

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 holds an olive branch in its right talon and arrows in its left. Above the eagle's head is a sunburst with a crescent moon and a star. The seal is surrounded by text in Arabic and English. The Arabic text at the top reads 'مفتش العام' and at the bottom 'إعادة إعمار العراق'. The English text at the top reads 'INSPECTOR GENERAL' and at the bottom 'RECONSTRUCTION'.

OUTCOME, COST, AND OVERSIGHT OF
ELECTRICITY-SECTOR
RECONSTRUCTION CONTRACT WITH
PERINI CORPORATION

SIGIR-08-011
APRIL 29, 2008



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

April 29, 2008

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

SUBJECT: Review of Outcome, Cost, and Oversight of Electricity-Sector Reconstruction Contract with Perini Corporation (SIGIR-08-011)

We are providing this audit report for your information and use. We performed this audit in accordance with our statutory responsibilities contained in Public Law 108-106, as amended. This law provides for independent and objective audits of policies designed to promote economy, efficiency, and effectiveness of programs and operations and to prevent and detect fraud, waste, and abuse. This report discusses the results of our review of Perini Corporation contract W914NS-04-D-0011 for reconstruction efforts in Iraq. The review was conducted as SIGIR project 7027.

We considered comments from the U.S. Army Corps of Engineers Gulf Region Division when preparing the final report. The comments are addressed in the report, where applicable, and a copy is included in the Management Comments section of this report.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Glenn Furbish (glenn.furbish@sigir.mil/703-428-1058); or Walt Keays (walt.keays@iraq.centcom.mil/703-343-7926).

Stuart W. Bowen, Jr.
Inspector General

Table of Contents

Executive Summary	i
Introduction	1
Construction Outcome and Cost	3
Contract Administration and Oversight	13
Conclusion and Lessons Learned	18
Appendices	
A. Scope and Methodology	20
B. Task Order History and Outcome	23
C. Contract Solicitation and Award	30
D. Perini Subcontractors	31
E. Acronyms	32
F. Audit Team Members	33
Management Comments	
U. S. Army Corps of Engineers GRD	34



Review of Outcome, Cost, and Oversight of Electricity-Sector Reconstruction Contract with Perini Corporation

SIGIR-08-011

April 29, 2008

Executive Summary

Introduction

On March 24, 2008, Mr. Paul Converse, an auditor serving with the Special Inspector General for Iraq Reconstruction and a member of the audit team responsible for this report died of wounds sustained in Baghdad, Iraq, while performing his official duties. Paul provided excellent support to the research and writing that went into the production of this audit. This report is issued in his memory and with gratitude for his outstanding service to SIGIR.

The December 2006 amendment to the Special Inspector General for Iraq Reconstruction's (SIGIR) enabling legislation required that, before its termination, SIGIR must prepare a final forensic audit report on funds made available to the Iraq Relief and Reconstruction Fund. This mandate was expanded in the 2008 National Defense Authorization Act, P.L. 110-181, to require preparation of a final forensic audit report "on all amounts appropriated or otherwise made available for the reconstruction of Iraq." To meet this requirement, SIGIR has undertaken a series of focused contract reviews examining major Iraq reconstruction contracts. The objective of these audits is to examine contract outcome, cost, and management oversight, emphasizing issues related to vulnerabilities to fraud, waste, and abuse.

This report, the fifth in the series of focused contract reviews, examines reconstruction work contracted by the U.S. government and performed by Perini Corporation. Specifically, this report discusses work performed under a major design-build contract in the electricity sector awarded in 2004. In March 2004, at the request of the Coalition Provisional Authority, the U.S. Army Corps of Engineers awarded contract W914NS-04-D-0011, an indefinite-delivery indefinite-quantity cost-plus-award-fee contract, to Perini Corporation to provide design-build services in the electricity sector. The objective was to construct electrical transmission and distribution facilities in the southern region of Iraq, and it had a not-to-exceed amount of \$500 million. The contract had a base period of two years plus three option years. The objectives were to be accomplished by issuing task orders against the basic contract.

The government subsequently issued 11 task orders; one for contractor mobilization and ten for the construction of electricity distribution networks and the rehabilitation or construction of substations. The task orders required Perini to submit a site-assessment report, generally 30 days after issuance of the task order, and a cost proposal for agreed-upon work, generally 15 days after submission of the site assessment report.

Initially, the Coalition Provisional Authority's Program Management Office had program-management responsibilities. In May 2004, the Project and Contracting Office (PCO) replaced the PMO. In November 2004, the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) assumed management of all CPA contracts. The U.S. Army Corps of Engineers Gulf Region Division (GRD) provided quality assurance services.

Under terms of the contract, the contractor submits periodic invoices to the government for payment. PCO procedures required that the contracting office review and approve the invoices and that a contracting officer representative certify of the receipt of goods or services.

Limitation of Assessment

Our assessment was constrained by incomplete documentation. The missing documents were important to a more complete evaluation of GRD's quality assurance program. GRD officials made extra efforts to provide additional documentation following our exit conference at the conclusion of our fieldwork. Despite remaining data limitations, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

Of the ten task orders under this contract, five were completed, but several were significantly descope, and five were terminated for the convenience of the government. In general, PCO terminated the task orders because it believed Perini's proposed costs to be too high and its decision to terminate the task orders appears to have protected the government's interests. In all cases the decision to reduce task order scope or terminate a task order was made after a site assessment was completed but prior to the start of construction. No projects that were started were left unfinished by Perini. Nonetheless, SIGIR identified areas where we believe the government's management of the contract could have been improved with relation to quality assurance responsibilities, award-fee decisions, and control of personnel turnover among key contracting officials.

Construction Outcome and Costs

The U.S. government paid almost \$123 million to Perini on the contract, including \$668,476 for Task Order 1 (mobilization). Approximately \$8 million in award fees were authorized. One task order was completed, and the others were either reduced in scope or terminated for convenience. According to PCO officials, the quality of Perini's construction was very good, but the U.S. government often judged the company's cost proposals to be too high, largely due to its indirect costs, and the government elected not to continue the work with Perini. Also, for some projects that were started the government was displeased with Perini's delays and extension requests. Security issues also affected several task orders.

Approximately one year into the contract, the government officials decided to remove work from the Perini contract and complete it through firm-fixed-price contracts awarded to other international contracting companies. As discussed earlier, the task orders required Perini to conduct a site-assessment, and then submit a cost proposal for agreed-upon work. All

descopings or project terminations occurred after the site assessments were completed but prior to the start of construction generally because the government and Perini could not come to terms on cost. The results of these task orders are shown in Table 1, summarized in the body of the report, and discussed in detail in Appendix B.

Table 1—Construction Task Order Outcomes

Completed Task Orders	Outcome	Problems
Task Order 2	Completed 5 of 8 projects; the other 3 projects are removed from the task order prior to the start of construction.	High cost estimates, delays and security concerns are cited
Task Order 3	Completed 7 of 12 projects; the other 5 projects are removed from the task order prior to the start of construction.	High cost estimate is cited as a reason for removing 1 project from the task order, but no reasons are identified for removing the other 4.
Task Order 6	Perini is directed to complete engineering and procurement for 4 projects and deliver the equipment to a government warehouse. Eleven projects are removed from the task order prior to the start of construction.	High cost estimates are cited.
Task Order 7	Completed 3 of 6 projects. Three projects are removed from the task order prior to construction.	Concerns about management of construction milestone schedule.
Task Order 8	Completed 3 of 4 projects. One project is removed from the task order prior to construction.	Concerns about management of construction milestone schedule
Terminated Task Orders	Outcome	Problems
Task Order 4	Terminated for convenience prior to construction.	High cost estimates, delays and security
Task Order 5	Terminated for convenience prior to construction	Security
Task Order 9	Terminated for convenience prior to construction	High cost estimates and delays
Task Order 10	Terminated for convenience prior to construction	Local Iraqis living at the site
Task Order 11	Terminated for convenience prior to construction	High cost estimates and delays

Note: Task order 1, not shown above, was a non-construction task order used for capturing mobilization costs associated with assembling people and equipment in Iraq to begin the construction work.

Source: SIGIR analysis of contract data

SIGIR’s review of contract documents generally identifies three primary reasons for reducing the scope of work on these task orders: (1) Perini cost proposals that significantly exceeded budgets

and available funding, (2) concerns about the company's management of project schedules, and (3) security issues.

Former PCO officials cited Perini's high indirect cost estimates as a major contributing factor to its high cost estimates. The high indirect costs also created difficulties for the government and Perini in coming to agreement and definitizing the five partially completed task orders. Modification 5 to the contract was issued in April 2005 to require Perini to provide a detailed indirect-cost report, but the first report arrived in June 2005 after most task orders had already been de-scoped or terminated. (SIGIR has previously reported that delays in beginning construction work under the design build contracts contributed to high indirect costs.¹)

There is little information in the contract file that addresses project delays. There are requests for excusable delays from Perini and correspondence from the contracting officer complaining about delays. However, there is little information about why the contracting officer considered Perini's requests unreasonable. The contractor's requests cite security issues, Iraqi religious observances, land ownership issues, and the inability to access some sites. Without more information it is not possible for SIGIR to make a judgment about the reasonableness of these requests.

As a result of the high costs and delays, the government, in March 2005, elected to reduce the scope of the work under the contract and to try to achieve the same results through direct contracting. Former PCO officials stated that this delayed completion of the projects but allowed the program to stay within budget and accomplish more in the way of reconstruction. The option years on the Perini contract were not exercised.

Contract Administration and Oversight

SIGIR identified various issues relating to oversight that had a negative impact on completion of the projects. Primary observations are identified below:

- Available information indicates that GRD did not effectively execute its quality assurance (QA) responsibilities. PCO contracted with GRD to provide QA services for a fee of 4 percent of contract cost. PCO procedures require the submission of a QA report for every inspection at a work site. As noted earlier, we requested copies of the QA reports from GRD, and received reports on only four substations (39 reports on one, 36 reports on one, and five reports on each of two others). While this may be a recordkeeping issue, it seems to support the contention of former PCO officials who were responsible for the contract that PCO received limited value for the funds paid to GRD for QA. According to PCO officials, they had to rely on their program-management contractor to supplement the QA effort.²
- Insufficient documentation was maintained to adequately support the award-fee process and decisions. Further, the metrics for cost control under the award-fee plan were mostly for administrative compliance and did not include quantifiable metrics of sufficient weight to create incentive for Perini to control costs. We also found that the government

¹ SIGIR Report 2, *Iraq Reconstruction: Lessons in Contracting and Procurement*, Jul. 2006.

² A contract was awarded in each sector to provide program management support to the Program Management Office. The contractor in the electricity sector was Iraq Power Alliance Joint Venture.

did not use an effective award-fee conversion scale to create incentives for superior contractor performance. The government awarded over 70 percent of the award-fee pool to Perini for the entire period of its work, although the company's performance scores were "average" or "above average."

- There was high turnover of key contract-administration personnel. For example, based on a review of relevant documentation, we determined that at least 14 contracting officers were involved in the contract in the approximately two and a half years after its award. This averages out to a new contracting officer every 65 days. According to a former senior PCO official, the turnover rate hampered progress.

While we initially had difficulty locating many documents related to quality assurance inspections and others supporting contract payments, GRD officials made extra efforts to locate many of these documents from multiple locations in Iraq as well as the U.S. as our field work was nearing completion. Ultimately, we were able to obtain and reconcile documentation to support the 188 payments the U.S. government made to Perini on the contract.

Our findings relating to oversight reflect processes that were in place at the time of contract award and execution, mostly between 2004 and 2006. A senior GRD official stated that the agency has recently hired local Iraqi nationals to enhance its quality assurance efforts. In addition, a senior JCC-I/A official stated that the government has shifted its contracting strategy in Iraq away from cost-plus-award-fee type contracts and now focuses on achieving results through firm-fixed-price contracts. The scope of our audit did not include an assessment of the impact of current processes.

Recommendation

In April 2004, contract administration was transferred to the CPA Contracting Activity office in Iraq. In May 2004, the Project and Contracting Office (PCO) replaced the PMO. In November 2004, the Joint Contracting Command–Iraq/Afghanistan (JCC-I/A) was established to centralize contracting, and administration of all CPA contracts was transferred to JCC-I/A. As a result, JCC-I/A assumed responsibility for contracts that originated with other contracting entities. This limits JCC-I/A's accountability for problems in contract file management that they inherited. However, SIGIR believes that it is incumbent upon JCC-I/A—the current contract manager—to ensure that contract files contain sufficient documentation to support the validity of contract payments made. Accordingly, SIGIR recommends that the Commander, JCC-I/A, direct that actions be taken to ensure that all contract files, including contracts transferred from other entities, contain documents to support key contract management and payment actions and that such files be retained in a central location to the extent practical.

Lessons Learned

SIGIR identified lessons learned that may be applicable to future contract-management strategies in environments like those characterizing Iraq reconstruction. When using large, indefinite-delivery indefinite-quantity cost-plus type contracts:

- Require the prime contractor to provide detailed project-level indirect cost reports under the contract to facilitate strategic decision-making.
- Ensure the provision of proper quality-assurance inspections, including sufficient numbers of trained personnel.
- Incorporate control of indirect costs as a quantifiable metric in the award-fee plan, and give the metric enough weight to motivate the contractor to scrutinize and control those costs.
- Explore alternative strategies for managing contracts to achieve stability in the contracting-officer workforce.

Management Comments and Audit Response

In our draft report, we identified a material management-control weakness resulting from a lack of documentation to support payments on the contract. We included a draft recommendation that GRD determine if the documents are on file or report the material weakness as prescribed by Army Regulation 11-2. GRD subsequently provided copies of Perini invoices and pay vouchers to support all payments on the contract. We also recognized that processes changed as a result of the transition of program management from PCO to GRD. Accordingly, in preparing the final report we deleted the draft recommendation related to the material weakness. However, we added a new recommendation to this report, addressing the need for JCC-I/A to establish accountability over the contract files that they inherited from other entities. GRD also provided technical comments that are addressed in the report where appropriate. GRD also commented that we had not made sufficient effort to obtain documents from the finance center in Millington, Tennessee. We initiated a request to the finance center to travel to Millington to review the pay documents, but chose not to go because we believed the data had already been provided in response to an earlier data request. Later, a list of the missing documents was provided to GRD who eventually accounted for all 188 invoices and pay vouchers.

GRD also commented that we had not requested copies of QA reports until the exit conference in February. However, we have emails showing that the audit team had made multiple requests for the reports, starting more than two months prior to the exit conference.

Introduction

A December 2006 amendment to the Special Inspector General for Iraq Reconstruction's (SIGIR) enabling legislation required that prior to its termination, SIGIR prepare a final forensic audit report on funds made available to the Iraq Relief and Reconstruction Fund. This mandate was expanded in the 2008 National Defense Authorization Act, Public Law 110-181, to require preparation of a final forensic audit report "on all amounts appropriated or otherwise made available for the reconstruction of Iraq." To help meet the forensic-audit requirement, SIGIR is undertaking a series of focused contract reviews examining major Iraq reconstruction contracts. The audits are to examine contract outcomes and oversight of cost and contract management, with emphasis on issues related to fraud, waste, and abuse. This report, the fifth in the series of such reviews, examines reconstruction work contracted for by the U.S. government and performed by the Perini Corporation of Framingham, Massachusetts.

Background

In March 2004, at the request of the Coalition Provisional Authority (CPA), the U.S. Army Corps of Engineers awarded an indefinite-delivery, indefinite-quantity, cost-plus award-fee contract,³ to the Perini Corporation to perform design-build services in the electricity sector.⁴ The contract was to construct electric transmission and distribution facilities in the southern region of Iraq for a maximum of \$500 million. Specific projects were to be identified through task orders. The contract had a base period of two years and three option years. Contractor costs were to be reimbursed. Perini was to receive a base fee of 3 percent of budgeted costs and was to be eligible for an award fee of up to 12 percent of budgeted costs. The contract was funded with money from the Iraq Relief and Reconstruction Fund. For more information on the solicitation and awarding of the contract, see Appendix C.

According to the design-build approach, the prime contractor receives a task order from the government to design and build a specific project or projects. The contractor conducts an initial field survey, develops a cost estimate, and provides the estimate to the government for review. Upon the government's approval, the contractor does the necessary design work, procures the materials, and manages the construction. Although the prime contractor usually performs the survey, design, and procurement work, much of the construction work is carried out by sub-contractors (during Iraq reconstruction, this frequently involved Iraqi or Middle Eastern firms).

Eleven task orders were awarded under the contract; a contractor-mobilization task order⁵ and ten task orders for constructing and rehabilitating projects. Each project was to begin with a site assessment, and based on the assessment, Perini was to rehabilitate or construct new components

³ Contract W914NS-04-D-0011 was awarded March 12, 2004.

⁴ Perini is a diversified construction, construction management, and design-build company serving public and private clients.

⁵ Mobilization involves assembling people and equipment in Iraq to begin the construction work. Task order 1 was awarded March 12, 2004.

for the distribution network, including substations,⁶ lines, transformers, conductors, and other components. Perini's work did not include connecting homes and businesses to the distribution system.

The solicitation and award of the contract was performed at the Corps of Engineers contracting office in Louisville, Kentucky. In April 2004, contract administration was transferred to the CPA Contracting Activity office in Iraq. The CPA Program Management Office (PMO) had overall responsibility and was assisted by the Iraq Power Alliance Joint Venture (IPA JV), a private company under contract to the PMO to provide management support in the electricity sector. In May 2004, the Project and Contracting Office (PCO) replaced the PMO. In November 2004, the Joint Contracting Command–Iraq/Afghanistan (JCC-I/A) was established to centralize contracting, and administration of all CPA contracts was transferred to JCC-I/A. The U.S. Army Corps of Engineers Gulf Region Division (GRD) provided quality assurance services. Throughout this period, the IPA JV continued to provide program management support.

Objectives

Our audit objectives were to review the outcomes, costs, and management oversight design-build contract awarded to the Perini Corporation and its subsidiaries and joint-venture partners.

Data Limitation. Consistent with government audit standards, we note that during the course of this review there were certain documents requested from GRD that were not received by the end of our field work. The lack of those limited the scope of our review. These documents were GRD's daily quality assurance reports. The absence of these documents limited our ability to fully assess quality assurance activities. Consequently, to complete our review, we discussed GRD quality assurance efforts with former PCO officials who worked in the electricity sector.

GRD officials made extra efforts to locate and provide additional documentation following our exit conference at the conclusion of our fieldwork. Quality assurance inspection reports for four substations were eventually provided, but this did not allow time for a complete review.

⁶ A substation converts high voltage transmission electricity to lower voltage electricity. For example, the Basrah distribution network substations convert 33 kilovolt (kV) transmission electricity to 11 kV distribution electricity

Construction Outcome and Cost

Of ten construction and rehabilitation task orders, five were completed but several were reduced in scope, and five were terminated for the convenience of the government. No projects that were started were left incomplete. All decisions to descope or terminate the task orders were made after the site assessments were completed but prior to the start of construction. In lieu of completing the work under the Perini contract, PCO chose to award the work to other contractors under direct contracts. As of January 29, 2008, a total of \$122,701,070, including approximately \$8 million in award fees, had been disbursed to Perini on the contract, which was nearing closeout. Former PCO officials said that direct contracting saved money, but they were unable to provide evidence for those savings.

Construction Task Orders Were Reduced in Scope or Terminated

One task order was completed, and the others were either reduced in scope or terminated for convenience. A former PCO official stated that all of the planned work that was not completed by Perini under the original scopes of work was subsequently direct-contracted to others. The following table summarizes the key dates, events, and outcomes for the 10 construction task orders. Task Order 1, the mobilization task order, is not shown. However, mobilization costs were \$668,476.

Table 1—Key Dates and Events for Construction Task Orders

Task Order	Issue Date		---Key Events---				
2-Basrah Distribution Network (8 projects)	5/1/2004	8/3/2004	9/21/2005				
		Scope reduced to 5 projects	GRD accepts 5 projects				
3-Babylon Distribution Network (12 projects)	6/24/2004	10/30/2004	9/2005 to 10/2005 GRD	11/7/2005	1/5/2006		
		Scope reduced to 8 projects	accepts 3 projects	Stop Work Order on 1 project	Work completed on 4 projects		
4-Anbar Substation Rehabilitation (4 projects)	9/23/2004	1/23/2005	3/21/2005				
		Stop Work Order	Terminated for Convenience				
5-Rasheed Substation Rehabilitation (1 project)	9/24/2004	1/23/2005	3/21/2005				
		Stop Work Order	Terminated for Convenience				
6-Anbar Distribution Network (15 projects)	9/26/2004	11/13/2004	1/23/2005	2/25/2005	3/6/2005	6/29/2005	
		Scope reduced to 6 projects	Stop Work Order	Stop Order Release	Scope reduced to 4 projects	Order to end work at engineering and equipment procurement	
7-Thi Quar Distribution Network (6 projects)	10/24/2004	1/23/2005	2/25/2005	3/6/2005	11/18/2005	11/19/2005	6/2006
		Stop Work Order	Stop Order Release	Scope reduced from 6 to 3 projects	Stop Work Order	Cancel Stop Work Order	GRD accepts 3 projects
8-Najaf Distribution Network (4 projects)	10/30/2004	1/23/2005	2/25/2005	3/6/2005	11/18/2005	11/19/2005	5/16/2006
		Stop Work Order	Stop Order Release	Scope reduced from 4 to 3 projects	Stop Work Order	Cancel Stop Work Order	GRD accepts 3 projects
9-Basrah Governate Rehabilitation (10 projects)	10/27/2004	1/23/2005	3/21/2005				
		Stop Work Order	Terminated for Convenience				
10-Hartha Khor Substation Rehabilitation (1 project)	10/27/2004	1/23/2005	3/15/2005				
		Stop Work Order	Terminated for Convenience				
11-Umm Qasr Rehabilitation (1 project)	10/27/2004	1/23/2005	3/21/2005				
		Stop Work Order	Terminated for Convenience				

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

Reasons for Modifying or Terminating Contract Work

The work under the contract was modified or terminated for several reasons. Those reasons centered primarily on cost proposals deemed to be too high, the government's displeasure with delays and extension requests on some projects, and security. The following summarizes our findings for each of the construction task orders.

Task Order 2, issued in May 2004, was to improve the reliability of the Basrah power distribution network and identified eight projects, including five substations, a secondary substation, power factor correction capacitors, and the rehabilitation of the distribution network. In June 2004, the Perini program director requested additional time to complete the site assessments due to security concerns. In July 2004, Perini submitted a cost proposal for the task order of \$105,130,870, which was far in excess of the \$36 million budgeted amount. In August 2004, three projects were removed from the task order, and Perini submitted a proposal of \$43,914,080. Through negotiations over a period of two month, Perini's proposal was reduced to \$23,748,675, which was very close to the independent government estimate of \$23,676,975. Design changes and other factors increased cost to \$28,809,476. In September 2005, the remaining five projects were accepted and transferred to GRD. As of January 29, 2008, \$28,113,805 had been disbursed on the task order.

Al Seraji Substation, July 2005



Source: SIGIR Inspections

On January 10, 2007, SIGIR Inspections issued a report that found that “The substations should achieve their stated objective when transmission lines are connected to the Shut Al Arab substation and transmission capacity is increased to provide adequate power to energize distribution feeders to meet local demand.”⁷ On October 31, 2007 the, IPA JV program director stated that the feeder lines were installed and the distribution network projects were complete.

Task Order 3, issued in June 2004, was to improve the reliability of the Babylon power distribution network. The order identified 12 projects: five substations, five distribution networks, overhead lines, and power-factor correction capacitors. Four projects were deleted from the task order by modification prior to the start of construction and a stop work order was issued for one task order. Modification 5 definitizes the scope of work at a total cost of \$30,232,188. Contract documents cite cost concerns. Seven projects were delivered. As of January 29, 2008, \$31,957,453 had been disbursed on the task order. The other projects were awarded to international contractors through direct contracting.

⁷ SIGIR Inspection Report PA-06-082, 083, 084, 085, 086, Electrical Substation Sustainment, Basrah, Iraq, Jan. 10, 2007.

Task Order 4, issued in September 2004, was to improve the security and reliability of the Anbar transmission network and identified four projects, all substations. The contract file cites delays and cost estimates that exceeded the allotted project funds. In March 2005, the order was terminated for the convenience of the government after the site assessment was completed but prior to the start of construction. As of January 29, 2008, \$2,869,968 had been disbursed to Perini for its incurred costs.

Task Order 5, issued in September 2004, was to complete construction of the partially completed substation at Rasheed at an estimated cost of \$34,869,292. In October 2004, a stop-work order was issued for projects in Ramadi and Fallujah because the military did not want civilians working in the area at the time. In March 2005, the government terminated the task order after the site assessment was completed but prior to the start of construction because the government did not have the funds to continue the work. As of January 29, 2008, \$2,963,832 had been disbursed to Perini for its incurred costs.

Task Order 6, issued in September 2004, was to improve the existing power distribution system in Anbar. The order identified 15 projects. In November 2004, nine projects were deleted. In March 2005, two more were deleted. Perini was directed to stop the four remaining projects after engineering and procurement were completed. According to a Perini official, security conditions in Anbar prohibited work in that area. As of January 29, 2008, \$14,893,869 had been disbursed on the task order for engineering and equipment procurement costs.

Task Order 7, issued in October 2004, identified six construction projects, all substations, to improve the reliability of the existing power distribution system in Thi Qar. In February 2005, the task order was modified to construct three substations. In March 2005, the task order was definitized at a cost of \$14,337,791. In November 2005, the contracting officer issued a Letter of Intent for an interim performance rating of unsatisfactory. The letter states that the evaluation is being considered because of Perini's failure to perform in a number of critical areas, including managing the construction-milestone schedule. The letter projected that the delivery of facilities would be months behind schedule, making the cost of the substations prohibitive. PCO subsequently increased the obligated amount on the task order. In June 2006, GRD accepted the three substations as complete. As of January 29, 2008, total disbursements on the task order were \$16,767,051.

Task Order 8, issued in October 2004, aimed at improving the reliability of the existing power distribution system in Najaf. The order identified the renovation or construction of three substations, and the installation of power factor correction capacitors. In March 2005, the power factor correction capacitors were dropped and the cost for the three substations definitized at \$14,422,921. The contract file cites requests for extensions and concerns about management of the construction-milestone schedule. Three substations were delivered. As of January 29, 2008, total disbursements on the task order were \$16,508,498.

Task Order 9, issued in October 2004, was to improve the reliability of the transmission network in Basrah. The order involved ten projects, all substation rehabilitation. In January 2005, the government issued a stop-work order because of delays in conducting the site assessments and because Perini's cost proposal exceeded the funds allotted for the projects. In March 2005, the task order was terminated for the convenience of the government after the site

assessment was completed but prior to the start of construction. As of January 29, 2008, total disbursements on the task order were \$4,287,582, primarily site assessment costs. The projects were awarded to other contractors.

Task Order 10, issued in October 2004, was to improve the security and reliability of the transmission network in Hartha Khor. The task order covered one project: to provide construction support and labor to the Ministry of Electricity for the rehabilitation of a transmission line. In March 2005, the government terminated the task order for convenience. There was no information in the contract file specifying why, although correspondence between Perini and the government indicated that Iraqis living at the site constituted an issue impeding progress. As of January 29, 2008, a total of \$2,942,990 had been disbursed on the task order.

Task Order 11, issued in October 2004, was to improve the security and reliability of the transmission network in Umm Qasr. The task order identified one project: rehabilitation of the substation. In March 2005, the task order was terminated for the convenience of the government after the site assessment but prior to the start of construction. The task order was terminated due to Perini's high cost proposals and project delays. As of January 29, 2008, a total of \$727,546 had been disbursed on the task order.

For more details on the above task orders, see Appendix B.

High Cost Proposals Linked to Contractor's Indirect Costs

By April 2005, PCO officials had concluded that a major reason for Perini's high cost proposals were its indirect costs. The major indirect costs were security, vehicles, and costs associated with company's home office in the United States and its other offices in Baghdad, Basrah, and Kuwait. In April 2005, JCC-I/A issued Modification 5 to the contract requiring Perini to submit a detailed indirect-cost report in a format defined in the modification. In May of that year, the PCO electricity sector lead sent an e-mail to the contracting officer and other government officials stating, "I can't express enough how critical it is for us to get these indirect-cost reports from the DB [design-build] contractors. Although we have expressed our upper leadership's concern that we have these reports so that we have viz [visibility] on where the DBs are incurring their costs and therefore 'discuss' with them the reasonableness of their staffing and charges, we are now seeing interest from the different audit teams that are coming through." The sector lead further stated in the e-mail, "I have just signed the Perini MOD [modification] for TO [task order] 2 for the \$5M per our agreement even though we can not tell whether or not these overhead costs that they claim are substantiated. This will require an audit to verify in absence of the indirect cost information."

Also, in May 2005 the contracting officer sent a letter to Perini stating, "Based on the PCO's latest forecast projections, which were verified by recent cost data provided by Perini, it is anticipated that Perini is going to exceed the total definitized cost estimate of all Perini projects by approximately \$20-25 million on an estimated \$100 million program budget." The letter discussed cost overruns on individual task orders, and stated, "A PCO analysis indicates that Perini's indirect costs are the largest contributing factor to the considerable overrun and they are estimated to be approximately 50 percent of the total budgeted project costs. Comparing this against other Design-Build contractors' [sic] costs, Perini's indirect costs are approximately 20%+

higher.” The government, the contracting officer said, understood that the factors affecting indirect costing are not equal across all contractors, but the large variation in Perini’s indirect costs compared to other design-build contractors was nonetheless difficult to substantiate. The letter further states, “It is the government’s intent for Perini to reveal and support their costs so that corrective measures can be taken to avoid cost overruns.”

The Perini program director responded two days later in a lengthy letter taking issue with some of the contracting officer’s statements. The director stated that the total value of all task orders awarded on the contract was \$118,465,861, 18.4 percent higher than the government’s number. The director questioned the merits and accuracy of the comparison with other design-build contractors. The director stated that the government effectively increased Perini’s indirect-cost rate by terminating five task orders previously awarded, since there was less work to charge the indirect costs against. The director also stated that while the government reduced the work on the contract, it did not reduce all of the latter’s requirements and, in fact, actually increased those involving security and reporting. The Perini program director stated that the total budgeted costs on the 11 task orders had been decreased 61 percent as a result of the terminations. Therefore, Perini was incurring higher costs on a much smaller amount of work.

SIGIR has previously written about the problem of high indirect costs for the design-build contracts. In a July 2006 report, we reported that, after the award of the design-build contracts, the prime contractors were pressured to move personnel and resources to Iraq rapidly to prepare for the flow of task orders that they expected would soon begin. But the task orders arrived more slowly than anticipated. Contractors charged their “waiting costs” against their contracts; thus, delays in task order issuance resulted in charges for overhead with no work being carried out.⁸ In the same manner, descopeing and terminating task orders adds to the overhead cost of all remaining task orders. Perini officials expressed these concerns to PCO, but we could not determine if any action resulted.

On May 29, 2005, the PCO electricity sector issued an action plan to reduce Perini’s indirect costs. The plan stated two objectives:

1. Perini must comply with indirect-cost reporting requirements.
2. Perini must reduce indirect costs to a cost-competitive level commensurate with their current program.

The action plan stated that the contracting officer would direct Perini to provide the required information as part of the May 2005 monthly report to be submitted on June 15. The information would enable the electricity sector to identify where Perini’s indirect costs were in excess of requirements and recommend through the contracting officer that they be reduced. Under the plan, Perini was to be informed through a series of meetings and teleconferences of any changes required in its indirect costs. The company would then be directed to present proposals on how it could bring its estimated remaining cost down to a cost-competitive number. The plan said the sector would perform an analysis of Perini’s remaining work and determine at what stage current task orders could be descoped to reduce the firm’s requirement to operate in Iraq. On June 23, the contracting officer directed Perini to solidify its cost proposals through such moves as

⁸ SIGIR Report 2; *Iraq Reconstruction: Lessons in Contracting and Procurement*, Jul. 2006.

reducing the number of security teams; descoping Task Orders 3 and 6, which would eliminate the need for the Baghdad office; turning over the management of the Basrah camp; and providing a cost analysis of managing Task Orders 7 and 8.

Unlike most of the other design-build contractors, Perini was required to report its indirect costs at the task order level rather than through a separate administrative task order (ATO). ATOs are task orders by which indirect costs are directly charged in total rather than apportioned to orders for individual projects. Instead, a Perini senior official explained that it applied its indirect costs to each individual task order; for example, if security costs were incurred at the Basrah camp, the company would apply those costs to task orders for projects in the region. When Perini learned that some design-build contractors had ATOs on their contracts, it requested one on its contract. Former PCO and electricity sector officials stated that the electricity-sector management elected not to provide ATOs on the design-build contracts in that sector, although the reasons for this are not clear.

In February 2005, the contract was modified to require indirect cost reporting in the cost proposals in place of an ATO. In a letter to the contracting officer in May 2005, the Perini program director stated that PCO had explained that design-build contractors would have an ATO so that task orders awarded early in the contract period would not be arbitrarily overburdened with these indirect costs. The director pointed out that since PCO had not issued an ATO to Perini and PCO had been slow to issue task orders, Perini's Task Orders 2 and 3 had been overburdened with indirect costs. The Perini official we spoke to stated that the lack of an ATO did not impact construction but did make budgeting and reporting costs more difficult and time-consuming.

Another factor contributing to the indirect cost problem is the lack of a requirement in the original contract to provide detailed indirect-cost reports. PCO directed that Perini submit indirect cost information in an April 2005 contract modification. Perini submitted its first indirect cost report in June 2005. By then, PCO had already made the strategic decision to pull work away from Perini and to achieve program objectives through direct contracting. Use of an ATO would have simplified the reporting of indirect costs at a contract level, but an ATO by itself would not have provided sufficient transparency as to indirect costs on a task order level to enable PCO management to make strategic decisions relating to the scope-of-work on task orders.

Task Order Delays

There is little information in the contract file that addresses project delays. There are requests for excusable delays from Perini and correspondence from the contracting officer complaining about delays. However, there is little information about why the contracting officer considered Perini's requests unreasonable. The contractor's requests cite security issues, Iraqi religious observances, land ownership issues, and the inability to access some sites. Without more information it is not possible for SIGIR to make a judgment about the reasonableness of these requests.

Contract Costs

As of January 2007, Perini had completed work, and the contract was being closed-out. The total amount obligated was \$125,227,757, and the total amount paid to Perini \$122,701,070, including \$668,476 for Task Order 1 and approximately \$8 million in award fees.

Table 2 shows the cumulative cost of work by cost element as reported in Perini's required cost reports.

Table 2—Cumulative Cost of Work Allocated to Cost Elements as of June 30, 2006

Cost Element	Amount	Percentage
Subcontracts	\$50,727,743	42.7%
Security and Safety	17,792,543	15.0%
Construction Management	16,549,597	13.9%
Equipment	7,775,725	6.5%
Housing	3,847,166	3.2%
Construction Indirect Costs	6,729,146	5.7%
Overhead and Base Fee	6,592,985	5.5%
Award Fee	5,932,296 ⁹	5.0%
Other Costs	2,992,232	2.5%
Total	\$118,939,434	100.0%

Source: SIGIR analysis of Perini cost report.

According to the IPA JV program director, contractors individually determine what cost elements should be included in their indirect costs. For example, security costs may be either a direct project cost or an indirect project cost depending on how a contractor chooses to classify them. Consequently, SIGIR did not try to calculate an indirect cost rate for the Perini contract.

⁹ Perini was authorized to receive another \$2.1 million in award fees in September, 2006.

Approximately \$14.8 million was disbursed on the five terminated task orders for Perini's incurred costs up to the time of termination. Documentation was not available for all terminated task orders that identified the incurred costs, but for those task orders where data was available the costs were for construction management, security and safety, and base camp construction. Officials indicated that the terminated task orders were subsequently completed by other contractors; however, data were not available to indicate the extent to which this \$14.8 million investment was utilized during the follow-on construction process. However, it is likely that due to the inefficiencies associated with the termination and restart process that some waste occurred.

PCO officials said that direct contracting saved money, but they were unable to provide evidence for those savings. Also, data were not available to show the comparability of the projects and costs. For example, performance work statements are frequently modified making a comparison with the original baseline project difficult.

A senior Perini official explained the company's process for selecting subcontractors for work in Iraq. When Perini receives a scope of work, the company solicits offers from subcontractors through Perini's home or Kuwait office and sends requests for proposals to companies based on Perini's prior histories with them. Perini looks at the companies' technical capabilities and makes a final decision considering cost. The official stated that all of the construction subcontracts were firm-fixed-price. The official explained that the subcontractors hired local Iraqis to work at the sites. Americans working for Perini would travel from local camps in Iraq to project sites to determine if work had been properly done. For more information relating to Perini subcontracts, see Appendix D.

Contract Administration and Oversight

In the course of our review, we identified issues relating to government oversight of the contract that adversely affected its execution. These issues relate to the quality assurance, turnover of personnel, and award fees. Our findings relating to oversight reflect processes that were in place at the time of contract award and execution, mostly between 2004 and 2006. The scope of this audit did not include actions that may have been taken subsequently by GRD and JCC-I/A to improve management processes.

Quality Assurance

As noted earlier, data limitations restricted our ability to fully assess quality assurance practices. However, insights provided by former PCO officials suggested that GRD did not effectively execute its quality assurance responsibilities.

PCO issued Standard Operating Procedure CN-100 in June 2004 to provide guidelines for the inspection of in-progress construction by the contractor's quality-control organization and its reporting and documentation. CN-100 also provides guidelines for the inspection of in-progress construction by GRD to ascertain if the contractor's quality-control system was functioning and if the specified level of construction quality is being attained. According to the guidelines, a preparatory meeting should be scheduled prior to the start of work to review relevant documents. Then, after a sample of the work has been completed, an initial inspection was to verify that the work was performed in compliance with the contract requirements. The contractor's quality-control personnel were to conduct daily inspections of the work, perform required tests, and provide the GRD quality assurance representative with the contractor's quality-control management report. The GRD representative was expected to conduct periodic inspections of the work, to determine if the contractor's quality-control system was functioning properly, and to review each daily quality-control report. If the report was complete and accurate, the representative was expected to forward it to the project engineer or resident engineer, and to enter the necessary information for the quality assurance (QA) report in the Resident Management System quality-assurance report module. GRD received 4 percent of the cost of the contract to perform quality assurance on Perini's project construction. This cost was paid with IRRF funds and is not included in the costs reported as paid to Perini.

We asked GRD to provide us with copies of the daily QA reports. After the exit conference, we were provided with QA reports for four substations (39 reports on one, 36 reports on one, and five reports on each of two others). While this may be a recordkeeping issue, it seems to substantiate the dissatisfaction expressed by former PCO officials in the electricity sector about GRD's quality-assurance services. In addition to concerns over the amount of oversight, PCO officials also expressed concerns about the quality of oversight. For example, they stated that the electricity projects were very technical and that they did not believe the GRD QA personnel had the expertise to effectively inspect the sites. One PCO official also said that QA inspections were affected by staffing shortages at GRD and by a dangerous security environment that precluded GRD personnel from traveling to the project sites. To compensate, former PCO officials said, PCO sometimes used IPA JV employees to supplement the quality assurance effort.

Supporting Documentation for Contract Payments

Our review found that U.S. government agencies maintained documentation to support all payments on the contract.

In June 2004, PCO issued Standard Operating Procedure CM-101, which provided guidelines for reviewing and approving contractor invoices. Section 6 of the Standard Operating Procedure directed all contractors to follow the established invoice schedule according to their specific contract terms. The Corps of Engineers Finance Office was to enter details of the invoice into the Corps' Engineers Financial Management System (CEFMS). The DCAA was to receive a copy of the invoice for review, and the contracting office a copy of the original invoice. PCO was also to obtain the necessary receiving signatures on the Department of Defense Form 250 (DD250), a document indicating receipt of services. Usually, DCAA signed the Standard Form 1034 (SF1034), a pay voucher authorizing payment. These documents were then to be forwarded to the PCO finance office in Baghdad for input into the Corps' financial management system. Upon approval, payments would be released per terms of the contract.

Perini submitted invoices for payment on a biweekly basis. A senior official at the Corps' finance office stated that its office released payment based on an electronic record generated by the PCO finance office in Iraq. The official stated that the Corps of Engineers finance office, in order to release payment, needed to see an electronic payable with scans of a valid invoice and a properly signed public voucher (SF 1034). The PCO electricity sector lead was responsible for reviewing the invoice and signing the DD250 to affirm that the services were received. The senior official at the Corps' finance office also stated that their office did not initially require DD250s to release payment on this contract but later required the forms to assure that the payment would go to the right place. Section 7 of the Standard Operating Procedure CM-101 required that the original invoice and all accompanying back-up be maintained in the records.

We reviewed invoices and payment documentation gathered from JCC-I/A, GRD, and the Corps' finance office and compared those documents to payments made to Perini as recorded in the Corps' financial system. Our review included 188 contract payments totaling \$122,701,070. We found that U.S. government agencies maintained Perini invoices and pay vouchers (SF1034s) for all 188 payments. We found that 34 payments were not supported by a signed receiving document (DD250). However, GRD officials explained that the CEFMS properly provides the option of electronic signature by authorized personnel; therefore, a hand-signed DD250 would not be necessary to certify that a Perini invoice was properly reviewed by an authorized official in Iraq.

Turnover of Contracting Officers

As we previously reported, high turnover rates among contracting personnel throughout the Iraq reconstruction effort resulted in lapses in contract oversight that increased costs and contributed to delays.¹⁰ We reviewed relevant documentation, including contract modifications and correspondence for the Perini design-build contract to determine the number of contracting officers, and found that from March 2004 when the contract was issued to September 2006, there

¹⁰ *Iraq Reconstruction: Lessons in Contracting and Procurement*, SIGIR Lessons Learned Report, July 2006.

were at least 14 contracting officers assigned. This averages out to a new contracting officer every 65 days. There is no record of the number of contracting officer representatives. As we previously reported, the causes of high reconstruction-program turnover included the uncertain length of rotations, high work volume, intense operational tempo, limited incentives, high-risk environment, and shortfalls in qualified personnel.¹¹

A former PCO electricity sector official stated that the turnover of contracting officers and contracting officer representatives negatively impacted the Perini design-build contract because it undercut the effectiveness and efficiency of contract administration tasks. A former PCO program director in the sector stated that the turnover of contracting officers and of government personnel in general, slowed everything down. He added contracting officers needed time to learn the program before they could effectively execute their duties.

Award Fee

The contract provided an award-fee plan under which Perini could receive a fee of up to a maximum of 12 percent of the budgeted cost for the relevant period. According to the plan, at the end of each period, an award fee board meets and develops a performance score based on criteria in the plan. The performance scores are associated with an adjectival rating and an award-fee percentage based on the following scale from the plan:

Table 3—Perini Award-Fee Ratings Scale

Adjectival Rating	Point Value	Award Fee Percentage
Excellent	90 – 100 points	90 – 100%
Above Average	75 – 89 points	75 – 89%
Average	50 – 74 points	50 – 74%
Below Average	Under 70 points ¹²	0%

Source: Award Fee Plan for Contract W914NS-04-D-0011

According to the award fee plan, “The average point value equates to the percentage of award fee earned by the contractor.” This indicates that a performance score of 70, for example, would result in a recommended award fee of 70 percent of the award-fee pool. An Award-Fee Determining Official, who has final say, considers the recommended score and then sends a letter to the contractor identifying the fee to be awarded. The plan in the Perini contract prescribed six-month award-fee periods; however, the first and last award-fee periods were extended. The award-fee pools, amounts, and performance scores authorized for Perini are listed in the following table:

¹¹ SIGIR report, *Iraq Reconstruction: Lessons in Human Capital Management*, January 2006.

¹² The “Average” and “Below Average” ranges in the scale overlap, which seems to indicate an error in the award-fee plan table, possibly the result of a misprint.

Table 4—Award Fees Authorized for Perini

Performance Period	Award-Fee Pool	Performance Score	Award Fee
March 12, 2004 – March 11, 2005	\$2,475,491.00	68.4	\$1,666,771.98 ¹³
March 12, 2005 – September 11, 2005	5,218,135.00	79.8	4,162,072.00
September 12, 2005 – June 15, 2006	3,051,696.00	70.0	2,139,239.00
Total	\$10,745,322.00		\$7,968,082.98

Source: SIGIR Analysis of JCC-I/A and PCO Award Fee Documentation

As we previously reported, effective use of an award-fee conversion scale is important for providing an incentive for the contractor to achieve superior results.¹⁴ Although the contracting officer has discretion in determining which conversion scale to incorporate into the plan, Perini received approximately 70 percent of the available award-fee pool for “Average” performance during two periods and approximately 80 percent of the pool for “Above Average” performance during the other period. A conversion scale that awarded more of the fee for excellent performance might have spurred the company to achieve superior results.

Award Fee Metrics. Based on our review of the factors to evaluate performance in the award-fee plan, the Perini contract’s award-fee plan did not place enough emphasis on controlling costs. Attachments to the award-fee plan identified the factors by which Perini would be evaluated. The evaluation criteria comprised two groups of factors as shown in the following table:

Table 5—Evaluation Criteria for Contract W914NS-04-D-0011

Factors and Sub-factors	Weight of Sub-factor
Technical Criteria (60 percent)	
A. Schedule Adherence	30 percent
B. Cost Control	30 percent
C. Technical Services/Quality Control	30 percent
D. Health & Safety (Contractor and Public)	10 percent
Management Criteria (40 percent)	
A. Program Execution/Quality Management	40 percent
B. Training, Development, and Transition	40 percent
C. Subcontractor Goals	20 percent

Source: Attachments 2 and 3 of the Award Fee Plan

¹³ The award fee amount is lower than expected, based upon the performance score. The amount was adjusted downward by the Award Fee Determining Official.

¹⁴ SIGIR 08-009, “Appropriate Award-Fee Conversion Scales Can Enhance Incentive for Contractor Performance,” January 24, 2008

The technical criteria represent 60 percent of the award-fee performance score and the management criteria 40 percent of the score. Therefore, the cost control sub-factor is only 30 percent of 60 percent (or 18 percent) of the total performance score. The award-fee plan lists the seven elements of the cost-control sub-factor to be scored, as follows:

1. Development and maintenance of accurate cost reports that reflect committed-cost-to-date and estimate-at-completion, for each task order item of work, analysis of variance, and earned-value analysis for the task order.
2. Timeliness, accuracy, and completeness of invoices.
3. Timely submission of accurate and complete work variance notifications reflecting cost impact of changed conditions of over/under runs.
4. Maintenance of effective cost-control measures, including subcontractor change control and subcontractor negotiations.
5. Effectiveness of contractor's purchasing system, including maximizing competition and submitting thorough, timely subcontract-consent requests.
6. Timely notification to government when 75 percent of authorized cost will be reached.
7. Management and control of inventory, materials, and resources, including government furnished property.

Each of the seven elements was given equal weight. Most of them pertain to administrative compliance and timeliness, rather than actual cost control. We could not find documentation to indicate how many points Perini received for the cost control sub-factor for period one. Perini received 22.4 out of 30 points for cost control in period two and 21.6 out of 30 points for cost control in period three. Those are fairly high scores, despite the fact that PCO was unhappy with Perini's high cost proposals and the difficulty in definitizing task orders. Since cost control was only 18 percent of the total evaluation and since most of the elements in the cost control factor required only administrative compliance for a good score, the award-fee plan did not sufficiently emphasize cost control to effectively motivate Perini to achieve it.

Award-Fee Documentation. The agencies did not maintain sufficient documentation to adequately support the award-fee process and decisions. Although we were able to find memos and the Award-Fee Determining Official's letters that identified the recommended evaluation score and the amount of award fee authorized for all three periods, we could not find sufficient documentation to determine how the recommended score was compiled. For the first award-fee period, we found some scoring sheets compiled by individuals, but the scores on those sheets do not support the final recommended score. For periods two and three, we found memos from the award-fee board chairman providing a recommended score, supported with scores for each evaluation sub-factor. However, we did not find scoring sheets compiled by individual award-fee board members to support the recommended score. Without evidence of participation by multiple board members, the award-fee process lacks adequate data to support the award fees that were authorized.

Conclusion and Lessons Learned

Conclusion

Less was accomplished under this contract than expected because the contractor's projected costs for the projects were perceived by the U.S. government to be too high, primarily due to its indirect costs. To PCO's credit, as projected and actual project costs escalated it reduced the scope of its projects to remain within budget, and finally made the strategic decision to abandon its design-build concept and complete the remaining work through direct contracting. While this delayed completion of the projects, it kept the program within budget and accomplished more reconstruction to benefit the Iraqi people.

High indirect costs are cited as the reason for Perini's high estimates, and this generally follows the pattern of other design-build contracts SIGIR has examined in its reviews of Iraq relief and reconstruction activities. The government wanted to create a reconstruction capacity in Iraq through the hiring of large design-build contractors to undertake a large number of projects that had not been definitized or shaped. Under the indefinite delivery/indefinite quantity philosophy, it was thought that capacity in different areas of expertise could be created quickly. Once a requirement was definitized, the government would then be able to tap the contractors that had been selected in each of the reconstruction sectors. The design-build contractors were mobilized, however, the start-up of projects lagged and the contractors charged their "waiting costs" against their contracts, resulting in high indirect costs. While contractors are generally responsible for their indirect costs, the government must share some of the blame for this situation. Nonetheless, PCO's decision to terminate work under the contract appears to have protected the government's interest.

Although PCO appeared to make a good business decision on this contract, U.S. government recordkeeping is problematic and its oversight of this contract uncertain. Some QA reports and award fee documentation were initially unavailable, making it difficult to determine if the government carried out its oversight responsibilities effectively. Some documents were located during the course of our field work but additional efforts were made by GRD officials to locate many additional documents from multiple locations in Iraq as well as the U.S. as our fieldwork was nearing completion. Ultimately, we were able to obtain and reconcile documentation to support the 188 payments the U.S. government made to Perini on the contract. Nevertheless, this still raises an issue regarding the adequacy of file maintenance practices for contracts originating under other entities but whose management now resides with JCC-I/A.

Recommendation

In April 2004, contract administration was transferred to the CPA Contracting Activity office in Iraq. In May 2004, the Project and Contracting Office (PCO) replaced the PMO. In November 2004, the Joint Contracting Command–Iraq/Afghanistan (JCC-I/A) was established to centralize contracting, and administration of all CPA contracts was transferred to JCC-I/A. As a result, JCC-I/A assumed responsibility for contracts that originated with other contracting entities. This limits JCC-I/A's accountability for problems in contract file management that they inherited. However, SIGIR believes that it is incumbent upon JCC-I/A—the current contract manager—to

ensure that contract files contain sufficient documentation to support the validity of contract payments made. Accordingly, SIGIR recommends that the Commander, JCC-I/A, direct that actions be taken to ensure that all contract files, including contracts transferred from other entities, contain documents to support key contract management and payment actions and that such files be retained in a central location to the extent practical.

Lessons Learned

SIGIR identified lessons learned that may be applicable to future contract-management strategies in environments like those characterizing Iraq reconstruction. When using large, indefinite-delivery indefinite-quantity cost-plus type contracts:

- Require the prime contractor to provide detailed project-level indirect cost reports under the contract to facilitate strategic decision-making.
- Ensure the provision of proper quality-assurance inspections, including sufficient numbers of trained personnel.
- Incorporate control of indirect costs as a quantifiable metric in the award-fee plan, and give the metric enough weight to motivate the contractor to scrutinize and control those costs.
- Explore alternative strategies for managing contracts to achieve stability in the contracting-officer workforce.

Management Comments and Audit Response

In the draft report, we identified a material management-control weakness resulting from a lack of documentation to support payments on the contract. We included a draft recommendation that GRD determine if the documents are on file or report the material weakness as prescribed by Army Regulation 11-2. GRD subsequently provided copies of Perini invoices and pay vouchers to support all payments on the contract. We also recognized that processes changed as a result of the transition of program management from PCO to GRD. Accordingly, in preparing the final report we deleted the draft recommendation related to the material weakness. However, we added a new recommendation to this report, addressing the need for JCC-I/A to establish accountability over the contract files that they inherited from other entities. GRD also provided technical comments that are addressed in the report where appropriate. GRD also commented that we had not made sufficient effort to obtain documents from the finance center in Millington, Tennessee. We initiated a request to the finance center to travel to Millington to review the pay documents, but chose not to go because we believed that the data had already been provided in response to an earlier data request. Later, a list of the missing documents was provided to GRD who eventually accounted for all 188 invoices and pay vouchers.

GRD also commented that we had not requested copies of QA reports until the exit conference in February. However, we have emails showing that the audit team had made multiple requests for the reports, starting more than two months prior to the exit conference.

Appendix A—Scope and Methodology

In July 2007, we initiated the audit (Project No. 7027) to review the outcome, cost, and management oversight of Perini Corp, and/or their subsidiaries/joint venture partners, on Iraq Relief and Reconstruction Fund contracts with the U.S. government. We elected to limit the scope of the audit to Perini contract W914NS-04-D-0011, the design-build contract in the electricity sector awarded in March 2004.

We obtained copies of the contract, 11 task orders, the associated modifications, and other relevant documentation from the electronic contract files and the hard-copy contract files from JCC-I/A.

To determine the solicitation and award process, we obtained and reviewed the solicitation, Perini's proposal, source-selection evaluations, correspondence, the Memorandum of Source Selection Decision, and other relevant documentation. We also interviewed the original contracting officer and other knowledgeable staff at the Corps of Engineers' contracting office.

To determine the cost and funding of the contract, we reviewed the contract and financial data obtained from the Corps' financial management system. We relied on this system as the official source for such data. Since this was considered the most complete source of information, we relied upon it without further testing, considering appropriate for the purposes of this review.

We looked at the system of management controls as it applied to contract administration and oversight activities to include such things as implementation of the quality assurance process, invoice review procedures, and records retention.

To determine the accomplishments and oversight of the contract, we obtained and reviewed the relevant task orders, modifications, correspondence, the award-fee plan, award-fee performance evaluations, other documents relating to award fees, invoices, receiving documents, and pay documents. We also reviewed relevant guidelines. We interviewed former PCO officials, as well as knowledgeable officials from GRD, IPA JV, and Perini.

To determine the status of some projects formerly under the Perini contract following re-contracting, we reviewed records in the Iraq Reconstruction Management System, the principal source for such information.

This audit was performed under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of the inspector general under the Inspectors General Act of 1978.

We conducted this performance audit from July 12, 2007, through February 29, 2008, in accordance with generally accepted government-auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Our assessment was constrained by a lack of available QA inspection reports. The documents that were not available were important to a more complete evaluation of GRD's quality assurance program. Despite

those data limitations, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Use of Computer-Processed Data

We reviewed financial data relating to contract costs that were derived from the Corps of Engineers Financial Management System. While time did not permit us to fully validate information in the system, we did compare data used from the system with data available from other sources that supported its validity. We also reviewed project data derived from the Iraq Reconstruction Management System, a unified management information system. We did not test the data for completeness. They were not material to our findings but did provide limited insights regarding selected projects. The Iraq Reconstruction Management System was the best available source for this project information.

Internal Controls

We did not assess the overall system of management controls related to contract administration. However, we reviewed the effectiveness and implementation of internal controls related to contract administration as they were applied to the Perini contract. This included reviewing controls related to the contract award, contract oversight, and award-fee decisions.

Prior Coverage

We also reviewed prior reports related to program management and award fees issued by SIGIR and the Government Accountability Office. SIGIR reports can be accessed at: <http://www.sigir.mil>.

- *“Appropriate Award Fee Conversion Scales Can Enhance Contractor Performance”* (SIGIR 08-009, January 24, 2008) included a review of the award-fee conversion scale used for certain cost-plus award-fee contracts in Iraq. The report found that use of a different, more-appropriate scale might have increased the incentive for contractors to achieve superior results--perhaps at less cost to the U.S. government.
- *“Electrical Substation Sustainment, Basrah, Iraq”* (SIGIR PA-06-082-083-084-085-086, January 10, 2007) included a project assessment of electrical substations in Basrah. It found that the facilities were secured and in good repair, and that four of the five substations were operational while the fifth was waiting completion of the incoming transmission-line connection.
- *“Iraq Reconstruction: Lessons in Contracting and Procurement”* (SIGIR, July 2006) included a history of contracting during Iraq reconstruction and found that the contracting and procurement effort in Iraq substantially improved over the course of the Coalition’s relief and reconstruction program.
- *“Iraq Reconstruction: Lessons in Human Capital Management”* (SIGIR, January 2006) included a history of human-capital management during Iraq reconstruction and found that there was insufficient systematic planning for human capital management in Iraq before and during U.S.-directed stabilization and reconstruction operations.

- “*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 Iraq Relief and Reconstruction Fund and found that the award-fee plans did not include required criteria with definable metrics. The review also found that the Award-Fee Evaluation Board recommendations and determinations of fees were not documented in sufficient detail to show that the integrity of the process was maintained.
- “*Rebuilding Iraq: Integrated Strategic Plan Needed to Help Restore Iraq’s Oil and Electricity Sector*” (GAO-07-677, May 2007) included a review of funding available to rebuild Iraq’s oil and electricity sectors plus a review of U.S. goals for the sectors and progress towards achieving the goals. The report found that a variety of security, corruption, legal, and planning challenges have impeded U.S. and Iraqi efforts to restore the sectors.
- “Report on Audit of the Cost and Schedule Performance Reporting for the Six Months ended September 30, 2005 for Task Orders 1 Through 6 of Contract No. W914NS-04-D-0011”, (Defense Contract Audit Agency Report 2131-2006N17850001, February 15, 2006) included an evaluation of Perini’s internal controls relating to cost and schedule reporting and found that Perini did not have written policies and procedures for the preparation of the cost-and-schedule performance reports.

Appendix B—Task Order History and Outcome

Task Order 2—Basrah Distribution Network

In May 2004, Task Order 2 was issued with an overall objective of improving the reliability of the distribution system in Basrah that included: 33/11 kiloVolt (kV) substations; 33kV and 11kV lines; 11 kV-230 volt (V)/400V distribution transformers; 230V/400V service conductors; and associated equipment. Perini was to conduct a site assessment and, based on that assessment, decide together with the U.S. government on the work to be accomplished. The task order identified eight projects. However, the number of projects and the project sites changed several times without a task order modification or explanation in the contract records.

Significant Events:

June 2004 – Task order is modified to extend the period of performance for the site assessment because of security concerns that prevented Perini staff and subcontractors from accessing or staying at site locations and because subcontractors were unable to locate, develop or gain access to critical site information, including maps and drawings.

June 2004 – Task order is modified again to extend the period of performance for the site assessment.

July 2004 - Perini submits a cost proposal for \$105,130,870, which is far in excess of the government's budget of \$36,143,589, prompting an extended negotiation between the company and the government regarding the scope of work and cost.

August 2004 – Modification 6 removes one project; installation of power factor correction equipment and feeders.

October 2004 – The government and Perini come to agreement, and Modification 7 definitizes the scope of work and the cost at \$23,748,675. The modification definitizes the cost of the original eight projects, including the power factor correction equipment removed by Modification 6. A Memorandum for Record from PCO issued two days before the Modification 7 states that power factor correction equipment and three substation projects are removed from the task order to remain within budget. This reduced the total number of projects to four.

March 2005 – Perini sends a letter informing the contracting officer that task order costs would exceed definitized costs because cancellation of other task orders had increased indirect costs.

May 2005 – Perini requested an additional 54 days to complete the project because of design changes, delays in site delivery, Iraqi holidays, and Iraqi elections.

June 2005 – Modification 8 increases the funding by \$5,060,801 to a total of \$28,809,476.

Outcome:

In September 2005, five substation projects are accepted and transferred to GRD. There is nothing in the contract folder explaining the origin of the fifth substation project. The final definitized cost of the work is \$28,809,476, and as of January 29, 2008, the government has

disbursed \$28,113,805. On January 10, 2007 SIGIR Inspections issued a report that found that “The substations should achieve their stated objective when transmission lines are connected to the Shut Al Arab substation and transmission capacity is increased to provide adequate power to energize distribution feeders to meet local demand.”¹⁵ On October 31, 2007, the IPA JV program director stated that the feeder lines were installed and the distribution network projects were complete.

Task Order 3—Babylon Distribution Network

In June 2004, Task Order 3 was issued to improve the reliability of the existing Babylon distribution system, comprised of substations and feeders. The initial phase was to conduct an assessment of new project sites and/or existing substations and associated 33 kV feeders, in order to determine their condition. Based on the site assessment, Perini was to rehabilitate or construct new distribution substations and associated feeders. The task order identified twelve projects.

Significant Events:

September 2004- The task order is modified to provide a limited notice-to-proceed on the construction component, and one project is deleted.

October 2004 - Modification 5 to the task order to definitize the scope of work at a total cost of \$30,232,188. The number of projects is reduced to eight plus site assessments on the three descoped projects.

May 2005 - Modification 6 extends the delivery date to November 15, 2005.

August 2005 - The contracting officer directs Perini to provide static security at the substations until the feeder element is completed by another contractor.

November 2005 – A stop work order for one project is issued because the costs outweighed the benefits of continuing.

Outcome:

In September and October 2005 three substations are completed and transferred to GRD. A January 2006 letter in the contract file states that Perini has completed construction and commissioning of the 11 kV portions of four power networks in the Babel governorate. As of October 2004 the task order was definitized at \$30,232,188, and as of January 29, 2008, the government has disbursed \$31,957,453 on the task order. Under a cost plus contract, payments may exceed definitized costs as long as the costs are related to work under the contract.

Task Order 4—Anbar Substation Rehabilitation

In September 2004, Task Order 4 was issued to improve the security and reliability of the Anbar transmission network. The initial phase was to conduct an assessment of the proposed project sites and the existing transmission lines and substations. Perini was then to rehabilitate the

¹⁵ SIGIR Inspection Report PA-06-082, 083, 084, 085, 086), Electrical Substation Sustainment, Basrah, Iraq, Jan. 2007.

existing installations or construct new transmission substations and associated overhead line and cable circuits. The scope of work identified four projects.

Significant Events:

December 2004 - Perini requests a 14-day extension for submission of the cost proposal and final site assessment report. The contracting officer approves the request.

January 2005 - The contracting officer issues a Letter of Concern and Stop Work Order “Due to the delays already experienced on these projects by your extension requests, and the fact that Perini’s auditable cost proposals significantly exceeded the allotted project funds, we will not be proceeding further with Perini on these projects.”

March 2005 - The contracting officer issues a memorandum of record following a meeting with Perini regarding various task orders under the contract. The memo states that the government has decided that the security risk in Anbar was too great to award work in that area.

March 2005 - Task Order 4 is terminated for convenience.

Outcome:

The task order is terminated and, as of January 29, 2008, the government has disbursed \$2,869,968 to Perini for its incurred costs.

Task Order 5—400kV Substation Rehabilitation at Rasheed

In September 2004, Task Order 5 was issued with the objective of completing the partially constructed substation at Rasheed. The task order stated that this might require rehabilitation of installed equipment and that the site assessment would determine what equipment could be reused and what would have to be ordered new. Perini was also to determine if an alternative supplier would be desirable.

Significant Events:

October 2004 – The contracting officer grants Perini an extension to complete the site assessment.

October 2004 – The contracting officer issues a stop-work on the project because the U.S. military did not want civilians working in the area at the time.

March 2005 – The contracting officer terminates the task order for convenience because the U.S. government did not have the budget to press forward with work

Outcome:

The task order is terminated for convenience. As of January 29, 2008, the government has disbursed \$2,963,832 for incurred expenses prior to termination.

Task Order 6—Anbar Distribution Network

In September 2004, PCO issued Task Order 6 with the overall objective of improving the existing power distribution system in Anbar. The initial phase of the order was to conduct an

assessment of the project sites, and their new and existing distribution substations and associated feeders, to determine their present condition and operability. Based on the result of the site assessments, Perini was to rehabilitate existing or construct new distribution substations or associated feeders. The scope of work identified 15 projects.

Significant Events:

November 2004 – Modification 1 to the task order reduces the number of projects to six.

January 2005 – The contracting officer issues a stop-work order because funding was removed for use on another project.

February 2005 - The contracting officer lifts the stop-work order because Perini’s pricing had changed and the officer anticipates definitizing the task order.

March 2005 - Modification 3 definitizes the task order at a cost of \$20,025,050, and reduces the number of projects to four.

June 2005 – The contracting officer directs Perini to stop work on Task Order 6 after engineering and procurement are complete. The letter further states that “Perini shall not undertake, along with their subcontractors, any installation or construction of the 4 substations” and that Perini should complete substation engineering and procurement and proceed to deliver equipment to a government warehouse.

October 2005 - Modification 5 de-obligates funds as a result of a new estimate-at-completion of \$15,176,498.

September 2006 - Modification 6 further reduces the obligated amount to \$15,155,173. That modification also incorporated the changes in the June stop-work order.

Outcome:

Engineering and procurement were completed on four substations. Final estimated costs are \$15,155,173 and as of January 29, 2008 a total of \$14,893,869 had been disbursed on the task order.

Task Order 7—Thi Qar Distribution Network

In October 2004, Task Order 7 was issued with the overall objective of improving the reliability of the existing power distribution system in Thi Qar, which is comprised of distribution substations and feeders rated at 33kV. The initial phase of the task order was to conduct a site assessment of the project sites, including existing distribution substations and associated feeders, to determine their present condition and operability. Based upon the results of the site assessment, Perini was to rehabilitate the existing, or construct new substations and associated feeders. The task order identified six projects.

Significant Events:

March 2005 – Modification 1 changes the scope of the task order from rehabilitation of six substations to construction of three new substations. The cost of the project is definitized at \$14,337,791.

August 2005 - Modification 4 extends the performance period.

November 2005 - The contracting officer issues a Letter of Intent to issue an interim performance rating of unsatisfactory for Task Orders 7 and 8. The letter states that the evaluation is being considered because of Perini's failure to perform in a number of critical areas, including the management of a construction-milestone schedule for substation construction. The letter states that the delays would make the cost of the substations prohibitive.

December 2005 - Modification 5 increases the obligated amount on the task order to \$17,201,335.

September 2006 – Modification 6 decreases the obligated amount on the task order to \$17,177,167.

Outcome:

In June 2006, three substations are completed and transferred to GRD. The final obligated amount on the task order is \$17,177,167 and as of January 29, 2008, \$16,767,051 has been disbursed.

Task Order 8—Najaf Distribution Network.

In October 2004, Task Order 8 was issued with the overall objective of improving the reliability of the existing power distribution system in Najaf, which is made up of distribution substations and feeders rates at 33 kV. The initial phase of the task order was to conduct a site assessment of the project sites, to determine whether they were operable. Based upon the result of the site assessment, Perini was to rehabilitate the existing or construct new distribution substations and the associated feeders. The task order identifies four projects.

Significant Events:

December 2004 – Perini requests a 60 day extension to complete its auditable cost proposal because the scope of work needs clarification. The contracting officer grants the extension.

January 2005 - The contracting officer issues a stop-work order because of delays.

February 2005 - The contracting officer lifted the stop-work order because Perini's pricing had changed and the contracting officer anticipates definitizing the task order.

March 2005 - Modification 2 definitizes the task order at a cost of \$14,422,921. The scope of work is reduced to three projects.

August 2005 - Modification 5 extends the performance period by 30 days.

August 2005 - Perini advised the contracting officer by letter of a potential cost and schedule impact due to poor site conditions at each of the three substation locations.

September 2005 - Perini requests an extension of 51 days because all three locations contained high gypsum content.

November 2005 - The contracting officer issues a Letter of Intent to issue an interim performance rating of unsatisfactory for Task Orders 7 and 8 because of Perini's failure to perform in a number of critical areas, including effective management of the construction-milestone schedule. The letter states that the delays would effectively make the cost of the substations prohibitive.

December 2005 - Modification 6 increases the obligated amount on the task order to \$16,974,297.

Outcome:

In May 2006 GRD accepts three substations as complete. The final obligated amount on the task order is \$16,974,297 and as of January 29, 2008, \$16,508,498 has been disbursed.

Task Order 9—Basrah Governate Rehabilitation 132kV

In October 2004, the contracting officer issued Task Order 9 with the overall objective of improving the reliability of the transmission network in Basrah. The initial phase of the task order was to conduct an assessment of the proposed project sites of the existing substations to determine their present condition and operability. Based upon the results of the site assessment, Perini was to rehabilitate the existing installations or construct new transmission substations and associated overhead line and cable circuits. The task order identified ten projects.

Significant Events:

January 2005 – The contracting officer issues a Letter of Concern and stop-work order because of Perini's extension requests and because the company's cost proposal exceeded the funds allotted for the projects.

March 2005 – The task order is terminated for convenience.

June 2005 - Perini and the government settle the task order for \$4,673,872 based on Perini's incurred costs.

Outcome:

The task order is terminated for convenience. Perini and the government agree to settle the task order based on Perini's incurred costs.. As of January 29, 2008, a total of \$4,287,582 has been disbursed.

Task Order 10—Substation Rehabilitation Hartha Khor

In October 2004, Task Order 10 was issued with the overall objective of improving the security and reliability of the transmission network in Hartha Khor. The initial phase was to conduct an assessment of the project sites and the existing transmission line and substation, to determine their present condition and operability. Based upon the results of the site assessment, Perini was to rehabilitate the existing substation and to provide construction support and labor to the Ministry of Electricity for the rehabilitation of 400kV transmission line Hartha Khor No.2.

On November 5, in a letter to Perini responding to a question about the scope of work on the second part of the task order, PCO explained that the company was to “provide rental construction equipment and labor to assist the Ministry of Transmission Southern Region to re-install the 400kV line.”

Significant Events:

November 2004 – Correspondence between Perini and the government indicates that local Iraqis living at the substation posed a problem that needed to be resolved before commencing work.

March 2005 – The contracting officer terminates the task order for convenience.

June 2005 – Modification 3 reduces the obligated amount to \$3,474,887.

Outcome:

The task order was terminated for convenience. Perini and the government agreed to settle the task order for \$3,474,887 based on Perini’s incurred costs. As of January 29, 2008, \$2,942,990 was disbursed to Perini.

Task Order 11—Rehabilitation Umm Qasr 123kv-ET-046

In October 2004, PCO issued Task Order 11 with an overall objective of improving the security and reliability of the transmission network at Umm Qasr. The initial phase was to conduct an assessment of the proposed project site to determine the required work. Based upon the results of the assessment, Perini was to rehabilitate the existing substation. The task order identified only one project, rehabilitation of the new 132kV substation at Umm Qasr.

Significant Events:

January 2005 – The contracting officer issues a stop work order because of delays and excessive project costs.

March 2005 - The contracting officer terminates the task order for convenience.

April 2005 - Perini and the government agree to settle the task order for \$802,319.

June 2005 - Modification 3 reduces the obligated amount on the task order to \$802,319.

Outcome:

The task order is terminated for convenience. Perini and the government settle the task order for \$802,319 based on Perini’s incurred costs. Perini’s incurred costs are primarily for construction management, security and safety, and base camp construction. As of January 29, 2008 the total amount disbursed on the task order was \$727,546.

Appendix C—Contract Solicitation and Award

Contract solicitation and award was conducted by the Corps of Engineers. The advertised solicitation, for three contracts in the electricity sector, was issued on January 6, 2004, with proposals due on February 5. Six companies, including Perini, submitted proposals for a contract to perform design-build services covering transmission/distribution projects in the southern part of Iraq. Each of the proposals was evaluated by a Source Selection Evaluation Board convened by the Corps of Engineers' Louisville District. Within the board, four sub-boards— in the technical, cost, management, and past—performance areas—were established to evaluate the proposals. These sub-boards evaluated Perini as follows:

- **Technical and Management**—Perini was rated “Outstanding,” only one of two companies submitting proposals to receive that rating in all technical and management factors.
- **Past Performance**—The sub-board noted some underperformance in the company's ongoing work in the Restore Iraq Electricity program but concluded that was due, in part to the challenging security situation in the southern region. Overall, the sub-board rated Perini's proposal as “Low Risk,” which means that—based on the company's performance record—little doubt existed about Perini's ability to perform the work involved.
- **Cost**—Perini was judged to have the second-lowest most-probable cost, based on submissions from each bidding company in response to a hypothetical cost model provided in the solicitation.

In the Memorandum of Source Selection Decision, the Source Selection Authority's officer stated, “I find that the proposal of Perini Corp. represents the best overall value and is the most advantageous to the government under Request for Proposals (RFP) W914NS-04-R-0003.” In November, 2007 the contracting officer who awarded the contract stated that the solicitation process was very thorough, with full and open competition. He stated that the Source Selection Evaluation Board was satisfied that it had awarded the contracts to the right bidders. There were a sufficient number of bidders, and the evaluators were experienced and well-qualified. The past-performance sub-board appropriately considered information from interviews with Corps of Engineers personnel regarding Perini's work in the Restore Iraqi Electricity program.

Appendix D—Perini Subcontractors

Perini Subcontractors for Contract W914NS-04-D-0011

Subcontractor Name	Nationality	Subcontract Quantity and Type	Subcontracts Aggregate Value
Subcontractor A	USA	1 – Fixed Price	\$882,705
Subcontractor B	USA	1 – Fixed Price	3,100
Subcontractor C	Tortola, British Virgin Islands	2 – Fixed Price	17,199,867
Subcontractor D	USA	1 – Fixed Price	205,774
Subcontractor E	USA	1 – Fixed Price	187,890
Subcontractor F	USA	1 – Fixed Price	1,094,181
Subcontractor G	Kuwait	1 – Fixed Price	3,782,172
Subcontractor H	Kuwait	1 – Fixed Price	1,890
Subcontractor I	Kuwait	3 – Fixed Price	6,848,434
Subcontractor J	Kuwait	1 – Fixed Price	944,990
Subcontractor K	USA	2 – Fixed Price	2,036,842
Subcontractor L	Iraq	1 – Fixed Price	200,000
Subcontractor M	USA	1 – Fixed Price	2,244
Subcontractor N	Kuwait	1 – Fixed Price	58,344
Subcontractor O	USA	1 – Fixed Price	11,454,315
Subcontractor P	Italy	1 – Fixed Price	15,744,000
Subcontractor Q	USA	1 – Fixed Price	577,058
Subcontractor R	Kuwait	1 – Fixed Price	27,540
Subcontractor S	France	1 – Fixed Price	95,160
Subcontractor T	USA	1 – Fixed Price	188,059
Subcontractor U	USA	1 – Fixed Price	126,875
Subcontractor V	USA	1 – Fixed Price	1,215,800
Subcontractor W	Belgium	1 – Fixed Price	26,130,914
Total			\$89,008,154¹⁶

Source: Perini Corporation

¹⁶ The total does not match the amount listed for subcontracting in table 2 because this table includes subcontract amounts for expense elements other than construction, such as security.

Appendix E—Acronyms

ATO	Administrative Task Order
DB	Design Build
DCAA	Defense Contract Audit Agency
DD250	Department of Defense Form 250
GRD	Gulf Region Division, U.S. Army Corps of Engineers
JCC-I/A	Joint Contracting Command – Iraq/Afghanistan
IPA JV	Iraq Power Alliance Joint Venture
kV	Kilovolt
PCO	Project and Contracting Office
PMO	Project Management Office
QA	Quality Assurance
SF1034	Standard Form 1034
SIGIR	Special Inspector General for Iraq Reconstruction
V	Volt

Appendix F—Audit Team Members

This report was prepared, and the review conducted, under the direction of David R. Warren, 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

Paul Converse

Walt Franzen

William Shimp

Frank Slayton

Management Comments

U. S. Army Corps of Engineers GRD



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
GULF REGION DIVISION
BAGHDAD, IRAQ
APO AE 09348

CEGRD-CG

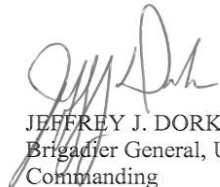
11 April 2008

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

SUBJECT: Draft SIGIR Audit Report – Outcome, Cost, and Oversight of Electricity-Sector
Reconstruction Contract with Perini Corporation (SIGIR-08-011)

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 non-concurs with the recommendation contained in the draft report. We have provided additional information regarding the conclusions and discussion in this draft report. In addition, we are including a spreadsheet depicting changes in responsibilities during command transition periods. See the enclosures for details.
3. Thank you for the opportunity to review the draft report and provide our written comments for incorporation in the final report.
4. If you have any questions, please contact Mr. Robert Donner at (540) 665-5022 or via email Robert.L.Donner@usace.army.mil.

2 Encl
as


JEFFREY J. DORKO
Brigadier General, USA
Commanding

COMMAND REPLY
to
**SIGIR Draft Audit Report – Outcome, Cost, and Oversight of Electricity-Sector
Reconstruction Contract with Perini Corporation SIGIR Report Number 08-011
(Project 7027)**

Recommendation and Command Comments

Page 20. Recommendation

We recommend that the Commanding General, GRD, determine if properly signed pay documents are on file to support payments to Perini and, if not, report a material management control weakness and a plan of action, as prescribed by Army Regulation 11-2.

Actions Taken. Non-Concur. The U.S. Army Corps of Engineer Finance Center (USACE FC) in Millington, TN maintains file documentation to support payments to Perini. In accordance with the DoD Financial Management Regulations (DoD FMR) the contractor sent a public voucher for purchase and services, a SF 1034 to the Defense Contract Audit Agency (DCAA). DCAA either stamps the voucher for payment or returns it to the contractor for corrections. After DCAA stamps the voucher for payment, they forward it to the USACE FC for payment. Once Millington has the SF1034 or DD250 and any supporting documentation, they make the payment. The entire process is electronic. Once CEFMS processes the payment, USACE FC personnel scan all documents into Webdms, a document management system. The PCO finance office directed Perini to submit all SF1034 and DD 250 forms to DCAA and USACE FC. As with the SF1034 DCAA would approve the DD 250 for payment and then forward the stamped document to USACE FC for payment.

The Finance Center discussed this review with the SIGIR auditors and pulled copies of all payment invoices and supporting documentation for their review. On 23 Nov 07, the auditors declined to visit the Millington Finance Center. They indicated they would analyze the documents they had obtained from the contract files in Iraq and GRD to identify any missing documentation. The audit team never followed up with Millington to seek documents not available from GRD or JCC-I.

GRD Comments. The Gulf Region Division provides the following specific comments related to the draft audit report.

1. **Draft Report, Page iv, Contract Administration and Oversight, first bullet.** Available information indicates that GRD did not effectively execute its quality assurance (QA) responsibilities. As noted earlier, we requested copies of the QA reports from GRD, and received a total of four reports, all from one site and prepared by the same individual over a ten day period.

Encl 1

Command Comments. The Chief of Engineering and Construction at the Gulf Region South witnessed SIGIR auditors on a site visit to Basrah accessing RMS and downloading Perini documentation that included a multitude of quality assurance (QA) reports. This event took place in the summer of 2007. The report does not acknowledge the review of these QA reports. The GRD Internal Review office has no record of a SIGIR request for QA reports before their exit briefing on 29 Feb 08. In addition, the Gulf Region Central District provided a compact disc with QA reports. It is unclear whether the auditors reviewed these additional reports.

2. Draft Report, Pages iv and v, Contract Administration and Oversight, second bullet.

We reviewed all available invoices and payment documentation gathered from JCC-I/A, GRD, and Corps of Engineers Finance Office in Millington, Tennessee, and compared those documents to payments made to Perini as recorded in the Corps of Engineers Financial Management System.

Command Comments. This statement is not accurate. The SIGIR auditors did not visit the Corps of Engineers Finance Office (USACE FC) in Millington, Tennessee. Finance Center personnel pulled copies of all payment invoices and supporting documentation for the auditors to review. On 23 Nov 07, the auditors declined to visit the Millington Finance Center. The auditors stated in an email to the Finance Center that they would analyze the documents they had received from the contract files in Iraq and GRD to identify any missing documentation. The Finance Center does not have a record of any additional request for documentation.

3. Draft Report, Page v, Material Management-Control Weakness. As discussed above, our review found that the U.S. government agencies responsible for payments under the contract did not maintain proper documentation to support all payments.

Command Comments. The U.S. Army Corps of Engineer Finance Center (USACE FC) in Millington, TN maintains file documentation to support payments they made to Perini. The audit team did not review payment documentation at the Finance Center.

4. Draft Report, Page v, Recommendation. We recommend that the Commanding General, GRD, direct that actions be taken to determine if properly signed payment documents are on file to support payments to Perini and if not, report a material management control weakness and a plan of action, as prescribed by Army Regulation 11-2.

Command Comments. As previously stated, GRD non-concurs with this recommendation. GRD provided the audit team copies of invoices and supporting documents during their audit. GRD provided more documents after the exit briefing that the audit team stated they couldn't find. If the audit team made a site visit to the Finance Center in Millington, they could have obtained all the documents they needed for their audit.

5. Draft Report, Page 2, Data Limitations, fourth bullet. All documentation supporting payments on the contract was not available at the time of our fieldwork.

Command Comments. The audit team did not make a site visit to the USACE FC in Millington, TN to review documentation supporting payments made to Perini. Thus, it is unclear how the auditors could have reviewed all available documentation supporting payments.

6. Draft Report, Page 14, last paragraph. We asked GRD to provide us with copies of the daily inspection reports. In total we were provided with four reports, all prepared by the same person over a ten day period in June 2005 at one site.

Command Comments. The Chief of Engineering and Construction at the Gulf Region South witnessed SIGIR auditors on a site visit to Basrah accessing RMS and downloading Perini documentation that included a multitude of quality assurance (QA) reports. This event took place in the summer of 2007. The report does not acknowledge the review of these QA reports. The GRD Internal Review office has no record of a SIGIR request for QA reports before their exit briefing on 29 Feb 08. In addition, the Gulf Region Central District provided a compact disc with QA reports. It is unclear whether the auditors reviewed these additional reports.

7. Draft Report, Page 22, last paragraph. Our assessment was constrained by incomplete contract file documentation. The documents that were not in the file were important to a more complete evaluation of Perini's use and oversight of subcontractors, GRD's quality assurance program, and the appropriateness of and support for payments to Perini.

Command Comments. The Joint Contracting Command – Iraq/Afghanistan is responsible for maintaining the contract files. GRD is not aware of a requirement to keep QA reports in contract files. The audit team did not make a site visit to the USACE FC in Millington, TN to review documentation supporting payments made to Perini. Thus, they could not have reviewed all available documentation supporting payments.

Additional Comments

GRD Overall Comment. The report is unclear regarding the organizational responsibilities and transitions for the contract. It implies that GRD had the primary responsibility for decisions and administration of the contract. A synopsis of responsibilities and transitions follows.

The US Army Corps of Engineers (USACE) awarded an indefinite-delivery indefinite –quantity cost-plus-award-fee contract to Perini Corporation on behalf of the former Coalition Provisional Authority (CPA) in March 2004. Financial responsibility remained at the USACE Finance Center in Millington, Tennessee. However, the PMO had responsibility for funding decisions and contract administration.

The contractual and programmatic responsibilities were in the CPA's Program Management Office (PMO), and the PMO began issuing the eleven Task Orders reviewed by SIGIR in this report. Almost immediately after award, USACE transferred the contract to the PMO.

Eventually four Activities would hold contractual and program responsibilities during the period covered by this review before the merged Project Contracting Office /Gulf Region Division (PCO/GRD) accepted the last task order in June 2006. The Gulf Region District (GRD) did not stand up as a unified activity distinct from PCO until October 2006. Enclosure 2 provides a timeline of key dates for construction task orders and activity responsibilities. Although SIGIR may find problems with such transfers, the agency currently holding the contract is not the problem.

Iraq Power Alliance Joint Venture (IPA-JV) initially provided program support under contract to the CPA/PMO and later the PCO/GRD throughout much of the period reviewed. The IPA-JV continued to provide program support until September 2007 when another contractor took over program responsibilities.

CPA/PMO, PCO, and PCO/GRD leveraged IT resources to provide administrative continuity despite these organizational transitions. Networked systems stored financial and quality assurance documents, scanned by responsible activities and transferred to the next responsible activity as one deactivated and another activated, in order to keep a continuous administrative record.

The USACE Finance Center, in Millington, Tennessee provided Financial Support throughout the period. Scanned invoices and receiving documents are in the Center's Corps of Engineers Financial Management System (CEFMS).

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:

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- deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse
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 - Phone: 703-602-4063
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