INTERAGENCY CONTRACTING

Need for Improved Information and Policy Implementation at the Department of State

May 2008

GAO-08-578
INTERAGENCY CONTRACTING

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Why GAO Did This Study

Interagency contracting—using another agency’s contracts or contracting services—can provide agencies with opportunities to streamline the procurement process and achieve savings. However, GAO designated the management of interagency contracting a high-risk area in 2005 due, in part, to a lack of reliable data on its use and of clarity regarding contract management responsibilities.

In 2002, the Department of State (State) issued the State First policy, requiring domestic bureaus to obtain approval from State acquisition officials before paying other agencies for contract support services. Under the Comptroller General’s authority to conduct evaluations on his own initiative, GAO evaluated State’s 1) insight into its use of interagency contracts, 2) policies on deciding when to use assisted interagency contracts, and 3) ability to ensure oversight. GAO’s work included reviewing regulations, analyzing interagency contracting data, and conducting 10 case studies of direct and assisted interagency contracts that represented a range of State bureaus and servicing agencies.

What GAO Found

State officials have limited insight into the extent to which the department has used both methods of interagency contracting—direct by placing their own orders on another agency’s contract and assisted by obtaining contract support services from another agency. State officials cannot rely on the federal government’s primary data system for tracking procurements to readily identify instances when State has used interagency contracts. Further, State’s central procurement and accounting systems do not reliably and comprehensively identify when interagency contracts have been used. While State officials told GAO the most reliable way to identify interagency contract actions would be to request data on these actions from bureaus and overseas posts, several bureaus and posts had difficulty responding to such a request. State reported to GAO over $800 million in interagency contract actions in fiscal year 2006, but these data were incomplete. For example, State did not report $144 million in assisted contracting performed on its behalf by the Department of Defense. GAO has previously reported that the lack of reliable information on interagency contracts inhibits agencies from making sound contracting decisions and engaging in good management practices.

Due to the way the State First policy has been implemented, State cannot ensure that decisions to use assisted interagency contracting are made by the appropriate acquisition officials. These officials often lack awareness of or involvement in decisions to use assisted interagency contracts. First, State acquisition officials have created exemptions limiting the assisted contract actions subject to their review under the policy. For example, State’s guidance exempts funds transfers under the Foreign Assistance Act, under which bureaus conducting large amounts of interagency contracting operate. Second, bureaus have varying interpretations of when approvals are needed under the policy. Some bureaus seek approvals for individual contract actions related to specific requirements. Another bureau interprets the policy as only requiring approval for a new overarching interagency acquisition agreement, which can encompass multiple contract actions and fiscal years. Third, State acquisition officials do not monitor State First compliance, so they are not positioned to know whether the five approval requests received in fiscal year 2006 fully reflected the extent of that year’s assisted interagency contracting.

State’s policies do not ensure that responsibilities for overseeing contractor performance on assisted interagency contracts are assigned to appropriately trained individuals. State acquisition regulations do not require trained oversight personnel to be assigned when using assisted interagency contracting. As a result, effective oversight depends on factors outside of State’s control, such as the rigor of servicing agencies’ oversight requirements, which vary. GAO identified cases where State personnel were given responsibility for overseeing contractor performance but had not received related training. GAO and others have reported that agencies’ interests are put at risk when the individuals responsible for overseeing contractor performance are not clearly designated and have not been properly trained.

What GAO Recommends

GAO recommends the Secretary of State take action to improve State’s tracking of interagency contracting, clarify its State First policy, and enhance contract oversight. In written comments on a draft of this report, State agreed with the recommendations.

To view the full product, including the scope and methodology, click on GAO-08-578. For more information, contact John Hutton at (202) 512-4841 or huttonj@gao.gov.
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Abbreviations

AQM  Office of Acquisitions Management
COR  contracting officer’s representative
DHS  Department of Homeland Security
DOD  Department of Defense
DS  Bureau of Diplomatic Security
DOSAR  Department of State Acquisition Regulations
FPDS-NG  Federal Procurement Data System-Next Generation
GSA  General Services Administration
GSO  general services officer
IAA  interagency acquisition agreement
INL  Bureau of International Narcotics and Law Enforcement Affairs
ITOPPII  Information Technology Omnibus Procurement II
NIH  National Institutes of Health
OPE  Office of the Procurement Executive

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May 8, 2008

Congressional Committees

Interagency contracting, when used correctly, can provide agencies with opportunities to streamline the procurement process and achieve savings. Agencies can use interagency contracting in two ways—direct by placing their own orders on another agency’s contract or assisted by obtaining contract support services from another agency. However, we and several federal inspectors general have identified pervasive problems associated with the management of interagency contracting. These include a lack of reliable data and transparency regarding when and how these contracts are used as well as a lack of clarity in the definition of roles and responsibilities for managing contracts when multiple agencies are involved. As a result of these and related issues, we designated the management of interagency contracting as a governmentwide high-risk area in 2005.¹

In 2002, before the risks associated with interagency contracting were widely reported, the Department of State (State) implemented in its acquisition regulations the State First policy for acquisition that directs State’s domestic bureaus and offices to use State contracting offices, as opposed to paying another agency for contracting support services, unless the appropriate State acquisition officials² grant a waiver. Our prior work on interagency contracting has included larger procuring agencies—the departments of Defense and Homeland Security—and agencies that provide contracting services like the General Services Administration, Department of the Treasury, and Department of the Interior. We had not examined whether State’s policy has enabled it to minimize the management risks associated with interagency contracting. While State is a smaller procuring agency than some of those we have previously focused on, reporting total contract obligations of over $5 billion in fiscal year 2006, it is increasingly reliant on contractors to help carry out its mission.


² For the purposes of our review, we refer to officials within the Offices of the Procurement Executive and Acquisitions Management as State acquisition officials.
To better understand State’s management of interagency contracting, we evaluated 1) the extent to which State has insight into its use of interagency contracting, 2) State’s policies and procedures for deciding when to use assisted interagency contracting, and 3) State’s ability to ensure oversight of assisted interagency contracting. We prepared this report under the Comptroller General’s authority to conduct evaluations on his own initiative and are providing it to you because of your interest in this high-risk issue.

To address these objectives, we reviewed State acquisition regulations, policies, and guidance and interviewed agency officials to understand their implementation. In addition, we requested data from 35 bureaus, as well as 18 of State’s 277 overseas posts with authority to conduct contracting activities, on fiscal year 2006 purchases of at least $25,000 made through both direct and assisted interagency contracts. We compared the data reported by State with similar data from the federal government’s primary procurement data system as well as data from five agencies that provided contract support services to State. After conducting extensive work to ensure the consistency of the data, we determined our final data set to be sufficient for our purposes. To address the objectives regarding State’s policies and ability to ensure oversight, we conducted 10 case studies that represented direct and assisted actions as well as a range of State bureaus and servicing agencies (see table 1 in app. I for details on the selected cases). For each case study, we reviewed contract documentation from State, the servicing agency, or both and interviewed relevant officials such as contracting officers, individuals performing contract oversight, and program officials. A detailed description of our scope and methodology is included in appendix I of this report. We conducted this performance audit from June 2007 through May 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

State officials have limited insight into the extent to which the department has used interagency contracting to procure goods and services. State officials cannot rely on the Federal Procurement Data System—Next Generation—the federal government’s primary data system for tracking information on procurement actions—to identify instances when the department has used interagency contracts. Further, State’s central procurement and accounting data systems do not reliably and
comprehensively identify the use of these contracts across the agency. While State officials told us that the most reliable way to identify interagency contract actions would be to request a list of these actions from each bureau and overseas post, several bureaus and posts had difficulty responding to such a request. State reported to us over $800 million in direct and assisted interagency contract actions in fiscal year 2006, but these data were incomplete and, in many cases, reported data were missing basic information such as the contract number. Most notably, State did not report $144 million in assisted contracting performed by the Department of Defense (DOD) on State’s behalf for logistics support in Iraq. We have reported in the past that the lack of reliable information on interagency contracting inhibits agencies from making sound contracting decisions and engaging in good management practices. Without access to complete and reliable data on its use of interagency contracting, State does not have the information needed to manage its use of such contracts.

Due to the way the State First policy has been implemented, State cannot ensure that decisions to use assisted interagency contracting are being made by the appropriate acquisition officials, as called for under the policy. These acquisition officials often lack awareness of or involvement in decisions to use assisted interagency contracts for three main reasons. First, acquisition officials have broadly exempted many assisted contract actions from the State First waiver process. For example, State’s policy guidance exempts from State First review funds transfers under the authority of the Foreign Assistance Act, under which bureaus conducting large amounts of interagency contracting operate. Second, bureaus have varying interpretations of when they need to obtain a waiver for proposed assisted interagency contracting activities. In some instances, bureaus request waivers for individual contract actions related to specific requirements, such as a new task order award. Another bureau has interpreted the policy as only requiring a waiver for a new overarching interagency acquisition agreement, which can encompass many requirements, multiple contract actions, and several fiscal years. Third, State’s acquisition officials have not implemented mechanisms to ensure compliance with the policy. They primarily rely on the bureaus to voluntarily submit requests for State First waivers, of which acquisition officials received five in 2006. When State acquisition officials do not have

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3 For the purposes of this review, we defined contract actions as including new contracts, orders on existing contracts, or modifications to existing contracts or orders.
the opportunity to review proposed uses of assisted interagency contracting, they cannot ensure that decisions to pay another agency for contracting services are made in State’s best interest.

State’s policies do not ensure that responsibilities for overseeing contractor performance on assisted interagency contracts are assigned to appropriately trained individuals. State acquisition regulations do not require the assignment of oversight personnel when using assisted interagency contracting, even though State program officials may be best positioned to oversee the delivery of goods and services. As a result, effective oversight currently depends on factors outside of State’s control, such as the rigor of oversight requirements of servicing agencies, which vary. Our work and the work of others have previously noted that agencies’ interests are put at risk by not clearly designating who is responsible for providing ongoing oversight of contractor performance and ensuring that these individuals are properly trained to perform their duties.

To enable State to improve its management of interagency contracting, we are recommending State develop a mechanism to reliably track its use of interagency contracting, clarify the State First policy, and require bureaus to identify properly trained oversight personnel when seeking a State First waiver. In written comments on a draft of this report, State concurred with these recommendations. State’s comments are reprinted in appendix III.

Interagency contracting is designed to leverage the government’s aggregate buying power and simplify procurement of commonly used goods and services. This contracting method has allowed agencies to meet the demands for goods and services at a time when they face growing workloads, declines in the acquisition workforce, and the need for new skill sets. Interagency contracts are awarded under various authorities and can take many forms. They typically are used to provide agencies with common goods and services, such as office supplies or information technology services. In other cases, they may be used to fill specialized requirements, particularly if the other agency providing the contract support services has unique expertise in a particular type of procurement. Agencies that award and administer interagency contracts usually charge a fee to support their operations.

There are two main methods of interagency contracting: direct and assisted. For direct acquisitions, rather than going through the process to award a new contract—soliciting offers, evaluating proposals, and
awarding the contract—contracting officers at agencies can place orders directly on contracts already established by other agencies. With assisted acquisitions, customer agencies can obtain contracting services from other agencies, whose contracting officers place and administer orders on the customer agencies’ behalf. Assisted acquisitions can use interagency acquisition agreements (IAA) to document and establish general terms and conditions governing relationships between the customer agencies, which need the goods or services, and the servicing agencies, which provide the contracting services.

Responsibility for acquisition policy and management at State is shared by two offices within the Bureau of Administration—the Office of the Procurement Executive (OPE) and the Office of Acquisitions Management (AQM), as shown in figure 1. OPE is responsible for establishing acquisition policy at State. This responsibility includes prescribing and implementing acquisition policies, regulations, and procedures; managing State’s procurement reporting system; appointing contracting officers; and establishing a system for measuring the performance of State contracting offices. AQM is responsible for providing a full range of contracting services to support activities across State, including acquisition planning, contract negotiations, cost and price analysis, and contract administration. Acquisition officials in OPE and AQM stated that they work closely on many acquisition activities, but there is no direct reporting relationship between the two.

While AQM is by far the largest contracting office within State, other domestic bureaus and offices have varying degrees of contracting authority. Additionally, 277 of State’s overseas posts have limited authority to conduct contracting activities in support of the bureaus and program office activities carried out at each location. Finally, two additional contracting offices, known as Regional Procurement Support Offices, report to AQM and provide contracting services to the overseas posts. These offices operate as working capital funds, charging a fee to the overseas posts and other organizations in exchange for providing

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4 Bureaus and offices with Heads of Contracting Activities other than AQM, overseas posts and Regional Procurement Support Offices include: Foreign Service Institute, Office of Foreign Missions within the Bureau of Diplomatic Security, and U.S. Mission to the United Nations. Bureaus and offices with limited acquisition authority include: Office of Language Services; Office of Overseas Schools; Ralph J. Bunche Library; Office of International Conferences; Bureau of International Narcotics and Law Enforcement Affairs; Office of Small and Disadvantaged Business Utilization; Office of Operations within the Bureau of Administration; Office of the Inspector General; and Bureau of Diplomatic Security.
contracting services. In addition to AQM and its regional support offices, only those bureaus and posts with contracting authority can conduct direct interagency contracting. However, all bureaus and posts can use assisted interagency contracting, relying on contracting officers at other agencies to conduct procurements.

Figure 1: Organization Chart for Acquisitions within State

![Organization Chart for Acquisitions within State](image)


In response to an increase in the amount of acquisition dollars going to contract servicing agencies, the Under Secretary of State for Management issued a memorandum in May 2002 describing the State First policy. The policy was incorporated into the Department of State Acquisition Regulations (DOSAR) and clarified later by implementing guidance. This policy directs domestic bureaus and offices to first use the services of AQM or another appropriate State contracting activity before transferring funds to another agency to conduct an acquisition. The policy states further that domestic bureaus or offices may only transfer funds to another agency for contracting services after obtaining a waiver from AQM. Application of this policy is limited to assisted interagency contracting actions. Instances in which a State contracting officer directly places an order on another agency’s contract are not subject to the policy. Additionally, the State First policy does not apply to assisted interagency contracting activities conducted by overseas posts.

Note: The Assistant Secretary of the Bureau of Administration serves as the Chief Acquisition Officer for State and directs administrative oversight and services of the Office of the Procurement Executive.

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5 DOSAR § 607.103-70
The State First policy instructs requesting bureaus to provide information about the proposed interagency contract action, including a description of the requirement and contracting services to be provided by the other agency, the estimated dollar value, the number of option years, the reason for using the other agency, and the amount of any surcharge or fee to be charged by the other agency for its contracting services. AQM, in consultation with OPE, is to review a bureau’s request and either issue a waiver allowing it to proceed with the proposed interagency contracting activity or decline the request and direct the bureau to the appropriate State contracting office for assistance, as described in figure 2. The State First policy also provides AQM with the authority to grant blanket waivers for future acquisitions involving the same item so that bureaus do not need to request an individual waiver each time they need to procure that item. For instance, the policy cites the acquisition of ammunition through DOD as an example of this type of recurring need that could be covered by a blanket waiver.

Figure 2: State First Policy Review Process for Proposed Assisted Interagency Contracting Activities

State Has Limited Insight into Its Use of Interagency Contracting

The Department of State has limited insight into the extent to which it uses interagency contracting. A key governmentwide data system does not fully capture information on interagency contracting, and State’s internal systems do not comprehensively track its use of these contracts. While State reported to us over $800 million in direct and assisted interagency contract actions in fiscal year 2006, these data were incomplete, and reported data were missing basic information in many cases. We have
previously reported that the lack of reliable information on interagency
contracts inhibits agencies from making sound contracting decisions and
engaging in good management practices.

The Federal Procurement Data System-Next Generation (FPDS-NG), the
federal government’s primary database for procurement actions, is not a
reliable source of information on interagency contracts. We have reported
in the past on difficulties in obtaining data and generating reports on
interagency contracting using FPDS-NG. Similarly, the State Procurement
Executive explained to us that it is difficult to extract interagency
contracting data from FPDS-NG and that there is no single report that
comprehensively identifies uses of interagency contracting. For assisted
interagency actions, the servicing agency is responsible for entering data
into FPDS-NG, but such entries do not always indicate that actions involve
interagency contracts. If a contracting officer at another agency placed an
order for State, that agency—not State—would be responsible for
recording the order in FPDS-NG, and the fact that the order was done for
State would not necessarily be recorded. While the servicing agency can
enter a funding agency in FPDS-NG, it may identify itself as the funding
agency instead. For example, we identified records in FPDS-NG for certain
contract actions entered into by DOD for State that listed DOD as the
funding agency. A DOD official told us that once funds are transferred to
DOD, they lose their association with the funding agency. For direct
contract actions, in which State contracting officers placed the orders and
recorded the transactions in FPDS-NG, there is no data field that reliably
indicates that these actions involved an interagency contract.

In addition, State cannot rely on the data systems used by its central
procurement and financial offices to provide complete information on its
use of interagency contracting. AQM maintains a procurement data
system; however, bureau officials told us that not all bureaus with
contracting authority use this system and that assisted acquisitions where
the contracting officer is at another agency are not recorded in this

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6 See GAO, Improvements Needed to the Federal Procurement Data System—Next

7 Recent recommendations made by the Acquisition Advisory Panel included a
recommendation that the Office of Federal Procurement Policy ensure that FPDS-NG
reports data on orders under interagency contracts. See Acquisition Advisory Panel, Report
of the Acquisition Advisory Panel to the Office of Federal Procurement Policy and the
United States Congress (January 2007).
system. For example, a State official noted that a bureau that reported to us significant use of assisted interagency contracting does not use this system. The State Procurement Executive acknowledged the limitations of this system, noting it would be difficult to use it to identify interagency contracts. Further, State’s accounting system cannot be used to identify many interagency contracting actions. State officials explained that for direct actions, the accounting system does not record whether an interagency contract was used. Similarly, the officials said that for assisted actions, a “miscellaneous” data field that captures a variety of information may, but does not always, indicate that the transfer of funds to another agency is for a contract.

While State officials told us that the most reliable way to identify interagency contract actions would be to request a list of these actions from each bureau and overseas post, several bureaus and posts had difficulty responding to our request for such information. For example, one bureau, which has used assisted interagency contracts, noted that the bureau had no reasonable means of obtaining information on its assisted interagency contract actions. In some cases, bureaus did not have a central point of contact responsible for tracking interagency contracts and many bureaus reported reviewing paper files to assemble the requested information on their assisted actions. Additionally, a procurement official expressed concern about another bureau’s lack of information on interagency contracts, noting that when she needed basic information, such as the amounts obligated by the bureau on these contracts, she was directed to the servicing agencies. Similar challenges were experienced in 2005 when State’s Office of Inspector General conducted a related review and sought to identify bureaus’ use of interagency contracts. The official who led that review told us he found that it was generally difficult for bureaus to compile data on interagency contracts and that a number of bureaus continually identified new contract actions throughout the course of the review.
State-Reported Data on Interagency Contract Actions Were Incomplete, and Reported Actions Were Missing Information in Many Cases

In the absence of a data system that reliably identifies State’s interagency contracts, we requested information on all interagency contract actions of at least $25,000 conducted in fiscal year 2006 from 53 State bureaus and overseas posts. Fifty-two of these bureaus and posts reported a total of over $800 million in interagency actions—$577.2 million for direct actions and $234.3 million for assisted actions (see app. II for more details on the data reported to us by State). However, we found that at least 13 of these bureaus provided incomplete data. In these cases, data from a servicing agency or FPDS-NG indicated that a particular servicing agency assisted a State bureau with interagency contracting in fiscal year 2006, but that bureau did not report any actions with that servicing agency. Based on our comparison of data State reported with data obtained from five servicing agencies and FPDS-NG, we identified at least $186 million in assisted interagency contracting that State did not report. Most notably, DOD reported assisting State’s Bureau of Near Eastern Affairs in performing nearly $144 million in contracting for logistics support in Iraq that was not included in State’s data.

Furthermore, in many cases the interagency actions that were reported by State were missing basic information that would be needed for managing contracts and achieving good acquisition outcomes. For example, bureaus were not always able to identify the contractor for particular actions, and one bureau that reported over $26 million in assisted interagency contracting was not able to provide us with the contract or order numbers for many of the actions. Also, in some cases, obligation amounts reported by bureaus differed widely from those reported by servicing agencies or in FPDS-NG. For example, in one case, a State bureau reported placing over $15 million on an assisted action, while the servicing agency reported actions totaling $9.8 million on the same contract and order number. In another case, a State bureau reported a lower dollar value than the servicing agency, with State reporting a single action of $25,000 and the servicing agency reporting multiple actions totaling $471,000 for the same order. Because of such discrepancies, we were unable to verify the accuracy of a significant portion of State’s reported data, particularly for assisted actions.

8 The Bureau of International Organizations did not submit data.
A Lack of Comprehensive and Reliable Information Inhibits Agencies from Making Sound Contracting Decisions and Engaging in Good Management Practices

We have previously reported that agencies may not be able to make sound contracting decisions or engage in good management practices without comprehensive and reliable data on interagency contracting and the related costs and fees. Without such data, agencies cannot conduct analyses to determine if the use of such contracts is in their best interests or if there are opportunities for savings. For example, we reported in 2005 that DOD had difficulty making informed decisions about the use of other agencies' contracting services because its financial systems did not collect data on interagency contracting. In 2006, we also found that the Department of Homeland Security (DHS) did not systematically monitor its spending on interagency contracts. As a result, it did not know what fees it was paying to other agencies to award contracts on its behalf and whether it could achieve savings through alternative contracting methods. Similarly, without access to complete and reliable data on its use of interagency contracting, State does not have the information needed to manage its use of interagency contracts to achieve good outcomes and ensure that it is receiving value for fees it pays to other agencies.

State Cannot Ensure That Decisions to Use Assisted Interagency Contracting Are Being Made by the Appropriate Acquisition Officials

Due to the way the State First policy has been implemented, State cannot ensure that decisions to use assisted interagency contracts are being made by OPE and AQM officials as called for by the policy. These acquisition officials often lack awareness of or involvement in decisions to use assisted interagency contracts for three main reasons. First, these officials have broadly exempted a number of assisted interagency contracting actions from the requirement to seek a State First waiver. Second, State’s bureaus have varying interpretations of when they need to obtain waivers for proposed assisted interagency contracting activities. Third, State acquisition officials have no mechanism to ensure that bureaus comply with the State First policy, relying primarily on the bureaus to voluntarily submit requests for State First waivers.

9 GAO, Interagency Contracting: Franchise Funds Provide Convenience, but Value to DOD is not Demonstrated, GAO-05-456 (Washington, D.C.: July 29, 2005).

### Broad Exemptions Limit Ability to Evaluate the Use of Assisted Interagency Contracts

State acquisition officials have broadly exempted a number of assisted interagency contracting actions from the State First waiver process. By creating these broad exemptions, acquisition officials are not fully aware of bureaus’ use of assisted interagency contracting. The exemptions apply to bureaus that are among the largest users of assisted interagency contracting.

OPE issued guidance in 2005 stating that the State First policy does not apply to proposed funds transfers conducted under the Foreign Assistance Act. The Procurement Executive explained to us that this exemption from needing a waiver was intended to apply only to transfers of funds under the Foreign Assistance Act where another agency was responsible for carrying out the program.\(^1\) He said that bureaus should still seek State First waivers when transferring funds under the Foreign Assistance Act if the transfer is so the other agency can purchase goods or services for State. However, AQM and some bureau officials have interpreted and applied the guidance in a different way. The Director of AQM told us that the exemption from needing a waiver applies to all actions—including assisted interagency contracting—funded under the Foreign Assistance Act. Officials in the bureaus of Diplomatic Security (DS) and International Narcotics and Law Enforcement Affairs (INL)\(^2\) informed us that because of this exemption they do not seek State First waivers for assisted contract actions conducted under this Act. For example, officials in INL did not seek a waiver for an order for aviation support, issued in 2006 by DOD on their behalf and valued at approximately $51 million. Both DS and INL reported using assisted interagency contracting extensively compared to other bureaus, and DS and INL officials stated that the Foreign Assistance Act is one of the chief authorities under which they transfer funds to another agency for contracting services.

As a result of a series of decisions, acquisition officials have also exempted a potentially large amount of DS’s assisted interagency contracting activity from review under the State First policy. Following the initial establishment of the State First policy, AQM exempted much of DS’s

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\(^1\) The Procurement Executive cited the transfer of funds from State to another agency for the President’s Emergency Plan for AIDS Relief as one example of when the State First policy would not apply.

\(^2\) DS is the security and law enforcement arm of State. INL advises the President, Secretary of State, other bureaus within State, and other departments and agencies within the U.S. government on the development of policies and programs to combat international narcotics and crime.
assisted interagency contracting activity from the policy. Then in January 2006, acquisition officials met with bureau officials to clarify application of the State First policy. Acquisition officials agreed to exempt assisted interagency contracting activities carried out under existing interagency acquisition agreements from review under the State First policy but stipulated that new IAAs would need to be reviewed. A bureau official told us that, at this meeting, she informed the acquisition officials that many of the bureau’s IAAs with servicing agencies did not have expiration dates. As a result, new requirements could continue to be fulfilled under existing IAAs without State First review. For example, DS placed a new task order in 2006 through another agency under an IAA signed in 2001—this order was not reviewed under State First. While aware of DS’s exemption, State’s Procurement Executive noted that the State First policy was designed to review such task orders to ensure that using another agency’s contracting services was in State’s best interest.

**Bureaus Differ in When They Seek a State First Waiver**

Bureaus within State have different interpretations of when they should seek the approval of the appropriate acquisition officials to initiate assisted interagency contracting activities. Some bureaus request State First waivers for individual contract actions related to specific requirements, such as issuing a new task order. In one case study we reviewed involving the Bureau of Population, Refugees and Migration, a program official sought a waiver under the State First policy to have another agency issue a new contract action to continue fulfilling the program’s requirements. Similarly, an INL program official sought a State First waiver to use DOD’s contracting services to fulfill a new requirement, prior to the 2005 exemption for Foreign Assistance Act activities.

DS, however, does not typically seek waivers under the State First policy for individual task orders or requirements initiated under IAAs. Instead, it is DS officials’ understanding that the overarching IAA with the servicing agency, rather than the individual requirement, requires approval under the State First policy. DS has used IAAs broadly to establish relationships with other agencies and these IAAs can encompass many requirements, multiple contract actions, and several fiscal years. This practice, compounded by the exemption for DS’s IAAs entered into prior to 2006,

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13 This bureau official also told us that acquisition officials were invited to conduct a follow-up review of existing IAAs to determine how to proceed under them. However, she said that this review did not occur because of limited resources in the acquisition office.
has precluded much of DS’s interagency contracting activity from review under State First. Neither bureau officials nor acquisition officials identified a process to review long-standing agreements over time to determine whether changes have occurred or whether it is still appropriate for State to continue paying another agency for contracting support. For example, an IAA with one servicing agency was signed in 2001, and the servicing agency reported that it issued 128 new task orders under this IAA between December 2001 and February 2008, none of which was reviewed under State First. Because this IAA was never reassessed, DS officials thought they were paying a 2.3 percent fee for all actions under this agreement, but the actual fee charged had been raised since 2001. Based on our analysis of servicing agency data, since October 2004, the average fee paid across all contract actions under this IAA was 3.3 percent—meaning State paid almost $160,000 more in fees than DS officials thought they were paying.

Acquisition Officials Lack Mechanisms to Monitor Compliance with the State First Policy

State acquisition officials do not have mechanisms in place to ensure that bureaus are complying with the State First policy. According to the acquisition officials, they do not monitor compliance and are reliant on bureaus to voluntarily request waivers before using assisted interagency contracts. In the absence of such requests, they have no other way to obtain reliable information about bureaus’ use of assisted interagency contracts. For instance, because State does not comprehensively track its use of interagency contracting, acquisition officials cannot conduct queries to identify actions that should have been reviewed under State First. Further, they have no way to determine the extent to which bureaus have conducted procurements under various exemptions or whether bureaus have applied the exemptions appropriately. As a result, acquisition officials cannot independently determine whether the five waivers requested in fiscal year 2006 were an accurate reflection of assisted interagency contracting for that year.

Problems with State First compliance have previously been reported. In 2005, the State Inspector General found that 16 of the 19 domestic bureaus and offices included in its review did not comply with the policy. The State Inspector General also reported that budget and financial officers in

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9 of the 19 bureaus and offices indicated that they had no knowledge of the State First policy or its requirements. The State Inspector General noted that better compliance with State First could result in lower contract costs and the more economical utilization of administrative costs associated with the contracts. The Procurement Executive issued additional guidance on the State First policy as a result of the Inspector General’s findings but informed us that acquisition officials have not reviewed compliance since then to determine if compliance has improved. Officials in AQM said they believe the State Inspector General reviews compliance with the policy as part of its regular bureau inspections. However, an official from the State Inspector General’s office said that this is not part of the office’s routine monitoring activities.

State's policies do not ensure that responsibilities for overseeing contractor performance on its assisted interagency contracts are assigned to appropriately trained individuals. Contracting officers’ representatives (COR) play a key role at State in overseeing contractor performance, although the decision of whether to appoint a COR is at the contracting officer’s discretion. When CORs are appointed by State contracting officers, State acquisition regulations require contracting officers to outline the scope of the COR’s authority in an appointment memorandum to be maintained in the contract file. These regulations further specify that only State employees with adequate training and experience may serve as CORs on contract actions awarded by State contracting officers, a stipulation that would include actions under direct interagency contracting. According to State guidance, a COR is responsible for several functions related to oversight of contractor performance, including

- monitoring technical progress and the expenditures of resources related to the contract;
- informing the contracting officer, in writing, of any performance or schedule failure by the contractor or of any needed changes to the performance work statement or specifications; and
- performing inspection and accepting work on behalf of the U.S. government and reviewing and approving the contractor’s vouchers or invoices.

15 DOSAR § 642.270.
State acquisition regulations, however, do not contain requirements or guidance regarding the assignment or training of CORs when using assisted interagency contracting. For assisted contracting actions, State’s acquisition officials view it as solely the servicing agency’s duty to ensure contractor oversight, rather than a responsibility that all involved parties share. Because State does not have requirements in place to ensure the assignment of appropriately trained oversight personnel, effective oversight depends on factors outside of State’s direct control. These factors include the rigor of a particular servicing agency’s policies and procedures and the involvement of State personnel who happen to be experienced and knowledgeable.

In most of the seven cases of assisted interagency contracting we reviewed, the State personnel who performed oversight duties had programmatic knowledge and experience related to the requirements being fulfilled. However, servicing agency practices differed regarding COR designation and training. The State personnel assigned by the servicing agencies to oversee contractor performance had not always received training related to contract oversight or had their roles clearly designated. In three cases we reviewed, the servicing agencies took steps to ensure that oversight personnel were aware of their roles and responsibilities and had obtained the requisite training. In two other cases, the servicing agencies did not designate CORs, although State program officials were assigned some oversight responsibilities. In the first of these instances, the State program official told us she had already taken contract-related training. In the other instance, however, the State official had not received training related to contract oversight and explained to us that she often did not understand the documents the servicing agency asked her to sign, particularly with regard to the contracting terminology.

Finally, in the last two cases, the servicing agencies designated State personnel as CORs but did not ensure that they received required training associated with these oversight responsibilities.

In one of the cases we reviewed where the designated COR had not received required training, the servicing agency also did not keep COR designations up to date. The contracting officer at the servicing agency was not aware that the COR and other oversight personnel were no longer employed at State. In addition, the COR stated that he did not play a role in

16 In contrast, DOD’s policy requires that a COR be assigned for contract actions for services awarded by any other federal agency on behalf of DOD.
monitoring the time sheets or attendance of contract personnel, or providing performance feedback to the contracting officer. The official explained that, while he worked with the contractor to address any deficiencies related to performance, another official, who told us she had received COR training but who was not designated as the COR for the order, verified the accuracy of invoices. Ensuring the designation of appropriately trained CORs was particularly important for this order because it was a time-and-materials type contract, as were five of the six other assisted actions we reviewed. Time-and-materials contracts are considered high risk for the government because they offer no profit incentive to the contractor for cost control or labor efficiency. Therefore, it is important for the government to monitor contractor performance to ensure that the contractor is efficiently performing the work and effectively controlling costs.17

We and others have previously reported on problems with oversight of interagency contracting, including the risks of not clearly designating individuals responsible for providing oversight of contractor performance and of not ensuring that these individuals are properly trained to perform their duties. For instance, we reported that when the Army purchased interrogation support services through the Department of the Interior (Interior), Army personnel in Iraq responsible for overseeing contractor performance were not adequately trained to exercise their responsibilities. In this case, an Army investigative report concluded that the lack of training for the CORs assigned to monitor contractor performance at Abu Ghraib prison, as well as an inadequate number of assigned CORs, put the Army at risk of being unable to control poor performance or become aware of possible misconduct by contractor personnel.18 In 2007, the DOD Inspector General reported that DOD organizations were deficient in contract administration, including the surveillance of contractor performance and assignment of CORs when they made purchases through the Department of Veterans Affairs. The DOD Inspector General noted that interagency contracting requires strong internal controls, clear definition of roles and responsibilities, and sufficient training of both servicing and

requesting activities personnel. In 2005, the State Inspector General identified problems associated with the oversight of assisted interagency contracts, noting the lack of documentation of activities to determine whether the contractor provided the specified deliverables.

Lacking information about the extent to which it uses interagency contracts, State is not positioned to make informed decisions about whether and when additional scrutiny, oversight, or other actions are necessary to ensure State’s interests are protected. The State First policy, put in place before other agencies widely reported the risks of interagency contracting, provided State with an opportunity to gain increased insight and control over when and how the department uses and pays for other agencies’ contracts and contracting support. However, subsequent exemptions, varying interpretations, and a lack of compliance monitoring of the State First policy have significantly limited that opportunity and restricted the ability of acquisition officials to manage State’s use of interagency contracts and the associated risks. Properly trained personnel are best positioned to oversee the delivery of goods and services, regardless of what agency placed the order. Yet State has not taken steps to ensure that such personnel are in place, which has exposed State to the same risks faced by other agencies. Due to the critical nature of State’s mission and the importance of contract support to fulfilling this mission, State cannot afford to abdicate responsibility for ensuring good acquisition outcomes, even when the contracting officer is at another agency.

To enable State to improve its management of interagency contracting, we recommend that the Secretary of State direct the Office of the Procurement Executive to take the following three actions:

- Develop, in consultation with the bureaus, a reliable means for tracking the use of interagency contracts so that the bureaus and acquisition officials can readily and reliably access data, such as the costs and associated fees. Analysis of such data could also be used to assess

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whether the State First process provides an accurate reflection of bureaus' use of assisted interagency contracting.

- Work with the Office of Acquisitions Management, in coordination with the bureaus that make the most use of assisted interagency contracts, to clarify and refine the State First policy, including existing exemptions, and provide additional guidance as needed regarding which actions need review under the policy.
- Require bureaus seeking a State First waiver to identify in their request individual(s) who will be responsible for contract oversight and ensure they are trained to perform this key role.

Agency Comments

We provided a draft of this report to State for review and comment. In its written comments, State noted that the report captures the challenges posed by interagency contracting and agreed to implement the three recommendations. State’s comments are reprinted in their entirety in appendix III. State officials also provided technical comments that were incorporated where appropriate.

We are sending copies of this report to interested congressional committees as well as the Secretary of State and the Director, Office of Management and Budget. In addition, this report will be made available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions about this report or need additional information, please contact me at (202) 512-4841 or huttonj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix IV.

John Hutton
Director, Acquisition and Sourcing Management
List of Committees

The Honorable Joseph R. Biden
Chairman
The Honorable Richard G. Lugar
Ranking Member
Committee on Foreign Relations
United States Senate

The Honorable Joseph I. Lieberman
Chairman
The Honorable Susan M. Collins
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Henry A. Waxman
Chairman
The Honorable Tom Davis
Ranking Member
Committee on Oversight and Government Reform
House of Representatives

The Honorable Nita M. Lowey
Chair
The Honorable Frank R. Wolf
Ranking Member
Subcommittee on State, Foreign Operations, and Related Programs
Committee on Appropriations
House of Representatives
Appendix I: Scope and Methodology

Our objectives were to evaluate (1) the extent to which State has insight into its use of interagency contracting; (2) State’s policies and procedures for deciding when to use assisted interagency contracting; and (3) State’s ability to ensure oversight of assisted interagency contracting. For the purposes of this review, we defined interagency contracting as including both direct actions (orders placed by one agency’s contracting officers on another agency’s contracts) and assisted actions (obtaining contract support services from other agencies).

To evaluate the extent to which State has insight into its use of interagency contracting, we initially attempted to identify data systems that would provide reliable information on State’s use of interagency contracting. In consultation with senior acquisition officials at State, we determined that such information could not be obtained from existing data systems. We then requested data from 35 bureaus, as well as 18 of State’s 277 overseas posts with authority to conduct contracting activities, on fiscal year 2006 purchases of at least $25,000 made through both types of interagency contracts. We received responses from 34 of the 35 bureaus and all 18 posts. Because data submitted by State bureaus and posts were compiled by staff in various positions, we requested that the executive directors of the bureaus and the general services officers (GSO) of the overseas posts confirm that the data submitted on behalf of their bureaus or posts were complete and accurate. We received confirmations from 46 executive directors and GSOs; the remaining 6 did not respond to our request for confirmation. To assess the reliability of the assisted actions reported to us by State, we compared State’s data with similar data we requested and received from five servicing agencies—the General Services Administration (GSA), Interior, the Department of the Treasury (Treasury), the National Institutes of Health (NIH), and two Army commands. These five servicing agencies represented 86 percent of the dollar value of assisted actions reported to us by State. In addition, we compared both direct and assisted actions reported by State with data maintained in FPDS-NG. We considered a State reported action to be

1 We requested data from all of the bureaus beneath the under secretaries’ offices as well as the Office of Acquisitions Management and the two Regional Procurement Support Offices. In addition, the Executive Secretariat/Executive Secretary voluntarily submitted data to us. The Bureau of International Organizations did not submit data. For the overseas posts, we selected the three posts with the highest total procurement dollars reported in FPDS-NG for fiscal year 2006 in each of the six regions as listed in FPDS-NG—Africa, East Asia and Pacific, Europe and Eurasia, Middle East and North Africa, Central and South Asia, and the Americas. Two of these posts had both a general services officer and a narcotics affairs section that reported data to us.
verified if an action with the same contract and order number, and a dollar value difference within 7 percent, could be found in either FPDS-NG or in data reported by a servicing agency. In addition, actions that were reported by State, but not within the scope of our work, were removed from the final data. Duplicate actions—such as those reported by both the Office of Acquisitions Management and the requiring bureau—were also deleted from the final data. After conducting extensive work to ensure the consistency of the data, we determined our final data set to be sufficient for our purposes. Because this was not an audit of the servicing agencies or FPDS-NG, we used data from these sources only as a point of comparison with State-reported data and did not attempt to verify these data.

To evaluate State’s policies and procedures for deciding when to use assisted interagency contracting and State’s ability to ensure oversight of assisted interagency contracting, we conducted 10 case studies of interagency contracting at State. Using the fiscal year 2006 data reported to us by State and the servicing agencies, as well as our preliminary research, we selected 10 cases to represent a range of characteristics, as shown in table 1. Three of the 10 cases were direct interagency actions, where contracting officers at State’s Office of Acquisitions Management placed orders off of other agencies’ contracts on behalf of State bureaus. The other seven consisted of assisted interagency actions, where State utilized contracting officers at the servicing agencies to place and administer orders on State’s behalf. In addition, cases were selected to examine a variety of bureaus within State as well as a variety of servicing agencies. Our 10 cases represented 8 State bureaus and 5 servicing agencies. We did not include interagency contracting at overseas posts because the State First policy does not apply to overseas posts. For each case, we reviewed contract documentation from State, the servicing agency, or both. We also interviewed relevant officials including contracting officers, individuals performing contract oversight, and other program officials as necessary. Finally, we reviewed State acquisition

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2 Seven percent was chosen as the dollar value threshold because any difference within this range could be attributed to the fee charged by the servicing agency. Seven percent was the highest fee rate we encountered for State interagency contracting actions.

Appendix I: Scope and Methodology

regulations, policies, and guidance and interviewed agency officials to understand their implementation. We also reviewed relevant GAO and Inspectors General reports.

<table>
<thead>
<tr>
<th>Direct interagency contract actions</th>
<th>Assisted interagency contract actions</th>
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<tbody>
<tr>
<td><strong>State bureau</strong></td>
<td><strong>Description of purchase</strong></td>
</tr>
<tr>
<td>Consular Affairs</td>
<td>Information technology support for adoptions tracking service</td>
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<tr>
<td>Consular Affairs</td>
<td>Passport processing services</td>
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<tr>
<td>Near Eastern Affairs</td>
<td>Staffing support in Iraq</td>
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<tr>
<td>Diplomatic Security</td>
<td>Computer security awareness training</td>
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<tr>
<td>Diplomatic Security</td>
<td>Firearms and technical security trainers</td>
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<tr>
<td>Population, Refugees and Migration</td>
<td>Information technology support for refugee processing</td>
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<tr>
<td>International Narcotics and Law Enforcement Affairs</td>
<td>Automatic fingerprint identification system</td>
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<td>Information Resources Management</td>
<td>Information technology infrastructure support in Iraq</td>
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<td>Overseas Building Operations</td>
<td>End-user information technology support</td>
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<tr>
<td>International Information Programs</td>
<td>Publishing services for an Arabic language magazine</td>
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</table>

Source: GAO Analysis of State and servicing agency contract files.

* Some of the cases involve ongoing contract actions. These dollar values represent the total value at the time of our review.

* This order was placed against the Information Technology Omnibus Procurement II (ITOP II) contract. At the time the original order was placed, this contract was managed by the Department of Transportation. ITOP II was transferred to the General Services Administration in 2004, where it is currently managed.

We conducted this performance audit from June 2007 to May 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
Appendix II: State’s Use of Interagency Contracting in Fiscal Year 2006

We requested data on direct and assisted interagency contract actions of at least $25,000 in fiscal year 2006 from 35 State bureaus and 18 overseas posts. All but one bureau and all 18 posts responded to our data request. According to data these State bureaus and posts reported to us, State conducted over $800 million in interagency contracting in fiscal year 2006—$577.2 million for direct actions and $234.3 million for assisted actions.

For direct actions, State reported the following:

- 94 percent of the dollar value of these actions was conducted by the Office of Acquisitions Management on behalf of 35 bureaus and several overseas posts.
- 98 percent of the reported dollars for direct actions in fiscal year 2006 were placed on GSA contracts, including schedule contracts. Under the GSA schedules program, GSA negotiates contracts with vendors for a wide variety of goods and services at varying prices. These contracts permit other agencies to place orders directly with vendors, providing agencies with a simplified process of acquiring goods and services while obtaining volume discounts.
- Other actions included orders placed through NIH, National Aeronautics and Space Administration, and DOD contracts, among others.

For assisted actions, State reported the following:

- Assisted actions were concentrated in less than a third of the bureaus and overseas posts that responded to our data request—of the 52 bureaus and posts that submitted data, only 16 reported assisted actions in fiscal year 2006.
- The most extensive users of assisted interagency contracting in fiscal year 2006 included the bureaus of
  - International Narcotics and Law Enforcement Affairs, which reported $95.3 million;
  - Information Resource Management, which reported $72.6 million;
  - Diplomatic Security, which reported $26.5 million; and
  - Consular Affairs, which reported $12 million.
- The 16 bureaus that made use of assisted interagency contracting conducted these actions through several different servicing agencies, including GSA, DHS, Interior, Treasury, NIH, and others. Approximately 2 State reported 88 percent of dollars on actions through GSA and another 10 percent on a Department of Transportation contract that, by fiscal year 2006, had been transferred to GSA.
47 percent of the dollar value of assisted actions reported by these bureaus was placed by DOD on State’s behalf (see fig. 3).

**Figure 3: Servicing Agencies Used by State for Assisted Actions**

Source: GAO analysis of State reported data.
Appendix III: Comments from the Department of State

United States Department of State
Assistant Secretary for Resource Management
and Chief Financial Officer
Washington, D.C. 20520

Ms. Jacquelyn Williams-Bridgers
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, “INTERAGENCY CONTRACTING: Need for Improved Information and Policy Implementation at the Department of State,” GAO Job Code 120657.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Corey Rindner, Procurement Executive, Bureau of Administration, at (703) 516-1689.

Sincerely,

Bradford R. Miggins

cc: GAO – Johana Ayers
    A – Raj Chellraraj
    State/OIG – Mark Duda
Department of State Comments on GAO Draft Report

INTERAGENCY CONTRACTING: Need for Improved Information
And Policy Implementation at the Department of State
(GAO-08-578, GAO Code 120657)

The Department of State appreciates the opportunity to review and comment on the Government Accountability Office draft report entitled, “Interagency Contracting: Need for Improved Information and Policy Implementation at the Department of State.”

We believe the report captures the challenges posed by interagency contracting and agree with the three recommendations. The Department of State will take action to clarify our State First Policy to provide additional guidance on which actions must be reviewed and available exemptions. The revised guidance will also require bureaus seeking the procurement services of other agencies to identify a Contracting Officer Representative (COR), trained in accordance with Department of State requirements, to support significant assisted procurements based on complexity and/or dollar value.

The Department’s Office of Acquisitions will maintain an excel spreadsheet to track the use of interagency contracts including data such as costs and associated fees.
Appendix IV: GAO Contacts and Staff Acknowledgments

<table>
<thead>
<tr>
<th>GAO Contact</th>
<th>John Hutton (202) 512-4841 or <a href="mailto:huttonj@gao.gov">huttonj@gao.gov</a></th>
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<tbody>
<tr>
<td>Staff</td>
<td>In addition to the contact named above, Johana R. Ayers, Assistant Director; Noah Bleicher; Greg Campbell; Theresa Chen; Alexandra Dew; Timothy DiNapoli; Kathryn Edelman; Arthur James, Jr.; Julia Kennon; and Winnie Tsen made key contributions to this report.</td>
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