

MANAGEMENT OF IRAQ RELIEF
AND RECONSTRUCTION FUND
PROGRAM

ACQUISITION OF ARMORED
VEHICLES PURCHASED THROUGH
CONTRACT W914NS-05-M-1189

REPORT No. SIGIR-05-018
OCTOBER 21, 2005

Report Documentation Page				Form Approved OMB No. 0704-0188	
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1. REPORT DATE 21 OCT 2005		2. REPORT TYPE		3. DATES COVERED 00-00-2005 to 00-00-2005	
4. TITLE AND SUBTITLE Acquisition of Armored Vehicles Purchasd Through Contract W914NS-05-M-1189				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Office of the Special Inspector General for Iraq Reconstruction,400 Army Navy Drive,Arlington,VA,22202-4704				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 17	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

October 21, 2005

**MEMORANDUM FOR COMMANDING GENERAL, MULTI-NATIONAL SECURITY
TRANSITION COMMAND- IRAQ
COMMANDING GENERAL, JOINT CONTRACTING
COMMAND – IRAQ/AFGHANISTAN**

**SUBJECT: Acquisition of Armored Vehicles Purchased Through Contract
W914NS-05-M-1189 (Report No. SIGIR-05-018)**

We are providing this report for your information and use. We performed the audit in accordance with our statutory duties contained in Public Law 108-106, as amended, which mandates the independent and objective conduct of audits relating to the programs and operations funded with amounts appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund. Public Law 108-106, as amended, requires that we provide for the independent and objective leadership and coordination of, and recommendations on, policies designed to promote economy, efficiency, and effectiveness in the administration of such programs and operations and to prevent and detect waste, fraud, and abuse.

We considered comments from the Multi-National Security Transition Command – Iraq, and the Joint Contracting Command – Iraq/Afghanistan, on a draft of this report when preparing the final report. Comments on the draft of this report by those organizations conformed to requirements and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott at (703) 428-1100 or at joseph.mcdermott@sigir.mil or Mr. Clifton Spruill at (703) 343-8817, or at clifton.spruill@iraq.centcom.com. For the report distribution, see Appendix C.

Stuart W. Bowen, Jr.
Inspector General

Special Inspector General for Iraq Reconstruction

Report No. SIGIR-05-018
(Project No. SIGIR-2005-14)

October 21, 2005

Acquisition of Armored Vehicles Purchased Through Contract W914NS-05-M-1189

Executive Summary

Introduction. We performed this audit as a result of a complaint made to the Special Inspector General for Iraq Reconstruction Hotline. The Special Inspector General for Iraq Reconstruction Hotline was established so that individuals may report significant instances of fraud, waste, abuse of authority, and gross mismanagement.

The hotline caller expressed concern about the cost of purchased armored vehicles, the poor quality of the armor on the vehicles, the overall condition of the relatively old vehicles, and the fact that a sole-source contracting process had been used to award the contract for the purchase of the vehicles.

Objective. The objectives of this audit were to determine whether adequate procurement practices were used to acquire the vehicles and whether the government received appropriate value for the money spent on the vehicles.

Results. The Multi-National Security Transition Command – Iraq (MNSTC-I) purchased seven armored Mercedes-Benz vehicles that did not have the level of armored protection it required. In addition, MNSTC-I could not locate one of the vehicles after delivery was made. As a result, MNSTC-I may have needlessly paid \$945,000 for armored vehicles that may not meet the purpose intended or may not be available for use.

Recommendations. We recommend that the Commanding General, Multi-National Security Transition Command – Iraq:

- Ensure that requirements are appropriately and accurately defined to procurement officers, including the technical specifications, during the acquisition process.
- Obtain an independent inspection of the condition of the vehicles to determine whether those vehicles are non-conforming to the contract's terms and specifications.
- Obtain legal advice to determine what actions are available should the vehicles be found to be non-conforming to the contract's terms and specifications.
- Locate the missing vehicle and have it inspected for conformance to the contract's terms and specifications.

We also recommend that the Commanding General, Joint Contracting Command – Iraq/Afghanistan purchase armored vehicles by using standard supply contracts rather than commercial items contracts.

Management Comments and Audit Response. The Commanding General, Multi-National Security Transition Command – Iraq; and the Commanding General, Joint Contracting Command – Iraq/Afghanistan concurred with the finding and recommendations, and the comments to all recommendations are fully responsive.

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Introduction

Background

We performed this audit as a result of a complaint made to the Special Inspector General for Iraq Reconstruction Hotline. The Special Inspector General for Iraq Reconstruction Hotline was established so that individuals may report significant instances of fraud, waste, abuse of authority, and gross mismanagement.

Hotline Complaint. The hotline caller expressed concern about the cost of purchased armored vehicles, the poor quality of the armor on the vehicles, the overall condition of the relatively old vehicles, and the fact that a sole-source contracting process had been used to award the contract for the purchase of the vehicles.

Contract W914NS-05-M-1189. We reviewed Contract W914NS-05-M-1189 as a result of the hotline complaint. The contract was awarded by the Joint Contracting Command - Iraq/Afghanistan (JCC-I/A) on May 5, 2005, to a local Iraqi contractor to provide seven armored Mercedes-Benz vehicles. The vehicles were to be used by the Multi-National Security Transition Command (MNSTC-I) to protect senior officials in the Iraqi Police Service.

The contract was a sole-source procurement contract and was based on the contractor's ability to provide the vehicles immediately. The contract called for the delivery of seven Mercedes-Benz sedans at a price of \$135,000 per vehicle that ranged from model years 1994 to 1996. The contract value totaled \$945,000. The contractor stated that armament certifications and other special documents that pertained to the quotation would be provided.

B-6 Armor Standard. The contractor's quote described the vehicles as "armored to high-level protection B-6." The B-6 standard is a material specification of the glass and steel contained in a vehicle that measures the material's capacity to stop specific types of bullets. The B-6 standard indicates that the vehicle's armor can stop high-velocity rifle bullets. There are 5 or 6 internationally accepted armor standards that define levels of protection and the B-6 standard is one of the highest levels. However, the B-6 standard does not appear to be a vehicle construction standard, and our research did not find any U.S. government construction regulations for armored vehicles.

According to one manufacturer, "there is no country in the world that has standards regulating the installation method in armored vehicle construction." Consequently, there are quality variances among vehicles, such as the percent of the total vehicle protected by armor. For example, some vehicles have "zone armoring" which keeps the vehicle from being too heavy. Other forms of armoring provide an entire protective box for the vehicle's passengers.

Objectives

The objectives of this audit were to determine whether adequate procurement practices were used to acquire the vehicles and whether the government received appropriate value for the money spent on the vehicles.

For a discussion of the audit scope and methodology see Appendix A. For definitions of the acronyms used in this report, see Appendix B. For a list of the audit team members, see Appendix D.

Acquisition of Armored Vehicles

MNSTC-I purchased seven armored Mercedes-Benz vehicles that did not have the level of armored protection required. In addition, MNSTC-I could not locate one of the vehicles after delivery was made. This occurred because MNSTC-I did not adequately identify the specifications for the vehicles but rather identified the specific vehicles it wanted because of their availability. Further, the contract type that was used by JCC-I/A for this acquisition was not proper. Finally, MNSTC-I did not account for all the vehicles. As a result, MNSTC-I may have needlessly paid \$945,000 for armored vehicles that may not meet the purpose intended or may not be available for use.

Armored Vehicle Requirements

In May 2005, MNSTC-I identified a requirement for armored vehicles to protect senior members of the Iraqi Police Service. Senior members of the Iraqi Police Service were vulnerable targets for terrorists and their protection is critical to the accomplishment of MNSTC-I mission.

Acquisition Process

MNSTC-I identified seven armored Mercedes-Benz vehicles that were available from a local vendor.

Sole-Source Justification. MNSTC-I sought to expedite the purchase of those vehicles by writing and approving a justification¹ which permitted JCC-I/A to negotiate and award a contract for those vehicles through other than full and open competition.² As part of this justification, MNSTC-I researched the price of the vehicles and found that the quoted price was at or below previously negotiated prices for similar vehicles.

However, it is important for a customer to identify the specifications and quality it wants in an armored vehicle prior to purchase because there are no U.S. government standards regulating the construction of armored vehicles. MNSTC-I did not identify the specifications it needed; rather, it merely identified the specific vehicles it wanted because of their availability.

JCC-I/A accepted the vendor source specified by MNSTC-I because MNSTC-I did not notify JCC-I/A of the specifications and features it needed in the vehicles. Because MNSTC-I had already identified the vehicles it wanted and approved the purchase of the vehicles without full and open competition, JCC-I/A immediately executed a contract for the vehicles using a commercial items contract.

Commercial Items Contract. A commercial items contract requires the vendor to tender for acceptance those items conforming to the requirements of the contract, gives the government the right to test or inspect those items, and permits the government to require the vendor to repair or replace any nonconforming item at no increase in contract price.

¹ A "Justification and Approval for Other Than Full and Open Competition."

² A sole-source procurement.

According to a JCC-I/A contracting officer, a commercial items contract was used in this case because it was assumed by JCC-I/A that armored vehicles were a commercial item. Consequently, JCC-I/A did not research whether more specific specifications were needed for the armored vehicles and relied on the descriptions and source of the vehicles provided by MNSTC-I.

The use of a commercial items contract to purchase a non-commercial item significantly weakened the ability of MNSTC-I to ensure it received what it wanted. Commercial items are defined as items that are customarily used by the general public and, according to a JCC-I/A official, the fact of wide public use of an item provides some assurance that a submitted item conforms to its public use. However, when there are no industry standards and the item is not widely available to the public, the assurance of conformity is reduced. For example, MNSTC-I described the vehicles it wanted as “Mercedes Benz Sedan (model) armored to high level protection B-6.” Vendors, though, have some latitude in what they can submit because there is no industry standard for armoring and no wide-public availability for these items.

According to a JCC-I/A official, the proper type of contract that should have been used for this type of purchase is called a standard supply contract. In a standard supply contract, the customer defines its requirements, and those requirements are incorporated into the contract. Vendors then offer items based on their conformity with the requirements. This type of contract ensures the customer will receive only items that will meet its needs.

Inspection of the Vehicles. Six of the seven vehicles were inspected, after receipt, by a contractor who maintained armored vehicles for MNSTC-I. The inspection contractor thoroughly assessed the mechanical condition of each vehicle including the quality its engine, gearbox, suspension, tires, brakes, and electrical system. The inspection contractor also assessed the condition of the armor. A report was prepared for each of the six vehicles. According to the reports, “the armoring of the vehicles appears to be of low standard and provides only limited safety to the occupants of the vehicle.” Additionally, the inspection contractor reported several other shortcomings, such as inadequate suspensions, low-quality tires, low quality brakes, and unarmored electrical systems. According to the inspection contractor, the vehicles were not worth the money paid and to bring them up to required standards would have required an investment that exceeded the value of the vehicles.

The vendor that supplied the vehicles strongly disagreed with the assessment by MNSTC-I inspection contractor. According to the vendor, the vehicles met the contract specifications. The vendor insisted that MNSTC-I should have been more specific about requirements in the contract if MNSTC-I expected higher standards. The vendor also questioned the neutrality of MNSTC-I inspection contractor.

Given this disagreement and the potential conflict of interest issue, determining an independent value for the vehicles will likely require an independent inspector. However, before MNSTC-I initiates this process, it should obtain legal advice on other recourses.

Accounting for the Vehicles. The seven vehicles were delivered and received by the government at the Abu Ghraib warehouse on June 5, 2005. The U.S. government Material Inspection and Receiving Report (DD-250) was signed by the government quality assurance representative and noted no exceptions. However, MNSTC-I has possession of only six of the seven vehicles and does not know the whereabouts of the

seventh vehicle. MNSTC-I should take immediate action to locate the missing vehicle. This missing vehicle must be accounted for.

Conclusion

MNSTC-I did not adequately identify the specifications for the seven armored vehicles before initiating the acquisition process. The vehicles may not serve the purpose intended by MNSTC-I because, although the vehicles appear to conform to the specifications in the contract, those specifications were ill-defined. Further, after the purchase, MNSTC-I discovered the vehicles were not of the quality it expected but more analysis is needed to determine whether MNSTC-I received appropriate value for the vehicles. In addition, MNSTC-I may not be able to require the contractor to repair or replace the vehicles because the procurement process was flawed. Finally, MNSTC-I was unable to locate one of the seven vehicles and can not account for its whereabouts.

Recommendations, Management Comments, and Audit Response

We recommend that the Commanding General, Multi-National Security Transition Command – Iraq:

- 1. Ensure that requirements are appropriately and accurately defined to procurement officers, including the technical specifications, during the acquisition process.**
- 2. Obtain an independent inspection of the condition of the vehicles to determine whether those vehicles are non-conforming to the contract's terms and specifications.**
- 3. Obtain legal advice to determine what actions are available should the vehicles be found to be non-conforming to the contract's terms and specifications.**
- 4. Locate the missing vehicle and have it inspected for conformance to the contract's terms and specifications.**

Management Comments. The Commanding General, Multi-National Security Transition Command concurred with the finding and recommendations.

We recommend that the Commanding General, Joint Contracting Command – Iraq/Afghanistan purchase armored vehicles by using standard supply contracts rather than commercial items contracts.

Management Comments. The Commanding General, Joint Contracting Command – Iraq/Afghanistan concurred with the finding and recommendation.

Audit Response. The management comments to all recommendations are fully responsive.

Appendix A. Scope and Methodology

We met with Multi-National Security Transition Command – Iraq and Joint Contracting Command – Iraq/Afghanistan representatives to discuss and determine whether adequate procurement practices were used to acquire seven armored Mercedes-Benz vehicles. We reviewed pertinent documentation that included the sole-source justification, armor standards, contract, receiving reports, and the inspection reports prepared by the contractor that maintained armored vehicles for the Multi-National Security Transition Command – Iraq. We also corresponded with the Director of Finance for the Project and Contracting Office to validate that payment was made for the vehicles.

We physically observed six of the seven vehicles at the garage of the maintenance contractor for the Multi-National Security Transition Command – Iraq and discussed the quality of the vehicles as measured against the B-6 standard. The B-6 standard is a material specification of the glass and steel contained in a vehicle that measures the material's capacity to stop specific types of bullets.

We conducted this performance audit from July 2005 through September 2005, in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We did not use computer-processed data to perform this audit.

Prior Coverage. There have been no audits performed concerning the Iraq Relief and Reconstruction Fund with the same or similar objectives as this audit.

Appendix B. Acronyms

JCC-I/A
MNSTC-I

Joint Contracting Command – Iraq/Afghanistan
Multi-National Security Transition Command – Iraq

Appendix C. Report Distribution

Department of State

Secretary of State

Senior Advisor to the Secretary and Coordinator for Iraq

U.S. Ambassador to Iraq

Director, Iraq Reconstruction Management Office

Inspector General, Department of State

Department of Defense

Secretary of Defense

Deputy Secretary of Defense

Director, Defense Reconstruction Support Office

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Inspector General, Department of Defense

Department of the Army

Assistant Secretary of the Army for Acquisition, Logistics, and Technology

Principal Deputy to the Assistant Secretary of the Army for Acquisition,
Logistics, and Technology

Deputy Assistant Secretary of the Army (Policy and Procurement)

Director, Project and Contracting Office

Commanding General, Joint Contracting Command – Iraq/Afghanistan

Assistant Secretary of the Army for Financial Management and Comptroller

Chief of Engineers and Commander, U.S. Army Corps of Engineers

Commander, Gulf Region Division

Auditor General of the Army

U.S. Central Command

Commanding General, Multi-National Force – Iraq

Commanding General, Multi-National Security Transition Command – Iraq

Commander, Joint Area Support Group – Central

Other Defense Organizations

Director, Defense Contract Audit Agency

Other Federal Government Organizations

Director, Office of Management and Budget

Comptroller General of the United States

Inspector General, Department of the Treasury

Inspector General, Department of Commerce

Inspector General, Department of Health and Human Services

Inspector General, U.S. Agency for International Development

Mission Director – Iraq, U.S. Agency for International Development

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

U.S. Senate

Senate Committee on Appropriations

- Subcommittee on Defense

- Subcommittee on State, Foreign Operations and Related Programs

Senate Committee on Armed Services

Senate Committee on Foreign Relations

- Subcommittee on International Operations and Terrorism

- Subcommittee on Near Eastern and South Asian Affairs

Senate Committee on Homeland Security and Governmental Affairs

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

- Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

U.S. House of Representatives

House Committee on Appropriations

- Subcommittee on Defense

- Subcommittee on Foreign Operations, Export Financing and Related Programs

- Subcommittee on Science, State, Justice and Commerce and Related Agencies

House Committee on Armed Services

House Committee on Government Reform

- Subcommittee on Management, Finance and Accountability

- Subcommittee on National Security, Emerging Threats and International Relations

House Committee on International Relations

- Subcommittee on Middle East and Central Asia

Appendix D. Audit Team Members

The Office of the Assistant Inspector General for Auditing, Office of the Special Inspector General for Iraq Reconstruction, prepared this audit report. The Office of the Special Inspector General for Iraq Reconstruction staff members who contributed to the report include:

Timothy Baum

James Carrera

Glenn Furbish

Robert Murrell

Management Comments

Commanding General, Multi-National Security Transition Command - Iraq

Command Reply

SIGIR Audit of Acquisition of Armored Vehicles
Purchased Through Contract W914NS-05-M-1189
Multi-National Security Transition Command-Iraq
Draft Audit Report 2005-14 30 Sep 05

Objective: To determine whether adequate procurement practices were used to acquire the vehicles and whether the government received value for the money spent on the vehicles.

SIGIR Conclusion: The MNSTC-I purchased seven armored Mercedes-Benz vehicles that did not have the level of armored protection it required. In addition, the MNSTC-I could not locate one of the vehicles after delivery was made. As a result, the MNSTC-I may have needlessly paid \$945,000 for armored vehicles that may not meet the purpose intended or may not be available for use.

Recommendation 1: Ensure that requirements are appropriately and accurately defined to procurement officers, including the technical specifications, during the acquisition process.

MNSTC-I Comments and Action Taken: Concur. MNSTC-I has and will ensure that all command elements know and are trained to understand that contract requirements are appropriately and accurately defined and provided to procurement officers, including technical specifications, during the acquisition process.

Recommendation 2: Obtain an independent inspection of the condition of the vehicles to determine whether those vehicles are non-conforming to the contracts terms and specifications.

MNSTC-I Comments and Actions Taken: Concur. Once we have received a legal response and recommendation from JCC-I/A command counsel (see MNSTC-I response to SIGIR Recommendation 3), and dependant upon their recommendation, we will make a determination if there is a benefit to a third party inspection. If so, MNSTC-I will identify and out source a contract to an independent third party inspection vendor.

Recommendation 3: Obtain legal advice to determine what actions are available should the vehicles be found to be non-conforming to the contracts terms and specifications.

MNSTC-I Comments and Actions Taken: Concur. MNSTC-I will ask JCC-I/A to obtain a legal opinion from the JCC-I/A command counsel regarding (1) the available actions to be taken should the vehicles be found to be non-conforming to the contracts terms and specifications, and (2) any other recourses available regarding the determined value of the vehicles, prior to seeking an independent determination.

Recommendation 4: Locate the missing vehicle and have it inspected for conformance to the contracts terms and specification.

MNSTC-I Comments and Actions Taken: Concur. MNSTC-I CPATT is actively searching for the missing vehicle. Once the vehicle is located, it will be inspected for conformance to the contracts terms and specifications.

The above document was provided in response to the draft of this audit report by officials at the Multi-National Security Transition Command-Iraq and represents the position of the Commanding General, Multi-National Security Transition Command-Iraq.

Management Comments

Commanding General, Joint Contracting Command – Iraq/Afghanistan



DEPARTMENT OF THE ARMY
JOINT CONTRACTING COMMAND-IRAQ/AFGHANISTAN
APO AE 09316



Reply to:
MNFI-JCC

3 October 2005

MEMORANDUM FOR Special Inspector General for Iraq Reconstruction, Baghdad, Iraq

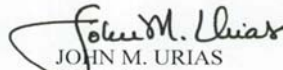
SUBJECT: Draft Audit Report on the Acquisition of Armored Vehicles Purchased Through Contract W914NS-05-M-1189 (Project No. SIGIR-2005-14)

1. Reference is made to the subject draft audit report. Comments are provided to the following audit recommendation for Joint Contracting Command – Iraq/Afghanistan.

a. Recommendation: Purchase armored vehicles using standard supply contracts instead of commercial item contracts.

Response: Concur.

2. Point of contact is Ruth Anne Ijames, 703-544-6979.


JOHN M. URIAS
Maj, USA

Commander, Joint Contracting Command
Iraq/Afghanistan