



United States Department of State

*Washington, D.C. 20520
www.state.gov*

June 19, 2007

Mr. Karl Semancik, President
ArmorGroup North America Incorporated
1420 Spring Hill Road, Suite 300
McLean, VA 22102

Subject: Cure Notice Issued Per FAR 49.402-3 /
Contract No. S-AQMPD-07-C0054

Dear Mr. Semancik:

The purpose of this letter is to advise you that I consider the contract deficiencies addressed below to endanger performance of the contract to such a degree that the security of the US Embassy in Kabul is in jeopardy and that failure to correct the deficiencies immediately could result in termination of the contract for default and award of the contract to the next in line offeror. Therefore, ArmorGroup North America (AGNA) is requested to submit a corrective action plan (CAP) to me within the next ten (10) calendar days, and the CAP should address how each of the deficiencies listed in this letter will be corrected immediately and precluded from reoccurring in the future.

The CAP should address the reasons for each deficiency, the actions taken to immediately correct the nonconformance act, the date which the deficiency will be corrected and the actions taken to preclude the specific deficiency from reoccurring in the future. Furthermore, I ask that AGNA once again carefully review the contract requirements and provide me a self assessment evaluation addressing whether there are any additional terms and conditions of the contract which AGNA is in noncompliance at this time.

Hopefully, AGNA's CAP will convince me and others that AGNA can correct these deficiencies in a timely and efficient manner; and at the same time reduce performance risk to a minimum level during the initial and subsequent performance periods. If the CAP is executed in a timely and efficient manner, it should minimize performance risk as well as provide AGNA with the means of identifying potential noncompliance acts. This in of itself will enhance the overall security posture of the U.S. Embassy. Assuming that all of the aforementioned actions occur and no other major deficiencies occur during the initial performance period of July 1, 2007 through June 30, 2008, the Contracting Officer's Representative (COR) should be able to make a favorable recommendation to me to exercise the 1st Option Year provision in the contract. These deficiencies will be addressed in AGNA's next performance evaluation, whether annual or directed.

It goes without saying that AGNA worked extremely hard from date of award of the contract and the issuance of the notice to proceed (NTP) to be able to assume full responsibilities of all guard duties on July 1, 2007. However, it is clear from the numerous meetings and conference calls conducted over the past several weeks that AGNA underestimated the difficulty that it would encounter accomplishing several tasks necessary to ensure full compliance with the contract terms and conditions as of July 1, 2007. This failure, as already addressed in this letter, places the U.S. Embassy at some additional security risk since AGNA is not fully compliant with all terms and conditions of the contract at this time. We are taking all possible actions to expedite the processing of Moderate Risk Public Trust (MRPT) packages, and I ask that AGNA once again review its internal process for reviewing resumes and MRPT packages before they are submitted to the Department of State. A significant number of the new hires have had security clearance denials, and I am fairly confident that the majority of these individuals failed to adequately address financial problems/issues by providing an addendum sheet which provides detailed information about questionable financial transactions.

I strongly encourage AGNA to take a very detailed look at its Quality Assurance / Quality Control (QA/QC) plan to determine why some of the deficiencies noted below as well as other topics of concern voiced by members of the Office of Overseas Protective Operations (DS/IP/OPO) were not identified and corrected in sufficient time that AGNA could have been fully compliant with all terms and conditions of the contract on July 1, 2007. We approved your request to change several Key Personnel in weeks leading up to the July 1, 2007 date, and we understand that these individuals had minimum time to complete critical tasks before this date. However, this action did not relieve AGNA of its responsibilities to be compliant with all terms and conditions of the contract as of this date.

The U.S. Government has the right to demand strict compliance to the terms and conditions of the contract, and all terms and conditions must be met unless waived by the Contracting Officer. Therefore, AGNA should anticipate the U.S. Government taking deductions in accordance with Exhibit C (Quality Assurance and Surveillance Plan) for failing to perform in accordance with the terms and conditions of the contract. These deductions could be substantial since the deduct rate is \$89.00 per hour for certain deviations from the contract requirements. Therefore, AGNA is once again encouraged to take all necessary actions to correct the deficiencies addressed in this letter immediately. Unless specifically authorized by the Contracting Officer in writing and/or verbal instructions with written follow-up documentation, AGNA is not authorized to work any member of the Embassy Security Force (ESF) who does not meet all contract terms and conditions of the contract such as not having a security clearance. Should AGNA elect to disregard this guidance, the U.S. Government will not only take deductions in accordance with Exhibit C for specific deviations from the contract requirements, it will also not reimburse AGNA for services performed by an individual who does not meet all contract requirements for his/her labor category.

On numerous occasions since the award of the contract, I advised you as well as other members of your staff that it would be difficult to convince me as well as others that a waiver should be granted for any period of time. Furthermore, I routinely asked to be advised of potential problems and corrective actions being taken by AGNA. However, members of the Office of Overseas Protective Operations, staff of the Regional Security Officer (RSO), and I were not always kept apprised of potential noncompliance issues in writing. This in some part may have

been attributed to our hosting daily conference calls with you and others during the past several weeks. Therefore, I once again ask that you keep me advised in writing of any potential performance issues and actions which AGNA is taking to correct them.

In the following paragraphs, I will address the deficient areas of performance that must be corrected immediately:

- ArmorGroup North America (AGNA) failed to provide the Armorer as required by the contract. Specifically, AGNA failed to have a fully qualified Armorer in country as of July 1, 2007. (See Section C.1.2.13.3 ARMORER-WEAPONS MAINTENANCE TECHNICIAN (U.S. or EXPAT.) Not only was this individual not in country as of July 1, 2004, he was not scheduled to attend the 120 hours of mandatory training required for each member of the Embassy Security Force (ESF) until after July 4, 2007. The Department of State understands that AGNA retained the Global Armorer as a second Armorer to support the contract; however, this individual does not meet the contract requirements. As previously addressed, AGNA cannot bill the U.S. Government for this individual services until he meets all contract requirements, and the U.S. Government will exercise its right to take a deduction for this contract breach.
- On July 1, 2007, AGNA failed to provide the food services required by Section C.3.1.3.2.2 FOOD SERVICES. This contract breach was acknowledged by the Project Manger, Mr. Nick Du Plessis, during several telephone calls with representatives of the Office of Overseas Protective Operation (DS/IP/OPO) during the period of July 2 – 6, 2007. OPO's representative on site also confirmed that there were many complaints and a number of individuals got sick after eating this food. The complaints voiced by members of the ESF centered on the limited variety of items, overcooked chow and lack of beverages such as juice, milk, or ice tea.

During one of the first meetings with AGNA, you stated that you had some concerns about RAI's ability to provide food services equal to that of Supreme Foods. A representative of DS/IP/OPO addressed this topic at this meeting and AGNA stated that it would closely monitor this situation. The contract specifically states that the Contractor is expected to understand the complexity of this requirement and have sufficient knowledge, experience, and capability to provide food services to their personnel as well as "guests" staying in Camp Sullivan.

Furthermore, the contract states that the Contractor shall prepare menus that provide nutritionally balanced, appetizing and healthy meals. Clearly, AGNA failed to take appropriate actions during the weeks leading up to July 1, 2007 to ensure that RAI was prepared for the transition. Your response to this letter should provide dates which representatives of AGNA met with RAI to review their operational plan as well as sampled food products that would be served by RAI. Without a doubt, these two actions should have taken place. If they did not, one can easily make the argument that AGNA failed to take all necessary and prudent actions to ensure that RAI was prepared to begin serving meals on July 1, 2007.

During the week of July 2-6, 2007, the Mr. Nick Du Plessis provided daily updates at each conference call, and he as well as OPO's representative reported that RAI took immediate actions to correct the food problem. It is my understanding that AGNA is currently serving food that meets the terms and conditions of the contract. Your response to this letter should address what actions AGNA took to remedy this situation and what actions AGNA has taken or will take to ensure that RAI continues to serve nutritionally balanced, appetizing and healthy meals.

- During the conference call held on Monday, July 2, 2007 with members of the OPO staff, AGNA representatives, and post personnel, AGNA acknowledged that it did not provide the relief guards required by the contract. Subsection C.3.1.2 RELIEF GUARDS states "The Contractor shall provide the security personnel at the Exhibit A posts with COR/RSO approved, fully trained, and qualified (See Section H), relief personnel to allow for comfort, personal needs, stress, meals, or other required or requested absences from the assigned post. Additionally, H.5.4 ALERTNESS reads: "The Contractor shall provide a 15-minute break once every four (4) hours during an employee or subcontractor's tour of duty to allow for comfort, personal needs, stress, or other required or requested absences from Exhibit A assigned post. Meal breaks shall be scheduled at appropriate times during a tour of duty and shall be at a minimum 30 minutes in length (See Section C.3.1.2). Breaks shall not run consecutively."

It is very disturbing that AGNA did not fully understand this contract requirement, and it planned to use the Compound Rovers depicted on Exhibit A (Guard Posts and Schedule of Guard Coverage) as relief guards. Clearly, this action is not authorized by the contract, and AGNA must immediately provide the relief guards required by the contract. AGNA is asked to address in its response to this letter how it will immediately remedy this situation as well as accomplish all other contract requirements as it relates to manning requirements. If AGNA elects to use the Compound Rovers depicted on Exhibit A to accomplish relief duties until it is able to recruit and train approximate 60 additional guards as reported by the Project Manager and Vice President of Operations, the U.S. Government will take deductions in accordance with Exhibit C for AGNA failure to provided Compound Rovers. If AGNA elects to continue to provide Compound Rovers as required by Exhibit A at the expense of not allowing other individuals to take their required breaks, the U.S. Government will not reimburse AGNA for 1 hours of service rendered daily by each ESF member standing post since this service was not in accordance with the terms and conditions of the contract (i.e., No failure to follow General and/or Post Orders). The maximum allowable number of deviations from performance standard is 2 per month.

- AGNA's failure to submit Moderate Risk Public Trust (MRPT) packages in a timely manner for new hires has created an operational problem which greatly concerns the U.S. Government. First and foremost, it appears that AGNA does not have sufficient personnel resources in country to meet the contract requirements without working U.S. Citizens and EXPATs more than 54 hours per week and/or 12 hours per day. The Contracting Officer's Representative (COR) can extend each of these hourly limitations for emergency purposes. However, this action has occurred because AGNA failed to process resumes and MRPT packages in a timely and efficient manner. Therefore, I ask

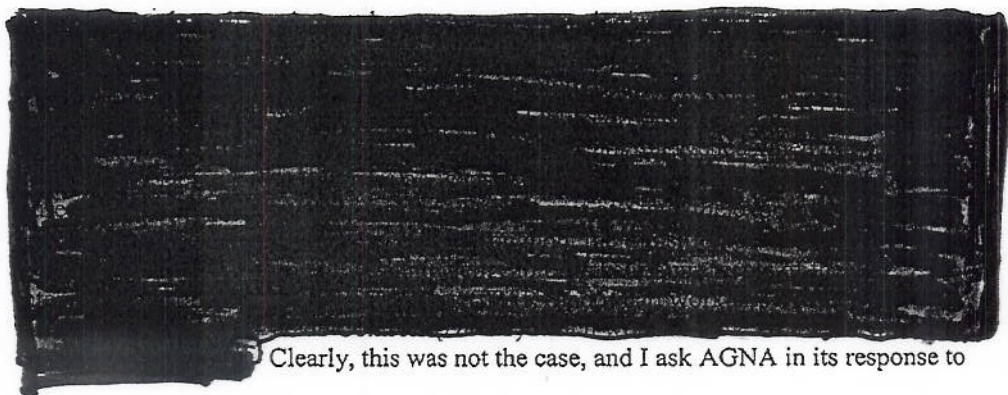
that AGNA explain why these documents were not processed in a timely manner and what actions AGNA has taken to resolve this matter in the future. Furthermore, I want to know how AGNA is going to meet its contractual obligations as it relates to manning guard positions until it can hire and train additional personnel to replace those individuals which have been denied an interim or final MRPT (i.e., favorable security clearance determination).

- The contract specifically states that interim clearances/Moderate-Risk Public Trust determinations shall be granted before reporting for duty at Camp Sullivan. It is my understanding that new hires without interim clearances are currently staying on Camp Sullivan. Please address why AGNA failed to advise the Contracting Officer of this breach of the contract in writing and why AGNA failed to follow the terms and conditions of the contract. Should I determine that your response is unacceptable and/or non-responsive to this question, I may ask AGNA to remove these individuals from Camp Sullivan. Therefore, I ask AGNA to address in its response to this letter the operational impact that this action (i.e., Contracting Officer directing uncleared personnel to depart Camp Sullivan immediately,) would have on daily operations as it relates to overall security and the welfare of the members of the ESF.
- In accordance with Contract Section H.5.2.2 – Clearances, both AGNA and post were advised during the week of June 25-29, 2007, that no new employee could stand post without first being granted a security clearance. It is my understanding that the Regional Security Officer (RSO) authorized AGNA to work 12 new personnel without clearances. Clearly, the RSO acting as the Contracting Officer's Representative (COR) does not have the authority to waive the terms and conditions of the contract. Since AGNA was specifically advised that no new personnel were authorized to start performance under this contract without a clearance, I ask that AGNA explain why it disregarded my verbal instructions as well as the terms and conditions of the contract. The U.S. Government can only award contracts to Contractors which they determine to be responsible in accordance with FAR 9.104-1 General Standards. This favorable determination was made by me before making the award; however, willful disregard of the terms and conditions of the contract as well as verbal instructions of the Contracting Officer demonstrates a lack of integrity and business ethics. Additionally, a Contractor must be able to comply with the required or proposed delivery schedule. AGNA is having significant difficulty meeting the required delivery schedule as it relates to having the required number of qualified personnel in country to meet all contract requirements. This is quite troublesome to me, the Office of Overseas Protective Operations and members of the RSO staff. As previously addressed, AGNA must take immediate action to remedy this situation.
- AGNA's proposal stated that it would provide armored vehicles for the safety and security of their troop movement and shift change. As of July 1, 2007 AGNA had three (3) of seven (7) armored vehicles available for use. The remaining four (4) armored vehicles remain in the custody of the Afghanistan Customs at Kabul International Airport. It is our understanding that heavy vehicle driver training will not be completed until July 15, 2007 and these armored vehicles cannot be put into use until appropriate movement training has been scheduled and completed. Otherwise, the individuals being

transported will not have been provided the necessary training which prepares them to exit the vehicle under hostile and/or dangerous conditions. Therefore, AGNA is in breach of the contract, and this noncompliance action places individuals at an unacceptable risk level. Your response to this letter should advise me as to what actions AGNA is taking to correct this deficient performance as well as address what caused this situation. I am interested in knowing whether this noncompliance action could have been reasonably been precluded and what actions AGNA took to minimize the time needed to remedy this noncompliance action.

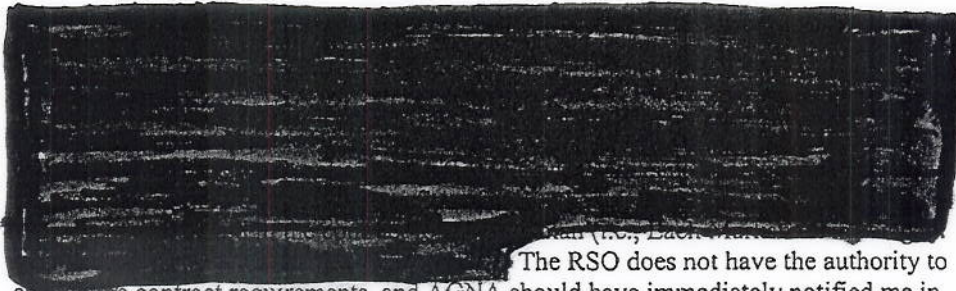
- AGNA failed to provide each individual the required amount of clothing items. During our telephone conference on July 2, 2007, the Project Manager stated that he was not sure whether there are not enough uniforms to provide everyone six as required by the contract. Furthermore, the Project Manger stated that he did not want to issue all six sets of uniforms at one time since some of the guards may elect to leave within the first few weeks of contract performance and this action would necessitate the issuance of previously issued uniforms to new personnel. While one might believe that this rationale is reasonable and prudent, it is not supported by the terms and conditions of the contract. When the Contractor believes that there is a need to deviate from the terms and conditions of the contract, the Contractor is required to address this issue in a timely manner with the Contracting Officer. This was not the case in this instance and constitutes a contract breach.
- At the time of award, the U.S. Government elected to exercise the contract option for ammunition. The contract (see B.3.10 Option – Ammunition) reads: IF THIS OPTION IS EXERCISED BY THE GOVERNMENT – (See Section C, H and Exhibit D.) The Contractor shall provide the ammunition, by the type shown below for the base period of the contract, starting on the date stated in the Notice to Proceed, or Notice to Exercise Option, and for the rest of the Base Year.

According to AGNA's Program Manager's email dated July 3, 2007 to me, the minimum storage levels do not meet the requirements in Exhibit D (CONTRACTOR-FURNISHED PROPERTY). Furthermore, it is my understanding that AGNA had to borrow ammunition from Post in order to have sufficient ammunition to stand-up the ESF on July 1, 2007.



Clearly, this was not the case, and I ask AGNA in its response to

this letter to address what planning factors were not adequately addressed in AGNA's execution plan. Additionally, I ask AGNA to provide a date which it will be compliant with the ammunition requirements of the contracts as well as identity in writing any ammunition storage concerns that it may not have adequately planned for in its proposal.



The RSO does not have the authority to change the contract requirements, and AGNA should have immediately notified me in writing (See FAR Part 43.104) when the RSO directed them not to travel to a specific range and/or ranges which had been scheduled for use by members of the ESF. Clearly, the RSO can advise AGNA of post's concern about traveling to a specific location; however, neither the RSO nor any other post personnel can direct AGNA not to travel to a specific location in the performance of the contract requirements. Therefore, AGNA's response to this letter should advise me as to when AGNA will be able to man the ERT Guard/Marksman positions with the weapon required by the contract.

- In accordance with Section F.6: DELIVERABLES OR PERFORMANCE, AGNA failed to provide the following deliverables:
 - (18) List of employees and /or subcontractors bio-data for security clearances. - (H.2) Due 25 days after contract award.
 - (19) Employee Forms submitted to Regional Security Officer and /or DS/IP/OPO for Vetting - (H.2) Due 30 days after contract award.
 - (20) For his or her final approval (see Section H) RSO receives final package from Contractor which contains DS/IP/OPO clearance plus medical certification & etc. from Exhibit R. Provided to RSO 10 days prior to employee being assigned to guard duties.
 - (21) Revised Quality Assurance Plan – (E.5). Due 10 days after contract award.
 - (26) Ground Maintenance Plan – (Exhibit N). Due 30 days after NTP issued.
 - (27) Revised Comprehensive Maintenance and Execution Plan – (Exhibit N). Due 30 days after NTP issued.
 - (44) Explosive Ordinance Detection (EOD) Working Dog Certification. Due within 5 days of beginning performance

Your response to this letter should address when AGNA will deliver each of these deliverables as well as why they have not been provided to date. Furthermore, your response should state what actions AGNA is going to take and/or has taken to date to ensure that other deliverables are provided in accordance with the terms and conditions of the contract.

If you believe any action of the U.S. Government precluded AGNA from meeting the delivery schedule, please address this in your response. Please note that I am aware that AGNA was not provided an updated Exhibit R for each position until June 14, 2007. However, I previously addressed this topic at one of the post award meetings, and AGNA should have prepared a draft Exhibit R when validating each member's qualifications. Otherwise, AGNA would not have known that the individual was qualified for the position which he/she was being nominated. Even if the Department of State had provided AGNA with updated Exhibit Rs several weeks earlier, AGNA would not have been able to submit them in accordance with the delivery schedule since most individuals only completed their training requirements and/or received a clearance within a few days of July 1, 2007 start date.

- On numerous occasions during the past several weeks, representatives from OPO have asked AGNA to address how it is going to recover one of the large transport vehicles should it become inoperative and cannot be pushed and/or pulled to an alternate location for repairs by another transport vehicle. During the week of July 2-6, 2007, the Program Manager stated that he had coordinated the use of an Embassy vehicle for this recovery mission. Clearly, this is not an acceptable response to the Department's question, and AGNA must provide an acceptable recovery vehicle and/or recovery method which poses minimum risk to those involved in the recovery mission. Your response to this letter should state why AGNA's planning to date did not adequately address this issue and when AGNA will submit to the Department of State a recovery plan for review and comment.
- Recently, it came to the Department of State's attention that AGNA did not have an adequate maintenance facility for the newly acquired transport vehicles. It is my understanding that AGNA is in the process of contracting for such a facility to be constructed on Camp Anjuman. Therefore, we are interested in knowing why AGNA would have placed an order for transport vehicles which could not be maintained at Camp Sullivan as addressed below. It clearly appears that AGNA failed to take into consideration the limitations of the existing maintenance facility at Camp Sullivan before purchasing the current transport vehicles. Vehicle requirements are listed in Exhibit D (CONTRACTOR-FURNISHED PROPERTY) and per Subsection H.13 VEHICLES; the Contractor shall provide all vehicles necessary to support the operations, maintenance and repair services. Furthermore, this subsection states that the Contractor shall use the vehicle maintenance facility on-site to maintain and repair vehicles. Additionally, we would like to know whether RAI was consulted about the purchase of the vehicles and whether they voiced any concerns about the lack of a proper maintenance facility. Since AGNA cannot maintain the transport vehicles at Camp Sullivan, it needs to request authorization to maintain them at Camp Anjuman at no additional cost to the U.S. Government. Furthermore, AGNA needs to address in its response to this letter whether this action (i.e., maintenance of transport vehicles at Camp Anjuman rather than Camp

Sullivan) will have any negative operational impact on contract performance. It has been previously stated to me that you, Mr. Semancik, would build a proper maintenance facility without any cost to the Government. Please outline where this facility will be placed and when the structure will be completed.

- It is clear from our conversations with the Program Manager during the past week that he is not thoroughly familiar with the terms and conditions of the contract. Knowledge of the contract by the Deputy Program Manager is unknown. Additionally, it is clear that the Vice President of Operations is not as familiar with the terms and conditions of the contract that one would have reasonably thought since he has been serving as the Transition Manager. Clearly, the Program Manager and Transition Manager have significant responsibilities. Therefore, it is reasonable to believe that they would have a fairly large administrative staff to assist them in their daily activities. Your response to this letter should identify the names, duties/functions of each administrative staff member supporting this contract as well as the date which each was assigned to work in support of this contract. Furthermore, we ask that AGNA explain why its QA/QC plan failed to adequately ensure that all contract requirements were met in a timely and efficient manner. If major revisions to this plan have been made or needs to be made, please address this in your response as well as provide us an updated copy when updated.

In summary, the deficiencies noted above are very troublesome and endanger performance of the contract to the extent that I must seriously considering drastic action if the above deficiencies are not properly addressed and rectified. Therefore, I ask that AGNA provide me a CAP and a response to each deficiency listed above within the next 10 calendar days. This response should address each of the deficiencies noted above as well as any other contract noncompliance action which AGNA is currently aware and/or anticipates will occur in the near future. Furthermore, your response must be detailed and responsive to each request for information. Each deficiency must be corrected as soon as possible, but no later than 30 calendar days after receipt of this letter. The CAP should state what corrective action has been taken and/or will be taken to resolve each breach of the contract as well as address how similar deficiencies will be precluded from occurring in the future. Finally, AGNA should take all possible and prudent actions to mitigate performance risk during this correction action period.

If AGNA fails to properly address the above and the Department of State is forced to terminate this contract for default and award the contract to the next in line offeror, the U.S. Government will require AGNA to pay any additional re-procurement costs associated with this default action. Furthermore, I would be compelled to notify each Embassy and/or Consulate receiving guard services from AGNA or ArmorGroup (i.e., U.S. Defense Systems LLC/ArmorGroup/Defence Systems Equador Cia. Ltda or US Defense Systems LLC) that I have terminated the contract for default. Each Contracting Officer would be required to consider this action when making his/her determination as to whether it is in the U.S. Government's best interest to exercise the next contract option. This determination is required by FAR 17.202 (Use of Options).

Please acknowledge receipt of this notice in writing within 24 hours of receipt. If you have any questions about this letter, please do not hesitate to call me. I can be contacted at (703) 875-7320 or via email at RodgersJS@state.gov.

Sincerely,

James S. (Steve) Rogers
Contracting Officer

Copy: Mr. Martin Kraus, Regional Security Officer, Kabul, Afghanistan
Mr. Douglas J. Brown, Department of State, Office of Overseas Protective Operations
Ms. Polly Donnelly, Department of State, Office of Procurement Executive
Mr. Vince Chaverni, Department of State, Office of Acquisition Management
Ms. Justine Sincavage, Department of State, Office of Overseas Protective
Operations
Mr. Joseph Bopp, Department of State, Office of Overseas Protective
Operations
Mr. Scott Gallo, Department of State, Office of International Programs

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