

INTERIM REVIEW OF DYNACORP  
INTERNATIONAL, LLC, SPENDING  
UNDER ITS CONTRACT FOR THE  
IRAQI POLICE TRAINING PROGRAM

**SIGIR-07-016**  
**OCTOBER 23, 2007**



## SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

October 23, 2007

MEMORANDUM FOR SECRETARY OF STATE  
U.S. AMBASSADOR TO IRAQ  
ASSISTANT SECRETARY, BUREAU OF INTERNATIONAL  
NARCOTICS AND LAW ENFORCEMENT AFFAIRS, U.S.  
DEPARTMENT OF STATE  
DIRECTOR, IRAQ TRANSITION ASSISTANCE OFFICE

SUBJECT: Interim Review of DynCorp International, LLC, Spending Under Its Contract for the Iraqi Police Training Program (SIGIR-07-016)

This audit was to be the second in a series of focused financial reviews of the Iraq Relief and Reconstruction Fund conducted by the Office of the Special Inspector General for Iraq Reconstruction (SIGIR). On March 22, 2007, SIGIR announced the subject review to determine: (1) what the Government required under contract S-LMAQM-04-C-0030, (2) what the contractor provided, (3) how the money was spent, and (4) what contract oversight was provided. However, shortly after the work began, SIGIR learned that we could not fully accomplish those objectives. SIGIR was told by officials with the Department of State's (DoS) Bureau for International Narcotics and Law Enforcement Affairs (INL), the program execution office, that INL did not have the information needed to identify what DynCorp International, LLC (DynCorp) provided under the contract or how funds were spent. INL has a number of initiatives to improve its management and oversight of the contract and recoup funds inappropriately paid to DynCorp. Because of these problems and initiatives, SIGIR has temporarily suspended this work, but plans to follow up later on INL's progress implementing the initiatives and addressing the serious contract management issues. In the interim, SIGIR is issuing this report to summarize the information we have gathered.

### Results

Although training has been conducted and equipment provided under the contract, INL officials report that (1) invoices and supporting documents submitted by DynCorp were in disarray, but are being organized; (2) INL had not validated the accuracy of the invoices it received prior to October 2006, but since October, INL contracting officer's representatives in Iraq have been validating all incoming invoices as time and conditions in Iraq allow; (3) INL personnel in Iraq and in Washington, D.C. are in the process of validating past invoices; and (4) INL lacks

confidence that DoS accounting records accurately capture the purpose for most disbursements.<sup>1</sup> As a result, INL does not know specifically what it received for most of the \$1.2 billion in expenditures under its DynCorp contract for the Iraqi Police Training Program. INL's prior lack of controls created an environment vulnerable to waste and fraud.

INL's contract administration problems are well documented. In July 2005, the DoS Office of Inspector General (OIG) reported the need for strengthened oversight of procurement and contract compliance.<sup>2</sup> In January 2007, SIGIR and the DoS OIG jointly reported on Task Order 0338 of this contract.<sup>3</sup> The report cited poor contract administration by INL and DoS's contracting office.<sup>4</sup>

INL recognizes that the contract was poorly managed and that improvements are needed in its contract administration. The bureau has undertaken a number of improvement initiatives. For example, it is organizing contract files, increasing the number of contract management personnel in Iraq, increasing its headquarters staff, improving its oversight of property management, collecting for excess or erroneous charges, and improving its project oversight and business processes. SIGIR supports INL's overdue efforts and recognizes that INL needs time to implement those initiatives.

Because of the magnitude of the problems confronting INL and the number of actions planned to address them, SIGIR believes that the bureau needs to develop a coordinated, comprehensive corrective-action plan whose approval at the highest levels will demonstrate INL's commitment to this effort and facilitate the tracking of progress in implementation.

We requested comments from INL on a draft of this report. INL agreed with our overall findings and our recommendations. It provided additional information which clarified its progress on some initiatives. We have incorporated that information, as appropriate.

## Background

INL's mission is to develop policies and manage programs to combat international narcotics production and trafficking, combat international crime, and strengthen law enforcement and other rule of law institutional capabilities outside the United States. To that end, INL awarded contract S-LMAQM-04-C-0030 to DynCorp on February 18, 2004. The contract--for a base year and four one-year options--is now in its third option year.<sup>5</sup> It includes tasks in support of INL programs for Iraq and Afghanistan. This report focuses on the contract tasks for Iraq. Those tasks, among other things, required DynCorp to provide housing, food, security, facilities, training support systems, and a cadre of law enforcement personnel of various specialties to

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<sup>1</sup>Invoices are bills submitted for payment. Disbursements are the payments.

<sup>2</sup>United States Department of State and the Broadcasting Board of Governors Office of Inspector General, *Report on Inspection, Bureau of International Narcotics and Law Enforcement Affairs*, (ISP-I-05-14, July 2005).

<sup>3</sup>Task order 0338 was issued in June 2004 to provide: training services for international police-liaison officers; equipment; construction of a residential camp, on the Adnan Palace grounds in Baghdad, to house training personnel; and construction of five regional camps at selected locations around the country.

<sup>4</sup>Joint report by SIGIR and the DoS IOG, *Review of DynCorp International, LLC, Contract Number S-LMAQM-04-C-0030, Task Order 0338, for the Iraqi Police Training Program Support*, (SIGIR-06-029 and DoS-OIG-AUD/IQO-07-20, January 30, 2007).

<sup>5</sup>The third option year runs from February 18, 2007 through February 17, 2008.

support the Iraqi civilian police-training program. According to INL officials, as of August 23, 2007, INL had obligated \$1,338.1 million and had paid \$1,217.8 million in pursuit of the Iraq program. *Appendix A* provides further details on the task orders, including obligations, expenditures, purpose, and status.

## INL Contract Management Issues

During the initial year of the DynCorp contract, INL's workload increased substantially without a commensurate increase in personnel. The result was poor contract management, a problem that continued until recently. As a result, INL cannot provide a detailed accounting of the \$1.2 billion expended under its DynCorp Iraqi police training program. The bureau's contract management problems are well documented:

- In July 2005, the DoS OIG reported that INL's responsibilities and programs had increased substantially between 2003 and 2005 but that its staffing had not increased commensurate with its workload, creating a significant management challenge. "INL must strengthen its mechanisms for oversight of procurement and contract compliance," the report stated, "particularly regarding the Iraq and Afghanistan programs." Consequently, INL submitted a reorganization proposal--approved by DoS--to add 35 fulltime domestic positions. According to the Inspector General's report, however, the INL reorganization did not address the critical staffing requirements for overseas posts, including Iraq.
- In a January 2007 report on Task Order 0338, SIGIR and the DoS OIG reported that poor contract administration by INL and the DoS Office of Acquisition Management, the contracting office, put millions of dollars at risk and resulted in unaccountable property. In commenting on the report, the Assistant Secretary of State, INL, identified steps the bureau had initiated to strengthen its contract and asset management as well as its intent to reconcile past payments made since the inception of INL contracts in Iraq, Afghanistan, and Jordan.
- On April 25, 2007, the assistant secretary, in testimony on contracting for the Iraqi security forces, recognized problems with contract management and related measures to improve INL's management and oversight capabilities.<sup>6</sup> She stated that "The urgency and scale of requirements in Iraq has often outstripped our staffing and oversight capabilities both domestically and in the field, particularly in the early stages. Security challenges have also impeded the ability of our staff to travel throughout Iraq." The assistant secretary said that INL had recently obtained approval to increase its Baghdad staff, was expanding its Washington-based Iraq program staff, and had strengthened such internal controls as inventory oversight and performance reporting on property management.
- In June 2007, shortly after SIGIR began its work on the subject review, we were told that INL's review of DynCorp invoices had identified numerous issues. For example, INL officials said their review identified duplicate payments, the purchase of a \$1.8 million x-

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<sup>6</sup>Testimony by Ambassador Anne W. Patterson, Assistant Secretary of State, Bureau for International Narcotics and Law Enforcement Affairs, U.S. Department of State, before the House Committee on Armed Services, Subcommittee on Oversight and Investigation, *Contracting for the Iraqi Security Forces*, (April 25, 2007).

ray scanner that was never used, and payments of \$387,000 to house DynCorp officials in hotels in Iraq rather than in existing living facilities.<sup>7</sup> Also, INL discovered a problem with business class travel and asked DynCorp to review all such travel and provide all supporting documentation. Four weeks later, INL received a check for \$108,000 and all historical and current invoices. The officials admitted that INL's Iraq and headquarters personnel were insufficient to properly validate the invoices, ensure that DynCorp charges were accurately recorded in DoS accounting systems, and provide oversight of the company's performance. As a result, INL officials concluded, they have no confidence that the Government has paid for only valid expenses under the contract or that the DoS accounting records accurately capture the purpose for which funds were disbursed.

- In July 2007, the DoS OIG reported to INL on the results of a limited review to determine (1) the effectiveness of the bureau's process for reviewing and approving invoices from DynCorp for the support of the Jordan International Police Training Center, (2) best practices for reviewing and approving invoices, and (3) whether invoices provided by DynCorp in FY 2005 for the support of the training center were adequately supported.<sup>8</sup> The review, requested by INL, found that the bureau did not have an effective process in 2005 for reviewing and approving DynCorp invoices. For example, INL approved payments without assurance that the work or services were completed satisfactorily. The review also found that invoices for the training center were not supported by complete and clear documentation that complied with federal regulations, DoS acquisition procedures, and contract requirements. For instance, DynCorp did not provide required data to support travel and housing charges, and documents submitted to support other expenses were also inadequate and presented in an unmanageable format. In response, INL provided the OIG with information on improvements the bureau has made and continues to make in its invoice review and approval process.

## **Initiatives to Improve Contract Management**

As noted above, INL recognizes that it has poorly managed the DynCorp contract and that improvements are needed. The bureau has undertaken a number of initiatives to improve management, including reviewing and completing contract files, reviewing and reconciling invoices, recovering excess or erroneous payments, and accounting for costs and property. Following is a brief discussion of some contract management areas undergoing improvement and the status of initiatives in those areas as of September 2007.

Contract files--INL was compiling contract files to include contracts, task orders, and other pertinent documents. According to bureau officials, INL has accumulated copies of the documents and they are being organized into binders. According to INL officials, this effort is just over 60 percent complete.

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<sup>7</sup>Just prior to the issuance of this report, INL informed SIGIR that these examples relate to Afghanistan. This information differs from that previously provided by INL during SIGIR's review. Also, INL did not question the accuracy of this information in its comments dated October 9, 2007.

<sup>8</sup>DoS OIG, Office of Audits, report, *Independent Auditor's Report on the Application of Agreed-Upon Procedures Related to Selected DynCorp Invoices*, (AUD/FM-07-41, July 2007).

### Review and reconciliation of invoices:

- Increasing INL staff: INL was increasing the number of contract management personnel in Iraq from one to seven. Five were already in-country, and the remaining two were awaiting clearances to join them. Those individuals will review all new invoices and help reconcile earlier ones with supporting documents. In addition, the bureau was working to obtain 10 detailees from the Defense Finance and Accounting Service and other agencies to assist INL staff in the U.S. with invoice reconciliation. Seven detailees had been accepted, and INL was in the process of selecting the three remaining applicants. Although the reconciliation effort began in April 2006, progress had been slow because of limited staff devoted to the effort.
- Rejecting out-of-scope or unsupported work: INL was comparing invoices to DynCorp's pricing proposal and rejecting invoices for work that appears to be out of scope or lacks documentary support. According to bureau officials, when an invoice is questioned, none of the bill is paid, and DynCorp has to resubmit documentation to support its claim.

Collection for excess or erroneous charges: INL has negotiated a contract modification, dated October 16, 2006, that allows it to review invoices after they are paid and to request reimbursement for excess or erroneous charges. Although the modification is not retroactive, INL has issued demand letters for reimbursement of excess or erroneous charges paid *before* that date and has been successful in getting those funds reimbursed.

Accounting for costs: INL had begun to inventory and review all invoices and supporting documents and to record charges in appropriate cost categories. According to INL officials, charges were not appropriately categorized principally because those processing the invoices did not take the time to do that or because the invoices were not clear or complete. As a result, INL cannot be certain that accounting records accurately capture the purpose for which funds were disbursed until its inventory and review are completed. When the additional invoice reviewers are on staff, the bureau estimates that contract accounting will be completed within 3 to 5 years.

Property management: Between January and June 2006, INL directed DynCorp to improve its management of property. The direction was imparted in a series of letters in which INL documented defects in contract performance; the company responded by identifying corrective actions it was taking or planned to take. Subsequently, an INL senior management consultant reviewed DynCorp's management of government property in Iraq between April 22 and May 12, 2007, and found it still unacceptable and not meeting regulatory standards. DynCorp thereupon provided another corrective-action plan and, according to INL officials, has made improvements in such areas as revalidating property accountability, identifying excess property, and improving storage capability to ensure that the right amount of supplies and equipment are at the right locations to provide required logistical support. INL had DynCorp prepare an inventory of contractor-procured, government-owned equipment in Iraq. According to the bureau, the inventory contained 31,680 line items valued at \$85.6 million. The contract management team in Iraq has requested a 100 percent audit of all contractor inventory records. That audit will include a review of weapons and weapons-support equipment. INL says its contract management members in Iraq have evaluated DynCorp's system for accounting for weapons and found it to be adequate. According to INL officials, INL's most recent review of DynCorp's property management records found their accuracy had improved, however, DynCorp's

notifications of lost weapons were not done in a timely manner. A remedy action plan has been implemented by DynCorp and the contract management team will continue to monitor DynCorp's actions and report on progress.

Project oversight and INL business processes: INL has hired two civil engineers to locally verify the implementation of INL construction projects and enforce U.S. quality standards in Iraq. INL is also hiring a logistics specialist in Washington to improve overall business processes and logistics management, conduct cost-benefit analyses, and assist with reviews of contract performance. Moreover, the bureau, according to officials, is recruiting an industrial property-management specialist to help draft specific requirements for INL contracts and task orders as well as to ensure that government property in contractors' custody is managed in accordance with Government contract and Federal Acquisition Regulation requirements. INL expects the additional positions to significantly improve both contract specifications and contract property management.

According to INL officials, it will take three to five years to complete a 100 percent review and reconciliation of the invoices and a validation of the property records. But the bureau is already beginning to see benefits from its initiatives. As of September 20, 2007, INL had identified savings from the initiatives in Iraq as follows: negotiated reductions in cost/price proposals - \$113.7 million; rejected invoiced amounts - \$1.1 million; and received refunds from DynCorp - \$0.7 million. In addition, it had identified potential savings from invoiced amounts of \$1.1 million.

According to INL officials, the initiatives will be part of a corrective plan INL is developing. However, the plan has been delayed because of the need to respond to high-priority Congressional requests.

## **Conclusions**

INL's prior lack of management and financial controls created an environment vulnerable to waste and fraud. The bureau has taken action and continues to take actions to improve its contract management in general and its management of the DynCorp contract in particular. Because INL (1) does not have complete and accurate information on what DynCorp provided and how the money was spent in Iraq under the DynCorp contract, and (2) has several initiatives underway or planned to improve its contract management, we believe it needs time to demonstrate its commitment to better contract management. Therefore, SIGIR is temporarily suspending its efforts and will notify the appropriate organizations when it decides to resume them. We also believe that to facilitate its efforts and guide its actions, INL needs a coordinated, comprehensive corrective-action plan that has the approval and support of senior INL management.

## **Recommendations**

To improve contract management processes, we recommend that the Secretary of State direct the Assistant Secretary, INL, to establish milestones for preparing and finalizing a comprehensive corrective-action plan that incorporates the various initiatives that are planned or underway as well as other needed actions INL may identify. The plan should, at a minimum, include

milestones and required resources to accomplish each initiative. It should be approved by the Assistant Secretary and the approval process should include a commitment to provide the resources necessary to implement the plan. Lastly, a process should be established to assess the plan's implementation and its impact on INL's oversight of the DynCorp contract. Such a process should include progress briefings to the Assistant Secretary, INL.

## **Management Comments**

We requested comments from INL on a draft of this report. INL agreed with our overall findings and our recommendations. It provided additional information which clarified its progress on some initiatives. We have incorporated that information, as appropriate. INL also provided information on its actions to implement the recommendations included in the DoS OIG and SIGIR joint report on task order 0338. A copy of those comments is included as *Appendix D*.

## **Scope and Methodology**

We reviewed contract documents relating to the task orders for Iraq. We also reviewed prior reports concerning INL's management of the DynCorp contract. We held detailed discussions with INL officials concerning their various efforts to improve INL's management of the DynCorp contract, and reviewed INL-provided documents concerning the status of their various initiatives. We performed our audit work from May through September 2007 in accordance with generally accepted government auditing standards.



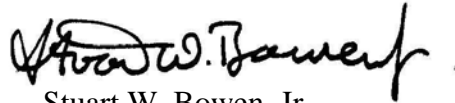
## Prior Coverage

We reviewed the following prior reports:

- *Review of DynCorp International, LLC, Contract Number S-LMAQM-04-C-0030, Task Order 0338, for the Iraqi Police Training Program Support, (SIGIR-06-029 and DoS-OIG-AUD/IQO-07-20), January 30, 2007.*
- *Independent Auditor's Report on the Application of Agreed-Upon Procedures Related to Selected DynCorp Invoices, (DoS-IG-AUD/FM-07-41), July 2007.*
- *Report of Inspection, Bureau of International Narcotics and Law Enforcement Affairs (ISP-I-05-14), July 2005.*

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We appreciate the courtesies extended to the SIGIR staff. For additional information on this report, please contact Mr. Glenn D. Furbish at (703-428-1058 / [glenn.furbish@sigir.mil](mailto:glenn.furbish@sigir.mil)). For the report distribution, see *Appendix B*. For a list of the audit team members, see *Appendix C*.



Stuart W. Bowen, Jr.  
Inspector General

cc: See Distribution

## Appendix A—Task Order Summaries

| Task Order     | Obligations (In millions)      | Expenditures (In millions) | Purpose  | Status                         |
|----------------|--------------------------------|----------------------------|--|--------------------------------|
| 0582           | Funds moved to task order 1436 |                            | Provide pre- and post-deployment support for 12 U.S. judicial and criminal-justice experts in such areas as training, equipment, body armor, housing, meals, transportation, information technology, medical services, and security. The support could require the construction, repair, or refurbishment of facilities and buildings to support the judicial personnel.   | Combined with task order 1436. |
| 0765           | \$70.4                         | \$70.4                     | Provide all labor, materials, supervision, tools, equipment, services, quality assurance, and other necessary items and services for the construction of the Jordan International Police Training Center in Amman.   | Complete                       |
| A528           | \$52.6                         | \$51.5                     | Provide operations and maintenance support for the Jordan International Police Training Center. Support includes program management, logistics, quality assurance, human resources, procurement, contracting, budget, finance, catering, payroll, and government relations.  | Complete                       |
| 2059           | \$47.2                         | \$47.2                     | Provide funds to reimburse DynCorp for equipment, construction, supplies, materials, services, and other functions delivered during the period July 17 to October 22, 2004. DynCorp continued to perform essential services during this period, despite the fact the task order performance period had expired. The contracting officer determined that the company should be issued a task order under the contract to cover its performance during the period. | Complete                       |
| 0338           | \$152.2                        | \$151.9                    | Provide training services for international police-liaison officers, training support equipment, construction of five regional camps, and construction of a residential camp on the Adnan Palace grounds in Baghdad to house training personnel.   | Complete                       |
| 1436           | \$1,015.8                      | \$896.9                    | Provide field support (lodging, food, fixed-site security, weapons, ballistic armor, and ballistic helmets) for personnel assigned to the Iraq police-development program in Baghdad. This task order is being recompeted.   | Ongoing                        |
| <b>Totals*</b> | <b>\$1,338.1</b>               | <b>\$1,217.8</b>           |  |                                |

\*Totals may not add due to rounding.

Source: INL provided the financial and task-order status information. We did not **verify** its accuracy. Task order purposes were taken from contract documents and confirmed by INL officials.

# Appendix B—Report Distribution

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## Department of State

Secretary of State\*

Senior Advisor to the Secretary and Coordinator for Iraq

Director of U.S. Foreign Assistance/Administrator, U.S. Agency for International Development

Director, Office of Iraq Reconstruction

Assistant Secretary for Resource Management/Chief Financial Officer, Bureau of Resource Management

Assistant Secretary, Bureau of International Narcotics and Law Enforcement Affairs\*

U.S. Ambassador to Iraq\*

Director, Iraq Transition Assistance Office\*

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

Inspector General, Department of State

## Department of Defense

Secretary of Defense

Deputy Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Deputy Assistant Secretary of Defense-Middle East, Office of Policy/International Security Affairs

Inspector General, Department of Defense

Director, Defense Contract Audit Agency

Director, Defense Finance and Accounting Service

Director, Defense Contract Management Agency

## Department of the Army

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

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

Deputy Assistant Secretary of the Army (Policy and Procurement)

Director, Project and Contracting Office

Commanding General, Joint Contracting Command-Iraq/Afghanistan

Assistant Secretary of the Army for Financial Management and Comptroller

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

Commanding General, Gulf Region Division

Chief Financial Officer, U.S. Army Corps of Engineers

Auditor General of the Army

## U.S. Central Command

Commanding General, Multi-National Force-Iraq

Commanding General, Multi-National Corps-Iraq

Commanding General, Multi-National Security Transition Command-Iraq

Commanding General, Joint Contracting Command-Iraq/Afghanistan

Commander, Joint Area Support Group-Central

## **Other Federal Government Organizations**

Director, Office of Management and Budget  
Comptroller General of the United States  
Inspector General, Department of the Treasury  
Inspector General, Department of Commerce  
Inspector General, Department of Health and Human Services  
Inspector General, U.S. Agency for International Development  
President, Overseas Private Investment Corporation  
President, U.S. Institute for Peace

## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

### **U.S. Senate**

Senate Committee on Appropriations  
    Subcommittee on Defense  
    Subcommittee on State, Foreign Operations and Related Programs  
Senate Committee on Armed Services  
Senate Committee on Foreign Relations  
    Subcommittee on International Operations and Organizations, Democracy and Human Rights  
    Subcommittee on International Development and Foreign Assistance, Economic Affairs and International Environmental Protection  
    Subcommittee on Near East and South and Central Asian Affairs  
Senate Committee on Homeland Security and Governmental Affairs  
    Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security  
    Permanent Subcommittee on Investigations  
    Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

### **U.S. House of Representatives**

House Committee on Appropriations  
    Subcommittee on Defense  
    Subcommittee on State, Foreign Operations, and Related Programs  
House Committee on Armed Services  
House Committee on Oversight and Government Reform  
    Subcommittee on Government Management, Organization, and Procurement  
    Subcommittee on National Security and Foreign Affairs  
House Committee on Foreign Affairs  
    Subcommittee on Middle East and South Asia  
    Subcommittee on International Organizations, Human Rights, and Oversight

\*Recipient of draft audit report.

## **Appendix C—Audit Team Members**

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This report was prepared, and the audit conducted, under the direction of Glenn Furbish, Acting Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction. The staff members who contributed include:

Robert Pelletier

Steven Sternlieb

Roger M. Williams

# Management Comments

## Bureau of International Narcotics and Law Enforcement Affairs

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United States Department of State

Washington, D.C. 20520

October 9, 2007

Mr. David Warren  
Assistant Inspector General for Audits  
Special Inspector General for Iraq Reconstruction  
400 Army Navy Drive  
Arlington, VA 22202

Dear Mr. Warren:

INL appreciates the opportunity to comment on the draft report of the *Interim Review on DynCorp International, LLC, Spending under Its Contract for the Iraqi Police Training Program (SIGIR-07-016, September 28, 2007)*. INL also appreciates that SIGIR chose to postpone its full audit in deference to the Bureau's contract management and oversight initiatives.

Since the issuance of the January 2007 report entitled, *Review of DynCorp International, LLC, Contract Number S-LMAQM-04-C-0030, Task Order 0338, for the Iraqi Police Training Program Support (SIGIR-06-029)*, INL has made significant progress in correcting past contract management problems by implementing the January 2007 report's recommendations as well as initiating additional measures. The partnership that has developed between INL and SIGIR as well as other oversight entities has been instrumental in the Bureau's improvements. INL is dedicated to addressing our past contracting problems and systemically strengthening contract management and oversight. We appreciated the recent meeting to discuss the September 2007 draft report and our efforts to improve INL's contract management. While the body of the draft report contains specific examples of our progress, the report's summary does not highlight these improvements. We request that our continuing progress be reflected in the final report's summary, recognizing that further planned enhancements need to be implemented.

#### Contract Management Staffing

INL's commitment is demonstrated by our increased number of personnel, (overseas and domestic) involved in contract management since January 2007. Both SIGIR reports refer to the DoS Office of Inspector General's inspection report (July 2005) concerning INL's inadequate contract management staffing. For current Iraq

contract management support and oversight, we now have three U.S. based personnel and five personnel at Embassy Baghdad. Two of the three domestic personnel came onboard in July 2006 and the third person joined the effort in July 2007. We are currently recruiting for the remaining five domestic positions.

Three of the five personnel now at Embassy Baghdad arrived at post in February and March 2007 and serve as in-country Contracting Officer's Representatives (ICORs). One of the ICORs is a civil engineer, who also provides oversight for construction projects. The two other personnel now at post provide support to the ICORs and have been involved in this effort since April 2007 and September 2007, respectively. The deployment of personnel selected for the remaining two positions are pending clearances. We recommend that the above information be included in the following sections of the draft report: Page 4 – Increasing INL Staff and Page 5 – Project oversight and INL business processes.

#### Invoice Reviews and Reconciliations

As was discussed in an October 2007 meeting between our staffs, a support division within INL's Office of Resource Management began addressing contract management and oversight in Iraq beginning in October 2006. Since that time, the support division has been reviewing incoming invoices in detail. The invoicing process used is the one discussed and accepted by SIGIR as responsive in the January 2007 report. As INL's support effort continues to increase, INL's ability to review incoming invoices and support the ICORs at Embassy Baghdad will be improved and invoice processing delays will be reduced.

Presently, all current invoices are being validated in the field as time and conditions in Iraq allow the ICORs to dedicate their efforts to the task. However, travel restrictions significantly inhibit the ICORs' ability to do so. As we bring the INL contract management group at Embassy Baghdad up to full staff, we will be able to improve our invoice validation efforts. The support division in Washington also conducts a separate review for scope and content. These combined efforts have resulted in increased savings to the government.

As was discussed in our June and October 2007 meetings, INL has taken the initial steps to review all INL funded Iraq task order invoices prior to October 2006. It will take three to five years for the full complement of eleven personnel to review and validate invoices for that time period. Currently, four staff have joined this effort in the past three months. Seven detailees have been selected and are in the clearance processes. Once fully staffed, these prior year invoices will be reconciled in three to



five years. In the interim, INL has addressed a small percentage of these invoices based on systemic reviews of specific invoicing problems.

For example, INL discovered a problem with business class travel. We asked DynCorp to conduct a review of all such travel and provide all supporting documentation, itemized by invoice, country and amount as well as conclude the effort by providing one refund check as reimbursement. Four weeks later, INL received a refund check for \$108,000 for all prior year and current invoices that included business class travel. A similar approach is to be applied for other invoice reviews on issues such as danger pay, pay allowances, and Defense Base Act Insurance (DBA) rates.

To address further both the current and prior year invoices, INL meets weekly with the contractor to discuss various issues dealing with the Iraq task orders, including the contractors' review of its own records, which have resulted in voluntary refunds by the contractor. We also have stressed the importance of transparency in the cost proposals used to substantiate and support the contractor's estimates. Our invoice rejection rate for the region is now 19% (September 2007), which is up from 15% in July 2007. INL's reformed business practices have resulted in collections and reduced invoices in excess of \$29 million thus far. As we intensify our review efforts and improve controls, we will realize additional savings.

#### Status of Response to January 2007 Recommendations

In addition to the above initiatives, INL has made significant progress towards closing the formal recommendations made in the January 2007 report:

- First, in response to Recommendation 1 concerning the future use of the thousand man camp trailers, INL will use almost all the trailers and equipment to house INL's contractor personnel and to meet housing requirements at Embassy Baghdad. INL established an MOU in June 2007 with the Bureau of Overseas Buildings Operations to transfer about half of the thousand man camp trailers to Embassy Baghdad. As of this date, 344 trailers have been transported to the new Embassy compound. INL also secured a land agreement for a site near the Baghdad International Airport and verified the adequacy of the site for establishing a camp for the remaining trailers. The Army Corps of Engineers is now ready to award the construction contract for the camp.
- Second, in response to Recommendation 2 that INL seek reimbursement from DynCorp for unauthorized work in conjunction with the thousand man



camp, INL demanded repayment in June 2007 from DynCorp for just over \$4 million of the \$4.2 million. The matter is pending resolution.

- Third, in response to Recommendations 3, that INL seek assistance from the Defense Contract Audit Agency's (DCAA) to conduct audits of the Iraq Task Order 0338, INL sought DCAA assistance for several audits. Concerning the specific audit work recommended regarding the appropriateness of the 2004 \$18 million pre-payment to DynCorp, DCAA conducted the audit and its report will soon be released. Concerning the specific review recommended for invoices pertaining to labor costs under Task Order 0338, DCAA conducted and completed an audit on labor hour billings. On September 5, 2007, DCAA released a report questioning \$162,869 because DynCorp billed for labor hours for which it did not pay its workers. This questioned cost is based on a sample of 21 out of 413 employees, charging hours to a particular CLIN. We have requested DCAA to conduct additional audits and this request is pending completion of their planning process.
- In response to Recommendation 5, concerning enforcement of contract and asset management regulations, INL initiated several activities to staff and address various COR responsibilities that are relevant to this major contract. For example, sixty percent of the effort is complete for establishing the electronic COR files for all contracts in the region. INL also has directed several corrective actions for improving property accountability. At INL's insistence, DynCorp prepared an inventory on contractor procured-government owned equipment in Iraq, which ICORs are in the process of verifying to the extent that conditions in Iraq allow. Even though we noted the adequacy of DynCorp's weapons accountability process, we are continuing to follow-up on weapons inventory issues. Recently, post contract management staff noted that DynCorp's notification of lost weapons was not done in a timely manner. They worked with DynCorp officials to set up a remedial action plan and the contractor is now providing proper documentation and notification. The ICORs will continue to monitor and report on weapons accountability during their inventory audit of all INL funded camps. Moreover, additional specific inventory accountability efforts have been planned.

#### INL Response to September 2007 Report's Recommendation

INL agrees with this report's specific recommendation that INL establish milestones for preparing and finalizing a comprehensive corrective-action plan that

incorporates the various initiatives for approval by the Assistant Secretary, including the commitment of resources necessary to implement the plan. INL also agrees to assess the plan's implementation and its impact on the Bureau's oversight of the DynCorp contract, including progress briefings to the Assistant Secretary. In fact, it is INL's overall goal to determine whether such a process should be standardized and possibly duplicated for other geographically-focused contract support efforts.

INL appreciates the opportunity to comment on the draft SIGIR report and to work with you and all other audit entities as the Bureau works toward continuously improving our contract management and oversight.

Sincerely,

A handwritten signature in cursive script, appearing to read "Elizabeth Verville".

Elizabeth Verville  
Acting Assistant Secretary  
Bureau of International Narcotics and Law Enforcement Affairs

Drafted by: PYorkman (6-8806) (10/5/07)

Cleared by: INL/RM—HMeawad (ok)  
INL/I—MDarby (ok)  
INL/RM—RByrnes (ok)  
INL/Baghdad (substance included)

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