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

Report of Audit

Review of Agreed-Upon Procedures for the Verification of Excessive Fuel Charges in Support of the Jordan International Police Training Center

Report Number AUD/IQO-05-16, March 2005

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OIG conducted exit conferences with the JIPTC director and INL personnel in Jordan on the results of fieldwork. They concurred with OIG findings and observations. Also, OIG briefed INL's principal deputy assistant secretary on the results of the review and he agreed with the tentative findings and conclusions. In response to a draft of this report, INL officials agreed with the findings. INL officials have reported taking action to strengthen internal controls over all deliveries, not just fuel, to the JIPTF. Also, security for fuel tanks at the JIPTC has been improved.

PURPOSE, SCOPE, AND METHODOLOGY

At the request of the former executive officer for INL in July 2004, OIG reviewed a reimbursement and credit by DynCorp¹ to a Department contract² supporting the JIPTC. The purpose of the review was to verify the reasonableness of the reimbursement pursuant to excessive contract billings from fraudulent submissions by a Jordanian fuel subcontractor. In addition, OIG evaluated DynCorp's internal controls over the delivery and receipt of diesel fuel.

OIG's review covered the billing periods from November 29, 2003, through August 28, 2004, for all diesel fuel delivered to JIPTC facilities south of Amman, Jordan. OIG evaluated and analyzed DynCorp's Report on Diesel Fuel Issue Involving the JIPTC (Jordan International Police Training Center) Contract dated June 30, 2004, which estimated the fraud at \$600,824. OIG also evaluated and analyzed the preliminary report prepared by INL, *Diesel Fuel Overcharge Investigation - Jordan International Police Training Center (JIPTC)*,³ which estimated the fraud at \$610,463. In addition, OIG reviewed and analyzed the data derived from INL's two-week controlled test beginning May 31, 2004, which allowed INL to determine the hourly fuel consumption of the main generators and various boilers powered by diesel fuel. The test omitted smaller generators and tanks with irregular use.

OIG verified the source data used in DynCorp and INL reports and independently performed tests to determine the adequacy and completeness of the reports. OIG reviewed INL's final report, based on the prior INL and DynCorp reports, which led to a settlement in the amount of \$600,824 (check dated June 30, 2004), and a credit of \$78,903, dated July 30, 2004, to cover the related contractor overhead and fixed fees.

¹ Computer Sciences Corporation acquired DynCorp on March 7, 2003. DynCorp provides such services as telecommunications, computer network integration, healthcare, and defense-related support in the areas of logistics, maintenance, and infrastructure management.

² S-LMAQM-03-C-0028, awarded on Apr. 18, 2003.

³ The report was not dated but completed in mid-June 2004.

In conducting this review, OIG evaluated contract officer files in the Bureau of Administration's Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM). OIG also reviewed INL program and financial files and related correspondence between INL and DynCorp. OIG visited DynCorp's field office for the JIPTC in Amman between September 25 and October 2, 2004, and reviewed and verified source documents covering the INL preliminary and final reports. While in Jordan, OIG visited the JIPTC facilities at MUWAQQAR and JAWA, and randomly selected for review diesel fuel deliveries between September 26 and 29, 2004. OIG conducted a physical review of all fuel delivery sites. OIG observed the process to fill fuel tanks (see photo) and record the receipt and delivery of diesel fuel.⁴ OIG conducted interviews with DynCorp and INL officials in the United States and in Jordan.

OIG conducted this review in accordance with government auditing standards and included such tests and other auditing procedures as were considered necessary under the circumstances. If OIG had performed additional procedures, then other matters may have come to its attention and would have been reported.

OIG's Office of Audits, Procurement, Property and Administrative Support Division performed the review. The fieldwork was conducted in the Washington, D.C., area and in Jordan between August and October 2004. On September 30, 2004, OIG conducted exit conferences with the JIPTC director and INL personnel in Jordan on the results of fieldwork. They concurred with OIG's findings and observations. Also, on October 12, 2004, OIG briefed INL's principal deputy assistant secretary on the results of the review who agreed with the tentative findings and conclusions. INL's response to a draft of this report is included as Appendix A.

⁴OIG's review included fuel tanks in INL's June 2004 test and tanks added since the test.

Photo 1: DynCorp's Fuel Delivery at JIPTC



Diesel fuel truck (24,000 liter capacity) unloading in 36,000-liter tank at main generator, JIPTC. Shown are driver and two DynCorp fuel delivery verifiers.

Source: OIG, September 29, 2004.

BACKGROUND

In March 2003, INL officials identified an immediate and urgent requirement for a procurement action that would identify and deploy 26 advisors to assist in Iraq with the on-the-ground assessment and planning activities for police, justice, and prisons.⁵ Subsequently, INL awarded a contract to DynCorp to provide field support, medical support, housing, logistical support, vehicles, communication capabilities, supplies, and some construction or renovation services for law enforcement personnel sent to Iraq. As discussed in Appendix B, DynCorp provided support services that included fuel for the boilers and generators.

The former Coalition Provisional Authority (CPA) and the Jordanian government worked together to help restore security in Iraq through a program of training candidates for Iraqi police forces. CPA and the Jordanian government reached an agreement in October 2003, with an overall objective of training 32,000 police candidates in basic police skills by early 2006. Through the agreement, CPA would occupy and expand the MUWAQQAR military base and expand the facilities to create JIPTC. At the completion of the training activities, the Jordanian government would take possession of the CPA-funded JIPTC.

DynCorp subcontracted fuel requirements to Jordan Dani Trading and Service Company (Jordan Dani), who subcontracted the delivery requirements to Shemasani Diesel Company (Shemasani). Although the contract began on November 4, 2003, it was not until December 14, 2003, that Shemasani was responsible for delivering diesel fuel to MUWAQQAR.

During March 2004, a number of events brought to light the possibility of fraudulent fuel charges. First, DynCorp initiated a management review for areas of responsibility, including procurement, receiving, inspection, verification, inventory control, and payment. The process used to procure, deliver, verify, and pay for diesel fuel was one of the areas selected for review. Based on a trend analysis, financial personnel forecasted that the amount of fuel being delivered to JIPTC significantly exceeded the needs of the facility.

⁵ For further information on the procurement actions see *Review of the Department of State Procurement Competitions to Support the Iraqi Police Training Program* (AUD/IQO-04-47 Sept. 2004).

Second, INL personnel in Jordan found some problems with the delivery receipts provided as support for fuel charges during their review of DynCorp billings in early March 2004. Receipts were handwritten and were not signed by the single DynCorp employee responsible for verifying fuel deliveries. On March 22, 2004, INL brought this issue to the attention of DynCorp and INL headquarters officials. Also during this time, some of the personnel assigned to verify fuel at JIPTC reported to the DynCorp facilities manager that they believed the amount of fuel being delivered was inflated. The facilities manager discussed this issue with the lead scheduler, who informed the manager that there was nothing wrong. On April 19, 2004, DynCorp fired the facilities maintenance manager for malfeasance, but an internal company review did not disclose whether this employee was part of any potential wrongdoing. The facilities maintenance manager's supervisor was terminated for malfeasance in mid-June 2004.

During April 2004, INL and DynCorp held a number of meetings to discuss the suspected fraud. On May 12, 2004, DynCorp began an internal review, and on May 24, 2004, DynCorp officials notified the JIPTC director, an INL employee, that they suspected fraud. On June 3, 2004, an internal review by DynCorp officials confirmed the existence of potential fraud. On June 30, 2004, DynCorp issued its final report, *Diesel Fuel Issue Involving the JIPTC (Jordan International Police Training Center) Contract*. To estimate the extent of the fraud, INL conducted a two-week controlled test beginning May 31, 2004. Based on DynCorp's final report dated June 30, 2004, DynCorp made a lump sum payment in the amount of \$600,824 to the Department.

Table: OIG Adjustments for DynCorp Reimbursement to INL for Fuel Overcharges

Cost Category	Adjustments
Fuel overcharges determined by INL study	\$610,463.33
Total fuel billed and paid but not included in INL study (a)	\$23,425.61
Increased cost of fuel (b)	\$7,456.82
Excess amount reimbursed by DynCorp but not billed to contract (c)	(\$66,336.29)
Total net fuel overcharges determined by OIG	\$575,009.47
Amount of fuel overcharges reimbursed by DynCorp	\$600,824.00
Amount of potential overpayment	(\$25,814.53)

The above amounts do not include the overhead and the fixed fee.

(a) OIG totaled all diesel fuel invoices billed and paid under the contract and identified additional paid invoices totaling 72,527 liters, or \$23,425.61, that were not included in the study.

(b) OIG identified discrepancies totaling \$7,456.82 owing to an increase in the cost of fuel. On April 4, 2004, the price of diesel fuel to the Jordanian government increased from (b) (4) (b) (4)(b) (4), which DynCorp included in all the billed invoices. The INL calculations used (b) (4) for the entire period of their study. Therefore, the cost of fuel paid was higher than reported in the INL study.

(c) The reimbursement included a two-week period in which DynCorp had not submitted vendor billings to the Department for payment. INL and DynCorp should have ended the period of their study on May 13, 2004, instead of May 31, 2004. DynCorp officials stated that they stopped paying the subcontractor and, in turn, stopped billing the contract when they became aware of the fraud. From May 13, 2004, through May 31, 2004, the subcontractor provided a total of 396,325 liters of fuel, or an excess of \$66,336.29.

Internal Controls

The review found that the contractor failed to implement proposed changes to strengthen internal controls for the delivery and receipt of fuel. In early June 2004, DynCorp agreed to strengthen the internal controls by instituting procedures that included increasing the number of personnel that would independently verify fuel deliveries from one to three. The trained verifiers were to visually witness all aspects of the fuel delivery, including the accurate measurement, recording, and acceptance of quantities transferred from the fuel trucks to the JIPTC tanks. On June 2, 2004, DynCorp officials distributed a new procedure, with the concurrence

and renovations projects. The connection of the Jordanian electrical grid to JIPTC is also in its final stages, and DynCorp expects to complete this early next year. An operational electrical grid will greatly reduce the need for diesel fuel.

Photo 2: Diesel fuel truck (12,000 liter capacity) at JIPTC



Source: OIG site visit, September 29, 2004.

At OIG's exit briefing in Jordan, INL officials were unaware that the contractor had not strengthened the fuel verification process. They supported having the contractor increase the number of verifiers for fuel deliveries and rotate personnel with each delivery. In addition, INL officials agreed to monitor DynCorp's actions to secure fuel tanks against theft.

Internal controls over the delivery and receipt of fuel is important at JIPTC as well as any Department facility that relies on fuel to generate power to sustain operations. Although DynCorp financial personnel monitor fuel consumption at JIPTC, JIPTC and DynCorp need to reach an agreement on the number of verifiers present to watch all aspects of fuel delivery. One verifier alone cannot observe all fuel delivery and verification procedures, and the same situation exists that allowed the original fraud. Also, physical security over fuel tanks is important as part of any Department internal control system of asset management to prevent loss or misuse.

Recommendation 1: OIG recommends that the Bureau for International Narcotics and Law Enforcement Affairs, in cooperation with the contracting officer, require DynCorp to strengthen written policies and procedures concerning internal controls over the delivery and receipt of diesel fuel in support of the Jordan International Police Training Center, including requiring a specified number of DynCorp personnel be present to verify diesel fuel deliveries.

Recommendation 2: OIG recommends that the Bureau for International Narcotics and Law Enforcement Affairs direct DynCorp to take steps to secure all fuel tanks at the Jordan International Police Training Center to prevent theft of diesel fuel.

In response to a draft of this report, INL officials agreed with the findings and recommendations. INL officials have reported taking action to strengthen internal controls over all deliveries, not just fuel, to the JIPTF. Also, security for fuel tanks at the JIPTC has been improved.

APPENDIX A



United States Department of State

*Assistant Secretary of State
for International Narcotics and
Law Enforcement Affairs*

Washington, D.C. 20520

JAN 14 2005

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TO: OIG - Cameron R. Hume
 Acting Inspector General

FROM: INL - Robert B. Charles ^{RBC}

SUBJECT: Review of Agreed Upon Procedures for the Verification of
 Excessive Fuel Charges

After reviewing your draft report titled, Review of Agreed Upon Procedures for the Verification of Excessive Fuel Charges in Support of the Jordan International Police Training Center, No AUD/IQO-05-XX, November 2004, INL supports the results of your analysis and concurs with your recommendations.

Based upon the initial recommendations presented in the exit interview, INL, DynCorp and the Jordan International Training Center have been working in concert to implement the two recommendations in your report. Specifically, new locks were ordered and placed on all large tanks equipped with locking mechanisms. The tanks without locking mechanisms were modified, or are in the process of being modified so that the tanks can be locked. In addition, standard procedures were updated and documented for all deliveries, not just fuel. Moreover, INL continues to work with our contractor to identify potential threats and improve our internal controls as threats are identified.

I would like to thank you and your staff for responding quickly to INL's request for verification of the extent of the diesel fuel fraud.

APPENDIX B

Summary of Contract Award No. S-LMAQM-03-C-0028 to DynCorp International To Support the JIPTC

The initial contract to DynCorp had two uniquely different scopes of work. One was to support CPA-funded law enforcement personnel in Iraq, and its value through April 15, 2004, was \$105,266,407. The contractor was to refurbish, maintain, and operate the Baghdad Hotel as part of the logistical support to the police advisors.

The second scope of work, valued at about \$40 million, was to support JIPTC facilities at MUWAQQAR and JAWA, Jordan. At the effective date of amendment number 0003 (November 28, 2003), the MUWAQQAR facility was under construction by the Jordanian government. The contractor was tasked to modify the MUWAQQAR to support a training facility and also to construct, operate, and maintain the residential training facility for a total of up to 3,000 trainees.

The campus was planned to include a headquarters, a medical unit, security buildings, separate living space for male and female trainees and for the instructors, warehouse area, laundry services, a kitchen, 17 classrooms, indoor physical fitness workout areas, recreation facilities, firing ranges, driving track, outdoor physical and workout areas, and a secure area for weapons and ammunition storage. The scope of work included outfitting all of these facilities in order to perform the training functions. Temporary training facilities were constructed in 17 days in October 2003 to accommodate the first class of 500 trainees.¹ The plan was to have more than 20 separate JIPTC facilities constructed by July 2004 (about nine months from start to finish).

¹The contracting officer gave DynCorp verbal authority to start work on October 10, 2003.

The JAWA facility was to house up to 350 U.S. and international trainers and support personnel who would provide the training at the MUWAQQAR facility. The JAWA facility needed to be refitted to provide adequate accommodations, including showers and bathrooms for both male and female personnel. The facility needed to have a phone system, wiring for a computer network, Internet access, onsite communication system, and a security center.

Included in the JIIPC support was the requirement for DynCorp to supply power. Diesel fuel was required to power the boilers and generators, as there was no reliable outside power available to the JIIPC facilities.

ABBREVIATIONS

A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
CPA	Coalition Provisional Authority
Department	Department of State
DynCorp	DynCorp International LLC
INL	Bureau of International Narcotics and Law Enforcement Affairs
Jordan Dani	Jordan Dani Trading and Service Company
JIPTC	Jordan International Police Training Center
OIG	Office of Inspector General

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