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

## **Office of Audits**

# Accounting for Government-Owned Personal Property Held by Selected Contractors in Afghanistan

Report Number AUD/IQO-07-48, September 2007

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**TABLE OF CONTENTS**

SUMMARY . . . . . 1

PURPOSE, SCOPE, AND METHODOLOGY . . . . . 5

BACKGROUND . . . . . 9

FINDINGS . . . . . 15

    Property Lists . . . . . 16

    Property Acquisitions . . . . . 22

    Capitalized Assets . . . . . 27

    Internal Control Over Contractor-Held Property . . . . . 31

    Department Actions . . . . . 35

RECOMMENDATIONS . . . . . 37

ABBREVIATIONS . . . . . 39

APPENDICES

    Appendix A: Questioned Costs . . . . . 41

    Appendix B: Sampling Methodology and Results . . . . . 43

    Appendix C: Bureau of Administration Comments on Draft Report . . . . . 49

    Appendix D: Bureau of International Narcotics and Law Enforcement  
        Affairs Comments on Draft Report . . . . . 51

    Appendix E: Bureau of Political-Military Affairs Comments  
        on Draft Report . . . . . 57

    Appendix F: Bureau of Diplomatic Security Comments  
        on Draft Report . . . . . 59

    Appendix G: Bureau of South and Central Asian Affairs  
        Comments on Draft Report . . . . . 63

TABLES

    Table 1: Task Orders Reviewed . . . . . 5

    Table 2: Number of Property Items and Cost . . . . . 11

    Table 3: Items Not on the Property Lists . . . . . 18

    Table 4: Items With No Cost . . . . . 19

    Table 5: Questioned Costs . . . . . 25

**UNCLASSIFIED**

Table 6: Differences Between the Capitalized Asset Reports and Property Lists . . . . .	27
Table 7: Differences in Property List and Reported Costs . . . . .	29
Table 8: Unallowable Costs . . . . .	41
Table 9: Unsupported Costs . . . . .	42
Table 10: Identification of the Sampled Population . . . . .	45
Table 11: Details of Existence Test Sampling . . . . .	46
Table 12: Details of Items Not Verified . . . . .	47
Table 13: Details of Completeness Test Sampling Plan . . . . .	48
Table 14: Details of Items Not Recorded on Property Lists . . . . .	48

## SUMMARY

The Department of State (Department) relies on two contractors to implement programs in Afghanistan dealing with civilian police training, poppy elimination and eradication, humanitarian demining, and personal protective services. The Department has provided and authorized the purchase of millions of dollars in government-owned personal property, including vehicles, weapons, generators, and information technology (IT) and communications equipment, to support these programs.

The Office of Inspector General (OIG) conducted this audit to determine whether the Department could account for the government-owned personal property and equipment furnished to and purchased by DynCorp International, LLC, and Blackwater USA under the Civilian Police, Weapons Removal and Abatement Program (WRAP), and Worldwide Personal Protective Services (WPPS) contracts for programs in Afghanistan. OIG selected the Civilian Police and WPPS contracts for review because they had the largest dollar amount of government-owned capitalized assets in Afghanistan and reviewed the WRAP contract at the Department's request.

OIG obtained, analyzed, and tested the contractors' property lists. OIG also reviewed contract documentation and vouchers, from the start of the contracts through September 30, 2006, and contractor reports on the capitalized assets under the contracts as of September 30, 2006.

### Results in Brief

OIG found that the Department could not account for all property furnished to and purchased by the contractors. Contractor property lists were incomplete and, therefore, unreliable. Although the contractors could account for the majority of items that OIG selected to verify from the property lists, the lists did not include all government-owned property or costs for a significant amount of the property. In addition, the Department allowed the contractors to acquire property that was not specified in the contracts, and it accepted and approved for payment vouchers that did not contain adequate information on the property purchased. The inadequate documentation for property acquisitions raised questions about \$28.4 million, or 21 percent, of the \$133 million in charges on the vouchers OIG reviewed. Further, contractor reports on the capitalized assets under these contracts, amounting to \$40.6 million, were understated by at least \$1.1 million to \$2 million.

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These deficiencies existed because the Department had not developed and implemented adequate internal control over the government property held by contractors. The Department had not defined and clearly assigned oversight responsibilities, and it had not developed standard policies and procedures to monitor contractor-held property. As a result, the Department could not accurately determine the total quantity and costs or track and control the property, and it lacked adequate support to determine whether the property acquired under the contracts was needed or received. OIG commends the steps the Department has taken to improve its oversight of contractor-held property and recommends additional actions to improve control over the property.

### Principal Findings

#### Property Lists

Contractor property lists were incomplete and, therefore, unreliable. Although the contractors could account for the majority of items that OIG selected to verify from the property lists, the lists did not include all government-owned property. In addition, the lists did not contain the costs for a significant amount of the property. OIG identified other errors on the property lists as well, further diminishing their reliability. As a result, the Department did not have accurate information on the quantity and costs of government-owned property items, for both program management and external reporting purposes, and the property, including high-dollar-value and sensitive items, could not be tracked and controlled.

#### Property Acquisitions

The Department did not always have adequate documentation to support the acquisition of property under the Civilian Police and WRAP contracts. Specifically, the Department allowed the contractors to acquire property that was not specified in the contracts. In addition, it accepted and approved for payment vouchers that did not contain sufficient information, such as the description or quantity of the items, to identify what items were acquired and to match them to the property in the contractors' property lists. As a result, OIG could not determine whether all property the Department paid for was needed or received. The inadequate documentation for property acquisitions raised questions about \$28.4 million, or 21 percent, of the \$133 million in charges on the contractor vouchers OIG reviewed. Appendix A provides a detailed list of the questioned charges.

## Capitalized Assets

Contractor reports on capitalized assets under the contracts were inaccurate. These reports, which amounted to \$40.6 million, did not include all capitalized property in the contractors' property lists; some property was reported more than once; and the unit costs in the reports did not always match the unit costs on the property lists. This resulted in an understatement of at least \$1.1 million to \$2 million in capitalized assets in the Department's 2006 financial statements.

## Internal Control Over Contractor-Held Property

The deficiencies described in this report occurred because the Department had not developed and implemented adequate internal control over contractor-held property. OIG found that the Department had neither clearly defined and assigned authority and responsibility nor developed standard policies and procedures for monitoring contractor-held property. The Department has taken steps to address deficiencies previously identified in OIG and other reports; however, OIG recommended that additional actions be taken.

## Recommendations

As the Bureau of Administration (A) is responsible for the Department's procurement activities, OIG recommended that A:

- develop and implement standard policies and procedures for reviewing contractors' property control systems;
- resolve the unallowable and unsupported costs identified;
- review and, at least annually, reconcile the capitalized asset reports submitted by contractors with the property lists;
- evaluate its current structure for monitoring government property held by contractors and define the authority and responsibility for property oversight; and
- develop and implement standard policies and procedures for monitoring contractor-held property.

## Department Comments

As the action entity on all recommendations, A provided OIG with written comments on the draft report. Written comments were also received from the bureaus of International Narcotics and Law Enforcement Affairs (INL), Political-Military

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Affairs (PM), Diplomatic Security (DS), and South and Central Asian Affairs (SCA). All of the bureaus generally agreed with the report's findings and recommendations.

In its written response, A refers to a Procurement Information Bulletin (PIB) 2007-21, which the Department issued on June 27, 2007. The PIB provides standard solicitation provisions and contract clauses addressing contractor-held property and identifies contracting officers' (CO) and property administrators' responsibilities relating to the property.

In its response, INL notes several self-initiated actions it has recently taken to strengthen its contracting oversight, including improved internal controls and new invoice reconciliation procedures. In its response, DS suggested several revisions to the recommendations and noted the additional actions it will take until the recommendations are implemented. OIG shared the DS suggestions with A for its consideration when implementing the recommendations.

All six recommendations are considered resolved and will be closed upon evidence that corrective actions have been implemented. The bureaus' responses have been included in their entirety in Appendices C through G to this report.

# PURPOSE, SCOPE, AND METHODOLOGY

OIG conducted this audit to determine whether the Department could account for the government-owned personal property and equipment furnished to and purchased by selected contractors in Afghanistan. OIG limited its review to the property held by DynCorp, under the Civilian Police and WRAP contracts, and Blackwater, under the WPPS contract, for activities in Afghanistan. OIG obtained and reviewed available contract documentation and contractor vouchers from the start of the contracts through September 30, 2006. The specific task orders OIG reviewed are shown in Table 1.

**Table 1: Task Orders Reviewed**

Contract	Contract No. and Task Order No.	Period of Performance	Amount	Contractor	Bureau
Civilian Police	<b>S-LMAQM-04-C-0030</b>			DynCorp	International Narcotics and Law Enforcement Affairs
	S-AQMPD-04-C-1076	4/9/04-11/8/06	\$195,287		
	S-AQMPD-04-F-0282	7/1/04-6/30/05	23,722		
	S-AQMPD-04-F-0460	7/12/04-1/30/06	47,495		
	S-AQMPD-05-F-2522	7/31/04-8/31/04	27,026		
	S-AQMPD-05-F-1473	9/15/04-12/31/04	85,485		
S-AQMPD-05-F-4305	8/15/05-8/31/07	326,051			
WRAP	<b>S-AQMPD-05-D-1108</b>			DynCorp	Political-Military Affairs
	S-AQMPD-05-F-4175	8/9/05-8/9/07	\$13,200		
WPPS	<b>S-AQMPD-05-D-1098</b>			Blackwater	Diplomatic Security
	S-AQMPD-06-F-A079	1/16/06-10/31/06	\$28,840		

Source: OIG data from its review of contract records.

OIG selected the Civilian Police and WPPS contracts for review because, according to contractor reports to the Department, these contracts had the largest dollar amount of government-owned capitalized assets in Afghanistan. OIG reviewed the WRAP contract following a request from A's Office of Acquisitions Management concerning the disposition and transfer of property from the prior WRAP contractor when the task order for WRAP activities in Afghanistan was awarded to DynCorp in 2005.



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As background for this audit, OIG researched and reviewed the requirements relating to government-owned, contractor-held property contained in the Federal Acquisition Regulation (FAR)<sup>1</sup> and Department of State Acquisition Regulations; property and contract administration requirements, including requirements for a contracting officer and a contracting officer's representative (COR), contained in the Foreign Affairs Manual (FAM) and Foreign Affairs Handbook (FAH); and prior OIG and other reports relating to contractor-held property to identify relevant findings and recommendations.

OIG performed fieldwork in Washington, DC, primarily in the following bureaus: A, INL, PM, and DS and also obtained information from the Bureau of Resource Management (RM). OIG met with the COs for the three contracts to discuss their roles and responsibilities relating to the contractor-held property and obtained and reviewed the contract files to gain an understanding of the purpose of the contracts and identify property-related requirements. OIG also met with the CORs in INL, PM, and DS to obtain an understanding of their roles and responsibilities. OIG requested and reviewed, when available, COR files and other documentation relating to property and the voucher files maintained by the bureaus for the task orders selected for review.

OIG obtained the property lists maintained by the contractors, as of September 30, 2006, for the WRAP and WPPS contracts and as of October 24, 2006, for the Civilian Police contract, and analyzed them to identify potential duplicate items and items without costs.<sup>2</sup> Further, OIG developed a methodology to test the property lists to determine whether the contractors could account for the items on the lists and whether all government-owned property under the contracts was recorded. OIG limited its review and tests to four categories of items: vehicles; items costing \$25,000 or more (excluding vehicles); weapons and weapon accessories; and "other" items, including those costing between \$5,000 and \$24,999, sensitive items such as protective vests, and certain IT and communications equipment. OIG did not test items with a cost of less than \$5,000, except those specifically included in the "other" category.

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<sup>1</sup>The FAR cites contained in this report were effective as of March, 2007, the completion of OIG's fieldwork.

<sup>2</sup>OIG obtained the property lists for the Civilian Police and WRAP contracts directly from DynCorp. The CO for the WPPS contract provided the property list maintained by Blackwater.

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OIG performed fieldwork in Afghanistan from December 6 through December 18, 2006. OIG met with Department and contractor staff in Afghanistan to obtain an understanding of their roles and responsibilities and the processes relating to acquiring and entering items on the property lists and disposing of the property.

To determine whether the contractors could account for the items on the property lists, OIG physically verified a random sample of 120 property items for each contract at DynCorp and Blackwater sites within Kabul and DynCorp sites at the following locations outside of Kabul: Regional Training Centers in Gardez, Herat, and Jalalabad and the demining camp in Jabul Seraj. Although OIG originally selected items without regard to their location in Afghanistan, security limitations prevented travel to some locations once the team arrived at post. Because of this scope limitation, OIG could only conclude on the existence of property items at the locations visited. Appendix B describes OIG's sampling methodology in more detail.

To determine whether the property lists included all government-owned property under the contracts, OIG judgmentally selected items at each location it visited, recorded the serial number and other descriptive information, and confirmed that the items were recorded on the lists. Clearly, unrecorded items at locations not visited by OIG would not be detected by this test.

To determine whether the property the Department paid for was authorized and recorded on the property lists, OIG identified the property specified in the contracts, task orders, and modifications. Of the vouchers the bureaus provided for review, OIG identified vouchers totaling \$133 million under the Civilian Police and WRAP contracts that contained charges for property of interest. OIG attempted to match the information in the contracts and vouchers to the property lists, but was unable to readily identify some types of property on the vouchers, and therefore, focused review efforts on vehicles, items with a cost of \$25,000 or more, and weapons.

To determine whether the Department received the information it needed to accurately report the capitalized property held by the contractors on its financial statements, OIG obtained the June 30 and September 30, 2006, capitalized asset reports the contractors provided to the Department and compared the information in these reports to the contractors' property lists. OIG limited this test to capitalized assets; that is, items with a cost of \$25,000 or more and all vehicles.

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OIG's review of the contract documentation and vouchers was limited to the steps specifically described above. OIG did not audit the contracts or the vouchers and did not audit the Department's general contract administration processes and practices or program operations. Although OIG tested the contractors' property lists, it did not audit or assess other aspects of their property control systems.

OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

OIG's Office of Audits performed this audit from September 2006 to March 2007. OIG met with A officials on April 26, 2007, INL officials on April 30, 2007, PM officials on April 24, 2007, DS officials on April 16, 2007, and RM officials on May 3, 2007, to discuss its findings and proposed recommendations.

## BACKGROUND

The Department relies on two contractors, DynCorp and Blackwater, to implement programs in Afghanistan dealing with civilian police training, poppy elimination and eradication, humanitarian demining, and personal protective services. The Department has provided and authorized the purchase of millions of dollars in government-owned personal property, including vehicles, weapons, generators, and IT and communications equipment, to support these programs. A summary of each program follows.

### Civilian Police

INL's worldwide Civilian Police program aims to strengthen criminal justice systems in support of peace and other complex security operations overseas. In Afghanistan, the United States is supporting the international effort to reform, equip, and train the Afghan National Police. This assistance focuses on providing basic policing skills training, communications and other law enforcement equipment, advisers, and technical assistance to the police.

In February 2004, the Department entered into a contract, of up to \$1.75 billion over five years, with DynCorp to provide the supplies and services necessary to support the Civilian Police program worldwide. At the time of this audit, the task orders for programs in Afghanistan totaled about \$705 million. These task orders required that DynCorp support programs to deploy, support, and equip technical police advisers and provide infrastructure support to the Afghan police; establish, maintain, and operate a Central Training Center in Kabul and Regional Training Centers in Kandahar, Konduz, Jalalabad, Gardez, Mazar-e-Sharif, and Herat; and support programs to eliminate poppy cultivation through persuasion and deterrence and train and deploy a poppy eradication force.

## Weapons Removal and Abatement Program

PM's Office of Weapons Removal and Abatement (PM/WRA) exercises oversight of all Department humanitarian demining efforts as well as policy and programs relating to landmines, small arms and light weapons, and other explosive remnants of war. Its mission is to develop policy options, implement destruction and mitigation programs, and engage civil society in order to reduce the harmful worldwide effects generated by indiscriminately used, illicit, and abandoned conventional weapons of war.

Afghanistan is one of 20 countries in the world heavily affected by landmines and unexploded ordinance. The United States began humanitarian demining in Afghanistan in 1988. In May 2005, the Department entered into a contract, of up to almost \$500 million over five years, with DynCorp, to provide integrated weapons removal and abatement services to countries designated by PM/WRA. At the time of this audit, DynCorp was awarded a task order under this contract of over \$13 million for demining activities in Afghanistan. The task order required that DynCorp provide training, oversight, and guidance to the Demining Agency for Afghanistan, the Mine Clearance Planning Agency, and Afghan technical consultants for humanitarian demining and unexploded ordinance removal.

## Worldwide Personal Protective Security Services

Under the Diplomatic and Antiterrorism Act of 1986, DS has a broad range of responsibilities that include protection of personnel and facilities both domestic and abroad. The WPPS initiative is an effort by DS to preplan, organize, set up, deploy, and operate contractor protective service details for the protection of U.S. and certain foreign government high-level officials whenever the need arises. The postwar stabilization efforts by the United States in Afghanistan required priority deployment of protective services on a long-term basis. DS was unable to provide the services from its pool of special agents; thus, outside contractor support was required.

In June 2005, the Department entered into a contract with Blackwater to provide protective services worldwide. At the time of this audit, the task order relating to Afghanistan amounted to about \$29 million. The task order calls for providing protective services for the U.S. Ambassador to Afghanistan, U.S. embassy Foreign Service officers performing official duties, visiting government and nongovernment personnel supporting U.S. government business, and individuals or groups who are directly supporting development or reconstruction for or in conjunction with the U.S. Agency for International Development.

## Federal Acquisition Regulation Requirements

The Civilian Police and WRAP contracts with DynCorp and the WPPS contract with Blackwater incorporate FAR clauses that state that the government retains title to all government-owned, contractor-held property, including both property furnished to and acquired by the contractors. In addition, the clauses require the contractors to comply with FAR Subpart 45.5, *Management of Government Property in the Possession of Contractors*. Under FAR, the contractor is directly responsible and accountable for all government property in accordance with the contract requirements, and the contractor's property control records constitute the government's official property records.<sup>3</sup> Table 2 shows the number of government-owned property items under each of the three contracts according to the property lists maintained by DynCorp and Blackwater.

**Table 2: Number of Property Items and Cost**

Contract	Number	Cost*	Date of Inventory
Civilian Police	41,633	\$61,461,207	October 24, 2006
WRAP	2,797	Incomplete data	September 30, 2006
WPPS	7,149	Incomplete data	September 30, 2006

\*The WRAP and WPPS property lists did not contain costs for the majority of items, including most of the vehicles, generators, and other items OIG would expect to be high-value.

Source: OIG data from the Civilian Police, WRAP, and WPPS property lists.

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<sup>3</sup>FAR 45.502 and 45.505(a).

## Responsible Bureau

A is the bureau responsible for the Department's procurement activities. Its Office of the Procurement Executive oversees the procurement process, including prescribing the Department's acquisition policies, regulations, and procedures and appointing qualified COs. Its Office of Acquisitions Management manages, plans, and directs the Department's acquisition programs and conducts contract operations in support of activities worldwide.

## Prior Reports

### INL Report

*INL Asset Verification, Part 3: Afghanistan CIVPOL Mission* (Feb. 2006)<sup>4</sup> During January 2006, an INL team reviewed the property in Afghanistan acquired by DynCorp under the Civilian Police contract. The team found that DynCorp had poor asset records, no automated asset system, and ineffective or sporadically used asset management processes. Owing to air travel logistics and the security situation in Afghanistan, the team was not able to visit all contractor locations in-country. At the locations visited, the team was able to verify only 83 percent of the property items it selected for review. In addition, it identified errors on the property lists maintained by DynCorp, including missing serial numbers and duplicate records, as well as logistics staffing problems.

### OIG Reports

*Review of Allegations Concerning DynCorp International's Worldwide Personal Protective Services Contract in Afghanistan* (AUD/PPA-04-45, Sept. 2004). OIG found that poor financial oversight of the contractor by DS allowed duplicate or erroneous billings of about \$950,000 to be charged to the contract. OIG identified instances of poor accounting by DynCorp, including charges to the wrong task order. For example, OIG found a mischarge of WPPS work in Israel to the Afghanistan portion of the contract, and expenses from another DynCorp contract for police training in Afghanistan were also erroneously charged to the WPPS effort. DS acknowledged that its financial oversight of contractors needed improvement and proposed hiring a financial specialist to review contractor invoices.

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<sup>4</sup>This report was the third in a series of INL asset verification reviews in Jordan, Iraq, and Afghanistan.

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*Bureau of International Narcotics and Law Enforcement Affairs (ISP-I-05-14, July 2005).* The OIG inspection found that INL needed to address its overtaxed resources and organizational weaknesses and more promptly restructure itself to deal effectively with Iraqi and Afghan programs. Further, it found that INL needed to strengthen its mechanisms for oversight of procurement and contract compliance and property management. OIG recommended that INL review COR responsibilities and the assignment of additional CORs and comply with Department regulations requiring prepayment examinations by CORs before they approve vouchers and forward them for payment.

Inspection of the Bureau of Diplomatic Security Directorate for International Programs (ISP-I-06-03, Dec. 2005). An OIG inspection recommended that DS review its oversight and administration of the WPPS contract to ensure that there is adequate staff to oversee the contract and determine whether additional personnel are needed to resolve invoice issues.

Independent Auditor's Report on the U.S. Department of State's Restated 2006 and 2005 Financial Statements (AUD/FM-07-12A, Dec. 19, 2006). The independent external auditor identified reportable conditions on weaknesses in the Department's internal controls, including deficiencies in the recording of personal property and related depreciation expense and accumulated depreciation. One reported deficiency was that the Department did not have a system of controls to identify and record property in the hands of contractors. The external auditor had also identified the deficiencies related to the recording of personal property as a material weakness in its report on the Department's 2005 financial statements.

Interagency Assessment of Afghanistan Police Training and Readiness (ISP-IQO-07-07, Nov. 2006). The joint effort by the Inspectors General of the Department and the Department of Defense reviewed the U.S.-funded program to train and equip the Afghan National Police. The review found that management of the police contract should be improved. Recommendations included that INL should assign a qualified COR permanently to Embassy Kabul to improve program management of the police training contract in support of the U.S. military command in charge of the police training program.

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## FINDINGS

OIG found that the Department could not account for all property furnished to and purchased by the contractors. Contractor property lists were incomplete and, therefore, unreliable. Although the contractors could account for the majority of items that OIG selected to verify from the property lists, the lists did not include all government-owned property or costs for a significant amount of the property. In addition, the Department allowed the contractors to acquire property that was not specified in the contracts, and it accepted and approved for payment vouchers that did not contain adequate information on the property purchased. The inadequate documentation for property acquisitions raised questions about \$28.4 million, or 21 percent, of the \$133 million in charges on the vouchers OIG reviewed. Further, contractor reports on the capitalized assets under these contracts, amounting to \$40.6 million, were understated by at least \$1.1 million to \$2 million.

These deficiencies existed because the Department had not developed and implemented adequate internal control over the government property held by contractors. The Department had not defined and clearly assigned oversight responsibilities, and it had not developed standard policies and procedures to monitor contractor-held property. As a result, the Department could not accurately determine the total quantity and costs or track and control the property, and it lacked adequate support to determine whether the property acquired under the contracts was needed or received. OIG commends the steps the Department has taken to improve its oversight of contractor-held property and recommends additional actions to improve control over the property.

## PROPERTY LISTS

OIG found that the contractor property lists were incomplete and, therefore, unreliable. Although the contractors could account for the majority of items that OIG selected to verify from the property lists, the lists did not include all government-owned property. In addition, the lists did not contain the costs for a significant amount of the property. OIG identified other errors on the property lists as well, further diminishing their reliability. As a result, the Department did not have accurate information on the quantity and costs of government-owned property items, for both program management and external reporting purposes, and the property, including high-dollar-value and sensitive items, could not be tracked and controlled.

FAR, Subpart 45.5 requires that contractor property control records include every item of government property in a contractor's possession regardless of value and contain basic information for each item, including unit price. FAR also requires the contractor's property control system to provide annually the total acquisition cost of government property for which the contractor is accountable. To ensure compliance with contract property clauses, FAR requires the CO, or "the representative assigned the responsibility as property administrator," to review the contractor's property control system to ensure compliance with the government property clauses of the contract. If any portion of the system is inadequate, the contractor must take corrective actions. In addition, the contractor must periodically inventory all property, and the type, frequency, and procedures for the inventory must be approved by the property administrator.<sup>5</sup>

### Verification of Property on the Property Lists

DynCorp and Blackwater could account for the majority of items that OIG selected to verify from their property lists. OIG randomly selected 120 items to verify for each contract. OIG verified 96 percent of the items selected from the Civilian Police and WRAP property lists and about 99 percent of the items selected from the WPPS property list. Appendix B provides a detailed description of the sampling methodology.

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<sup>5</sup>FAR 45.505.1(a), 45.505-14(a), 45.104(b) and (c), and 45.508.

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The results of the asset verification are limited to the property at the locations that OIG visited. OIG had access to all property at DynCorp sites within Kabul; however, owing to security concerns, OIG visited only three of the 15 Civilian Police locations and one of the six WRAP locations outside Kabul.

For the locations visited, OIG concluded that the percentages of Civilian Police and WRAP property items verified were reasonable, considering the environment in which the contractors operate and the frequency with which property is moved among locations throughout Afghanistan. For example, DynCorp officials said that one of its property book managers makes 100 changes per day to the property lists to reflect the movement of DynCorp staff. OIG also noted that DynCorp had taken steps to address some of the issues that INL raised during its verification of property under the Civilian Police contract. For example, DynCorp said that it had performed a 100-percent inventory of the property and periodically performs spot-checks at each DynCorp site. In addition, it had hired a full-time armorer and additional logistics staff, developed new property management and control procedures, and planned to implement a new property control system.

Because all WPPS property was located at one location in the Kabul area, all property held by Blackwater was available for this review. OIG attributes the higher percentage of items verified for this contract to the level of direct DS oversight of two of the categories of property tested – vehicles and weapons – and the controls implemented to track and account for them. Although Blackwater accounted for the government-furnished vehicles in its property list, the vehicles were also tracked by the General Services Office at post. In addition, DS periodically inspected and performed physical inventories of all weapons provided to Blackwater.

### Incomplete Property Lists

Although the contractors could account for the majority of the property listed in their property lists, the lists were not complete. Some items were not recorded in the Civilian Police and WRAP property lists. In addition, the WRAP and WPPS lists did not contain the costs for a significant number of items.

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### Items Not Recorded

OIG judgmentally selected a number of items at each location it visited; recorded the serial numbers, description, and other identifying information; and attempted to confirm that those items were recorded on the property lists. OIG found all of the selected WPPS items on the property list but was unable to locate some of the items (see Table 3), including vehicles, a weapon, generators, computers, radios, and phones, on the Civilian Police and WRAP property lists.

**Table 3: Items Not on the Property Lists**

<b>Contract</b>	<b>Total Items Selected</b>	<b>Number of Items Not on Property Lists</b>	<b>Percent of Items Not on Property Lists</b>
Civilian Police	146	17	12
WRAP	38	5	13
WPPS	43	0	0

Source: OIG data from the results of its test for completeness.

For additional items OIG selected but was unable to locate in the Civilian Police and WRAP property lists, DynCorp provided OIG with support to show the items were recorded. For example, some of them were recorded under incorrect serial numbers. As discussed later in this report, however, OIG also identified items on the contractors' reports of capitalized assets that were not recorded on the property lists. Together, these tests indicate that the controls to ensure that all government property was recorded on the property lists were not working as they should.

### Missing Cost Data

OIG also found that a significant number of items on the WRAP and WPPS property lists did not include the cost. In many cases, but not all, the property lists indicated that the property had been furnished by the Department to Blackwater or transferred to Blackwater and DynCorp from previous contractors. Table 4 shows the total number of items on the property lists with no cost.

**Table 4: Items With No Cost**

<b>Contract</b>	<b>Total Number of Items</b>	<b>Number of Items With No Cost</b>	<b>Percent of Total Items With No Cost</b>
Civilian Police	41,633	4,562	11
WRAP	777	422	54
WPPS	7,149	6,491	91

Source: OIG data from its analysis of the property lists.

The first WRAP property list OIG received contained 2,797 items, and none of them had costs. When OIG inquired whether the costs were available, DynCorp representatives provided an updated property list that included the 777 items shown in Table 4. Costs were still not provided for many items, including a large percentage of vehicles and IT and communications equipment. The WPPS property list did not contain the costs for any of its vehicles and much of its communications equipment.

Although the majority of property items under the Civilian Police contract contained costs, a significant number of items for one of the programs under that contract, poppy elimination, did not. Of the 2,016 items under that program, 990 (49 percent) did not have costs. In addition, OIG noted that the costs for a number of property items under the Civilian Police contract were identified as “estimated” on the property lists.

## Other Property List Errors

OIG identified other errors on the property lists, including items that were listed more than once; serial numbers that were incorrect owing to missing or reversed numbers; and items in one program’s property list that were contractor, not government, property. These errors did not prevent the contractors from locating the majority of the property OIG selected to verify. However, as will be discussed later in this report, property list errors have resulted in inaccurate information being provided to the Department on the capitalized assets under these contracts. OIG concluded that these errors could be identified and corrected through regular reviews of the property lists and during physical inventories of the property.

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The incomplete lists and other errors described above were not identified and corrected because of a lack of Department oversight. Department officials told OIG that the contractors' property control systems had been reviewed and approved by the Defense Contract Management Agency (DCMA), and the Department relied on these reviews, as required by FAR.<sup>6</sup> Although DCMA had approved DynCorp's property control system, its most recent analysis, conducted March 13-July 13, 2006, identified unsatisfactory findings that required corrective actions relating to property management, identification, records, and physical inventory. In addition, DCMA had not reviewed Blackwater's property control system. Further, the COs for the Civilian Police and WRAP contracts had not, as required by FAR, reviewed DynCorp's property control system to ensure compliance with the property clauses of the contracts.

In its response to the draft report, INL noted that this appeared to contradict the reference to FAR 45.104(a) earlier in the paragraph relating to the review and approval of the contractor's property control system by the agency responsible for contract administration. However, there is no conflict. As noted in FAR 45.104(b) "the contracting officer or the representative assigned the responsibility as property administrator shall review contractors' property control systems to ensure compliance with the Government property clauses of the contract." This is in addition to the overall review and approval of the property control system to ensure compliance with any clauses specific to the contract.

With the exception of the recent INL review of Civilian Police property, OIG saw no evidence that the bureaus or CORs for the Civilian Police and WRAP contracts had periodically reviewed the property lists to confirm that they contained the required information or performed spotchecks to make sure that the records were accurate and the property control system was implemented and working as it should. Although DS exercised oversight over the WPPS government-furnished vehicles and weapons, it did not ensure that the property lists contained the costs of those items.

As a result, the Department could not rely on the contractors' property lists for accurate and complete information. It could not use the information on the lists to determine the quantity and costs of the government-owned property for program management purposes or, as will be discussed later in this report, for external reporting purposes. And because some government property items, including high-dollar-

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<sup>6</sup>FAR 45.104(a) states that the review and approval of a contractor's property control system shall be accomplished by the agency responsible for contract administration at a contractor's plant or installation, and such review and approval by one agency shall be binding on all other departments and agencies based on interagency agreements.

value and sensitive items, were not in the Civilian Police and WRAP property books, the property could not be tracked or controlled, and the Department could not provide reasonable assurance that its assets were safeguarded against unauthorized acquisition, use, or disposition.

**Recommendation 1:** OIG recommends that the Bureau of Administration develop and implement policies and procedures to achieve compliance with Federal Acquisition Regulation requirements for reviewing a contractor's property control system, including but not limited to:

- obtaining the review and approval of the property control system performed by the agency responsible for contract administration at the contractor's plant or installation;
- reviewing the contractor's property control system to ensure compliance with the government property clauses of the contract; and
- addressing areas of noncompliance or other issues identified during the review of the system.

In its response to the draft report, A concurred with the recommendation and referred to the Office of Procurement Executive-issued PIB on Contractor-Held Government Property (PIB 2007-21), issued on June 27, 2007. The PIB requires COs to determine, before contract awards, whether the contractor's property management plans, methods, practices, or procedures for accounting for property are consistent with the requirements of the solicitation. The CO must also validate whether or not the contractor has an adequate property management system for contract option periods.

In its response to the draft report, DS suggested that OIG add "perform an annual reconciliation to ensure accountability, accuracy of property inventory information and reporting status" to this recommendation. Although OIG agrees that such reconciliations are necessary, they are neither included in nor directly related to FAR requirements for reviewing a contractor's property control system; therefore, OIG addresses the need for policies and procedures requiring reconciliations in recommendations 4 and 6.

On the basis of bureau responses, OIG considers recommendation 1 resolved and will close it when the PIB guidance is formally included, as appropriate, in the Department of State Acquisition Regulations, FAM, and FAH.



## PROPERTY ACQUISITIONS

OIG found that the Department did not always have adequate documentation to support the acquisition of property under the Civilian Police and WRAP contracts. Specifically, the Department allowed the contractors to acquire property that was not specified in the contracts. In addition, it accepted and approved for payment vouchers that did not contain sufficient information, such as the description or quantity of the items, to identify what items were acquired and to match them to the property in the contractors' property lists. As a result, OIG could not determine whether all property the Department paid for was needed or received. The inadequate documentation for property acquisitions raised questions about \$28.4 million, or 21 percent, of the \$133 million in charges on the contractor vouchers OIG reviewed. Appendix A provides a detailed list of the questioned charges.

FAH defines a proper invoice as an invoice, voucher, or other billing document that includes the description, price, and quantity of property and services actually delivered or ordered.<sup>7</sup> In addition, FAH states that, for information on the voucher to be proper and correct, the goods received must be in accordance with the obligating document, and the quantities, prices, and amounts must be accurate and agree with the ordering document.<sup>8</sup> Post and bureau personnel contracting or purchasing goods and services, executing receiving reports, and certifying vouchers for payment are responsible for determining that invoices or vouchers examined, approved, or certified are correct and proper for payment.<sup>9</sup>

### Unapproved Property Acquisitions

The Department allowed the contractors to acquire property that was not specified in the contracts. In most cases, the Department incorporated the contractor's pricing proposal into the task orders it issued. These pricing proposals detailed the descriptions, quantities, and costs of the goods needed to meet contract requirements. However, OIG identified charges on the contractors' vouchers for items that were not specified in the task orders or included in the pricing proposals. For example:

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<sup>7</sup>4 FAH-3, H-422.1-1.

<sup>8</sup>4 FAH-3, H-425.1(c)(4).

<sup>9</sup>4 FAH-3, H-424.1.

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- Under one of the Civilian Police task orders, the vouchers included charges for 20 Ford F-250s, with a cost of \$1.1 million, that were acquired before the modification authorizing their purchase was issued; 18 vehicles consisting of Ford Excursions, John Deere Gators, and Yamaha motorcycles, with a cost of \$384,590, that were not specified in the task order; and an additional unknown quantity of John Deere Gators and Ford Excursions, with a cost of \$1.4 million, that were not specified in the task order.
- Although weapons and weapon accessories were not among the property specified for purchase under the WRAP contract, the vouchers included charges of \$30,000 for these items.

Department officials told OIG that contractors could, in some cases, exceed the quantities of items specified in the contract as requirements were made definite, and the Department would determine whether the additional acquisitions were reasonable during its review of the invoices. Although OIG understands that property requirements may change over the course of a contract, the Department should assess whether additional property items are needed to meet program requirements, approve new acquisitions before they are made, and modify the contract accordingly.

### Descriptions and Quantities of Property

The Department accepted and approved for payment vouchers for property acquired under the contracts without adequate information. Specifically, OIG identified charges for items that did not have an adequate description. For example:

- Vouchers for the Civilian Police contract contained charges for:
  - o 100 armored vehicles for \$12.4 million;
  - o 68 armored vehicles for \$8.4 million;
  - o 15 vehicles for \$1.3 million;
  - o 12 vehicles for \$1.1 million; and
  - o 10 vehicles for \$481,550.

In other cases, even when the description was specific, the vouchers provided only the total cost, and not a quantity or the unit cost. For example:

- Civilian Police vouchers contained charges for:
  - o an unknown quantity of Ford F-250s for \$221,526; and

## **UNCLASSIFIED**

- WRAP vouchers contained charges for:
  - o laptop computers, with a total cost of \$11,783; and
  - o global positioning systems (GPS), with a total cost of \$2,299.

In some cases, the vouchers contained neither an adequate description nor the quantity or unit cost. The Civilian Police vouchers included charges for:

- armored vehicles for \$466,797; and
- ammunition and weapons for \$1.1 million.

Without adequate descriptions and quantities on the vouchers, OIG could not identify the property on the contractors' property lists. For example, one Civilian Police task order included a requirement for 68 armored Ford Excursions at a fixed unit price of \$113,064.<sup>10</sup> The Department was billed for 68 "armored vehicles" at a unit cost of \$123,327. The property list contained 61 Ford Excursions, of which some were described as armored, others uparmored, and others had no notation of armoring. The costs shown on the property list for these 61 Ford Excursions ranged from \$43,990 to \$150,000, with nine at \$122,190, seven with higher costs, and the remaining 45 with costs of \$77,000 and below. Thus, OIG could not conclude that the 68 "armored vehicles" in the vouchers were the 68 armored Ford Excursions specified in the task order.

Although the total number of vehicles on the property list exceeded the number of vehicles on the vouchers OIG reviewed for this task order, OIG could not determine whether the Department received the specific vehicles for which it paid. In fact, with the exception of nine Ford Excursions, none of the other vehicles on the property list had a cost at or near the \$123,327 the Department paid for each of the 68 vehicles.

Under FAH, the responsibility for reviewing and approving contractor vouchers rests with the CORs.<sup>11</sup> The CORs for the Civilian Police and WRAP contracts had not reconciled the vouchers they approved to the property specified in the contract documentation to confirm that the property was authorized. Nor had they reconciled the items billed on the vouchers to the property lists to confirm that the property was properly recorded. OIG concluded from its review that the vouchers did not provide adequate information to determine whether the charges for the property items were reasonable and proper.

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<sup>10</sup>The fixed unit price includes the fixed cost for the vehicle plus the fixed freight amount, which OIG allocated equally among all vehicles authorized.

<sup>11</sup>14 FAH-2, H-142(b)(14).

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As a result, the Department lacked documentation indicating that the property the contractors acquired and were reimbursed for was required to meet program needs and documentation that would enable the Department to determine whether it received the specific property for which it paid. Consequently, of the \$133 million in contractor vouchers that OIG reviewed, OIG questioned about \$2.9 million as unallowable costs and \$25.5 million as unsupported costs.

**Table 5: Questioned Costs**

<b>Contract</b>	<b>Unallowable Costs</b>	<b>Unsupported Costs</b>	<b>Total Questioned</b>
Civilian Police	\$2,903,590	\$25,463,491	<b>\$28,367,081</b>
WRAP	30,345	14,082	<b>44,427</b>
<b>Total</b>	<b>\$2,933,935</b>	<b>\$25,477,573</b>	<b>\$28,411,508</b>

Note: See Appendix A for details.

Source: OIG data from the results of its review of contract documentation, vouchers, and the property lists.

At the time of this audit, the Department had not closed out previous WRAP and WPPS contracts because of issues relating to the contractor-held property under those contracts. Specifically, the Department had been unable to determine what property items should have been available to transfer to the new contracts. OIG believes that matching property authorized with contractor vouchers and property lists throughout the term of the contracts would have identified the discrepancies and enabled the Department to resolve these issues before terminating the contracts. The contracts were still open, and DS had hired contractor employees to perform the necessary reconciliations of the WPPS contract.

**Recommendation 2:** OIG recommends that the Bureau of Administration, in conjunction with the Bureaus of International Narcotics and Law Enforcement Affairs and Political-Military Affairs, take the following actions to address the \$2.9 million in unallowable costs identified in this report:

- reconcile contract requirements to the property acquired and invoiced by the contractors for which they were reimbursed and determine whether property in excess of amounts specified in the contract or task order was required to accomplish contract objectives;
- document the reconciliation and determination, use them as the basis for approving the costs of any excess property deemed allowable, and issue a modification to the task order indicating the approval; and
- resolve any unallowable costs associated with property that was determined to be unnecessary to the accomplishment of contract objectives.

**Recommendation 3:** OIG recommends that the Bureau of Administration, in conjunction with the Bureaus of International Narcotics and Law Enforcement Affairs and Political-Military Affairs, take the following actions to address the \$25.5 million in unsupported costs identified in this report:

- reconcile the property acquired and invoiced by the contractors for which they were reimbursed to the contractors' property lists by obtaining and reviewing contractor documentation detailing the types and quantities of property acquired;
- determine whether the property was needed and consistent with contract requirements; and
- resolve any unsupported allowable costs associated with property that could not be supported with adequate documentation or was determined to be unnecessary to the accomplishment of contract objectives.

In their responses to the draft report, A, INL, and PM concurred with the recommendations and agreed to work to implement them. INL noted that it had already begun implementing self-initiated procedures to reconcile invoices, identify billing errors and improper payments, and as appropriate, seek refunds. INL also noted that DynCorp is now voluntarily identifying and returning refunds by conducting pre-audits of its own vouchers.

In its response to the draft report, DS suggested that this recommendation require government follow-up to ensure that actions with contractors are meeting identified program objectives. OIG agrees that follow-up is appropriate and will be necessary to resolve the unallowable and unsupported costs identified and, further, to ensure that contractors meet program objectives. OIG provided this suggestion to A for its consideration in developing standard policies and procedures for monitoring government property held by contractors.

OIG considers recommendations 2 and 3 resolved and will close them when a final determination is made regarding the unallowable and unsupported costs identified in this report.

## CAPITALIZED ASSETS

OIG found that contractor reports on capitalized assets under the contracts were inaccurate. These reports, which amounted to \$40.6 million, did not include all capitalized property in the contractors' property lists; some property was reported more than once; and the unit costs in the reports did not always match the unit costs on the property lists. This resulted in an understatement of at least \$1.1 million to \$2 million in capitalized assets in the Department's 2006 financial statements.

The Department capitalizes personal property with an acquisition cost of \$25,000 or more and a useful life of two or more years and all vehicles regardless of cost. To obtain information on the capitalized assets held by contractors, A identified contracts with government-owned, contractor-held property and, in coordination with RM, asked the contractors to provide reports of capitalized assets to the Department. RM used these reports to support its preparation of the Department's 2006 financial statements.

OIG compared the property in the contractors' reports of capitalized assets to the property in their property lists. The comparison identified instances where the property lists contained items that were not reported in the capitalized asset reports and vice versa, duplicate items were reported, and some unit costs in the capitalized asset reports were different from the costs shown on the property lists. Table 6 shows the differences by contract.

**Table 6: Differences Between the Capitalized Asset Reports and Property Lists**

Difference	Civilian Police	WRAP	WPPS	Total	Dollar Amount
<b>Number of Items Not in Capitalized Asset Reports*</b>	19	31	16	<b>66</b>	\$1,268,096*
<b>Number of Items Not on Property Lists</b>	10	0	4	<b>14</b>	1,079,018
<b>Duplicate Items in Capitalized Asset Reports</b>	3	0	2	<b>5</b>	466,700
<b>Difference in Unit Costs</b>	43	0	0	43	\$1,826,425

\*The property lists did not contain costs for all items; only 26 of the 66 items, or 39 percent, had costs. Therefore, the dollar amount shown is understated by an unknown amount.

Source: OIG data from its comparison of the capitalized asset reports to the contractors' property lists.

## Items Not in Capitalized Asset Reports

DynCorp did not report Civilian Police vehicles, generators, and homing devices, with costs amounting to \$940,296. In addition, DynCorp did not provide a capitalized asset report for the property under the WRAP contract. Although A identified the contract as having contractor-held property, DynCorp's response to the Department's request for a report on capitalized assets only included the property under the Civilian Police contract. All of the 31 items not reported were vehicles, and the property list did not contain costs for 24 (77 percent) of them. The costs for the seven remaining vehicles amounted to \$327,800.

Blackwater did not report 16 (43 percent) of the 37 vehicles contained in the WPPS property list. The property list did not provide the costs for these 16 vehicles.

## Items Not on Property Lists

DynCorp reported ten items, including generators and communications equipment with a cost of \$639,019, in its capitalized asset report for the Civilian Police contract, but these items were not on its property lists. Blackwater also reported four vehicles, with a cost of \$440,000, that were not on its property list. These discrepancies provide additional support for OIG's conclusion earlier in this report that the property lists may not contain all government property.

## Duplicate Items

DynCorp reported two vehicles and a generator twice in its capitalized asset report for the Civilian Police contract. The cost reported for the duplicate entries was \$246,700. Blackwater also reported two vehicles, with a cost of \$220,000, twice.

## UNCLASSIFIED

### Differences in Unit Costs

The costs DynCorp reported for 43 items in its capitalized asset report for the Civilian Police contract did not match the costs for those items on its property lists. Table 7 shows the details of these differences.

**Table 7: Differences in Property List and Reported Costs**

Item	Quantity	Property List Unit Cost	Capitalized Asset Report Unit Cost	Difference
Chevrolet Duramax HD	20	\$103,015	\$77,000	\$26,015
Ford F-250	1	103,015	154,000	(50,985)
Ford F-250	15	154,000	70,162	83,838
Generator	1	179,000	61,570	117,430
Generator	1	25,700	55,230	(29,530)
Generator	1	49,500	55,230	(5,730)
Generators	2	25,700	55,230	(29,530)
Generator	1	45,000	0	45,000
Generator Set	1	93,000	61,570	\$31,430

Source: OIG data from its comparison of the capitalized asset report to DynCorp's property lists.

Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant and Equipment*, requires that government property be reported in financial statements as an asset at the acquisition cost. The cost is to include all costs incurred to bring the property to a form and location suitable for its intended use, including transportation charges and handling and storage costs. The Department's June 29, 2006, letter to contractors instructed that they provide a list of all personal property with an acquisition cost of \$25,000 or more and all vehicles regardless of cost. The letter further instructed the contractors to provide the actual cost for the procurement of the property, which was to include any value-added costs for shipping, armoring, etc.

The discrepancies in the contractors' capitalized asset reports were not identified because the Department did not have a process in place to confirm that the information was accurate. RM reconciled the information it received from the contractors with the information the contractors had provided for prior periods. During this reconciliation, RM identified some, but not all, of the errors discussed above. For example, RM identified one of the duplicate items reported. RM also compared the government-furnished vehicles reported by Blackwater under the WPPS contract to the vehicles in the Department's logistics management system to identify and exclude vehicles that were reported in both.



## UNCLASSIFIED

With the exception of RM's reconciliation, no one in the Department familiar with the contracts reviewed the capitalized asset reports to verify that property under all contracts was reported. In addition, at the time of this audit, the contractors' capitalized asset reports did not go through the CORs to review for accuracy before submission to RM. Obtaining information for the financial statements outside the general ledger increases the potential for omission of significant transactions; thus, additional controls, such as reviews and reconciliations, are necessary.

The Department did not have the information it needed to accurately report capitalized assets in its financial statements because the reports submitted by the contractors were inaccurate. RM estimated that the discrepancies discussed above resulted in an understatement of capitalized assets on its 2006 financial statements ranging from at least \$1.1 million, if the costs reported to RM were correct, to \$2 million, if the costs on the property lists were correct.<sup>12</sup> However, this amount does not include the effect of the unreported items for which the property lists did not contain costs.

The Department has recently proposed revisions to FAM that deal with government-owned, contractor-held property. These revisions state the following:

- Contractors must report property holdings quarterly to the COR or bureau designee.
- The COR is responsible for obtaining the data, including acquisition cost, and reporting it to RM.
- Contractors must annually perform a physical inventory of the property.

**Recommendation 4:** OIG recommends that the Bureau of Administration develop and implement a process for:

- reviewing the capitalized asset reports submitted by contractors to verify that reports are received for all contracts with contractor-held property; and
- reconciling, at least annually, the capitalized asset reports submitted by contractors to the contractors' property lists to verify that the capitalized asset reports are complete and accurate.

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<sup>12</sup>RM based its estimate on the detailed list of discrepancies OIG prepared and provided for its review.

In its response to the draft report, A concurred with the recommendation. In its response to the draft report, DS suggested that the recommendation, which originally required developing and implementing a process for periodic reconciliations, be changed to require annual reconciliations. Accordingly, OIG revised the recommendation to require reconciliations at least annually. On the basis of A's response, OIG considers this recommendation resolved and will close it upon receipt of evidence of implementation.

## INTERNAL CONTROL OVER CONTRACTOR-HELD PROPERTY

The deficiencies described in this report existed because the Department had not developed and implemented adequate internal control over contractor-held property. Although the contractor is responsible for maintaining the official records for the government property in its possession, the Department is not relieved from its responsibility to safeguard government assets against waste, fraud, and mismanagement. The Department has taken steps to address deficiencies previously identified in OIG reports and the internal INL report. However, OIG concluded that additional actions by the Department are needed.

*Standards for Internal Control in the Federal Government* states that a good control environment requires that the agency's organizational structure clearly define key areas of authority and responsibility.<sup>13</sup> In addition, the standards state that internal control needs to be clearly documented and appear in management directives, administrative policies, or operating manuals. Office of Management and Budget Circular No. A-123 requires agencies to take systematic and proactive measures to develop and implement appropriate, cost-effective internal control. However, the Department neither clearly defined authority and responsibility nor developed standard policies and procedures for monitoring contractor-held property.

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<sup>13</sup>Government Accountability Office (GAO/AIMD-00-21.3.1, Nov. 1999).

## Responsibilities for Monitoring Contractor-Held Property

As stated previously, FAR assigns certain responsibilities, such as reviewing contractors' property control systems and approving the type and frequency of physical inventories, to the CO or "the representative assigned the responsibility as property administrator."<sup>14</sup> However, the Department had not appointed a property administrator for these contracts, and Department officials indicated that it was not the Department's practice to do so.

The COs for the contracts OIG reviewed told us that their responsibility for contractor-held property was limited to including the proper clauses and requirements in the contract and that the CORs were responsible for property-related issues. However, the COR delegations of authority only included the following responsibilities relating to government-furnished property:

- preparing an itemized list of such property, showing serial numbers, if any, and approximate value of each item;
- providing the CO with the list and contractor receipts for the property;
- ensuring that delivery of the property to the contractor is made in accordance with the contract; and
- inspecting each item upon its return from the contractor and notifying the CO of such return or any deficiencies.

The delegations of authority did not include responsibility for overall property administration or specifically for contractor-acquired government property.

The course manual for the Contracting Officer's Representative Workshop, which all CORs must attend, advises that an official knowledgeable about property management and accountability systems should be designated to serve as a property administrator. The manual distinguishes between the responsibilities of the COR and those of the property administrator. The COR is responsible for being cognizant of the contract property clauses and reviewing the type of equipment and supplies desired in order to determine those required for project accomplishment. The property administrator's function entails reviewing, at least once each year, the contractor's property system to verify compliance with written procedures. In addition, the property administrator's responsibilities include, among other things, providing guidance and assistance on property matters; examining property lists maintained by contractors; and resolving problems concerning acquisition, maintenance, disposal, and inventory accounting.

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<sup>14</sup>FAR 45.104(b) and 45.508.

As of September 30, 2006, according to the Department, contractors held capitalized government property with a total cost of about \$144 million and a net book value of almost \$49 million. Although the Department has not appointed property administrators in the past, OIG concluded that contractor-held property has reached such a level that the amount of oversight necessary cannot be met effectively by the Department's existing property administration structure and recommends the following.

**Recommendation 5:** OIG recommends that the Bureau of Administration evaluate its current structure for monitoring government property held by contractors, assess the benefits of creating a property administrator function, and use this evaluation to clearly define the authority and responsibility for property oversight for each member of its contract administration team.

In its response to the draft report, A concurred with the recommendation and referred to the Office of Procurement Executive-issued PIB on Contractor-Held Government Property (PIB 2007-21), issued on June 27, 2007. The PIB clarifies CO responsibilities, requires that the CO formally designate a property administrator, and describes the property administrator responsibilities.

On the basis of A's response, OIG considers this recommendation resolved. OIG will close it when the PIB guidance is formally included, as appropriate, in the Department of State Acquisition Regulations, FAM, and FAH. However, OIG does not agree with the PIB guidance that allows the CO to designate non-Department personnel, such as DCMA, as property administrators.

## Policies and Procedures for Monitoring Contractor-Held Property

Although the FAM and FAH prescribe detailed requirements for property controlled by the Department in Washington, DC, domestic field offices, and overseas posts, the regulations do not contain requirements for monitoring contractor-held property. The FAM contains requirements for domestic and post personal property management that address, among other things:

- written assignments and responsibilities of employees,
- separation of duties,
- receipt of property,
- storage of property,

## UNCLASSIFIED

- disposal of property,
- required physical inventories and reconciliations,
- required forms and reports, and
- criteria for accountability.<sup>15</sup>

The FAH provides guidelines and procedures, in the *Department-Wide Personal Property Management Handbook*, to parallel the regulations in FAM.<sup>16</sup> However, there were no similar guidelines and procedures provided for COs, CORs, and other Department staff with oversight responsibilities for contractor-held property to implement their responsibilities. Rather, they were left to rely on their own initiative or depend on the actions of the contractor.

The CORs OIG spoke with said that there was very limited guidance on their responsibilities for contractor-held property in the COR handbook; they did not receive any guidance from A; and their bureaus did not have any policies and procedures for monitoring the property. Standard policies and procedures are necessary to achieve effective and consistent oversight of contractor-held property.

**Recommendation 6:** OIG recommends that the Bureau of Administration develop and implement policies and procedures for monitoring government property held by contractors, including but not limited to periodically:

- reviewing property lists maintained by contractors to verify that they contain the basic information required by the Federal Acquisition Regulation;
- reconciling property on the vouchers submitted by contractors to the contract documentation to verify that property acquired was authorized; and
- reconciling property on the vouchers submitted by contractors to the contractors' property lists to verify that property acquired was accurately recorded.

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<sup>15</sup>14 FAM 410, Personal Property Management for Posts Abroad, and 14 FAM 420, Domestic Personal Property Management.

<sup>16</sup>14 FAH-1.

In its response to the draft report, A concurred with the recommendation. In its response to the draft report, DS provided several suggested changes and additions to this recommendation. OIG has provided these suggestions to A for its consideration in developing standard policies and procedures for monitoring government property held by contractors. On the basis of A's response, OIG considers this recommendation resolved and will close it upon receipt of evidence of implementation.

## DEPARTMENT ACTIONS

The Department has already taken several steps to address the weaknesses in control over contractor-held property. For example:

- In its response to the draft report, A referred to PIB 2007-21, which the Department issued on June 27, 2007. The PIB provides standard solicitation provisions and contract clauses addressing contractor-held property and identifies CO and property administrator responsibilities relating to the property.
- INL has created and is staffing a division for administering its contracts in Afghanistan, Iraq, and Jordan. The division chief was delegated COR responsibilities and had installed two in-country CORs in Afghanistan for the Civilian Police contract. He also said that he intends to perform a 100-percent reconciliation of all vouchers.
- In its response to the draft report, INL indicated that, in addition to these initiatives, it was increasing the number of in-country CORs, having the in-country CORs verify property items, enforcing invoice documentation requirements (resulting in higher rejection rates for errors and demands for millions of dollars in refunds for improper payments), hiring other specialists for contract management positions, and requesting Defense Contract Audit Agency assistance for improving contract oversight.
- DS has added a program manager, logistics specialist, and contract specialist to assist the CORs for the WPPS contract with various property management duties. In its response to the draft report, DS recommended several revisions and additions to the recommendations. It also noted that until the recommendations are implemented and written guidance is provided by the COs, it will take actions on its own, including:

## **UNCLASSIFIED**

- meeting with COs to discuss the OIG report and recommendations,
  - requesting a copy of the capitalized asset reports submitted by the contractors and reconciling them against the government-furnished property in the contract or task orders,
  - advising COs of the results of the reconciliation and requesting guidance as appropriate, and
  - starting to update the government-furnished property listing for each of the contractors to include acquisition costs.
- PM and A have included quarterly inventory reporting requirements in the WRAP contract for Afghanistan.
  - RM has drafted FAM revisions that clarify the applicability of its capitalized asset policies to contractor-held property and that require contractors to submit quarterly reports on capitalized assets to the COR or designee, who will be responsible for resolving any discrepancies in the reports.
  - The Department has established a Management Control Steering Committee subcommittee to address property-related issues. The subcommittee, led by A, developed a personal property corrective action plan that includes specific actions relating to contractor-held property, some of which have already been implemented.

OIG believes that these initiatives will improve the Department's control over contractor-held property, but additional actions are needed. The INL review of property acquired under the Civilian Police contract, which was conducted before this audit, led DynCorp to take several steps to improve its property control system. This supports OIG's view that increased Department oversight of contractor-held property is not only necessary, but will also accomplish positive results.

## RECOMMENDATIONS

On the basis of bureau responses to the draft report, OIG considers all six recommendations resolved and will consider closing them upon receipt of evidence that all necessary corrective actions have been implemented.

**Recommendation 1:** OIG recommends that the Bureau of Administration develop and implement policies and procedures to achieve compliance with Federal Acquisition Regulation requirements for reviewing a contractor's property control system, including but not limited to:

- obtaining the review and approval of the property control system performed by the agency responsible for contract administration at the contractor's plant or installation;
- reviewing the contractor's property control system to ensure compliance with the government property clauses of the contract; and
- addressing areas of noncompliance or other issues identified during the review of the system.

**Recommendation 2:** OIG recommends that the Bureau of Administration, in conjunction with the Bureaus of International Narcotics and Law Enforcement Affairs and Political-Military Affairs, take the following actions to address the \$2.9 million in unallowable costs identified in this report:

- reconcile contract requirements to the property acquired and invoiced by the contractors for which they were reimbursed and determine whether property in excess of amounts specified in the contract or task order was required to accomplish contract objectives;
- document the reconciliation and determination, use them as the basis for approving the costs of any excess property deemed allowable, and issue a modification to the task order indicating the approval; and
- resolve any unallowable costs associated with property that was determined to be unnecessary to the accomplishment of contract objectives.



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**Recommendation 3:** OIG recommends that the Bureau of Administration, in conjunction with the Bureaus of International Narcotics and Law Enforcement Affairs and Political-Military Affairs, take the following actions to address the \$25.5 million in unsupported costs identified in this report:

- reconcile the property acquired and invoiced by the contractors for which they were reimbursed to the contractors' property lists by obtaining and reviewing contractor documentation detailing the types and quantities of property acquired;
- determine whether the property was needed and consistent with contract requirements; and
- resolve any unsupported allowable costs associated with property that could not be supported with adequate documentation or was determined to be unnecessary to the accomplishment of contract objectives.

**Recommendation 4:** OIG recommends that the Bureau of Administration develop and implement a process for:

- reviewing the capitalized asset reports submitted by contractors to verify that reports are received for all contracts with contractor-held property; and
- reconciling, at least annually, the capitalized asset reports submitted by contractors to the contractors' property lists to verify that the capitalized asset reports are complete and accurate.

**Recommendation 5:** OIG recommends that the Bureau of Administration evaluate its current structure for monitoring government property held by contractors, assess the benefits of creating a property administrator function, and use this evaluation to clearly define the authority and responsibility for property oversight for each member of its contract administration team.

**Recommendation 6:** OIG recommends that the Bureau of Administration develop and implement policies and procedures for monitoring government property held by contractors, including but not limited to periodically:

- reviewing property lists maintained by contractors to verify that they contain the basic information required by the Federal Acquisition Regulation;
- reconciling property on the vouchers submitted by contractors to the contract documentation to verify that property acquired was authorized; and
- reconciling property on the vouchers submitted by contractors to the contractors' property lists to verify that property acquired was accurately recorded.

## ABBREVIATIONS

A	Bureau of Administration
PIB	Procurement Information Bulletin
CO	Contracting officer
COR	Contracting officer's representative
DCMA	Defense Contract Management Agency
DS	Bureau of Diplomatic Security
FAH	Foreign Affairs Handbook
FAM	Foreign Affairs Manual
FAR	Federal Acquisition Regulation
INL	Bureau of International Narcotics and Law Enforcement Affairs
IT	Information technology
OIG	Office of Inspector General
PIB	Procurement Information Bulletin
PM	Bureau of Political-Military Affairs
PM/WRA	Office of Weapons Removal and Abatement
RM	Bureau of Resource Management
SCA	Bureau of South and Central Asian Affairs
WPPS	Worldwide Personal Protective Services
WRAP	Weapons Removal and Abatement Program

**UNCLASSIFIED**

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APPENDIX A

**Questioned Costs for the Afghan Property Contracts**

**Table 8: Unallowable Costs**

<b>Task Order</b>	<b>Voucher</b>	<b>Date</b>	<b>Item</b>	<b>Quantity</b>	<b>Amount</b>
<b>Civilian Police Contract Number S-LMAQM-04-C-0030</b>					
1076	1	7/24/04	Ford F-250 Trucks	20	\$1,111,000
			Ford Excursions	4	255,200
			John Deere Gators	8	104,388
			Yamaha Motorcycles	6	25,002
	7	12/21/04	Ford Excursions	Not indicated	1,344,000
			John Deere Gators	Not indicated	64,000
					<b>\$2,903,590</b>
<b>WRAP Contract Number S-AQMPD-05-D-1108</b>					
4175	3	1/11/06	Bushmaster M-4 Carbine	Not indicated	\$14,144
	4	2/13/06	EO Tech Telescopic Sight	Not indicated	5,831
			Beretta M9 Pistol	Not indicated	10,370

**Total Unallowable Costs                      \$2,933,935**

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**Table 9: Unsupported Costs**

<b>Task Order</b>	<b>Voucher</b>	<b>Date</b>	<b>Item</b>	<b>Amount</b>
<b>Civilian Police Contract Number S-LMAQM-04-C-0030</b>				
1076	57R	4/18/06	Ford F-250 Trucks	\$221,536
	38	12/20/05	Vehicles	778,004
	39R	2/15/06	Vehicles	288,930
	58	2/16/06	Vehicles	144,465
	64	3/28/06	Vehicles	518,669
	66	3/28/06	Vehicles	48,155
4305	1	10/5/05	Armored Vehicles	\$5,031,733
	8	12/20/05	Armored Vehicles	1,171,606
	9	1/4/06	Armored Vehicles	147,995
	12	2/2/06	Armored Vehicles	850,959
	15	-	Armored Vehicles	530,309
	19	4/7/06	Armored Vehicles	9,308,579
			Ammunition and Weapons	346,645
	21	4/28/06	Armored Vehicles	1,591,713
	29	6/12/06	Armored Vehicles	1,744,737
	32	7/3/06	Armored Vehicles	149,223
			Ammunition and Weapons	713,614
	35	8/3/06	Armored Vehicles	1,658,781
	39	9/21/06	Armored Vehicles	186,719
			Ammunition and Weapons	31,119
				<b>\$23,463,732</b>
<b>WRAP Contract Number S-AQMPD-05-D-1108</b>				
4175	2	12/14/05	Dell Laptop Computer	\$11,783
	4	2/13/06	GPS	2,299

**Total Unsupported Costs      \$25,477,573**

## APPENDIX B

### SAMPLING METHODOLOGY AND RESULTS

OIG's sampling objective was to determine whether the property lists maintained for the three contracts were accurate. OIG tested the lists to verify that the items existed and for completeness; that is, to check for missing items.

#### Existence Test

To determine whether the contractors could account for the items in their property lists, OIG randomly selected items from the lists and physically verified their existence. The sampling methodology and results for this test are described below.

#### Population

OIG used the following property records from which to sample the target population (i.e., the population intended to be covered).

**Civilian Police Property Lists.** DynCorp maintained three separate property lists: one for the police program, one for the poppy elimination program, and one for the poppy eradication force. OIG combined these property lists and selected one sample for all property under the Civilian Police contract. The combined list contained 41,633 property items, of which 11 percent did not have costs. The costs provided totaled about \$61 million as of October 24, 2006.

**WRAP Property List.** The original property list provided by DynCorp contained 2,797 items, as of September 30, 2006. None of the items on the list had costs. DynCorp later provided an updated list of 777 items, which included all vehicles, weapons, and other items of interest for this audit. However, 54 percent of the items in this list did not have costs.

**WPPS Property List.** The property list maintained by Blackwater included 7,149 items as of September 30, 2006, of which 91 percent did not have costs.

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Whenever possible, OIG grouped the items in each property list into like categories, primarily to ensure that items of special interest from each category were represented in OIG's sample. The four categories included:

1. Vehicles – all vehicles regardless of cost.
2. Items costing \$25,000 or more, excluding vehicles.
3. Weapons and weapon accessories.
4. Other – All items with a cost of \$5,000 to \$24,999 that were not included in the three categories were placed in the “other” category. In addition, certain items under \$5,000 that had serial numbers were placed in this category, including:
  - a. sensitive or controlled items, such as protective vests;
  - b. certain IT components, such as desktops, laptops, satellite modems, and wireless routers; and
  - c. certain communications equipment, such as radios, cell phones, and satellite phones.

The team excluded from the sample populations all items with a cost of less than \$5,000, except those specifically included in the “other” category. Examples of excluded items include furnishings, kitchen equipment, entertainment equipment, and IT and communications equipment, such as cables, junction boxes, antennas, switches, carrying cases, printers, monitors, and speakers. In addition, the team excluded some items that would otherwise have been included in one of the four categories because the items did not have unique serial numbers. The total of these excluded items is shown in Table 10 as Exclusion I.

Upon arrival at post, the team learned that it would be precluded from visiting certain Civilian Police and WRAP locations outside Kabul. Therefore, OIG excluded all items of property at the locations it could not visit. These exclusions are referred to in Table 10 as Exclusion II. The second exclusion was not applicable to WPPS because all of its property was located in Kabul. The sampled populations for Civilian Police, WRAP, and WPPS property are shown in Table 10.

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**Table 10: Identification of the Sampled Population**

Category	Civilian Police		WRAP		WPPS	
	Universe	% of Total Items	Universe	% of Total Items	Universe	% of Total Items
<b>Original Population</b>	41,633	100	2,797	100	7,149	100
<b>Exclusion I</b>	34,382	83	2,020	72	6,513	91
<b>Revised Population</b>	7,251	17	777	28	636	9
<b>Exclusion II</b>	837	2	553	20	N/A	N/A
<b>Sampled Population</b>	6,414	15	224	8	636	9

N/A = Not applicable because all WPPS property was located in Kabul.

Source: OIG data from the information in the contractors' property lists.

Although the sampled population included a small percentage of the total number of items, it included the majority of the total costs, when costs were provided on the property lists. For example, the Civilian Police sampled population was only 15 percent of the total population; however, it represented 75 percent of the total costs. Although the majority of items in the WRAP and WPPS universes lacked cost data, as the data were missing for nearly all of the high-priced items such as vehicles and generators, OIG believes that the sampled population would represent a similar percentage of the total costs as those in the Civilian Police population.

### Sample Selection

OIG's sampling plan called for selecting 30 items from each category, for a total of 120 items for each contract. Because of various deficiencies with the property lists, such as missing items, duplicate items, incorrect serial numbers, and missing costs, OIG was not able to strictly adhere to the originally planned statistical sampling design; that is, stratified random sampling. Moreover, neither the WRAP nor the WPPS property lists contained any items with unit costs of \$25,000 or more, other than vehicles, and the lists did not provide costs for a majority of the items. This precluded OIG from sampling and testing a larger percentage of high-dollar items for those inventories and impaired the integrity of OIG's categories, thereby rendering them unsuitable for use as strata.

OIG selected 30 items from each category from the Civilian Police property list. For WRAP and WPPS, OIG selected all vehicles and increased the number of items selected in the other two categories so that the total selected equaled 120. Table 11 provides the details of OIG's sampling plan.



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**Table 11: Details of Existence Test Sampling**

Category	Civilian Police		WRAP		WPPS	
	Universe	Sample Size	Universe	Sample Size	Universe	Sample Size
Vehicles	405	30	9	9	37	37
\$25,000+	53	30	N/A	N/A	N/A	N/A
Weapons	2,305	30	66	56	389	42
Other	3,651	30	149	55	210	41
<b>Total</b>	<b>6,414</b>	<b>120</b>	<b>224</b>	<b>120</b>	<b>636</b>	<b>120</b>

N/A = Not available because no items with unit costs had a unit cost of \$25,000 or more, and many items did not have unit costs at all.

Source: OIG data from the information in the contractors' property lists.

## Sample Results

OIG physically verified selected Civilian Police property at all Civilian Police locations in Kabul and three locations outside Kabul: the Regional Training Centers in Herat, Gardez, and Jalalabad. For WRAP, OIG verified selected property at Kabul locations and at one field location: Jabul Seraj. All WPPS property was at one location in Kabul.

For some property items, the audit team accepted alternate evidence of an item's existence, such as a picture of the item and serial number or a signed hand receipt, when:

- the item had been moved, after the date of the property list provided to OIG, to a location the team could not visit; or
- the item had been signed out to someone in the field where the team could not visit.

Of the 120 items selected for verification under each program, OIG verified the existence of 115 (96 percent) for the Civilian Police contract, 115 (96 percent) for the WRAP contract, and 119 (99 percent) for the WPPS contract. Table 12 shows the items on the property lists OIG could not verify.

**Table 12: Details of Items Not Verified**

<b>Contract</b>	<b>Missing Item Type</b>	<b>Quantity Missing</b>
<b>Civilian Police</b>	Generator	2
	Milvan	1
	Cell Phone	1
	Body Armor	1
	<b>Total</b>	<b>5</b>
<b>WRAP</b>	Generator	1
	Weapon Sights	2
	Machine Gun	1
	Cell Phone	1
	<b>Total</b>	<b>5</b>
<b>WPPS</b>	Radio	1

Source: OIG data from the results of its existence test.

## COMPLETENESS TEST

To determine whether all government property was recorded on the contractors' property lists, OIG tested them for completeness.

### Sample Selection

The team sampled items being used or stored at the locations OIG visited and then attempted to locate the property on the property lists. The nature of such tests usually precludes the identification of a universe from which to sample. Consequently, the team judgmentally sampled items to confirm whether they were appropriately and accurately recorded on the property lists. Because the number of locations visited and the amount of time available at these locations varied for each program, the size of the universe sampled for each contract varied significantly.

### Sample Results

The team judgmentally selected items at the same locations it visited to perform the existence test. In addition, although the team originally was not cleared to travel to one Civilian Police location outside Kabul and had excluded items in that location from its sample universe for the existence test, INL staff subsequently arranged the trip. Therefore, the team selected items in that location to test for completeness.

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The team recorded the item description, serial number, and other identifying information for the items it selected and attempted to confirm that the items were recorded on the property lists. Of the items selected, OIG did not find 12 percent of the Civilian Police items selected and 13 percent of the WRAP items selected. Details of the sampling plan and the results are provided in Tables 13 and 14.

**Table 13: Details of Completeness Test Sampling Plan**

<b>Contract</b>	<b>Quantity Sampled</b>	<b>Missing From Property Lists</b>	<b>Percent of Missing Items</b>
<b>Civilian Police</b>	146	17	12
<b>WRAP</b>	38	5	13
<b>WPPS</b>	46	0	0

Source: OIG data from the results of its completeness tests.

**Table 14: Details of Items Not Recorded on Property Lists**

<b>Contract</b>	<b>Missing Item Type</b>	<b>Quantity Missing</b>
<b>Civilian Police</b>	Vehicle	2
	Weapon	1
	Computer	3
	Generator	3
	Radio	5
	Phone	2
	Night Vision Scope	1
	<b>Total</b>	<b>17</b>
<b>WRAP</b>	Vehicle	2
	Weapon Sight	1
	GPS	1
	Radio	1
	<b>Total</b>	<b>5</b>

Source: OIG data from the results of its completeness tests.

## APPENDIX C



United States Department of State

Washington, D.C. 20520

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MEMORANDUM

JUL 12 2007

TO: OIG – Howard J. Krongard

FROM: A/LM/AQM  Cathy Read

SUBJECT: DRAFT AUDIT REPORT – Accounting for Government-Owned Personal Property Held by Selected Contractors in Afghanistan

The Bureau of Administration, Office of Logistics Management, Office of Acquisitions (AQM) concurs with the recommendations provided in subject draft report. AQM looks forward to closely coordinating with PM and INL to successfully implement Recommendations 2 and 3. AQM anticipates that PM, INL and the contractors will be able to reconcile, document, report and control all of the equipment that has been purchased under the auspices of the contract and AQM will work with PM, INL and the contractors to provide continued contract guidance and support and to amend contracts as required to close the Recommendations.

AQM refers to the Office of the Procurement Executive-issued Procurement Information Bulletin on Contractor-Held Government Property (PIB 2007-21), which states that Property Administrators are responsible for managing all government furnished property and contractor-acquired property under contracts, in noting that the implementation of FAR and Department requirements as well as the OIG recommendations will most likely require additional staff resources on the part of contracting officer representatives.

Cc: A/EX:JMcGuire

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APPENDIX D




United States Department of State

Washington, D.C. 20520

July 16, 2007

**UNCLASSIFIED**  
**MEMORANDUM**

TO: OIG – Howard J. Krongard

FROM: INL – Thomas A. Schweich, Acting 

SUBJECT: INL Comments on the Draft Audit Report on *Accounting for Government-Owned Personal Property Held by Selected Contractors in Afghanistan* (AUD-PP-07-XX, May 2007)

The purpose of this memorandum is to comment on the subject draft report of June 1, 2007, and to address the report's recommendations. INL appreciates the opportunity to respond to the draft report and offer initial responses to Recommendations 2 and 3.

The report concludes that procurement practices and accountability for contractor held property in Afghanistan generally needs strengthening. In summary, OIG identified a number of findings, including incomplete and erred property lists or data, the approval of questionable acquisitions, inadequate support for purchases, lack of clearly assigned oversight responsibilities and inadequate internal controls. OIG further concluded that these conditions led to understated capitalized assets for these contracts. INL appreciates credit given for the Bureau's asset verification efforts, which led DynCorp International to address certain asset management issues.

Ultimately, however, OIG questioned costs associated with INL contractor held property in Afghanistan amounting to just over \$28.3 million. It should be noted that in addition to the *INL Asset Verification, Part 3: Afghanistan CIVPOL Mission* (February 2006) effort cited in the draft report, INL recently implemented several other efforts to systemically fortify our contracting oversight in the region, including improved internal controls and new invoice reconciliation procedures that are identifying and resulting in reimbursements from contractors. Over the past six months, these INL efforts have resulted in \$45 million in rejected invoices due to contractor billing errors and \$4.8 million in INL demands for contractor refunds due to improper payments. See Appendix A for a list of INL initiated efforts to improve contractor oversight. Appendix B contains a technical correction to the draft report.

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**Recommendation 2:**

OIG recommends that the Bureau of Administration, in conjunction with the Bureaus of International Narcotics and Law Enforcement Affairs and Political-Military Affairs, take the following actions to address the \$2.9 million in unallowable costs identified in this report:

- reconcile contract requirements to the property acquired and invoiced by the contractors for which they were reimbursed and determine whether property in excess of amounts specified in the contract or task order was required to accomplish contract objectives;
- document the reconciliation and determination and use it as the basis for approving the costs of any excess property deemed allowable and issue a modification to the task order indicating the approval; and
- resolve any unallowable costs associated with property that was determined to be unnecessary to the accomplishment of contract objectives.

**INL Response:**

INL generally agrees. Last year, INL self-initiated procedures to reconcile all invoices in the region as well as required more detailed invoices, which have allowed the Bureau to identify and reject significant amounts of unallowable costs. Systematically, INL is now thoroughly reviewing invoices and rejecting them when contractor billing errors are found. Subsequently, contractors are notified to reimburse INL.

To date, INL has demanded \$4.8 million in contract refunds from DynCorp due to improper payments and INL is demanding that unnecessary purchases be returned for refunds. Due to INL's intense invoicing scrutiny, DynCorp is now voluntarily identifying and returning refunds by conducting pre-audits of its own vouchers. Such voluntary refunds are anticipated to amount to over \$1 million.

Moreover, in-country Contracting Officer's Representatives (I-CORs) in Afghanistan are making significant progress in accounting for government owned equipment by providing close oversight of contract operations and validating invoices. It should be noted that INL contractor operations in Afghanistan are subject to validation by the two I-CORs at post, who soon will be joined by two other I-CORs, and the INL/RM/AIJS domestic COR and his Office.

**Recommendation 3:**

OIG recommends that the Bureau of Administration, in conjunction with the Bureaus of International Narcotics and Law Enforcement Affairs and Political-

Military Affairs, take the following actions to address the \$25.5 million in unsupported costs identified in this report:

- reconcile the property acquired and invoiced by the contractors for which they were reimbursed to the contractors' property lists by obtaining and reviewing contractor documentation detailing the types and quantities of property acquired;
- determine whether the property was needed and consistent with contract requirements; and
- resolve any unsupported allowable costs associated with property that could not be supported with adequate documentation or was determined to be unnecessary to the accomplishment of contract objectives.

**INL Response:**

INL generally agrees and notes that new invoicing reconciliation procedures have required careful scrutiny of supporting documentation for invoices. As a result, INL also is systematically identifying unsupported contracting costs. In Iraq alone, INL has rejected \$45 million in DynCorp invoices based on inadequately supported invoices. In total, INL has rejected nearly \$72.5 million in invoices. As staffing allows, INL will expand post-focused verification procedures in Afghanistan currently carried out by I-CORs.

If you have any additional questions or concerns, please contact Patricia Yorkman of my staff at (202) 776-8806.



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### Appendix A

#### RECENT INL-INITIATED CONTRACTOR OVERSIGHT IMPROVEMENTS

- Two in-country Contracting Officer's Representatives' (I-CORs) at post in Afghanistan conduct reviews and routinely verify contractor provided lists of government owned property. As mentioned previously, two more I-CORs will join the team soon. Further efforts in the region, including Iraq, involve I-CORs verifying a detailed 36,000-item list prioritized by top dollars. They have made considerable progress verifying items in the camps, the vehicles, and the weapons.
- Specifically, in Afghanistan, I-CORs are inspecting and preparing for acceptance and close out the constructed Regional Training Centers (RTCs). I-CORs also are examining initial DynCorp procurement lists. Subsequently, I-CORs have directed DynCorp to strengthen the quality of property books.
- INL has demanded improved accountability for all contracts, including those with DynCorp, as part of the Bureau's new invoice reconciliation process. Despite INL/RM/AIJS' small staff compared to the large contracting dollars, enforcement of invoice documentation requirements is resulting in higher invoice rejection rates. INL is also recovering funds paid to contractors following invoice reconciliations.
- INL recently hired three civil engineers (two more have been selected) to locally verify the implementation of INL construction projects in the region and to enforce US quality standards. INL also is bringing on board a logistics specialist to improve overall business processes, logistical management, conduct cost-benefit analyses, and to assist with reviews of contract performance.
- INL is in the process of recruiting another industrial property management specialist to help draft specific property management requirements for INL contracts and task orders as well as to ensure that government property in contractors' custody is managed in accordance with contract and Federal Acquisition Regulations requirements. The Bureau expects the added position to significantly improve both our contract specifications and contract management in this critical area.
- INL has also requested DCAA assistance for improving the Bureau's contract oversight. Presently, DCAA is auditing an INL contract with DynCorp concerning accounting records and billing procedures for labor hours and camp mobilization fees.

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Appendix B

TECHNICAL CORRECTION

- The draft report appears to contradict itself on pages 12 and 13 regarding the responsibility for approving DynCorp's property management system. The report correctly acknowledges in a footnote that the FAR places responsibility for approving DynCorp's property management system with the Defense Contract Management Agency (DCMA). However, the report goes on to say that "Further, the COs for the Civilian Police and WRAP contracts had not, as required by the FAR, reviewed DynCorp's property control system." INL understands CO to mean Contracting Officers, therefore, the latter statement citing the FAR is incorrect. The citation in the footnote is correct.

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APPENDIX E



**United States Department of State**

*Washington, D.C. 20520*

July 13, 2007

**MEMORANDUM**  
**UNCLASSIFIED**

TO:           OIG - Howard J. Krongard

FROM:        PM - Richard G. Kidd IV, Acting Deputy Assistant Secretary

SUBJECT:     Draft Report on *Accounting for Government-Owned Personal Property Held by Selected Contractors in Afghanistan (AUD/PP-07-xx)*

Attached are PM's written comments on the subject draft report. These comments were prepared by the Resource Management Team of the Office of Weapons Removal and Abatement. Our responses apply only to the Principal Findings of the report as they related to State Department Contracts S-AQM-PD-05-D-1108 and S-AQM-PD-05-F-4175. PM responds (as required) only to Recommendations 2 and 3.

Written Comments on the Draft Report:

Clarification on the size of the PM/WRA relationship with DynCorp International, LLC. in Afghanistan: The Department (PM/WRA) entered into a multiple-award Indefinite Delivery Indefinite Quantity (IDIQ) contract with DynCorp on May 3, 2005 (S-AQM-PD-05-D-1108). The purpose of that contract was for PM/WRA to acquire "Weapons Removal and Abatement Services" on a global scale. The maximum for this IDIQ (including options) is for a five-year period, not to exceed \$499,800,000. Only a small portion of that relationship exists between DynCorp and the Department in Afghanistan as it relates to PM/WRA. Task Order 05-003 (Contract No. S-AQM-PD-05-F-4175 under Contract No. S-AQM-PD-05-D-1108) calculates a total relationship with DynCorp at \$15,353,373.94 (it was \$13,199,739.94 at the time of the initial OIG report – hence the \$13,200,000 in Column 4 of Table 1 on p. 3). This is the total value

of the Contract as examined by OIG in this report. The OIG chart (Table 1, p. 3) lists the value of the contract reviewed by the OIG as \$499,800,000 – this is true only in the strictest sense – the OIG did not review/sample and provide recommendations on the entire amount of \$500 million. In actuality, OIG only reviewed a portion of that, approximately \$13.2M, which was the smallest of the contracts reviewed by the OIG in this report.

Response to Recommendations 2 and 3:

PM concurs.

Information on Actions Taken/Planned for Recommendations 2 and 3:

Recommendation 2: Unallowable Costs. PM/WRA will:

- Reconcile the contract requirements (for Contract No. S-AQMPD-05-D-1108) with the property acquired by DynCorp not specified in that contract (\$30,345.00 of weapons and weapons accessories).
- Determine whether that property was required to accomplish that contract and whether the costs are allowable.
- Document the reconciliation/determination and use that as a basis for approving those costs if they are found allowable.
- Work with A/LM/AQM/IP to issue a modification to the Task Order if the costs are approved.
- Resolve any issues related to costs ultimately found to be unallowable.

Recommendation 3: Unsupported costs. PM/WRA will:

- Reconcile the property acquired and invoiced by the DynCorp for which they were reimbursed (\$14,082.00 of laptop computers and GPS systems) to the DynCorp property lists.
- Determine whether the property was consistent with the contract requirements.
- Resolve any issues related to unsupported allowable costs and to any unsupported unallowable costs.

Please feel free to contact Tim Groen, Chief of the Resource Management Team, in PM/WRA if you have any questions at 202-663-0107. Thank you for your consideration.

## APPENDIX F



United States Department of State

*Assistant Secretary of State  
for Diplomatic Security*

*Washington, D.C. 20520*

August 7, 2007

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**INFORMATION MEMO FOR HOWARD J. KRONGARD – OIG**

FROM: DS – Richard J. Griffin 

SUBJECT: Comments on Draft Report on Accounting for Government-Owned  
Personal Property Held by Selected Contractors in Afghanistan  
(AUD/PP-070XX)

Attached are the comments of Diplomatic Security relating to the subject  
report.

Attachment:

Comments on the Draft Report

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1. The Bureau of Diplomatic Security would like to highlight the positive findings of the Inspector General especially the fact that 99 percent of the property selected from the WPPS property list was verified by the OIG. In addition, 96 percent of the items selected from the Civilian Police and WRAP property lists were also verified by the OIG.

2. The following recommendations are a synopsis for insertion into the draft audit report PP-07-XX entitled "Accounting for Government-Owned Personal Property Held by Selected Contractors in Afghanistan":

### Page 3, Recommendation:

- 3<sup>rd</sup> Bullet: Replace "periodically" with "Annually."
- 5<sup>th</sup> Bullet: Insert after "monitoring," "and annually reconciling".
- Add 6<sup>th</sup> Bullet: "Require ISO 2000: 9001 and Sarbanes Oxley 404 Certification within two (2) years of contract award (CA)."
- Add 7<sup>th</sup> Bullet: "Upon completion of the annual reconciliation of all Government Furnished Property (GFP), the Contractor shall provide the COR and/or the Property Administrator a summary report addressing all discrepancies, actions taken to locate missing property, and corrective actions to preclude future losses of GFP."

### Page 13, Recommendation 1:

- Add 4<sup>th</sup> Bullet: "Perform annual reconciliation to ensure accountability, accuracy of government property inventory information and reporting status."

### Page 17, Recommendation 2:

- Add 4<sup>th</sup> Line: Insert "Government follow-up in 90-120 calendar days to ensure actions with contractors are meeting identified program objectives."

### Page 17, Recommendation 3:

- Add 4<sup>th</sup> Bullet: "Government follow-up in 90-120 calendar days to ensure actions with contractors are meeting identified program objectives."

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**Page 20, Recommendation 4:**

2<sup>nd</sup> Bullet: Replace “periodically” with “annual.”

**Page 23: Recommendation 6:**

1<sup>st</sup> Bullet: Replace “reviewing”, with “reconcile” and; Insert annually after the word “lists.”

Add 4<sup>th</sup> Bullet: “Require ISO 9000: 2001 and Sarbanes Oxley 404 Quality Management System Certification within two (2) years of contract award (CA).”

3. Until the recommendations contained in this report are implemented and written guidance is provided by the Contracting Officers to our Contracting Officer’s Representatives (CORs) for worldwide personal protective services (WPPS) contracts as well as the Embassy Security Force (ESF) contracts for Baghdad and Kabul, the Office of Overseas Protective Operations (DS/IP/OPO) will take the following actions:

- Request a meeting within the next 10 calendar days with Contracting Officers to discuss concerns/recommendations noted in IG report.
- Request a copy of capitalized asset report submitted by both WPPS and ESF contractors and reconcile this listing against the GFP listed in contract and/or Task Orders.
- Advise the Contracting Officers of the results of this reconciliation action and request guidance as appropriate.
- Start updating the GFP listing for each of the WPPS and ESF contracts to include acquisition costs.

4. If you have any questions, please contact Mr. Douglas J. Brown, DS/IP/OPO/OSD, at (571) 345-2386.



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APPENDIX G



**United States Department of State**

*Assistant Secretary of State for  
South and Central Asian Affairs*

*Washington, D.C. 20520-6258*

June 21, 2007

Howard J. Krongard  
Inspector General  
Office of Inspector General  
2121 Virginia Avenue NW - Room 8100  
Washington, DC 20250

Dear Inspector General:

I appreciate the opportunity to review the Draft Audit Report on "Accounting for Government-owned Personal Property Held by Selected Contractors in Afghanistan." The draft audit report appears to be a thorough review of the DynCorp International, LLC, Blackwater USA, and Worldwide Personal Protective Services contracts.

I support the need for strong internal controls and good contract administration. All the recommendations in your report are applicable to most contracts managed by our overseas posts and by our domestic offices. I think that all contracting officers and their representatives would benefit from reinforcing standardized inventory and reconciliation practices in their training courses and internal controls surveys.

Please let me know if there is anything additional we can do to assist with this and other audits.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard A. Boucher", written over a light blue horizontal line.

Richard A. Boucher

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