The seal of the Office of the Special Inspector General for Iraq Reconstruction is a large, circular emblem in the background. It features a central eagle with wings spread, holding an olive branch and arrows. The eagle's chest is covered by a shield with vertical stripes. Above the eagle is a sunburst with a star. 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" at the bottom. The seal is rendered in a light, semi-transparent color.

**DIFFERENCES IN SERVICES AND FEES
FOR MANAGEMENT AND
ADMINISTRATION OF IRAQ
RECONSTRUCTION CONTRACTS**

**SIGIR-08-005
JANUARY 29, 2008**

Report Documentation Page

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SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

January 29, 2008

MEMORANDUM FOR SECRETARY OF DEFENSE

UNDER SECRETARY OF DEFENSE, ACQUISITION,
TECHNOLOGY, AND LOGISTICS
COMMANDING GENERAL, MULTI-NATIONAL FORCE-IRAQ
COMMANDING GENERAL, U.S. ARMY CORPS OF ENGINEERS
DIRECTOR, IRAQ TRANSITION ASSISTANCE OFFICE
COMMANDING GENERAL, GULF REGION DIVISION, U.S.
ARMY CORPS OF ENGINEERS
COMMANDER, JOINT CONTRACTING COMMAND-
IRAQ/AFGHANISTAN
AIR FORCE CIVIL ENGINEER
DIRECTOR, AIR FORCE CENTER FOR ENGINEERING AND THE
ENVIRONMENT

SUBJECT: Audit Report on Differences in Services and Fees for Management and Administration of Iraq Reconstruction Contracts (SIGIR-08-005)

We are providing this audit report for your information and use. We performed this audit in accordance with our statutory responsibilities contained in Public Law 108-106, as amended. This law provides for independent and objective audits of policies designed to promote economy, efficiency, and effectiveness of programs and operations and to prevent and detect fraud, waste, and abuse. This report discusses the management and administration of Iraq reconstruction contracts by the U. S. Army Corps of Engineers-Gulf Region Division (USACE-GRD) and the Air Force Center for Engineering and the Environment (AFCEE). These organizations play a major role in Iraq reconstruction project management and contract administration. This review was conducted as SIGIR project 7016.

We considered comments from the Office of the Under Secretary of Defense and USACE-GRD, and informal comments from AFCEE when preparing the final report. The comments are addressed in the report, where applicable, and a copy 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. Barry Holman at 703-604-0942 or (barry.holman@sigir.mil).

A handwritten signature in black ink that reads "Stuart W. Bowen, Jr." followed by a period.

Stuart W. Bowen, Jr.
Inspector General

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Differences in Services and Fees for Management and Administration of Iraq Reconstruction Contracts

SIGIR-08-005

January 29, 2008

Executive Summary

Introduction

After the U.S. government discovered that Iraq's infrastructure was in far worse condition than pre-war assessments had indicated, billions of dollars were appropriated to assist in reviving the infrastructure and economy. Early on a number of different organizations were involved in managing and administering the reconstruction contracts awarded under the U.S. programs. However, the Gulf Region Division (GRD) of the U.S. Army Corps of Engineers (USACE) and the Air Force Center for Engineering and the Environment (AFCEE), a field operating agency of the Air Force Civil Engineer, are two primary organizations providing project management and contract administration services for major Iraq reconstruction projects. Officials involved in reconstruction efforts have expressed interest in an analysis of the two organizations' management and administration procedures, particularly the fees they charged.

The SIGIR reporting objective was to (1) compare and contrast GRD and AFCEE management and administration of Iraq reconstruction projects, including the services provided and fees charged, and (2) determine the extent to which DoD has assessed the efficiency and cost effectiveness of these activities.

Results in Brief

Collectively, as of September 30, 2007, USACE-GRD and AFCEE have managed and administered over \$10.3 billion of Iraq reconstruction contracts and charged about \$535 million in fees for their services. GRD managed and administered about \$6.3 billion, or over 60 percent, of the total amount and charged about \$418 million in fees. AFCEE had about \$4.0 billion of reconstruction contracts and charged about \$117 million in fees.

Both USACE-GRD and AFCEE provided construction services that included project management and design, contract administration, fiscal and administrative management, and quality assurance; however, they used differing approaches to managing and administering U.S.-funded reconstruction projects. A major difference was GRD's work on design-build contracts that required more direct and extensive involvement in the design and construction phases, and AFCEE's use of an approach that did not include detailed design. Another distinction between the organizations' business models is that GRD primarily depended on its military and civilian employees for quality assurance and other management and administrative services, while AFCEE relied on contractors to provide many of its services.

SIGIR's ability to make a full comparative analysis was limited by insufficient data regarding the differences in fee structures and services provided and a lack of comparability and transparency in the fees and services. At the same time, SIGIR found that no DoD analysis of the two organizations' business models, services provided, and fee structures has been made and that such an analysis could provide the basis for enhanced policy guidance.

USACE-GRD and AFCEE Differ in Approaches, Services, and Fees

Most of GRD's early project management and contract administration work involved major design-build,¹ cost-plus contracts that were awarded by its predecessor organization and employed large multi-national firms. In 2004, USACE-GRD began to move away from these types of contracts to ones with local and regional firms for smaller, shorter-term projects. With the shift, GRD began to engage more directly in reconstruction contracting, as opposed to its previous role that was largely confined to project management and quality assurance. As of September 29, 2007, *GRD Reconstruction Snapshot* reported 3,641 projects completed, including 424 projects in the electricity sector, 76 in the oil sector, 667 in the water sector, and others in the transportation and communication, health and education, and security and justice sectors.

Initially, AFCEE's role in Iraq reconstruction was to meet an urgent reconstruction requirement—estimated at \$238.6 million—for the New Iraqi Army. Later, AFCEE took on an expanded role and began awarding task orders for reconstruction of schools, government office buildings, and other projects. A 2004 SIGIR report² addressed this expanded scope and, based on the report's recommendation, AFCEE revised the agreement governing this work. As of September 30, 2007, AFCEE had awarded a total of 245 task orders for 590 projects (a task order may involve multiple projects) and completed over 4,217 facilities—including barracks, schools, border forts, and police stations—with more than 60 million total square feet.

Both GRD and AFCEE provided such services as project and cost management, contract administration, construction quality assurance, and construction fiscal and administrative management. However, the specific services provided varied based on customer needs, and the project and contract type. Those variances made side-by-side comparison between GRD and AFCEE difficult. However, major differences in management and administration of Iraq reconstruction projects were most evident in the pre-design and construction phases of their projects. GRD's initial work involved design-build contracts that required more direct and extensive involvement in the design and construction phases. AFCEE, on the other hand, provided none of the detailed design services, and used Indefinite Delivery, Indefinite Quantity (IDIQ) contracts and cost-plus fixed-fee task orders to expedite reconstruction projects. It accomplished the construction through the use of conceptual work plans without detailed design packages. Also, for quality assurance efforts, AFCEE used contractor services, while GRD relied on its military and civilian employees.

In a gross comparison, GRD's fees appeared much higher than AFCEE's. GRD's fees ranged from 4% to 9.2% depending on the program and the required work. For full contract supervision and administrative services, it generally charged 6.5%. AFCEE's initial fee for comparable

¹ A design-build contract makes one contractor responsible for both the design and construction of a project, although the selected contractor may use others to complete the work.

² SIGIR 04-004, Task Orders Awarded by the Air Force Center For Environmental Excellence, July 28, 2004

services was 1.5% of project cost, but its fee in the past year has increased to just over 3%. In general, (1) both charged fees intended to recover costs, (2) both recognized that costs would be higher than the fee on some projects and lower on others, with total fees adjusted to recover costs, (3) neither recorded actual costs on individual projects, and (4) neither recovered security and life support costs in their fees. However, there is little comparability and transparency of the fees charged and services provided by the two organizations.

DoD Has Not Assessed Differences

The Under Secretary of Defense, Acquisition, Technology and Logistics (USD, AT&L) is responsible for monitoring the execution of military, emergency, and contingency construction programs to ensure their efficient, expeditious, and cost-effective accomplishment. However, SIGIR found that no analysis exists at that level to determine the merits of the differing USACE-GRD and AFCEE approaches, services, and fees.

USACE and AFCEE each made limited and incomplete assessments highlighting the benefits of their approaches. But these comparisons, for the most part, were based on generalizations rather than specific analysis, and SIGIR found each contained unsubstantiated claims and did not fully resolve questions related to differences in approaches, services, and fees.

A more thorough analysis could provide lessons learned to improve the efficiency of project management and administration, reduce costs, and make more efficient and effective use of reconstruction funds. It could also provide the basis for enhanced policy guidance concerning the use of the organizations and their approaches. The issues that could be addressed go beyond a comparison of services and fees, and extend to the business models used by the organizations to award, manage, and administer construction contracts, and to account for and report on costs and fees. A comparative analysis could also consider the benefits of a managed degree of competition between the organizations. Competition serves as an effective incentive to improve performance and reduce costs.

Recommendation

Because of the potential for involvement and interest of several organizations within DoD and the Military Departments, SIGIR recommends that the Secretary of Defense direct a thorough and detailed comparative analysis of the construction administrative and management services provided by USACE-GRD and AFCEE. The analysis should examine the business models used, types of services provided and means by which they are provided, the fees charged and means by which costs are recovered and accounted for, and the elements of costs that are being recovered.

Management Comments and Audit Response

The Office of the Under Secretary of Defense for Acquisition Technology, and Logistics and USACE-GRD provided written comments on a draft of this report, and AFCEE provided informal comments. The Office of the Under Secretary of Defense stated that the SIGIR effort justified further study of how best to meet reconstruction and contingency construction requirements and that a “best practice” approach will be undertaken. The Office non-concurred with the overall report, suggesting it lacked a comparative analysis to support the report’s recommendation. SIGIR reported that a full comparative analysis was not done, but believed the

work completed and the issues identified justified a recommendation for further DoD analysis. DoD agreed with the need for further analysis. USACE-GRD's comments contained suggestions for technical changes in the report. SIGIR considered these comments in preparing this final report and made changes as appropriate. AFCEE, in informal comments, generally concurred with the report.

Background

Pre-war relief and reconstruction planning for Iraq focused chiefly on preparing for humanitarian assistance and the restoration of essential services. The contracting and procurement efforts during that phase reflected this focus. After the Iraqi government collapsed in 2003, the shape of these efforts began to shift. The U.S. government discovered that Iraq's infrastructure was in far worse condition than some pre-war assessments had indicated and that reconstruction would be far more extensive and costly than originally anticipated.

The U.S. government responded to this challenge by appropriating billions of dollars to assist Iraq in reviving its infrastructure and economy. Early on, a number of different organizations were involved in efforts to administer and manage the contracts awarded. The efforts engaged multiple U.S. government agencies with overlapping jurisdictions and diverse capacities. These agencies applied a variety of approaches to similar contracting and procurement requirements, resulting in methodologies and outcomes that occasionally came into conflict. However, the two primary U.S. military organizations providing management and administration of reconstruction contracts were the Gulf Region Division (GRD) of the U.S. Army Corps of Engineers (USACE) and the Air Force Center for Engineering and the Environment (AFCEE), a field operating agency of the Air Force Civil Engineer. Officials involved in reconstruction efforts, including those of USACE-GRD, AFCEE, and their customers, have raised questions about the organizations' management and administration of reconstruction contracts, particularly the fees they charge.

Responsible Organizations

USACE-GRD

USACE has been involved in Iraq reconstruction efforts since March 2003, providing contingency engineering support through the deployment of field engineering teams and electricity/oil-restoration task forces. To consolidate its Iraq operations under a single general officer and to provide long-term engineering support for military operations, the USACE activated GRD in January 2004.

GRD initially served as construction manager for the Program Management Office (PMO) that was created in August 2003 by the Coalition Provisional Authority (CPA) Administrator to execute the Iraq reconstruction program. In May 2004, National Security Presidential Directive 36, *United States Government Operations in Iraq*, established the Project and Contracting Office (PCO) to provide acquisition and project management support for activities in Iraq. In June 2004, the Deputy Secretary of Defense established the PCO within the Department of the Army and directed the new office to provide support to the Chief of the U.S. Mission in Iraq for all activities associated with financial, program, and project management for both construction and non-construction activities.

In February 2005, the Assistant Secretary of the Army for Acquisition, Logistics and Technology requested a business plan to consolidate PCO and GRD. A month later, the PCO provided a plan that recognized GRD's increasing role in the reconstruction program and helped streamline

management of the overall reconstruction effort. For efficiency purposes, the two agencies merged on December 4, 2005, and subsequently GRD assumed full responsibility for providing engineering services and construction capabilities. GRD's mission is to provide full-spectrum, high-quality, sustainable, and responsive engineering and logistical services in support of the civil/military reconstruction. In addition, it is assisting the Government of Iraq to assume full responsibility for national infrastructure.

Throughout the country, GRD is responsible for executing a wide variety of infrastructure reconstruction projects. It manages them from GRD Headquarters in Baghdad and its three Iraq Districts—Gulf Region North, Central, and South. To keep GRD's size to a workable minimum, the Corps of Engineers' Transatlantic Program Center, in Virginia, provides support—including administration services, contracting, design and technical assistance—on a cost-reimbursable basis. GRD has operated without specified authorized positions; uniformed military personnel and civilian volunteers were diverted from other USACE divisions and districts, as well as Army, Navy, and Air Force commands, to staff the organization.

During FY 2005, GRD had 115 military personnel and 383 civilian employees. As of September 2007, GRD had a total staff of over 1,000, including 178 military personnel, 333 civilian employees, and about 500 contract employees. At that time, the organization's stated requirement was for 190 military personnel—93 for Headquarters and the remaining 97 for the Districts—and for 442 civilian employees, with 131 for Headquarters and 311 for the Districts.

GRD personnel are primarily providing the construction management and quality assurance for Iraq reconstruction projects, but they do not work exclusively in that area. Additional responsibilities involve them in U.S. military construction, logistics operations, and other military operations and maintenance efforts in Iraq.

AFCEE

In 1991, AFCEE—known as the Air Force Center for Environmental Excellence until June 2007—was created as a Field Operating Agency of the Air Force Civil Engineer, headquartered in Texas. AFCEE's mission is to provide military housing construction and privatization as well as technical and professional services in environmental and installation planning and engineering. Throughout the 1990's, construction became a larger part of its mission.

AFCEE began operations in Iraq early in the reconstruction process, when the CPA started to look for ways to quickly renovate facilities for the New Iraqi Army. Because of urgent reconstruction requirements and limited time—six months—to meet its June 2004 construction targets, the CPA sought faster ways to execute contracts than doing it through USACE. In December 2003, the CPA requested, with the Joint Chief of Staff's approval, that AFCEE be authorized to use its existing Worldwide Environmental Restoration and Construction (WERC) Indefinite Delivery, Indefinite Quantity (IDIQ) contracts as a temporary vehicle to begin this work.

The WERC contracts were the fifth in a series of worldwide environmental/construction contracts that began in the early 1990's. They were awarded after a two-tiered competition process. At first, 40 contractors submitted proposals, and in November and December 2003, contracts were awarded to 27, including 16 small businesses. The 27 awarded contracts were

identical, with the exception of the contractor's rate structure and its various partners and subcontractors. A second level of competition began when an individual task order was issued. Any of the 27 contractors could submit proposals. AFCEE officials awarded the task order after evaluating the contractors' proposals using technical and cost selection criteria.

The WERC contracts were followed by Heavy Engineering Repair and Construction (HERC) contracts that were awarded in April 2006 and remain active today. The same two-level competition process that existed for WERC contracts exists for HERC contracts. For the latter, 20 contractors, including six small businesses, were awarded contracts. Each of the contracts has a five-year basic ordering period plus up to three one-year options.

AFCEE, as of September 2007, employed 401 civilians and 34 military personnel. However, only a small portion of them are involved in Iraq reconstruction, which is under AFCEE's Capital Investment Execution Division, Contingency Operations Branch. The Branch has offices located in Baghdad and Texas. As of September 2007, the Branch had 21 government employees and 20 on-site contractors provided by two Global Engineering, Integration, and Technical Assistance (GEITA) firms. (GEITA is an IDIQ contract maintained by AFCEE to provide program- and project-level technical support to AFCEE and its customers.) Although AFCEE has no contracting officers in Iraq, it maintains, on a rotating basis, two military and four civilian personnel there. The civilian positions are assigned on a four-month rotation basis, with military rotations for a longer period. Some of the GEITA contractors' employees are also based in Iraq.

Most of AFCEE's services, including construction quality assurance, are provided by professional-services contractors. As of September 2007, the organization's quality assurance contractor, Versar, was providing 336 quality assurance personnel, including expatriate, third-country, and Iraqi nationals to support the Iraq program. According to AFCEE, these contractors' quality assurance personnel act as the "eyes and ears" for its contracting officer. They are to provide conventional Title II (quality assurance) services for Iraq construction projects. The services include, but are not limited to, contractor- performance monitoring, management and inspection services, job-site evaluations, contractor-payment reviews, submittal reviews, plan reviews, and construction documentation. Inspection services include routine, pre-final, and final walk-through assessments of the projects.

AFCEE operates on the concept that government staffing can be kept to a minimum by leveraging the contracting officer representative with contractor support and quality assurance personnel. AFCEE officials state that contractor staffing is continually assessed and adjusted as needed. Even though AFCEE does not have a set number of projects assigned to a contracting officer representative on a formula basis (i.e., one for 25 projects), it does expect its contracting officer representative to manage many task orders when augmented by support and quality assurance personnel. In general, AFCEE plans to have a minimum of two quality assurance inspectors at each site, but, depending on the size of the site and level/complexity of the work, as many as six inspectors could be required.

Objective

The SIGIR reporting objective was to (1) compare and contrast GRD and AFCEE management and administration of Iraq reconstruction projects, including the services provided and fees charged, and (2) determine the extent to which DoD has assessed the efficiency and cost effectiveness of these activities.

For a discussion of the audit scope and methodology and a summary of prior audit coverage, see Appendix A; Appendix B identifies the acronyms used in this report; and Appendix C lists the audit team members.

USACE-GRD and AFCEE Differ in Approaches, Services, and Fees

USACE-GRD and AFCEE combined have managed and administered over \$10.3 billion of Iraq reconstruction contracts and charged about \$535 million in fees for their services. As of September 30, 2007, GRD had managed and administered about \$6.3 billion, or over 60 percent of the total amount, and charged about \$418 million in fees; the corresponding numbers for AFCEE were about \$4.0 billion and about \$117 million. GRD's primary customers were the PMO and the PCO, its predecessor organizations. GRD customers have also included the Multi-National Force-Iraq (MNF-I), the U.S. Agency for International Development (USAID), and other organizations. AFCEE has performed almost all of its work for the Multi-National Security Transition Command-Iraq (MNSTC-I), which was established by the MNF-I to help build the New Iraq Army.

Both USACE-GRD and AFCEE have provided construction services that included project management and design, contract administration, fiscal and administrative management, and quality assurance. Specific services varied according to such factors as type of project and contract, and customer needs. In providing these services, the organizations must comply with the myriad of laws and regulations that govern DoD contracting and construction activities.

The major differences in GRD's and AFCEE's initial responsibility for construction projects in Iraq were most evident in the pre-design and construction phases of their projects. At the beginning of reconstruction, GRD's work involved design-build contracts, awarded by PMO, that required more direct and extensive involvement in the design and construction phases. AFCEE, on the other hand, provided no pre-design services for any of its contracts and did not include detailed design in its approach. Also, because AFCEE was able to use its existing IDIQ awards as a vehicle to begin approving reconstruction projects, it was able to minimize procurement activities. Another distinction between the organizations business models is that GRD primarily depended on its military and civilian employees for quality assurance and other management and administrative services, while AFCEE relied on contractors to provide many of its services.

In a gross comparison, GRD's fees appeared much higher than AFCEE's. GRD's fees ranged from 4% to 9.2% depending on the program and the required work. For full contract supervision and administrative services, it generally charged 6.5%. AFCEE's initial fee for comparable services was 1.5% of project cost, but its fee in the past year has increased to just over 3%. In general, (1) both charge fees intended to recover costs, (2) neither recorded actual costs on individual projects, and (3) both recognized that costs would be higher than the fee on some projects and lower on others, with total fees adjusted to recover costs. However, there is little comparability and transparency of the fees charged and services provided by the two organizations.

The following sections provide additional details on USACE-GRD and AFCEE projects, services, and fees.

USACE-GRD

USACE-GRD uses a number of options to solicit and award new contracts—from the traditional design-build contracts to awarding a task order on an existing IDIQ contract. For the Iraq reconstruction program, many of the projects managed by GRD were done under contracts awarded by Joint Contracting Command–Iraq/Afghanistan (JCC-I/A), which was created in November 2004 to centralize contracting in the region, or its predecessor organizations.

During the initial reconstruction phase of Operation Iraqi freedom, design-build, cost-plus award-fee contracts were determined to be the appropriate acquisition vehicle, given the magnitude of the program, the high levels of technical, schedule, and cost uncertainties, and the need for flexibility in a changing security environment. Eleven design-build, cost-plus contracts were awarded in March 2004 using full and open competition. These contracts allowed USACE-GRD to issue both cost-plus and fixed-price type task orders. The majority of task orders were issued on a cost-plus basis. USACE-GRD officials noted that issuing fixed-price orders is contrary to Federal Acquisition Policy if high levels of risk and uncertainties exist. Fixed-price orders, they noted, can drive contractors to factor in costs to cover high levels of risks and to submit prices that cover all potential costs related to mitigating these risks, resulting in unreasonably high prices.

In the summer of 2004, USACE-GRD began to move away from contracts with large multi-national firms for design-build projects to contracts with local and regional firms for smaller, shorter-term projects. With the shift, USACE-GRD engaged more directly in reconstruction contracting, as opposed to a previous role that was largely confined to project management and quality assurance. According to USACE-GRD, the current reconstruction program relies almost exclusively on direct, fixed-price contracts using full and open competition. GRD notes that in September 2007, about 90% of its construction contracts were awarded to Iraqi firms. As new construction requirements arise, awards can be made by GRD, the JCC–I/A, or other USACE contracting offices.

Numbers and Types of Projects

Of GRD’s funding for reconstruction projects, about 40% has been directed toward the electricity sector for projects involving generation, transmission, and distribution. GRD’s *Reconstruction Snapshot* as of September 29, 2007 reported 3,641 projects completed and summarized projects by sector:

Electricity

- A total of 581 planned projects, 424 completed with 113 ongoing
- Of the 1,983 megawatts planned, 1,520 megawatts had been added and restored, increasing electrical capacity to serve 1.3 million households.
- Electrical transmission grid strengthened and stabilized through the completion of 26 132/400 kilovolt substations and one overhead-line project.
- Construction of 68 33/11 kilovolt substations completed.

Oil

- A total of 102 projects were planned, 76 completed, and 14 ongoing.
- Production-capacity goals for natural gas and liquefied petroleum gas had been met.

Water

- A total of 883 projects planned, 667 completed, and 165 ongoing.
- Of those, 581 were water treatment and sewage projects, with 462 completed and 105 on-going.
- Of the 1.1 million cubic meters per day of potable water planned, 537,000 cubic meters per day of water treatment capacity had been achieved, with the remaining capacity under construction.

Facilities

- A total of 2,785 projects were planned, with 2,474 completed and 224 ongoing.

Transportation and Communication

- 1,032 village road projects completed. An additional 88 village road projects were ongoing.
- 100 railroad-renovation projects completed.
- 15 of 25 aviation projects, affecting three airports, completed.
- 8 port projects completed.

Health and Education

- 63 Primary Healthcare Centers turned over to the Iraq Minister of Health, with 57 projects ongoing.
- Of 26 hospital-renovation projects planned, 16 completed and 10 ongoing.
- Renovation or construction of 1,004 schools completed.

Security and Justice

- Construction of 155 border forts and 10 point-of-entry facilities completed (includes MNSTC-I projects).
- Renovation of 97 fire stations completed.
- Work on 40 courthouses completed, with 10 others ongoing.
- Construction/rehabilitation of five correctional facilities—to provide 8,000 beds and improve conditions in the facilities—in progress.

Basis for and Amount of Fees

When GRD was being established, USACE proposed, and the Principal Deputy, Office of the Secretary of Defense, Comptroller approved, charging for GRD construction management services on an actual-cost basis and using target rates for budgeting purposes; each project was to be charged the same flat rate, with the rate adjusted periodically to match actual costs incurred. Except for those relating to security, GRD planned to recover all construction management costs incurred by its Districts. USACE recognized that security-related costs would be additional and need to be funded from other sources. Also, recognizing that receipts from established rates and actual costs would not always be equal, USACE anticipated recovering actual costs by increasing or reducing rates according to the actual costs. However, under the USACE business model, costs were not charged against individual projects, but are charged against program accounts. For that reason, there is no basis for readily determining costs incurred on specific projects.

The rate structure used for Iraq reconstruction projects was based on traditional USACE rates used for military construction and operation and maintenance projects outside the continental United States. GRD charged a fee of 4% of construction placement if it did not award and administer the contract, but provided supervision, inspection and overhead (SIOH). If GRD awarded and administered the contract and provided the full range of project management and contract supervision and administrative (S&A) services, it usually charged a fee of 6.5% of construction placement. However, for Commanders Emergency Response Program (CERP) projects, GRD charged its Operation & Maintenance (O&M) fee of 9.2% instead of the 6.5% fee. USACE used its 9.2% fee because it views CERP projects as smaller than reconstruction projects and more like O&M projects.

If contract management or administrative services for reconstruction projects were not provided by GRD's Districts, but by GRD Headquarters or JCC-I/A, the costs were paid from Global War on Terrorism (GWOT)³ funds and not recovered through fees. For example, USACE planned to recover actual costs when GRD Districts provided planning and design for a project and to budget the planning and design at about 3%. However, USACE and GRD officials stated that most planning and design work was done not by the Districts but by its Headquarters, with the costs paid from GWOT funds. USACE and GRD officials said that in addition to planning and design, GRD Headquarters was involved in other aspects of managing and administering reconstruction projects. For these projects, costs were paid with GWOT funds, not from charged fees.

USACE did not have data on the amount of construction and/or GWOT funds involved in these GRD Headquarters projects. Officials stated that this was not the traditional USACE model for division/district operations, but was based on the PCO business processes in place before construction management was transferred to GRD. They added that efforts had been made to move all project related efforts from Headquarters to its Districts and to recover costs through charged fees and that by June 2007 virtually all project activities were moved to the Districts.

³ GWOT includes various military, political, legal, and personnel actions taken to curb the spread of terrorism. Funds were appropriated primarily to support military operations and maintenance, procurement, construction, and military personnel.

USACE charged actual costs for services on projects that did not directly support U. S. forces, such as those involving other U. S. government agencies. For example, GRD charged USAID for actual costs for oversight and assistance on an Iraq reconstruction contract with Bechtel. At the end of the contract, in February 2007, total costs reported were \$1.33 billion, and physical construction costs were about \$700 million; GRD was paid about \$24 million for construction quality assurance, or about 3.4% of physical construction costs.

As shown in Table 1, a major portion of GRD’s fees were for its supervision, inspection, and overhead services charged at the 4% rate. The FY 2007 amounts for construction placement and fees include obligations at the end of the fiscal year.

Table 1: GRD Construction Placement and Fees Charged by Fiscal Year as of September 30, 2007 (dollars in millions)

	2004	2005	2006	2007	Total
Construction Placement	\$479.5	\$2,021.0	\$1,772.8	\$2,020.7	\$6,294.0
Fees (including “at cost” income)					
Planning & Design (At Cost)	6.7	6.4	34.8	22.8	70.7
Supervision & Administration (6.5%)	0	32.1	19.9	30.0	82.0
Supervision & Administration (9.2%)	0	0	0.7	19.8	20.5
Supervision, Inspection & Overhead (4%)	4.0	53.2	54.2	50.8	162.2
Other than U.S. Forces (At Cost)	9.0	11.7	8.0	54.0	82.7
Totals Fees	\$19.7	\$103.4	\$117.6	\$177.4	\$418.1

Source: SIGIR table compiled from USACE-provided data.

Note: Numbers may not add due to rounding.

While GRD’s fees have not been revised since their establishment in 2004, some security and life support costs that were initially being charged against construction projects are now being centrally funded by U. S. Army Operation and Maintenance (O&M) appropriations. GRD officials did not intend the fees to cover project-related security charges for its District offices. USACE initially planned that U. S. Army Central Command (CENTCOM) would provide security for all GRD operations.

However, in FY2004 and FY2005, only GRD Headquarters’ security costs were centrally paid, with the security costs at the Districts being charged against construction projects. Then, in June 2004, when the Department of Army advised that security costs for the Districts must be paid from project funds, a policy decision was made to establish a security surcharge rate of 9% beginning in October 2004. However, the surcharge was implemented for only a short period, and a deficit was incurred through the end of FY 2005. The PCO provided funds to eliminate the deficit for security and life support, and subsequently, all such costs have been paid by

CENTCOM. For GRD projects, therefore, neither fees nor total construction cost includes the expenditures for security and life support.

Table 2 shows the amounts and types of GRD costs incurred—as of September 30, 2007—on reconstruction projects and charged against the 4% SIOH fee and 6.5% S&A fee. The costs covered under these two fee categories are provided to illustrate the amounts and types of GRD costs. As can be seen in the table, the bulk of these costs were for services provided by private contractors and for employee salaries and benefits. The costs do not include salaries and benefits for military personnel, which are paid from military personnel appropriations and not recovered by fees. USACE officials report that GRD’s income from these two fees, as of September 2007, exceeded costs by about \$25 million. However, the officials note that reconstruction projects are not finished, and that GRD will incur additional costs. If funds remain, USACE will use the balance to pay audit, and contract and program close-out costs.

Table 2: GRD’s Project Management and Administrative Costs for Selected Fees as of September 30, 2007 (dollars in thousands)

	2004	2005	2006	2007	Total
SIOH (4%)					
Labor/Salaries	\$2,056	\$17,262	\$10,374	\$7,516	\$37,208
Employee Benefits	381	3,197	1,842	1,472	6,892
Overhead (includes travel & training)	503	4,223	2	4,376	9,104
Private-Sector Construction Services	3,950	33,168	26,478	7,897	71,493
Total SIOH Costs	\$6,890	\$57,850	\$38,696	\$21,261	\$124,697
S&A (6.5%)					
Labor/Salaries	32	7,792	5,728	6,311	19,863
Employee Benefits	6	1,461	1,027	1,231	3,725
Overhead (includes travel & training)	20	4,838	4,077	3,399	12,334
Private-Sector Construction Services	37	9,134	5,582	8,531	23,284
Total S&A Costs	\$95	\$23,225	\$16,414	\$19,472	\$59,206

Source: SIGIR table compiled from USACE-provided data.

Note: Numbers may not add due to rounding.

AFCEE

After receiving a requirement for Iraq’s reconstruction, AFCEE provided contract and project management services by using government and contractor personnel. All contracting actions were conducted from its Texas headquarters. AFCEE lists 18 contracting services that it

provides, including releasing requests for and receiving proposals, conducting negotiations, making awards, and managing day-to-day oversight of task orders.

AFCEE's business model for managing its Iraq projects was initially set forth in a November 2005 draft concept of operations that was finalized in January 2007. The concept provides for using task orders that involve cost-plus fixed-fee awards, to allow greater flexibility in accomplishing the scope of the work on schedule and to avoid work stoppages to renegotiate the orders. AFCEE officials reported that construction contracts and task orders are awarded to companies that subcontract predominantly to Iraqi firms, which in turn employ local workers. AFCEE reports that for its Iraq contracts, 90% of the construction labor and 72% of the construction management labor was provided by Iraqis.

AFCEE's business model also uses its Conceptual Work Plan (CWP)/Implementation Work Plan (IWP) approach to streamline the start of work by allowing the modification and updating of construction plans as revisions are approved. Under AFCEE's approach, a contractor, upon receiving notice to proceed, initiates planning activities, site preparation, and subcontracting activities as part of developing the CWP. The latter is to include simple diagrams and preliminary schedules laying out how the work will be accomplished. After CWP approval, the contractor begins construction and transitions into the IWP.

AFCEE describes the IWP as a living document that is modified and updated as needed to reflect changes in project-completion requirements. The work plans are to provide sufficient details to enable the customer to determine the acceptability of the construction product and to facilitate local subcontractor bids and construction. AFCEE states that this business model requires customer teamwork to provide for faster delivery while maintaining quality and providing flexibility.

Numbers and Types of Projects

Initially, AFCEE's role in the reconstructions of Iraq was to meet an urgent CPA reconstruction requirement—estimated at \$238.6 million—for the New Iraqi Army. In January 2004, AFCEE made the first four awards, valued at \$191 million, for the reconstruction of facilities. The next group of eight task orders, valued at \$247.8 million, also for reconstruction of facilities, was awarded in March and April. However, in May, AFCEE began awarding task orders for reconstruction of schools, government office buildings, and other projects beyond the scope of the original requirement. A prior SIGIR report⁴ addressed this expanded scope and recommended that an agreement be made to clarify the extent and nature of AFCEE's support. In June 2005, AFCEE signed a Memorandum of Agreement (MOA) with MNSTC-I to detail their respective contract responsibilities.

From the initial four task orders in January 2004 through September 2007, AFCEE has awarded a total of 245 task orders for 590 projects and obligated over \$4.0 billion for reconstruction. It reports that 125 of the task orders, for 348 projects costing about \$2.2 billion, have been completed. In addition, 33 task orders and modifications for \$301 million are identified as pending. AFCEE summarizes its construction accomplishments as 4,217 facilities totaling over 60 million square feet. The construction includes

⁴ SIGIR 04-004, Task Orders Awarded by the Air Force Center For Environmental Excellence, July 28, 2004

- barracks, dinning halls, offices, etc.,
- schools (457 repaired),
- medical facilities (11 clinics),
- a ministry building,
- airports (3 repaired and expanded),
- roads (534 miles),
- fence (174 miles),
- water and sewer lines (179 miles),
- border forts (14), and
- police stations (230).

Basis for and Amount of Fees

In December 2003, when CPA requested AFCEE to use its competitively awarded contracts, it transferred \$2 million to cover AFCEE’s initial costs. Later, an additional \$500,000 was transferred. However, no agreement existed as to the financial arrangements or the basis for reimbursement. When it became apparent that AFCEE involvement in Iraq reconstruction would continue for a number of years, AFCEE officials recognized the need to establish a set fee to cover their incremental costs. The June 2005 MOA that AFCEE signed with MNSTC-I provided for “reimbursable orders at an adjustable percentage rate (FY 05 rate is 1.5%; herein referred to as “fee”) of the total program contracted for MNSTC-I.”

The fee of 1.5% was established to cover expected incremental expenses that AFCEE projected based on the volume of work to be contracted. From early 2005 until April 2006, each purchase request included this fee as part of the project. However, due to the growth in number of projects and the need to lessen administrative burdens, the fee structure changed from a percentage of each project to a percentage of the entire program. In April 2006, MNSTC-I began sending fees as a lump sum covering the expected volume of the annual obligation.

The initial AFCEE construction task orders—issued from January 2004 to September 2004—did not include costs for quality assurance, which was being done by GRD. In October 2004, as the number of both AFCEE and GRD projects increased, AFCEE turned to Versar, a private company, to provide the needed quality assurance oversight. According to AFCEE, GRD had been responsible for quality assurance on the first 29 task orders, valued at about \$655 million, and Versar assumed responsible for quality assurances on the subsequent 16 task orders. As a result of this transition, quality assurance oversight became the largest single cost paid from the AFCEE fee. Of its 1.5% fee, AFCEE officials reported that about two thirds, or 1%, was for quality assurance oversight.

As the number of construction sites increased, the need for additional quality assurance inspectors forced an increase in AFCEE’s fee to 2.5%. Subsequently, in May 2007, AFCEE’s agreement with MNSTC-I was revised to eliminate the percentage fee and provide for full recovery of all incremental costs. AFCEE data shows that the fee for FY 2007 was 3.1% and

officials estimated the fee for FY 2008 could be between 3% and 4% of project amounts, depending on the size of the reconstruction program and costs incurred. They further pointed out that the fees being collected would not meet out-year funding needs. They stated that even if task orders were not issued after the fall of 2007, construction and warranty oversight costs could extend through 2009 and contract closeout costs through 2012. Therefore, AFCEE officials acknowledge that funds will be needed from MNSTC-I in future years to meet these costs.

Table 3 shows by fiscal year, as of September 30, 2007, the amounts AFCEE obligated for construction and for management and administrative costs. AFCEE officials reported that some of the funds, as shown by the table, were unobligated as of September 30, 2007, and available for FY 2008 costs. Except for these funds, AFCEE costs incurred and fee charged are the same. AFCEE's management and administrative costs include those (1) initially paid by AFCEE but then reimbursed—civilian pay, travel, contracts, supplies, and (2) directly paid from funds transferred to AFCEE—quality assurance and technical assistance. AFCEE's fee does not recover security and life support costs. These costs are included in the contractor's costs.

Table 3: AFCEE's Construction Obligations and Costs and Fees by Fiscal Year as of September 30, 2007 (dollars in thousands)

	FY 2004	FY 2005	FY 2006	FY 2007	Total
Construction Obligations	\$530,584	\$1,111,051	\$1,345,532	\$1,035,625	\$4,022,791
Costs					
Civilian Pay	547	1,460	1,928	2,782	6,716
Travel	76	190	290	351	906
Contracts	1,737	164	19	52	1,972
Supply/Miscellaneous.	25	9	21	138	194
Title II (Quality Assurance)	0	5,162	19,351	57,917	82,430
GEITA (Technical Assistance)	0	3,433	6,637	11,624	21,693
Miscellaneous	0	17	20	0	37
Total Costs	\$2,385	\$10,435	\$28,265	\$72,863	\$113,948
Funds available for FY 2008	0	0	0	0	2,744
Total Fees	\$2,385	\$10,435	\$28,265	\$72,863	\$116,692

Source: SIGIR table compiled from AFCEE-provided data.

Note: Numbers may not add due to rounding.

DoD Has Not Assessed the Differences

SIGIR found that no analysis had been made by the Office of the Secretary of Defense to determine (1) the merits of the differing business models, approaches, and practices employed by USACE-GRD and AFCEE and (2) the circumstances under which one or the other might most effectively be employed to ensure the most efficient, expeditious, and cost-effective approaches and practices in meeting reconstruction needs. Both USACE-GRD and AFCEE have made limited comparisons highlighting the benefits of their approaches. But these comparisons, for the most part, were based on generalizations rather than specific analysis, and SIGIR found each of them to be incomplete. The Under Secretary of Defense, Acquisition, Technology and Logistics (USD, AT&L) is responsible for monitoring the execution of the military construction program to include emergency, contingency, and other un-programmed construction projects, in order to ensure the most efficient, expeditious, and cost-effective accomplishment of the construction program. A more thorough analysis at the Office of the Secretary of Defense level could provide the basis for enhanced policy guidance to facilitate decisions concerning the use of the organizations and their approaches.

Over the past two years, both USACE and AFCEE have compared the two agencies' specific reconstruction-management approaches and practices and have attempted to highlight their respective benefits. In January 2006, in response to a request from the Office of Security Cooperation-Afghanistan, USACE prepared a briefing document that compared engineering options available from USACE and AFCEE for project development and execution in Afghanistan. SIGIR found that the document contained limited detailed data and, for the most part, presented generalizations rather than specifics developed through detailed analysis. Subsequently, an AFCEE official prepared briefing points intended to show that AFCEE's project development and execution capabilities were better suited for reconstruction projects than those of USACE. The briefing points depicted AFCEE as being able to provide as full a range of services and capabilities as USACE while achieving faster project execution, higher-quality contractor performance, and lower management and contractor costs. However, AFCEE lacked analytical data to substantiate its briefing points and conclusions. Furthermore, during SIGIR's review, AFCEE officials stated that these points did not represent the official AFCEE position.

USACE responded in March 2006 that the AFCEE comparison contained "substantive inaccuracies and misleading characterizations regarding USACE capabilities and practices." USACE's briefing listed the AFCEE points, but went on to present additional information that tended to emphasize USACE capabilities, approach, and performance and counter those of AFCEE. The USACE briefing clarified some information presented by AFCEE; however, SIGIR found that it also contained unsubstantiated claims and did not fully resolve questions related to differences in approaches, services, and fees. For example, data and analysis were not available to support the claim that "USACE costs are competitive or lower when considering the full cost of management and execution, placing less of a burden on the customer."

Both GRD's and AFCEE's comparisons provided limited details on a comparative basis regarding business models, services provided, and fees charged. Therefore, based on available information, SIGIR compiled Table 4 to summarize the services provided by GRD and AFCEE for their reconstruction projects in Iraq and the related fees charged and costs recovered.

Table 4 – GRD and AFCEE Services Provided for Iraq Reconstruction Projects

Services	GRD	AFCEE
Project Planning and Design	<p>Done by GRD Districts with costs budgeted at about 3%, but actual costs recovered, or</p> <p>Done by GRD Headquarters with actual costs paid from GWOT funds or performed by contractor in design-build contracts, with the costs included in overall contract costs. These costs are not included in GRD fees.</p>	<p>Not provided directly by AFCEE, but it does assist the customer with project planning and requirements definition. Project design is accomplished as part of its CWP/IWP process, and project design costs are included in contract costs.</p>
Procurement	<p>Done by GRD Districts with costs recovered by fees of 6.5% or 9.2%, or</p> <p>Done by GRD Headquarters or JCC-I/A with GWOT funds. These costs not included in GRD fees.</p>	<p>Two-step procurement with IDIQ contracts and task orders. AFCEE's fees did not recover the costs of awarding the IDIQ contracts because they were awarded in support of other requirements. AFCEE'S fees did recover the costs of awarding applicable task orders.</p>
Project Management	<p>Done by GRD Districts and costs recovered by fees of 6.5% or 9.2% after a GRD District or JCC-I/A provides contracting and procurement services, or</p> <p>Some program/project management done by GRD Headquarters with GWOT funds. These costs not included in GRD fees.</p>	<p>Done by AFCEE and included in collected fees. Some project management costs were included in contract costs because, under AFCEE's processes, design and construction are completed concurrently as projects advance.</p>
Project Supervision and Administration	<p>Done by GRD Districts and costs recovered by fees of 6.5% or 9.2% if full contract supervision and administrative services provided or by 4% fee if only supervision, inspection, and overhead provided, or</p> <p>Some program/project management done by GRD Headquarters with GWOT funds. These costs not included in GRD fees.</p>	<p>Under AFCEE's first task orders, quality assurance was provided by GRD and charged separately at 4% to the customer. When AFCEE initially established its 1.5% fee, the fee recovered its quality assurance contractors' costs of about 1%. Later, AFCEE increased its fee to recover the costs of additional quality assurance inspectors. In FY 2007 AFCEE charged 3.1% to cover all its costs.</p>
Post-Construction, including Closeout and Claims Adjudication	<p>Done by GRD when full contract management provided and the 6.5% or 9.2% fee charged; but not done by GRD when only the 4% construction management fee charged. However, warranty costs are recovered under all GRD fees.</p>	<p>Done by AFCEE. If incurred to date, these costs recovered by AFCEE's fees. To the extent that such costs will be incurred in the future, they will be covered by future-year fees.</p>

Source: SIGIR table compiled from data provided by USACE-GRD and AFCEE.

While Table 4 provides a comparison between GRD and AFCEE approaches, services, and fees, a more comprehensive and complete side-by-side comparison is difficult. Also, differences between the two models and approaches could depend on the facts and circumstances for any given reconstruction project and its accompanying requirements. Furthermore, neither USACE-GRD nor AFCEE has readily available data that would permit a balanced and thorough assessment of the business practices, benefits, and costs of their management and administration of reconstruction contracts. Accordingly, SIGIR's audit results do not provide the in-depth comparative analysis needed to identify lessons learned and address other issues related to business models, services, fees, cost recovery, business models, etc. While SIGIR's audit results provide a foundation for such an analysis, a separate and more substantial effort is needed.

Based on DoD Directive 4270.5, the responsibility for a comparative analysis of USACE-GRD and AFCEE could lie with the Under Secretary of Defense, Acquisition, Technology and Logistics (USD, AT&L). Under the Directive, USD, AT&L responsibilities include (1) general oversight over the military construction program and (2) ensuring that the Deputy Under Secretary of Defense, Installation and Environment (DUSD, I&E) monitors the execution of the military construction program to ensure the most efficient, expeditious, and cost-effective accomplishment of the program by DoD construction agents. Although the reconstruction in question is not military construction, the Directive also applies to DoD emergency, contingency, and other un-programmed construction projects.

The lack of more detailed information regarding services and fees, as well as the need for a more-substantive comparative analysis, was discussed with DUSD, I&E officials and an Under Secretary of Defense for Policy official. DUSD, I&E officials said that a SIGIR report and potential recommendations on these matters would be of interest to several groups, but that the level of interest would depend on whether the report's emphasis was on Iraq reconstruction or the broader military-construction program. If focused primarily on reconstruction in Iraq, they stated that the Joint Staff would have a vested interest in the report recommendations. From the broader policy perspective of military construction, according to DUSD, I&E officials, both their office and the Office of the Secretary of Defense, Program Analysis and Evaluation would have a vested interest. The officials believed that, in either case, the Military Departments would have a vested interest and should be included. The Under Secretary of Defense for Policy official stated that, in his view, the issues extended beyond Iraq reconstruction and included the overall business models of USACE-GRD and AFCEE.

SIGIR's work specifically addressed only the Iraq reconstruction effort. However, issues that surfaced, such as differences in business models, basis for fees, and accounting and reporting issues, extend to military construction in general. A comparative analysis, involving many different offices within DoD, could address reconstruction efforts specifically and the broader perspective of military construction in general.

Conclusion and Recommendation

Conclusion

Both USACE-GRD and AFCEE are providing contract management and administrative services, and DoD needs to ensure that each organization is (1) being used to its best advantage, (2) charging fees that are appropriate for the services provided, and (3) recovering all costs that are appropriately included in fees. In addition, USACE and AFCEE play different roles within DoD and apply different business models in support of their respective missions. SIGIR believes that “best practices” can be identified and used by the DoD civil engineering community. Identifying these best practices could promote further cost efficiencies and process improvements. While costs and fees are an important point in a comparative analysis, other key points of comparison could include:

- Services Needed—complexity and extent of design and engineering services
- Speed of Execution—time required to award contracts and complete construction
- Contractor Performance—incentives and other means used to reward high-quality performance
- Management Costs—fees and other costs in awarding and managing projects
- Contractor Costs—portion of contract cost that goes to construction versus security, overhead, etc.
- Legal Analysis—laws and regulations that impede or limit efficient and effective performance.

A comparative analysis also could consider whether a managed degree of competition between USACE and AFCEE—organizations with different business models, fees, and approaches for reconstruction efforts—would be beneficial. While both of these government organizations are expected to strive to execute work in a cost effective manner, competition serves as an effective incentive to improve performance and reduce costs.

Recommendation

Because of the potential for involvement and interest of several organizations within DoD and the military departments, SIGIR recommends that the Secretary of Defense direct a thorough and detailed comparative analysis of the construction administrative and management services provided by USACE-GRD and AFCEE. The analysis should examine the business models used, types of services provided and means by which they are provided, the fees charged and means by which costs are recovered and accounted for, and the elements of costs that are being recovered.

Management Comments and Audit Response

The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics and USACE-GRD provided written comments on a draft of this report, and AFCEE provided informal comments. The comments are included at the end of this report. The Office of the

Under Secretary of Defense stated that the SIGIR effort justified further study of how best to meet reconstruction and contingency construction requirements and that a “best practice “ approach will be referred for action to the Tri-Service Engineer Board. The Office non-concurred with the overall report, suggesting it lacked a comparative analysis to support the report’s recommendation. Also, in response to a SIGIR conclusion that an analysis could consider whether a managed degree of competition would be beneficial, DoD responded that its policy does not consider competitive mechanisms within a contingency contracting environment to be desirable. It also expressed concern that the recommendation is not limited to Iraq reconstruction. SIGIR reported that a full comparative analysis was not done, but, as recognized by DoD, believes the work completed and the issues identified justified a recommendation for further DoD analysis. Also, SIGIR agrees that the DoD policy does not provide for managed competition by construction agents. However, the USACE-GRD and AFCEE comparisons discussed in this report show that some competition occurred and SIGIR believes that further analysis should consider how best to manage and benefit from this. Finally, SIGIR work was based on contracting in Iraq; however, its recommendation was not limited specifically to Iraq because the relevant issues, including USACE-GRD’s and AFCEE’s business models, basis for fees, and accounting and reporting, extend beyond Iraq reconstruction.

USACE-GRD’s comments, for the most part, included (1) suggestions for technical changes to SIGIR’s comparison of USACE-GRD’s and AFCEE fees and costs for services, and (2) concerns as to the need for or benefits of USACE and AFCEE competition. SIGIR considered these comments in preparing this final report and made changes as we considered appropriate.

USACE-GRD commented that services provided under its 6.5% fee and those provided by AFCEE under its fee—originally 1.5%, but subsequently increased to just over 3%—are not comparable. SIGIR recognizes that there is little comparability and transparency in the total services provided and fees charged by the two organizations, but it also found that the basic services provided by USACE-GRD and AFCEE under these fees are similar and include project management, contract administration, fiscal and administrative management, and quality assurance. Furthermore, our report discusses differences in the services and fees. USACE-GRD also states that its collected fees include all costs. Again, SIGIR found that USACE-GRD fees did not include all costs. As discussed in the report, GRD Headquarters costs or JCC-I/A costs related to some GRD reconstruction projects are paid from GWOT funds, not from GRD fees. Also, GRD’s fees do not recover expenditures by GRD Districts for security and life support costs related to reconstruction projects. These USACE-GRD comments further illustrate the need for the comparative analysis recommended by SIGIR.

AFCEE, in informal comments, generally concurred with the report.

Appendix A—Scope and Methodology

The SIGIR reporting objective was to (1) compare and contrast GRD and AFCEE management and administration of Iraq reconstruction projects, including the services provided and fees charged, and (2) determine the extent to which DoD has assessed the efficiency and cost effectiveness of these activities.

The audit was performed in accordance with generally accepted government auditing standards, with the primary auditing conducted between July and October 2007. The work was done at DoD and USACE offices in the Washington, DC, area and at the AFCEE office in Texas. In addition, data was obtained from USACE offices in Virginia and Tennessee and from U.S. government officials in Baghdad.

To perform this audit, we used data from various databases, including the USACE Financial Management System and the AFCEE financial reporting and project tracking system. We did not test the general or application controls of these systems or perform detailed audit work on them. However, we believe the data were sufficiently reliable for the purposes of this report.

SIGIR had discussions with USACE and AFCEE officials to identify the policies and procedures in place related to the management and administration of Iraq reconstruction projects. We reviewed numerous USACE and AFCEE documents, including historical construction studies, briefings, and audits; construction policies, procedures, and directives; construction progress reports; project and financial documents; internal correspondence; and congressional testimony.

SIGIR obtained Memoranda of Agreements and other documents that described the relationships and responsibilities of USACE-GRD and AFCEE and the organizations to which they provided services. Also, the organizations and structure used for management and administration of Iraq reconstruction contracts were identified. To the extent data were available, SIGIR identified the number of personnel and contractors used in managing and administering the projects. SIGIR also obtained and analyzed other available data that discuss the approaches and methods used by GRD and AFCEE on Iraq reconstruction projects.

To determine the processes that GRD and AFCEE use in establishing fees for management and administration services, SIGIR reviewed documents and held discussions with officials. We also reviewed financial reports and other relevant data to identify the number of reconstruction projects managed and administered by GRD and AFCEE, as well as the fees collected for these services. Additional data were obtained where required.

SIGIR discussed with USD, AT&L officials, and others in the Office of the Secretary of Defense, the provisions of DoD Directive 4270.5 with regard to oversight and monitoring of construction programs. The views of these officials were also sought on the need for a comparative analysis of USACE-GRD and AFCEE and the appropriate DoD organization to direct or lead such an effort.

Scope Limitation

In planning for this audit, one segment of work considered was selecting a sample of “comparable” USACE-GRD and AFCEE projects to be used in analyzing and assessing the organizations’ business models, services provided, and fees charged. However, these organizations have administered and managed a diversity of construction projects throughout Iraq—each with its own set of requirements, fees, customers, time periods, size, location, use of U.S. military and Iraqi personnel, security considerations, and other unique conditions. SIGIR therefore concluded that (1) identifying truly comparable projects would be difficult, if not impossible and (2) needed data did not exist to accurately compare the quality of the services provided, work performed, costs incurred, and results achieved. As a result, SIGIR neither selected a sample of projects for a comparative analysis nor performed audit work related to the quality, timeliness, and cost of individual projects.

Prior Coverage

We reviewed applicable reports issued by SIGIR.

- Task Orders Awarded by the Air Force Center for Environmental Excellence in Support of the Coalition Provisional Authority (SIGIR-04-004, July 28, 2004)
- Iraq Reconstruction: Lessons in Contracting and Procurement (SIGIR Report Number 2, July 2006)
- Policies and Procedures Used for Iraq Relief and Reconstruction Fund Project Management-Construction Quality Assurance (SIGIR-05-012, July 22, 2005)

Appendix B—Acronyms

AFCEE	Air Force Center for Engineering and the Environment
CERP	Commanders Emergency Response Program
CENTCOM	U.S. Army Central Command
CPA	Coalition Provisional Authority
CWP/IWP	Conceptual Work Plan/Implementation Work Plan
DoD	Department of Defense
DUSD, I&E	Deputy Under Secretary of Defense, Installation and Environment
GEITA	Global Engineering, Integration, and Technical Assistance
GWOT	Global War on Terrorism
GRD	Gulf Region Division
HERC	Heavy Engineering Repair and Construction
IDIQ	Indefinite Delivery, Indefinite Quantity
JCC-I/A	Joint Contracting Command-Iraq/Afghanistan
MOA	Memorandum of Agreement
MNF-I	Multi-National Force-Iraq
MNSTC-I	Multi-National Security Transition Command-Iraq
O&M	Operation and Maintenance
PCO	Project and Contracting Office
PMO	Program Management Office
SIGIR	Special Inspector General for Iraq Reconstruction
SIOH	Supervision, inspection, and overhead
S&A	Supervision and administration
USAID	U.S. Agency for International Development
USACE	U.S. Army Corps of Engineers
USD, AT&L	Under Secretary of Defense, Acquisition, Technology and Logistics
WERC	Worldwide Environmental Restoration and Construction

Appendix C—Audit Team Members

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

David Childress

George Salvatierra

Chuck Thompson

Roger M. Williams

Management Comments

Office of the Under Secretary of Defense



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

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JAN 15 2008

MEMORANDUM FOR OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR
IRAQ RECONSTRUCTION (ATTN: Mr. Glenn D. Furbish)

SUBJECT: Draft Audit Report on Differences in Services and Fees for Management and
Administration of Iraq Reconstruction Contracts

In response to your memo dated December 13, 2007, I non-concur with the subject report, primarily due to a lack of a comparative analysis to support the report's recommendation. Based on the Special Inspector General for Iraq Reconstruction (SIGIR) effort, there is justification to direct further study and the Department of Defense could benefit from insight into how to best meet future reconstruction and contingency construction requirements. Accordingly, identification of a "best practice" approach to reconstruction or contingency construction management and administration will be referred for action to the Tri-Service Engineer Board.

The following comments are provided as rationale for the non-concurrence.

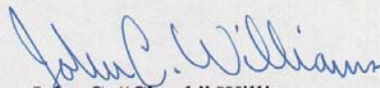
Comment 1. Page 17, Conclusion states, "*A comparative analysis could consider whether...a managed degree of competition would be beneficial.* **DoD policy does not consider competitive mechanisms within a contingency contracting scenario to be desirable. For example, DoD Directive 4270.5, "Military Construction Responsibilities," February 12, 2005, designates the use of DoD construction agents based on Military Department (CONUS) and geographic location (OCONUS).**

Comment 2. Page 17, Recommendation states, "*...the Secretary of Defense direct a thorough and detailed comparative analysis of the construction administrative and management services provided by USACE-GRD and AFCEE.* **The recommendation suggests a comparative analysis of the construction administration and management services will provide insight into efficiencies and process improvement, but there is no conclusion within the report that highlights a shortfall that needs to be addressed. Second, the recommendation is not limited to Iraq construction, but the report scope was limited to Iraq only. Additionally, the key points of comparison do not relate to specific conclusions or shortfalls. The report highlights this lack of**



comparative content and data on page 19, “SIGIR therefore concluded that (1) identifying truly comparable projects would be difficult, if not impossible and (2) needed data did not exist to accurately compare the quality of the services provided, work performed, costs incurred, and results achieved. As a result, SIGIR neither selected a sample of projects for a comparative analysis nor performed audit work related to the quality, timeliness, and cost of individual projects.”

My point of contact for this report is Col. Kenny Weldon, ODUSD(I&E)/IRM, 703-697-9084, kenny.weldon@osd.mil.



John C. “Chuck” Williams
Assistant Deputy Under Secretary of Defense
(Installations)

Management Comments

USACE-GRD



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
GULF REGION DIVISION
BAGHDAD, IRAQ
APO AE 09348

CEGRD-CG

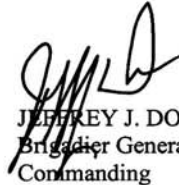
4 January 2008

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

SUBJECT: Draft SIGIR Audit Report – Differences in Services and Fees for Management and
Administration of Iraq Reconstruction Contracts (SIGIR Project 7016)

1. This memorandum provides the U.S. Army Corps of Engineers, Gulf Region Division response to the subject draft audit report.
2. We appreciate the opportunity to comment on the draft report. The Headquarters, U.S. Army Corps of Engineers and Gulf Region Division reviewed the draft report and our comments are enclosed.
3. If you have any questions, please contact Mr. Robert Donner at (540) 665-5022 or his email robert.l.donner@usace.army.mil.

Encl


JEFFREY J. DORKO
Brigadier General, USA
Commanding

COMMAND REPLY
SIGIR Draft Audit Report – SIGIR-08-005
Differences in Services and Fees for Management and Administration of Iraq
Reconstruction Contracts
(Project 7016)

Command Comments. USACE and GRD provide the following comments in response to the subject draft report.

Draft Report, page iii, second sentence and page 5, fourth paragraph. "GRD's fees ranged from 4% to 9.2%, but it charged 6.5% for full contract supervision and administrative services."

Comment. This sentence is misleading. It gives the appearance that fees are all over the board. The report needs to clarify why the fee structure varies. To make the sentence more clear, GRD requests it read as follows; "GRD's fees ranged from 4% to 9.2% depending on the supported DoD program and the level of work effort. The charge for IRRF projects for full contract supervision and administrative services was 6.5%."

Draft Report, page iii, third sentence and page 5, fourth paragraph. "AFCEE's initial fee for comparable services was 1.5% of project cost, but its fee in the past year has increased to just over 3%."

Comment. This statement isn't accurate. AFCEE's fee does not cover comparable services. The auditors recognize this fact in the last paragraph on page 12. "They (AFCEE) further pointed out that the fees being collected would not meet out-year funding needs. They stated that even if task orders were not issued after the fall of 2007, construction and warranty costs could extend through 2009 and contract closeout costs through 2012. Therefore, AFCEE officials acknowledge that funds will be needed from MNSTC-I in future years to meet these costs."

AFCEE's incremental costs referenced in paragraph one on page 12 do not include any overhead on the AFCEE incremental employees or the associated site support cost such as utilities and ADP costs. The fees collected by GRD include all costs from project completion through close out and include provisions for claim liabilities. In addition, GRD district fees include all overhead support costs for contracting, legal, resource management, information management and project management functions. GRD provides and costs for full services. AFCEE does not operate in the same manner because their fees do not cover the comparable services provided by GRD.

Draft Report, page iii, fourth paragraph. "Without competition, USACE and AFCEE have less incentive to rigorously manage costs."

Comment. As government construction agencies, executing the work in taxpayers' best interests and the most cost effective manner is a common goal. It is more what business model fits the particular mission requirement for the contingency construction than for competition between USACE and AFCEE.

Draft Report, page 8, first paragraph. "However, under this process adopted by USACE, costs were not charged against individual projects, and there is no basis for readily determining costs incurred on specific projects."

Comment. Under the USACE business model allowed by law and the Office of the Secretary of Defense Financial Management Regulation (OSD FMR), it charges its costs against the S&A account pool rather than individual projects. That is the reason that one cannot readily determine costs incurred on specific projects.

Draft Report, page 8, last paragraph. "In addition to charging on an actual-cost basis for planning and design work, USACE also charged actual costs for services on projects that did not directly support U.S. forces, such as those involving other U.S. government agencies."

Comment. USACE charges a flat rate for DoD work and charges at cost for all non-DoD work in accordance with the OSD FMR and as allowed by statute. USACE does not pick and choose how we charge our customers.

Draft Report, page 10, first paragraph. "USACE officials report that GRD's income from these two fees has exceeded costs by about \$25 million and this balance is considered a reserve to cover audits, and contract and program close-out costs."

Comment. Income will stop before all the work is complete. The S&A account is required to break even at the end of all program work. A suggested revision is, "USACE officials report that GRD's income from these two fees has currently exceeded costs by about \$25 million; however, the construction program is not finished; GRD will incur additional S&A costs. If a balance remains after the realization of all earnings, USACE will use the balance to pay final audit, contract and program close-out costs."

Draft Report, page 17, second paragraph. "A comparative analysis also could consider whether etc....."

Comment. A comparative analysis of USACE and AFCEE needs to consider both time growth and cost growth. USACE believes there is a much greater chance for time and cost growth on the cost plus reimbursable contracts used in the AFCEE business model which does not include a detailed design. This certainly applies for projects that are more complex. USACE recommends that SIGIR determine whether AFCEE identified any cost overruns on its contract work in Iraq and use this information to add emphasis to this matter.

Draft Report, page 17, second paragraph. "Without some competitive elements, and with fees set to recover costs, USACE and AFCEE would have less incentive to rigorously manage costs."

Comment. USACE sets its fees to recover its costs. If costs were lower, USACE would charge lower fees. USACE and AFCEE are on the same U.S. Government team. Government agencies, as good stewards of taxpayer dollars, strive to work in the most cost effective manner without competing against each other.

SIGIR's Mission	<p>Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:</p> <ul style="list-style-type: none"> • oversight and review through comprehensive audits, inspections, and investigations • advice and recommendations on policies to promote economy, efficiency, and effectiveness • deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse • information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports
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Congressional Affairs	<p>Hillel Weinberg 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: hillel.weinberg@sigir.mil</p>
Public Affairs	<p>Kristine Belisle Director 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: PublicAffairs@sigir.mil</p>