

AGENCY MANAGEMENT OF THE
CLOSEOUT PROCESS FOR IRAQ
RELIEF AND RECONSTRUCTION
FUND CONTRACTS

SIGIR-07-010
OCTOBER 24, 2007

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SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

October 24, 2007

MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ
OFFICE OF THE ASSISTANT DEPUTY ASSISTANT SECRETARY
OF THE ARMY (POLICY & PROCUREMENT)-
IRAQ/AFGHANISTAN
ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL
DEVELOPMENT
COMMANDING GENERAL, U.S. ARMY CORPS OF ENGINEERS
COMMANDING GENERAL, JOINT CONTRACTING COMMAND-
IRAQ/AFGHANISTAN
CHIEF FINANCIAL OFFICER, U.S. ARMY CORPS OF
ENGINEERS
DIRECTOR, OFFICE OF ACQUISITION MANAGEMENT,
DEPARTMENT OF STATE
DIRECTOR, IRAQ TRANSITION ASSISTANCE OFFICE
DIRECTOR, AIR FORCE CENTER FOR ENGINEERING AND THE
ENVIRONMENT

SUBJECT: Review of Agency Management of the Contract Closeout Process for Iraq Relief and Reconstruction Fund Contracts (SIGIR-07-010)

This audit report is provided for your information and use. This report discusses our review of agency management of the contract closeout process for Iraq Relief and Reconstruction Fund Projects.

We considered comments received on the draft of this report from the Assistant Deputy Assistant Secretary of the Army (Policy and Procurement) and the U.S. Army Corps of Engineers when preparing the final report. The comments are addressed in the report, where applicable, and the written responses are included in the Management Comments section of this report.

Introduction

In the course of implementing the \$20.9 billion Iraq Relief and Reconstruction Fund (IRRF) program, thousands of contracts were issued for activities ranging from the purchase of supplies to billion-dollar construction programs. Most of the work performed under the IRRF program involved the use of contracts, and contract closeout is the final phase in a contract's life cycle. During this phase, agencies receive and accept final delivery of services and supplies, make final payments to contractors, determine whether excess funds are available for deobligation and use elsewhere, and prepare required documentation such as the contract completion statement. The process also provides transparency of the decisions made and documents the history of the contract.

The Federal Acquisition Regulation (FAR) 4.804-5 provides financial and administrative requirements and timelines for closing out contracts. These requirements include deobligating excess funds, disposing of classified material, completing contractor's closing statements, and others. Regarding timing, however, the FAR provides guidelines rather than requirements. The FAR states that firm-fixed-price contracts should be closed out within six months of evidence of physical completion, and contracts requiring settlement of indirect cost rates should be closed out within 36 months after the contract is physically completed.

This review was announced as a broad review of IRRF closeout actions involving contracts and associated task orders, grants, and cooperative agreements to determine their compliance with Federal Acquisition Regulation procedures and to determine whether there were significant impediments to closeout actions. We subsequently deleted grants and cooperative agreements from our analysis since they comprised a relatively small share of IRRF awards and are not covered under the FAR. This report summarizes the SIGIR review of agency measures to manage contract closeout and future issues affecting closeout of high-value cost reimbursable contracts.

Results

The Department of Defense (DoD) and civilian agencies conducting contract activities in Iraq have policies and procedures for closing out contracts that support the FAR, and data indicate that they have closed out contracts. These agencies include:

- U.S. Army Corps of Engineers Gulf Region Division (USACE/GRD)
- Joint Contracting Command-Iraq/Afghanistan (JCC-I/A)
- Air Force Center for Engineering and the Environment (AFCEE)
- Department of State (DoS)
- U.S. Agency for International Development (USAID)

When problems have arisen, agencies have responded by seeking outside help to closeout backlogs, hiring more staff, or providing additional training to staff. Contracts are not always closed out within the FAR guidelines. However, DoS, DoD and USAID contracting officials state that not meeting the guidelines has a limited effect as long as financial closeout requirements—such as settling final payments with the contractor and deobligating unneeded contract funds—are completed. SIGIR found that the agencies do take actions to financially closeout contracts and then address the less important administrative closeout tasks as time permits.

Agency officials voiced concern in one area—closing out the large design-build infrastructure construction contracts in Iraq. GRD and USACE officials estimate that it could take up to fifteen years to fully closeout these contracts. In the past, the complicated financial and legal issues on similar contracts required years to closeout. This could be problematic because the agencies administering these contracts—USACE/GRD and JCC-I/A in Iraq—are temporary and plans to transition their closeout workload to other organizations have not been fully worked out. A transition plan is needed to ensure continuity of efforts to accomplish required closeout actions where long-term closeout activity is anticipated.

Background

Congress appropriated a total of \$20.9 billion to the Iraq Relief and Reconstruction Fund. As of March 2007, approximately 97 percent of that was apportioned to DoD (\$14 billion), USAID (\$4.7 billion), and DoS (\$1.6 billion). Within DoD, several agencies are principally responsible for managing IRRF contracts; USACE's GRD and Transatlantic Programs Center (CETAC), JCC-I/A, and AFCEE. USAID and DoS each manage their own IRRF contracts. We reported in April 2007 that most projects funded under IRRF contracts are now complete and most of the remaining projects are expected to be finished by the end of 2007.¹ For example, as of the end of June 2007, 89 percent of IRRF projects in the security and justice sector and 90 percent in the water sector had been completed, and all IRRF-funded construction projects in the oil and gas sector had reached completion.²

U.S. agencies purchasing, constructing, or providing services with IRRF could do so through contracts, grants, and cooperative agreements. For the most part, DoD, DoS and to a lesser degree USAID have used various types of contracts to acquire goods or services. Types of contracts include:

- Indefinite Delivery, Indefinite Quantity—provides for an indefinite quantity, within stated maximum and minimum limits, of specific supplies or services to be furnished within an unspecified time period. Under these contracts, task orders are issued on either a cost-reimbursement or fixed-price basis.
- Cost-reimbursable—the U.S. government reimburses the contractor for all allowable, allocable, and reasonable contract costs. Cost-reimbursable contracts are typically used when the government is unable to provide sufficient information for offerors to accurately determine a competitive price.
- Fixed-price—payment is made to the contractor on the basis of pre-established prices.³

Moreover, contracts may include one or more task orders which are specific orders for services placed against an existing contract. The task orders may be cost-reimbursable or fixed price.

FAR Contract Closeout Requirements

Contract closeout requirements are addressed in the FAR, section 4.804-5. The FAR identifies specific actions that agencies must complete, but does not prescribe specific steps to complete the actions nor mandate a particular structure or procedure; rather, each agency determines how best to accomplish closeout. According to the FAR and to DoD, DoS, and USAID contracting officials, the closeout process includes actions involving physical, financial, and administrative closeout components. Overall, the process can vary from the relatively simple and quick, in the case of a small procurement or fixed price contract, to the very complex and protracted, in the case of a multi-year cost-reimbursement arrangement. The FAR addresses requirements at the contract level only, and if a contract contains more than one task order, agencies can either close out each one separately or wait until work under all of the orders is complete. In the former case, the overall contract must still be closed out after the last task order has been dealt with. Closeout

¹ Special Inspector General for Iraq Reconstruction, Quarterly Report to the United States Congress, April 30, 2007.

² Special Inspector General for Iraq Reconstruction, Quarterly Report to the United States Congress, July 30, 2007.

³ The Government Contracts Reference Book, Ralph Nash, (Second Edition), 1998.

is not permitted if the contract is in litigation or under appeal, or if it has been terminated but not all termination actions have been completed.

The FAR states that physical completion is the first step in the closeout process and consists of U.S. agency officials evaluating whether the contractor provided the goods, services and/or project as specified and the government has accepted them. In Iraq, for example, GRD engineers would determine if a construction project has been completed as specified.

Once a contract has been physically completed, contracting officials can begin to address the financial and administrative components of closeout. Financial closeout encompasses all monetary matters. For example, the FAR states that the contract administration office must determine if a contract audit has been completed, if a final contractor's invoice has been submitted, and if excess funds have been deobligated. With cost-reimbursable contracts, this includes addressing issues raised in financial audits of contractors' costs. To illustrate, for DoD cost-reimbursable contracts, the Defense Contract Audit Agency (DCAA) conducts annual audits of companies that hold government contracts to determine if the companies' charges are acceptable and in accordance with contract terms, the FAR, and Cost Accounting Standards. If contractors do not provide required information on time, the annual audits of the company can be delayed, resulting in delay of final financial closeout for the company's contracts. It is DoD's policy to financially closeout each task order, although it is not required by the FAR to do so. Once all task orders are completed, DoD then financially closes out the entire contract, making final payments on the prime contract and deobligating funds if applicable.⁴

The FAR also prescribes actions that must be completed to administratively closeout a contract. Actions include, for example, disposing of classified information and preparing a contractor's closing statement. Once all required financial and administrative actions are finished, the contracting officer administering the contract must ensure that a contract completion statement is prepared which includes information such as the contractor name and address and voucher number and date if final payment has been made. The FAR further requires that agencies must prescribe procedures for the handling, storing and disposing of contract files and also provides retention periods by type of document; for example, agencies must maintain construction contracts valued at over \$2,000 for six years and three months after final payment.

Regarding the timing of closeouts, the FAR provides timelines for when contracts "should" be closed out. According to the Federal Acquisition Regulation Drafting Guide, use of the term "should" indicates "an expected course of action or policy to be followed unless inappropriate for a particular circumstance". Thus, the FAR stipulates that for those contracts using simplified acquisition procedures for contracts under a specified dollar threshold,⁵ the contract should be considered closed when the contracting officer receives evidence of receipt of property and final payment. Fixed-price contracts should be closed within six months after the date on which the officer receives evidence of physical completion. Cost-reimbursable contracts, which are more complicated, should be closed 36 months after physical completion.

⁴ The USAID official in charge of deobligating funds stated that his agency will de-obligate prior to final audit, leaving a small amount available for contingencies. An official in the Army's office of the Assistant Secretary for Acquisition, Logistics and Technology said the Army does not deobligate funds until final audits have been completed.

⁵ The FAR defines simple acquisition procedures as those policies and procedures for the acquisition of supplies and services, including construction, research and development, and commercial items, where the aggregate amount does not exceed the simplified acquisition threshold. For contingency operations, the FAR defines this threshold as \$1 million for a contract to be awarded and performed, or a purchase to be made, outside the United States.

Agency Measures to Manage Contract Closeout

To varying degrees, DoD agencies, DoS and USAID have established contract closeout policies and procedures in addition to those provided in the FAR, and have data systems that are able to track if closeouts are being conducted in a timely manner. Moreover, GRD, JCC-I/A and USAID have taken specific actions to address problems in closing out their Iraq contract portfolios. Defense Contract Management Agency (DCMA) and other DoD, DoS and USAID contracting officials stated, however, that not finalizing all the paperwork to administratively closeout contracts according to FAR guidelines would have limited adverse impact if financial closeout requirements—such as providing or receiving final payments to the contractor and deobligating funds not necessary for completion—are completed. These officials also informed us that financial issues are performed even if a contract has not been administratively closed out.

Financial Closeout Viewed as Most Critical Closeout Element

Contracting officials with whom we met generally agreed that completing all the financial closeout requirements were the most critical aspect of contract closeout and that these actions could and are being accomplished without fully closing out a contract administratively. One such financial requirement that agencies independently address is deobligating funds no longer needed to complete the contract. To illustrate, the USAID official responsible for deobligating funds informed us that he reviews the need for and if applicable deobligates funds before an award is closed out. DCMA officials noted that after addressing financial closeout issues and turning over projects to the customer, they will assess the risk in not completing the administrative portion of closeout. If it is not critical to do so and they have more important work to conduct, they will place the administrative portion of closeout on hold. A DCMA division director noted that as a result, some contracts sit without being administratively closed out for years and this has no materiel impact. This opinion was echoed by CETAC's Director of Contracting. He stated that as long as a contract is financially closed out, the remaining closeout activities are viewed as low-priority formalities when compared to other contract-management responsibilities, to be accomplished only as time permits. Nevertheless, a separate SIGIR review recently found that while each agency has policies and procedures in place to monitor obligations and to conduct at least annual reviews of unliquidated obligations to determine if they can be deobligated, the comprehensiveness and documentation of these reviews varied. Our review identified opportunities to improve the completion and documentation of such reviews which should facilitate ongoing monitoring of future deobligation decisions.⁶

GRD Management of Contract Closeout

GRD developed Iraq specific closeout directives, increased staff training to improve its performance in closing out contracts, and tracks closeout status through a variety of data systems. In October 2006, GRD prepared a closeout Standard Operating Procedure and Users Guide. The guide lays out the process and responsibilities of contract management personnel. The guide addresses how to complete actions such as making final payments, completing DoD contract closeout forms, and archiving files. The instructions include specific steps in inputting data into the USACE Resident Management System (RMS) which is used to monitor the weekly closeout status of task orders which have been completed and are therefore ready to be closed out.

⁶ *Controls Over Unliquidated Obligations in the Iraq Relief and Reconstruction Fund*, (SIGIR-09- , September 2007)

In addition to developing directives, USACE/CETAC sent a training team to Baghdad to address concerns that GRD contracting staff often came from other U.S. agencies and were unfamiliar with USACE policies. As a result of this identified deficiency, CETAC now provides pre-deployment training which addresses closeouts with all new GRD contracting staff.

GRD tracks contract closeout status in a number of systems and primarily by individual project or task order rather than by contract. GRD in Iraq tracks the “closeout” status of each project in the Iraq Reconstruction Management System, which in this case signifies when a specific project has been completed and transferred to the Iraqi’s. However, no actual contractual closeout as defined in the FAR occurs at that level. CETAC, does however, track GRD closeouts by task order in USACE’s *RMS Contract Closeout Report* which reported that as of April 10, 2007 GRD had closed 1,930 of 2,586 completed task orders. While GRD does contractually closeout individual task orders, the report does not address the status of the prime contract under which the task order was issued. Working through the designated chain of command, we relayed our concerns with GRD officials that the different data provided did not clearly relate projects to task orders and contracts. In response, GRD provided more comprehensive contract level data from the RMS system. Nevertheless, USACE’s Deputy Principal Assistant Responsible for Contracting stated that the only way they have of determining when a contract is complete and ready for closeout is by talking with a Contracting Officer who is responsible for initiating the closeout action.

JCC-I/A Management of Contract Closeout

JCC-I/A has issued closeout guidance, sought assistance when faced with a backlog of contracts to closeout, and maintains comprehensive databases on the status of its contracts. To provide guidance, JCC-I/A developed a closeout memo for cost-reimbursement contracts. The memo discusses required steps such as initiating the DoD Contract Closeout Checklist and issues such as ensuring that contractor submitted vouchers do not involve claims for direct costs incurred after the project completion date.

Regarding efforts to improve the management of closeout activities, in November 2004, DCMA was asked to assist in closing out a backlog of JCC-I/A’s Development Fund for Iraq funded contracts. DCMA’s Chief of Contingency Operations informed us that by December 2006 DCMA closed out about 11,000 contracts and set up procedures for JCC-I/A to better manage contracts such as in deobligating funds. DCMA officials stated that JCC-I/A is now fully staffed and capable of managing its own closeout effort. Moreover, in April 2006, GRD and JCC-I/A signed a Memorandum of Agreement that detailed their respective closeout roles in contracts they jointly manage. In these cases, GRD assumes construction-management authority and is assigned closeout responsibilities in areas such as accepting or rejecting final construction and completing contract files to send to JCC-I/A. JCC-I/A, on the other hand, takes responsibility for archiving contract files.

JCC-I/A monitors contracts in its *Access Contract Database*. The database reported that, as of March 12, 2007, the agency was managing 3,470 IRRF-funded contracts or task orders. Of these, the agency had closed out 1,449 firm fixed-price contracts--577 of which had met the FAR guidelines to closeout within 180 days of project completion.

DoS and USAID Management of Contract Closeout

USAID and DoS officials informed us that because their Iraq contract portfolio is relatively small and does not present any unique conditions, they had not developed any Iraq-specific

closeout procedures. Rather, they work with the policies and procedures they use in other countries. For the DoS, the Director, Office of Acquisition Management informed us that the department relies on the FAR for guidance. The Department has also issued DoS Acquisition Regulations in which Section 604.804-70 addresses contract closeout and, according to the Acquisitions Director, developed specific closeout forms which contracting officials must complete to document closeout.

USAID uses its existing order, Contract Information Bulletin 90-12, to provide its Iraq and other overseas missions closeout instructions to implement the FAR requirements. The bulletin provides closeout forms and procedures addressing how to resolve all the financial closeout requirements and other issues such as the need to account for government owned or furnished equipment. Moreover, to provide additional oversight, USAID officials in the Asia and Near East Bureau, which includes Iraq, informed us that the agency hired additional contracting staff in its Iraq Mission.

Overall, DoS and USAID officials voiced confidence in their abilities to closeout their Iraq portfolio. DoS data indicate that it has 16-IRRF funded contracts or task orders, of which three were ready for closeout. As of April 2007, USAID was managing 28 contracts or task orders, four of which had been closed out. At that time, 11 cost-plus contracts had been completed and were ready to begin closeout; none of them, however, had yet passed the FAR's three-year threshold for closing out cost contracts after project completion.

AFCEE Management of Contract Closeout

An AFCEE contracting official informed us that the agency uses FAR guidelines for closing out contracts in Iraq. Moreover, the agency has staff specifically for this effort and thus does not view it as a problem. AFCEE's *Project Tracking System* which maintains information on the status of its task orders indicates that as of May 31, 2007, AFCEE was managing 64 orders that were fully or partially IRRF funded. An AFCEE contracting officer confirmed that none of its Iraq contracts were ready for closeout; only one out of 64 IRRF funded task orders has been closed.

Future Closeout of High-Value Cost-Reimbursable Contracts Could be Problematic

DoD, USAID and DoS officials believe they will be able to close out all remaining contracts within acceptable time frames with one exception—the high-value, cost-reimbursable design/build contracts managed by JCC-I/A and GRD. Those, history has indicated, could take as long as fifteen years to close because of the need to address a number of legal and financial issues. The length of time involved poses some problems and uncertainties because JCC-I and GRD are temporary agencies, and DoD plans to transition their responsibilities to other organizations are still in the initial planning stages.

From January through March 2004, the U.S. government awarded twelve cost-reimbursable contracts, valued at \$7 billion, to design and build various facilities in Iraq. Although one contract for \$325 million was terminated soon after that, all the others remain active. Based on the history of similar contracts, GRD and CETAC officials said it could take as long as fifteen years to closeout these contracts to address a myriad of legal and financial issues. For example, work on one of the early reconstruction contracts commonly referred to as Restore Iraqi Oil was completed in 2004 but the contract remains open principally because the required audits have not

been completed. USACE's Southwest Division, which is responsible for managing this contract, estimates that the normal time frame for closing out a cost-reimbursement contract is three to five years after work is completed. But the Southwest Division expects that closeout of the Restore Iraqi Oil contract may take longer than five years due to delays in completing audits of the contractor's incurred costs. Another example, albeit not involving Iraq, involves a large (about \$1 billion) cost-reimbursable contract to provide support for U.S. military forces in the Balkans. CETAC officials responsible for closing out that contract informed us that, although it was completed in 1999, it remains open pending resolution of legal and financial issues.

A principal cause of the delay is the difficulty in obtaining adequate final, indirect-cost rates proposals and supporting financial data from the contractors. Those data are needed to facilitate the DCAA audits that will determine if the costs are within contract terms, the FAR specifications, and Cost Accounting Standards rules and regulations. If contractors do not provide required information on time, the annual audits of the company will be delayed, causing postponement of financial closeout of all company contracts. DCAA officials told us that for one major contractor in Iraq, DCAA has been able to complete its annual incurred-cost audits only up through calendar year 2001 because of contractor delays in submitting acceptable data. By this time, annual audits should have been completed through calendar year 2005, and DCAA should now be working on the 2006 audit.

A further challenge in closing out these large, cost-reimbursable contracts is that the two principal agencies involved in these contracts—GRD and JCC-I/A—are temporary agencies. Prospects for expeditiously closing out their contracts in the future are uncertain because DoD has not yet resolved who will assume the agencies' duties when they close.

On December 11, 2006⁷, recognizing the need to plan for GRD's shutdown, USACE headquarters issued a draft order for the transition of GRD responsibilities—including closeout—to CETAC; as of the end of March 2007, however, no final order had been issued. Notwithstanding the lack of specific plans, CETAC's Director of Contracting expressed concern about the agency's financial and personnel capabilities to absorb GRD close-out workload from a financial and staffing perspective. He observed that CETAC has only about twenty contracting officers, far fewer than the sixty five specified in a requirements review, and that it is difficult to hire experienced contracting officers because the agency can only offer low-grade, temporary positions.

As a result, CETAC's Director of Contracting noted that the agency has not closed out any of its six IRRF-funded completed contracts in Iraq, valued at \$464 million, nor approximately one hundred contracts it was managing elsewhere. For example, a fixed-price contract for an Air Force storage facility in Bahrain was physically completed in March 2005 but has yet to be closed out. SIGIR concluded, in its Lessons Learned report on contracting and procurement, that obtaining the necessary number of acquisition staff with the requisite skills in Iraq has been a challenge.⁸

According to an Assistant Deputy Assistant Secretary of the Army (Policy and Procurement)-Iraq/Afghanistan (ADASA-P&P I/A) official, JCC-I/A transition workload planning is in the initial planning stages. JCC-I/A derives its contracting authority from the Assistant Secretary of the Army (Acquisition, Technology, and Logistics) (ASA/ALT), and the agency falls under the

⁷ Planning Order 2007-04, *Transition of USACE Support to CENTCOM*

⁸ *Iraq Reconstruction, Lessons in Contracting and Procurement*, SIGIR, Report Number 2, July 2006, Appendix B

operational control of the U.S. Central Command (CENTCOM). Within ASA/ALT, the ADASA-P&P I/A is responsible for administrative and contracting support in those countries and is responsible for developing and implementing the long range contracting support plan for fiscal year 2008 and beyond, which includes contracting agency transition and contract closeout. As such, both ADASA-P&P I/A and CENTCOM are responsible for JCC-I/A transition planning. CENTCOM has established a Theater Reposture Working Group to develop a CENTCOM Transition Plan, including JCC-I/A. Drawdown of activities and personnel will drive that agency's drawdown.

Conclusion

DoD, DoS and USAID contracting officials with whom we met and available data indicate that contract closeout does not appear to be a particularly problematic aspect of contract management in Iraq at this time. GRD and JCC-I/A, which handle the preponderance of contracts in Iraq, have established policies and procedures to closeout contracts in Iraq and have sought assistance when faced with significant backlogs or other problems. They can demonstrate that thousands of contracts are being closed out. Nevertheless, DoD may face future closeout problems because the department has not yet determined who will be responsible for the huge and complicated design-build contracts that GRD and JCC-I/A manage once these temporary organizations close.

Recommendations

We recommend that the ADASA-P&P I/A coordinate with JCC-I/A, USACE, and CENTCOM to ensure that timely action is taken to ensure that GRD and JCC-I/A transition plans address closing out the large, cost-reimbursable contracts in Iraq.

Management Comments and Audit Response

We provided a draft of this report to ADASA-P&P I/A, DoS, USAID, JCC-I/A, USACE, CENTCOM, CETAC and GRD for comment. Only ASA-P&P I/A provided a written response in which it concurred with our recommendation. DoS sent an email which stated that the Department concurred with the findings in the report.

Scope and Methodology

This review was announced with the objective of determining whether IRRF- funded contracts, including task orders, grants and cooperative agreements, were being closed-out in a timely manner and in accordance with Federal Acquisition Regulation (FAR) 4.804-1(a) and other applicable regulations, policies, and procedures. Specifically, we addressed the policies and procedures agencies adopted to meet closeout requirements and the issues that affect their ability to conform to FAR guidelines. Since grants and cooperative agreements encompass a relatively small share of IRRF funded awards, and are not covered under the FAR, we did not include them in the analysis.⁹

⁹ Grants and cooperative agreements are not covered by the FAR because they are not considered acquisition instruments but rather assistance instruments that transfer funds for stated purposes. As such, they are covered under Title 22 of the U.S. Code, *Foreign Relations*, which specifies that all financial, performance, and other reports in the award must be completed within 90 days

To address whether agencies were following FAR guidelines, we first determined whether agencies had prepared closeout directives and other instructions to implement FAR direction. We also met with knowledgeable officials to determine if any additional management actions had been taken or planned with regard to FAR closeout requirements. Similarly, to determine the issues that may impact future contract closeouts, we met with staff from each agency in the Washington, D.C. area or in Baghdad, as well as with officials from the Defense Contracting Audit Agency and the Defense Contracting Management Agency, and we spoke with an official from the U.S. Central Command. We reviewed transition-planning documents. We also discussed with contracting officers the closeout history of previous contracts that might shed light on expectations for closing out similar contracts in Iraq.

To address contract closeout status we obtained and analyzed closeout data provided by each agency managing contracts in Iraq. We requested comprehensive data on IRRF contracts. Specifically, we asked that each agency provide us data on their IRRF-funded contracts and subordinate task orders, as well as grants, and cooperative and interagency agreements. For each, agencies were asked to provide information on the type of contract or other award, the recipient, the award date, the date the contract, task order, grant or agreement was completed, and the closeout status and closeout date. Such data were needed to assess whether contracts were being completed according to FAR guidelines. When those data were not available, we requested that the agency develop data runs to the extent possible. SIGIR did not independently develop the data and did not attempt to verify the accuracy of the data. We did, however, note where data elements were missing and determine whether agencies were reporting on the same contracts resulting in duplications. We discussed with agency personnel the discrepancies and information gaps we identified.

Use of Computer-Processed Data

To perform this audit, we used data from the Iraq Reconstruction Management System databases, the Joint Contracting Command's Access Contract Database, the Army Corps of Engineers' Resident Management System, and the Air Force's Project Tracking System Report. We did not audit these project-management systems during this review. However, we previously audited the Iraq Reconstruction Management System and identified issues regarding incomplete data.¹⁰

Prior Audit Coverage

We reviewed applicable reports issued by SIGIR and the DoD Inspector General:

- *Review of the Use of Definitization Requirements for Contracts Supporting Reconstruction in Iraq*, (SIGIR-06-09, July 28, 2006)

of completion of the award, and that if a final audit has not been conducted, the awarding agency retains the right to recover amounts from the final audit.

¹⁰ Management of the Iraq Relief and Reconstruction Fund: The Evolution of the Iraq Reconstruction Management System" (SIGIR-06-001), April 24, 2006

"Review of Data Entry and General Controls in the Collecting and Reporting of the Iraq Relief and Reconstruction Fund (SIGIR-06-003), April 28, 2006

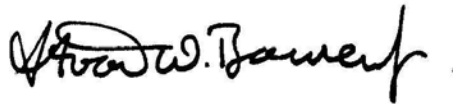
- *Closing Overage Contracts Prior to Fielding a New DOD Contractor Payment System*, (DODIG, Report No. D-2002-027, December 19,2001)
- *Iraq Reconstruction, Lessons in Contracting and Procurement*, (SIGIR Report Number 2, July 2006)

We conducted this audit from January 2007 through September 2007, in accordance with generally accepted government auditing standards.

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This report is provided for your information and use. A draft of this report was provided to USACE, CETAC, ASA/ALT, AFCEE, GRD, JCC-I/A, CENTCOM, DoS and USAID and their comments are addressed in the final report as appropriate.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact either Mr. Glenn Furbish (703-428-1058) / glenn.furbish@sigir.mil), or Ms. Joan S. Hlinka (703-604-0945/ joan.hlinka@sigir.mil). For the report distribution, see Appendix B. For a list of the audit team members, see Appendix C.



Stuart W. Bowen, Jr.
Inspector General

Cc: See Distribution

Appendix A—Key U. S. Agencies Managing IRRF Contracts in Iraq

Department of Defense (DoD)

The following are the principal DoD agencies responsible for managing contracts in Iraq:

Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) – JCC-I/A was established in November 2004 as a special command to administer and consolidate DoD contracting activities. It reports through the Deputy Assistant Secretary of the Army (Policy and Procurement) to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology.

U.S. Army Corps of Engineers (USACE) Gulf Region Division (GRD)—GRD was established as a temporary USACE agency after operations in Iraq surged beyond the capabilities of the USACE Transatlantic Command, a permanent U.S. entity charged with supporting USACE activities in the region. According to Planning Order 2007-04, 02, USACE was granted approval to form GRD with the understanding that it would shrink in size along with the workload. The GRD provides engineering services to the Multi-National Force-Iraq, DoS, USAID, and the Iraqi government, supporting planning, design, and management for military and civil- infrastructure construction.

Air Force Center for Engineering and the Environment (AFCEE) – AFCEE provides the Air Force technical and professional services in environmental and installation planning, construction, engineering, and military housing construction and privatization. AFCEE first began managing contracts in Iraq in 2003 at the request of the Coalition Provisional Authority. It subsequently agreed to provide for the planning, design, upgrade, renovation and construction of facilities designated by Multi-National Security Transition Command-Iraq.

Department of State (DoS)

DoS is the lead institution in the conduct of American diplomacy, and the Secretary of State is the President’s principal foreign policy advisor. Its mission is carried out in Washington, D.C. headquarters through bureaus based on regions of the world and on functions and management responsibilities. Within the former, the Bureau of Near Eastern Affairs has responsibility for Iraq, and other bureaus, such as the one dealing with international narcotics and law enforcement, operate significant programs in Iraq. .

U.S. Agency for International Development (USAID)

USAID is the principal agency charged with extending assistance to countries recovering from disaster, trying to escape poverty, or engaging in democratic reforms. Its mission in Iraq is to implement programs in three strategic areas: restoring essential infrastructure, supporting essential health and education, expanding economic opportunity, and improving efficiency and accountability of government. The mission has undertaken programs across a broad range of sectors, including education, health care, food security, infrastructure reconstruction, airport and seaport management, economic growth, community development, local governance, and transition initiatives.

Appendix B—Report Distribution

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 Organizations, Democracy and Human Rights

Subcommittee on International Development and Foreign Assistance, Economic Affairs and International Environmental Protection

Subcommittee on Near East and South and Central Asian Affairs

Senate Committee on Homeland Security and Governmental Affairs

Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security

Permanent Subcommittee on Investigations

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 State, Foreign Operations, and Related Programs

House Committee on Armed Services

House Committee on Oversight and Government Reform

Subcommittee on Government Management, Organization, and Procurement

Subcommittee on National Security and Foreign Affairs

House Committee on Foreign Affairs

Subcommittee on Middle East and South Asia

Subcommittee on International Organizations, Human Rights, and Oversight

Appendix C—Audit Team Members

This report was prepared, and the audit work conducted, under the direction of Glenn D. Furbish, the Acting Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who conducted the audit and contributed to the report include:

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Management Comments

Department of the Army – Assistant Deputy Assistant Secretary of the Army (Policy & Procurement) – Iraq/Afghanistan



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ADASA-P&P I/A

MEMORANDUM FOR SPECIAL INSPECTOR GENERAL FOR
IRAQ RECONSTRUCTION (SIGIR)

SUBJECT: Draft Audit Report, "Agency Management of the Closeout Process
for Iraq Relief and Reconstruction Fund Contracts"
(Report No. 07-010 (project 6006))

In response to the subject draft audit report, ADASA (P&P) – I/A concurs with the SIGIR recommendation to coordinate with all appropriate parties to ensure transition plans address the timely closing out of the large cost-reimbursable contracts in Iraq.

My point of contact is Mrs. Doris Mayo, (703) 696-1422, DSN 426-1422 or e-mail: doris.mayo@hqda.army.mil.

A handwritten signature in black ink, reading "B. F. McCarter", is positioned above the printed name.

B. F. McCarter
Assistant Deputy Assistant Secretary of the Army
(Policy and Procurement) – Iraq/Afghanistan

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Obtaining Copies of SIGIR Reports and Testimonies	To obtain copies of SIGIR documents at no cost, go to SIGIR's Web site (www.sigir.mil).
To Report Fraud, Waste, and Abuse in Iraq Relief and Reconstruction Programs	Help prevent fraud, waste, and abuse by reporting suspicious or illegal activities to the SIGIR Hotline: • Web: www.sigir.mil/submit_fraud.html • Phone: (703) 602-4063 • Toll Free: (866) 301-2003 //check SIGIR audit style on web addresses and phone numbers; I've changed original to the styles generally used. If you do change the original, make consistent throughout the following boxes//
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