OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

# INTERIM REPORT ON IRAQ RECONSTRUCTION CONTRACT TERMINATIONS

**SIGIR-08-013**
**APRIL 28, 2008**

**SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION**

April 28, 2008

MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ
DIRECTOR, OFFICE OF IRAQ RECONSTRUCTION, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
COMMANDING GENERAL, U.S. ARMY CORPS OF ENGINEERS
COMMANDING GENERAL, GULF REGION DIVISION, U.S. ARMY CORPS OF ENGINEERS
COMMANDER, JOINT CONTRACTING COMMAND-IRAQ/AFGHANISTAN
DIRECTOR, AIR FORCE CENTER FOR ENGINEERING AND THE ENVIRONMENT
DIRECTOR, IRAQ TRANSITION ASSISTANCE OFFICE

SUBJECT: Interim Report on Iraq Reconstruction Contract Terminations (SIGIR-08-013)

We are providing this audit report for your information and use. We performed this audit in accordance with our statutory responsibilities contained in Public Law 108-106, as amended. This law provides for independent and objective audits of policies designed to promote economy, efficiency, and effectiveness of programs and operations and to prevent and detect fraud, waste, and abuse. This report discusses the results of our review of Iraq reconstruction contract terminations. This review was conducted as SIGIR project 7029.

We considered written comments from the U.S. Army Corps of Engineers Gulf Region Division, and the Iraq Transition Assistance Office when preparing this report. The comments are addressed in the report, where applicable, and copies are included in appendix C of this report. We also received technical comments from the U.S. Agency for International Development, which we included in the report where appropriate.

We appreciate the courtesies extended to our staff. For additional information on this report, please contact Glenn Furbish (glenn.furbish@sigir.mil/703-428-1058); or Walt Keays (walt.keays@iraq.centcom.mil.mil/703-343-7926).

Stuart W. Bowen, Jr.
Inspector General

# Table of Contents

**Introduction** 1

**Terminating Contracts** 4

**Aggregate Data on Contract Terminations Has Important Limitations** 7

**Future Issues to Be Addressed Regarding Terminations for Convenience and Default** 10

**Management Comments and Audit Response** 11

**Appendices**

A. Scope and Methodology 12

B. Acronyms 14

C. Management Comments 15

D. MOU Between IRMO PCO-GRD, MNC-I, MNSTC-I, and USAID 21

E. Audit Team Members 27

# Interim Report on Iraq Reconstruction Contract Terminations

**SIGIR-08-013** **April 28, 2008**

# Introduction

Rebuilding Iraq is a U.S. national security and foreign policy priority, and constitutes the largest U.S. assistance program since World War II. Since the beginning of Iraq reconstruction activities in 2003, approximately $42.23 billion has been appropriated for Iraq reconstruction activities and, as of January 2008, approximately $35.30 billion of this amount has been obligated, much of it under contractual arrangements.

The Special Inspector General for Iraq Reconstruction (SIGIR) has often been asked about problems in the U.S. reconstruction program, including the extent to which contracts have been terminated because of poor performance. Government contracts generally contain clauses allowing the U.S. government to end a contract when the need for the supplies or services no longer exists, the contractor's performance becomes unsatisfactory, or some other situation develops that warrants closure. To address this issue, SIGIR assessed the availability of aggregate information on such contract actions involving Iraq reconstruction. This interim report provides an overview of the termination for convenience and default processes and available information regarding contract terminations. A follow-on review will provide additional insights on factors and circumstances related to such decisions for selected contracts and the reasons for ending them.

## Interim Results

Although information on contract terminations is incomplete, available data show that approximately 855 Iraq reconstruction contracts–or task orders within individual contracts–have been terminated for the convenience of the U.S government or because of default on the part of the contractor.[1] This information comes from the Iraq Reconstruction Management System (IRMS), which as of March 20, 2008, contained information on 47,321 projects. IRMS was intended to be the repository and archive for storing all reconstruction and non-reconstruction project data from the various U.S. implementing agencies operating in Iraq. However, it does not provide a complete or consistent picture of reconstruction activities and contract changes because not all executing agencies use IRMS on a regular basis.

A limitation of IRMS is that it does not contain complete information on projects done by the U.S. Agency for International Development (USAID) or the Department of State (DoS), projects completed before 2006, or projects funded by appropriations other than the Iraq Relief and Reconstruction Fund. Adding contract terminations from these sources would certainly raise the

[1] In this report, we use the term contract to refer to both contracts and task orders.

number of terminated projects. Nonetheless, our review found that contract termination data from the IRMS provides the most complete data available on contract terminations. Table 1 shows the number of terminations identified in IRMS as of March 20, 2008.

**Table 1—Contract Terminations in the IRMS Database as of March 20, 2008**

| | DoD | | | | USAID | DoS | Total |
|---|---|---|---|---|---|---|---|
| | GRD | JCC-I/A | MNC-I | AFCEE | | | |
| Terminated for Convenience | 145 | 402 | 128 | 68 | 0 | 0 | 743 |
| Terminated for Default | 87 | 14 | 11 | 0 | 0 | 0 | 112 |
| Total Terminations | 232 | 416 | 139 | 68 | 0 | 0 | 855 |

Acronym Key: (1) the U.S. Army Corps of Engineers Gulf Region Division (GRD), (2) the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A), (3) the Multi-National Corp-Iraq (MNC-I), (4) the Air Force Center for Engineering and the Environment (AFCEE), (5) the U.S. Agency for International Development (USAID), and (6) the U.S. Department of State (DoS)

It is important to note that contracts that incur problems are sometimes modified to change or reduce the scope of work to be performed, rather than terminated. This practice is referred to as descoping, and in some cases is effectively a partial termination. When applied to contracts with problems, it has the effect of ending the contract without the need to terminate for convenience or default. SIGIR's work has identified numerous instances in which contract modifications are used to reduce contract work, but data are not available that show the frequency of these actions. Descoping is an appropriate process but does mask problem projects to the extent they occur.

Nevertheless, given the level of interest in the issue of contract terminations, SIGIR plans to conduct a follow-on review, relying to some extent on a series of case studies to examine more closely the basis for those decisions, the percentage of work completed at the time of termination for each contract, and the costs related to those actions. We will also address, in the next report, whether any of the defaulted contractors were awarded follow-on contracts and whether the contracting officers considered the contractor's performance on prior contracts before awarding a new one.

## Background

Since 2003, Congress has appropriated approximately $42.23 billion to four Iraq reconstruction funds: $20.91 billion to the Iraq Relief and Reconstruction Fund (IRRF); $15.44 billion to the Iraq Security Forces Fund (ISFF); $3.21 billion to the Economic Support Fund (ESF); and $2.66 billion to the Commander's Emergency Response Program (CERP). These four funds account for about 89 percent of all the money appropriated for Iraq reconstruction through January 2008. Table 2 shows the appropriations, as well as their obligations and expenditures, as of early January 2008.

## Table 2—U.S. Support for Iraq Reconstruction ($ billions)

| U.S. Fund | Appropriated[1] | Obligated | Expended |
|---|---|---|---|
| IRRF | $20.91 | $20.06 | $18.85 |
| ISFF | 15.44 | 10.70 | 8.10 |
| ESF | 3.21 | 2.38 | 0.61 |
| CERP | 2.66 | 2.17 | 1.48 |
| **Total** | **$42.23** | **$35.30** | **$29.04** |

[1] Total U.S. funds appropriated for Iraq reconstruction since 2003 is $47.48 billion.
Note: Numbers are affected by rounding.

*Sources: IRRF 1 and 2: obligated and expended figures from Department of State, Iraq Weekly Status (1/3/2008). ISFF: obligated and expended figures from Corps of Engineers Financial Management System, ISFF Funds Execution Report (1/8/2008); Department of Defense, Secretary of the Army Update ((9/30/2007). CERP: obligated and expended figures all from Multi-National Corps-Iraq, response to SIGIR data call (1/4/2008). ESF: obligated and expended figures from Iraq Transition Assistance Office, response to SIGIR data call (1/4/2008).*

In seeking to support Iraq relief and reconstruction efforts, the U.S government has entered into numerous contracts for thousands of projects, involving both construction and non-construction activities. Since 2003, there have been multiple Department of Defense (DoD), DoS, and USAID organizations engaged in awarding reconstruction contracts for Iraq. Over time, contracting responsibilities have evolved and merged into a smaller number of organizations. Currently, six U.S. government organizations are primarily responsible for Iraq reconstruction contracts: four within DoD— the Corps of Engineers Gulf Region Division (GRD), the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A), the Multi-National Corps-Iraq (MNC-I), and the Air Force Center for Engineering and the Environment (AFCEE); USAID; and DoS.

Reconstruction projects have been undertaken in specific sectors of Iraqi governance and society, including security and law enforcement, justice and public safety, electric infrastructure, oil infrastructure, water and sanitation, transportation and telecommunications, health care, private sector development, and education.

# Terminating Contracts

The government may end a contract when the need for the supplies or the services no longer exists, the contractor's performance has become unsatisfactory, or some other situation develops that warrants ending the contract. In a war zone, these other situations could be changes in strategies or plans, unforeseen security conditions, or the inability of the government and the contractor to come to terms on the cost of the work to be performed, among other things. The Federal Acquisition Regulation (FAR), Part 49, contains the procedures for terminating contracts, and identifies two general types of contract terminations: those for convenience and those for default**.** It is important to note that, beyond terminations for convenience or default, contract modifications to change or reduce the scope of work to be performed are sometimes used to deal with contract problems or changing conditions or requirements.

## Terminations for Convenience

The government has the right to cancel work under a contract whenever it determines that cancellation is in its best interest; that is, it can cancel at its convenience. This right to cancel work is one of the most unique provisions of government contracting, with no counterpart in common law contracting. The government needs no particular reason to terminate a contract for convenience other than "best interest." Terminations can occur

- when funds are not available for continued contract performance
- there is no longer a need for the items or services under the contract
- it is impossible to perform the contract, for example, when, the government created specifications that are impossible to fulfill

When a change in requirements results in terminating the contract, the government must pay the contractor for the efforts it has expended in its behalf. By issuing a termination for convenience, the government limits its liability only to work completed at the time of termination.

SIGIR has identified a number of examples where the government terminated contracts for convenience. Some examples are

- GRD terminated task orders 4, 5, 9, 10 and 11 under its design-build contract with the Perini Corporation for the construction of electrical substations and other electrical infrastructure because it deemed Perini's cost proposals for the work to be too high, and because it was dissatisfied with delays in executing the work on other task orders. (GRD contract W914NS-04-D-0011)
- GRD terminated task orders 4 and 5 under its design-build contract with Flour/AMC Corporation for the construction of a water purification facility in Diwaniyah and Najaf because funds were not available. (GRD contract W914NS-04-D-0022)
- GRD terminated contract W917BG-05-C-0068 with an Iraqi contractor for construction of a police station because the building was blown up prior to completion.

- GRD terminated contract W917BK-05-P-0120 with the Torch Light Company for construction of classrooms at two schools because the contractor failed to make timely progress.
- GRD terminated contract W91GXY-06-D-0003 with an Iraqi contractor for construction of power lines because the contractor was killed.

## Terminations for Default

Terminations for default means the exercise of the government's right to completely or partially terminate a contract because of the contractor's actual or anticipated failure to perform its contractual obligations. Termination for default typically occur when the government believes a contractor has not fulfilled its obligation; thus a termination for default is generally the exercise of the government's contractual right to terminate a contract or tasks within a contract because of the contractor's actual or anticipated failure to perform its contractual obligations. Under a termination for default the government is not liable for the contractor's costs on undelivered work and is entitled to the repayment of advance and progress payments, if any, applicable to that work.

SIGIR's work identified a number of examples where the government terminated contracts for default:

- GRD terminated its firm-fixed price contract with Sima International for the construction of a school in Al Jaafer Mansure because the contractor failed to perform the work. (W917BG-05-A-0011)
- GRD terminated task orders 7 and 8 under its design-build contract with Parsons Delaware, Inc. for the construction of jails and detention facilities because the contractor failed to make progress. (W914NS-04-D-0009)
- GRD terminated contract W917BK-06-C-0014 with The New Millennium Company for road paving because the contractor failed to perform the work.
- JCC-I/A terminated contracts W91GXY-06-C-0082 and W91GXY-06-C-0096 with an Iraqi contractor for electrical substation work because the contractor failed to perform the work.

## Contract Modifications

Aside from officially terminating for convenience or default, contracting officers sometime modify contracts to reduce or eliminate contracted work. This is referred to as contract descoping. When applied to contracts with changing conditions or requirements, such as lack of funding or contract problems, it can have the effect of ending the contract (or task order) without the need to terminate for convenience or default. An example of this practice was the Basrah Children's Hospital project. The hospital was a USAID project under its contract with Bechtel Corporation. USAID issued a job order to Bechtel to construct the hospital in August 2004, at an

estimated cost of $50 million, and an estimated completion date of December 31, 2005.[2] In June 2006, with the job order 18 months behind schedule, the job order was essentially terminated although the official contract action was a descoping of the project with the contract management turned over to the GRD. The January 2008 *Section 2207* report[3] shows that USAID obligated $45.7 million on the project. The GRD assigned a new project number and they allocated an additional $41.1 million to the project. Consequently, IRMS does not list the USAID project as terminated; rather it identifies the hospital as a completed project.

In technical comments on a draft of this report, USAID did not agree that the descoping of the Basrah Children's Hospital project was effectively a contract termination. According to USAID, the project was stopped because the funds provided for the hospital were insufficient due to changes in scope of the project, differing site conditions, cost escalations, and security issues. SIGIR agrees that all of these factors affected the project. SIGIR's point is that the IRMS system shows this as a completed project when in fact the hospital was only 35 percent complete when work was stopped. SIGIR believes this illustrates our point that in some cases unsuccessful construction projects are not terminated for convenience or default. Rather, the work is ended by contracting officers modifying contracts.

In its technical comments, USAID also expressed concern that SIGIR was implying that contracting officers are hiding what should have been terminations for poor performance by using the descoping technique. SIGIR did not state nor intend to imply that contracting officers were engaging in any inappropriate activities. SIGIR is simply providing information that shows the actual practices that are used to manage contracts.

[2] USAID sometimes uses job orders to carry out work under a contract. According to a USAID contracting officer, a job order is not a legal document; rather it is a letter or other written communication signed by the contracting officer authorizing the contractor to proceed to implement an identified project.
[3] This report refers to the DoS's quarterly report to the Congress on Iraq Relief and Reconstruction Projects.

# Aggregate Data on Contract Terminations Has Important Limitations

The FAR details a number of actions that must be taken to document terminated contracts, including sending written notice to the contractor and maintaining a case file that includes memoranda and records of all actions relative to the settlement of the contract.[4] However, the FAR does not require that contracting agencies maintain a consolidated record of their termination actions. Consequently, the degree to which Iraq reconstruction agencies maintain such listings varies. IRMS is the primary database for tracking Iraq reconstruction projects, and it contains some data on terminations. Without a requirement to report contract terminations, however, IRMS data is also incomplete.

## The Iraq Reconstruction Management System

IRMS was initiated by the Project and Contracting Office in mid-2004 and was intended to be the repository and archive for storing all reconstruction and non-reconstruction project data from the U.S. implementing agencies. IRMS was to communicate a consistent measurement of progress at the organizational and interagency levels. DoS is among the many agencies that contribute data into IRMS as agreed to in an inter-agency Memorandum of Understanding. Maintenance and administration of IRMS is performed by GRD.

Our review of IRMS data found that it does not provide a complete or consistent picture of reconstruction activities. For example, the Memorandum of Understanding was not instituted until the end of 2005. At that time, data from prior years was brought into the system. However, the DoS acknowledges that information prior to 2006 is incomplete. Additional limitations of the system include the following:

- Neither DoS nor USAID regularly enters project data into the IRMS database. DoS submitted some data over a year ago, and USAID submits data on a quarterly basis. As of March 2008, neither agency has reported a contract termination to IRMS.
- IRMS does not contain complete information on contracts funded by the ISFF and the ESF. The Iraq Transition Assistance Office (ITAO) stated that it was never intended to track projects built with funds other than IRRF.[5] The limited data on non-IRRF funded projects in IRMS occurs because as other funding streams were appropriated, several agencies decided to use the system *ad hoc* and the data that were important to each agency were tracked according to the needs of that particular agency.
- Contract terminations is a data field in IRMS under project status, but the implementing agencies are not required to use it.

SIGIR also notes that, as of early January 2008, approximately $35.30 billion in IRRF, ISSF, ESF, and CERP funds were obligated. However, IRMS contains data on only $25.08 billion in projects, or 71 percent of the obligations as of January 2008. As a result, SIGIR intends to

[4] FAR 49.102 Notice of Termination; and FAR 49.105-3, Termination Case File
[5] ITAO, established in May 2007, is a temporary organization within DoS to facilitate reconstruction.

review the extent that IRMS is providing a common operating picture of Iraq reconstruction projects and the system's ability to provide current, accurate, and complete data.

## Other Agency Systems

In searching a number of data systems involving various U.S. activities in Iraq for contract termination information, SIGIR found the following:

- **USACE/GRD** tracks project/contract information via a software package called the Resident Management System (RMS) and financial information through the Corps of Engineers Financial Management System (CEFMS). Although data from RMS and CEFMS are electronically updated in USACE/GRD project information in IRMS, the contract termination data found there do not agree with what is found in RMS. According to GRD officials, the data do not match because, until recently, the RMS software did not have a specific field that identified terminations for default. GRD stated that it is in the process of synchronizing the project termination data between the two systems. GRD officials also said that not all GRD projects are in RMS. For example, in cases in which JCC-I/A is the executing agent for GRD contracts, JCC-I/A enters the project information directly into IRMS, but not into RMS.
- **AFCEE** manages most of the construction contracts for the Multi-National Security Transition Command–Iraq (MNSTC-I). According to AFCEE officials, it uses IRMS as its contract management information system. Because AFCEE enters its project data directly into IRMS the latter should accurately identify MNSTC-I's terminations. However, AFCEE officials are uncertain if all project information prior to 2006 is in the IRMS database.
- **MNC-I** enters information on its CERP projects into IRMS so contract termination on CERP projects should be complete. Similar to the other agencies, however, the accuracy of contract termination information prior to 2006 is uncertain. MNC-I currently is trying to ensure the completeness and integrity of its CERP data in IRMS.
- **JCC-I/A** enters contract termination information into its own Joint Contingency Contracting System, which was developed in October 2006. Prior to that, data regarding contract termination identified only termination, not whether the contract was terminated for convenience or default. The Joint Contingency Contracting System does not electronically interface with IRMS, so JCC-I/A data is entered manually.
- **DoS** officials reported that about 18 months ago, the department's bureaus provided contract information to the Iraq Reconstruction Management Office (IRMO), now the ITAO for entry into IRMS, but have not provided any information since. In addition, when the protocols for IRMS data were established, contract termination information was not required, so it was not provided. Nonetheless, DoS officials in Washington, D.C. say they track contract termination information through their own systems.
- **USAID** officials reported that it provides contract information to GRD for entry into IRMS on a quarterly basis. As with DoS, when the protocols for IRMS data were established, contract termination information was not required, and is thus not provided.

Instead, USAID officials say, its Iraq Office of Acquisition and Assistance tracks contract termination information in a system called the USAID Iraq Data Base.

Despite the limitations of the IRMS database, it still contains the most complete data available on contract termination. Table 3 shows the number of terminations identified in IRMS as of March 20, 2008. Note that USAID and DoS have reported no contract terminations to IRMS.

### Table 3—Contract Terminations in the IRMS Database as of March 20, 2008

| | DoD | | | | USAID | DoS | Total |
|---|---|---|---|---|---|---|---|
| | GRD | JCC-I/A | MNC-I | AFCEE | | | |
| Terminated for Convenience | 145 | 402 | 128 | 68 | 0 | 0 | 743 |
| Terminated for Default | 87 | 14 | 11 | 0 | 0 | 0 | 112 |
| Total Terminations | 232 | 416 | 139 | 68 | 0 | 0 | 855 |

*Source: IRMS Data Base, March 20, 2008*

# Future Issues to Be Addressed Regarding Terminations for Convenience and Default

Despite the data limitations noted above, the available data support the view of many experienced contracting professionals who believe that terminations for the convenience of the government are more typical than terminations for default. Likewise, SIGIR has observed that descoping and contract modifications are frequently used. According to a GRD official, descoping and modifying are usually less cumbersome, less time consuming, and less costly than terminations for convenience or default. Data to determine the magnitude of these actions are not readily available. However, SIGIR will continue to focus on this issue as part of our ongoing broader body of work examining individual selected contracts in Iraq.

At the same time, given the level of interest in the issue of terminations for default and for convenience, we plan to conduct a follow-on review. It will rely to some extent on a series of case studies to examine more closely the basis for those decisions, the percentage of completions at the time of termination for each contract or task order, and the costs related to those actions. SIGIR will also address in our final report the questions of whether any of the defaulted contractors were awarded follow-on contracts and whether the contracting officers considered the contractor's prior performance before awarding such a contract.

# Management Comments and Audit Response

SIGIR received written comments on a draft of this interim report from GRD and ITAO. GRD said that the failure of IRMS to provide a complete picture of Iraq reconstruction derives from the fact that not all of the executing agencies use IRMS on a regular basis. GRD also stated that the failure of these agencies to routinely input data impacts the system's ability to provide current and accurate information.

ITAO disagreed that IRMS was ever intended to be a repository and archive for storing reconstruction and non-reconstruction data from the various U.S. implementing agencies operating in Iraq. However, the memorandum of understanding identified this as the purpose for the system. We have included a copy of the memorandum of understanding for IRMS in appendix D. Nonetheless, as stated in this report and GRD's official comments, not all agencies input data to IRMS on a regular basis. See appendix C for complete text of the agencies' comments.

Both GRD and ITAO also provided technical comments which were incorporated into this report as appropriate. We also received technical comments from USAID which we included in this report where appropriate.

# Appendix A—Scope and Methodology

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. The original purpose of the audit was to determine the extent to which the U. S. government has terminated Iraq reconstruction contracts funded by IRRF, CERP, ISFF, or ESF for the convenience of the government or due to a default by the contractor. The audit also sought to determine the basis for the government's decisions, the percentage of completion at the time of terminating each contract, and additional termination costs incurred by the government. Because of the multiple sources of data on contract terminations, as well as limitations SIGIR found in obtaining aggregate data, we decided to provide this interim report–focusing on available data on terminations–and follow it with a subsequent review to more fully assess facts and circumstances of termination decisions on a case-study basis.

We reviewed relevant policies and procedures and held discussions with officials from DoD, USAID, and DoS to identify the policies and procedures in place for terminating contracts. We also interviewed selected contracting officers in Baghdad and Washington, DC. The work was done at USAID, DoS, and DoD offices in the Washington, DC, area; and in Baghdad at the GRD Annex building, USAID offices, and the U.S. Embassy Annex.

## Use of Computer-Processed Data

To perform this audit, we used data that originated in CEFMS, RMS, IRMS, USAID Iraq database, Joint Contingency Contracting System, and DoS accounting system. To achieve the assignment's objective, we examined computer-processed data contained in the above databases. Our review of system controls casts doubt on the data's completeness and accuracy. For purposes of this review, we relied primarily on the IRMS data system because we found that it contained the most complete data on contract terminations. SIGIR identified a number of concerns about the accuracy and completeness of the data system. These concerns are discussed in the report as well as the limitations to the relevance and usefulness of the data.

We also reviewed applicable reports issued by SIGIR.

- *"Management of Iraq Relief and Reconstruction Fund Program The Evolution of the Iraq Reconstruction Management System,"* (SIGIR-06-001), April 2006.
- *"Review of Bechtel's Spending Under Its Phase II Iraq Reconstruction Contract,"* (SIGIR-07-009), July 2007.
- *"Outcome, Cost and Oversight of Iraq Reconstruction Contract W914NS-04-D-0006"*, (SIGIR-08-010), January 2008.
- *"Fact Sheet on the Use of the $50 Million Appropriation to Support the Management and Reporting of the Iraq Relief and Reconstruction Fund"*, (SIGIR-05-026), January 27, 2006.

SIGIR's review was conducted between November 2007 and March 2008, in accordance with generally accepted government-auditing standards. They require that we plan and perform the

audit to obtain sufficient, appropriate evidence to provide a reasonable basis for information presented based on our objectives. Our assessment was constrained by incomplete aggregate data regarding contract terminations. Despite these data limitations, we believe that the evidence obtained provides a reasonable basis for identifying the relative magnitude of contract terminations in Iraq reconstruction contracting. Based on data limitations and SIGIR's plan for more detailed case study assessments of individual decisions, this report does not present any conclusions or recommendations.

# Appendix B—Acronyms

| | |
|---|---|
| AFCEE | Air Force Center for Engineering and the Environment |
| CEFMS | Corps of Engineers Financial Management System |
| CERP | Commander's Emergency Response Program |
| DoD | Department of Defense |
| DoS | Department of State |
| ESF | Economic Support Fund |
| FAR | Federal Acquisition Regulation |
| GRD | Gulf Region Division |
| IRMO | Iraq Reconstruction Management Office |
| IRMS | Iraq Reconstruction Management System |
| IRRF | Iraq Relief and Reconstruction Fund |
| ISFF | Iraq Security Forces Fund |
| ITAO | Iraq Transition Assistance Office |
| JCC-I/A | Joint Contracting Command – Iraq/Afghanistan |
| MNC-I | Multi-National Corps – Iraq |
| MNSTC-I | Multi-National Security Transition Command – Iraq |
| RMS | Resident Management System |
| SIGIR | Special Inspector General for Iraq Reconstruction |
| USACE | U.S. Army Corps of Engineers |
| USAID | U.S. Agency for International Development |

# Appendix C—Management Comments
# U.S. Army Corps of Engineers - GRD

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

REPLY TO
ATTENTION OF

CEGRD-CG

18 April 2008

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

SUBJECT: Draft SIGIR Audit Report – Interim Report on Iraq Reconstruction Contract Terminations (SIGIR-08-013)

1. This memorandum provides the U.S. Army Corps of Engineers, Gulf Region Division response to the subject draft audit report.

2. The Gulf Region Division reviewed the subject draft report and provided additional comments in the enclosure.

3. Thank you for the opportunity to review the draft report and provide our written comments for incorporation in the final report.

4. If you have any questions, please contact Mr. Robert Donner at (540) 665-5022 or via email Robert.L.Donner@usace.army.mil.

Encl
as

JEFFREY J. DORKO
Brigadier General, USA
Commanding

**COMMAND REPLY**
**to**
**SIGIR Draft Audit Report – Interim Report on Iraq Reconstruction Contract Terminations**
**SIGIR Report Number 08-013**
**(Project 7029)**

**Overall Comment.** The Gulf Region Division (GRD) reviewed the report and provides the following comments.

1. **Draft Report, page 5, first paragraph, first sentence and second paragraph under The Iraq Reconstruction Management System section.** However, IRMS data do not provide a complete or consistent picture of reconstruction activities.

In addition, data protocols have not been consistently enforced. For example, agencies are not required to report contract termination information. It comprises a data field in the system, but since entering the data is not required, not all agencies enter it. Additional limitations of the system include the following:

**Command Comment.** The failure of IRMS to provide a complete picture of reconstruction is not the fault of GRD or a failure of the IRMS system. Not all executing agencies use IRMS on a regular basis. The failure by these agencies to routinely input data into IRMS impacts the system's ability to provide current, accurate and complete information. The data output is only as good as the data input. For those agencies that use IRMS, it provides the required management capability. Request SIGIR modify the report to:

- Suggest that IRMS does have the capability to provide a complete and common picture
- List what agencies are using IRMS successfully
- Recommend all reconstruction activities be required to input construction all construction activities into IRMS, to include contract termination information.

This would provide a better representation of the IRMS system. Requiring all activities to enter reconstruction activities into IRMS would meet the goals outlined in the report.

2. **Draft Report, page 6, first paragraph.** SIGIR also notes that, as of early January 2008, approximately $35.3 billion in IRRF, ISSF, ESF, and CERP funds were obligated. However, IRMS contains data on only $25.1 billion in projects, or 71 percent of the obligations to date. As a result, SIGIR intends to review the extent that IRMS is providing a common operating picture of Iraq reconstruction projects and the system's ability to provide current, accurate, and complete data.

Enclosure

**Command Comment.** To make the above paragraph more meaningful, a breakout of the known obligations by program and funding year needs reporting. To best accomplish this task, insert a table after the paragraph to contrast known obligations by program and funding year using IRMS obligations data. The table will assist in providing a more accurate picture as to which programs and funding years make up the largest percentage of the delta between the $35.3 billion obligated and the $25.1 billion in obligations recorded in IRMS.

# Management Comments
# Iraq Transition Assistance Office

*Embassy of the United States of America*
**Baghdad, Iraq**

April 13, 2008

**INFORMATION MEMORANDUM**

UNCLASSIFIED

TO: Special Inspector General for Iraq Reconstruction

FROM: Iraq Transition Assistance Office Director – Mark Tokola MT

SUBJECT: Management Comments for Draft Interim Report on Reconstruction Terminations (SIGIR-08-013d)

Thank you for allowing us this opportunity to respond to the SIGIR Report, Interim Report on Reconstruction Terminations (SIGIR-08-013d).

While SIGIR's Interim Report on Iraq Reconstruction Contract Terminations contains no official recommendations or conclusions, ITAO offers the following points in an effort to address several discrepancies found within the report. ITAO requests that these comments be included in the final version of the report.

At this point in the reconstruction effort, in order to develop IRMS into a comprehensive repository for all reconstruction data, a significant investment of time and money would be necessary, which may very well be longer than the life expectancy of reconstruction programs. Contract termination information would best be obtained from the individual project implementers due to the complexity and unique nature of each particular contract.

**Responses on Individual Points**

**SIGIR-08-013d** (p.1, para. 1): "IRMS was intended to be the repository and archive for storing all reconstruction and non-reconstruction data from the various U.S. implementing agencies operating in Iraq."

**Response:** IRMS was not created to be such a repository. IRMS is a reporting database system, not an operational database system, and was originally specifically intended to track IRRF data. As other funding streams were appropriated, several agencies decided to use the system *ad hoc*, and the data that were important to each agency were tracked according to the needs of that particular agency.

**SIGIR-08-013d** (p.1, para. 1): "…the Department of State (DoS), which is responsible for the system [IRMS]…"

UNCLASSIFIED

**Response:** The Department of State is among the many agencies that contribute data into IRMS as agreed to by an inter-agency MOU. Maintenance and administration of IRMS is performed by GRD.

**SIGIR-08-013d** (p. 4, para. 1)**: "**[IRMS] does not provide a complete or consistent picture of reconstruction activities and contract changes because the Department of State, which is responsible for the system, has not established or enforced protocols for entering data."

**Response:** Under the IRMS MOU, Article II, Section 5: "PCO/GRD shall manage the IRMS pursuant to this MOU. PCO/GRD will safeguard information submitted by a Participant and/or input into the databases as specified in subsection 1…PCO/GRD will be responsible for committing the necessary resources to update data per its standard operating procedures, but no less frequently than once a month."

It should also be noted that while IRMS does contain a few fields regarding contract terminations, the actual tracking of contracts occurs at the executing agencies. Details on particular contracts exist within the relative databases that feed IRMS.

**SIGIR-08-013d** (p. 4, para. 2)**:** "…IRMS does not contain complete information on projects done by the U.S. Agency for International Development (USAID) or the State Department, projects completed before 2005, or projects funded by appropriations other than Iraq Relief and Reconstruction Fund [IRRF]".

**Response:** A recent inspection of all IRMS records provides visibility on at least 7,641 projects completed before January 1, 2005, with some going back as far as 2003. Prior to 2005, the level of project activity in Iraq was beginning, so the number of projects and available fund types for that period are significantly less than current numbers.

It should be noted that IRMS, through the MOU, was not instituted until the end of 2005. At that time, all available and pertinent data was brought into the system from prior years; however, we do agree that information prior to 2005 is incomplete.

**SIGIR-08-013d** (p. 5, para. 2)**: "**IRMS is the primary database established by the Department of State for capturing Iraq reconstruction project data, and it contains some data on terminations. Without a requirement to report contract terminations, however, IRMS data are incomplete."

**Response:** The IRMS database was established in cooperation between the Department of State (IRMO), MNSTC-I, PCO/GRD, and USAID to track IRRF data, and was not intended to be the sole repository of all reconstruction data. In addition, the IRMS Reporting Requirements, as well as the IRMS Data Dictionary, stipulates that contract terminations are annotated under "Project Status." This data field was incorporated in the requirements document even though previous SIGIR recommendations did not include reporting of information on contract terminations in IRMS.

Again, it should be noted that while IRMS does contain several fields regarding contract terminations, the actual tracking of contracts occurs at each executing agency and the details exist within the relative databases that feed IRMS.

**SIGIR-08-013d** (Page 8, para. 3)**:** "IRMS was initiated by the Project and Contracting Office in mid-2004 and was intended to be the repository and archive for storing all reconstruction and non-reconstruction project data from the U.S. implementing agencies."

**Response:** This statement seemingly contradicts a statement in the previous paragraph of the report which states that IRMS was established by DOS. PCO/GRD is the correct source for establishment and responsibility for IRMS.

**SIGIR-08-013d** (Page 9, para. 1, bullet 2)**: "**Neither DoS nor USAID regularly enters project data into the IRMS system. DoS submitted some data over a year ago, and USAID submits them on a monthly basis."

**Response:** ITAO does not enter data into IRMS, because there have not been any ITAO-executed contracts to be entered. USAID updates their data monthly within their own systems, which is exported to IRMS quarterly.

**SIGIR-08-013d:** The second paragraph on page 9 contains several statements about the processes different agencies use for entering data into IRMS.

**Response:** Since IRMS is not designed for, or intended to be used for, direct data entry, we recommend further analysis into the background for this section. The actual system of entry is MAXIMO. All data in IRMS is transmitted or imported from various systems and databases maintained by the executing agencies. IRMS is a reporting database system, not an operational database system.

**SIGIR-08-013d** (Page 10, bullet 3)**: "**USAID officials reported that it provides contract information to IRMO for entry into IRMS on a monthly basis."

**Response:** IRMO/ITAO does not receive contract data from USAID on a monthly basis. USAID does provide an update to GRD on a quarterly basis for updating IRMS. The ITAO Information Management Unit (IMU) receives a notification from USAID when the quarterly update is provided to GRD.

# Appendix D—Memorandum of Understanding Between IRMO PCO-GRD, MNC-I, MNSTC-I, and USAID

**Memorandum of Understanding**
**Between**
**Iraq Reconstruction Management Office,**
**Project and Contracting Office/Gulf Region Division,**
**Multi-National Corps-Iraq,**
**Multi-National Security Transition Command-Iraq**
**and**
**United States Agency for International Development**

**Article I: Purpose and Scope**

As the principal agencies of the United States Government charged with the reconstruction and development of Iraq, the Iraq Reconstruction Management Office (IRMO), the Project and Contracting Office/Gulf Region Division (PCO/GRD), Multi-National Corps-Iraq (MNC-I), Multi-National Security Transition Command-Iraq (MNSTC-I) and the United States Agency for International Development (USAID) collectively referred to as the "Participants," share the mutual goal and responsibility of ensuring that the United States Government's objectives of rebuilding Iraq into a stable and democratic nation sustained by a free-market economy are achieved.

The Participants recognize that these objectives can only be achieved through full collaboration and organization, including the sharing of information and data (hereinafter collectively referred to as "information") with one another about projects and activities implemented by each Participant. This information will be combined into a comprehensive shared database known as the Iraq Reconstruction Management System (IRMS). Such a database will not only serve as a working tool for the Participants and facilitate the completion of standardized records for United States Government (USG) reporting requirements, including Congressional reporting, and other agreed upon purposes, but can also serve as a comprehensive archive of and a common operating picture (COP) for USG reconstruction and economic development activities in Iraq, and, as envisioned for the future, a channel through which information on all USG-funded or managed activities in Iraq can be located.

The purpose of this Memorandum of Understanding (MOU) is to define the type of information to be submitted by each Participant to the shared database and to set forth the mutually agreed upon procedures for providing information.

## Article II: Responsibilities

### 1. Safeguarding Information

Each Participant acknowledges and agrees that information submitted by a Participant and/or input into IRMS pursuant to this MOU will only be used for the purposes set forth herein.

Each Participant will identify any information submitted by it pursuant to this MOU that is protected from disclosure under U.S. laws, including, the Privacy Act and the Trade Secrets Act, and all Participants agree to protect such information as required by applicable law.

Access to any information submitted by a Participant that relates in any way, directly or indirectly, to the location of a project or activity, including, but not limited to grid coordinates and sub-district level information, shall be restricted to those determined by all Participants, to have a bona fide need for such information to determine situational awareness and for other security reasons. Before such information is released, Participants will ensure that recipients agree to protect the information from further disclosure and that they have the capacity to safeguard the information. Additionally, such information will not be included in standardized records or reports generated from the IRMS unless the above-stated criteria for access to such information is demonstrated to the satisfaction of all Participants.

### 2. Cooperation and Collaboration Among Participants

Each Participant agrees that they will cooperate and collaborate with one another to achieve the shared goals set forth in this MOU. As the Participants deem appropriate, a working group comprised of representatives of each Participants may be formed to address operational and other issues pertaining to the IRMS. However, any such working group is not authorized to modify this MOU.

### 3. Attribution or Tagging of Information Submitted by Participants

Each Participant will identify (i.e., tag) information submitted by it pursuant to this MOU, including information inputted into the IRMS, with its name.

All information inputted into the IRMS shall at all times remain tagged with the name of the transmitting Participant, i.e., agency name.

All Participants agree that information obtained by it from the IRMS or by any other means will at all times remain tagged with the name of the transmitting Participant.

-

### 4. Appendix to MOU; Standardized Reports

This MOU includes an Appendix which is attached to and forms part of this Agreement. The purpose of the Appendix is to express, in one comprehensive format, the specific types of information to be transmitted by individual Participants under this MOU, as such information is defined in Section 4.A-E., below. The Appendix may only be amended in accordance with Article IV, below.

Each Participant agrees that information identified in the Appendix that is inputted into the IRMS may be used to develop standardized reports, comprised of information from multiple Participants, to fulfill USG reporting requirements, such as Congressional reporting, and for other agreed upon purposes, including distribution of information to Participants.

Information included in standard reports will be safeguarded and tagged, as provided in subsections 1 and 2 above.

### 5. Responsibilities of Individual Participants

A. PCO/GRD

PCO/GRD shall manage the IRMS pursuant to this MOU. PCO/GRD will safeguard information submitted by a Participant and/or input into the database as specified in subsection 1, above.

PCO/GRD agrees to provide and share the information identified in the attached Appendix to this MOU. This includes information on projects and activities funded on all projects and activities funded or managed by the USG (IRRF & Other fund types) on which PCO/GRD has visibility.

PCO/GRD will be responsible for committing the necessary resources to update data per its standard operating procedures, but no less frequently than once a month.

B. IRMO

IRMO agrees to provide and share the information identified in appendix 1 to this MOU. This includes information on all projects and activities funded or managed by the USG (IRRF & Other fund types) on which IRMO has visibility.

IRMO will also provide and share the information generated by the Department of State, Department of the Treasury, Export Import Bank, the US Institute of Peace (USIP) and the Overseas Private Investment Corporation (OPIC).

IRMO will be responsible for committing the necessary resources to update data per its standard operating procedures, but no less frequently than once a month.

C. MNC-I

MNC-I agrees to provide and share the information identified in appendix 1 to this MOU. This includes information on projects and activities funded or managed by the USG on which MNC-I has visibility.

MNC-I will be responsible for committing the necessary resources to update data per its standard operating procedures, but no less frequently than once a month.

D. MNSTC-I

MNSTC-I agrees to provide and share the information identified in the attached Appendix to this MOU. This includes information on projects and activities funded or managed by the USG on which MNSTCI has visibility.

MNSTC-I will be responsible for committing the necessary resources to update data per its standard operating procedures, but no less frequently than once a month.

E. USAID

USAID agrees to provide, in the manner set forth below, the following information about its Iraq Relief and Reconstruction Fund (IRRF) construction projects and activities:

USAID agrees to provide PCO/GRD with an automated means by which USAID's IRRF data can be passed from the USAID MEPP II system to PCO/GRD's IRMS system. Information transferred will include: project description; implementer's name; project type; project locations by governorate, district and sub-district; estimated costs; start and end dates; IRRF funding by sector and sub-sector; project status (e.g., in progress, completed), employment numbers by sector and implementer, and information on construction activities to the extent specifically set forth under the header for USAID in the attached Appendix to this MOU.

USAID will provide IRMO and PCO/GRD with a copy of the USAID MEPP II Software Interface Requirements document which explains how the USAID MEPP II system can be interfaced with PCO/GRD's IRMS system.

**Article III: Non-Effect on Other Agreements Between Participants**

The MOU has no impact on any other agreement between any of the Participants, whether entered into before or after the effective date of this MOU.

**Article IV: Amendment; Additional Participants**

This MOU may be amended at any time by written agreement of the Participants.

Additional agencies of the USG who are charged with the economic development, rehabilitation and construction of Iraq may become participants under this MOU through the written agreement of all Participants. Additionally, the Participants may endeavor to identify non-USG participants who share the mutual goals set forth under this MOU. Non-USG participants will only be permitted through written agreement of all USG agencies who are Participants under this MOU and the level of access by non-USG Participants' to information in the IRMS may be restricted as deemed appropriate by USG Participants.

**Article V: Effective Date; Termination**

This MOU is effective upon the last date of signature by a Participant.

Any Participant may withdraw from this MOU upon ninety (90) days written notice to all other Participants.

This MOU may be terminated upon the mutually written agreement of all Participants.

The Participants specifically acknowledge that this MOU is not an obligation of funds nor does it constitute or create a legally binding commitment by any Participant.

**For the Iraq Reconstruction and Management Office**

Ambassador Daniel V. Speckhard, IRMO Director

10.26.05
Date

**For the Project Contracting Office/Gulf Regional Division**

BG William MCoy, CG Gulf Region Division and Deputy Director, PCO

Date

**For the Multi-National Corps-Iraq**

5

-

_____

_____
Date

**For the Multi-National Security Transition Command-Iraq**

_____

23 NOV 05
Date

**For the United States Agency for International Development**

_____
Dawn Liberi, Mission Director

12/05/05
Date

# Appendix E—Audit Team Members

This report was prepared, and the review 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 contributed include:

Shawn Kline

Richard McVay

Dan Haigler

Ziad Buhaissi

| | |
|---|---|
| **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:<br>• oversight and review through comprehensive audits, inspections, and investigations<br>• advice and recommendations on policies to promote economy, efficiency, and effectiveness<br>• deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse<br>• information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports |
| **Obtaining Copies of SIGIR Reports and Testimonies** | To obtain copies of SIGIR documents at no cost, go to SIGIR's Web site (www.sigir.mil). |
| **To Report Fraud, Waste, and Abuse in Iraq Relief and Reconstruction Programs** | Help prevent fraud, waste, and abuse by reporting suspicious or illegal activities to the SIGIR Hotline:<br>• Web: www.sigir.mil/submit_fraud.html<br>• Phone: 703-602-4063<br>• Toll Free: 866-301-2003 |
| **Congressional Affairs** | Hillel Weinberg<br>Assistant Inspector General for Congressional Affairs<br>Mail: Office of the Special Inspector General for Iraq Reconstruction<br>400 Army Navy Drive<br>Arlington, VA 22202-4704<br>Phone: 703-604-0368<br>Email: hillel.weinberg@sigir.mil |
| **Public Affairs** | Kristine Belisle<br>Assistant Inspector General for Public Affairs<br>Mail: Office of the Special Inspector General for Iraq Reconstruction<br>400 Army Navy Drive<br>Arlington, VA 22202-4704<br>Phone: 703-428-1217<br>Fax: 703-428-0818<br>Email: PublicAffairs@sigir.mil |