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before the
Commission on Wartime Contracting

on
“How Good Is Our System for Curbing
Contract Fraud, Waste, and Abuse?”
Chairman Thibault, Chairman Shays, and distinguished members of the Commission, 
good afternoon and thank you for the opportunity to appear before you on behalf of the 
Department of Defense (DoD) Office of Inspector General (OIG) to discuss the overall 
system for curbing contract fraud, waste, and abuse. Specifically, I want to discuss 
10 systemic contingency contracting issues; ongoing actions to prevent fraud, waste, and 
abuse; and planning for audits in future contingency operations.

**BACKGROUND**

History shows concerns related to overpricing, contractor fraud, inadequate goods, and 
the lack of Government oversight have been reported since the earliest day of our Nation. 
For example, in 1777, during the Revolutionary War:

- General Washington wrote of his concern of the exorbitant prices charged by 
vendors of required goods.\(^1\)

- Continental Forces suffered gravely at the hands of suppliers who engaged in 
  fraudulent practices.\(^2\)

Since the early 1990s, the DoD OIG and the Government Accountability Office have 
identified contracting as a high-risk area within the Department. Also, interagency 
contracting has been a GAO high-risk area since 2005.

It is no surprise the existing contracting challenges and risks are exacerbated when 
applied to supporting operations in Iraq and Afghanistan, and other efforts such as 
humanitarian assistance/disaster recovery efforts related to Hurricane Katrina.

Like the Continental Forces who encountered fraud, the DoD also encounters fraud. 
Because of the magnitude of DoD’s purchasing power and the global presence of DoD 
resources, we are faced with daunting challenges.
CONTINGENCY CONTRACTING: A FRAMEWORK

Earlier this month, we issued our report, “Contingency Contracting: A Framework for Reform.” Our objective for the report was to provide DoD field commanders and contract managers with information on systemic contracting issues identified in DoD OIG products issued from October 1, 2007, through April 1, 2010, that involve high-risk areas of contract management. We also identified actions that need to be taken to correct these issues for future contracting. We reviewed 34 DoD OIG reports and 19 Defense Criminal Investigative Service investigations related to contracting in contingency operations, with the primary focus being work done in Iraq and Afghanistan. We also summarized the DoD Response to the Interim Report, “At What Cost-Contingency Contracting in Iraq and Afghanistan,” by the Commission on Wartime Contracting in Iraq and Afghanistan.

We identified 10 systemic issues related to deficiencies in the contract management process during contingency operations: requirements, contract documentation, contract type, source selection, contract pricing, oversight and surveillance, inherently governmental functions, property accountability, award fees, and financial management. For these 10 areas, among the recommendations were:

- ensure all requirements are fully defined;
- develop and maintain a contract file that provides adequate documentation to support all contractual actions;
- document the rationale for the contract type selected;
- compete future procurements properly;
- ensure a fair and reasonable price is received;
- develop a Quality Assurance Surveillance Plan (QASP) and properly designate a Contracting Officer’s Representative (COR);
- develop internal controls to ensure inherently governmental functions are only performed by Government personnel;
- establish records and maintain accountability for Government property;
- establish procedures to verify that award fee assessments are reconciled; and
• review all invoices and reconcile the services and products received.

SYSTEMIC ISSUES

The 10 systemic issues related to contingency contracting that we identified are discussed in the following paragraphs.

Requirements. One of the most important areas within DoD contingency contracting is requirements definition. We found instances of undefined and vague requirements. For example, the Logistics Civil Augmentation Program task order statement of work for tactical vehicle field maintenance services at Joint Base Balad, Iraq, did not contain requirements for the contractor to provide utilization reports and supporting documentation to the Army for review. According to data provided by the contractor, use of those services was 4.0 percent to 9.7 percent, significantly less than the 85 percent required by Army Regulation 750-1, “Army Materiel Maintenance Policy,” September 20, 2007. Because of the undefined and vague requirements, about $4.6 million of the $5 million in costs incurred by DoD were for tactical vehicle field maintenance services that were not required. As a result of our report, DoD has taken steps to reduce contractor personnel and increase utilization rates for tactical vehicle field maintenance services at Joint Base Balad, Iraq. However, opportunities for additional reductions may exist.

In another example, the DoD OIG has issued three reports relating to the Afghan National Police including the requirements. In November 2006, the DoD OIG, along with the Department of State OIG, jointly noted that the readiness requirements for the Afghan National Police had already expanded beyond the scope of the training that was being provided. In September 2009, the DoD OIG issued an assessment report of U.S. and coalition plans to train, equip and field the Afghan National Security Force, and noted concerns with contracting oversight. In February 2010, we again reported that the Department of State Civilian Police Program contract did not meet the Department of Defense’s needs in developing the Afghan National Police to provide security in
countering the growing insurgency in Afghanistan because the contract did not allow the Department of Defense to make rapid changes in Afghan National Police training as the security situation in Afghanistan changed. The Command agreed and provided a detailed description of the requirements for the Afghan National Police training program and included the goals of the Afghan Police Training.

**Missing and Unreliable Contract Documentation.** DoD contracting officials had missing and unreliable contract documentation to support contract actions. Since CORs stationed in Southwest Asia (SWA) rotate frequently, complete contract documentation that provides the terms, conditions, and performance expectations of contracts is essential for good contract management. Without this information, incoming CORs lack the information and institutional knowledge they need to properly administer contracts. For example, for the Heavy-Lift VI Program in Kuwait, we found key documents such as transportation requirements, receiving reports, and invoices were either missing or not signed. Additionally, because of the poor documentation we were unable to determine whether valid requirements existed, services were performed, and the Army was properly billed. As a result of our report, the organizations responsible for the Heavy-Lift VI contract have taken steps to ensure all contract files contain the documentation required.

**Use of Inappropriate Contract Type.** DoD contracting officials did not always select the appropriate contract type. Contracting officials should select the contract type that places a reasonable degree of risk upon the contractor and provides the contractor with the greatest incentive to perform efficiently and economically. For instance, U.S. Army Space and Missile Defense Command/Army Forces Strategic Command officials improperly used cost-plus-fixed-fee line items to buy commercial items such as laptops, cell phones, and off-road vehicles, possibly wasting approximately $439,000 by paying unnecessary fees to contractors for commercial items. As required by 41 U.S.C Section 403 and the Federal Acquisition Regulation (FAR), a firm-fixed-price contract must be used to purchase commercial items. We recommended that the U.S. Army Space and Missile Defense Command/Army Forces Strategic Command request that the contractors...
refund the Government any fee received for commercial items. The Command disagreed with requesting a refund, stating that no reviews were conducted at the task order level nor conclusions reached regarding the commerciality of the incidental supplies ordered as part of the non-commercial services acquired under these contracts.

**Questionable Source Selection.** DoD contracting officials did not consistently follow the FAR during the source selection process, which may not have resulted in the best value to the Department of Defense. For example, Marine Corps Systems Command officials awarded nine separate Mine-Resistant-Ambush-Protected vehicle contracts without price negotiations and without reliable cost or pricing data. Additionally, price was not a substantial factor in the source selection. In response to the report, the Commander, Marine Corps Systems Command, emphasized to the contracting officials the importance of developing and documenting price reasonableness determinations and requesting cost or pricing data when procuring future Mine-Resistant Ambush-Protected vehicles.

**Limited Attention to Obtaining Fair and Reasonable Contract Prices.** Contracting officials did not always ensure the DoD obtained a fair and reasonable price for goods and services. In a contingency contracting environment, determining that the offered prices are fair and reasonable can be challenging. Our work has identified problems with the pricing in the award of contracts. For example, the Afghanistan Engineer District did not properly negotiate and award contract modifications for two contracts related to the renovation and repair of the Kabul National Military Hospital, resulting in unsupported costs of more than $770,000. In response to the report, the Commander, U.S. Army Corps of Engineers, Afghanistan Engineer District, agreed to reconcile differences between independent Government cost estimates and final negotiated prices, and to ensure all requirements on construction contracts are fully defined at the time of contract award.
Inadequate Contract Oversight and Surveillance. Our audits conducted throughout SWA identified multiple instances where there were poorly or untrained personnel responsible for overseeing the contractors’ work. Additionally, we identified where a COR may have been adequately trained, but was responsible for far too many sites and contracts. Finally, we found oversight personnel that were not located near the contract work and relied on the contractor to self-report. These shortfalls in contractor oversight contribute to an environment conducive for fraud, waste, and abuse.

For example, the Special Operations Forces Support Activity contracting officer did not provide adequate contract oversight for 44 service task orders, valued at $514 million.8 The contracting officer did not develop and implement a QASP for, or assign a qualified COR to, any of the 44 service task orders. For instance, only after a test caused damage to a C-130 aircraft did U.S. Special Operations Command officials discover that the contractor improperly installed a thrust nut lock ring that cost the DoD approximately $219,000 to fix. If the contracting officer had designated a trained and qualified COR to this task order, the mistake might have been discovered prior to testing. A more somber effect of the improperly installed thrust nut lock ring and the associated parts could have been further damage to the aircraft or personal injury. As a result of our report, the Director, Center for Special Operations Acquisition and Logistics, stated that they are addressing COR training throughout the United States Special Operations Command.

In another example, the Defense Contract Management Agency (DCMA) did not determine its resource requirements for contractor oversight and contract administration in SWA.9 Also, DCMA personnel did not have the proper training and certification for contingency contracting positions in SWA. Specifically, of the 221 DCMA personnel training records we reviewed, 103 DCMA personnel were not fully qualified for the position occupied. In response to our report, the Director, Defense Procurement and Acquisition Policy, stated that the military departments and defense agencies will be required to develop guidance to identify acquisition, technology, and logistics workforce
requirements in accordance with DoD policy. Further, DCMA will implement a training records validation process for personnel scheduled for deployment.

**Contractor Performance of Inherently Governmental Functions.** We identified where DoD activities over relied on contractors and allowed them to perform inherently governmental functions. The FAR defines an inherently governmental function as a function that is so intimately related to the public interest as to mandate performance by Government employees. An inherently governmental function includes activities that require either the exercise of discretion in applying Government authority, or the making of value judgments in making decisions for the Government, such as binding the United States to take or not to take some action by contract, policy, regulation, authorization, order, or otherwise.\(^{10}\)

For example, the U.S. Air Forces Central personnel relied on the contractor to administer oversight of the contractor’s own performance and accept projects on behalf of the Government.\(^{11}\) Specifically, the contractor reported they had completed a sandblasting facility in February 2008. We could not identify the amount paid for the sandblasting facility because U.S. Air Forces Central personnel could not account for the actual cost of individual, minor military construction projects. In June 2008, four months later, the COR found that the facility was non-operational. The COR identified seven deficiencies that affected facility operations and determined that the facility had not operated effectively since the contractor’s acceptance on behalf of the DoD in February 2008.

**Unreliable Property Accountability.** Poor and unreliable property accountability was identified in DoD contingency contracts. A lack of clear policies and procedures led to inconsistencies and inefficiencies including accountability and visibility over DoD assets and equipment. For example, the Multi-National Security Transition Command-Iraq was not always able to demonstrate proper accountability for the management of services, equipment, and construction purchased through the Iraq Security Forces Fund.\(^{12}\) The Command lacked end-to-end audit trails for tracking equipment purchased. Specifically,
Multi-National Security Transition Command-Iraq could not account for 18 of 31 heavy tracked recovery vehicles. These 18 unaccounted for vehicles were valued at $10.2 million. As a result of our report, the Commander, Multi-National Security Transition Command-Iraq implemented property accountability standard operating procedures, a property book, and a checklist.

**Questionable Award Fees.** We reported several instances where the contracting officer paid questionable award fees. The objective of an award fee is to create an incentive for contractor performance in areas that are most critical to the Government. However, we found that the U.S. Army Corps of Engineers contracting officers and award fee personnel did not properly manage and oversee the award fee process for the 15 cost-plus-award-fee task orders reviewed, valued at $116.4 million. The task orders were awarded for construction-related services throughout the U.S. Central Command area of responsibility. Specifically, the contracting officers and award fee personnel did not develop adequate award fee plans for incentivizing and evaluating contractor performance. As a result, the contracting officers and award fee personnel awarded fees, totaling approximately $20.6 million, without sufficient support to pay award fees to contractors commensurate to their level of performance. We recommended that the Director, National Contracting Organization, Headquarters, U.S. Army Corps of Engineers, develop a detailed standard operating policies and procedures for administering an effective award fee process; however, the Director stated that adequate policy was already in place.

**Unacceptable Financial Management.** We identified unacceptable controls over management of billing, payments, and compliance with the DoD Financial Management Regulation. For example, the U.S. Marine Corps officials did not properly authorize vouchers for 9,675 payments totaling $310.4 million. We reported that U.S. Marine Corps officials made 32 duplicate payments, totaling $2.5 million, and did not ensure collection of these erroneous payments. These duplicate payments included instances where the U.S. Marine Corps overpaid a vendor over $200,000 by paying the same
invoice three times. We referred the duplicate payments to the Defense Criminal Investigative Service. As a result of our report, the U.S. Marine Corps created standards for an effective internal control audit program to prevent or discover unauthorized, fraudulent, or otherwise irregular transactions or activities and is working to develop a function to identify potential duplicate payments.

**ONGOING AUDITS**

The Commission asked that we comment on key issues on contingency contracting in the upcoming year. We currently have 38 ongoing audits and 6 audits scheduled to start in FY 2010 related to contingency contracts for SWA. We are addressing issues such as government furnished property in Iraq; the drawdown in Iraq; contracts to supply fuel to U.S. troops in Iraq; the prime vendor contract for subsistence in Afghanistan; maintenance and support of the mine-resistant ambush-protected vehicles; and compliance with Federal tax reporting requirements for contractors supporting operations in SWA. We also plan a follow-up audit on the Department of State contract to train the Afghanistan National Police. Further, after the Department of Defense awards a contract to train the Afghanistan National Police, we will initiate a review of that contract.

**PROACTIVE ACTIONS TO PREVENT FRAUD, WASTE, AND ABUSE**

Unfortunately, even during peacetime fraud, waste, and abuse occurs in contractual actions, but the exigency and pace of contingency operations can exacerbate the degree of fraud, waste, and abuse. The Federal oversight community has been identifying and reporting on fraud, waste, and abuse in Iraq and Afghanistan since the inception of those contingency operations. While we do not know the magnitude of fraud, waste, and abuse that may be occurring, in FY 2009, the DoD IG recovered over $2 billion due to fraud related crimes.
To help in this battle against fraud, waste, and abuse, military and civilians must also play a key oversight role. Through sound internal controls and detection measures, fraud, waste, and abuse can be mitigated. Accordingly, prevention and detection of fraud, waste, and abuse is critical.

**DoD Initiatives to Improve Contract Oversight.** During testimony before the Commission on Wartime Contracting held on April 19, 2010, Mr. Shay Assad, Director, Defense Procurement and Acquisition Policy, performing the duties of the Assistant Secretary of Defense for Acquisition, discussed many initiatives underway within DoD to refine and improve the contracting and contract oversight processes. We believe the efforts Mr. Assad referenced are positive and will make improvements in contingency contracting and its underlying management and controls. Several of the key initiatives are: formalizing standards for CORs within the Department; increasing the fill-rate of CORs in Iraq to 91 percent and Afghanistan to 92 percent; issuing Executive Order (EXORD) 048-10 by the Headquarters, Department of the Army G-3/5/7, requiring COR resource planning, training and oversight to ensure the Department is sending trained and ready staff to theater; and updating the Contingency Contracting Handbook.

**Website on Fraud Awareness.** The DoD OIG, with the assistance of more than 25 other Federal, DoD, military service, and other oversight agencies developed a Web resource for fraud indicators. This Web site was designed to increase auditors’ awareness of possible risk factors, as well as their responsibilities for audit planning, executing, reporting, and finally, referring matters to the appropriate investigating organization when auditors identify fraud indicators.

**Panel on Contracting Integrity.** Section 813 of the John Warner National Defense Authorization Act for Fiscal Year 2007, Public Law 109-364, directed the DoD to establish a Panel on Contracting Integrity consisting of senior leaders representing a cross-section of the Department. The Panel’s purpose is twofold: review progress made by DoD to eliminate areas of vulnerability of the defense contracting system that allow
fraud, waste, and abuse to occur; and recommend changes in laws, regulations, and policies to eliminate the areas of vulnerability. Within the DoD Panel on Contracting Integrity, the Under Secretary of Defense (Acquisition, Technology and Logistics) established a subcommittee specifically to identify Procurement Fraud Indicators. The Panel subcommittee initiated six actions in the last two years to improve awareness and detection of procurement fraud. Five of the six actions were in coordination and partnership with the DoD OIG*. The six actions taken included:

- developing a Defense Acquisition University training module on Procurement Fraud Indicators and Risk Mitigation,
- *updating the Procurement Fraud Handbook and scenarios from the 1993 Handbook on Fraud for Contract Auditors and the 1987 Indicators of Fraud in DoD Procurement,
- *creating a Web page on procurement fraud information to increase awareness of procurement fraud and fraud indicators,
- *completing a Podcast to raise awareness of the training module on procurement fraud indicators,
- *publishing a news article in ATL Magazine to raise awareness of procurement fraud and highlight the DAU Training module, and
- *conducting a procurement fraud conference for the acquisition and contracting community.

**Improvements to Contractor Self-Disclosure.** Contractor Self-Disclosure was required in the “Close the Contractor Fraud Loophole Act,” as part of the Supplemental Appropriations Act of 2008 (P.L. 110-252). The statute required contractors to timely notify the Government of violations of Federal criminal laws or overpayments in connection with the award or performance of covered Government contracts or subcontracts, including contracts performed outside the United States and contracts for commercial items. This statute led to the revision of FAR 52.203-13 which now requires a Government contractor to timely disclose, in writing, to the agency Office of Inspector General whenever the contractor has credible evidence that a principal, employee, agent, or subcontractor of the contractor has committed a violation of the Civil False Claims Act or a violation of Federal criminal law involving fraud, conflict of interest, bribery, or gratuity in connection with the award, performance, or closeout of a Government contract.
or any related subcontract. A copy of the disclosure report must also be sent to the Government contracting officer for the contract. The disclosure requirement continues until at least three years after final payment on the contract. Knowing failure on the part of a contractor to make such a required disclosure could be a cause for suspension and/or debarment until three years after final payment on the contract.16

**STEPS TO IMPROVE THE CONTINGENCY CONTRACTING PROCESS**

The effectiveness of contractor support to expand U.S. operations in Afghanistan and other contingency operations can be improved by applying lessons learned from Iraq and Afghanistan, as well as other contingency efforts such as Hurricane Katrina. The following are steps that can be taken to improve the contracting process in current and future contingency operations.

- Program personnel must ensure clear, complete, well-defined requirements exist for the entire contract.

- Complete and detailed documentation is essential to all phases of the contracting process. The contracting officer should ensure a complete and well-documented contracting file exists for the life of the contract.

- Contracting officers must prepare an acquisition strategy that considers the contract type, source selection strategy, pricing strategy, and funding. When determining whether the contract should be fixed price or a cost-type, the contracting officer should consider the procurement history and, if applicable, evaluate prior work to support the contract type decision. Contract type is important to future surveillance considerations. The more cost-type work that is included, the more surveillance assets will be required.
• The contracting officer must also have well-defined and measurable source selection criteria and well-documented selection decisions that appropriately discuss price and technical tradeoffs for competitive procurements.

• The contracting officer should have robust pre-award pricing support. As a general rule, Defense Contract Audit Agency (DCAA) is used to provide pricing support for pre-award proposals for contract cost support and DCMA is used to provide technical support for labor hours, labor mix, and procurement quantities. To the extent available, DCAA and DCMA should be brought into the process early and used throughout the life of the contract. In addition, for cost-type contracts, DCAA should review the accounting and business system of the proposed contractors. Contractors must be able to account for and properly record costs. If DCAA and DCMA are not used, suitable pricing and technical expertise or both should be used. Furthermore, pricing and technical support decisions should be detailed and documented.

• Both program and contracting personnel must ensure a well-documented surveillance approach is in place along with the appropriate quantity and quality of oversight personnel. QASPs and surveillance logs should be measurable and documented to show the quality and quantity of actual surveillance performed. A robust surveillance system is essential.

• The contracting officer should ensure the DoD activity receives the goods and services it contracted for and then document the acceptance.

• The contracting officer should ensure a documented process is in place for the review and approval of interim vouchers, including requirements for detailed supporting documentation to be included with the payment voucher. DCAA should be included in the interim voucher review process whenever possible.
• There is often a critical shortage of qualified contract management personnel in theater and those who are there may be stretched thin. The process for designating and training CORs to monitor contractor performance in theater needs continual monitoring and attention.

AUDIT RESOURCES

Since FY 2006 we have added about 69 auditors that perform contingency contracting oversight. While the growth in personnel is a positive step, it will take time for the newer oversight workforce to gain the experience to be fully effective in performing audits of contracts. We have also requested additional resources through the budgetary process.

PLANNING FOR FUTURE CONTINGENCIES

At present we have an effective Joint Planning Group for Southwest Asia. Section 842 of the FY 2008 National Defense Authorization Act requires the Inspectors General to submit an annual joint audit plan to identify potential waste, fraud, and abuse in performance of DoD and Federal contracts in support of forces and reconstruction functions in Iraq and Afghanistan. However, once the contingency operations are complete in Iraq and Afghanistan, the group may disband. We believe that an oversight joint planning group for contingency operations should remain standing after these efforts are complete. At a minimum, the Group should consist of the Inspectors General for the Department of State, Agency for International Development, and the DoD, as well as the Director, DCAA. Other oversight organizations can be added to the group depending on the contingency. The group should meet on a periodic basis and be ready to respond to oversight requirements for contingency operations.

We cautioning against reducing our acquisition and contract oversight auditors. During the 1990s through 2004, the number of acquisition and contract auditors was reduced to meet annual reductions in agency budgets. We believe that an adequate number of
acquisition and contract auditors are maintained and ready for future contingency operations. Reconstituting a trained audit workforce after operations begin will expose the Government to the same risks observed in Iraq and Afghanistan.

The military is developing better plans for contractor support for future contingencies. The use of the Inspectors General and DCAA need to be integrated into the operational planning for future contingencies. Contract fraud, waste, and abuse have occurred in every conflict since the Revolutionary War. Accordingly, there needs to be preplanning for use of the auditors and investigators in future contingencies.

**CLOSING**

Oversight of U.S. contingency operations in Southwest Asia is a top priority of the DoD Office of the Inspector General. As the principal oversight agency for accountability within the Department of Defense, the DoD OIG is committed to providing effective and meaningful oversight in Southwest Asia. Our priority is to assist the Department of Defense and Congress in identifying and deterring waste, fraud, and abuse of taxpayer monies; and, most importantly, ensuring the brave men and women serving in Southwest Asia are as well equipped and led as possible. We will continue to coordinate and integrate our efforts within the oversight community to minimize duplication and ensure oversight coverage is as comprehensive and effective as possible. In fact, as a result of an initiative by the DoD IG, Mr. Gordon Heddell, the Special Deputy Inspector General for Southwest Asia was created for this purpose.

We thank the Commission for the opportunity to discuss our work and look forward to continuing our strong working relationship with the Congress, Commission, and with all oversight organizations in Southwest Asia.
Endnotes:


2 *History of Government Contracting*, p19, Nagle, 1999


10 Federal Acquisition Regulation 2.1(b)


13 “U.S. Army Corps of Engineers’ Use of Award Fees on Contracts in Iraq and Afghanistan,” DoD OIG Report No. D-2010-049, April 1, 2010


15 http://www.dodig.mil/Inspections/APO/fraud/Index.htm