

Audit Report



**Compliance with Contract
No. W911S0-04-C-0003 Awarded to
Aegis Defence Services Limited**

Report Number 05-005

April 20, 2005

Office of the Special Inspector General For Iraq Reconstruction

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April 20, 2005

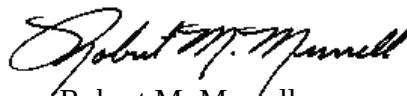
MEMORANDUM FOR DIRECTOR, PROJECT AND CONTRACTING OFFICE - IRAQ

SUBJECT: Compliance with Contract No. W911S0-04-C-0003 Awarded to Aegis Defence Services Limited (Report No. 05-005)

We are providing this audit 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 management comments on a draft of this report when preparing the final report. Comments on the draft of this report 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. James P. Mitchell at jim.mitchell@sigir.mil or at (703) 428-1100. We will provide a formal briefing on the results of the audit, if desired. For the report distribution, see Appendix D.


Robert M. Murrell
Deputy Inspector General

Office of the Special Inspector General For Iraq Reconstruction

Report No. 05-005

(Project No. D2004-DCPAAC-0036)

April 20, 2005

Compliance with Contract No. W911S0-04-C-0003 Awarded to Aegis Defence Services Limited

Executive Summary

Introduction. This audit report discusses compliance with the terms and conditions of Contract No. W911S0-04-C-0003 by Aegis Defence Services Limited (Aegis). This audit was requested by the Deputy Chief of Mission of the United States Embassy Baghdad.

Aegis is defense assistance, risk assessment, and security company registered in the United Kingdom. The Department of the Army awarded Contract No. W911S0-04-C-0003 (the contract) to Aegis on May 25, 2004. The contract calls for Aegis to provide a comprehensive security management team that provides anti-terrorism support and analysis, close personal protection, movement and escort security, and security program management.

Objective. The overall audit objective is to determine whether the contractor is complying with the terms of the contract. Specifically, we will determine whether the contractor is providing adequate services, valid documentation, and proper invoices as required in the contract.

Results. Aegis did not fully comply with all requirements in five areas of the contract. Specifically, Aegis did not provide sufficient documentation to show that all of its employees that were issued weapons were qualified to use those weapons or that its Iraqi employees were properly vetted to ensure they did not pose an internal security threat. Also, Aegis was not fully performing several specific responsibilities required by the contract in the areas of personal security detail qualifications, regional operations centers, and security escorts and movement control. Further, we identified deficiencies in the monitoring of the contract by the PCO.

As a result, there is no assurance that Aegis is providing the best possible safety and security for government and reconstruction contractor personnel and facilities.

Recommendations. We recommend that the Director, Project and Contracting Office - Iraq ensure that Aegis is in compliance with the terms and conditions of the contract; ensure that all documentation discrepancies are identified and corrected; reevaluate the contract requirements for hostage rescue incidents, chemical and biological warfare countermeasures, and the establishment of 18 regional operational centers; modify the contract immediately to reflect any changes to requirements in the contract terms; modify the contract award amounts immediately for any modifications issued that reduce the contract requirements; assess the performance of Aegis, review the invoices submitted to date, and ensure that payments were not made for contracted services not performed; and establish and maintain an effective contract administration program for the contract.

Management Comments and Audit Response. The Director, Project and Contracting Office - Iraq concurred with the findings and recommendations and has taken actions or is in the process of taking steps to correct the reported deficiencies. The Director, Project and Contracting Office - Iraq comments are fully responsive. We commend the Director, Project and Contracting Office - Iraq for the prompt and thorough actions taken to correct the deficiencies.

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Background

This audit report discusses compliance with the terms and conditions of Contract No.W911S0-04-C-0003 by Aegis Defence Services Limited (Aegis). This audit was requested by the Deputy Chief of Mission of the United States Embassy Baghdad.

Public Law 108-106, as amended, required the monitoring and review of contracts funded by the Iraq Relief and Reconstruction Fund. This report is one in a series to determine whether U.S. organizations have established adequate monitoring and review of contracts funded by the Iraq Relief and Reconstruction Fund.

Aegis Defence Services Limited. Aegis is a defense assistance, risk assessment, and security company registered in the United Kingdom. Aegis has four divisions that focus on defense assistance, maritime security, risk analysis through research and intelligence, and risk mitigation through strategic protective security. Aegis was awarded a contract by the U.S. Government to provide Iraq reconstruction security services.

Contract No.W911S0-04-C-0003. The Department of the Army awarded Contract No.W911S0-04-C-0003 (the contract), “Reconstruction Security Support Services (RSSS) for reconstruction activities through four (4) regions of Iraq,” to Aegis on May 25, 2004. The contract calls for Aegis to provide a comprehensive security management team that provides anti-terrorism support and analysis, close personal protection, movement and escort security, and security program management.

The basic contract is cost-reimbursable; valued at approximately \$92 million in the base year, \$97 million in the first option year, and \$103 million in the second and final option year. At the time of the audit, Aegis was operating in eight locations throughout Iraq and its project headquarters was located in Baghdad, Iraq.

Defense Contract Management Agency. The Army’s Northern Region Contracting Center delegated administration of the contract to the Defense Contract Management Agency, Northern Europe. The Administrative Contracting Officer was a Defense Contract Management Agency employee working in London, England. Because Aegis is a British company, financial audit authority for Aegis resides with the United Kingdom Ministry of Defence, not with the Defense Contract Audit Agency. However, through a Memorandum of Understanding, auditors from the United Kingdom Ministry of Defence have agreed to follow requests or instructions from either the Defense Contract Management Agency or the Defense Contract Audit Agency.

Project and Contracting Office. The Project and Contracting Office (PCO) manages portions of the Iraq Relief and Reconstruction Fund appropriated to support the reconstruction of Iraqi infrastructure. That office is responsible for activities associated with asset, construction, financial, program, and project management of that portion of the relief and reconstruction effort assigned to it by the U.S. Government.

Objective

The overall audit objective is to determine whether the contractor is complying with the terms of the contract. Specifically, we will determine whether the contractor is providing adequate services, valid documentation, and proper invoices as required in the contract.

For a discussion of the audit scope, methodology, and a summary of prior audit coverage, see Appendix A. For other matters of interest, see Appendix B. For definitions of the acronyms used in this report, see Appendix C. For a list of the audit team members, see Appendix E.

Compliance with Contract Terms

Aegis did not fully comply with all requirements in five areas of the contract. Specifically, Aegis did not provide sufficient documentation to show that all of its employees that were issued weapons were qualified to use those weapons or that its Iraqi employees were properly vetted¹. Also, Aegis was not fully performing several specific responsibilities required by the contract in the areas of personal security detail qualifications, regional operations centers (ROCs), and security escorts and movement control. Further, we identified deficiencies in the monitoring of the contract by the PCO.

This occurred because the PCO did not ensure that Aegis was fully in compliance with the terms and conditions of the contract; all documentation discrepancies were identified and corrected; and contract requirements were reevaluated for hostage rescue incidents, chemical and biological warfare countermeasures, and the establishment of ROCs. In addition, deficiencies resulted from the appointment of a contracting officer's representative that was inexperienced in security and contracting matters.

As a result, there is no assurance that Aegis is providing the best possible safety and security for government and reconstruction contractor personnel and facilities as required by the contract.

Contract Requirements

Contractor security services are necessary to help ensure the safety of contractors and government personnel in Iraq. However, under this particular contract, Aegis is required to provide security services only to PCO personnel, PCO reconstruction contractor personnel, and PCO offices where ever those are located within Iraq.

The contract requires Aegis to continuously gather, interpret, and expeditiously disseminate information on the security situation throughout Iraq by working in conjunction with military and civilian authorities. The contract further requires Aegis to provide guidance and coordination for the security planning and protection of the ten major prime reconstruction contractors and their subcontractors as they deploy, occupy work sites, and perform reconstruction activities throughout the four PCO regions in Iraq (North, Central, South-Central, and South). This includes providing:

- protection for PCO personnel and clients traveling to reconstruction sites through the use of security escort teams
- close protection to senior PCO management personnel that is fully available (24-hours a day, 7-days a week) through the use of personal security details
- security to PCO facilities through the use of static guards
- information gathering and liaison capabilities through the use of Iraq security liaison teams

Aegis also provides a daily unclassified threat briefing and report for use by PCO and contractor personnel. To meet its contractual requirements, Aegis must have an organizational structure that will closely manage this effort and will ensure efficient and effective accomplishment of all responsibilities and quality of support.

¹ Vetting is defined as the process for screening personnel to include personal interviews, police background checks, security clearances, and proof of investigation of employee and investigative records to ensure that the prospective employee does not pose an internal security threat.

Compliance with the Terms of the Contract

Aegis did not fully comply with all requirements in five areas of the contract. Specifically, Aegis did not provide sufficient documentation to show that all of its employees that were issued weapons were qualified to use those weapons or that its Iraqi employees were properly vetted. Also, Aegis was not fully performing several specific responsibilities required by the contract in the areas of personal security detail qualifications, ROCs, and security escorts and movement control.

Weapons Qualification. Aegis did not provide sufficient documentation to show that all of its employees that were issued weapons were qualified to use those weapons.

The contract requires Aegis to maintain administrative files which shall, at a minimum, include investigation records, personnel records, and training records for all employees working under the contract. Further, Aegis is required to ensure that all personnel are sufficiently capable to perform the requirements of the contract statement of work and be qualified on weapons provided for their use. Training records for Aegis personnel did not show whether some personnel were qualified to use the weapons that they had been issued.

We randomly sampled weapon allocation inventory records for 20 contractor personnel who were issued a total of 30 weapons. The employee training and weapons qualification certification records did not include any information to show that employees had received weapons qualifications training for 17 of the 30 weapons that had been issued. The table shows the weapons qualifications documentation.

Table - Weapons Qualification Documentation						
Employee	Weapon 1	Qualified	Weapon 2	Qualified	Weapon 3	Qualified
1	AK47	Yes				
2	AK47	No	Glock	Yes		
3	AK47	No	Glock	No	M4	No
4	AK47	Yes	Glock	Yes		
5	AK47*	No**				
6	Glock	No**				
7	Glock	Yes				
8	AK47	No	Glock	Yes		
9	Glock	Yes				
10	AK47*	No**				
11	AK47*	No**				
12	Glock	Yes	M4	No		
13	AK47	No**	Glock	No**		
14	AK47*	No**				
15	Glock	Yes	M4	No		
16	AK47	Yes				
17	Glock	Yes				
18	AK47*	No**				
19	AK47	No**				
20	AK47	Yes	Glock	Yes	M4	No

* Weapons allocation inventory records indicated that employee shown was not issued a weapon. However, we observed that those Iraqi guards were provided a weapon (an AK47) to perform their job. Therefore, their qualifications to use the weapon should have been determined and documented.

** No training record on file.

Based upon our analysis, there is no assurance that all contractor personnel are qualified on the weapons that they had been issued. As a result, the ability of Aegis personnel to provide the best possible safety and security for PCO and reconstruction contractor personnel may be impaired.

Aegis managers stated that the lack of a weapons qualification training team prevented them from establishing an effective program prior to mid-August 2004. In addition, according to Aegis managers, training was affected by a lack of range time and by weapons that arrived after personnel had been deployed to regional sites.

Vetting of Local Nationals. Aegis did not provide sufficient documentation to show that its Iraqi employees were properly vetted.

The contract requires that Aegis establish a vetting program for all Iraqi nationals identified by the PCO as prospective employees. The purpose of vetting is to ensure that prospective Iraqi national employees do not pose an internal security threat. The contract further requires that Aegis conduct interviews, request a police check, and review employment application information for candidates identified by the PCO. The results of the personal interview and information reviews were to be provided to the PCO for appropriate action. A background check is also conducted for all Iraqi nationals hired by the contractor to perform security management tasks. However, Aegis personnel records did not show that all Iraqi national employees were properly vetted.

In a random sample of personnel records for 20 of 125 Iraqi nationals employed by Aegis; 6 contained no evidence of an interview, 18 contained no evidence of a police check, and 2 had no records at all.

As a result, there is no assurance that Iraqi national employees do not pose an internal security threat.

According to Aegis managers, police checks are difficult to obtain and largely irrelevant to the vetting process because of the current dysfunctional state of the Iraqi government.

Personal Security Detail Qualifications. Aegis personal security detail (PSD) personnel did not have all of the qualifications and experience required by the contract for hostage rescue and chemical and biological warfare. The contract required all PSD personnel to be trained as a team before performing their duties under the contract. The contract also required previous operational experience in providing close personal protection services in high-threat areas. Team members must have a variety of skills to perform in this area.²

The contract also requires that PSD personnel be skilled in hostage rescue and chemical and biological warfare. The following deficiencies were noted:

- PSD team members did not have all of the qualifications and experience required by the contract for hostage rescue incidents. Aegis managers stated that they have neither the intention nor the ability to perform this task. Because hostage rescue requires a highly specialized coordinated force, they believe the requirement is beyond the scope of PCO security needs.

² Those skills include convoy operations, counter-sniping, evasive driving, hand-to-hand combat, mobile vehicle warfare, route reconnaissance, set-up of traffic control points, surveillance detection, surveillance techniques, and very-important-person protection.

- PSD team members did not have all of the qualifications and experience required by the contract for chemical and biological warfare. Aegis had no current or planned training to teach those skills.

As result, the PCO and reconstruction contractors cannot rely on Aegis to provide this service should the need arise for security in hostage rescue incidents and chemical and biological warfare situations.

We advised the PCO of the Aegis comments on those deficiencies. PCO contract managers stated that they need to reevaluate the contract statement of work to validate the need for these requirements.

Regional Operations Centers. Aegis did not meet all of the contract requirements for the establishment of ROCs. The contract requires that Aegis work in conjunction with the appropriate military and civil authorities to establish a primary threat assessment and interpretation cell which is capable of managing and disseminating information. This primary cell is required to convey expeditiously all information that may affect the security of reconstruction prime and sub-contractors to the Aegis-established PCO security cells at each of the 18 Iraqi governorates. The PCO security cells were then to convey the threat assessment and any warnings that would have potentially affected PCO and reconstruction contractor personnel.

However, Aegis personnel stated that they did not establish PCO security cells at the 18 Iraqi governorates. Instead, according to Aegis personnel, it established ROCs in the six military administrative districts of Iraq to better meet the PCO evolving security needs. The PCO administration of the contract lacked the necessary records to determine the exact rationale that allowed the contractor to change the government requirement from 18 regional governorates to 6 military districts.

Aegis representatives believed that the six ROCs in the military administrative districts reflected a better realignment of security resources to address the actual security needs of the PCO. Aegis stated that the changes in actual security needs of the PCO are a result of PCO political and administrative decisions beyond Aegis' control.

As a result, it is unclear whether this structure provides adequate threat assessment and warning to PCO and reconstruction contractors or adequate safety and security to PCO and reconstruction personnel.

The PCO contract managers stated that Aegis and PCO managers needed to reevaluate the contract statement of work to validate the need for those threat assessment capabilities.

Security Escorts and Movement Control. Aegis did not prepare and transmit a weekly schedule for all pre-planned escort missions. The contract required Aegis to provide transportation and protection to PCO and reconstruction contractor personnel from terrorist or criminal attack during travel to and from secure project worksites anywhere in Iraq. The contract called for an average of 75 round-trips daily that were to transport an average of two PCO travelers. Aegis services include all protective and defensive actions required to deter, detect, counter, and respond to threats to designated personnel through threat analysis, operations security, responsive communications, and integrated team support using armed vehicle escorts³.

The contract requires that Aegis prepare and maintain a weekly schedule for pre-planned armed vehicle escort missions. A copy of the schedule should have been provided to the PCO before the beginning of the week in which the schedule applies.

³ Armed vehicle escort is Aegis security personnel providing armed security utilizing armored vehicles.

As a result, the PCO could not fully ensure that Aegis had effectively planned the escort missions, prevented unnecessary trips, or accounted for individuals making the trips.

Although Aegis agreed to the contract terms, it believed that the weekly information would be of little value because most escort missions were scheduled no more than 48 hours in advance. Nevertheless, Aegis representatives agreed to comply with contract requirements and amended their procedures to provide a weekly escort mission schedule to the PCO. As Aegis agreed to corrective actions, we made no recommendation for this area.

Contract Administration

The PCO did not effectively administer the contract to ensure compliance with the contract requirements.

We identified deficiencies in the monitoring of the contract by the PCO. For example, PCO contracting personnel were unaware that the weapons qualifications requirements for Aegis personnel were not being met. The PCO did not take effective actions to improve delivery delays of required weapons and provide the necessary range time to conduct the weapons training. Contract documentation indicated that a previous contracting officer and contracting officer's representative were aware of the documentation problems, but they were not effective in correcting the situation.

The deficiencies in the contract administration occurred because the PCO did not ensure that Aegis was fully in compliance with the terms and conditions of the contract; all documentation discrepancies were identified and corrected; and contract requirements were reevaluated for hostage rescue incidents, chemical and biological warfare countermeasures, and the establishment of ROCs.

PCO officials stated that these deficiencies were a result of inexperience in security and contracting matters by the contracting officer's representative. PCO officials disclosed that the contracting officer's representative at the time of the audit was not trained or certified to perform contract monitoring duties, did not have a contract administration plan, and was not trained or experienced in the security career field. According to PCO officials, personnel rotation, combined with the lack of personnel security expertise and training, also contributed to the deficiencies in the contract administration. Nevertheless, PCO management needs to ensure that Aegis complies with the contract terms.

Management Actions

During the audit, the contracting officer appointed a contracting officer's representative from the security career field that was trained and certified to perform contract administration duties. We commend PCO management for taking prompt corrective action in regard to the appointment of a better qualified contracting officer's representative.

Conclusion

Aegis was generally in compliance with the contract requirements, except as discussed in this report. We found no evidence that Aegis was not meeting its contractual obligations for guarding facilities, providing personal security details, providing security escorts in general, or providing security liaison services and security consulting. However, based on our audit results, there is no assurance that Aegis is providing the best possible safety and security for government and

reconstruction contractor personnel and facilities as required by the contract. More effective management and oversight of contractual performance and documentation should ensure that the contractor is performing to the requirements of the contract.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Project and Contracting Office - Iraq:

1. Ensure that Aegis Defence Services Limited is in compliance with the terms and conditions of Contract No.W911S0-04-C-0003.

Management Comments. PCO concurred and took corrective actions to ensure that Aegis is in full compliance with the contract. Contract administration issues were addressed during the audit with the appointment of the PCO Director of Security and the PCO Force Protection Officer as contracting officer's representatives to provide proper oversight. Aegis implemented processes to ensure there is adequate documentation of weapons qualification training and vetting of Iraqi nationals which are documented and monitored. Contract requirements for a hostage rescue team, chemical and biological warfare countermeasures, and the establishment of ROCs were evaluated and the contract was amended under Modification P00017, dated April 17, 2005, to eliminate the unnecessary requirements.

2. Ensure that all documentation discrepancies are identified and corrected and specifically require that Aegis Defence Services Limited provide documentation showing that all personnel that have been issued weapons are currently qualified to use the weapons and that all Iraqi national personnel are properly screened to ensure that they pose no internal security threat.

Management Comments. PCO concurred and took corrective actions to ensure that sufficient documentation exists showing that all Aegis employees are qualified in the use of issued weapons and Iraqi national employees are properly vetted. Corrective actions undertaken include the designation of contracting officer's representatives to provide proper contract oversight and periodic reviews of training and vetting documentation.

3. Reevaluate the contract requirements for hostage rescue incidents, chemical and biological warfare countermeasures, and the establishment of 18 regional operations centers.

Management Comments. PCO concurred and took corrective actions. Contract requirements for a hostage rescue team, chemical and biological warfare countermeasures, and the establishment of ROCs were evaluated and the contract was amended under Modification P00017, dated April 17, 2005, to eliminate the unnecessary requirements.

4. Modify the contract immediately to reflect any changes to requirements in the contract terms.

Management Comments. PCO concurred and took immediate corrective action. The contract was amended under Modification P00017 dated April 17, 2005, six days after the draft report was received, to promptly reflect changes to the requirements in the terms of the contract.

5. Modify the contract award amounts immediately for any modifications issued that reduce the contract requirements.

Management Comments. PCO concurred. PCO personnel reviewed the Aegis contract, a cost plus fixed fee contract, and no costs were ever proposed or incurred for hostage rescue or chemical and biological warfare countermeasures. In addition, no costs were specifically proposed for 18 ROCs. The contract Statement of Work is the only document detailing the number of ROCs required. Because no costs were ever proposed or incurred for hostage rescue, chemical and biological warfare countermeasures, or to staff / support 18 ROCs no adjustment to the contract award amount is necessary.

6. Assess the performance of Aegis Defence Services Limited, review the invoices submitted to date, and ensure that payments were not made for contracted services not performed.

Management Comments. PCO concurred with comment. Interim invoices are now approved by the contracting officer's representatives who work closely with Aegis and are aware of services provided to ensure that the services billed have been performed. The Joint Contracting Command-Iraq will review the interim invoices submitted to date to ensure that payments were not made for contracted services not performed.

7. Establish and maintain an effective contract administration program for the contract.

PCO concurred and took corrective actions. The contract administration issues were addressed during the audit. Representatives from the Defense Contract Management Agency and the PCO contracting officer's representatives provide contract oversight and assess and monitor contract performance.

Audit Response. The Director, Project and Contracting Office - Iraq comments to all recommendations are considered fully responsive. Prompt and thorough corrective actions are laudable and reflect quite favorably on the Director, Project and Contracting Office – Iraq and his staff. Corrective actions taken should markedly improve the safety and security of government and contractor personnel and facilities in a dangerous environment.

Appendix A. Scope and Methodology

The Department of the Army awarded Contract No.W911S0-04-C-0003 to Aegis Defence Services Limited (Aegis) on May 25, 2004. The contract calls for Aegis to provide a comprehensive security management team that provides anti-terrorism support and analysis, close personal protection, movement and escort security, and security program management. We reviewed the contract and seven subsequent amendments to that contract to ascertain contractual requirements.

We interviewed Aegis and U.S. Government personnel, obtained and analyzed Aegis and U.S. Government supporting documentation, and visually observed elements of Aegis's operations to determine if Aegis was in compliance with contractual requirements.

We selected two samples to perform our audit work. We used the RAND () function found in Microsoft Excel 2002 to select those individuals.

In the first sample, to examine employees' weapons qualifications, we selected 20 from a total of 429 employees (all nationalities) shown on the Aegis' nominal role file. The sample included Iraqi security guards hired to provide security for buildings and grounds. Next, from Aegis' armory records, we identified the weapons issued to each employee in our sample. We then examined Aegis' training records to determine whether the 20 employees in our sample were qualified on the weapons they had been issued.

In the second sample, to examine vetting,⁴ of Iraqi employees, we first eliminated all employees from the Aegis' nominal role file of 429 employees who were not shown as being "Iraqi" in the nationality column. We identified 125 employees that were Iraqi nationals and randomly selected 20 of those 125 Iraqi nationals for our sample. We then examined Aegis's personnel records for evidence of the vetting process, to include an interview and local police check, to determine whether the 20 Iraqi employees in our sample were properly vetted.

We conducted this performance audit from September 2004 through March 2005, in accordance with generally accepted government auditing standards.

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

Prior Audit Coverage. We did not identify any prior audit coverage applicable to this audit objective.

Office of the Special Inspector General for Iraq Reconstruction (SIGIR) reports can be accessed at the SIGIR website at www.sigir.mil.

⁴ Vetting is defined as the process for screening personnel to include personal interviews, police background checks, security clearances, and proof of investigation of employee and investigative records to ensure that the prospective employee does not pose an internal security threat.

Appendix B. Other Matters of Interest

Other matters of interest identified by our audit are discussed below.

Contract Life Support. Contract No.W911S0-04-C-0003 requires that the government provide full life support; including housing, meals, water, electricity, security shelter, minor medical care, as well as vehicle maintenance and fuel to support all government vehicles.

During the audit, Aegis managers officially told us that the Project and Contracting Office (PCO) did not provide adequate life support services to Aegis as required by the contract. Aegis staff conveyed their concerns that the PCO had not effectively obtained services from the existing life support infrastructure or through other means. Although the PCO had requested those services, Aegis told us that the PCO management did not effectively resolve issues to provide the life support Aegis required to perform effectively.

When we advised PCO officials of the Aegis comments, the PCO undertook a survey of the current conditions at all Aegis locations. According to PCO officials, once the survey is completed, the PCO plans to take action to improve shortfalls. See attached management comments for additional information on corrective actions.

Personnel Management. According to PCO management, the Aegis contract is one of approximately 6,500 contracts and task orders administered by the PCO, and PCO staffing is not adequate for the considerable workload entailed in the administration of the Aegis contract. The PCO is authorized 69 contract specialists (civilian, contractors, and military). At the time our audit fieldwork was concluded, the organization was able to only staff 41 of these positions. The Aegis contract is one of approximately 50 contracts administered by one contracting officer. This situation is further exacerbated by a high PCO staff turnover. At the time of the audit, the Aegis contract had 4 contracting officers and 3 contracting officer representatives since its inception in June 2004.

Accordingly, we are planning to commence an audit to determine whether U.S. government organization recruitment and deployment processes for qualified personnel supporting Iraq reconstruction is effective. We will concentrate our efforts on the effectiveness of legislative and regulatory guidance and processes used to identify personnel requirements, the methods to recruit and retain the personnel, and the procedures to measure recruitment and retention success.

Appendix C. Acronyms

PCO	Project and Contracting Office
PSD	Personal Security Details
ROC	Regional Operations Centers
SIGIR	Special Inspector General for Iraq Reconstruction

Appendix D. Report Distribution

Department of State

Secretary of State
Senior Advisor/Coordinator for Iraq
U.S. Ambassador to Iraq
Director, Iraq Reconstruction Management Office
Inspector General, Department of State

Department of Defense

Deputy Secretary of Defense
Director, Defense Support Office-Iraq
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, Acquisition, Logistics and Technology
Principal Deputy to the Assistant Secretary of the Army, Acquisition, Logistics and Technology
Deputy Assistant Secretary of the Army for Policy and Procurement
Director, Project and Contracting Office
Auditor General, Department of the Army

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, Health and Human Services
Inspector General, 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 Foreign Operations

Senate Committee on Armed Services

Senate Committee on Foreign Relations

 Subcommittee on Near Eastern and South Asian Affairs

 Subcommittee on International Operations and Terrorism

Senate Committee on Homeland Security and Governmental Affairs

 Subcommittee on Government Efficiency and Financial Management

 Subcommittee on Financial Management, the Budget, and International Security

U.S. House of Representatives

House Committee on Appropriations

 Subcommittee on Defense

 Subcommittee on Foreign Operations, Export Financing and Related Programs

House Committee on Armed Services

House Committee on International Relations

 Subcommittee on Middle East and Central Asia

House Committee on Government Reform

 Subcommittee on Government Efficiency and Financial Management

 Subcommittee on National Security, Emerging Threats and International Relations

Appendix E. Audit Team Members

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

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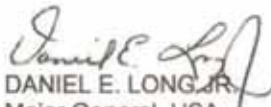
April 19, 2005

SAAL-PCO

MEMORANDUM FOR Office of the Special Inspector General for Iraq
Reconstruction

SUBJECT: Draft Report on Compliance with Contract No. W911S0-04-C-0003
Awarded to Aegis Defence Services Limited

1. Reference the Special Inspector General for Iraq Reconstruction Draft Report on Compliance with Contract No. W911S0-04-C-0003 Awarded to Aegis Defence Services Limited, Project No. D2004-DCPAAC-0036.
2. PCO generally concurs with the findings and recommendations of the report. PCO has taken or is in the process of taking steps to correct the reported deficiencies.
3. PCO has provided its management comments in the one week timeframe allowed. PCO would have appreciated more time to draft its response but understands that this report had to be issued by the end of April 2005 for inclusion in the SIGIR quarterly report to Congress.
4. General comments to the draft report in addition to PCO management comments to the draft report findings are provided at Enclosure A. PCO management comments to each of the audit recommendations are provided at Enclosure B. PCO management comments to the draft audit report Appendix B are provided at Enclosure C.


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Major General, USA
Director, Project and Contracting Office

ENCLOSURES

- Enclosure A: General Comments
Enclosure B: Specific Audit Responses
Enclosure C: Comments on Appendix B

ENCLOSURE A

GENERAL COMMENTS, CLARIFICATIONS AND PCO MANAGEMENT COMMENTS TO AUDIT FINDINGS

General Comments and Clarifications

1. The Project and Contracting Office (PCO) has evolved since it was first organized last year. As it is currently organized, PCO has a contract responsibility. The contracting "chain- of-command" however falls under the DASA-P&P. Contracting authority runs from the Head of the Contracting Activity (HCA), Joint Contracting Command-Iraq (JCC-I) through the DASA-P&P to the Army Acquisition Executive who is Mr. Bolton. FRAGO 09-668, Contracting and Organizational Changes, dated November 12, 2004, created the separate organization known as the JCC-I to perform the contracting function. JCC-I handles the DFI as well as Iraq Relief and Reconstruction Fund (IRRF) contracts. PCO has no command and control over JCC-I.

PCO Management Comments to Draft Report Findings

The draft report findings, by finding section, and associated PCO management comments are detailed below.

Weapons Qualification

2. Aegis did not provide sufficient documentation to show that all of its employees that were issued weapons were qualified to use those weapons.
- PCO concurs with the finding and has taken correction actions to ensure that there is sufficient documentation to show that all Aegis employees are qualified for use of issued weapons. During December 2004, the Contracting Officer's Representative (COR) with State Department assistance re-inspected Aegis and found that 90 percent of the training records inspected were 100 percent complete. Follow-up inspections were performed during April 2005.

Vetting of Local Nationals

3. Aegis did not provide sufficient documentation to show that its Iraqi employees were properly vetted.
- PCO concurs with the finding and has taken corrective action to ensure sufficient documentation exists to show that all Iraqi employees are properly vetted. Specifically, Aegis appointed a Vetting Officer during December 2004 and a program is in place for Aegis to follow the same

procedures that the U.S. Embassy uses for vetting the State Department Iraqi national employees.

Personal Security Detail Qualifications

4. Aegis personal security detail (PSD) personnel did not have all the qualifications and experience required by the contract for hostage rescue and chemical and biological warfare.

- PCO concurs with comments. The hostage rescue and chemical and biological warfare countermeasures requirements are not within the capabilities of Aegis nor is there an expectation on the part of PCO that these services will be provided. As a result, the contract has been modified to eliminate the hostage rescue and chemical and biological warfare requirements.

Regional Operations Centers

5. Aegis did not meet all of the contract requirements for the establishment of regional operational centers.

- PCO concurs with comments. PCO determined that it was more appropriate to align the Reconstruction Operations Centers (ROCs) with the major combatant commanders on the ground. The existing ROCs are currently aligned with the Major Subordinate Commands (MSC) and Gulf Region Division (GRD) deployment. As a result, the contract has been modified to require six (6) ROCs.

Security Escorts and Movement Control

6. Aegis did not prepare and transmit a weekly schedule for all pre-planned escort missions. Because Aegis agreed to corrective actions, there is no recommendation for this area.

- PCO concurs with the finding and has taken corrective action. As noted by the auditors, Aegis now prepares a weekly schedule for all pre-planned escort movements. Aegis submits a C3 PCO Operations Weekly Mission Breakdown to the Director of PCO Security which is then reviewed by both parties on Thursdays. This report provides a synopsis of all client movement requests and completed movements. Aegis is currently meeting all client requirements for movement. They have developed Tactics, Techniques and Procedures (TTP) that provide a high level of protective and defensive actions required to deter, detect, and counter the threats against personnel movement in Iraq.

Contract Administration

7. The PCO did not effectively administer the contract to ensure compliance with the contract requirements.

- PCO concurs with the finding and has appointed the PCO Director of Security and the Force Protection Officer as Contracting Officer's Representatives (CORs) to provide proper contract oversight. In addition, the contract has been modified to eliminate unnecessary requirements.

ENCLOSURE B

RECOMMENDATIONS AND PCO MANAGEMENT COMMENTS

Recommendation 1: We recommend that the Director, Project and Contracting Office, ensure that Aegis Defence Services Limited is in compliance with the terms and conditions of Contract No. W911S0-04-C-0003.

Response: PCO concurs and has taken corrective action to ensure that Aegis is in full compliance with the contract. The contract administration issues were addressed during the audit with the appointment of the PCO Director of Security and the Force Protection Officer as contracting officer's representatives (CORs) to provide proper oversight. Aegis has implemented processes to ensure there is adequate documentation of weapons qualification training and vetting of Iraqi nationals. Items such as weapons qualification and vetting are documented and monitored by the COR. Contract requirements for a hostage rescue team, chemical and biological warfare countermeasures, and the establishment of regional ROCs have been evaluated and the contract has been amended under Modification P00017 dated April 17, 2005, to eliminate the unnecessary requirement.

All recommended actions are considered completed as of April 19, 2005, the date of this response.

Recommendation 2: We recommend that the Director, Project and Contracting Office, ensure that all documentation discrepancies are identified and corrected and specifically require that Aegis Defence Services Limited provide documentation showing that all personnel that have been issued weapons are currently qualified to use the weapons and that all Iraqi national personnel are properly screened to ensure that they pose no internal security threat.

Response: PCO concurs and has taken corrective action to ensure that there is sufficient documentation to show that all Aegis employees are qualified for use of issued weapons and Iraqi national employees are properly vetted. The corrective actions undertaken include the designation of the PCO Director of Security and the Force Protection Officer as Contracting Officer's Representatives (CORs) to provide proper contract oversight and the periodic reviews of training and vetting documentation.

During December 2004, the Contracting Officer's Representative (COR), with State Department assistance, re-inspected Aegis weapons training documentation. Of the twenty revalidated training records inspected, eighteen of the twenty were 100 percent complete. The accuracy of the training dates, training outlines and weapons qualification were verified. The two records that were not complete were waiting for weapons qualification scores to be sent from Basrah.

On April 1, 2005, Aegis and the PCO COR conducted a review of 30 Aegis weapons qualification training records for 10 expatriates, 10 Iraqi, and 10 Ghurka. There was a training record file established for each individual that included weapons qualification training documentation as well as other relevant training documentation. Of the 30 records reviewed, a total of 40 percent were found to be overdue. The high percentage of overdue weapons qualifications is problematic; however there are contributing factors that facilitated this overdue qualification percentage. Specifically, until just recently Aegis did not have access to an acceptable weapons qualification range and there was a shortage of ammunition. Both of these hurdles have now been eliminated and the backlog of employees with expired weapons qualifications is scheduled to be eliminated by July 1, 2005.

A Vetting Officer was appointed during December 2004 and the program is in place for Aegis to follow the same procedures that the U.S. Embassy uses for vetting the State Department Iraqi national employees. On April 8, 2005, the PCO COR, assisted by the Aegis Director of Training and the Aegis Vetting Officer, conducted a review of the Aegis vetting process for Iraqi employees. The COR determined that the established process was very thorough and effectively administered. All of the current Aegis Iraqi employees have been authorized to work by the Department of State "pending vetting". However, since November 17, 2004, only 17 (of the last 213) vetting packages submitted by Aegis to the Department of State (DOS) have been returned to Aegis from the DOS. All personnel have been interviewed as part of the vetting process. However, local Iraqi police checks have not been conducted, nor is there a mechanism established to allow for such checks. Further, conducting these checks would be particularly problematic due to the perception of levels of corruption within the current Iraqi police force. The Aegis contract has been amended with Modification P00017 dated April 17, 2005, to eliminate the requirement for Iraqi police background checks.

All recommended actions will be completed by July 1, 2005.

Recommendation 3: We recommend that the Director, Project and Contracting Office, reevaluate the contract requirements for hostage rescue incidents, chemical and biological warfare countermeasures, and the establishment of 18 regional operations centers.

Response: PCO concurs and has taken corrective action. As a result of the reevaluation of the contract requirements for hostage rescue and chemical and biological warfare countermeasures, the contract has been modified to eliminate those requirements. In addition, after reevaluation of the ROC requirements, the contract was modified to reduce the ROC requirements from 18 ROCs to 6 to reflect the major combatant commanders on the ground.

The hostage rescue and chemical and biological warfare countermeasures requirements are not within the capabilities of Aegis nor is there an expectation on the part of PCO that these services will be provided. If needed, hostage rescue services could be provided by other government organizations located in Iraq. The contract was amended under Modification P00017 dated April 17, 2005, to eliminate the requirements for hostage rescue and chemical and biological warfare countermeasures.

After reevaluation of the ROC requirements, PCO determined that it was more appropriate to align the ROCs with the major combatant commanders on the ground. This system is the most appropriate and reflects the Major Subordinate Commands (MSC) and Gulf Region Division (GRD) deployment. As a result, the contract was amended under Modification P00017 dated April 17, 2005, to reduce the ROC requirements from 18 to 6 as follows:

- National Reconstruction Operations Center – PCO Baghdad
- RROC MND-SE Basrah
- RROC MND-CS Diwaniyah
- RROC MNF-W Fallujah
- RROC MND-NC Tikrit
- RROC MNF-NW Mosul
- RROC MND-Baghdad Camp Victory

All recommended actions are considered completed as of April 19, 2005, the date of this response.

Recommendation 4: We recommend that the Director, Project and Contracting Office, modify the contract immediately to reflect any changes to requirements in the contract terms.

Response: PCO concurs and has taken corrective action. The contract was amended under Modification P00017 dated April 17, 2005, to eliminate the requirements for hostage rescue and chemical and biological warfare countermeasures. In addition, the requirement for 18 ROCs was reduced to 6 under Modification P00017 to reflect the major combatant commanders on the ground.

All recommended actions are considered completed as of April 19, 2005, the date of this response.

Recommendation 5: We recommend that the Director, Project and Contracting Office, modify the contract award amounts immediately for any modifications issued that reduce the contract requirements.

Response: PCO concurs. PCO personnel have reviewed the Aegis contract, a cost plus fixed fee contract, and no costs were ever proposed or incurred for

hostage rescue or chemical and biological warfare countermeasures. In addition, no costs were specifically proposed for 18 ROCs. The contract Statement of Work is the only document detailing the number of ROCs required. Because no costs were ever proposed or incurred for hostage rescue, chemical and biological warfare countermeasures, or to staff/support 18 ROCs no adjustment to the contract award amount is necessary.

Recommendation 6: We recommend that the Director, Project and Contracting Office, assess the performance of Aegis Defence Services Limited, review the invoices submitted to date, and ensure that payments were not made for contracted services not performed.

Response: PCO concurs with comment. The PCO Director of Security and the Force Protection Officer have been designated as CORs to provide contract oversight and assess contract performance. Interim invoices are now approved by the COR. That approval indicates that the services that are being billed have been performed. The COR works closely with Aegis and is aware of the services being provided to PCO. Aegis is currently meeting all PCO requirements. That said, JCC-I will review the interim invoices submitted to date to ensure that payments were not made for contracted services not performed.

All recommended actions will be completed by May 31, 2005.

Recommendation 7: We recommend that the Director, Project and Contracting Office, establish and maintain an effective contract administration program for the contract.

Response: PCO concurs and has taken corrective action. The contract administration issues were addressed during the audit. DCMA was tasked in October 2004 with providing contract administration in support of JCC-I. However, DCMA did not effectively arrive in theatre until December 2004. DCMA's core function is contract administration. Currently JCC-I has 12 contracting officers and 10 Quality Assurance Representatives from DCMA monitoring contractor performance. In addition, the PCO Director of Security and the Force Protection Officer have been designated as CORs to provide proper contract oversight and assess contract performance. Items such as weapons qualification and vetting are documented and monitored by the COR. Contract requirements for a hostage rescue team, chemical and biological warfare countermeasures, and the establishment of regional ROCs have been evaluated and the contract has been modified to eliminate the unnecessary requirements. As a result, PCO believes all necessary corrective actions have been accomplished.

All recommended actions are considered completed as of April 19, 2005, the date of this response.

ENCLOSURE C

PCO MANAGEMENT COMMENTS ON APPENDIX B OTHER MATTERS OF INTEREST

Contract Life Support

The draft audit report addresses the government's responsibility to provide life support to Aegis. During the time of the audit, there were deficiencies in life support provided to Aegis in the regions. Since that time, most deficiencies have been addressed and corrected. PCO Facilities has assigned one individual that concentrates on life support issues for the regions and he has worked tirelessly to provide the regions, which includes Aegis, the standard life support requirements. One area of life support, vehicle maintenance, is still an ongoing concern. KBR is required to provide this service for the Aegis vehicle fleet but has been slow to respond due to lack of parts and the distances between maintenance facilities and the vehicles requiring maintenance. Due to the hostile environment throughout much of Iraq, it is not feasible to move vehicles, particularly since they have to move in teams of three, over long distances for preventive or corrective maintenance. PCO is working hard to correct this deficiency but has still to identify a workable solution.