

**STATEMENT OF JOSEPH MCDERMOTT  
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**BEFORE THE  
UNITED STATES HOUSE OF REPRESENTATIVES  
APPROPRIATIONS COMMITTEE  
SUBCOMMITTEE ON DEFENSE**

**CONTRACTING IN IRAQ RECONSTRUCTION**

**Thursday, May 10, 2007**

**Washington, D.C.**

Chairman Moran, Ranking Member Young, and members of the Committee: thank you for this opportunity to address you today on the challenges and difficulties encountered in contracting for Iraq reconstruction. I look forward to a productive exchange with the Committee regarding this issue.

SIGIR has been asked to present case studies that illustrate the challenges faced in contracting in Iraq reconstruction.

### **Background**

First, however, it is important to provide some background to put our testimony in context. The majority of effort in Iraq reconstruction has been performed by contractors. This has been the case in other modern reconstruction efforts and in our foreign aid effort in general. Contractors have provided the people, the capability, and the capital equipment, that has made reconstruction, and indeed the entire war effort, possible. None of this has been easy. In this endeavor, the Department of Labor reports over 916 contractors, including 224 American citizens, have lost their lives.

The reconstruction program in Iraq has been carried out literally under enemy fire. There are fundamental differences between this effort and reconstruction in a stable environment. Our findings should be viewed in that light.

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The challenges of Iraq, however, do not reduce the importance of oversight; to the contrary, they increase the importance of effective operational oversight and real-time review to help ensure accountability. Indeed, our collective reporting on Iraq reveals that the simple axiom holds true: effective quality assurance programs carried out by the government, complemented by effective quality control programs performed by contractors, generally yield successful programs and projects. In fact, SIGIR's inspection reports document that many of the 89 projects we have visited met contract expectations in terms of what they actually produced, which is impressive under the challenging circumstances in Iraq.

Our observations are bolstered by key observations of the Joint Contracting Command in Iraq who highlight several issues:

- that the U.S. was never able to recruit enough civil servants as contracting officers; and
- that implementing agencies (USAID, DoS and DoD) have different contracting procedures which makes the ability to have a consistent contracting practice difficult.

We agree with these observations.

### **SIGIR's Lessons Learned Initiative**

In addition to these observations, SIGIR had already initiated a lessons learned program in late 2004. Its purpose was to capture on a timely basis the lessons learned from the Iraq reconstruction experience. To accomplish this, SIGIR consolidated the information culled from over 300 audits and inspections by our organization and other oversight bodies looking at Iraq reconstruction. We also interviewed key government and non-government officials.

For each subject area SIGIR provided a draft discussion white paper and exchanged information on lessons learned at a forum attended by senior executives and experts from the U.S. government, industry and academia – many with first hand experience in Iraq. Based on this input, SIGIR released revised papers to key contributors and forum participants. After several vettings, the new draft would be circulated to DoD, USAID, DoS, and OMB for review.

The result was three lessons learned papers:

In February 2006, SIGIR released *Iraq Reconstruction: Lessons in Human Capital Management*. The document identifies and discusses four key components of effective human resource management: policy alignment, workforce planning, recruitment, and continuity.

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In August 2006, SIGIR released *Iraq Reconstruction: Lessons in Contracting and Procurement*, which examines the establishment and evolution of the contracting process to identify challenges in planning, systems, policies, and procedures.

In March 2007, SIGIR issued its third and final Lessons Learned report, *Iraq Reconstruction: Lessons in Program and Project Management*, which provides recommendations aimed at improving program and project management in contingency operations.

These three reports help satisfy SIGIR's mandate from Congress to provide recommendations that promote economy, efficiency, and effectiveness in the administration of the reconstruction program in Iraq.

I have brought with me today a paper for distribution that provides the highlights of each of the areas SIGIR reported on in its lesson learned initiative. Complete reports on Lessons Learned in Human Resources Management, Contracting, and Program and Project Management are available on SIGIR's website at [www.sigir.mil](http://www.sigir.mil).

## **Case Studies**

Today, I will highlight some examples that are illustrative of the challenges faced across the spectrum of Iraq reconstruction contracting.

First is a comprehensive look at the work performed on the Primary Healthcare Centers (PHCs). In an audit released in April 2006, SIGIR found that overall management of the PHCs construction projects could have been better executed. The Primary Healthcare Centers project began with a March 2004 contract awarded to Parsons Global Inc. to construct 150 centers in Iraq, at a contract cost of about \$243 million, over a period of two years. Over the next two years, limited progress was made on this program, despite the expenditure of about \$186 million. By March 2006, because of this lack of progress, the number of centers to be built had been reduced by eight, to 142. At that time, 135 centers were only partially constructed, one was placed under a different contract, and six had been accepted as complete by the U.S. Army Corps of Engineers (USACE).

USACE then issued a "termination for convenience" of the contract for 121 of the 135 partially completed centers. This required the contractor to deliver 20 completed centers, including the six already completed. USACE sought to contract out the completion of the remaining units, with the incremental cost to complete the remaining 121 centers estimated to be about \$36 million. USACE announced the award of contracts for these PHCs in September 2006.

As of our April 30, 2007, Quarterly Report, only 15 of the planned 142 PHCs were completed. Of the 15 completed to date, 8 are currently open to the public. Of the remaining, 119 are under construction and 8 have stopped work for reasons including security concerns (four were bombed) and subcontractor issues.

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Our audit found that in addition to security problems, both contractor performance and U.S. government management actions were factors in the failure to complete the Primary Healthcare Centers program as planned. SIGIR auditors were told by USACE that the contractor:

- lacked qualified engineering staff to supervise its design work
- failed to check the capacity of its subcontractors to perform the required work
- failed to properly supervise the work of its subcontractors
- failed to enforce quality control activities

SIGIR auditors identified:

- a lack of complete government response to contractor requests for equitable adjustments and excusable delays based on unplanned site conditions, design or scope changes, or delays based on site access restrictions or security
- high government personnel turnover and organizational turbulence
- failure to follow required procedures for making contract changes
- poor cost controls
- poor cost-to-complete reporting
- failure to properly execute its administrative responsibilities
- failure to establish an adequate quality assurance program

Our audit report concluded that the overall management of the projects should have been better executed. We provided recommendations for the project, as well as additional “lessons learned” for contract oversight. The responses we received from the three government organizations involved in the management of this program revealed that no one office had taken responsibility for the program.

In addition to the audit of the PHCs, SIGIR has conducted 23 inspections on projects performed by Parsons. SIGIR has found that contract specifications were not met and deficiencies were noted in 15 of the 23 sites. Among the projects examined: The Baghdad Police College, the Al Basrah Oil Terminal, the Iraqi Civil Defense Headquarters and the Erbil Maternity and Pediatric Hospital. I will highlight the findings of the inspection of the Baghdad Police College as a case study. Complete copies of all inspections reports can be found on the SIGIR website at [www.sigir.mil](http://www.sigir.mil).

### **Baghdad Police College**

In March 2004 the Coalition Provisional Authority awarded a contract to Parsons Delaware, Inc, to construct and renovate the Baghdad Police College.

Upon the dissolution of the Coalition Provisional Authority, the Joint Contracting Command – Iraq/ Afghanistan became the contracting agent. The U.S. Army Corps of Engineers Gulf Region Division (GRD) and the Project and Contracting Office (PCO) were responsible for the efficient and effective execution and administration of design-build contracts for the reconstruction of Iraq.

There were two task orders under the contract associated with work at the Baghdad Police College – Task Orders 06 and 29. Task Order 06 provided for a Public Safety Training Academy to supplement and expand the training facilities to train all departments of the Ministry of Interior. Task Order 29 was to provide all labor, materials, and services necessary to construct new buildings and/or renovate, improve, and expand existing buildings to supplement the Baghdad Public Safety Training Academy.

Our inspection determined that:

- The Baghdad Police College construction and renovation project results were not consistent with the original contract and task order objectives because the project was poorly designed, constructed, and the contractor and the U.S. Army Corps of Engineers Project Engineer and Quality Assurance representatives did not effectively manage the project.
- USACE was paid approximately \$2.5 million for simply tracking the progress of the project completion instead of enforcing the procedures set forth in its own guidance regarding the Quality Assurance program.
- SIGIR found that the USACE Project Engineer and the government's Quality Assurance representatives did not review the contractor's daily Quality Control reports. In addition, the Quality Assurance representatives merely tracked project progress and were not concerned with quality issues. As a result, the Quality Assurance representatives did not identify any construction deficiencies in the daily Quality Assurance reports. Consequently, USACE was not aware of significant construction deficiencies at the project site.
- Construction costs were originally estimated to be approximately \$73 million. The government estimates it will pay Parsons approximately \$62 million for work both fully and partially completed. Additional contracts with other contractors in excess of \$8 million have been awarded to complete some of the construction work not finished by Parsons. However, the majority of the de-scoped items, which were originally determined to be essential to a functioning police training

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- college, will either be left as a shell (i.e., the communications building) or not even attempted (i.e., the driving course and fire protection).
- The contractor did not provide, and the government did not review, the required number of design drawings at the 30% and 60% submittals. For the design drawings reviewed, the government determined the submittals were generally incomplete and inadequate. For the 90% design drawing submittals, the government concluded that the drawings were “not acceptable as 90% submittal as these drawings are incomplete, inaccurate, and substandard.” At 100%, many of the design drawing submittals were “rejected” by the government reviewer. Nevertheless, the U.S. government paid about \$2.6 million for design work that was generally incomplete and inadequate prior to construction.
  - The majority of the work observed did not meet the standards of the contract and task orders. SIGIR identified significant construction deficiencies, such as poor plumbing installation, expansion cracks, concrete segregation and honeycombing, reinforcement bar exposure, and poor brickwork. In addition, the construction and equipment installation was performed at a low level of workmanship by the contractor and did not comply with the international standards required by the contract and task orders.
  - SIGIR found that construction was so poor for one facility that the prime contractor issued a Nonconformance Report and work was stopped while independent assessments were done to determine if the construction deficiencies could be corrected. Independent assessments determined that it would be too costly to attempt to correct the structural construction deficiencies. Even though the subcontractor agreed to “take financial responsibility for the engineering fix,” this facility was removed from the scope of work under the contract after the government paid approximately \$350,000 for the poor construction work, and it will require approximately \$100,000 to demolish the facility.

The USACE Gulf Region Division generally concurred with our conclusions, and is implementing some, but not all, of the SIGIR recommendations. They confirmed that international building standards were not followed and the quality management program of the contractor and the government were not adequate. GRD has also let another contract for repairs to the Baghdad Police College, which hopefully will lead to sufficient improvements in the facility that the Iraqi Ministry of Interior will agree to take responsibility for the facility. GRD continues to underscore that despite the many problems with construction standard at the Baghdad Police College, classes of cadets continue to graduate from the college on schedule.

### **Iraqi Police Training Program**

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This program involved resources that were made available to field a capable Iraqi police force. Responsibility for this program was given to DoD. The DoS Bureau of International Narcotics and Law Enforcement Bureau (INL) is responsible for assisting in the development of police capabilities. INL, as the program execution office, used the Iraq Relief and Reconstruction Fund (IRRF) to provide funding for Iraqi police training and assigned a contracting officer representative (COR) to monitor contract activities. The DoS Office of Acquisition Management provided contracting officer support to INL.

To assist in achieving its mission, the DoS awarded a contract to DynCorp International, LLC (DynCorp), on February 18, 2004. The contract was for a base year and four one-year options and had a potential value of about \$1.8 billion. As part of this contract, DoS issued task order number 0338, with a not-to-exceed value of \$188.7 million in June 2004, to DynCorp for an initial 3-month period to provide: training services for international police liaison officers; training support equipment; construction of a residential camp on the Adnan Palace grounds in Baghdad to house training personnel; and construction of five regional camps at selected locations in Iraq. As of October 14, 2006, INL authorized, and DoS paid DynCorp \$150.8 million for work performed through May 2006 under Task Order 0338.

Our audit of this program (conducted jointly with the DoS Office of the Inspector General) focused on the establishment of the residential camp and the performance of unauthorized work by DynCorp. Specifically, it focused on the work to be done and items to be provided for the \$51.6 million residential camp and the \$36.4 million of equipment to be procured.

We found poor contract administration by INL and the DoS Office of Acquisition Management resulted in millions of dollars put at unnecessary risk. Specifically, between July 2004 and June 2006, DoS paid about \$43.8 million for manufacturing and temporary storage of a residential camp that has not yet been used, including \$4.2 million for unauthorized work associated with the residential camp.

A total of 1,048 trailers were to be manufactured for the residential camp. Because of security concerns, INL officials decided to cancel the residential camp project in September 2004. On or about September 23, 2004, the DoS contracting officer communicated to DynCorp INL's decision not to proceed on the camp. DynCorp, in turn, issued a stop-work order on September 25, 2004.

Based on our review, we identified the following issues concerning the residential camp:

- According to an INL internal review report, the manufacturing of the trailers had actually begun in May 2004—more than three months before the subcontract for the residential camp project was issued. In addition, on July 30, 2004, DynCorp submitted an invoice to DoS that included \$18.0 million in mobilization fees for the residential camp for the period of April 17, 2004, through May 16, 2004, again, before it had subcontracted for the trailers.

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- We found no information to indicate that any INL official or the Contracting Office Representative (COR) questioned why DynCorp submitted an invoice for mobilization fees for the residential camp before it had subcontracted for the manufacture of the trailers. Nor did INL seek to determine the actual status of the work when DynCorp was notified not to proceed, given the \$18 million paid to DynCorp for mobilization fees for the residential camp. Rather, INL relied on DynCorp's representations. As such, the true status of the manufacturing effort was unknown as of the issuance of the notice.
- Of the approximately \$43.8 million spent on the residential camp, \$4.2 million was for work that was not contractually authorized—the Iraqi Ministry of Interior directed the work but DoS, as the contracting agency, never authorized it. The unauthorized work included relocating the residential camp to outside of the Adnan Palace grounds, manufacturing an additional 20 VIP trailers, and construction of a swimming pool on the palace grounds.

In December 2005, INL issued an asset verification report documenting that DynCorp could not provide a complete property book and backup documentation for items it purchased for the U.S. government. The report concluded:

- DynCorp invoices were frequently ambiguous and lacked the level of detail necessary to determine what was procured.
- DynCorp did not maintain a complete list of items procured.
- DynCorp did not establish policy guidance or accountability procedures.

The report also concluded, “INL cannot determine if the bureau received what it paid for.” In our review we found that the invoices for Task Order 0338 lacked the level of detail to determine what was procured and that the U.S. government or DynCorp did not maintain a complete list of items procured under Task Order 0338. Further, we found that the COR, although responsible for inspecting and accepting contractor work, did not ensure that DynCorp maintained proper inventory control records or maintain the records personally for the \$36.4 million of proposed equipment that was to be procured under this task order.

In November 2005, INL's Principal Deputy Assistant Secretary met with the DoS Inspector General and subsequently with DoS Investigations to discuss concerns of potential fraud with Task Order 0338. Specifically, INL reported that DynCorp had billed INL for 500 trailers for the residential camp related to this task order that may not have been manufactured or completed at the time of billing.

INL now appears to be making progress in finding a use for the residential camp trailers in connection with the need for more housing at the new U.S. embassy in Baghdad.



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We recommended a number of actions to ensure that the contract work is properly invoiced, payments are proper, and the contract is properly managed. INL agreed with all of the recommendations and stated that many improvements were underway.

**SIGIR has also looked at contracts held by Aegis.**

In an audit issued in April of 2005, SIGIR found that Aegis Defence Services Limited did not fully comply with requirements in five areas of its contract including providing sufficient documentation to show that its employees who were issued weapons were qualified to use those weapons, or that its Iraqi employees were properly vetted to insure they did not pose an internal security threat. The audit also found that Aegis was not fully performing several specific responsibilities required by the contract in the areas of personal security detail qualifications, regional operations centers and security escorts and movement control. SIGIR also identified deficiencies in the monitoring of the contract by the government managers. The full audit is available on SIGIR's website at [www.sigir.mil](http://www.sigir.mil).

**Contract Award Fee Process**

An audit of Award Fees by SIGIR (SIGIR 05-017) found that 18 cost-plus-award-fee contracts funded with IRRF valued at over \$7 billion dollars were receiving not only the full amount of base fees, but also, in most cases, the full amount of awards fees, despite less than exceptional performance. Once SIGIR had identified the weaknesses in the awards fee process—such as limited criteria metrics upon which to base the award fee—the Joint Contracting Command and the Army Corps implemented new procedures and issued an updated policy that tied awards fees to performance.

**Definitization**

SIGIR also reviewed contract actions where contract terms, specifications or price were not agreed upon before performance was begun—referred to as “undefinitized contract action.” The definitization issue affected over \$3.4 billion in IRRF money and affected “indefinite delivery indefinite quantity” or IDIQ contracts. During the audit, SIGIR found that contracting officers believed that definitization was optional. Following our audit, actions were taken to issue written clarification regarding the applicability of regulations that required task orders be definitized.

**Administrative Task Orders**

SIGIR performed an audit of the administrative costs incurred for projects while they sat idle and the degree to which reconstruction funds were wasted in that process. Our audit found that during the period before administrative task orders were issued, administrative costs would likely have been invoiced by contractors against existing task orders. During our work, SIGIR identified that an average of six months elapsed from the date of the

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mobilization order to the date when substantial work was begun – meaning that contracts began to incur administrative costs well before they started doing the work.

In the case of this audit, SIGIR recommended that cost-reimbursement contracts include explicit requirements for tracking administrative costs, that adequate project planning minimized contractor down-time, and that improved processes ensure that work stoppage, descoping or reductions be better managed.

### **Future Work**

SIGIR continues to examine the range of issues encountered with contractors. We are currently performing a series of reviews to identify where did the money go and what were the results of the investment? We also plan to announce audits of selected security contractors, including Blackwater.

### **Conclusion**

SIGIR remains committed to high quality and timely oversight of the U.S. reconstruction effort in Iraq. I look forward to your questions today.