United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

Special Inspector General for Iraq Reconstruction

Joint Audit of Blackwater Contract and Task Orders for Worldwide Personal Protective Services in Iraq

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PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its responsibility to promote effective management, accountability and positive change in the Department of State and the Broadcasting Board of Governors.

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to the OIG and, as appropriate, have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of those who contributed to the preparation of this report.

Harold W. Geisel
Acting Inspector General

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EXECUTIVE SUMMARY

The Department of State, Bureau of Diplomatic Security (DS), is responsible for protecting personnel, facilities, and information—both domestic and abroad. Over the years, DS has been unable to provide long-term personal protective services solely from its pool of special agents, and it has turned to contractual support. When, in 2004, on short notice, the Department assumed responsibility for protecting Coalition Provisional Authority (CPA) personnel in Iraq, it turned to contractor support.

In mid-2004, the Department negotiated sole-source letter contracts with Blackwater Security Consulting and with Triple Canopy for personal security services in Iraq, which were already providing personal protective services in Iraq to the CPA under Department of Defense contracts. In June 2005, the Department awarded its second Worldwide Personal Protective Services contract to three companies—Blackwater, Triple Canopy, and DynCorp International, LLC. This report focuses on the Blackwater contract in Iraq and associated task orders.

The total estimated costs for the Department's contracts and task orders with Blackwater for Iraq were over $1 billion as of May 29, 2008. The contracts are funded primarily with Department Diplomatic and Consular Programs (D&CP) funds and about $76 million of Iraq Relief and Reconstruction Funds (IRRF). A joint audit by the Department of State Office of Inspector General (OIG), Office of Audits, and the Special Inspector General for Iraq Reconstruction (SIGIR), Office of Audits, was determined to provide an efficient way to review funding and performance under the contract. The joint audit was to address four objectives:

1. What was the contracting process?

2. What were the key requirements and provisions of the contract and task orders?

3. What are the costs and funding sources of the contract and task orders?

4. How did the Department administer the contract and task orders to provide proper oversight of Blackwater's cost and performance in Iraq?

As agreed to between SIGIR and OIG, SIGIR addressed the first three questions, and OIG addressed the fourth question with assistance from SIGIR staff in Baghdad, Iraq.

We found that the contract and two of the three task orders were awarded to Blackwater through standard competitive processes. We also found that the third task order, which had been awarded noncompetitively, was justified. However, we identified improvements needed by the Department in administering the contract and providing more stringent oversight of Blackwater's cost and performance in Iraq as follows:

- Department officials in Iraq did not establish or perform measures to confirm the accuracy of labor costs used as the basis for contract billing. Monthly invoices from the contractor were paid without adequate review of support documentation.

- Full manning of protective details is important to the safety of the principal being protected, as well as for the members of the protective detail. However, penalties for noncompliance with contract staffing requirements were not assessed. We estimated deductions totaling $55 million applicable to manpower shortages during 2006 and 2007.

- The Department is doing a commendable job in providing oversight of weapons and vehicles provided to Blackwater. However, Department oversight of all other government-furnished property was inadequate, and contractor lists were incomplete and inaccurate and therefore unreliable. In some instances, Blackwater property was erroneously identified as government property.

- Blackwater's travel costs were not adequately reviewed. Ineligible travel costs of $127,364 were paid for airfare in excess of coach fare. During the audit, the contracting officer recovered $56,457 of the total amount ineligible under the contract.

- Contract oversight files required by the contracting officer's representatives were not easily accessible and may not be complete in Iraq and at headquarters.

We recommend that the Department designate a full-time contracting officer's representative on-site in Iraq to verify labor charging data entered there and to monitor Blackwater's control and accounting for government-furnished property. In addition, the Department should determine whether deductions to the contract price should be made for inadequate staffing and, if so, the amount of these deductions. Further, we recommend that excess travel costs of $70,907 billed by Blackwater be recovered. Finally, we recommend that the contracting officer instruct the contracting officer's representatives to establish and maintain files that are easily accessible and complete in accordance with the Foreign Affairs Handbook.

Representatives from SIGIR and OIG met with Department officials to discuss the report's findings and recommendations on April 14, 2009. OIG and SIGIR provided the Bureau of Administration (A), DS, and Embassy Baghdad with copies of the draft report for review and comments on April 29, 2009. As the action entity for all of the recommendations, A provided written comments on the draft report (A's response has been included in its entirety in Appendix C). DS and Embassy Baghdad did not provide separate comments on the draft report, but DS cleared A's response.

In its response, A did not specifically concur with any of the recommendations. Rather, it stated that it would "coordinate with," "work with," or was "currently in dialogue" with DS on the actions addressing six (Nos. 1, 2, 3, 4, 6, and 7) of the recommendations. A said it would "consult with" the legal office, as recommended in the first part of recommendation 5. (Action for the second part is dependent on the legal opinion received.) Consequently, we consider recommendation 5 resolved, but the remaining six recommendations are unresolved, pending A's concurrence. The recommendations will be closed upon evidence that corrective actions have been implemented.

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BACKGROUND

Under the Omnibus Diplomatic Security and Antiterrorism Act of 1986,[1] the Department of State, Bureau of Diplomatic Security (DS), has a broad range of responsibilities that include protection of personnel, facilities, and information—both domestic and abroad. Over the years, DS has increasingly been tasked with providing long-term personal protective services and, because it was unable to provide those services solely from its pool of special agents, has turned to contractual support. According to contracting officers with the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management (A/LM/AQM),[2] the Department turned to contractor support in 2004, when the Department of Defense (DoD) told it on short notice that it would have to assume responsibility for protecting Coalition Provisional Authority (CPA) personnel in Iraq.

Blackwater Contracts

According to A/LM/AQM contracting officers, the Department negotiated, in mid-2004, sole-source letter contracts with Blackwater Security Consulting and Triple Canopy for personal security services in Iraq.[3] At that time, the Department had a Worldwide Personal Protective Services (WPPS) contract with DynCorp International, LLC, for personal protective services in Bosnia, Israel/Palestinian Territories, and other locations.[4] However, according to A/LM/AQM contracting officers, DynCorp was fully engaged and could not take on additional work. Also, both Blackwater and Triple Canopy were already providing personal protective services in Iraq to the CPA under DoD contracts.

[1]Public Law 99-399.
[2]The office is responsible for providing contracting officer support to Department organizations.
[3]A letter contract is a written preliminary contractual instrument that authorizes the contractor to begin work immediately and is used when a definitive contract (defined contract terms, specifications, and price) is not possible in sufficient time to meet the government's requirements. (Source: Federal Acquisition Regulation [FAR 16.603]).
[4]MVM, Incorporated, was also a participant in the WPPS contract, but it left the program in 2001 because of its inability to meet program requirements.

The letter contract with Blackwater became effective on June 11, 2004,[5] and was definitized on February 9, 2005. The contract was for a fixed price of $106,209,242 and a 1-year performance period from June 11, 2004, through June 10, 2005. Blackwater's requirements under the contract included providing 341 trained personal protective services personnel and other personnel such as pilots and vehicle mechanics,[6] four aircraft, 3,659 flight hours, nine leased vehicles, maintenance and spare parts for the vehicles, personal body gear, and weapons-related items. The contract performance period was ultimately extended to September 10, 2006, and total contract costs increased to $332,472,205. During the contract extension, the number of personal protective services personnel more than doubled, specialists such as translators and intelligence analysts were added, and training and contractor-furnished equipment increased.

In June 2005, the Department awarded its second WPPS contract (WPPS II) to three companies—Blackwater, Triple Canopy, and DynCorp.[7] As of June 2008, the following task orders had been awarded under the contract:

- Each company was awarded a task order, No. 1, to establish a local program management office in the Washington, DC, area. Officials in DS's High Threat Protection Division (HTPD)[8] said that the local program management offices were needed to provide DS and A/LM/AQM with ready access to company representatives to discuss contract and operational issues.[9] The initial period of performance for Blackwater under its task order 1 was from July 19, 2005, through July 18, 2006. The task order provided for four 1-year options. The Department had exercised the extensions through the second option year, which was scheduled to end on July 18, 2008. The total estimated cost for the local program management office through July 18, 2008, which includes the base year and two option years, was $2,705,124. The task order included funding for four fully armored vehicles for training purposes: $491,328 for the vehicles and $68,672 for operations and maintenance costs.

- Task orders 2, 3, 4, and 5 are for personal protective services in Jerusalem, Haiti (task order now closed), Kabul, and Bosnia (the task order is inactive and was being closed), respectively.

[5]Contract number S-A/LM/AQMPD-04-D-0061.
[6]The contract had detailed training requirements for personal protective services personnel, who represented about 90 percent of total personnel.
[7]Contract number S-A/LM/AQMPD-05-D-1098 was awarded to Blackwater.
[8]HTPD is responsible for managing the personal protective services program and WPPS II contract within DS.
[9]Corporate headquarters for the three companies are as follows: Blackwater (Moyock, North Carolina), Triple Canopy (Herndon, Virginia), and DynCorp (Falls Church, Virginia).

- Task order 6 was competed among the three contractors and awarded to Blackwater. It provides for personal protective services in Baghdad and Ramadi and for static guard services at the Baghdad WPPS camp, and it did provide for air services in Iraq[10]—services previously provided under the Blackwater letter contract. The task order was awarded for a 1-year base period and four 1-year options. The base period was from May 8, 2006, through May 7, 2007. The task order was in the second option year, which was scheduled to expire on May 7, 2009. The total estimated cost of the task order through May 7, 2009, which includes the base year and two option years, was $791,202,505.

- Task orders 7, 8, and 9 were awarded noncompetitively to Triple Canopy, Blackwater, and DynCorp, respectively. A/LM/AQM contracting officials said that the three contractors agreed to this arrangement, which provides each with a sector of the country—DynCorp in the north, Blackwater in the center, and Triple Canopy in the south. Task order 8 is for protective security services in Al-Hillah, Najaf, and Karbala—services previously provided under the Blackwater letter contract. The task order was awarded on August 5, 2006, for a 1-year base period and four 1-year options. Task order 8 was in the first option year, which was scheduled to expire on August 4, 2008. The total estimated cost of the task order through August 4, 2008, which includes the base year and one option year, was $113,160,844.

- Task order 10 was competed among the three contractors and awarded to Blackwater. Only Blackwater and Triple Canopy submitted bids. The task order is for aerial support in Iraq and replaces the aerial support provided under task order 6. The support includes search and rescue, medical evacuation, the transporting of quick reaction forces to respond to incidents, and limited air transportation for chief of mission personnel to conduct official business. The task order was awarded on September 4, 2007, for a 1-year base period and four 1-year options. The total estimated cost of the task order through the base year, which was scheduled to end on September 3, 2008, was $107,120,799.

The total estimated cost for Blackwater task orders 1, 6, 8, and 10 was $1,014,189,271 as of May 29, 2008. According to A's response to the draft report, the Department plans "to have new 'WPPS III' contracts awarded in 2010."

[10]Protective security services for Ba'quba were originally included in the task order but were deleted in August 2006. The air services were transferred to task order 10.

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PRIOR OIG REPORTS

In September 2007, OIG issued the report *Accounting for Government-Owned Personal Property Held by Selected Contractors in Afghanistan* (AUD/IQO-07-48). OIG conducted this audit to determine whether the Department could account for government-owned personal property and equipment such as vehicles, weapons, generators, and information technology and communication equipment furnished to and purchased by Blackwater and another contractor to implement programs in Afghanistan. OIG found that the Department could not account for all of the property and equipment furnished to and purchased by the contractors. Contractor inventory lists were incomplete and therefore unreliable. Although the contractors could account for most of the items that OIG had selected to verify from the inventory lists, the lists did not include all government-owned property or costs for a significant amount of the property.

The above deficiencies existed because the Department had not developed and implemented adequate internal control over the government-owned property held by contractors. Specifically, the Department had not defined and clearly assigned oversight responsibilities, and it had not developed standard policies and procedures to monitor contractor-held property. As a result, the Department could not accurately determine the total quantity and costs or track and control the property, and it lacked adequate support to determine whether the property acquired under the contracts was needed or received. Although the Department had recently taken steps to improve its oversight of contractor-held property, OIG recommended additional actions to improve control over the property. The Department agreed with all of the report's recommendations and subsequently developed and implemented the policies, procedures, and other guidance recommended by OIG.

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OBJECTIVES, SCOPE, AND METHODOLOGY

The audit team consisted of staff from the Special Inspector General for Iraq Reconstruction (SIGIR) and/or the Department's Office of Inspector General, Office of Audits. Therefore, references to work conducted for this audit by these parties refer to this team. The Department of State's contracts with Blackwater are funded with a combination of Diplomatic and Consular Programs (D&CP) funds and Iraq Relief and Reconstruction Funds (IRRF). OIG and SIGIR performed a joint audit to review all funding and performance for the contracts. The joint audit was to address four objectives pertaining to the WPPS II contract and Blackwater task orders 1, 6, 8, and 10 as follows:

1. What was the contracting process?
2. What were the key requirements and provisions of the contract and task orders?
3. What are the costs and funding sources of the contract and task orders?
4. How did the Department administer the contract and task orders to provide proper oversight of Blackwater's cost and performance in Iraq?

As agreed to between SIGIR and OIG, SIGIR addressed the first three questions, and OIG addressed the fourth question with assistance from SIGIR staff in Baghdad. SIGIR's responsibility was to review the contracting process and identify the key requirements and provisions of the contracts and task orders, as well as to determine the costs and sources of funds applied to the contract and task orders. Estimated costs for Blackwater task orders 1, 6, 8, and 10 totaled about $1 billion as of April 2008. OIG's responsibility was to review the Department's oversight of Blackwater's contract cost and performance.

We reviewed official contract files, as well as pertinent documents, laws, and regulations in the Federal Acquisition Regulation (FAR), Department of State Acquisition Regulations (DOSAR), and the Foreign Affairs Handbook (FAH). The audit included reviews of related files such as solicitation documents, contract modifications, contracting officer's representative (COR) project files, weekly and monthly contractor reports to the Department, and DS program evaluations. DS's Chief Financial Officer (CFO) provided financial information based on official Department accounting records. We also reviewed related SIGIR and OIG audit reports

and reports from the Government Accountability Office (GAO). In some cases, sampling techniques were used to conduct tests of Department and contractor data. Sample selection information and the results are interspersed throughout this report. The scope and methodology used are further described in Appendix A, and the sampling methodology and results for the inventory review are presented in detail in Appendix B.

This audit was performed under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. SIGIR performed its audit work from March through June 2008 at the Department's A/LM/AQM and DS offices in Washington, DC OIG performed its audit work from March 2008 to March 2009 at the Department's A/LM/AQM and DS offices in Washington, DC, and at Embassy Baghdad during August 2008 with the assistance of the SIGIR office there. The overseas work in Baghdad was delayed during March and May 2008 because of an increase in hostilities and a moratorium on travel to Iraq. While in Iraq, the team interviewed almost 700 Blackwater employees, observed contractor operations and facilities, verified accountable property and equipment, and reviewed program records. OIG also met with Embassy officials, including the regional security officer (RSO) who has program oversight responsibilities for all personal security services contractors in Iraq. OIG also contacted, by telephone and e-mail, Blackwater staff at their local program office in McLean, Virginia, to clarify contract and program issues.

The audit work was performed in accordance with generally accepted government auditing standards. Those standards require that SIGIR and OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis to support the information presented and the findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives. On April 14, 2009, we met with A/LM/AQM and DS officials to discuss the findings and proposed recommendations.

OIG and SIGIR provided A, DS, and Embassy Baghdad with copies of the draft report for review and comments on April 29, 2009. As the action entity for all of the recommendations, A provided written comments on the draft report. DS and Embassy Baghdad did not provide separate comments on the draft report, but DS cleared A's response.

RESULTS

We found that the contract and two of the three task orders were awarded to Blackwater after following standard competitive processes. We also found that the noncompetitively awarded task order was justified for several reasons, according to contract documents. However, we found that improvements were needed in identifying and confirming, in Iraq, the accuracy of labor costs charged under a complex array of labor rates and job categories; complying with contract provisions to assess penalties when minimum staffing levels were not met; monitoring and controlling government-owned property; reviewing Blackwater's travel costs; and maintaining official COR files.

Contracting Process

Worldwide Personal Protective Services II

Offers for participation in WPPS II were solicited from seven companies, and all seven submitted proposals. The companies were Blackwater; Triple Canopy; DynCorp; Worldwide Special Operations, Joint Venture; USIS International; MVM Incorporated; and Inter-Con Security Systems, Inc. A technical evaluation panel evaluated the proposals on the following evaluation factors, which are listed in descending order of importance:

- Experience in conducting personal protective services in a hostile environment
- Technical/management plan
- Personnel recruitment, retention, and surge capability
- Training plan
- Past performance in conducting personal protective services
- Task order evaluation

The technical evaluation panel rated Blackwater, Triple Canopy, and DynCorp as the top three companies. The panel consisted of four individuals representing HTPD, the RSO in Baghdad, the Diplomatic Security Training Center, and the U.S. Agency for International Development. The panel had a source selection plan that established the organization, responsibilities, procedures, and evaluation criteria for evaluation of the proposals. A summary of the evaluation process detailed the rationale for the panel's rating of each proposal on the technical evaluation factors. We found that the panel's rankings of the proposals were consistent with their technical evaluations of those proposals and therefore did not identify any issues with the award process for WPPS II.

Task Orders

The WPPS II contract specified that the participating companies be given the opportunity to bid on individual task orders or statements of work. However, of the five task orders awarded for personal protective services in Iraq, only task orders 6 and 10 were open to competition. Task orders 7, 8, and 9 were sole-source awards, with each company awarded responsibility for the region in which it was operating. The task orders are detailed as follows:

- Task Order 6. According to contract documents, all three companies submitted proposals for this task order. A technical evaluation panel evaluated the proposals using two weighted factors: technical management plan (90 percent of the scoring) and past performance (10 percent of the scoring). The panel recommended that the award be made to Blackwater. A separate price evaluation was conducted and determined that Blackwater's price as adjusted was the lowest of the three cost proposals and was within 1 percent of the government's independent cost estimate.

- Task Orders 7, 8, and 9. These noncompetitive awards were justified for several reasons, according to contract documents. To promote competition for any future work under WPPS II, it was determined to be in the best interest of the government to allow Triple Canopy to continue performing in Basrah in the south and DynCorp to continue performing in Erbil in the north. Additionally, according to contract documents, significant cost savings would be gained by not transitioning work in these areas to a new contractor. Moreover, the incumbents were familiar with and were already established in these remote, dangerous, and hard-to-reach regions and were thus better able to provide uninterrupted protective services in these areas.

- Task Order 10. According to contract documents, the three contractors performing under WPPS II were asked to submit proposals to meet a requirement for aviation services in Iraq. Only Blackwater and Triple Canopy submitted proposals. A technical evaluation panel that comprised eight individuals, including subject matter experts, evaluated the task order proposals. The panel evaluated the two proposals in areas that included personnel qualifications, aerial operations, logistical support, maintenance support, and past and current performance. The panel rated Blackwater's proposal higher and recommended that Blackwater be awarded the task order. Blackwater's price proposal was lower than that submitted by Triple Canopy. Although the task order was open to competition among the participants in WPPS II, Blackwater had an advantage, since it was already performing aviation services under task order 6.

Requirements of Contract and Task Orders

We judgmentally selected contract requirements considered key to Blackwater's operations and the Department's control of costs. Specifically, we reviewed the provisions that required Blackwater to screen personnel and select only those who met DS requirements; train personnel to DS standards; account for and control inventories; submit invoices on a monthly basis; prepare and submit reports to the COR on its operations; and establish and maintain a local program management office in the Washington, DC, area.

Personnel Screening and Selection

The WPPS II contract requires that Blackwater perform the following tasks:

- Develop, submit, and implement an applicant screening process in accordance with DS requirements.
- Ensure that contractor personnel engaged in the screening process are experienced screeners.
- Complete, upon receiving the results of the COR's pre-screening, an investigation of each applicant for a protective services or support position in accordance with the DS-approved contractor screening procedures.
- Screen out applicants who do not meet the security and suitability qualifications required for the positions for which the applicants have applied.

- Forward, to the COR, only those applicants who have been verified by the contractor as meeting the screening requirements in the contract and each task order.

According to Blackwater representatives, the company recruits highly qualified ex-military or law enforcement personnel for personal protective services who are accustomed to working in austere and hostile environments. Blackwater documents state that the screening and selection process includes the following:

- Certification by Blackwater of a candidate's eligibility for a position based on the candidate's biography; an interview of the candidate; and a review of supporting documents, such as former military records. A DS official said that DS relies on the Blackwater certification of eligibility rather than the pre-screening of candidates because it was too time consuming for the Department.

- A criminal records check of the candidate by the Virginia state police. If criminal activity is uncovered, the candidate becomes ineligible. If no criminal activity is uncovered, the candidate must receive a Secret clearance from the Department and must pass a psychological evaluation and medical and dental examinations.

- Close monitoring of the candidate throughout training for stability and performance. According to the Blackwater proposal for task order 6, candidates may be eliminated from training at any time for behavioral or performance issues.

Personnel Training

The WPPS II contract requires that the contractor perform the following:

- Establish a personal protective security training program approved by DS and develop training plans that meet or exceed those used by the Diplomatic Security Training Center.[11]

- Conduct training in accordance with the DS training curriculum.

- Ensure that only those individuals who have successfully completed the DS personal protective security training are employed on DS personal protective services details.

[11]The Center is used to train DS special agents.

- Ensure that all armed personal protective security detail members and armed guards are requalified on all required firearms on a quarterly basis.

Inventory Control

The WPPS II contract requires both the government and Blackwater to provide different types of equipment needed under the task orders. For example, the government provides weapons, ammunition, and vehicles, and the contractor provides medical, maintenance, and personal protection equipment on a cost-reimbursable basis. All equipment items become government assets that Blackwater must place under its accounting and inventory controls. The contract requires Blackwater to do the following:

- Conduct an inventory check of all assets on a quarterly basis.
- Submit, to the COR, a written report accounting for all assets on a quarterly basis.
- Submit, immediately upon the discovery of a loss of an asset, a report on the loss to the COR.

According to the contract, the government reserves the right to conduct an inventory of all weapons on an annual basis and more frequently if desired.

Invoicing

WPPS II is an indefinite delivery, indefinite quantity contract with the task orders defining the delivery period and the services to be provided and specifying whether costs are fixed price or reimbursable. The contract states that Blackwater may submit invoices on a monthly basis. The invoices should be for costs that are allowable and supported in accordance with the FAR, the contract, and the task orders.

Performance Reporting

The WPPS II contract requires Blackwater to submit the performance reports listed in Table 1.

Table 1. WPPS II Required Performance Reports

Report Title	Content
Weekly Status Report	Status of operations relative to all task orders to include protective operations; manning levels; names of personnel on board; and significant events such as activities, problems, and progress.
Monthly Total Contract Performance	Assessment of performance against all requirements in active task orders.
Six Month Performance Report	A rolled-up assessment of performance against all completed and active task orders.
Lessons Learned Report	Identification of all positive and negative aspects of all ongoing or completed protective security details with recommendations for future action.

Source: WPPS II contract.

Local Program Management Office

Task order 1 requires Blackwater to establish a local program management office within a 50-mile radius of Washington, DC. The task order also requires Blackwater to obtain facilities that do not exceed 1,200 square feet unless authorized by the contracting officer; provide standard office furniture; provide communications equipment; and ensure that personnel can travel to Department facilities in the Washington, DC, area and other locations as necessary.

Funding Sources and Costs

Letter Contract Funding and Costs

According to the Department, IRRF funds of about $24.4 million were applied to the Blackwater letter contract but were withdrawn because of questions raised by GAO during a review of the status of Iraq reconstruction contracts.[12] GAO reported that the Department had failed to notify Congress when it applied IRRF funds

[12] *Rebuilding Iraq: Status of Competition for Iraq Reconstruction Contracts* (GAO-07-40, Oct. 6, 2006).

to the noncompetitively awarded contract, as required by law.[13] The Department's response to the GAO report stated that the IRRF funds were deobligated and were replaced with D&CP funds, which negated the requirement for Congressional notification. According to data provided by DS, the total cost of the letter contact was $332,472,205.

Worldwide Personal Protective Services II Contract Funding and Costs

The total obligation for WPPS II for Iraq was $1.069 billion as of April 9, 2008, which includes obligations for Blackwater task orders 1, 6, 8 and 10; Triple Canopy task orders 1 and 7; and DynCorp task orders 1 and 9. According to the DS CFO's office, IRRF funds were used to fund WPPS II for FY 2006. IRRF funds totaling $100.96 million were obligated against WPPS II, which represented 9.4 percent of obligations on the contract as of April 9, 2008.

As of April 9, 2008, $832.3 million had been obligated for the Blackwater task orders, which consisted of $755.6 million of other Department funds and $76.7 million of IRRF funds (9.2 percent of total obligated amount). Table 2 shows the funding amounts by task order.

Table 2. Obligations on Blackwater Task Orders as of April 9, 2008

Task Order	Total Obligations (in millions)	Other Department Funds (in millions)	IRRF Funds (in millions)
1	$ 2.6	$ 2.0	$ .6
6	578.2	517.1	61.0
8	127.9	112.8	15.1
10	123.7	123.7	0
Total*	$832.3	$755.6	$76.7

*Total may not add because of rounding. Source: DS CFO office.

[13]Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 § 2202 (P.L. 108-106, Nov. 6, 2003).

As of April 9, 2008, $466.4 million had been expended against the $832.3 million of obligations on the Blackwater task orders, as shown in Table 3.

Table 3. Obligations and Expenditures by Task Order as of April 9, 2008

Task Order	Total Obligations (in millions)	Total Expended (in millions)
1	$2.6	$ 2.3
6	578.2	388.0
8	127.9	64.2
10	123.7	11.9
Total*	**$832.3**	**$466.4**

*Total may not add because of rounding. Source: DS CFO office.

According to DS, Blackwater bills at a fixed price of $1,768 per day for the local program management office. This amount is for the services of three people, leased office space, and office equipment.

Our analysis of the invoices for task orders 1, 6, and 8 through February 2008 shows that $376.2 million, or 74 percent, of $506.3 million of total invoices processed for these task orders pertained to labor. The six largest cost items are shown in Table 4.

Table 4. Largest Cost Items in Blackwater Task Orders 1, 6, and 8

Item	Costs (in millions)	Percent of Total
Labor	$376.2	74
Helicopter support and maintenance	36.5	7
Living space and equipment	30.2	6
Protective security specialist training	19.3	4
Travel	9.2	2
Defense Base Act Insurance	10.6	2

Source: DS listing of invoices.

As shown, most of the costs relate to labor provided by Blackwater for such personnel as team leaders, protective security specialists, pilots, intelligence analysts, firearms instructors, explosive detection dog handlers, armorers, fully armored vehicle technicians, aviation mechanics, and medical officers. Labor costs for task orders 6 and 8 were computed using the labor categories (e.g., protective security

specialist, pilot, and guard) and number of positions and daily rate for each labor category as specified in the task order. For example, the initial base year requirement for task order 6 was for 313 protective security specialists for the Baghdad Embassy at a fixed daily rate.[14] The maximum billable days for those specialists is 313 days a year, although personnel are required to be available in case of emergencies 365 days a year.

Other large cost items are billed at a fixed price. For example, helicopter support provided under task order 6, the second largest cost item for that task order, was billed at a fixed price for the use of Blackwater helicopters at no more than 120 hours per aircraft per month. Living space is government-furnished; however, food and camp operations are contractor-furnished at a firm, fixed price.

Contract Administration and Oversight

We found that improvements were needed in the following areas:

- Providing oversight of procedures used in Iraq to prepare schedules to document billing for labor charges in monthly invoices.
- Administering the contract deduction clause when required staffing levels were not maintained.
- Monitoring inventories of government-furnished property.
- Reviewing and reimbursing travel costs billed by Blackwater.
- Maintaining easily accessible and appropriate COR files.

We concluded that financial accountability and contract oversight needed to be strengthened because DS did not verify the basis of labor charges at the source of input in Baghdad, DS did not apply deductions to the contract price for inadequate staffing, the Department did not determine the adequacy of Blackwater's property management system, and the Department did not adequately manage the Blackwater inventory lists. Blackwater overbilled DS for airfare in excess of coach fare, and the CORs did not maintain appropriate financial and program files.

[14]The fixed daily rate includes salary, post differential, danger pay, and allocations of general and administrative expenses and profit. The specific rate is proprietary information.

In addition to interviewing A/LM/AQM and DS officials in Washington, DC, and obtaining and reviewing documentation provided by them, we visited Embassy Baghdad in August 2008 to perform on-site interviewing and testing. For four weeks, we verified data in the June 2008 muster sheet[15] and interviewed 672 Blackwater staff concerning their experience and training, as well as physically inspecting selected government-furnished property assigned to them. We also spoke with RSO staff who had WPPS II oversight duties. Based on those interviews and inspections, we developed our conclusions and findings, which are discussed as presented.

Personnel Screening and Selection

To determine whether Blackwater staff had the requisite experience qualifications for the positions they held, we selected a random sample of 99 of the 672 Blackwater staff interviewed and compared the experience cited in their resumés with the contract requirements for the positions to which they were assigned.

Based on our review of the 99 resumés, we found that only one individual was not qualified for the position occupied. As DS had renewed its review of Blackwater staff in December 2008, DS officials conducting the review were aware of this individual and indicated that they had contacted Blackwater about the issue.

Personnel Training

A Department official said that Blackwater has established a Department-approved training program for personal protective security personnel in Moyock, North Carolina, and a Department-approved training program for third-country nationals in their country of origin. The personal protective security training program trains candidates on matters such as organization of a protective service detail, terrorist operations, motorcade operations, radio procedures, emergency medical care, and firearms shooting proficiency. Other specialists have their own training requirements. For example, task order 10 requires pilots to have a minimum of 1,500 total flight hours in rotary wing aircraft (50 hours in rotary wing aircraft within the preceding six months prior to employment) and 200 hours using night vision equipment. A DS official said that DS personnel periodically visited the Moyock facility and attended training sessions to ensure that the training was in accordance with Blackwater's training plans and contract requirements.

[15]To support monthly invoices for labor costs, Blackwater submits schedules of personnel who are in country and available for duty, which are called "muster sheets."

Based on our interviews with 672 Blackwater staff in Baghdad, we determined that all employees had attended the WPPS training prior to assignment in Iraq.

Oversight of Contractor-Held Government-Owned Property

The Department's oversight of contractor-held government-owned property needs to be improved. Blackwater provided the Department with the required quarterly inventory lists; however, the lists were incomplete and inaccurate and therefore unreliable. Although we were able to account for most of a random sample of property on the lists while in Baghdad—especially weapons and vehicles that were subject to special Department oversight—we determined that Department oversight of and internal controls over Blackwater's tracking, reporting, and control over government-furnished property were deficient. We consider the need for complete and accurate accounting for government-furnished property held by Blackwater to be especially critical, as Blackwater's task orders in Iraq were scheduled to end in May 2009 and contractor-held government-owned property will be returned to the Department. Without accurate inventory lists, there will be no means of determining whether all government-owned property has been properly accounted for.

Contractor Responsibilities

The FAR[16] requires a contractor to create and maintain an inventory listing of all government-furnished and contractor-acquired property in its possession to be complete, current, and auditable. Furthermore, the FAR lists specific data, such as product description, manufacturer, model number, unique item identifier (e.g., serial number), and unit acquisition cost. The Department's Office of the Procurement Executive's Procurement Information Bulletin (PIB) 2007-21, which provides guidance for the administration of contractor-held government-furnished property, requires annual and quarterly inventory reports for categories of property such as vehicles and property over $25,000 while also specifying formats and data to be reported. In addition, the WPPS II contract requires the contractor, on a quarterly basis, to conduct an inventory check of all assets and to submit a written report accounting for all assets.[17]

[16]FAR 52.245-1(f) (1)(iii).
[17]WPPS II contract, section C.4.3.8.3.

Property Administrator Responsibilities

PIB 2007-21 specifies responsibilities for the property administrator, including managing all government-furnished property and contractor-acquired property under the contract. These responsibilities include determining whether property should be provided to the contractor, as well as whether the contractor should acquire property for the account of the government; determining the method of and providing directions on the disposition of property; ensuring contractor compliance with contract requirements for property, including conducting all required inventories; and properly identifying all relevant contracts for all relevant property involved.

The delegation of authority for the property administrator provides additional specifics, including monitoring the contractor's management of and quarterly and annual reporting on government-furnished and contractor-acquired property, ensuring that the contractor conducts all required inventories, and reviewing inventory lists and reports maintained by the contractor to verify that they contain the basic information required by the FAR.[18] This authority was delegated to the COR in Baghdad for task order 6 and an alternate contracting officer's representative (ACOR) in Baghdad for task order 10.

The delegations of authority for the CORs who are not also property administrators also include similar but more limited responsibilities than those CORs who have the property administrator designation.

Most Property Could Be Verified

We verified, during a site visit to Baghdad, most of the items selected from the FY 2008 third quarter inventory lists for task orders 6 and 10. We randomly selected a sample of over 500 items to verify from four strata (vehicles, weapons, items over $25,000 that should be reported as capitalized property, and other items). (A description of the sampling methodology is detailed in Appendix B.) Overall, we verified 97 percent of the items, including all vehicles, weapons, and items over $25,000, in our sample. We attributed our ability to verify all weapons and vehicles in our sample to the level of direct DS oversight of these categories through the quarterly RSO physical inventories and other periodic reconciliations by DS personnel from Washington.

[18]FAR 52.245-1(f)(1)(iii).

Such oversight was lacking for the "other" category of personal property, in which we could not account for 14 items (9 percent): four handheld radios, four body armor vests, two pairs of binoculars, one satellite phone, one body armor plate, one Global Positioning System, and one deep fat fryer.

As part of the interview of 672 Blackwater personnel, we requested that each person bring assigned property, such as weapons and radios, to the interview. We collected data on 572 handheld radios and 1,273 weapons (M-4 rifles and 9-mm pistols). Using this information, we verified that all of the weapons and all but two of the radios brought to the interviews were listed on Blackwater's inventory list. The Bureau of Information Resource Management (IRM) radio shack inventory list provided to us showed the two radios as being issued to two other Blackwater personnel.

We concluded that the number of property items verified was reasonable, considering the conditions under which Blackwater personnel were operating.

Inventory Lists Inaccurate and Incomplete

Blackwater provided the Department with the required quarterly inventory lists; however, we found that the lists for the third quarter of FY 2008 (the inventory list we used for verification in Baghdad) were inaccurate and incomplete and therefore unreliable. We reviewed inventory lists provided by DS and found that they did not have the required data, they contained inaccuracies, and they listed contractor-owned property as government-owned property.

Acquisition cost data required by the FAR and the PIB for government-furnished property was often missing from or listed as "N/A" on Blackwater inventory lists. For example, of the approximately 3,600 weapons, 240 vehicles, and 900 handheld radios furnished by the government to Blackwater under task orders 6 and 10, none showed the acquisition costs. In addition, none of the four large generators used to power the Blackwater mancamp in Baghdad showed acquisition costs. We noted that similar generators identified in OIG's 2007 report on Afghanistan property[19] had individual acquisition costs in excess of $25,000, which required that they be reported under the PIB. Because these items were provided by the Department, the Department was responsible for providing the cost data to Blackwater; however, it did not do so, even though the data was available in other Department records.

[19]Accounting for Government-Owned Personal Property Held by Selected Contractors in Afghanistan (AUD/IQO-07-48, Sept. 2007).

Adding to the inaccuracy and unreliability of the inventory lists, we identified other errors and omissions as follows:

- Inventory lists for task orders included duplicate listings (albeit often showing them assigned to different individuals or locations) for weapons and vehicles, even though the physical inventories were said to be conducted concurrently.

- All M-4 rifles were labeled as M-16 rifles, even though the Department did not furnish M-16 rifles.

- An M-4 rifle and the associated scope were on Blackwater's inventory list, even though they had been issued to a Department security officer (they were listed as being assigned to him) who was not a Blackwater employee and should not have been on Blackwater's list.

- Items such as four large generators, washers and dryers, and an overhead hoist did not have serial numbers listed.

Blackwater quarterly inventory lists provided to us listed all property as government-furnished property (GFP) or contractor-acquired property (CAP)—categories defined in the FAR as government-owned property. However, the lists also included contractor-owned property. For example, although both DS and Blackwater noted that 13 vehicles (Pumas, Mambas, and Saxons) were Blackwater-owned, these items were labeled as government-furnished. In addition, although both DS and Blackwater subsequently informed us that virtually all property for task order 10, other than weapons and vehicles, was to be provided by the contractor and was contractor-owned, all property on the task order 10 inventory list—including Blackwater aircraft and parts of over $39 million—was listed as government-furnished or contractor-acquired.

Although the COR in Washington and the COR property administrator at post told us that the inventory lists were routinely reviewed for discrepancies and were reconciled with other internal Department inventory lists, neither individual could provide evidence of reviews or explain why the discrepancies that we found were not discovered and then corrected.

To attempt to determine why the discrepancies occurred, we interviewed Blackwater staff while performing verifications of property in Baghdad in August 2008. Staff members said that the inventory lists were prepared at post by Blackwater staff after the quarterly inventory was completed and then transmitted to Blackwater headquarters in Moyock, where they were reviewed and modified before being

submitted to DS headquarters. However, we compared the list maintained in Baghdad with the list provided by DS and noted that some data on the list provided by DS differed from, and appeared to be less accurate than, data on the list maintained in Baghdad. Blackwater staff in Baghdad could not explain the differences. Furthermore, although both the COR at DS headquarters and the property administrator in Baghdad said that they had reviewed the inventory lists, neither individual provided any evidence that he had found the errors and omissions or had directed Blackwater to make corrections.

Blackwater management in Baghdad said that all property was inventoried and reported to the Department on a quarterly basis as required. In addition, management reported that weapons and vehicle inventories were reconciled with Department quarterly inventories conducted by the RSO at Embassy Baghdad. The Department also conducted quarterly inventories of handheld radios in Baghdad, although it was not clear whether and to what extent these inventories were reconciled with Blackwater inventories. At post, IRM personnel controlled and accounted for government-furnished handheld radios. DS also periodically sent a team from Washington to physically verify Department inventories for weapons and vehicles and sometimes for radios but verified these items using the RSO and IRM inventory lists instead of the Blackwater inventory list.

The property administrators for the Blackwater task orders were a COR and an ACOR who fulfilled these functions as collateral duties under their primary responsibilities at post. For example, the property administrator for task order 6 was also the Deputy RSO for Protection at Embassy Baghdad. Consequently, the amount of time and attention paid to property administration was limited, as it was not the highest priority compared with the individual's other duties. In fact, the property administrator on task order 6 estimated that about 5 percent of his time was spent on property administration, for which he received no special training. He said that as Deputy RSO for Protection, he was more concerned with security-related duties.

Although errors and omissions on the inventory lists did not prevent Blackwater from locating most of the property we selected to verify, we concluded that these errors and omissions could have been identified and corrected had DS property administrators routinely performed thorough reviews of the inventory lists and observed physical inventories of the property.

Furthermore, the Department could not accurately determine the total quantity and costs of all government-furnished and contractor-acquired property for the Iraq task orders. While no significant losses were identified during the audit, the potential exists for significant losses not to be discovered when the property is to be accounted for and returned to the Department when Blackwater's task orders end in May 2009.

At the end of the fieldwork, we reviewed Blackwater's fourth quarter inventory list for FY 2008. The review indicated that five of the 14 items we could not locate in Baghdad were no longer listed on the contractor inventory records. As of December 2008, the RSO property administrator at post indicated that he had not been informed by Blackwater that the items we were unable to account for were missing, and he could not explain why any of these items had been removed from or remained on the inventory lists and why Blackwater had not informed him, as required, of the missing property.

Recommendation 1: We recommend that the Contracting Officer, Bureau of Administration, Office of Logistics Management, in coordination with the Bureau of Diplomatic Security, ensure, before the end of WPPS II contract S-A/LM/AQMPD-05-D-1098 task orders 6 and 10 in May 2009, that the appropriate contracting officer's representatives and/or property administrators take the following actions:

- Provide Blackwater with the acquisition costs for all government-furnished property and ensure that such costs are properly recorded and reported in Blackwater's inventory lists.
- Resolve the status of the 14 items that could not be accounted for and the two radios that OIG could not find on Blackwater's inventory lists and take all actions as appropriate, including ensuring that Blackwater's inventory lists are modified as necessary.
- Confirm the accuracy of Blackwater's inventory lists by reconciling them with the inventory lists from the Regional Security Office and the Bureau of Information Resource Management at Embassy Baghdad, and make any required adjustments.
- Review the inventory lists once the specified actions have been completed to ensure that the proper corrections have been made.

Bureau Response and OIG Reply

In its response (Appendix C) to the draft report, A did not specifically concur with the recommendation. Rather, it stated that A/LM/AQM "will coordinate" with DS for the transition of both task orders 6 and 10. In addition, A stated that DS program office personnel had "conducted a 100% inventory of government furnished equipment during the transition of Blackwater's Task Order 6 in Baghdad to Triple Canopy." A further stated that all of the items listed in the recommendation had been located and identified except for two body armor vests and that the serial numbers for at least two body armor vests "had become worn to the point of being unreadable, complicating inventory efforts for these items." A also stated that completed inventory forms had been signed, on May 6, 2009, by representatives from USTC (Blackwater) and Triple Canopy and by an ACOR.

On the basis of A's response, we consider the recommendation unresolved. The recommendation can be resolved when A concurs with the recommendation and closed when we receive evidence that the actions specified in the recommendation have been implemented.

Mislabeling of Property

Prior to our visit to Iraq in August 2008, we found that Blackwater had not corrected the mislabeling of property as either GFP or CAP on its property records. We first questioned this apparent mislabeling of property when we spoke to the DS COR in Washington during July 2008. Subsequently, the DS COR instructed Blackwater to correct this deficiency for the FY 2008 fourth quarter inventory lists. We reviewed the fourth quarter inventory lists and verified that they now showed three categories of property: government-furnished, contractor-acquired, and contractor-furnished. The first two categories referred to government-owned property, and the third category referred to contractor-owned property. However, as of mid-December 2008, the COR had not reviewed the inventory list or verified that all government-furnished and contractor-acquired property owned by the government was properly included and categorized on the lists. With Blackwater's task orders for Iraq set to end in May 2009, at which time all government personal property should be accounted for and returned to the government, there is no assurance that relying on the inventory lists provided by Blackwater will properly identify and account for all government-owned property.

Recommendation 2:
of Administration, Office of Logistics Management, in coordination with the Bureau of Diplomatic Security, designate a full-time contracting officer's representative/property administrator on-site in Iraq to oversee all government-furnished and contractor-acquired property held by contractors under WPPS II contract S-A/LM/AQMPD-05-D-1098 task orders in Iraq and any such future contracts and task orders and ensure that property administrator training is provided to the property administrator prior to arrival in Iraq. A high priority should be given to properly identifying and accounting for all government-owned property.

Bureau Response and OIG Reply

In its response (Appendix C) to the draft report, A did not specifically concur with the recommendation. Rather, A stated that A/LM/AQM and DS are "currently in dialogue on this issue and will be sending staff . . . to Iraq in June 2009 to perform a joint review of processes, procedures and issues with the ultimate goal being to implement a solution to appropriately address property management and oversight."

On the basis of A's response, we consider the recommendation unresolved. The recommendation can be resolved when A concurs with the recommendation and closed when we receive evidence that the actions specified in the recommendation or acceptable alternatives have been implemented.

Blackwater's Property Management System for Accounting for Personal Property

We found no evidence that Blackwater's property management system for accounting for personal property was reviewed either before or during the term of the contract task orders for Iraq. The FAR,[20] the Department's PIB 2007-21, and the delegation of authority for the property administrator all require an analysis of the contractor's property management policies, procedures, practices, and systems. While the FAR gives this responsibility to the contracting officer or "the representative assigned the responsibility as property administrator," both the PIB and the delegation of authority for the property administrator assign the primary responsibility to the contracting officer.

[20]FAR 45.105(a).

The WPPS II base contract was awarded in August 2004. Although this was approximately 3 years before the PIB was issued, the FAR requirement was in effect at that time. In a September 2007 OIG audit report[21] on contractor-held government-furnished property in Afghanistan, OIG found that Blackwater's Property Control System had not been reviewed, and the report recommended that the Department implement guidance to comply with the FAR.

Despite the requirements in the FAR and the PIB and the related OIG recommendation, we found no evidence that Blackwater's property system had been reviewed. The current contracting officer told us that she believed the property control system had been reviewed but that she could not provide any documentation that this had been accomplished. She suggested that the COR may have that information. However, the COR said that he was unaware of any such review. Consequently, we could not determine whether the review had been accomplished or any conclusions had been reached as to the adequacy of Blackwater's property management system. As noted previously, we identified deficiencies in Blackwater's inventory lists. We believe that many of these deficiencies could have been discovered and corrected if the Department had focused on a review of Blackwater's property management system.

Recommendation 3:
Administration, Office of Logistics Management, in coordination with the Bureau of Diplomatic Security, perform a review within 180 days of the issuance of this report to determine the adequacy of Blackwater's property management policies, procedures, practices, and systems pursuant to requirements in the Federal Acquisition Regulation (FAR 45.105) and Procurement Information Bulletin 2007-21. For the deficiencies identified, a corrective action plan that addresses all Department of State contracts with Blackwater should be prepared.

[21] Accounting for Government-Owned Property Held by Selected Contractors in Afghanistan (AUD/IQO-07-48, Sept. 2007).

Bureau Response and OIG Reply

In its response (Appendix C) to the draft report, A did not specifically concur with the recommendation. Rather, it stated that A/LM/AQM and DS will "coordinate on action for this issue."

On the basis of A's response, we consider the recommendation unresolved. The recommendation can be resolved when A concurs with the recommendation and closed when we receive evidence that the actions specified in the recommendation have been implemented.

Labor Verification of Muster Sheet Input Is Not Adequate

Blackwater is required, under the WPPS II contract, to submit invoices with supporting documents to DS for reimbursement, which Blackwater does monthly. To support monthly invoices for labor costs, Blackwater submits schedules of personnel who are in country and available for duty, which are called "muster sheets." Although DS headquarters reviews the muster sheets to determine whether the labor category pay rates used are correct and verifies mathematical accuracy of the calculations, DS does not verify, at the source of the input in the field, that individuals listed on the muster sheets were in country and on duty for the time periods billed.

The FAH[22] states that contract administration should ensure that the terms and conditions agreed to when the contract was awarded are actually carried out. This process includes monitoring the contractor's technical progress and approving invoices for payment in accordance with contractual terms.

The contracting officer has designated CORs to perform these duties. Since one COR is at DS headquarters in Washington, DC, contract monitoring in-country is assigned to a COR who is a special agent in the RSO at Embassy Baghdad. However, since the COR duties are collateral and are assigned to special agents who spend most of their time planning and executing their own protective missions, the special agents have little time for contract administration or monitoring.

Because DS did not establish and perform measures to verify that information was input into the muster sheets at its source in the field, there is no assurance that personnel staffing data was accurate or complete and that correct labor rates were paid.

[22] 14 FAH-2 H-124.1 and 14 FAH-2 H-142 b. (7) and (14).

Recommendation 4:
Administration, Office of Logistics Management, in coordination with the Bureau of Diplomatic Security, for WPPS II contract S-A/LM/AQMPD-05-D-1098 task orders 6, 8, and 10 in Iraq and any such future contracts and task orders, designate a full-time contracting officer's representative on-site in Baghdad and Hillah, Iraq, to perform, among other contract-related duties, a monthly verification of labor cost data entered at those locations based on observations and tests made in the field.

Bureau Response and OIG Reply

In its response (Appendix C) to the draft report, A did not specifically concur with the recommendation. Rather, it stated that A/LM/AQM and DS will "coordinate on action for this issue."

On the basis of A's response, we consider the recommendation unresolved. The recommendation can be resolved when A concurs with the recommendation and closed when we receive evidence that the actions specified in the recommendation have been implemented.

Labor Deductions to the Contract Price Were Not Taken for Inadequate Staffing

As discussed, Blackwater submits monthly invoices, along with muster sheets, to document the number of personnel performing under the task orders. The contract states that all positions must be filled 100 percent of the time and that Blackwater is to be assessed deductions when this level is not maintained.

Although muster sheets indicated that Blackwater did not provide the required manning for protection details in accordance with the contract terms, DS did not invoke, for invoices submitted from May 2006 through December 2007, the contract measure providing for deductions in the award price when proper manning levels are not maintained. Based on our review of the muster sheets for the period specified, we found that Blackwater did not maintain the required number of personal security specialists, designated defensive marksmen, emergency medical technicians, and

explosive detection dog handlers on-site and available for duty, as shown in Table 5.

Table 5. Number of Months Staffing Below Required Levels

Labor Category	Task Order 6	Task Order 8
Personal security specialist	16 of 19 months	15 of 17 months
Designated defensive marksman	11 of 19 months	9 of 17 months
Emergency medical technician	10 of 19 months	10 of 17 months
Explosive detection dog handler	13 of 19 months	N/A

Source: OIG review of Blackwater-provided muster sheets.

The COR is responsible for monitoring the contractor's performance and notifying the contracting officer of any performance failure by the contractor and any needed changes in contract specifications, according to the FAH.[23] The task orders specify levels of manning for various labor categories. For example, a protective service detail comprises one shift leader, 10 personal protective service detail members, one emergency medical technician, and two designated defensive marksmen. In addition, as the RSO determines to be necessary, the detail is to be supported by explosive detection dogs, quick reaction force, and the counter assault team.

The WPPS II contract, section H.15, "File Deduction Clause, Price Deduction for Less than 100% Manning," states the following:

> The full manning of protection details is extremely important to the safety of the principal being protected as well as the remainder of the protection detail. Manning shortfalls have been a major problem based on past experience with protective details by the High Threat Protection Office. Therefore, this contract will have strong incentives to man details by the proposed deployment date and retain high staffing levels on all task orders.
>
> If deployments are made on time and staff is retained 100% of the time no deductions to the award price will be made. If manning falls below a minimum or the correct number of personnel are not deployed on time, a large reduction in the award price will be made in addition to not being able to invoice the hours/days not worked.

The section further specifies a deduction for personal security team members of $1,800 per day and the deduction for support personnel of $1,200 per day.

[23] 14 FAH-2-H-142 b. (9) and (11).

We met with A/LM/AQM and DS officials in June 2008 and asked why Blackwater had not been charged deductions for the shortage in personnel, as the contract specifies. The contracting officer stated that since Blackwater was meeting the service requirements, meaning that the convoys were showing up when required, there was no need to invoke the deduction clause set in the contract. The contracting officer added that the Department had never invoked the deduct clause in the contract and therefore had lost the right to do so. However, in November 2008, the contracting officer stated that the deduct clause had been reinstated in September 2008, adding that Blackwater had been charged deductions for the July 2008 invoices for task orders 6 and 8. In its response to the draft report, A clarified that the contracting officer had notified all three WPPS contractors of the Government's intent to reinstate its right to exercise the deduct clause and advised the contractors that enforcement would begin for violations noted in periods of performance after June 1, 2008.

We believe that full manning of protective details is important to the safety of the principal being protected, as well as to the members of the protective detail. As a result, we concluded that insufficient manning exposed the Department to unnecessary risk that could have been avoided by full staffing. We estimated deductions of $55 million applicable to manpower shortages as calculated on muster sheets submitted by Blackwater for task order 6 (for the period June 2006 to December 2007) and task order 8 (for the period August 2006 to December 2007).

Recommendation 5: We recommend that the Contracting Officer, Bureau of Administration, Office of Logistics Management, for WPPS II contract S-A/LM/AQMPD-05-D-1098 task orders 6, 8, and 10, obtain a legal opinion from the Office of the Legal Adviser on whether charging deductions for past inadequate staffing would be appropriate; calculate, if the opinion is affirmed, the appropriate deductions for the entire contract period and offset those deductions against Blackwater's contract claimed costs; and continue to apply deductions for manpower shortages as required by the contract.

Bureau Response and OIG Reply

In its response (Appendix C) to the draft report, A did not specifically concur with the recommendation. However, A stated that A/LM/AQM "will consult with" the legal office, as recommended, which addresses the first part of the recommendation. The second part of the recommendation is dependent upon the legal opinion received.

On the basis of A's response, we consider the recommendation resolved. The recommendation can be closed when we receive evidence that a legal opinion has been obtained. If the opinion affirms that deductions should be taken for the entire contract period, A should provide evidence showing that the deductions have been applied and the appropriate funds have been recovered or offset against claimed costs.

Unallowable Travel Costs Were Billed to the Contract

Blackwater billed the Department unallowable travel costs of $127,364 for contractor staff assigned to Baghdad and Hillah, Iraq. These costs were for airfare in excess of coach fare and consisted of $91,259 for task order 6 invoices for May 2006 to December 2007 and $36,105 for task order 8 invoices for August 2006 to December 2007. As of early February 2009, $56,457 had been recovered by the Department as an offset to contractor billings and $70,907 remained outstanding to be recovered: $66,597 for task order 6 and $4,310 for task order 8.

The FAR[24] states that airfare costs in excess of the lowest customary standard, coach, or equivalent airfare offered during normal business hours are unallowable except when such accommodations require circuitous routing, require travel during unreasonable hours, require excessively prolonged travel, result in increased costs that would offset transportation savings, are not reasonably adequate for the physical or medical needs of the traveler, or are not reasonably available to meet mission requirements.

A DS official said that unallowable travel costs were paid because DS did not have adequate voucher review staff to identify and prevent overbillings. Although DS has staffing and processes in place to review invoices, the official indicated that in the early period of the contract, for which most of these charges applied, the voucher staff did not have sufficient resources to perform an intensive review of the invoices. As a result of improper flight bookings, costs in excess of those allowed by the FAR were charged to the Department.

[24]FAR § 31.205-46, "Travel Costs" (para.b).

Recommendation 6: We recommend that the Contracting Officer, Bureau of Administration, Office of Logistics Management, for WPPS II contract S-A/LM/AQMPD-05-D-1098 task orders 6, 8, and 10, collect the remaining over-billings of $70,907 for the cost-reimbursable items and determine whether un-allowable travel costs have been paid for the contract period not reviewed. If costs have been paid, these amounts should also be collected.

Bureau Response and OIG Reply

In its response (Appendix C) to the draft report, A did not specifically concur with the recommendation. Rather, it stated that A/LM/AQM "will coordinate" with DS to review this matter.

On the basis of A's response, we consider the recommendation unresolved. The recommendation can be resolved when A concurs with the recommendation and closed when we receive evidence that the actions specified in the recommendation have been implemented.

UNCLASSIFIED

OTHER MATTERS

Contracting Officer's Representatives Files Are Not Accessible or Complete

The COR in Washington and the COR in Baghdad said that they maintain COR files in their office computer or personal e-mail files. The COR in Washington said the e-mail files were easier to maintain, and the COR in Baghdad said he knew of no other way to maintain such files.

The FAH (14 FAH-2-H-513) states that CORs are expected to maintain a file documenting significant actions and containing copies of trip reports, correspondence, and reports of deliverables received under the contract. The purpose of the file is to provide easy access to technical information and work progress and to ease transition to a new COR.[25] The FAH lists items to be maintained in the files, including the complete procurement request package, the solicitation, the technical and cost proposals submitted by the contractor, the contract and all modifications, progress reports, correspondence and telephone synopses to and from the contractor, documentation of the acceptability or unacceptability of deliverables, documentation of on-site visits, and copies of invoices.

COR files are particularly important in the field, where CORs are rotated yearly and are entitled to 2 months each year away from post for rest and relaxation purposes. However, because the COR files are not easily accessible to others and may not be complete,[26] incoming or acting CORs may not have the information and institutional knowledge they need to properly administer and monitor the contract.

[25] 14 FAH-2-H-517.

[26] In its response to the draft report, A stated, "The COR files in Washington are quite thorough and complete." Based on the information provided by A, OIG clarified the finding for this final report.

Recommendation 7: We recommend that the Contracting Officer, Bureau of Administration, Office of Logistics Management, for WPPS II contract S-A/LM/AQMPD-05-D-1098 task orders 6, 8, and 10 in Iraq and any such future contracts and task orders, instruct all contracting officer's representatives (COR) to establish and maintain COR files that are easily accessible and complete in accordance with the Foreign Affairs Handbook (14 FAH-2-H-513 and 517).

Bureau Response and OIG Reply

In its response (Appendix C) to the draft report, A did not specifically concur with the recommendation. Rather, it stated that A/LM/AQM "will work with DS to ensure that in-country CORs and/or ACORs establish and maintain files." Although A further noted that "the primary WPPS COR in DS/OPO/HTP currently maintains thorough and proper COR files," we did not verify this during the course of the audit. However, the COR files in Washington consisted of electronic files and e-mails that were not easily accessible to users other than the COR. A also stated that DS is "working on implementing a shared-access software tool to accommodate ease of access to all DS staff associated with WPPS contract administration functions."

We commend this approach, and if it is proven to be successful, it can be adopted as a best practice for contract administration by other Department contracting officers. On the basis of A's response, we consider the recommendation unresolved. The recommendation can be resolved when A concurs with the recommendation and closed when we receive evidence that the actions specified in the recommendation have been implemented.

LIST OF RECOMMENDATIONS

Recommendation 1: We recommend that the Contracting Officer, Bureau of Administration, Office of Logistics Management, in coordination with the Bureau of Diplomatic Security, ensure, before the end of WPPS II contract S-A/LM/AQMPD-05-D-1098 task orders 6 and 10 in May 2009, that the appropriate contracting officer's representatives and/or property administrators take the following actions:

- Provide Blackwater with the acquisition costs for all government-furnished property and ensure that such costs are properly recorded and reported in Blackwater's inventory lists.
- Resolve the status of the 14 items that could not be accounted for and the two radios that OIG could not find on Blackwater's inventory lists and take all actions as appropriate, including ensuring that Blackwater's inventory lists are modified as necessary.
- Confirm the accuracy of Blackwater's inventory lists by reconciling them with the inventory lists from the Regional Security Office and the Bureau of Information Resources Management at Embassy Baghdad, and make any required adjustments.
- Review the inventory lists once the specified actions have been completed to ensure that the proper corrections have been made.

Recommendation 2: We recommend that the Contracting Officer, Bureau of Administration, Office of Logistics Management, in coordination with the Bureau of Diplomatic Security, designate a full-time contracting officer's representative/property administrator on-site in Iraq to oversee all government-furnished and contractor-acquired property held by contractors under WPPS II contract S-A/LM/AQMPD-05-D-1098 task orders in Iraq and any such future contracts and task orders and ensure that property administrator training is provided to the property administrator prior to arrival in Iraq. A high priority should be given to properly identifying and accounting for all government-owned property.

Recommendation 3: We recommend that the Contracting Officer, Bureau of Administration, Office of Logistics Management, in coordination with the Bureau of Diplomatic Security, perform a review within 180 days of the issuance of this report to determine the adequacy of Blackwater's property management policies, procedures, practices, and systems pursuant to requirements in the Federal Acquisition Regulation (FAR 45.105) and Procurement Information Bulletin 2007-21. For the deficiencies identified, a corrective action plan that addresses all Department of State contracts with Blackwater should be prepared.

Recommendation 4: We recommend that the Contracting Officer, Bureau of Administration, Office of Logistics Management, in coordination with the Bureau of Diplomatic Security, for WPPS II contract S-A/LM/AQMPD-05-D-1098 task orders 6, 8, and 10 in Iraq and any such future contracts and task orders, designate a full-time contracting officer's representative on-site in Baghdad and Hillah, Iraq, to perform, among other contract-related duties, a monthly verification of labor cost data entered at those locations based on observations and tests made in the field.

Recommendation 5: We recommend that the Contracting Officer, Bureau of Administration, Office of Logistics Management, for WPPS II contract S-A/LM/AQMPD-05-D-1098 task orders 6, 8, and 10, obtain a legal opinion from the Office of Legal Adviser on whether charging deductions for past inadequate staffing would be appropriate; calculate, if the opinion is affirmed, the appropriate deductions for the entire contract period and offset those deductions against Blackwater's contract claimed costs; and continue to apply deductions for manpower shortages as required by the contract.

Recommendation 6: We recommend that the Contracting Officer, Bureau of Administration, Office of Logistics Management, for WPPS II contract S-A/LM/AQMPD-05-D-1098 task orders 6, 8, and 10, collect the remaining overbillings of $70,907 for the cost-reimbursable items and determine whether unallowable travel costs have been paid for the contract period not reviewed. If costs have been paid, these amounts should also be collected.

Recommendation 7: We recommend that the Contracting Officer, Bureau of Administration, Office of Logistics Management, for WPPS II contract S-A/LM/AQMPD-05-D-1098 task orders 6, 8, and 10 in Iraq and any such future contracts and task orders, instruct all contracting officer's representatives (COR) to establish and maintain COR files that are easily accessible and complete in accordance with the Foreign Affairs Handbook (14 FAH-2-H-513 and 517).

ABBREVIATIONS

A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisition Management
ACOR	Alternate contracting officer's representative
CAP	Contractor-acquired property
CFO	Chief Financial Officer
COR	Contracting officer's representative
CPA	Coalition Provisional Authority
Department	Department of State
D&CP	Diplomatic and Consular Programs
DoD	Department of Defense
DOSAR	Department of State Acquisition Regulations
DS	Bureau of Diplomatic Security
FAH	Foreign Affairs Handbook
FAR	Federal Acquisition Regulations
GAO	Government Accountability Office
GFP	Government-furnished property
HTPD	Bureau of Diplomatic Security, Office of Overseas Protection, High Threat Protection Division
IRM	Bureau of Information Resource Management
IRRF	Iraq Relief and Reconstruction Fund
OIG	Office of Inspector General, Office of Audits
PIB	Procurement Information Bulletin
RSO	Regional Security Officer
SIGIR	Special Inspector General for Iraq Reconstruction
WPPS	Worldwide Personal Protective Services

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APPENDIX A

Scope and Methodology

The scope and methodology used to address the audit objectives are described as follows:

Objective 1 – Contracting Process

We conducted interviews to determine whether the second Worldwide Personal Protective Services (WPPS II) contract and task orders awarded to Blackwater Security Consulting were sole-source or competitive awards. For the competitive awards (WPPS II and task orders 6 and 10), we reviewed the contract files to determine the process used by the government for the award, as well as the government's evaluation of technical and cost proposals, to determine whether they supported the selection. For the noncompetitive award (task order 8), we obtained and reviewed the government justification for the award.

Objective 2 – Key Contract and Task Order Requirements and Provisions

We reviewed the provisions of the WPPS II contract and task orders awarded to Blackwater to identify requirements that, in our judgment, are key to Blackwater's operations and the Department of State's control of costs. We also reviewed the Blackwater proposals and interviewed program officials for information relevant to Blackwater performance in accordance with these requirements and provisions.

Objective 3 – Costs and Funding Sources

We obtained funding information from the Bureau of Diplomatic Security's (DS) Office of the Chief Financial Officer and cost information from the Contracts Support Branch in DS's Office of Overseas Protective Operations, High Threat Protection Division, and analyzed the cost information to determine the largest cost items in the Blackwater task orders. We reviewed the contract and task orders and conducted interviews with budget officials to determine the basis by which Blackwater is

reimbursed for its costs. We did not review the Department's or DS's internal control of financial systems, nor did we validate the accuracy of the data. We relied on that financial data because it is the official financial data and the best data available; however, no tests of any of the general and application controls of the automated system utilized were conducted.

Objective 4 – Contract Administration and Oversight

To determine the adequacy of the Department's administration of the contract and task orders to provide sufficient oversight of the contractor, we focused on three areas—verifying the qualifications of Blackwater personnel, reviewing the Department's management of Blackwater's property inventory listings, and examining invoices. Our review of personnel qualifications determined whether Blackwater staff had the requisite experience and training for the positions held. The inventory review assessed whether the Department could account for the government-owned personal property furnished to and purchased by the contractor. The invoice examination addressed whether the Department had a process to effectively review and approve invoices, as well as assessing whether the invoices were adequately supported.

To accomplish this objective, we reviewed the contract files, obtained financial and performance data, and interviewed the appropriate Department officials. Sampling was used in some instances to conduct tests of Department and contractor data, and the sample selection information and the results are interspersed throughout the report. In addition, Appendix B details the sampling methodology and the results of the inventory review.

APPENDIX B

Sampling Methodology and Results for the Inventory Review

Our sampling objective was to determine whether the property inventory lists maintained by Blackwater Security Consulting were accurate. We tested the lists to verify existence of the items and completeness of the lists.

Existence Test

To determine whether the contractors could account for the items in their property inventory lists, we randomly selected items from the lists and physically verified their existence. The sampling methodology and results for this test are as described.

Population. We used the following property records from which to sample the target population (i.e., the population intended to be covered).

Blackwater Property Inventory Lists for Task Orders 6 and 10 in Baghdad. The inventory lists for task orders 6 and 10 maintained by Blackwater consisted of 11,800 items as of July 1, 2008, of which 52 percent did not have costs.

Whenever possible, we grouped the items in each property list into like categories, primarily to ensure that items of special interest from each category were represented in our sample. The four categories were as follows:

1. Vehicles – all vehicles regardless of cost.

2. Items costing $25,000 or more, excluding vehicles.

3. Weapons and weapon accessories.

4. Other – All items with a cost of $5,000 to $24,999 that were not included in the three categories were placed in the "other" category. In addition, certain items under $5,000 that had serial numbers were placed in this category, including the following:

a. sensitive or controlled items, such as protective vests and night vision goggles;

b. certain information technology components, such as desktops, laptops, and routers; and

c. certain communications equipment, such as radios, cell phones, and satellite phones.

We excluded three categories from the sample population as follows:

Exclusion I. Aircraft and aircraft parts under task order 10 that were leased from/owned by Blackwater.

Exclusion II. Property identified as located outside Baghdad, as the team would not be able to travel there to verify the property.

Exclusion III. Property with a cost of less than $5,000, except that property specifically included in the "other" category. Examples of excluded items include furnishings; kitchen equipment; entertainment equipment; and information technology and communications equipment such as cables, junction boxes, antennas, switches, carrying cases, printers, monitors, and speakers. In addition, the team excluded some items that would otherwise have been included in one of the four categories because the items did not have unique serial numbers.

The sampled populations for task orders 6 and 10 and in total are shown in Table 1. In selecting the sample to verify, the sampled population of task orders 6 and 10 was combined, and items were randomly selected from the total population.

Table 1. Identification of the Sampled Population

Category	Task Order 6		Task Order 10		Total	
	Population	% of Total Items*	Population	% of Total Items*	Population	% of Total Items*
Original Population	9,631	100	2,169	100	11,800	100
Exclusion I	0	0	188	9	188	2
Revised Population	9,631	100	1,981	91	11,612	98
Exclusion II	22	0	701	32	723	6
Revised Population	9,609	100	1,280	59	10,889	92
Exclusion III	4,283	44	874	40	5,157	44
Sampled Population	5,326	55	406	19	5,732	49

Source: OIG data from information in Blackwater's property lists.

The sampled population consisted of 49 percent of all property items on the inventory lists of task orders 6 and 10. Although the majority of items (84 percent) in the sampled population lacked cost data, as the data were missing for nearly all of the high-priced items such as vehicles, generators, and weapons, we believe that the sampled population would represent a significant percentage of the total costs of the property on the inventory lists.

Sample Selection

Our original sampling plan called for selecting 150 items from each category, for a total of 600 items from the sampled population; however, the final sample size was 550 for the reasons detailed. Because of various deficiencies with the inventory lists, such as missing items, duplicate items, incorrect serial numbers, and missing costs, we were not able to strictly adhere to the originally planned statistical sampling design, namely, stratified random sampling. Moreover, the only items the inventory lists contained that showed costs of $25,000 or more were vehicles that were a separate category and aircraft and aircraft parts that we were told by the Bureau of Diplomatic Security and Blackwater were Blackwater-owned. However, we noted that the descriptions of four generators without costs appeared to be similar to generators OIG had verified in Afghanistan during the 2006/2007 audit with costs

in excess of $25,000. The results of that audit were in the report entitled *Accounting for Government-Owned Personal Property Held by Selected Contractors in Afghanistan* (AUD/IQO-07-48, Sept. 2007). Consequently, OIG had only the four generators in the $25,000 or higher category. In addition, we increased the vehicle category to verify all vehicles. Details of our sampling plan are provided in Table 2.

Table 2: Details of Existence Test Sampling

Category	Civilian Police		
	Population	Sample Size	Percentage
Vehicles	246	246	100
$25,000+	4	4	100
Weapons	3,702	150	4
Other	1,780	150	8
Total	**5,732**	**550**	**10**

Sample Results

We physically verified selected Blackwater-held property at Embassy Baghdad in the Green Zone in Iraq. The property was at locations that included the Embassy compound; Blackwater Mancamp; Blackwater Armory; Blackwater Air Facility; and other locations in the Green Zone, as well as the New Embassy Compound, which was under construction at the time of our site visit.

For some property items, we accepted alternate evidence of an item's existence, such as a signed hand receipt or verification by a third party (e.g., a receipt form KBR, Inc., which held the contract for maintenance on Embassy vehicles, confirming that it had received a vehicle for maintenance) when either of the following occurred:

- The item had been moved, after the date of the inventory list provided to us, to a location we could not visit; or
- The item had been signed out to someone in the field where we could not visit.

Of the 550 items selected for verification under the two task orders, we verified the existence of 536 (97 percent) of all property in the sample. This number consisted of 100 percent of the vehicles, weapons, and property valued at $25,000 or more. We verified 136 (91 percent) of the items in the "Other" category. The 14 items on the inventory lists that we could not verify are presented in Table 3.

Table 3. Details of Items Not Verified

Missing Item Type	Make	Model	Serial/ID Number
Satellite Phone	Iridum		9505A
Handheld Radio	Motorola	XTS5000	1598
Handheld Radio	Motorola	XTS5000R	320CAP2104
Handheld Radio	Motorola	XTS5000R	320CEL6753
Handheld Radio	Motorola	XTS5000R	320CEX0218
Binoculars	Steiner	8-30	61508027
Binoculars	Steiner	8-30	62703156
GPS	Garmin	N/A	73065485
Body Armor Vest (L)	PPI	Level IV	95134
Body Armor Vest (L)	PPI	Level IV	95058
Body Armor Vest (L)	PPI	Level IV	80056
Body Armor Vest (M)	PPI	Level IV	86355
Plate (for vest)	Generic	Generic	0200646872
Deep Fat Fryer	FAGOR	N/A	12111
Total			**14**

Source: OIG data from the results of its existence test.

Completeness Test

To determine whether all government-owned property was recorded on the contractors' property lists, we tested the lists for completeness.

Sample Selection

During the review of personnel qualifications (discussed in the section "Personnel Training" in the report), we interviewed 672 Blackwater personnel in Baghdad. In conjunction with these interviews, we asked all of these individuals to bring their weapons and radios for inspection, which served, in essence, as the completeness test for the inventory review. We collected this information and compared it with data in Blackwater's inventory lists. Information was collected on 1,273 weapons (M-4 rifles and 19-mm pistols) and 572 handheld radios.

The nature of completeness tests usually precludes the identification of a population from which to sample or enumerate completely. Consequently, the 1,273

weapons and the 572 handheld radios we examined to confirm whether they were appropriately and accurately recorded on the inventory lists were selected via non-statistical sampling.

Sample Results

We recorded the item description, serial number, and other identifying information for the items we selected and attempted to confirm that the items were recorded on the property lists. We were able to verify all the weapons and all but two of the radios to Blackwater's property lists. The two radios (Motorola ID Nos. 8698 and 8856) were listed as being assigned to other Blackwater personnel as of May 19, 2008, and July 3, 2008, respectively, according to the Bureau of Information Resource Management radio shack inventory list. Details of the test for completeness sample are consolidated in Table 4.

Table 4. Details of Completeness Test Results

Item Description	Quantity Sampled	Missing From Property Lists
Weapons (Rifles and Pistols)	1,273	0
Handheld Radios	572	2
Total	**1,845**	**2**

Source: OIG data from the results of its completeness test.

APPENDIX C

United States Department of State

Washington, D.C. 20520
www.state.gov

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MEMORANDUM

TO: OIG/AUD – Harold W. Geisel, Acting
SIGIR – Stuart W. Bowen, Jr.

FROM: A - Steve Rodriguez, Deputy Assistant Secretary for Operations

SUBJECT: Draft Report on the Joint Audit of Blackwater Contract and Task Orders for Worldwide Personal Protective Services in Iraq (AUD/IQO-09-16 and SIGIR-09-021)

Below is the Bureau of Administration' response to the recommendations in the subject report concerning the joint audit of the Blackwater contract and task orders for Worldwide Personal Protective Services (WPPS) in Iraq. Also included is an attachment with A/LM/AQM comments correcting some factual errors within the audit. Vince Chaverini in the Office of Acquisitions Management/Worldwide Operations Division (A/LM/AQM/WWD) is the point of contact and can be reached at (703) 875-6645.

Recommendation 1: We recommend that the Contracting Officer, Bureau of Administration, Office of Logistics Management, in coordination with the Bureau of Diplomatic Security, ensure, before the end of WPPS II contract S-A/LM/AQMPD-05-D-1098 task orders 6 and 10 in May 2009, that the appropriate contracting officer's representatives and/or property administrators take the following actions:

- Provide Blackwater with the acquisition costs for all government-furnished property and ensure that such costs are properly recorded and reported in Blackwater's inventory lists.

- Resolve the statuses of the 14 items that could not be accounted for and the two radios that OIG could not find on Blackwater's inventory lists and take all actions as appropriate, including ensuring that Blackwater's inventory lists are modified as necessary.

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- Confirm the accuracy of Blackwater's inventory lists by reconciling them with the inventory lists from the Regional Security Office and the Bureau of Information Resources Management at Embassy Baghdad, and make any required adjustments.

- Review the inventory lists once the specified actions have been completed to ensure that the proper corrections have been made.

A/LM/AQM Response: AQM will coordinate w/DS on the above for the transition of both task order 6 and task order 10.

Recommendation 2: We recommend that the Contracting Officer, Bureau of Administration, Office of Logistics Management, in coordination with the Bureau of Diplomatic Security, designate a full-time contracting officer's representative/property administrator on-site in Iraq to oversee all government-furnished and contractor-acquired property held by contractors under WPPS II contract S-A/LM/AQMPD-05-D-1098 task orders in Iraq and any such future contracts and task orders and ensure that property administrator training is provided to the property administrator prior to arrival in Iraq. A high priority should be given to properly identifying and accounting for all government-owned property.

A/LM/AQM Response: AQM and DS are currently in dialogue on this issue and will be sending staff from both offices to Iraq in June to perform a joint review of processes, procedures and issues with the ultimate goal being to implement a solution to appropriately address property management and oversight.

Recommendation 3: We recommend that the Contracting Officer, Bureau of Administration, Office of Logistics Management, in coordination with the Bureau of Diplomatic Security, perform a review within 180 days of the issuance of this report to determine the adequacy of Blackwater's property management policies, procedures, practices, and systems pursuant to requirements in the Federal Acquisition Regulation (FAR 45.105) and Procurement Information Bulletin 2007-21. For the deficiencies identified, a corrective action plan that addresses all Department of State contracts with Blackwater should be prepared.

A/LM/AQM Response: AQM and DS will coordinate on action for this issue.

Recommendation 4: We recommend that the Contracting Officer, Bureau of Administration, Office of Logistics Management, in coordination with the Bureau of Diplomatic Security, for WPPS II contract S-A/LM/AQMPD-05-D-1098 task orders 6, 8, and 10 in Iraq and any such future contracts and task orders, designate a full-time contracting officer's representative on-site in Baghdad and Hillah, Iraq, to perform, among other contract-related duties, a monthly verification of labor cost data entered at those locations based on observations and tests made in the field.

A/LM/AQM Response: AQM and DS will coordinate on action for this issue.

Recommendation 5: We recommend that the Contracting Officer, Bureau of Administration, Office of Logistics Management, for WPPS II contract S-A/LM/AQMPD-05-D-1098 task orders 6, 8, and 10, obtain a Department of State legal opinion on whether charging deductions for past inadequate staffing would be appropriate; calculate, if the opinion is affirmed, the appropriate deductions for the entire contract period and offset those deductions against Blackwater's contract claimed costs; and continue to apply deductions for manpower shortages as required by the contract.

A/LM/AQM Response: AQM will consult with legal office as noted above.

Recommendation 6: We recommend that the Contracting Officer, Bureau of Administration, Office of Logistics Management, for WPPS II contract S-A/LM/AQMPD-05-D-1098 task orders 6, 8, and 10, collect the remaining overbillings of $70,907 for the cost-reimbursable items and determine whether unallowable travel costs have been paid for the contract period not reviewed. If costs have been paid, these amounts should also be collected.

A/LM/AQM Response: AQM will coordinate w/DS to review this matter.

Recommendation 7: We recommend that the Contracting Officer, Bureau of Administration, Office of Logistics Management, for WPPS II contract S-A/LM/AQMPD-05-D-1098 task orders 6, 8, and 10 in Iraq and any such future

contracts and task orders, instruct all contracting officer's representatives (COR) to establish and maintain COR files that are easily accessible and complete in accordance with the Foreign Affairs Handbook (14 FAH-2-H-513 and 517).

A/LM/AQM Response: AQM will work with DS to ensure that in-country CORs and/or A/CORs establish and maintain files as noted above. As noted in a previous comment, the primary WPPS COR in DS/OPO/HTP currently maintains thorough and proper COR files, and DS is working on implementing a shared-access software tool to accommodate ease of access to all DS staff associated with WPPS contract administration functions.

Attachment: As Stated

Approved: Steven J. Rodriguez- Deputy Assistant Secretary, with the authorities of the Assistant Secretary of Administration per Delegation No.323 as executed by Deputy Secretary John D. Negroponte on January 16, 2009 and which appeared in the Federal Register (FR Doc E9-1928) on January 29, 2009.

Drafted: A/LM/AQM/WWD:VChaverini x56645 5/12/09

Cleared:	A/LM: WMoser	ok
	A/LM/AQM:CJRead	ok
	A/EX: JMcGuire	info
	A: CKarber	ok
	DS/DSS – PDonovan, Acting (ok 5/18/2009)	
	DS/IP – CLamb (ok)	
	DS/IP/OPO – CSchurman (ok)	

Joint Audit of Blackwater Contract and Task Orders for DS WPPS in Iraq
(OIG & SIGIR)
AUD/IQO-09-16 and SIGIR 09-021

A/LM/AQM Comments

Executive Summary

"Contract oversight files required by the contracting officer's representatives were neither accessible nor complete in Iraq and at headquarters." (p.2 and 24)

Comment:

The COR files in Washington are quite thorough and complete, as demonstrated by the quantity and quality of information provided to the OIG during this inspection. AQM and DS note that the OIG declined an offer of access to COR/Contractor correspondence.

The official COR files are maintained by the program office, DS's High Threat Protection Division, in Washington. The Assistant CORs and Government Technical Monitors (GTMs) in Iraq maintain copies of the task orders and standard operating procedures.

Blackwater Contracts

"According to DS officials, the Department plans to award its third WPPS contract (WPPS III) in 2009." (p. 5)

Comment: AQM and DS plan to have new "WPPS III" contracts awarded in 2010.

Most Property Could Be Verified

"Such oversight was lacking for the 'other' category of personal property, in which we could not account for the 14 items (9 percent): four handheld radios, four body armor vests, two pairs of binoculars, one satellite phone, one body armor plate, one Global Positioning System, and one deep fat fryer." (p.16)

Comment: DS program office personnel conducted a 100% inventory of government furnished equipment during the transition of Blackwater's Task Order 6 in Baghdad to

Triple Canopy. With the exception of two body armor vests, all of the above items have been located and identified. DS noted that the serial numbers for at least two body armor vests had become worn to the point of being unreadable, complicating inventory efforts for these items. Completed inventory forms were signed by representatives from both companies (USTC and T.C.) and an A/COR on May 6, 2009.

Labor Deductions to the Contract Price Were Note Taken for Inadequate Staffing

"The contracting officer added that the Department had never invoked the deduct clause in the contract and therefore had lost the right to do so" (pg. 22 & 23)...."However, in November 2008, the contracting officer stated that the deduct clause had been reinstated in September 2008, adding that Blackwater had been charged deductions for the July 2008 invoices for task orders 6 and 8." (p. 23)

Comment: In April 2008, the contracting officer notified all three WPPS contractors of the Government's intent to reinstate the Government's right to exercise the deduct clause and advised that enforcement would commence for violations noted in periods of performance after June 1, 2008.

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