

**IRAQI SECURITY FORCES FACILITIES:
ENVIRONMENTAL CHEMICAL
CORPORATION PROJECTS ACHIEVED
RESULTS, BUT WITH SIGNIFICANT
COST INCREASES AND SCHEDULE
DELAYS**

**SIGIR 10-001
OCTOBER 22, 2009**

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SIGIR

Special Inspector General for IRAQ Reconstruction

October 22, 2009

IRAQI SECURITY FORCES FACILITIES: ENVIRONMENTAL CHEMICAL CORPORATION PROJECTS ACHIEVED RESULTS, BUT WITH SIGNIFICANT COST INCREASES AND SCHEDULE DELAYS

Summary of Report: SIGIR 10-001

Why SIGIR Did this Study

The Special Inspector General for Iraq Reconstruction (SIGIR) has a legislative requirement to prepare a final forensic audit report on amounts made available for Iraq reconstruction. To help fulfill this requirement, SIGIR has undertaken audits examining major Iraq reconstruction contracts to determine contract costs, outcomes, and oversight, emphasizing issues related to vulnerabilities to fraud, waste, and abuse.

This audit focused on the use of \$1.12 billion for task orders issued from April 2004 to March 2008 primarily for constructing Iraqi Security Forces facilities at numerous locations throughout Iraq. The task orders, issued under two contracts to the Environmental Chemical Corporation (ECC), were funded with \$350.87 million from the Iraq Relief and Reconstruction Fund and \$768.82 million from the Iraq Security Forces Fund. They were managed and overseen by the Multi-National Security Transition Command-Iraq (MNSTC-I) and the Air Force Center for Engineering and the Environment (AFCEE).

What SIGIR Recommends

Previous SIGIR reports have included recommendations and/or lessons learned to address issues related to cost increases and schedule delays on Iraq reconstruction projects. The major issues identified in this report—the changes in work scopes after task order awards and the unstable security conditions—have been addressed. Accordingly, SIGIR includes no recommendations or lessons learned in this report.

The procurement integrity issues identified but not pursued by MNSTC-I have been provided to SIGIR Investigations for consideration.

Management Comments

We provided a draft of this report to the responsible agencies for comment; however, SIGIR has no recommendations and the agencies are not required to comment. Neither MNSTC-I nor AFCEE provided comments.

What SIGIR Found

SIGIR noted that numerous facilities were constructed under the ECC task orders, but SIGIR found cost increases, schedule delays, and some waste of funds. The major causes were work changes and security issues—inherent consequences of constructing facilities in a contingency environment. SIGIR further noted that management and oversight were generally sound, but identified a few concerns.

Under 38 task orders, ECC constructed Iraqi Security Forces facilities such as headquarters buildings, barracks, dining halls, clinics, and police buildings. However, costs for these task orders increased from about \$655 million to about \$1.12 billion (about 71%). The costs for three task orders increased more than 400%, a total increase of more than \$150 million. Also, schedule delays were significant; the completion of 14 task orders was delayed by 18 months or more.

By analyzing the costs and outcomes of the work, SIGIR identified the following key causes of cost and schedule changes:

- After award, task orders were significantly modified to change the scope of work and in some cases the locations of facilities. These changes increased costs and also resulted in wasted funds; SIGIR identified three examples totaling about \$1.71 million. MNSTC-I and AFCEE officials told SIGIR that the wartime environment, the undeveloped Iraqi Army, and the fluid situation resulted in the award of task orders before plans were finalized and were then modified as needs changed.
- The need for security resulted in paying more than \$150 million (about 14% of the total costs) to private security subcontractors. In addition, security issues increased contractors' payrolls and subcontractors' cost, and also delayed performance. The total effect of security conditions on costs and schedules could not be quantified.

AFCEE and MNSTC-I shared management and oversight of the task orders and contracts. AFCEE used a competitive process to award 26 of the 38 task orders and provided justifications when competition was not used. Further, contract and project files provided extensive evidence of the management and oversight of ECC's performance. However, a MNSTC-I investigation of procurement irregularity by one of its officials identified inappropriate relationships and other integrity issues, but the recommended follow-up was not conducted. Also, the Defense Contract Audit Agency has extensively audited ECC and identified about \$5.71 million in questioned costs; nevertheless, some critical audits of ECC systems were not performed.

SIGIR found that some fees—profits—paid to ECC appear to be excessive. ECC received \$80.36 million in fees as profit, including \$40.55 million for modification cost increases. Fees were to be increased only for added work, but AFCEE provided additional fees on cost increases when work was not added and on some cost increases resulting from contractor mismanagement. AFCEE officials believed that the fees were justified because changing work requirements and security issues caused cost increases.



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

October 22, 2009

MEMORANDUM FOR COMMANDING GENERAL, MULTI-NATIONAL SECURITY
TRANSITION COMMAND- IRAQ
DIRECTOR, AIR FORCE CENTER FOR ENGINEERING AND THE
ENVIRONMENT

SUBJECT: Iraqi Security Forces Facilities: Environmental Chemical Corporation Projects
Achieved Results, but with Significant Cost Increases and Schedule Delays
(SIGIR 10-001)

We are providing this audit report for your information and use. The report discusses our review of Iraq reconstruction projects under two contracts (FA8903-04-D-8672 and FA8903-06-D-8511) awarded by the Air Force Center for Engineering and the Environment to the Environmental Chemical Corporation. We performed this audit in accordance with our statutory responsibilities contained in Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. This law provides for independent and objective audits of programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Iraq, and for recommendations on related policies designed to promote economy, efficiency and effectiveness and to prevent and detect waste, fraud, and abuse. This audit was conducted as SIGIR Project 9002.

This report does not contain recommendations; accordingly, the responsible agencies were not required to provide comments on the draft report provided to them. The responsible agencies did not provide comments.

We appreciate the courtesies extended to our staff. For additional information on the report, please contact David Warren, Assistant Inspector General for Audits, (703) 604-0982/ david.warren@sigir.mil, or Glenn Furbish, Principal Deputy Assistant Inspector General for Audits, (703) 604-1388/ glenn.furbish@sigir.mil.

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

Stuart W. Bowen, Jr.
Inspector General

cc: U.S. Secretary of State
U.S. Ambassador to Iraq
U.S. Secretary of Defense
Commander, U.S. Central Command
Commanding General, Multi National Force-Iraq

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Iraqi Security Forces Facilities: Environmental Chemical Corporation Projects Achieved Results, but with Significant Cost Increases and Schedule Delays

SIGIR 10-001

October 22, 2009

Introduction

Public Law 108-106, as amended, requires that the Special Inspector General for Iraq Reconstruction (SIGIR) prepare a final forensic audit report “on all amounts appropriated or otherwise made available for the reconstruction of Iraq.” To help fulfill this requirement, SIGIR has undertaken a series of audits examining major Iraq reconstruction contracts. The objective of these audits is to examine contract cost, outcome, and management oversight, emphasizing issues related to vulnerabilities to fraud, waste, and abuse.

This report provides the result of SIGIR’s audit of task orders totaling \$1.12 billion primarily for Iraq reconstruction projects completed under two contracts awarded by the Air Force Center for Engineering and the Environment¹ (AFCEE) to the Environmental Chemical Corporation (ECC): the first in November 2003 (FA8903-04-D-8672) and the second (FA8903-06-D-8511) in April 2006. Work under these contracts was funded through both the Iraq Relief and Reconstruction Fund and the Iraq Security Forces Fund. SIGIR identified ECC as one of the contractors receiving the most dollars under both funds.

AFCEE’s Existing Contract Met Iraq Reconstruction Need

In 1991, AFCEE was created as a Field Operating Agency of the Air Force Civil Engineer. AFCEE, which is headquartered in Texas, is to provide military housing construction as well as technical and professional services in environmental and installation planning and engineering.

In November and December 2003, AFCEE competitively awarded 27 contracts. This was its fifth series of worldwide environmental/construction contracts that began in the early 1990s. Of the 40 contractors that submitted proposals for the contracts, 27 received awards, including 16 small businesses. The awarded contracts were identical, with the exception of each contractor’s rate structure and its various partners and subcontractors. Under this competition, ECC was awarded contract FA8903-04-D-8672 in November 2003.

AFCEE’s 2003 contracts led to its operations in Iraq. The Coalition Provisional Authority, which was responsible for overseeing, directing, and coordinating the relief and reconstruction effort in Iraq from May 2003 through June 2004, wanted to quickly renovate facilities for the New Iraqi Army. The Administrator of the Coalition Provisional Authority, believing that time

¹ The Air Force Center for Engineering and the Environment was known as the Air Force Center for Environmental Excellence until June 2007.

was insufficient to competitively award contracts and meet its urgent reconstruction requirements, requested the Joint Chief of Staff's approval to authorize the use of AFCEE's existing competitive contracts to begin this work. The Administrator's request also stated that the U.S. Congress had approved a Supplemental Appropriation, which included \$745 million to construct facilities for the New Iraqi Army. The Coalition Provisional Authority stated it critically needed a contracting vehicle to begin constructing facilities on or before January 15, 2004, to maintain the program schedule.

After the Administrator's request was approved, AFCEE began a second level of competition, notifying its 27 contractors that the issuance of a competitive cost-plus-fixed-fee task order was planned. It provided the contractors with a statement of work and a rough order of magnitude estimated cost of the work and requested contractors' proposals by a specified date. Any of the contractors could submit proposals. AFCEE officials awarded the task order after evaluating the proposals using technical and cost selection criteria. Using this approach, AFCEE awarded 20 task orders for reconstruction work in Iraq to ECC under contract FA8903-04-D-8672.

In April 2006, AFCEE awarded its sixth series of contracts to 20 contractors, including six small businesses. Each contract has a 5-year basic ordering period plus up to three 1-year options. For these contracts, AFCEE used the same two-level competition process that it used for the earlier contracts. Under this competition, ECC was awarded contract FA8903-06-D-8511 and was later awarded 18 task orders for Iraq reconstruction work. Under the initial AFCEE contract, ECC was identified as a small business. Under the second contract, it was no longer classified as a small business.

Only a small portion of AFCEE's personnel are involved in Iraq reconstruction, which is under AFCEE's Capital Investment Execution Division, Contingency Operations Branch, which has offices in Iraq and Texas. In September 2007, near the peak of AFCEE's and ECC's efforts in Iraq, the Branch had 21 government employees and 20 on-site contractors provided by two Global Engineering, Integration, and Technical Assistance firms to provide program-level and project-level technical support to AFCEE and its customers. Although AFCEE has no contracting officers in Iraq, it assigned, on a rotating basis, two military and four civilian personnel to serve there primarily as project managers/contracting officer representatives. AFCEE's site quality assurance personnel were provided by an indefinite delivery, indefinite quantity contractor. In September 2007, the quality assurance contractor was providing over 300 quality assurance personnel, including expatriate, third-country, and Iraqi nationals, to support the Iraq program.

MNSTC-I Created to Develop Iraqi Security Forces

The Coalition Provisional Authority's authority over relief and reconstruction efforts in Iraq ended in June 2004 when the sovereign Iraqi Interim Government assumed power and the Coalition Provisional Authority was officially dissolved. According to United Nations Resolution 1546, at that time, the Multi-National Force-Iraq was to help build the capability of Iraqi Security Forces and institutions through a program of recruitment, training, equipping, mentoring, and monitoring. On June 28, 2004, the Multi-National Security Transition Command-Iraq (MNSTC-I) was established as a subordinate Multi-National Force-Iraq organization to execute this mission. MNSTC-I was to help the Government of Iraq develop,

organize, train, equip, and sustain the Iraqi Security Forces and ministries. MNSTC-I stated that it accomplishes this mission by:

- building and sustaining the institutional capability of the Iraqi Ministries of Defense and Interior
- generating capable Iraqi Security Forces
- developing professional Iraqi Security Forces
- transitioning and transforming its mission into a traditional embassy office of security cooperation.

According to MNSTC-I, the following three organizations were the key players in planning, managing, and funding the Iraq reconstruction projects undertaken by ECC:

- **J-5—Plans and Operations** was responsible for developing the policy, plans, and programs in support of the Iraqi Armed Forces' efforts to create self-reliant forces capable of maintaining security and stability. J-5 coordinated with Iraq's Ministry of Defense, Joint Headquarters, and Ministry of Interior to build force development and doctrine, force generation, installation planning, and institutional training capabilities. It advised the Commander, MNSTC-I, on resource priorities to develop self-reliant Iraqi Security Forces.
- **J-7—Engineering** was responsible for managing the construction of both new and renovation work for the Iraqi Security Forces. Responsibilities included project programming, schedule coordination, statements of work, funding coordination, construction status and issues, and final inspections. J-7 worked directly with AFCEE in planning and overseeing the specific projects carried out under ECC task orders.
- **J-8—Comptroller** was responsible for managing resources to support the MNSTC-I mission and providing a full spectrum of financial management services and support for MNSTC-I, Coalition Forces, and Iraqi Security Forces.

MNSTC-I and AFCEE Agreed on Services and Funding

While AFCEE's involvement in Iraq reconstruction projects began as a short-term means to meet urgent requirements, its work exceeded what was initially envisioned. A July 2004 SIGIR report² noted the lack of an agreement governing the extent and nature of AFCEE's work in Iraq and recommended that one be developed. In June 2005, MNSTC-I and AFCEE signed a memorandum of agreement for AFCEE to provide, on a reimbursable basis, support services such as planning, design, upgrade, renovation, repair, and construction of facilities. The agreement specified the services to be provided and the basis for reimbursement of the services provided. The agreement was updated in May 2007.

² *Task Orders Awarded by the Air Force Center for Environmental Excellence in Support of the Coalition Provisional Authority*, SIGIR 04-004, 7/28/2004.

In December 2003, the Coalition Provisional Authority provided \$2 million to AFCEE to cover the initial costs for awarding and managing the reconstruction task orders. Later, an additional \$500,000 was provided. AFCEE officials recognized the need to establish a fee to cover its incremental costs when it became apparent that AFCEE's involvement in Iraq reconstruction would continue for a number of years. In June 2005, AFCEE and MNSTC-I signed an agreement providing for reimbursable orders at an adjustable percentage rate (the FY 2005 rate was 1.5%, herein referred to as "fee") of the total program contracted for MNSTC-I. Quality assurance oversight became the largest single expense paid from the fee—about two-thirds of the 1.5% fee. As the number of construction sites increased, AFCEE's fee was increased to 2.5% to provide for additional quality assurance inspectors. Later, the May 2007 updated agreement eliminated the percentage fee and provided for full recovery of all AFCEE incremental costs.

Objectives

SIGIR's reporting objectives are to (1) determine ECC's contract cost and outcome and (2) review contract management oversight and controls, emphasizing vulnerabilities to fraud, waste, and abuse. We reviewed data on all 38 task orders AFCEE awarded to ECC for Iraq reconstruction and selected nine of the ECC task orders for a more detailed review, including the first and last ECC task orders and many of the high-dollar task orders. These task orders accounted for costs of about \$420.49 million or about 40% of the obligations on the 38 task orders.

For a discussion of our audit scope and methodology and a summary of prior coverage, see Appendix A. For the financial status of ECC's task orders as of July 31, 2009, see Appendix B. For the amount of funds paid to private security contractors for each task order, see Appendix C. For acronyms used, see Appendix D. For audit team members, see Appendix E. For the SIGIR mission and contact information, see Appendix F.

Facilities Constructed, but Cost Increases, Schedule Delays, and Waste Occurred

ECC constructed numerous facilities for Iraqi Security Forces under the 38 AFCEE task orders. However, costs increased substantially from those specified in the initial task orders. For the 20 task orders under the 2004 contract, costs increased from \$373.16 million to \$782.33 million, a 110% increase. Under the second contract, the increases were more moderate, as costs increased from \$282.78 million to \$337.34 million, a 19% increase. In total, task order obligations increased from \$655.94 million to \$1,119.67 million. Also, projects took longer to complete than planned on all task orders, and work on 15 task orders increased 18 months or more. These increases in costs and periods of performance were most often due to modifications in the scope of work; these modifications significantly changed the work and, in some cases, the locations of facilities. While the total funds wasted by changes in work scope and locations after task order issuance cannot be easily quantified, we identified three specific examples of waste that totaled about \$1.71 million. Security needs were another major factor in cost increases. ECC paid more than \$150 million for the services of private security subcontractors; furthermore, security conditions also increased ECC and subcontractors costs and resulted in performance delays. Work changes and security issues that affected these task orders are inherent consequences of constructing facilities in a contingency environment.

Estimated Costs Quadrupled on Some Task Orders

In November 2003, AFCEE awarded ECC an indefinite delivery/indefinite quantity contract. This contract was not awarded for reconstruction projects in Iraq; however, under it, ECC was awarded 20 cost-plus-fixed-fee task orders totaling about \$782.33 million³ to construct facilities for Iraqi Security Forces and undertake other reconstruction projects. In April 2006, AFCEE awarded ECC a follow-on indefinite delivery/indefinite quantity contract. Under this contract, ECC performed reconstruction work under 18 cost-plus-fixed-fee task orders totaling about \$337.34 million. The first ECC task order for Iraq reconstruction was issued on April 15, 2004 and the last one was issued on March 5, 2008. Appendix B provides a list of these task orders and the obligations and expenditures as of July 31, 2009.

Initially, AFCEE obligated \$350.87 million from the Iraq Relief and Reconstruction Fund for the first 13 ECC task orders. The Iraq Security Forces Fund was later used to finance the ECC task orders. It provided additional funding for 10 of the first 13 task orders that had been funded by the Iraq Relief and Reconstruction Fund and fully funded the remaining 25 task orders. Accordingly, the Iraq Security Forces Fund was used for 35 of the 38 ECC task orders, and \$768.82 million had been obligated as of July 31, 2009.

³ The contract and task order amounts shown throughout this report reflect the obligations incurred rather than expenditures. Small additional expenditures will likely occur as the task orders and contracts are closed out. Obligations reflect the costs the government expects to incur on this contract. For consistency of presentation, data reliability, and data availability, we have used the obligation amounts shown in the Corps of Engineers Financial Management System as the costs under all contract task orders. Overall, the differences between obligations and expenditures are not material.

Tables 1 and 2 show the initial obligations on the 38 ECC task orders and obligations as of July 31, 2009—the 9 task orders we selected for more detailed review are highlighted. For the 20 task orders under the 2004 contract, costs increased from \$373.14 million to \$782.33 million, or 110%, with costs on 3 task orders increasing over 400% or more than \$150 million. For the 18 task orders under the second contract, the increases were more moderate, with costs increasing from \$282.78 million to \$337.34 million, a 19% increase. In total, the task orders' obligations increased from \$655.92 million to \$1,119.67 million, or about 71%.

Table 1—Increased Obligations for Task Orders under 2004 Contract (\$ millions)

Contract FA8903-04-D-8672

Task Order	Reconstruction Project	Initial Obligation	7/31/2009 Obligation	% Increase (Decrease)
03	Iraq Military Base at Kirkuk	\$47.50	\$74.85	58%
06	Utilities at Kirkush Military Base	16.96	35.95	112%
08	An Numaniyah Military Base, Phase I, Part B	34.39	57.41	67%
11	Southern School Repair	29.19	29.18	0%
16	Brigade Facility at Kirkuk	38.24	43.67	14%
17	Al Kut Police Academy Facilities	7.52	26.12	247%
18	Camp India Facilities at Fallujah	48.62	84.70	74%
19	Repair/Replace Iraq Schools	3.10	6.90	123%
20	Harman Al Alil Military Base	5.47	35.44	545%
22	Renovate Base at Habbaniyah	15.57	63.48	308%
23	Border Forts 8 and 9	2.48	3.81	54%
24	Renovate Police Stations, Northern Region	2.88	2.96	3%
27	Iraq Training Brigade at Kirkush	9.30	8.95	(4%)
28	Renovate Facilities at Habbaniyah	7.30	55.15	655%
32	Mosul/Tikrit Facilities	18.41	98.13	433%
34	Northern Police Stations	13.93	13.93	0%
35	Facilities at Kirkush	25.88	47.69	84%
36	Facilities at Kirkuk	10.57	35.78	239%
37	Facilities at Camp Majid	35.33	57.73	63%
48	Facilities at Kirkuk	0.50	0.50	0%
20 Task Orders		\$373.14	\$782.33	110%

Source: AFCEE contract files and U.S. Army Corps of Engineers Financial Management System data.

Table 2—Increased Obligations for Task Orders under 2006 Contract (\$ millions)

Contract FA8903-06-D-8511

Task Order	Reconstruction Project	Initial Obligation	7/31/2009 Obligation	% Increase (Decrease)
10	Facilities at Ramadi	\$27.51	\$57.57	109%
12	Northwest Police Stations	19.55	26.47	35%
13	Facilities for 4th Division	21.19	39.31	86%
14	5 th Division, Light Infantry Battalion	17.17	42.56	148%
15	Facilities for Iraq Forces, Camps Slayer and Victory at Baghdad	23.07	50.77	120%
19	Iraq Air Force Flight Operations at Kirkuk	4.49	5.75	28%
24	Commando Company at Al Asad	13.74	17.87	30%
25	Diyala Police Stations	9.82	10.36	5%
26	Facilities for Battalion Support, Gabe	15.00	14.86	(1%)
27	Iraq Army Base Camp at Jelewea (Terminated)	17.05	0.29	N/A
32	Baqubah-Diyala Police Stations	9.32	8.71	(7%)
33	Vehicle Maintenance Facility Babil (Terminated)	9.84	-	N/A
34	Extra Large GSU Samara (Terminated)	22.97	-	N/A
35	Extra Large GSU Al Qaim (Terminated)	22.59	-	N/A
38	Housing at Akashaat	10.39	13.88	34%
39	Housing at Qsar Amij	10.62	13.52	27%
40	Iraq Air Force Facilities at Kirkuk	4.96	4.96	0%
41	New Facilities and Modifications of Air Force Facilities at Kirkuk	23.50	30.46	30%
18 Task Orders		\$282.78	\$337.34	19%

Source: AFCEE contract files and U.S. Army Corps of Engineers Financial Management System data.

Table 3 summarizes the increase in obligation under the two contracts.

Table 3—Increased Obligations for Task Orders under 2004 and 2006 Contracts (\$ millions)

Contract	Initial Obligation	7/31/2009 Obligation	% Increase
FA8903-04-D-8672--20 Task Orders	\$373.14	\$782.33	110%
FA8903-06-D-8511--18 Task Orders	282.78	337.34	19%
Total	\$655.92	\$1,119.67	71%

Note: If the four task orders under the 2006 contract that were terminated are removed from the calculation, the percentage increase in the obligations under that contract changes from 19% to 62% and the increase for the two contracts changes from 71% to 92%.

Source: Tables 1 and 2.

As shown in Table 1, obligations on three task orders—numbers 20, 28, and 32 under the 2004 contract—increased by more than 400%; task order 28 had the largest increase at 655%. The three task orders increased in costs from an initial \$31.18 million to \$188.72 million.

Of the nine task orders that SIGIR selected for detailed review, task order 32 had the largest percentage increase—433%—as costs increased from \$18.41M to \$98.13M. The major reason for this increase was MNSTC-I’s decision to add additional forward operating bases and additional locations to the task order. One forward operating base, named Dagger, was deleted from the requirements because of a location change after work had begun and \$316,500 had been expended. Thus, the funds were wasted. The addition of forward operating bases and locations resulted in an increase of about \$50 million; about \$19 million, or 20% of the task order’s costs, was used for base security, personal security details, and related air transportation.

Increases were not as large on the other eight selected task orders, but significant changes did occur. Examples of increases under the 2004 contract follow:

- **Task order 3** increased from \$47.50 million to \$74.85 million, or 58%. Early changes on the task order resulted in additional costs for (1) site changes and increases in power requirements—about \$8 million and (2) aviation facilities, ancillary utilities, and a new recruitment building—about \$3 million. A later change added about \$7 million to consolidate generators, construct a vehicle search area and a pass/identification building, and upgrade perimeter and front gate security.
- **Task order 16**, for work during the second phase of task order 3, had a cost increase of 14%, from \$38.24 million to \$43.67 million. However, shortly after award, the scope of work was significantly reduced from constructing facilities for a brigade (3,000 troops) to facilities for a battalion (750 troops). Numerous buildings estimated to cost about \$7 million were removed from the statement of work. However, MNSTC-I requests for changes to the original statement of work added \$5.8 million to the total cost. Many of these cost increases resulted from work moved to this task order from task order 3.

- **Task order 36** increased from \$10.57 million to \$35.78 million, a cost increase of 239%, primarily as a result of adding a forward operating base and facilities for a support unit to the original task order. While the task order was awarded competitively to ECC, the additions by modifications to the task order were sole source.

Lengthy Project Completion Delays

None of the ECC task orders were completed within the period of performance established when the task orders were issued. Table 4 shows the changes in the completion dates for the period of performance on the task orders (four task orders that were terminated prior to work are excluded). As shown, task order 26 under the 2006 contract had the least delay in completion at 4 months, but 14 of 34 task orders had completion delays of 18 months or more. In general, completion delays can be attributed to changing requirements, security issues, subcontractor performance issues, and government funding delays.

Table 4—Changes in Task Order Completion Dates for 2004 Contract

Contract FA8903-04-D-8672

Task Order	Reconstruction Project	Completion Date		Change in months
		Initial	Final	
03	Iraq Military Base at Kirkuk	1/15/2005	3/15/2006	14
06	Utilities at Kirkush Military Base	6/30/2004	7/31/2006	25
08	An Numaniyah Military Base, Phase I, Part B	1/15/2005	6/30/2006	17.5
11	Southern School Repair	8/12/2005	11/30/2005	3.5
16	Brigade Facility at Kirkuk	5/1/2005	7/15/2007	26.5
17	Al Kut Police Academy Facilities	5/1/2005	4/30/2007	24
18	Camp India Facilities at Fallujah	5/1/2005	3/31/2008	35
19	Repair/Replace Iraq Schools	5/15/2005	11/30/2005	6.5
20	Harman Al Alil Military Base	8/1/2005	4/30/2007	21
22	Renovate Base at Habbaniyah	8/1/2005	4/30/2007	21
23	Border Forts 8 and 9	12/31/2005	2/28/2006	2
24	Renovate Police Stations, Northern Region	3/31/2006	4/30/2006	1
27	Iraq Training Brigade at Kirkush	5/5/2006	9/30/2006	5
28	Renovate Facilities at Habbaniyah	4/30/2006	9/20/2008	28.5
32	Mosul/Tikrit Facilities	6/30/2006	9/11/2008	26.5
34	Northern Police Stations	8/31/2006	6/30/2007	10
35	Facilities at Kirkush	10/16/2006	4/29/2008	18.5
36	Facilities at Kirkuk	10/22/2006	11/30/2007	13
37	Facilities at Camp Majid	12/31/2006	11/30/2008	23
48	Facilities at Kirkuk	6/30/2008	6/30/2008	-

Source: AFCEE contract files.

Table 5—Changes in Task Order Completion Dates for 2006 Contract

Contract FA8903-06-D-8511

Task Order	Reconstruction Project	Completion Date		Change in months
		Initial	Final	
10	Facilities at Ramadi	4/11/2007	2/25/2009	22.5
12	Northwest Police Stations	3/31/2007	4/30/2008	13
13	Facilities for 4th Division	5/23/2007	11/12/2008	18
14	5 th Division, Light Infantry Battalion	4/11/2007	10/8/2008	19
15	Facilities for Iraq Forces, Camps Slayer and Victory at Baghdad	5/31/2007	1/30/2009	20
19	Iraq Air Force Flight Operations at Kirkuk	11/20/2007	5/31/2008	6.5
24	Commando Company at Al Asad	4/28/2008	2/28/2009	10
25	Diyala Police Stations	4/30/2008	11/24/2008	7
26	Facilities for Battalion Support, Gabe	6/30/2008	10/23/2008	4
32	Baqubah-Diyala Police Stations	5/27/2008	11/19/2008	5.5
38	Housing at Akashaat	4/6/2008	11/15/2008	7.5
39	Housing at Qsar Amij	4/30/2008	11/15/2008	6.5
40	Iraq Air Force Facilities at Kirkuk	5/31/2008	3/05/2009	9
41	New Facilities and Modifications of Air Force Facilities at Kirkuk	8/31/2008	2/17/2009	5.5

Source: AFCEE contract files.

Under the 2004 contract, task orders 3 and 16 for the construction of military facilities at Kirkuk were delayed by 14 and 26.5 months, respectively. An initial delay on task order 3 was noted about 2 months after it was issued. In two notices of potential changes issued in June 2004, ECC reported (1) working through changed conditions created by site changes, (2) a delay in approval of work plan, (3) security issues causing an increase in security personnel and fortifications, and (4) the removal of unexploded ordnance at the site, which was not mentioned in the statement of work. It requested a 57-day extension to the completion date—from July 15 to September 12—but noted that the delay would not affect occupancy, which was not to occur until after the proposed completion date. Three subsequent modifications extended the period of performance; the final modification extended the period of performance from August 31, 2005, to March 15, 2006. The final modification was approved about 6 months after the authorized period of performance had ended and only a few days before the new period of performance ended.

Task order 16, issued in October 2004 for constructing facilities at Kirkuk, was an addition to facilities constructed under task order 3, and the completion date was May 1, 2005. Modifications 1 and 2 extended the period of performance; modification 2 extended it to September 30, 2005. Modification 5 in October 2005 through modification 12 in January 2007 again extended the dates for task order completion. In summary, the period of performance (from March 15, 2004, to May 1, 2005) was extended about 26.5 months to July 2007. ECC

officials commented that most of the building were completed and turned over much earlier than the completion date and that the extensions related partly to the disposition of generators not used at the site.

Task order 32 under the 2004 contract for construction of facilities at Mosul/Tikrit had one of the longest delays—26.5 months; the completion date was extended from June 2006 to September 2008. One of the major reasons for this delay was the change in project scope from constructing one facility, located in Tikrit, to constructing facilities at nine separate sites spread over Iraq's northern region.

On task order 13 under the 2006 contract for construction of 4th Division facilities, ECC cited a lack of funds as one reason for the major schedule delay of 18 months. It cited a number of other causes for the delay, including the following:

- Coalition operational changes
- Location changes
- Scope changes
- Design changes
- Increased security requirements
- Subcontractor performance
- Limited availability of qualified subcontractors in the area

ECC also cited a lack of funding as a major cause of delays; work was stopped on March 28, 2008, with a notification to AFCEE that the limitation of cost had been reached. On March 19, 2008, the Assistant Secretary of the Air Force (Acquisition) issued a memorandum noting that (1) contractors had been allowed to perform prior to the availability of funds for the effort and that this created potential violations of the Anti-Deficiency Act and (2) government officials should avoid any actions that could be construed as government "encouragement" for the contractor to perform prior to funding. ECC received interim funding and returned to work on April 7, 2008, but stopped work 2 weeks later pending additional funding. ECC stated that work did not resume until August 1, 2008. These funding delays accounted for about a third of the 18-month delay.

Significant Changes After Task Order Issued

While ECC's task orders had significant cost increases and/or schedule delays, these changes were most often due to changes in the work to be performed under the task orders rather than cost growth and schedule slippages. Task orders were issued with a specified scope of work, but after issuance, MNSTC-I and AFCEE significantly modified the scope of work and in some cases the locations of facilities. In most cases, these changes involved additional construction work and/or facilities. However, all changes in statements of work were not increases, and in some cases, the lack of significant cost increases and/or schedule delays on task orders is attributable to reductions in the work required after the task orders were issued.

AFCEE's procedures for processing changed work requirements note that necessary, reasonable, and justifiable changes are often encountered in Iraq reconstruction projects due to unforeseen site conditions, shifting mission requirements, and end-user requirements. An AFCEE

contracting officer noted that when the early task orders were issued and changes were required, MNSTC-I and AFCEE did not have an acquisition strategy because they were operating in a wartime environment and responding to changing requirements driven by changes in Iraq, Iraq army planning, and fund availability. MNSTC-I officials agreed that many decisions were made “on the fly,” as task orders were awarded before plans were finalized and then modified according to emerging needs. They added that decisions were made to provide immediate capability to Iraqi forces because of the contingency environment (including combat operations). This combined with an undeveloped Iraqi Army and numerous emergent requirements resulted in fluid situations where much of the documentation of requirements and changes was by email. However, the officials noted that MNSTC-I and AFCEE’s requirements specify that changes are to be documented in work change requests and that as the security environment has stabilized, business practices have significantly improved.

As previously noted, the first ECC task order—task order 3—for the Kirkuk base incurred cost increases and schedule delays because of construction site changes after the task order was issued. The original site was a planned industrial site, but the Coalition Provisional Authority approved a location change requested by the Kirkuk City Council and Governate. ECC noted that the project relocation costs were \$6.70 million and that the relocation resulted in significant design changes in such areas as wastewater treatment, generators, and other utilities. About \$1.1 million were wasted funds expended for design and site work prior to relocation and for delays due to relocation. As the project continued, additional facilities and requirements were added. One such facility was the Sulaymaniyah Recruiting Center. An AFCEE analysis noted that using ECC to perform the recruiting center work was (1) the best value to the government by avoiding the expense of mobilizing another contractor into the harsh, high-risk, and dangerous environment near Kirkuk, with attendant coordination and learning curve issues and (2) a logical extension of the current scope. When the recruiting center was added, the plan was to renovate an existing building, but new construction of an entire facility was later required. As the task order neared completion, work was removed from the task order and added to the requirements for task order 16, which was for additional facilities at the Kirkuk military base. Without these reductions, the costs increase and schedule delays under task order 3 would have been greater.

Task order 32 under the 2004 contract for construction of facilities at Mosul/Tikrit experienced both significant cost increases and schedule delays, and a number of major changes were made in the statement of work after it was issued. The solicitation for the task order identified the need for two Iraqi army facilities at one site for the 4th Division and five facilities at four sites for the 2nd Division. Two of the four sites were to be awarded under modification 1 if funds became available after task order award in September 2005. However, in October 2005 shortly after the award, MNSTC-I revised the plan to implement a more decentralized approach. Instead of constructing facilities at a centralized base for the 4th Division and at four sites for the 2nd Division, MNSTC-I decided to construct forward operating bases at several sites in northern Iraq, and ECC was directed to construct and/or renovate 15 facilities at 9 sites in northern Iraq. Modification 8 provided \$13.75 million for increased costs—including management, mobilization, and site security—to build at nine separate sites spread out over the northern region instead of at one site in Tikrit. In total, the task order was modified 13 times, adding and deleting sites and facilities, extending the time of performance, removing individual buildings from projects, and providing and removing funds from projects. One change resulted from the Iraqi Army’s refusal to vacate buildings to be renovated at Al Kindi Military Base.

Consequently, MNSTC-I removed the buildings from the task order, but ECC invoiced for about \$225,000 for repairing building roofs. We also noted that ECC was paid \$316,530 for site planning, layout, design, and mobilization for two forward operating bases that were removed from the task order. As a result of abandoning these efforts, the funds used for design, mobilization, and other efforts were wasted.

Task order 13 under the 2006 contract also involved changed locations for forward operating bases and significant work changes. AFCEE awarded the task order to construct/restore/repair facilities for three light infantry battalions of the 1st Brigade, 4th Division, at three forward operating bases. After the award, one site was changed to a different location and a second site was removed from the project because occupying coalition forces could not vacate due to the markedly deteriorating security situation in central Iraq. According to ECC, the site change involved a move from a well-established operating base with a coalition presence, security, and life support services to a base that offered very little infrastructure for renovation, with little Iraqi Army and no Coalition Force presence. ECC also noted that delayed notice to proceed and confusion about site location affected costs and that the deteriorated security situation resulted in increased expenses for security, protective structures, and supervisory staff. Another factor that ECC cited as dramatically increasing security costs was the need to establish secure compounds to house contractor personnel outside of forward operating bases.

Task order 15 under the 2006 contract also required changes because the planned construction sites at Camp Victory and Camp Slayer were occupied by coalition forces and unavailable for renovation until months later than planned. In addition, MNSTC-I decided that most of the buildings slated for Camp Victory would be constructed at Camp Slayer. According to contract files, the move of facilities and security issues added \$13 million in costs, and additional security and construction delays added an additional \$14.72 million to the task order.

During our audit, we also identified a change in location for facilities and other significant scope changes on a task order not selected for detailed review, task order 37 under the 2004 contract. AFCEE did not issue a contract modification for the site change and scope changes until about a year after the location changed. Task order 37 was awarded in May 2006 for \$35.33 million to construct facilities at Camp Majid; however, the site was changed from Ramadi to Al Asad in July 2006. In addition, an increase in the planned troop level resulted in the need for additional buildings and utilities. MNSTC-I officials stated that the move was made because the Iraqis reconfigured the location for the unit to be housed. While a series of emails confirm that MNSTC-I and AFCEE officials were aware of these changes and ECC was submitting work change requests, the first statement of work that we identified was dated February 2008. The initial five contract modifications, beginning in November 2006, did not address the site change or the scope change but were only no-cost extensions of the completion date. A modification that finally authorized ECC's work was approved in July 2008 for \$22.47 million, after the work was essentially complete.

As shown in Table 2, four task orders were terminated, but costs were incurred on only one. Task order 27, under the 2006 contract, incurred costs of \$290,000—wasted funds—before termination. The termination occurred because the Iraq Ministry of Health claimed the site and MNSTC-I and AFCEE placed the work on hold near the end of design work. When an alternative site was not identified, the task order was terminated. On a number of other task

orders, the initial scope of work was reduced. As previously mentioned, a significant amount of work was removed from task order 16 under the 2004 contract. Nevertheless, the cost for task order 16 increased by 14%, and the completion date slipped 26.5 months. ECC officials noted that some months of slippages were related to disposition of the generators not used and acceptance issues with the Iraq government. They stated that occupancy occurred significantly earlier than the completion date.

The total funds wasted by changes in work scopes and locations after the task orders were issued cannot be easily identified. Table 6 summarizes the three specific examples we identified where funds were wasted as a result of task order changes.

Table 6—Wasted Funds from Task Order Changes

Contract and Task Order	Funds Wasted	Reason for Wasted Funds
FA8903-04-D-8672—Task Order 3	\$1,100,000	Funds expended for design and site work prior to base relocation and for delays due to relocation
FA8903-04-D-8672—Task Order 32	316,530	Removal of work site after funds expended
FA8903-06-D-8511—Task Order 27	290,000	Funds expended prior to termination of task order
Total	\$1,706,530	

Source: AFCEE contract files.

Security Was a Major Factor in Cost Increases and Schedule Delays

Security and related issues were significant factors in cost growth and schedule delays. Site security, personal security details, and air transportation within and outside Iraq contributed to projects' costs and accounted for about \$155.11 million of the costs incurred on the 38 task orders—about 14% of total task order costs—according to ECC data. The percentage of costs for security services on individual task orders ranged from 3% to 34%. On seven task orders, 20% or more of the costs were paid to private security contractors; the largest percentage was paid on task order 12 under the 2006 contract for construction of police stations in northwest Iraq. On this task order, 34% of the total cost, or \$8.92 million of \$26.47 million, was paid to the private security contractor. Appendix C shows the amounts and percentages of task order funds paid to private security contractors. In addition to the direct cost for security subcontractors, security concerns also caused construction costs increases and schedule delays. For example, on task orders 13 (facilities for 4th Brigade) and 14 (facilities for the 5th Division) under the 2006 contract, security issues caused major cost increases and delays in construction work, and on task order 41 (Air Force facilities at Kirkuk), mortar attacks resulted in a direct construction cost increase of over \$1.56 million. The total effect of security conditions on costs and schedules could not be quantified.

Subcontractors Provided Security Services

ECC was required to provide protection for its employees, subcontractors, other contractors, and U.S. government employees working on Iraq reconstruction projects. Protection from the actions of terrorists, anti-coalition forces, and criminals included providing site security, hardened base camps and other facilities, armored vehicles and protective gear, and security escorts to facilitate the movement of personnel and material to and from job sites in and out of Iraq. Additional expenditures for security were necessary when construction was delayed whether due to changing U.S. government requirements, inefficient subcontractors, or insurgent attacks.

ECC data show that eight subcontractors provided security services but that most services were provided by SafeNet Security Services. SafeNet provided services costing about \$112.06 million, or 72% of the total security services cost. Also, prior to ECC contracting directly with SafeNet, SafeNet and Overseas Security and Strategy (a joint venture) provided security services costing an additional \$19 million. While ECC obtained competitive proposals from private security contractors for some of its work, it did not obtain competitive proposals for six of the nine task orders that we reviewed and that SafeNet was awarded. ECC officials stated that SafeNet was awarded additional work at other sites and locations based on rates that SafeNet had previously bid on competitive proposals. AFCEE's contract documents for task order 32 under the 2004 contract (Mosul/Tikrit facilities) show that ECC requested bids from six security companies. Three companies responded, and ECC, using best value as the selection criteria with heavy dependence on technical ability, selected SafeNet, which scored the highest on all nine technical elements and was in the middle on cost. ECC's vouchers submitted for the task order show that SafeNet provided site security at one site from November 2005 to May 2007 and at another site from July 2006 to May 2007. Since ECC was to have completed construction at the sites before May 2007, the delay resulted in increased security costs at both sites.

Between September 2006 and January 2008, ECC had a significant increase in the number of task orders and construction sites in Iraq. ECC stated that at its peak, work was ongoing at 21 different sites and that project management staffs around the country employed 145 expatriates, 175 third country nationals, and more than 300 Iraqi nationals. Security details were needed to provide support for operational and administrative movements (management site visits and employees' rest and relaxation trips). In early 2007, ECC had seven fully staffed personal security details in Iraq to escort personnel around the country each day. A low profile detail, at a cost of \$6,636 per day, operated with a minimum of 12 persons, and a high profile detail, at a cost of \$13,299 per day, operated with 14 persons. In addition, SafeNet said that its high profile detail included four armored vehicles, including two gun vehicles, and two personnel carriers capable of transporting eight passengers.

After a November 2006 attack on a personal security detail and the kidnapping of four team members, ECC conducted a study to determine how best to provide safe, efficient, and cost-effective travel for its personnel in Iraq. After assessing charges by the only operating aircraft charter service in Iraq, ECC released a February 2007 request for proposal from security firms to provide both air and ground security with three objectives: (1) reduce as much as possible the exposure of personnel moving over the road; (2) achieve increased flexibility and facilitate more remote management by quickly moving project management people to sites; and (3) reduce

costs, if possible, when moving personnel. ECC solicited nine firms for proposals; however, only SafeNet submitted a proposal.

In February 2007, SafeNet began providing ECC with air transportation between Amman, Jordan (where ECC had established a program management office) and sites in Iraq. SafeNet provided two aircraft—a 6-seater at \$246,713 per month and an 18-seater at \$182,500 per month. Due to Iraq Federal Aviation Authority requirements, the aircraft could stay overnight in Iraq only at the Baghdad International Airport, necessitating trips to originate and end in either Amman or Baghdad. SafeNet provided fixed-wing aircraft flights for ECC personnel from the management office to project sites throughout Iraq, and the costs were allocated among the projects and task orders. ECC noted that when it began using aircraft for movement of personnel, the number of security details operating in Iraq was reduced from seven to five initially and later to three.

Construction Costs and Schedule Delays Driven by Security

In addition to the cost for private security contractors, many of the construction cost increases and schedule delays experienced by ECC and its subcontractor were driven by security issues. The following details from three task orders illustrate these security issues and their effects on costs and schedules.

In an August 2007 cost proposal for a \$6.19 million modification to task order 13 under the 2006 contract (facilities for 4th Brigade), ECC notes that significant changes in security conditions had increased costs. The proposal noted that degraded security conditions in the region necessitated a more expensive convoy strategy for transiting the region. Also, unexpected costs had been incurred to establish secure compounds and secure perimeters at the forward operating bases. Finally, the proposal notes that because of the high level of insurgent activity in the region, few Iraqi contractors or skilled laborers were willing to work at the forward operating bases and those that were willing were well aware of the challenges and priced their work high—subcontractor bids came in higher than the original budget. The proposal identifies details about security incidents from November 2006 to March 2007 that impacted costs and schedules. In one example, ECC notes that the fourth attempt for one logistics convoy to transport food and other consumables to project sites was successful. However, each convoy was attacked and one attack led to the abduction of seven local nationals and four expatriates.

Under task order 14 of the 2006 contract (facilities for 5th Division), ECC requested a field performance extension from February 14 to August 30, 2007, citing significant delays in mobilizing at the two construction sites because of frequent attacks on convoys, the nature of the remote location, and the lack of life support. About 3 months later in April 2007, ECC reported that costs had increased due to additional security issues, including an increase of indirect fire attacks, threats made to workers, and difficulty bringing in materials. Again in August 2007, ECC reported that increased site security requirements and additional costs for personal security details resulted in increased costs and that subcontractor pricing was higher than the budgeted dollar amount. Also, it reported numerous indirect fire attacks at the forward operating base, further delaying progress and reducing the number of local nationals willing to work.

Under task order 41 of the 2006 contract (Air Force facilities at Kirkuk), ECC submitted a proposal in December 2008 for additional funding to compensate for schedule delays for work at Kirkuk Air Base. Two of the issues addressed in the proposal were ECC's increases in

operational cost because of two insurgent rocket attacks and restrictions imposed by the Coalition regarding the screening/badging of project personnel. ECC requested about \$0.73 million for these security requirements, and two subcontractors also submitted proposals for about \$0.83 million in additional costs through ECC. Since AFCEE had accepted almost all of the ECC and subcontractor costs, the rocket attacks and screening/badging issues added about \$1.56 million to costs.

Facilities for Iraqi Security Forces Were Constructed

Despite cost increases, schedule delays, task order changes, and security issues, ECC managed the construction of facilities for Iraqi Security Forces in many locations across Iraq. These facilities included barracks, headquarters buildings, dining halls, clinics, mosques, police buildings, jails, garages, maintenance shops and other structures such as fences, sunshades, fueling stations, and security entrances. Examples of work accomplished follow:

Contract FA8903-04-D-8672-Task Order 3—Construct 1st Brigade Kirkuk Military Base Facilities

This first task order issued to ECC for reconstruction work was to undertake the first phase of construction at Kirkuk Military Base. The task order included demolishing existing structures, removing debris, constructing roads, providing utilities, and constructing facilities for one brigade garrison, a brigade headquarters company, brigade support troops, and training facilities. ECC reported that completed construction included 116 facilities with over 66,000 cubic meters of space, 4 kilometers of roads, 10 kilometers of fence, 2,100 meters of waste/wastewater line, and 6,000 meters of power lines. The facilities include barracks, a headquarters building, dining halls, and other buildings such as garages, maintenance shops, a fire station, a clinic, a mosque, a police building, and a jail. The costs to complete work originally planned for task order 3 work was carried forward to task order 16.

Contract FA8903-04-D-8672-Task Order 16—Construct 2nd Brigade Kirkuk Military Base Facilities

This task order was for the second phase of construction at Kirkuk Military Base (a follow-on to task order 3 construction) and was for the construction of facilities that included 92 buildings and related electrical, sewer, and water infrastructure. The plan was that the new brigade would be a mirror image of construction to be done under task order 3. After award of the task order, the requirement to construct facilities for a brigade of 3,000 troops changed to facilities for a battalion of 750 troops. Consequently, a number of the buildings to be constructed for the battalion were removed from the task order's scope of work. In addition, some costs incurred under task order 3 were carried forward to this task order.

ECC completed construction of 38 facilities and transferred these facilities to AFCEE and MNSTC-I in July, August, and September 2005. ECC reported fieldwork completion in May 2007. Figure 1 is the site of the Kirkuk Military Base as construction was beginning on task order 3. Figure 2 shows the construction under task order 3 in the background with the new construction for task order 16 beginning in the foreground.

Figure 1—Site for Kirkuk Military Base (April 2004)



Source: ECC.

Figure 2—Construction under Two Task Orders at Kirkuk Military Base (December 2004)



Source: ECC.

Contract FA8903-04-D-8672, Task Order 32—Construct Facilities at Mosul/Tikrit

ECC was to provide services including the planning, restoration, construction, and improvement of facilities for several military units in Iraq. The solicitation identified two Iraqi army facilities at one site for the 4th Division and five facilities at four sites for the 2nd Division; contracts for two of the four sites were to be awarded under modification 1 if funds became available. Shortly after task order 32 was awarded in September 2005, MNSTC-I revised the plan, deleting the 4th Division facilities and implementing a more decentralized approach involving a number of forward operating bases instead of a centralized base for the 4th and 2nd Divisions. ECC was directed to construct and renovate 15 facilities at 9 sites in northern Iraq.

ECC completed construction of 191 facilities and transferred the facilities to AFCEE and MNSTC-I. These facilities included barracks, headquarters buildings, dining halls, clinics, mosques, police buildings, jails, garages, maintenance shops, and other structures such as fences, sunshades, fueling stations, and security entrances. ECC reported delays due to security, weather, holiday, and subcontractor performance issues; however, the local Iraqi Commander accepted some of the buildings at the Makhmur site in September 2006, with ECC completing construction of some buildings as early as March 2006. For forward operating bases in Raniyah and Sulymaniyah, though the task order required construction completion by September 15, 2006, ECC completed work in August 2006, and the Government of Iraq accepted the facilities in January 2007.

Contract FA8903-04-D-8672, Task Order 36—Construct and Renovate 4th Division Headquarters and a 4th Division Troops Battalion at Kirkuk

ECC was to provide plans and construction services for the research, planning, renovation, and construction of military facilities (including all structures, buildings, and systems) to support a new 4th Division Headquarters, Motorized Transport Regiment, and a Division Troops Battalion at Kirkuk Military Base. In August 2006, the task order was modified to add a forward operating base at Chamchamal, Iraq. Later, additional infrastructure and buildings were added at Chamchamal, and the motorized transport regiment building previously removed was added back to the task order. In February 2007, an extra large garrison support unit at Kirkuk was added to the task order.

ECC completed construction of 174 facilities and transferred these facilities to AFCEE and MNSTC-I. Fourteen buildings and three other structures were completed at Chamchamal. Thirty-six buildings, 42 water storage tanks, and 11 septic tanks were completed at the 4th Division Headquarters and 4th Division Troops Battalion. In addition, 57 garrison support unit buildings were completed at Kirkuk.

Contract FA8903-06-D-8511, Task Order 13—Construct 3 Forward Operating Bases for the 4th Division

AFCEE awarded this task order to construct/restore/repair facilities for three light infantry battalions of the 1st Brigade, 4th Division, at three forward operating bases. After the award, one site was removed from the program because coalition forces occupied the site and could not vacate due to operational requirements resulting from a changed security situation, and a second base was changed to a different location. According to ECC, the site change involved a move from a well-established operating base with a coalition presence, security, and life support

services to a base that offered very little infrastructure for renovation, with little Iraqi Army presence and no Coalition Forces.

Representatives of Iraq's Ministry of Defense, the U. S. Government, and ECC signed transfer documents for facilities at one forward operating base in March 2008 and for the second base in September 2008. Facilities completed and transferred included barracks, headquarters buildings, dining facilities, laundry facilities, medical centers, warehouses, and other supporting facilities and utilities. ECC reported that 46 completed facilities provide more than 22,000 cubic meters of space and that fence lines, waste/wastewater lines, and electrical generators were included in the construction.

Contract FA8903-06-D-8511, Task Order 14—Construct 5th Division Iraqi Army Light Infantry Facilities at Forward Operating Bases Cobra and Gabe

ECC was to provide plans and construction services for the research, planning, renovation, and construction of military facilities for the 5th Division Iraqi Army Light Infantry Facilities at Forward Operating Bases Cobra and Gabe. The project included construction of all structures, buildings, and systems. ECC completed construction of the buildings at the two bases at two and one-half times the estimated cost, despite a reduction in the scope of the work to offset the escalating cost associated with increased security and general requirements, including program costs. Security issues were a major factor in increased costs and delayed schedules on this task order.

Contract FA8903-06-D-8511, Task Order 15—Construct Facilities to Support Iraqi Ground Forces at Camp Victory and at Camp Slayer

ECC was to provide plans and construction services for the research, planning, renovation and construction of military facilities to support Iraqi Ground Forces at Camp Victory and Camp Slayer. The project included construction of all structures, buildings, and systems. In March 2007, ECC requested an extension because the buildings to be renovated were occupied by coalition forces and unavailable for renovation until December 2007 at Camp Slayer and January 2008 at Camp Victory. In addition, MNSTC-I decided that most of the buildings that had been slated for Camp Victory would be constructed at Camp Slayer.

ECC completed construction of the buildings at Camp Victory and Camp Slayer at over two times the initial estimated cost. ECC completed construction of five buildings at Camp Victory and transferred those buildings to AFCEE and MNSTC-I. In addition, ECC completed all of the facilities at Camp Slayer.

Contract FA8903-06-D-8511, Task Orders 40 and 41—Construct Air Force Facilities at Kirkuk

These task orders were for construction of a training school for rotary and fixed-wing aircraft at the Kirkuk Regional Air Base, which provided facilities for the Iraqi Air Force. In June 2007, AFCEE awarded this work to a contractor that began work at the site but experienced delays and cost increases. AFCEE and the contractor mutually agreed to terminate the task order contract. In November 2007, AFCEE made a direct award for the work to ECC to ensure that government assets were protected and that an aggressive training schedule could be pursued to preclude jeopardizing Iraq's flight training mission.

Initial work at the air base included installing the underground storm water management, backfill/compaction, underground power distribution, water supply, and waste collection systems. The follow-on work included installing the power generation plant; billeting for officers, noncommissioned officers, and enlisted personnel; office buildings; training facilities; support buildings; and fixed wing/rotary aircraft hangars. ECC reported that it constructed 19,978 square meters of billeting and office space to support instructors, Iraqi Air Force personnel, and students; re-skinned 1 large hangar; constructed a 20,000 square meter apron for 16 helicopters; and constructed 12 fixed-wing aircraft sunshades. The completed facilities, as shown in Figure 3, were accepted by the Iraq government.

Figure 3—Facilities at Kirkuk Regional Air Base (January 2009)



Source: ECC.

Management and Oversight Were Generally Sound but a Few Concerns Identified

AFCEE awarded most of the task orders to ECC based on a competitive process and MNSTC-I and AFCEE shared management and oversight of ECC's work on the task orders. AFCEE used contractors to support its contracting officers and project managers. Contract and project files, including contract modifications, project scope changes, invoices, and other documents provided extensive evidence of the management and oversight of ECC's performance on the Iraq reconstruction task orders. In addressing U.S. government goals, ECC completed most construction using local subcontractors—an approach that had benefits, but also created challenges. ECC reportedly used more than 450 unique Iraqi subcontractors on its projects; about 55% of funds went to Iraq construction subcontractors.

Concerns include an AFCEE-requested investigation that identified procurement irregularities by a MNSTC-I official, but not all of the recommended follow-up was accomplished. Also, the Defense Contract Audit Agency (DCAA) did not complete many key audits of ECC's systems. DCAA has a key role in contract oversight by helping to ensure that ECC is reimbursed only for costs that are allowable, allocable, reasonable, and in accordance with the contract. However, without completed audits of ECC's critical management systems (such as accounting, billings, and estimating) needed oversight was lacking.

A final concern is that fees paid to ECC for modification cost increases appeared excessive. AFCEE generally awarded fees on modifications equal to the fee rate on the initial task order, even though fees were fixed and were to be negotiated for added work. Fees were awarded on cost increases that were not the result of added work. AFCEE officials believed increased fees were appropriate because changing work requirements and security issues drove cost increases.

Most Awards Were Competitive, but Sole Source Awards and Modifications Involved Significant Construction

The Coalition Provisional Authority identified AFCEE's competitively awarded contracts as the vehicle to accomplish urgent reconstruction work in Iraq. However, AFCEE's competitively awarded indefinite delivery/indefinite quantity contracts were only the first step in what AFCEE refers to as its two-step competition process. After approval for work in Iraq, AFCEE began a second level of competition, notifying its contractors that the issuance of a competitive cost-plus-fixed-fee task order was planned. It provided the contractors with a statement of work and a rough order of magnitude estimated cost of the work and requested that the contractors submit proposals by a specified date. Any of the approved contractors could submit proposals: 27 were awarded contracts in November/December 2003, and 20 were awarded contracts in April 2006. AFCEE officials used technical and cost criteria to select the contractor for each task order after evaluating the contractors' proposals.

AFCEE reported that 26 of the 38 task orders were awarded to ECC based on competitive selection. ECC was the only bidder on 4 competitive task orders, the low bidder on another 10, and was not the low bidder on the remaining 12 competitively awarded task orders. The 12 task

orders that were awarded to ECC without competitive selection are referred to by AFCEE as “fair opportunity single source” awards. Tables 7 and 8 show additional details about competition for the 38 ECC task orders; those awarded without competition show no bidders.

Table 7—Competition on 20 ECC Task Orders under the 2004 Contract

Contract FA8903-04-D-8672

Task Order	Reconstruction Project	No. of Bidders	ECC Low Bidder?	Comment
03	Iraq Military Base at Kirkuk	6	No	ECC 2 nd
06	Utilities at Kirkush Military Base	3	No	ECC 3 rd
08	An Numaniyah Military Base, Phase I, Part B	6	No	ECC 3 rd
11	Southern School Repair	1	Yes	-
16	Brigade Facility at Kirkuk	2	Yes	-
17	Al Kut Police Academy Facilities	1	Yes	-
18	Camp India Facilities at Fallujah	1	Yes	-
19	Repair/Replace Iraq Schools	1	Yes	-
20	Harman Al Alil Military Base	2	No	ECC 2 nd
22	Renovate Base at Habbaniyah	6	Yes	-
23	Border Forts 8 and 9	0	-	-
24	Renovate Police Stations, Northern Region	0	-	-
27	Iraq Training Brigade at Kirkush	0	-	-
28	Renovate Facilities at Habbaniyah	0	-	-
32	Mosul/Tikrit Facilities	4	Yes	-
34	Northern Police Stations	4	Yes	-
35	Facilities at Kirkush	7	Yes	-
36	Facilities at Kirkuk	5	Yes	-
37	Facilities at Camp Majid	7	No	ECC 3 rd
48	Facilities at Kirkuk	0	-	-

Source: AFCEE competition data.

Table 8—Competition on 18 ECC Task Orders under the 2006 Contract

Contract FA8903-06-D-8511

Task Order	Reconstruction Project	No. of Bidders	ECC Low Bidder?	Comment
10	Facilities at Ramadi	4	Yes	-
12	Northwest Police Stations	6	No	ECC 2 nd
13	Facilities for 4th Division	3	No	ECC 2 nd
14	5 th Division, Light Infantry Battalion	3	No	ECC 2 nd
15	Facilities for Iraq Forces, Camps Slayer and Victory at Baghdad	6	No	ECC 2 nd
19	Iraq Air Force Flight Operations at Kirkuk	0	-	-
24	Commando Company at Al Asad	3	No	ECC 2 nd
25	Diyala Police Stations	0	-	-
26	Facilities for Battalion Support, Gabe	0	-	-
27	Iraq Army Base Camp at Jelewea (Terminated)	3	Yes	-
32	Baqubah-Diyala Police Stations	3	Yes	-
33	Vehicle Maintenance Facility Babil (Terminated)	3	No	ECC 2 nd
34	Extra Large GSU Samara (Terminated)	5	No	ECC 4 th
35	Extra Large GSU Al Qaim (Terminated)	4	Yes	-
38	Housing at Akashaat	0	-	-
39	Housing at Qsar Amij	0	-	-
40	Iraq Air Force Facilities at Kirkuk	0	-	-
41	New Facilities and Modifications of Air Force Facilities at Kirkuk	0	-	-

Source: AFCEE competition data.

As shown in Tables 7 and 8, ECC was awarded 12 task orders on which it did not submit the low bid; however, it submitted the low bid on some task orders that it was not awarded. According to AFCEE data, ECC submitted bids on 10 task orders for Iraq reconstruction in FY 2008, was the low bidder on 3, but was not awarded a task order.

Federal Acquisition Regulation, Subpart 16.5, requires that for indefinite delivery contracts, the contracting officer must provide each contractor an opportunity to be considered for an order, and it sets out provisions for ensuring that each contractor receives a fair opportunity for orders under multiple award contracts. However, the Regulation recognizes the need for exceptions to the fair opportunity process when:

- The need is so urgent that providing a fair opportunity would result in unacceptable delays.

- Only one contractor is capable of providing the services required at the level of quality desired.
- The order must be issued on a sole-source basis in the interest of economy and efficiency because it is a logical follow-on to an order already issued under the contract.

AFCEE's documents and contract files contained appropriate justifications when competition was not used in the award of ECC task orders. For example, under the 2006 contract, task orders 40 and 41 for construction of the Iraqi Air Force flight training school at Kirkuk were awarded without competition. An AFCEE official's October 2007 memorandum requested a waiver to the competition policy for this project, noting that the project had been awarded to another contractor that was being terminated for convenience due to significant construction delays; costs of about \$8.58 million were incurred on the terminated effort. After this termination, AFCEE needed an expedited award to ensure that resources would be in place to secure the project site before the existing contractor's departure. The memorandum cited the following key requirements that ECC could readily meet:

- The first key requirement was the ability to expeditiously mobilize a security force to protect government-owned property worth millions of dollars that would be highly susceptible to theft or vandalism. ECC was working in the Kirkuk area and could immediately mobilize a security force.
- The second key requirement was to capitalize on the existing AFCEE contractor's relationship with local leaders and subcontractors. ECC was the contractor best positioned to execute the requirement.
- The third key requirement was the capability to effectively execute an aggressive schedule, including moving personnel and delivering materials to the site. ECC had shown that capability.

The memorandum also noted that ECC was ranked second on the original competition for the project and the other two contractors in the area had limitations. The memorandum's bottom line was that the Iraq flight training mission was in jeopardy and the best chance of success was to contract with ECC, a known performer. Three additional AFCEE officials signed the memorandum, and the AFCEE Executive Director approved the direct award of a task order to ECC to complete the project at an estimated cost of \$24 million.

While \$24 million was the estimated award amount, the U.S. government was able to fund only \$5 million. ECC was asked to submit a proposal for what could be accomplished for that amount and a separate proposal for the remaining project costs. AFCEE planned that the first modification to task order 40 would add the required funding. However, because MNSTC-I was slow in providing the needed funds, the contracting officer awarded task order 41 to complete the project rather than modify task order 40. Accordingly, task order 41 was also awarded without competition to continue construction underway on task order 40.

Modifications Added Significant Work to Task Orders Without Competition

In addition to task orders awarded without competition, we identified a number of significant modifications that added additional work. Because these were modifications to existing task

orders, they were essentially sole source awards. In some cases, the work specified in the modification appeared to be beyond the statement of work in the original task order. For example, the previously discussed Sulaymaniyah Recruiting Center added to task order 3 under the 2004 contract does not appear to be within the original task order statement of work. AFCEE noted that adding the work to ECC's task order 3 was justified because it would represent the best value to the government by avoiding the expense of mobilizing another contractor in the harsh, high-risk, and dangerous environment near Kirkuk with the attendant coordination and learning curve issues. While AFCEE noted that it was a logical extension of the scope of task order, this \$5 million project was awarded to ECC without competition.

On task order 36 under the 2004 contract, the addition of a forward operating base at Chamchamal, Iraq, was a sole source award of work that added almost \$10 million to the task order. At the initial modification, about \$6.80 million was added for work at Chamchamal. Later an additional \$3.00 million was added to complete work not funded under the previous modification.

MNSTC-I and AFCEE Program Management and Oversight Generally Sound

MNSTC-I and AFCEE were responsible for delivering needed facilities to the Iraqi Army, and they shared responsibility for management and oversight of the ECC task orders. Our examination of contract and project files, including contract modifications, project scope changes, invoices, and other documents provided extensive evidence of the management and oversight of ECC's performance on the Iraq reconstruction task orders. AFCEE and ECC contract documents show that MNSTC-I developed the requirement for the facilities, controlled project funding, and accepted the facilities when construction was complete. MNSTC-I, needing contracting and construction management resources, turned over the project requirements to AFCEE, which solicited proposals from its preapproved contractors. Under the June 2005 agreement between MNSTC-I and AFCEE, MNSTC-I was given the opportunity to review and evaluate contractors' proposals during the selection and award process and was to have access to all award documents, daily progress reports, and other contract deliverables. MNSTC-I documents show that officials had ongoing oversight of the progress and issues on the projects being accomplished under ECC's task orders. However, a 2008 investigation of a MNSTC-I official raised questions about procurement integrity violations.

Investigation of Inappropriate Behavior by MNSTC-I Official

In February 2008, MNSTC-I initiated an investigation of a MNSTC-I official's alleged inappropriate involvement/relationships with contractors. The investigation was started after AFCEE's Commander/Executive Director sent an email to the Chief of Staff, MNSTC-I reporting that several AFCEE personnel had commented on unprofessional behavior and possible inappropriate involvement/relationships by the MNSTC-I official. The Commander/Executive Director attached three written statements by AFCEE officials who had been in Iraq and had management/project responsibilities for Iraq reconstruction projects carried out by AFCEE contractors. Three days later, the Chief of Staff, MNSTC-I, appointed an investigating officer to conduct an informal investigation in accordance with Army Regulation

15-6, which establishes investigative procedures, of the facts and circumstances surrounding allegations of inappropriate actions relating to construction contracts by the MNSTC-I official.

The investigation was completed in March 2008, and based on 65 sworn statements and other evidence, the investigator identified 13 findings against the MNSTC-I official. In relation to SIGIR's audit of ECC task orders for Iraq reconstruction projects, the more significant of those findings are that the official:

- Exceeded contract authority by repeatedly directing contractors and subcontractors, without the contracting officer representative present, to perform work not in the scope of the task order and/or without the expressed approval of the contracting officer.
- Accepted gifts of transportation on ECC contract aircraft for travel that was not related to authorized trips to ECC project sites.
- Attended dinners, farewells, and barbecues at contractor villas that were possibly below the threshold of \$20 per event but that together exceeded the allowable \$50 limit per year per contractor.
- Failed to contact the contracting officer when contractors were working "at risk"—incurring costs and/or undertaking work beyond that authorized by the contract with the anticipation that subsequent modifications would authorize the work and/or provide additional funds.
- Regularly declared that ECC were "His Boys" and that ECC was the only contractor that does it right.
- Created a perception of giving preferential treatment to ECC in his words, actions, and approach.

As a result of the investigation, the Commander, MNSTC-I, directed the reassignment of the investigated official. A recommendation was also made that AFCEE improve the support provided to MNSTC-I by (1) collocating an administrative contracting officer with AFCEE personnel to expedite procurement actions and reemphasizing and enforcing proper procurement processes/practices and (2) increasing the number of fully trained and experienced personnel. AFCEE officials, who were provided the investigative report, told us that the recommendation was considered but not implemented. They stated that in lieu of the recommended actions, AFCEE headquarters officials had increased their oversight of Iraq reconstruction activities and achieved greater independence for the Iraq activities by a physical separation of AFCEE and MNSTC-I personnel. A major recommendation from the investigation was to further review potential procurement integrity violations. Because this recommendation was not addressed, SIGIR Investigations will consider the extent to which additional investigations are warranted.

AFCEE Used Contractors to Enhance Oversight Capability

While AFCEE originally was expected to have a temporary role in Iraq reconstruction to meet the Coalition Provisional Authority's urgent construction requirement, its role expanded when it awarded task orders totaling about \$4.3 billion—with about \$1.1 billion in task orders to ECC—after MNSTC-I assumed responsibility for Iraqi Security Forces facilities. AFCEE was to maintain the capability to support MNSTC-I's program/project execution and management

requirements, including providing a contracting officer and contracting officer representatives. For facilities designated by MNSTC-I, AFCEE was to provide services that included planning, design, upgrade, renovation, repair, and/or construction. AFCEE was responsible for oversight of ECC's performance on both the 2004 and 2006 contracts.

As its temporary role changed to a longer term effort and the number and dollar amount of construction projects increased, AFCEE added to its capability for oversight of contractor performance through the use of contractors. To meet its increasing responsibilities to MNSTC-I, AFCEE supplemented its staff with contract and temporary employees. AFCEE operated on the concept that government staffing could be kept to a minimum by leveraging the contracting officer representative with contractor support and quality assurance personnel. AFCEE officials stated that contractor staffing was continually assessed and adjusted as needed and that contractor support increased as the number of AFCEE task orders for Iraq reconstruction grew. Likewise, AFCEE's staffing for the Iraq reconstruction effort decreased with the decrease in reconstruction requirements.

- AFCEE project management was provided by temporary government employees, Air Force employees, and/or the on-site contracting officer representatives in Iraq. These personnel were assigned by AFCEE's Headquarters and were detailed to Iraq on a rotating basis. In addition, government employees from other AFCEE sections were appointed as contracting officer representatives and were detailed on a rotating basis to Iraq for 4 months. AFCEE maintained two military and four civilian personnel in Iraq. The contracting officer representatives' duties and responsibilities included (1) monitoring technical contracts, (2) providing technical reviews of contractor's proposals and reviewing and signing invoices, (3) inspecting and accepting the completed work, and (4) representing the U.S. government during task order meetings. The letter noted that the representative did not have the authority to change the pricing, quantity, quality, or any term or condition of the basic contract or task order.
- Versar Inc., under an AFCEE indefinite delivery/indefinite quantity contract, provided quality assurance services with personnel at Iraq reconstruction projects. During 2007, the contractor provided over 300 quality assurance personnel (expatriate, third-country, and Iraqi nationals) to support AFCEE's reconstruction program. According to AFCEE, these quality assurance personnel acted as the "eyes and ears" for its contracting officer and provided conventional quality assurance services for Iraq construction projects. The services included, but were not limited to, contractor performance monitoring, management and inspection services, job-site evaluations, contractor-payment reviews, submittal reviews, plan reviews, and construction documentation. Inspection services included routine, pre-final, and final walk-through assessments of the projects.
- Portage Environmental Inc. and Team Integrated Engineering, Inc., provided voucher reviews, project management support, and construction documentation. Both had personnel assigned to AFCEE Headquarters, and one had personnel on site in Baghdad.

The following sections discuss the management and oversight provided by quarterly performance ratings, quality assurance, and voucher reviews.

Providing Performance Ratings on Task Orders

The AFCEE project manager was responsible for providing AFCEE management with a quarterly contractor performance rating on each task order. These ratings were for internal management purposes and were not always shared with the contractor. Performance ratings were based on three factors—cost, schedule, and quality—and the project manager assigned a color rating for each performance factor: blue for excellent and exceeding expectations, green for good and meeting expectations, yellow for marginal, and red for unacceptable and not meeting the requirements. An excellent or unacceptable rating required a narrative justification, and a marginal or unacceptable rating on any of the three factors resulted in an overall rating of marginal or unacceptable. A contractor's rating on a task order could change from one quarter to the next. The project manager used ECC's daily and weekly progress reports, task progress reports, time lost logs, and payment vouchers in assessing the contractors' performance regarding cost and schedule. In addition, the project manager used daily quality assessment reports prepared by the quality assurance contractor in assessing the contractor's overall performance regarding quality. In some instances, the project manager who was stationed in Iraq also performed site visits and inspected facilities.

On 20 of the 34 task orders (excluding the 4 that were terminated for convenience), ECC primarily received good performance ratings on the task orders with a few excellent ratings. On task order 6 under the 2004 contract, ECC received an excellent rating for its approach to tying the water and sewer system at the Kirkush Military Base into adjacent projects to create a comprehensive system. The rating also noted that the on-site Commander cited ECC as the easiest, most responsive, and most reliable company with which he had dealt. On task order 12 under the 2006 contract, ECC received an excellent rating for its performance in the construction/renovation of 13 police stations in northwest Iraq. The comment noted that the sites were completed under budget and on schedule despite many unforeseen time impacts.

On the remaining 14 task orders, ECC received a marginal or unacceptable rating for at least one quarter during the construction period. For 6 of the 14 task orders, ECC received a marginal or unacceptable rating for two quarters in a row. ECC's worst ratings were on task order 10 under the 2006 contract for which it received marginal or unacceptable ratings for six quarters. ECC noted that major performance problems on this task order stemmed from conflicts among subcontractors who were attempting to exert control over who received work. This resulted in infighting and unscrupulous practices among subcontractors who conducted intimidation campaigns against workers of other subcontractors.

ECC's worst ratings on the nine task orders we selected for review were for work on task order 32 under the 2004 contract and on task order 14 under the 2006 contract. On task order 32, ECC received a marginal rating for the first quarter of 2007 and the second and third quarter of 2008. For the second quarter of 2008, ECC was notified of noncompliance with the approved quality control plan, which resulted from numerous deficiencies, including concrete columns with exposed rebar and honeycombing, the use of rebar to cover gaps in welding, a lack of proper column anchors, and electrical installations that did not meet code. The project manager also reported that ECC had a pending \$6 million cost-to-complete request that was partly due to failure to control subcontractors and cost escalation because of various delays. In the next quarter, the project manager again reported unsatisfactory quality control performance; a "do not

complete notice” was issued because electrical wires and projector lights were being installed without approved drawings and submittals. In addition, the manager reported cracks on the interior wall plaster and tiles but noted that ECC had corrected the previous quarter’s concrete and welding deficiencies. These deficiencies reported by the project manager to AFCEE management were consistent with the information we reviewed in other contract and project files. ECC noted that it implemented improvements in its quality control program and that the succeeding quarterly ratings indicated that the problems had been corrected.

On task order 14, ECC received a marginal rating for the first and second quarter of 2008 based on cost and schedule. For the first quarter, the project manager reported (1) inadequate recovery from schedule delays because the Iraqi subcontractor did not have sufficient manpower and/or skilled labor to maintain the schedule and (2) slow performance, which negatively affected schedules and costs. As a result, the project was 3 months behind schedule and the cost increased by \$8.7 million. In the second quarter, the project manager reported that ECC continued to be 3 months behind schedule and that the cost increase was \$12.7 million.

Quality Assurance and Voucher Review of the Project

Extensive documentation showed that AFCEE’s contractors, Versar and Portage Environmental, exercised oversight of ECC’s activities and performance and worked directly with the AFCEE project manager to ensure quality construction and accurate vouchers. For example, Versar prepared daily quality assurance reports under all the task orders reviewed in detail. On task order 14 under the 2006 contract for the construction of two forward operating bases, the contractor had two quality assurance inspectors assigned to the bases. These inspectors submitted the first report on March 9, 2007, and the last report on August 11, 2008. Our review of the daily reports showed that the quality assurance inspectors were actively involved in the oversight and approval of the facilities being constructed. The inspectors maintained a discrepancy and noncompliance log and used this log to ensure that ECC had corrected any noted discrepancies. In addition, the inspectors were not to sign the final approval for a building or facility until all noted discrepancies had been corrected. AFCEE’s and ECC’s task order files show that AFCEE had quality assurance personnel and processes in place to provide required oversight of ECC’s construction projects.

Personnel of AFCEE’s contractor, Portage Environmental, were actively involved in the review and approval of ECC vouchers submitted for the task orders. Personnel maintained a log of the contract award amount, modifications to the contact award, vouchers submitted, vouchers reviewed, and discrepancies noted. In addition, the personnel followed up with ECC on discrepancies identified and informed the AFCEE project managers of the status of the reviews and follow-up. AFCEE’s review procedures required the reviewers to examine the vouchers for reasonableness of labor and examine supporting documentation for subcontractor, travel, and other direct costs identified on the voucher. As an example, in the review of voucher 36 for task order 14 under the 2006 contract, reviewers requested timesheets for two ECC personnel and a subcontractor’s invoice to support a charge of \$576,918. The files show that the reviewers identified and discussed with ECC a number of questions about the validity and support for costs.

DCAA Extensively Audited ECC, but Critical Audits Were Not Completed

DCAA conducted about 40 audits of ECC's financial systems and costs incurred under AFCEE's Iraq reconstruction task orders. However, some audits of ECC's major systems, such as accounting, purchasing, and estimating, were completed while ECC was classified as a small business. DCAA officials stated that these efforts were limited audits compared to audits for other businesses. DCAA has major systems audits in process, but these efforts will address ECC's current environment and systems, not the ECC environment and systems that existed for the Iraq reconstruction task orders. Completed system audits, incurred cost audits, and forward pricing audits are keys to ensuring that ECC is reimbursed only for costs that are allowable, allocable, reasonable, and in accordance with the contract. ECC officials expressed some frustration that DCAA auditors had spent thousands of hours on audits that were to have been completed in fiscal years 2008 and 2009, but planned reports were not issued. In September 2009, DCAA identified 14 ECC audits as "in process." However, DCAA officials later indicated that some of the planned ECC audits were cancelled, but some of the planned work from those audits was being combined with other audits. They also noted that increased transaction testing will be done to mitigate risk to the government.

DCAA's audits of ECC have produced findings and ECC has responded by revising policies and procedures to strengthen internal controls and improve documentation of incurred costs. DCAA audits have identified more than \$5.71 million in questioned costs. A major unresolved issue identified in DCAA's 2005-2006 incurred cost audit is the reasonableness of ECC's "lift" paid for Iraq direct labor charges. The Defense Contract Management Agency's administrative contracting officer (ACO) is to make a decision on this issue that could involve as much as \$3 million in ECC charges. Further details on DCAA's audits follow.

Accounting System: In July 2003, DCAA reported that ECC's accounting system was inadequate and needed improvement in documenting and adjusting indirect expense rates in its public vouchers and progress payment requests. However, DCAA reported in November 2003 that ECC had corrected all deficiencies and that its accounting system was adequate for accumulating costs. In July 2007, DCAA reported that ECC's Cost Accounting System Disclosure Statement adequately describes its cost accounting practices used for government contracts. DCAA representatives stated that these audit efforts had been limited and that a more comprehensive audit of the ECC accounting system, including its control environment, is in process; they estimate a report on those efforts will be issued in March 2010. ECC officials stated that DCAA started an accounting system audit in February 2007 and that field work and management reviews were completed around July 2008, but a report was not issued and a new audit was begun in June 2009. In September 2009, DCAA officials stated that the ongoing audit would be cancelled but that a new audit to address both ECC's accounting system and billing system would be started.

Purchasing System: In October 2004, DCAA reported that ECC's subcontracting system and related internal control policies and procedures were generally adequate. DCAA examined whether ECC's subcontracting system and related internal controls—with a focus on subcontracting in Iraq—complied with applicable laws and regulations, were effective in complying with applicable laws and regulations, and were adequate and operating effectively. In

response to DCAA's suggestions, ECC revised its checklist to identify how subcontractor quantities are verified (visual inspection, inventory count, measurement or survey, equipment logs, bill of lading sign in/out sheets, weight tickets, photographs, and other) and required the checklist to be used on all invoices over \$50,000. Also, in April 2009, the Defense Contract Management Agency recommended continuing approval of the ECC purchasing system based on its completed review. DCAA had a purchasing system audit in process, but in September 2009 DCAA officials stated that the audit had been canceled and an audit focused on ECC's subcontract management would be done.

Billing System: In September 2006, DCAA found that ECC's billings and related procedures for the 2004 contract were adequate. DCAA reviewed selected public vouchers submitted on the contract and verified that the vouchers were prepared in accordance with the contract billing instructions. Later, in October 2008, DCAA determined that ECC's billing system was inadequate in part because (1) ECC did not always adjust billed fees when it adjusted billed costs due to rate adjustments and (2) its contract briefs contained errors regarding contract costs and fees. ECC disagreed with DCAA's findings. DCAA's findings do not appear to have had a significant effect on the accuracy and completeness of ECC's billing on AFCEE's task orders. DCAA had a billing system audit in process, but this separate audit has been cancelled, and portions of the billing system audit will be done as part of the accounting system audit.

Estimating System: In October 2002, DCAA determined that ECC's estimating practices for preparing pricing proposals and developing indirect expense rate forecasts were inadequate. ECC concurred with the DCAA finding and implemented corrective actions. In March 2004, DCAA found that ECC's estimating system was adequate for developing accurate, current, and complete cost estimates. DCAA has an in process an additional audit of ECC's estimating system that it expects to complete by the end of 2009.

Compensation System: In June 2006, DCAA reported that ECC's compensation system and related internal control policies and procedures were inadequate in part because ECC did not (1) establish and maintain reasonable employee wages and salaries that are consistent with services provided and (2) comply with FAR provisions for compensation for personal services. DCAA identified ECC claims in 2004 of \$93,591 of expressly unallowable and \$883,930 of unreasonable compensation for executives. ECC agreed with DCAA and withdrew the amount from its payment requests. DCAA has an audit of the ECC compensation system in process and expects to complete it in March 2010.

Cumulative Budget Variance Reports: In July 2005, DCAA determined that ECC's cumulative budget variance reports were inadequate in part. DCAA reported that policies and procedures do not ensure the production of accurate data. While ECC's books and records supported the reported financial data, DCAA was unable to determine whether the estimates at completion were realistic and reasonable because ECC did not adequately document the basis of its estimates and perform any variance analyses. ECC agreed with DCAA's recommendation to use different report formats and revised cost control policies and procedures and the overall cost reporting system. DCAA has a cost/schedule status report audit in process at ECC and expects to complete it later in 2009.

In separate audits, DCAA found ECC's information technology control system, labor system, budgeting and planning system, Iraq project management office cost allocation system, and Iraq cash disbursement internal controls to be adequate. DCAA also found ECC's timekeeping system for its employees assigned to Iraq to be adequate for calendar years 2005 through 2008. DCAA verified through physical observation (floor checks) in Iraq that (1) ECC consistently complied with its timekeeping system policies and procedures for recording labor charges and (2) ECC employees were actually at work, performed in assigned job classifications, and charged time to the appropriate jobs.

DCAA audited ECC's billed direct costs under the 2004 contract for four different periods from the award date to March 2006. The audits, which included reviews of randomly selected vouchers, were to determine whether billed amounts were allowable, allocable, reasonable, and in accordance with the contract. In all four audits, DCAA concluded that some submitted direct costs were unallowable, unallocable, and unreasonable (see Table 9). DCAA has in process two additional incurred cost audits of task orders under the 2004 and 2006 contracts.

Table 9—DCAA's Questioned Costs on ECC's Billed Direct Costs under the 2004 Contract

Questioned Cost	Dollar Value	Comment	Results
<i>Audit of Period 1 from Award to June 30, 2004</i>			
Iraq project management office	\$319,394	Understated	Corrected in January 2005
<i>Audit of Period from July 1, 2004, to December 31, 2004</i>			
Equipment	\$90,560	Overstated	Corrected in September 2005
Equipment	--	Unauthorized purchase of vehicle	Vehicle identification number corrected
<i>Audit of Period from November 1, 2004, to March 31, 2006 (selected task orders)</i>			
Iraq direct labor (lift)	\$704,023	Application of hazard pay and lifts	Referred to Administrative Contracting Officer
State sales taxes	\$118,800	Unallowable	Contractor refunded the \$118,800
<i>Audit of Period from June 2004 to March 2006 (selected task orders)</i>			
Iraq direct labor (lift)	\$439,888	Application of hazard pay and lifts	Referred to Administrative Contracting Officer
Travel	\$19,555	Missing documentation	Travel documentation improved, but system improvements needed

Source: SIGIR analysis of DCAA reports.

The total questioned cost shown in Table 9 is \$1.69 million; about a fifth of this amount is for costs that ECC understated. The most significant questioned cost results from DCAA's position that the international "lift" benefits (pay premiums) paid by ECC in its Iraq direct labor charges are excessive. These lifts for ECC employees in Iraq include 5% of base pay for all hours worked, 25% of base pay for all hours worked for an environmental lift, and 25% of base pay for all hours worked for hazard/war pay. The employees receive these allowances if warranted based on ECC's written policies and procedures. DCAA questioned ECC's lifts in its last two audits and stated that the problem is systemic and would result in future questioned costs. DCAA and ECC officials believe that the amount involved could be as much as \$3 million.

This issue arose in a DCAA audit with ECC's January 1, 2005, change in lift policy to apply the rates to all hours worked each week (expected work week hours are 84) instead of applying the lifts to only the first 40 hours each week. DCAA did not question the percentages but questioned the application to more than the first 40 hours per week, which resulted in more than doubling the lift charges to the U.S. government. DCAA maintained that ECC did not provide data to justify the change in policy. ECC disagreed with DCAA's exception and provided a number of reasons for its policy change. It also included a letter from an AFCEE contracting officer stating that AFCEE finds ECC's approach reasonable in relation to other AFCEE contractors and that ECC applies the uplift very conservatively. ECC provided rebuttal data to DCAA in October, November, and December 2008, and DCAA provided data to the ACO who is reviewing the issue and expected to issue a decision on the reasonableness of these costs.

DCAA also audited ECC's forward pricing indirect rates and factors for calendar years 2004-2005; calendar years 2005-2006; calendar years 2006-2007; and calendar years 2007-2008. ECC uses these indirect rates and factors in preparing cost proposals and is paid using these rates and factors. When DCAA completes final indirect rate audits, adjustments are made in the amounts paid. DCAA audits of ECC's forward pricing indirect rates and factors identified both underestimated and overestimated rates. For example DCAA's calendar years 2005-2006 audit found that ECC's overhead and general and administrative bases were underestimated but that its fringe and general and administrative pools were overestimated. DCAA concluded that ECC's proposal was acceptable for negotiation of fair and reasonable rates and factors, as adjusted by audit results.

DCAA audited ECC's final indirect rates for calendar years 2002, 2003, 2004, and 2005 and has in process audits on ECC's final indirect rates for calendar years 2006 and 2007. Table 10 shows questioned costs from the completed audits.

Table 10—DCAA’s Questioned Costs on ECC’s Iraq Reconstruction Task Orders

Questioned Cost	Dollar Value	DCAA Comment	ECC comment
<i>Audit Report for CY 2002 issued April 2005</i>			
Loss on sale of laboratory assets	\$379,606	Questionable	Concurred
State income taxes	\$74,899	Not allocable	Partially concurred
Bonus payment	\$50,000	Unallowable	Concurred
<i>Audit Report for CY 2003 issued September 2005</i>			
Consultant costs	\$81,263	Improper allocation	Concurred
State income taxes	\$8,424	Not allocable	Nonconcurred
Compensation	\$61,162	Questionable	Concurred
<i>Audit Report for CY 2004 issued September 2006</i>			
Executive labor and bonus	\$977,521	Unallowable and unreasonable	Concurred
Nonexecutive bonus	\$400,000	Unallowable	Accounting entry corrected
Applied fringe benefits	\$360,635	Questionable	Concurred
State income taxes	\$369,057	Unallowable	Concurred
Capital cost of money	\$78,139	Unallowable	Concurred
<i>Audit Report for CY 2005 issued October 2007</i>			
Consultant costs	\$187,348	Unsupported and unallowable	Concurred with \$119,848, but not with \$67,500
Bonus costs	\$105,000	Inadequately supported and unallowable	Concurred with \$55,000 but not with \$50,000
Travel costs	\$70,789	Undocumented and unallowable	Disagreed with almost the entire amount
Executive incentive costs	\$559,883	Unallowable	Disagreed
Intermediate pool travel costs	\$256,588	Unsupported	Disagreed

Source: SIGIR analysis of DCAA reports.

The total questioned cost shown in Table 10 is \$4.02 million. In addition to the questioned cost, the ACO imposed a penalty of \$78,616 for ECC’s inclusion of expressly unallowable executive compensation costs of \$93,591 in its calendar year 2004 incurred cost claim. ECC requested a waiver of the penalty that was denied. The ACO has also considered a penalty for ECC’s incurred cost claims in calendar year 2005; however, this will not be determined until the 2006 audit is completed. Also, because of disagreements between ECC and DCAA on questioned costs in the calendar year 2005 audit, ECC’s indirect rates for 2005 will be ACO-negotiated instead of audit-determined rates arrived at by ECC and DCAA.

Iraqi Subcontractors Offered Challenges and Benefits

AFCEE's and MNSTC-I's goals have emphasized that most construction was to be accomplished through local Iraqi subcontractors. AFCEE wanted to expand awards to Iraqi contractors to help build strong relationships with Iraqi subcontractors and laborers by transferring skills, teaching engineering techniques, and encouraging stability through the employment of locals. To help achieve MNSTC-I's and AFCEE's goals, ECC reported using over 450 different Iraqi subcontractors on its Iraq's projects and paying about 55% of the funds under its task orders to Iraqi construction subcontractors.

While using Iraqi subcontractors transferred skills, employed locals, and had other general benefits, our review of contract files and discussions with ECC officials indicated that the use of Iraqi contractors also presented many challenges. For example, about 2 months after its first Iraqi reconstruction effort—task order 3 under the 2004 contract—ECC issued a notice to an Iraqi subcontractor for lagging performance and allowed a 3-day period to correct performance. Within a few days, ECC contracted with a replacement contractor but did not finalize details on the statement of work and the dollar amount. ECC dealt with claims and issues from these two subcontractors throughout the task order.

ECC also reported performance problems with Iraqi subcontractors on task order 41 under the 2006 contract. In November 2008, near the completion of the task order, ECC notified a subcontractor that had refused to perform because of a claim dispute that if performance was as outlined in the notice, it would release funds owed and reconvene negotiations to settle the claim. Within the same month, ECC also issued a notice to another subcontractor for failure to perform. ECC set out specific work to be performed by a specified date and stated that it would begin imposing liquidating damages if substantive work was not performed by that date.

We identified other instances in which ECC had subcontractor performance problems. For example on task order 32 under the 2004 contract, the Iraqi subcontractors did not complete the facilities within the specified performance period, increasing the security and program management costs. At one forward operating base, two Iraqi subcontractors were terminated for default for inadequate performance and for failure to maintain the required manpower. The files show that these subcontractors were given numerous notices of poor performance and inadequate labor force. The first subcontractor was terminated about 4 months after the required facility completion date, and the second subcontractor was terminated about 7 months after the required completion date. ECC awarded contracts to another Iraqi subcontractor for the terminated work, but the site was not completed until February 2008, about 16 months after the initial target date.

ECC officials stated that the problems that arose with Iraqi subcontractors covered the entire spectrum of effort across construction projects. Issues with Iraqi subcontractors included:

- Schedule and design
 - Difficulty producing designs; some lacked experience working to designs.
 - Little experience in preparing and working to a schedule.

- Safety
 - Little or no experience with incident reporting and investigation and no understanding of the value of such efforts.
 - Equipment was in poor condition without required safeguards.
- Quality
 - Few had an established quality control management system in place and attempts were made to replace approved materials with inferior or used materials.
 - Labor force was not qualified for needed work, and skilled employees left to work outside Iraq.
- Overall business issues
 - Many contractors had been hastily created because of the flood of contracting dollars and did not have the needed organization and were poorly financed.
 - Contractors often did not read or understand their subcontract agreements and statements of work.

Both AFCEE and ECC officials discussed efforts undertaken to address these issues. AFCEE noted that it had developed an Iraq Construction Standard in November 2006 and had emphasized mentoring and training efforts to transfer skills to Iraqi engineers and laborers.

ECC officials further stated that they provided extensive quality control and safety training as well as training and mentoring on construction techniques. ECC also stated that it provided some financial assistance and identified other workarounds when subcontractors encountered financial difficulties.

Despite some problems, ECC officials also noted benefits from the use of Iraqi subcontractors. For example, they received many bids relatively quickly, thereby providing healthy competition on their firm-fixed-price contracts. They also noted the ability to hire a large work force to meet tight schedules. ECC officials added that the high levels of competition and relatively cheap labor rates sometimes resulted in good per unit prices for construction.

Award Fees Appear Excessive

ECC was awarded \$80.36 million in fees—profit—on the 38 Iraq reconstruction task orders; \$40.55 million of that, or slightly more than half of the fees, was earned on modifications to the task orders. Some of the award fees on modifications appear excessive because the ECC task orders specified that fixed fees were to be increased only for “added work,” but on some task order modifications, ECC received fees on cost increases for other reasons. The cost increases were due to government delays, security issues, and, in some cases, contractor performance issues. Quantifying the amount of potentially excessive fees would require an analysis of the reasons for cost increases on each modification. Further, the amount of excessive fees would be essentially a moot point because (1) the AFCEE contracting officers could be considered to be exercising the wide latitude in business judgment recognized in the Federal Acquisition

Regulation and (2) the fee decision on each modification was finalized in a negotiated agreement with ECC.

The ECC task orders were cost-plus-fixed-fee with fee rates on the initial task orders at 10% of the estimated cost, which decreased to 6% of the estimated cost on the later task orders. According to the Federal Acquisition Regulation, subpart 16.306, the fee on a cost-plus fixed-fee contract is negotiated at the start and is fixed—the fixed fee does not vary with actual cost but may be adjusted as a result of changes in the work to be performed under the contract. Section 16.102 of the regulation states that the cost-plus-a-percentage-of-cost system of contracting shall not be used (see 10 U.S.C. 2306(a) and 41 U.S.C. 254(b)). AFCEE’s task orders with ECC provided that the fixed fee “may be increased or decreased only by negotiation and modification of the contract for added or deleted work.” Thus, the language in AFCEE’s task orders was in accordance with the regulation. However, according to ECC-supplied data, despite significant increases in the costs of task orders and delayed delivery of facilities, ECC continued to be awarded additional fees on cost increases equal to or slightly less than the percentage fee established for the task order. Such increases might be appropriate if all cost increases are the result of “added work” and are negotiated with the contractor. However, many cost increases were due to government delays, security issues, or other unforeseen conditions. Moreover, some cost increases were clearly identified as attributable to contractor performance, not to government changes in requirements or scope.

According to Federal Acquisition Regulation, subpart 1.602.2, contracting officers should be allowed wide latitude to exercise business judgment in carrying out their responsibilities. In discussions with AFCEE contracting officials as to whether the fees were justified, one official said that increased security drove much of the increased cost increases and an increased fee was generally awarded for these costs. Another official stated that each task order modification has a story and that contracting officials do their best to determine fairness and reasonableness on each contracting action, sometimes getting it right and sometimes not. The official stated that he had briefed buyers and contracting officers on the need to do a more thorough job when reviewing costs to complete modifications, and deciding on a proposed fee, if any.

Tables 11 and 12 show the percentage fee established at the award of the task order and the calculated percentage fee earned by ECC on the obligations as of July 31, 2009, for the 2004 and 2006 contracts, respectively.

Table 11—Initial and Final Percentage Fees on ECC Task Orders under 2004 Contract (\$ millions)

Contract FA8903-04-D-8672

Task Order	Reconstruction Project	Initial Obligations	% Fee	7/31/2009 Obligations	% Final Fee
03	Iraq Military Base at Kirkuk	\$47.50	10.00%	\$74.85	9.48%
06	Utilities at Kirkush Military Base	16.96	10.00%	35.95	9.64%
08	An Numaniyah Military Base, Phase I, Part B	34.39	10.00%	57.41	9.47%
11	Southern School Repair	29.19	10.00%	29.18	10.16%
16	Brigade Facility at Kirkuk	38.24	10.00%	43.67	10.04%
17	Al Kut Police Academy Facilities	7.52	10.00%	26.12	8.04%
18	Camp India Facilities at Fallujah	48.62	9.00%	84.70	8.94%
19	Repair/Replace Iraq Schools	3.10	10.00%	6.90	10.01%
20	Harman Al Alil Military Base	5.49	8.00%	35.44	7.80%
22	Renovate Base at Habbaniyah	15.57	7.96%	63.48	8.06%
23	Border Forts 8 and 9	2.48	6.00%	3.81	6.13%
24	Renovate Police Stations, Northern Region	2.88	8.00%	2.96	9.11%
27	Iraq Training Brigade at Kirkush	9.30	8.00%	8.95	8.70%
28	Renovate Facilities at Habbaniyah	7.30	8.00%	55.15	8.00%
32	Mosul/Tikrit Facilities	18.41	8.00%	98.13	7.95%
34	Northern Police Stations	13.93	8.00%	13.93	8.00%
35	Facilities at Kirkush	25.88	6.00%	47.69	5.63%
36	Facilities at Kirkuk	10.57	8.00%	35.78	7.91%
37	Facilities at Camp Majid	35.33	6.00%	57.73	6.00%
48	Facilities at Kirkuk	0.50	-	0.50	-

Source: AFCEE and ECC contract file data.

Table 12—Initial and Final Percentage Fees on ECC Task Orders under 2006 Contract (\$ millions)

Contract FA8903-06-D-8511

Task Order	Reconstruction Project	Initial Obligations	% Fee	7/31/2009 Obligations	% Final Fee
10	Facilities at Ramadi	\$27.51	6.00%	\$57.57	4.91%
12	Northwest Police Stations	19.55	6.00%	26.47	6.00%
13	Facilities for 4th Division	21.19	6.00%	39.31	5.60%
14	5 th Division, Light Infantry Battalion	17.17	6.38%	42.56	5.59%
15	Facilities for Iraq Forces, Camps Slayer and Victory at Baghdad	23.07	6.00%	50.77	5.77%
19	Iraq Air Force Flight Operations at Kirkuk	4.49	6.00%	5.75	6.00%
24	Commando Company at Al Asad	13.74	6.00%	17.87	6.00%
25	Diyala Police Stations	9.82	6.00%	10.36	6.00%
26	Facilities for Battalion Support, Gabe	15.00	6.00%	14.86	6.00%
32	Baqubah-Diyala Police Stations	9.32	6.00%	8.71	6.41%
38	Housing at Akashaat	10.39	6.00%	13.88	5.61%
39	Housing at Qsar Amij	10.62	6.00%	13.52	5.55%
40	Iraq Air Force Facilities at Kirkuk	4.96	6.00%	4.96	6.00%
41	New Facilities and Modifications of Air Force Facilities at Kirkuk	23.50	6.00%	30.46	6.00%

Source: AFCEE and ECC contract file data.

The largest difference between the initial fee rate and the final rate was on task order 17 under the 2004 contract for facilities at Al Kut Police Academy. The initial fee rate was 10%, with obligations of \$7.52 million, and ECC received an 8.04% fee with obligations at \$26.12 million. While this task order was not one selected for detailed review, our review of files to determine why the difference in original fee rate and final rate showed that on the first major modification, a fee of 9% was awarded and that an 8% fee was awarded on three small modifications. (These lower rates appeared consistent with the gradual reductions in fee rates on ECC task orders, which started at 10% and decreased to 6%.) On the final modification for \$3.16 million—identified as a cost to complete—no fee was awarded.

The following paragraphs provide further information on potentially excessive fees for four task orders.

Contract FA8903-04-D-8672, Task Order 3, Military Base at Kirkuk

Three modifications on this task order show the range of AFCEE actions when considering fees on modifications. On the first two modifications, AFCEE provided fees on costs that were not the result of added work. On the third modification, the contracting officers noted that ECC had already been provided fees for cost growth and did not provide additional fees.

- Modification 2 was made because of changed conditions that warranted adjustments; some increases were due to delays in contract award, changes in location, and a government miscalculation of electric power requirement. However, other increases were due to costs for construction, water utilities, and power generation that were significantly more than the contractor originally estimated. AFCEE accepted a fixed fee of 10% on the total cost of the modification (total cost of about \$12 million and a fee of \$1.20 million). The files do not indicate that AFCEE considered or negotiated lower fees.
- On modification 3, a preliminary price negotiation shows that the Defense Federal Acquisition Regulation Supplement's weighted guidelines⁴ were used to develop an objective fixed fee of 7.55% instead of the 10% proposed. However, the final price negotiation memorandum states that the contracting officer accepted the 10% proposed fee even though the weighted guidelines do not support the fee. The memorandum states that the guidelines do not take into account the heightened security and risk factors associated with Iraq. The cost of modification 3 was \$2.54 million, including a fixed fee of \$250,000. If the 7.55% developed with the guidelines had been used, the fee would have been about \$60,000 less.
- On modification 8, AFCEE's contracting officer took a tougher position. The preliminary price negotiation memorandum for this modification, which was to provide funds to settle a claim submitted by an ECC subcontractor, notes that ECC proposed an 8% fee on the estimated cost of \$4.62 million, or a fee of \$0.37 million. The contracting officer determined that no additional fee should be awarded because ECC had total control and responsibility over the subcontractor's work and had already captured \$2.17 million in fees on three modifications for cost growth on the task order. Denial of the fee on this modification was the reason that ECC's percentage fee on this task order was reduced from the initial 10% to the final 9.48%.

Contract FA8903-06-D-8511, Task Order 13, Facilities for 4th Division

AFCEE's technical evaluation of the ECC proposal for modification 6 concluded that the request for \$12.16 million was over the \$8.2 million available. The evaluation noted that additional funding would be requested because reducing the suggested labor hours and waiving the fee would reduce the cost by only about \$1.08 million. The increased funding was obtained, and modification 6 increased the task order ceiling to \$12.16 million, including a \$0.69 million fee. The preliminary price negotiation memorandum for modification 6 discusses the fee and notes that the increase is a cost to complete work (not a result of added work) but that "most of the factors leading to the cost increases were beyond the control of ECC and therefore it was determined that ECC was entitled to the full 6% fee that the contractor had proposed." Again, fees were provided on costs that were not the result of added work.

⁴ Section 215.404-4 requires a contracting officer to use a structured approach for developing a prenegotiation profit or fee objective on most negotiated contract actions. One of the specified approaches is the weighted guidelines method, which focuses on four profit factors: performance risk, contract type risk, facilities capital employed, and cost efficiency.

Contract FA8903-06-D-8511, Task Order 14, Facilities for 5th Division

On task order 14 under the 2006 contract, modification 4 increased the ceiling amount by \$13.11 million to \$42.67 million. The preliminary price negotiation memorandum includes acceptance of ECC's proposed 6% fee but reduces the fee to 4.8% for costs without the DCAA rate adjustment. The memorandum notes that the increase is a cost to complete (as opposed to a work change request) but that most of the factors leading to the cost were beyond ECC's control. However, AFCEE's rating of ECC reported that the project had fallen behind schedule because of ECC management deficiencies. The technical evaluator indicated that 80% of the cost was the government's fault because of delayed approval of plans and funding issues and that the remaining 20% was due to the subcontractor's mismanagement and other items under ECC's control. Therefore, the fee rate was reduced to 4.8% (apparently the adjusting rate for the portion under ECC's control) for costs other than the DCAA rate adjustment. This is another example showing that AFCEE provided additional fees when work was not added and that some cost increases resulted from contractor mismanagement.

Contract FA8903-04-D-8672, Task Order 32, Mosul/Tikrit Facilities

The initial fee rate on the \$18.41 million award for this task order was 8%, and the fee rate that ECC received on the final cost of \$98.13 million was 7.95%.

- On modification 8, AFCEE increased the fee over the amount proposed by ECC. ECC had proposed an 8% fixed fee of \$0.82 million for this modification, but the AFCEE contracting officer awarded a fixed fee of \$1.01 million, an increase of \$0.19 million over the amount ECC proposed. AFCEE allowed this increase as a fee on a subcontractor's cost increase, which ECC had not requested. The contracting officer included a fee on the cost increase because government delays and changes in sites were considered to be a major factor in the increase.
- On modification 12 under this task order for \$5.99 million, ECC received a fee of 8%, the same as the basic task order 8% fee; however, in the performance rating for this task order the project manager had reported that ECC's \$6 million cost to complete was partly due to failure to control subcontractors and cost escalation due to various delays. The 8% fee seems excessive based on this stated reason for the cost to complete.

Conclusions and Recommendation

Conclusions

The ECC task orders resulted in construction of numerous facilities throughout Iraq for the ultimate use of Iraqi Security Forces. However, the cost and schedule for construction projects increased substantially. The two key causes for the increases were changes in the scopes and locations of work after the task orders were issued and the costs and delays caused by unstable security conditions. The changes in scope and location also resulted in wasted funds. As a result of work changes, security costs, and waste, the facilities built for the funds expended were less than desired and illustrate the issues inherent in reconstruction in a contingency environment.

SIGIR notes that task order management and oversight were generally sound, but a few concerns were identified. For the ECC task orders, MNSTC-I and AFCEE made extensive efforts to provide needed management and oversight of the contractor's performance and of the projects. However, a March 2008 investigation of a MNSTC-I official's inappropriate involvement/relationship in the AFCEE procurement processes identified significant questions about procurement integrity that have not been addressed. Further, the fees awarded for modifications to the task orders appear excessive because the awarded fees were not limited to "added work" as specified in the contract; at a minimum, fees were awarded on cost increases caused by delays, security issues, or other unforeseen issues. For some modifications, fees were awarded for cost increases that resulted from ECC's performance problems. AFCEE officials believe the contracting officers did their best to determine fair and reasonable fees. We did not pursue this further because the contracting officers had wide latitude in making business judgments and the fees on each modification were finalized in a negotiated agreement with ECC.

Recommendation

Previous SIGIR reports have included recommendations and/or lessons learned to address issues related to cost increases and schedule delays on Iraq reconstruction projects. The major issues we have identified in this report regarding the changes in work scope after the award of task orders and the unstable security conditions in Iraq have been addressed. Accordingly, SIGIR includes no recommendations or lessons learned in this report.

The procurement integrity issues that MNSTC-I has identified but not pursued have been provided to SIGIR Investigations for consideration.

Management Comments

SIGIR provided a draft of this report to the responsible agencies for comment; however, SIGIR has no recommendations and the agencies are not required to comment. Neither MNSTC-I nor AFCEE provided comments.

Appendix A—Scope and Methodology

In November 2008, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated Project 9002 to audit contracts awarded to the Environmental Chemical Corporation (ECC) for Iraq reconstruction projects. SIGIR's objectives for this report were to examine contract outcomes, costs, and oversight, emphasizing issues related to vulnerabilities to fraud, waste, and abuse. This audit was performed 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. SIGIR conducted its work during December 2008 through September 2009 in various locations in the United States and in Baghdad, Iraq.

To accomplish our audit objectives, we visited or held discussions with officials and/or reviewed data from the following organizations:

- Environmental Chemical Corporation (ECC)
- Air Force Center for Engineering and the Environment (AFCEE)
- Multi-National Security Transition Command-Iraq (MNSTC-I)
- Defense Contract Audit Agency (DCAA)
- Defense Contract Management Agency

We obtained and reviewed relevant contract, financial, and other information from these organizations relating to the pre-award, award, oversight, and performance of ECC's Iraq reconstruction task orders under contracts FA8903-04-D-8672 and FA8903-06-D-8511. We reviewed the contracts, task orders, associated modifications, and other related documentation from the contract files maintained by AFCEE and ECC. We obtained limited data from MNSTC-I related to the justification for the scopes of work in the task orders and the changes in requirements that occurred after task order issuance.

To determine the overall cost and funding of the contracts and individual task orders, we used data in the contract files and financial data obtained from the U.S Army Corps of Engineers' Financial Management System. In addition, to determine the outcome and oversight of the selected task orders, we used data in the AFCEE and ECC contract and project files, including the basic contract, task orders, task order modifications, and scope of work changes; invoices that ECC submitted for work under the task orders; weekly and monthly progress reports on the work ECC performed; quality assurance and inspection reports prepared by AFCEE's contractor Versar; contract fund status reports; and photographs of project sites before, during, and after reconstruction. In addition, we reviewed the government process to monitor ECC's cost, progress, quality, and performance. We identified the number of buildings and facilities to be constructed under each task order and documentation related to the contractor's delivery of these items. We also reviewed relevant documents related to transferring projects to the Government of Iraq.

We also reviewed relevant portions of the Federal Acquisition Regulation, SIGIR prior reports relevant to the ECC contracts, and DCAA audits of ECC. We are aware of the Government Accountability Office's (GAO) recent findings regarding DCAA audit quality including compromise of auditor independence, insufficient audit testing, and inadequate planning and supervision.⁵ We are reporting factually on the information contained in DCAA reports that relate to our audit work; however, due to the nature of GAO's findings we are not placing undue reliance on DCAA's findings or lack thereof.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that SIGIR 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. SIGIR believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Use of Computer-processed Data

To perform this audit, SIGIR had direct access to data in the U.S Army Corps of Engineers' Financial Management System and used this access to identify obligations, expenditures, and unliquidated obligations for the task orders. This automated financial management system is intended to provide timely, accurate, and comprehensive financial information for all levels of management, especially at the program and project management level, through interface with other information system programs. We used computer-processed data contained in this system to identify, verify, and crosscheck financial information on task orders contained in AFCEE's and ECC's contract files. This process showed that the computer-processed data we used was reliable.

Internal Controls

We did not examine ECC's internal management and financial control systems. Rather, we relied on DCAA reviews of ECC's invoices and accounting and purchasing systems and contract files to identify indications of fraud, waste, and abuse. Since the work was largely complete at the time of our audit, we could not monitor construction progress. Further, we were unable to observe the condition of the construction projects at the time of or after their completion. Thus, we relied on available reports, site photographs, transfer documents, and discussions with government and ECC officials for insight on the completed facilities.

We did not review the U.S. government or AFCEE contract management system as a whole but did review controls and oversight of the specific task orders under the two AFCEE contracts. We reviewed the controls used in awarding, managing, and administering the ECC task orders. Specifically, we reviewed the management controls related to contract and task order award, task order oversight, oversight of facilities construction, and the turnover of completed facilities.

⁵ *DCAA Audits: Allegations That Certain Audits at Three Locations Did Not Meet Professional Standards Were Substantiated*, GAO-08-857, 7/22/2008 and *DCAA Audits: Widespread Problems with Audit Quality Require Significant Reform*, GAO-09-468, 9/23/2009

Prior Coverage

The following reports are related to this assignment:

Key Recurring Management Issues Identified in Audits of Iraq Reconstruction Efforts, SIGIR 08-020, 7/27/2008.

Aviation Base Building, Kirkuk, Iraq, SIGIR PA 06-040, 4/12/2006.

New 2nd Brigade Base, Kirkuk, Iraq, SIGIR PA 06-041, 4/20/2006.

Other Reports in the Series of Focused Contract Audits

Developing a Depot Maintenance Capability at Taji Hampered by Numerous Problems, SIGIR-09-027, 7/29/2009.

Tikrit Location Command Project Achieving Contract Goals by Using Sound Management Practices, SIGIR 09-024, 7/29/2009.

Commander's Emergency Response Program: Hotel Construction Completed, But Project Management Issues Remain, SIGIR 09-026, 7/24/2009.

Commander's Emergency Response Program: Muhalla 312 Electrical Distribution Project Largely Successful, SIGIR 09-025, 7/24/2009.

Security Forces Logistics Contract Experienced Certain Cost, Outcome, and Oversight Problems, SIGIR-09-014, 4/24/2009.

Cost, Outcome, and Oversight of Iraq Oil Reconstruction Contract with Kellogg Brown & Root Services, Inc., SIGIR 09-008, 1/12/2009.

Cost, Outcome, and Oversight of Local Governance Program Contracts with Research Triangle, SIGIR 09-003, 10/21/2008.

Outcome, Cost, and Oversight of the Security and Justice Contract with Parsons Delaware, Inc., SIGIR 08-019, 7/28/2008.

Outcome, Cost, and Oversight of Water Sector Reconstruction Contract with FlourAMEC, LLC, SIGIR 08-018, 7/15/2008.

Outcome, Cost, and Oversight of Electricity-Sector Reconstruction Contract with Perini Corporation, SIGIR 08-011, 4/29/2008.

Outcome, Cost, and Oversight of Iraq Reconstruction Contract W914NS-04-D-006 SIGIR 08-010, 1/28/2008.

Outcome, Cost, and Oversight of Reconstruction of Taji Military Base and Baghdad Recruiting Center, SIGIR 08-004, 1/15/2008.

Interim Review of DynCorp International, LLC Spending Under Its Contract for the Iraqi Police Training Program, SIGIR 07-016, 10/23/2007.

Review of Bechtel's Spending Under Its Phase II Iraq Reconstruction Contract, SIGIR 07-009, 7/24/2007.

Appendix B—Financial Status of ECC Task Orders for Reconstruction Projects as of July 31, 2009

Table 13—Financial Status of Task Orders under 2004 Contract (\$ millions)

Contract FA8903-04-D-8672

Task Order	Reconstruction Project	Obligation	Expenditure	Unliquidated Obligation
03	Iraq Military Base at Kirkuk	\$74.85	\$73.58	\$1.27
06	Utilities at Kirkush Military Base	35.95	35.95	-
08	An Numaniyah Military Base, Phase I, Part B	57.41	57.41	-
11	Southern School Repair	29.18	29.17	0.01
16	Brigade Facility at Kirkuk	43.67	43.67	-
17	Al Kut Police Academy Facilities	26.12	25.83	0.29
18	Camp India Facilities at Fallujah	84.70	83.37	1.33
19	Repair/Replace Iraq Schools	6.90	6.81	0.09
20	Harman Al Alil Military Base	35.44	35.04	0.40
22	Renovate Base at Habbaniyah	63.48	63.48	-
23	Border Forts 8 and 9	3.81	3.76	0.05
24	Renovate Police Stations, Northern Region	2.96	2.92	0.04
27	Iraq Training Brigade at Kirkush	8.95	8.50	0.45
28	Renovate Facilities at Habbaniyah	55.15	54.53	0.62
32	Mosul/Tikrit Facilities	98.13	96.83	1.30
34	Northern Police Stations	13.93	12.60	1.33
35	Facilities at Kirkush	47.69	47.31	0.38
36	Facilities at Kirkuk	35.78	35.41	0.38
37	Facilities at Camp Majid	57.73	57.24	0.49
48	Facilities at Kirkuk	0.50	0.42	0.08
20 Task Orders		\$782.33	\$773.83	\$8.51

Note: Unliquidated obligations and totals may not add due to rounding.

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

Table 14—Financial Status of Task Orders under 2006 Contract (\$ millions)

Contract FA8903-06-D-8511

Task Order	Reconstruction Project	Obligation	Expenditure	Unliquidated Obligation
10	Facilities at Ramadi	\$57.57	\$56.05	\$1.52
12	Northwest Police Stations	26.47	23.30	3.17
13	Facilities for 4th Division	39.31	38.72	0.58
14	5 th Division, Light Infantry Battalion	42.56	41.54	1.02
15	Facilities for Iraq Forces, Camps Slayer and Victory at Baghdad	50.77	49.76	1.01
19	Iraq Air Force Flight Operations at Kirkuk	5.75	5.75	-
24	Commando Company at Al Asad	17.87	17.06	0.81
25	Diyala Police Stations	10.36	10.10	0.26
26	Facilities for Battalion Support, Gabe	14.86	13.96	0.90
27	Iraq Army Base Camp at Jelewea (Terminated)	0.29	0.29	-
32	Baqubah-Diyala Police Stations	8.71	7.41	1.30
33	Vehicle Maintenance Facility Babil (Terminated)	-	-	-
34	Extra Large GSU Samara (Terminated)	-	-	-
35	Extra Large GSU Al Qaim (Terminated)	-	-	-
38	Housing at Akashaat	13.88	13.77	0.11
39	Housing at Qsar Amij	13.52	13.41	0.11
40	Iraq Air Force Facilities at Kirkuk	4.96	4.92	0.04
41	New Facilities and Modifications of Air Force Facilities at Kirkuk	30.46	29.86	0.60
18 Task Orders		\$337.34	\$325.90	\$11.43

Note: Unliquidated obligations and totals may not add due to rounding.

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

Table 15—Summary of Financial Status of Task Orders under 2004 and 2006 Contracts (\$ millions)

Contract	Obligation	Expenditure	Unliquidated Obligation
FA8903-04-D-8672 (20 Task Orders)	\$782.33	\$773.83	\$8.51
FA8903-06-D-8511 (18 Task Orders)	337.34	325.90	11.43
Total	\$1,119.67	\$1,099.73	\$19.94

Source: Tables 13 and 14.

Appendix C—Percentage of Task Order Obligations to Private Security Contractors

Table 16— Percentage of Task Order Obligations to Private Security Contractors under 2004 Contract (\$ millions)

Contract FA8903-04-D-8672

Task Order	Reconstruction Project	7/31/2009 Obligation	Amount to Private Security Contractor	% of Obligation for Security Contractor
03	Iraq Military Base at Kirkuk	\$74.85	\$6.58	9%
06	Utilities at Kirkush Military Base	35.95	2.17	6%
08	An Numaniyah Military Base, Phase I, Part B	57.41	3.55	6%
11	Southern School Repair	29.18	2.11	7%
16	Brigade Facility at Kirkuk	43.67	5.01	11%
17	Al Kut Police Academy Facilities	26.12	2.62	10%
18	Camp India Facilities at Fallujah	84.70	11.64	14%
19	Repair/Replace Iraq Schools	6.90	0.53	8%
20	Harman Al Alil Military Base	35.44	7.16	20%
22	Renovate Base at Habbaniyah	63.48	8.78	14%
23	Border Forts 8 and 9	3.81	0.73	19%
24	Renovate Police Stations, Northern Region	2.96	0.10	3%
27	Iraq Training Brigade at Kirkush	8.95	2.40	27%
28	Renovate Facilities at Habbaniyah	55.15	9.90	18%
32	Mosul/Tikrit Facilities	98.13	17.40	18%
34	Northern Police Stations	13.93	2.14	15%
35	Facilities at Kirkush	47.69	8.31	17%
36	Facilities at Kirkuk	35.78	5.95	17%
37	Facilities at Camp Majid	57.73	2.45	4%
48	Facilities at Kirkuk	0.50	0.07	14%
20 Task Orders		\$782.33	\$99.60	13%

Source: U.S. Army Corps of Engineers Financial Management System obligation data and ECC data on private security contractor costs.

Table 17—Percentage of Task Order Obligations to Private Security Contractors under 2006 Contract (\$ millions)

Contract FA8903-06-D-8511

Task Order	Reconstruction Project	7/31/09 Obligation	Amount to Private Security Contractor	% of Obligation for Security Contractor
10	Facilities at Ramadi	\$57.57	\$9.09	16%
12	Northwest Police Stations	26.47	8.92	34%
13	Facilities for 4th Division	39.31	9.12	23%
14	5 th Division, Light Infantry Battalion	42.56	7.53	18%
15	Facilities for Iraq Forces, Camps Slayer and Victory at Baghdad	50.77	5.55	11%
19	Iraq AF Flight Operations at Kirkuk	5.75	1.42	25%
24	Commando Company at Al Asad	17.87	0.73	4%
25	Diyala Police Stations	10.36	1.40	14%
26	Facilities for Battalion Support, Gabe	14.86	2.41	16%
27	Iraq Army Base Camp at Jelewea (Terminated)	0.29	0.01	3%
32	Baqubah-Diyala Police Stations	8.71	0.87	10%
38	Housing at Akashaat	13.88	2.86	21%
39	Housing at Qsar Amij	13.52	3.19	24%
40	Iraq Air Force Facilities at Kirkuk	4.96	0.73	15%
41	New Facilities and Modifications of Air Force Facilities at Kirkuk	30.46	1.68	6%
15 Task Orders		\$337.34	\$55.51	16%

Source: U.S. Army Corps of Engineers Financial Management System obligation data and ECC data on private security contractor costs.

Table 18—Summary of Task Order Obligations to Private Security Contractors under 2004 and 2006 Contract (\$ millions)

Contract	7/31/09 Obligation	Amount to Private Security Contractor	% of Obligation for Security Contractor
FA8903-04-D-8672--20 Task Orders	\$782.33	\$99.60	13%
FA8903-06-D-8511--15 Task Orders	337.34	55.51	16%
Total	\$1,119.67	\$155.11	14%

Source: Tables 16 and 17.

Appendix D—Acronyms

Acronym	Description
ACO	Administrative Contracting Officer
AFCEE	Air Force Center for Engineering and the Environment
DCAA	Defense Contract Audit Agency
ECC	Environmental Chemical Corporation
GAO	Government Accountability Office
MNSTC-I	Multi-National Security Transition Command-Iraq
SIGIR	Special Inspector General for Iraq Reconstruction

Appendix E—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:

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Appendix F—SIGIR Mission and Contact Information

SIGIR’s Mission

Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:

- oversight and review through comprehensive audits, inspections, and investigations
- advice and recommendations on policies to promote economy, efficiency, and effectiveness
- deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse
- information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports

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