

**STATEMENT OF STUART W. BOWEN, JR.
SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION**

BEFORE THE

**UNITED STATES HOUSE
OVERSIGHT AND GOVERNMENT REFORM COMMITTEE**

U.S. CONTRACTING IN IRAQ

**Thursday, February 15, 2007
Washington, D.C.**

Chairman Waxman, Ranking Member Davis, and members of the Committee: thank you for this opportunity to address you today on important matters regarding the role of the Special Inspector General for Iraq Reconstruction (SIGIR) in auditing the U.S. contracting process in the reconstruction of Iraq. Today, I will provide you with a detailed overview of our oversight efforts of contracting in Iraq. I look forward to a productive exchange with the Committee regarding this issue.

BACKGROUND

I was appointed as the Inspector General of the Coalition Provisional Authority (CPA) in January 2004 and began oversight of the CPA programs and operations with about a dozen staff in Baghdad in March of that year. The Office of the Special Inspector General was created in October 2004 only two months before the scheduled termination of the CPA Inspector General. SIGIR reports jointly to the Secretaries of State and Defense to keep them fully informed about the results of our reviews, good and not so good, as well as the recommendations for corrective action. Our reports are provided directly to the Congress and made available to the public on our website, www.sigir.mil.

The Congress has tasked SIGIR to provide oversight of the substantial United States investment in the reconstruction and relief of Iraq. This primarily entails the Iraq Relief and Reconstruction Fund, which amounts to just over \$21 billion, as well as substantial amount of the Iraq Security Forces Fund (total \$10 billion), the Commanders Emergency Response Program (total \$2.5 billion), and the Economic Support Fund.

In carrying out its mission, SIGIR applies a balanced approach, providing oversight, insight, and foresight in the Iraq reconstruction program. SIGIR's *oversight* efforts, an Inspector General's traditional focus, address the ability to obtain maximum return on the U.S. taxpayer investment and to promote transparency and accountability of the U.S. administration of any Iraqi resources used. SIGIR's *insight* efforts advise the leadership

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on management issues, with the emphasis on creating an environment of accountability, rule of law, and public trust in Iraq. SIGIR's *foresight* efforts focus on end-state issues, such as the cost to complete, transition, sustainment, and capacity building.

IMPACT OF SIGIR'S WORK

To date, SIGIR has:

- Produced 12 Quarterly Reports.
- Issued 82 audit products and has another 14 audits underway. We recently published a report discussing how U.S. agencies in Iraq have implemented 34 of the 40 recommendations we made to improve the transparency and accountability of the Development Fund for Iraq.
- Produced 80 project assessments based on inspections of project sites. The most significant for this quarter was our second assessment of construction of the Baghdad Police College.
- Opened over 300 criminal and civil investigations leading to five arrests and four convictions, including the conviction of Mr. Robert Stein, who was recently sentenced to nine years in prison and fined \$3.6 million for his role in money laundering and conspiracy to defraud the CPA in Hilla, Iraq. SIGIR Investigations have resulted in 23 cases currently under prosecution at the Department of Justice, and we are currently working on 78 on-going investigations.

SIGIR also has a robust Lessons Learned Program ongoing, with two reports already published (one on Human Capital Management and the other on Contracting). The third and final report, which addresses Program and Project Management, will be published this quarter. A Lessons Learned capping report, called The Story of Iraq Reconstruction, will be published by the end of this calendar year.

[SIGIR's latest quarterly report, issued January 30, 2007, is submitted for the record]

OVERSIGHT OF THE U.S. CONTRACTING PROCESSES

Our audit and inspection reports have documented a number of challenging situations that we have investigated in Iraq. As a preliminary matter, permit me to note that the reconstruction program in Iraq is unlike any other in history in that it has been carried out virtually under fire. Thus, it is fundamentally different from reconstruction in a stable environment and our finding should be viewed in that light.

The challenges of Iraq, however, do not reduce the importance of oversight; to the contrary, they increase the importance of effective operational oversight and real-time review. Indeed, our collective reporting reveals a simple axiom: effective quality assurance programs carried out by the government complemented by effective quality control programs performed by contractors yield successful programs and projects. Where good QA and QC programs have been applied in Iraq, success has been achieved.

Of note, SIGIR's inspection reports document that most of the projects we have visited have met contract expectations. This rate of success is notable given the high security risks in Iraq.

Part of the mission of an Inspector General is to identify problem areas and work with management to fix them. I tell my auditors to bring me audits that provide solutions and not just findings. I am pleased to report that most of our audits provide recommendations that management agrees with and implements. This has promoted positive change in the Iraq reconstruction program.

NOTABLE SIGIR AUDITS AND INSPECTIONS

The Contract Award Fee Process

The goal of award fees in contracting is to motivate a contractor's performance by offering financial incentives in areas critical to program success that are susceptible to measurement and evaluation. SIGIR reviewed the 18 cost-plus award-fee contracts funded with Iraq Relief and Reconstruction Fund (IRRF) funds—11 design-build (DB) contracts valued at up to \$6.75 billion and 7 program management and support (PMAS) contracts valued in excess of \$200 million. The 18 contracts were awarded through six different procuring activities.

In general, cost-plus-award-fee contracts include a base award fee (for simply meeting contract requirements) and a merit-based award fee for performance that exceeds contract expectations. For 16 of the 18 contracts, the base fee component was 3 percent, which is the highest base fee allowed by the Department of Defense Federal Acquisition Regulation (FAR) Supplement. To receive merit-based award fees, management should evaluate and measure contractors' performance against specific award fee evaluation criteria, which should be provided in the contracts. However, the 18 contracts did not contain the required criteria with definable metrics. This missing component creates the potential for inflated contractor performance evaluations.

Further, the Army FAR Supplement 5116.405-2 states that "contractors should not receive award fees (above the base fee) for simply meeting contract requirements." For 9 of the 11 DB contracts, the award fee plans allowed awards of an additional 50 percent to 74 percent of the award fee pool for average results. For the 7 PMAS contracts, the award fee plans permitted awards of an additional 60-70 percent of the award fee pool for some performance above standard while still allowing several weaknesses in performance to remain.

In addition, SIGIR reviewed award fee files and found that the recommendations and determinations of fees were not adequately documented to show that the integrity of the award fee determination process had been maintained. The documentation reviewed in contract files was insufficient to substantiate the award fees that were approved.

On July 19, 2005, SIGIR provided the Joint Contracting Command – Iraq /Afghanistan, the Project Contracting Office, and the U.S. Army Corps of Engineers Gulf Region

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Division Award Fee Determining Official a briefing on the interim results of our audit.¹ At that time, these officials advised us that they were implementing new procedures that would address many of the corrective actions we identified. The Joint Contracting Command—Iraq/Afghanistan concurred with the recommendations in our report.

[The SIGIR audit report on this matter is submitted for the record: Award Fee Process for Contractors Involved in Iraq Reconstruction (SIGIR-05-017, October 25, 2005)]

Primary Healthcare Centers

The Primary Healthcare Centers project began with a March 2004 contract awarded to Parsons Global Inc. to construct 150 centers in Iraq, at a contract cost of about \$243 million. Over the next two years, limited progress was made on this program, despite the expenditure of about \$186 million. By March 2006, because of this lack of progress, the number of centers to be built had been reduced by eight, to 142. At that time, 135 centers were only partially constructed, one was placed under a different contract, and six had been accepted as complete by the U.S. Army Corps of Engineers (USACE).

The USACE then issued a “termination for convenience” of the contract for 121 of the 135 partially completed centers. This required the contractor to deliver 20 completed centers, including the six already completed. The USACE sought to contract out the completion of the remaining units. The incremental cost to complete the remaining 121 centers was estimated to be about \$36 million. The USACE announced the award of contracts for these centers in September 2006.

Our audit found that both contractor performance and U.S. Government management actions were factors in the failure to complete the Public Healthcare Centers program as planned. We were told by the USACE that the contractor:

- Lacked qualified engineering staff to supervise its design work;
- Failed to check the capacity of its subcontractors to perform the required work;
- Failed to properly supervise the work of its subcontractors; and,
- Failed to enforce quality assurance and quality control activities.

SIGIR auditors identified:

- A lack of complete government response to contractor requests for equitable adjustments and excusable delays based on unplanned site conditions, design or scope changes, or delays based on site access restrictions or security;
- High government personnel turnover and organizational turbulence;
- Failure to follow required procedures for making contract changes;
- Poor cost controls;
- Poor cost-to-complete reporting;
- Failure to properly execute its administrative responsibilities; and,

¹ Interim Briefing to the Project and Contracting Office - Iraq and the Joint Contracting Command - Iraq on the Audit of the Award Fee Process, SIGIR-05-010, July 26, 2005.

- Failure to establish an adequate quality assurance program.

Our audit report concluded that the overall management of the projects should have been better executed. We provided recommendations for the project, as well as additional “lessons learned” for contract oversight. The responses we received from the three government organizations involved in the management of this program revealed that no one office had taken responsibility for the program.

[The SIGIR audit report on this matter is submitted for the record: Audit Report on Management of the Primary Healthcare Centers Construction Projects (SIGIR-06-01, April 29, 2006)]

Use of Definitization Requirements

Undefinitized contract actions are used when the contract terms, specifications, or price are not agreed upon before performance is begun. They are used in two cases: (1) when there is insufficient time to negotiate for a definitive contract to meet the government’s needs; and (2) when the government’s interest demands that a binding commitment be given so that contract performance can begin immediately. The Defense Federal Acquisition Regulation Supplement (DFARS) requires that definitization occur (to agree on the contract terms, specifications, and price) the earlier of (1) 180 days after the issuance of an undefinitized contract action; or (2) the date on which the amount of funds obligated under the contract action is equal to more than 50% of the not-to-exceed price.

In Iraq contracting, there was clearly a lack of clarity regarding the regulatory requirement for definitization of task orders issued under contracts classified as Indefinite-Delivery/Indefinite-Quantity (IDIQ) on the part of the primary U.S. Army organizations involved in awarding and administering different types of contracts. Specifically, U.S. Army procurement officials with the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A), the U.S. Army Corps of Engineers Gulf Region Division-Project and Contracting Office (GRD-PCO), and the Assistant Deputy Assistant Secretary of the Army for Policy and Procurement-Iraq/Afghanistan (ADASA P&P-I/A) all agreed that the DFARS regulation for definitization did not apply to task orders issued under contracts classified as IDIQ contracts. The basis of this interpretation was the lack of specific language in either the DFARS or the Federal Acquisition Regulation to associate an IDIQ contract as a type of contract that would be subject to the definitization provisions for an *undefinitized contract action*. As such, the application of definitization requirements to task orders issued under IDIQ contracts has been done on a voluntary basis.

On June 2, 2006, as a result of this audit and discussions with U.S. Army officials regarding the DFARS requirement for definitization, the Office of the Army General Counsel, in conjunction with the ADASA (P&P-I/A), re-examined this issue and agreed with SIGIR that the provisions of DFARS Subpart 217.74, “is the prescription for *undefinitized contract actions*, which would include task orders, if the terms,

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specifications or price are not agreed upon before performance is begun under the task order.” Thus, the definitization requirement was not voluntary but mandatory.

We concluded the lack of clarity among U.S. Army procurement organizations as to the applicability of the DFARS definitization requirement for tasks orders issued under IDIQ contracts reduced control over contractor costs by the government. The incomplete nature of the content in the contract databases does not support the DFARS requirement for ensuring that definitization occurs in a timely manner, and thus implementing cost control. Cost containment is essential for contract administration relating to funds control over the IRRF appropriation which is subject to expiration at fiscal year end 2006.

[The SIGIR audit report on this matter is submitted for the record: Review of the Use of Definitization Requirements for Contracts Supporting Reconstruction in Iraq (SIGIR-06-019, July 28, 2006)]

Basrah Children’s Hospital

The U.S. Agency for International Development (USAID) was tasked with construction of a modern, 50-bed pediatric facility in Basrah in southern Iraq, intended to improve the quality of care for both women and children. The Congress authorized \$50 million for the project. Under a memorandum of understanding with USAID, Project HOPE was to provide a significant portion of the hospital equipment and have responsibility for training staff.

The job order issued by USAID in August 2004 to Bechtel National, Inc., required that the hospital be completed by December 2005. Over the next year, completion of the project slipped several times and, by March 2006, completion was projected as July 31, 2007, 16 months later than expected. Project delays and a revision in the allocation of indirect costs, had resulted in an increase of the estimated cost-at-completion to approximately \$98 million from \$50 million.

While the project status reports provided by the contractor to USAID identified slippages in the project, SIGIR auditors found that the information was not effectively acted upon and was not included, as required, in reports to Congress under Section 2207 of P.L. 108-106. The slippages also were not included in Project Assessment Reports.

The project suffered from a lack of sufficient oversight. For example, instead of the 50-bed facility with referral-level pediatric care, with an emphasis on pediatric oncology, as had been requested by the Iraqi Ministry of Health, the initial design presented by the contractor was for a 100-bed facility, encompassing over 25,000 square meters of space. The scope was subsequently modified to a 94-bed facility, with oncology services and radio therapy facilities. Of note, these modifications, which expanded the scope of the project, failed to request additional funding or extension of the project schedule.

Although USAID was responsible for the construction of the hospital, it did not include the installation of medical equipment, which was to be provided by Project Hope, in the project schedule or costs. The USAID Mission Director-Iraq told SIGIR that USAID did not believe it was required to track or report on the medical equipment since USAID was not providing the equipment. However, USAID was responsible for keeping the

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Congress and the responsible Department of State officials apprised. The Deputy Chief of Mission told SIGIR that he was unaware that the completion date reported by USAID did not reflect the delivery of a turnkey operation that would include medical equipment.

SIGIR found the USAID accounting systems and processes to be inadequate in that they failed to accurately identify and report project costs to Chief of Mission and the Congress. The April Section 2207 Report to the Congress stated the hospital cost-at-completion was \$50 million, even though Bechtel had determined it would be at least \$98 million. USAID told SIGIR that it believed it did not have to include an estimated \$48 million in contractor indirect costs in its reports.

The SIGIR audit report stated that, under the current management and contracting structure, the actual turnkey cost for the project will be about \$149.5 million to \$169 million. Thus, SIGIR estimated that the project will require an additional \$69.5 million to \$89.5 million of additional funds to complete.

Effective oversight and management of the Basrah Children's Hospital Project schedule and cost was limited by the absence of effective program management and oversight. USAID did not establish an appropriate program management structure. To oversee its entire \$1.4 billion construction program under the Iraq Relief and Reconstruction Fund (IRRF), comprising approximately 20 projects across eight infrastructure sectors, USAID relied on one administrative contracting officer and one cognizant technical officer. No program manager with sole responsibility for the hospital project was appointed, nor was a hospital program management office established.

The U.S. Mission-Iraq concurred with all of the recommendations of the SIGIR audit, and provided information on actions underway. Notably, the Ambassador has created a Reconstruction Core Group which includes all agencies involved in reconstruction. This group has devised a plan to complete the project, transferring program and project management for the Basrah Children's Hospital from USAID to the U.S. Army Corps of Engineers.

[The SIGIR audit report on this matter is submitted for the record: Review of the U.S. Agency for International Development's Management of the Basrah Children's Hospital Project (SIGIR-06-026, July 31, 2006)]

Administrative Task Orders

From January 13, 2004 to March 26, 2004, 12 Design-Build (DB) cost-reimbursement contracts totaling \$5.8 billion were awarded to 9 contractors. Contractors incur administrative and overhead costs, as well as direct costs, associated with performing work. In spring of 2004, senior Program Management Office and the successor Project and Contracting Office program and contracting managers sought to simplify tracking of administrative and overhead costs for the 12 DB contracts through a new type of task order—an administrative task order (ATO). ATO's were intended to capture all administrative and overhead costs for each DB contract, separate from direct costs, for each individual construction task order under the contract. This was expected to provide several benefits, including allowing the Project and Contracting Office managers to better

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understand direct and indirect contractor costs and to increase the ability of managers to control and minimize administrative costs.

SIGIR found that ATOs were issued for 6 of the 12 DB contracts. Further, one of the six DB contracts with an ATO was terminated and demobilized less than one year after contract award. Therefore, our audit focused on the 11 active DB contracts, of which 5 were issued one or more ATOs.

SIGIR found the DB contractors' administrative costs were not uniformly tracked because ATOs were not issued for all 11 DB contracts and there were inconsistencies in the ATOs that were issued:

- ATOs were issued for only 5 of the 11 DB contracts.
- Of the 5 DB contracts, 2 were issued ATOs that covered and separately identified four categories of ATO costs (Mobilization and Transportation, Management and Administration, Security, and Life Support).
- For the other 3 DB contracts, 2 were issued a single ATO that combined, rather than separated, ATO cost by specific categories; and 1 was issued an ATO that covered only Life Support costs.

In a series of audits, the Defense Contract Audit Agency (DCAA) found that for the five contracts for which ATOs were issued, only one of the contractors had adequate accounting and billing systems to capture administrative costs. While we relied on the contractors' invoices to analyze costs, DCAA's findings raise questions about the actual value of the invoiced costs.

Furthermore, the ATOs were issued at different times after contract award. Specifically,

- For four of the five DB contracts, ATOs were issued sometime between when mobilization task orders (TOs)² were issued and when substantial work began on the project. The earliest ATOs were issued two months after the mobilization TOs were issued.
- For the fifth DB contract, ATOs were not issued until after substantial work began.

During periods of limited direct project activity, ATO costs were greater than direct TO costs for the five DB contracts. During the period between contractor mobilization and the start of substantial direct project work—from February to November 2004—contractors for these five contracts submitted invoices for \$62.1 million in ATO costs and \$26.7 million in direct project costs.

Three to nine months elapsed from (1) the date when the mobilization TO was issued, and (2) the date when substantial direct project work began. For the five DB contracts, the average time elapsed was six months.

SIGIR believes that administrative and overhead costs that were intended to be charged against ATOs were actually higher than those invoiced because ATOs were not issued

² These were orders to assemble and deploy the contractor's workforce.

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concurrent with the mobilization task orders. Contractors would have begun to incur administrative costs from the onset of mobilization. In the absence of ATOs, the contractors would have no other option but to include administrative costs in their mobilization or direct task order invoices or a combination of the two.

SIGIR was unable to determine how de-scoping contract actions affected ATO costs because invoices are not maintained in a form that allowed such analysis. In one instance, we identified a de-scoping action that occurred on December 27, 2004, which was followed by an increase rather than a decrease in ATO costs. However, we cannot draw any conclusions from this analysis because the ATO costs included administrative costs for 14 different TOs issued under the contract, and the ATO invoices do not break out—nor are they required to break out—indirect costs by individual TOs. Furthermore, individual TOs are allowed to include multiple projects. In another instance, we documented that most costs incurred for the DB contract cancelled less than a year after it was issued were for mobilization, demobilization, and administrative costs.

To enable the U.S. government to better track administrative and overhead costs for future reconstruction contracts—both funded through the IRRF as well as under any future reconstruction effort—and to minimize costs during periods of inactivity until the authorization to begin work can be issued, we recommended that the Commanding General of GRD-PCO coordinate with the Commanding General of the Joint Contracting Command-Iraq/Afghanistan to take certain actions. Both organizations concurred with all of our recommendations.

[The SIGIR audit report on this matter is submitted for the record: Review of Administrative Task Orders for Iraq Reconstruction Contracts (SIGIR-06-028, October 23, 2006)]

Iraqi Police Training Program

The Department of State (DoS) Bureau of International Narcotics and Law Enforcement Bureau (INL) is responsible for assisting in the development of police capabilities. INL, as the program execution office, used the Iraq Relief and Reconstruction Fund (IRRF) to provide funding for Iraqi police training and assigned a contracting officer representative (COR) to monitor contract activities. The DoS Office of Acquisition Management provided contracting officer support to INL.

To assist in achieving its mission, the DoS awarded a contract to DynCorp International, LLC (DynCorp), on February 18, 2004. The contract was for a base year and four one-year options and had a potential value of about \$1.8 billion. As part of this contract, DoS issued task order number 0338, with a not-to-exceed value of \$188.7 million in June 2004, to DynCorp for an initial 3-month period to provide: training services for international police liaison officers; training support equipment; construction of a residential camp on the Adnan Palace grounds in Baghdad to house training personnel; and construction of five regional camps at selected locations in Iraq.

As of October 14, 2006, INL authorized, and DoS paid DynCorp \$150.8 million for work performed through May 2006 under Task Order 0338. The bulk of activity under this

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task order was completed by October 22, 2004, but activities related to the residential camp continued to at least June 2006. Subsequent activities regarding the relocation of trailers purchased under Task Order 0338 for the residential camp and their continued storage were executed under a separate task order (number 1436) with DynCorp.

Our audit of this program (conducted jointly with the DoS Office of the Inspector General) focused on the establishment of the residential camp and the performance of unauthorized work by DynCorp. Specifically, it focused on the work to be done and items to be provided for the \$51.6 million residential camp and the \$36.4 million of equipment to be procured.

We found poor contract administration by INL and the DoS Office of Acquisition Management resulted in millions of dollars put at unnecessary risk, and property that can not be accounted for that was acquired under Task Order 0338. Specifically, between July 2004 and June 2006, DoS paid about \$43.8 million for manufacturing and temporary storage of a residential camp that has never been used, including \$4.2 million for unauthorized work associated with the residential camp. In addition, DoS may have spent another \$36.4 million for weapons and equipment, including armored vehicles, body armor, and communications equipment that cannot be accounted for because invoices were vague and there was no backup documentation or property book specifically for items purchased under the task order.

A key part of Task Order 0338 was the manufacture and installation of a residential camp to house 1,040 police training and advisor personnel with associated facilities including dining and office space. To accomplish this, DynCorp issued a subcontract valued at \$55.1 million to Corporate Bank Financial Services (Corporate Bank), on August 15, 2004, which in turn subcontracted with an Italian manufacturing firm, Cogim SpA, on September 1, 2004, for \$47.1 million. A total of 1,048 trailers were to be manufactured. Because of security concerns, INL officials decided to cancel the residential camp project in September 2004. On or about September 23, 2004, the DoS contracting officer communicated to DynCorp INL's decision not to proceed on the camp. DynCorp, in turn, issued a stop-work order to Corporate Bank on September 25, 2004.

Based on our review, we identified the following series of events concerning the residential camp:

- We found contradictory information on the actual status of trailer manufacturing for the residential camp, as of September 2004. DynCorp issued the subcontract for the residential camp to Corporate Bank on August 15, 2004, and Corporate Bank in turn issued a subcontract to Cogim SpA on September 1, 2004. According to an INL internal review report, the manufacturing had actually begun in May 2004—more than three months before the subcontract for the residential camp project was issued. In addition, on July 30, 2004, DynCorp submitted an invoice to DoS that included \$18.0 million in mobilization fees for the residential camp for the period of April 17, 2004, through May 16, 2004.
- We found no information to indicate that any INL official or the Contracting Office Representative (COR) questioned why DynCorp submitted an invoice for

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mobilization fees for the residential camp before it had subcontracted for the manufacture of the trailers. Nor did INL seek to determine the actual status of the work when DynCorp was notified not to proceed, given the \$18 million paid to DynCorp for mobilization fees for the residential camp. Rather, INL relied on DynCorp's representations. As such, the true status of the manufacturing effort was unknown as of the issuance of the notice.

- Of the approximately \$43.8 million spent on the residential camp, \$4.2 million was for work that was not contractually authorized—the Iraqi Ministry of Interior directed the work but DoS, as the contracting agency, never authorized it. The unauthorized work included relocating the residential camp to outside of the Adnan Palace grounds, manufacturing an additional 20 VIP trailers, and construction of an Olympic size swimming pool on the palace grounds.

In December 2005, INL issued an asset verification report documenting that DynCorp could not provide a complete property book and backup documentation for items it purchased for the U.S. government. The report concluded:

- DynCorp invoices were frequently ambiguous and lacked the level of detail necessary to determine what was procured.
- DynCorp did not maintain a complete list of items procured.
- DynCorp did not establish policy guidance or accountability procedures.

The report also concluded, “INL cannot determine if the bureau received what it paid for.” In our review we found that the invoices for Task Order 0338 lacked the level of detail to determine what was procured and that the U.S. government or DynCorp did not maintain a complete list of items procured under Task Order 0338. Further, we found that the COR, although responsible for inspecting and accepting contractor work, did not ensure that DynCorp maintained proper inventory control records or maintain the records personally for the \$36.4 million of proposed equipment that was to be procured under this task order.

In November 2005, before the SIGIR audit was announced, INL's Principal Deputy Assistant Secretary met with the DoS Inspector General and subsequently with DoS Investigations to discuss concerns of potential fraud with Task Order 0338. Specifically, INL reported that DynCorp had billed INL for 500 trailers for the residential camp related to this task order that may not have been manufactured or completed at the time of billing.

INL appears to be making some recent progress after about two years of attempting to find a resolution for the use of the residential camp trailers. In May 2006, we communicated our concern to the COR about moving the residential camp components from one storage location to another before formalizing plans for their ultimate use. Notwithstanding our concerns, the COR authorized DynCorp to move the trailers to the Baghdad International Airport. On June 24, 2006, DynCorp entered into a subcontract to obtain open and covered storage and security for the trailers at the Baghdad International Airport for an initial period of three months to two years. On September 7, 2006, INL

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told us that it planned to use the trailers to house INL's personnel, but faced complications due to limited availability of land and high demand that was driving up costs in the area near the Baghdad airport. As of January 18, 2007, INL appears to be making progress in resolving the use of the trailers in that discussions are underway for an alternative use of the trailers at the Baghdad Embassy.

We recommended a number of actions to ensure that the contract work is properly invoiced, payments are proper, and the contract is properly managed. INL agreed with all of the recommendations and stated that many improvements were underway. The DoS Office of Acquisition Management did not concur with establishing limitations of tenure for contract administration officials.

[The audit report on this matter is submitted for the record: Review of DynCorp International, LLC, Contract Number S-LMAQM-04-C-0030, Task Order 0338, for the Iraqi Police Training Program Support (SIGIR-06-029 and DoS-OIG-AUD/IQO-07-20, January 30, 2007)]

Baghdad Police College

The Coalition Provisional Authority awarded a contract to Parsons Delaware, Inc, to construct and renovate the Baghdad Police College in March 2004. Upon the dissolution of the Coalition Provisional Authority, the Joint Contracting Command – Iraq/Afghanistan became the contracting agent. The U.S. Army Corps of Engineers Gulf Region Division and the Project and Contracting Office are responsible for the efficient and effective execution and administration of design-build contracts for the reconstruction of Iraq. The Joint Contracting Command – Iraq/Afghanistan provided the Gulf Region Division and Project and Contracting Office with a roles and responsibilities matrix in order to specify the functions of each organization.

There were two task orders under the contract associated with work at the Baghdad Police College – Task Orders 06 and 29. Task Order 06 provided for a Public Safety Training Academy to supplement and expand the training facilities to train all departments of the Ministry of Interior. Task Order 29 was to provide all labor, materials, and services necessary to construct new buildings and/or renovate, improve, and expand existing buildings to supplement the Baghdad Public Safety Training Academy.

Our inspection determined that:

- The Baghdad Police College construction and renovation project results were not consistent with the original contract and task order objectives because the project was poorly designed, constructed, and the contractor and the U.S. Army Corps of Engineers Gulf Region Central Project Engineer and Quality Assurance Representatives did not effectively manage the project.
- Despite the lack of oversight and poor project management by the U.S. Army Corps of Engineers, the government paid Parsons approximately \$5.3 million in base and awards fees for substandard work.

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- The U.S. Army Corps of Engineers Gulf Region Central was paid approximately \$2.5 million for simply tracking the progress of the project completion instead of enforcing the procedures set forth in its own guidance regarding the Quality Assurance program.
- Construction costs were originally estimated to be approximately \$73 million. The government estimates it will pay Parsons approximately \$62 million for work both fully and partially completed. Additional contracts with other contractors in excess of \$8 million have been awarded to complete some of the construction work not finished by Parsons. However, the majority of the de-scoped items, which were originally determined to be essential to a functioning police training college, will either be left as a shell (i.e. communications building) or not even attempted (i.e. driving course and fire protection). The U.S. Army Corps of Engineers has been unable to provide the original estimated costs and amount paid for each of the de-scoped items; therefore, it is not possible to determine the additional amount of funding required to complete all of the objectives of the task orders.
- U.S. government paid about \$2.6 million for design work that was generally incomplete and inadequate prior to construction. The contractor did not provide and the government did not review the required number of design drawings for 30% and 60% submittals. For the design drawings reviewed, the government determined the submittals were generally incomplete and inadequate. For the 90% design drawing submittals, the government concluded that the drawings were “not acceptable as 90% submittal as these drawings are incomplete, inaccurate, and substandard.” At 100%, many of the design drawing submittals were “rejected” by the government reviewer.
- The majority of the work observed did not meet the standards of the contract and task orders. SIGIR identified significant construction deficiencies, such as poor plumbing installation, expansion cracks, concrete segregation and honeycombing, reinforcement bar exposure, and poor brickwork. In addition, the construction and equipment installation was performed at a low level of workmanship by the contractor and did not comply with the international standards required by the contract and task orders.
- SIGIR found that construction was so poor for one facility that the prime contractor issued a Nonconformance Report and work was stopped while independent assessments were done to determine if the construction deficiencies could be corrected. Independent assessments determined that it would be too costly to attempt to correct the structural construction deficiencies. Even though the subcontractor agreed to “take financial responsibility for the engineering fix,” this facility was removed from the scope of work under the contract after the government paid approximately \$350,000 for the poor construction work, and it will require approximately \$100,000 to demolish the facility.
- The U.S. government Quality Assurance program was essentially non-existent in monitoring the contractor’s Quality Control program. SIGIR found that the U.S.

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Army Corps of Engineers, Gulf Region Central Project Engineer and the Quality Assurance Representatives did not review the contractor's daily Quality Control reports. In addition, the Quality Assurance Representatives were used to track project progress and not to identify quality issues. The Quality Assurance Representatives did not identify any construction deficiencies in the daily Quality Assurance reports. Consequently, the U.S. Army Corps of Engineers was not aware of significant construction deficiencies at the project site.

- The Baghdad Police College construction and renovation project results were not consistent with the original contract and task order objectives. The contract Statement of Work called for providing the "Iraqi people with necessary basic public facilities and infrastructure with sufficient space accommodations and reliable public works, electrical, plumbing, mechanical, and communications resources that are easy to maintain, upgrade and repair..." The completed barracks buildings continue to experience significant plumbing failures and the massive expansion cracks on the interior and exterior of the buildings will leave the Iraqis with continual maintenance issues.

The Gulf Region Division generally concurred with our conclusions. However, the Gulf Region Division did not concur with all of our recommendations. Instead, the Gulf Region Division stated that, "not one graduation has been delayed, nor has a single class of cadets been delayed." The Gulf Region Division's comment regarding the ability of the Baghdad Police College to graduate cadets is not relevant to the issues raised in this report. The contract and task orders specifically required that the Baghdad Police College construction comply with international building standards and diligent quality management by the contractor and the government. The Gulf Region Division, in its comments, confirmed that international building standards were not followed and the quality management program of the contractor and the government was not adequate. The objective of the contract and task orders was to provide the Baghdad Police College staff an adequate training facility, including cadet barracks and classrooms, to train a substantial number of cadets. Instead, the poor construction and oversight forced the Baghdad Police College to relocate cadets from one barracks to another and, in at least one case, into a classroom as temporary living quarters.

We continue to work with the Gulf Region Division to reach a mutually satisfactory resolution.

[The SIGIR inspection reports on this matter are submitted for the record: Review of Baghdad Police College (SIGIR-PA-06-078.2 and 079.2, January 29, 2007)

Contracting Lessons Learned

SIGIR's contracting lessons learned report, released in January 2006, examines the establishment and evolution of the contracting policies, procedures, and systems used by U.S. government agencies to address the challenges associated with strategy and planning, policies and processes, and staffing during the U.S. reconstruction effort in Iraq. This report is the result of extensive research and a formal, collaborative process involving panels of experts from inside and outside government.

We distilled key lessons for contracting and procurement in Iraq to provide insight for strategy and planning, as well as for policies and processes.

Strategy and Planning Key Lessons:

- Include contracting and procurement personnel in all planning stages for post-conflict reconstruction operations. The pre-deployment interagency working groups for Iraq reconstruction did not adequately include contracting and procurement personnel.
- Clearly define, properly allocate, and effectively communicate essential contracting and procurement roles and responsibilities to all participating agencies. The failure to define contracting and procurement roles and responsibilities at the outset resulted in a subsequently fragmented system, foreclosing opportunities for collaboration and coordination on contracting and procurement.
- Emphasize contracting methods that support smaller projects in the early phases of a contingency reconstruction effort. The CERP and similar initiatives in Iraq proved the value of relatively small, rapidly executable projects that meet immediate local needs.
- Generally avoid using sole-source and limited-competition contracting actions. These exceptional contracting actions should be used as necessary, but the emphasis must always be on full transparency in contracting and procurement. The use of sole-source and limited competition contracting in Iraq should have virtually ceased after hostilities ended (and previously sole-sourced limited competition contracts should have been promptly re-bid).

Policy and Process Key Lessons:

- Establish a single set of simple contracting regulations and procedures that provide uniform direction to all contracting personnel in contingency environments. The contracting process in Iraq reconstruction suffered from the variety of regulations applied by diverse agencies, which caused inconsistencies and inefficiencies that inhibited management and oversight.
- Develop deployable contracting and procurement systems before mobilizing for post-conflict efforts and test them to ensure that they can be effectively implemented in contingency situations. Contracting entities in Iraq developed ad

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hoc operating systems and procedures, limiting efficiency and leading to inconsistent contracting documentation.

- Designate a single unified contracting entity to coordinate all contracting activity in theater. A unified contract review and approval point would help secure the maintenance of accurate information on all contracts, enhancing management and oversight.
- Ensure sufficient data collection and integration before developing contract or task order requirements. The lack of good requirements data slowed progress early in the reconstruction program.
- Avoid using expensive design-build contracts to execute small scale projects. While the use of large construction consortia may be appropriate for very extensive projects, most projects in Iraq were smaller and could have been executed through fixed-price direct contracting.
- Use operational assessment teams and audit teams to evaluate and provide suggested improvements to post-conflict reconstruction contracting processes and systems. Oversight entities should play a consultative role (along with their evaluative role), because the rapid pace of reconstruction contingency programs cannot easily accommodate the recommendations of long-term assessments or audits.

Our study produced six recommendations:

1. Explore the creation of an enhanced Contingency Federal Acquisition Regulation (CFAR). Although the existing Federal Acquisition Regulation (FAR) provides avenues for rapid contracting activity, the Iraq reconstruction experience suggests that the FAR lacks ease of use. Moreover, promoting greater uniformity through a single interagency CFAR could improve contracting and procurement practices in multi-agency contingency operations. An interagency working group led by DOD should explore developing a single set of simple and accessible contracting procedures for universal use in post-conflict reconstruction situations. Congress should take appropriate legislative action to implement the CFAR, once it is developed by the interagency working group.
2. Pursue the institutionalization of special contracting programs. In Iraq, smaller scale contracting programs, like the CERP and the Commanders Humanitarian Relief and Reconstruction Program, achieved great success. Congress should legislatively institutionalize such programs for easy implementation in future contingency operations.
3. Include contracting staff at all phases of planning for contingency operations. Contracting plays a central role in the execution of contingency operations, and thus it must be part of the pre-deployment planning process. Whether for stabilization or reconstruction operations, contracting officials help provide an accurate picture of the resources necessary to carry out the mission.

4. Create a deployable reserve corps of contracting personnel who are trained to execute rapid relief and reconstruction contracting during contingency operations. This contracting reserve corps could be coordinated by the DoS Office of the Coordinator for Reconstruction and Stabilization as part of its civilian ready reserve corps. An existing contingent of contracting professionals, trained in the use of the CFAR and other aspects of contingency contracting, could maximize contracting efficiency in a contingency environment.
5. Develop and implement information systems for managing contracting and procurement in contingency operations. The interagency working group that explores the CFAR should also review current contracting and procurement information systems and develop guidelines and processes for enhancing these existing systems or, if necessary, creating new ones to meet unique contingency operational needs.
6. Pre-compete and pre-qualify a diverse pool of contractors with expertise in specialized reconstruction areas. These contractors should receive initial reconstruction contracts during the start-up phase of a post-conflict reconstruction event.

Our report on lessons learned in program and project management will provide comparable insight into these aspects of Iraq reconstruction, and provide guidance for the future.

[The SIGIR lessons learned report is submitted for the record: Iraq Reconstruction: Lessons in Contracting and Procurement, (Report Number 2, July 2006)]

SELECTED ONGOING AUDITS

Review of Spending of Where the Money Went under Major Contracts and the Recording and Reporting of Associated Costs

- The objective of these reviews is to determine, in detail, the costs incurred by contractors in performing work under selected contracts for reconstruction projects in Iraq, as well as the methods used to record and report associated costs. SIGIR will also evaluate the controls associated with program and contract management.

Review of Close-out Processes and Procedures for Iraq Relief and Reconstruction Fund (IRRF) Contracts

This audit will determine whether contracts funded by IRRF (including task orders, grants, and cooperative agreements) are being closed out on time and whether they comply with the Federal Acquisition Regulation (FAR) 4.804 1(a) and other applicable regulations, policies, and procedures. SIGIR will also determine what steps the government program and contract officials perform to ensure that the delivery of the goods or services meet the identified requirements and the payments were reasonable for goods and services received.

Progress Review of the Transition of Iraq Relief and Reconstruction Fund (IRRF) Projects to the Government of Iraq

The overall objective is to determine whether the Department of State, U.S. Agency for International Development, Gulf Regional Division, and Multi-National Security Transition Command-Iraq have developed and implemented plans for the transition of IRRF-funded projects to the Government of Iraq.

Law Enforcement IRRF Projects and Efforts in Support of Iraq Relief and Reconstruction

This review is a spin-off of the SIGIR review of the Bureau of International Narcotics and Law Enforcement Bureau (INL) efforts to build the Adnan Police Academy. That review identified serious weaknesses in contracting, contract administration, accountability, and overall management. This SIGIR review will also include INL's program at the International Jordanian Police Training Center.

SELECTED PLANNED AUDITS

Status of Asset Transfer of Iraq Relief and Reconstruction Investments

The overall objective of this audit is to determine whether the U.S. government organizations responsible for managing Iraq relief and reconstruction projects have developed and approved policies and procedures for transferring the billions of dollars of assets – purchased, renovated and constructed with U.S. funds – to the Iraqi government and its citizens.

Status of the Construction and Outfitting of Primary Healthcare Centers (PHC)

Between September 8, 2005, and March 3, 2006, the U.S. government made a series of decisions to issue stop work orders to Parsons Global Services, Inc., that reduced the total number of PHCs to be completed by Parsons from 150 to 20 facilities. Although the Gulf Region Division's (GRD) contract to construct PHC facilities through Parsons was significantly reduced, the overall PHC construction requirement remained. GRD procured medical equipment sets based on this overall requirement. To its credit, GRD did arrange to have the medical equipment sets, furniture, and consumables delivered to storage facilities, thus reducing an extremely high risk of pilferage and susceptibility to damage. GRD has since negotiated firm-fixed-price contracts for constructing PHCs, and currently expects to complete 136 of them. Along with the six PHCs Parsons completed, there are expected to be a total of 142 PHCs (plus the training academy for a grand total of 143). The objectives of this review are to determine if the contractors are in compliance with the terms of the contract or task orders, whether the government representatives are complying with general legislative and regulatory guidance concerning contract administration and financial management, and what the final costs and completion schedules are targeted to be.

CONCLUSION

SIGIR remains committed to meeting the expectations of the U.S. Congress, the Secretaries of State and Defense, and the American public with timely and helpful information on U.S. progress and performance in Iraq reconstruction. To that end, I return to Iraq next week for my 15th survey of reconstruction in that nation.

As always, I will report to you on my findings at the end of the next quarter, and I look forward to your questions today.