

The seal of the Office of the Special Inspector General for Iraq Reconstruction is a large, circular emblem in the background. It features an eagle with wings spread, perched on a shield with vertical stripes. The eagle is surrounded by a wreath. The text "INSPECTOR GENERAL" is written in English and Arabic along the top arc, and "RECONSTRUCTION" is written along the bottom arc. The central text of the seal is "مفتش العام" (Inspector General) in Arabic and "OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION" in English.

REVIEW OF THE USE OF
CONTRACTORS IN MANAGING IRAQ
RELIEF AND RECONSTRUCTION
PROJECTS

SIGIR-08-003
OCTOBER 29, 2007



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

October 29, 2007

MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ
DIRECTOR, IRAQ TRANSITION ASSISTANCE OFFICE
COMMANDING GENERAL, MULTI-NATIONAL FORCE-IRAQ
COMMANDING GENERAL, GULF REGION DIVISION, U.S. ARMY
CORPS OF ENGINEERS
COMMANDING GENERAL, JOINT CONTRACTING COMMAND-
IRAQ/AFGHANISTAN
COMMANDER, DEFENSE CONTRACT MANAGEMENT
AGENCY

SUBJECT: Review of the Use of Contractors in Managing Iraq Relief and Reconstruction
Projects (SIGIR-08-003) (Project 7013)

We are providing this audit report for your information and use. We performed the audit in accordance with our statutory duties under Public Law 108-106, as amended. The law requires that we produce independent and objective audits of—as well as leadership, coordination, and recommendations on—policies designed to promote economy, efficiency, and effectiveness in the administration of programs and operations and to prevent and detect waste, fraud, and abuse.

We received comments from the U.S. Army Corps of Engineers Gulf Region Division on a draft of this report, which were considered when preparing the final report. The comments are addressed in this report, where applicable, and are discussed in the Management Comments section of the report.

SIGIR appreciates the courtesies extended to our staff. For additional information on this report, please contact Frank Slayton (frank.slayton@iraq.centcom.mil / 703-343-7924); or me at (glenn.furbish@sigir.mil / 703-428-1058). For the report distribution, see *Appendix C*.

Stuart W. Bowen, Jr.
Inspector General

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Review of the Use of Contractors in Managing Iraq Relief and Reconstruction Projects

SIGIR-08-003

October 29, 2007

Executive Summary

In formulating the Iraq reconstruction program, the Coalition Provisional Authority (CPA) examined several options for program-management. One option considered was to have the U.S. Army Corps of Engineers (USACE) manage the entire program. However, USACE officials believed that the agency lacked the capacity in Iraq to oversee such a large program and could not rapidly assemble sufficient staff. Similarly, the CPA found that the U.S. Agency for International Development and the Iraqi ministries lacked the organizational capacity to manage a large, infrastructure-focused program. Seeking a solution, the CPA developed a concept paper that proposed forming a new program-management office that would rely on contractors for both the management and the execution of the reconstruction program; technical contractors would be used to design, plan, build, and complete projects and another group of contractors would provide program management. The CPA administrator accepted that proposal, and in August 2003, approved formation of the Program Management Office (PMO) to execute that plan.

To manage its projects, the PMO established six sector program-management offices (SPMOs) organized by work sector, such as electricity and public works/water. These offices were led by government employees. To provide program-management support services for these offices, however, the Pentagon Reconstruction Program, which served as the contracting office, awarded seven cost-plus-award-fee contracts—one for the PMO and each of the six sector offices. These contracts were awarded in March 2004. The contractors awarded these contracts were known as Sector Program Management Office Contractors (SPMOCs). Over the next few years, there were several changes in project management and contract administration.

In May 2004, National Security Presidential Directive 36 replaced the PMO as the program manager with a new program management office called the Project and Contracting Office (PCO). As a result, the SPMOs became the Sector Project and Contracting Offices (SPCOs), and the contractors who supported them became known as Sector Project and Contracting Office Contractors (SPCOC). In October 2006, USACE Gulf Region Division (GRD) replaced the PCO as the project manager. In this report, SIGIR refers to the government offices responsible for contract administration as the sector project and contracting offices (SPCOs), and the contractors as Sector Project and Contracting Office Contractors (SPCOCs), regardless of the timeframe.

The Iraq Transition Assistance Office (ITAO) is also involved in Iraq reconstruction projects and is responsible for coordinating and overseeing all non-security assistance for the Chief of Mission.¹

The overall objectives of this audit were to determine the roles and responsibilities assigned to the SPCOCs and the extent to which the U.S. government benefited from the services provided by the SPCOCs. Specifically, SIGIR's reporting objectives for this report were to (1) assess contractor performance in managing another contractor, and (2) review the effectiveness of the government in managing the contracts.

Results

As of June 7, 2007, the U.S. government had obligated approximately \$527.5 million for contracted program-management support services, and \$41.8 million in award-fees have been authorized. These support services covered thousands of projects. Because of weaknesses in the implementation of required contracting policies SIGIR was unable to conclusively assess how well the practice of using contractors to manage other contractors worked. Each contractor's performance was assessed and documented through an award-fee process. However, award-fee results offer only limited information on each contractor's performance and do not provide a sufficient basis to assess the practice of using contractors to manage contractors. A review of the award-fee scores alone, however, suggests that the SPCOs were very satisfied with the performance of four of the contractors and slightly less satisfied with one.

To gain further insight on the contractors' performance, SIGIR interviewed senior GRD officials who worked with the contractors, as well as senior ITAO officials who were knowledgeable about each sector's programs. These interviews provided more details on contractor performance, but the views expressed were decidedly mixed and inconclusive. GRD officials generally endorsed the contractors as effective and ITAO officials more often expressed dissatisfaction with them. For example, in the water sector, the GRD sector lead stated that the contractor performed high-quality work, although the ITAO senior consultant believed that the contractor sidestepped the role of "watchdog" and did not aggressively oversee the design-build contractor's processes.

SIGIR also identified other contract administration practices that were not being accomplished as required. These include inappropriate obligations of award fees, contract administration transfer, and information disclosure practices.

Further, SIGIR is continuing to examine possible issues related to conflicts of interest between any of the contractors involved in these seven contracts. To the extent appropriate SIGIR will report separately on these matters.

¹ By Executive Order No. 1343, dated May 9, 2007, the President created the Iraq Transition Assistance Office as the successor organization to the Iraq Reconstruction Management Office (IRMO).

Lessons Learned

Because work on these program-management support contracts has ended, or soon will, SIGIR makes no recommendations. However, SIGIR provides the following lessons learned:

- The award-fee process can be an effective tool for creating incentive for contractors to strive for superior results. Properly documenting contractor performance in accordance with award-fee criteria is essential to making appropriate award-fee judgments.
- The success of any contractual relationship depends heavily on the quality of the direction and oversight given the contractor by the government. When government oversight is lax, the risk of problems increases.
- A prerequisite for assessing the viability of any contract management approach, such as using contractors to provide management support, requires the effective implementation of existing contract administration practices and policies.

Management Comments and Audit Response

The U.S. Army Corps of Engineers Gulf Region Division provided technical comments on a draft of this report. Those comments have been incorporated in the report where appropriate. A senior JCC-I/A official also stated that JCC-I/A was addressing the award-fee issues discussed in the report.

Introduction

Background

In formulating the Iraq reconstruction program, the Coalition Provisional Authority (CPA) examined several options for program-management. One option was to have the U.S. Army Corps of Engineers (USACE) manage the entire program. However, USACE did not believe it had sufficient capacity in Iraq to exercise oversight of such a large enterprise and could not quickly secure enough staff to manage the massive program. USACE's primary expertise is construction management and execution, not the kind of planning, programming, and budgeting inherent in the reconstruction. According to USACE officials, the government did not possess the ability to manage such a large reconstruction program without additional contractor support. It could not have mobilized personnel with the specialties and expertise needed. The CPA also determined that neither the U.S. Agency for International Development nor the Iraqi ministries possessed the organizational capacity to manage a large, infrastructure-focused program.

Looking for a solution, CPA developed a concept paper that proposed formation of a new CPA program-management office that would rely on contractors for both management and execution of the reconstruction program; technical contractors would be used to design, plan, build, and complete projects and another group of contractors would provide program management. Contractors would be able to provide more continuity than government personnel because contractor personnel would turn over less frequently than government personnel. That concept was accepted and in August 2003, the CPA Administrator approved establishment of the Program Management Office (PMO) for that purpose.

To manage its projects, the PMO established six sector program-management offices (SPMOs) organized by work sector, such as electricity and public works/water. These offices were manned by government employees. To provide program-management support for these offices, however, the Pentagon Reconstruction Program, which served as the contracting office, awarded seven cost-plus-award-fee contracts for program management-support services—one for the PMO and each of the six sector offices. These contracts were awarded in March 2004. The contractors that were awarded these contracts were known as Sector Program Management Office Contractors (SPMOCs).

The program management offices supported by these contracts have changed over time. In May 2004, the PMO was replaced by the Project and Contracting Office (PCO), and in October 2006, the PCO was replaced by the Gulf Region Division (GRD). As the offices changed, the names of the program management offices changed too. The SPMOs became the Sector Project and Contracting Offices (SPCOs), and the contractors who supported them became known as Sector Project and Contracting Office Contractors (SPCOC). In this report, SIGIR refers to the sector program management offices as the SPCOs, and the the program management contractors as the SPCOCs, regardless of the timeframe.

According to the acquisition strategy plan, the contractors for both the PCOC and SPCOC program-management support contracts were to be capable of providing a range of services such

as program integration and coordination, requirements management, monitoring and reporting, acquisition, procurement, and logistics support, and quality assurance.

In March 2004, seven cost-plus-award-fee type contracts were awarded to provide program-management support services for Iraq Relief and Reconstruction Fund and Economic Support Fund projects. The seven contracts are shown in Table 1.

Table 1—Program Management Support Contracts

Contract Number	Services	Contractor
W914NS-04-C-0001	PCO Support	ATC Services, Inc.
W914NS-04-C-0002	Electrical Sector	Iraq Power Alliance Joint Venture (JV)
W914NS-04-C-0003	Public Works/Water Sector	CH2M Hill/Parsons Water Infrastructure JV
W914NS-04-C-0004	Security/Justice Sector	Berger/URS JV
W914NS-04-C-0005	Buildings/Health/Education Sector	Berger/URS JV
W914NS-04-C-0006	Communication/Transportation Sector	Berger/URS JV
W914NS-04-C-0007	Oil Sector	Foster Wheeler

Source: SIGIR analysis of GRD and JCC-I/A data

In March 2005, the three contracts awarded to Berger/URS Joint Venture were combined into one, W914NS-04-C-0004. All of the contracts shown in Table 1 were for a base year with two option years. Under a cost-plus-award-fee contract, all allowable costs are reimbursed, and contractors earn a base fee of 3 percent of budgeted cost of the project. Contractors also were eligible to earn an award-fee of 9 to 13 percent.

The Award-Fee Process is the Primary Tool to Evaluate Effectiveness

Contractor performance is evaluated through implementation of award-fee plans built into the contracts. The plans state that contractors will be evaluated based on a set of factors, such as program management, capacity development, contract acquisition strategies, technical management, and participation of small businesses, coalition partners, Iraqi companies, and Iraqi women-owned businesses. While there are some small differences in the award-fee plans for these seven contracts, the award-fee process is basically the same. Contractors begin each evaluation period with zero percent of the available award-fee and work up to the evaluated fee for each evaluation period. The award-fee pool is the total dollars that can be earned for each evaluation period. Award-fee determinations are based on subjective performance evaluations provided by an award-fee evaluation board (AFEB) and an Award-fee Determining Official (AFDO). Performance monitors provide continuous evaluation and assessment of each contractor’s daily performance. Performance monitors are prohibited from membership on the award-fee board.

Typically, membership on an AFEB includes the sector lead, the contracting officer, and other sector staff. The award-fee evaluation board is responsible for reviewing the performance monitors' evaluations, the contractor's self-evaluation, and any other information available in order to arrive at an overall objective and impartial position on the contractor's performance. The task is then to decide how well the contractor performed in each area using the metrics provided in the award-fee plan. Voting members individually score contractor performance in writing. These individual reports are then submitted to an assigned individual for consolidation into a single award-fee score. Finally, scores are converted into an award-fee amount.

The AFDO is independent of the AFEB, and makes the final decision on the amount of award-fee earned. The AFDO becomes involved only after the evaluation board has met and agreed on a recommended award-fee score. The determining official's decision must be documented and provided to the contractor within five days after the decision and simultaneous with the contract modification signed by the contracting officer to obligate the fee amount. The contractor can then immediately submit an invoice for the earned fee.

Feedback is provided to the contractor at periodic meetings (usually monthly) that identify negative performance trends and give the contractor an opportunity to take corrective action. Meetings should be attended by the contractor, performance monitors, and members of the AFEB. Informal evaluation reports that document the feedback provided should be prepared and then used when the evaluation board convenes for its formal evaluation.

Objectives

The overall objectives of this audit were to determine the roles and responsibilities assigned to the SPCOCs and the extent to which the U.S. government benefited from the services provided by the SPCOCs. Specifically, SIGIR's reporting objectives for this report were to (1) assess contractor performance in managing another contractor, and (2) review the effectiveness of the government in managing the contracts.

Award-fee Process Was Not Effectively Used to Assess Contractor Performance

There has been improvement in award-fee documentation for these contracts over the past few years. However, the existing documentation and award-fee results have too many weaknesses to be relied on to assess how well the process of using contractors for program management support services worked. Our current review found problems with (1) written monthly performance feedback to the contractors; (2) documentation of award-fee scoring by the award-fee board; and (3) award-fees that did not match with award-fee board ratings. The award-fee scores alone, however, indicate that the SPCOs were very satisfied with the performance of four of the contractors and slightly less satisfied with one.

Monthly Feedback Documentation Was Not Always Well Prepared

Written feedback to the contractor on its performance to include information on its strengths, areas needing improvement, and deficiencies is an important tool for documenting contractor performance. Further, it is required by all seven of these program-management contracts. However, while some sectors did a good job of evaluating performance a few sectors did a poor job of preparing the required documentation.

All of the award-fee plans for these contracts required monthly written feedback to the contractor except the award-fee plan in the electricity sector, which required quarterly feedback. Quarterly feedback is inconsistent with JCC-I/A award-fee board policy, which requires monthly meetings and informal monthly evaluation reports.

SIGIR's review found that the electric sector did not conduct monthly feedback meetings because, according to a senior electric sector official, monthly meetings were considered too cumbersome. Moreover, he stated that GRD provides verbal feedback to the contractor almost every day as well as a Saturday meeting at which issues are discussed. Regardless of this alternative requirement, however, we could only find documentation of semi-annual feedback to Iraq Power Alliance JV through the award-fee period ending March 9, 2007. The formal feedback provided by the electric sector was quite detailed, with comments and recommendations under each factor and sub-factor from individual performance monitors, but semi-annual feedback is not enough to assure effective monitoring of the contractor.

SIGIR also found little documentation of meaningful feedback to two of the other contractors; the oil sector contractor and the PMO contractor. The oil sector had little documentation supporting the ratings other than some Award-fee Determining Official (AFDO) letters. On one occasion, the text of the AFDO letter contradicted the score. For example, in one award-fee period the AFDO wrote that his evaluation "reflects less than excellent performance for the entire period." Nonetheless, the oil contractor was granted an award-fee in the "Outstanding" range. SIGIR did not find written monthly assessments of the performance of ATC Services, the PMO contractor.

Conversely, SIGIR found good documentation of written monthly feedback in the other two sectors. For example, the water sector had good documentation for 17 of the 20 months (85 percent) from July 2005 through March 2007. The documents contained detailed feedback for each rating factor and sub-factor in the award-fee plan. Similarly, the facilities and transportation sector had good documentation for 15 of the 24 months between March 2005 and March 2007.

The absence of formal written feedback to the contractor creates problems for the government. For example, during the first performance period the oil sector contractor was given a low score and no award-fee was recommended. The contractor protested, citing the government's failure to provide the prescribed monthly feedback. As a result, the AFEB raised the score for the period, and the contractor received about half of the potential award-fee. Even after this incident, SIGIR found little evidence that feedback was provided for subsequent periods.

Award-fee Score Sheets Were Incomplete

SIGIR found incomplete award-fee documentation. Given the lack of information SIGIR was unable to confirm the basis for the award-fee decisions reached by the AFEB in many cases.

SIGIR's review of the 45 cumulative award-fee boards held for the seven sectors before June 2007, found individual scoring sheets for only six of the 45 boards (13 percent). Consolidated score sheets were found for some boards, but these are not as useful as the individual scoring sheets for assessing contractor performance. The JCC-I/A award-fee board policy requires voting members to individually score contractor performance in writing, and these individual score sheets are then consolidated into a single weighted and rated recommendation for award-fee. The score sheets allow board members to assign a numeric value for each factor and sub-factor that is evaluated and would show how each award-fee board member assessed the contractors' performance in each rated performance award-fee period. The GRD sector leads who chaired the award-fee boards told us that members did prepare their own scoring sheets as prescribed by the award-fee plan but the board did not include the individual scoring sheets in the contract files.

For example, SIGIR reviewed the results of nine award-fee boards for the water sector. Seven boards gave the contractor scores in the "Outstanding" range, (between 91 and 100) and two boards gave the contractor scores in the "Excellent" range (between 81 and 90). As stated, SIGIR found very good documentation of monthly feedback from March 2005 to March 2007. However, SIGIR found only three consolidated score sheets that supported the recommendation and no individual scoring sheets. As a result, there is little information about the specific strengths of the contractor's performance. Similarly, in the electricity sector SIGIR found consolidated score sheets from five of six award-fee boards, but only a few individual score sheets from one board.

Inconsistencies with Award-fee Board Ratings

SIGIR's assessment of contractor performance was also impacted by award-fee decisions that seem contradictory to the document record. For example:

- On July 28, 2006, the AFEB for the water-sector contract recommended to the AFDO a score of 93.7 for the award-fee period ending July 9, 2006, resulting in a proposed award-fee of \$1,627,013. On July 31, the AFDO issued a decision stating that the award-fee percentage earned had been adjusted to 85.7 percent. The recalculated fee authorized was \$1,488,100. The document was signed by both the AFDO and the contracting officer. However, on September 19, 2006, the contract was modified to show a higher award-fee pool for the period and to authorize a revised award-fee of \$1,612,858, an increase of \$124,758. GRD financial data indicates that the higher amount was paid. There was no AFDO Decision Document in the contract records explaining why the award-fee was revised.
- The AFDO reduced the award-fee performance score for the electric sector contract for the period between September 9, 2005, and March 8, 2006. According to the AFDO determination letter the score was reduced because several members of the board were not present during the rating period. Accordingly, the award-fee was “reflective of the overall accomplishments of the Iraqi Power Authority versus the specific objectives established for the performance period.”
- The oil-sector contractor’s performance for the period from September 11, 2004 to March 10, 2005, was rated as “less than excellent” in written comments by the AFDO. However, the contractor was given a score of 93.51 percent, which is in the “Outstanding” range (91-100). There is no explanation in the contract record of why the contractor was given the higher award.

Award-fees Indicate Customer Satisfaction

The scores from the AFEBs show that GRD and PCO were very satisfied with the performance of four of the contractors and only slightly less satisfied with one. Four contractors received average evaluation scores ranging from 91.5 to 94.1 out of 100 (in the “Outstanding” range), while the fifth received a score of 71.4 (in the “Very Good” range). Table 2 shows the AFEB score range for the contracts.

Table 2—Award-fee Score Range for Program Support Contractors

Contractor	Period	AFEB Score Range
ATC Services	May. 2004 to Sep. 2006	88.0 to 95.0
Iraq Power Alliance Joint Venture	Mar. 2004 to Mar. 2007	86.4 to 98.7
CH2M Hill/Parsons Joint Venture	Mar. 2004 to Nov. 2006	84.0 to 98.0
Foster Wheeler	Mar. 2004 to Mar. 2007	90.0 to 95.0
Berger/URS Joint Venture ¹	Mar. 2004 to Jun. 2007	61.8 to 96.3

¹Includes contracts W914NS-04-C-0005 and W914NS-04-C-0006

Source: AFDO letters for the periods indicated.

Senior Officials Assessments of Contractor Performance Are Inconclusive

Our interviews with knowledgeable senior officials and reviews of available documentation provided further information on each contractor's performance. However, this information also does not provide a basis to assess how well the process of using contractors for contract management support services worked. For example, the officials' views varied on some contracts and in one case the official lacked detailed knowledge of the program management element of the contract.

Overall Program Management – ATC Services, Inc.

SIGIR did not find written assessments of the performance of ATC Services, Inc. which was awarded a one year, \$21.6 million contract (W914NS-04-C-0001) for program management and support services to the PMO. While the official with whom SIGIR spoke was generally satisfied with the company's performance, he admitted he lacked visibility over all activities thereby questioning the thoroughness of his assessment.

The original contract called for the contractor to provide support services to the PMO, including coordinating the activities of the SPCOCs and preparing reports for the CPA and the U.S. government. ATC Services was asked to perform tasks other than program management, however, and a new statement of work was issued through modification P00007 in January 2005. The new statement more sharply defined the contract requirements, including elements unrelated to reconstruction program management, such as life support and facilities management. In March 2005 the contract's first option year was executed and the scope of work was again modified to require ATC Services to define and implement a PCO change management plan. The plan was to include a synchronized reduction in support provided by PCO in the areas of program and project management, life support, and security and administration. At the same time, facilities operation and maintenance for the PCO became a more heavily weighted factor in the award-fee plan.

In March, 2006 the second option year on the contract was executed; however, in February a new life-support arrangement was made with another contractor, and the ATC Services contract ended in July of that year. The former AFEB chairman, expressed a positive opinion regarding ATC Service's performance. He noted the change to another contractor was made to achieve greater efficiencies following the absorption of PCO into GRD and was not related to performance by ATC Services. The former AFEB Chairman stated that ATC Services did a good job on the life-support and facilities management elements of the contract, including work relating to building improvements. However, he admitted that he was unfamiliar with the program management element of the contract.

Electricity-Sector – Iraq Power Alliance Joint Venture

The Iraq Power Alliance Joint Venture was the only contractor which received consistent and positive assessments in both written evaluations and oral assessments for its one year \$43.4

million contract to provide support services in the electricity sector. The information available therefore strongly suggests that the U.S. government in this case received value for its money spent.

Contract W914NS-04-C-0002 was awarded to the Iraq Power Alliance Joint Venture (IPA-JV), a joint venture comprising Parsons Energy and Chemicals Group and Parsons-Brinckerhoff, Ltd. The contract was to provide program-management support services in the electricity sector for one year at an estimated cost of \$43.4 million. The contract had two option years. Parsons Energy and Chemicals Group provides design, engineering, procurement, construction, and project management services in the oil and gas, refining, chemical and petrochemical, and power industries. Parsons-Brinckerhoff provides program management, engineering, and construction management services for infrastructure.

Written assessments and officials' opinions provide evidence of the success of IPA-JV. Overall, assessments and opinions point to a contractor that is committed to its job, adaptable to changing circumstances, has high quality staff and communicates well with U.S. and Iraqi organizations. For example,

- In May, 2006 the AFDO wrote, in part, "(t)he IPA-JV has continued to demonstrate that overall it is an outstanding organization committed to the rebuilding of Iraq through the quality construction and rehabilitation of Iraq's electric infrastructure. Above all, IPA-JV has been a tremendous steward of government resources. The firm fixed price contracting initiatives have resulted in cost savings in the millions of dollars to the U.S. government. IPA-JV emphasizes capacity development by constantly working with the Ministry of Electricity and ensuring their personnel are trained and ready to carry on the task of completing the rebuilding of their Nation's electric infrastructure."
- The AFEB evaluation of the "Scope, Tracking Funds, Planning and Scheduling" sub-factor for the six-month award-fee period ending in March 2005 stated "as the program has evolved under the pressures of funding constraints and sub-par performance of certain design/build contractors, IPA-JV immediately reconfigured and adapted to fill in the void and keep the entire Electricity reconstruction program on track, all within the very real constraints of time, headcount and budget."

Top officials were also uniform in their praise. A senior GRD official in the sector stated that IPA did a very good job, adapting to various and changing strategies that had been pursued in the sector. Noting that electricity is a technologically challenging field in which expertise is in high demand globally, he found it impressive that IPA-JV had built such a good team. He also praised the contractor's almost-daily meetings with GRD, ITAO representatives, and the Ministry of Electricity. ITAO representatives also endorsed IPA-JV's work. An ITAO official stated IPA-JV and ITAO worked very well together and the quality of work performed by the contractor was excellent. He also stated that all of the IPA-JV staff were very professional and had a lot of expertise in electricity.

Oil Sector – Foster Wheeler

U.S. officials' assessments of Foster Wheeler's performance varied significantly making it difficult to conclude how well the company achieved the goals set out in its \$8.4 million contract to provide program management services in the oil sector. GRD officials believe that the company performed in an outstanding manner. However, ITAO senior consultants criticized the contractor's performance.

Foster Wheeler, an engineering and construction company providing services and products to a broad range of industries and based in the United Kingdom, was awarded contract W914NS-04-C-0007 to provide program management and support services in the oil sector at an estimated cost of \$8.4 million. The contract had two option years.

The contractor suffered a rocky start due to its slowness in mobilizing because of concerns about security. In April 2004, the contracting officer issued a notice to Foster Wheeler demanding mobilization. A senior ITAO official stated that the contract was within two hours of being terminated. Foster Wheeler finally did mobilize and, as SIGIR stated earlier, even received an award-fee, after being denied one, in the first fee period. The ITAO official stated that Foster Wheeler did not mobilize enough people or have the right people for the job and created an excessive leave schedule that resulted in a need for many more personnel.

ITAO officials also criticized the sector's approach to reconstruction in the oil sector. The officials stated that contractors hired to refurbish the oil well sites would shut down the plants for extended periods of time to perform repairs and maintenance, which contravened the normal industry practice of setting up "work-arounds" to keep the plant running. As a result, the Iraqi government lost millions of dollars and had to purchase more oil outside of Iraq to meet demand. The officials criticized Foster Wheeler for not effectively monitoring the contractors' procedures, resulting in substantial schedule-slippage. That resulted in higher administrative costs in the design-build contracts, which were cost-plus award-fee contracts.

One requirement of the contract's scope of work was to coordinate and manage the development of individual Task Orders, ensuring that project-definition packages and cost proposals provided by the design/build contractors sufficiently defined scope in line with requirements. A senior ITAO consultant stated that Foster Wheeler lacked the background to develop task orders and the experience to manage them; the company, in his opinion, should have hired consultants who were technical experts in various specialties. A senior Foster Wheeler official responded that it worked closely with the U.S. government agencies until mid-2006, but when the new IRMO senior consultant arrived, communications broke down. Another Foster Wheeler representative stated that ITAO officials did not have visibility of the contract and that sometimes Foster Wheeler was obliged to operate beyond its area of expertise.

In contrast, on June 14, 2007 the outgoing GRD sector lead stated that he had full confidence in Foster Wheeler. He said that the oil sector ran a lean organization limiting the number of personnel and had the right people for the job. According to this source, the cost of Foster Wheeler management was approximately four percent of the total cost of the program, not including government provided life support, and that was good value.

All of the award-fee scores for Foster Wheeler through September, 2006, reached 90 or above, in the “Excellent” or “Outstanding” range. However, as SIGIR has noted there is scarce documentation supporting these ratings other than the AFDO letters, which cite strengths and areas for improvement.

Water Sector – CH2M Hill/Parsons Joint Venture

As with the oil sector, SIGIR found major disagreement between the ITAO senior consultant and the GRD and JCC-I/A officials in the sector regarding CH2M Hill/Parsons Joint Venture’s performance. The contract was for program management-support services in the water sector for one year at an estimated cost of \$28.5 million. GRD and JCC-I/A personnel stated that the contractor did a good job. But the ITAO consultant stated that the CH2M Hill/Parsons Joint Venture did not effectively monitor the design-build contractors.

Contract W914NS-04-C-0003 was awarded to a joint venture comprising CH2M Hill, a water resources development firm, and Parsons Water Infrastructure Inc. A senior official of CH2M Hill/Parsons Joint Venture stated that CH2M Hill had program management background in water treatment, irrigation, water supply, and sewage, while Parsons’ expertise was in construction.

The GRD sector lead stated in June 2007 that CH2M Hill/Parsons Joint Venture was performing good-quality work. This opinion appears to be supported in monthly feedback documents which identified some successes in contract performance. For example, the reports concluded:

- “At the recently completed Erbil Water Treatment Plant, SPCOC personnel are on-site, providing effective coordination and start-up activities.” (Period ending June 9, 2006);
- “Uses a very effective document control system to insure that all submittals and assessments reviewed are done in a timely manner especially when comments are required.” (Period ending September 9, 2005);
- “Utilizes a combination of field personnel and home office subject matter experts to conduct design reviews saving time and money on the program and allowing field personnel to concentrate on immediate action requirements in an outstanding manner.” (Period ending April 9, 2006);
- “Routinely recognized for exceptional responses to data calls. There have been repeated programmatic changes, changed project conditions, and a high frequency of data calls that require the SPCOC to complete its task within a tight schedule.” (Period ending April 9, 2006);
- “Received a letter of congratulation from Her Excellency the Minister of Municipalities and Public Works commending highly effective seminars for women.” (Period ending September 9, 2005).

The GRD sector lead did note some problems. He stated that the contractor’s rest and relaxation leave schedule had been an on-going issue. For example, feedback for the month ending September 9, 2005, said that “SPCOC does not always provide adequate coverage during rest and relaxation periods. SPCOC needs to insure that adequate staff is available at all times to conduct the mission.”

The ITAO senior consultant in the water sector took a decidedly more negative view of the contractor, noting that CH2M Hill/Parsons Joint Venture did not actively take on the role of “watchdog” for the U.S. government and did not aggressively oversee the design-build contractors’ processes. Furthermore, she stated that CH2M Hill/Parsons Joint Venture was not forthcoming in its dealings with ITAO. She said it was hard to get information from the contractor and the contractor was not effective in keeping the sector’s contractors on schedule. She also stated that deliveries were frequently delayed and that sometimes the wrong equipment was purchased. For example, wrong equipment was purchased for the Mosul Dam project, at a cost of \$30 million. She further said that CH2M Hill/Parsons Joint Venture was not active in pursuing solutions.

CH2M Hill/Parsons Joint Venture took issue with the negative assessment. A senior CH2M Hill/Parsons Joint venture official stated that he believed that the program has been successful. He identified several projects as examples, including the Erbil water treatment plant. He said that capacity has been increased, although operational problems hamper production. The official cited a lack of electricity to operate pumps, an inconsistent supply of laborers, and illegal taps on water pipelines.

Facilities and Transportation Sector – Louis Berger/URS Joint Venture

Ratings and other assessments for the performance of the Louis Berger/URS Joint Venture varied making it difficult to determine whether the U.S. government received value for the contract. The contract cost was about \$27.7 million. Award-fee Board written feedback ran the gamut from “good” to “excellent”. However, overall Louis Berger received award-fee board scores in the “Good” range.

Contracts W914NS-04-C-0004, W914NS-04-C-0005, and W914NS-04-C-0006 were awarded to Louis Berger/URS Joint Venture (Berger/URS), a combine comprised of Louis Berger Group, Inc. and URS Group, Inc., both of which are large engineering-services firms. The contract was to provide program management support services in the Security and Justice; Buildings, Health, and Education; and Transportation and Communication sectors, for one year at an estimated cost of \$27.7 million. The contract had two option years. To reduce costs the contracts were consolidated after the first year into a single contract; W914NS-04-C0004 in one sector called “Facilities and Transportation.”

SIGIR reviewed 12 award-fee periods for contract W914NS-04-C-0004, between March 2004 and June 2007. The ratings for those periods included one “Excellent,” four “Very Good,” and five “Good.” Two periods had no rating. SIGIR also reviewed the two award-fee periods for the two contracts that were consolidated (W914NS-04-C-005, and W914NS-04-C-006). The scores for all four were “Outstanding.” Overall, the AFEB scores for Berger/URS were lower than those for the SPCOCs in the other sectors, but still mostly in the “Good” range.

The Facilities and Transportation sector incurred two significant contract failures by design-build contractor in the sector, and of 70 task orders executed under the contracts, 15 were partially or fully terminated. One contract failure resulted in the termination of three task orders to construct

150 Primary Healthcare Centers.² The failure had multiple causes. However, Louis Berger/URS Joint Venture had the responsibility for overseeing the budgets and schedules and for alerting the U.S. government when the healthcare center project was faltering.

The disparity in the assessments came to a head in January 2006, when the AFEB chairman made the award-fee board presentation to the AFDO for the period September 10, 2005, to December 9, 2005. The AFEB recommended a score of 68.48 percent, in the “Good” range. The presentation stated that Berger/URS’ strengths were in the areas of reporting and project controls especially in the quality of its reports and completion of required tasks. The AFEB noted in particular Berger/URS’ efforts and performance in implementing the internal weekly program management reviews and the continued drive to create an integrated Facilities and Transportation Sector.

In discussing problem areas, the presentation stated that the overall management of sector design build contractors needed a more deliberate focus to avoid repeat problems such as the health program. It also needs to continue to guard against establishing unrealistic expectations in project award schedules and execution durations.

The AFDO, however, summarily rejected the AFEB chairman’s assessment of performance. Instead, the AFDO issued a letter on January 28, 2006, denying any award-fee and stating that Berger/URS’ performance for the period was determined to be in the “Poor-Inadequate” range. The letter stated, “(d)uring this period Berger/URS has demonstrated unsatisfactory performance in its ability to convert its analysis of design build performance into meaningful and substantive recommendations, most notably the Primary Healthcare facilities and prisons. These problems resonated throughout most aspects of this award-fee period. Berger/URS has been dilatory in it’s obligation to this process. Although Berger/URS is not responsible for the performance of the design build contractors, it is responsible for the reporting of deficiencies and making timely recommendations to the PCO for corrective actions. Program/project management in this area has been conspicuously absent.”

Six months later, on June 10, 2006, the Chief of the Facilities and Transportation sector issued a Letter of Concern to Berger/URS and cited five program management deficiencies. The letter also voiced concern that Berger/URS’ performance concerns continue. The letter stated, as one of the deficiencies, that Berger/URS had failed to provide well developed execution plans, and had especially lagged in its overall program management responsibilities. In particular, the letter said, that the government leads feel that Berger/URS’ overall facilities and transportation sector Program Manager is not as engaged as he should be despite being in charge of the program for 14 months.

Nevertheless, discrepancies in evaluation persisted. On August 20, 2007, GRD facilities and transportation sector officials and Berger/URS representatives stated that Berger/URS had achieved its purpose in Iraq. A GRD official in the sector identified the primary healthcare project as a success; the sector, she said, plans to complete all of the remaining centers, despite security issues.

² SIGIR 06-011 “Management of the Primary Healthcare Centers Construction Project”, April 29, 2006.

Other Weaknesses in Required Contract Administration Practices

SIGIR found other weaknesses in the implementation of required contract administration practices:

- Funds were obligated for award-fees prior to the determination of the award
- The contracting officer did not formally transfer authority on the contracts when it changed administrative contracting officers
- The U.S. government agencies did not consistently maintain copies of required “Restriction Against Disclosure” statements that all contractor and sub-contractor employees must sign under section H-7 of the contracts.
- Performance monitors participated as voting members in the award-fee boards

Award-fees Were Obligated Prior to Determination of the Fee

For the PCOC and SPCOC contracts, SIGIR found that the contracting officers were usually obligating the full amount of the award-fee pool on the program management contracts before determination of the fee. Chapter 8 of Defense Financial Accounting Service - Indianapolis regulation 37-1 states that award-fee-funds should be obligated after determination of the award-fee. In addition, the Army Contracting Agency Award-fee Guide states, “The base fee will be budgeted as part of the total contract budget and should be obligated under the basic contract. However, the award-fee is a bonafide need of the year in which the ‘decision to pay’ was made. Therefore funds for the award-fee are not obligated on the contract until a determination has been made by the AFDO that an amount is payable. This results in payment for performance and base fee from one fiscal year and payment of part or the entire award-fee with the following fiscal year’s funds.”

Administrative Contracting Authority Was Not Clearly Assigned

Administrative Contracting Officer authority for the program management contracts was not clearly reassigned after the departure of the first administrative contracting officer. Administrative contracting officer authority was initially assigned to the Defense Contract Management Agency (DCMA) on October 1, 2004. The agreement called for the agency to provide contract administration services as described in part 42 of the FAR and further defined by the delegation of authority issued by the procuring contracting officer for each delegated contract. The contract modification provided a matrix to identify the contract administration functions that would be provided by the PCO, the DCMA home offices, and a DCMA team in Iraq. According to the Contracting Officer, JCC-I/A later replaced DCMA as the administrative contracting officer, but there were no documents in the contract file supporting the delegation. The lack of a formal delegation of authority could create a misunderstanding about who is responsible for what, particularly given the high rate of turnover of personnel in Iraq.

Disclosure Restriction Statements Were Not Signed and Maintained

SIGIR also found JCCI/A did not consistently maintain copies of the “Restriction Against Disclosure” statements that the contract requires all contractor and sub-contractor employees to sign. Section H-7 of the contract contains a clause restricting disclosure of government information by contractor and subcontractor employees. The clause requires that the contractor keep all information provided by the government or developed by the contractor in relation to a project in the strictest confidence, as the information is the sole property of the government. The requirement also pertains to sub-contractors. The requirement is necessary because a program management contractors’ responsibility includes developing independent government estimates and managing government information that should not be disclosed to potential bidders during the solicitation process.

SIGIR found a total of 31 signed non-disclosure statements in the Berger/URS contract file, but none in the other contract files. The failure of JCC-I/A to maintain copies of the statements on file increases the risk that sensitive project information will be improperly disclosed and the solicitation process compromised.

Performance Monitors Participated in AFEBs

SIGIR identified several instances in which performance monitors participated as voting members in AFEBs, which is a violation of JCC-I/A policy.

The JCC-I/A award-fee board policy states that performance monitors and other technical experts serve in advisory capacity only and may not participate during AFEB discussions. Performance monitors are deemed not to be members of the AFEB. Nonetheless, SIGIR found that some sectors have performance monitors who sit on the board and vote on the ratings. For example, senior GRD officials in the electricity sector told SIGIR in July of this year that they had allowed performance monitors to sit on award-fee boards in the electricity sector because there were only four GRD personnel in the sector. As a result, they had no independent personnel they could assign the task. A similar situation also existed in the water sector.

Conclusion and Lessons Learned

Conclusion

SIGIR was unable to conclude how well the approach of using contractors to manage contractors worked. Our ability to make this assessment was inhibited by the weaknesses in the implementation of the contract administration process, particularly with regard to the award-fee process.

The award-fee scores for the program management-support contractors indicate that the SPCOC's were very satisfied with the performance of four of the contractors and slightly less satisfied with one. Since SIGIR last reviewed the award-fee process for these contracts in 2005, there have been improvements. However, the existing documentation and award-fee results still offer only limited conclusions about each contractor's performance and senior official's views on contractor performance were inconclusive as well. GRD officials generally endorsed the contractors as effective and ITAO officials more often expressed dissatisfaction.

Further, SIGIR noted some weakness in government oversight beyond the award-fee documentation issue. These include (1) creating an improper obligation; (2) not formally transferring administrative contracting-officer responsibilities for the contracts; and (3) not maintaining contractor-signed information disclosure restriction statements in the contract file.

Lessons Learned

Because work on these program-management support contracts has ended, or soon will, SIGIR make no new recommendations. However, SIGIR provides the following lessons learned:

- The award-fee process can be an effective tool for creating incentive for contractors to strive for superior results. Properly documenting contractor performance in accordance with award-fee criteria is essential to making appropriate award-fee judgments.
- The success of any contractual relationship depends heavily on the quality of the direction and oversight given the contractor. When government oversight is lax, the risk of problems increases.
- A prerequisite for assessing the viability of any contract management approach, such as using contractors to manage contractors, requires the effective implementation of existing contract administration practices and policies.

Management Comments and Audit Response

The U.S. Army Corps of Engineers Gulf Region Division provided technical comments on a draft of this report. These comments have been incorporated in the report where appropriate.

A senior JCC-I/A official also stated that JCC-I/A was addressing the award-fee issues discussed in the report

Appendix A—Scope and Methodology

In March 2007, SIGIR initiated the audit. The overall objectives of this audit were to determine the roles and responsibilities assigned to the SPCOCs and the extent to which the U.S. government benefited from the services provided by the SPCOCs. Specifically, our reporting objectives for this report were to (1) assess contractor performance in managing another contractor, and (2) review the effectiveness of the government in managing the contracts.

SIGIR obtained copies of the seven contract files, which included the contracts, associated modifications, and other relevant documentation from the electronic contract files and the hard-copy contract files at JCC-I/A. Some award-fee documentation came from files in the GRD sectors. SIGIR reviewed these documents to gather information on the planning and solicitation of the contracts during the period of the Coalition Provisional Authority.

To determine the cost of the SPCOC contracts, SIGIR reviewed financial data obtained from the Corps of Engineers Financial Management System (CEFMS) provided by GRD.

To determine measurements of SPCOC performance, SIGIR interviewed knowledgeable personnel from GRD, JCC-I/A, ITAO, and the contractors. SIGIR also reviewed the relevant award-fee plans, performance evaluations, award-fee ratings sheets, AFEB recommendations, AFDO letters, and contract modifications. In addition, SIGIR reviewed JCC-I/A AFEB policy.

SIGIR performed this audit from March 30 through September 10, 2007, in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data

SIGIR reviewed financial data relating to SPCOC contract costs provided by GRD from CEFMS. SIGIR did not audit CEFMS³.

Prior Coverage

Prior reports related to program management and award-fees issued by the Office of the Special Inspector General for Iraq Reconstruction (SIGIR) can be accessed on our website <http://www.sigir.mil>.

- *“Iraq Reconstruction: Lessons in Program and Project Management”*, (SIGIR), March 2007 included a history of program management during Iraq reconstruction and found that the reconstruction effort required, but did not initially receive, consistent and effective oversight. The report also found that policy shifts meant that program managers not only met with long periods of uncertainty, but also had to adjust to new systems, procedures, and reporting requirements.

³ For more information on the reliability of data drawn from CEFMS, see GAO report 02-589, “Corps of Engineers Making Improvements but Weaknesses Continue”, June, 2002.

- *“Award-fee Process for Contractors Involved in Iraq Reconstruction”* (SIGIR 05-017) October 25, 2005 included a review of 18 cost-plus award-fee type contracts funded with IRRF and found that the award-fee plans did not include required criteria with definable metrics. The review also found that the AFEB recommendations and determinations of fees were not documented in sufficient detail to show that the integrity of the award-fee process was maintained.
- *“Interim Briefing to the Project and Contracting Office – Iraq and the Joint Contracting Command – Iraq on the Audit of the Award-fee Process”* (SIGIR 05-010) July 26, 2005 included an effort to determine if award-fees are adequately reviewed, properly approved, and awarded according to established standards. The review found that although policies and procedures were established, they were not consistently applied.
- *“Defense Contract Management – DOD’s Lack of Adherence to Key Contracting Principles on Iraq Oil Contract Put Government at Risk”* (GAO-07-839) July 2007 included a review to determine the extent to which the Department of Defense (DD) paid award-fees for the Restore Iraqi Oil contract and followed the award-fee process. The finding: DOD did not conduct a formal award-fee board until almost all work was complete and did not provide the contractor with formal award-fee feedback.
- *“Defense Acquisitions – DoD Has Paid Billions in Award and Incentive Fees Regardless of Acquisition Outcomes”* (GAO-06-066) December 2005 included a review to determine if award and incentive fees have been used effectively as a tool to achieve DoD’s desired acquisition outcomes. The review found that the power of monetary incentives to motivate excellent contractor performance and improve acquisition outcomes is diluted by the way the department structures and implements incentives.
- *“Program Management in Support of Iraq Reconstruction”* (A-2005-0194-ALA) May 26, 2005 included a review to determine if the Army and PCO had controls and sound business processes to provide acquisition and program management support with respect to Iraq reconstruction. The review found that additional controls were needed to reduce the risk associated with contractors performing inherently governmental functions, real or perceived conflicts of interest with contractors overseeing contractors, and award-fee plans.
- *“Contractors Overseeing Contractors: Conflicts of Interest Undermine Accountability in Iraq”* (Joint Report⁴) May 18, 2004 examined conflicts of interest in two oversight contracts issued by the CPA. The report found that the oversight contractors have close business relationships with the construction contractors that they have been hired to oversee.

⁴ The joint report was prepared for the House Of Representatives Committee on Government Reform and Senate Democratic Policy Committee

Appendix B—Acronyms

ACO	Administrative Contracting Officer
AFEB	Award-fee Evaluation Board
AFDO	Award-fee Determining Official
CEFMS	U.S. Army Corps of Engineers Financial Management System
DCMA	Defense Contract Management Agency
DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
GRD	Gulf Region Division, U.S. Army Corps of Engineers
IPA-JV	Iraq Power Alliance Joint Venture
IRRF	Iraq Relief and Reconstruction Fund
ITAO	Iraq Transition Assistance Office
JCC-I/A	Joint Contracting Command – Iraq/Afghanistan
JV	Joint Venture
PCO	Project and Contracting Office
PCOC	Project and Contracting Office Contractor
PMO	Program Management Office
SIGIR	Special Inspector General for Iraq Reconstruction
SPCO	Sector Project and Contracting Office
SPMO	Sector Program Management Office
SPCOC	Sector Project Contracting Office Contractor
USACE	U.S. Army Corps of Engineers

Appendix C—Report Distribution

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 Subcommittee on National Security, Emerging Threats and International Relations
House Committee on International Relations
Subcommittee on Middle East and Central Asia

Appendix D—Audit Team Members

This report was prepared and the review was conducted under the direction of Glenn D. Furbish, Acting Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction. The staff members who contributed to this report include:

Benjamin Comfort

Nadia Shamari

William Shimp

Frank Slayton

Roger M. Williams

SIGIR's Mission

Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:

- oversight and review through comprehensive audits, inspections, and investigations
- advice and recommendations on policies to promote economy, efficiency, and effectiveness
- deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse
- information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports

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Congressional Affairs

Hillel Weinberg
Assistant Inspector General for Congressional Affairs
Mail: Office of the Special Inspector General
for Iraq Reconstruction
400 Army Navy Drive
Arlington, VA 22202-4704
Phone: 703-428-1059
Email: hillel.weinberg@sigir.mil

Public Affairs

Kristine R. Belisle
Director for Public Affairs
Mail: Office of the Special Inspector General
for Iraq Reconstruction
400 Army Navy Drive
Arlington, VA 22202-4704
Phone: 703-428-1217
Fax: 703-428-0818
Email: PublicAffairs@sigir.mil
