OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

# MANAGEMENT OF THE PRIMARY HEALTHCARE CENTERS CONSTRUCTION PROJECTS

**SIGIR-06-011**
**APRIL 29, 2006**

**SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION**

April 29, 2006

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

SUBJECT: Audit Report on Management of the Primary Healthcare Centers Construction Projects (SIGIR-06-011)

We are providing this report for your information and use. We initiated this audit at the request of the U.S. Ambassador to Iraq and the Commanding General, U.S. Army Corps of Engineers Gulf Region Division (GRD). We provided interim information to the Ambassador by separate correspondence in December 2005 answering their initial questions. This report provides additional information on our review of the management of Primary Healthcare Centers construction projects.

We considered comments from GRD, the Iraq Reconstruction Management Office, and the Joint Contracting Command-Iraq/Afghanistan, on a draft of this report when preparing the final report. Their comments are addressed in the report where applicable and copies of their comments are included in the Management Comments section of this report.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott at (703) 343-7926, or by email at joseph.mcdermott@iraq.centcom.mil; or Mr. Clifton Spruill at (703) 343-9275, or by email at clifton.spruill@iraq.centcom.mil. For the report distribution, see Appendix F.

Stuart W. Bowen, Jr.
Inspector General

cc: Distribution

# Special Inspector General for Iraq Reconstruction

**SIGIR-06-011** **April 29, 2006**

# Management of the Primary Healthcare Centers Construction Projects

## Executive Summary

This report discusses management of the Primary Healthcare Centers (PHC) construction project in response to a request by the U.S. Army Corps of Engineers Gulf Region Division (GRD) and the U.S. Ambassador. This report is a follow on to correspondence on this subject provided by the Special Inspector General for Iraq Reconstruction in December 2005.

**Introduction.** On March 25, 2004, contract W914NS-04-D-0006, a cost-plus type contract, was awarded to Parsons Delaware, Inc. Task orders 4, 11, and 12 contracted for the construction of 150 PHCs throughout Iraq. The total definitized cost of the construction was $103,538,411. In addition, the task orders provided for the purchase and installation of medical and dental equipment for each center. The total definitized cost of the equipment was $69,115,742. The contract also had an administrative task order, task order 7, to cover indirect costs of projects under the contract. The total definitized cost of task order 7 was $110,000,000[1]. This report addresses the combined definitized cost on this contract of about $243,000,000 associated with the 150 PHCs.

**Objectives.** The objectives of the audit were to determine if the contractor was in compliance with the terms of the contract or task orders and whether the government representatives were complying with general legislative and regulatory guidance concerning contract administration and financial management. We also evaluated the effectiveness of the monitoring and controls in place by administrative contract officers.

**Results.** As of March 6, 2006, approximately $186 million (about 77 percent of the definitized cost) was spent on the PHC project, over a two year period, with little progress made. Specifically, 8 of the 150 planned centers were descoped; 1 was placed under another contract vehicle; 135 were just partially constructed (with 121 subsequently "terminated for convenience"); and only 6 were accepted as completed by the U.S. Army Corps of Engineers Gulf Region Division (GRD). In July 2005, in consultation with Iraq's Ministry of Health (MOH), a decision was made to descope eight of the PHCs due to lack of progress and to reallocate funds to cover gaps in the budget created by MOH not being able to fulfill previous commitments to the program. Subsequently, in September 2005, the U.S. government took action to descope the 8 PHCs. Another PHC was continued through direct contracting. Of the remaining 141 PHCs, 135 are partially complete throughout Iraq. On March 3, 2006, the U.S. Government executed a "termination for convenience", descoping 121 of the 135 PHCs. As a result, the current U.S. Government requirement is for Parsons to deliver 20 PHCs, including the 6 already completed, by April 3, 2006. The estimated additional cost to complete the 121 PHCs is approximately $36 million. However, an Iraq Reconstruction Management Office (IRMO) senior official stated there is currently insufficient Iraq Relief and Reconstruction Fund (IRRF) funding available on this contract to complete all of the centers.

[1] We estimate that the amount of definitized cost of task order 7 associated with the PHC projects is 64 percent or $70,400,000.

Contractor performance and U.S. Government management actions were both factors in the failure to complete the PHC project as planned. According to GRD, 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, and failed to enforce quality assurance/quality control activities. On the government side we identified a lack of complete responsiveness 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 U.S. Government personnel turnover and organizational turbulence; a failure to follow required procedures for making contract changes; poor cost controls; poor cost to complete reporting; a failure to properly execute its administrative responsibilities; and a failure to establish an adequate quality assurance program.

GRD provided us a lengthy description of the contractor problems it faced during the course of this contract. We do not dispute that there were signs of failure on the part of the contractor. Further, as already noted, poor contractor performance delayed completion of the project and escalated costs. However, this report focuses on the government's contract administration because we believe that the Federal Acquisition Regulations, if properly followed, identify the responsibilities of each party in a contract and provide sufficient contract controls to ensure that the government receives the goods or services it seeks at a fair and equitable price.

**Management Actions.** U.S. government officials have taken steps to address some of the issues that we have identified.

- On July 18, 2005, Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) issued a "letter of concern" to Parsons stating, "This letter of concern is issued regarding certain shortfalls and non-compliance issues with quality, safety, schedule and performance criteria that must be immediately addressed and rectified." The letter referred to issues raised as a result of a Project and Contracting Office (PCO) site visit to PHCs in the Baghdad area.

- In the Fall of 2005, JCC-I/A assigned an overall interim unsatisfactory performance evaluation to the contractor because of unmet milestones, schedule slippages, and elusive administrative task order costs.
- Lacking confidence in the Parsons Global Services, Inc. weekly cost performance reports, the contracting officer requested the monthly cost performance reports as prescribed by contract section 2.3.5. On October 23, 2005, the government and Parsons agreed upon a format for the new reports. Subsequently, Parsons has produced monthly cost performance reports in the new format.
- On October 24, 2005, the contracting officer briefed PCO and Parsons Global Services, Inc. that required procedures for "constructive changes" to the project would be enforced. The contracting officer required that future constructive changes be properly definitized. He also pushed the formal process to bring the outstanding request for equitable adjustment (REA) to resolution. On December 21, 2005, negotiations commenced to reconcile Parsons' $39 million REA. As of February 24, 2006, 50 of 58 items had been resolved for $22 million. An agreement was signed and the task orders were funded. The eight remaining items were resolved under a unilateral agreement and the contract modification was signed on March 17, 2006.

- On December 21, 2005, Parsons Global Services, Inc. and the U.S. government commenced negotiation regarding Parsons' submission of excusable delays. An agreement was reached and schedules were adjusted in February, 2006.
- As we previously reported[2], GRD-PCO and IRMO took steps late in 2005 to improve the quality of cost-to-complete reporting. The estimates reported in the December 31, 2005, Project Assessment Report for the PHC project appear more realistic than those previously reported. Representatives of IRMO and GRD-PCO stated that cost-to-complete reports are now used more effectively as a project management tool.
- On February 4, 2006, GRD-PCO convened a teleconference with both U.S. government officials and Parsons' representatives to determine a workable solution for how many PHCs should be completed by Parsons and how many PHCs should be descoped. The conference led to the plan where Parsons would complete 20 centers by April 3, 2006, and the other 121 centers would be descoped. According to GRD, it is exploring options to complete the remaining 121 PHCs.

**Conclusion.** Overall management of the primary healthcare centers construction projects could have been better executed between March 25, 2004, to early July 2005. In July 2005, U.S. government management recognized the PHC construction program was in trouble and started a series of actions which eventually led to a reduction in the number of centers to be delivered from the 150 to 20. Unfortunately, as a result, there are 121 centers that remain partially complete. However, there is also a strong commitment among the Iraqi and U.S government managers to complete the 121 partially completed centers. Both governments are developing a plan and attempting to identify the required funds to finalize these centers for the benefit of the Iraqi citizens. We are making recommendations to assist in ensuring a successful completion of this desired goal. We have also identified lessons learned for the improvement in managing large complex projects in the future.

**Recommendations.** We recommend the:

1. Director, Iraq Reconstruction Management Office, require IRMO management to:
   - Develop a Project Delivery Team to meet periodically and facilitate contract completion, in cooperation with JCC-I/A, GRD-PCO and Parsons.
   - Develop a plan for pursuing the funding necessary to complete the project.
   - Develop a strong program management team, in partnership with the Iraqi Ministry of Health, to ensure completion of the 121 remaining centers.

2. Commanding General, Joint Contracting Command-Iraq/Afghanistan, require JCC-I/A management to:
   - For any future contracts awarded for completing the construction of the remaining centers, require that the contracting officer ensure that staff with delegation of responsibility is properly trained.

[2] SIGIR-05-027, "Methodologies for Reporting Cost-to-Complete Estimates", January 27, 2006.

3. Commanding General, Gulf Region Division, require the GRD-PCO sector management to:

   - Require that GRD personnel, who are responsible for traveling to the construction sites to record the information for the daily QA reports, receive proper training in the performance of this function**.**
   - Ensure that proper reporting mechanisms are established, maintained, and monitored for any delegation of program management to government or non-government staff.
   - Ensure that cost-to-complete and schedule performance reports are periodically validated by government managers and are reconciled to the quality assurance reports provided by independent staff.

**Additional Observations.** During the course of our review of the management of this construction contract, we noted areas where "lessons learned" may improve other contract oversight. As such, we are providing the following suggestions:

- Maintain a log of contracting officers and dates of service in the contract file.
- Provide for a length of tour for government personnel that is sufficient to manage large and complex contracts.
- Seek bilateral agreements with the contractor as the norm and document exceptions with justifications including known and accepted risk, with senior leadership review and approval.
- Conduct on-site inspections of proposed construction sites before selection and prior to definitization of task orders to minimize unknown risks of cost and schedule overruns.
- Ensure that contract performance reports include budgeted cost of work performed so that cost and schedule variances can be properly calculated.

**Management Comments and Audit Response.** We received written comments on this report from GRD, JCC-I/A, and IRMO. JCC-I/A and GRD concurred with our recommendations. GRD, however, stated that the recommendations did not offer significant assistance to the organization and reconstruction effort. While our recommendations address the need for proper training and better reporting, which are perennial problems in contract management, we believe they bear repeating given the magnitude of the problems encountered in managing this contract. GRD provided additional information on contractor problems and the actions it took and we added this information to the report. IRMO did not directly respond to our recommendations; instead, it stated that, with regard to the recommendations on developing project delivery teams and a strong program management team, that those matters are the responsibility of PCO. Our intent was to have the key offices involved in the project work together to mutually resolve problems in constructing the PHCs, regardless of who leads the effort. IRMO's response underscores that at present, no one office has taken responsibility for this project. IRMO did not address our recommendation to develop a plan for pursuing the funding necessary to complete the project.

In its written response to this report, GRD correctly noted that this audit was undertaken at the request of GRD-PCO and that the audit was coordinated with the U.S. Ambassador to Iraq and the Commander, MNF-I. We have revised the report to reflect the origin of the audit. GRD also provided a detailed description of the problems encountered by both it and the contractor during the course of the contract, which are reprinted in their entirety in the Management Comments section of this report. According to GRD's description,

the contractor encountered myriad problems and, from the beginning of the project, failed to meet various contract requirements due to numerous significant management and technical shortcomings. We agree that there were early signs that the contractor would not or could not meet contract requirements and that these problems delayed project completion and escalated costs. JCC-I/A expressed these concerns to the contractor on several occasions in June and July 2005. However, it is the government's responsibility to oversee the contract and, given that the government was aware of problems with the project for quite some time, we believe the effective government contract oversight was not provided.

# Table of Contents

# Introduction

## Background

In November 2003, $18.6 billion was appropriated under the Emergency Supplemental Appropriations Act for Defense and the Reconstruction of Iraq and Afghanistan (Public Law 108-106). The law created the Iraq Relief and Reconstruction Fund (IRRF), $18.4 billion of the appropriation was designated for Iraq.

**Health Care Sector.** Projects in the health care sector include nationwide hospital and clinic improvements, equipment procurement and modernization, and construction of a pediatric facility. Total funds allocated to the health care sector, as of January 5, 2006, were $739 million. As of December 28, 2005, the total obligations were $634 million, and the total outlays were $344 million.

**Contract W914NS-04-D-0006**. The contract was awarded to Parsons Delaware, Inc. Pasadena, CA, on March 25, 2004. The contract has a ceiling of $500 million. The contract has thirteen task orders and contracted to upgrade 17 hospitals located throughout the Iraq, design and construct 150 primary healthcare centers (PHC) located throughout Iraq, and repair three Ministry buildings in Baghdad.

Contract task orders 4, 11, and 12 provided for the design and construction of the 150 PHCs at a definitized cost of $88,468,571. Task order 4 provided for the construction of 41 PHCs in the central region of Iraq. Task order 11 provided for the construction of 49 PHCs in the north region. Task order 12 provided for the construction of 60 PHCs in the south region. There are three distinct designs of centers: Type A is the model center, Type B is the model center with teaching facilities, and Type C is the model center with emergency and labor facilities.

In addition, the three task orders provide for the delivery and installation of medical and dental equipment at each center. The list of medical equipment to be installed at each center includes x-ray equipment, hematology analyzer, exam tables, patient beds, defibulator, EEG, ventilator, incubator, and other equipment. The list of dental equipment to be installed at each center includes dental chairs, lights, cabinets, instruments, supplies, and other equipment. The total definitized cost of the equipment for the 150 PHCs is $69,115,742.

**Parsons Delaware, Inc.** Founded in 1944, Parsons Delaware, Inc. Pasadena, CA, is a 100 percent employee-owned company with decades of international design, construction, and reconstruction experience. In the Middle East, Parsons currently operates out of 12 offices. Their overseas business segment responsible for the contract is Parsons Global Services, Inc.

**Administrative Task Order.** Task order 7 is the administrative task order (ATO) that accounts for the indirect costs to contract. The ATO costs include life support, security management, information technology, in-country project management staff, travel, project office, insurance, warranty, base fee, and award fee. In February, 2006, a senior government management official stated the expected cost of the ATO was $117 million.

**Organizations Responsible for Contract Management.** Three organizations have responsibility for management of the contract: U.S. Army Corps of Engineers Gulf Region Division-Project and Contracting Office (GRD-PCO), Iraq Reconstruction Management Office (IRMO), and Joint Contracting Command-Iraq/Afghanistan (JCC-I/A). However, during the first 21 months of the contract, the Project and Contracting Office (PCO) and the U.S. Army Corps of Engineers Gulf Region Division (GRD) were separate organizations. On December 4, 2005, the PCO was folded into the GRD. In addition, two companies in a joint venture, Louis Berger Group, Inc. and URS Group, Inc. were contracted to provide management support.

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

***U.S. Army Corps of Engineers Gulf Region Division.*** GRD provides engineering services in the Iraq combat theater to Multi-National Force-Iraq and the Iraqi government with planning, design, and construction management support for military and civil infrastructure construction. PCO delegated contract administration for contract W914NS-04-D-0006 to the U.S. Army Corps of Engineers, Gulf Region Central-Baghdad on September 18, 2004. On the same day, PCO delegated administrative contracting officer (ACO) authority to the Director of Contracting, U.S. Army Corps of Engineers, Gulf Region Central-Baghdad.

***Sector Project and Contracting Office Contractor (SPCOC).*** Berger/URS, a joint venture between the Louis Berger Group Inc. (Washington, D.C.) and URS Group Inc. (San Francisco, Calif.), was awarded a contract to provide dedicated support to the Buildings/Education/Health Sector Program Management Office under the Coalition Provisional Authority Program Management Office. The SPCOC continued to provide support under the PCO.

***Iraq Reconstruction Management Office (IRMO).*** The Iraq Reconstruction Management Office has the responsibility to approve contracts. National Security Presidential Directive 36, "United States Government Operations in Iraq," May 11, 2004, established the IRMO within the Department of State and directed that organization to facilitate the transition in Iraq. IRMO reports to the Chief of Mission in Iraq.

***Joint Contracting Command-Iraq/Afghanistan (JCC-I/A).*** The head of contracting activity, JCC-I has the responsibility to administer contracts. The JCC-I was established in 2004 to consolidate contracting activities and reports through the Deputy Assistant Secretary of the Army (Policy and Procurement) to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology.

Major events in the history of the PHC projects are listed in Table 1.

**Table 1: Chronology of PHC Construction Projects**

| Date | Project Event |
|---|---|
| March 25, 2004 | The Department of the Army awards the contract to Parsons Delaware, Inc. Task order 1 for mobilization is also awarded and Parsons Delaware is directed to proceed with work. |
| May 11, 2004 | Coalition Provisional Authority Contracting Activity issues notice to proceed for task orders 4, 11, and 12. |
| September 18, 2004 | PCO Contracting delegates contract administration authority to the U.S. Army Corps of Engineers. |
| October 20, 2004 | Task order 4 to design and construct 41 PHCs in central Iraq is definitized. Completion date of December 26, 2005 is established. |
| October 20, 2004 | Task order 11 to construct 49 PHCs in northern Iraq is definitized. |
| October 20, 2004 | Task order 12 to construct 60 PHCs in southern Iraq is definitized. |
| January 29, 2005 | Task order 7 (administrative task order) is definitized for $110,000,000 for indirect costs. |
| January 31, 2005 | Parsons Global Services, Inc. began submitting requests for equitable adjustments (REAs) |
| June 11, 2005 | JCC-I/A issues stop work order for 20 PHCs without agreement between Parsons Global Services, Inc. and the U.S. Government. |
| June 27, 2005 | JCC-I/A issues letter of concern to the contractor regarding task order 11, PHCs in the north region. |
| July 15, 2005 | Parsons Global Services, Inc. provides notification of excusable delays. |
| July 18, 2005 | JCC-I/A issues letter of concern to the contractor regarding task orders 4, 11, and 12. |
| July 23, 2005 | Stop work order is lifted on 12 PHCs. |
| September 8, 2005 | Bilateral modifications descope nine PHCs. |
| September 24, 2005 | JCC-I/A assigns an overall interim performance evaluation of unsatisfactory to the contractor. |
| December 11, 2005 | Parsons Global Services, Inc. submits latest version of the REA for $39 million. |
| December 13, 2005 | JCC-I/A issues a letter of concern to Parsons Global Services, Inc. |
| January 12, 2006 | JCC-I/A issues a cure notice to Parsons Global Services, Inc. |
| March 3, 2006 | JCC-I/A issues partial terminations for convenience for task orders 4, 11, and 12; and 121 of the PHCs are descoped. Six of the PHCs are complete. The U.S. Government requires Parsons Global Services, Inc. to complete another 14 PHCs by April 3, 2006. |

Source: SIGIR

## Objectives

The objectives of the audit were to determine if the contractor was in compliance with the terms of the contract or task orders and whether the government representatives were complying with general legislative and regulatory guidance concerning contract administration and financial management. We also evaluated the effectiveness of the monitoring and controls in place by administrative contract officers.

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

# Contract for the Primary Healthcare Centers Construction Project

As of March 6, 2006, approximately $186 million has been spent on the Primary Healthcare Center project over two years, but only six centers have been accepted as completed by the U.S. Army Corps of Engineers Gulf Region Division (GRD). In July 2005, in consultation with Iraq's Ministry of Health (MOH), a decision was made to descope eight of the PHCs due to lack of progress and to reallocate funds to cover gaps in the budget created by MOH not being able to fulfill previous commitments to the program. Subsequently, in September 2005, the U.S. government took action to descope the 8 PHCs. Another PHC was continued through direct contracting. GRD officials report that the eight PHCs that were descoped were only in the initial stages of construction. Of the remaining 141 PHCs, 6 are complete and 135 are partially complete throughout Iraq. An IRMO senior official stated there is currently insufficient IRRF funding to complete them all. On March 3, 2006, the U.S. Government executed a termination for convenience, descoping 121 PHCs. As a result, the U.S. Government required Parsons Global Services, Inc. to deliver 20 PHCs, including the six already complete, by April 3, 2006. The estimated cost to complete the 121 unfinished PHCs is approximately $36 million. If the PHCs are not completed, the Iraqi people will not have the benefit, availability, or accessibility of the health care that was to be provided throughout Iraq by the centers.

Contractor performance and U.S. Government management actions were both factors in the failure to complete the PHC project as planned. According to GRD, 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, and failed to enforce quality assurance/quality control activities. On the government side we identified, for example, a lack of responsiveness to contractor requests for various equitable adjustments and excusable delays; high U.S. Government personnel turnover; unilateral direction in lieu of bilateral agreement; a failure to follow required procedures for making constructive changes; and a failure to establish an adequate quality assurance program.

In a written response to this report, GRD provided a lengthy description of the contractor problems it faced during the course of this contract. We do not dispute that there were signs of failure on the part of the contractor. However, this report focuses on the government's contract administration because we believe that the Federal Acquisition Regulations, if properly followed, identify the responsibilities of each party in a contract, and provide sufficient contract controls to ensure that the government receives the goods or services it seeks at a fair and equitable price. We acknowledge that contractor problems delayed completion of the project, escalated costs, and reduced the number of PHCs ultimately completed, but that should not have resulted in the complete expenditure of program funding with little to show for the effort.

## Government Contract Administration

Quality contracts derive from good contracting practices throughout the life of a contract. Creating a quality contract begins before the contract is issued with a well written statement of work that describes in detail the customer's requirement, and includes a thorough review of contractor technical proposals submitted in response to the statement

of work, and a carefully prepared independent government cost estimate that provides a sound basis for evaluating proposals. After the contract is awarded quality-building activities include appropriate numbers of trained contracting personnel to oversee contracting activities, and quality assurance/quality control programs. The quality of a contract derives from the totality of all the activities, rather than any individual activity. Overall, we found weaknesses in a large number of contract activities related to the Primary Healthcare contract. These include a lack of complete responsiveness 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 U.S. Government personnel turnover and organizational turbulence; unilateral direction in lieu of bilateral agreement; a failure to follow required procedures for making constructive changes; poor cost controls; poor cost to complete reporting; a failure to properly execute its administrative responsibilities; and a failure to establish an adequate quality assurance program. Some of these problems are related to, and compounded by, failings on the part of the contractor. However, taken together, we believe these problems significantly weakened the government's oversight and control of the primary healthcare clinic project and contributed to the poor outcome.

**Turnover of Government Personnel.** SIGIR has previously reported the effect that high staff turnover had on the U.S. reconstruction effort.[3] According to the report, high staff turnover and the lack of information exchange among reconstruction personnel as they arrived and departed complicated the development and execution of the reconstruction program. The PHC project management experienced high turnover of government personnel throughout the two years of the project in its contracting, administrative contracting, and program management offices. While the effect of this turnover on the project is difficult to quantify, in a draft memorandum (dated December 18, 2005) addressing the contractor's performance, GRD states that the significant turnover of personnel in support of the contract contributed significantly to a perception of inexperience and unresponsiveness.

JCC-I/A does not maintain a log of service dates for its contracting officers. However, we requested from JCC-I/A a list of contracting officers who served on the project and their dates of service. JCC-I/A provided a list comprising eight different names pulled from signatures on the modifications to the contract. The agency contracting official who provided the list stated that exact dates of service are unknown. Additionally, there have been at least six program managers.

The agency contracting official did not know why there was high turnover in the contracting officer position for the PHC contract. He stated that he believed it was mostly due to military rotations. A typical rotation is four months for Air Force personnel; six months for Navy personnel; and six months to a year for Army personnel. There were also five PCO sector government leads from September 2004 to the present. In June 2005, a senior GRD official stated that GRD was understaffed and had high turnover.

As stated earlier, the effects of high turnover are difficult to quantify. Government officials from JCC-I/A and GRD-PCO stated that there can be positive effects of turnover, as new personnel often bring different experience and different skills to the project. Also, new personnel may have objectivity about the project that long-tenured team members lack. However, a JCC-I/A official stated that the negative aspect of high turnover is that the new personnel are not familiar with the history of the project and must

[3] Iraq Reconstruction: Lessons Learned in Human Capital Management; SIGIR, January 2006.

take time to learn it. A GRD-PCO official stated that a new sector lead would bring a different vision, a different set of priorities, and a different tolerance for risk. A senior Parsons Global Services, Inc. management official stated that conflicts between the government and the contractor are more difficult to resolve when new personnel have to be educated about the issues involved. He stated that sometimes issues were close to resolution when new government personnel arrived and changed the criteria.
In a draft report, GRD acknowledged that there has been significant organizational restructuring during the term of the contract. Organizational changes have evolved from the Project Management Office to the PCO; to PCO, the Joint Contracting Command-Iraq/Afghanistan and GRD working together; and to a combined PCO-GRD working with a contracting officer in JCC-I/A. According to the draft report, "*…this turbulence contributed significantly to a perception of inexperience and unresponsiveness.*"

**Unilateral Direction.** During the course of the contract GRD-PCO program management directed critical actions without achieving bilateral agreement with the contractor. In four significant instances the government directed actions that were not agreed to by the contractor, that lead to problems in execution and cost increases. These included:

- The contractor's initial estimate for project duration was to complete all 150 PHCs in two years. The government unilaterally directed them to finish in one year. On September 20, 2004, the contractor submitted a revised schedule that met the government's requirements. The unilateral direction by the government relating to the schedule created greater risk that the scheduled completion date would not be achieved.

- Upon receipt of the government's unilateral decision to complete all work in one year, the contractor submitted an estimate of $133 million for their overhead to cover the increased management required to expedite construction. The government unilaterally decreased their overhead to $110 million. Unilateral direction by the government regarding the ATO created greater risk that the funding would be insufficient to effectively complete the project.

- Parson's submitted their original construction concept to build regionally in order to mass their supervisory capabilities. The government unilaterally directed them to begin all 150 PHCs simultaneously.

- At the time of the design concept, no sites for the PHCs had been selected. PCO and the Iraqi Ministries worked together to select the construction site properties, but some sites required remediation work in excess of what was anticipated. For example, some sites were below grade and required that water and sewage be pumped out. The contractor rejected at least 50 sites as unsuitable. However, the U.S. Government unilaterally directed Parsons to remediate some sites anyway, because the Iraqi Health Ministry insisted on locating a center on a particular property. Unilateral direction by the U.S. government to remediate properties in unsuitable condition created greater risk of schedule slippage and higher costs for the project. The following pictures show two of the sites selected for construction of PHCs.

## Sample construction sites provided by the Iraqi Ministry of Health


**Responsiveness of U.S. Government.** Throughout the contract, but especially since February 2005, Parsons Global Services, Inc. has submitted requested equitable adjustments (REA) and excusable delay notices based on unplanned site conditions, design or scope changes, or delays based on site access restrictions or security. Until October 2005, neither agency contracting officials nor the program management team were effectively responsive to the requests.

Over the course of the project, government representatives directed numerous undefinitized constructive changes and unauthorized contract actions that were outside the scope of work (see "Constructive Changes" section below). Parsons Global Services, Inc. requested equitable adjustment that would allow submission of invoices for the work that was the result of these changes. According to GRD, the government team engaged the contractor early on to determine additional costs required to complete and re-definitize the contract. GRD reported that the government addressed the contractor's request for cost adjustment in February 2005 and issued a contract modification that the contractor refused to sign due to a disagreement on the computation of the base and award fee, not on the adjustment to the construction cost. GRD also said that in the spring and summer of 2005 the government team and the contractor met on several occasions and reached agreement on several occasions; however, in each instance the contractor's team refused to honor the agreements reached. As a result, the unauthorized constructive changes continued. A program manager stated he thought the REA had been settled at the end of June 2005, and was surprised to later find it was still unresolved. We believe, in part, that turnover of personnel was a significant cause for the lack of action on the REA.

Finally, on October 24, 2005, the contracting officer briefed PCO and the contractor and required future scope changes be properly definitized before the additional work was started. He also commenced a formal process to bring the outstanding REA to resolution. On December 21, 2005, negotiations commenced to reconcile Parsons' $39 million REA. As of February 24, 2006, 50 of 58 items had been resolved for $22 million. An agreement was signed and the task orders were funded. The eight remaining items were resolved under a unilateral agreement and the contract modification was signed on March 17, 2006. An agency contracting official stated that relatively small items were allowed to accumulate to where the REA became a major item. The government's unresponsiveness on the REA impeded decision-making because the true costs of the project remained uncertain. The unresolved REA made cost-to-complete estimates more difficult and added greater uncertainty to funding decisions.

On July 15, 2005, Parsons Global Services, Inc. issued a memorandum to the administrative contracting officer at U.S. Army Corps of Engineers Gulf Region Division notifying the U.S. government of excusable delays on task orders 4, 11, and 12. However, according to GRD the contractor did not submit a request for excusable delay until approximately October 2005. Federal Acquisition Regulation (FAR) 52.249-14 states that, "the Contractor shall not be in default because of any failure to perform this contract under its terms if the failure arises beyond the control and without the fault or negligence of the Contractor." Examples of causes include acts of God or of the public enemy and acts of the Government in either its sovereign or contractual capacity. Section (c) of the FAR 52.249-14 states, "the Contracting Officer shall ascertain the facts and extent of the failure. If the Contracting Officer determines that any failure to perform results from one or more of the causes above, the delivery schedule shall be revised, subject to the rights of the Government under the termination clause of this contract."

Parsons listed 35 cases of delays. All except four cases were acts of the Government, including a stop work order issued June 11, 2005, for twenty sites. The stop work order was lifted six weeks later on July 23, 2005 for twelve of the sites. Some examples of the excusable delays submitted by Parsons are listed in Table 2.

**Table 2: Excusable Delays**

| Governorate Location of PHC | Description | Days of Work Lost |
|---|---|---|
| Al Anbar | Contractor was unable to access site due to insurgent activities, road closure by Multi-National Force-Iraq, and opposition to construction by local residents. | 53 |
| Naynawa | Threats from insurgents prevented work June 1-7 and June 21-30. | 17 |
| Naynawa | Gunfight between Multi-National Force-Iraq and insurgents in the area prevented workers from accessing the site June 7, 18, 22, 24, 25, 27-30. | 9 |
| Suleimaniya | Roads were closed in and around the northern cities due to visiting dignitaries and the insurgent activity that often accompanies such visits. The carpenter was unable to travel through the areas and get to the site, June 15-17. | 3 |

For several months the U.S. government did not respond to the excusable delay issue or revise the schedule. According to GRD, even though it was aware of the contractor's problems through the memorandum sent to the ACO, it was not required to respond until the contractor submitted its formal request for an excusable delay. The issues were finally resolved and the schedule was adjusted in February 2006. While GRD may be correct that it was not required to respond, its failure to promptly address the issue resulted in the contractor being unable to work consistently for months under a schedule that did not provide for the conditions beyond the contractor's control. The lack of government responsiveness created greater risk that the construction would not be completed in a cost-efficient way.

**Constructive Changes.** Government personnel failed to follow required procedures for making constructive changes to the PHC project. PCO Standard Operating Procedure CN-121 provides guidance regarding procedures to follow for making constructive changes to a project. A constructive change is a written or oral order (which includes directions, instructions, interpretations, or determinations) from the contracting officer or the administrative contracting officer (ACO), or actions or inactions on the part of the government that causes a change in the specifications, or method or manner of performance, things to be provided by the government, or direction to accelerate the work.

As prescribed in section 6.2.3 of the Standard Operating Procedure, if the change requires engineering, the ACO shall send the basic change document to the SPCOC requesting the design work, and upon receipt of revised drawings, issue a request for proposal, negotiate the change, request funds, receive certification of funds, and issue the modification. Section 6.1.8 states that, "if an audit is required, the contracting officer or ACO shall

request the local Defense Contract Audit Agency (DCAA) to audit the contractor's proposal with respect to the reasonableness of its costs and pricing." Guidance for keeping a record is provided in Section 6.1.9 which states in part, "Upon execution of the modification, a complete copy of the modification package shall be maintained by the contracting officer and the ACO." Section 6.1.10 provides the instruction as to what a package will contain, at a minimum, nine specific documents, including the basic change document, the independent government estimate, the request for proposal, and the modification document.

U.S. government personnel directed constructive changes to the project without following proper procedures. The changes were made to the project, but the changes were not properly definitized in a modification to the contract. The direction to make constructive changes occurred over a period of months until October 2005, when the contracting officer demanded proper definitization for future changes.

GRD pointed out in its written comments to this report that the contractor also failed to seek approval of additional work before its execution and, as a result, performed the work at its own risk. The contract allows the contractor to incur cost increases at each PHC of up to 50 percent of the PHC construction budget before having to notify the government. According to GRD, both the government and the contractor worked under this guidance through October 2005. Up to the fall of 2005, the additional cost identified by the contractor varied between $18 million and $25 million. However, the contractor surprised the government when it submitted a request for equitable adjustment for $39 million.

JCC-I/A does not have a record of who directed the undefinitized constructive changes. An agency contracting official stated that it may have been personnel from PCO, GRD, Berger/URS or someone else. The contracting officer also may have participated in the direction; however, the agency contracting official stated that at least some of the changes were likely directed by individuals acting outside the scope of their authority. An agency contracting official stated that most of the changes were probably necessary due to the poor conditions at the work sites. The official stated that a few of the cases had to be completed immediately due to safety reasons, such as filling a ditch to prevent children from falling in. However, most of the cases should have been properly definitized before the work commenced. The costs of the constructive changes accumulated, and in December 2005, Parsons Global Services, Inc. submitted an REA for $39 million.

An agency contracting official stated that the practice of making constructive changes without following formal procedures meant that it was hard for the government to get a good deal regarding cost. Program managers did not have the opportunity to make good decisions about size and volume that could have saved the government money.

**Cost Performance Reports.** Section 2.3.1 of the contract requires the contractor to establish and implement an Integrated Contract Management Control System (CMCS) for the contract. The system should include systems for financial management, scheduling, documents control, and status reporting components. Section 2.3.5 of the contract states, "Unless otherwise specified, the reports generated by CMCS will be transmitted monthly on or about the fifth calendar day of each month…" The section also states, "The Contractor shall be responsible for providing electronic export files compatible with government management systems to digitally support communication, design, construction scheduling, financial tracking, purchasing, invoicing and other program management requirements."

In an earlier audit report[4], DCAA reported that Parsons Global Services, Inc. was not in compliance with the terms of section 2.3.5 of the contract because the contractor was providing weekly rather than monthly cost performance reports. As DCAA reported, providing weekly reports do not allow enough time to properly close the books and records, which casts doubt as to the reliability of the data in the submitted reports. DCAA recommends twenty days to properly close the books. In addition, the costs associated with closing the books and producing a report weekly is significantly higher than the costs of closing and reporting on a monthly basis. Also, the reports were in a format that did not report current costs.

Government project management accepted the weekly reports from Parsons for 18 months. Then, the contracting officer requested monthly reports in a different format because he did not have confidence in the financial data that was presented and the information that was provided was not helpful. The original contract was not specific as to format, and a format for the monthly reports was not agreed upon until October 23, 2005. Parsons subsequently began producing the monthly reports in the agreed upon format which included current costs. However, a management official familiar with the reports stated that he did not find the monthly reports very useful because the data was too old by the time he received the report.

In its written comments on a draft of this report, GRD reiterated that during weekly meetings it advised the contractor that its cost reporting was confusing and did not provide a complete depiction of what was actually occurring. The contractor was requested to provide actual cost of work performed and budgeted cost of work performed in order for the information to be useful. According to GRD, the contractor advised the government and the contracting officer on several occasions that this was not part of its Statement of Work and did not proceed as requested.

We also analyzed the format of the monthly cost performance reports. We found the report provides cost data for the current period and for cumulative to date. Each section reports *budget cost of work scheduled* and actual cost of work performed. The cost variance is calculated as the difference between the two numbers. However, this calculation is incorrect. Cost variance represents the difference between *budgeted cost of work performed* and actual cost of work performed. The budgeted cost of work performed is not provided in the report and the cost variance is not correctly calculated. In addition, the report does not include the schedule variance, which is calculated by subtracting the budget cost of the work scheduled from the budget cost of work performed. The current report is not useful for financial tracking and construction scheduling as prescribed by contract section 2.3.5.

Because the contract was not specific as to data requirements for the cost performance reports and because the government did not require Parsons to produce monthly cost performance reports prescribed by the contract, IRRF funds were spent to produce reports of little value to management. As a result, the government's ability to effectively manage the project was diminished.

[4] DCAA Audit Report No. 2131-2005N17760002, "Report on Audit of the Cost and Schedule Performance Reporting for the Six Months ended June 30, 2005 for Task Order Nos. 1 through 13 Under Contract No. W914NS-04-D-0006", November 30, 2005.

**Cost-to-Complete Reporting.** As we previously reported, GRD-PCO is required by Public Law 108-106 to report the cost-to-complete estimates on a quarterly basis. However, GRD-PCO did not report cost-to-complete estimates until June 2005. [5] GRD-PCO began to submit monthly cost-to-complete reports to IRMO, and then submitted the quarterly reports starting with the quarter ending September 30, 2005. However, key amounts for the PHC project as reported in the cost-to-complete reports do not appear to accurately reflect the financial reality of the project.

In cost-to-complete reporting, the authorized amount is the amount budgeted for the project; the estimate-at-completion (EAC) is the total cost to complete the project; the variance is the difference between the authorized amount and the EAC; the cumulative expenditures is the total amount spent on the project; and the cost-to-complete is the difference between the EAC and the cumulative expenditures. Table 3 summarizes the cost-to-complete reporting for the PHC project, task orders 4, 11, and 12.

**Table 3: Cost-to-Complete Reporting, Task Orders 4, 11, 12**

| Report | (A) Authorized Amount | (B) Estimate-at-Completion | (A-B) Variance | (C) Cumulative Expenditures | (B-C) Cost-to-Complete |
|---|---|---|---|---|---|
| June 2005 | 152,102,465 | 136,747,663 | 15,354,802 | 20,678,925 | $116,068,738 |
| July 2005 | 141,925,733 | 140,000,000 | 1,925,733 | 21,528,155 | $118,471,845 |
| August 2005 | 141,520,270 | 133,560,359 | 7,959,911 | 27,268,437 | $106,291,922 |
| Sept. 30, 2005 | 141,520,270 | 133,560,359 | 7,959,911 | 31,625,998 | $101,934,361 |
| Nov. 2005 | 135,231,372 | 149,150,771 | (13,919,399) | 42,418,854 | $106,731,917 |
| Dec. 31, 2005 | 135,231,732 | 149,200,000 | (13,968,268) | 57,566,346 | $91,633,654 |

Table 4 summarizes the cost-to-complete reporting for the administrative task order (ATO), task order 7.

**Table 4: Cost-to-Complete Reporting, Task Order 7**

| Report | (A) Authorized Amount | (B) Estimate-at-Completion | (A-B) Variance | (C) Cumulative Expenditures | (B-C) Cost-to-Complete |
|---|---|---|---|---|---|
| June 2005 | 98,800,360 | 125,000,000 | (26,199,640) | 37,215,732 | $87,784,268 |
| July 2005 | 98,800,360 | 115,000,000 | (16,199,640) | 49,790,417 | $65,209,583 |
| August 2005 | 98,787,644 | 115,000,000 | (16,212,356) | 52,722,870 | $62,277,130 |
| Sept. 30, 2005 | 98,787,644 | 115,000,000 | (16,212,356) | 66,411,338 | $48,588,662 |
| Nov. 2005 | 97,838,029 | 125,000,000 | (27,161,971) | 74,595,338 | $50,404,662 |
| Dec. 31, 2005 | 103,038,029 | 119,700,000 | (16,661,971) | 80,455,262 | $39,244,738 |

[5] SIGIR-05-027, "Methodologies for Reporting Cost-to-Complete Estimates", January 27, 2006.

The cost-to-complete reporting for the PHC project is not consistent with information known to the government at the time of the reporting. GRD-PCO management knew at least by March 2005 that the project was experiencing schedule slippage. On July 15, 2005, Parsons submitted the notice of excusable delay. Eight of the centers were descoped on September 8, 2005; another was continued through direct contracting. These actions should have decreased the total cost of the project; however, the REA was accumulating and was unresolved. Also, on September 10, 2005, JCC-I/A issued a letter of intent to issue an interim performance rating of unsatisfactory to Parsons Global Services, Inc. The letter stated "Parsons Global Services has failed to effectively manage the schedule of Primary Healthcare Center Construction with Task Order 4 resulting in severe delays in delivery of facilities." The letter made the same statement for task orders 11 and 12.

On September 24, 2005, JCC-I/A issued the interim performance rating of unsatisfactory to Parsons stating, in part, "Our confidence in your ability to meet the critical construction milestones and then project completion dates jeopardizes our ability to ensure the project budget can support the multiple delays in meeting PHC construction milestones." Despite this, in the September 30, 2005, Project Assessment Report, GRD-PCO reported the direct costs of the project would be $8 million below the budgeted amount. The EAC for the ATO was reported as holding steady at $115,000,000.

In its written comments to a draft of this report, GRD said that its estimate-at-completion and its cost-to-complete estimate were developed based on site construction data on hand and contractor-provided cost information. The estimates-at-completion provided in August and September 2005 were based on written assurances by the contractor that all additional project costs had been accounted for. The estimate-at-completion was adjusted as soon as the government learned of the magnitude of the potential request for equitable adjustment amount. Similarly, the $115 million government ATO estimate-at-completion was based on the repetitive assurances and commitments received from the contractor regarding completing the project by March 2006 for an ATO cost of $110 million. GRD officials, however, could not explain their continued use of contractor cost data given their acknowledged lack of confidence in that data.

As we previously reported, IRMO and GRD-PCO took action late in 2005 to improve the quality of the cost-to-complete reporting. Those actions seemed to be effective because the cost-to-complete reports for November and December reported a more realistic picture of the project. The EACs for the PHC task orders and for the ATO were both significantly higher than previously reported. The variance for the PHC task orders was changed to almost negative $14 million.

The failure of GRD-PCO to effectively report cost-to-complete estimates as prescribed by Public Law 108-106 undermined project management's ability to make critical financial decisions relating to the project. The failure created greater risk that management would not have the funds to complete the project.

**Contract Administration.** GRD did not effectively execute its administrative contracting officer (ACO) responsibilities. On September 18, 2004, contract administration for task order 4 was delegated to GRD. PCO delegated a list of contract administration functions that are found in FAR 42.302(a). The list comprised 56 functions, including:

- Perform production support, surveillance, and status reporting, including timely reporting of potential and actual slippages in contract delivery schedules.
- Ensure contractor compliance with contractual quality assurance requirements.
- Perform engineering surveillance to assess compliance with contractual terms for schedule, cost, and technical performance in the areas of design, development, and production.
- Review engineering change proposals for proper classification, and when required, for need, technical adequacy of design, producibility and impact on quality, reliability, schedule, and cost; submit comments to the contracting office.
- Ensure timely submission of required reports.

GRD receives a fee for services of four percent of the construction billings. However, a senior contracting official stated that GRD did not effectively execute its ACO functions on the contract for much of the first year. Other government officials noted the ACOs' lack of responsiveness. E-mail correspondence documented the difficulties that JCC-I/A had in getting GRD to properly carry out their ACO responsibilities.

For example, on July 24, 2005, a SIGIR auditor working on a previous audit[6] asked the contracting officer assigned to task order 12 of the PHC contract via e-mail if action had been taken by the contracting officer to notify GRD that they are not performing their required ACO duties. The contracting officer responded, *To date, I have sent several emails, made numerous phone calls and have met with GRD on more than 6 occasions to address the lack of ACO support…I am now been offered ACO support from 2 of the 3 districts, however, I have not seen the ACO's warrants.*

On August 3, 2005, the same contracting officer sent an e-mail to various GRD personnel to determine if the ACO authority for the task orders had been re-delegated to the regional ACOs. Referencing the Parsons Global Services, Inc. contract and another contract, he wrote, *Progress on these contracts has been seriously impeded due to a lack of consistent ACO support. I'd like to work with you to get your support as ACO's on all of these Task Orders. Is there something I need to do to get you, or someone in your office, ACO authority from GRD? After repeated attempts, I've been unsuccessful so far, but maybe you will have better luck. Please let me know if there is anything I can do to help get GRD to formally re-delegate ACO authority on these task orders.*

The next day, again in e-mail, the contracting officer lamented the lack of responsiveness to his query: *So far I've received two negative replies. Does anyone have any feedback on this? How are we going to get this issue resolved? Am I talking to the wrong audience entirely? There are numerous ACO Actions in the pipeline and I am looking for*

[6] SIGIR Report No. SIGIR-05-013, "Controls Over Equipment Acquired by Security Contractors", September 9, 2005.

*GRX ACO's to handle them. We're paying GRD 4% on almost $740 million in contracts and I'd like to know where my ACO support is for that kind of money!*

**Quality Assurance.** Among the functions delegated to GRD, as administrative contracting officer authority, is to ensure contractor compliance with contractual quality assurance (QA) requirements. FAR section 46.104 identifies the administrative contracting office responsibilities for QA. The regulation states the office shall, among other things:

- develop and apply efficient procedures for performing Government contract quality assurance actions under the contract in accordance with the written direction from the contracting office
- perform all actions necessary to verify whether the supplies or services conform to contract quality requirements
- maintain, as part of the performance records of the contract, suitable records reflecting
    - the nature of Government contract quality assurance actions, including, when appropriate, the number of observations made and the number and type of defects
    - decisions regarding the acceptability of the products, the processes, and the requirements, as well as action to correct defects

GRD inspectors visit sites and prepare daily QA reports based on observations and tests. A QA report should be filed for each site visit. The Gulf Region North District quality assurance plan recognizes the difficulty of providing quality assurance services in a war zone. The plan states that the extent of quality assurance activities that can be performed at a site may be limited due to complexity of construction, site accessibility, duration of construction, security, and scope of the Corps of Engineers oversight responsibilities.

During our audit, we selected a judgmental sample of ten PHC projects from each of the three districts. We analyzed the QA reports from the thirty sites to determine the number of reports filed and the quality of the reports. Table 5 displays the PHC sites in the sample and the number of the QA reports filed, listing the sites by fewest reports to most.

## Table 5: Daily Quality Assurance Reports

| Project Name | Project ID | GRD Region | Number of QA Reports | Percent Complete |
|---|---|---|---|---|
| PHC TYPE A AT AL AQEEL / QADHA' AL ZUBAIR | 11856 | SOUTH | 0 | 65% |
| PHC TYPE A AT HAI AL JAMI'A (NEAR UROBA) | 11913 | SOUTH | 5 | 85% |
| PHC TYPE A AT QADHA' AL HINDIYA | 11888 | SOUTH | 6 | 53% |
| PHC TYPE A AT QADHA'AL HINDIYA SAYID HUSSEIN AL JANIB AL KABEER | 11853 | SOUTH | 7 | 57% |
| PHC TYPE A AT HAI KINDA | 11897 | SOUTH | 7 | 86% |
| PHC TYPE C AT AL MANSOORIYA | 11885 | NORTH | 11 | 44% |
| PHC TYPE B AT Al ISKAN | 11887 | SOUTH | 12 | 66% |
| PHC TYPE A AT NAHRAWAN | 19846 | NORTH | 12 | 90% |
| PHC TYPE A AT AL KHALIS | 11871 | NORTH | 14 | 55% |
| PHC TYPE C AT AL BADEER | 11918 | SOUTH | 27 | 44% |
| PHC TYPE A AT HAI AL WIHDA | 11920 | SOUTH | 33 | 46% |
| PHC TYPE B AT AL JADIDA | 11917 | SOUTH | 37 | 47% |
| PHC TYPE A AT AL QASIM | 11813 | SOUTH | 61 | 67% |
| PHC TYPE A AT QALAWA | 11928 | NORTH | 75 | 59% |
| PHC TYPE A AT HADEETHA | 11810 | CENTRAL | 81 | 40% |
| PHC TYPE C AT AL FALLUJA / AL KARMA | 11806 | CENTRAL | 155 | 70% |
| PHC TYPE C AT BNASLAWA | 11879 | NORTH | 161 | 65% |
| PHC TYPE B AT BRAYETI | 11880 | NORTH | 164 | 76% |
| PHC TYPE A AL ZAFARANIA | 11840 | CENTRAL | 165 | 50% |
| PHC TYPE A AT AL HADHAR | 11819 | CENTRAL | 254 | 81% |
| PHC TYPE A AT Hai Alhajjaj (TBD) | 11936 | NORTH | 265 | 53% |
| PHC TYPE A AT HAI ALASRA WA AL MAFQOODEEN | 11940 | NORTH | 308 | 53% |
| PHC TYPE B AT SHAIKH OMAR | 11851 | CENTRAL | 310 | 72% |
| PHC TYPE C AT SAMEEL | 11867 | NORTH | 312 | 70% |
| PHC TYPE A AT AL SALAM | 11827 | CENTRAL | 317 | 92% |
| PHC TYPE A AT AL SHA'AB 1 | 11847 | CENTRAL | 340 | 95% |
| PHC TYPE A AT 14 TAMMOOZ | 11835 | CENTRAL | 347 | 85% |
| PHC TYPE C AT ZUMMAR | 11904 | NORTH | 356 | 92% |
| PHC TYPE B AT FAMILY MEDICINE, AL THUBBAT | 11845 | CENTRAL | 397 | 67% |
| PHC TYPE A AT AL MASHTAL | 11841 | CENTRAL | 403 | 99% |

Source: U.S. Army Corps of Engineers, Resident Management System

Table 5 shows that the range in the number of QA reports per project listed is from zero reports to 403 reports. Twelve of the sites have fewer than 50 reports filed over the course of a year. GRD can not effectively perform its quality assurance function and monitor safety with so few site visits.

Also, there was a disparity among the three districts regarding the number of QA reports that were filed. Nine of the twelve sites with fewer than 50 reports are in the South district. The most QA reports filed for any South district site in the sample is 61. Five of the top six sites with the most QA reports filed are in the Central district. The South district was not as responsible about filing QA reports as the other two districts.

In addition, the quality of the QA reports varied greatly. GRD's Resident Management System (RMS) identifies eleven questions that should be answered in the daily QA report, along with general remarks. The questions include, among others:

- What work activities were being performed?
- How did security issues affect jobsite activities?
- What Contractors were on the jobsite today?
- What equipment was being used?

We found that some QA reports in our sample answered the questions and were well written. Others were not complete. For example, we found 26 QA reports filed for the site in Al Tamoz in January and February of 2005 that identified the number of workers at the site, but failed to answer any of the questions or provide any information about what work was done. The October 27, 2005, QA report for the PHC at Al Hai Al Askaryin identified the work performed as "Contractor installing form work for first floor slab and tie beams." However, the report did not list any workers at the site and failed to answer any other required questions. A GRD official knowledgeable about the QA process stated that some individuals responsible for traveling to the sites and completing the reports were working without having been trained about how to properly complete the report.

According to GRD, the Iraq reconstruction environment and span of control does not provide ideal conditions for U.S. government or military personnel to visit every project as frequently as desired or required. For example, the Army Corps of Engineers' Gulf Region South is responsible for 58 PHC construction projects in addition to approximately 350 other projects ongoing during the review period. Gulf Region South employs fewer than 40 U.S. Government and/or military field engineers and construction inspectors. Furthermore, security issues and limited personnel security detail assets preclude regular and frequent site visits. Finally, many of the PHCs are located in restricted areas, such as Basrah City, where U.S. Government personnel are either not allowed or have limited access based on the ever-changing political or security climate. Therefore, GRD believes that having fewer than 50 quality assurance reports is not only unremarkable but, in many cases, the norm. GRD also stated that our analysis only looked at RMS data to determine the progress or quality of the structures under construction. However, GRD claims that many daily QA reports were not entered in RMS because either local nationals wrote the reports but did not have access to RMS or field offices experienced problems accessing RMS due to poor communications links. While accurate and complete RMS record keeping and QA logs are important, this information represents only a portion of the overall QA assessment and monitoring that occurs to ensure project construction meets specifications and standards.

GRD also reports that it took action to compensate for the shortage of qualified U.S. Government personnel. For example, the Gulf Region South hired about 115 Iraqi engineers to provide daily or almost daily QA project site visits. These engineers required QA training, which is an ongoing process. However, Iraqi engineers do not

have access to the RMS system and cannot enter QA reports. Instead, they provide written or oral input to the resident engineers.

GRD did not consistently file daily QA reports and the quality of those filed was sometimes poor. Overall, the GRD QA reports did not adequately document the work at the sites, which limited their usefulness to management.

**Milestone data.** GRD failed to consistently report accurate milestone data in RMS. The RMS system identifies 28 milestones for a construction project. The milestones include, among others:

- contract award
- contractor proposal submission
- definitization
- pre-construction meeting
- construction start date
- construction completion
- transfer document date

We reviewed the project milestone data in the February 25, 2006, RMS report. Some required information is missing or illogical for some of the sites. For example, a pre-construction meeting is required for each construction site. However, of 144 PHC sites listed in the February 25, 2006, RMS report, 53 were missing dates for the pre-construction meeting.

We also found that 44 of the 144 PHCs were reported as having an actual start date that was earlier than the notice-to-proceed date. This is illogical since construction should not begin until the notice-to-proceed is issued.

The missing and illogical information in the RMS system regarding the PHCs undermines management's confidence in the data and inhibits effective strategic management.

# Contractor Performance

Our original draft report did not discuss in detail the contractor's performance. We could not achieve our first objective because our access to program management records and key U.S. government agency personnel was restricted, thus effectively limiting our scope. However, GRD provided a multi-page letter on areas where it believes the contractor was not in compliance with the terms of the contract and this letter is included in its entirety in the Management Comments section of this report. We believe that there are areas where contractor failings created program delays, escalated costs, and affected the ultimate contract accomplishments. Regardless of contractor performance issues, however, we believe that the overriding question is how the U.S. government lost control of the project and its ability to enforce schedule and quality requirements. Consequently, this was the focus of our review.

## Management Actions

U.S. government officials have taken steps to address some of the issues that we have identified:

- On July 18, 2005, JCC-I/A issued a "letter of concern" to Parsons Global Services, Inc. stating "This letter of concern is issued regarding certain shortfalls and non-compliance issues with quality, safety, schedule and performance criteria that must be immediately addressed and rectified." The letter referred to issues raised as a result of a PCO site visit to PHCs in the Baghdad area.
- In the Fall of 2005, JCC-I/A assigned an overall interim unsatisfactory performance evaluation to the contractor because of unmet milestones, schedule slippages, and elusive administrative task order costs.
- Lacking confidence in Parsons Global Services, Inc. weekly cost performance reports, the contracting officer requested the monthly cost performance reports as prescribed by contract section 2.3.5. On October 23, 2005, the government and Parsons agreed upon a format for the new reports. Subsequently, Parsons has produced monthly cost performance reports in the new format.
- On October 24, 2005, the contracting officer briefed PCO and Parsons Global Services, Inc. that required procedures for constructive changes to the project would be enforced. The contractor officer required that future constructive changes be properly definitized. He also pushed the formal process to bring the outstanding REA to resolution. On December 21, 2005, negotiations commenced to reconcile Parsons' $39 million REA. As of February 24, 2006, 50 of 58 items had been resolved for $22 million. An agreement was signed and the task orders were funded. The eight remaining items were resolved under a unilateral agreement and the contract modification was signed on March 17, 2006.
- On December 21, 2005, Parsons Global Services, Inc. and the U.S. Government commenced negotiation regarding Parsons submission of excusable delays. An agreement was reached and schedules were adjusted in February, 2006.
- As we previously reported, GRD-PCO and IRMO took steps late in 2005 to improve the quality of cost-to-complete reporting. The amounts reported in the December 31, 2005 Project Assessment Report for the PHC project appear more realistic than those previously reported. Representatives of IRMO and GRD-PCO stated that cost-to-complete reports are now used more effectively as a project management tool.
- On February 4, 2006, GRD-PCO convened a teleconference, with both U.S. government officials and Parsons' representatives to determine a workable solution for how many PHCs should be completed and how many PHCs should be descoped. The conference led to the plan where Parsons would complete 20 centers by April 3, 2006, and the other 121 centers would be descoped. According to GRD, it is exploring options to complete the remaining 121 PHCs. For a list of the 20 PHCs to be completed by Parsons see Appendix C.

## Conclusion

Overall management of the primary healthcare centers construction projects could have been better executed between March 25, 2004, to early July 2005. In July 2005, U.S. government management recognized the PHC construction program was in trouble and started a series of actions which eventually led to a reduction in the number of centers to be delivered from the original plan of 150 to down to 20. This leaves 121 centers that remain partially complete. However, there is also a strong commitment among the Iraqi and U.S government managers to complete the 121 partially completed centers. Both governments are developing a plan and attempting to identify the required funds to finalize these centers for the benefit of the Iraqi citizens. We are making recommendations to assist in ensuring a successful completion of this desired goal. We have also identified lessons learned for the improvement in managing large complex projects in the future.

## Recommendations, Management Comments and Audit Response

We recommend the:

1. Director, Iraq Reconstruction Management Office, require IRMO management to:

   - Develop a Project Delivery Team to meet periodically and facilitate project completion, in cooperation with JCC-I/A, GRD-PCO, and Parsons.
   - Develop a plan for pursuing the funding necessary to complete the project.
   - Develop a strong program management team, in partnership with the Iraqi Ministry of Health, to ensure successful completion of the 121 remaining centers.

2. Commanding General, Joint Contracting Command – Iraq/Afghanistan, require JCCI-I/A management to:

   - For any future contracts awarded for completing the construction of the remaining centers, require that the contracting officer ensure that staff with delegation of responsibility is properly trained.

3. Commanding General, Gulf Region Division, require the GRD-PCO sector management to:

   - Require that GRD personnel who are responsible for traveling to the construction sites to record the information for the daily QA reports receive proper training in the performance of this function.
   - Ensure that proper reporting mechanisms are established, maintained, and monitored for any delegation of program management to government or non-government staff.
   - Ensure that cost-to-complete and schedule performance reports are periodically validated by government managers and are reconciled to the quality assurance reports provided by independent staff.

**Additional Observations.** During the course of our review of the management of this construction contract, we noted areas where "lessons learned" may improve other contract oversight. As such, we are providing the following suggestions:

- Maintain a log of contracting officers and dates of service in the contract file.
- Provide for a length of tour for government personnel that is sufficient to manage large and complex contracts.
- Seek bilateral agreements with the contractor as the norm and document exceptions with justifications including known and accepted risk, with senior leadership review and approval.
- Conduct on-site inspections of proposed construction sites before selection and prior to definitization of task orders to minimize unknown risks of cost and schedule overruns.
- Ensure that contract performance reports include budgeted cost of work performed so that cost and schedule variances can be properly calculated.

**Management Comments and Audit Response.** We received written comments on this report from GRD, JCC-I/A, and IRMO. JCC-I/A and GRD concurred with our recommendations. GRD, however, stated that the recommendations did not offer significant assistance to the organization and reconstruction effort. While our recommendations address the need for proper training and better reporting, which are perennial problems in contract management, we believe they bear repeating given the magnitude of the problems encountered in managing this contract. GRD provided additional information on contractor problems and the actions it took and, we added this information to the report. IRMO did not directly respond to our recommendations; instead, it stated that, with regard to the recommendations on developing project delivery teams and a strong program management team, that those matters are the responsibility of PCO. Our intent was to have the key offices involved in the project work together to mutually resolve problems in constructing the PHCs, regardless of who leads the effort. IRMO's response underscores that at present, no one office has taken responsibility for this project. IRMO did not address our recommendation to develop a plan for pursuing the funding necessary to complete the project.

In its written response to this report, GRD correctly noted that this audit was undertaken at the request of GRD-PCO and that the audit was coordinated with the U.S. Ambassador to Iraq and the Commander, MNF-I. We have revised the report to reflect the origin of the audit. GRD also provided a detailed description of the problems encountered by both it and the contractor during the course of the contract, which are reprinted in their entirety in the Management Comments section of this report. According to GRD's description, the contractor encountered myriad of problems and, from the beginning of the project, failed to meet various contract requirements due to numerous significant management and technical shortcomings. We agree that there were early signs that the contractor would not or could not meet contract requirements and that these problems delayed project completion and escalated costs. JCC-I/A expressed these concerns to the contractor on several occasions in June and July 2005. However, it is the government's responsibility to oversee the contract and, given that the government was aware of problems with the project for quite some time, we believe the effective government contract oversight was not provided.

# Appendix A. Scope and Methodology

We initiated this audit in December 2005 (Project No. SIGIR-2005-26) to determine whether the contractor is in compliance with the terms of the contract and whether the government representatives are complying with general legislative and regulatory guidance concerning contract administration and financial management. We also evaluated the effectiveness of the monitoring and controls in place by administrative contract officers. This audit report is the first in a series of reviews that will focus on specific IRRF reconstruction projects.

To gain an understanding of each organization's operations and processes for executing the contract, we interviewed management personnel from IRMO, GRD-PCO, JCC-I/A, and the contractor, Parsons Global Services, Inc. We also reviewed organization charts and websites to obtain background information and to determine responsibilities.

To determine if the contractor was in compliance with the terms of the contract or task orders, we reviewed the basic contract, modifications, and task orders. We interviewed audit personnel at DCAA and reviewed the relevant DCAA audit report. We analyzed reports submitted by the contractor. We also interviewed management at Parsons as well as key personnel at IRMO, GRD-PCO, and JCC-I/A. However, SIGIR's direct access to available program management records was limited by internal GRD records management deliberations. In our view, this affected our ability to independently complete this objective. However, we used other information available and readily provided to us by GRD and other U.S. Government agency officials which clearly showed the overall extent of the contractor's failure to deliver to the terms of the contract. Further, the contractor was cooperative in meeting with SIGIR, discussing contract status, and timely providing requested information.

To determine whether government representatives were complying with general legislative and regulatory guidance concerning contract administration and financial management, we reviewed the relevant sections of the FAR. We reviewed available procedures that described the methodology, responsibilities, and documentation standards for contract administration and financial management. We also interviewed key personnel at IRMO, GRD-PCO, and JCC-I/A regarding the procedures.

To evaluate the effectiveness of the monitoring and controls in place by administrative contracting officers, we obtained data from RMS regarding construction site visits and quality assurance. We judgmentally selected ten sites from each of the three districts. We analyzed the data to determine the frequency of visits by GRD personnel to the construction sites and the quality of the reports. In addition, we interviewed key personnel at IRMO, GRD-PCO, JCC-I/A, and Parsons Global Services, Inc.

We also analyzed the quarterly and monthly cost-to-complete reports compiled by GRD-PCO to determine if the reports provided accurate and useful information to management regarding the PHC project.

We also met with the JCC-I/A property administrator regarding the custody and location of the medical equipment for the PHCs. Issues relating to the equipment will be reviewed by SIGIR in a follow-up audit.

We performed this audit from December 2005 through March 2006, in accordance with generally accepted government auditing standards. Our audit was limited because the GRD-PCO did not provide access to the electronic files under the Facilities and Transportation sector folder which contained relevant documents to the PHC projects.

**Inspection Reports.** For specific report information about five PHCs in the North district, see SIGIR inspection report "Primary Healthcare Centers Numbered: KE-01 (SIGIR PA-06-043); KE-02 (SIGIR PA-06-042); KE-03 (SIGIR PA-06-046); KE-04 (SIGIR PA-06-045); and KE-05 (SIGIR PA-06-044) Kirkuk, Iraq".

**Use of Computer-Processed Data.** We reviewed cost-to-complete reports that were compiled in Excel spreadsheets based on data taken from reports run in the U.S. Army Corps of Engineers Financial Management System (CEFMS). The CEFMS was designed as a single entry system so the transactions update, in real time, the general ledger and subsidiary ledgers. In CEFMS, as in other financial accounting systems, general ledger amounts should be in agreement with and supported by subsidiary ledgers and transactions detail amounts. We did not audit CEFMS[7].

We also reviewed PHC project data taken from the Resident Management System (RMS), which is used by GRD. RMS is a quality management and contract administration system designed by Resident Engineer to help his staff complete their mission. The system provides an efficient method to plan, accomplish, and control contract management by integrating job specific requirements, corporate technical knowledge, and management policies. We did not audit RMS.

The physical percent complete data for the 141 PHCs listed in Appendix B was pulled from the Iraq Reconstruction Management System (IRMS). IRMS is a master data base that is the system of choice by IRMO. IRMS is the interagency solution not only for reporting the total U.S. government effort, but also for providing MNF-I field commanders with situational awareness of relief and reconstruction efforts in their areas of operation. The results of a SIGIR audit of IRMS, can be reviewed in SIGIR report number SIGIR 06-001, "Management of Iraq Relief and Reconstruction Fund Program - Evolution of the Iraq Reconstruction Management System", which will be issued soon.

**Prior Coverage.**

Special Inspector General for Iraq Reconstruction (SIGIR):

Audit Report Number SIGIR-05-027, dated January 27, 2006, "Methodologies for Reporting Cost-to-Complete Estimates", concluded GRD-PCO, MNSTC-I, and USAID failed to estimate and report reliable and transparent cost-to-complete information for the IRRF projects we reviewed. MNSTC-I did not submit a report for the September 30, 2005 PAR, and GRD-PCO and USAID submitted reports with errors that were significant enough to undermine users' confidence in the reporting.

Audit Report Number SIGIR-05-021, dated October 24, 2005, "Management of Iraq Relief and Reconstruction Fund Programs: Cost-to-Complete Estimate Reporting", concluded the three organizations responsible for IRRF projects – PCO, USAID, and the MNSTC-I – have been required, since January 2004, to report cost-to-complete

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

information for their IRRF projects in quarterly reports to the Congress. However, these organizations did not begin providing reasonably comprehensive cost-to-complete data to IRMO until the summer of 2005.

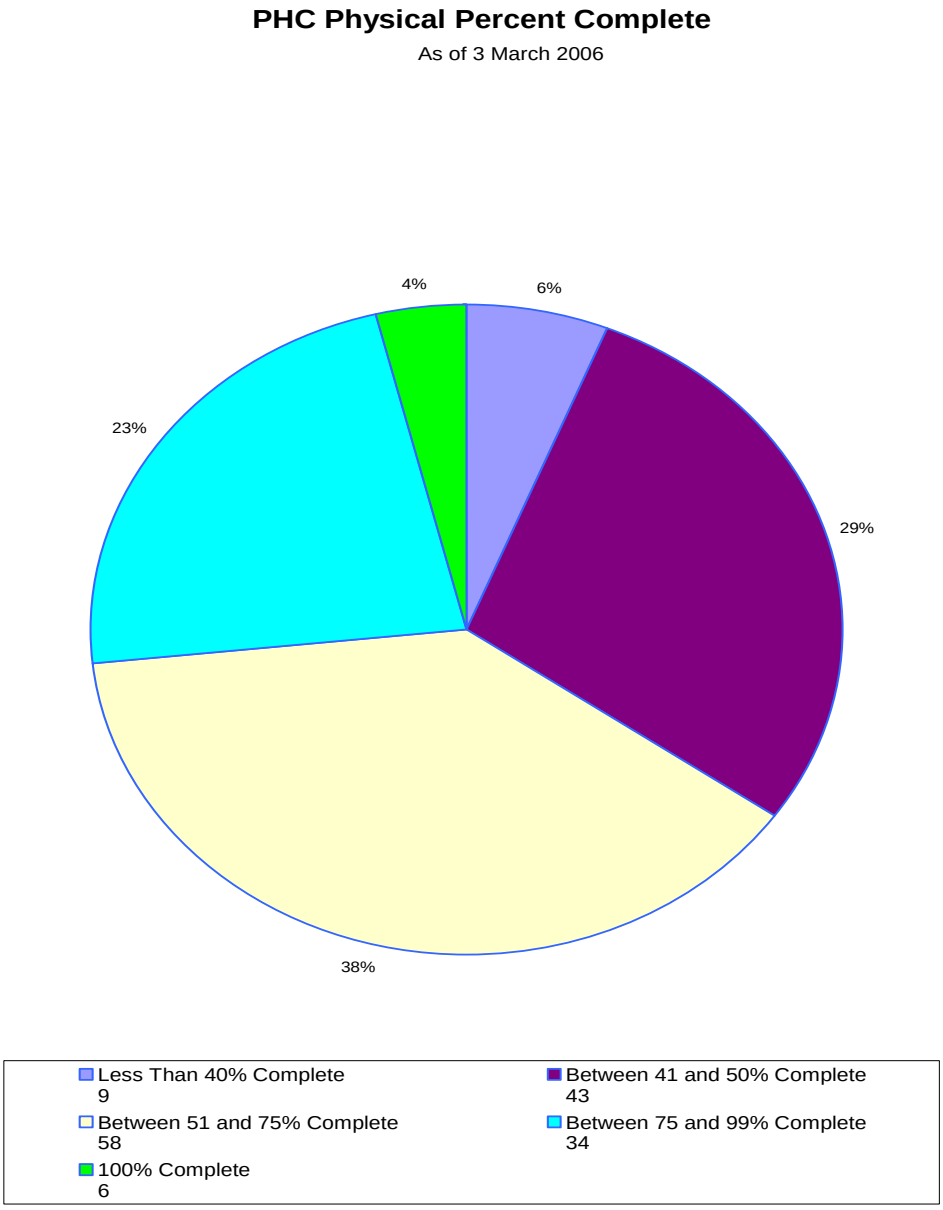
Audit Report Number SIGIR-05-011, dated July 26, 2005, "Cost-to-Complete Estimates and Financial Reporting for the Management of the Iraq Relief and Reconstruction Fund", included a review of PCO's input to the April 2005 Section 2207 Report and found that PCO did not provide cost-to-complete information to IRMO for the Section 2207 Report. PCO maintained that (1) project data was not sufficiently mature to develop reasonable estimates at completion; an (2) they could not consolidate information from their management information systems because they were not integrated.

Government Accountability Office (GAO):

Report Number GAO-06-428T, dated February 8, 2006, "Rebuilding Iraq: Stabilization, Reconstruction, and Financing Challenges" concluded that the United States faces three key challenges in rebuilding and stabilizing Iraq: the deteriorated security situation, inadequate performance data and measures, and Iraq's inability to sustain projects.

Report Number GAO-04-605, dated June, 2004, "Rebuilding Iraq: Fiscal Year 2003 Contract Award Procedures and Management Challenges" concluded that agencies generally complied with applicable laws and regulations governing competition when using sole-source or limited competition approaches to award new contracts for reconstruction. They did not always comply with competition requirements, however, in issuing task orders under existing contracts.

# Appendix B. Status of Primary Healthcare Centers Construction



| PHC Model Type Description | Number Proposed |
|---|---|
| PHC Type A: Model Center | 102 |
| PHC Type B: Model Center with Teaching Facilities | 20 |
| PHC Type C: Model Center Emergency and Labor Facilities | 19 |

| Project Name | Physical % Complete |
|---|---|
| **TYPE A MODEL CENTERS** | |
| PHC Type A at Al Guyara Sector 56 | 100% |
| PHC Type A at Al Huriya | 100% |
| PHC Type A at Al Husseniya | 100% |
| PHC Type A at Al Mashtal | 100% |
| PHC Type A at Al Thalith, Madinat Al Sadr, Sector 46 | 100% |
| PHC Type A at Al Falluja / Al Jghefil | 99% |
| PHC Type A at Al Rasheed | 99% |
| PHC Type A at Al Tahaddi | 99% |
| PHC Type A at Al Tooz | 99% |
| PHC Type A at Al Nahrawan | 98% |
| PHC Type A at Tikrit | 97% |
| PHC Type A at Al Noor | 95% |
| PHC Type A at Al Sha'ab 1 | 95% |
| PHC Type A at Hai Babil | 95% |
| PHC Type A at Qadha' Al Aziziya | 95% |
| PHC Type A at Al Mahmoudiya | 94% |
| PHC Type A at Al Salam | 92% |
| PHC Type A at Al Sha'ab 2 | 90% |
| PHC Type A at Hai Ur | 90% |
| PHC Type A at Nahrawan | 90% |
| PHC Type A at 14 Tammooz | 85% |
| PHC Type A at Al Ameen | 85% |
| PHC Type A at Beji | 85% |
| PHC Type A at Hai Al Imam | 85% |
| PHC Type A at Al Armooshiya | 83% |
| PHC Type A at Al Razi / Tikreet | 83% |
| PHC Type A at Al Sharqat / Hajeel Al Kabeer | 83% |
| PHC Type A at Hai Kinda | 83% |
| PHC Type A at Ibn Rushid | 83% |
| PHC Type A at Hai Al Jam'Ia (Near Uroba) | 82% |
| PHC Type A at Al Hadhar | 80% |
| PHC Type A at Al Washhash | 80% |
| PHC Type A at Hai Nablus | 80% |
| PHC Type A at Al Hadi | 77% |
| PHC Type A at Al I'lam | 76% |
| PHC Type A at Hai Al Asra | 76% |
| PHC Type A at Al Door | 75% |
| PHC Type A at Al Mahallabiya | 75% |

| Project Name | Physical % Complete |
|---|---|
| PHC Type A at Al Midhatiya | 75% |
| PHC Type A at Bahdeenan | 75% |
| PHC Type A at Heet / Hai Al Bakr | 75% |
| PHC Type A at Ainkawa | 74% |
| PHC Type A at Al Mahaweel | 73% |
| PHC Type A at Sarawran | 73% |
| PHC Type A at Ayn Tamr | 72% |
| PHC Type A at Qaraqejeen | 70% |
| PHC Type A at Al Haidariya (Hai Al Askari) | 68% |
| PHC Type A at Hanjeerok | 68% |
| PHC Type A at Harem | 68% |
| PHC Type A at Al Kifil | 67% |
| PHC Type A at Al Qasim | 67% |
| PHC Type A at Al Sadis Sector 72 | 64% |
| PHC Type A at Al Aqeel / Qadha' Al Zubair | 63% |
| PHC Type A at Al Kut (Zayn Al Qaws) | 63% |
| PHC Type A at Al Thani, Madinat Al Sadr Sector 29 | 62% |
| PHC Type A at Al Mishraq | 60% |
| PHC Type A at Hai Al Hussien | 60% |
| PHC Type A at Hai Al Intisar | 60% |
| PHC Type A at Hai Al Meelad | 60% |
| PHC Type A at Hai Al Shuhada' | 60% |
| PHC Type A at Khormal | 60% |
| PHC Type A at Qal'at Sukkar | 58% |
| PHC Type A at Shiqaq Hai Musalla* | 58% |
| PHC Type A at Al Wihda / Talla'afer | 57% |
| PHC Type A at Ashti Koyseneeq | 57% |
| PHC Type A at Hai Al Jamaheer | 57% |
| PHC Type A at Hai Mansoor | 57% |
| PHC Type A AT Halabjay Taza | 57% |
| PHC Type A at Qadha'Al Hinidiya Sayid Husseon Al Janib Al Kabeer | 57% |
| PHC Type A at Qalawa | 57% |
| PHC Type A at Al Jazeera / Albo Ubeid | 56% |
| PHC Type A at Al Sabi', Madinat Al Sadr Sector 15 | 55% |
| PHC Type A at Cham Chamal | 55% |
| PHC Type A at Hai Al Wasity* | 55% |
| PHC Type A at Al Khalis | 53% |
| PHC Type A at Hai Alasra Wa Al Mafqoodeen* | 53% |
| PHC Type A at Hai Alhajjaj (TBD)* | 53% |
| PHC Type A at Qadha' Al Hindiya | 53% |
| PHC Type A at Hai Al Askari Near Al Wafa' | 52% |
| PHC Type A at Qadha' Badra | 51% |
| PHC Type A at Al Karrada Al Awal | 50% |
| PHC Type A at Al Khaleej Al Arabi | 50% |
| PHC Type A at Hai Al Muhandiseen | 50% |

| Project Name | Physical % Complete |
|---|---|
| PHC Type A at Janeena | 50% |
| PHC Type A at Qadha' Al Khidhir | 50% |
| PHC Type A at Al Rifa'ee | 48% |
| PHC Type A at Hai Al Nida' | 48% |
| PHC Type A at Al Nasr | 46% |
| PHC Type A at Hai Al Wihda | 46% |
| PHC Type A at Al Zahrawi / Nahiat Um Qasr | 44% |
| PHC Type A at Al Duwaya | 43% |
| PHC Type A at Al Qurna | 43% |
| PHC Type A at Al Risala | 43% |
| PHC Type A at Suq Al Shyookh / Al Zahra | 43% |
| PHC Type A at Al Shannafiya | 42% |
| PHC Type A at Al Gharraf | 41% |
| PHC Type A at Al Awal Al Mad'in | 40% |
| PHC Type A at Hadeetha | 40% |
| PHC Type A at Qadha' Al Majar Al Kabeer | 40% |
| PHC Type A at Sayyid Dakheel Al Moosawi | 40% |
| PHC Type A at Al Tahrir | 36% |
| PHC Type A at Qadha'rama | 30% |
| PHC Type A at Jalowla' | 28% |
| **TYPE B MODEL CENTERS** | |
| PHC Type B at Hai Al Asatiha | 87% |
| PHC Type B at Al Hibna | 85% |
| PHC Type B AT Brayeti | 76% |
| PHC Type B at Barzan | 75% |
| PHC Type B at Shaikh Omar | 72% |
| PHC Type B at Al Haidariya | 68% |
| PHC Type B at Family Medicine, Al Thubbat | 67% |
| PHC Type B at Hai Al Wafa' | 66% |
| PHC Type B at 17 Tammooz | 61% |
| PHC Type B at Hai Al Adala, (New Per DG) | 58% |
| PHC Type B at Al Falluja / Al Jghefi | 51% |
| PHC Type B at Hai Al Husein | 50% |
| PHC Type B at Hai Al Mustafa | 48% |
| PHC Type B at Al Jadida | 47% |
| PHC Type B at Door Al Naft | 44% |
| PHC Type B at Mawkee Kul Yat Al Tib Al Kadema | 44% |
| PHC Type B at Hai Tis'een* | 42% |
| PHC Type B at Al Jami'a / Family Medicine | 40% |
| PHC Type B at Sirchanar | 14% |
| PHC Type B at Somer | 12% |
| **TYPE C MODEL CENTERS** | |
| PHC Type C at Zummar | 92% |
| PHC Type C at Qadha'al Hindiya Al Khayrat | 73% |
| PHC Type C at Al Falluja / Al Karma | 70% |

| Project Name | Physical % Complete |
|---|---|
| PHC Type C at Al Qosh | 70% |
| PHC Type C at Khan Dhari | 70% |
| PHC Type C at Sameel | 70% |
| PHC Type C at Bnaslawa | 65% |
| PHC Type C at Ghammas | 50% |
| PHC Type C at Jisir Diyala | 50% |
| PHC Type C at Abdalla Hashim / Qadha' Al Madina | 47% |
| PHC Type C at Bani Sa'ad | 45% |
| PHC Type C at Al Badeer | 44% |
| PHC Type C at Al Mansooriya | 44% |
| PHC Type C at Suq Sha'alan | 40% |
| PHC Type C at Sheikh Sa'ad | 37% |
| PHC Type C at Qadha' Ali Al Sharji | 32% |
| PHC Type C at Al Warka' | 30% |
| PHC Type C at Al Wajihiya | 15% |
| PHC Type C at Al Atheem | 9% |

* Reviewed in SIGIR Inspection Report “Primary Healthcare Centers Numbered KE-01 (SIGIR PA-06-043); KE-02 (SIGIR PA-06-042); KE-03 (SIGIR PA-06-046); KE-04 (SIGIR PA-06-045); and KE-05 (SIGIR PA-06-044) Kirkuk, Iraq”.

# Appendix C. Primary Healthcare Centers to be Completed by Parsons

20 SITES TO BE COMPLETED
(Listed approximately by the most complete to the least complete)

| Count | ID | Project Name | URI[1] | GRX[2] |
|---|---|---|---|---|
| 1 | WA 07 | Construct PHC Type A at Qadha' Al Aziziya | 11914 | GRS[3] |
| 2 | SD 05 | Construct PHC Type A at Tikrit | 11925 | GRN[4] |
| 3 | SD 08 | Construct PHC Type A at Al Tooz | 11934 | GRN |
| 4 | AN 06 | Construct PHC Type A at Al Jazeera / Albo Ubeid | 11809 | GRC[5] |
| 5 | BK 05 | Construct PHC Type B at Al Hibna | 11823 | GRC |
| 6 | BK 06 | Construct PHC Type A at Al Huriya | 11824 | GRC |
| 7 | BK 08 | Construct PHC Type A at Al Tahaddi | 11826 | GRC |
| 8 | BK 09 | Construct PHC Type A at Al Salam | 11827 | GRC |
| 9 | BK 11 | Construct PHC Type A at Al Rasheed | 11829 | GRC |
| 10 | BK 14 | Construct PHC Type A at Al Noor | 11832 | GRC |
| 11 | BR 02 | Construct PHC Type A at 14 Tammooz | 11835 | GRC |
| 12 | BR 04 | Construct PHC Type A at Al Thalith, Madinat Al Sadr, Sector 46 | 11837 | GRC |
| 13 | BR 05 | Construct PHC Type A at Al Guyara Sector 56 | 11838 | GRC |
| 14 | BR 08 | Construct PHC Type A at Al Mashtal | 11841 | GRC |
| 15 | BR 10 | Construct PHC Type A at Al Husseniya | 11843 | GRC |
| 16 | BR 13 | Construct PHC Type A at Hai Babil | 11846 | GRC |
| 17 | BR 14 | Construct PHC Type A at Al Sha'ab 1 | 11847 | GRC |
| 18 | NF 01 | Construct PHC Type A at Hai Kinda | 11897 | GRS |
| 19 | NA 05 | Construct PHC Type A at Al Nahrawan | 11906 | GRN |
| 20 | NF 06 | Construct PHC Type A at Hai Al Jam'Ia (Near Uroba) | 11913 | GRS |

[1] URI: Universal Reference Identifier
[2] GRX: Gulf Region Division District
[3] GRS: Gulf Region South District
[4] GRN: Gulf Region North District
[5] GRC: Gulf Region Central District

# Appendix D. Amount Spent on Primary Healthcare Center Projects as of March 6, 2006

| Item | Amount |
|---|---|
| Construction | $65,687,306 |
| Non-construction | $52,198,443 |
| Primary Healthcare Centers portion of the administrative task order | $60,511,811* |
| U.S. Army Corps of Engineers Gulf Region Division fees | $2,619,805* |
| Sector Project and Contracting Office Contractor | $4,800,000* |
| **Total Costs** | **$185,817,365** |

* Note: Over $65.5 million was for management and administrative costs.

# Appendix E. Acronyms

| | |
|---|---|
| ACO | Administrative Contracting Officer |
| CEFMS | U.S. Army Corps of Engineers Financial Management System |
| DCAA | Defense Contract Audit Agency |
| EAC | Estimate at Completion |
| FAR | Federal Acquisition Regulation |
| GRD | U.S. Army Corps of Engineers Gulf Region Division |
| IRMS | Iraq Reconstruction Management System |
| IRRF | Iraq Relief and Reconstruction Fund |
| JCC-I/A | Joint Contracting Command-Iraq/Afghanistan |
| PCO | Project and Contracting Office |
| PHC | Primary Healthcare Center |
| QA | Quality Assurance |
| REA | Request for Equitable Adjustment |
| RMS | Resident Management System |
| SPCOC | Sector Project and Contracting Office Contractor |

# Appendix F. Report Distribution

## Department of State

Secretary of State
    Senior Advisor to the Secretary and Coordinator for Iraq
U.S. Ambassador to Iraq
    Director, Iraq Reconstruction Management Office
    Mission Director-Iraq, U.S. Agency for International Development
Inspector General, Department of State

## Department of Defense

Secretary of Defense
Deputy Secretary of Defense
    Director, Defense Reconstruction Support Office
Under Secretary of Defense (Comptroller)/Chief Financial Officer
    Deputy Chief Financial Officer
    Deputy Comptroller (Program/Budget)
Inspector General, Department of Defense
Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Contract Management Agency

## Department of the Army

Assistant Secretary of the Army for Acquisition, Logistics, and Technology
    Principal Deputy to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology
    Deputy Assistant Secretary of the Army (Policy and Procurement)
    Director, Project and Contracting Office
    Commanding General, Joint Contracting Command-Iraq/Afghanistan
Assistant Secretary of the Army for Financial Management and Comptroller
Chief of Engineers and Commander, U.S. Army Corps of Engineers
    Commanding General, Gulf Region Division
Auditor General of the Army

## U.S. Central Command

Commanding General, Multi-National Force-Iraq
    Commanding General, Multi-National Security Transition Command-Iraq
    Commander, Joint Area Support Group-Central

## Other Federal Government Organizations

Director, Office of Management and Budget
Comptroller General of the United States
Inspector General, Department of the Treasury
Inspector General, Department of Commerce
Inspector General, Department of Health and Human Services
Inspector General, U.S. Agency for International Development
President, Overseas Private Investment Corporation
President, U.S. Institute for Peace

# Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

**U.S. Senate**

Senate Committee on Appropriations
- Subcommittee on Defense
- Subcommittee on State, Foreign Operations and Related Programs

Senate Committee on Armed Services

Senate Committee on Foreign Relations
- Subcommittee on International Operations and Terrorism
- Subcommittee on Near Eastern and South Asian Affairs

Senate Committee on Homeland Security and Governmental Affairs
- Subcommittee on Federal Financial Management, Government Information and International Security
- Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

**U.S. House of Representatives**

House Committee on Appropriations
- Subcommittee on Defense
- Subcommittee on Foreign Operations, Export Financing and Related Programs
- Subcommittee on Science, State, Justice and Commerce and Related Agencies

House Committee on Armed Services

House Committee on Government Reform
- Subcommittee on Management, Finance and Accountability
- Subcommittee on National Security, Emerging Threats and International Relations

House Committee on International Relations
- Subcommittee on Middle East and Central Asia

# Appendix G. Audit Team Members

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

John Morrell

Jim Pollard

William Shimp

Cliff Spruill

# Management Comments
# Director, Iraq Reconstruction Management Office

*Embassy of the United States of America*

Baghdad, Iraq

April 8, 2006

Mr. Stuart W. Bowen, Jr.
Special Inspector General for Iraq Reconstruction
400 Army Navy Drive
Arlington, Virginia 22202

Dear Mr. Bowen:

We welcome the review of the Management of the Primary Healthcare Centers Construction Projects, identified as SIGIR Report Number 06-011 (Project No. 2005-26). The following are IRMO's responses to the recommendations on page iv of the subject SIGIR report, as well as a comment from the Health Attaché.

*We recommend the ...Director, Iraq Reconstruction Management Office, require IRMO management to:*

- *Develop a Project Delivery Team to meet periodically and facilitate contract completion, in cooperation with JCC-I/A, GRD-PCO and Parsons Global Services, Inc.*

**Response:** Project Delivery Teams are the responsibility of the Project and Contracting Office (PCO), which has program responsibility per National Security Presidential Directive 36, "United States Government Operations in Iraq" (May 11, 2004). IRMO has been working with GRD-PCO since November 2005 on the PHC issue.

- *Develop a strong program management team, in partnership with the Iraqi Ministry of Health, to ensure completion of the 121 remaining centers.*

**Response:** IRMO has oversight responsibility of this program. Program management is the responsibility of PCO. IRMO is looking at a number of possible courses of actions regarding the possible completion of the remaining PHCs.

**Health Attaché's comment on this recommendation:** As IRRF funding for completion of the PHCs is depleted, and we are not certain of the path that will be taken to complete the remaining clinics, we should be careful about obligating ourselves to a commitment that may not be feasible (if ultimately the clinics are transferred to the GOI partially completed and the GOI chooses not to have USG involvement in project completion) and that may extend past the lifespan of IRMO (given the current hold on construction, the historical rate of construction progress, and the uncertainty regarding contract reward dates or efficacy).

In addition, page 2 of the report states:

- *The Iraq Reconstruction Management Office has the responsibility to approve contracts.*

**Response**: IRMO does not have the responsibility or the authority to approve contracts.

Sincerely,

David M. Satterfield
Deputy Chief of Mission

# Management Comments
# Joint Contracting Command-Iraq/Afghanistan

**HEADQUARTERS**
**JOINT CONTRACTING COMMAND-IRAQ/AFGHANISTAN**
**BAGHDAD, IRAQ**
**APO AE 09316**

Reply to
JCC-IA-R

6 April 2006

MEMORANDUM FOR Special Inspector General for Iraq Reconstruction

SUBJECT: Draft Audit Report on Management of the Primary Healthcare Centers Construction Projects (Report No. 06-011)

1. The Joint Contracting Command Iraq – Afghanistan (JCC-IA) has been requested to provide responses to the recommendations of Report No. 06-011. The recommendations and responses are as follows:

**Recommendation:** Require Parsons Global Services, Inc., to change the monthly contract performance report to include budgeted cost of work performed so that cost and schedule variances can be properly calculated.

**JCC-IA Response:** Concur. However, all the Public Healthcare Centers (PHC) are being turned over to the U.S. Government "as-is" in April 2006. To change the reporting requirement at this stage will not aid in the management of the PHC program. Future construction projects that are awarded on a cost reimbursement basis will have better developed cost reporting requirements.

**Recommendation:** For any future contracts awarded for completing the construction of the remaining centers, require that the contracting officer ensure that staff with delegation of responsibility is properly trained.

**JCC-IA Response:** We concur. JCC-IA requires copies of contracting officer warrants to be on file for those who are delegated administration authority for construction contracts. GRD personnel who administer construction contracts have met the mandatory requirements of experience, education and training.

2. My POC for additional information is Ms. Ruth Anne Ijames, 703-544-6979.

DOUGLAS W. PACKARD
Principal Assistant Responsible
for Contracting

1

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

DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
GULF REGION DIVISION
BAGHDAD, IRAQ
APO AE 09316

REPLY TO
ATTENTION OF

CEGRD-CG

13 April 2006

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

SUBJECT: Draft SIGIR Audit Report – Management of the Primary Healthcare Centers Construction Projects, SIGIR-06-011

1. This memorandum provides the U.S. Army Corps of Engineers, Gulf Region Division response to the subject draft audit report.

2. Overall, we are concerned that the report did not mention the significant fact that GRD-PCO requested SIGIR to conduct the audit of Primary Healthcare Centers. In addition, the report gave minimal attention to whether the contractor was in compliance with the terms of the contract. We will provide additional information relevant to contractor performance in a separate memorandum on 14 April 2006.

3. The Gulf Region Division generally concurs with the findings and recommendations contained in the draft report. We have provided comments to be considered when the revised draft report is prepared to more accurately reflect the facts (See Enclosure).

4. If you have any questions, please contact Mr. Milton Naumann at (540) 665-5064 or his email Milton.Naumann@tac01.usace.army.mil.

Encl

WILLIAM H. McCOY
Brigadier General, USA
Commanding

**COMMAND REPLY**

**SIGIR Draft Audit Report – Management of the Primary Healthcare Centers Construction Projects, SIGIR-06-011**

**Additional Facts**. U.S. Army Corps of Engineers, Gulf Region Division provides the following comments on the subject draft audit report.

**1. SIGIR Statement. Pages i. and ii. Executive Summary.**
The objectives of the audit were to determine if the contractor was in compliance with the terms of the contract or task orders and whether the government representatives were complying with general legislative and regulatory guidance concerning contract administration and financial management. We also evaluated the effectiveness of the monitoring and controls in place by administrative contract officers.

**GRD Statement.** The Executive Summary failed to mention the significant fact that GRD-PCO requested SIGIR to conduct an audit of Primary Healthcare Centers. The summary also failed to mention that the audit request was coordinated with the U.S. Ambassador to Iraq and the Commander, Multi-National Force – Iraq. On 13 December 2005, the GRD-PCO, Deputy Director for Reconstruction sent an email message to a Senior Audit Manager with a copy to the Special Inspector General for Iraq Reconstruction to request SIGIR audit the construction contractor's contracts, specifically the Primary Healthcare Centers. The message clearly stated GRD's concerns and what the engagement should evaluate. However, the report's conclusions and recommendations did not mention the concerns of the Ambassador; the CG MNF–I or the CG GRD contained in the audit request. The concerns listed in the request that GRD-PCO expected SIGIR to answer included the following issues.

- What was the actual cost paid the contractor to date for Task Orders 4, 11 and 12?
- How much of what was paid to the contractor was out-of-scope work?
- How much would the government have to pay the contractor if it terminated the contract for default or convenience?
- What course of action should the U.S. Government take before exercising a termination for default or termination for convenience to demonstrate good faith efforts on the part of the government?
- What progress has the contractor made today compared to the proposal of November 2004, where the contractor indicated 700 days to complete all PHCs?

Further, SIGIR's first stated audit objective was to "determine if the contractor was in compliance with the terms of the contract or task orders". The report failed to meet this basic objective and gives minimal attention to the issue of contractor compliance. Given that contract negotiations and contractor performance review are still underway, SIGIR should delay issuing the report until the negotiations are completed. The final report should address the objective of contractor compliance to provide a balanced assessment.

Enclosure

- The report mentions in a number of places that the objective of the contract will not be met because SIGIR learned that only 20 of the original 150 PHCs are being completed under the contract. The report does not mention that GRD-PCO is exploring options to complete the remaining 121 PHCs and incorrectly gives the impression that the five PHCs covered under the assessment will not be completed.

- The management actions in the Executive Summary do not address several key actions, such as issuance of an interim unsatisfactory report, issuance of a Cure Notice; but they are mentioned elsewhere in the report.

- *"In September 2005, the U.S. government descoped and abandoned 8 of the 150 planned PHCs because of lack of progress."*

  The eight PHCs were de-scoped due to lack of progress and to reallocate funds to cover gaps in the budget created by Ministry of Health (MOH) not being able to fulfill previous commitments to the program. This decision was made in July 2005 in consultation with MOH.

- *"While contractor performance was a major factor in the lack of success in completing the PHC project as planned, U.S. government management actions may have played a larger role."*

  Contractor performance and lack of openness in addressing schedule and budget issues in a timely fashion obscured the severity of the financial problem. It should be noted that until the fall of 2005, the contractor insisted their schedules were correct and that they would finish up to 114 PHCs by the end of December 2005. Similarly, until November 2005, the contractor insisted they could finish the entire program by March 2005 within their Administrative Task Order (ATO) forecasted cost of $110M.

  In the summer of 2005, the government advised the contractor and the Contracting Officer (KO) the unrealistic nature of the contractor's schedule. The contractor and the government agreed to set intermediate milestones to monitor performance. The government routinely advised the contractor and the KO about milestones not being met and schedule slippages. By the fall of 2005, the contractor's position regarding schedule and ATO cost became indefensible and JCC-I/A assigned an overall interim unsatisfactory performance evaluation to the contractor.

**2. SIGIR Statement. Page iii.**
The contractor officer required that future constructive changes be properly definitized.

**GRD Statement.** Change "The contractor officer …" to "The contracting officer…"

**3. SIGIR Statement. Page 5.**

**a.** The U.S. government unilaterally established the scheduled completion date of December 26, 2005 for all 150 PHCs; and on October 20, 2004 (task order 4) and December 26, 2004 (task orders 11 and 12), Parsons Global Services, Inc., the overseas business segment for Parsons Delaware, Parsons Global Services, Inc., signed the task order modification establishing the date, effectively committing to the schedule.

**b.** For a breakdown of the spending, see Appendix D. In September, 2005 eight of the PHCs were descoped and abandoned, and another PHC was continued through direct contracting.

**GRD Statement**

**a.** The draft report states that "Parsons Global Services, Inc., signed the task order modification establishing the date, effectively committing to the schedule". The use of the phrase "effectively committing" is unusual—by signing the modification Parsons did commit to the new schedule.

**b.** The draft report describes the reduction of eight PHCs as "descoped and abandoned". We recommend that the word "abandoned" be deleted as it gives the reader the impression that we have walked away from eight half-completed facilities. Actual work at the descoped PHCs was only in the initial stages.

**4. SIGIR Statement. Page 6. Turnover of Government Personnel.**
The high turnover of government staff disrupted the continuity of the program and negatively impacted project management.

**GRD Statement.** The draft report concluded that "The high turnover of government staff disrupted the continuity of the program and negatively impacted projected management". However, the draft report does not actually demonstrate or provide evidence that high turnover has impacted this particular project. The draft report only provides general discussion of the potential impact of high turnover. If SIGIR does not have evidence to demonstrate that high staff turnover had an impact, then the conclusion should be either removed or caveated.

Concluding that the government did not adequately perform its responsibilities due to the turnover of government personnel is an indictment of the military deployment system more than a performance evaluation on this contract. Transition of one government team to another was performed, with the previous team fully briefing the new team well in advance and even before the new team reported for duty. In addition, the Sector Project Contracting Office Contractor (SPCOC) was always present to assist the new government team through the transitions.

**5. SIGIR Statement. Page 9. Request for Equitable Adjustment.**
Although there had been efforts to address the issue, the government was not responsive in bringing it to resolution and the unauthorized constructive changes continued.

The government's unresponsiveness on the Requested Equitable Adjustment (REA) impeded decision-making because the true costs of the project remained uncertain. The unresolved REA made cost-to-complete estimates more difficult and added greater uncertainty to funding decisions.

**GRD Statement**

- The government was not unresponsive to claims submitted by the contractor. Claims continued to mount, and individual claims continued to change, making it difficult to conduct technical evaluations and independent government estimates.

- The government team engaged the contractor early on to determine additional costs required to complete and re-definitize the contract. The government addressed the contractor's request for cost adjustment in February 2005 and issued a contract modification that the contractor refused to sign due to a disagreement on the computation of the base and award fee, not on the adjustment to the construction cost. In the spring and summer of 2005 the government team and the contractor met on several occasions and reached agreement on several occasions; however, in each instance the contractor's team refused to honor agreements reached.

**6. SIGIR Statement. Page 9. Excusable Delays.**
On July 15, 2005, Parsons Global Services, Inc., issued a memorandum to the administrative contracting officer (ACO) at U.S. Army Corps of Engineers Gulf Region Division (GRD) notifying the U.S. Government of excusable delays on task orders 4, 11 and 12.

**GRD Statement.** The contractor did not submit a request for excusable delays until approximately October 2005. No response by the government was requested by the contractor until that time.

**7. SIGIR Statement. Pages 10 and 11. Constructive Changes.**
Government personnel failed to follow required procedures for making constructive changes to the PHC project.

U.S. government personnel directed constructive changes to the project without following proper procedures. The changes were made to the project, but the changes were not properly definitized in a modification to the contract. The direction to make constructive changes occurred over a period of months until October 2005, when the contracting officer demanded proper definitization for future changes.

**GRD Statement.** It is noted that the contractor failed to seek approval of additional work before its execution. The contractor performed the additional work at its own risk. It should be noted the contract allows the contractor to incur cost increases at each PHC of up to 50 percent of the PHC construction budget before having to inform the government. The government team worked under this KO guidance from the beginning of the project through October 2005. This was also the contractor's position as documented in its written response to a government inquiry regarding unauthorized work. Note that up to the fall of 2005, the additional cost identified by the contractor varied between $18M and $25M. The contractor surprised the government team when it submitted an REA for $39M.

**8. SIGIR Statement. Page 12. Cost Performance Report.**
Because the contract was not specific as to data requirements for the cost performance reports and because the government did not require Parsons Global Services, Inc., to produce monthly cost performance reports prescribed by the contract, IRRF funds were spent to produce reports of little value to management. As a result, the government's ability to effectively manage the project was diminished.

**GRD Statement.** During the weekly meetings, the government advised the contractor that their cost reporting was confusing and didn't provide a complete depiction of what was actually occurring. The contractor was requested to provide the Actual Cost of Work Performed and Budgeted Cost of Work Performed in order for the information to be useful. The contractor advised the government and the KO on several occasions that this was not part of their Statement of Work, and did not proceed as requested.

**9. SIGIR Statement. Page 12. Cost-to-Complete Reporting.**
As we previously reported, GRD-PCO is required by Public Law 108-106 to report the cost-to-complete estimates on a quarterly basis. However, GRD-PCO did not report cost-to-complete estimates until June 2005. GRD-PCO began to submit monthly cost-to-complete reports to IRMO, and then submitted the quarterly reports starting with the quarter ending September 30, 2005. However, key amounts for the PHC project as reported in the cost-to-complete reports do not appear to accurately reflect the financial reality of the project.

**GRD Statement.** Government estimate-at-completion (EAC) and cost-to-complete (CTC) estimates were developed based on site construction data on hand and contractor-provided cost information. The EAC provided in August and September 2005 were based on written assurances by the contractor that all additional project costs had been accounted for in the agreement reached in the working sessions in June and July of 2005. The EAC was adjusted as soon as the government learned of the magnitude of the potential REA amount. Similarly, the $115M government July-Nov ATO EAC was based on the repetitive assurances and commitment received from the contractor regarding completing the project by March 2006 for an ATO cost of $110M.

**10. SIGIR Statement. Page 15. Quality Assurance.**
Among the functions delegated to GRD, as administrative contracting officer authority, is to ensure contractor compliance with contractual quality assurance (QA) requirements. FAR section 46.104 identifies the administrative contracting office responsibilities for QA.

**GRD Statement**

a. The Iraq reconstruction environment and span of control does not provide ideal conditions for U.S. Government or military personnel to visit every project as frequently as desired or required. For example, GRS is responsible for 58 Primary Healthcare Center (PHC) construction projects, in addition to approximately 350 other projects ongoing during the review period. GRS employs fewer than 40 U.S. Government and/or military field engineers and construction inspectors, with approximately 5 to 8 percent on Rest and Recuperation leave at anyone time. Furthermore, security issues and limited Personnel Security Detail assets preclude regular and frequent site visits. Finally, many of the PHCs are located in restricted areas, e.g., Basrah City, where U.S. Government personnel are either not allowed or have limited access based on the ever-changing political or security climate. Therefore, having fewer than 50 Quality Assurance (QA) reports in the Resident Management System (RMS) over the course of a year is not only unremarkable but, in many cases, the norm. For those areas where regular site visits are possible, U.S. Government or military engineers strive for weekly or twice weekly visits, regardless of project type.

b. The SIGIR analysis looked only at RMS data to determine the progress or quality of the structures under construction. However, many daily QA reports were not entered in RMS because either: (a) local nationals (LNs) wrote the reports, and LNs did not have access to RMS, or (b) field offices experienced problems accessing RMS due to poor communications links. While accurate and complete RMS record keeping and QA logs are important, this information represents only a portion of the overall QA assessment and monitoring that occurs to ensure project construction meets specifications and standards. The most important aspects of the QA process are the on-site visits by safety and QA personnel, the direction they provide the contractor, and their determinations regarding compliance with contract specifications. For example, GRS can cite numerous examples of project visits by SIGIR teams to include PHC visits that commented directly on good project oversight even though the related paperwork and RMS data may or may not have needed improvement. Simply determining whether QA logs were complete and accurate does not provide the best indicator of overall project quality assurance.

c. GRD took actions to compensate for the shortage of qualified U.S. Government personnel. For example, GRS hired about 115 Iraqi engineers to provide daily or almost daily QA project site visits. These engineers required QA training, which is an ongoing process. However, Iraqi engineers do not have access to ".mil" network accounts and, therefore, cannot enter QA reports into RMS. As such, they are providing written or oral input to the Resident Engineers. GRS is working to get a number of these engineers vetted so they can obtain limited access to RMS through either a .mil account or the

commercial RMS QA input system. Either access approach brings with it certain shortfalls and limitations, many local nationals can not readily enter military compounds, and the commercial internet access to upload QA reports is time consuming. GRD is working to solve these problems.

d. The SIGIR auditors interviewed IRMO, GRD-PCO, JCC-I/A and contractor personnel. The auditors did not interview GRD personnel; PCO was a separate organization until December 2005. Had the auditors interviewed GRD personnel in the field, the auditors would have learned and understood why RMS does not include all QA reports prepared.

**Recommendation and Command Comments**

Generally, GRD agrees with the recommendations because the suggested actions are established procedure. Overall, the recommendations presented are general statements of the obvious and offer no significant assistance or value added to the organization and the reconstruction effort. Further, the recommendations do not fully respond to the audit objective.

**Recommendation 1.** Require that GRD personnel, who are responsible for traveling to the construction sites to record the information for the daily QA reports, receive proper training in the performance of this function.

**Actions Taken**. Concur. GRD has taken steps to ensure that field staffs are properly trained. We are ensuring that individuals selected for positions have the applicable experience. In addition, less experienced staff is provided mentoring by more senior level staff.

**Recommendation 2.** Ensure that proper reporting mechanisms are established, maintained, and monitored for any delegation of program management to government or non-government staff.

**Actions Taken**. Concur. Proper reporting mechanisms are established, maintained, and monitored for delegation of program management to government or non-government staff.

**Recommendation 3.** Ensure that cost-to-complete and schedule performance reports are periodically validated by government managers and are reconciled to the quality assurance reports provided by independent staff.

**Actions Taken**. Concur. Cost-to-complete and scheduled performance reports are periodically validated by government managers and are reconciled to the quality assurance reports provided by independent staff. GRD field staffs have accurately reported on the progress of these facilities, consistent with their roles as QARs.

DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
GULF REGION DIVISION
BAGHDAD, IRAQ
APO AE 09316

REPLY TO
ATTENTION OF

CEGRD-CG

15 April 2006

MEMORANDUM FOR Special Inspector General for Iraq Reconstruction, 400 Navy Drive, Arlington, VA 22202

SUBJECT: Draft SIGIR Audit Report – Management of the Primary Healthcare Centers Construction Projects, SIGIR-06-011

1. This memorandum provides the U.S. Army Corps of Engineers, Gulf Region Division additional information regarding the subject draft audit report.

2. The Special Inspector General for Iraq Reconstruction agreed to delay publishing the final audit report on the subject review allowing us time to prepare and submit additional comments for consideration in a revised draft report. We appreciate the opportunity we were afforded. Our additional comments, regarding the performance of the contractor for the Primary Healthcare Centers construction projects, are at the enclosure.

3. If you have any questions, please contact Mr. Milton Naumann at (540) 665-5064 or his email Milton.Naumann@tac01.usace.army.mil.

Encl

WILLIAM H. McCOY
Brigadier General, USA
Commanding

**ADDITIONAL COMMENTS**

**SIGIR Draft Audit Report – Management of the Primary Healthcare Centers Construction Projects, SIGIR-06-011**

1. **Introduction**

Under the current contract Parsons Global Systems, Inc. the design build (DB) contractor was retained by the government to provide design-build services for 141 (initially 150) Primary Healthcare Centers (PHCs) throughout Iraq. The contractor responsibilities include the following:

- Provide complete design services progressing from conceptual to 10 percent, 65 percent, 95 percent and final design.
- Perform site assessments for each site including property, utility and topographic surveys and geotechnical investigations.
- Construct all the PHCs in accordance with the prepared design and technical specifications.
- Provide comprehensive training to Ministry of Health (MoH) personnel on the operation and maintenance of the constructed facilities including all mechanical, electrical and plumbing systems.
- Provide 1 year warranty for the constructed facilities including mechanical, plumbing and electrical systems. Warranties are being provided by the prime subcontractors and the manufacturers of the installed equipment.
- Procure, deliver, install and commission medical and dental equipment and provide training to MoH personnel on the use of the equipment.
- Provide transfer and closeout documentation for each facility.

From the beginning of the PHC project, Parsons failed to meet various contract requirements through numerous significant management and technical shortcomings. In spite of Government entreaties, they failed to exercise due diligence in site survey and engineering design work. They failed to adequately plan project schedules to include known issues, resulting in unrealistic, risky construction and purchasing schedules; and then they failed to exercise adequate surveillance over those schedules. Their subcontracting practices allowed sub-tier subcontractors to sell and assign contract responsibility in ways that made it impossible for Parsons to establish accountability for and maintain control of subcontracted work. They failed to exercise adequate due diligence to control costs. They ignored, or failed to respond adequately to, numerous expressions of concern by the Government over these issues, and in some cases failed or refused to provide the Government with information that would have allowed the Government to make decisions to assist Parsons in regaining control over subcontractor performance and cost.

A stated SIGIR objective of the PHC draft audit report was to determine whether the Design Build contractor was in compliance with the terms of the contract. The current

Enclosure

draft report inadequately addresses this objective; in fact, DB performance is only notionally addressed. Outlined below is the GRD/PCO summary of Parsons performance.

2. **Scope and Management**

a. **Technical Performance**

1) **Engineering Design**. The DB followed the spirit of the contract in subcontracting the PHC design to local engineering firms. However, they failed to properly supervise their work resulting in poor quality submittals and design delays. The DB did not have adequate, qualified engineering staff to supervise the design work which resulted in poor submittals, repetitive review-comments and design delays. For example, the DB did not have in-country design professionals specialized in the design of medical facilities. This delayed the transfer of design concepts from the Ministry of Health (MoH) and the government and prevented the DB from conducting meaningful QA functions on the design subcontractor work. It should be noted the DB was given NTP on the design work on 11 May 2004; however, final design was not completed until March 2005. The design delays severely impacted the construction schedule and directly contributed to an inordinate number of construction claims as many PHCs were started with 65 percent or 90 percent design drawings.

Lack of in-country design expertise and sub-consultants unfamiliar with international codes resulted in inefficient designs. For example, the layout of footings and columns of the "C" type PHCs ended up being too intricate with no regularity and with multiple offset column lines. The design made the structure more difficult to construct delaying construction and increasing cost. Similarly, the designed hand rail for the interior stair proved to be too difficult to fabricate resulting in a product of inferior quality that does not meet current codes. Government review comments were not properly addressed in the final design.

From the definitization of the first task order, 11 May 2004 through December 2004, the DB did not have a geotechnical engineer in country that could properly supervise the geotechnical investigations. The DB started the foundation design without checking the quality of the geotechnical reports. After the government questioned the design of raft foundations based on data from shallow borings, the DB corrected course and requested a re-evaluation of the geotechnical investigation reports. This delayed the completion of the foundation design and construction, impacting the critical path of the project. It should be noted that the subcontractors mobilized to the first sites in October 2004 but could not achieve significant progress due to the lack of foundation design drawings.

The DB did not plan for the timely preparation of technical specifications. Initial submittals were generic, lacking consistency, detail and proper formatting. At the government's insistence the DB corrected course. The Submittal Register was not completed until February 2004 which delayed completion of the design drawings and construction.

2) **Deficiencies in RFP**. The 65 percent design documents used in the initial solicitation for construction were incomplete (for 65 percent stage) and not coordinated with the scope of work used for the solicitation. The bid documents were poorly prepared and should not have been used without proper DB internal review. Solicitation packages are internal DB documents not shared with the government. These mistakes provided the subcontractors justification to submit large claims against the project.

3) **Subcontracting Approach**. The DB approach to accomplish the construction work lacked provisions to enhance best value for the government.

Work was awarded to a group of eight firms, most of them, without significant construction experience in Iraq. The DB did not perform due diligence in checking the capacity of the firms to perform the required work and whether they had the qualifications and Iraqi registrations for performing construction work in Iraq. Seventy-two percent of the work was awarded to two related firms which resulted in the DB losing the ability to control the work. This disproportionate allocation of the work put the government at risk due to the poor performance of these two firms. Subsequently, these contractors sold subcontracts and the projects were executed through a system of layered brokers. The DB did not have adequate control in place for this type of organization which resulted in increased cost to the government due to schedule slippages and Administration Task Order (ATO) charges. With the multiple layered organization, it became impossible for the DB to control the work in terms of quality, cost or schedule. Basic situational awareness of the work accomplished at each site was lost. The DB was unable to provide detailed information on the subcontracting structure to the government; therefore, they are unable to secure release of liens on construction.

The DB's decision of not procuring key equipment or materials (HVAC units, casework, RO systems, etc.) directly resulted in the government not being able to benefit from potential savings due to quantity discounts. This also increased cost as the DB had to review separate submittals from separate subcontractors for these materials. Similarly the DB was unable to enforce quality of these materials or compliance with the technical specifications resulting in the need to replace some of this equipment.

b. **Lack of control of subcontractors**. As mentioned earlier, the DB failed to control the work by not making contract provisions against the sale of subcontracts through a system of layered brokers. Poor contract language and approach resulted in the DB losing control of the project and having little leverage in enforcing schedule and quality requirements.

DB's contract with their construction subcontractors lacked provisions to assure DB's control of the work. The contracts included no enforceable provisions to control schedules similarly, no incentives or penalties were included to assure subcontractor commitment to complete the projects on time, until late in the process when it was realized that the performance was unacceptable.

Due to the layers of lower tier subcontractors, the DB lacked control and visibility of the personnel actually performing the work. Similarly, the lower tier subcontractors were not aware of the relationship between the main stakeholders. In many instances, personnel in the field would not recognize the authority of the USACE or would not offer the necessary courtesies to MoH visiting the sites. There are documented instances of lower tier subcontractors refusing entry and/or not recognizing the authority of DB personnel. The DB could no longer influence the project in terms of quality or schedule as they were frequently not aware of the full lineage of subcontracts.

This lack of control has resulted in the DB not being able to determine whether the lower tiered subcontractors had been paid for the work performed. On many occasions lower tier subcontractors stopped or slowed down work at the site due to payment disputes with very little opportunity for the DB to influence resolution. These resulted in schedule delays increasing the cost of the project.

Later in the project, many subcontractors took possession of the sites and refused entry to other contractors (generator/transformer, punch list and security contractors) preventing the timely completion of the work and increasing the cost of the project.

As it became apparent that the DB could not control the work or the schedule, several attempts were made to descope portions of the work from the DB. Apparently, the corporate office was unaware of the loss of control as they refused to allow bi-lateral action which would have helped not only the government but also the DB by diminishing the amount of work which would have been delivered late or not at all.

c. **Construction Management and Supervision**. DB expatriate personnel did not visit the sites on a regular basis. This prevented the DB from foreseeing and identifying construction problems. Lower tier subcontractors, some of them with limited experience, were left without direction or help. In many instances, lower tier subcontractors did not have drawings or technical specifications. Management practices contributing to the failure to meet schedules include: the lack of accessibility to the projects prevented the DB from identifying lower tier sub contractors' cash flow problems; the lack of motivation due to thin profit margins (multi tiers); the lack of technical skills through the multi tier chain; linear versus parallel execution of the work and delays in soil testing.

The DB centralized construction management decisions in Baghdad, created a bottle neck that impacted the review and approval of submittals and the timing of critical decisions. Subcontractors complained it was taking 3 weeks for submittals to travel up and down the subcontracting tiers.

Lack of presence of experienced personnel at the sites resulted in inexperienced lower tier subcontractors devising and executing site improvement work without proper technical guidance. This resulted in large claims to the government that could have been avoided if experienced geotechnical engineers were directing the work.

As these issues became apparent, the government expressed its concern to the DB. Due to the DB's slow response to correct these issues, senior PCO officials convened meetings with the DB country manager and senior staff. At the meeting, the DB committed to address the government's concerns but was unable to do so.

d. **Construction QA**. DB was successful in conducting construction quality assurance classes to their subcontractors and their staff. However, it failed in enforcing QA/QC requirements. Early in the project there were two major roof failures both of which were due to lack of QA/QC. There are many documented instances of lower tier subcontractors refusing to listen to the DB QA personnel. This resulted in many cases of low strength concrete and poor foundations that are now costly to repair. Similarly, poor QA has resulted in extensive follow up work to correct mistakes due to poor workmanship or low quality materials. Documented QA problems prompted the government to issue several letters of concern to the DB, specifically on 18 July 2005 from Lt. Reiners and 13 December 2005 from MG Urias.

e. **Facility Training**. The DB is required by contract to develop a comprehensive facility training plan in coordination with MoH. This has not been accomplished. The training plan presented by the DB was simplistic in nature and developed independently without the required coordination with MOH.

3. **Schedule**. Schedules on the PHCs were never properly maintained. Schedules constantly showed slippages that were not effectively addressed. Instead the DB relied mainly on freezing completion dates, and showing negative float (essentially days lost on critical path items). Eventually, the government directed its own workforce to correct schedules by removing artificial constraints and eliminating negative float.

Both PCO and District Engineers requested that the DB present a recovery plan without any success, until eventually an interim unsatisfactory rating was issued on 24 September 2005 followed by a cure notice on 12 January 2006.

All along, the DB continually maintained that they could complete these projects on time until late 2005. The DB eventually submitted a delay claim to the KO; however, even after all delays were considered, more than 100 sites still showed completions by December 2005.

Some examples of scheduling concerns with the DB are:

- No resource loaded baseline schedules were generated by the DB. PCO met with the DB on several occasions requesting this information without success.
- Schedules showed more than a day for day delays, e.g., 3 week schedule slip in a period less than a week.
- Holidays and national regional events were only included in the schedules at the end of 2005, and after many requests by PCO/GRD.

- By July 2005, 90 percent of the PHCs showed negative float.
- The DB was requested on several occasions to provide a physical percent complete, which more accurately represents progress of the work. The DB did not provide the requested information.
- Activity IDs were not standardized.
- Additions and deletions to schedules were not documented nor justified to PCO/GRD.
- No procurement schedules were provided by the DB.
- The DB did not provide contract MODs on Primavera (P3) schedules.
- Issues were not identified in the P3 schedules by the DB. This is a simple process where these issues can be loaded into P3 e/c notebook where they can be organized, tracked and reported.
- A number of recommendations were made to the DB in early July 2005 to compress schedules, such as extended work days, extended hours, double shifts, parallel activities and expediting the procurement process. The DB did not reflect this on their schedules.
- PCO conducted several forecasts throughout the project based on a very simple extrapolation of current progress rates. These forecasts continued to show schedule slippage unless a recovery plan was executed effectively. The DB failed to respond to these concerns, and did not take the necessary steps to reverse a continuously slipping schedule (see attachment I).

Based on the previous discussion, the DB was not able to utilize the scheduling tools available to them to effectively track the project. Instead, the DB maintained that, through discussions with their subs, they could maintain their scheduled completion dates.

The DB was advised on several occasions by in-country managers, that meetings with their subs culminated in the subs making promises to expedite and maintain agreed-to schedules.

In addition to the above, serious schedule slippage occurred at the start of the project. In quite a number of cases, construction subcontractors did not receive direction and phased construction drawings on time. Subcontractors in a number of cases waited 3 to 4 months before they were able to break ground on the foundation due to lack of updated drawings.

4. **Budget**. The DB submitted a request to the government to rebaseline the PHC budget Request for Equitable Adjustment (REA) between November 2004 and February 2005 due mainly to increased foundation sizes and site improvement issues. The DB and the government agreed to rebaseline the budget from $88M to $106M. The DB eventually refused to sign the MOD due to errors on the calculation of base and award fees.

Another rebaseline REA effort began in April 2005, with PCO and the DB meeting on several occasions, between April through August 2005. The DB's requests for adjustments varied between $106M to $110M. There were agreements made on each occasion; however, the DB consistently refused to honor these agreements and affect a bilateral MOD.

The REA mechanism consisted of the DB submitting an excel spreadsheet outlining extra costs associated with each site; a number of versions were submitted in the period between April 2005 and August 2005. The DB produced 13 different revisions of the same spreadsheet. Additional cost varied from one spreadsheet to the other, as well as additional cost associated with individual sites. This is indicative of a lack of control over these costs, and how each site was impacted.

Eventually the DB submitted an REA for $124M exceeding all their previous requests again indicative of a lack of cost control.

Some of the factors contributing to the previous discussion:

- Failure to verify and negotiate market pricing.
- In some instances, the DB was aware that pricing was high yet went ahead and approved these inflated change orders.
- The DB allowed a multiple tier system on these sites thus effectively losing control of these sites.
- The multiple tier system led to the DB being unable to verify cost reimbursements to lower tier subs. Resulting pay disputes between primes and subs could, therefore, not be investigated nor verified resulting in major delays on these projects.
- The DB awarded over 70 percent (108 sites) to a single contractor (3 partner companies). A simple calculation shows that even at the minimal 1 to 2 percent weekly progress rates reported on these sites, contractor obligation would amount to approximately $7M per month. This contributed to delays in both payments and schedules.
- The DB did not submit an advance request for change orders as required, citing a TO stipulation allowing an individual contract CLIN to be exceeded by

50 percent. However, this stipulation requires that the total TO contract amount not be exceeded.

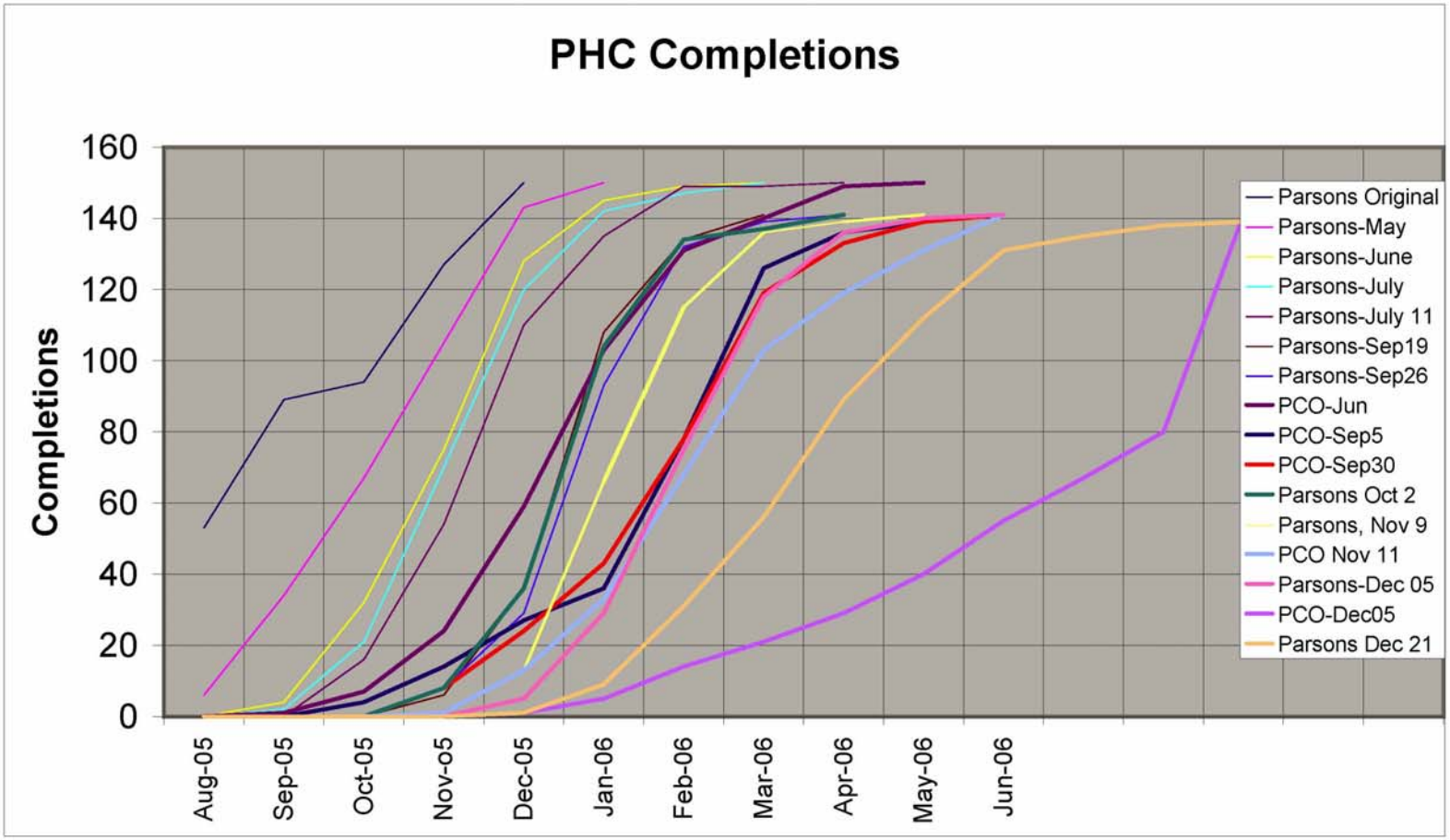
- The DB maintained all the way to December 2005 that they could complete the work without any impact to cost associated with the ATO. The DB on more than one occasion stated to the PCO that ATO cost would remain unchanged. Eventually the DB requested approximately an additional $30M to support increased ATO costs.

5. **Request for Equitable Adjustment (REA)**. The DB submitted a Request for Equitable Adjustment (REA) for 56 different items valued at $39M. The REA included items that were performed prior to a contract MOD. Items included site specific changes, site preparation and design and scope modifications. Some of this work was completed before the REA was submitted to the government on 11 December 2005. The DB documents divulge that at least some work was performed before DB negotiated with their subcontractors. Despite the fact that the DB had already negotiated and/or completed portions of the work, they were unable to provide site specific estimates used in negotiations with their subcontractors or actual invoices during REA discussions. Overall, the government found $10.4M of the REA as unreasonable.

Some examples of poor construction controls are as follows:

- Lean Concrete: Increase the amount of blinding (lean concrete) at the bottom of the foundation equivalent to the increase in the size of foundations per the final design issued for construction. Lean concrete is not required for raft foundations. The DB paid for quantities of blinding that exceeded the amount warranted by a change in foundation size. For some sites, the DB's subcontractors excavated the entire area below the building foot print vice only excavating the area of the footings. In some instances, this was warranted due to the soil conditions and the government paid for the additional excavation costs. However, the subcontractor placed blinding over the entire site to provide a work platform. Since this additional amount of lean concrete was placed as a matter of convenience and not required per the design drawings or specifications this cost is unreasonable. (IGE: $209K; The DB: $851K)

- Exterior Stone Credit: Replace exterior stone work on all PHCs as per the DB proposed finish schedule. The basis for the credit is changing from stone to stucco finish. The DB and the government agree as to quantity take-offs based on elevation drawings and the DB finish schedule. The difference is in unit price. (IGE Credit: $2.1M ($40/SM); The DB Credit: $1.0M ($15/SM)). Basis for 1 November 2005 negotiations with subcontractors were not available from the DB and all material estimates provided were solicited by the DB during REA negotiations. The IGE was based on actual installed costs from ten projects completed within the last two years as well as local supplier prices.


PHC Completions
Completions
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140
120
100
80
60
40
20
0
Aug-05
Sep-05
Oct-05
Nov-05
Dec-05
Jan-06
Feb-06
Mar-06
Apr-06
May-06
Jun-06
Parsons Original
Parsons-May
Parsons-June
Parsons-July
Parsons-July 11
Parsons-Sep19
Parsons-Sep26
PCO-Jun
PCO-Sep5
PCO-Sep30
Parsons Oct 2
Parsons, Nov 9
PCO Nov 11
Parsons-Dec 05
PCO-Dec05
Parsons Dec 21