

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

**OVERSIGHT OF AEGIS'S
PERFORMANCE ON SECURITY
SERVICES CONTRACTS IN IRAQ WITH
THE DEPARTMENT OF DEFENSE**

**SIGIR-09-010
JANUARY 14, 2009**

Report Documentation Page

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SIGIR

Special Inspector General for IRAQ Reconstruction

Summary of Report: SIGIR-09-010

Why SIGIR Did This Audit

Congressional concerns about the adequacy of oversight given to private security contractors (PSCs) in Iraq increased after an incident involving Blackwater that resulted in the deaths of 17 Iraqi civilians. Blackwater is under contract with the Department of State. Responding to a congressional mandate, SIGIR, in consultation with other inspectors general, recently completed a comprehensive plan for audits of PSCs operating in Iraq.

This report is on Aegis Defence Services, Limited, a major provider of security services to the Department of Defense (DoD) in Iraq. As of November 2008, Aegis had received \$624.4 million for those services, involving seven contracts. Approximately \$612.8 million, or 98% of those funds, was received for three Reconstruction Security Support Services (RSSS) contracts.

This report focuses on the RSSS contracts, examining the cost of the contracts, the U.S. government's contract-award process, and the government's oversight of Aegis's bills, inventories, performance, and operations, including the reporting of serious incidents and compliance with the requirements of the Government of Iraq. It also examines Aegis's personnel screening, selection, and training processes to determine whether they meet contract requirements.

What SIGIR Recommends

SIGIR recommends improvements to contract administration to improve records management, enhance communications with a United Kingdom (U.K.) Ministry of Defence agency providing audit support to the U.S. government, and more equitably share costs to replace government-provided vehicles lost because of negligence of contractor personnel. The Defense Contract Management Agency agreed and the U.S. Army Corps of Engineers, Gulf Region Division, generally agreed.

For more information, contact SIGIR Public Affairs at (703) 428-1100 or PublicAffairs@sigir.mil

January 14, 2009

OVERSIGHT OF AEGIS'S PERFORMANCE ON SECURITY SERVICES CONTRACTS IN IRAQ WITH THE DEPARTMENT OF DEFENSE

What SIGIR Found

In addition to the \$612.8 million in RSSS contract costs, the government provides life support services (food, water, shelter, etc.) and vehicles to Aegis personnel at substantial cost, estimated to be more than \$57 million per year. The government also furnishes Aegis with other services and supplies—such as ammunition, vehicle maintenance, and fuel—at costs that are not readily available.

Under the RSSS contract, almost 1,400 Aegis personnel provide DoD a variety of security services, including personal security, facilities security, and coordination and control of security detail movements. Aegis employs a mix of expatriates and Iraqis; most expatriates come from the United Kingdom, the United States, and Nepal.

SIGIR found well-supported contract awards to Aegis; appropriate government oversight of Aegis's bills, inventories, performance, and operations; and contract performance assessed as satisfactory to outstanding. For example:

- The two largest RSSS contracts were competitively awarded; the bridge contract between the two, although noncompetitively awarded, was appropriately justified as a sole-source award.
- U.S. and U.K. agencies have provided appropriate oversight of Aegis's bills and have found that claims are well supported.
- U.S. agencies have monitored Aegis's controls of inventories and found them adequate to protect the U.S. government's interests.
- Aegis is adhering to its personnel screening and selection process, which should help to ensure that it hires individuals with the qualifications and personal qualities required by the contract.
- Aegis is adhering to its training program, which should help ensure that personnel working on the contract are properly trained.
- As part of DoD's new process to coordinate private security operations with military units, Aegis personnel assisted in tracking more than 55,000 private security operations since February 2008.
- Aegis has reported about 80 of the 380 serious incidents reported by all security contractors since February 2008. It is complying with requirements to coordinate its operations and report serious incidents involving attacks, injuries, and property damage. SIGIR plans to audit this incident-reporting process.

SIGIR found that contract administration could be improved. Specifically:

- There is no central location for the contract-related electronic records that provide a history of Aegis's performance and the government's actions to oversee the contractor.
- Communications between U.S. agencies and the U.K. agency auditing Aegis's invoices have broken down.
- Aegis has not shared in the cost of replacing government-provided vehicles lost due to the negligence of Aegis personnel because this cost-sharing is not required by the contract.



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

January 14, 2009

MEMORANDUM FOR COMMANDING GENERAL, CENTRAL COMMAND
COMMANDING GENERAL, MULTI-NATIONAL FORCE-IRAQ
COMMANDING GENERAL, MULTI-NATIONAL CORPS-IRAQ
COMMANDING GENERAL, U.S. ARMY CORPS OF ENGINEERS
COMMANDER, JOINT CONTRACTING COMMAND-
IRAQ/AFGHANISTAN
COMMANDING GENERAL, GULF REGION DIVISION, U.S.
ARMY CORPS OF ENGINEERS
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY

SUBJECT: Oversight of Aegis's Performance on Security Services Contracts in Iraq with the Department of Defense (SIGIR-09-010)

We are providing this report for your information and use. It pertains to the Department of Defense's contracts with Aegis Defence Services, Limited, and the Department's oversight of those contracts. The audit was conducted by the Special Inspector General for Iraq Reconstruction (SIGIR) as project 8017 under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. It is also in response to a requirement in Section 842 of the National Defense Authorization Act for 2008 (Public Law 110-181) that SIGIR develop, in consultation with other audit agencies, a comprehensive plan for audits of private security functions in Iraq.

We considered written comments on a draft of this report from the Defense Contract Management Agency and the U.S. Army Corps of Engineers, Gulf Region Division, when finalizing this report. The comments on the recommendations are included in Appendix D. Technical comments were also provided and are addressed in the report where appropriate.

We appreciate the courtesies extended to the SIGIR staff. For additional information on the report, please contact Glenn Furbish, Principal Deputy Assistant Inspector General for Audits (703) 428-1058/ glenn.furbish@sigir.mil or Nancee Needham, Deputy Assistant Inspector General for Audits (703-343-9275/ nancee.needham@iraq.centcom.mil).

Stuart W. Bowen, Jr.
Inspector General

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Oversight of Aegis's Performance on Security Services Contracts in Iraq with the Department of Defense

SIGIR-09-010

January 14, 2009

Executive Summary

Introduction

This report pertains to the Department of Defense's (DoD) contracts with Aegis Defence Services, Limited (Aegis), in furtherance of a mandate in Section 842 of the National Defense Authorization Act for 2008 (Public Law 110-181), which requires the Special Inspector General for Iraq Reconstruction (SIGIR) to develop, in coordination with other audit agencies, a comprehensive plan of audits of private security functions in Iraq.

A major provider of security services to DoD in Iraq, Aegis had received \$624.4 million for those services, as of November 2008. From May 2004 through November 2008, approximately \$612.8 million (98% of those funds) was received for services rendered under three Reconstruction Security Support Services (RSSS) contracts. This report focuses on those three contracts, examining their costs, the government's process for awarding them, and the government's oversight of Aegis's bills, inventories, performance, and operations, including the reporting of serious incidents and compliance with the requirements of the Government of Iraq. The report also examines Aegis's personnel screening, selection, and training processes to determine whether they meet contract requirements.

The RSSS-I contract (W911S0-04-C-0003) was awarded in May 2004 and ended in November 2007. The RSSS-II contract (W91GDW-07-D-4021) was awarded in September 2007, but the start of performance was delayed to February 2008 because the award was protested with the Government Accountability Office. Because the RSSS-II contract was delayed, a separate contract (W91GDW-08-C-4003) was awarded to bridge the period during which the protest was considered.

Over the years, several organizations have been involved in managing the RSSS contracts. The Gulf Region Division (GRD) of the U.S. Army Corps of Engineers has oversight responsibility for the vast majority of services performed under the RSSS-II contract, but the Multi-National Corps-Iraq (MNC-I) is responsible for overseeing contractor personnel who assist in MNC-I operations centers. The day-to-day oversight of Aegis's performance is the responsibility of Contracting Officer Representatives (CORs) for GRD and MNC-I. The United Kingdom (U.K.) Ministry of Defence, Office of Defence Equipment and Support (DE&S), audits Aegis's invoices under a cooperative agreement between the United Kingdom and the United States. The Defense Contract Management Agency and the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) have assisted in contract administration and oversight.

Findings

The costs of the services that Aegis provided were substantial. As Table 1 shows, DoD had obligated \$679.7 million and spent \$612.8 million on the RSSS contracts, as of November 2008.

Table 1—Obligations and Expenditures for RSSS Contracts, as of November 2008 (\$ millions)

| Contract | Contract Number | Obligations | Expenditures |
|-----------------|------------------------|--------------------|---------------------|
| RSSS-I | W911S0-04-C-0003 | \$441.2 | \$434.5 |
| RSSS-II | W91GDW-07-D-4021 | 199.8 | 142.8 |
| Bridge | W91GDW-08-C-4003 | 38.7 | 35.5 |
| Total | | \$679.7 | \$612.8 |

Source: U.S. Army Corps of Engineers Financial Management System.

For all three contracts, most of the costs are for labor. For the RSSS-II contract, labor costs are projected to be about 97% of total costs for the base year. Other cost-reimbursable items include travel, materials, and equipment. In addition to the \$612.8 million in contract costs, the government provides life support services—food, water, shelter, etc.—and vehicles to Aegis personnel at substantial cost, estimated at more than \$57 million per year. The government also furnishes Aegis with other services and supplies—such as ammunition, vehicle maintenance, and fuel—at costs that are not readily available.

Under the RSSS contract, almost 1,400 Aegis personnel provide DoD with a variety of security services, including personal security, facilities security, and coordination and control of security detail movements. Aegis employs a mix of expatriates and Iraqis; most expatriates come from the United Kingdom, the United States, and Nepal.

SIGIR found well-supported contract awards to Aegis; appropriate government oversight of Aegis's bills, inventories, performance, and operations; and contract performance assessed as satisfactory to outstanding. For example:

- The two largest RSSS contracts were competitively awarded; the bridge contract, although noncompetitively awarded, was appropriately justified as a sole-source award.
- U.S. and U.K. agencies have provided appropriate oversight of Aegis's bills and have found that claims are well supported.
- U.S. agencies have monitored Aegis's controls of inventories and found them adequate to protect the U.S. government's interests.
- Aegis is adhering to its personnel screening and selection process, which should help to ensure that it hires personnel with the qualifications and personal qualities required by the contract.
- Aegis is adhering to its training program, which should help to ensure that personnel working on the contract are properly trained.

- As part of DoD's new process to coordinate private security operations with military units, Aegis personnel assisted in tracking more than 55,000 private security operations since February 2008.
- Aegis has reported about 80 of the 380 serious incidents reported by all security contractors since February 2008. Aegis is complying with requirements to coordinate its operations and report serious incidents involving attacks, injuries, and property damage. SIGIR plans to audit the incident reporting process.

SIGIR found that contract administration could be improved. Specifically:

- SIGIR noted that there is no central location for the contract-related electronic records that provide a history of Aegis's performance and government actions to oversee the performance of the contractor and, if needed, require changes to its performance. Instead, the numerous contracting officers and CORs for the RSSS contracts had maintained many of their contract files—especially those pertaining to contract oversight actions—in electronic formats in various computer directories. This lack of central records impeded SIGIR's ability to evaluate the strengths and weaknesses of Aegis's performance under the RSSS-I and bridge contracts and also to evaluate the adequacy of the government's oversight of Aegis's performance on those contracts. It may also impede the ability of follow-on contract managers to quickly understand the history of the contracts.
- Since 2004, the U.K. Ministry of Defence, Office of Defence Equipment and Support, has reviewed Aegis's invoices based on a verbal agreement with the Defense Contract Management Agency office in northern Europe. In 2005, responsibility for the RSSS contract was transferred to the Agency's Baghdad office. The audit team leader for DE&S stated that his office had not heard from the U.S. government about those reviews since 2005, and he did not know whether the Defense Contract Management Agency office in Baghdad received or used his reports. SIGIR confirmed that the Agency's office in Baghdad is receiving the reports.
- Security personnel working for Aegis have been involved in vehicle accidents that resulted in the loss of costly government-provided vehicles due to negligence on the part of the personnel. Although Aegis took corrective actions by terminating or fining the individuals, it did not pay for the government-provided vehicles because the contract does not require Aegis to reimburse the government for such losses. Because Aegis recruits, hires, and trains these personnel, SIGIR believes that Aegis shares the responsibility for their actions.

Recommendations

To improve contract administration and oversight, SIGIR recommends that the Commanding General of the Gulf Region Division, the Director of the Defense Contract Management Agency, and the Commander of the Joint Contracting Command-Iraq/Afghanistan direct that these actions be taken as they relate to their respective responsibilities under the contract:

1. Ensure that the electronic files pertaining to contract administration and oversight are better organized in a central depository within the program management office and are made available to contract managers and external contract reviewers.
2. Specify in writing the audit role it wants the DE&S to perform, which U.S. government organizations should receive its reports, and which U.S. government organization is responsible for maintaining contact with DE&S.

SIGIR also recommends that the Commanding General of the Gulf Region Division and the Commander of the Joint Contracting Command-Iraq/Afghanistan take this action:

3. Ensure that future contracts require that the government and contractors equitably share the cost of vehicles lost through the negligence of contractor personnel.

Management Comments and Audit Response

The Defense Contract Management Agency agreed and GRD generally agreed with the report recommendations. Specifically, GRD partially concurred with recommendation 1 and fully concurred with recommendations 2 and 3.

Concerning recommendation 1, GRD stated that it maintains Contracting Officer Representative evaluations on a shared network space and provides copies of all performance reports to the Defense Contract Management Agency. It also stated that organizing files in a central depository is a matter best left to the organizations involved in administration of the contract. SIGIR agrees that contractor evaluations should be shared and commends GRD for its actions in that regard. It does not agree that organizing contract files in a central depository is a matter best left to the organizations involved in contract administration. SIGIR believes that this approach has led to stovepipe recordkeeping in which each organization maintains its own set of files that do not provide a total picture of the contractor's performance in such areas as controlling inventories, recruiting and hiring appropriate personnel, and submitting fully supported invoices. SIGIR also believes that the program management office should maintain a central depository of contract-related electronic records that would provide contract administrators with a comprehensive picture of the contractor's performance. SIGIR modified the final recommendation to state that the program management office should have responsibility for maintaining the contract-related electronic records.

Concerning recommendation 2, GRD stated that it is open to establishing contact with the U.K. Ministry of Defence, Office of Defense Equipment and Support, if SIGIR can provide a point of contact to help facilitate this coordination. The point of contact within the Ministry is specified in each report on the Aegis contract submitted by Defense Equipment and Support to the Defense Contract Management Agency in Baghdad.

Concerning recommendation 3, GRD stated that it will discuss with Aegis the issue of contractor reimbursement for vehicles lost due to employee negligence as a possible modification to the current contract.

GRD also provided technical comments, which SIGIR incorporated as appropriate.

Introduction

The Department of Defense (DoD) has relied extensively on contractors to support its operations in Iraq. Because of Iraq's unstable security environment, DoD agencies involved in reconstruction activities have had to rely on private security contractors to support those activities. This report pertains to DoD's contracts with Aegis Defence Services, Limited (Aegis), in furtherance of a mandate in Section 842 of the National Defense Authorization Act for 2008, Public Law 110-181, that requires the Special Inspector General for Iraq Reconstruction (SIGIR) to develop, in coordination with other audit agencies, a comprehensive plan of audits of private security functions in Iraq.¹ Aegis, a major provider of security services to DoD in Iraq, had received \$624.4 million as of November 2008 for such services.

Background

Aegis² has been a major provider of security services to DoD since 2004. It currently has five active contracts and has completed two contracts. Although this report provides basic information on the seven contracts, it focuses on the three largest contracts, referred to as Reconstruction Security Support Services (RSSS) contracts. The three represent almost 98% of the funds received by Aegis under the seven contracts.

Table 2 shows the total obligations and expenditures for the seven Aegis contracts.

Table 2—Obligations and Expenditures for Aegis contracts with the Department of Defense in Iraq, as of November 2008 (\$ millions)

| Contract Number | Obligations | Expenditures | Status |
|-------------------------------|--------------------|---------------------|---------------|
| W911S0-04-C-0003 ^a | \$ 441.2 | \$434.5 | Completed |
| W91GDW-07-D-4021 ^a | 199.8 | 142.8 | Active |
| W91GDW-08-C-4003 ^a | 38.7 | 35.5 | Completed |
| W91GY0-07-C-0004 ^b | 8.4 | 6.5 | Active |
| W91GDW-08-C-4012 ^c | 8.7 | 4.9 | Active |
| W91GY0-07-D-0008 ^a | 0.2 | 0.2 | Active |
| W91GDW-07-D-4025 ^c | 0.2 | - | Active |
| Total | \$697.2 | \$624.4 | |

Source: ^a U.S. Army Corps of Engineers Financial Management System.

^b Defense Contract Management Agency.

^c Joint Contracting Command-Iraq/Afghanistan.

The following paragraphs briefly describe the seven Aegis contracts with DoD:

¹ Section 842 Private Security Contractor Audit Plan as of October 20, 2008.

² Aegis is headquartered in London, United Kingdom.

Reconstruction Security Support Services (RSSS-I) Contract, W911S0-04-C-0003

In May 2004, the Department of the Army awarded a nonpersonal services contract to Aegis for security management services, protective services, and antiterrorism support and analyses for the Coalition Provisional Authority, Program Management Office personnel and construction service contractors involved in reconstruction efforts in Iraq.³ The contract was for a 1-year base period (June 1, 2004, through May 31, 2005) and two 1-year options (June 1, 2005, through May 31, 2007). The two option years were exercised, and the second option year was extended for 6 months to November 30, 2007. As of November 25, 2008, obligations totaled \$441.2 million and Aegis had received \$434.5 million.

RSSS-II Contract, W91GDW-07-D-4021

This indefinite delivery/indefinite quantity contract,⁴ awarded in September 2007, essentially continues the security services provided under the RSSS-I contract. The start of the contract performance period was delayed to February 1, 2008, because the award was protested.⁵ The contract is in the base year, which is scheduled to end January 31, 2009. The contract has one option year. As of November 25, 2008, obligations totaled \$199.8 million and Aegis had received \$142.8 million. The contract has a not-to-exceed value of \$475 million.

Bridge Contract between RSSS-I and RSSS-II, W91GDW-08-C-4003

Because the start of performance under the RSSS-II contract was delayed, a separate contract was awarded to bridge the period between the end of RSSS-I and the start of RSSS-II. The contract performance period was for 3-months—November 1, 2007, through January 31, 2008. As of November 25, 2008, obligations totaled \$38.7 million and Aegis had received \$35.5 million.

Personal Security Detail Contract, W91GY0-07-C-0004

The contract, awarded to Aegis in February 2007, is for personal security details in Iraq, other Middle Eastern countries, and nonhostile territories for up to five senior officials with the Multi-National Security Transition Command-Iraq. The contract has an initial performance period—July 15, 2007, through January 29, 2008—and three 6-month option periods. The contract is in the second option period from July 29, 2008, through January 28, 2009. As of November 15, 2008, obligations totaled \$8.4 million and payments to Aegis totaled \$6.5 million.

Support for Business and Stability Operations in Iraq Contract, W91GDW-08-C-4012

This commercial procurement contract, awarded to Aegis in February 2008, is for security services related to the DoD-established Task Force to Support Improved Business and Stability Operations in Iraq. The task force is led by the Deputy Under Secretary for Business Transformation. In July 2008, SIGIR reported on the financial resources devoted to the task force, its major areas of economic development assistance, and examples of completed and

³Federal Acquisition Regulation 37.101 defines nonpersonal services contracts as contracts under which the personnel rendering the services are not subject, either by the contract's terms or by the manner of its administration, to the supervision and control usually prevailing in relationships between the government and its employees.

⁴Federal Acquisition Regulation 52.216-22 states that the delivery and quantity of services under indefinite delivery/indefinite quantity contracts shall be specified in task orders to the contract.

⁵The protest with the Government Accountability Office was later withdrawn.

planned projects.⁶ Under the contract, Aegis is to provide security protection for task force activities; facilitate project development by overseeing and supervising projects, providing linguists and interpreters, and identifying local contractors to implement projects; provide relevant intelligence and threat analyses; and provide project management, command, control, and communications. The period of performance is for one year after contract award and the definitized price is not to exceed \$12 million. As of November 15, 2008, obligations totaled \$8.7 million and expenditures totaled \$4.9 million.

Convoy/Escort Contract, W91GY0-07-D-0008

Under this indefinite quantity contract, Aegis is to provide transportation and security escort services to move vehicles and equipment for Iraqi military forces. The moves may be from sites in Kuwait or Jordan to Iraq or within Iraq. The contractors participating in the contract bid on task orders for the movements. The contract has an initial performance period—March 1, 2007, through February 29, 2008—and two 6-month option periods. The contract is in the second option period from September 1, 2008, through February 28, 2009. As of November 25, 2008, obligations and payments to Aegis totaled \$188,930 for six task orders. The contract has a not-to-exceed value of \$12 million.

Theater-Wide Internal Security Services Contract, W91GDW-07-D-4025

This indefinite quantity contract, awarded in September 2007, is to provide all labor, weapons, equipment, and other essentials to augment or replace security guard operations at forward operating bases and camps throughout Iraq. The guards are stationed at entry points and perimeter towers, secure selected facilities, and provide armed escorts for local national laborers. The contractors participating in the contract bid on task orders for specific locations. A task order was issued to Aegis in September 2007, and \$250,000 was obligated against that task order to initiate the contract. The obligated funds were to be used to pay for future tasks; however, no additional tasks have been awarded and no funds have been paid to Aegis under this contract. The contract has a not-to-exceed value of \$450 million. We have an on-going review of this contract.

Evolving Management Structure of Reconstruction Security Support Services Contracts

Over the years, several organizations have been involved in managing the RSSS contracts. Initially, the Coalition Provisional Authorities' Program Management Office was responsible for overseeing the RSSS-I contract. In June 2004, when the Coalition Provisional Authority was dissolved, the Department of the Army's Project and Contracting Office became responsible for oversight of the contract. In December 2005, the Project and Contracting Office was consolidated with the U.S. Army Corps of Engineers, Gulf Region Division (GRD) and in May 2007 GRD became the successor organization to the Project and Contracting Office.

GRD has oversight responsibilities for the vast majority of services performed under the RSSS-II contract, but the Multi-National Corps-Iraq (MNC-I) is responsible for overseeing contractor

⁶ *Information on a Special Department of Defense Program to Foster Economic Recovery in Iraq*, SIGIR-08-024, July 29, 2008.

personnel that assist in MNC-I operations centers.⁷ Day-to-day oversight of Aegis's performance is the responsibility of Contracting Officer Representatives (COR) for GRD (GRD/COR) and MNC-I (MNC-I/COR). The Defense Contract Management Agency and the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) have assisted in contract administration and oversight.

Objectives

For this report, SIGIR examined various aspects of the RSSS contracts. Specifically, SIGIR examined the cost of the contracts, the government's process for awarding the contracts to Aegis, and the oversight of Aegis's bills, inventories, performance, and operations to include reporting of serious incidents and compliance with Government of Iraq requirements. SIGIR also examined Aegis's personnel screening, selection, and training processes to determine whether they met contract requirements. Although SIGIR examined whether Aegis is following the process for reporting serious incidents (e.g., incidents involving attacks, injuries, and property damage), it did not examine the implementation of that process. SIGIR plans to review DoD's implementation of the serious incidents reporting and review process under a separate audit.

In April 2005, SIGIR reported on several compliance issues related to the RSSS-I contract and the Project and Contracting Office's oversight of that contract.⁸ The report stated, for example, that Aegis did not provide sufficient documentation to show that all employees who were issued weapons were qualified or that Iraqi employees were properly vetted. SIGIR reported that the Project and Contracting Office concurred with SIGIR's recommendations and took actions to correct the problems. We reviewed some of those problem areas, especially as they relate to documentation of training and vetting of Iraqi employees, to ensure that the problems had in fact been corrected.

Our ability to review the adequacy of the government's oversight of the RSSS-I and bridge contracts was hampered by the agencies' methods of maintaining some contract-related records. We found that there was no central location for electronically stored records. The numerous contracting officers and CORs for the RSSS contracts maintained many of their contract files, especially those pertaining to contract oversight actions, in electronic formats in their own computer files. Therefore, it was difficult to determine for the earlier contracts the strengths and weaknesses of Aegis's performance and the adequacy of the government's oversight of that performance.

For a discussion of the audit scope and methodology and a summary of prior coverage, see Appendix A. For a list of acronyms used, see Appendix B. For the audit team members, see Appendix C. For management comments, see Appendix D.

⁷ MNC-I is a major subordinate command to the Multi-National Force-Iraq, which is a subordinate command to the U.S. Central Command. MNC-I is responsible for tactical command and control of Multi-National Force-Iraq operations.

⁸ *Compliance with Contract No. W911S0-04-C-0003 Awarded to Aegis Defence Services Limited*, SIGIR-05-005, April 20, 2005.

Contract Costs and Funding, Award Process, and Services Provided

As of November 25, 2008, DoD had spent \$612.8 million on the RSSS contracts. The majority of these funds were for labor. In addition, the government provided Aegis with support and sustainment equipment and services such as housing, food, electricity, vehicles, and fuel. Although these costs are substantial, they are not readily available. We estimate the cost of food, water, shelter, and vehicles could exceed \$57 million per year. This amount does not include the costs of other services and supplies such as ammunition, vehicle maintenance, and fuel.

The two largest RSSS contracts were competitively awarded, and the bridge contract, although noncompetitively awarded, was appropriately justified as a sole-source award. The government's evaluations of contractor proposals appeared to be thorough and the selection of Aegis well supported. Although some of the awards were protested, those protests were either denied or were withdrawn, which further lends credibility to the selection and award process.

Under the RSSS-II contract, Aegis had almost 1,400 personnel providing DoD a variety of security services, including personal security, facilities security, and coordination and control of security detail movements. Aegis had been providing most of these same services since 2004. To perform the services, Aegis employed a mix of expatriates and Iraqis with the largest group of expatriates coming from the United Kingdom, the United States, and Nepal.

Contract Funding and Costs

The RSSS contracts have primarily been funded with Operations and Maintenance, Army funds.⁹ Table 3 shows obligations and expenditures for the RSSS contracts as of November 25, 2008.

Table 3—Obligations and Expenditures for RSSS Contracts as of November 2008 (\$ millions)

| Contract | Contract Number | Obligations | Expenditures |
|-----------------|------------------------|--------------------|---------------------|
| RSSS-I | W911S0-04-C-0003 | \$441.2 | \$434.5 |
| RSSS-II | W91GDW-07-D-4021 | 199.8 | 142.8 |
| Bridge | W91GDW-08-C-4003 | 38.7 | 35.5 |
| Total | | \$679.7 | \$612.8 |

Source: U.S. Army Corps of Engineers Financial Management System.

The majority of costs for all three contracts are labor costs. For the RSSS-II contract, labor costs are projected to represent about 97% of total costs for the base year. Other cost-reimbursable items include travel, materials, and equipment. In addition, the government provided Aegis with support and sustainment equipment and services such as housing, food, electricity, vehicles, and

⁹ According to the U.S. Army Corps of Engineers, some of the funds were Iraq Relief and Reconstruction Funds.

fuel. These costs are substantial but not readily available. We estimate the cost of food, water, shelter, and vehicles could exceed \$57 million per year. This amount does not include the cost of other services and supplies such as ammunition, vehicle maintenance, and fuel.

Aegis charges for labor based on established daily rates for the various positions under the contract.¹⁰ For example, it charges specific rates for security team leaders, assistant leaders, members, medics, and members who are local nationals. Aegis also has specific personnel quantities for each of these positions. Aegis stated that each 15-day billing period, the government is charged for only the number of personnel on contract; thus, if there is a vacancy, there is no charge to the government. The rates include direct and indirect expenses and profit.

Contract Award Process

Both the RSSS-I and RSSS-II contracts were competitively awarded primarily based on the contracting officers' determinations that Aegis offered the best value to the government. The RSSS-I contract, a cost-plus-fixed-fee contract, was awarded on May 31, 2004, to Aegis while another contract was awarded to the British security contractor Erinys International Iraq (Erinys) on June 2, 2004.¹¹ Both contracts were for a base period of 12 months and two option periods of 12 months each.

Because the start of performance of the RSSS-II contract was delayed due to bid protests, Aegis was awarded a 3-month bridge contract to continue the services provided under both the RSSS-I contract and the separate contract with Erinys.¹² The bridge contract was awarded sole source based on the need to continue critical security support services for reconstruction efforts during the protest period. Aegis, rather than Erinys, received the award because the contracting officer determined that Erinys did not have the ability to mobilize the assets or personnel necessary for the entire RSSS effort by the date services were required.

Reconstruction Security Support Services-I Contract

The Coalition Provisional Authority initially issued the Request for Proposal for the RSSS-I contract on February 13, 2004. Later that month, the Authority transferred responsibility for the contract to the Department of the Army, and on March 4, the Army reissued the proposal. The proposal cited the award of a cost-plus-fixed-fee contract for a 1-year base period, with up to two 1-year options, to the offeror whose proposal "represents the Best Value (Cost Technical Trade-offs) to the Government."

Offers were submitted by the following six companies: Integrity International Security Services; Sentry Security & Investigations, LP; Wackenhut Services, LLC; DynCorp International, LLC; Aegis; and Metrica, Inc. A technical evaluation board reviewed the proposals and presented its findings to the contracting officer, who also reviewed the proposals. Based on those reviews, the contracting officer rated the six proposals as follows: two unsatisfactory, two marginal, one

¹⁰ The specific rates were agreed to at contract award and are proprietary.

¹¹ The Erinys contract number was W9112GB-04-D-0005.

¹² Erinys was providing security services to GRD at the time GRD and the Project and Contracting Office were consolidated. Erinys continued to provide those services until responsibility for the services was awarded to Aegis under the bridge contract.

good, and one excellent. The Aegis proposal was rated in one of the two latter categories. After further evaluating the best two proposals, the contracting officer determined that Aegis offered the best value to the government. In September 2004, DynCorp protested the award with the Government Accountability Office (GAO), which denied the protest.

During the base year, requirements for security teams and armored vehicles increased. These increased requirements continued for option year 1. In exercising that option, the contracting officer determined that the new requirements were within the scope of the contract and that it would be most advantageous to the government to expand the service locations in the contract to more effectively meet mission needs. The contracting officer also determined that, from historical and current market analyses for security services, the prices offered by Aegis were still the most advantageous to the government.

Regarding the second option year, the contracting officer determined that, after considering price and other factors, exercising the option was the most advantageous method of meeting the government's need. According to the contracting officer, an informal analysis of the prices of contractors providing the same or similar services indicated that the option price was better than prices available in the market. The contracting officer also stated that there was "a need for continuity of operations and the potential costs of disruption are considerable in both life and funds."

Due to pre-award protests about the RSSS-II contract and the requirement for continued security support services, the contracting officer extended the RSSS-I contract by six months to November 30, 2007.

Bridge Contract

On November 1, 2007, JCC-I/A awarded a bridge contract to Aegis to continue the services provided under the RSSS-I contract and the services provided by Erinys under a separate contract. The period of performance for the bridge contract was for 3 months, from November 1, 2007, through January 31, 2008. The bridge contract was a sole-source award, according to contract documents.

According to a JCC-I/A document justifying other than full and open competition, "The United States would be seriously injured unless the agency is permitted to limit the number of sources from which it solicits bids or proposals....The reconstruction security support services provide the operational oversight of approximately 600 on-going construction projects throughout Iraq valued at approximately \$2.4 billion dollars....Without the Security Escort Teams (SETs) providing secure transportation to the construction sites, as well as the Reconstruction Operations Center providing operational oversight, the failure of the GRD's mission is inevitable....Continuity of reconstruction security support services is imperative and under no circumstances can the Government be without these services. The bridge contract with Aegis has been identified as the mechanism by which these services will be provided until performance begins under the follow-on RSSS contract (contract W91GDW-07-D-4021)."¹³

¹³ Under the RSSS-I and bridge contracts, Aegis operated Reconstruction Operation Centers in support of GRD's efforts to coordinate private security companies' operations with military organizations. Aegis operated a National

Concerning efforts to obtain competition, the JCC-I/A document states that the government made no effort to compete the bridge contract given the unusual and compelling urgency and based on market research. The document states that market research indicated that several companies could provide security operations in Iraq, but based on the need for security by November 15, 2007, the government determined that no other sources had the assets or personnel necessary to ensure that a break in service would not occur. Concerning interested sources for the bridge contract, the document states that Erinys might be interested in the contract; however, Erinys' existing contract involved only a fraction of the entire RSSS effort, and the government determined that Erinys did not have the ability to mobilize the assets or personnel necessary for the entire RSSS effort by November 15, 2007.

Reconstruction Security Support Services-II Contract

A Request for Proposal for the RSSS-II contract was issued January 19, 2007. According to contract documents, the contracting officer received seven proposals from the following companies: Aegis; ArmorGroup North America, Inc.; Blackwater; EOD Technology; Erinys; SOC-SMG International Force Protections; and Triple Canopy. A source selection evaluation board evaluated the proposals based on price and the following technical factors: management approach, technical approach, past experience, past performance, and socioeconomics (primarily Iraqi participation in the contract).

The contracting officer established the competitive range, and two of the seven companies were in this range: Aegis and ArmorGroup. In April 2007, Erinys filed a pre-award protest with GAO based on its exclusion from the competitive range. In June 2007, GAO denied the protest and the company filed a protest with the Court of Federal Claims. As a result of this protest, the government reevaluated the competitive range and found that the same two companies fell within the new competitive range. The protest filed by Erinys with the Court was denied in September 2007. Erinys then appealed to the U.S. Court of Appeals for the Federal Circuit but later withdrew its appeal.

According to the contracting officer, Aegis's proposal afforded the government the best value based on an integrated and independent assessment of the strengths and prices of the two offers. Based on that determination, the award was made to Aegis on September 10, 2007.

In September 2007, ArmorGroup protested the award of the contract with the GAO. In October 2007, the government decided to take corrective action by reevaluating the past performance of Aegis and ArmorGroup. In anticipation of the delay in the start of the RSSS-II contract performance, JCC-I/A awarded the bridge contract to Aegis for a 3-month period. The contracting officer later determined that Aegis's proposal continued to offer the government the best value. The protest filed with GAO was subsequently withdrawn by ArmorGroup. On January 31, 2008, the RSSS-II contract was modified to authorize the start of performance. The base year period of performance was established as February 1, 2008, through January 31, 2009.

Reconstruction Operations Center at GRD headquarters, Regional Reconstruction Operations Centers at major GRD commands, and Satellite Reconstruction Operations Centers at locations with significant reconstruction activities.

Services Provided Under RSSS Contracts

The RSSS-I and bridge contracts provided for services including escort and personal security; security at installations (static guards); liaison with local communities; antiterrorism support and analysis; Iraqi personnel vetting; and staffing reconstruction operations/support centers to provide DoD Private Security Contractors (PSC) with intelligence and coordinate the movements of their teams with military forces. The RSSS-II contract provides for the continuation of these security services and also requires Aegis to support MNC-I in its operation of Contractor Operations Cells. As part of the Contractor Operations Cells, Aegis is to monitor the movement of PSC teams and assist MNC-I in controlling the movement of PSC teams in Iraq.

Following is a more detailed description of the services that Aegis provides under the RSSS-II contract:

- Security Escort Teams (SET): Provide security to military and civilian personnel during construction site visits. As of early August 2008, 38 SETs were in 17 locations throughout Iraq. Each SET comprised 15 individuals, some of whom were Iraqis.
- Personal Security Details: Provide personal security to the Commanding General, GRD, and the Commander, JCC-I/A, consisting of a minimum escort of two contractor security personnel as directed by the commander or his aides. Detail personnel may be required to accompany the commanders outside of Iraq at the government's expense. As of early August 2008, two details were based in the International Zone in Baghdad. Each detail comprised six individuals.
- Static Guards: Provide security at fixed locations, such as office buildings and living quarters.
- Reconstruction Liaison Teams (RLT): Develop positive relations with the communities surrounding the construction sites, meet with local leaders to coordinate community involvement and support for the construction projects, and conduct technical inspections of ongoing construction. As of early August 2008, 14 RLTs were in nine locations throughout Iraq. Each team comprised 13 individuals, the majority of whom were Iraqi.
- Anti-Terrorist Force Protection: Conduct facility security evaluations, coordinate force protection measures, and plan risk mitigation to improve safety and security at designated GRD sites.
- Personnel Vetting Services: Provide a vetting program that includes conducting interviews and reviewing employment applications for all local hires.
- Reconstruction Support Centers: Provide intelligence and operations support to GRD, including incident management and control of SETs and RLTs and liaison with local communities and military units, and disseminate mission-critical operational information and intelligence to reconstruction-related agencies and PSCs to facilitate military construction in Iraq. Centers operate at three levels: the Command center supports GRD headquarters, three District centers support GRD districts, and seven area centers support areas of high construction project density. Reconstruction Support Centers replace the services provided by the Reconstruction Operations Centers.

- **Contractor Operations Cells:** Provide MNC-I and its major subordinate commands with information to assist MNC-I in controlling PSC activities throughout Iraq. The cells were established at MNC-I and five major subordinate commands' operations centers to provide visibility of PSC movements and a centralized means of requesting military support to PSCs and to manage the collection and distribution of incident reports involving contractors on the battlefield.

Table 4 shows the estimated number of Aegis personnel under the RSSS-II contract for each of these services as well as the management and support personnel.

Table 4—Estimated Aegis Personnel on RSSS-II Contract, by Function, as of February 1, 2008

| Function | Estimated Number of Personnel |
|---|--------------------------------------|
| Security Escort Teams | 570 |
| Personal Security Details | 12 |
| Static Guards | 346 |
| Reconstruction Liaison Teams | 182 |
| Anti-Terrorist Force Protection | 4 |
| Personnel Vetting Services | 5 |
| Command Reconstruction Support Center | 35 |
| District Reconstruction Support Centers | 91 |
| Area Reconstruction Support Center/Security Escort Team Detachments | 13 |
| Contractor Operations Cells | 50 |
| Management | 29 |
| Support | 36 |
| Total | 1,373 |

Source: SIGIR compiled from RSSS-II contract estimates.

Government Oversight of Aegis's Bills, Inventories, Performance, and Operations

The governments of the United States and the United Kingdom (U.K.) have provided appropriate oversight of Aegis's bills. Aegis's invoices for payment have been reviewed by the GRD/COR in Baghdad and the Office of Defence Equipment and Support (DE&S) within the U.K. Ministry of Defence.¹⁴ The GRD/COR and DE&S have found claims to be well supported. DE&S also reviewed Aegis's accounting, estimating, and billing systems and was satisfied with the current systems. Moreover, DE&S had recently reviewed Aegis's general and administrative rates for the RSSS-I and bridge contracts and had recommended reductions in those rates, to which Aegis had agreed.

The government has monitored Aegis's controls of inventories, and these controls appear to be adequate to protect the U.S. government's interests. We selectively verified statements by Aegis and the GRD/COR that Aegis has submitted required inventory reports, which include monthly reports on sensitive items. In May 2008, the Defense Contract Management Agency reviewed Aegis's property controls in Baghdad and found them to be adequate for effective management and/or control of government property. The GRD/COR said that he tests Aegis's inventory controls for sensitive items during visits to operating locations. In September 2008, we observed testing at five locations and found that all items selected for the tests were accounted for.

The government has gathered information on Aegis's performance and customer satisfaction with Aegis's services in accordance with its RSSS-II quality assurance surveillance plan. According to the GRD and MNC-I CORs and the evaluations we reviewed, Aegis's performance was "very good" to "outstanding." In instances where problems occurred, Aegis appeared to have taken appropriate corrective actions. Evaluations of Aegis's performance under the RSSS-I were also very positive.

The government had taken steps to improve its oversight of PSC operations and incidents since September 2007. As part of this oversight improvement effort, PSCs were required to coordinate their operations with and report any serious incidents to the Contractor Operations Cells. According to the MNC-I/COR and the Multi-National Force-Iraq's Armed Contractor Oversight Division, Aegis has adhered to these requirements. The MNC-I COR stated that Aegis investigated and reported 166 incidents during the period from February 24, 2008, through October 11, 2008, with about 50% considered serious.

Oversight of Invoices

The RSSS contracts authorize Aegis to submit invoices for payment approximately every two weeks. The RSSS-II contract requires that invoices be submitted simultaneously to the GRD/COR and the U.K. Ministry of Defence for review. According to Aegis, invoices are prepared in London from inputs (e.g., attendance sheets and local purchases) sent from Baghdad.

¹⁴ Because Aegis is a U.K. company headquartered in London, the Ministry of Defence audits reimbursable costs submitted by Aegis under a cooperative agreement between the United Kingdom and the United States regarding reciprocal assistance on cost and price audits of defense contracts.

Subsequently, the invoices are sent to the Baghdad Aegis office for quality control checks before being submitted to the GRD/COR and U.K. Ministry of Defence. Each invoice is to include a list of personnel at each location and original purchase invoices with supporting purchase requisitions and orders. According to the GRD/COR, the invoices are forwarded to Contracting Officer Technical Representatives at each operating location in Iraq to confirm and approve the number of personnel working on the contract at those locations. During a September 2008 visit to five sites, we confirmed that the Contracting Officer Technical Representatives were in place and performing this function. In addition, we confirmed that the GRD/COR in Baghdad validates that the personnel included on the invoice remain on the contract. Once the GRD/COR is satisfied that the invoices are accurate, the GRD/COR forwards them to the Contracting Officer for approval for payment.

Aegis stated that it submits copies of invoices to the U.K. Ministry of Defence, DE&S, with supporting documents for reimbursable items such as costs for security personnel, travel, and purchases of supplies and equipment. According to the DE&S Audit Team Manager, who has been involved in auditing every invoice submitted under the RSSS contracts, DE&S verifies the claims to ensure that they are properly supported by documentation and that payments to suppliers are within agreed to credit terms. DE&S submits its reports to the Defense Contract Management Agency in Baghdad. DE&S has found claims to be well supported.

DE&S also reviewed Aegis's accounting, estimating, and billing systems in November 2005 and has kept current on the systems through periodic reviews. According to the DE&S Audit Team Manager, both the company's statutory auditors and DE&S are satisfied with the current accounting, estimating, and billing systems.

Moreover, DE&S reviewed Aegis's estimated and actual general and administrative overhead rates for 2004, 2005, 2006, and 2007 for the RSSS-I and bridge contracts. It recommended reductions to the rates charged to the RSSS-I and bridge contracts. According to DE&S, Aegis had agreed, and if the Defense Contract Management Agency concurs, the government will be charged at the lower rates. Also, according to DE&S, Aegis has submitted invoices with the lower rates.

According to the DE&S Audit Team Manager, his office began and continues its reviews of the RSSS contracts based on a verbal agreement in 2004 with an official in the Defense Contract Management Agency's office in Northern Europe. He further stated that his office has not heard from anyone within the U.S. government concerning his reviews of Aegis invoices since oversight responsibility for the contracts shifted in 2005 from the Defense Contract Management Agency's Northern Europe office to the Agency's office in Baghdad. Moreover, he stated that he is unaware as to whether his reports are received or used by the Defense Contract Management Agency office in Baghdad. We confirmed that the DE&S reports were being received by the Defense Contract Management Agency in Baghdad and are available to the JCC-I/A Contracting Officer for his use in determining whether invoices should be paid.

Oversight of Inventories

Under the RSSS-II contract, the U.S. government is to provide Aegis with full life support/sustainment equipment and services, including housing and food for non-Iraqi contractor

personnel; drinking water; electricity; security shelter; emergency medical care; office space, supplies, and equipment; vehicles; ammunition; and property transferred from the Erinys contract as well as property transferred from previous RSSS contracts. Aegis is to provide all personal protective equipment and gear, uniforms, communications equipment, and weapons and kits to support the weapons.

According to the RSSS-II contract, Aegis is responsible and liable for government property in its possession. This responsibility extends to property provided by the government or acquired by Aegis in the performance of the contract.

The RSSS-II contract requires Aegis to maintain property records that identify all government property and provide a complete, current, auditable record of all property transactions. On a rolling, cyclic basis throughout the year, Aegis must check each item at least once a year and must also check sensitive and attractive items, such as weapons and communications equipment, twice a year.

Aegis stated that it is submitting all required inventory reports and is reporting monthly on sensitive items to GRD. We were not able to locate inventory reports relating to the RSSS-I contract, but we did find numerous requests and approvals for relief for lost, damaged, or destroyed items. Regarding the RSSS-II contract, the GRD/COR confirmed that Aegis is submitting required reports, and we confirmed that GRD is receiving the reports by reviewing some of them.

According to Aegis, the Defense Contract Management Agency monitors Aegis's inventory controls and performs periodic inspections. In May 2008, the Agency reviewed Aegis's ability to control, use, preserve, protect, repair, and maintain government property at the Baghdad International Zone location and found that Aegis's property control system was adequate for the effective management and/or control of government property and did not present any undue risk to the government. According to the Agency, it used statistical, purposeful, and judgmental sampling techniques as well as guidelines contained in DoD's Property Manual to examine all applicable areas of property control. Functions examined included acquisition, records of government property, maintenance, physical inventory, receipt of government property, and utilization of government property.

In September 2008, we observed the Aegis Quality Assurance Manager (the individual responsible for managing inventory items under Aegis's control) perform inventory tests at Camp Victory in Baghdad for such items as medical supplies, Kevlar gear, ballistic eye protection, and Global Positioning System equipment and found that all items selected for the tests were accounted for.

According to Aegis, GRD conducted a full inventory check on the equipment transferred under the RSSS-II contract. We were informed by the GRD/COR that GRD observed a full inventory check at the time of the transfer, however, he was unable to locate those records.

Aegis noted that all weapons purchased under the contracts are inspected by U.S. military personnel at least every six months and the weapons storage facilities in the Baghdad International Zone are inspected periodically by both the Joint Area Support Group and GRD.

The Joint Area Support Group inspected Aegis's weapons storage facilities on April 22, 2008, and found that weapons and ammunition were stored properly. We were told by the GRD/COR that he performs limited testing of Aegis's inventory controls during visits to operating locations.¹⁵ In September 2008, we accompanied the GRD/COR to Taji, Fallujah, Al Ramadi, and Al Asad operating bases; observed his tests of weapons inventory security procedures; and noted that, except for a few minor issues, security measures were sufficient to limit access to inventory items. We also observed tests of the weapons inventory at those locations and determined that all items in the tests were accounted for. We judgmentally selected a few items from the Loss, Theft, Damage, or Destruction Report and verified that Aegis had prepared the necessary paperwork to account for the lost, stolen, or damaged items. We also noted that records show that Aegis took appropriate action if the employee was at fault by recovering the full replacement cost for the item from the employee.

Oversight of Aegis's Performance

Under the Federal Acquisition Regulation, agencies must evaluate a contractor's performance for each contract exceeding \$1 million after the work under the contract has been completed. In addition, as specified by the agencies, interim evaluations should be prepared to provide current information for source selection purposes on contracts with a period of performance, including options, exceeding one year.

An assessment of Aegis's performance for the period June 1, 2004, through May 31, 2006, showed that it had received ratings of either satisfactory or very good in the five areas for which it was rated. These areas are quality of product or service, schedule, cost control, business relations, and management of key personnel. The comments from several GRD organizations and the Project and Contracting Office were overwhelmingly favorable. For example, the GRD/COR stated that "The SET teams have excelled in the areas of professionalism and security." Also, the plans officer in the GRD north region wrote, "RLT services provided are unique among PSC. They provide invaluable information. The quality of their reports is outstanding and provides more than adequate information in an organized and coherent format." In the few instances where problems were mentioned, Aegis or GRD appeared to have taken actions to correct most of the problems.¹⁶ For example, one individual wrote, "In isolated incidents individual (SET) teams have not been responsive to safety corrections made by the GRD chain of command. Most of these have since been corrected by vigorous action on the part of GRD and Aegis management." The GRD central region commander wrote, "They sometimes don't follow the plan on movements or change the movement plan without telling the clients on board. One area manager was fired and the number of problems there has decreased....The RLTs were not adequately trained, which affected their performance. Corrective training is on going."

Another assessment dated June 21, 2007, shows that Aegis's performance was outstanding. The GRD/COR, who prepared the assessment, wrote:

¹⁵ The GRD/COR stated that he visits various sites every quarter.

¹⁶ Records were not sufficiently complete to determine whether all problems were resolved.

- Aegis “successfully managed their personnel changeover at the end of Option Year 2 and the beginning of the contract extension, resulting in the successful completion of all scheduled missions and tasks. This is remarkable given that the government only provided Aegis with a four week notification of the contract extension in which they had to recruit, field and train replacement personnel to provide continuity of services.”
- “Aegis has been incredibly responsive and efficient in recruiting, mobilizing and training its guard force.”
- “Aegis has been very responsive to changes in requirements. The contract has experienced over 100 modifications and Aegis has adjusted its operations in a timely manner, frequently at no additional cost, to meet every one of the additional tasks required by those contract modifications.”¹⁷
- “As the COR for this contract I routinely receive positive comments about the performance of the SETs the excellent quality of the RLT reports, the depth of analysis provided by the Intelligence Cells, and the information coordination provided by the NROC [National Reconstruction Operations Center], RROCs [Regional Reconstruction Operations Centers] and SROCs [Satellite Reconstruction Operations Centers]. Based on the results of all external and internal inspections, and the feedback from all GRD personnel receiving services from Aegis in the execution of this contract, I must rate their past performance as outstanding.”

A further assessment of Aegis’s performance was prepared by the GRD/COR in support of a contract solicitation and dated November 19, 2007. The GRD/COR rated Aegis’s performance as either very good or excellent on the various performance factors. In commenting on that performance, the GRD/COR stated that Aegis “has performed to a high degree of satisfaction” on the RSSS-I contract in support of GRD. The GRD/COR further stated, “Aegis’ management team is proactive, highly experienced, professional, and very flexible and responsive to meet the needs of GRD in a very fluid and changing environment.” Moreover, he stated that Aegis had “established a comprehensive training program for all new hires resulting in a high standard of performance in all their contracted services. Aegis has also established a very rigorous accounting and property accountability program, and has implemented several cost-cutting measures that have saved the US Government over \$30 million while ensuring a high standard of services. Aegis management is very responsive to investigating and resolving allegations and incidents of misconduct by their personnel. Aegis has also quickly remedied any self and externally identified shortfalls in their procedures.”

The RSSS-II contract includes a Government Quality Assurance Surveillance Plan to aid in evaluating the contractor’s performance and compliance with performance objectives. The plan identifies five performance objective areas, as follows:

1. Continue operation of the Regional Support Centers and Contractor Operations Cells.

¹⁷ Over 100 modifications were issued on the RSSS-I contract for purposes such as increasing/decreasing contract funding, realigning Security Escort Teams and Reconstruction Liaison Teams, and increasing static guard forces.

2. Provide physical security protection for personnel and comply with standard operating procedures with regard to handling weapons and ammunition, conducting vehicle safety and equipment checks prior to convoys, and conducting convoy briefings.
3. Provide physical security protection for personnel and fixed facilities and ensure that guards are properly trained and equipped and are properly dressed and professional, security documents are in order, and reports are submitted on time.
4. Provide construction status reports, infrastructure attack assessments, and liaise with local officials and contactors.
5. Establish a security vetting process.

For each area, the plan identifies performance thresholds, methods of assessing performance, and performance standards. The contract specifies that a COR and a Contracting Officer Technical Representative will be designated to monitor Aegis's performance. Some of their duties are as follows:

- Maintain a detailed knowledge of the contract requirements.
- Monitor and record the contractor's performance.
- Maintain complete and accurate documentation.
- Establish and maintain a good working relationship with the contractor.

The plan states that the government will use surveillance to determine whether the contractor is efficiently and effectively complying with all terms and conditions of the contract. The plan also states that the following minimum surveillance methods will be used:

- customer evaluation forms to validate the contractor's performance.
- customer complaints.

The plan requires the COR to conduct biannual performance reviews and annual evaluations of the contractor based on information obtained through its surveillance methods. The COR is to note performance deficiencies and customer complaints and generate performance reports that identify the level to which the performance standard has been achieved.

Because the contract will not reach its one-year anniversary date until January 31, 2009, no formal evaluation has been written. However, the GRD/COR has been gathering information on Aegis's performance and customer satisfaction with Aegis's services.

According to the GRD/COR, Aegis's performance has been outstanding and there have been no customer complaints and numerous positive comments. For example, a customer evaluation letter in July 2008 stated that Aegis's overall performance was superb in support of irrigation pump station assessments. According to the customer, "the Aegis reports were very detailed with information we were looking for and they went out of their way to correct some of the locations we had. That was the best aspect of their work, their flexibility and work with us as we sorted out exactly where the irrigation stations are." Another customer wrote a letter of commendation at the end of his one-year tour and shared his perspective on the Aegis RLT's value to his operations. In his letter, he stated that "all members of the Aegis team demonstrated

tactically sound quiet professionalism.” He further stated that (1) Aegis’s report writing was “phenomenal” and the written products were of major value and proved highly useful in understanding what was going on at the project, (2) the quality and the thoroughness of the reports were commonly much more usable and enduring than the engineers’ personal observations, (3) the reports became a matter of permanent record and were instrumental in managing projects and getting construction deficiencies corrected, and (4) Aegis routinely conducted operations in very hostile areas exposing themselves to risk, managed risk appropriately, and completed missions without negative incidents.

The plan states that at the end of each performance evaluation period, the Contracting Officer will evaluate all surveillance data to determine whether critical performance standards have been met and will prepare a Contract Discrepancy Report for unmet standards. The discrepancy report is to be issued to the contractor, who is required to respond in writing with a plan to remedy the situation. The Contracting Officer may issue a discrepancy report for the contractor’s recurring failure to meet other (noncritical) contract performance objectives or requirements.

According to the GRD/COR, as of August 2008, no discrepancy reports had been issued under the RSSS-II contract; however, a letter of concern had been issued for three incidents involving vehicle safety, and a separate letter had been issued for four incidents involving poor weapons controls. The incidents occurred during February through April 2008. Aegis’s responses to the letters include a summary of findings and actions taken to remedy the situation, if needed.

In response to the letter of concern regarding the traffic accidents, Aegis provided the following information:

- A traffic accident occurred in March 2008 when the lead vehicle in a SET mission attempted to overtake a slow-moving vehicle and the driver either lost control or struck the median, which resulted in the death of the driver, injury to two passengers, and the loss of the vehicle valued at over \$170,000. The Aegis board of inquiry found that the vehicle driver was speeding, the decision to overtake the other vehicle was unwarranted, the vehicle driver was not wearing a helmet and possibly not a seatbelt, and the team leader’s supervision was poor. In response to the accident, Aegis inspected equipment and systems for failures, reemphasized existing procedures regarding requirements to wear protective equipment and devices, and terminated the contracts of both the vehicle commander and team leader.
- In April 2008, an Aegis-driven vehicle hit a civilian truck as it was passing, which resulted in damage that would likely cause the vehicle to be removed from the fleet and replaced. The replacement vehicle was estimated to cost over \$170,000. Aegis found the driver negligent, relieved him of his driving duties until he executed a supervised driver assessment, and fined the driver and his team leader five days’ pay. According to the GRD/COR, Aegis was not required to pay for the vehicles from this and the March accident, despite the negligence, because the contract does not require the contractor to reimburse the government for the lost vehicle.
- Also in April 2008, a traffic accident occurred in the International Zone when an Aegis-driven vehicle attempted to pass a stopped U.S. military convoy. As the Aegis vehicle

passed, one of the military vehicles in the convoy pulled across the road without warning and struck the Aegis vehicle causing \$3,500 damage. The Aegis Board of Inquiry found that the U.S. military driver was at fault and Aegis needed to take no action.

In response to the letter of concern regarding the poor weapons controls, Aegis provided the following information:

- In February 2008, an M-4 rifle was lost outside the Camp Victory complex. The contract of the person who lost the weapon was terminated and the cost of the weapon was deducted from his final pay. In addition, the supervisor was placed on three months probationary period and told that another transgression would result in his loss of position.
- In April 2008, an M-4 rifle was lost at the Camp Victory complex. The contract of the person who lost the weapon was terminated and the cost of the weapon was deducted from his final pay. In addition, the team leader, who was not present when the incident occurred, was placed on a one month probationary period.
- In April 2008, a pistol was stolen from a vehicle and subsequently recovered in a common area within billeting. The employee was found to be grossly negligent and his contract was terminated. His supervisor was placed on a three month probationary period. Managers at all levels were warned concerning standard operating procedures which prohibit the securing of weapons in vehicles.
- In April 2008 a pistol was stolen from the Aegis weapons storage area at Kalsu. The loss was discovered as part of the normal 100% inventory by the local manager and logistics supervisor. The weapons storage area was found to have no physical barrier to stop unauthorized entrance when the logistics manager is in the back of the storage area. The area had been certified for use by the government. Aegis directed that all weapons be physically secured within the storage area using racks, chains, or other physical means to prevent unauthorized removal. The logistics manager was fined one day's pay.

Under the contract, Aegis may earn financial incentives for its performance in two high-risk areas—SETs and RLTs. The areas relate to performance objectives 2 and 4 described previously. The maximum performance incentive amount for each high-risk area is \$150,000 with a maximum of \$300,000 for the base year. The contract specifies that the incentive amount will be paid at the end of the base year, which is scheduled to end January 31, 2009. According to the contract, the COR is to evaluate Aegis's performance in the two high-risk areas on each task order every month during the base contract period.

The GRD/COR stated that in lieu of the monthly reports on the high-risk areas, he receives monthly statistical reports that detail the number of missions reported by the SETs and RLTs and prepares detailed trip reports on his visits to operating locations. According to the GRD/COR, the statistical reports show him how much the teams are tasked and whether any cancellations are made and why. He looks for cancellations that are within Aegis's control. The GRD/COR stated that he had prepared seven reports from mid-May through mid-October 2008 for trips that provided for quality assurance checks on the Aegis sites and teams. In addition, he evaluated the teams during two trips to the training range and his missions to the field. The

GRD/COR stated that he does three other things in his travels that help him evaluate the teams' performance: first, he personally rides with them and inspects their records; second, he talks to the people who regularly ride with the teams; and third, he talks to the military leadership to whom the teams report. He considers these methods far superior to any monthly checklist he could fill out from his desk.

We reviewed the statistical and trip reports and discussed their use with the GRD/COR. We found the reports to be detailed and were told that he had developed the format for the reports to provide the information he needed to better oversee the contractor.

Aegis started to assist MNC-I in operating the Contractor Operations Cells and controlling the activities of PSCs throughout Iraq in February 2008. The MNC-I/COR considered Aegis's performance at the Contractor Operations Cells to be very positive, stating that Aegis employees perform their duties in a very professional and proficient manner. According to the MNC-I/COR, many of the Cells' employees have worked as SET members in the field, and their in-depth knowledge has contributed greatly to the overall success of the Cells.

Oversight of Operations and Incidents

Coordination between PSCs and U.S. military forces has historically been a problem area. In June 2006 testimony before Congress, a GAO official stated that PSCs did not coordinate with the U.S. military when they entered the "battle space" in Iraq.¹⁸ After the September 2007 incident involving Blackwater and resulting in the death of 17 Iraqi civilians,¹⁹ a special panel established by the Secretary of State to review the Department's security practices found, among other things, that improvements were needed to address shortcomings in coordination and oversight of PSCs. Since the incident, a number of improvements have been made, according to a July 2008 GAO report.²⁰ GAO found that DoD and the Department of State had taken steps to strengthen oversight of private security contractors in Iraq since September 2007.

The Contractor Operations Cells are an integral part of the improved coordination and oversight process. The cell network, operated by MNC-I with assistance from Aegis, are responsible for (1) approving, coordinating, and monitoring the movements of PSCs throughout Iraq; (2) coordinating military support to PSCs as necessary; and (3) gathering, assembling, and distributing information on incidents involving PSCs. The operations cell structure is relatively new, with all six cells achieving full functional capability by April 1, 2008.

Also relatively new is Fragmentary Order 07-428,²¹ which consolidates several previous fragmentary orders pertaining to the control, coordination, and oversight of PSCs. Order 07-428 contains mandatory guidance for armed DoD contractors, DoD civilians, and PSCs operating

¹⁸ *Rebuilding Iraq: Actions Still Needed to Improve the Use of Private Security Providers*, GAO-06-865T, June 13, 2006.

¹⁹ Blackwater is under contract with the Department of State.

²⁰ *Rebuilding Iraq: DOD and State Department Have Improved Oversight and Coordination of Private Security Contractors in Iraq, but Further Actions Are Needed to Sustain Improvements*, GAO-08-966, July 2008.

²¹ Overarching Order for Requirements, Procedures, Responsibilities for Control, Coordination, Management, and Oversight of Armed Contractors/DoD Civilians and PSCs (Multi-National Force Iraq Order 07-428). This order, initially issued in December 2007, has been updated.

under DoD contracts. Its purpose is to improve control, management, policy, oversight, and battle space coordination of PSCs by consolidating all current and relevant guidance as well as incorporating new procedures into a single source.

According to the MNC-I/COR and Aegis representatives, Aegis coordinates the movement of its personal security details with the Contractor Operations Cells as required by Order 07-428. Aegis representatives stated that prior to Order 07-428, the company followed previous fragmentary orders by coordinating the movement of its security details with Reconstruction Operations Centers, which were responsible for coordinating the movements of DoD PSCs. According to Aegis representatives, since Aegis assisted in managing the Reconstruction Operations Centers, it fully understood the need to coordinate the movement of its security details with the Centers and believed it needed to set the standard for other PSCs.

Order 07-428 requires PSCs to abide by all existing and future laws, regulations, orders, and directives applicable to the use of private security personnel in Iraq. This includes obtaining a license to operate in Iraq, which Aegis obtained from Iraq's Ministry of Interior. According to Aegis, it provided the Ministry with corporate information, copies of contracts, and documentation associated with infrastructure, weapons, vehicles, and personnel. Also, according to Aegis, the Ministry conducted an on-site inspection of Aegis as part of the licensing process. Moreover, Aegis stated that it has asked the Ministry for credentials for its personnel to carry weapons.²² That request was pending when we completed our fieldwork in October 2008.

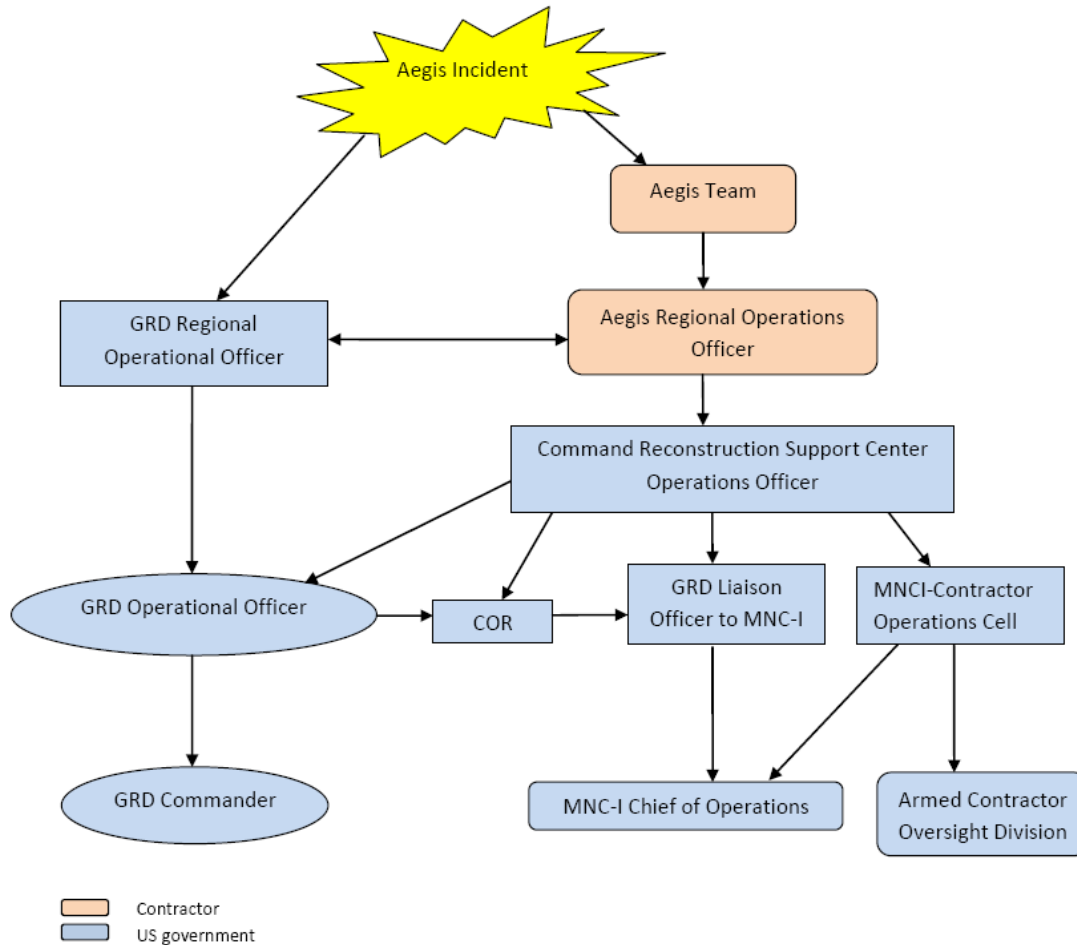
Order 07-428, Annex D, includes policies and procedures for reporting serious incidents²³ involving armed contractors, DoD civilians, and PSC under contract to the U.S. government or coalition forces in Iraq. Annex E includes requirements, procedures, and responsibilities for investigating serious incidents.

Under Annex D, PSCs are required to report serious incidents, conduct an internal investigation of each serious incident, and submit their final reports concerning those incidents to the Contractor Operations Cells and their CORs and contracting officers within 96 hours of an incident. The operations cells are to forward all serious incident reports to the Armed Contractor Oversight Division, Multi-National Force-Iraq. The annex also requires coalition forces that observe an incident to report the incident through their chain of command to the operations cells. The coalition forces are to report such information as the PSC involved, contract number, government contracting office, and agency or unit for which the PSC was providing support. The MNC-I/COR provided the following figure to illustrate the parallel reporting process for serious incidents involving Aegis up the GRD chain-of-command to the operations cells and Armed Contractor Oversight Division.

²² According to the GRD/COR, the Aegis security teams (e.g., SETS and RLTs) and static guards are all armed. Support staff are not armed except for those required to perform considerable travel.

²³ The annex defines serious incidents that must be reported as attacks, weapon discharges, criminal acts, traffic accidents resulting in injury to personnel or damage to property/equipment, and incidents believed to have an operational impact such as road closures or damage to infrastructure.

Figure 1—Reporting Chain for Serious Incidents Involving Aegis



Source: MNC-I/COR

According to the MNC-I/COR, all Aegis personnel involved in serious incidents are to report such incidents to the Command Reconstruction Support Center Operations Officer. Concurrently, GRD Regional Operational Officers are to report all PSC incidents observed in their region to the GRD Operational Officer at GRD headquarters, which in turn reports up the chain to the GRD Commander. A copy of the report is to be provided to the GRD/COR. The Command Reconstruction Support Center Operation Officer is to distribute the reports to the GRD/COR, GRD Liaison Officer to MNC-I, and MNC-I Contractor Operations Cell, as required by Order 07-428. The MNC-I operations cell distributes the incident reports to its list of recipients, which includes the Multi-National Force-Iraq Armed Contractor Oversight Division and the MNC-I Chief of Operations. The GRD Liaison Officer to MNC-I is also to report the incidents to the MNC-I Chief of Operations. The GRD/COR passes his incident reports to the GRD Liaison Officer assigned to MNC-I. According to the MNC-I/COR, because of the parallel reporting procedures, incidents are unlikely to go unreported.

Under Order 07-428, Annex E, the government entity receiving the services of the PSC is to determine whether the PSC’s investigation sufficiently documents the relevant facts and whether

further investigation is necessary. If the investigation is sufficient, the commander of the government entity receiving the services must determine if any disciplinary or corrective action is needed and report the results to the Armed Contractor Oversight Division. If the contractor's investigation is insufficient, the commander must appoint an investigating officer or refer the matter to a criminal investigative authority. The investigative results and any corrective or disciplinary actions are to be reported to the Division. The Division is responsible for ensuring that the government entity receiving the services is fulfilling its responsibilities to promptly and thoroughly review and/or investigate all serious incidents and to initiate corrective actions, as appropriate. The Division is also to maintain the details concerning serious incidents and to develop lessons learned and provide them to higher headquarters.

From February 24, 2008, through October 11, 2008, the Contractor Operations Cells had tracked over 55,000 operations and had received 538 reported incidents; 166 or 31% of those incidents were reported by Aegis. Table 5 shows the incidents reported by all PSCs and by Aegis during the period from February 24, 2008, through October 11, 2008.

Table 5—Incidents Reported by PSCs, February 24, 2008 – October 11, 2008

| Type of Incident | All PSCs | Aegis |
|--|-----------------|--------------|
| Vehicle-Borne Improvised Explosive Device | 3 | 1 |
| Complex Attack | 12 | 3 |
| Rules for Use of Force | 79 | 5 |
| Grenade Attack | 2 | - |
| Indirect Fire | 27 | 5 |
| Improvised Explosive Device | 70 | 22 |
| Improvised Explosive Devices/Rules of Force | 1 | 1 |
| Improvised Explosive Device Detonation | 1 | - |
| Murder | 1 | - |
| Negligent Discharge | 34 | 8 |
| Personal Improvised Explosive Device | 2 | - |
| Rocket-Propelled Grenade Attack | 2 | - |
| Road Traffic Accident | 106 | 29 |
| Small Arms Fire Incident | 36 | 8 |
| Shots Fired | 1 | 1 |
| Suicide Vehicle Improvised Explosive Device | 1 | 0 |
| Coalition Forces Fire on Private Security Contractor | 3 | 1 |
| Total Serious Incidents^a | 381 | 84 |
| Other ^b | 157 | 82 |
| Total Incidents | 538 | 166 |

Source: MNC-I/COR.

Notes:

^aSIGIR-derived based on MNC-I estimates.

^bOther incidents include terminations of employment, stone-throwing incidents, manning issues, fires in accommodations, and training and sports injuries.

According to the MNC-I/COR, about 50% of the incidents reported by Aegis from February 24, 2008, through October 11, 2008, were serious incidents, as defined by Annex E. Nonserious incidents were those categorized as “others.” According to Aegis, all serious incidents that occurred prior to the establishment of the Contractor Operations Cells were reported to the Reconstruction Operations Centers as required by the applicable fragmentary order of the time. In May 2007, an MNC-I inspection team reviewed Aegis’s incident reporting process and found it to be outstanding.

The MNC-I/COR expressed confidence that Aegis personnel in the Contractor Operations Cells would ensure that all reports on serious incidents, even those in which Aegis personnel are involved, are transmitted to the Armed Contractor Oversight Division. Also, the requirement for both Aegis and the observing military unit to report incidents helps to ensure that serious incidents are reported. An Armed Contractor Oversight Division official confirmed that they use this parallel reporting process to ensure that all serious incidents are reported. According to a

Division official, Aegis has been reporting and investigating many more incidents than required by Order 07-428. He also stated that statistics show that Aegis incident reporting has been exemplary.

According to the MNC-I/COR, all reports are stored on the MNC-I Intranet site and are accessible to any authority from MNC-I and Multi-National Force-Iraq. The GRD/COR is on the distribution list of all incident reports. The built-in controls, such as parallel reporting, are needed to provide reasonable assurance that serious incidents are reported when Aegis personnel in the contractor operations cell are involved in monitoring and reporting incidents by Aegis security teams.

To test Aegis's incident reporting, we asked the Contractor Operations Cells whether the three vehicle accidents previously mentioned were reported by Aegis. Initially we were told they were not reported but, after further review, we were told they were reported. We reviewed copies of the reports. We plan to review the incident reporting and investigation process in a future audit.

Personnel Screening, Selection, and Training

Our review of the files shows that Aegis is adhering to its screening and selection process, which should help to ensure that it hires individuals with the qualifications and personal qualities required by the contract. The RSSS contracts require Aegis to properly recruit and screen potential contract personnel to ensure that they meet certain criteria such as being mentally competent and free from habitual drunkenness or narcotics addiction. Aegis has established a personnel screening and selection process designed to fill jobs with individuals that have the qualifications and personal qualities required by the contract. That process includes a network to identify qualified candidates, interviews to evaluate individuals' abilities, and a vetting process to screen out criminals and individuals suffering from habitual drunkenness or narcotics addiction.

The training files we reviewed in September 2008 show that Aegis is adhering to its training program, which should help to ensure that individuals working on the contract are properly trained, as required in the RSSS contracts. Aegis states that it selects only candidates with the appropriate experiences for the positions they are filling and provides training for those individuals prior to their deployment to Iraq and additional training once they arrive in Iraq. Also, individuals on security teams receive weapons training every 90 days, and support staff receive such training every 180 days. In May 2007, an MNC-I inspection team found that Aegis had sound training operations.

Personnel Screening and Selection Process Helps Ensure Contract Requirements are Met

The qualifications required of expatriates provided by Aegis have remained basically the same throughout the RSSS contracts. Aegis is required to ensure that the expatriates in its work force be (1) properly recruited and certified, (2) free of convictions for any felony or misdemeanor during the preceding five-year period, (3) mentally competent, (4) free from habitual drunkenness or from narcotics addiction, and (5) properly vetted for criminal history.

According to Aegis, it has established a recruiting network in the United Kingdom, the United States, and Iraq that allows it to fill specific jobs based on an individual's qualifications, experience, and personal qualities. Aegis stated that it subjects all selected personnel to a "rigorous interview" and background check to ensure that they measure up to the function they are to fill and "fit into any existing structure as a viable team member from their first day." Aegis described its recruiting and selection process as follows:

- **Initial contact and selection:** Aegis has built a wide-ranging network of personnel contacts for security work. This network enables Aegis to interview former U.S., U.K., and coalition military personnel; former police; and other specialists. All candidates are screened to verify their background and qualifications, including their relevant service records. Iraqi nationals are recruited locally, and Gurkhas (Nepalese citizens that have served in the British, Indian, or Singapore armed forces) are recruited through an Aegis

Nepal recruitment agent, FSI Worldwide.²⁴ According to FSI Worldwide, it also recruits Gurkhas for the British military and British Embassy in Iraq.

- Selection criteria: Aegis uses set criteria for certain roles to select quality candidates. Aegis stated that when considering candidates, it selects for interviews individuals with a minimum of 5 years of military experience, civilian security experience, experience in hostile environments, and former employees with government departments. Individuals assigned to carry weapons are to have a minimum of 5 years of military or police experience and to be familiar with weapons handling.
- Interview: Aegis structures interviews to evaluate individuals on their ability to work effectively in a close-knit and pressurized team and communicate effectively to ensure a smooth relationship with clients. The interviews also include competence-based questions to seek evidence of the candidates' thought processes and rationales for various actions.
- Medical/dental checks: Aegis requires all personnel to confirm that they are fit both medically and dentally prior to deployment. All individuals are processed through the London office, where they undergo full medical/dental checks. In addition, Aegis requires annual medical/dental checks that include HIV and drug testing.
- Vetting: Certain positions require a security clearance to the Secret level, including members of the Contractor Operation Cells, intelligence officers assigned to the RSCs, and the director for static ground forces. Clearances for U.K. expatriates are provided by the U.K. Ministry of Defence's Defence Vetting Agency. Security clearances for all other coalition nationals are verified by the issuing departments. As specified in the contract, all personnel must have a completed police background check to ensure that they have not been identified as persons of interest, criminals, or offenders of any U.S. code. Personnel are also screened to ensure that they are not suffering from habitual drunkenness or from narcotics addiction or dependence and have not been declared by any court to be incompetent by reason of mental defect. Aegis, through its Nepal recruiting agent, guarantees that all Gurkhas are genuine ex-servicemen of the British Army, Indian Army, or Singapore armed forces and have exemplary records, are medically fit, and have not been involved in any Nepali political activity. Once selected, a counterterrorist check is conducted, and individuals deploy only if cleared.
- Pre-Deployment: Before deployment, the candidates' security questionnaires and other forms are sent to their appropriate ministries of defense for final vetting.

With regards to Iraqis, Aegis recruits and vets all Iraqi Nationals that are to be employed by Aegis and GRD. Candidates for employment are interviewed in depth, complete detailed applications, and must provide 10 separate documents of proof of identity and residence. Aegis's vetting of all Iraqi employees throughout Iraq is conducted by the GRD Provost Marshal's Office.

Aegis stated that it maintains duplicate files in London and Baghdad for each of its employed individuals in Iraq. Each file contains the individual's personnel and training data. In Baghdad,

²⁴ Gurkhas are used by Aegis in Iraq as static guards.

we reviewed a judgmental sample of the files of individuals employed by Aegis (about 5% of expatriates and Gurkhas and 10% of Iraqi Nationals) and found the files to be well organized and to contain the required documents, clearances, and certifications described above.

Training Program Helps Ensure Individuals Are Properly Trained

The RSSS contracts require that Aegis ensure that its workforce be properly trained. According to Aegis, the candidates it selects already have a minimum of 5 years of experience in the military, civilian security, operations in hostile environments, or government departments. Also, prior to deployment, candidates are trained on a number of topics, including rules on the use of force, first aid, evaluation of casualties, prevention of hot and cold weather injuries, and personnel recovery training.

Once in Iraq, Aegis provides induction training, which covers special-to-theater knowledge required in Iraq. The induction training spans seven days and includes matters related to operating in Iraq and legal requirements. According to Aegis, at the end of the induction training, each individual must pass a mandatory weapon-handling test on the weapons he/she is to be issued. After successfully passing the weapon-handling test, Aegis requires individuals to pass live fire qualifications. Each qualification is recorded in the individual's training file; the training file is sent to the region where the employee is working and is also included in the individual's personnel file. Aegis stated that training standards are, at a minimum, to the level of Department of the Army authorized standards for both U.S. and non-U.S. weapons. Aegis also stated that individuals are issued personal weapons only after successfully completing these requirements and receiving permission to carry a weapon from MNC-I. Individuals who fail to qualify are dismissed and sent home.

According to Aegis, team members receive weapons training every 90 days; support staff receive it every 180 days. Also, all weapon qualification practices are recorded and included in an individual's training files. In addition, Aegis records all weapons training in the Training Automated Recording Systems, which can be accessed by government personnel to provide oversight. In May 2007, an MNC-I inspection team reviewed Aegis's training records and found Aegis to have a sound operation. The team's report stated that Aegis's on-line training program was above the standards to train employees in all areas of security operations. We looked at approximately 5% of all employees' training records in Baghdad as part of our review of the personnel files and found them to be complete and up-to-date.

In August 2008, SIGIR's staff also observed a 3-day refresher training session for SETs and RLTs at a live fire training range near Baghdad. The standard training included qualifications on the firing range, walking drills, fire and movement in pairs, a four-man team's fire and movement, and client extraction during contact. We observed the training curriculum required of Aegis personnel in theater and found that the SET's performance was very good, but the RLT's was disappointing. The SET individual skills were at a good standard both on their weapons and tactically. The reason for the RLT's disappointing performance was mainly the poor standard of two Iraqi Nationals. The Training Team's view was that the two Iraqis were ineffective as operators and should be considered for termination of contract based on their performance on the range. According to the GRD/COR, the two Iraqis were provided corrective

training to improve their skills and performance. However, because their performance did not show satisfactory improvement, Aegis terminated their employment.

Figures 6, 7, and 8 are photographs taken during a training exercise at Camp Butler Multi-Range Complex. The camp was an Iraqi army training area where a Republican Guard Brigade was destroyed in 2003.

Figure 6—Shows a live fire exercise on a mobile range, involving simulated improvised explosive devices, rocket-propelled grenades, small arms fire, and foot movement while under fire.



Source: Aegis.

Figure 7—Shows Aegis personnel keeping the client safe and removing him from danger while under fire.



Source: Aegis.

Figure 8—Shows the simulation of casualties to put teams under further pressure and test the team medics.



Source: Aegis.

Conclusions and Recommendations

Conclusions

In addition to the \$612.8 million in contract costs, the government provided Aegis with support and sustainment equipment and services such as housing, food, electricity, vehicles, and fuel. These costs are substantial but not readily available. We estimate the cost of food, water, shelter, and vehicles could exceed \$57 million per year. This amount does not include the cost of ammunition, vehicle maintenance, and fuel.

We found well supported contract awards to Aegis; appropriate government oversight of Aegis's bills, inventories, performance, and operations; and contract performance assessed as satisfactory to outstanding. For example:

- The two largest RSSS contracts were competitively awarded, and the bridge contract, although noncompetitively awarded, was appropriately justified as a sole-source award.
- U.S. and U.K. agencies have provided appropriate oversight of Aegis's bills and have found that claims are well supported.
- U.S. agencies have monitored Aegis's controls of inventories and found them adequate to protect the U.S. government's interests.
- Aegis is adhering to its personnel screening and selection process, which should help to ensure that it hires individuals with the qualifications and personal qualities required by the contract.
- Aegis is adhering to its training program, which should help ensure that individuals working on the contract are properly trained.
- As part of DoD's new process to coordinate private security operations with military units, Aegis personnel assisted in tracking over 55,000 private security operations since February 2008.
- Aegis has reported about 80 of the 380 serious incidents reported by all security contractors since February 2008. Aegis is complying with requirements to coordinate its operations and report serious incidents. We plan to audit the incident reporting process.

We found that contract administration could be improved. Specifically:

- We noted that there is no central location for the contract-related electronic records that provide a history of Aegis's performance and government actions to oversee the contractor and, if needed, require changes to its performance. Instead, the numerous contracting officers and CORs for the RSSS contracts had maintained many of their contract files, especially those pertaining to contract oversight actions, in electronic formats in various computer directories. This impeded our evaluation of the strengths and weaknesses of Aegis's performance under the RSSS-I and bridge contracts and the adequacy of the government's oversight of Aegis's performance on those contracts. It

may also impede follow-on contract managers' progress to quickly understand the contracts' history.

- Since 2004, the U.K. Ministry of Defence, Office of Defence Equipment and Support, has reviewed Aegis's invoices based on a verbal agreement with the Defense Contract Management Agency office in Northern Europe. In 2005, responsibility for the RSSS contract was transferred to the Agency's Baghdad office. The Audit Team Leader for DE&S stated that his office had not heard from anyone with the U.S. government concerning those reviews since 2005 and is unaware as to whether his reports are received or used by the Defense Contract Management Agency office in Baghdad. We confirmed that the reports are received by the Agency's office in Baghdad.
- Security personnel working for Aegis have been involved in vehicle accidents that resulted in the loss of costly government-provided vehicles due to negligence on the part of the personnel. Although Aegis had taken corrective actions by terminating or fining the individuals, it did not pay for the government-provided vehicles because the contract does not require Aegis to reimburse the government for such losses. Since Aegis recruits, hires, and trains these personnel, we believe it shares the responsibility for their actions.

Recommendations

To improve contract administration and oversight, SIGIR recommends that the Commanding General of the Gulf Region Division, the Director of the Defense Contract Management Agency, and the Commander of the Joint Contracting Command-Iraq/Afghanistan direct that the following actions be taken as it relates to their respective responsibilities under the contract:

1. Ensure that the electronic files pertaining to contracts are better organized in a central depository and made available to contract managers and external contract reviewers.
2. Specify in writing the audit role it wants the U.K. Ministry of Defence, Office of Defence Equipment and Support, to perform; the U.S. government organizations that should receive its reports; and which U.S. government organization is responsible for maintaining contact with DE&S.

SIGIR also recommends that the Commanding General of the Gulf Region Division and the Commander of the Joint Contracting Command-Iraq/Afghanistan:

3. Ensure that future contracts require that the government and contractors equitably share the cost of government-provided vehicles lost through the negligence of contractor personnel.

Management Comments and Audit Response

The Defense Contract Management Agency agreed and the Gulf Region Division generally agreed with the report recommendations. Specifically, GRD partially concurred with recommendation 1 and fully concurred with recommendations 2 and 3.

Concerning recommendation 1, GRD stated that it maintains Contracting Officer Representative evaluations on a shared network space and provides copies of all performance reports to the

Defense Contract Management Agency. It also stated that organizing files in a central depository is a matter best left to the organizations involved in administration of the contract. SIGIR agrees that contractor evaluations should be shared and commends GRD for its actions in that regard. It does not agree that organizing contract files in a central depository is a matter best left to the organizations involved in contract administration. SIGIR believes that this approach has led to stovepipe recordkeeping in which each organization has its own set of files that do not provide a total picture of the contractor's performance in such areas as controlling inventories, recruiting and hiring appropriate personnel, and submitting fully supported invoices. SIGIR also believes that the program management office should maintain a central depository of contract-related electronic records that would provide contract administrators with a comprehensive picture of the contractor's performance. We modified our final recommendation to indicate that the program management office should have responsibility for maintaining the contract-related electronic records.

With regards to recommendation 2, GRD stated that it is open to establishing contact with the U.K. Ministry of Defence, Office of Defense Equipment and Support, if SIGIR can provide a point of contact to help facilitate this coordination. The point of contact within the Ministry is specified in each report on the Aegis contract submitted by Defense Equipment and Support to the Defense Contract Management Agency in Baghdad.

With regards to recommendation 3, GRD stated that it will discuss with Aegis the issue of contractor reimbursement for vehicles lost due to employee negligence as a possible modification to the current contract.

GRD also provided technical comments, which SIGIR incorporated as appropriate.

Appendix A—Scope and Methodology

Scope and Methodology

In February 2008, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated Project 8017 to examine the Department of Defense's (DoD) contracts with Aegis Defence Services, Limited (Aegis). The audit focused on the three DoD contracts with the largest payments to Aegis, referred to as the Reconstruction Security Support Services (RSSS) contracts. SIGIR reviewed the government's costs, contracting process, and oversight of Aegis's bills, inventories, performance, and operations to include the reporting of serious incidents, and compliance with Government of Iraq requirements. SIGIR also examined Aegis's personnel screening, selection, and training processes to ensure they meet contract requirements. SIGIR conducted its work from February through November 2008 in Arlington, Virginia, and Baghdad, Taji, Falluja, Al Ramadi, and Al Asad, Iraq.

To determine costs of the contracts, we obtained financial data from the U.S. Army Corps of Engineer's Financial Management System. To estimate the cost of government provided shelter services, we obtained a daily/per person rate charged to the government by Fluor Corporation the provider of such services to Aegis. We used that rate and the number of Aegis personnel estimated to be on the RSSS-II contract to compute a daily rate for Aegis personnel. We then projected that to an estimated yearly rate based on the need for such services 365 days a year. For vehicle costs, we obtained the estimated amount of funds obligated for the vehicle rental contract for the last 12 months. For food and water costs, we used the latest daily food allowance amount for U.S. Army personnel. We projected that amount for the number of Aegis personnel on the RSSS-II contract for 365 days a year.

To evaluate the contracting process, we examined available documents pertaining to (1) government evaluations of contractor proposals, (2) pre-award and post-award protests, (3) contractor proposals, and (4) protest decisions.

To evaluate the government's oversight of bills, we reviewed the contract provisions pertaining to the billing process. We gained an understanding of the billing development and review process by reviewing pertinent documents and discussing that process with Aegis personnel. We examined reports prepared by the U.K. Ministry of Defence, Office of Defence Equipment and Support (DE&S), pertaining to their reviews of Aegis's (1) invoices; (2) accounting, estimating, and billing systems; and (3) overhead rates. We discussed these reviews with the DE&S Audit Team Manager to obtain his views concerning the accuracy of Aegis's invoices; the reliability of accounting, estimating, and billing systems; and the relationship with and guidance provided by U.S. government agencies. We also discussed with the U.S. Army Corps of Engineers, Gulf Region Division (GRD), Contracting Officer Representative, his process for ensuring that invoices are accurate.

To evaluate the government's oversight of inventories, we reviewed the contract provisions pertaining to inventory controls. We discussed with Aegis personnel and the contracting officer representative the various inventory reports provided by Aegis to GRD. We examined government evaluations of Aegis's inventory system. We also discussed with the contracting

officer representative his methods for testing the accuracy of Aegis's inventory. We accompanied the representative during his visit to field locations and observed his tests of inventory controls and the adequacy of weapons storage areas.

To evaluate the government's oversight of Aegis's performance, we reviewed the contract provisions pertaining to performance, assessments of Aegis's performance during the RSSS-I contract, and correspondence pertaining to performance issues. We also reviewed the Government Quality Assurance Surveillance Plan for the RSSS-II contract and the contracting officer representative's responsibilities under the Plan and his fulfillment of those responsibilities. Moreover, we obtained information and assessments concerning Aegis's performance from the GRD and Multi-National Corps-Iraq contracting officer representatives, and users of Aegis services in the field.

To evaluate the government's oversight of Aegis's operations, including Aegis's compliance with the requirements that serious incidents be reported and Aegis be registered with the Government of Iraq, we reviewed applicable guidance and regulations to determine what is required of Aegis. From the Contractor Operations Cell and the GRD contracting officer representative, we obtained data and information concerning Aegis's compliance with requirements that serious incidents be reported and investigated. We reviewed serious incident reports and GRD's assessments of those reports. Regarding Aegis's registration with the Government of Iraq, we obtained copies of current registration certificates and determined the status of certificates in process.

To evaluate Aegis's personnel screening, selection, and training processes and their compliance with contract requirements, we reviewed contract provisions pertaining to those requirements. We discussed these processes with Aegis personnel in Baghdad and obtained Aegis's descriptions of those processes, copies of the documents that are generated during those processes, and its controls to ensure that contract requirements are met. We obtained available government evaluations of those processes. We discussed with the GRD contracting officer representative his methods for ensuring that the processes are followed. We reviewed a sample of employees' personnel and training files to determine if the documentation supported Aegis's statements concerning processes and controls. We selected random samples consisting of about 5% of expatriates and Gurkhas and 10% of Iraqi nationals. To select our sample, we obtained a current roster of the 1,337 Aegis personnel assigned to the RSSS-II contract as of August 8, 2008. Since GRD regional districts are involved in records maintenance, we randomly selected about 5% of expatriates and Gurkhas from each district.

This audit was performed by SIGIR under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. It was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Use of Computer-Processed Data

We obtained financial data from the U.S. Army Corps of Engineers' Financial Management System. We relied on that system as the official source because it is the most complete source for such data. We compared those data with contract documents and audits performed by the U.K. Ministry of Defence and found no major discrepancies. Accordingly, we determined that performing substantive testing of the reliability of the Financial Management System data was not necessary for the purpose of our review.

Internal Controls

We reviewed the specific controls used in managing and administering the Aegis contracts. This included reviewing management controls related to contract award, contract oversight, and DE&S audit support.

Prior Coverage

We reviewed the following applicable reports issued by SIGIR, the Government Accountability Office (GAO), and the Congressional Research Service:

Special Inspector General for Iraq Reconstruction

Compliance with Contract No. W911S0-04-C-0003 Awarded to Aegis Defence Services Limited, SIGIR-05-005, April 20, 2005.

U.S. Government Accountability Office

Rebuilding Iraq: DOD and State Department Have Improved Oversight and Coordination of Private Security Contractors in Iraq, but Further Actions Are Needed to Sustain Improvements, GAO-08-966, July 31, 2008.

Rebuilding Iraq: Actions Still Needed to Improve the Use of Private Security Providers, GAO-06-865T, June 13, 2006.

Rebuilding Iraq: Actions Needed to Improve Use of Private Security Providers, GAO-05-737, July 28, 2005.

Congressional Research Service

Private Security Contractors in Iraq: Background, Legal Status, and Other Issues, August 25, 2008.

Private Security Contractors in Iraq: Background, Legal Status, and Other Issues, July 11, 2007.

Appendix B—Acronyms

| Acronym | Definition |
|----------------|---|
| COR | Contracting Officer Representative |
| DE&S | Defence Equipment and Support |
| DoD | Department of Defense |
| GAO | Government Accountability Office |
| GRD | Gulf Region Division |
| JCC-I/A | Joint Contracting Command-Iraq/Afghanistan |
| MNC-I | Multi-National Corps-Iraq |
| PSC | Private Security Contractor |
| RLT | Reconstruction Liaison Team |
| RSSS | Reconstruction Security Support Services |
| SET | Security Escort Team |
| SIGIR | Special Inspector General for Iraq Reconstruction |
| U.K. | United Kingdom |

Appendix C—Audit Team Members

This report was prepared and the review was conducted under the direction of David R. Warren, Assistant 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:

Michael A. Bianco

Robert L. Pelletier

Nadia Shamari

Appendix D—Management Comments

U.S. Army Corps of Engineers - 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 II, Room 1013, APO AE 09316

SUBJECT: Draft SIGIR Audit Report – Oversight of Aegis' Performance on Security Services Contracts In Iraq with the Department Of Defense, (SIGIR- 09-010)

1. The Gulf Region Division reviewed the subject draft report and generally agrees with the recommendations. GRD provides additional comments for clarity and accuracy in the enclosure.
2. Thank you for the opportunity to review the draft report and provide our written comments for incorporation in the final report.
3. If you have any questions, please contact Mr. Robert Donner at (540) 665-5022 or via email Robert.L.Donner@usace.army.mil.

Encl
as

Michael R. Eyre
MICHAEL R. EYRE
Major General, USA
Commanding

COMMAND REPLY
to
**SIGIR Draft Audit Report – Oversight of Aegis’ Performance on Security Services
Contracts In Iraq with the Department Of Defense
SIGIR Report Number 09-010
(SIGIR Project 8017)**

Overall Comment. The Gulf Region Division (GRD) reviewed the report and generally agrees with the facts as presented in the report. While we also agree with the focus of the report’s recommendations, we believe that the parties involved are in the best position to accomplish the report’s goals.

Recommendations:

To improve contract administration and oversight, SIGIR recommends that the Commanding Generals of the Gulf Region Division, the Defense Contract Management Agency, and the Joint Contracting Command-Iraq/Afghanistan direct that the following actions be taken as it relates to their respective responsibilities under the contract:

Recommendation 1. Ensure that electronic files pertaining to contract administration and oversight are better organized in a central depository and made available to contract managers and external contract reviewers.

Concur in part. GRD maintains Contracting Officer Representative evaluations on a shared network space. The COR provides copies of all performance reports to DCMA. Organizing the files in a central depository is a matter best left to the organizations involved in administration of the contract.

Recommendation 2. Specify in writing the audit role it wants the DE&S to perform, the U.S. government organizations that should receive its reports, and the U.S. government organization that is responsible for maintaining contact with DE&S.

Concur. GRD is open to establishing contact with the U.K. Ministry of Defense, Office of Defense Equipment and Support if SIGIR can provide a point of contact to help facilitate this coordination.

SIGIR also recommends that the Commanding Generals of the Gulf Region Division and the Joint Contracting Command-Iraq/Afghanistan:

Recommendation 3. Ensure that future contracts require that the government and contractors equitably share the cost of vehicles lost through the negligence of contractor personnel.

Concur. GRD identified the vehicle reimbursement for negligence as a required item in the next contract. GRD will discuss this issue as a possible modification to the current contract that will require both sides to approve.

Enclosure

Management Comments

Defense Contract Management Agency



IN REPLY
REFER TO DCMAI

DEFENSE CONTRACT MANAGEMENT AGENCY
DEFENSE CONTRACT MANAGEMENT AGENCY INTERNATIONAL
6359 Walker Lane, Suite 220
Alexandria, Virginia 22310-3259

Date: 9 Jan 2009

MEMORANDUM FOR PRINCIPAL DEPUTY ASSISTANT IG FOR AUDIT

SUBJECT: Response to Recommendations Contained in Oversight of Aegis' Performance on Security Services Contracts in Iraq with the Department of Defense (SIGR-09-010)

Mr. Furbish,

DCMA International has reviewed the above and concurs as follows:

SIGR Recommendation: 1. Ensure that electronic files pertaining to contract administration and oversight are better organized in a central depository and made available to contract managers and external contract reviewers.

CONCUR/NONCONCUR: DCMA I/A Concurs

ACTIONS TAKEN/PLANNED: JCC-I/A currently has a shared network drive which is accessible by most on the GRD (Gulf Region Division) compounds. External contract reviewers have been notified of the shared drive and should request and obtain authorization to access the network drive for their purposes through JCC-I/A.

DATE ACTION COMPLETED: N/A – shared drive already in place. JCC-I continues to expand functionality and access to the shared drive.

SIGR Recommendation: 2. Specify in writing the audit role the U.K. MOD Office of Defense Equipment and Support (DE&S) is to perform, the U.S. Government organizations that should receive the reports, and the U.S. Government organization that is responsible for maintaining contact with DE&S.

CONCUR/NONCONCUR: DCMA Concurs

ACTIONS TAKEN/PLANNED: The United Kingdom Ministry of Defense (UK) provides contract audit support services to the United States under a reciprocal defense procurement memorandum of understanding (MOU) ([http://www.acq.osd.mil/dpap/Docs/paic/MOU-United%20Kingdom%20\(Dec%202004\).pdf](http://www.acq.osd.mil/dpap/Docs/paic/MOU-United%20Kingdom%20(Dec%202004).pdf)). The MOU delineates the types of audits that each country may request of the other. The MOU also includes procedures for requesting audit services. Requests under the MOA are sent to specific receiving offices in the host country using mail, facsimile, or e-mail, and specify:

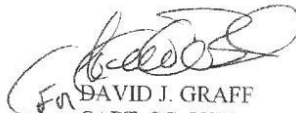
1. The type of audit services needed.
2. The contractor's name and address.
3. The subcontractor's name and address (if applicable).
4. The proposal reference and value (if applicable).
5. Audit coverage required including any items requiring special review.
6. The calendar date that the audit report is needed.
7. A contact name, telephone number, facsimile number, and e-mail address.

The findings of the draft report indicate that requests for UK audit support have not been documented in accordance with the MOU. DCMA has advised its Iraq field office to establish and maintain written audit service requests as required by the MOU. This will provide the recommended written detail. We will share this information with JCC-I/A and GRD officials for their use as well. Since DoD activities can independently request UK audit support under the MOU, each requesting activity retains responsibility for maintaining contact with the UK on their respective audit requests.

DATE ACTION COMPLETED: Projected completion date of January 31, 2009 to develop written audit requests for existing contracts.

If you need further information, our point of contact at DCMA International is LTC Robert Ketchum. He may be reached at commercial (703) 428-1728, DSN 328-1728 or by e-mail at Robert.Ketchum@dcma.mil.

Very Respectfully,


DAVID J. GRAFF
CAPT, SC, USN

| | |
|---|--|
| 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 |
| Obtaining Copies of SIGIR Reports and Testimonies | <p>To obtain copies of SIGIR documents at no cost, go to SIGIR's Web site (www.sigir.mil).</p> |
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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: 703-428-1059 Email: hillel.weinberg@sigir.mil</p> |
| Public Affairs | <p>Kristine R. 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> |