

The seal of the Office of the Special Inspector General for Iraq Reconstruction is a large, circular emblem in the background. It features an eagle with spread wings, a shield on its chest, and olive branches in its talons. The words "INSPECTOR GENERAL" are written in an arc at the top, and "RECONSTRUCTION" is written in an arc at the bottom. In the center, there is Arabic text: "مفتش العام" (General Inspector) and "إعادة إعمار العراق" (Iraq Reconstruction).

**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
DoS-OIG-AUD/IQO-07-20
JANUARY 30, 2007**

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**United States Department of State
and the Broadcasting Board of Governors**

Inspector General

January 30, 2007

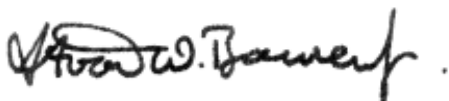
MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ
DIRECTOR, IRAQ RECONSTRUCTION MANAGEMENT
OFFICE
ASSISTANT SECRETARY, BUREAU FOR INTERNATIONAL
NARCOTICS AND LAW ENFORCEMENT AFFAIRS,
DEPARTMENT OF STATE
DIRECTOR, OFFICE OF ACQUISITION MANAGEMENT,
DEPARTMENT OF STATE

SUBJECT: 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)

We are providing this audit report for your information and use. We performed the audit in accordance with our statutory duties contained in Public Law 108-106, as amended, which requires that we provide for the independent and objective conduct of audits, as well as leadership and coordination of, and recommendations on, policies designed to promote economy, efficiency, and effectiveness in the administration of such programs and operations and to prevent and detect waste, fraud, and abuse. This report discusses the results of a joint Special Inspector General for Iraq Reconstruction (SIGIR) and Department of State Inspector General review.

We considered comments from the Department of State Bureau for International Narcotics and Law Enforcement Affairs and the Bureau of Administration, Office of Acquisition Management on the draft of this report when preparing the final report. The comments are addressed in the report where applicable, and a copy of the combined agency response is included in the Management Comments section of this report.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott, SIGIR, Assistant Inspector General for Audit, at 703-604-0982, or by email at joseph.mcdermott@sigir.mil. For the distribution of this report, see Appendix C.



Stuart W. Bowen, Jr.
Special Inspector General
for Iraq Reconstruction



Howard J. Krongard
Inspector General
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cc: See Distribution

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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

January 30, 2007



**DOS-OIG
AUD/IQO-07-20**

Executive Summary

Introduction

In Iraq, the Department of State (DoS) Bureau for International Narcotics and Law Enforcement Affairs (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 contract number S-LMAQM-04-C-0030 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. There was an additional \$1.1 million in labor cost that was invoiced by DynCorp in October 2006 for which INL approved provisional payment on November 8, 2006, subject to subsequent reviews, audits, and appropriate adjustments. The bulk of activity under this 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. The actions relating to the establishment of the residential camp, as contained in Task Order 0338, and the performance of unauthorized work by DynCorp are the principal focus of this report.

The Special Inspector General for Iraq Reconstruction (SIGIR) and the DoS Office of the Inspector General jointly conducted this review.

Objectives

The objectives of this audit were to answer the following questions:

- What were the costs associated with the subject contract Task Order 0338, including amounts obligated and expended, potential liabilities, and controls over these costs?
- What is the status of property purchased under Task Order 0338 including related internal controls, and what is the salvage value for unused assets?
- What is the cost and program impact of the stop-work order affecting the construction of police training facilities at the Adnan Palace?
- What is the status of construction of facilities to support provincial police training programs?

To respond to the audit objectives we structured the report in three sections:

- cost incurred under Task Order 0338
- construction of the Adnan Palace residential camp and regional camps
- contracting and contract management

These sections in total address each of the original audit questions. We focused our work on supplies and services provided under Task Order 0338, as it represented the bulk of spending under the task order. Within supplies and services, we narrowed our focus 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 did not include an assessment of the regional camps in this review but plan to address them in our continuing review of T.O. 0338 and DynCorp contract S-LMAQM-04-C-0030 and other INL expenditures of IRRF.

Results

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 Task Order 0338.

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. However, it is not clear what costs were attributable to the mobilization or whether these costs were a prepayment, because DynCorp did not issue a subcontract to Corporate Bank until August 15, 2004. According to the DoS contracting officer, when DynCorp issued the stop-work order to Corporate Bank in September 2004, DoS was told by DynCorp that the residential camp had been completed.
- We found no information to indicate that any INL official or the COR questioned why DynCorp submitted an invoice for 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.
- 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 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.

- 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.

Weak and sometimes non-existent contract administration was the root cause of the problems we identified with work performed under Task Order 0338. Our review of the actions taken by the DoS contracting officer and INL COR during the performance period of Task Order 0338 indicated that neither performed key responsibilities assigned by the DoS Foreign Affairs Handbook for contract administration. For example, the INL COR was responsible for accepting contractor work, informing the contracting officer of performance failure, and maintaining a COR file. However, we found no evidence that the COR performed or properly documented any of these activities. Further, for more than a decade, the INL COR assigned to Task Order 0338 has also been responsible for monitoring other DynCorp police contracts and task orders for INL. Many of the problems we identified were associated with this COR's performance on this task order and had been identified and previously reported in a March 2002 DoS Office of Inspector General report on U.S. police support in Bosnia.¹

The Foreign Affairs Handbook does not address the maximum length of time personnel should serve as a contracting officer or COR for the same contractor. In July 2006, correspondence on contract management² provided to the House and Senate Armed Services Committees and the Government Accountability Office noted that tenure can become a vulnerability if the control environment in an organization is weak. The results of our review of Task Order 0338 suggest that, at least for this task order, the control environment has been weak. However, although there have been several DoS contracting officers for Task Order 0338 over the past two years, the INL COR has been assigned to this and other DynCorp contracts/tasks orders since 1994—a 12-year period.

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.

¹ Department of State, Office of Inspector General, *Review of U.S. Support to the International Police Task Force in Bosnia*, Memorandum Report AUD/PPA-02-20, March 2002.

² U.S. Government Accountability Office, *Contract Management: DOD Vulnerabilities to Contracting Fraud, Waste, and Abuse*, GAO-06-838R, July 7, 2006.

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.

Management Control Weaknesses

During the audit we identified management control weaknesses in the timely issue of task order modifications, the process of documenting the review of contractor invoices, and the administration of the task order. This report includes recommendations to strengthen internal controls needed to improve the DoS contracting and administration of the task order. Further, because INL reported similar conditions in its December 2005 INL asset verification report, we have no reason to believe that the management internal control weaknesses in this task order are isolated. Therefore, SIGIR intends to continue the review of Task Order 0338, and will announce a full review of contract S-LMAQM-04-C-0030 and other expenditures by INL in Iraq.

Management Actions

In November 2005, 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 disclosed 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. The preliminary investigation conducted by DoS investigations revealed that INL contacted DoS Office of Acquisition Management in October 2005 to discuss its concerns regarding the number of trailers actually received and billed under this task order. DoS and SIGIR worked jointly on this investigation, and SIGIR has taken the lead and the investigation is ongoing.

Beginning in 2005, according to INL senior officials, INL initiated a number of steps to strengthen its contract and asset management across the Bureau. INL senior managers provided the following information:

- A series of internal reviews were undertaken concerning property controls and an inventory of the residential camp trailers related to the DynCorp contract that are discussed in this report.
- Between January and June 2006, INL directed DynCorp to take action on asset management improvements. These improvements were documented in a series of letters INL exchanged with DynCorp in which INL documented defects in contract performance and DynCorp responded by identifying corrective actions it was taking or planned to take. Currently, INL is in the process of following up on DynCorp inventory control corrective actions.

- In June 2006, INL requested assistance from the Defense Contract Management Agency in reviewing DynCorp property management practices in Iraq and Afghanistan (which the Defense Contract Management Agency declined due to property administrator staffing shortages).
- In October 2006, INL attempted to contract for Defense Contract Audit Agency services to close out several DynCorp task orders, including Task Order 0338. As of January 18, 2007, the Defense Contract Audit Agency had not responded.
- On November 2, 2006, INL appointed an overall COR for the DynCorp contract.
- In January 2007, INL identified an Iraq in-country COR. This person will be on duty once all Human Resource actions are finalized.
- In January 2007, INL began a review to complete contract files, which consisted of contracts, task orders, and pertinent documents exclusive of information, such as contract evaluation sheets and private e-mail exchanges between a program office and the contracting officer.
- Over the past several months INL has developed a process for thoroughly reviewing invoices. This process has already resulted in INL identifying billing errors in a DynCorp invoice. For example, INL rejected a January 9, 2007, invoice for \$1.1 million, which was for a different DynCorp contract³. This invoice was rejected because INL determined that the billed rate was outside the period of performance dates.

INL also advised us that it was working to ensure internal and management controls are in place and adhered to at all times, and intends to reconcile all past payments made since the inception of INL contracts in Afghanistan, Iraq, and Jordan.

We had initially recommended that INL consider replacing the COR for the DynCorp contracts and task orders who had held that position since 1994—a 12-year period. INL advised us on January 11, 2007:

- The COR has been replaced. INL also provided the appointment letters for in-country CORs for all INL contracts in Afghanistan and Jordan.
- The transition of contracting responsibilities took place in November 2006.
- The Iraq in-country CORs, who will be personal services contractors, had been selected and are going through the clearance process.

We consider INL's actions to be responsive to the draft recommendation, and therefore removed it from the final report.

³ Contract SAQMPD-04C-1076

Recommendations

To ensure that DoS conserves IRRF funds and other DoS funds, we recommend that the Assistant Secretary for the Bureau for International Narcotics and Law Enforcement Affairs:

1. Present a plan to the U.S. Ambassador to Iraq for review and approval on the use of the residential camp to house police trainers, as originally intended, or make arrangements to dispose of the camp. Because of the lengthy consideration already given to deciding what to do with the trailers, this action should be taken within the next 60 days.

To ensure that contracted work is properly invoiced, payments are proper, and the contract is properly managed, we also recommend that the Director, Office of Acquisition Management should take these actions:

2. Seek reimbursement from DynCorp of the improperly authorized payment of \$4.2 million that represents contractually unauthorized work directed by the Iraqi Ministry of Interior. This work included the relocation of the residential camp, the manufacture of additional VIP trailers, and the construction of an Olympic size swimming pool.
3. Request the Defense Contract Audit Agency (DCAA) take these actions:
 - a. Review the July 30, 2004, DynCorp invoice that included a residential camp mobilization fee to determine whether a prepayment of \$18.0 million occurred.
 - b. Review the October 30, 2006, DynCorp invoice for approximately \$1.1 million pertaining to labor costs associated with Task Order 0338.
4. On receipt of the DCAA audit report, the contracting officer should take the appropriate action.
5. Enforce procedures to ensure the contracting officer and COR comply with duties and responsibilities as identified in the DoS Foreign Affairs Handbook. These procedures should address:
 - a. receiving and retaining technical and financial reports
 - b. examining invoice with supporting documentation before certification for payment
 - c. processing “receiving and inspection reports” for equipment
 - d. maintaining a COR file
6. Establish and enforce tenure limitations for all contracting personnel, as part of the Foreign Affairs Handbook.

Management Comments and Audit Response

We received written comments on a draft of this report from INL, which incorporated comments from DoS Office of Acquisition Management, that they agreed with recommendations 1 through 5. INL stated that the Office of Acquisition Management disagreed with recommendation 6, regarding tenure limitations, because it has a Quality Assurance Plan for reviewing and approving contract actions to ensure that all requirements of law, regulation, department policy, and sound procurement practices are met. We recognize the importance of a Quality Assurance Plan, but believe that the need for tenure limitations is underscored when the control environment in an organization is weak. We, therefore, retained the recommendation.

In response to the draft of this report, INL provided us with information on its management actions to strengthen its contract and asset management across INL, which is detailed in the management actions section of this Report. INL also provided us with technical changes, which were incorporated in the final report as appropriate.

Introduction

Background

The Foreign Assistance Act of 1961 authorizes the Secretary of State to assist in promoting political and economic changes in a community of nations which respect civil and economic rights. Presidential Decision Directive 71, February 24, 2000, directed the Department of State (DoS) to strengthen criminal justice systems in support of U.S. peace operations and other complex contingencies. The Secretary of State designated the Assistant Secretary for the Bureau for International Narcotics and Law Enforcement Affairs (INL) as the primary focal point for DoS for all international narcotics and international criminal matters. The DoS role, carried out by INL, is both diplomatic and programmatic and includes international narcotics control, international crime control, and rule of law.

Bureau for International Narcotics and Law Enforcement Affairs

In Iraq, 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) for training Iraqi police. INL provided trainers and advisors to assist the Coalition Provisional Authority to address public security issues, structures, and organizations; developed a curriculum to train new and existing Iraqi police and corrections personnel; and re-established a police academy in Baghdad.

INL's workload increased substantially between 2003 and 2005, which includes the period during which activities discussed in this report occurred. In July 2005 the DoS and the Broadcasting Board of Governors Office of Inspector General issued an inspection report on INL.⁴ The inspection took place between February and April 2005 and covered executive direction, policy and program implementation, resource management, and management controls in INL's Washington operations and activities. The report stated that in the past two years (2003-2005) INL responsibilities and programs have burgeoned because of pressing demands in the high priority police training/rule of law programs in Iraq and Afghanistan and new counter narcotics challenges in Afghanistan. It also stated that INL's staffing has not increased commensurately with its workload and is a significant management challenge facing INL. Consequently, INL submitted a reorganization proposal that was approved by DoS in November 2004, adding 34 full-time domestic positions. It was also reported that the INL reorganization did not address the critical staffing requirements for any overseas posts, including Iraq.

In 2006 INL obtained a commitment from Embassy management in Baghdad for 20 positions to manage the civilian police and rule of law programs that totaled over \$600 million per year; however, as of January 16, 2007, only 7 are in place.

⁴ United States Department of State and the Broadcasting Board of Governors Office of Inspector General, *Report on Inspection Bureau of International Narcotics and Law Enforcement Affairs*, Report Number ISP-I-05-14, July 2005.

DynCorp International, LLC Contract Number S-LMAQM-04-C-0030

To assist INL in achieving its mission, the DoS Office of Acquisition Management, which provides contracting officer support, awarded contract number S-LMAQM-04-C-0030 to DynCorp International, LLC (DynCorp), on February 18, 2004.⁵ The contract was for a base year and four one-year options and had a potential value of about \$1.8 billion. The contract is a combination firm-fixed-price, indefinite-delivery/indefinite-quantity, and cost-plus-fixed-fee type contract dependent upon whether services, equipment, or construction efforts were being acquired. The contract, among other things, required DynCorp to provide housing, training support systems, and personnel to support the civilian police training program.

As part of this contract, DoS issued Task Order 0338 (T.O. 0338) in June 2004 to DynCorp for an initial 3-month period to provide and support police trainers and construct several camps. The task order, which had a not to exceed value of \$188.7 million, incorporated DynCorp's detailed cost proposal. Based on our analysis of the cost proposal we identified the value of specific work to be done and items to be provided, including DynCorp's overhead, general and administrative costs, and profit, as follows:

- \$51.6 million for the residential camp at the Adnan Palace
- \$38.1 million for the cost of providing training to the Iraqi police
- \$36.4 million for weapons and equipment, including armored vehicles, body armor, and communications equipment
- \$25.0 million for miscellaneous supplies and services
- \$17.9 million for constructing regional camps
- \$17.6 million for operations and maintenance for camps
- \$2.1 million for security service for civil police

We focused our work on supplies and services provided under T.O. 0338, as it represented the bulk of spending under the task order. Within supplies and services, we narrowed our focus 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.

⁵ AQM awarded two other large contracts in early 2004 for civilian police support in other parts of the world. One contract was awarded to Civilian Police International on February 26, 2004, with a value of \$1.6 billion. Another contract was awarded on March 25, 2004, to a joint venture partnership between PAE Government Services and HomeLand Security Corporation with a value of \$1.8 billion.

Objectives

The objectives of this audit were to answer the following questions:

- What were the costs associated with the subject contract T.O. 0338, including amounts obligated and expended, potential liabilities, and controls over these costs?
- What is the status of property purchased under T.O. 0338 including related internal controls, and what is the salvage value for unused assets?
- What is the cost and program impact of the stop-work order affecting the construction of police training facilities at the Adnan Palace?
- What is the status of construction of facilities to support provincial police training programs?

To respond to the audit objective we structured the report in three sections, which in total address each of the original audit questions:

- cost incurred under T.O. 0338
- construction of the Adnan Palace residential camp and regional camps
- contracting and contract management

The Adnan Palace camp was to be composed of a series of trailers providing living quarters, dining facilities, offices, and training classrooms. The trailers were to be manufactured in Italy and shipped to Iraq. Various documents, including DynCorp and its subcontractor's correspondence and DoS email messages, at times refer to the trailers as: trailers, containers, and components. For purposes of this report, we use the term trailers throughout the report. We also use the term residential camp when referring to the Adnan Palace camp. We did not include an assessment of the regional camps in this review but plan to address them in our continuing review of T.O. 0338 and DynCorp contract S-LMAQM-04-C-0030 and other INL expenditures of IRRF.

For a discussion of the audit scope, methodology, and prior coverage, see Appendix A. For acronyms used in this report, see Appendix B. For distribution of the draft report and planned distribution of the final report, see Appendix C. For a list of the audit team members, see Appendix D.

Costs Incurred Under Task Order 0338

On June 24, 2004, T.O. 0338 was issued with a not-to-exceed value of \$188.7 million, and initially was intended to cover the period April 17, 2004, through July 16, 2004. As of October 14, 2006, \$150.8 million had been paid to DynCorp for work performed through May 31, 2006. There was an additional \$1.1 million in labor cost that was invoiced by DynCorp in October 2006.

Statement of Work

The statement of work⁶ for the task order required DynCorp to among other things:

- Recruit, select, train, equip and support in the field, 500 International Police Liaison Officers (IPLO) personnel, who will be under the operational control of the Civilian Police Advisory Training Team that is charged with the mission to establish an Iraqi Police Service organization responsible for law enforcement functions throughout Iraq; and be prepared to increase from 500 to 750 the number of International Police Advisors, if necessary.
- Purchase additional armored vehicles to meet changing security conditions.
- Provide a self-contained residential camp to be located within the Adnan Palace grounds, Baghdad, Iraq, for 1,040 people with space for all trainers and advisors to relocate from local hotels.
- Install and/or construct, outside Baghdad, additional regional container camps to house and support IPLO personnel, including a 64-person camp in Tikrit, and up to 4 such camps in locations to be identified. DynCorp shall be prepared to provide operation and maintenance services.

Period of Performance

T.O. 0338 was initially intended to cover the period April 17, 2004, through July 16, 2004. According to T.O. 0338, DynCorp was given a verbal notice to proceed by the DoS contracting officer; however, no date was specified. Following the expiration of the original period of performance, there was no new scope of work initiated, and the work being performed under T.O. 0338 was not contractually extended. According to DynCorp's ratification proposal, DynCorp stated that because of the importance of this program to INL, it continued to perform essential work, as described in the task order, during the period July 16, 2004, through October 22, 2004, notwithstanding the fact that the task order had expired. As a result, on February 3, 2005, DoS's Office of Acquisition Management senior procurement officials and INL senior officials retroactively approved that work, an action which is discussed in detail later in this report.

⁶ Task Order 0338 incorporated the DynCorp cost proposal dated June 3, 2004 for the execution of the Statement of Work.

One element of the task order statement of work was the construction of a residential camp composed of trailers that would be manufactured outside of Iraq and shipped to the Adnan Palace grounds in Baghdad, Iraq. The trailers were manufactured, but put into storage. Billing of storage and related costs continued through May 2006. On June 25, 2006, further activity relating to storing and moving the trailers was shifted to another task order on the DynCorp contract, number 1436. Task Order 1436 is a broad task order directing the continuation of support to the civilian police training program. Activities concerning the trailers are discussed in detail later in this report.

Funds Available and Amounts Paid

T.O. 0338 was issued on June 24, 2004, with a not-to-exceed value of \$188.7 million. The INL contracting officer representative (COR) approved the payment of \$150.8 million for work performed through May 31, 2006, under the task order. As shown in Table 1, DoS deobligated a total of \$36.6 million. This consisted of \$34.3 million deobligated on December 13, 2005, and an additional \$2.3 million deobligated on June 28, 2006. The June 2006 deobligation was based on a DoS evaluation of invoices paid to date and a DynCorp estimate of further storage and security costs.

Table 1 – Funds Available Under Task Order 0338

Event	Amount
Original Task Order Authorization	\$188,734,225.85
Funds Deobligated	36,582,795.65
Net Available Task Order Funds	152,151,430.20
Costs paid for work performed through May 31, 2006	150,812,220.81
Remaining Balance	\$1,339,209.39

Source: Developed by SIGIR from DoS data as of September 25, 2006.

Subsequently, on October 30 2006, DynCorp submitted an invoice for about \$1.1 million for labor costs associated with this task order for the performance period April 17, 2004, to July 16, 2004. INL approved provisional payment of the invoice on November 8, 2006, subject to subsequent reviews, audits, and appropriate adjustments.

Construction of the Camp at Adnan Palace

T.O. 0338 required the construction of a residential camp to house the civilian police trainers at the Adnan Palace in Baghdad and 5 regional camps elsewhere in Iraq. Due to security concerns the residential camp was not completed, but over time all the trailers that were to comprise the camp were manufactured and placed in storage. Although DoS has paid about \$43.8 million for work associated with the trailers, according to INL officials, they have been yet to implement their plan for the use of the trailers but are making progress in doing so. T.O 0338 also required the installation/construction of regional camps. While \$17.9 million was reported as paid for these regional camps, these camps were not included in the scope of this review. We plan to address during a future review of INL and its use of IRRF funds.

Residential Camp Construction

One of the key tasks assigned to DynCorp under T.O. 0338 was the manufacture and installation of a residential camp for 1,040 police training and advisor personnel with associated facilities including dining and office space. At the request of INL program officials, DynCorp prepared a fixed price cost proposal, June 3, 2004, for the camp, which estimated the cost—including manufacturing and installing the trailers—would be \$51.6 million including DynCorp’s overhead, general and administrative costs, and profit. On August 15, 2004, DynCorp issued a subcontract to Corporate Bank Financial Services (Corporate Bank), in the amount of \$55.1 million to plan for and provide the residential camp; including \$47.1 million for the camp, \$5.2 million for general and administrative expenses, and \$2.8 million for profit.⁷ On September 1, 2004, Corporate Bank in turn issued a subcontract to Cogim SpA, located in Italy, in the amount of \$47.1 million, to plan for and provide the residential camp. A total of 1,048 trailers were to be manufactured by Cogim SpA.

On or about September 23, 2004, the DoS contracting officer communicated to DynCorp INL’s decision not to proceed with the manufacture and installation of the camp. This decision was based on a late September 2004 site visit by senior INL program officials, during which INL concluded that the residential camp at the Adnan Palace posed a security risk to personnel working and living at the camp. Upon receipt of this instruction, on September 25, 2004, DynCorp issued a written “stop-work” order to its subcontractor, Corporate Bank, to stop all work associated with construction of the camp. According to DynCorp, Corporate Bank then sent a stop-work order to its subcontractor, Cogim SpA, to cease work and the project was put on hold.

⁷ DynCorp’s \$51.6 million cost proposal for the camp was incorporated into Task Order 0338 by DoS’s Office of Acquisition Management. Neither the cost proposal nor DynCorp’s subcontract with Corporate Bank explains why DynCorp subcontracted the trailer manufacture for more than its fixed price cost proposal. DynCorp was ultimately paid \$43.2 million for the trailers’ manufacture as documented in its invoices and liquidation proposal and subsequently paid an additional \$565,798 for storage costs under TO 0338.

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. However, it is not clear what costs were attributable to the mobilization or whether these costs were a prepayment, because DynCorp did not issue a subcontract to Corporate Bank until August 15, 2004. According to the DoS contracting officer, when DynCorp issued the stop-work order to Corporate Bank in September 2004, DoS was told by DynCorp that the residential camp had been completed.

However, DynCorp subsequently reported that it was not complete. On September 21, 2005, more than one year after the issuance of the stop-work order, DynCorp provided INL program officials with a status report on the trailers, stating that the materials were in various stages of completion. On September 27, 2005, DynCorp advised INL program officials that 500 units (i.e. trailers) had not yet been manufactured. Since the camp was to consist of about 1,048 trailers, we calculated that just over half had been manufactured as of September 27, 2005.

We reviewed records from DoS, INL, and the contractors, we were able to put together a timeline of events based on available information and interviews, as shown in Table 2.

Table 2 – Chronological Events of Task Order 0338 - Trailers

Date	Event
2/18/04	Indefinite Delivery/Indefinite Quantity contract S-LMAQM-04-C-0030 awarded to DynCorp. This was a base year and 4 one-year options to provide a cadre of experienced law enforcement personnel to provide police training to Iraqis and to provide logistics and administrative support to the law enforcement personnel.
5/04	According to a May-June 2006 INL internal review report on the residential camp, “in May 2004, INL and DynCorp began a project to establish a camp on the grounds of the Adnan Palace to provide life support for all of police. For numerous reasons, the Civilian Police Advisory Training Team (CPATT) decided to scrub the project. According to records, that left INL and DynCorp holding the camp that was located in Italy, northern Iraq, and Baghdad.” This internal review report also stated that the manufacturer, Cogim SpA, began delivery of parts to storage in Zakho, Iraq, in May 2004.
6/24/04	T.O. 0338 awarded with a performance period 4/17/04 – 7/16/04. Verbal authorization (date was not specified in DoS contract files) to proceed was provided before the task order was formally awarded.
7/30/04	DynCorp invoices DoS for camp mobilization (4/17/04 – 5/16/04) for \$18.0 million.
8/15/04	DynCorp awards \$55.1 million subcontract to Corporate Bank for trailers. Specifies that contractor is to plan and provide for a self contained residential camp.
9/01/04	Corporate Bank subcontracts with Cogim SpA, Italy for trailer manufacturing (actually signed by both parties on 9/6/04). This contract was valued at \$47.1 million.
9/04	According to a May-June 2006 INL internal review report, there were 222 erected units in Zakho, Iraq.
9/23/04	DoS contracting officer tells DynCorp “not to proceed” with the manufacture and installation of the camp. In a June 27, 2006, discussion, the DoS contracting officer told SIGIR that a “not to proceed” was issued orally as opposed to “stop work” because he was told by DynCorp that manufacturing of the trailers had not begun. However, in an October 18, 2005, communication within the Office of Acquisition Management the same contracting officer stated that DynCorp told DoS that the camp was completed. This illustrates the confusion over the status of the residential camp.
9/25/04	According to a May 5, 2005, memorandum from the President of Corporate Bank to DynCorp: DynCorp official issued a “stop-work” order to Corporate Bank. Corporate Bank further stated that Corporate Bank “immediately makes (sic) all reasonable steps to cease and minimize the incurrence of costs allocable to the work order”. The “stop-work” order was for 90 days; extended for additional 30 day periods on December 15, 2004, January 21, 2005, and again on February 19, 2005. According to several interviews, there was a belief that the order would be eventually made but this never happened.
10/22/04	DoS states that the bulk of activity under this task order was completed by October 22, 2004. However, activities related to the residential camp continued to at least June 2006.
2/3/2005	INL and DoS contracting officer accepts DynCorp ratification proposal that it continued to perform work after the task order period of performance expired.

Date	Event
5/05/05	In a May 5, 2005, Corporate Bank memorandum to DynCorp addressing the residential camp, Corporate Bank states that by September 2004, the trailers were almost complete with a few components needing assembly.
9/07/05	DynCorp invoices DoS for \$25.2 million for Corporate Bank's materials, sunk costs, storage cost (Italy and Iraq), and personnel (Italy and Iraq).
9/21/05	DynCorp reports to INL "that materials were in various stages of completion."
9/27/05	DynCorp advises INL that 500 trailers had not been manufactured.
10/12/05	In an email to a senior DoS contracting official, DynCorp states that "the majority of the set is complete and ready to move to storage. The factory is finalizing assembly on the last 500 containers that were in production when the stop-work order was issued."
10/17/05	DynCorp asks DoS contracting officer, "when can we expect the go ahead to complete the assembly and move camp into a storage facility under DynCorp control?"
10/18/05	DoS contracting officer emails DynCorp stating that, "you are hereby authorized to move the containers into storage." SIGIR found no record where there was any authorization to complete the assembly.
12/13/05	DoS deobligates \$34.2 million from task order.
5/25/06	COR advises SIGIR that the trailers may be moved to the Baghdad International Airport (BIAP). SIGIR recommended to the COR that the trailers should not be moved until there is a plan defining the use of the trailers. COR responds that a plan is being developed and should be completed before any decision to move the trailers is made.
6/06	In an August 2006 meeting with INL officials, SIGIR was told that sometime around June the COR advised the DoS contracting officer of a requirement to move trailers to BIAP.
6/23/06	DynCorp invoices for storage costs from 11/1/05 – 5/31/06 for \$565,798.
6/24/06	DynCorp subcontracts security and trailer storage at BIAP for 3 months.
6/25/06	DoS issues modification to Task Order 1436 to DynCorp for variety of efforts including the movement of trailers to BIAP.
6/28/06	DoS deobligates an additional \$2.3 million from task order.
9/07/06	SIGIR is told by INL's Controller/Executive Director that INL had been unable to implement its plan for the use of the trailers.
10/14/06	DynCorp advises DoS that the trailers arrived at Baghdad International Airport.
10/30/06	DynCorp submits an invoice for about \$1.1 million for labor costs for the performance period ending July 16, 2004.

Based on this series of events, that at the time of the September 2004 stop-work order, it is unclear to us as to whether a large number of the trailers had been manufactured prior to authorization. We found no information to indicate that any INL official or the COR questioned why DynCorp submitted an invoice for 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. We believe that had the COR pursued the matter, DoS might have been able to take steps to ensure that the government did not make any improper payments for any trailers manufactured after the work was contracted and before the stop-work order was issued. Instead, through June 2006, DoS has paid about \$43.8 million for the trailers' manufacture and for their storage and security between September 2004 and May 2006.

When we discussed the results of our work with senior INL officials on August 30, 2006, the INL officials voiced concern that INL was invoiced for work not yet completed. We analyzed the DynCorp invoices and identified three invoices that relate to the residential camp for a total of about \$43.8 million.

- The first invoice, dated July 30, 2004, included a "mobilization fee" for the residential camp (\$18.0 million). However, it is not clear what costs were attributable to the mobilization or whether these costs were a prepayment, as DynCorp did not issue a subcontract to Corporate Bank until August 15, 2004, for the residential camp.
- The second invoice, submitted on September 7, 2005, concerned settlement cost associated with the residential camp cancellation and was for an additional \$25.2 million.
- A third invoice was subsequently submitted on June 23, 2006, by DynCorp, for \$565,798 for additional storage costs for the residential camp for the period November 1, 2005, through May 31, 2006.

Since DynCorp subsequently advised INL that almost half of the trailers had not been manufactured as of September 21, 2005, INL's concerns seem to be valid. We are making a recommendation to address this matter. In addition, SIGIR is continuing to review invoices concerning the ordering, manufacturing, delivery, and storage of the camp components including the trailers.

In addition to paying for trailers that were no longer needed for their original purpose of housing police trainers, for the past two years, senior INL officials have been trying to develop a plan for the use or disposition of the trailers and, in January 2007, may have found a partial solution. At various times in 2005, INL officials considered donating the trailers for various uses, including earthquake relief in Pakistan and hurricane relief in the United States following Hurricane Katrina. Actions that followed included:

- In October 2005, DoS requested DynCorp to provide information on the residential camp's disposal.
- In early November 2005, DynCorp provided a liquidation proposal that addressed the elements that DoS requested and provided a spreadsheet that included proposed storage costs for the trailers.
- On May 25, 2006, the INL COR, who is also the Iraq Program Manager for INL, told us he was planning to move all the trailers from their current storage locations in Italy and northern Iraq to the Baghdad International Airport, place them in storage there.
- On May 25, 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. Senior INL officials told us that key factors in the decision to move the trailers were security issues associated with housing INL personnel in insecure areas in Iraq and the cost of maintaining personnel in hotels there, estimated at \$28 million annually.
- On June 24, 2006—one day before the task order to move the trailers was issued—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 (at an initial cost of \$275,000), and for as long as two years.
- On June 25, 2006, DoS issued a fixed priced task order, number 1436, to DynCorp for \$4.6 million to move the trailers to the Baghdad International Airport.
- On September 7, 2006, however, INL told us that it had not been able to implement its plan to use the trailers to house its personnel at the Baghdad airport because of complications due to limited availability of land and high demand that was driving up costs in the area near the Baghdad airport. The plan to use the trailers to house its personnel is INL's preferred option. Should it prove impossible to locate the camp at the airport, another option being considered by INL is to use the trailers to house Iraqi judges and witnesses. According to INL, as the security situation has deteriorated, security for judges and witnesses has become a high U.S. government priority. INL did not say where it would put the trailers if it implemented this option. Finally, INL said that it could donate the trailers to the Ministry of the Interior.
- 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.

Performance of Unauthorized Work

The statement of work provided DynCorp by DoS directed that the residential containers be placed within the Adnan Palace grounds. On June 14, 2004, during the initial construction of the camp, the Chief of Staff of the Coalition Provisional Authority-Ministry of the Interior approved an Iraqi Ministry of Interior statement of requirements for the Adnan Palace site. The statement called for relocating the camp outside the Adnan Palace grounds on an adjacent 21-acre plot. The Ministry of Interior also established a requirement for the manufacture and installation of 20 additional camp trailers for VIP quarters and construction of an Olympic size swimming pool on the Adnan Palace grounds. Documentation indicated the Ministry of Interior directed that the VIP trailers and the swimming pool be constructed within the Adnan Palace grounds and “be completed without delay.”

We could find no documentation in the DoS contract file showing that the residential camp relocation, the construction of VIP quarters, or the swimming pool were authorized modifications to the task order statement of work. According to the Federal Acquisition Regulation 43.102, “only contracting officers acting within the scope of their authority are empowered to execute contract modifications on behalf of the Government.” In discussing this work with DynCorp officials they recognized the importance of only doing contractually authorized work and said they believed they had been contractually authorized to perform the work but had no supporting documentation. In the absence of DoS and DynCorp documentation showing that the work was authorized by the contracting officer it appears that the changes directed by the Coalition Provisional Authority on behalf of the Ministry of Interior, and consequently, the actions by DynCorp, were not contractually authorized, and that any costs associated with those changes were improper charges to the task order.

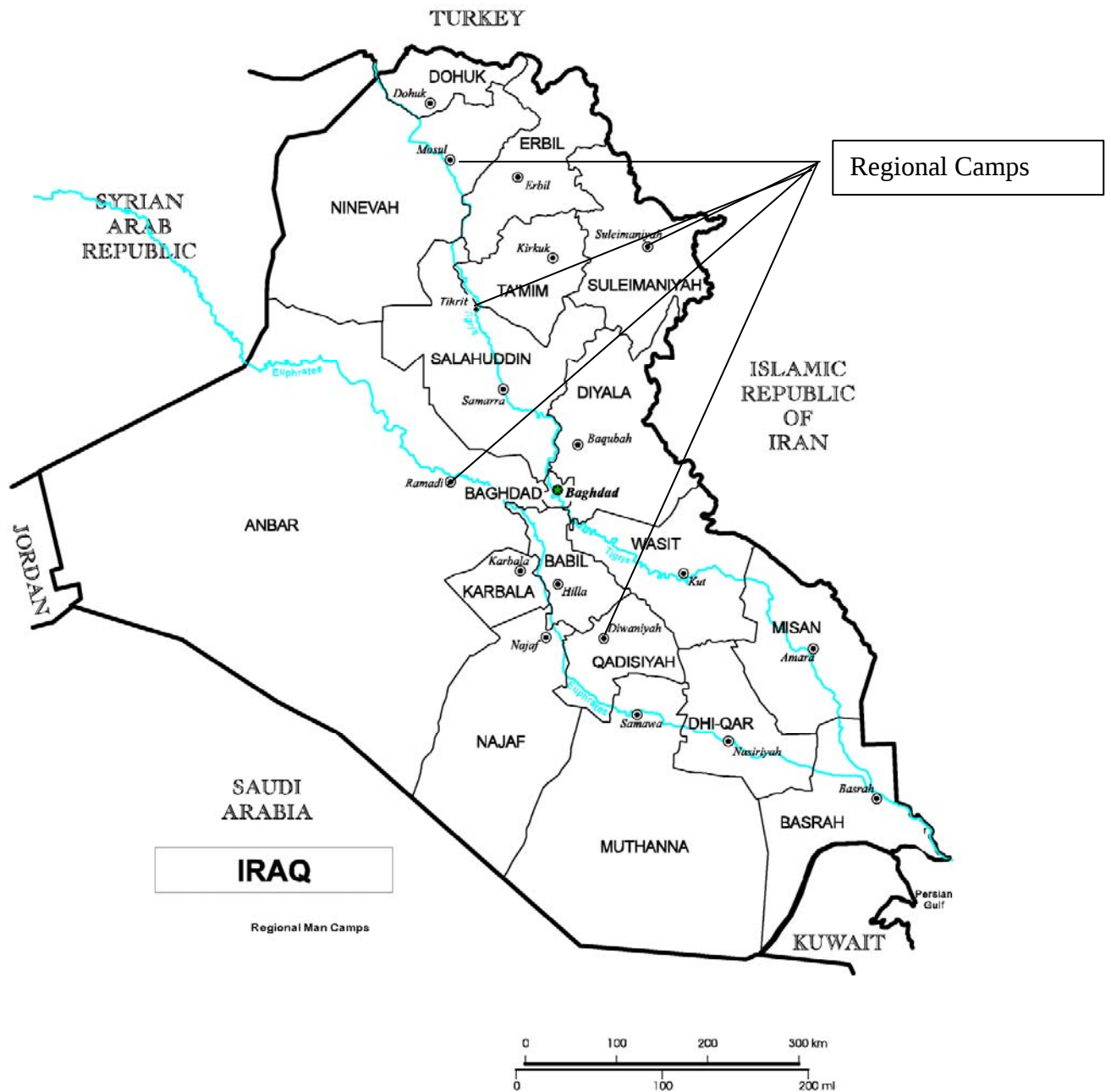
The September 7, 2005, invoice submitted by DynCorp for \$25.2 million in settlement costs, included \$4.2 million for costs associated with a decision to relocate part of the camp outside the Adnan Palace grounds and design changes related to this decision. It also included costs associated with manufacturing the VIP trailers and constructing the swimming pool. During our exit conference with senior INL officials, they stated to us that they stopped the unauthorized work at the end of September 2004 when the changes came to their attention during a trip to Iraq. These costs were incurred prior to receipt of the late September 2004 DoS contracting officer’s instruction to “stop work.” However, INL’s COR approved the invoice for payment notwithstanding the lack of documentation contractually authorizing the work.

Regional Camps

T.O. 0338 also required that DynCorp construct five regional camps at selected locations in Iraq. The regional camps were to house and provide facilities to support IPLO personnel while providing police mentoring to Iraqi police officers. The task order set a firm fixed-price for the regional camps of \$17.9 million including overhead, general and administrative costs, and profit. DynCorp built the camps, located at Tikrit, Mosul, Ramadi, Sulaymniyah, and Diwaniyah. Figure 2 indicates the location of the regional

camps. Although DynCorp billed, the COR authorized, and DoS paid \$17.9 million, the INL COR told us that he never visited the sites due to security concerns and had relied on reports from others regarding the status of the camps. SIGIR plans to visit these camps as we continue to review T.O. 0338 and Contract S-LMAQM-04-C-0030.

Figure 2 – Regional Camps Constructed in Iraq Under Task Order 0338



Source: Developed by SIGIR from information provided by DynCorp as of July 2006.

Contracting and Contract Management

The contracting officer and the COR are essential acquisition personnel for ensuring an efficient acquisition process. According to DoS' Foreign Affairs Handbook, the contracting officer and COR are the most directly involved in the placement and administration of a contract by the U.S. government. DoS contracting officials responsible for T.O. 0338 did not perform many of the key responsibilities set out in the Foreign Affairs Handbook for contracting officers and CORs. As a result, our review showed that DynCorp was not provided sufficient direction and that DoS both incurred unnecessary costs and retroactively approved work performed by DynCorp that was not initially contractually authorized.

Foreign Affairs Handbook Requirement

The Foreign Affairs Handbook identifies the roles and responsibilities of both the contracting officer and the COR. According to the handbook, responsibilities of the contracting officer include:

- establishing contract terms, conditions and general provisions, including the methods of pricing, paying, and financing
- administering the contract, including the execution of contract modifications and other changes
- closing out or terminating contracts
- signing the contract
- appointing the contracting officer's representative, who will have limited authority to act for the contracting officer

A COR, who is appointed by the contracting officer, assists in the administration of the contract. The COR is responsible for:

- defining project requirements
- monitoring the contractor's technical progress and expenditures
- performing inspection and acceptance of work on behalf of the U.S. government
- reporting to the contracting officer any issues which cannot be resolved without additional cost or time
- informing the contracting officer in writing of any needed changes in the statement of work
- reviewing and approving contractor invoices
- maintaining a COR file

The Foreign Affairs Handbook also states that in certifying invoices, the COR is responsible for verifying the accuracy and propriety of all documents and that the certified payment is legal, correct, and proper. The Handbook further states that the COR executes acceptance by processing a “receiving and inspection report,” or by approving the contractor’s invoice.

Contracting Officer and COR Did Not Perform a Number of Their Responsibilities

Our review of the responsibilities of the contracting officer and COR during the performance period of T.O. 0338 indicated that the contracting officer did not perform key responsibilities assigned by the Foreign Affairs Handbook and that the COR performed few, if any, of a COR’s responsibilities or if they were performed failed to document them.

As shown in Table 3, the contracting officer performed some of his responsibilities and did not administer the contract to include modifications and changes. Our review of T.O. 0338 showed that a number of contracting actions were not performed. Specifically, the contracting officer:

- Allowed the original period of performance to expire and DynCorp to continue to work for three months beyond the original period of performance, which resulted in the issuance of a ratification action to retroactively approve the contractor’s continued performance.
- Never officially issued a notice not to proceed after the decision was made to not build the residential camp.
- Did not issue a task order modification directing the storage of the residential camp.

Table 3 – Contracting Officer Responsibilities and Analysis of Performance for T.O. 0338

Responsibilities per DoS Foreign Affairs Handbook	Fully Performed	Not Performed or Not Fully Performed	No Evidence That Performed
Establish contract terms, pricing, paying and financing		✗	
Appoint the COR with limited authority		✗	
Sign the contract and appropriate modifications		✗	
Administer contract to include modifications and changes		✗	

Source: Developed by SIGIR from the Foreign Affairs Handbook and DoS records as of July 2006.

Furthermore, while the contracting officer did appoint a COR, he did not identify the COR's responsibilities. However, according to the DoS Acquisition Regulation 642.270, all personnel assisting the contracting officer should have a clear delegation of responsibilities.

Although the COR for T.O. 0338 has been responsible for monitoring civilian police contracts for more than a decade, including INL's current contract with DynCorp, for T.O. 0338, the COR performed few, if any, of a COR's responsibilities adequately, or if they were performed, failed to document them, as shown in Table 4. The COR was also, at the same time, the INL Director of the Civilian Police and Rule of Law programs. The DoS contract files show that the Director has been the COR, monitoring DynCorp police contracts, since 1994. Although the Director never completed COR training, the contracting officer determined that the training was not required due to his years of experience. However, according to the DoS Acquisition Regulation 642.270, all personnel assisting the contracting officer should have appropriate training. Further, as discussed later, the same COR was cited in 2002 by the DoS Office of Inspector General for not receiving required training.

Table 4 – Contracting Officer's Representative Responsibilities and Analysis of Performance for T.O. 0338

Responsibilities per DoS Foreign Affairs Handbook	Fully Performed	Not Performed or Not Fully Performed	No Evidence That Performed
Monitor contractor progress and expenditures		✗	
Inspect and accept contractor work		✗	
Inform contracting officer, in writing, of any performance or schedule failure		✗	
Review and approve contractor vouchers or invoices			✗
Maintain a COR file		✗	

Source: Developed by SIGIR from the Foreign Affairs Handbook and DoS records as of July 2006.

Our review of T.O. 0338 identified a number of shortcomings in the COR's performance of stated responsibilities, such as:

- **Monitor contractor progress.** There were a number of instances where the COR did not monitor performance.
 - As discussed earlier, in June 2004, DynCorp performed work directed by the Iraqi Ministry of Interior that was not contractually authorized by DoS. INL documentation shows that it was not until late-September 2004 that INL officials became aware of the changes the Ministry of Interior directed in June 2004. Closer monitoring of the DynCorp effort by the COR could have stopped the work directed by the Ministry of Interior before it was performed.
 - Also as discussed, at the time of the stop-work order on the residential camp, a substantial amount of manufacturing had not been completed—a fact that became known to DoS a year later. More aggressive oversight by the COR in seeking to determine the status of the work when DynCorp was notified not to proceed, rather than relying on DynCorp's representations could have allowed the COR to learn the true status of the work. Given the \$18 million paid to DynCorp for mobilization fees for the residential camp, DoS might have been able to take steps to ensure that the government did not make any improper payments for any trailers manufactured after the work was contracted and before the stop-work order was issued. Instead, the COR approved a July 30, 2004, invoice submitted by DynCorp that included mobilization fees for the residential camp, although DynCorp had not yet subcontracted for the manufacture of the camp.
- **Accept contractor work.** The COR is required to ensure that contractor acquired equipment is properly obtained and safeguarded. Under the basic contract DynCorp was required to provide inventory control of acquired equipment and supplies.
 - Under T.O. 0338 DynCorp, on behalf of INL, was to purchase a wide array of equipment to support police training including armored vehicles, weapons, night vision goggles, body armor, and communications equipment. It was the COR's responsibility to ensure that the contractor-purchased items for the U.S. government meet contract requirements and were under proper contractor control. Our review found that the COR did not maintain records to substantiate the review and acceptance of the armored vehicles, weapons, goggles, body armor, or any communications support equipment. According to the DynCorp proposal this was valued at \$36.4 million.
 - Regarding the trailers manufactured for the residential camp and subsequently stored in Iraq and Italy, although they are U.S. government property acquired by the contractor, as of July 2006, DoS had not formally taken possession of them by obtaining proper documentation. In addition,

there was limited documentation to support the inventory related to the trailers. An INL inventory, conducted in May-June 2006 at the residential camp components storage sites in Italy and northern Iraq, found that no single DynCorp document existed that provided a comprehensive list, with descriptions, to be able to conduct the inventory. Therefore, our review could not definitively identify whether the inventory included all the components, although INL staff were able to account for the bulk of the components.

- o A December 2005 report on an INL asset verification that was conducted in July-August 2005, reviewed DynCorp's inventory control procedures in Iraq, Jordan, and Afghanistan. The scope of the review was to determine whether adequate asset records were maintained, appropriate controls were in place for asset safeguarding, and contract requirements for contractor procured assets were satisfied. The study reported that DynCorp could not provide a complete property book and backup documentation for items purchased by DynCorp for the U.S. government. The report concluded that DynCorp invoices were frequently ambiguous, unclear, and lacked the level of detail to determine what was procured; that DynCorp did not maintain a complete list of items procured; and DynCorp did not establish policy guidance or accountability procedures. The report concluded "INL cannot determine if the bureau received what it paid for." Other task orders to DynCorp required the acquisition of equipment, but without established controls, such as providing detailed identification of items procured (i.e. record of serial numbers), it is impossible to determine what task order acquired the item and whether DynCorp had previously been compensated for the item. Since the COR was the INL representative for civilian police contracts and it is the COR's responsibility to inspect and accept contractor work, the COR should have ensured DynCorp maintained proper inventory control records.
- ***Inform contracting officer, in writing, of any performance or schedule failure.*** According to the contracting officer, although the COR was his "eyes and ears on the ground" in Iraq, the COR repeatedly did not provide him with information on work being performed under T.O. 0338 or respond to his requests for information about the task order. Consequently, the contracting officer had little knowledge of the work that was being performed.
- ***Review and approve contractor vouchers or invoices.*** It is also unclear as to the degree of invoice examination the COR performed prior to certifying invoices for payment. For example, the COR certified payment of the invoice that included \$4.2 million of costs associated with the unauthorized Ministry of Interior directed work as well as the residential camp mobilization fee invoice prior to DynCorp contracting for its construction. In our opinion, contractually the unauthorized costs should not have been paid by the DoS.
- ***Maintain a COR file.*** In response to our request for a copy of the COR files for T.O. 0338, INL told us that the COR did not maintain a file. As a result of the failure to maintain a COR file, key documents are not available. For example, the

basic contract that T.O. 0338 was issued under required DynCorp to submit monthly technical and financial reports. Our review disclosed that the COR did not have the reports. The Foreign Affairs Handbook states that technical and financial status reports can be an effective control tool in monitoring performance and requires that the COR maintain a file to assist in administering the contract. The only official file we have been able to identify regarding this task order is the contract file, which is limited to key contractual documents, including the original notice to proceed and formal contract modifications. We have found no documentation relating to other actions such as verbal notices to proceed and stop-work orders.

The DoS Office of Inspector General previously reported on problems with this same COR—similar to those we identified that were associated with this COR’s performance on this task order—in a March 2002 report on U.S. support to the International Police Task Force in Bosnia.⁸ In that report the DoS Office of Inspector General found among other things that:

- the official government contract files were not complete
- there was no COR letter of delegation and evidence of required training
- procurement officials did not adequately monitor contract provisions for the inspection and acceptance of contract services
- the COR did not document oversight

The DoS Office of Inspector General made recommendations to strengthen contract administration and oversight and to require that all personnel assisting the contracting officer have a clear delegation of responsibilities and appropriate training. INL and the DoS Office of Acquisition Management agreed with the report recommendations and agreed to take corrective action. However, as discussed above, many of these problems continue to exist.

In an apparent recognition that program oversight needed improvement, in July 2006, INL officials stated that they are in the process of assigning a Government Technical Monitor. The Foreign Affairs Handbook states that the contracting officer may appoint a Government Technical Monitor to assist the COR in monitoring contractor’s performance. The Government Technical Monitor operates under the COR’s supervision, but the final acceptance of contractor’s work and approval of invoices remains with the COR.

The Foreign Affairs Handbook does not address the maximum length of time personnel should serve as a contracting officer or COR for the same contractor. In July 2006, correspondence on contract management provided to the House and Senate Armed Services Committees and the Government Accountability Office noted that tenure can

⁸ Department of State, Office of Inspector General, *Review of U.S. Support to the International Police Task Force in Bosnia*, Memorandum Report AUD/PPA-02-20, March 2002

become a vulnerability if the control environment in an organization is weak.⁹ We believe that the results of this review suggest that, at least for this task order, the control environment has been weak. However, although there have been several DoS contracting officers for Task Order 0338 over the past two years, the INL COR has been assigned to this and other DynCorp contracts/task orders since 1994—a 12-year period.

Impact of the Failure to Perform Contracting Responsibilities

DoS had to take action to rectify weak contract administration and incurred unnecessary costs. The lack of proper contract and administration controls required DoS officials to execute a ratification for DynCorp’s continued performance beyond the contracted period identified in Task Order 0038. Contract ratification is a process of retroactively approving an action that was not contractually authorized. T.O. 0338 had a performance period of April 17, 2004, through July 16, 2004. The DoS ratification documentation stated that DynCorp continued to perform services from July 17, 2004, to October 22, 2004, at a cost of \$35 million and acquired equipment, supplies, material, and personnel services critical to the police training program. The ratification was necessary to allow DoS to pay DynCorp for its work during that period.

As discussed, we believe that DoS has incurred potentially unnecessary expenses as a result of weak contract administration. This included the payment of \$4.2 million in contractually unauthorized work directed by the Iraqi Ministry of Interior and to ascertain the true status of the residential camp at the time DoS issued a verbal “not to proceed order” in late September 2004. As a result of the failure to ascertain the true status of the residential camp at the time of the stop-work order DoS ultimately paid about \$43.8 million for the manufacturing of camp components following the order and the cost of storing and securing the camp components for almost two years. DoS will pay \$4.6 million more for the cost of transporting the camp components to Baghdad which was directed in July 2006, \$275,000 storage cost for the initial three month period at the Baghdad airport, and the potential cost of installing the camp at a location to be determined if it is decided to install the trailers.

⁹ U.S. Government Accountability Office, *Contract Management: DOD Vulnerabilities to Contracting Fraud, Waste, and Abuse*, GAO-06-838R, July 7, 2006.

Conclusion and Recommendations

Conclusion

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 Task Order 0338.

As we reported there is much confusion over the manufacturing of the trailers. However, we believe had INL, particularly the COR, been more aggressive in questioning why DynCorp submitted an invoice before it had subcontracted for the manufacture of the trailers and sought to determine the status of the work at the time INL notified DynCorp not to proceed, given the \$18 million paid to DynCorp for mobilization fees for the residential camp, rather than relying on DynCorp's representations, he might have been able to learn the true status of the manufacturing effort and could have taken steps to assure that no improper payments were made.

Further, the DoS contracting officer recently authorized, at the request of the COR, movement of all camp components to Baghdad where they are in storage. 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.

DoS contracting personnel, specifically the contracting officer and particularly the COR did not perform many of the responsibilities detailed for their positions in the Foreign Affairs Handbook. Many of the problems we identified are a direct result of not providing adequate contract oversight. In addition, no comprehensive record exists of DoS actions involving the task order.

In December 2005, INL issued its own report that identified that DynCorp could not provide a complete property book and backup documentation for items it purchased for the U.S. government. The report concluded that DynCorp invoices were frequently ambiguous, unclear, and lacked the level of detail to determine what was procured; that DynCorp did not maintain a complete list of items procured; and DynCorp did not establish policy guidance or accountability procedures. The report concluded, "INL cannot determine if the bureau received what it paid for." Other task orders to DynCorp required the acquisition of equipment, but without established controls, such as providing detailed identification of items procured (i.e. record of serial numbers), it is impossible to determine what task order acquired the item and whether DynCorp had previously been compensated for the item. We found the same conditions for DynCorp invoices under

Task Order 0338. We also concluded that since the COR was the INL representative for civilian police contracts and it is the COR's responsibility to inspect and accept contractor work, the COR should have ensured DynCorp maintained proper inventory control records and provided accountable invoicing.

Management Control Weaknesses

During the audit we identified management control weaknesses in the timely issue of task order modifications, the process of documenting the review of contractor invoices, and the administration of the task order. This report includes recommendations to strengthen internal controls needed to improve the DoS contracting and administration of the task order. Further, because INL reported similar conditions in its December 2005 INL asset verification report, we have no reason to believe that the management internal control weaknesses in this task order are isolated. Therefore, SIGIR intends to continue the review of Task Order 0338, and will announce a full review of contract S-LMAQM-04-C-0030 and other expenditures by INL in Iraq.

Management Actions

In November 2005, 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 disclosed 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. The preliminary investigation conducted by DoS investigations revealed that INL contacted DoS Office of Acquisition Management in October 2005 to discuss its concerns regarding the number of trailers actually received and billed under this task order. DoS and SIGIR worked jointly on this investigation, and SIGIR has taken the lead and the investigation is ongoing.

Beginning in 2005, according to INL senior officials, INL initiated a number of steps to strengthen its contract and asset management across the Bureau. INL senior managers provided the following information:

- A series of internal reviews were undertaken concerning property controls and an inventory of the residential camp trailers related to the DynCorp contract that are discussed in this report.
- Between January and June 2006, INL directed DynCorp to ensure asset management improvements. These improvements were documented in a series of letters INL exchanged with DynCorp in which INL documented defects in contract performance and DynCorp responded by identifying corrective actions it was taking or planned to take. Currently, INL is in the process of following up on DynCorp inventory control corrective actions.

- In June 2006, INL requested assistance from the Defense Contract Management Agency in reviewing DynCorp property management practices in Iraq and Afghanistan (which the Defense Contract Management Agency declined due to property administrator staffing shortages).
- In October 2006, INL attempted to contract for Defense Contract Audit Agency services to close out several DynCorp task orders, including Task Order 0338. As of January 18, 2007, the Defense Contract Audit Agency had not responded.
- On November 2, 2006, INL appointed an overall COR for the DynCorp contract.
- In January 2007, INL identified an Iraq in-country COR. This person will be on duty once all Human Resource actions are finalized.
- In January 2007, INL began a review to complete contract files, which consisted of contracts, task orders, and pertinent documents exclusive of information, such as contract evaluation sheets and private e-mail exchanges between a program office and the contracting officer.
- Over the past several months INL has developed a process for thoroughly reviewing invoices. This process has already resulted in INL identifying billing errors in a DynCorp invoice. For example, INL rejected a January 9, 2007, invoice for \$1.1 million which was for a different DynCorp contract¹⁰. This invoice was rejected because INL determined that the billed rate was outside the period of performance dates.

INL also advised us that it was working to ensure internal and management controls are in place and adhered to at all times, and intends to reconcile all past payments made since the inception of INL contracts in Afghanistan, Iraq, and Jordan.

We had initially recommended that INL consider replacing the COR for the DynCorp contracts and task orders who had held that position since 1994—a 12-year period. INL advised us on January 11, 2007:

- The COR had been replaced. INL also provided appointment letters for in-country CORs for all INL contracts in Afghanistan and Jordan.
- The transition of contracting responsibilities took place in November 2006.
- The Iraq in-country CORs, who will be personal services contractors, had been selected and are going through the clearance process.

We consider INL's actions to be responsive to the draft recommendation and, therefore, removed it from the final report.

¹⁰ Contract SAQMPD-04C-1076

Recommendations

To ensure that DoS conserves IRRF funds and other DoS funds, we recommend that the Assistant Secretary for the Bureau for International Narcotics and Law Enforcement Affairs:

1. Present a plan to the U.S. Ambassador to Iraq for review and approval on the use of the residential camp to house police trainers, as originally intended, or make arrangements to dispose of the camp. Because of the lengthy consideration already given to deciding what to do with the trailers, this action should be taken within the next 60 days.

To ensure that contracted work is properly invoiced, payments are proper, and the contract is properly managed, we also recommend that the Director, Office of Acquisition Management should take these actions:

2. Seek reimbursement of the improperly authorized payment of \$4.2 million that represents contractually unauthorized work directed by the Iraqi Ministry of Interior, which directed the relocation of the residential camp, the manufacture of additional VIP trailers, and the construction of an Olympic size swimming pool.
3. Request the Defense Contract Audit Agency (DCAA) take these actions:
 - a. Review the July 30, 2004, DynCorp invoice submitted that included a residential camp mobilization fee to determine whether a prepayment of \$18.0 million occurred.
 - b. Review the October 30, 2006, invoice submitted by DynCorp for about \$1.1 million pertaining to labor costs associated with Task Order 0338.
4. On receipt of the DCAA audit report, the contracting officer should take the appropriate action.
5. Enforce procedures to ensure the contracting officer and COR comply with duties and responsibilities as identified in the DoS Foreign Affairs Handbook. These procedures should address:
 - a. receiving and retaining technical and financial reports
 - b. examining invoice with supporting documentation prior to certification for payment
 - c. processing "receiving and inspection reports" for equipment
 - d. maintaining a COR file
6. Establish and enforce tenure limitations for all contracting personnel as part of the Foreign Affairs Handbook.

Management Comments and Audit Response

We received written comments on a draft of this report from INL, which incorporated comments from DoS Office of Acquisition Management, that they agreed with recommendations 1 through 5. INL stated that the Office of Acquisition Management disagreed with recommendation 6, regarding tenure limitations, because it has a Quality Assurance Plan for reviewing and approving contract actions to ensure that all requirements of law, regulation, department policy, and sound procurement practices are met. We recognize the importance of a Quality Assurance Plan, but believe that the need for tenure limitations is underscored when the control environment in an organization is weak. We, therefore, retained the recommendation.

In response to the draft of this report, INL provided us with information on its management actions to strengthen its contract and asset management across INL, which is detailed in the management actions section of this Report. INL also provided us with technical changes, which were incorporated in the final report as appropriate.

Appendix A – Scope and Methodology

The Special Inspector General for Iraq Reconstruction (SIGIR) and the DoS Office of the Inspector General jointly conducted this review (Project 6017).

The objectives of this audit were to answer the following questions:

- What were the costs associated with the subject contract Task Order 0338, including amounts obligated and expended, potential liabilities, and controls over these costs?
- What is the status of property purchased under Task Order 0338 including related internal controls, and what is the salvage value for unused assets?
- What is the cost and program impact of the stop-work order affecting the construction of police training facilities at the Adnan Palace?
- What is the status of construction of facilities to support provincial police training programs?

To respond to the audit objective we structured the report into three sections:

- cost incurred under T.O. 0338
- construction of the Adnan Palace residential camp and the regional camps
- contracting and contract management

The audit was performed between May 2006 and January 2007, in accordance with generally accepted government auditing standards. The audit was conducted with U.S. government officials in Baghdad, Iraq; Dubai, United Arab Emirates; and offices in Washington, D.C.; and with DynCorp officials in Baghdad, Dubai, and Irving, Texas. We interviewed current and former DoS and INL contract administration and management officials responsible for issuing and administering T.O. 0338. We also interviewed contracting and contract administration officials for DynCorp.

Cost Incurred Under Task Order 0338

To determine costs incurred, we reviewed DynCorp invoices submitted to DoS for approval and payment between July 30, 2004, and September 25, 2006, and created an Excel spreadsheet to list task order obligated funding by CLIN and statement of work. We also discussed the invoicing process with DoS officials responsible for processing the invoices.

Construction of the Adnan Palace Residential Camp

We visited Adnan Palace to observe the camp construction and Palace renovation project, reviewed official contract files containing the task order statement of work and subsequent task order modifications, camp construction specifications, inspection reports and inventory report on the trailers. We interviewed Baghdad officials from DoS-INL,

Civilian Police Advisory Training Team, Multi-National Security Transition Command-Iraq, as well as DoS contracting and program management officials in Washington, D.C.; and Dubai, United Arab Emirates. We also contacted DynCorp officials in Baghdad, Iraq, Dubai, and in Irving, Texas, and observed DynCorp operations at the Baghdad Hotel.

Contracting and Contract Management

We collected and reviewed correspondence between DoS and DynCorp officials; interviewed representatives from INL Baghdad, DynCorp International, and Civilian Police Advisory Training Team responsible for support to the Iraq civilian police training program; and examined the DoS Foreign Affairs Handbook to identify responsibilities of various functional contracting positions and compared those responsibilities to actual performance.

Limitations

We focused our work on CLIN 0043 within T.O. 0338 as it represented the bulk of spending under the task order—88%—and within CLIN 43 on both the residential camp as it was the remaining outstanding item under the task order and involved the largest item in the CLIN with a proposed cost of about \$51.6 million and the \$36.4 million for equipment to be procured. We did not include an assessment of the regional camps in this review, but plan to address them in our continuing review of T.O. 0338, DynCorp contract S-LMAQM-04-C-0030, and other INL expenditures of IRRF.

Internal Controls

During the audit, internal control weaknesses were identified in the timely issue of task order modifications, the approving contractor invoices, and the administration of the task order. This report includes recommendations to strengthen internal controls needed to improve the DoS contracting and administration of the task order.

Use of Computer-Processed Data

Computer processed data was not used during this review.

Prior Coverage

There were no prior reviews of the DynCorp contract S-LMAQM-04-C-0030, T.O. 0338; however, there were two related reports on contracting and contract administration. One report by the Government Accountability Office and one by the DoS Office of Inspector General:

- U.S. Government Accountability Office, *Contract Management: DOD Vulnerabilities to Contracting Fraud, Waste, and Abuse*, GAO-06-838R, July 7, 2006.
- DoS and the Broadcasting Board of Governors Office of Inspector General, *Report on Inspection Bureau of International Narcotics and Law Enforcement Affairs*, Report Number ISP-I-05-14, July 2005.
- DoS, Office of Inspector General, *Review of U.S. Support to the International Police Task Force in Bosnia*, Memorandum Report AUD/PPA-02-20, March 2002.

Appendix B – Acronyms

Acronym	Definition
BIAP	Baghdad International Airport
COR	Contracting Officer's Representative
CLIN	Contract Line Item Number
DoS	Department of State
INL	Bureau for International Narcotics and Law Enforcement Affairs
IPLO	International Police Liaison Officers
IRRF	Iraq Relief and Reconstruction Fund
SIGIR	Special Inspector General for Iraq Reconstruction
T.O. 0338	Task Order 0338
VIP	Very Important People

Appendix C – Report Distribution

Department of State

Secretary of State

Senior Advisor to the Secretary and Coordinator for Iraq

Director of U.S. Foreign Assistance/Administrator, U.S. Agency for
International Development

Director, Office of Iraq Reconstruction

Assistant Secretary, Bureau for International Narcotics and Law Enforcement
Affairs*

Assistant Secretary, Bureau of Administration

Director of Acquisition Management*

Assistant Secretary for Resource Management/Chief Financial Officer,
Bureau of Resource Management

U.S. Ambassador to Iraq

Director, Iraq Reconstruction Management Office

Mission Director-Iraq, U.S. Agency for International Development

Inspector General, Department of State

Department of Defense

Secretary of Defense

Deputy Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Deputy Assistant Secretary of Defense-Middle East, Office of Policy/International
Security Affairs

Inspector General, Department of Defense

Director, Defense Contract Audit Agency

Director, Defense Finance and Accounting Service

Director, Defense Contract Management Agency

Department of the Army

Assistant Secretary of the Army for Acquisition, Logistics, and Technology

Principal Deputy to the Assistant Secretary of the Army for Acquisition,
Logistics, and Technology

Deputy Assistant Secretary of the Army (Policy and Procurement)

Director, Project and Contracting Office

Commanding General, Joint Contracting Command-Iraq/Afghanistan

Assistant Secretary of the Army for Financial Management and Comptroller

Chief of Engineers and Commander, U.S. Army Corps of Engineers

Commanding General, Gulf Region Division

Chief Financial Officer, U.S. Army Corps of Engineers

Auditor General of the Army

U.S. Central Command

Commanding General, Multi-National Force-Iraq
Commanding General, Multi-National Corps-Iraq
Commanding General, Multi-National Security Transition Command-Iraq
Commander, Joint Area Support Group-Central

Other Federal Government Organizations

Director, Office of Management and Budget
Comptroller General of the United States
Inspector General, Department of the Treasury
Inspector General, Department of Commerce
Inspector General, Department of Health and Human Services
Inspector General, U.S. Agency for International Development
President, Overseas Private Investment Corporation
President, U.S. Institute for Peace

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

U.S. Senate

Senate Committee on Appropriations
 Subcommittee on Defense
 Subcommittee on State, Foreign Operations and Related Programs
Senate Committee on Armed Services
Senate Committee on Foreign Relations
 Subcommittee on International Operations and Terrorism
 Subcommittee on Near Eastern and South Asian Affairs
Senate Committee on Homeland Security and Governmental Affairs
 Subcommittee on Federal Financial Management, Government Information and International Security
 Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

U.S. House of Representatives

House Committee on Appropriations
 Subcommittee on Defense
 Subcommittee on Foreign Operations, Export Financing and Related Programs
 Subcommittee on Science, State, Justice and Commerce and Related Agencies
House Committee on Armed Services
House Committee on Government Reform
 Subcommittee on Management, Finance and Accountability
 Subcommittee on National Security, Emerging Threats and International Relations
House Committee on International Relations
Subcommittee on Middle East and Central Asia

* Recipient of the draft audit report.

Appendix D – Audit Team Members

This report was prepared under the direction of Mr. Joseph T. McDermott, Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction (SIGIR).

This joint audit was conducted under the direction of Mr. Joseph T. McDermott, Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction, and was performed in consultation with Mr. Mark Duda, Assistant Inspector General for Audits, Department of State, Office of Inspector General (DoS OIG). The staff members who contributed to the report include:

Richard Astor, DoS OIG

Karen Bell, SIGIR

Roger Florence, SIGIR

Michael Herbaugh, SIGIR

Steven Sternlieb, SIGIR

David Wilcox, DoS OIG

Management Comments

Assistant Secretary, Bureau for International Narcotics and Law Enforcement Affairs, Department of State



United States Department of State

Washington, D.C. 20520

www.state.gov

JAN 19 2007

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TO: SIGIR–Joseph T. McDermott
OIG – Howard J. Krongard

FROM: INL – Anne W. Patterson 

SUBJECT: INL Comments on the Draft Report for the *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, January 7, 2007)

The purpose of this memorandum is to comment on the subject draft report and to address the report's recommendations. INL appreciates the opportunity to respond to the draft report and to work with SIGIR and OIG to strengthen the Bureau's contracting administration and oversight. INL also appreciates the incorporation into the executive summary of management actions, which highlight the proactive initiatives taken for addressing the Bureau's contracting issues of the past. Foremost among those initiatives, was the reaching out to the OIG in November 2005, and then immediately initiating a series of actions to strengthen INL's contract and inventory management across the Bureau.

INL conducted three internal studies and took steps to implement tougher contracting oversight. Those reports consist of: (1) 1000 Man Camp Asset Verification May-June 2006 Iraq and Italy; (2) An Asset Verification Review of the Jordanian International Police Training Center in December 2005; and (3) an Asset Verification Review of the Iraqi CIVPOL Mission also in December 2005.

Since December 2005, INL instituted tougher contractor oversight and reporting requirements, both domestically and overseas; INL strengthened inventory oversight and demanded regular reporting on property management; INL improved statements of work, making them more detailed and providing specific contractor requirements and performance standards; and INL made several changes to improve internal controls for validating and approving payments with contractors.

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Early in 2006, INL made plans for establishing a new domestically headquartered COR and in-country COR's for all INL contracts in Afghanistan, Iraq and Jordan. Given the security conditions in Iraq, Afghanistan and Jordan, we established the Afghanistan, Iraq and Jordan Support office (AIJS) in Washington, D.C. specifically to assist INL officers at posts with contract administration, statement of work development, invoice reviews and oversight that would normally be carried out at post. The transition of contracting responsibilities took place for Jordan in April 2006, Afghanistan in July 2006, and Iraq in November 2006. In-country CORs are now in place for Jordan and Afghanistan. The Iraq in-country CORs have been selected and are going through the clearance process. All in-country CORs assigned to post have taken the necessary training and are formally appointed by AQM. Their duties and responsibilities are detailed in their appointment letter.

INL is in the process of establishing complete invoice files for the CORs as they are received and validated. INL plans to reconcile all past payments made since the inception of its contracts in Afghanistan, Iraq, and Jordan and will make every effort to recover any overpayments or those which are inconsistent with contract terms and conditions. We appreciate recognition of these contract administration and oversight efforts in the draft report.

We continue to finalize steps to use the camp trailers at the Baghdad International Airport and at Embassy Baghdad, pending the resolution of appropriate measures for transferring the assets, which we believe have substantial value to the taxpayer.

INL agrees with recommendations 1 through 5. With specific regard to recommendation 3, INL will continue to pursue assistance from DCAA in addition to our efforts in October and November 2006, requesting an estimate for auditing costs under the Task Order.

INL appreciates the continued support of the Office of Acquisitions Management (AQM) in addressing our contracting challenges. It should be noted that AQM disagrees with recommendation 6, regarding tenure limitations because AQM has a Quality Assurance Plan for reviewing and approving contract actions to ensure that all requirements of law, regulation, Department policy, and sound procurement practices are met. AQM also notes that all contracts under the Civilian Police Program recently were added to AQM's High Impact List for

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which the Assistant Secretary for the Bureau of Administration is briefed on a quarterly basis.

Again, INL appreciates the opportunity to comment on this report and we will continue to work closely with SIGIR, OIG, DCAA, and any other audit authorities to maximize oversight of our contracts. INL is committed to vigorously implementing contract management improvements.

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SIGIR's Mission	Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective: • oversight and review through comprehensive audits, inspections, and investigations • advice and recommendations on policies to promote economy, efficiency, and effectiveness • deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse • information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports
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