OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

# OUTCOME, COST, AND OVERSIGHT OF IRAQ RECONSTRUCTION CONTRACT W914NS-04-D-0006

**SIGIR-08-010**
**REVISED**
**JANUARY 28, 2008**

**SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION**

Baghdad, Iraq

January 28, 2008

MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ
DIRECTOR, IRAQ TRANSITION ASSISTANCE OFFICE
COMMANDING GENERAL, JOINT CONTRACTING COMMAND – IRAQ/AFGHANISTAN
COMMANDING GENERAL, GULF REGION DIVISION, U.S. ARMY CORPS OF ENGINEERS

SUBJECT: Report on Review of Outcome, Cost, and Oversight of Iraq Reconstruction Contract W914NS-04-D-0006 (SIGIR 08-010)

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 Parsons Delaware, Inc. Contract W914NS-04-D-0006 for reconstruction efforts in Iraq. This review was conducted as SIGIR project 7011.

We considered comments from the U.S. Army Corps of Engineers Gulf Region Division when preparing the final report. The comments are addressed in the report, where applicable, and a copy is included in the Management Comments section of this report.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Charles Thompson at 604-0382/ (charles.thompson@sigir.mil).

Stuart W. Bowen, Jr.
Inspector General

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**Review of Outcome, Cost, and Oversight of Iraq Reconstruction Contract W914NS-04-D-0006**

**SIGIR-08-010** **January 28, 2008**

# Executive Summary

## Introduction

In March 2004, the U.S. Army Corps of Engineers, on behalf of the Coalition Provisional Authority (CPA), awarded Parsons Delaware, Inc. (Parsons) a cost-plus-award-fee contract (W914NS-04-D-0006) to provide design and construction services. This contract was one of ten design/build construction contracts approved by the Deputy Assistant Secretary of the Army (Policy and Procurement) to provide an overarching framework for procuring design/build construction services to restore the Iraqi infrastructure. The contracts were issued in defined work sectors, such as the electric sector and the water resources and sanitation sector. This Parsons contract was awarded for projects in the buildings, housing, and health care sectors. The statement of work for each contract was generic and performance based, however, the Parsons contract identified three objectives:

- repair and renovate selected Iraqi ministry buildings that suffered severe looting, vandalism and some fire damage
- renovate and repair Iraq hospitals to improve functions and cleanliness required of hospitals
- build new primary healthcare clinics throughout Iraq.

These objectives were to be accomplished by issuing task orders against the basic contract. The government subsequently issued a total of 14 task orders against the contract's $500 million ceiling; 11 task orders for construction projects, and 3 task orders for mobilization, program support services, and contract close-out. These were the 11 construction task orders:

- 2 construction task orders to renovate or repair three Iraqi ministry facilities
- 6 task orders to renovate 20 existing Iraqi hospitals
- 3 task orders to design and construct 150 Primary Healthcare Centers (PHCs)

The objectives of this audit were to assess (1) the outcome of work initiated under this contract, and (2) the adequacy of the internal controls used for contract management.

## Results

As of August 15, 2007, $365,217,336 has been obligated and $342,088,911 disbursed against the contract's $500 million construction ceiling.[1] Final contract costs are pending required incurred-cost audits of the contractors work by the Defense Contract Audit Agency (DCAA) and the settling of contractor claims. Of the 11 construction task orders under the Parsons contract; 3 were completed and 8 were terminated for the convenience of the government but with some work completed. When a contract is terminated for the convenience of the government, specific reasons for the termination are not identified. However, in a written response to an earlier SIGIR report on PHCs, the U.S. Army Corps of Engineers Gulf Region Division (GRD) identified reasons it was displeased. These include a lack of control of subcontractors, poor construction management and supervision, and a lack of cost control. According to GRD officials

1. Parsons successfully completed all work on two task orders (Task Orders 2 and 5) to renovate and repair three Iraqi ministerial buildings at a total cost of $9,744,964. Both task orders had changes in scope but were completed within definitized costs.[2]
2. Parsons successfully completed all work on one task order (Task Order 10) to rehabilitate eight maternity and pediatric hospitals in northern Iraq at a cost of $16,182,230. This task order had 18 modifications including eight modifications to the task order's statement of work. For example, a sewage treatment plant was added to one hospital. The task orders were completed within definitized costs.
3. Parsons had five task orders (Task Orders 3, 6, 8, 9, and 13) to rehabilitate 12 maternity and pediatric hospitals terminated for the convenience of the government. At the time of termination, work was completed on four hospitals, and between 78% and 98% of the work was completed on the remaining eight.
   - Task Order 3 (for one hospital) had a definitized cost of $14,193,200, and obligations of $9,585,023. The task order was 80% completed and was one year past its planned completion date.
   - Task Order 6 (for three hospitals) had a definitized cost of $19,399,885, and obligations of $16,755,944. One hospital was completed and two hospitals were estimated at six weeks from their planned completion date and 87-88% complete.
   - Task Order 8 (for four hospitals) had a definitized cost of $13,505,103, and obligations of $11,066,849. Three hospitals were completed and the remaining hospital was 82% completed but six months past its planned completion date.
   - Task Order 9 (for one hospital) had a definitized cost of $5,072,730, and obligations of $4,412,859. The hospital was 90% completed but was six months past its planned completion date.

[1] The contract had a $500 million ceiling, consisting of $425 million for construction, a base fee of $15 million, and a maximum award fee of $60 million.
[2] Definitization is the process in which the government and the contractor come to agreement on contract terms, specifications, and price.

- Task Order 13 (for three hospitals) had an estimated cost of $11,923,384. At the time of termination, the three hospitals were between 78% and 98% completed and had estimated costs of $10,410,685.

4. Parsons had three task orders (Task Orders 4, 11, 12) for the design and construction of 150 PHCs terminated for the convenience of the government. Work was completed on six PHCs, and between 9% and 99% of the required work was completed on 135 PHCs. Eight PHCs were dropped after consultations with the Iraqi Ministry of Health. One PHC was dropped but construction was continued through direct contracting. The total government estimated costs for construction and equipment for the healthcare centers was approximately $186,030,873, as of August 15, 2007.
5. The three mobilization, program support services, and contract close-out task orders (Task Orders 1, 7, and 14) had total obligations of $124,808,083, or 34% of total contract obligations. Approximately, $115,846,799 (32%) funded program support services (life support, security management, information technology, in-country project management staff, travel, project office costs, insurance, warranty, and Defense Base Act insurance. High contract administrative costs were cited by GRD as a reason for terminating contract work.

SIGIR examined the management and contract oversight structure for this contract and found numerous weaknesses. Most of these problems were originally identified in our earlier report on PHCs and to the extent they are discussed in this report they are only to illustrate problems that affected the contract before it was terminated. GRD and the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) have taken action to resolve some of these issues and management actions are discussed later in this report. Some of the weaknesses identified in the earlier audit include**:**

- The contracting and program management offices suffered from a heavy rotation of personnel. Moreover, the contracting office personnel had limited construction contracting experience.

- GRD was not responsive to contractor requests for equitable adjustments and excusable delays based on unplanned site conditions, design or scope changes, or site access restrictions or security. For example, many PHC sites were selected by “map spot” and some were not suitable for building. At the same time, the contractor accepted unrealistic schedules and costs for delivering projects, and failed to accurately report project status as it fell behind.

- The security environment and a limited number of U.S. government quality assurance personnel affected government oversight of the task orders. For example, GRD officials reported that its South region was responsible for more than 400 projects but employed fewer than 40 military and civilian field engineers and construction inspectors.

- The contract was not specific on the data requirements of the cost performance report and the government did not require Parsons to produce the monthly reports required by the contract.

During the course of this review, we identified some additional oversight issues:

- Parsons did not provide adequate oversight of its subcontractors. GRD provided numerous documents referencing inconsistent and infrequent visits to the project sites by the contractor's personnel. As a result, there was an overall lack of "ground truth" in reporting construction progress,

- Contractor invoices were not reviewed before payment. Instead, the invoices were sent directly to the DCAA creating a potential for payment for work that was not performed or not performed to standards.

**Management Actions.** U.S. government officials took steps to address some of the issues that we identified.

- The U.S. government has committed to complete as many projects as possible. GRD has continued the work via direct contracting with local Iraqi companies and has completed many of the projects since Parsons' work was terminated. According to GRD officials, since termination construction has been completed on an additional 68 PHCs and 2 hospitals (bringing the total completed to 74 PHCs). Another 17 PHCs are in post-construction and 39 are near completion.

- On July 18, 2005, JCC-I/A issued a "letter of concern" to Parsons stating, "This letter of concern is issued regarding certain shortfalls and non-compliance issues with quality, safety, schedule and performance criteria that must be immediately addressed and rectified." The letter referred to issues raised as a result of a Project and Contracting Office (PCO) site visit to PHCs in the Baghdad area.

- In the Fall of 2005, JCC-I/A assigned an overall interim unsatisfactory performance evaluation to the contractor because of unmet milestones, schedule slippages, and elusive administrative task order costs.

- Lacking confidence in the Parsons Global Services, Inc. weekly cost performance reports, the contracting officer requested the monthly cost performance reports as prescribed by contract section 2.3.5. On October 23, 2005, the government and Parsons agreed upon a format for the new reports. Subsequently, Parsons has produced monthly cost performance reports in the new format.

- On October 24, 2005, the contracting officer briefed PCO and Parsons Global Services, Inc. that required procedures for "constructive changes" to the project would be enforced. The contracting officer required that future constructive changes be properly definitized. He also pushed the formal process to bring the outstanding request for equitable adjustment (REA) to resolution. On December 21, 2005, negotiations commenced to reconcile Parsons' $39 million REA. As of February 24, 2006, 50 of 58 items had been resolved for $22 million. An agreement was signed and the task orders were funded. The eight remaining items were resolved under a unilateral agreement and the contract modification was signed on March 17, 2006.

- On December 21, 2005, Parsons Global Services, Inc. and the U.S. government commenced negotiation regarding Parsons' submission of excusable delays. An agreement was reached and schedules were adjusted in February, 2006.

## Lessons Learned

The U.S. reconstruction program in Iraq has been exceedingly difficult. From the beginning, there have been planning and deployment issues resulting in delays in the start-up of projects and increased contractor overhead costs. Rising security problems also made pre-award site assessments difficult to perform, created problems in defining project requirements, and, in some cases, prevented project site selection. The security environment also affected the delivery of supplies and affected both the government's ability to successfully oversee its contractor's work and the contractor's capacity to properly supervise its subcontractors.

In this environment it is not unexpected that individual project costs would increase and projects would be delayed. What is not expected, however, is the inability of management to remedy problems in a timely manner. This contract demonstrates multiple problems:

- The statements of work for these task orders were poorly defined.

- The contractor accepting an unrealistic schedule, fell steadily behind that schedule, and failed to accurately report project status.

- The government failed to take timely action to remedy the problems.

Although government visits to project sites were clearly difficult, oversight and surveillance of service and construction contracts is a fundamental element of acquisition, and is the collective responsibility of the requiring and contracting activities. For this particular contract, there were clearly problems on both sides. However, SIGIR believes that the preeminent lesson learned is that the government is responsible for ensuring that the contractor satisfies contract cost, schedules and performance requirements.

## Management Comments and Audit Response

GRD provided comments and stated that it supports the overall report. However, GRD expressed concern that the report repeats a number of claims made by the contractor during the original audit that were not agreed with by GRD. GRD's comments are printed in their entirety on page 30 of this report. GRD also provided technical comments that are addressed in the report where appropriate.

# Introduction

## Background

In March 2004, the U.S. Army Corps of Engineers, on behalf of the Coalition Provisional Authority (CPA), awarded Parsons Delaware, Inc. (Parsons) a cost-plus-award-fee contract (W914NS-04-D-0006) to provide design and construction services. This contract was one of ten design/build construction contracts approved by the Deputy Assistant Secretary of the Army (Policy and Procurement) to provide an overarching framework for procuring design/build construction services to restore the Iraqi infrastructure. The contracts were issued in defined work sectors, such as electrical sector, and public works/water sector. Contracts awarded were to be competitively awarded and include a 2-year base period with 3 one-year option periods. This contracting approach was intended to allow continuity of operations and facilitate re-competition after the completion of these contracts.

This Parsons contract was awarded for projects in the buildings, housing, and health sectors. The statement of work for each contract was generic and performance based, however, the Parsons contract identified three objectives

- repair and renovate selected Iraqi ministry buildings that suffered severe looting, vandalism and some fire damage in 2004
- renovate and repair Iraq hospitals to improve functions and cleanliness required of hospitals
- build new primary healthcare clinics throughout Iraq

These objectives were to be accomplished by issuing task orders against the basic contract. The government subsequently issued a total of 14 task orders against the contract's $500 million ceiling;[3] 3 task orders for mobilization, program support services, and contract close-out, and 11 task orders for construction projects. The construction task orders were:

- 2 task orders to renovate or repair 3 Iraqi ministry facilities
- 6 task orders to renovate of 20 existing Iraqi hospitals. The objectives of this audit were to assess (1) the outcome of work initiated under this contract, and (2) the internal controls used for contract management.
- 3 task orders to design and construct 150 Primary Healthcare Centers (PHCs)

[3] In total, the contract had a $500 million ceiling consisting of $425 million for construction, a base fee of $15 million, and a maximum award fee of $60 million.

## Responsible Organizations

Three organizations have responsibility for management of the contract: U.S. Army Corps of Engineers Gulf Region Division-Project and Contracting Office (GRD-PCO), Iraq Reconstruction Management Office (IRMO), and Joint Contracting Command-Iraq/Afghanistan (JCC-I/A). However, during the first 21 months of the contract, the Project and Contracting Office (PCO) and the U.S. Army Corps of Engineers Gulf Region Division (GRD) were separate organizations. On December 4, 2005, the PCO was folded into the GRD. On May 9, 2007, the President created the Iraq Transition Assistance Office (ITAO) as the successor organization to the Iraq Reconstruction Management Office (IRMO). In addition, two companies in a joint venture, Louis Berger Group, Inc. and URS Group, Inc. were contracted to provide management support.

### *Project and Contracting Office*

National Security Presidential Directive 36, "United States Government Operations in Iraq," May 11, 2004, also established the PCO and directed the PCO to provide acquisition and project management support for activities in Iraq. On June 22, 2004, the Deputy Secretary of Defense established the PCO within the Department of the Army and directed the PCO to provide support for all activities associated with financial, program, and project management for both construction and non-construction IRRF activities.

### *U.S. Army Corps of Engineers Gulf Region Division*

GRD provides engineering services in the Iraq combat theater to Multi-National Force-Iraq and the Iraqi government with planning, design, and construction management support for military and civil infrastructure construction. PCO delegated contract administration for contract W914NS-04-D-0006 to the U.S. Army Corps of Engineers, Gulf Region Central-Baghdad on September 18, 2004. On the same day, PCO delegated administrative contracting officer authority to the Director of Contracting, U.S. Army Corps of Engineers, Gulf Region Central-Baghdad. The Corps of Engineers receives a fee for their services. In the case of the Parsons contract they were entitled to a Supervision and Administration Fee of up to four percent.

### *Sector Project and Contracting Office Contractor*

Berger/URS, a joint venture between the Louis Berger Group Inc. (Washington, D.C.) and URS Group Inc. (San Francisco, California), was awarded a contract to provide dedicated support to the Buildings/Education/Health Sector Program Management Office under the Coalition Provisional Authority Program Management Office. The support contractor continued to provide support under the PCO.

### *Iraq Reconstruction Management Office (IRMO)*

The Iraq Reconstruction Management Office had the responsibility to approve contracts. National Security Presidential Directive 36, "United States Government Operations in Iraq," May 11, 2004, established the IRMO within the Department of State and directed that organization to facilitate the transition in Iraq. IRMO reported to the Chief of Mission in Iraq. The Iraq Transition and Assistance Office (ITAO) was created by Executive Order as the successor organization to IRMO on May 9, 2007.

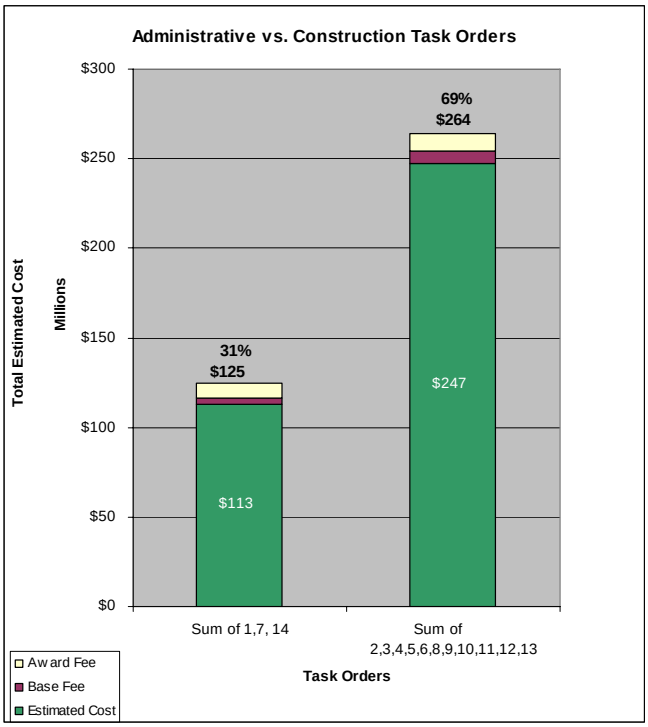
### *Joint Contracting Command-Iraq/Afghanistan (JCC-I/A)*

The head of contracting activity, JCC-I/A has the responsibility to administer contracts. The JCC-I/A was established in 2004 to consolidate contracting activities and reports through the Deputy Assistant Secretary of the Army (Policy and Procurement) to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology.

The CPA used limited competition to award the design-build contract for the buildings, health and education sectors. Thirteen vendors submitted proposals. Of these, four were determined to be within the competitive range. The Source Selection Authority evaluated the remaining four and Parsons was awarded the contract after the review determined it represented the best value to the government. Additional information on awarding the contract is in Appendix B.

## Costs

### Chart 1—Financial Summary Task Order Costs




**Administrative Task Orders**;
1 Mobilization,
7 Programmatic Support
14 Close-out

**Construction Task Orders**:
2 Ministry of Industry and Minerals
3 Hospital
4 Central PHCs
5 Education Ministries
6 Southern Hospitals
8 South Central Hospitals
9 Hospital
10 Northern Hospitals
11Northern PHCs
12 Southern PHCs
13 Central Hospitals.

*Source: SIGIR Analysis, Joint Contracting Command – Iraq/Afghanistan.*

The government total cost estimate is $389 million and the government has disbursed $342 million to Parsons as of August 15, 2007.

As stated earlier, Parsons submitted monthly contract performance reports capturing all costs that took place during the period and cumulative costs to date. The report is grouped by task orders reflecting the cost of construction elements within each task order, cumulative to date, and estimation at completions. Furthermore, the reports summarized the total cost of all task orders

by work structure elements, such as labor, security, life support, med/equipment, and subcontracts.

SIGIR's analysis of the monthly contract performance report as of February 23, 2007 found that the cumulative budgeted costs to date were $366,604,612 while the actual cumulative cost of work performed was $329,265,936, or 90% of budgeted costs. As shown below, in table 1, Task Order 7, Programmatic Support Services, had the highest costs of the 14 task orders, about 32% of total work performed. The subcontractor's elements had the highest allocated amount, about 52% of the total work among the six structure elements.

### Table 1—Cumulative Actual Cost of Work Performed Allocated to Task Orders

| | Task Order | Dollars | % |
|---|---|---|---|
| 01 | Mobilization | $5,367,062 | 2% |
| 02 | Renovate Ministry of Industry & Minerals HQs Building | $7,928,993 | 2% |
| 03 | Modernize Maternity & Pediatric Hospital – Ibn Al Baladi | $8,814,353 | 3% |
| 04 | Ministry of Health – Healthcare Centers in Central Iraq | $47,286,008[b] | 14% |
| 05 | Ministry of Education HQs complex & Associate Buildings | $974,273 | 1% |
| 06 | Modernize Hospitals in Southern Iraq | $14,358,824 | 4% |
| 07 | Programmatic Support Services | $104,166,808 | 32% |
| 08 | Modernize Hospitals – South Central Iraq | $10,056,843 | 3% |
| 09 | Modernize Hospitals – North Central Iraq | $3,998,220 | 1% |
| 10 | Modernize Hospitals – Northern Iraq | $14,649,909 | 4% |
| 11 | Ministry of Health – Healthcare Centers in Northern Iraq | $46,163,407[b] | 14% |
| 12 | Ministry of Health – Healthcare Centers in Southern Iraq | $53,897,287[b] | 16% |
| 13 | Modernize Maternity & Pediatric Hospitals | $9,257,091[b] | 3% |
| 14 | Programmatic Closed-Out | $2,346,858 | 1% |
| | **Grand Totals** | **$329,265,936** | **100%** |

*Source: SIGIR analysis of Parsons' monthly contract performance report as of February 2007*
*Note: Monthly contract performance report data differs from the Corps of Engineers Financial Management System (CEFMS) data used elsewhere in this report because of timing issues. In this table SIGIR is using the data to illustrate the relative size of the task orders.*

### Table 2—Cumulative Actual Cost of Work Performed Allocated to Six Structure Elements

| | Structure Elements | Dollars | % |
|---|---|---|---|
| 10000 | Labor | $48,345,849 | 15% |
| 10005 | Security | $28,232,277 | 9% |
| 11034 | Life support | $6,280,967 | 2% |
| 40000 | Material/Equipment | $56,536,480 | 17% |
| 70000 | Subcontracts | $174,988,282 | 52% |
| 90000 | Other Direct Costs | $14,989,651 | 5% |
| | **Totals** | **$329,373,506** | **100%** |

*Source: SIGIR analysis of Parsons' monthly contract performance report as of February 2007.*
*Percentages do not add due to rounding.*
*Note: Monthly contract performance report data differs from the Corps of Engineers Financial Management System (CEFMS) data used elsewhere in this report because of timing issues. In this table SIGIR is using the data to illustrate the major elements where the funds were spent.*

Table 3 shows the cumulative costs of the contract and related task orders as of August 15, 2007.

### Table 3—Actual Costs Compared to Estimated Costs as of August 15, 2007

| Task Order | Description | Estimated Cost | Disbursements | Status |
|---|---|---|---|---|
| 1 | Mobilization | $5,940,509 | $5,936,192 | Completed |
| 2 | Renovate Ministry of Industry and Ministerial buildings | 8,257,981 | 8,258,377 | Completed |
| 3 | Renovate Ibn Al Baladi Hospital | 9,585,023 | 9,365,516 | Terminated for Convenience |
| 4 | Design and construct 41 Primary Healthcare Centers in northern Iraq. Provide equipment | 50,594,431 | 45,671,168 | Terminated for Convenience |
| 5 | Repair Ministries of Education and Higher Education Complex | 1,115,736 | 1,187,575 | Completed |
| 6 | Rehabilitate 5 maternity and pediatric hospitals in southern Iraq | 16,775,944 | 16,235,593 | Terminated for Convenience |
| 7 | Programmatic support services | 115,846,710 | 113,826,387 | Term Task Order ended |
| 8 | Rehabilitate maternity and pediatric hospitals in south central Iraq. | 11,066,849 | 10,425,089 | Terminated for Convenience |

| | | | | |
|---|---|---|---|---|
| 9 | Rehabilitate the Gynecology, Obstetrics & Children's Hospital | 4,562,774 | 4,279,626 | Terminated for Convenience |
| 10 | Rehabilitate 8 maternity and pediatric hospitals in northern Iraq. | 16,182,230 | 15,935,975 | Completed |
| 11 | Design and construct 49 Primary Healthcare Centers in northern Iraq. Provide equipment. | 63,717,850 | 45,780,825 | Terminated for Convenience |
| 12 | Design and construct 60 Primary Healthcare Centers in southern Iraq. Provide equipment | 71,718,592 | 53,706,323 | Terminated for Convenience |
| 13 | Rehabilitate 3 maternity and pediatric hospitals in central Iraq | 10,410,685 | 8,762,189 | Terminated for Convenience |
| 14 | Close out task order. | 2,900,000 | 2,718,076 | On-going close out Task order |
| | **TOTAL** | **$388,675,314** | **$342,088,911** | |

*Source: SIGIR Analysis, JCC-I/A; CEFMS report, August 15, 2007.*

## Objectives

The objectives of this audit were to assess (1) the outcome of work initiated under this contract, and (2) the adequacy of the internal controls used for contract management.

For a discussion of the audit scope and methodology, and a summary of prior coverage, see Appendix A. For a summary of the contracting process, see Appendix B. For a summary of the 14 task orders, see Appendix C. For acronyms used, see Appendix D. For the audit team members, see Appendix E.

# Contract Outcomes

Parsons overall performance, measured in terms of construction completions, varied by the type of facility. Of the 11 construction task orders under the contract; three were completed and eight were terminated for the convenience of the government but with some of the work completed. According to GRD officials, Parsons completed all work on the ministerial buildings; completed work on 12 hospitals but only finished between 78% and 98% of the required work on the remaining eight hospitals; and only completed six of 141 primary healthcare centers. Completed work on the remaining healthcare centers ranged from 9% to 99% of requirements.

When a contract is terminated for the convenience of the government, specific reasons for the termination are not identified. However, in a written response to our earlier PHC report, GRD identified numerous reasons it was displeased including a lack of control of subcontractors, poor construction management and supervision, and a lack of cost control. This is discussed in more detail later in this report.

## Ministerial Buildings

Parsons successfully completed all work on two task orders (Task Orders 2 and 5) to renovate and repair three Iraqi ministerial buildings. Both task orders had changes in scope but were completed within definitized costs of $9,744,964.

**Task Order 2:** In March, 2004, the CPA issued Parsons a task order to renovate and repair the Ministry of Industry and Minerals Headquarters buildings with an initial estimated cost of $5,200,000. The scope of work was modified several times to add design requirements, a heating and air conditioning system, and a fire suppression system. Parsons completed all renovation and repairs. As of April 9, 2007 the government cost estimate for the work performed was $8,257,981.

### Table 4—Financial Summary of Task Order 2

| Task Order | Initial Estimate | Modifications | Current Estimate | Variance |
|---|---|---|---|---|
| 2 | $5,200,000 | 12 | $8,257,981 | $3,057,981 |

*Obligations and Disbursements as of August 15, 2007.*
*Source: JCC-I/A; CEFMS, USACE/GRD*

**Ministry of Industry & Minerals Headquarters Building**

Main Entrance Foyer

Front of Building

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**Task Order 5:** In May, 2004, the CPA issued Parsons a task order to repair the infrastructure of the Ministries of Education and Higher Education Headquarters Complex. The complex suffered severe looting, vandalism, and some fire damage. The complex included an 11 story Higher Education tower; an 11 story Education tower; an auditorium located between the two towers, and accessory buildings such as guard houses and parking structures. The initial estimated cost was $5 million. However, the contract was modified 7 times and significant amounts of work were removed from the statement of work. As of October 4, 2004, all work not completed was deleted from the task order except for clearing the basement, providing electric power, completing a security wall, and maintaining security at the site. The revised cost estimate for the new scope of work was $1,115,736.

### Table 5—Financial Summary of Task Order 5

| Task Order | Initial Estimate | Modifications | Current Estimate | Variance |
|---|---|---|---|---|
| 5 | $5,000,000 | 7 | $1,115,736 | ($3,884,264) |

*Obligations and Disbursements as of August 15, 2007.*
*Source: JCC-I/A; CEFMS, USACE/GRD*

## Hospitals

To improve the quality of healthcare provided in Iraqi hospitals, the CPA issued Parsons 6 task orders to renovate and repair 20 maternity and pediatric hospitals throughout Iraq. In May 2006, the Gulf Region Division terminated the task orders for the convenience of the government. At the time of termination, Parsons had completed all work on 12 hospitals. The work on the remaining eight hospitals was from 78% to 98% complete, with a non-weighted average of 85% for each hospital that Parsons did not finish. By April 9, 2007, the government estimated cost for repair and renovation work on the 20 hospitals was $68,583,505.

**Task Order 3:** In March 2004, Parsons was given a task order to make improvements in a maternity and pediatric hospital to meet functional and cleanliness standards. The intent was to renovate and remodel the hospital to include repairing or replacing the plumbing, heating and air conditioning systems, and electrical systems. The original estimate was $5,500,000. In total, the task order was modified 21 times, with the estimated cost initially increasing to $43,280,380 as optional equipment was added to the task order, and then decreasing to $9,585,023 as items were deleted, such as the Thalassemia Center and doctors' residence. Parson's completed 80% of the work before the contract was terminated for the convenience of the government. A follow-on contractor had completed 99% of the project as of August, 2007.

### Table 6—Financial Summary of Task Order 3

| Task Order | Initial Estimate | Modifications | Current Estimate | Variance |
|---|---|---|---|---|
| 3 | $5,500,000 | 21 | $9,585,023 | $4,085,023 |

*Obligations and Disbursements as of August 15, 2007.*
*Source: JCC-I/A; CEFMS, USACE/GRD.*

**Task Order 6:** In June 2004, Parsons was given a task order to rehabilitate three maternity and pediatric hospitals in southern Iraq. Parsons was to provide, repair or replace building systems that were to be identified in surveys, and to provide new equipment to be identified by the U.S. government. The original estimated cost for the project was approximately $20,962,327. The task order was modified 16 times, and was terminated for the convenience of the government in August 2006. At the time of termination the definitized cost was $16,235,593. Parsons completed one hospital and the remaining two hospitals were 87% and 88% complete.

### Table 7—Financial Summary of Task Order 6

| Task Order | Initial Estimate | Modifications | Current Estimate | Variance |
|---|---|---|---|---|
| 6 | $20,962,327 | 16 | $16,235,593 | ($4,726,734) |

*Obligations and Disbursements as of August 15, 2007.*
*Source: JCC-I/A CEFMS, USACE/GRD.*

**Task Order 8:** In September 2004, Parsons was given a task order to modernize four hospitals in south central Iraq. Parsons was to provide, repair, or replace building systems that were to be identified in property assessment surveys. The purchase of new equipment was also authorized. The original estimated cost for the project was approximately $10,454,820. The task order was modified 12 times, and in May 2006, was terminated for the convenience of the government. At the time of termination the estimated cost was $11,066,849. Parsons completed three hospitals and approximately 79% of the fourth hospital.

### Table 8—Financial Summary of Task Order 8

| Task Order | Initial Estimate | Modifications | Current Estimate | Variance |
|---|---|---|---|---|
| 8 | $10,454,820 | 12 | $11,066,849 | ($612,028) |

*Obligations and Disbursements as of August 15, 2007.*
*Source: JCC-I/A; CEFMS, USACE/GRD.*

**Task Order 9:** In September 2004, Parsons was given a task order to renovate and modernize one hospital in north central Iraq. Parsons was to provide, repair, or replace building systems that were to be identified in property assessment surveys. The original estimated cost for the project was approximately $5,072,730. The contract was modified nine times and in May 2006, was terminated for the convenience of the government. At the time of termination, the estimated cost of the hospital was $4,562,774. According to the contracting officer, the hospital was 90% complete at the time it was terminated.

### Table 9—Financial Summary of Task Order 9

| Task Order | Initial Estimate | Modifications | Current Estimate | Variance |
|---|---|---|---|---|
| 9 | $5,072,730 | 9 | $4,562,730 | ($509,956) |

*Obligations and Disbursements as of August 15, 2007.*
*Source: JCC-I/A; CEFMS, USACE/GRD.*

**Task Order 10:** In September 2004, Parsons was issued a task order to make improvements in maternity and pediatric hospitals in northern Iraq. Parsons was to perform work required to modernize eight maternity hospitals and to provide, repair or replace prioritized building systems identified in property assessment surveys. The original estimated cost for this task order was $18,114,214. Parsons completed all work on this task order.

### Table 10—Financial Summary of Task Order 10

| Task Order | Initial Estimate | Modifications | Current Estimate | Variance |
|---|---|---|---|---|
| 10 | $18,114,241 | 18 | $16,182,230 | ($1,932,011) |

*Obligations and Disbursements as of August 15, 2007.*
*Source: JCC-I/A; CEFMS, USACE/GRD.*

**Task Order 13:** Task Order 13 was originally part of Task Order 6, which was issued in June 2004. Task Order 6 called for the construction of six maternity and pediatric hospitals, however, modification 8 cancelled three of the hospitals, and these three hospitals were reinstated in October 2004 as Task Order 13. Parsons was to make improvements to maternity and pediatric hospitals in central Iraq, and to provide, repair, or replace prioritized building systems to be identified in property assessment surveys. The original estimated cost was $11,923,384. The task order was terminated for the convenience of the government in May 2006. At the time of termination, the three hospitals were between 78% and 98% completed and had estimated costs of $10,410,685.

### Table 11—Financial Summary of Task Order 13

| Task Order | Initial Estimate | Modifications | Current Estimate | Variance |
|---|---|---|---|---|
| 13 | $11,923,384 | 7 | $10,410,865 | ($1,512,702) |

*Obligations and Disbursements as of August 15, 2007.*
*Source: JCC-I/A; CEFMS, USACE/GRD.*

## Primary Healthcare Centers

To meet the health needs of the people of Iraq, the CPA issued Parsons three task orders (Task Orders 4, 11, and 12) to design and construct 150 new primary healthcare centers (PHCs) throughout Iraq: 40 in central Iraq, 50 in northern Iraq and 60 in southern Iraq. There were to be 3 standard healthcare center designs: a model center (Type A - 1,324 $m^2$), a model center with teaching facilities (Type B - ≈ 1,400 $m^2$), and a model center with emergency and labor facilities (Type C – 2,126 $m^2$). After the design phase, the Ministry of Health was to determine the exact locations to construct the centers. The task orders also required Parsons to provide medical and dental equipment for the centers. The medical equipment included x-ray equipment, hematology analyzer, exam tables, patient beds, defibulators, EEG, ventilators, and incubators, and the dental equipment included dental chairs, lights, cabinets, instruments, and supplies.

In consultation with the Ministry of Health, eight centers, in their very early stages, were subsequently dropped. One center was awarded via a direct contract to an Iraqi construction firm. Of the remaining 141, Parsons completed all work on 6 centers in Baghdad and a portion of the work on 135 centers throughout the country. In March 2006, the three task orders were terminated for the convenience of the government.

At the time of termination, the Iraqi government had accepted the six completed PHCs and offered Parsons the opportunity to complete 14 of the remaining 135. However, according to GRD officials, by the end of April the government decided to accept the remaining 14 “as is.” GRD officials also stated that these 14 PHCs have required extensive repairs. From data provided by JCC-I/A, SIGIR estimated the non-weighted completion average to be 83% in central Iraq, 67% in northern Iraq, and 56% in southern Iraq. The total government estimated cost for construction and equipment was approximately $186,030,873 as of August 15, 2007.

**Task Order 4:** In May 2004, Parsons was awarded a task order to design and construct 150 PHCs in central Iraq. This task order was incrementally funded with an initial budget of $15,000,000 and an estimated cost range of $100,000,000 to $148,000,000. The task order was subsequently modified to require construction of 41 PHCs in central Iraq. Two other task orders were issued for the construction of the remaining PHCs in northern and southern Iraq. SIGIR estimates that Parsons completed 83% of the construction portion of this task order prior to its termination in March 2006. The original estimated cost for the 41 PHCs on this task order was $43,962,517. The current estimate is $50,594,431.

### Table 12—Financial Summary of Task Order 4

| Task Order | Initial Estimate | Modifications | Current Estimate | Variance |
|---|---|---|---|---|
| 4 | $43,962,517 | 31 | $50,594,431 | $6,631,914 |

*Obligations and Disbursements as of August 15, 2007.*
*Source: JCC-I/A; CEFMS, USACE/GRD.*

**Task Order 11**: Task Order 11 was issued in October 2004 in a definitized state for the construction of 50 PHCs in northern Iraq. It was decided very early in the process to descope 4 of the centers. The original estimated cost was $55,600,527. The task order was modified 16 times including completion date changes, excusable delays and estimated cost increases. Ultimately the task order value rose to $66,821,557 then decreased to $63,717,850 when unearned award fees were de-obligated. None of the PHCs were completed prior to the task order being terminated for the convenience of the government in March 2006. SIGIR estimates that Parsons completed 67% of the construction portion of this task order.

### Table 13—Financial Summary of Task Order 11

| Task Order | Initial Estimate | Modifications | Current Estimate | Variance |
|---|---|---|---|---|
| 11 | $55,600,527 | 16 | $63,717,850 | $8,117,323 |

*Obligations and Disbursements as of August 15, 2007.*
*Source: JCC-I/A; CEFMS, USACE/GRD.*

**Task Order 12:** Task Order 12 was issued in October 2004 for the construction of 60 PHCs in southern Iraq. The original estimated cost was $40,914,583. The contract was modified in December 2004 to include equipment, increasing the estimated cost to $69,021,269. Subsequent modifications de-scoped 2 healthcare centers bringing the total to 58. Two additional modifications were issued increasing the total estimated cost to $74,347,872 once allowances were made for unearned award fees. None of the 58 PHCs were completed by Parsons prior to the task order being terminated for the convenience of the government in March 2006. SIGIR

estimates that Parsons completed 56% of the construction portion of the task order and the government disbursed $53,706,323.

### Table 14—Financial Summary of Task Order 12

| Task Order | Initial Estimate | Modifications | Current Estimate | Variance |
|---|---|---|---|---|
| 12 | $69,021,269 | 15 | $74,347,872 | $5,326,603 |

*Obligations and Disbursements as of August 15, 2007.*
*Source: JCC-I/A; CEFMS, USACE/GRD.*

## Summary of Task Orders

Table 15 summarizes the contract task orders and outcomes.

### Table 15: Parsons contract task order descriptions and outcomes

| Task Order | Description | Outcome |
|---|---|---|
| 1 | Contractor mobilization planning and mobilization to theater | Contractor was paid for incurred costs |
| 2 | Renovate the Iraqi Ministry of Industry and Minerals Headquarters | Successfully completed all work |
| 3 | Modernize one maternity and pediatric hospital | Contract was terminated for the convenience of the government. Parsons completed 80% of the required work |
| 4 | Design primary healthcare centers (PHCs); construct 40 PHCs; provide specified equipment | Contract was terminated for the convenience of the government. Parsons completed 6 PHCs; 21 additional PHCs averaged 70% completion; 3 PHCs were removed from the contract. All equipment was delivered. |
| 5 | Renovate the Iraqi Ministries of Education and Higher Education | Successfully completed all work |
| 6 | Modernize three maternity and pediatric hospitals in southern Iraq | Contract was terminated for the convenience of the government. Parsons successfully completed one hospital; and two hospitals were 87%-88% completed. |
| 7 | This task order provided services for the other task orders including life support, security management, information technology, in-country project management, travel, insurance, warranty, and Defense Base Act insurance. | Contractor was paid for incurred costs |
| 8 | Modernize four maternity and | Contract was terminated for the |

| | | |
|---|---|---|
| | pediatric hospitals in south central Iraq | convenience of the government. Three hospitals were successfully completed; one hospital was 79% completed. |
| 9 | Modernize one maternity and pediatric hospital in north central Iraq | Contract was terminated for the convenience of the government. Parsons completed 90% of the work. |
| 10 | Modernize eight maternity and pediatric hospitals in northern Iraq | Successfully completed all work |
| 11 | Design primary healthcare centers (PHCs); construct 46 PHCs; provide specified equipment | Contract was terminated for the convenience of the government. Parsons completed 96% of four PHCs, and an average of 65% of the remaining PHCS with a range of 9% to 94%. All equipment was delivered. |
| 12 | Design primary healthcare centers (PHCs); construct 60 PHCs; provide specified equipment | Contract was terminated for the convenience of the government. Parsons nearly completed three PHCs, and a weighted average of 53% of 55 PHCs. Two PHCs were dropped from the contract. All equipment was provided. |
| 13 | Modernize three maternity and pediatric hospitals in central Iraq | Contract was terminated for the convenience of the government. Parsons completed between 78% and 98% of the work on the three hospitals. |
| 14 | Supply all labor, material, and equipment to close out all task orders | Contractor was reimbursed for incurred costs. |

*Source: SIGIR analysis of GRD data.*

## Other Costs

In addition to the contract and task order costs, there were additional costs amounting to $6.6 million, as shown in Table 3.

### Table 16—Other Costs

| Item | Amount |
|---|---|
| Corps of Engineers Gulf Region Division S&A fees [a] | $ 6,310,796 |
| Interest Penalty [b] | 307,643 |
| **Total** | **$6,618,440** |

[a] as of August 2007

[b] as of July 2007

*Source: SIGIR analysis of data from U.S. Army Corps of Engineer Gulf Region Division*

# Contract Oversight and Administration

In April 2006, SIGIR issued a report on the management of the PHC construction project that identified a number of weaknesses in the oversight of the project.[4] In that report SIGIR stated that quality contracts derive from good contracting practices throughout the life of a contract. Creating quality contracts begins before the contract is issued with a well written statement of work that describes the customer's requirements, and includes a thorough review of contractor technical proposals submitted in response to the statement of work, along with a carefully prepared independent government cost estimate that provides a sound basis for evaluating proposals After the contract is awarded quality-building activities include appropriate numbers of trained contracting personnel to oversee contracting activities, and quality assurance/quality control programs. The quality of a contract derives from the totality of all the activities, rather than any one individual activity. Overall, we found weaknesses in a large number of activities.

## Prior SIGIR Assessment of Contract Oversight

This section summarizes some of the more significant problems identified in our April 2006 report on PHCs. The problems incurred on the PHC task orders are particularly significant to the termination of the entire contract because the PHC task orders represent 70% of the total construction value of the contract. These problems were originally identified in our April 2006 report on Primary Healthcare Centers[5] and to the extent they are discussed in this report they are only to illustrate problems that affected the contract before it was terminated. GRD and JCC-I/A have taken action to resolve some of these issues and management actions are discussed later in this report. Some of the weaknesses identified in the audit include**:**

**Turnover of Government Personnel -** The PHC project experienced high turnover of government personnel throughout the two years of the project in its contracting, administrative contracting, and program management offices. For example, Parsons officials estimate that there were approximately 17 different contracting officers since the March 2004 prime contract award. While the effect of this turnover on the project is difficult to quantify, in a draft memorandum (dated December 2005) addressing the contractor's performance, GRD states that the significant turnover of personnel in support of the contract contributed significantly to a perception of inexperience and unresponsiveness.

**Unilateral Direction -** During the course of the contract GRD-PCO program management directed critical actions without achieving bilateral agreement with the contractor. The report cites four instances in which the government directed actions that were not agreed to by the contractor, that lead to problems in execution and cost increases. The unilateral direction was symptomatic of the acrimonious relationship that existed between GRD and the contractor.

**Responsiveness of U.S. Government** - Throughout the contract, but especially since February 2005, Parsons has submitted requested equitable adjustments and excusable delay notices based on unplanned site conditions, design, or scope changes. For example, the 11 task orders had 47

[4] SIGIR 06-011, *Management of the Primary Healthcare Centers Construction Project*, April 29, 2006.
[5] SIGIR 06-011, *Management of the Primary Healthcare Centers Construction Project*, April 29, 2006.

changes in scope. Until October 2005, neither agency contracting officials nor the program management team were effectively responsive to the requests.

**Construction Changes** – Government personnel failed to follow required procedures for making constructive changes to the projects. A constructive change is a written or oral order (which includes directions, instructions, interpretations, or determinations) from the contracting officer or the administrative contracting officer, or actions or inactions on the part of the government hat causes a change in the specifications, or method or manner of performance, things to be provided by the government, or direction to accelerate the work. U.S. government personnel directed constructive changes to the project without following proper procedures. The changes were made to the project, but the changes were not properly definitized in a modification to the contract. The direction to make constructive changes occurred over a period of months until October 2005, when the contracting officer demanded proper definitization for future change. According to an agency contracting official, the practice of making constructive changes without following formal procedures meant it was hard for the government to get a good deal regarding cost, and program managers did not have the opportunity to make good decisions about size and volume that could have saved the government money.

**Quality Assurance** – GRD did not effectively execute its quality assurance responsibilities. SIGIR selected a judgmental sample of ten PHC projects from each of the three GRD districts and analyzed quality assurance reports to determine the number of reports filed and their quality. SIGIR found the range of reports filed was from 0 to 403 reports. Twelve sites had fewer than 50 reports filed over the course of a year. The quality of the reports also varied with some well written and others incomplete.

## Additional Oversight Problems Identified

During the course of this review, we identified some additional oversight issues including oversight of subcontractors and review of vouchers.

**Oversight of sub-contractors -** According to Parsons they awarded 219 construction subcontracts with the majority of these construction subcontracts awarded based on competition utilizing Fixed Firm Price or Fixed Unit Price/Not to exceed price basis. However, we noted problems in Parson's oversight of these subcontractors. GRD provided numerous documents referencing inconsistent and infrequent site visits to the project sites by Parson's personnel. According to GRD this led to a lack of "ground truth" on construction progress. Parsons officials agreed that they faced numerous challenges in overseeing the work of the subcontractors, and cited a number of challenges including

- fluctuating labor availability due to regional and national hostilities and security concerns, as well as the dearth in construction activities;

- unfamiliarity with construction, safety and quality assurance/quality control procedures and standards associated with U.S. government construction projects;

- cultural and language barriers which impacted communications between the subcontractor, Parsons and the U.S. government;

- a lack of familiarity with business practices used by western companies such as billing and accounting; and

- a lack of experience in obtaining materials, equipment, and fixtures that met the Western standards of the Prime Contract.

**Review of invoices -** Modification 3 of the Parsons contract addressed the submission of payment vouchers. According to the modification, invoices were to be submitted directly to DCAA for review and provisional approval. At the same time, copies were to be sent to the Contracting Officer and to the U.S. Army Corps of Engineers Finance Center, Millington, Tennessee for certification for payment. Each submission also had to include a government material inspection and receiving report.

In an April 2006 SIGIR Inspection report of PHCs, SIGIR Inspectors reported that neither DCAA nor the USACE Finance Center Millington had requested that the USACE Kirkuk Area Office or the on-site Quality Assurance Representative (QAR) responsible for the PHCs review or approve the invoices to validate the work claimed by the contractor. In fact SIGIR Inspectors observed several instances of construction work that did not meet the contract's requirements. Further investigation found that the contractor received payment for this non-compliant work.

GRD officials, in their response to SIGIR's inspection report, correctly noted interim payments do not require approval prior to payment. However, while interim payments may not require approval prior to the final invoice it is in the government's interest for the on-site Quality Assurance Representative (QAR) responsible for the project to review or approve the invoices and validate work claimed by the contractor. Because this validation did not take place, the potential exists for payments to be made to the contractor for work not performed or not performed to the contract standards.

## Termination of the Contract

When a contract is terminated for the convenience of the government, specific reasons for the termination are generally not identified. However, in its written response to our PHC report, GRD identified a number of reasons it was displeased with the contractor's performance. Among the reasons cited were the following:

- The contractor subcontracted the PHC design to a local engineering firm but failed to properly supervise its work resulting in poor quality submittals and design delays. For example, the contractor did not have in-country design professionals specialized in the design of medical facilities.

- The contractor did not have a geotechnical engineer in country that could properly supervise the geotechnical investigations.

- The contractor did not plan for the timely preparation of technical specifications. Initial submittals were generic, lacked consistency, detail and proper formatting.

- The contractor subcontracted work to a group of eight firms, most without significant construction experience in Iraq. The contractor did not perform due diligence in

checking the capacity of the firms to perform the required work and whether they had the qualifications and Iraqi registrations to perform work in Iraq.

- The contractor failed to control the work by not making contract provisions against the sale of subcontracts through a system of layered brokers.

- Contractor construction managers and supervisors did not visit the construction sites on a regular basis, which prevented the contractor from foreseeing and identifying problems.

- The contractor did not properly maintain a schedule for the PHCs. Schedules showed constant slippages that were not properly addressed.

## Management Actions

JCC-I/A and GRD officials took steps to address some of the issues that we identified.

- The U.S. government has committed to complete as many projects as possible. GRD has continued the work via direct contracting with local Iraqi companies and has completed many of the projects since Parsons work was terminated. According to GRD Officials' since termination construction has been completed on an additional 66 PHCs and 2 hospitals (bringing the total number of PHCs completed to 72).

- On July 18, 2005, JCC-I/A issued a "letter of concern" to Parsons stating, "This letter of concern is issued regarding certain shortfalls and non-compliance issues with quality, safety, schedule and performance criteria that must be immediately addressed and rectified." The letter referred to issues raised as a result of a Project and Contracting Office (PCO) site visit to PHCs in the Baghdad area.

- In the Fall of 2005, JCC-I/A assigned an overall interim unsatisfactory performance evaluation to the contractor because of unmet milestones, schedule slippages, and elusive administrative task order costs.

- Lacking confidence in the Parsons Global Services, Inc. weekly cost performance reports, the contracting officer requested the monthly cost performance reports as prescribed by contract section 2.3.5. On October 23, 2005, the government and Parsons agreed upon a format for the new reports. Subsequently, Parsons has produced monthly cost performance reports in the new format.

- On October 24, 2005, the contracting officer briefed PCO and Parsons Global Services, Inc. that required procedures for "constructive changes" to the project would be enforced. The contracting officer required that future constructive changes be properly definitized. He also pushed the formal process to bring the outstanding request for equitable adjustment (REA) to resolution. On December 21, 2005, negotiations commenced to reconcile Parsons' $39 million REA. As of February 24, 2006, 50 of 58 items had been resolved for $22 million. An agreement was signed and the task orders were funded. The eight remaining items were resolved under a unilateral agreement and the contract modification was signed on March 17, 2006.

- On December 21, 2005, Parsons Global Services, Inc. and the U.S. government commenced negotiation regarding Parsons' submission of excusable delays. An agreement was reached and schedules were adjusted in February, 2006.

- As we previously reported,[6] GRD-PCO and IRMO took steps late in 2005 to improve the quality of cost-to-complete reporting. The estimates reported in the December 31, 2005, Project Assessment Report for the PHC project appear more realistic than those previously reported. Representatives of IRMO and GRD-PCO stated that cost-to-complete reports are now used more effectively as a project management tool.

[6] SIGIR-05-027, "Methodologies for Reporting Cost-to-Complete Estimates", January 27, 2006.

# Conclusions and Lessons Learned

## Conclusions

The government used sound procedures for soliciting and awarding this contract; however, the execution suffered from an unstable security environment, lack of adequate project management, and limited resources. Overall, the contract accomplished little of what it set out to do. Of the eleven task orders for construction; three were completed and eight were terminated for the convenience of the government prior to completion.

## Lessons Learned

The U.S. reconstruction program in Iraq has been an exceedingly difficult undertaking. From the beginning, there have been planning and deployment issues resulting in delays in the start-up of projects, and increased contractor overhead costs. Rising security problems also made pre-award site assessments difficult to perform, created problems in defining project requirements, and, in some cases, made project site selection impossible. The security environment also affected the delivery of supplies and affected both the government's ability to successfully oversee its contractor's work and the contractor's capacity to properly supervise its subcontractors.

Within this environment it is not unexpected that individual project costs would increase and that there would be delays in completing projects. What is not expected, however, is the inability of management to remedy problems in a timely manner. In this contract, we have multiple problems including task orders in which the statements of work are poorly defined; the contractor accepting an unrealistic schedule, falling steadily behind that schedule, and failing to accurately report project status; and the government failing to take effective action to remedy the problems. While government visits to project sites were clearly difficult, oversight and surveillance of service and construction contracts is a fundamental element of acquisition, and is the collective responsibility of the requiring and contracting activities. For this particular contract, there were clearly problems on both sides. However, SIGIR believes the preeminent lesson learned is that the government is responsible for ensuring the contractor satisfies contract cost, schedules and performance requirements.

# Appendix A—Scope and Methodology

This audit report is one in a series of focused financial reviews of major prime contractors awarded contracts for IRRF reconstruction projects. The objectives of this audit were to assess (1) the outcome of work initiated under this contract, and (2) the internal controls used for contract management.

To report the outcome of the contract, we reviewed the basic contract, task orders and modifications. We interviewed audit personnel at DCAA and reviewed relevant DCAA audit reports. We analyzed reports submitted by Parsons and interviewed Parsons management. We also interviewed key personnel at GRD and JCC-I/A.

## Data Collection

To assess the contractor's performance, we determined the percentage of work completed by Parsons before termination of the contract task orders, using data provided by JCC-I/A, monthly contract performance reports submitted by Parsons, and the original objectives in the fourteen task order statements of work obtained from GRD. The Parsons reports summarized the total cost of all task orders grouped by work structure elements.

To determine the sub-contracting provisions and the extent of work subcontracted, we obtained a list of subcontractors, the task order modifications, the subcontracts, and the control system designed by Parsons to manage subcontracts.

To determine the costs associated with the related task orders, obligated and expended, we obtained the status of obligations report as of August 16, 2007 generated by the Corps of Engineers Financial Management Systems (CEFMS). We analyzed the reports to determine the obligated and disbursed cost for each task order. To determine the controls over the costs, we reviewed the relevant DCAA reports and analyzed Parson's monthly performance cost reports. We obtained the government's estimated cost, base fee and award fees and other costs for construction, medical equipment, administrative and support services from task order modifications that included charts entitled, "Summary of Definitized Price," which contained this information. We deemed the data appropriate for the purposes of this review based on our past assessments of the data and the fact that GRD uses the data to manage the projects.

For basic data on the specific projects, their locations, and Unique Requirement Identifier, we used GRD's Resident Management Systems (RMS).

To determine if health facilities were in use and/or accepted by the Government of Iraq, we relied upon a report in the Facilities and Transportation sector folder of GRD which contained this information

## Data Deficiencies

We were unable to obtain data on the amount of obligations and disbursements for a specific project, such as a specific primary healthcare center or a hospital. We did, however, obtain aggregate obligations and disbursements for each task order from CEFMS.

Due to security considerations SIGIR did not visit project construction locations during this review. However, SIGIR has visited Parsons construction sites on previous projects and inspections.

## Use of Computer-Processed Data

As stated, we reviewed obligations and disbursements from CEFMS reports. CEFMS was designed as a single entry system that can update, in real time, the general ledger and subsidiary ledgers. In CEFMS, as in other financial accounting systems, general ledger amounts should be in agreement with and supported by subsidiary ledgers and transactions detail amounts. We did not audit CEFMS but deemed it appropriate for this review based on our past use of the data and the fact that GRD uses the data to manage its projects.

We also reviewed PHC project data taken from the Resident Management System (RMS), which is used by GRD. RMS is a quality management and contract administration system designed by the Resident Engineer to help staff complete their mission. The system provides a method to plan, accomplish, and control contract management by integrating job specific requirements, corporate technical knowledge, and management policies. We did not audit RMS.

The percent complete data for the 141 PHCs was provided by JCC-I/A and the Iraq Reconstruction Management System (IRMS). IRMS is a master data base and is the interagency system used in Iraq for reporting the status of U.S. government funded projects. SIGIR audited and reported on IRMS report number SIGIR 06-001, "Management of Iraq Relief and Reconstruction Fund Program - Evolution of the Iraq Reconstruction Management System."

## Prior Coverage

In conducting this audit, we reviewed applicable reports issued by SIGIR, DCAA, and GAO. These reports include:

***Special Inspector General for Iraq Reconstruction (SIGIR):***

**Audit Reports**

SIGIR-06-011, *Management of the Primary Healthcare Centers Construction Projects* (April 28, 2006). The objectives of the audit were to determine if the contractor was in compliance with the terms of the contract or task orders and whether the government representatives were complying with general legislative and regulatory guidance concerning contract administration and financial management. The effectiveness of the monitoring and controls in place by administrative contract officer were evaluated.

**Inspection Reports**

SIGIR inspection reports of "Primary Healthcare Centers Numbered: KE-01 (SIGIR PA-06-043); KE-02 (SIGIR PA-06-042); KE-03 (SIGIR PA-06-046); KE-04 (SIGIR PA-06-045); and KE-05 (SIGIR PA-06-044) Kirkuk, Iraq".

***Government Accountability Office (GAO):***

*Rebuilding Iraq: Reconstruction Progress Hindered by Contracting, Security, and Capacity Challenges*, GAO-07-426T (Washington, D.C., February 15, 2007).

*Rebuilding Iraq: Actions Still Needed to Improve the Use of Private Security Providers*, GAO-06-865T (Washington, DC, June 13, 2006)

*Rebuilding Iraq: Stabilization, Reconstruction, and Financing Challenges, GAO-06-428T, (Washington, DC, February 8, 2006)*

*Rebuilding Iraq: Actions Needed to Improve Use of Private Security Providers*, GAO-05-737 (Washington, DC, July 28, 2005).

*Rebuilding Iraq: Fiscal Year 2003 Contract Award Procedures and Management Challenges*, GAO-04-605, June, 2004.

***Defense Contract Audit Agency:***

*REPORT NO. 2131– 2005N28000016*, January 15, 2005

R*EPORT NO. 2131– 2005N28000012*, December 21, 2004

*REPORT NO. 2131– 2005N28000003*, December 21, 2004

*REPORT NO. 2131– 2004N27000007*, October 19, 2004

# Appendix B —The Contracting Process

The Coalition Provisional Authority used competitive procedures resulting in a contract award to Parsons. The CPA required interested offerors to submit sealed bids, subject to negotiation, by February 5, 2004. Thirteen proposals were received with Parsons submitting its bid on the final day, February 5, 2004. Subsequent requests for best and final offers were made with Parsons submitting its final offer on March 9, 2004. The Source Selection Authority evaluated the offers according to Request for Proposals' established evaluation factors of Technical, Management, Past Performance and Cost and selected Parsons as representing the best value to the Government.

The Parsons contract had a cost ceiling of $500 million, consisting of a maximum cost of $425 million, a base fee of $15 million, and a maximum award fee of $60 million. The base fee was established at 3 percent of the contracts allowable costs, and the award fee could be up to12 percent of the negotiated estimated cost for each task order, as determined by the government's award-fee process. The contract was for a base performance period of two years with three one-year options. Funding was primarily provided through IRRF; however, the Department of Defense's Overseas Humanitarian, Disaster, and Civic Aid Appropriation provided approximately $9.3 million for medical equipment. Table 1 shows the timeline for contract award to Parsons.

### Table 1—Parsons Contract Award Timeline

| Date | Action |
|---|---|
| November 26, 2003 | Draft Request for Proposal (RFP) issued |
| November 21, 2003 | Input from several industries obtained |
| December 5, 2003 | Limitation of sources to selected countries signed |
| January 6, 2006 | Final RFP issued |
| January 14, 2004 | First amendment to RFP issued |
| January 20, 2004 | Advisory assessment obtained to facilitate sources selection |
| January 21, 2004 | Pre-Proposal conference held in Washington, DC |
| January 27, 2004 | Second amendment to RFP issued |
| January 29, 2004 | Third amendment to RFP issued |
| February 5, 2004 | The date for proposals closed with 13 proposals received |
| February 26, 2007 | 9 of 13 offerors notified they were outside the competitive range |
| March 2-5, 2004 | Discussions conducted with offerors in the competitive range regarding significant weaknesses in their proposals |
| March 5, 2004 | Final proposals revisions requested |
| March 9, 2004 | Final proposals received from all offerors in the competitive range |
| March 25, 2004 | Parsons Delaware, Inc. awarded contract W914NS-04-D-0006 |

*Source United States Army Corps of Engineers*

# Appendix C—Summaries of Task Orders

## Table 1—Task Order Results: Completions by Parsons

| Task Order | Original Description[a] | Total | Disbursed | Completion |
|---|---|---|---|---|
| 1 | Mobilization. | $5,940,509 | $5,936,192 | 100% |
| 2 | Renovate Ministry of Industry and Minerals buildings. | $8,257,981 | $8,258,377 | 100% |
| 3 | Renovate a Baghdad Hospital. | $9,585,023 | $9,365,516 | 80% |
| 4 | Design and construct 41 Primary Healthcare Centers in central Iraq. Provide equipment. | $50,594,431 | $45,671,168 | Construction 83% Medical Equipment 98% |
| 5 | Repair Ministries of Education and Higher Education Complex. | $1,115,736 | $1,187,575 | 100% |
| 6 | Rehabilitate 5 hospitals in southern Iraq. | $16,775,944 | $16,235,593 | 85% |
| 7 | Programmatic support services. | $115,846,710 | $113,826,387 | N/A |
| 8 | Rehabilitate hospitals in south central Iraq. | $11,066,849 | $10,425,089 | 82% |
| 9 | Rehabilitate a hospital in northern Iraq. | $4,562,774 | $4,279,626 | 90% |
| 10 | Rehabilitate 8 hospitals in northern Iraq. | $16,182,230 | $15,935,975 | 100% |
| 11 | Design and construct 49 Primary Healthcare Centers in northern Iraq. Provide equipment. | $63,717,850 | $45,780,825 | Construction 67% Medical Equipment 88% |
| 12 | Design and construct 60 Primary Healthcare Centers in southern Iraq. Provide equipment. | $71,718,592 | $53,706,323 | Construction 56% Medical Equipment 85% |
| 13 | Rehabilitate 3 hospitals in central Iraq. | $10,410,685 | $8,762,189 | 85% |
| 14 | Close-out task orders. | $2,900,000 | $2,718,076 | 100% |
| | **Totals** | **$388,675,314** | **$342,088,911** | |

[a] Although the task orders originally stated 41 PHCs for task order 4 and 49 PHCs for task order 11, documentation from JCC-I/A and GRD indicated there were 40 PHCs in task order 4 and 50 PHCs in task order 11. An additional 60 PHCs in Task Order 12, brought the total to 150 PHCs.

*Source: SIGIR Analysis, Joint Contracting Command – Iraq/Afghanistan; CEFMS Report, August 15, 2007, United States Army Corps of Engineers, Gulf Region Division.*

## Table 2—Financial Summary of Individual Task Orders (TO)

| TO | Original Description | Estimated Cost | Base Fee | Award Fee | Total | Obligations | Disbursed |
|---|---|---|---|---|---|---|---|
| 1 | Mobilization | $5,165,810 | $250,435 | $524,264 | $5,940,509 | $5,940,509 | $5,936,192 |
| 2 | Renovate Ministry Bldgs | 7,331,585 | 237,490 | 688,906 | 8,257,981 | 8,258,377 | 8,258,377 |
| 3 | Renovate Ibn Al Baladi Hospital | 8,251,610 | 320,820 | 1,012,593 | 9,585,023 | 9,585,023 | 9,365,516 |
| 4 | Construction & equip 41 PHCs in central Iraq | 48,480,652 | 1,306,906 | 806,873 | 50,594,431 | 50,069,433 | 45,671,168 |
| 5 | Repair Ministry Complex | 975,667 | 28,014 | 112,055 | 1,115,736 | 1,486,587 | 1,187,575 |
| 6 | Rehabilitate 5 hospitals in south | 14,569,778 | 663,929 | 1,652,237 | 16,775,944 | 16,851,572 | 16,235,593 |
| 7 | Programmatic support services | 105,107,638 | 3,073,704 | 7,702,457 | 115,846,710 | 115,846,800 | 113,826,387 |
| 8 | Rehabilitate south central hospitals. | 9,802,419 | 352,307 | 912,123 | 11,066,849 | 11,066,849 | 10,425,089 |
| 9 | Rehabilitate Al Ramadi Hospital | 4,148,115 | 132,332 | 282,327 | 4,562,774 | 4,412,859 | 4,279,626 |
| 10 | Rehabilitate 8 hospitals in north Iraq | 14,651,023 | 488,817 | 1,042,390 | 16,182,230 | 16,182,230 | 15,935,975 |
| 11 | Construction & equip 49 PHCs in north | 60,781,051 | 1,623,337 | 1,313,462 | 63,717,850 | 52,068,182 | 45,780,825 |
| 12 | Construction & equip 60 PHCs in south | 68,243,917 | 1,907,990 | 1,566,685 | 71,718,592 | 61,350,218 | 53,706,323 |
| 13 | Rehabilitate 3 central Iraq hospitals | 9,779,217 | 315,734 | 315,734 | 10,410,685 | 9,077,923 | 8,762,189 |
| 14 | Close out | 2,900,000 | N/A | N/A | 2,900,000 | 3,020,774 | 2,718,076 |
| | **Totals** | **$360,188,482** | **$10,701,815** | **$17,932,106** | **$388,675,313** | **$365,217,336** | **$342,088,911** |

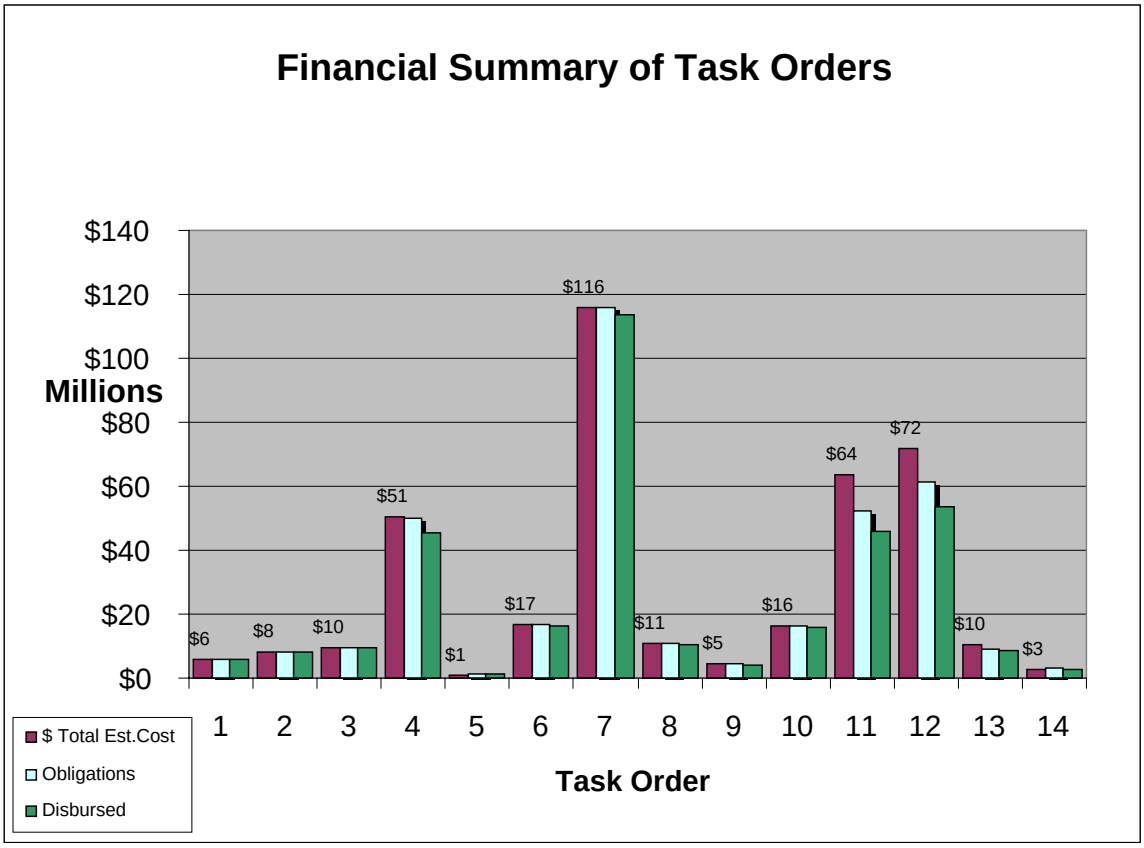
[a] Task Order 4 total includes a fixed cost of $312,000

[b] Task Order 11 total includes a fixed fee of $364,000 and a Non-fee bearing overrun of $2,372,043.

PHC = Primary Healthcare Center

*Source: CEFMS Report, August 15, 2007; U.S. Army Corps of Engineers, Gulf Region Division; Joint Contracting Command – Iraq/Afghanistan*

**Chart 21- Financial Summaries of Individual Task Orders**




1 Mobilization, 2 Ministry Industry and Minerals, 3 Hospital, 4 Central PHCs, 5 Education Ministries, 6 Southern Hospitals, 7 Programmatic Support, 8 South Central Hospitals, 9 Hospital, 10 Northern Hospitals, 11Northern PHCs, 12 Southern PHCs, 13 Central Hospitals, 14 Close-out

*Source: SIGIR Analysis, Joint Contracting Command – Iraq/Afghanistan; CEFMS, U.S. Army Corps of Engineers, Gulf Region Division. Data as of August 15, 2007*

# Appendix D—Acronyms

| | |
|---|---|
| CEFMS | US Army Corps of Engineers Financial Management System |
| CPA | Coalition Provisional Authority |
| DCAA | Defense Contract Audit Agency |
| GAO | Government Accountability Office |
| GRD | Gulf Region Division |
| IRMO | Iraq Reconstruction Management Office |
| IRMS | Iraq Reconstruction Management System |
| IRRF | Iraq Relief and Reconstruction Fund |
| ITAO | Iraq Transition Assistance Office |
| JCC-I/A | Joint Contracting Command – Iraq/Afghanistan |
| PCO | Project and Contracting Office |
| PHC | Primary healthcare center |
| RMS | Resident Management System |
| SIGIR | Special Inspector General for Iraq Reconstruction |
| USACE | United States Army Corps of Engineers |

# Appendix E—Audit Team Members

This report was prepared and the review was 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 conducted the audit and contributed to the report include:

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Mark Comfort

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| | |
|---|---|
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