for subcontractors and other individuals without security clearances who work at secure sites on the embassy compound.

**Figure 1: The photos below show a backup generator on the left and a high voltage PAE work crew on the right.**



Sources: OIG (left) and PAE (right)

The contract's value for the base year and four option years was \$39,111,819. As of September 2009, Embassy Kabul had obligated \$29 million and expended nearly \$23 million for operations and maintenance of the embassy compound. Table 1 shows funding by contract year.



**UNCLASSIFIED**

**Table 1: Embassy Kabul Operations and Maintenance Support Funding (in millions)**

	Base Year (9/27/05- 9/29/2006)	Option Year 1 (9/30/2006- 9/29/2007)	Option Year 2 (9/30/2007- 9/30/2008)	Option Year 3 10/1/2008- 9/30/2009	Total
Total Obligated	\$6.33	\$9.13	\$6.70	\$6.93	\$29.09
Total Expended	\$5.49	\$5.31	\$5.52	\$6.63	\$22.95

Source: OIG analysis of AQM data

Under the operations and maintenance support contract, the Department pays PAE monthly for fixed costs associated with preventive maintenance of utility systems. These costs are to maintain all the equipment and facilities associated with electrical generation, heating, water supply purification and distribution, fire protection, sanitation and sewage systems, fuel storage and distribution, and elevator maintenance. Overall, these costs were approximately 44.5 percent of contract expenditures for FY 2005-2009. Costs associated with PAE's administration and management of embassy operations make up the second largest category of reimbursement at 29.2 percent of the contract's value.<sup>5</sup> Other monthly fixed costs include a quarterly award fee program to induce excellent performance (3.8 percent); payments for scheduled and unscheduled repairs, such as generator overhauls (4.2 percent); and escort services for personnel without security clearances which allow them to work in secure embassy areas (3.3 percent). Other costs incurred by the embassy include one-time startup costs, such as developing the initial operations plan and training materials, and other expenses such as payment of Government of Afghanistan taxes, increased danger pay allotments to PAE staff members, and requests for services in additional buildings (15 percent). Table 2 below shows costs for PAE's services and program management.

---

<sup>5</sup>In the coming year, MERO plans to examine contractor administration and management costs more closely on a number of Department contracts.

## UNCLASSIFIED

Table 2: Department of State Expenditures for PAE Services and Program Management

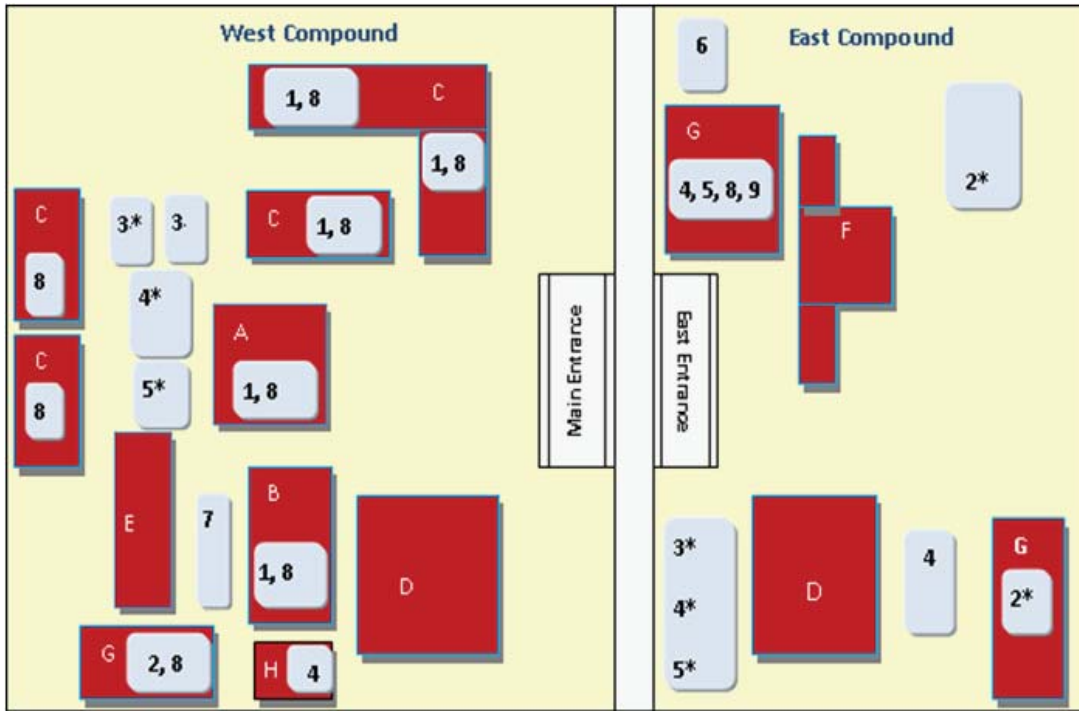
Type of Service	Base Year	Option Year 1	Option Year 2	Option Year 3	Total Expenditures
Electrical generation and distribution	\$672,180	\$707,576	\$683,832	\$709,908	\$2,773,496
Heating, air conditioning, and ventilation systems	647,760	671,416	648,300	672,408	2,639,884
Water supply purification and distribution system	301,620	313,932	303,648	315,492	1,234,692
Fire protection	221,592	230,888	222,852	231,048	906,380
Sanitation and sewage systems	269,580	354,196	271,860	282,108	1,177,744
Fuel storage and distribution systems	101,460	103,636	99,780	103,200	408,076
Elevator maintenance	180,684	185,088	178,296	184,476	728,544
Scheduled/unscheduled Repairs	-	198,863	99,188	625,472	923,523
Heating, air conditioning and chemical-biological filters	25,771	-	-	276,163	301,934
Administration and management	\$1,600,116	\$1,642,048	\$1,584,924	\$1,643,256	\$6,470,344

Source: OIG analysis of Embassy Kabul data

## OPERATIONS AND MAINTENANCE AREA OF RESPONSIBILITY

Embassy Kabul is scheduled to increase its staffing to 1,572 by the end of 2010, an increase of 778 percent from 179 staff members in 2005. Staffing is anticipated to grow another 16 percent in 2011 to 1,830 and then remain steady for the next 5 years. This increase includes personnel from a number of other U.S. Government agencies and a high volume of visitors. This “civilian uplift” has resulted in shortages of housing and office space. To remedy this situation, the embassy is expanding the east compound to include more single trailers, one 7-story and two 8-story apartment buildings, and additional non-permanent residences, and office space on a newly developed 7.5 acre area of the compound; converting single apartments to doubles; and building new facilities to increase office space on the west compound. This expansion will impact the capacity of the embassy’s physical infrastructure, resulting in an increased need for electricity and waste disposal. Figure 2 below shows primary PAE operational support services locations at Embassy Kabul.

Figure 2: PAE Operations and Maintenance Work Locations at Embassy Kabul\*



**Utility Systems**

- 1 Elevators
- 2 Electrical generators
- 2\* Future electrical generator
- 3 Sanitation and sewage system
- 3\* Future sanitation and sewage systems
- 4 Water treatment systems
- 4\* Future water treatment systems
- 5 Water well
- 5\* Future water wells
  
- 6 Fuel Station
- 7 Fuel Storage Tank
- 8 Heating and Ventilation
- 9 Fire Protection

**Buildings**

- A. Chancery
- B. Chancery Annex
- C. Residential Apartments
- D. Residential Trailers
- E. Warehouse
- C. Residential Apartments
- D. Residential Trailers
- E. Warehouse
- F. U.S. Agency for International Development (USAID)
  
- G. Utility Building
- H. Water Building

\*Not to scale and does not include all buildings.

Source: OIG analysis of data from Embassy Kabul's regional security office, the Bureau of Overseas Buildings Operations, and PAE.

## OVERSIGHT OF CONTRACTOR PERFORMANCE

The lack of on-site management by the contracting officer and gaps in coverage and a lack of continuity in contracting officer's representatives (COR) have affected oversight of contractor performance. The Bureau of Administration assigns the contracting officer who has authority to enter into, administer, and terminate the PAE contract and is responsible for a variety of tasks, including compliance with contract modifications, and safeguarding the interests of the Department in its contractual relationship with PAE. Since September 2005, there have been four contracting officers responsible for the PAE contract. OIG was not able to contact the first three contracting officers, but the current contracting officer, who has been in place for 18 months, has never been to Embassy Kabul.

Since the beginning of the contract, five CORs, based in Kabul, have been responsible for assuring, through liaison with the contractor, that PAE accomplishes the technical and financial aspects of the contract. OIG determined that from 2005 to 2009, there was approximately a 2-month gap in coverage between each COR assignment. These gaps between assignment dates resulted in a lack of continuity and breaks in the transfer of institutional knowledge. In addition, CORs' typical 12-month assignments include nearly 2 months of rest and relaxation leave away from post. At Embassy Kabul, during these periods of leave, no personnel have overseen contractor performance. The OIG team also noted that CORs were not maintaining adequate contract files, and the files did not contain all documents required by the Federal Acquisition Regulation (FAR).<sup>6</sup> The lack of adequate contract files unnecessarily burdens newly arriving CORs who need to quickly learn and understand contract requirements and PAE maintenance operations. The current COR told OIG he had limited knowledge of contract-related actions that occurred before his assignment started.

The current COR told the OIG team he is very aware of PAE's performance of its operations and maintenance, but he has little knowledge of contract management

---

<sup>6</sup> FAR Subpart 4.8—Government Contract Files, including sections 4.801, 4.802, and 4.803.

and proper cost allocation. For example, CORs are required to review and approve all contractor invoices for payment. However, OIG found that CORs, without authorization from the contracting officers, have delegated these responsibilities to other embassy employees. OIG examined 30 invoices totaling more than \$7.75 million that were approved for payment by unauthorized personnel and subsequently paid. The contracting officer told OIG he had no knowledge of this practice.

OIG reviewed obligation and expenditure data and determined that the contract was not fully funded through proper modification for option years 1-3, in accordance with FAR policy.<sup>7</sup> According to Embassy Kabul records, expenditures in these option years exceeded funds transferred to the contract by approximately \$10 million. If a contract is not fully funded, then the Department cannot accept supplies or services under it until the contracting officer notifies the contractor in writing that funds are available.<sup>8</sup> However, OIG found that Embassy Kabul routinely paid PAE invoices during this time period when the contract was not modified to transfer funds, and thus was not fully funded. Neither the contracting officer, the COR, or the Embassy Kabul financial management office could explain the funding discrepancy. OIG learned that in September 2009, AQM had directed the embassy in writing to fully fund the contract for option year 4 (October 1, 2009 – March 31, 2011).

## AWARD FEES

OIG identified multiple problems with the Department's administration of award fees paid to PAE, including lack of involvement of the contracting officer and COR in the process, retroactive payment of award fees in 2005 before they were established or authorized, and award fees paid to PAE for training that was not conducted. According to the award fee contract modification, an award fee is a monetary amount sufficient to motivate and positively influence the contractor to concentrate resources and effort in areas critical to program success.<sup>9</sup> At the start of option year 1 (September 30, 2006), the PAE contract was amended to include an award fee plan. Since the start of the contract, the Department has paid PAE a total of \$896,460 in award fees (in quarterly installments). Table 3 shows quarterly award fees paid to PAE by the Department.

---

<sup>7</sup> FAR Subpart 32.7—Contract Funding.

<sup>8</sup> FAR Subpart 32.703-2(c).

<sup>9</sup> The total award fee was set at no more than 5 percent of the total cost of the operations and maintenance support group of services in the contract. For example, the total value of this group in option year 1 was \$4,468,668. So, PAE could earn up to 5 percent of this amount, or \$223,433 in award fees.

**UNCLASSIFIED**

**Table 3: Award Fees Paid to PAE by the Department of State**

<b>Contract Year</b>	<b>Award Fees</b>
<b>Base</b>	
1st Qtr	\$45,395
2nd Qtr	47,482
3rd Qtr	49,048
4th Qtr	51,657
<b>Option Year 1</b>	
1st Qtr	49,500
2nd Qtr	53,350
3rd Qtr	60,357
4th Qtr	57,353
<b>Option Year 2</b>	
1st Qtr	57,652
2nd Qtr	49,244
3rd Qtr	57,652
4th Qtr	57,052
<b>Option Year 3</b>	
1st Qtr	60,441
2nd Qtr	63,505
3rd Qtr	68,386
4th Qtr	\$68,386
<b>Total</b>	<b>\$896,460</b>

Source: OIG analysis of Embassy Kabul and PAE data

PAE is required by contract to prepare and submit to the contracting officer and the COR a report demonstrating “very good” to “excellent” levels of performance in seven evaluation areas.<sup>10</sup> The COR is then required to review and assess the PAE report and recommend an award fee amount to the contracting officer. The contracting officer determines the final award fee.

---

<sup>10</sup> These seven areas are electrical generation, heating and air conditioning, water supply and distribution, elevator maintenance, program management, development of on-the-job training guides, and training curriculum.

## **UNCLASSIFIED**

OIG's review of contract files indicated that none of the five CORs assigned to the PAE contract has ever prepared such an assessment. The current COR told the OIG team he is too busy managing embassy operations to evaluate PAE's performance and related award fees. He stated that instead he relies on PAE's self-assessment reports to determine award fee amounts. The contracting officer told the OIG team that although it is contractually required, he has not been included in the award fee process, and he has never seen PAE's self-assessment reports. CORs have submitted PAE's proposed award fees directly to the embassy's financial management office for payment. The contracting officer in AQM has added funds to the contract for PAE's award fees, but this additional funding has apparently never raised concern in AQM's internal control processes.

The award fee plan was referenced in PAE's base contract, but it was not until option year 1 that award criteria were established and the award fee plan formally authorized. Nonetheless, OIG's review of invoices revealed that at the end of the first quarter of option year 1, the embassy retroactively paid PAE \$193,582 in award fees for all four quarters of the base year (see Table 3 above). Thus, PAE received award fees for these four quarters based on performance criteria neither established nor authorized by the contract.

Finally, according to the contract, each quarter's award performance is to stand alone—accomplishments from a previous quarter cannot be used to support a subsequent quarter's assessment. For example, OIG found that PAE completed its training-related requirement to develop training guides in the fourth quarter of the base year. However, in its award fee self-assessments, PAE has included points for training each quarter since the contract started (that is, even before the award fee plan was authorized), although Embassy Kabul has never pursued additional training-related opportunities. The inclusion of training in award fee calculations resulted in a payment to PAE of \$41,730 for 2006-2009.

## LABOR CHARGES

Embassy Kabul may be paying PAE twice for labor under two sections of the contract. The PAE contract is firm fixed-price<sup>11</sup> for specific contracted services. Under the contract, most of PAE's operations and maintenance support services are pre-negotiated except for repairs or other unexpected tasks. When repairs and unexpected tasks arise, the contracting officer or COR issues a task order request to PAE describing the specific support required by the embassy. According to the contract,

---

<sup>11</sup> FAR 16.202-1 states, "A firm-fixed-price contract provides for a price that is not subject to any adjustment on the basis of the contractor's cost experience in performing the contract."



## **UNCLASSIFIED**

PAE should then submit a written technical proposal and a separate detailed cost proposal that includes labor, overtime hours, and rates. In actuality, PAE has been submitting cost proposals that include only the estimated number of hours to complete tasks; overtime hours are not listed separately. For example, in September 2009, in response to an embassy task order request, PAE submitted a proposal to install a new lighting system for the embassy's tennis courts for \$43,133, which included \$17,406 for labor. The proposal indicated an estimated number of hours to complete the task but did not indicate whether this labor would be performed as overtime.

OIG's review of work orders found that PAE employees record the number of hours worked on a specific project but not when work is actually conducted. Thus, OIG could not determine whether PAE was paid for services rendered under the firm fixed-price portion of the contract, the section for additional repairs and unexpected tasks, or both. According to the PAE program manager, employees may be charging for labor under the firm fixed-price contract while also charging for conducting repairs and unexpected task work. The program manager acknowledged that under the current practice PAE may be "double dipping" for labor charges.

According to a PAE official, payment for repairs and unexpected tasks is not specifically for labor and parts even though these are detailed in the proposal. Rather, payment is for work done outside the scope of the base firm fixed-price contract. PAE decides how to hire and compensate employees who accomplish the work. This official noted that initially a portion of the labor fees was given to employees who actually performed the work, but this practice was discontinued by PAE management.

The COR told the OIG team he saw no problem with PAE workers who have completed their routine duties working on special projects (repairs and unexpected tasks), or with the Department paying PAE extra for this work. He stated he is concerned that the work gets done, rather than whether PAE earns extra profit. In reviewing invoices from 2005-2010, OIG found 25 repair and unexpected task orders worth \$155,000 in additional labor charges.



## TAX RELIEF

Embassy Kabul has been reimbursing PAE for taxes paid to the Government of Afghanistan although FAM policy directs U.S. missions to make their best efforts to obtain tax relief from host governments.<sup>12</sup> According to 2 FAM 261, “To the extent possible, the Department seeks to obtain total relief from taxation for U.S. posts and their diplomatic agents, consular officers, and administrative and technical staff from local, regional, and/or federal foreign government taxes.” The FAM directs each post to make its best efforts to obtain tax relief through discussions with the government.<sup>13</sup> Since the start of the PAE’s contract in 2005, the Department has reimbursed PAE \$325,474 for business taxes incurred in Afghanistan, and PAE expects total reimbursement for \$697,358 in taxes through March 2011. At present, the United States does not have a bilateral agreement formalizing and guiding its diplomatic relationship with the Government of Afghanistan, including relief from taxation. Although required by the FAM, the embassy has not designated a responsible officer to monitor and implement diplomatic tax relief and to liaise with representatives from other U.S. Government agencies.<sup>14</sup> Embassy officials indicated they do not know how many companies working for the embassy or other U.S. Government agencies are paying taxes to the Government of Afghanistan, but they estimated the number of agencies and tax assessments could be significant.

---

<sup>12</sup> The Vienna Convention on Diplomatic Relations reflects long-standing principles of international law that one government does not tax another. In light of this principle, the Department considers any taxation of U.S. posts or accredited personnel to be in contravention of international treaty obligations.

<sup>13</sup> 2 FAM 262 b.

<sup>14</sup> 2 FAM 262 a.

## PAE PERFORMANCE

### FUEL DELIVERIES AND DISTRIBUTION

#### Fuel Deliveries

The Afghan fuel vendor has been billing PAE for more fuel than it is delivering for embassy generators and vehicles, and embassy procurement officers are neither reviewing nor reconciling fuel delivery reports before signing PAE fuel invoices. Embassy Kabul procures generator diesel fuel and diesel fuel and gasoline for vehicles from an Afghan commercial vendor, National Fuel, Inc. The embassy receives 1-2 shipments of fuel each day, depending on seasonal weather conditions and usage rate. The fuel tanks at the embassy's east and west compounds contain fuel level sensing devices (provided by an American company, Pneumercator, Inc.) that record fuel levels before and after the fuel off-loading. The OIG team's examination of available fuel delivery documents from December 2008 to April 2010 revealed that the Afghan vendor has consistently provided less fuel (on average 200-300 liters per shipment) than billed fuel delivery amounts indicate. OIG's analysis of the corresponding vouchers and invoices for these fuel deliveries shows that from December 2008 to April 2010, the embassy overpaid the commercial vendor \$81,841. Table 4 shows fuel storage locations, reviewed time periods, the variance between the billed and actual amounts of fuel received, and overpayment amounts.

**Table 4: Summary of Variance and Overbilling of Fuel Deliveries to Embassy Kabul**

	Liters Billed	Actual Liters Received	Variance in Liters	Overpayments*
Embassy West Generator 12/27/08-4/15/09	4,227,000	4,158,546	68,454	\$53,493
Embassy East Generator 5/25/09-4/6/10	1,354,715	1,330,802	23,913	\$18,687
Embassy East Vehicle Diesel 5/25/09-4/6/10	256,893	248,504	8,389	\$6,556

*table continued on next page*

**UNCLASSIFIED**

*table continued*

	Liters Billed	Actual Liters Received	Variance in Liters	Overpayments*
<b>Embassy East Vehicle Gas 5/25/09-4/22/10</b>	161,963	157,989	3,974	\$3,105
<b>Total</b>	6,000,571	5,895,841	104,730	\$81,841

Source: OIG analysis of PAE and Embassy Kabul data

\*Fuel deliveries are measured in liters, but invoiced and paid in gallons. The price per gallon is \$2.9581; liters have been converted to gallons by multiplying the number of liters by .26417. Overpayments were then calculated by multiplying the resultant number of gallons by the price per gallon.

The OIG team found that embassy procurement officers in the general services office have not been reviewing fuel delivery reports before signing invoices for payment to PAE. Extrapolating overpayment amounts for the time period examined to the start of the PAE contract in September 2005, OIG estimates that the embassy may have overpaid \$346,682 for fuel deliveries. Furthermore, under-delivery of fuel may extend beyond this embassy contract to dozens of other U.S. Government fuel delivery contracts in Afghanistan. A Department of Defense procurement official told the OIG team the U.S. military uses approximately 12 million liters of fuel per month at Bagram Airfield north of Kabul. OIG has contacted and informed other Inspectors General active in Afghanistan of this potential vulnerability.

## Fuel Distribution

Although PAE generally manages distribution of vehicle fuel effectively, the contractor has not been recording the metered amount of fuel issued from the pumps and moreover, the fuel pumps have not been calibrated for several years. Only authorized vehicles are eligible to receive fuel, and PAE maintains a recording system that documents the dispensing of fuel to each vehicle. PAE operates a secured system for fuel storage and maintains a safe work and fuel operation environment. However, OIG noted two control weaknesses in fuel distribution to vehicles. Vehicle fuel pumps do not have totalizers, which are meters designed to continuously record all fuel issued from the pumps. As a management control practice, PAE managers should routinely record totalizer meter amounts, for example, at the beginning or end of work shifts. For each pump, the metered amount of fuel issued should be compared to the amount of fuel recorded on paper during the same timeframe to ensure no unrecorded fuel has been issued. OIG also found that the fuel pumps have not been calibrated to ensure accurate measurements since at least 2006. As a result, the meters may not be accurately reflecting the amount of fuel issued.

## ELEVATOR MAINTENANCE

PAE properly maintains embassy elevators as specified in its contract, however, obtaining specification information and procuring parts for the elevators has been challenging. PAE is contractually required to maintain eight elevators at the embassy's west compound including maintenance of the electrical support systems, mechanical systems, and accessory components to ensure proper certification and licensing. The embassy pays PAE \$182,136 annually for these services. Based on OIG's review of monthly quality control reports and quarterly quality assurance reports and discussions with personnel who use the elevators in the five buildings where they are located, PAE has satisfied this contract requirement. The OIG team noted that PAE completed all required monthly preventive maintenance tasks in the contract's reliability-centered maintenance plan.

The eight elevators were supplied by three different manufacturers—two based in the U.S. and a Turkish company—which has proven challenging for obtaining specification information and procuring spare and replacement parts. The embassy plans to install elevators in the new office and apartment buildings being constructed on the embassy's east compound. Based on discussions with engineers from the Bureau of Overseas Buildings Operations (OBO), OIG concluded that maintenance, spare parts procurement, and warehousing would be more efficient if embassy elevators were standardized. These officials also stated it would be more cost effective if a company that is registered and has a pre-negotiated contract with the General Services Administration's Federal Supply Schedule maintained the elevators. The OIG team attempted to obtain comparative elevator maintenance cost information from the General Services Administration, but did not receive the information in time for this report's publication. However, by the time of publication, the embassy reported that it had begun looking into alternate elevator manufacturers.

## SANITATION AND SEWAGE SYSTEMS AND WATER PURIFICATION

PAE has effectively maintained the embassy sewage systems and waste water treatment plant, so they remain functional and provide adequate waste disposal. OIG found that to support the exponential growth of Embassy Kabul's staff, OBO recently installed an additional 40,000-gallon sewage tank on the embassy's west compound (see Figure 3, new tank on left side of photo) to supplement the existing 40,000-gallon sewage tank (see Figure 3, existing tank on right side of photo). According to the PAE waste water and sanitation supervisor, OBO is in the process of installing a 70,000-gallon sewage tank and building a sewage processing plant in the

expanded area of the embassy's east compound. The 70,000-gallon tank will increase the existing 7,000-gallon tank capacity currently supporting the east compound residential and office infrastructure.

**Figure 3: This photo shows sewage tanks on Embassy Kabul's west compound.**



Source: OIG

Based on interviews with PAE staff and review of PAE's quarterly self-assessment and monthly quality control reports, OIG determined that PAE has provided a purified water supply 24 hours a day, 365 days a year, and has ensured that water is adequately distributed to Embassy Kabul buildings and grounds pursuant to contract requirements. PAE's water purification supervisor indicated that PAE conducted both monthly and quarterly tests on the purified drinking water, and that it meets Department standards.<sup>15</sup> According to the COR and confirmed by PAE reports, water has only been unavailable for short periods of time during scheduled maintenance.

---

<sup>15</sup> *Drinking Water Safety Program*, Bureau of Administration's Office of Safety/Health and Environmental Management, revised August 2004.

## FIRE PROTECTION SYSTEMS

Although PAE has adequately maintained fire protection systems as required by its contract, OIG found a potential fire hazard in the embassy's west compound related to the location of sprinklers in the generator and control rooms. In comments on a draft of this report, OBO and the embassy dispelled OIG's initial concerns regarding the water pump that powers the fire compression system in the west compound. Embassy fire protection systems include all primary facilities and accessory systems in the interiors of buildings, fire alarms inside buildings, compound encompassing sprinklers and piping systems, the compound fire main from the diesel fire main pumps to the interior of the buildings, and fire hydrants. The embassy pays PAE \$226,595 annually for fire protection systems maintenance services. PAE has completed all required monthly preventive maintenance tasks contained in the contract's reliability-centered maintenance plan.

According to the PAE power plant supervisor, there could be a fire hazard at the embassy's west compound in the generator and control rooms where several transformers, transfer switches, converters, and other electric gear—the switchgear—are exposed to overhead sprinklers. In particular, fire suppression pipes with sprinklers are located over the 15,000-volt switchgear in the power plant. Should the sprinklers activate, water, a conductive substance, would fall directly on the live switchgear, which could lead to an explosion. An OBO fire protection systems official agreed that fire sprinklers should not be installed directly over the switchgear footprint, but contended that these sprinkler locations meet the National Fire Protection Association's *NFPA 13: Standard for the Installation of Sprinkler Systems*.

Figure 4: This photo shows the sprinkler system (up arrow) above the switchgear (down arrow) in the west compound.



Source: OIG

The PAE power plant supervisor also indicated that the entire fire protection system could fail if the fire suppression system water pump malfunctioned. The pressure and flow of water for the fire suppression system throughout the embassy's west compound is powered by this pump. The supervisor further noted that a slight problem with any of the numerous mechanisms that start or run the pump could leave it unable to start or cause it to stop running. In that event, water would not flow out of the fire suppression sprinkler pipes. OIG had initially identified problems with the age of this water pump in the west compound and the lack of a backup pump. However, in comments on a draft of this report, the embassy and OBO noted that the water pump had been rebuilt in 2006 and that a single pump complies with OBO standards.

According to the embassy, the fire suppression system is tested weekly, but should the pump break, it could be difficult to find parts, especially since the system manufacturer (National Fuels of Canada) is no longer in business. For example, the PAE power plant supervisor noted that, prior to his arrival at the embassy in 2006, the cooling outlet for the engine froze and blocked the flow of cooling water. When the engine was started, it overheated and ruined the cylinder head—it took several months to get a new cylinder head. While waiting for the part, the embassy risked the possibility of another failure.



## ESCORT SERVICES

For at least one year, PAE has failed to provide contractually required escorts for individuals without security clearances who need access to various areas of the embassy. Nevertheless, the embassy has continued to pay PAE for these invoiced services. PAE is required by contract to provide a U.S. citizen with a security clearance, full-time, to escort other Americans, third-country nationals, and locally employed staff conducting repairs in secure areas within the Embassy Kabul chancery. The embassy has paid PAE \$180,753 annually for these services. Based on a review of program documents, OIG determined the PAE escort departed Afghanistan in February 2009 and was never replaced. OIG confirmed with the PAE senior program manager that this escort position is still vacant. In lieu of a full-time escort, PAE incorporated escort responsibilities into the duties of an electrician/control specialist who is paid as a full-time electrician. A senior embassy official told OIG that the embassy hired two spouses of embassy personnel to serve as escorts. The embassy paid PAE \$248,820 from March 2009 to June 2010 for escort services not rendered.

## U.S. GOVERNMENT-FURNISHED PROPERTY

PAE has effective control over U.S. Government-furnished property. OIG conducted a physical inventory focused on stationary utility equipment (for example, generators, water pumps, hot water boilers, and air handling units) and consumable property related to heating and ventilation systems, in particular, filters designed to protect against chemical, biological, and radiological (nuclear) incidents or bio-chem filters. PAE has accounted for 100 percent of the U.S. Government-furnished property OIG inventoried.

OIG canvassed the embassy's west and east compounds and located all 73 pieces of utility equipment for which PAE is responsible, including equipment inside office buildings, on building rooftops, and in various outside locations around the compounds. All equipment was properly marked with specific numbers associated with PAE's inventory list.

PAE maintains an inventory of three different types of heating and ventilation filters—pre-filters, high efficiency particulate air or HEPA filters, and bio-chem filters. OIG accounted for all bio-chem filters during its inventory and observed that PAE stored the bio-chem filters in a secure location because they are considered hazardous (composed of carbon and other harmful materials). Bio-chem filters are special in their ability to filter out and absorb particles from a chemical, biological,



or nuclear attack, offering a better chance of human survival. The COR indicated to OIG that, due to the nature of these filters, OBO will hire bio-hazardous materials specialists to replace the filters within the next few months.

**Figure 5: This photo shows pre-filters inside a heating and air conditioning unit.**



Source: OIG

## WORK ORDER SYSTEM

PAE has been unable to effectively use OBO's Work Order System for Windows (WOW) to ensure its work orders are completed in a timely manner. PAE is required to provide routine maintenance on major utility systems and accept service calls 24 hours a day, 365 days a year. In addition, PAE is required to meet specific work order deadlines based on the category of repair (that is, emergency, urgent, routine, or deferred). Contractually, PAE must maintain the service tickets in OBO's WOW, which is controlled and operated by Embassy Kabul. Because of problems with WOW, OIG was unable to determine if PAE met the service timelines.

According to the PAE program manager and OIG's observation of WOW, each work order is automatically assigned as "routine," with 5 days to complete the task. By contract, however, PAE has 30 days to complete routine tasks. In addition, the system also assigns emergency repairs 5 days for completion, when these work order requests require immediate action. Thus, PAE's 30-day overdue reports are inaccurate, showing tasks that were actually completed on time as not completed. Furthermore, work orders from Embassy Kabul's general services office and PAE are comingled, and the system is unable to distinguish between each organization's work orders. Between 2005 and 2009, PAE completed 24,630 work orders of which 89 percent were for routine maintenance and 11 percent for service/repair calls. In comments on a draft of this report, OBO noted that these problems could be resolved if PAE personnel knew how to properly operate WOW.

## CONVERTING TO KABUL CITY POWER

Embassy Kabul could realize significant cost savings by converting from PAE's diesel fuel-generated electrical power system to Kabul City Power (KCP) to meet its current and future electricity needs. In October 2009, the Government of Afghanistan requested that foreign embassies,<sup>16</sup> donors, and non-governmental organizations convert from their diesel fuel generators to the KCP system for their electricity. This initiative stemmed from efforts to improve the quality of habitually polluted winter air caused, in part, by the estimated 100,000 diesel generators used in Kabul. A review of Embassy Kabul documents and correspondence from 2009 indicated support for the conversion in principle, citing additional benefits of halving the price of diesel-generated electricity and dramatically improving the fiscal stability of KCP by adding a large, reliable customer. However, embassy officials cautioned that many technical issues needed to be resolved and a conversion to the KCP power grid would not be possible in the next 2-3 years. Though outside the scope of this performance evaluation, while examining the costs of PAE's electrical power generating operation, the OIG team obtained and analyzed information related to the embassy's and the city of Kabul's current electrical power situations.

A main concern for conversion to KCP is the reliability of the public power grid. However, recent efforts by the United States and other international donors have significantly increased the amount and reliability of electricity in Afghanistan.<sup>17</sup> According to embassy reporting, the availability of electricity (domestic production and imports) has more than doubled from 117 megawatts (MW) in January 2006 to 243 MWs in January 2010. Supply and demand information for the KCP system for March 20, 2010 – March 19, 2011 (Afghanistan Year 1389) indicates that 347 MWs are expected to be available to accommodate 268 MWs of peak demand. Furthermore, according to a U.S. Agency for International Development (USAID)-funded

---

<sup>16</sup> Kabul City Power (KCP) is in the process of linking the Embassy of France and the Embassy of India to the Kabul electrical grid.

<sup>17</sup> Since 2002, the United States has provided more than \$732 million for Afghanistan's energy sector, the majority through USAID. Of this amount, USAID has provided \$423 million for an internationally funded energy project to import competitively priced power from neighboring Tajikistan, Turkmenistan, and Uzbekistan, powering cities in the northeast region of Afghanistan, including Kabul. USAID has directly supported 190 megawatts (MW) of new energy capacity.

## **UNCLASSIFIED**

advisor to the Afghan Government's Inter-Ministerial Commission for Energy, infrastructure upgrades and expansion in Kabul will be completed in the coming months, further ensuring the electrical supply's reliability.

According to OBO engineers, the peak demand for the embassy power system is currently 2 MW. The future load growth for the embassy's east compound, including new planned office and apartment construction, is conservatively estimated at an additional 2.7 MW. According to the USAID-funded advisor, KCP can currently meet the reliability and power quality needs of the embassy. In addition, the OIG team was told by an engineer with the U.S. Army Corps of Engineers that KCP reliability concerns can easily be offset by integrating the KCP electricity feeders into the existing embassy power management systems.

Currently, the embassy power system uses approximately 9,500 liters of diesel fuel per day at the annual cost of approximately \$2.7 million. Estimating a tariff rate of 15 cents per kilowatt hour and an average demand factor,<sup>18</sup> the embassy's annual electrical bill would be approximately \$1.4 million a year; resulting in an annual savings of more than \$1.3 million.<sup>19</sup> When the embassy's east compound construction is completed and electricity needs climb to 4.7 MW, estimated diesel generator fuel costs would rise to \$6.4 million annually. Converting to the KCP system would result in an estimated annual electrical bill of \$3.1 million and a cost saving of \$3.3 million annually. While the embassy would still incur the expense of maintaining its diesel generators to back up the electrical power system, PAE's operation and maintenance expenses could be substantially reduced.<sup>20</sup> In addition, converting to the KCP system would allow the embassy to cancel the planned purchase of four additional diesel generators for the embassy's east compound, priced at \$1.36 million.

KCP engineers estimate it will cost approximately \$420,000 to purchase and install electrical equipment and lay cable from KCP's Substation 2 to the embassy's outer wall. The USAID advisor told the OIG team that a direct link to Substation 2 would avoid any potential disruption from nearby users and increase the reliability of the embassy's electrical supply. KCP officials stated installation of the necessary linkage equipment and the laying of cable could be completed approximately 30 days

---

<sup>18</sup> The embassy has a 2 MW maximum demand (the maximum electrical capacity required) which is an estimate of all loads likely to be on at the same time. The maximum demand is usually driven by the maximum air conditioning requirement during a hot summer afternoon. Average demand—how much energy is used—is calculated by averaging loads throughout the day.

<sup>19</sup> According to the embassy's economic counselor, the tariff rate is negotiable and may be lower.

<sup>20</sup> An analysis of PAE maintenance data indicates the embassy expends \$450,000 every 2 years for the overhaul of generators.

## **UNCLASSIFIED**

from notification issued by the embassy to KCP. OBO engineers told the OIG team the new east compound construction has already budgeted and planned for a utility building with the necessary equipment to protect and configure existing generators to run in parallel with the KCP public power grid. The PAE power plant engineer told the OIG team that linking the embassy power system with the KCP public power grid would not be difficult but would require purchasing transfer switches and voltage regulators. Based upon review of available information and discussions with technical experts, OIG believes an immediate conversion to the KCP system is feasible and will represent a substantial cost savings for the embassy.

**UNCLASSIFIED**

**UNCLASSIFIED**

**UNCLASSIFIED**

## TRAFFICKING IN PERSONS

The FAR requires that clause 52.222-50, *Combating Trafficking in Persons*, be inserted into all contracts.<sup>21</sup> The PAE Embassy Kabul operations and maintenance support contract does not contain this clause as required. The OIG team developed a questionnaire to determine if PAE was complying with the terms of the clause (see Appendix II). In structured interviews with all of the 13 third-country national employees (from the Philippines) employed by PAE, the OIG team found no evidence that PAE was recruiting or maintaining labor through the use of force, fraud, or coercion.

---

<sup>21</sup> FAR Subpart 22.17, with its associated clause at 52.222-50, became effective as a binding interim rule on April 19, 2006. This rule was applicable to contractors awarded service contracts (other than commercial service contracts under FAR Part 12).

FAR 22.1705 Contract clause.

(a) Insert the clause at 52.222-50, *Combating Trafficking in Persons*, in all solicitations and contracts.

(b) Use the basic clause with its Alternate I when the contract will be performed outside the United States (as defined at 25.003) and the contracting officer has been notified of specific U.S. directives or notices regarding combating trafficking in persons (such as general orders or military listings of “off-limits” local establishments) that apply to contractor employees at the contract place of performance.

**UNCLASSIFIED**

**UNCLASSIFIED**

## ABBREVIATIONS

AQM	Office of Acquisitions Management
COR	contracting officer's representative
Department	Department of State
FAM	Foreign Affairs Manual
FAR	Federal Acquisition Regulation
KCP	Kabul City Power
MW	megawatts
OBO	Bureau of Overseas Buildings Operations
OIG	Office of Inspector General
MERO	Middle East Regional Office
USAID	U.S. Agency for International Development
WOW	Work Order System for Windows



**UNCLASSIFIED**

**UNCLASSIFIED**

## APPENDIX I – PURPOSE, SCOPE, AND METHODOLOGY

The Middle East Regional Office (MERO) of the Office of Inspector General (OIG) initiated this work under the authority of the Inspector General Act of 1978, as amended, due to concerns about the Department’s exercise of control over the performance of contractors. Overall, the objectives of this review were to determine: (1) the requirements and provisions of the contract and task orders; (2) the amount of funding the Department has obligated and expended to provide embassy facility operations and maintenance through contracts for fiscal years 2005–2009; (3) the effectiveness of PAE’s contract performance in providing facility operations and maintenance to Embassy Kabul; (4) how well the Department administers and manages the contract and task orders to provide oversight of PAE’s performance in Afghanistan; (5) how the Department ensures that costs are properly allocated and supported; and (6) whether the Department contract includes FAR clause 52.222-50, which provides administrative remedies if, during the term of the contract, the contractor or subcontractor engages in severe forms of trafficking in persons.<sup>22</sup>

To determine the requirements and provisions of the contract, OIG analyzed the PAE Embassy Kabul Operations and Maintenance Support contract and modifications. OIG also reviewed supporting documents including the Federal Acquisition Regulation, the Foreign Affairs Manual, the Bureau of Overseas Buildings Operations Work Order System for Windows User Guide, Department regulations, and Embassy Kabul cables.

---

<sup>22</sup> 22 U.S.C. § 7104 (g) Termination of certain grants, contracts and cooperative agreements. The President shall ensure that any grant, contract, or cooperative agreement provided or entered into by a Federal department or agency under which funds are to be provided to a private entity, in whole or in part, shall include a condition that authorizes the department or agency to terminate the grant, contract, or cooperative agreement, without penalty, if the grantee or any subgrantee, or the contractor or any subcontractor

- (i) engages in severe forms of trafficking in persons or has procured a commercial sex act during the period of time that the grant, contract, or cooperative agreement is in effect, or
- (ii) uses forced labor in the performance of the grant, contract, or cooperative agreement.

## **UNCLASSIFIED**

In examining whether contract performance measures were established, OIG reviewed the contract provisions, interviewed the contracting officer (Washington, DC) and embassy staff members and the COR (Kabul, Afghanistan). OIG focused on eight areas of contract performance: (1) overall maintenance of all the utility systems; (2) adequacy of award fee plan; (3) relief from Government of Afghanistan taxation; (4) accuracy of fuel deliveries; (5) necessity of escort services in secure areas; (6) accountability of U.S. Government-furnished property; (7) adequacy of the Work Order System for Windows; and (8) prospects of converting embassy electrical power to Kabul City Power. To determine whether contract performance measures were achieved, OIG:

- Met with PAE personnel representing all positions supported by the contract;
- Reviewed PAE monthly quality control and quarterly quality assurance reports, payment vouchers, and invoices;
- Conducted a physical inventory of U.S. Government-furnished equipment, specifically all stationary utility equipment and bio-chem filters; and
- Reviewed the Bureau of Overseas Buildings Operations Work Order System for Windows.

To examine the Department's administration and oversight of the contract, OIG reviewed the Department's oversight mechanisms for coordination, invoice review, monitoring of the award fee program, and paying labor fees for repair work and other unexpected tasks. OIG interviewed staff members from PAE, AQM, and facilities management offices in Washington, DC, and in Kabul, Afghanistan. OIG also reviewed program management documentation.

To determine whether the contract is being effectively managed, OIG examined the Department's plans for continuing support of the utility systems once the current contract expires. OIG interviewed officials from AQM and Embassy Kabul's facilities management office.

To determine whether the contract includes FAR clause 52.222-50, OIG examined the contract and modifications. Additionally, OIG developed a questionnaire and interviewed all 13 third-country national staff members to determine whether PAE was complying with the clause. No issues were cited by the staff.

OIG conducted this performance evaluation from February 2010 to September 2010. OIG did not use computer-processed data to perform this evaluation. OIG conducted this performance evaluation with the quality standards for inspections and evaluations issued in January 2005 by the Council of Inspectors General on Integrity and Efficiency.

## **UNCLASSIFIED**

This report was prepared under the direction of Richard “Nick” Arntson, Assistant Inspector General for MERO. The following staff members conducted evaluation and/or contributed to the report: Yvonne Athanasaw, Patrick Dickriede, Regina Grider, Kelly Herberger, and Ray Reddy.

**UNCLASSIFIED**

**UNCLASSIFIED**

**UNCLASSIFIED**

## APPENDIX II – TRAFFICKING IN PERSONS SURVEY

<b>1. Recruitment</b>	<b>Guard Response</b>
1a. How did you find out about this job? (friend, colleague, newspaper, recruiter)	1a.
1b. If there was a recruiter, was he honest about the job? (pay, hours, danger)	1b.
1c. Do you owe money to the recruiter such as a recruitment fee? (yes, no, I don't know). If yes, is a large amount? Is it reasonable? Did you have to pay for anything like your plane ticket?	1c.
1d. Are there problems if you can't pay right away? (financially, legally, family)	1d.
1e. Did you have to sign an agreement or contract? What was in the agreement?	1e.
1f. Why did you take the job? Did you take long deciding? (good money, adventure, bad family situation)	1f.
1g. Did you feel pressured to take the job by the recruiter? If so, in what way? (financially, family)	1g.
<b>2. Work</b>	
2a. Is the job what you expected? What is different?	2a.
2b. Were there other benefits promised? Have you received the benefits yet?	2b.
2c. How many hours do you work? Are the pay and hours what you expected?	2c.
2d. Do you get breaks? How long? How many?	2d.
2e. Tell me what it is like to work with your supervisors?	2e.
2f. Are you allowed to socialize with your co-workers?	2f.

**UNCLASSIFIED**

2g. What kind of information about human rights and ethical conduct have you received?	2g.
<b>3. Pay</b>	
3a. How much are you paid?	3a.
3b. How are you paid? Are there additional fees for check cashing or wiring? How much?	3b.
<b>4. Isolation</b>	
4a. Do you get to keep money and identification on you? Where's your passport?	4a.
4b. If you have a problem, can you contact the Peruvian government? How would you do that?	4b.
4c. Can you end your contract early? What is the penalty?	4c.
4d. Would you like to renew your contract? If not, why? If so, why?	4d.

APPENDIX III: COMMENTS FROM THE  
BUREAU OF OVERSEAS BUILDINGS  
OPERATIONS



United States Department of State  
Washington, D.C. 20520

***UNCLASSIFIED***

***MEMORANDUM***

**TO:           OIG/MERO – Mr. Nick Amtson**

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

**SUBJECT:    Response to the OIG's draft report: PAE Operations and  
Maintenance Support at Embassy Kabul, Afghanistan**

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

In particular, we have concerns regarding Recommendation 14, where the OIG asks Post/OBO to purchase new work-order software. As explained in the attachment, PAE's difficulties with the software can be solved by implementing a better organizational approach and providing training.

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

**Attachment:**

**As stated.**



**Comments from OBO on the Performance Evaluation of PAE Operations and Maintenance Support at Embassy Kabul, Afghanistan**

This draft report was received from the OIG on October 21, 2010, with comments requested by November 8, 2010. The draft report establishes OBO as a participant for recommendation nos. 8, 10, 11, and 14.

**OBO Comments**

Request to modify Recommendation 10

Recommendation no. 10 states: “Embassy Kabul, in consultation with [OBO], should determine whether the location of fire suppression sprinklers over the high voltage switchgear in the power plant is a potential fire hazard that needs to be addressed.”

The placement of the sprinklers is not hazardous, as the condition itself would not cause a fire; however, it could be a deficiency. Accordingly, OBO asks the OIG to delete the word “hazard” in the recommendation and supporting text, and replace it with the word “deficiency.”

From the text and images provided, OBO cannot determine if a deficiency exists. However, OBO will review any additional pictures provided by Post or the OIG. If a deficiency exists, OBO will follow up with Post to remedy the situation.

Request to delete Recommendation 11

Recommendation no. 11 states: “Embassy Kabul, in consultation with [OBO], should acquire a backup for the aging water pump for the fire suppression system in the main generator room.”

OBO enforces fire safety standards in accordance with 15 FAM 811.2 and the National Fire Protection Association (NFPA) 13, Installation of Fire Sprinklers. Per these regulations, a functioning fire pump does not require a backup. As a steward of appropriated funds, OBO is not authorized to purchase excess fire safety equipment for a particular post. Accordingly, OBO asks the OIG to delete Recommendation 11.

Request to modify Recommendation 14

Recommendation no. 14 states: “Embassy Kabul, in consultation with [OBO], should purchase more effective work order application software that is compatible with Windows.”

## **UNCLASSIFIED**

The Work Order System for Windows (WOW) is custom software developed for the Department. As such, it is fully compatible with all versions of Windows the Department has used or is currently using. WOW can accommodate all concerns mentioned in the report, including the following:

- Comingling work orders: The report indicates WOW comingles Post's and PAE's work orders. This is true; however, the software allows PAE and Post to initiate and track work orders separately. If a PAE work-order clerk inputs PAE's orders, the clerk can develop reports limited to PAE.
- 5-day completion deadline: The report refers to the 5-day time period for the completion of work orders as an unacceptable limitation of the software, but the 5-day period is merely a default setting. The person approving the order can shorten or lengthen the time period. In addition, the software allows changes to the default setting.

As demonstrated, the OIG's concerns with WOW can be addressed, in their entirety, if PAE learns how to properly access and operate the software. Based on this draft report, OBO will contact Post to begin remedying these organizational and training deficiencies.

Accordingly, OBO asks the OIG to modify the recommendation, to suggest that Post, with OBO's assistance, provide PAE with access to and training for the WOW program. In addition, the report could suggest that PAE purchase the PA438 WOW Distance Learning course from FSI.

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

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

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

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