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

REVIEW OF USAID / BECHTEL  
NATIONAL, INC., PROPERTY  
MANAGEMENT CONTROLS FOR  
CONTRACT SPU-C-00-04-00001-00

**SIGIR-06-039**  
**JANUARY 29, 2007**



## SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

January 29, 2007

MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ  
MISSION DIRECTOR-IRAQ, U.S. AGENCY FOR  
INTERNATIONAL DEVELOPMENT  
DIRECTOR, IRAQ RECONSTRUCTION MANAGEMENT OFFICE

SUBJECT: Review of USAID/Bechtel National, Inc., Property Management Controls for Contract SPU-C-00-04-00001-00 (SIGIR-06-039)

The Special Inspector General for Iraq Reconstruction (SIGIR) performed this audit in accordance with our statutory duties contained in Public Law 108-106, as amended, which requires that we provide for the independent and objective conduct of audits, as well as leadership and coordination of, and recommendations on, policies designed to promote economy, efficiency, and effectiveness in the administration of programs and operations and to prevent and detect waste, fraud, and abuse. This report discusses our review of government property management controls by the U.S. Agency for International Development (USAID) and its contractor, Bechtel National, Inc.,<sup>1</sup> (Bechtel), for contract SPU-C-00-04-00001-00.

### Objectives

This review was announced on September 7, 2006, with the objective of determining whether USAID and Bechtel had established and implemented adequate management controls over government property acquired for Iraq reconstruction projects. The review announcement identified these questions:

- Was the property accurately documented, especially from purchase authorization to disposition?<sup>2</sup>

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<sup>1</sup> Bechtel National, Inc., specializes in large, complex projects related to defense, energy, security, and the environment. Bechtel is a leading provider of services to the U.S. government.

<sup>2</sup> The word *disposition* is broadly defined to cover various categories: transferred, lost, damaged, stolen, or destroyed (scrapped) property.

- Was the property accurately inventoried and safeguarded?
- Was the property controlled and disposed of in accordance with relevant regulations?

In performing our review, we learned that in 2005, the Defense Contract Audit Agency (DCAA) reviewed Bechtel's management controls for the purchase and inventorying of government property and reported no significant deficiencies. Therefore, we concentrated our audit efforts on USAID's and Bechtel's property management controls over the disposition of government property under the contract.

## **Background**

The *Emergency Wartime Supplemental Appropriations Act*, Public Law 108-11, created the Iraq Relief and Reconstruction Fund (referred to as IRRF 1) and appropriated approximately \$2.5 billion to be used for a broad range of humanitarian and reconstruction activities by USAID and the Departments of State, Defense, the Treasury, and Health and Human Services in Iraq. The *Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan*, Public Law 108-106, appropriated an additional \$18.4 billion, referred to as IRRF 2, for the rebuilding of Iraq.

As of September 30, 2006, USAID has been apportioned \$4.7 billion, or 22.5 %, of the \$20.9 billion IRRF 1 and IRRF 2 funds. The USAID Mission-Iraq, established on July 27, 2003, oversees USAID's efforts by carrying out a variety of nation-building projects in Iraq. The projects support the reconstruction of Iraq's vital infrastructure, including its power generation facilities, water and sewage systems, telecommunications, transportation links, and healthcare facilities.

To support its mission and related infrastructure reconstruction efforts in Iraq, USAID awarded Bechtel two successive contracts, referred to as Phase I and II:

- The Phase I contract, EEE-C-00-03-00018-00, was a cost-plus-fixed-fee contract awarded on April 17, 2003, for \$680 million. On September 30, 2003, the contract was modified and increased to a total of approximately \$1.03 billion. It expired December 31, 2004.
- The Phase II contract, SPU-C-00-04-00001-00, also a cost-plus-fixed-fee contract, was awarded on January 5, 2004, for about \$1.82 billion. In July 2006, the contract amount was decreased to about \$1.26 billion. On January 7, 2007, the contract was modified and further reduced to approximately \$1.24 billion. The contract is scheduled to expire on January 31, 2007.

The Federal Acquisition Regulation (FAR), Part 45, titled "Government Property", prescribes policies and procedures for providing government property to contractors; contractors' use and management of government property; and reporting, redistributing, and disposing of that property. The FAR defines government property as all property owned by or leased to the government or acquired by the government under the terms of

the contract to include government-furnished property and contractor-acquired property.<sup>3</sup> The FAR requires contractors to be responsible and accountable for, and keep the government's official records of government property in their possession or control unless the contract provides for the contracting office to maintain the government's official property records.

Under the contracts, Bechtel was required to maintain the official property records. On July 18, 2005, USAID authorized the transfer of all IRRF-funded property—either supplied to or acquired by Bechtel or its subcontractors—from Bechtel's Phase I to Phase II property records. Thus all government property was consolidated in the Phase II contract property records.

### **DCAA Audit and Report**

On January 10, 2005, the USAID Regional Inspector General requested that the DCAA Iraq Branch Office perform audits to verify the physical existence (receipt, storage, and use) of the materials, supplies, and equipment purchased under Bechtel's Phase I and Phase II contracts. Additionally, DCAA was to evaluate if the government property was (1) received, stored, or consumed; (2) required for the contract; and (3) accounted for in the proper manner. Specifically, DCAA reviewed:

- compliance with established government purchasing policy and procedures
- the adequacy of Bechtel's internal control policies and procedures for purchasing and inventorying supplies and equipment
- the existence and accuracy of inventory records for materials
- the adequacy of internal controls relating to the management of purchased services
- purchased services to determine if they were performed as purchased or contracted
- material and purchased services to determine if they were charged to the proper cost objective

In performing its audit of purchasing policies and procedures, DCAA selected property and services valued at \$52.4 million from total purchases during January and February 2005.

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<sup>3</sup> Government-furnished property is property in the possession of, or directly acquired by, the government and subsequently made available to the contractor. Contractor-acquired property is property acquired or otherwise provided by the contractor for performing a contract and to which the government has title.

In September 2005 DCAA issued two audit reports,<sup>4</sup> which disclosed no significant deficiencies in Bechtel’s purchasing practices or property controls in performing the USAID contracts. DCAA was able to verify the existence of the property and trace the received property back to the respective purchase invoices. DCAA found no significant noncompliance with Bechtel’s internal policies and procedures. DCAA also reviewed the subcontractors’ controls and found them to be in compliance with the terms of the subcontracts.

## Results

Because of the DCAA audits, we concentrated our audit efforts on property management controls by USAID and Bechtel over the disposition of government property under the contract. Our tests of those controls found that USAID and Bechtel provided adequate accountability over the disposition of government property.

### Controls Over Property Disposal

In addition to the guidance in Part 45 of the FAR, Part 52.245-5 of the FAR, titled “Government Property (Cost-Reimbursement, Time-and-Material, or Labor-Hour Contracts)”, provides further guidance on the disposal of government property. Specifically, Part 52.245-5 states the contractor shall use Standard Form 1428, Inventory Disposal Schedule, to identify government property that is no longer required for the performance of the contract and shall not dispose of government property until authorized by the Government Property Administrator (GPA). In July 2005, the USAID contracting officer provided further guidance on the disposal of government property under the Phase II contract by providing Bechtel with the preferred order for disposing of property. That order is as follows:

- Reuse by USAID programs in Iraq
- Grants to Iraqi governmental organizations
- Transfer to USAID for administrative use or redistribution
- Transfer to other U.S. government agencies
- Donations to eligible organizations
- Sale
- Abandonment/Destruction

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<sup>4</sup> *Report on Material Existence performed at Bechtel National, Inc. (BNI) on Iraq Infrastructure Reconstruction Phase I Contract No. EEE-C-00-03-00018-00 and Phase II Contract No. SPU-C-00-04-00001-00* (DCAA Report No. 2131-2005R10320003, September 11, 2005); *Report on Purchases Existence and Consumption—FY 2005 Bechtel National, Inc.—Iraq Infrastructure Reconstruction Contract USAID Prime Contract Nos. EEE-C-00-03-00018-00 and SPU-C-00-04-00001-00* (DCAA Report No. 4281-2005D10320002, Revised; September 23, 2005).

We tested management controls over property disposal as of September 19, 2006, and found that USAID and Bechtel provided adequate accountability over the disposition of government property under the Phase I and II contracts. Our test consisted of 96 disposal actions valued at \$28.2 million from a universe of 2,569 disposals over the life of the Phase I and II contracts. Our tests and interviews revealed that:

1. Government property no longer needed for the performance of the Phase I and II contracts was listed on Standard Form 1428 (Inventory Disposal Schedule).
2. Bechtel requested disposition instruction from the USAID GPA.
3. After determining the most appropriate disposition method, the GPA issued disposition instructions to Bechtel in writing (generally via electronic mail).
4. Following the GPA's directions, Bechtel disposed of the property and documented the disposition on Department of Defense Form 1149 (Requisition and Invoice/Shipping Document).
5. Although property was generally disposed (through transfers, donations and other means) without ever being physically turned over to USAID, the GPA was present for disposition, when possible.
6. The GPA signed the transfer documents, acknowledging and approving the disposition of property.

### **Additional Observation Concerning Property Transferred to United Nations Assistance Mission for Iraq**

With the Phase II contract coming to a close, Bechtel will no longer require the compound used for its administrative project management offices and housing in the International Zone in Baghdad. The United Nations Assistance Mission for Iraq (UNAMI) sent a letter on February 16, 2006, to the U.S. Mission-Iraq's management counselor, requesting that the Bechtel compound be transferred to UNAMI when no longer needed. The management counselor, who oversees U.S. Mission affairs, coordinated the release of the compound among USAID, Bechtel, and UNAMI.

With the exception of permanent fixtures, such as storage containers encased in concrete and protective walls, barriers, and sandbags, all other government equipment was removed and will be disposed according to the preferred order of disposition. The total depreciated value of the permanent fixtures that remained in the compound was \$106,364 as of August 21, 2006, according to USAID's depreciation analysis schedule. According to USAID, the cost to dismantle and relocate the permanent fixtures was estimated to be over \$100,000. Because the cost to dismantle was about the same as the depreciated value of the permanent fixtures located in the compound, USAID agreed to donate the items to UNAMI upon transfer of the compound from Bechtel.

## **Recommendation**

Because the USAID and Bechtel property disposition controls appear to be adequate, we make no recommendations.

## **Management Comments and Audit Response**

We received a written response from USAID on the draft of this report. The response is considered to be fully responsive. USAID concurred with the results of this report and provided no additional comments.

## **Scope and Methodology**

This review was announced on September 7, 2006 (Project No. 6033), with the objective of determine whether USAID and Bechtel had established and implemented adequate management controls over government property supplied or acquired for reconstruction projects in Iraq. Because DCAA had reviewed Bechtel's management controls pertaining to the purchase and inventorying of government property under the Phase I and II contracts and had reported no significant deficiencies, we concentrated our audit efforts on property management controls by USAID and Bechtel over the disposition of government property under the Phase II contract.

## **Review Methodology**

To determine the effectiveness of USAID's and Bechtel's management controls over government property, we obtained and reviewed relevant government policies and procedures. We also interviewed current and former USAID contracting and management officials responsible for issuing and administering the Phase II contract, as well as Bechtel contract and administration officials. Moreover, we reviewed the government's property management records (maintained by Bechtel) and supporting documentation associated with the Phase II contract. Furthermore, we performed tests of the computer-processed property management records. To perform our tests, Bechtel provided an Excel spreadsheet-generated property book record, as of September 19, 2006, from its property management system. We used that record to select a sample of disposition actions for further review.

The September 19, 2006, property record consisted of 4,234 items (computers, generators, trailers, vehicles, and other equipment) of government property, valued at \$75.7 million. From that universe of items, we identified and excluded items valued less than \$500 and those listed as lost, stolen, damaged, destroyed (scrapped), or pending disposition. This resulted in a new universe totaling 2,569 items. From this new universe, we divided the remaining property items into four major categories, as follows: category one included property valued over \$500,000; categories two and three included vehicles and generators, items having a high potential for pilferage or theft; and category

four included all other disposed property with an average dollar value of \$248. Our sample consisted of 96 items, valued at \$28.2 million, drawn from the four categories as follows: 100% of category one items; 10% judgmentally selected sample from categories two and three, resulting in sample sizes of 22 and 9 items respectively; and 2% judgmentally selected sample from category four, resulting in 44 items.<sup>5</sup> The following table shows the universe of property items for each category, the number of items sampled, and the dollar value of the items sampled.

**Table 1—Universe of Selected and Disposed Property and Sample Size**

<b>Property Type Category</b>	<b>Universe Size</b>	<b>% of Universe Sampled</b>	<b>Number Sampled</b>	<b>Total Value of Sampled Items</b>
Greater than \$500,000	21	100%	21	\$25,314,416
Vehicles	222	10%	22	1,884,026
Generators	92	10%	9	407,913
All Other Disposed Property	2,234	2%	44	552,960
<b>Total</b>	<b>2,569</b>	<b>NA</b>	<b>96</b>	<b>\$28,159,315</b>

*Source: SIGIR analysis based on Bechtel's property book as of September 19, 2006*

For the 96 items selected, we traced them from the Bechtel-provided government property records to various disposition documents, including Standard Form 1428 (Inventory Disposal Schedule) and Department of Defense Form 1149 (Requisition and Invoice/Shipping Document). In addition, we reviewed Bechtel's photographs showing scrapped property removed from service.

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

To perform this audit, we used computer generated data from the Bechtel-maintained government property records, which we did not audit. We relied on the DCAA conducted audit, which disclosed no significant issues with Bechtel's inventory records for government property under the Phase I and II contracts.

## **Prior Coverage**

We reviewed applicable reports issued by SIGIR and DCAA:

- *Management of the Mansuria Electrical Reconstruction Project* (SIGIR-05-024, January 23, 2006)

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<sup>5</sup> We used the software Easy Sample, downloaded from the Internet, to identify the random numbers for selecting the items to be sampled in categories two, three, and four.



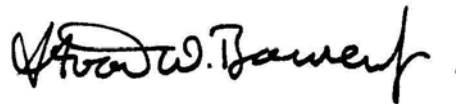
- *Report on Material Existence Performed at Bechtel National Inc. (BNI) on Iraq Infrastructure Reconstruction Phase I Contract No. EEE-C-00-03-00018-00 and Phase II Contract No. SPU-C-00-04-00001-00 (DCAA Report No. 2131-2005R10320003, September 11, 2005)*
- *Report on Purchases Existence and Consumption—FY 2005 Bechtel National Inc.—Iraq Infrastructure Reconstruction Contract USAID Prime Contract Nos. EEE-C-00-03-00018-00 and SPU-C-00-04-00001-00 (DCAA Report No. 4281-2005D10320002, Revised; September 23, 2005)*

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We performed this review from September 2006 to January 2007 in accordance with generally accepted government auditing standards.

This report is provided for your information and use. This report does not contain any recommendations; therefore, no written response to this report is required. A draft of this report was provided to the U.S. Embassy-Baghdad, the Iraq Reconstruction Management Office, and USAID Mission-Iraq. We received a written response from USAID Mission-Iraq officials, who agreed with the finding of this report and had no additional comments. Their response letter is included in the Management Comments section of this report.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott, Assistant Inspector General for Audit, (703-604-0982 / joseph.mcdermott@sigir.mil); or Mr. Glenn Furbish (914-360-3573 / glenn.furbish@iraq.centcom.mil). For the report distribution, see Appendix A. For a list of the audit team members, see Appendix B.



Stuart W. Bowen, Jr.  
Inspector General

cc: See Distribution

# Appendix A—Report Distribution

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## Department of State

Secretary of State

Senior Advisor to the Secretary and Coordinator for Iraq

Director of U.S. Foreign Assistance/Administrator, U.S. Agency for  
International Development

Director, Office of Iraq Reconstruction

Assistant Secretary for Resource Management/Chief Financial Officer,  
Bureau of Resource Management

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

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Deputy Assistant Secretary of Defense-Middle East, Office of Policy/International  
Security Affairs

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

Chief Financial Officer, U.S. Army Corps of Engineers

Auditor General of the Army

## U.S. Central Command

Commanding General, Multi-National Force-Iraq

Commanding General, Multi-National Corps-Iraq

Commanding General, Multi-National Security Transition Command-Iraq

Commander, Joint Area Support Group-Central

\*Recipient of the draft audit report

## **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 B—Audit Team Members**

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

Karen D. Bell

Frank W. Gulla

W. Dan Haigler

Michael R. Herbaugh

Peter I. Lee

Robert L. Pelletier

Clifton E. Spruill

# Management Comments

## USAID Mission-Iraq

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Baghdad, Iraq  
January 18, 2007

Mr. Joseph T. McDermott  
Assistant Inspector General for Audit  
Special Inspector General for Iraq Reconstruction (SIGIR)  
400 Army-Navy Drive  
Arlington, VA 22202

Dear Mr. McDermott,

Thank you for the opportunity to comment on the *Review of USAID/Bechtel National, Inc. Property Management Controls for Contract SPU-C-00-04-00001-00*, identified as SIGIR Report Number 06-039.

We are pleased with the finding of the SIGIR audit team that USAID and Bechtel provided adequate accountability over the disposition of Government Property. As the report contains no recommendations, we have no comments.

We appreciate the significant amount of time and effort invested in conducting and completing this evaluation. If you require further assistance, please contact the undersigned at [rlwman@usaid.gov](mailto:rlwman@usaid.gov) or by phone at 202.216.6276 x1019.

Sincerely,

A handwritten signature in black ink, appearing to read 'Raymond Lewman'. Below the signature is the printed name 'Raymond Lewman' in a black, sans-serif font.

Controller / Audit Liaison

U.S. Agency for International Development  
USAID Compound  
International Zone  
Baghdad, Iraq

Tel: 202.216.6276  
<http://iraq.usaid.gov>

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<b>Congressional Affairs</b>	<p>Marthena Cowart  Assistant Inspector General for Congressional Affairs  Mail: Office of the Special Inspector General for Iraq Reconstruction  400 Army Navy Drive  Arlington, VA 22202-4704  Phone: 703-604-0368  Email: <a href="mailto:marthena.cowart@sigir.mil">marthena.cowart@sigir.mil</a></p>
<b>Public Affairs</b>	<p>Denise Burgess  Assistant Inspector General for Public Affairs  Mail: Office of the Special Inspector General for Iraq Reconstruction  400 Army Navy Drive  Arlington, VA 22202-4704  Phone: 703-428-1217  Fax: 703-428-0818  Email: <a href="mailto:PublicAffairs@sigir.mil">PublicAffairs@sigir.mil</a></p>