

The seal of the Office of the Special Inspector General for Iraq Reconstruction is a large, circular emblem in the background. It features a central eagle with its wings spread, holding an olive branch in its right talon and arrows in its left. The eagle's chest is covered by a shield with vertical stripes. Above the eagle's head is a sunburst. The seal is surrounded by text in both English and Arabic. The English text reads "INSPECTOR GENERAL" at the top and "RECONSTRUCTION" at the bottom. The Arabic text reads "مفتش العام" at the top and "إعادة إعمار العراق" at the bottom.

REVIEW OF ADMINISTRATIVE TASK  
ORDERS FOR IRAQ  
RECONSTRUCTION CONTRACTS

**SIGIR-06-028**  
**OCTOBER 23, 2006**



## SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

October 23, 2006

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

SUBJECT: Review of Administrative Task Orders for Iraq Reconstruction Contracts  
(SIGIR-06-028)

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

We considered comments from the Gulf Region Division-Project and Contracting Office, U.S. Army Corps of Engineers, and the Joint Contracting Command-Iraq/Afghanistan on a draft of this report when preparing the final report. Their comments are addressed in the report where applicable and copies of the comments are included in the Management Comments section of this report.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott (703-343-0982 / [joseph.mcdermott@sigir.mil](mailto:joseph.mcdermott@sigir.mil)); Mr. Steven Sternlieb (703-428-0240 / [steven.sternlieb@sigir.mil](mailto:steven.sternlieb@sigir.mil)); or Mr. Clifton Spruill (703-343-9275 / [clifton.spruill@iraq.centcom.mil](mailto:clifton.spruill@iraq.centcom.mil)). For the report distribution, see Appendix C.

A handwritten signature in black ink that reads "Stuart W. Bowen, Jr." followed by a period.

Stuart W. Bowen, Jr.  
Inspector General

cc: See Distribution

# Table of Contents

---

Executive Summary	i
Introduction	1
Intended Purpose of Administrative Task Orders (ATOs)	6
Substantial Indirect Costs Were Incurred During Periods of Limited Direct Project Activity	9
The Effect of De-scoping Actions on ATOs is Unknown	12
Conclusion and Recommendations	14
Appendix A – Scope and Methodology	18
Appendix B – Acronyms	23
Appendix C – Report Distribution	24
Appendix D – Audit Team Members	26
Management Comments Gulf Region Division, U.S. Army Corps of Engineers	27
Management Comments Joint Contracting Command-Iraq/Afghanistan	31



# Review of Administrative Task Orders for Iraq Reconstruction Contracts

SIGIR-06-028

October 23, 2006

## Executive Summary

---

### Introduction

Congress appropriated \$18.4 billion for security, relief, rehabilitation, and reconstruction of Iraq to the Iraq Relief and Reconstruction Fund 2 (IRRF). At the beginning of calendar year 2004, the U.S. government released a Design-Build (DB) Request for Proposal to provide construction services in Iraq. From January 13, 2004 to March 26, 2004, 12 DB cost-reimbursement contracts totaling \$5.8 billion were awarded to 9 contractors. (Two contractors received multiple contracts.) One of the key elements of a DB construction contract is that it places the design and building phases of a project under the same contract.

Contractors incur administrative and overhead costs, as well as direct costs, associated with performing work. For these DB contractors, there was no consistent contract requirement for contractors to separately track and report to the U.S. government their administrative and overhead costs. To some extent, information on these indirect costs can be extracted from:

- individual invoices when submitted at a detailed level by contractors
- management cost reports when required to be submitted by contractors
- task orders that have been established under the contract to specifically isolate administrative and overhead costs

In June 2004, the Deputy Secretary of Defense established the Project and Contracting Office (PCO) within the Department of the Army and directed PCO to provide support for all activities associated with financial, program, and project management for both construction and non-construction IRRF activities. In spring of 2004, senior Program Management Office and the successor PCO program and contracting managers sought to simplify tracking of administrative and overhead costs for the 12 DB contracts through a new type of task order—an administrative task order (ATO). ATOs were intended to capture all administrative and overhead costs for each DB contract, separate from direct costs, for each individual construction task order under the contract. This was expected to provide several benefits, including allowing the PCO managers to better understand direct and indirect contractor costs and to increase the ability of managers to control and minimize administrative costs.

## Objectives

This audit was initiated to evaluate the effectiveness of project management and the monitoring and controls exercised by administrative contracting officers. Specifically, the objectives of the audit were to determine:

- Did ATOs vary from one design-build contractor to another?
- Did ATOs accomplish the intended purpose, to capture the fixed administrative costs of the design-build contractors?
- Did increased or decreased periods of contract/task order performance impact the value of ATO cost?
- Did the de-scoping of projects impact the need for certain administrative costs included in the ATO?

We found that ATOs were issued for 6 of the 12 DB contracts. Further, one of the six DB contracts with an ATO was terminated and demobilized less than one year after contract award. Therefore, our review focused on the 11 active DB contracts, of which 5 were issued one or more ATOs. Because the first two objectives are closely linked, they are combined for discussion in the report.

## Results

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

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

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

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

- For four of the five DB contracts, ATOs were issued sometime between when mobilization task orders (TOs)<sup>1</sup> were issued and when substantial work began on

---

<sup>1</sup> These were orders to assemble and deploy the contractor's workforce.

the project. The earliest ATOs were issued two months after the mobilization TOs were issued.

- For the fifth DB contract, ATOs were not issued until after substantial work began.

In the period before ATOs were issued, administrative costs would have likely been invoiced by the contractors against their existing mobilization or direct project task orders or a combination of the two.

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

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

We believe that administrative and overhead costs that were intended to be charged against ATOs were actually higher than those invoiced because ATOs were not issued concurrent with the mobilization task orders. Contractors would have begun to incur administrative costs from the onset of mobilization. In the absence of ATOs, the contractors would have no other option but to include administrative costs in their mobilization or direct task order invoices or a combination of the two.

For example, the longest period between mobilization and the beginning of substantial direct project work—and the highest ATO costs—involved the Kellogg Brown and Root (KBR) DB contract. Although KBR was issued its mobilization task order on February 15, 2004, ATOs were not issued until June 7, 2004, almost four months after the mobilization TO. Substantial direct project activity did not occur until November 19, 2004. During this billing period, KBR's ATO costs were \$52.7 million. Direct project costs were \$13.4 million, and mobilization costs were \$5.8 million. Because KBR could not invoice administrative costs against ATOs until June 7, 2004, we believe that KBR's cumulative administrative costs were higher than the \$52.7 million it invoiced against the ATOs and its mobilization and/or direct project costs were lower than the invoiced amounts. In a letter of concern to KBR about its cost reporting on August 28, 2004, the contracting officer stated that the contract was rapidly accruing exorbitant costs.

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

documented that most costs incurred for the DB contract cancelled less than a year after it was issued were for mobilization, demobilization, and administrative costs.

We discussed the results of this work with officials from the U.S. Army Corps of Engineers, Gulf Region Division-Project and Contracting Office (GRD-PCO). The officials told us that there were other ways to track administrative costs—specifically through management cost reports. These officials also suggested that SIGIR not publish this audit report because it would be of limited or no value now that contracts are being awarded to Iraqi rather than U.S. contractors.

We do not agree with the GRD-PCO position. In response to the GRD-PCO suggestion that management reports are another way to track administrative costs, we examined management reports provided for each of the 11 DB contracts. Our review indicated that reporting of administrative costs varied from contract to contract and did not capture specific administrative costs as comprehensively as ATOs. We believe that there is value in understanding the extent to which administrative costs were tracked and reconstruction funds were used for administrative costs rather than direct project costs—regardless of the nationality of individual contractors.

## **Recommendations**

To enable the U.S. government to better track administrative and overhead costs for future reconstruction contracts—both funded through the IRRF as well as under any future reconstruction effort—and to minimize costs during periods of inactivity until the authorization to begin work can be issued, we recommend that the Commanding General of GRD-PCO coordinate with the Commanding General of the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) to take these actions:

1. Ensure that cost-reimbursement contracts contain explicit requirements for all contractors in Iraq and future reconstruction efforts for segregating, tracking, and billing administrative costs—such as through the use of contractual direction, including segregating and reporting administrative costs in management cost reports.
2. Ensure that adequate project planning is conducted to minimize contractor down-time between the issuance of mobilization orders and the beginning of substantial direct project activity.
3. Improve processes to monitor contractor administrative costs to ensure that the level of administrative activity is appropriately adjusted to reflect any work stoppages, descoping actions, and reductions attributable to project completion or close-out.

## **Management Comments and Audit Response**

We received written comments on a draft of this report from GRD-PCO and the JCC-I/A. Both organizations concurred with all of our recommendations. Both noted a caveat that recommendation number one would only apply to cost-reimbursement contracts, but not fixed price (direct) contracts. We agreed and clarified this recommendation accordingly. GRD-PCO did not agree with some of our conclusions and analytical methods. We did not agree with GRD-PCO's interpretations regarding our analysis or presentation of findings. We have addressed those comments in the Management Comments and Audit Response section of the report.

# **Introduction**

---

## **Background**

Congress has appropriated \$18.4 billion for security, relief, rehabilitation, and reconstruction in Iraq. The appropriation is known as the Iraq Relief and Reconstruction Fund 2 (IRRF).

## **Organizations Responsible for Contract Management**

The Coalition Provisional Authority (CPA) was initially responsible for managing the construction and contracting efforts in the reconstruction of Iraq through its Program Management Office. The Program Management Office was redesignated the Project and Contracting Office (PCO) in June 2004. Contract administration for the base Design-Build (DB) contracts and the ATOs was maintained by the administrative contracting officers in PCO. In the transition to Joint Contracting Command-Iraq/Afghanistan (JCC-I/A), contract administration for the construction task orders issued against the DB base contracts was maintained by the PCO/JCC-I/A contracting officers until definitization. Upon definitization of the construction task orders, partial contract administration was delegated to the U.S. Army Corps of Engineers Gulf Region Division (GRD) contracting office. During the time period covered by this audit, the PCO and the GRD were separate organizations. On December 4, 2005, the PCO was merged into the GRD.

### ***Project and Contracting Office (PCO)***

National Security Presidential Directive 36, "United States Government Operations in Iraq," May 11, 2004, established the PCO and directed the PCO to provide acquisition and project management support for activities in Iraq. On June 22, 2004, the Deputy Secretary of Defense established the PCO within the Department of the Army and directed the PCO to provide support for all activities associated with financial, program, and project management for both construction and non-construction IRRF activities.

### ***Joint Contracting Command-Iraq/Afghanistan (JCC-I/A)***

A special command was set up as the contracting activity JCC-I/A with the responsibility to administer contracts. The JCC-I/A was established in November 2004 to consolidate contracting activities and reports through the Deputy Assistant Secretary of the Army (Policy and Procurement) to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology.

### ***U.S. Army Corps of Engineers Gulf Region Division (GRD)***

The GRD provides engineering services in the Iraq combat theater to Multi-National Force-Iraq, the Department of State, the U.S. Agency for International Development, and the Iraqi government with planning, design, and construction management support for military and civil infrastructure construction. The responsibilities of the PCO were consolidated with those of the GRD on December 4, 2005, to form GRD-PCO.

### *Sector Project and Contracting Office Contractor*

Contracts were awarded to provide dedicated contract management support to the Coalition Provisional Authority's Program Management Office. The Sector Project and Contracting Office Contractor continued to provide support under the PCO.

## **Individuals Responsible for Contract Management**

There are a number of positions involved in contract management and oversight on a routine basis, including the following:

### *Contracting Officer*

A contracting officer is the U.S. Government's authorized agent for dealing with a contractor and has sole authority to solicit proposals, negotiate, award, and modify contracts on behalf of the U.S. Government.

### *Administrative Contracting Officer*

An administrative contracting officer performs the same functions as a contracting officer under a delegation of authority from the contracting officer but typically does not participate in the solicitation, negotiation, or award process.

### *Contracting Officer Representative*

A contracting officer representative assists in the solicitation process and can administer the contract after award. The contracting officer representative usually works in the office that identified the need or requirement that resulted in a contract.

## **Design-Build (DB) Contracts**

At the beginning of calendar year 2004, the U.S. government released a DB Request for Proposal to provide for construction services in Iraq. From January 13, 2004 to March 26, 2004, 12 DB cost-reimbursement contracts totaling \$5.8 billion were awarded for Iraq reconstruction projects to 9 contractors (2 contractors received multiple contracts). However, one of the DB contracts was terminated and demobilized less than one year after contract award. Therefore, our review focused on the 11 active DB contracts. One of the key elements of a DB construction contract is that it places the design and building phases of a project under the same contract.

## **Administrative Task Orders (ATO)**

Contractors incur administrative and overhead costs as well as direct costs associated with performing work. There is no consistent contract requirement for contractors to separately track and report to the U.S. government their administrative and overhead costs. To some extent, information on these indirect costs can be extracted from:

- individual invoices when submitted at a detailed level by contractors
- management cost reports when required to be submitted by contractors

- task orders that have been established under the contract to specifically isolate the incurrence of administrative and overhead costs

In spring of 2004 senior Program Management Office and then the successor PCO program and contract managers sought to simplify the tracking of administrative and overhead costs for the 12 DB contracts through a new type of task order (TO)—an administrative task order (ATO). The ATOs were to capture all administrative and overhead costs for each DB contract, separate from direct costs, for each individual construction task order under the contract. PCO believed that doing so would provide the following benefits:

- allow managers to better understand direct and indirect contractor costs
- control administrative costs
- minimize administrative costs
- understand carrying costs should contracts be extended

By segregating costs, PCO further believed that it could avoid paying for the same indirect costs for two different projects as only direct costs would be applied to specific construction task orders. Of the 11 DB contracts, ATOs were issued for 5, as identified in Table 1, along with the applicable reconstruction sector.

**Table 1—Design-Build Contracts Funded by Iraq Relief and Reconstruction Fund (as of May 6, 2006)**

<b>ATO ISSUED = √</b>	<b>Design-Build Contractors by Reconstruction Sector</b>	<b>Contract Award Number</b>	<b>Contract Award Date</b>	<b>Awarding Agency</b>
<b>Oil Sector</b>				
1.	Kellogg Brown and Root (KBR)	W9126G-04-D-0001	1/16/04	U.S. Army Corps of Engineers
2.	Parsons Iraq Joint Venture	W9126G-04-D-0002	1/16/04	U.S. Army Corps of Engineers
<b>Electric Sector</b>				
3.	Fluor-AMEC Joint Venture	W914NS-04-D-0003	3/11/04	U.S. Army Corps of Engineers
4.	Washington International	W914NS-04-D-0010	3/12/04	U.S. Army Corps of Engineers
5.	Perini Corporation	W914NS-04-D-0011	3/12/04	U.S. Army Corps of Engineers
<b>Water Sector</b>				
6.	Washington International and Black & Veatch	W914NS-04-D-0007	3/11/04	Navy Facilities Engineering Command
7.	Fluor-AMEC Joint Venture	W914NS-04-D-0008	3/23/04	Navy Facilities Engineering Command
8.	Fluor-AMEC Joint Venture	W914NS-04-D-0022	3/23/04	Navy Facilities Engineering Command
<b>Buildings, Hospitals, and Education Sector</b>				
9.	Lucent Technologies	W914NS-04-D-0005	3/23/04	Army Communications and Electronic Command Acquisition Center
10.	Parsons Delaware	W914NS-04-D-0006	3/25/04	U.S. Army Corps of Engineers
11.	Parsons Delaware	W914NS-04-D-0009	3/26/04	U.S. Army Corps of Engineers

*Source: Developed by SIGIR from Project and Contracting Office data, as of May 6, 2006.*

## **DB Invoice Process**

The U.S. Army Corps of Engineers (USACE) Financial Management System (CEFMS), maintained by the USACE Finance Center, was used for processing the 11 DB contractors' invoices for payment. From January 2004 through May 2006, we estimate that CEFMS has processed and has on file over 5,000 invoices submitted by the 11 DB contracts. The contractor submits invoices by TO and "period of performance", which can represent any period of time during which costs were incurred under a TO, including ATOs. A contractor can submit numerous invoices for a single TO. For example, one DB contractor submitted 61 invoices for one TO covering the period March 25, 2004 through May 6, 2006, with a total value of \$30 million. This same contractor had multiple TOs. Our review of the other DB contractors indicated that this example was typical of all the DB contractors.

## **Objectives**

This audit was initiated to evaluate the effectiveness of project management and the monitoring and controls exercised by administrative contracting officers. Specifically, the objectives of the audit were to determine:

- Did ATOs vary from one design-build contractor to another?
- Did ATOs accomplish the intended purpose, to capture the fixed administrative costs of the design-build contractors?
- Did increased or decreased periods of contract/TO performance impact the value of ATO cost?
- Did the de-scoping of projects impact the need for certain administrative costs included in the ATO?

We found that ATOs were issued for 6 of the 12 DB contracts. Further, one of the six DB contracts with an ATO was terminated and demobilized less than one year after contract award. Therefore, our review focused on the 11 active DB contracts, of which 5 were issued one or more ATOs, which are identified in Table 1. Because the first two objectives are closely linked, they are combined for discussion in the report.

For a discussion of the audit scope, methodology, and a summary of prior coverage, see Appendix A. For definitions of the acronyms used in this report, see Appendix B. For a list of the audit team members, see Appendix D.

# Intended Purpose of Administrative Task Orders (ATOs)

---

The DB contractors' fixed administrative costs were not uniformly tracked because ATOs were not issued for all 11 DB contracts and there were inconsistencies in the ATOs that were issued. In addition, audits conducted by the Defense Contract Audit Agency found that the contractors' had inadequate accounting and billing systems, which raises questions about the actual value of invoiced costs.

## *Inconsistency and Variations in the Issuance of ATOs*

As shown in Table 2, the 11 DB contracts were awarded to 8 contractors. However, ATOs were not issued for the majority of the contracts. Specifically:

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

**Table 2 – Distribution of Administrative Task Orders by Design-Build Contract**

Design-Build Contractor	Transportation & Mobilization ATO	Management & Administration ATO	Security ATO	Life Support ATO	Single Multi-purpose ATO	No ATO
Kellogg Brown and Root (KBR)	X	X	X	X		
Parsons Iraq Joint Venture	X	X	X	X		
Lucent				X		
Parsons Delaware					X	
Parsons Delaware					X	
Washington International and Black & Veatch						X
Fluor-AMEC Joint Venture						X
Perini						X
Washington International						X
Fluor-AMEC Joint Venture						X
Fluor-AMEC Joint Venture						X

*Source: Developed by SIGIR from GRD-PCO records, as of May 6, 2006.*

In addition to ATOs varying in coverage, they were issued at different times following contract award. Each contractor was also issued a mobilization task order, in addition to the ATO, directing it to assemble and deploy its workforce. Table 3 lists the dates the mobilization task orders and ATO were issued according to the applicable contract documents, and the date that substantial project work began. We calculated the date substantial work began by analyzing invoices submitted by the contractors for direct project work to determine the date that marked the beginning of the period of performance when substantial direct project costs were incurred.

As shown in Table 3, ATOs were issued sometime between when mobilization orders were issued and when substantial work began for 4 of the 5 contracts and after substantial work began for one of the contracts. For the 4 contracts under which ATOs were issued between when mobilization orders were issued and when substantial work began on the project. The earliest ATOs were issued two months after the mobilization TOs were issued. In one instance, a single multipurpose ATO was issued almost 6 months after the mobilization TO. In the period before ATOs were issued administrative costs would have to have been included in either mobilization or direct task order invoices or a combination of the two.

**Table 3 – Key Contract Events for Contractors Issued ATOs**

<b>Contractor</b>	<b>Contract Issued</b>	<b>Date Mobilization TO Issued</b>	<b>Date ATO Issued</b>	<b>Date Substantial Work Began</b>
KBR	January 16, 2004	February 15, 2004	June 7, 2004	November 19, 2004
Parsons Iraq JV	January 16, 2004	April 2, 2004	June 17, 2004	July 10, 2004
Lucent	March 23, 2004	March 23, 2004	May 21, 2004	October 25, 2004
Parsons Delaware 0006	March 25, 2004	March 25, 2004	September 16, 2004	October 20, 2004
Parsons Delaware 0009	March 26, 2004	March 26, 2004	November 1, 2004	July 31, 2004

*Source: Develop by SIGIR from CEFMS payment invoices and contract files as of May 6, 2006*

We were not able to determine why ATOs were not issued for all 11 DB contracts, as originally intended. In our review of the DB contract files, we found that there was an apparent effort by the U.S. government to create an administrative cost reporting structure for the six contracts without ATOs. For two contracts, we found unexecuted modifications that were intended to be issued to segregate administrative and overhead costs in a similar structure as with an ATO. However, a representative from one of the two contractors with the unexecuted modification told us that the government never followed through on implementing the modifications. Those contractors that did not receive ATOs identified their general and administrative costs on their invoices for direct project work. For example, one contractor had various general and administrative rates

ranging from 2.3 percent to 17.89 percent depending on whether it was billing for material, labor, or subcontracts.

In discussing the results of our work with GRD-PCO, we were told that ATOs were not the only means of tracking administrative costs and these costs are also captured in management cost reports. We consequently examined management reports provided for each of the 11 DB contracts. Our review determined that the reporting of administrative costs varied from contract to contract. For example:

- On the Contract Status Report for two of the three Fluor AMEC contracts, some data on administrative costs was listed by task order for the current period and job-to-date. However, on the third Fluor AMEC contract, no administrative costs were listed.
- On the Monthly Project Report for the Lucent contract there was information on budgeted amounts for the month covered by the report, but no actual cost data.
- On the Monthly Status Report for the Parsons Iraq Joint Venture contract there was data on administrative costs reported by ATO on a cumulative basis, but no data for the current period.
- On the Management/PCO Monthly Report for the Washington International and Black & Veatch contract there was data on administrative costs listed by task order for the current period and for the task order to date, but no summary of all administrative costs.

### ***The Contractors Had Inadequate Accounting and Billing Systems***

Due to the detailed cost breakdown that would be required by DB contractors with ATOs for their submission of invoices, we reviewed audit reports of these contractors' cost accounting and billing systems prepared by the Defense Contract Audit Agency (DCAA). We obtained 28 DCAA audit reports that in total addressed all 8 of the DB contractors' accounting, billing, and estimating systems, covering calendar years 2004 and 2005. Each of these systems can affect the handling of costs associated with ATOs, administrative and overhead costs, and project costs. In summary, DCAA found that for the five contracts for which ATOs were issued, all but one of the contractors did not have adequate systems to capture administrative costs. Each of these impacted contractors agreed with the DCAA recommendation to develop or implement corrective action plans. We contacted several DCAA branch offices, and in each instance were told that DCAA was monitoring follow-up action, and all but one of the contractors had taken corrective action.

## **Substantial Indirect Costs Were Incurred During Periods of Limited Direct Project Activity**

---

Poor planning led to ATO costs that were greater than direct project costs during periods of start-up. Between March 2004 and November 2004, the period between contractor mobilization and the beginning of substantial direct project work for the 5 DB contracts that were issued ATOs, contractors for these 5 contracts submitted invoices for a total of \$62.1 million in ATO costs and \$26.7 million in direct project costs. As much as 9 months elapsed between the date a mobilization TO was issued and the date substantial direct project work began. The shortest period of time between the mobilization TO date and the beginning of substantial direct project work was 3 months. For the other contracts issued ATOs the period between mobilization and substantial direct project work was between 4 and 7 months. As shown in Table 4, the longest period between mobilization and substantial direct project work and the highest ATO costs involved the KBR contract. KBR was issued its mobilization task order on February 15, 2004, but substantial direct TO activity did not occur until November 19, 2004. During this 9 month period, KBR's ATO costs were \$52.7 million, as compared to its direct project costs of \$13.4 million. In an August 28, 2004, letter of concern to KBR regarding its cost reporting, the contracting officer stated that the contract was accruing exorbitant costs at a rapid pace.

We also believe that administrative costs that were intended to be covered by ATOs were actually higher than invoiced because ATOs were not issued concurrent with the mobilization task orders. Contractors would have begun to incur administrative costs from the onset of mobilization. In the absence of ATOs, the contractors would have no option but to include administrative costs in their mobilization or direct task order invoices or a combination of the two. For example, as shown in Table 3:

- In one of the Parsons Delaware contracts (0009), the mobilization order was issued on March 26, 2004; substantial work began on July 31, 2004; and the ATO was issued on November 1, 2004. During the period between contractor mobilization and the beginning of substantial direct project work, Parsons Delaware invoiced no ATO costs as shown in Table 4. Therefore, Parson Delaware would have billed administrative costs to the mobilization TO, the direct TO for this time period, or a combination of the two.
- In the case of KBR's contract, its ATOs were not issued until almost 4 months after its mobilization TO. Therefore, we believe that KBR's cumulative administrative costs were higher than the \$52.7 million it invoiced against the ATOs and its mobilization and/or direct project costs were lower than the invoiced amounts.
- In the case of the other Parsons Delaware contract (0006), a single multipurpose ATO was issued almost 6 months after the mobilization TO, and therefore, we believe that the administrative costs for the contract were greater than the \$2.5 million invoiced under the ATO and that the mobilization task order costs were lower after adjusting for administrative costs.

**Table 4 – ATO and Mobilization vs. Direct Project Costs Invoiced During Period Between Start-up and the Date Substantial Work Began (as of May 6, 2006)**

<b>Contractor</b>	<b>Mobilization Date</b>	<b>Date Substantial Work Began</b>	<b>Mobilization Costs</b>	<b>ATO Costs</b>	<b>Direct Project Costs</b>
KBR	02/15/2004	11/19/2004	\$5,841,630	\$52,736,055	\$13,391,764
Parsons Iraq Joint Venture	04/02/2004	07/10/2004	12,791,877	1,773,981	1,166,568
Lucent	03/23/2004	10/25/2004	2,474,330	5,120,860	2,620,926
Parsons Delaware 0006 <sup>2</sup>	03/25/2004	10/20/2004	4,611,213	2,458,615	7,745,741
Parsons Delaware 0009	03/26/2004	07/31/2004	1,348,398	0	1,823,815
<b>Totals</b>			<b>\$27,067,448</b>	<b>\$62,089,511</b>	<b>\$26,748,814</b>

*Source: Developed by SIGIR from CEFMS invoices, as of May 6, 2006.*

DB contractors were directed by the U.S. government to quickly mobilize. Although mobilization was rapid in some instances, as discussed above several months elapsed before substantial work began on projects. One Sector Project and Contracting Office Contractor official with whom we spoke told us that the government was guilty of poor timing in asking contractors to mobilize before reconstruction planning was finalized. Nevertheless, the government took only limited action to reduce administrative and overhead costs during periods of project inactivity. In the case of the KBR contract, the contracting officer concluded that because the “center of operations” for KBR’s contract was in Basrah, the need for a KBR office in Baghdad was greatly diminished and perhaps even eliminated; and that KBR could substantially reduce indirect program costs by closing the Baghdad office. The contracting officer also concluded that substantial cost reductions could be realized by reducing the size of the office and supporting infrastructure in Kuwait. Consequently, the contracting officer directed KBR to submit a plan outlining a timeline/approach for closing its Baghdad office and moving those resources to Basrah, Iraq, which was closer to the job site. In addition, the contracting officer directed KBR to provide recommendations for consolidating its operations in Kuwait.

As late as May 6, 2006, ATO costs continued to account for a substantial proportion of overall project costs. Table 5 contains ATO cost data for the five DB contracts for which ATOs were issued. As detailed in the table, the ATO costs represented as much as 55% of overall contract costs. For the five DB contracts for which ATOs were issued, ATO costs accounted for 11% to 55 % of overall project costs, depending on the contract. For

<sup>2</sup> The invoices used to calculate the Parsons Delaware 0006 contract included information through October 29, 2004. We were not able to segregate out the costs for the nine days past the date we used to denote that substantial work began date of October 20, 2004.

three of the five DB contracts for which ATOs were issued, ATO costs represented more than one-third of overall project costs, specifically, 55%, 43%, and 35%. Regarding the two DB contracts with a smaller proportion of ATO costs to overall project costs, the one awarded to Lucent only had an ATO for one element of administrative costs, life support. Therefore, we believe that its overall administrative costs accounted for more than the 11% shown in Table 5 as other types of administrative costs would have been included in direct project costs.

**Table 5 – Invoiced ATO and Total Costs for DB Contracts with ATOs,  
January 2004-May 2006**

	<b>KBR</b>	<b>Parsons Iraq Joint Venture</b>	<b>Parsons Delaware 0006</b>	<b>Parsons Delaware 0009</b>	<b>Lucent</b>
Total Contract Costs	\$296,330,126	\$312,609,553	\$311,683,394	\$252,259,585	\$142,972,324
Total ATO Costs	\$163,064,668	\$133,991,678	\$107,980,708	\$41,638,352	\$14,869,023
Percent of ATO Costs to Total Costs	55%	43%	35%	17%	11%

*Source: Developed by SIGIR from CEFMS Paid Invoices, as of May 6, 2006*

# The Effect of De-scoping Actions on ATOs is Unknown

---

We were unable to determine how de-scoping contract actions affected ATO costs because invoices are not maintained in a form that allows us to undertake such analysis. We have determined that there have been a number of de-scoping actions involving the termination of contracts or individual TOs within larger contracts for the government's convenience. For example, a de-scoping action occurred on December 27, 2004, involving \$21.7 million on the Parsons Iraq Joint Venture contract in the oil sector. Unless offset by increases to other projects under the same contracts, ATO costs would be expected to decline as projects were de-scoped. In the case of the December 27, 2004, de-scoping action, between December 2004 and January 2005, the dollar value of descope actions exceeded the dollar value of increases to other projects under the contract, resulting in a net overall decrease of \$19.4 million to the overall value of the contract. We were able to determine from ATO invoices for periods of performance immediately preceding and following this de-scoping action that ATO costs rose in the weeks following the descope action. Specifically, ATO costs rose from an average of \$176,644 per day for the period November 27, 2004, through December 31, 2004,<sup>3</sup> to an average of \$374,167 per day for the period January 1, 2005, through January 14, 2005.<sup>4</sup> However, we cannot draw any conclusions from this analysis because the ATO costs included administrative costs for 14 different TOs issued under the contract and the ATO invoices do not break out—and are not required to break out—indirect costs by individual TO.

There was one instance that was discussed earlier in which one of the original 12 DB contracts was cancelled in its entirety that illustrates the substantial costs that can be incurred even where there is limited direct project activity. This contract was in the transportation sector. In this example, the price negotiation memorandum that was part of the contract file stated that PCO leadership decided that this contract was no longer a viable means to accomplish the transportation program's goal of rebuilding the Iraqi infrastructure. Key contract dates were as follows:

- the contract was awarded on March 23, 2004
- an ATO was issued on September 14, 2004
- the contractor was initially told to stop work on October 13, 2004
- the final stop work order was issued on December 2, 2004
- the contract was terminated on February 20, 2005

---

<sup>3</sup> Invoices for the period of performance prior to the de-scoping action include 4 days of the time period of performance after the de-scoping action.

<sup>4</sup> There were no invoices submitted for the period of performance January 15, 2005 through January 31, 2005 for the ATOs.

During the short life of the contract only 28 percent of the \$17.7 million paid the contractor was for direct project activity. Almost half of the contractor payments (\$8.7 million) were for mobilization and demobilization costs and the remaining 23 percent (\$4 million) were for ATO costs.

# Conclusion and Recommendations

---

## Conclusion

Although the U.S. government intended to simplify the tracking of administrative and overhead costs for the 11 DB contracts issued for Iraq reconstruction through the use of ATOs, it never issued ATOs for all 11 DB contracts. The ATOs that were issued did not uniformly capture the DB contracts' administrative costs due to inconsistencies in the cost categories of the ATOs that were issued.

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

Furthermore, the ATOs were issued at different times after contract award. In addition, a series of audits conducted by DCAA found that all but one of the accounting and billing systems associated with the five contracts for which ATOs were issued were not adequate to capture administrative costs.

Our analysis of the ATO invoices indicated that during periods of limited direct project activity, contractors incurred substantial administrative costs while waiting for government direction to begin project work. In the period between contractor mobilization and the beginning of substantial direct project work, which occurred between February and November 2004 for the five DB contracts that had ATOs, contractors for these five contracts submitted invoices for \$62.1 million in ATO costs and \$26.7 million in direct project costs. As much as 9 months elapsed between the date a mobilization TO was issued and the date substantial direct project work began. Nevertheless, the government took only limited action to reduce administrative and overhead costs during periods of project inactivity.

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

We discussed the results of this work with officials from the U.S. Army Corps of Engineers, GRD-PCO. The officials told us that there were other ways to track administrative costs—specifically through management cost reports. These officials also suggested that SIGIR not publish this audit report because it would be of limited or no value now that contracts are being awarded to Iraqi rather than U.S. contractors.

We do not agree with the GRD-PCO position. In response to the GRD-PCO suggestion that management reports are another means of tracking administrative costs, we examined management reports provided for each of the 11 DB contracts. Our review indicated that the reporting of administrative costs varied from contract to contract and did not capture specific administrative costs as comprehensively as ATOs. We believe that there is value in understanding the extent to which administrative costs were tracked and reconstruction funds were used for administrative costs rather than direct project costs—regardless of the nationality of individual contractors.

## **Recommendations**

To enable the U.S. government to better track administrative and overhead costs for reconstruction contracts—both funded through the IRRF as well as under any future reconstruction effort—and to minimize costs during periods of inactivity until the authorization to begin work can be issued, we recommend that the Commanding General of GRD-PCO in coordination with the Commanding General of the JCC-I/A to take these actions:

1. Ensure that cost-reimbursement contracts contain explicit requirements for all contractors in Iraq and future reconstruction efforts for segregating, tracking, and billing administrative costs—such as through the use of contractual direction including segregating and reporting administrative costs in management cost reports.
2. Ensure that adequate project planning is conducted to minimize contractor down-time between the issuance of mobilization orders and the beginning of substantial direct project activity.
3. Improve processes to better monitor contractor administrative costs to assure that the level of administrative activity is appropriately adjusted to reflect any work stoppages, descoping actions, and reductions attributable to project completion or close-out.

## **Management Comments and Audit Response**

We received written comments on a draft of this report from GRD-PCO and JCC-I/A. Both organizations concurred with all of our recommendations. Regarding our recommendation that all contracts contain explicit requirements for all contractors in Iraq and future reconstruction efforts for segregating, tracking, and billing administrative costs, the Joint Contracting Command-Iraq/Afghanistan stated that it concurred for all future cost reimbursement contracts. Similarly, GRD-PCO stated that it concurred when

the recommendation is applied to only cost type contracts and considered it unfeasible to implement the recommendation on firm fixed price contracts. We agreed that this addresses the intent of our recommendation and have clarified our recommendation accordingly.

GRD-PCO stated that it did not agree with some of our conclusions and analytical methods as follows.

- Regarding whether ATOs accomplished their intended purpose, GRD-PCO commented that our report should evaluate whether the ATO accomplished the intended purpose for specific contracts. In the case of one contract in the buildings, hospitals, and education sector, GRD-PCO stated that it believes that the intent of Government visibility and tracking ATO costs was achieved, and that ATOs still met the intent to separately capture these costs and provide the Government more visibility over costs that would otherwise be included in general cost pools or spread across multiple task orders. We agree that the contracts for which ATOs were issued provided more visibility over administrative costs, but believe that their usefulness was limited because they were issued at different times following contract award and varied in the categories of administrative costs covered.
- Regarding our analysis of ATO costs incurred during periods of contractor inactivity, GRD-PCO commented that our report made a general analysis of “cost of work” to “work being performed” that didn’t fully consider construction and contractor invoicing practices. GRD-PCO further commented that periods of inactivity, like waiting for concrete to cure, or low dollar value activity, like design time and administrative support like planning, logistical coordination, and placing subcontracts, does not mean that the project is not moving forward. Further, GRD-PCO commented that using cost invoiced for a period based on the invoice date would not present an accurate analysis, because it could take up to a year for a contractor to invoice certain costs. GRD-PCO suggested that an accurate analysis would evaluate when the cost was incurred across all invoices and would not just examine invoices over a short period of time. We agree that projects can move forward during periods of low dollar value activity. However, we found and reported that substantial indirect costs were incurred during periods of limited direct project activity. Contracting personnel involved with the contracts we analyzed also raised concern about the level of administrative expenses being incurred under some of the contracts. As we stated in our report, our analysis was based on the periods of performance covered by each invoice, not the invoice date. To respond to GRD-PCO’s comment that we not just examine invoices over a short period of time, which was also made during our exit conference, we expanded our analysis and found and reported that as late as May 6, 2006, ATO costs continued to account for a substantial portion of overall project costs.

- Regarding our analysis of whether de-scoping contract actions resulted in reduced ATO costs, GRD-PCO commented that descoping contract actions could have the effect of increasing ATO costs. For example, GRD-PCO stated that a descoping action can shift labor categories from a task order to the ATO, which would happen if the descoping action was a termination of an entire task order. Finally, GRD-PCO again commented that using invoices based on submission date/time period is not a recommended method to determine if costs increased or decreased after a descoping action and that a detailed analysis of all invoices and supporting documentation should be performed to find out when costs were incurred and if costs increased or decreased the ATO. We reported that we were unable to determine if de-scoping contract actions resulted in reduced ATO costs because invoices are not maintained in a form that allows us to undertake such analysis. GRD-PCO continues to misconstrue our analysis by stating that using invoices based on submission date/time period is not a recommended method to determine if costs increased or decreased after a descoping action. Our analyses of invoices were based on the periods of performance covered by the invoices, not the date the invoices were submitted. In fact, we observed that some invoices were indeed submitted long after the period of performance covered by the invoice, as GRD-PCO observes, but that did not affect our analysis because we focused only on the periods of performance covered by each invoice, not when it was submitted.

## **Appendix A – Scope and Methodology**

---

We conducted this review (Project No. 2005-19) to evaluate the effectiveness of project management and the monitoring and controls exercised by administrative contracting officers. Specifically, the objectives of the review were to determine the extent to which:

- Administrative Task Orders (ATOs) varied from one design-build (DB) contractor to another
- ATOs accomplished the intended purpose, that is to capture the design-build contractors' fixed administrative costs
- increased or decreased periods of contract/TO performance impacted the value of ATO cost
- the de-scoping of projects impacted the necessity for certain administrative costs included in the ATO

To assess whether ATOs were accomplishing their intended purpose, we first reviewed all 12 DB contracts to identify those that had been issued ATOs as was intended by the Coalition Provisional Authority. We found that ATOs were issued for six of the 12 DB contracts. One of the six DB contracts with an ATO was terminated and demobilized less than one year after contract award. Therefore, our review focused on the 11 active DB contracts, of which 5 were issued one or more ATOs. Through the review of contract files and supporting databases we determined that 5 of the 11 DB contracts were issued ATOs between June 7, 2004, and November 1, 2004. We then established key contract dates, including contract award, mobilization date, ATO issuance date, and date contractor was directed to begin construction activity. We also examined supporting data that Gulf Region Division-Project and Contracting Office (GRD-PCO) furnished, including documentation that we obtained from the official contract officer files maintained in Baghdad by the GRD-PCO. Some of that data included task orders (TOs), TO modifications, emails, correspondence with the contractors, termination orders, and cost reports. We examined the data to determine whether all contractors were issued ATOs and whether ATOs that were issued were consistent.

To assess the reliability of invoiced costs, we obtained and reviewed 28 audit reports prepared by the Defense Contract Auditing Agency (DCAA) that in total addressed all 9 of the DB contractors' accounting, billing, and estimating systems, covering calendar years 2004 and 2005. Because the DCAA reports identified deficiencies in the contractors' accounting and billing systems, we contacted several DCAA branch offices to ascertain if DCAA was monitoring follow-up action to determine if the contractors issued ATOs had taken corrective action.

To examine whether substantial ATO costs were incurred during periods of limited project activity, we obtained and examined invoices from the U.S. Army Corps of Engineers (USACE) Finance Center in Millington, Tennessee. All DB contractor invoices were filed through the Corps of Engineers Financial Management System

(CEFMS) for payment. All invoices are received via mail, Defense Finance and Accounting Service Web Invoicing System or by e-mail. A hard copy of the invoice is used for data input into CEFMS at the USACE Finance Center. At the GRD-PCO Office in Baghdad, Form DD250 receiving/accepted reports and progress payments are entered into CEFMS based on hard copy documentation. There is no automatic interface for entering invoices into CEFMS. All invoices, receiving reports and progress payments entered into CEFMS require a signature to validate the user for audit purposes. The users are all government employees. Invoices are imaged and stored on the USACE Finance Center Document Management System for retrieval. For contracts awarded for work in Iraq, the USACE Finance Center, located in Millington, Tennessee, filed and maintained hard copies of the DB invoices.

Through examining CEFMS invoices, we identified the value of ATO and direct TO billings and the periods of performance covered by each invoice. We compared the period of performance identified in monthly billings with key contract dates to assess how much contractors were spending while awaiting orders to begin construction. We calculated the date substantial work began by analyzing invoices submitted by the contractors for direct project work to determine the date that marked the beginning of the period of performance when substantial direct project costs were incurred. We interviewed a wide array of government officials involved with the DB contracts, including numerous government officials who were in-theater during the ramp-up of reconstruction beginning in calendar year 2004. We also interviewed contracting officers, to include the individual who was the Director of Procurement Operations, Office of the Assistant Deputy Assistant Secretary of the Army, Iraq Headquarters, from March 2005 through June 2006 and who had previously been the Operations Officer, Joint Contracting Command-Iraq/Afghanistan from January through March 2005. We interviewed the current sector contracting officers, as well as managers from the GRD-PCO, representatives from the Sector Project and Contracting Office Contractor support organization and USACE personnel. Finally, we also interviewed several managers with various DB contract firms to obtain their perspective on the process of issuing ATOs.

To determine the effect of de-scoping actions on ATO costs, we identified when de-scoping actions occurred by examining task order modifications. After identifying task order modifications involving de-scoping actions we examined invoices for the periods immediately preceding and following de-scoping actions to the extent possible. However, we found that ATO costs included administrative costs for multiple TOs issued under 1 contract and the ATO invoices do not break out and are not required to break out indirect costs by individual TO. This substantially limited the analyses that we could perform.

We conducted this audit from October 2005 to August 2006 in accordance with generally accepted government auditing standards.

## **Use of Computer-Processed Data**

We reviewed invoice reports that were compiled in Excel spreadsheets based on data taken from reports run in the USACE's CEFMS. The CEFMS was designed as a single entry system so the transactions update, in real time, the general ledger and subsidiary

ledgers. We did not audit CEFMS.<sup>5</sup> We also examined data contained in the Iraq Reconstruction Management System and in the contracting officers' electronic files. We did not conduct audits of the controls of any of the systems used. SIGIR previously audited the Iraq Reconstruction Management System.<sup>6</sup>

## **Prior Coverage**

We reviewed applicable reports issued by SIGIR and DCAA.

### **Special Inspector General for Iraq Reconstruction (SIGIR).**

SIGIR-05-007, *Administration of Iraq Relief and Reconstruction Fund Contract Files*, April 30, 2004

SIGIR-05-017, *Award Fee Process for Contractors Involved in Iraq Reconstruction*, October 25, 2004

SIGIR-05-029, *Challenges Faced in Carrying Out Iraq Relief and Reconstruction Fund Activities*, January 26, 2006

**Defense Contract Audit Agency (DCAA).** We reviewed 28 reports that the DCAA issued on the DB contractors.

Defense Contract Audit Agency, *Report on Audit of the cost and Schedule Performance Reports for the Five Months Ended June 30, 2005 for Task Orders No. 4, 6, 7, and 8 of Contract No. W914NS-04-D-0007*, (2131-2005N17760004, October 30, 2005)

Defense Contract Audit Agency, *Report on Audit of the Cost and Schedule Performance Report for period ending June 30, 2005 for Task Orders No. 1, 2, 3, and 5 of Contract Number W914NS-04-D-0007*, (2131-2005N17760005, October 9, 2005)

Defense Contract Audit Agency, *Report on Audit of the Cost and Schedule Performance Reporting for the Five Months ended June 30, 2005 for Task Order Nos. 9, 10, 11, and 12 of Contract No. W914NS-04-D-0007*, (2131-2005N17760006, November 21, 2005)

Defense Contract Audit Agency, *Audit Report for Billing System Review Follow-Up*, (4261-2005W11010001, June 21, 2005)

Defense Contract Audit Agency, *Report on Audit of Construction Business Unit Estimating System*, (04261-2004W24010001, December 23, 2004)

---

<sup>5</sup> For more information on the reliability of data drawn from CEFMS, see GAO report 01-89, "Significant Weaknesses in Corps of Engineers' Computer Controls," October, 2000, and GAO follow-up report 02-589, "Corps of Engineers Making Improvements But Weaknesses Continue," June, 2002.

<sup>6</sup> "Management of the Iraq Relief and Reconstruction Fund Program: The Evolution of the Iraq Reconstruction Management System," SIGIR-06-001, April 24, 2006; and "Review of Data Entry and General Controls in the Collecting and Reporting of the Iraq Relief and Reconstruction Fund," SIGIR-06-003, April 28, 2006.

Defense Contract Audit Agency, *Report on Accounting System Review*, (4261-2004W11070001, July 15, 2004)

Defense Contract Audit Agency, *Report on Audit of Budget and Planning System Internal Controls*, (04261-2004W11020002, July 7, 2004)

Defense Contract Audit Agency, *Report on Audit of the Cost and Schedule Performance Reporting for the Six Months ended June 30, 2005 for Task Orders No. 1, 2, 3, and 4 of Contract No. W914NS-04-D-0008*, (2131-2005N17760007, November 14, 2005)

Defense Contract Audit Agency, *Report on Audit of the Cost and Schedule Performance Reporting for the Six Months ended June 30, 2005 for Task Orders 5, 6, and 7 of Contract No. W914NS-04-D-0008*, (2131-2005N17760008, November 21, 2005)

Defense Contract Audit Agency, *Report on Audit of FluorAMEC, LLC Billing System Internal Controls (Iraq Reconstruction Support)*, (01281-2004H11010002, March 14, 2005)

Defense Contract Audit Agency, *Report on Audit of FluorAMEC, LLC Estimating System Internal Controls (Iraq Reconstruction Support)*, (1281-2005H22010001, June 29, 2005)

Defense Contract Audit Agency, *Billing System Review*, (4901-2001B11010002, July 15, 2005)

Defense Contract Audit Agency, *Review of Direct Labor Recorded and Billed Under the Security and Justice (S&J) Administrative Task Order (ATO)*, (4901-2005B17900013, September 15, 2005)

Defense Contract Audit Agency, *Report on Security and Justice Administrative Task Order Floor Check*, (4901-2005B10310005, September 22, 2005)

Defense Contract Audit Agency, *Report on Audit of the Cost and Schedule Performance Reporting for the Six Months ended June 30, 2005 for Task Order Nos. 1 through 13 Under Contract No. W914NS-04-D-0006*, (2131-2005N17760002, November 30, 2005)

Defense Contract Audit Agency, *Review of Direct Labor Recorded and Billed Under the Buildings Health and Education (BHE) Administrative Task Order (ATO)*, (4901-2005B17900012, September 15, 2005)

Defense Contract Audit Agency, *Report on Price Proposal for Modification of Task Order 6, 10, and 13—Increased Costs for Remote Site Security*, (2131-2006T21000014, March 13, 2006)

Defense Contract Audit Agency, *Audit Report on Accounting System Internal Controls*, (3521-2004V11070001, March 30, 2005)

Defense Contract Audit Agency, *Report on Audit of Contractor's Billing System Internal Controls*, (3521-2004V11010001, March 31, 2005)

Defense Contract Audit Agency, *Report on Agreed-Upon Procedures*, (3521-2006V28000002, November 30, 2005)

Defense Contract Audit Agency, *Report on Audit of Billing System Internal Controls*, (02161-2004V11010001, May 17, 2005)

Defense Contract Audit Agency, *Report on Estimating System Deficiency*, (02161-2005V24020001, April 15, 2005)

Defense Contract Audit Agency, *Report on Follow up Examination of PMSI Control Environment and Overall Accounting Controls*, (02161-2005V11070001, September 16, 2005)

Defense Contract Audit Agency, *Report on Audit of Estimating System*, (3311-2004K24010001, August 4, 2004)

Defense Contract Audit Agency, *Follow-Up Report on Audit of Kellogg Brown and Root Services, Inc. Billing System and Related Internal Controls*, (3311-2005B11010001, December 29, 2005)

Defense Contract Audit Agency, *Report on Audit of Task Order No. 0006, Modification 02, Amendment 03 Under Prime Contract No. W914NS-04-D-0005*, (1281-2005C21000061, August 18, 2005)

Defense Contract Audit Agency, *Report on Audit of Task Order No. 0006, Modification 02, Amendment 04 Under Prime Contract No. W914NS-04-D-0005*, (1281-2005C21000062, August 19, 2005)

Defense Contract Audit Agency, *Report on Audit of Specified Demobilization and Indirect Costs for Delivery Order No. 0027 for the Period of September 2004 through Contract Settlement*, (2191-2005M27000001, February 15, 2005)

## Appendix B – Acronyms

---

<b>Acronym</b>	<b>Definition</b>
ATO	Administrative Task Order
CEFMS	U.S. Army Corps of Engineers Financial Management System
DB	Design-Build
DCAA	Defense Contract Audit Agency
GRD-PCO	Gulf Region Division-Project and Contracting Office
IRRF	Iraq Relief and Reconstruction Fund
JCC-I/A	Joint Contracting Command-Iraq/Afghanistan
KBR	Kellogg Brown and Root
SIGIR	Special Inspector General for Iraq Reconstruction
TO	Task Order
USACE	U.S. Army Corps of Engineers

## **Appendix C – Report Distribution**

---

### **Department of State**

Secretary of State

Senior Advisor to the Secretary and Coordinator for Iraq

U.S. Ambassador to Iraq\*

Director, Iraq Reconstruction Management Office\*

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

Inspector General, Department of State

### **Department of Defense**

Secretary of Defense

Deputy Secretary of Defense

Director, Defense Reconstruction Support Office

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Inspector General, Department of Defense

Director, Defense Contract Audit Agency

Director, Defense Finance and Accounting Service

Director, Defense Contract Management Agency

### **Department of the Army**

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

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

Deputy Assistant Secretary of the Army (Policy and Procurement)

Director, Project and Contracting Office

Commanding General, Joint Contracting Command-Iraq/Afghanistan\*

Assistant Secretary of the Army for Financial Management and Comptroller

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

Commanding General, Gulf Region Division\*

Auditor General of the Army

### **U.S. Central Command**

Commanding General, Multi-National Force-Iraq

Commanding General, Multi-National Corps-Iraq

Commanding General, Multi-National Security Transition Command-Iraq

Commander, Joint Area Support Group-Central

### **Other Federal Government Organizations**

Director, Office of Management and Budget

Comptroller General of the United States

Inspector General, Department of the Treasury

Inspector General, Department of Commerce

Inspector General, Department of Health and Human Services

Inspector General, U.S. Agency for International Development

President, Overseas Private Investment Corporation

President, U.S. Institute for Peace

\* Recipient of the draft report.

# **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

## **U.S. Senate**

Senate Committee on Appropriations

Subcommittee on Defense

Subcommittee on State, Foreign Operations and Related Programs

Senate Committee on Armed Services

Senate Committee on Foreign Relations

Subcommittee on International Operations and Terrorism

Subcommittee on Near Eastern and South Asian Affairs

Senate Committee on Homeland Security and Governmental Affairs

Subcommittee on Federal Financial Management, Government Information and International Security

Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

## **U.S. House of Representatives**

House Committee on Appropriations

Subcommittee on Defense

Subcommittee on Foreign Operations, Export Financing and Related Programs

Subcommittee on Science, State, Justice and Commerce and Related Agencies

House Committee on Armed Services

House Committee on Government Reform

Subcommittee on Management, Finance and Accountability

Subcommittee on National Security, Emerging Threats and International Relations

House Committee on International Relations

Subcommittee on Middle East and Central Asia

## **Appendix D – Audit Team Members**

---

This report was prepared and the review was conducted under the direction of Joseph T. McDermott, Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction. The staff members who contributed to the report include:

Karen Bell

Michael Bianco

Frank Bonsiero

James Carrera

Shawn Kline

Peter Lee

Rizwan Shah

Clifton Spruill

Steven Sternlieb

# Management Comments

## Gulf Region Division, U.S. Army Corps of Engineers



REPLY TO  
ATTENTION OF

DEPARTMENT OF THE ARMY  
U.S. ARMY CORPS OF ENGINEERS  
GULF REGION DIVISION  
BAGHDAD, IRAQ  
APO AE 09318

CEGRD-CG

07 September 2006

MEMORANDUM FOR Special Inspector General for Iraq Reconstruction, US Embassy Annex,  
M-202, Old Presidential Palace, APO AE 09316

SUBJECT: Draft SIGIR Audit Report – Review of Administrative Task Orders for Iraq  
Reconstruction Contracts (SIGIR-06-028)

1. This memorandum provides the U.S. Army Corps of Engineers, Gulf Region Division response to the subject draft audit report.
2. The Gulf Region Division generally concurs with the draft report recommendations. We did not agree with some conclusions and the analytical methods used to prepare the report. See the enclosure for additional information regarding the conclusions.
3. Thank you for the opportunity to provide our written comments for incorporation in the final assessment report.
4. If you have any questions, please contact Mr. Eric Tichay at (540) 665-5021 or his email [Eric.P.Tichay@tac01.usace.army.mil](mailto:Eric.P.Tichay@tac01.usace.army.mil).

Encl

  
WILLIAM H. McCOY  
Major General, USA  
Commanding

## COMMAND REPLY

### SIGIR Draft Audit Report – Review of Administrative Task Orders for Iraq Reconstruction Contracts (SIGIR-06-028)

#### Additional Comments

##### Page 12. Conclusion.

Draft Report. Although the U.S. government sought to simplify the tracking of administrative and overhead costs for the 11 D-B contracts issued for Iraq reconstruction through the use of ATOs, it never issued ATOs for all 11 D-B contracts. The ATOs that were issued did not uniformly capture the D-B contracts' fixed administrative costs due to inconsistencies in the cost categories of the ATOs that were issued.

GRD-PCO Comments. The report should evaluate whether the ATO accomplished the intended purpose for specific contracts. In the case of contract W914NS-04-D-0009, we believe that the intent of Government visibility and tracking ATO costs was achieved. We do not disagree that in some instances administrative costs were high. ATOs still met the intent to separately capture these costs and provide the Government more visibility over costs that would otherwise be included in general cost pools or spread across multiple task orders.

Draft Report. Our analysis of the ATO invoices indicated that during periods of inactivity, contractors incurred substantial administrative costs while waiting for government direction to begin project work. In the period between contractor mobilization and the beginning of substantial direct project work, which occurred between March 2004 and November 2004 for the 5 D-B contracts that had ATOs, contractors for these 5 contracts submitted invoices for \$62.1 million in ATO costs and \$26.7 million in direct project costs. As much as 9 months elapsed between the date a mobilization TO was issued and the date substantial direct project work began. Nevertheless, the government took only limited action to reduce administrative and overhead costs during periods of project inactivity.

GRD/PCO Comments. The report made a general analysis of "cost of work" to "work being performed" that didn't fully consider construction and contractor invoicing practices. Periods of inactivity, like waiting for concrete to cure, does not mean that the project is not moving forward. The report never evaluated, clearly defined or provided evidence what substantial direct project work occurred. The report was not clear if substantial work was design or construction type work, or just dollar value invoiced, which would impair the validity of the analysis. Activities that have a low cost value, but are substantial in nature, occur for the design of these task orders at the very beginning. While dollar value invoiced may be low, design takes time and is a significant part of the project that requires a fixed or higher level of administrative support regardless of the direct dollar value of work performed. In addition, administrative support like planning, logistical coordination, and placing subcontracts require front end costs. Further, using

Enclosure

cost invoiced for a period based on the invoice date would not present an accurate analysis, because it could take up to a year for a contractor to invoice certain costs. An accurate analysis would evaluate when the cost was incurred across all invoices and would not just examine invoices over a short period of time.

Draft Report. We were unable to determine if de-scoping contract actions resulted in reduced ATO costs because invoices are not maintained in a form that allows us to undertake such analysis. In one instance we did identify a de-scoping action that occurred on December 27, 2004, which was followed by an increase rather than a decrease in ATO costs. However, we cannot draw any conclusions from this analysis because the ATO costs included administrative costs for 14 different TOs issued under the contract and the ATO invoices do not break out and are not required to break out indirect costs by individual TO. In another instance we documented that most of the costs incurred for the D-B contract cancelled less than a year after it was issued were for mobilization, demobilization, and administrative costs.

GRD/PCO Comments. Descoping contract actions could have the effect of increasing ATO costs. A descoping action can shift labor categories from a task order to the ATO, which would happen if the descoping action was a termination of an entire task order. While descoping actions and terminations occurred, contract length also increased which would create additional costs from contract extensions causing an increase in ATO costs or possibly a neutral change. Finally, using invoices based on submission date/time period is not a recommended method to determine if costs increased or decreased after a descoping action. The report should acknowledge that it could take up to a year from the date costs were incurred to when costs appear in an invoice. A detailed analysis of all invoices and supporting documentation should be performed to find out when costs were incurred and if costs increased or decreased the ATO.

#### **Recommendation and Command Comments**

##### **Pages iv. and 13.**

To enable the U.S. government to better track administrative and overhead costs for reconstruction contracts, both funded through the IRRF as well as under any future reconstruction effort, and to minimize costs during periods of inactivity until the authorization to begin work can be issued, we recommend that the Commanding General, Gulf Region Division-Project and Contracting Office in coordination with the Commanding General, Joint Contracting Command-Iraq/Afghanistan take the following actions:

Draft Report Recommendation. 1. Ensure contracts contain explicit requirements for all contractors in Iraq and future reconstruction efforts for segregating, tracking, and billing administrative costs.

GRD/PCO Response. Concur with the recommendation when it is applied to only cost type contracts. GRD/PCO considers it unfeasible to implement the recommendation on firm fixed price (direct) contacts.

Draft Report Recommendation. 2. Ensure adequate project planning is done to minimize contractor down time between the issuance of mobilization orders and the beginning of substantial direct project activity.

GRD/PCO Response. Concur.

Draft Report Recommendation. 3. Improve processes to better monitor contractor administrative costs to assure that the level of administrative activity is appropriately adjusted to reflect any work stoppages, descopeing actions, and reductions due to project completion or close-out.

GRD/PCO Response. Concur.

# Management Comments

## Joint Contracting Command-Iraq/Afghanistan

---



HEADQUARTERS  
JOINT CONTRACTING COMMAND-IRAQ/AFGHANISTAN  
BAGHDAD, IRAQ  
APO AE 09348



Reply to  
JCC-I/A

04 September 2006

MEMORANDUM FOR Office of the Special Inspector General for Iraq Reconstruction

SUBJECT: Draft Audit Report on Review of Administrative Task Orders for Iraq Reconstruction Contracts (SIGIR-06-028)

Reference is made to the subject draft audit report and recommendations for response from the Joint Contracting Command – Iraq/Afghanistan. Recommendations with responses are as follows:

1. **Recommendation:** Ensure that contracts contain explicit requirements for all contractors in Iraq and future reconstruction efforts for segregating, tracking and billing administrative costs.

**JCC-I/A Response:** Concur for all future cost reimbursement contracts. This would not be applicable to fixed price (direct) contracting.

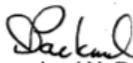
2. **Recommendation:** Ensure that adequate project planning is done to minimize contractor down time between the issuance of mobilization orders and the beginning of substantial direct project activity.

**JCC-I/A Response:** Concur.

3. **Recommendation:** Improve processes to monitor contractor administrative costs to assure that the level of administrative activity is appropriately adjusted to reflect any work stoppages, de-scoping actions, and reductions due to project completion or close-out.

**JCC-I/A Response:** Concur.

Point of contact for questions is Ruth Anne Ijames, 703-544-6979, e-mail: [ruth.ijames@pco-iraq.net](mailto:ruth.ijames@pco-iraq.net).

  
Douglas W. Packard  
Principal Assistant Responsible  
for Contracting