



OIG HIGHLIGHTS

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What OIG Audited

The Office of the Inspector General (OIG) initiated this audit to determine the effectiveness of the Department of State's Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation (INL/A) management and oversight of the aviation services provided to the U.S. Mission to Iraq. The audit objectives were to determine whether: invoice review and approval procedures were in place to ensure accuracy and completeness of costs, the contractor's work was adequately monitored, and the contractor was performing in accordance with contract terms and conditions.

What OIG Recommends

OIG made four recommendations to the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) to assess the \$932,644 in questioned costs and \$25,886,861 associated with employer and employee personal income tax reimbursements. OIG also made seven additional recommendations to A/LM/AQM and INL for improving contract management and oversight. Based on the responses received from A/LM and INL to a draft of this report (see Appendices D and E, respectively), OIG considers five recommendations resolved and six recommendations unresolved. Management responses and OIG replies are presented after each recommendation in the Audit Results section of this report.

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July 2015

OFFICE OF AUDITS

Middle East Region Operations

Audit of the Bureau of International Narcotics and Law Enforcement Affairs Aviation Support Services Contract in Iraq

What OIG Found

OIG questioned \$932,644 in costs associated with 9 of the 14 invoices we examined. OIG reviewed 14 invoices totaling approximately \$49.7 million of the \$541.5 million in invoices submitted as of October 31, 2013. The questioned costs were not detected because DynCorp International is not required to provide documentation supporting its invoices' charges unless INL/A requests it; and INL/A's invoice review processes, methodologies, and staffing were insufficient.

A/LM/AQM and INL/A adequately monitored DynCorp's performance across a variety of mission functions and administrative operations. However, option years were definitized, on average, 172 days late because DynCorp failed to provide timely and accurate proposals and INL/A did not always identify all requirements. In addition, A/LM/AQM did not provide sufficient documentation supporting its decision to authorize reimbursements of \$25,886,861 paid to DynCorp for employer and employee income and Social Security tax payments to the Government of Iraq.

OIG also found that DynCorp generally met its service delivery performance goals associated with aviation services to include scheduled flights, medical evacuations, and flights for "very important persons." However, DynCorp struggled to meet aircraft availability goals for three types of helicopters because of an insufficient number of trained and certified mechanics and difficulty obtaining spare parts and other supplies in a timely manner. Although DynCorp was generally able to complete most of its missions, given the instability in Iraq, deficiencies associated with obtaining and providing spare parts could reduce the likelihood that a sufficient number of aircraft are available when needed.

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MIDDLE EAST REGION OPERATIONS

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OBJECTIVE

The audit objectives were to determine whether:

- invoice review and approval procedures were in place to ensure accuracy and completeness of costs,
- the contractor's work was adequately monitored, and
- the contractor was performing in accordance with contract terms and conditions.

BACKGROUND

Aviation support in Iraq was provided through a Bureau of International Narcotics and Law Enforcement Affairs (INL) aviation support services contract (SAQMPD05C1103)¹ awarded to DynCorp International (DynCorp) in 2005 and managed by INL's Office of Aviation (INL/A). The purpose of the contract was to provide aviation support services worldwide for INL counterterrorism, counternarcotics, rule-of-law assistance, and other programs.² In November 2009, in preparation for the Department of Defense withdrawal from Iraq and the Department of State (Department) aviation services requirements to fill the gap of the U.S. military aviation services, the Department added Iraq to the aforementioned contract for aviation services. In 2011, the Department assumed full responsibility for security, life support, transportation, and other logistical support that the U.S. military in Iraq had previously provided. The contract related to Iraq aviation services is a cost plus fixed fee, indefinite delivery/indefinite quantity contract, and Task Orders 3616 and 2643 authorize specific programs and services in Iraq. The original contract was awarded for 1 base year and up to 9 option years.³ In option year 1, INL/A determined that DynCorp performance did not totally meet the contract requirements. As a result, INL/A reduced the number of option years on the contract from 9 to 8. To date, the Department has exercised all option years through option year 8 at a cost of \$3.8 billion.⁴

Option year 8 was the final year of the contract. INL/A and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), are in the process

¹ The contract was renumbered as SAQMMA12C1103 in May 2012 due to limitations of the Department's contracting system. The "new" contract is identical to the original contract with the exception of modifications that occurred subsequent to the renumbering.

² The contract originally included providing air support services to INL programs in Bolivia, Colombia, Pakistan, and Peru. INL subsequently expanded air support services for programs in Afghanistan in 2006, Guatemala in 2008, and Iraq in 2009. INL/A ended services in Bolivia in 2013.

³ Of the 9 option years, 7 are Award Term options. The purpose of this incentive is to reward the contractor for maintaining a high level of performance throughout the life of the contract. DynCorp received unsatisfactory ratings for option year 1, disqualifying them for option year 9.

⁴ Option year 8 ended October 31, 2014, but has been extended 6 months.

of awarding multiple contracts to succeed the current contract, including separate awards for program office support, information technology, and flight operations.⁵ In October 2014, A/LM/AQM awarded the contract for program office support to Precision Systems, Inc.; however, that award has been protested.⁶ According to the contracting officer, INL/A and A/LM/AQM plan to award the remaining contracts in 2015. The contracting officer also stated INL/A and A/LM/AQM extended the current contract by 6 months while it completes the award process and transitions operations to new contractors, if necessary.

Embassy Air-Iraq

During the U.S. military mission in Iraq from 2003-2011, there was little to no secure, commercial air transportation to support the U.S. embassy. Most embassy air transportation requirements were provided by the U.S. military until its departure in December 2011. In 2009, in preparation for the departure of the U.S. military, INL/A modified its worldwide aviation contract to authorize and fund aviation operations and support services for the embassy under the Embassy Air Iraq (EA-I) program.⁷ Performance categories from the August 2012 contractual statement of work included:

- Aerial Transport of Cargo and Personnel
- Contingency and Very Important Persons (VIP) Operations
- Medical Evacuation
- Operations Mission Support-Aircrew Life Support and Equipment
- Air Traffic Control
- Records, Reports, and Deliverables

To accomplish these requirements, DynCorp operates both helicopters and fixed-wing aircraft. Since the beginning of its Iraq services, DynCorp has flown Bell Helicopter's UH-1N and UH-1ST helicopters. DynCorp also operated a fleet of MD Helicopter's MD-530 "Little Bird" helicopters from December 2009 to April 2012 and the Sikorsky Aircraft Corporation's S-61N helicopters from August 2011 to September 2013. These helicopter fleets were primarily used for operations within Iraq. In November 2011, DynCorp began operating a fleet of Bombardier DHC-8 fixed-wing aircraft for international passenger flights between Baghdad and Amman, Jordan; and Baghdad and Kuwait City, Kuwait, as well as for in-country passenger flights between Baghdad, Erbil, and Basrah. INL/A owns all the aircraft used in the EA-I program; DynCorp maintains the aircraft and acquires replacement parts through the contract. Figures 1 and 2 are photos of a DHC-8, S-61N, UH1-N, and UH1-ST aircraft used by EA-I.

⁵ Flight operations include logistics, aviation support, and maintenance.

⁶ Size Protests are Case No. 2-2014-118 (AMPS LLC) and 119 (Downrange Operations and Training) ("Size Determination"), VET-2014-09-23-115 *Precision Systems Inc. v. United States et al.*, 2015 U.S. Claims LEXIS 397 (Fed. Cl. 2015).

⁷ SAQMPD05C1103 Modification 89 during option year 3 of the worldwide contract authorized and funded six cost-plus-fixed-fee contract line items for the Iraq-related services in which the contractor is paid for all of its allowed expenses plus a predetermined fee to allow for profit.



Figure 1: Bombardier DHC-8 airplane (bottom), Sikorsky S-61N helicopter (left), and Bell UH1-N helicopter (right) used by Embassy Air-Iraq. (INL/A photo)



Figure 2: Bell UH1-ST helicopter. (INL/A photo)

EA-I is primarily funded by the Bureau of Diplomatic Security (DS) with additional funding provided by the Bureau of Near Eastern Affairs (NEA) and INL. Total obligations for EA-I from option year 3, when the contract was modified, through option year 8 were \$666.1 million and total expenditures as of September 16, 2014, were approximately \$632.9 million. An additional \$198.5 million was provided by INL, DS, and NEA for operations at Patrick Air Force Base, Florida, which serves as INL/A headquarters and the supply depot and depot-level maintenance facility for the Iraq fleet. It also funded aviation infrastructure construction in Iraq.⁸ The obligations shown in Table 1 are for EA-I operations in Iraq, including maintenance, insurance, materials, and flight hours, that are within the scope of the audit.

⁸ The \$198.5 million was not included in the scope of OIG's audit and therefore is not included in Table 1.

Table 1: Iraq Aviation Services Funding Obligations by Contract Option Year and Source

Contract Option Year (OY) and Performance Period	Total Obligations	Obligation Sources		
		Diplomatic Security	Near Eastern Affairs	Working Capital Fund
OY3: Nov. 2008-Oct. 2009	\$10,248,543	\$10,248,543	\$0	\$0
OY4: Nov. 2009-Oct. 2010	91,025,827	91,025,827	0	0
OY5: Nov. 2010-Oct. 2011	116,392,021	116,392,021	0	0
OY6: Nov. 2011-Oct. 2012	176,166,429	10,434,618	3,911,458	161,820,352
OY7: Nov. 2012-Oct. 2013	159,560,291	0	0	159,560,291
OY8: Nov. 2013-Oct. 2014	112,701,320	0	0	112,701,320
Total	\$666,094,431	\$228,101,009	\$3,911,458	\$434,081,963
Percentage of Total	100.00%	34.24%	0.59%	65.17%

Source: OIG generated from INL/A data.

Table 1 also shows a shift in funding sources from direct obligations provided by DS and NEA to funding through a working capital fund. A working capital fund is a revolving fund to finance a continuing cycle of operations without further action by Congress. It was established to provide a more effective means for controlling the costs of goods and services and to provide a more effective and flexible means of financing, budgeting, and accounting for these activities. The fund provides revenue for the costs associated with the operation and maintenance of selected aviation assets in the EA-I program. According to the Budget Officer at Patrick Air Force Base, working capital funds were derived from DS and NEA, in addition to fees from EA-I users.

A/LM/AQM, with support from INL/A, administers the base contract and the contract task orders, including all modifications. The contracting officer is physically located at INL/A's headquarters at Patrick Air Force Base and is responsible for awarding, negotiating, administering, modifying, and terminating contracts and for making related determinations and findings on behalf of the U.S. Government.

The A/LM/AQM contracting officer appointed an INL/A official located at Patrick Air Force Base as the contracting officer's representative (COR) for the contract and all task orders. The COR is responsible for overseeing aviation activities in all countries⁹ where INL/A operates, inspecting and accepting all contract services, providing technical advice to the contractor, monitoring the

⁹ Colombia, Pakistan, Peru, Afghanistan, Honduras, and Iraq.

contractor's performance, and reviewing and making recommendations to pay the contractor's invoices and accept invoice supporting documentation.

An Aviation Operations Director (AOD) located in Iraq serves as the EA-I government technical monitor (GTM), and assists the COR in monitoring DynCorp's day-to-day operations to ensure compliance with contract and task order terms and conditions. The AOD, a personal services contract employee, receives guidance from the Deputy Chief of Mission on post's aviation service requirements. The AOD's responsibilities include overseeing, guiding, and evaluating the aviation services task order; ensuring compliance with established INL/A policies, procedures, and standards; developing and implementing post policies and procedures; and monitoring the execution of all aviation missions and duties. The AOD is also responsible for reviewing and pre-approving DynCorp's invoices for the Iraq portion of the task order. A Deputy AOD and several advisors, all of whom are personal services contractors, assist the AOD.

AUDIT RESULTS

Finding A: Insufficient Supporting Documentation, Available Resources, and Review Processes Result in Questionable Invoice Costs

The Office of Inspector General (OIG) reviewed 14 of 520 invoices approved from November 1, 2009, to October 31, 2013, related to 4 categories of cost for EA-I: base operations,¹⁰ flight labor hours,¹¹ materials,¹² and Defense Base Act Insurance.¹³ The invoices were the largest dollar invoices submitted as of October 31, 2013, in each of the categories, totaling approximately \$49.7 million of the \$541.5 million (9 percent) in invoices submitted. OIG questioned \$932,644 in costs associated with 9 of the 14 invoices, including \$140,627 in possibly unallowable costs, \$789,416 in unsupported costs, and \$2,601 in misapplied costs. The questioned costs were not detected by the COR and others for a number of reasons, including that DynCorp is not required to submit supporting documentation for its invoiced charges, unless INL/A requests it, and INL/A had no formal invoice review process until April 2013. In addition, INL/A's review methodologies are insufficient for verifying that all labor charges are supported, and, according to the INL/A Chief of Contract Administration, INL/A staff have insufficient time to thoroughly review invoices. The questioned costs OIG identified were associated with a variety of types of

¹⁰ Base Operations includes equipment and services that support the operations of the EA-I mission such as information technology, housing, office equipment, passport visas, uniforms, training, etc. Labor is also included separately in the invoice for contract employees who support the mission operations.

¹¹ Labor hours include labor costs for the contract employees who support the operations of the aircraft to include pilots, mechanics, quality control inspectors, flight medics, etc.

¹² Materials includes equipment and services that support the operation of the aircraft such as electrical items, tools, hardware, fuel, freight and shipping, etc.

¹³ The Defense Base Act (Public Law No. 208-77 (1941, as amended) requires that contractors insure employees for medical, disability, and death benefits should they become injured or killed in the course of employment.

charges, including flight operations, labor, travel, and purchases of materials, among others. Moreover, the deficiencies we identified were generally common among the invoices we reviewed. Accordingly, the invoices outside of our audit sample may also have unallowable, unsupported, and misapplied costs.

Invoice Review Requirements and Processing

Requirements for approving contractor invoices are contained in the *Foreign Affairs Handbook (FAH)*, the *Foreign Affairs Manual (FAM)*, and *Overseas Contracting and Simplified Acquisition Guidebook*.¹⁴ The FAH¹⁵ states that a COR should determine whether the charges billed are reasonable,¹⁶ allocable,¹⁷ and allowable.¹⁸ To make that determination, the COR should verify calculations, unit prices, labor hours and categories, supplies and equipment to include delivery and acceptance, and other backup material such as time cards. The FAM¹⁹ states that a signed receiving report is required to initiate the process for payment.

OIG Identified Unallowable, Unsupported, and Misapplied Costs

OIG evaluated INL/A's invoice review and approval procedures for the contract and reviewed 14 invoices from 4 cost categories including base operations, labor, materials, flight labor, and Defense Base Act Insurance. These invoices had the highest values in each of the four categories submitted and approved for payment from December 2009 to May 2013. The invoices total \$49,680,258 of the \$541,508,649 (9 percent) paid during that timeframe. See Appendix A for a complete discussion of our invoice review methodology.

¹⁴ The *Overseas Contracting and Simplified Acquisition Guidebook* is incorporated by reference into 14 FAM 213, "Acquisition Regulations and Directives."

¹⁵ 14 FAH-2 H-522.4(b)1 states "Under cost-reimbursement type contracts, the U.S. Government is entitled to ask the contractor for information that is necessary to understand whether the charges billed are 'reasonable,' 'allocable,' and 'allowable'—the basic tests that the contractor's costs must pass to be reimbursed. If it appears from charges billed that the contractor may be spending more than is reasonably necessary for certain parts of the work, the COR should call the contractor for additional explanation or substantiation for those costs. If the additional information fails to establish that the contractor is proceeding in a reasonably efficient way, the COR should discuss the matter with the contractor to make sure that there is not an equally effective way to get the work done. If agreement cannot be reached, the COR should consult with the contracting officer."

¹⁶ FAR 31.201-3 states a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business.

¹⁷ FAR 31.201-4 states a cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it: (a) is incurred specifically for the contract; (b) benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or (c) is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.

¹⁸ FAR 31.201-2 states a cost is allowable only when the cost complies with all of the following requirements: Reasonableness; Allocability; Standards promulgated by the CAS Board, if applicable; otherwise, generally accepted accounting principles and practices appropriate to the circumstances; and terms of the contract.

¹⁹ 14 FAM 413.3, "Receiving Responsibility."

OIG found that 9 of the 14 invoices had \$932,644 in questionable costs (approximately 2 percent of invoiced costs reviewed), including approximately \$140,627 in possibly unallowable costs,²⁰ \$789,416 in unsupported costs,²¹ and \$2,601 in misapplied costs (see Appendix B). The COR approved eight invoices that contained approximately \$140,627 in possibly unallowable costs that were for contractor-staff labor hours. These labor hours were not included on the personnel statistics report (PerStat) for the periods of performance associated with the invoices. The PerStat lists those DynCorp employees working in Iraq, at Patrick Air Force Base, or in other locations that support EA-I operations. OIG found approximately 100 instances in which labor hours were included on invoices for employees who were not recorded in the corresponding PerStat during the performance period. The COR also approved five invoices totaling \$1,680 for premium overtime; however, DynCorp did not propose premium overtime costs for its employees in any of its Iraq cost proposals, raising the question of whether premium overtime costs are allowable.

In addition, the COR approved seven invoices that contained \$789,416 in unsupported costs. Although DynCorp is required to maintain documentation supporting its invoices, the terms and conditions of the contract do not require it to submit the supporting documentation with its invoices. OIG requested that DynCorp provide the supporting documentation for costs in the 14 invoices. The \$789,416 in costs that we question include costs for which DynCorp did not provide supporting documentation, as well as costs for which the documentation provided did not fully support the charges in the invoices. Examples of missing documentation include information regarding travel destinations, purposes of training, and labor.

The COR also approved two invoices that contained \$2,601 in misapplied costs. One invoice included a cost that was incurred by the Embassy Air–Afghanistan program rather than the Iraq program, and the other invoice misapplied costs as subcontractor labor instead of bench stock²² items that the subcontractor purchased.

Lack of Supporting Documentation Impacts the Voucher Review Process

The COR approved invoices for payment without verifying supporting documentation and ensuring that the contractor billed only valid costs. Contract clause G.3 DOSAR 652.232-71²³ states that the contractor must provide a voucher for payment but does not require the contractor to provide supporting documentation for reimbursable costs. According to INL/A staff, the supporting documentation is too voluminous to submit, review, and process. DynCorp

²⁰ Unallowable costs are expenses incurred by a company that the Government will not reimburse because the costs have been excluded from pricing on Government contracts.

²¹ Unsupported costs are expenses that do not include adequate documentation or receipts to support the Government reimbursing a company for the expenses.

²² Bench stock refers to supplies and repair parts used repeatedly and reordered at a point in time to ensure continuous and uninterrupted operations. Bench stock is generally restricted to maintenance, repair, and fabrication-type activities.

²³ "Voucher Submission (cost-reimbursement) (Aug 1999) (ACQ Variation) (09/99)"

does provide INL/A with summaries of reimbursable costs, and did provide detailed supporting documentation upon request from the GTM or the COR. However, the COR did not consistently request the contractor to provide supporting documentation to substantiate the reimbursable costs. The COR did not conduct adequate oversight of invoice review, as the review was based on manually scanning the invoices for what appeared to be anomalies. As a result, the invoice review staff often only has the cost information in the invoice and the PerStat to determine if an invoiced cost is valid. According to the COR, there is not always sufficient information in the invoices and the PerStat to make a sound judgment on each charge. The following are examples:

- The PerStat report does not include the number of hours that DynCorp staff worked each week, but the invoice reflects the actual number of hours that the employee reportedly worked. In addition, the PerStat does not state the specific dates the employee is in country, but the invoice is for a specific period of performance by week. As a result, there is no correlation between what is reported on the PerStat and what is billed on the invoice.
- The labor invoices with charges that were higher than normal for some employees lacked descriptions explaining the charges. DynCorp staff indicated the higher costs were travel stipends associated with employees' leave; however, they did not provide additional documentation to substantiate the claim. The PerStat provides some supplemental data such as whether an employee was on leave or on detail outside of Iraq. However, the invoices do not provide sufficient descriptive details that align the PerStat to the charges.
- The labor invoices are divided into five sections—direct labor, incentive compensation, post differential, hazardous duty pay, and premium overtime. A DynCorp employee in Iraq could be listed in each section depending on his/her travel and work status, requiring the COR to search each of the five sections individually to verify the employee's pay. The COR must also review the PerStat to see if an individual has left Iraq to ensure that the contractor is not billing for post differential pay or hazardous duty pay to which the employee is not entitled. However, the PerStat indicates only when an employee is expected back in country but does not indicate when the employee left the country.
- An invoice for \$112,402 for computer software and \$44,901 for computer equipment costs lacked information on the types of software or equipment.
- An invoice for \$33,920 for subcontract labor lacked voucher numbers or description of services.

Lack of Invoice Review Processes, Poor Review Methodologies, and Insufficient Staffing Affect INL/A's Ability to Verify Charges

In addition to a lack of supporting documentation, the lack of a formalized review process, poor review methodologies, and, according to the INL/A Chief of Contract Administration, an insufficient number of staff affected INL/A's ability to verify charges. Also, he indicated that prior to April 2013, during which all but one of the invoices we reviewed were submitted and

approved, INL/A had no formal written invoice review procedures. In April 2013, INL implemented standard operating procedures for invoice reviews²⁴ that required the contract managers to complete pre-payment risk assessments that validate individual invoice charges based on supporting documentation provided by the contractor. The procedures also require that the GTM or COR review whether invoiced items are required and within the contract scope of performance.

INL/A supplemented the risk assessment requirement in several ways. First, INL/A requires that voucher examiners compare fixed-price invoices to performance-based payment schedules, and verify that rate-based charges, such as overhead and general and administrative fees, are properly applied. In addition, INL/A requires the GTM to corroborate cost-reimbursable charges, such as labor, travel, parts and inventories, and insurance²⁵ by verifying the invoiced cost to supporting documentation. Finally, INL/A developed a standard checklist for use in reviewing invoices (see Appendix C).

Although 13 of 14 invoices we reviewed were submitted and approved before the current process and checklist were established, we note that EA-I invoice reviewers do not fully implement the process. The AOD, who serves as a GTM for Iraq, stated that he does not use it, as all the actions listed do not apply to him or he does not have sufficient information to fulfill the review requirements. For example, he does not receive the Defense Base Act Insurance invoices for review and does not review travel charges because he does not receive supporting documentation for these costs. Also, he does not determine whether inventory was received and accounted for, as the Property Administrator at Patrick Air Force Base is responsible for inventory.

In addition, INL/A uses a review methodology that does not verify that all labor charges are supported. When reviewing labor charges, the AOD traces the staff listed on the PerStat to charges submitted on the invoice. Although this method verifies that the contractor billed the Department for all employees it stated had worked during the billing cycle, it does not verify that all charges on the labor invoice are supported by the PerStat. For example, OIG compared the invoice labor charges to the PerStat reports and found nearly 100 charges²⁶ for individuals listed on the invoices who were not listed on the PerStat supporting the invoices OIG reviewed.

²⁴ INL Standard Operating Policy/Procedures on Pre-Payment Risk Assessment Review (Metastorm) No. 4030, April 26, 2013.

²⁵ The Defense Base Act is an extension of the Longshore and Harbor Workers' Compensation Act (LHWCA), Title 33, United States Code, Chapter 18 (1927), which provides disability compensation and medical benefits to employees and death benefits to eligible survivors of employees of U.S. Government contractors who perform work overseas. With a few exceptions, the DBA incorporates the provisions of the LHWCA.

²⁶ OIG reviewed a total of 2,777 employee records.

Because we examined labor charges for only one of the 4 weeks during the invoiced month, it is likely the invoices for the other 3 weeks also have unsupported labor charges.²⁷

Finally, according to the INL/A's Chief of Contracts Administration, INL/A lacks sufficient staff (for example, CORs and AODs) to review the invoices it receives because the staff's invoice review time is constrained by other duties. The COR is tasked with oversight of the contract and aviation services for the worldwide contract, which presently comprised six countries including Iraq. Currently, the Chief of Contract Administration serves as the COR for the worldwide contract with responsibility for reviewing and approving approximately 100 invoices per month, 8 to 10 of which are specific to Iraq. Since the departure of the previous COR, the new COR continues to review and approve all invoices, as well as manage all other aspects of the worldwide contract.

The AOD reviews all EA-I invoices for base operations, labor, and materials in addition to completing the day-to-day operations and management of contract services in Iraq. The AOD stated that it takes him up to 8 hours to review a single invoice. He stated that given his other duties, he can only review approximately six invoices per month and often does not have the time to complete more in-depth reviews involving greater documentation. Therefore, he primarily scans invoices for unexpected or higher-than-expected charges. In addition, one voucher examiner reviews invoices for Defense Base Act Insurance, verifies the contractor charged proper overhead and general and administrative cost rates, and ensures there are sufficient funds available to pay approved charges. The previous COR stated that it took him approximately 1 hour to review more complicated cost reimbursable invoices, such as cost-reimbursable invoices for materials, after the AOD or voucher examiner completes the initial review.

The invoices are complex and include a large volume of individual charges. For example, 8 of the 14 invoices we reviewed included charges for labor. The number of individual labor charges on these invoices for the weeks reviewed ranged from approximately 226 to 488. In addition, the labor charges were located in multiple sections of the base operations and flight hour invoices, which required that we not only review the allowability of the charges, but also ensure that the invoice did not double bill for them. Finally, invoices include other types of reimbursable costs,

²⁷ Due to the volume of employee labor records included in each of the flight hour and base operations invoices, OIG randomly selected one of the 4 weeks of labor charges from each of the eight invoices that included labor charges. See Appendix A, Scope and Methodology, for additional details for selecting the employee labor records for review.

such as for travel and purchases of required materials. For example, 8 invoices we reviewed had between 82 and 1,545 additional non-labor cost-reimbursable charges that would require review.

Unallowable, Unsupported, or Misapplied Costs May Be in Other Invoices

The lack of sufficient information supporting the reimbursable costs and the presentation of these costs on the invoices does not provide INL/A staff the information necessary to ensure that the costs are allowable, supportable, and properly applied. In addition, failure to follow the INL/A invoice review process and to utilize review methodologies that verify costs are supported further prevents the COR from ensuring costs are allowable and fully supported. In addition, given the size and complexity of the invoices and limited staffing available to review them, it is unclear how INL/A can ensure that all charges submitted are allowable and fully supported.

Based on our review, we question \$932,644 in costs deriving from issues across the sample of invoices (see Appendix B). The non-statistical sampling methodology we used prevents us from projecting our findings to the universe of EA-I invoices. Since we found similar questioned costs across the invoices, our results indicate the need for a comprehensive review of all invoices submitted under these contracts.

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, determine whether the questioned costs of \$140,627 pertaining to flight labor hours and base operations identified by OIG under contracts SAQMPD05C1103 and SAQMMA12C1103, Task Orders 3616 and 2643, are allowable and recover any costs determined to be unallowable from DynCorp International.

Management Response: The Bureau of Administration, Office of Logistics Management (A/LM) stated that it will determine whether the questioned costs pertaining to flight labor hours and base operations are allowable and recover any costs determined to be unallowable from DynCorp International.

OIG Reply: OIG considers this recommendation unresolved because A/LM did not provide a decision with respect to the validity of the \$140,627 in potentially unallowable costs for flight labor hours and base operations OIG identified.²⁸ This recommendation can be resolved when OIG receives A/LM's determination (dollar value allowed and/or disallowed) on the validity of the questioned costs. The recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM took appropriate action (i.e., established an account receivable or received repayment) to recover all costs that were disallowed.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, determine whether the questioned costs

²⁸ Inspector General Act, as amended, Pub. L. 113-126, Sec. 5(a)(8).

of \$789,416 pertaining to flight labor hours and base operations and the potentially misapplied costs of \$2,601 pertaining to materials identified by OIG under contracts SAQMPD05C1103 and SAQMMA12C1103, Task Orders 3616 and 2643, are allowable and supportable and recover any costs determined to be unsupported or misapplied from DynCorp International.

Management Response: A/LM stated that it will determine whether the questioned costs pertaining to flight labor hours and base operations and the potentially misapplied costs pertaining to materials are allowable and supportable and recover any costs determined to be unsupported or misapplied from DynCorp International.

OIG Reply: Similar to Recommendation 1, OIG considers this recommendation unresolved because A/LM did not provide a decision with respect to the validity of the questioned costs that OIG identified—\$789,416 of unsupported costs for flight labor hours and base operations, and \$2,601 of potentially misapplied costs for materials. This recommendation can be resolved when OIG receives A/LM's determination (dollar value allowed and/or disallowed) on the validity of the questioned costs. The recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM took appropriate action (i.e., established an account receivable or received repayment) to recover all costs that were disallowed.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, conduct a comprehensive review of all cost reimbursable contractor invoices related to Embassy Air-Iraq to determine whether the charges were allocable, allowable, and supportable.

Management Response: A/LM stated that it is participating in the Defense Contract Audit Agency (DCAA) DynCorp Resident Office's incurred cost audits for fiscal years 2010-2013. A/LM also stated it will discuss the scope of these audits with DCAA and include the OIG's recommendations as an audit lead in its reviews.

OIG Reply: OIG considers this recommendation resolved because A/LM agreed to assess whether incurred costs were allocable, allowable, and supportable by participating in DCAA incurred cost audits of DynCorp contracts and using the findings from this audit to inform the DCAA audits. This recommendation will be closed when OIG receives and accepts documentation showing the results of the DCAA incurred cost audits, including determinations of whether the charges for Embassy Air-Iraq in FYs 2010 through 2013 by DynCorp under contracts SAQMPD05C1103 and SAQMMA12C1103, Task Orders 3616 and 2643 were allocable, allowable, and supportable. Based on Management's response, OIG clarified the recommendation to specify contractor invoices related to Embassy Air-Iraq.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, require DynCorp

International to provide documentation to INL that clearly, accurately, and completely supports all costs submitted on its invoices.

Management Response: A/LM did not state whether it agreed or disagreed with the recommendation. Instead, A/LM referenced that FAR Clause 52.215-2(f), Audit and Records–Negotiation requires the contractor to “make available at its office at all reasonable times the records, materials, and other evidence...for examination, audit, or reproduction, until 3 years after final payment under this contract or for any shorter period specified in Subpart 4.7, Contractor Records Retention, of the Federal Acquisition Regulation (FAR), or for any longer period required by statute or by other clauses of this contract.” In addition, A/LM stated that FAR Subpart 4.7 requires a 4-year retention period for pay administration records, and a 4-year retention period for purchase order files for supplies, equipment, material, or services used in the performance of a contract; supporting documentation and backup files including, but not limited to invoices, and memoranda (e.g., memoranda of negotiations showing the principal elements of subcontract price negotiations).

OIG Reply: OIG considers this recommendation unresolved because A/LM did not indicate it would require DynCorp to provide documentation to INL that clearly, accurately, and completely supports all costs submitted on its invoices. Although OIG agrees that the FAR requires that contractors maintain and make available documents supporting vouchers, and we noted that the contract specifically stated the same in its reference to DOSAR 652.232-71, the intent of the recommendation is to ensure that invoice review personnel receive sufficient information to determine the accuracy, allowability, and allocability of invoiced costs. The \$932,644 in costs OIG questioned occurred, in part, because the contractor was not required to submit documents supporting its invoiced costs unless requested, and the COR and other invoice review staff did not routinely make such requests. Therefore, it is unclear how the invoice review staff could determine the accuracy, allowability, and allocability of the costs without sufficient information to make such a determination. This recommendation can be resolved when A/LM provides OIG with an action plan and milestones for implementing the recommendation, or provides an acceptable alternative that fulfills the intent of the recommendation. This recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM has implemented controls to ensure contractors provide documentation that clearly, accurately, and completely supports costs submitted on its invoices. Based on management’s response, OIG clarified the recommendation to specify the contractor and the Department bureau.

Recommendation 5: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, modify its invoice review process to trace requested reimbursements to supporting documentation to ensure that all costs submitted on an invoice are allowable, allocable, reasonable, and supportable.

Management Response: INL agreed with OIG’s recommendation, stating that it has modified its invoice review process to improve tracing requested reimbursements to ensure that all invoiced costs are allowable, allocable, reasonable, and supported. INL also stated that

Assistant Contracting Officer's Representatives and the Contracting Officer's Representative for the current and future air services contract will review each invoice following initial reviews by cost analysts and invoice analysts. In addition, INL stated that it now has a more defined process to improve the timeliness of invoice processing. INL/A also stated that it is currently in the process of finalizing a Standard Operating Procedure to document these procedures with a goal of implementation of July 31, 2015.

OIG Reply: OIG considers this recommendation resolved because INL agreed to modify its invoice review process. This recommendation will be closed when OIG receives and accepts documentation showing that INL's new procedures for reviewing invoices trace requested reimbursements to supporting documentation to ensure that all invoiced costs are allowable, allocable, reasonable, and supportable.

Recommendation 6: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation (INL/A), assess its staffing level to ensure a more rigorous invoice review. If no changes in the staffing level are made, INL/A should provide a description of how it intends to increase the invoice reviews.

Management Response: INL agrees with OIG's recommendation stating that INL/A has two invoice review personnel on staff and that INL/A has an additional two analysts arriving the summer of 2015 to assist with invoice reviews.

OIG Reply: OIG considers this recommendation resolved because INL agreed to assess its staffing level to ensure a more rigorous invoice review. This recommendation will be closed when OIG receives and accepts documentation showing that INL/A has sufficient staff in place to conduct invoice reviews.

Finding B: Contract Administration Requires More Attention

A/LM/AQM and INL/A adequately monitored the contractor's performance using multiple methodologies, including evaluations and inspections, and documenting satisfactory and unsatisfactory performance across a variety of mission functions and administrative operations. A/LM/AQM and INL/A also adequately monitored contractor staff to ensure they met certification and training requirements. However, contract definitization²⁹ has been problematic throughout the life of EA-I. Option year costs were definitized, on average, 172 days after the start of the respective option years. OIG also could not confirm that the contract fully incorporated required contract language on human trafficking. Finally, A/LM/AQM did not provide OIG with sufficient documentation supporting its decision to authorize as reimbursable

²⁹ Definitization is the final agreement of a contract regarding its cost, duration, or scope. A contract is considered to be undefinitized if contract terms, specifications, or price are not agreed upon prior to the start of performance.

costs approximately \$25.9 million for DynCorp's payment of income and Social Security taxes it and its employees owed the Government of Iraq.

A/LM/AQM and INL/A Adequately Monitored the Contractor's Performance

A/LM/AQM and INL/A adequately monitored DynCorp's performance using multiple methodologies including evaluations, inspections, and other types of review. Three times per award year, A/LM/AQM and INL/A completed Award Term Evaluations, also called "trimester reports," that focus on whether the contractor is meeting the terms and conditions of the contract. For these reports, A/LM/AQM and INL/A assessed DynCorp's performance in each country across a variety of functions and evaluated DynCorp's performance based on reviews of the contractor's operations for each country program.

The trimester reports provide an overall rating on DynCorp's performance worldwide across a variety of mission and administrative functions,³⁰ as well as specific ratings and illustrations for the contractor's performance within each country program. For example, in its June 2012 trimester report, A/LM/AQM and INL/A rated DynCorp's overall performance as satisfactory for the period from November 1, 2011, to February 29, 2012. In the same report, A/LM/AQM and INL/A stated that DynCorp met its contract metrics for safety in Iraq, but that "persistent manning shortages placed the site in position of having to accept additional risk across the program spectrum to meet established mission requirements." A/LM/AQM and INL/A also rated DynCorp as unsatisfactory for tactical communications, noting the contractor knowingly flew missions while lacking communications capabilities for convoy security and route reconnaissance, and failing to consider using alternate available "aircraft and tactics, techniques and procedures, which could be employed to overcome these issues."

In addition, INL/A completed Aviation Resource Management Surveys (ARMS), which are in-depth inspections to ensure the contractor was operating to established standards and was making efficient use of INL/A resources. Unlike the trimester reports, which assess the contractor's performance worldwide, ARMS inspections focus solely on operations within a given country. In its April 2013 ARMS report for Iraq,³¹ INL/A stated the Iraq program was operating in an overall satisfactory manner with some areas receiving commendable ratings. Specifically, INL/A found that DynCorp performed satisfactorily in five functional areas: safety, training, force protection, standardization, and operations. However, INL/A also found that DynCorp's overall management systems in Iraq were unsatisfactory, including logistics, standard operating procedures, property management, acquisition and inventory replenishment, transportation procedures, management reporting procedures, and disposition procedures. INL/A found DynCorp performed satisfactorily or better for three management areas, including

³⁰ INL/A rates the contractor on the following functions: Management, Administration, and Information Technology; Safety; Operations, Training, and Mission Support Services; Logistics and Property Management; and Maintenance and Aircraft Availability.

³¹ Memorandum, "Aviation Resource Management Survey, Iraq Site," 09-19, Feb. 2013.

records, storage, and personnel and training files. Table 2 summarizes the results from the April 2013 ARMS report.

Table 2: Summary of the April 2013 Aviation Resource Management Survey Findings for Embassy Air Iraq

Functional Area	Unsatisfactory	Satisfactory	Commendable
Management	√ ^a		
Logistics	X ^b		
Standard Operating Procedures	X		
Property Management	X		
Acquisition and Inventory Replenishment	X		
Records		X	
Transportation Procedures	X		
Storage		X	
Physical Inventory Procedures	X		
Management Reports Procedures	X		
Disposition Procedures	X		
Miscellaneous-Personnel and Training Files			X
Safety		√	
Training		√	
Force Protection		√	
Standardization		√	
Operations		√	

^a √ denotes main functional areas.

^b X denotes subcategories within the main functions.

Source: OIG generated from INL/A's April 2013 ARMS report.

A/LM/AQM and INL/A Adequately Oversaw Contractor Requirements for Certifications and Training

OIG validated A/LM/AQM's and INL/A's oversight of DynCorp's contractual requirements for certain staff position certifications and training and found DynCorp to be generally compliant with the contract requirements. Specifically, we randomly sampled and tested compliance with the certification requirements for 65 employees whose positions required certifications. OIG found two DynCorp staff did not have the certifications required for their respective positions. When we brought this to the attention of the COR, he said that the certification requirement for those positions was a mistake, and INL/A subsequently removed the requirement.

A/LM/AQM and INL/A Did Not Definitize Option Year Costs in a Timely or Accurate Manner

A/LM/AQM and INL/A did not definitize the pricing proposals or technical requirements prior to the start of each option year. Definitization is the final agreement between the contractor and funding government entity regarding the cost, duration, or scope associated with the contract

requirements. The government bears the risk of paying higher costs during an undefinitized period because contractors have little incentive to control costs, creating a potential for wasted taxpayer dollars.³² A contract is considered to be undefinitized if contract terms, technical requirements, or price are not agreed upon prior to the start of performance. The contract³³ required that the contractor provide A/LM/AQM and INL/A with a technical and price proposal within 10 days from A/LM/AQM's and INL/A's task order request.

OIG reviewed the contract definitization process for the EA-I task orders for option years 3-8. OIG found definitizations for each option year were completed, on average, approximately 172 days after the starting date of the period of performance, the first day of November in a given year. Definitization delays ranged from 43 days for option year 6 to 274 days for option year 5. Table 3 shows the date and the number of days from the start of the performance period contract definitization occurred for each option year.

Table 3: Delays in Completing EA-I Contract Definitizations by Option Year

Option Year	Period of Performance	Date Task Order Definitized	Days After Start of Period of Performance
OY3/OY4 [*]	Sep. 29, 2009-Oct. 31, 2010	June 16, 2010	260
OY5	Nov. 1, 2010-Oct. 31, 2011	Aug. 2, 2011	274
OY6	Nov. 1, 2011-Oct. 31, 2012	Dec. 14, 2011	43
OY7	Nov. 1, 2012-Oct. 31, 2013	Mar. 12, 2013	131
OY8	Nov. 1, 2013-Oct. 31, 2014	April 2, 2014	152
Average			172.0

^{*} The Iraq contract was initiated on September 29, 2009, during option year 3.

Source: OIG analysis of contract documents.

The definitization process was not completed prior to the start of the periods of performance for each option year, in part, because DynCorp did not provide proposals in a timely manner. DynCorp submitted its combined initial proposal for option years 3 and 4 on November 17, 2009, 16 days after the start of option year 4. DynCorp submitted its initial option year 8 proposal on December 12, 2013, 41 days after the start of that option year and the last proposal revision on April 1, 2014. In addition, although OIG could not determine whether the initial proposals for option years 5 and 7 were provided within 10 days from A/LM/AQM's and INL/A's task order request, we could determine that DynCorp submitted the proposals for those years less than 1 month before the start of those respective years.

In addition, according to the trimester reports, DynCorp's proposals were frequently inaccurate and included "major mistakes" and repeat discrepancies that prolonged negotiations. Although

³² United States Government Accountability Office Report to Congressional Committees, "Defense Contracting: Use of Undefinitized Contract Actions Understated and Definitization Time Frames Often Not Met," GAO-07-559, June 2007.

³³ SAQMPD05C1103, para. "G.7, Task Orders (11/96)."

OIG did not review the technical merits or accuracy for each proposal and subsequent changes, we did review the number of changes DynCorp submitted for each option year proposal as an indicator of the number of inaccuracies. OIG found that, on average, DynCorp submitted approximately 30 individual changes to the proposed scope of work per option year proposal. These changes reduced the contract costs by an average \$39.6 million per option year. The changes for option years 6 and 7 combined reduced contract costs by \$155.5 million from DynCorp's initial cost proposal.

On the other hand, in at least two option years, A/LM/AQM and INL/A did not fully identify or incorporate all requirements into the scopes of work for the option years. For example, during option year 5, A/LM/AQM, INL/A, and DynCorp conducted negotiations for the use of S-61N helicopters and an expansion of DynCorp staffing in Iraq, but the costs were not incorporated into the scope of work for option year 6. In addition, for option year 8, A/LM/AQM, INL/A, and DynCorp agreed to reductions in services, such as reducing staffing for rotary wing aircrews from 8 to 6 and rotary wing aircraft flight hours from 4,000 hours to 1,800 hours. A/LM/AQM and INL/A negotiated these reductions in response to an anticipated drawdown of aviation services and personnel during the last year of the contract. However, A/LM/AQM and INL/A completed this negotiation with limited input from U.S. Mission Iraq, which did not agree to the reduced services. As a result, the scope of work for option year 8 was not definitized until April 2014, 5 months after the start of the option year.

According to INL/A, failure to definitize option year requirements in a timely and accurate manner affects budgetary planning and securing necessary funding. For example, the initial estimated funding level for option year 8 was \$95 million. However, when the requirements for Iraq were shared with Embassy Baghdad and NEA reducing the level of services to meet the \$95 million budget, neither approved the reduction in services. Therefore, when the option year was definitized in April 2014, the funding requirements had increased to \$112.7 million to ensure no services were reduced and included additional services. As a result, DS and NEA had to obtain an additional \$17.7 million more than 5 months after the start of the option year and 6 months after the start of the fiscal year.

Failure to accurately definitize option years also can lead to unanticipated costs. As noted above, during option year 6, INL/A issued a letter of concern to DynCorp regarding its option year 5 performance stating the contractor needed to significantly increase Iraq staffing levels to those required by the contract requirements. The definitization for option year 6 included direct labor for 240 new DynCorp positions. However, according to DynCorp, during option year 6 it incurred additional costs associated with the additional 240 positions to include workers' visas, travel, medical malpractice insurance, facilities and furnishings, and subcontracts for operations and maintenance and food service. In February 2014, 16 months after the end of option year 6, DynCorp formally requested \$6.5 million to cover the higher-than-expected costs.

Contract Does Not Fully Incorporate Required Trafficking in Persons Contracting Policies

The Department requires that all solicitations and contracts include as a contract clause Federal Acquisition Regulation (FAR) 52.222-50, "Combating Trafficking in Persons." In addition, the Bureau of Administration, Office of the Procurement Executive (A/OPE), issued two Procurement Information Bulletins (PIBs)³⁴ related to trafficking in persons. The PIBs include requirements for how contractors and subcontractors recruit, house, and pay third country national employees.

Because the two PIBs were implemented after the initial contract award, the contracting officer would have needed to issue a contract modification to include the PIBs. Without proper incorporation of the PIBs and oversight of their requirements, the Department could be faced with a situation whereby the contractor's or its subcontractors' actions may violate the trafficking in persons policy and its requirements.

A/LM/AQM Did Not Provide Documentation Supporting Reimbursement to DynCorp for Iraqi Income Taxes Paid, Resulting in Questioned Costs

In option years 7 and 8, A/LM/AQM authorized approximately \$25.9 million (of which almost \$21.5 million have been expended) for DynCorp's payment of income and Social Security taxes its employees owed the Government of Iraq. Specifically, A/LM/AQM authorized reimbursement for DynCorp's payment of the employer contribution for Iraqi Social Security, as well as for its payments of its employees' personal Iraqi income and Social Security tax liabilities, penalties, and interest associated with late payments, and overhead and other administrative expenses associated with the payments.

A/LM/AQM officials explained that from 2003 through the departure of Coalition Forces in 2011, non-Iraqi U.S. Government contractors were exempt from paying Iraqi income and Social Security taxes, first by Coalition Provisional Authority order number 49,³⁵ and later under the Status of Forces Agreement between Iraq and the United States.³⁶ This exemption ended in late 2011 when the Status of Forces Agreement expired and the Coalition Forces departed. DynCorp and its employees, therefore, became subject to Iraqi tax laws.

In September 2012, DynCorp notified INL/A that it had not included Iraqi taxes in its proposal for option year 7 of the contract because it was unaware of the taxes at the time it submitted its proposal. In March 2013, A/LM/AQM approved modification M007 to the option year 7 task

³⁴ Procurement Information Bulletin No. 2011-09, Combating Trafficking in Persons (Sept. 19, 2012, Update) and Procurement Information Bulletin No. 2012-10 (October 17, 2012, Update), Contractor Recruitment of Third Country Nationals.

³⁵ CPA order 49 exempted foreign (non-Iraqi) employees and foreign (non-Iraqi) contractors and subcontractors working/supporting Coalition Forces, departments, and agencies of Coalition Forces' governments to be exempt from any tax or similar charges within the territory of Iraq.

³⁶ Article 19, para. 4, of the Status of Forces Agreement gave limited tax exemption to U.S. DoD contractors.

order, which included definitized costs for tax reimbursements, but did not authorize funding for the tax payments.³⁷

On December 16, 2013, A/LM/AQM issued modification M014 authorizing approximately \$14.3 million for DynCorp's tax payments to the Government of Iraq, as well as for penalties and/or interest associated for late payments, as a reimbursable cost. Specifically, DynCorp was authorized up to \$8.2 million for the payment of its employees' Iraqi personal income taxes and personal contributions for Social Security, \$3.3 million for the employer contribution toward its employees' Social Security taxes, \$2.0 million in penalties and interest associated with late payment of the taxes, and \$765,500 for overhead and general and administrative costs. INL/A ultimately reimbursed DynCorp \$11.8 million for tax payments in option year 7.

In addition, on April 2, 2014, INL/A definitized option year 8 to include DynCorp's request for approximately \$11.5 million to cover Iraqi taxes. In this option year, the taxes were incorporated in labor costs, which included approximately \$6.2 million reimbursements for the employees' personal tax and Social Security liabilities, approximately \$4 million for employer contributions for Social Security, and \$1.3 million for overhead, general and administrative costs, and profit. As of September 11, 2014, DynCorp was reimbursed approximately \$9.7 million. Table 4 shows the authorized, expended, and unexpended funding for reimbursements to DynCorp for payments associated with its employees' Iraq tax liabilities.

Table 4: Authorized, Expended, and Unexpended Funds Associated with DynCorp Payments of Employees' Iraqi Personal Income and Social Security Tax Liabilities

Option Year	Authorized Funds ^a	Expended Funds ^{a,b}	Unexpended Funds ^a
Option Year 7	\$14,348,618	\$11,809,396	\$2,539,222
Income Tax-Employee Liability	6,851,796	6,839,279	12,517
Social Security - Employee Liability	1,391,055	1,294,578	96,477
Social Security - Employer Contribution	3,304,542	2,962,423	342,119
Penalties and Interest	2,035,721	-	2,035,721
Overhead and G&A	765,504	713,116	52,388
Option Year 8	\$11,538,243	\$9,669,765	\$1,868,478
Income Tax-Employee Liability	4,518,566	3,993,589	524,977
Social Security - Employee Liability	1,683,679	1,322,896	360,783
Social Security - Employer Contribution	4,040,878	3,174,965	865,913
Penalties and Interest	-	-	-

³⁷ In April 2013, DynCorp distributed a memo to its employees about the need to begin paying Iraqi taxes and stated that DynCorp would pay the taxes on behalf of each employee as a taxable benefit. The memo also discussed the tax implications of the payments, and encouraged employees to seek the assistance of a tax advisor specifically for the foreign tax credit and the foreign earned income exclusion, if eligible.

Option Year	Authorized Funds ^a	Expended Funds ^{a,b}	Unexpended Funds ^a
Overhead, G&A, and Profit	1,295,120	1,178,315	116,805
Totals	\$25,886,861	\$21,479,161	\$4,407,700
Income Tax-Employee Liability	11,370,362	10,832,868	537,494
Social Security - Employee Liability	3,074,734	2,617,474	457,260
Social Security - Employer Contribution	7,345,420	6,137,388	1,208,032
Penalties and Interest	2,035,721	-	2,035,721
Overhead, G&A, and Profit	2,060,624	1,891,431	169,193

^a Total may differ from summation of the cost categories due to rounding.

^b As of September 11, 2014.

Source: INL/A.

A/LM/AQM officials stated that modification M014 was approved because the imposed taxes were considered allowable costs and because both the Coalition Provisional Authority and the Status of Forces Agreement were no longer in place. OIG questions whether authorizing the reimbursement of DynCorp's employees' personal income and Social Security tax liabilities to the Government of Iraq, and DynCorp's employer contributions to Iraq Social Security, were adequately supported under the FAR. FAR 31.201-2(a) states, "a cost is allowable only when it is reasonable, allocable to the contract, meets the standards promulgated by the CAS Board, if applicable; otherwise, generally accepted accounting principles and practices appropriate to the circumstances, meets the terms of the contract, and does not contain any limitations set forth in this subpart." Additionally, FAR 31.201-3(a) states that "a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If an initial review of the facts results in a challenge of a specific cost by the contracting officer or the COR, the burden of proof shall be upon the contractor to establish that such cost is reasonable." Lastly, FAR 31.201-4 states that "a cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it (a) is incurred specifically for the contract; (b) benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or (c) is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown."

In February 2014, OIG asked A/LM/AQM for documentation, including analyses or research conducted in support of the decision to authorize and reimburse the Government of Iraq for taxes imposed under modifications M007 and M014 (Task Order 3616) and M007 (Task Order 2643). A/LM/AQM officials stated that modification M014 was approved based upon the conclusion that the imposed taxes are allowable costs because both the Coalition Provisional Authority and the Status of Forces Agreement were no longer in place. In addition, although the officials provided copies of the price proposals, these documents did not contain the basis for authorizing or obligating funding for such costs, including written clearance or approval by the Department's Office of Legal Adviser, and the contractor's business case for the reasonableness

and allocability of the costs. Because A/LM/AQM officials have not provided OIG with written documentation supporting the modifications, OIG questions the need for \$25,887,861 authorized and obligated for reimbursements to DynCorp for income and Social Security tax payments to the Government of Iraq.

Recommendation 7: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, develop a contract definitization process that identifies all scope of work requirements in advance of the period of performance and ensures that the contractor submits accurate price and technical proposals that incorporate the requirements in advance of the period of performance.

Management Response: Although A/LM did not state whether it agreed or disagreed with the recommendation, it did state that, in coordination with INL/A, it will develop a contract definitization process that will identify all scope of work requirements in advance of the period of performance and ensure that the contractor submits accurate price and technical proposals that incorporate the requirements in advance of the period of performance.

OIG Reply: OIG considers this recommendation resolved because A/LM agreed to modify the contract definitization process to ensure it identifies all work requirements and receives accurate price and technical proposals fully addressing the requirements in advance of the period of performance. This recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM and INL/A have implemented a contract definitization process that identifies all scope of work requirements in advance of the period of performance and ensures that the contractor submits accurate price and technical proposals that incorporate the requirements in advance of the period of performance.

Recommendation 8: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, modify Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation's worldwide aviation contract so it conforms to the requirements within the Department's Procurement Information Bulletin No. 2011-09, Combating Trafficking in Persons, and Procurement Information Bulletin No. 2012-10, Contractor Recruitment of Third Country Nationals, to ensure that the contractor is fully aware that it is obliged to meet the requirements as stated.

Management Response: A/LM stated that it issued contract Modification 86 so that the contract now conforms to the requirements contained in the Department's Procurement Information Bulletins No. 2011-09 and No. 2012-10.

OIG Reply: OIG considers this recommendation unresolved because contract Modification 86, which incorporated FAR 52.222-50 "Combating Trafficking in Persons Alternate I" by reference, was issued in September 2009 prior to the issuance of Procurement Information Bulletins (PIB) 2011-09 and 2012-10. Therefore, Modification 86 does not reflect specific Department policies and requirements for preventing human trafficking. For example, PIB

2011-09 requires that contracting officers and contracting officer's representatives develop a monitoring plan to minimize the trafficking in persons risk, both pre-solicitation and post-award, to ensure contractors are in compliance with trafficking in persons requirements. PIB 2012-10 requires that the employers submit pre-award recruitment plans and provide housing plans for employers that provide housing for employees. While OIG recognizes that contract Modification 86 does reference FAR 52.222-50 "Combating Trafficking in Persons Alternate I", FAR 52.222-50 does not include the additional Department requirements outlined in the PIBs. This recommendation can be resolved when OIG receives and accepts A/LM's corrective action plan, including implementing milestones, that conforms to Department policies for combating trafficking in persons. This recommendation will be closed when OIG receives and accepts documentation that demonstrates A/LM has complied with Department policies outlined in PIBs 2011-09 and 2012-10. Based on management's response, OIG clarified the recommendation to specify the contract.

Recommendation 9: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management provide to the OIG its rationale and all documentation (e.g., written legal opinions, written business cases, emails, meeting minutes, and decision papers and memos) used to support the decisions to authorize and obligate \$25,886,861 for reimbursements to DynCorp International (DynCorp) for (1) the payment of DynCorp's employees' personal income and Social Security tax liabilities to the Government of Iraq and (2) DynCorp's employer contributions to Iraq Social Security.

Management Response: A/LM stated that it will provide the OIG its rationale and all documentation (e.g., written legal opinions, written business cases, emails, meeting minutes, and decision papers and memos) used to support the decisions to authorize and obligate \$25,886,861 for reimbursements to DynCorp for (1) the payment of DynCorp's employees' personal income and Social Security tax liabilities to the Government of Iraq and (2) DynCorp's employer contributions to Iraq Social Security in the attached documents. A/LM also provided additional documentation to support its response.

OIG Reply: OIG considers this recommendation unresolved because A/LM did not concur or provide an acceptable response to the recommendation. Specifically, A/LM provided some of the same supporting documentation that OIG had previously reviewed. Although A/LM stated in its response that it provided OIG with written legal opinions, written business cases, emails, meeting minutes, and decision papers and memos, OIG did not receive such documentation. Instead, A/LM provided OIG (1) a memorandum to the Contracting Officer, the Office of the Legal Advisor, and A/LM/AQM management requesting authorization for the modifications to allow reimbursements for the taxes; (2) the price proposals establishing the costs associated with the tax payments; and (3) the actual modifications authorizing and funding those costs. The only reference within the documentation explaining the need for modifying the contract after the start of option year 7 is that the Status of Forces Agreement between the United States and Iraq had expired and the contractor failed to incorporate the costs associated with the payments in its option year proposal. However, none of the documents provided a legal opinion, business case, or rationale for why it was reasonable or

necessary to reimburse DynCorp for payment of the corporate and the personal taxes it and its employees owed the Government of Iraq. Therefore, OIG questions the \$25,886,861 authorized for reimbursement of the tax payments as unsupported costs. This recommendation can be resolved and closed when OIG receives and accepts documentation demonstrating a business case or other rationale supporting A/LM/AQM's decision to authorize \$25,886,861 for the purpose of reimbursing the contractor for the payment of its and its employees' tax liabilities owed the Government of Iraq. If A/LM/AQM does not have such a justification, the recommendation can be considered resolved when OIG receives and accepts A/LM/AQM's determination of which costs are allowable and which should be disallowed, and can be closed when OIG receives and accepts documentation demonstrating that A/LM/AQM took appropriate action (i.e., established an account receivable or received repayment) to recover the disallowed costs from DynCorp.

Recommendation 10: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management ensure that contract files contain documentation that supports how reimbursements associated with contractors' payments of foreign taxes are allowable, allocable, and reasonable, as required by Federal Acquisition Regulation 31.201.

Management Response: A/LM stated that it will include documentation in contract files that supports how reimbursements associated with contractors' payments of foreign taxes are allowable, allocable, and reasonable, as required by Federal Acquisition Regulation 31.201.

OIG Reply: OIG considers this recommendation resolved because A/LM agreed that contract files must contain documentation that supports how reimbursements associated with contractors' payments of foreign taxes are deemed allowable, allocable, and reasonable. This recommendation will be closed when OIG receives and accepts documentation that demonstrates A/LM has implemented internal controls to ensure foreign tax reimbursements to contractors are fully justified and documented in the contract files.

Finding C: DynCorp Met Service Delivery Performance Goals But Did Not Consistently Meet Aircraft Availability Goals

OIG found that DynCorp generally met its service delivery performance goals associated with aviation services to include scheduled flights, medical evacuations, and flights for "very important persons" (VIP) as measured by percentage of sorties aborted or cancelled due to maintenance or crew-related issues. DynCorp, at the direction of the U.S. Government, has also effectively utilized EA-I assets from Iraq to support Department contingency operations in Libya and Lebanon, and relocated direct-hire and contractor staff from Baghdad due to threats posed by the Islamic State in Iraq and the Levant. DynCorp consistently met the contract's aircraft

availability goals, as measured by the Fully Mission Capable (FMC)³⁸ and Not Mission Capable-Supply (NMCS)³⁹ rates, for the fixed-wing aircraft it operates for EA-I and for one type of helicopter, the MD-530. However, DynCorp struggled to meet the FMC and NMCS performance goal for the S-61N, UH-1N, and UH-1ST helicopters because of an insufficient number of trained and certified mechanics and difficulty obtaining spare parts and other supplies in a timely manner. Although failure to meet the availability goals for these helicopters did not affect DynCorp's ability to meet most embassy flight support requirements, given the instability in Iraq, deficiencies associated with obtaining and providing spare parts could reduce the likelihood that a sufficient number of aircraft are available when needed.

DynCorp Met Performance Goals for Aerial Transport, Medical Evacuations, and VIP Sorties

The contract lists seven contractor performance goals for the EA-I program, including the following:

1. Abort or cancel no more than 2 percent of all scheduled sorties⁴⁰ due to aircraft or crew availability.
2. Provide medical evacuation coverage with six medically equipped helicopters and requisite trained personnel 24 hours a day, 7 days a week.
3. Provide support for 100 percent of VIP missions, and that VIP missions take off within 5 minutes of the scheduled time unless directed otherwise by a competent (Chief of Mission, Ambassador, etc.) authority.
4. Maintain an FMC goal of at least 70 percent for fleets with six or more aircraft.⁴¹
5. Maintain an FMC goal of at least 50 percent for fleets with five or less aircraft.⁴²
6. Maintain an average NMCS rate of 10 percent or less for all aircraft.
7. Respond to contingency deployments within 2 weeks of notification and conduct an initial response to emergency (humanitarian, natural disasters) operations initiated within 1 hour of notification.

OIG found DynCorp met the goals for sorties, medical evacuations, and VIP services. The principal metrics for evaluating aerial transport performance is the rate of flights aborted and canceled as well as the underlying cause of each. DynCorp flight records indicate that from December 1, 2009, to March 17, 2014, DynCorp aborted or canceled 901 of 27,357 scheduled sorties (3.3 percent). However, according to the flight records, only 70 of the 27,357 sorties

³⁸ Fully mission capable means the aircraft or fleet of aircraft is operable, committable, and capable of performing its designated mission without any restrictions, such as not flying at night, flying with a reduced maximum load, or flying at a reduced maximum speed, etc.

³⁹ A not mission capable-supply rate is the percentage of time an aircraft is inoperable because a repair part is not available.

⁴⁰ A sortie includes one takeoff and one landing.

⁴¹ Fleets of six or more aircrafts are termed high density fleets.

⁴² Fleets of five or fewer aircraft are termed low density fleets.

(0.3 percent) were aborted or canceled due to maintenance or crew-related issues, which is far below the contract's 2-percent performance goal.

In addition, the contract required DynCorp to provide 24 hours a day, 7 days a week medical evacuation support. Like the aerial transport requirement, it required that no more than 2 percent of medical evacuation sorties be aborted due to aircraft or aircrew availability. The flight records show only 2 of the 704 (0.3 percent) scheduled medical evacuation sorties were aborted from March 4, 2010, to March 17, 2014. These two sorties were for the same medical evacuation mission and the records did not show any passengers onboard. The records also indicate that the flights were not aborted due to aircraft or aircrew availability. See Figure 3 of a medical evacuation sortie in progress.



Figure 3: Medical evacuation using a Bell UH1-ST helicopter. (INL/A photo)

The contract also required that "100% of VIP missions are supported, and that VIP missions takeoff within 5 minutes of the scheduled time unless directed otherwise by a competent (Chief of Mission, Ambassador, etc.) authority." The flight records show 79 of the 2,187 (3.6 percent) scheduled VIP sorties were aborted or canceled from December 1, 2009, to July 24, 2014. However, according to flight records, only 1 of the 2,187 sorties (0.05 percent) was aborted due to aircraft availability. The remaining 78 aborted or canceled VIP sorties were not documented as being due to aircraft or aircrew availability. Of the 2,187 scheduled sorties, only 12 (0.5 percent) failed to depart within 5 minutes of the scheduled time.

The contract also required that DynCorp coordinate with Embassy Baghdad on aircraft available for use in a contingency mission and to provide transportation support for the contingency. Since 2009, the EA-I program was used to support three short-term contingency missions outside of Iraq, including one in Libya in September 2011 and two in Lebanon in September 2013. In addition, in June 2014, in reaction to advances by the Islamic State in Iraq and the

Levant, Embassy Baghdad relocated approximately 802 Baghdad staff to other locations including Amman, Jordan; Erbil and Basrah, Iraq; and Kuwait City, Kuwait. According to daily aircraft status reports, 14 of the 16 helicopters and all 4 fixed-wing aircraft present were available for use during the relocation operation. One aircraft, a UH-1ST helicopter, was reported as unavailable due to maintenance issues throughout the operation because of a lack of replacements parts. However, the COR reported that the number of aircraft available for relocation were sufficient to complete the mission requirements. OIG found that EA-I performed its mission well, flying 199 sorties, including 167 helicopter flights and 32 fixed-wing flights, over a period of 16 days. In addition to moving personnel, EA-I transported 96,699 pounds of cargo during the relocation operation. In addition, the COR stated that some of the fixed-wing flights from Baghdad to Amman had empty seats or unused cargo capacity that could have been used, if necessary.

DynCorp Met Aircraft Availability Goals for Its Fixed-Wing Aircraft But Frequently Did Not Meet the Goals for Three Types of Helicopters

Aircraft availability is measured by the fully mission capable (FMC) rate, which is the percentage of aircraft in a given fleet that are operable and committable, and capable of performing the designated mission without any restrictions. When viewed across a fleet of like aircraft, it can serve as an indicator of problems in a number of areas such as spare parts availability, maintenance operations efficiency, or aircraft fleet age. Because different types of aircraft often have different maintenance requirements and issues, a mission capable rate is determined for each type of aircraft in the fleet. When a fleet of aircraft is small, one aircraft going out of service can cause a large change in the mission capable rate. Thus, the task order set a 50-percent fully mission capable goal for fleets with five or less aircraft (low density fleets), and a 70-percent goal for fleets of six or more aircraft (high density fleets).

Table 5 shows the number of months, as of March 2014, in which the average daily FMC rate did not meet the FMC goal. The table shows that DynCorp consistently met the FMC goals for two of its three low density fleets—the DHC-8 airplane and the MD-530 helicopter fleet. The DHC-8 failed to meet its FMC goal just once in 29 months of operations, while the MD-530 helicopter fleet met its FMC goal every month it has been in the fleet. However, the remaining three helicopters frequently failed to meet their respective FMC goals. The UH-1N failed to meet the 50-percent goal for low density aircraft in 21 of 53 (40 percent) months. For the high density aircraft, the UH-1ST failed to meet its 70-percent goal in 17 of 53 (32 percent) months, while the S-61N failed to meet the FMC goal in 19 of 26 (73 percent) months.

Table 5: Number of Months DynCorp International Did Not Meet Required Minimum Fully Mission Capable Rates: December 2009–March 2014

Aircraft Type	Period of Operation	Average Number of Aircraft in Fleet	Fully Mission Capable Goal (Percent)	Reported Months	Number of Months Not Fully Mission Capable*
Fixed-wing					
DHC-8	Nov. 2011–Mar. 2014	4.4	50	29	1
Helicopters					
MD-530	Dec. 2009–April 2012	3.0	50	29	0
S-61N	Aug. 2011–Sept. 2013	11.3	70	26	19
UH-1N	Nov. 2009–Mar. 2014	3.4	50	53	21
UH-1ST	Nov. 2009–Mar. 2014	13.5	70	53	17

* Based on the average daily FMC rate for each month of operation from November 2009 to March 17, 2014.

Source: OIG Analysis of DynCorp Monthly and Daily Status Reports.

According to multiple trimester reports issued between February 2011 and August 2013, the failure to meet the FMC goals for the three helicopter types occurred for several reasons. In February 2011, INL/A reported that DynCorp lacked a basic aviation maintenance infrastructure. Subsequent trimester reports intermittently reported that DynCorp had an insufficient number of qualified and experienced mechanics, and that the contractor did not always ensure that aircraft maintenance personnel were properly trained and certified. The desert conditions in which the aircraft operated were also cited as contributing to the lower-than-desired rates, particularly for the S-61N fleet, which was designed for sea-based operations.

The failure to consistently meet the FMC goal was also affected by DynCorp's difficulties with providing spare parts and other supplies on a timely basis. The Not Mission Capable-Supply rate is a mission capability indicator that measures the percentage of aircraft in a given fleet that are inoperable due to a lack of spare parts or other supplies. Data provided by DynCorp shows the average NMCS rate over the course of each month for the S-61N exceeded the 10-percent goal in 18 of the 19 months (95 percent) in which its average FMC rate did not meet the 70-percent goal. In addition, the NMCS rate for the UH-1N fleet exceeded 10 percent in 7 of the 21 months (33 percent) when it failed to meet the 50-percent goal for low density aircraft, while the NMCS rate for the UH-1ST exceeded the threshold for 4 of the 17 months (24 percent) that fleet did not meet the 70-percent goal.

The failure to meet the NMCS goals derived from a lack of available spare parts, as well as a cumbersome logistics system. According to the COR, Bell and Sikorsky no longer manufacture the UH-1N, UH-1ST, or S-61N; due to the limited users of these aircraft, there are fewer spare parts vendors for these aircraft. To obtain spare parts, DynCorp had to obtain quotes from qualified vendors identifying both the cost and delivery timeframe for the part. For parts that are repairable, DynCorp also had to consider the cost and delivery timeframe to send the part for repair. According to the AOD and DynCorp staff, although they had access to some spare

aircraft parts, they did not maintain a full supply of ready-to-use parts. Additionally, once sent to Iraq, the parts must clear Iraqi customs. Although the AOD stated there are challenges in working with Iraqi customs, the AOD also stated that when everything is properly managed, Iraqi customs rarely caused more than a 1-week delay. According to the AOD, the supply system does not affect scheduled maintenance, because the type and quantity of parts, shipping location, and timeframe are known and planned. However, the AOD stated the lack of ready-to-use parts greatly affected unscheduled maintenance because DynCorp's Patrick Service Division at Patrick Air Force Base often had to locate a vendor and acquire the part before it could be shipped for use in Iraq.

Despite the failure to consistently achieve the FMC and NMCS rates, DynCorp was not prevented from completing most of its missions. As noted above, DynCorp consistently met its performance goals for sortie cancellations, medical evacuations, and VIP missions. In addition, DynCorp met mission requirements for the three contingency operations it provided. Nonetheless, given the instability in Iraq, deficiencies associated with obtaining and providing spare parts could reduce the likelihood that a sufficient number of aircraft are available when needed. Correcting these deficiencies would reduce this risk and likely improve overall program performance.

Recommendation 11: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, ensure that its spare parts inventory and process support its mission capable aircraft requirements.

Management Response: INL agreed with the recommendation stating that it will continue to monitor and oversee contractor performance and compliance in order to ensure that aircraft availability requirements are met.

OIG Reply: Although INL agreed with the recommendation, OIG considers this recommendation unresolved because INL stated that it would continue the same monitoring process that OIG concluded needed enhancement. This recommendation can be resolved when OIG receives and accepts INL's corrective action plan, including implementing milestones, that describes additional measures that will be employed to ensure aircraft availability requirements are met. This recommendation will be closed when OIG receives and accepts documentation that demonstrates INL has addressed deficiencies associated with the spare parts inventory.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, determine whether the questioned costs of \$140,627 pertaining to flight labor hours and base operations identified by OIG under contracts SAQMPD05C1103 and SAQMMA12C1103, Task Orders 3616 and 2643, are allowable and recover any costs determined to be unallowable from DynCorp International.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, determine whether the questioned costs of \$789,416 pertaining to flight labor hours and base operations and the potentially misapplied costs of \$2,601 pertaining to materials identified by OIG under contracts SAQMPD05C1103 and SAQMMA12C1103, Task Orders 3616 and 2643, are allowable and supportable and recover any costs determined to be unsupported or misapplied from DynCorp International.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, conduct a comprehensive review of all cost reimbursable contractor invoices related to Embassy Air-Iraq to determine whether the charges were allocable, allowable, and supportable.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, require DynCorp International to provide documentation to INL that clearly, accurately, and completely supports all costs submitted on its invoices.

Recommendation 5: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, modify its invoice review process to trace requested reimbursements to supporting documentation to ensure that all costs submitted on an invoice are allowable, allocable, reasonable, and supportable.

Recommendation 6: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation (INL/A), assess its staffing level to ensure a more rigorous invoice review. If no changes in the staffing level are made, INL/A should provide a description of how it intends to increase the invoice reviews.

Recommendation 7: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, develop a contract definitization process that identifies all scope of work requirements in advance of the period of performance and ensures that the contractor submits accurate price and technical proposals that incorporate the requirements in advance of the period of performance.

Recommendation 8: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, modify Bureau of International Narcotics and

Law Enforcement Affairs, Office of Aviation's worldwide aviation contract so it conforms to the requirements within the Department's Procurement Information Bulletin No. 2011-09, Combating Trafficking in Persons, and Procurement Information Bulletin No. 2012-10, Contractor Recruitment of Third Country Nationals, to ensure that the contractor is fully aware that it is obliged to meet the requirements as stated.

Recommendation 9: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management provide to the OIG its rationale and all documentation (e.g., written legal opinions, written business cases, emails, meeting minutes, and decision papers and memos) used to support the decisions to authorize and obligate \$25,886,861 for reimbursements to DynCorp International (DynCorp) for (1) the payment of DynCorp's employees' personal income and Social Security tax liabilities to the Government of Iraq and (2) DynCorp's employer contributions to Iraq Social Security.

Recommendation 10: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management ensure that contract files contain documentation that supports how reimbursements associated with contractors' payments of foreign taxes are allowable, allocable, and reasonable, as required by Federal Acquisition Regulation 31.201.

Recommendation 11: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, ensure that its spare parts inventory and process support its mission capable aircraft requirements.

APPENDIX A: SCOPE AND METHODOLOGY

OIG conducted this audit from October 2013 to December 2014 in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. OIG conducted this audit under the authority of the Inspector General Act of 1978, as amended.

Our audit objectives were to determine whether:

- invoice review and approval procedures were in place to ensure accuracy and completeness of costs,
- the contractor's work was adequately monitored, and
- the contractor was performing in accordance with contract terms and conditions.

To accomplish the objectives, OIG conducted fieldwork and interviews at Patrick Air Force Base, Satellite Beach, FL; Washington, DC; and Baghdad, Iraq. At Patrick Air Force Base and in Washington, DC, OIG met with officials from the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation (INL/A); and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM); and with program managers and representatives from DynCorp, Inc. (DynCorp). In Baghdad, OIG interviewed the Regional Security Officer, the government technical monitors, embassy officials, and DynCorp management, administrative, and operations staff.

OIG reviewed the EA-I base contract (SAQMPD05C1103),¹ Task Orders 3616 and 2643, and related modifications and documents; price and technical proposals and for each contract option year; contract deliverables; and Federal Acquisition Regulations (FAR) for contract definitization requirements. In addition, we reviewed logs for scheduled and performed passenger, medical evacuation, and Very Important Persons (VIP) flights; maintenance and mission capability rates for the fixed-wing and helicopter aircraft fleets; and staff training and certification (see below). OIG reviewed contractor performance assessments, including Award Term Evaluation Reports (trimester reports), Aviation Resource Management Surveys, and Aviation Advisor Weekly Reports conducted by INL/A. OIG also reviewed the 14 largest invoices approved between December 2009 and May 2013 (see below) to ensure they complied with requirements set out in the *Foreign Affairs Handbook* (FAH), the *Foreign Affairs Manual* (FAM), the *Overseas Contracting and Simplified Acquisition Guidebook*, and the FAR. Finally, OIG reviewed

¹ The contract was renumbered as SAQMMA12C1103 in May 2012 due to limitations of the Department's contracting system. The "new" contract is identical to the original contract with the exception of modifications that occurred subsequent to the renumbering.

DynCorp, INL/A, and contract documentation authorizing reimbursement of tax payments; FAR requirements for reimbursing contractors for tax-related costs; and Internal Revenue Service Publication 514–Foreign Tax Credits for Individuals—to determine the allowability of reimbursing DynCorp for payment of its employees’ personal income and Social Security taxes owed the Government of Iraq.

Review of Internal Controls

OIG performed steps to assess the adequacy of internal controls related to the base contract and Task Orders 3616 and 2643. OIG reviewed documentation used by the Department of State (Department) for examining and approving invoices for payment, such as the Pre-Payment Risk Assessment procedures and checklist for reviewing invoices. Internal control deficiencies identified during this audit are detailed in the Audit Results section of this report.

Use of Computer-Processed Data

OIG reviewed 14 invoices to determine whether the Department adequately examined invoices prior to approval and that only allowable and supportable costs were approved. OIG then reviewed information from the Department’s Global Financial Management System for each invoice to ensure that the contractor was paid at the approved amount. Although some invoices were approved with errors, as described in Finding B of this report, OIG concluded that the contractor was paid at the approved amount on all invoices included in the scope of the audit.

To review contractor personnel qualifications and training record maintenance, OIG used INL/A’s Air Wing Information System (AWIS) through an Internet-based portal, which is the contractor’s primary tool used to manage its personnel, training, and property records.

Invoice Review Sampling Methodology and Results

The audit team used judgment sampling rather than statistical sampling, which allowed us to select and review invoices with the greatest values. Unlike statistical sampling, which chooses the sample by means of random numbers, judgment sampling method (a nonstatistical sampling method) utilizes discretionary criteria to select the sample chosen for review. The contract line item numbers were for different categories, such as operations labor hours and materials, flight hours, materials only, and Defense Base Act Insurance. Therefore, the standard selection used when evaluating the sample items in an invoice varied depending upon the contract line item.

OIG evaluated the INL/A invoice and approval procedures for the base contract and Task Orders 3616 and 2643. OIG reviewed 9 percent of the invoice universe total cost of \$541,508,649 resulting in the review of 14 invoices dated from December 2009 through May 2013 with a total cost of \$49,680,258. The 14 cost reimbursable invoices consisted of 4 base operations, including 1 for labor costs, 4 for materials, 4 for flight labor hours, and 2 for Defense Base Act Insurance. These invoices represented the greatest values for each category. The flight hour and base

operations invoices included four separate work weeks of labor charges. Due to the time-consuming level of effort necessary to review all the work weeks, OIG randomly selected only 1 week to review from each of the eight invoices. OIG reviewed 100 percent of all employee records for the week selected on each of the eight invoices.

The invoice review consisted of examination of supporting documentation; review of FAH, FAM, and FAR policies, procedures, and requirements; interviews with Department personnel involved in the invoice review and approval process; and comparison of contract documents. OIG reviewed all invoices by contract line item and compared quantities and unit pricing, where applicable, with supporting documentation and contract pricing. OIG found that 9 of the 14 invoices had approximately \$932,644, in questionable costs (about 2 percent of invoiced costs reviewed) including approximately \$140,627 in possibly unallowable costs, \$789,416 in unsupported costs, and \$2,601 in misapplied costs. The OIG's cost review of unallowable, unsupported, and misapplied costs is summarized in Appendix B.

Certifications and Training Review Sampling and Results

Initially, OIG planned to randomly sample and test, via DynCorp's current staffing roster in Air Wing Information System, 100 individuals to determine whether staff held the contract-required certifications. However, OIG ascertained that the total universe of 306 staff was not entirely composed of individuals requiring certification as a condition of employment owing to the diversity of contractor positions and certification requirements. Of the original sample of 100, OIG identified 35 individuals not requiring any certification to occupy their positions.² Consequently, OIG sampled and tested 65 individuals, and the target population (for example, the population of interest) had to be simultaneously reduced by 35 to 271.³ Out of this sample of 65, OIG conducted interviews and reviewed training and personnel records of the DynCorp EA-I support staff, and this effort disclosed 2 DynCorp employees lacked certifications required by the contract. DynCorp provided OIG with the required certification for one of the individuals, although it was dated after OIG team requested the document, and also provided documentation showing DynCorp requested a certification waiver for the employee to fill the other position. INL/A subsequently determined that the position for which the waiver was requested did not actually require a certification, as stated in the contract, but INL/A had not yet formally revised that requirement within the contract.

² OIG did not attempt to purge the universe of all individuals without a certification requirement, because it would have entailed considerable effort, and such an effort was beyond the scope of this audit.

³ The revised total of 271 is undoubtedly overstated because there are very likely other individuals in the universe with positions without a certification requirement. Consequently, the revised universe total of 271 represents an upper bound; it cannot be any larger and it is probably less.

APPENDIX B: QUESTIONED COSTS

Table B.1: Unallowable, Unsupported, and Misapplied Costs

Item No.	Invoice Number	Category	Unallowable Costs*	Unsupported Costs*	Misapplied Costs*	Total*
1	INL001-3015-02C	Materials	\$ -	\$ -	\$ -	\$ -
2	INL001-6015-05B	Flight Labor Hours	41,960	106,286	-	148,246
3	INL001-6015-10	DBA Insurance	-	-	-	-
4	INL001-6015-22B	Flight Labor Hours	14,622	176,540	-	191,162
5	INL001-6015-23C	Flight Labor Hours	20,508		-	20,508
6	INL001-6015-17A	Base Operations	13,036	103,196	-	116,231
7	INL001-6015-23A	Base Operations	9,883	155,529	-	165,412
8	INL001-6015-23D	Materials	-	-	2,601	2,601
9	INL001-6015-24A	Base Operations	11,631	103,515	-	113,759
10	INL001-6015-25D	Materials	-	-	-	-
11	INL001-6015-28	Materials	-	-	-	-
12	INL001-IRAQ7-09B	Base Operations	11,332	28,516	-	39,849
13	INL001-IRAQ7-10B	Flight Labor Hours	19,041	115,835	-	134,876
14	INL001-IRAQ7-13E	DBA Insurance	-	-	-	-
Total			\$140,627	\$789,416	\$2,601	\$932,644

* Totals may differ due to rounding.

Source: OIG analysis of invoices.

APPENDIX C: INVOICE REVIEW PROCESS

INL/A Supplement to
INL SOPP 4030
Pre-Payment Risk Assessment
(Invoice Review Process for GTMs)

1.0 Purpose: This supplement to the INL SOPP 4030 establishes in country procedures for invoice review by the INL/A GTMs.

5.0 Responsibilities:

5.1 The Voucher Examiners at PAFB are responsible for providing the PDF copy of the Metastorm invoice to the appropriate GTM at overseas locations upon receipt from the contractor. Prior to submittal, Firm Fixed Price invoices are checked for agreement with Performance Based Payment schedule. All applicable rates charged such as overhead and G&A are checked against DCAA published rates.

5.2 The GTM in country is responsible for reviewing invoices provided to them by the INL/A Voucher Examiners at PAFB and making a payment recommendation to the COR within 5 days of receipt of the invoice.

6.0 Procedures:

6.1 Invoice is received by the Voucher Examiner at PAFB in PDF format 7-10 days prior to receipt of the formal Metastorm electronic invoice.

6.1.1 Voucher examiner verifies amount of Firm Fixed Price against the Performance Based Payment schedule and verifies rates charged against the DCAA published rates.

6.1.2 PDF copy of invoice (Fixed Price or Cost Reimbursable) is logged in and forwarded electronically to in country GTMs for review.

6.2 Invoice is reviewed by GTM utilizing the Invoice Review Checklist (Appendix B) to document the validity of the invoice.

6.2.1 If the invoice is valid, document this and sign the Invoice Review Checklist and submit the completed checklist to the COR. If the invoice is invalid, document this on the checklist with reasons for recommendation to reject the invoice and forward to the COR. In any case the invoice must be forwarded to the COR within 5 days of receipt of the invoice in order for the COR to either approve or reject the invoice when the Metastorm electronic invoice is received.

APPENDIX B

Invoice Review Checklist**Voucher Examiner (PSD) Invoice Review**

- ☐ Firm Fixed Price costs are in line with the Performance Based Payment schedule.
- ☐ Overhead and G&A rates are in accordance with most recently published DCAA guidance.

GTM Invoice Review

Labor costs are in accordance with the definitized contract.

- ☐ An accurate Manning Roster showing that all employees are physically in the location that corresponds to the labor, post differential and hazard differential pay charges. (Cost Reimbursable Invoices)
- ☐ Hours worked are in line with contract specifications.

Reimbursable costs are in accordance with the definitized contract.

- ☐ Determining that the traveler actually traveled.
- ☐ Determining if inventory items were received and accounted for.
- ☐ Evaluating if there is a corresponding Purchase Request.
- ☐ Supporting documentation matches the cost on the invoice detail.
- ☐ DBA insurance charges correspond to the supporting documentation showing the payment by the vendor to their provider.

Based upon your analysis, recommend:

- ☐ REJECTION
- ☐ APPROVAL

Name of Reviewer _____ Date _____

Notes/Recommendation:

APPENDIX D: BUREAU OF ADMINISTRATION, OFFICE OF LOGISTICS MANAGEMENT RESPONSE



United States Department of State

Washington, D.C. 20520

UNCLASSIFIED


June 15, 2015

MEMORANDUM

TO: OIG/AUD – Norman P. Brown

FROM: A/LM – Catherine I. Ebert-Gray 

SUBJECT: Draft Report - Audit of the Bureau of International Narcotics and Law
Enforcement Affairs Aviation Support Services Contract in Iraq

Below is the Office of Logistic Management's response to the subject report. Mr. James Moore is the point of contact for this response and can be reached at 703-875- (b) (6)

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, determine whether the questioned costs of \$140,627 pertaining to flight labor hours and base operations as identified by OIG under contracts SAQMPD05C1103 and SAQMMA12C1103, Task Orders 3616 and 2643, are allowable and recover any costs determined to be unallowable from DynCorp International.

Management Response (06/15/2015): The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management will determine whether the questioned costs pertaining to flight labor hours and base operations are allowable and recover any costs determined to be unallowable from DynCorp International.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, determine whether the questioned costs of \$789,416 pertaining to flight labor hours and base operations and the potentially misapplied costs of \$2,601 pertaining to materials identified by OIG under contracts SAQMPD05C1103 and SAQMMA12C1103, Task Orders 3616 and 2643, are allowable and supportable and recover any costs determined to be unsupported or misapplied from DynCorp International.

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Management Response (06/15/2015): The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management will determine whether the questioned costs pertaining to flight labor hours and base operations and the potentially misapplied costs pertaining to material are allowable and supportable and recover any costs determined to be unsupported or misapplied from DynCorp International.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, conduct a comprehensive review of all cost reimbursable contractor invoices to determine whether the charges were allocable, allowable, and supportable.

Management Response (06/15/2015): The Department of State is participating in the Defense Contract Audit Agency (DCAA) DynCorp Resident Office's incurred cost audits for the contractor fiscal years 2010-2013. The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, will discuss the scope of these audits with DCAA and include the OIG's recommendations as an audit lead in its reviews.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, require contractors to retain and provide documentation that clearly, accurately, and completely supports all costs submitted on its invoices.

Management Response (06/15/2015): FAR Clause 52.215-2(f), Audit and Records – Negotiation requires the contractor to “make available at its office at all reasonable times the records, materials, and other evidence....for examination, audit, or reproduction, until 3 years after final payment under this contract or for any shorter period specified in Subpart 4.7, Contractor Records Retention, of the Federal Acquisition Regulation (FAR), or for any longer period required by statute or by other clauses of this contract.” FAR Subpart 4.7 requires a 4-year retention period for pay administration records, and a 4-year retention period for purchase order files for supplies, equipment, material, or services used in the performance of a contract; supporting documentation and backup files including, but not limited to invoices, and memoranda; (e.g. memoranda of negotiations showing the principal elements of subcontract price negotiations).

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Recommendation 7: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management in coordination with the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, develop a contract definitization process that identifies all scope of work requirements in advance of the period of performance and ensures that the contractor submits accurate price and technical proposals that incorporate the requirements in advance of the period of performance.

Management Response (06/15/2015): The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management in coordination with the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, will work closely to develop a contract definitization process that identifies all scope of work requirements in advance of the period of performance and ensures that the contractor submits accurate price and technical proposals that incorporate the requirements in advance of the period of performance.

Recommendation 8: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, modify the contract so it conforms to the requirements within the Department's Procurement Information Bulletin No. 2011-09, Combating Trafficking in Persons, and Procurement Information Bulletin No. 2012-10, Contractor Recruitment of Third Country Nationals, to ensure that the contractor is obliged, and knows it is obliged, to meet the requirements as stated.

Management Response (06/15/2015): The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management issued Modification 86 so that the contract now conforms to the requirement within the Department's Procurement Information Bulletin No. 2011-09, Combating Trafficking in Persons, and Procurement Information Bulletin No. 2012-10. (Tab A)

Recommendation 9: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management provide to the OIG its rationale and all documentation (e.g., written legal opinions, written business cases, emails, meeting minutes, and decision papers and memos) used to support the decisions to authorize and obligate \$25,886,861 for reimbursements to DynCorp International (DI) for (1) the payment of DI's employees' personal income and Social Security tax liabilities to the Government of Iraq and (2) DI's employer contributions to Iraq Social Security.

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Management Response (06/15/2015): The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management will provide to the OIG its rationale and all documentation (e.g., written legal opinions, written business cases, emails, meeting minutes, and decision papers and memos) used to support the decisions to authorize and obligate \$25,886,861 for reimbursements to DynCorp International (DI) for (1) the payment of DI's employees' personal income and Social Security tax liabilities to the Government of Iraq and (2) DI's employer contributions to Iraq Social Security in the attached documents. (Tabs B and C)

Recommendation 10: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management ensure that contract files contain documentation that supports how reimbursements associated with contractors' payments of foreign taxes are allowable, allocable, and reasonable, as required by Federal Acquisition Regulation 31.201.

Management Response (06/15/2015): The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management will ensure that contract files contain required documentation that supports how reimbursements associated with contractors' payments of foreign taxes are allowable, allocable, and reasonable, as required by Federal Acquisition Regulation 31.201.

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Drafter: A/LM Jim Moore, 703-875-[Redacted]

Cleared: A/LM: [Redacted] (b) (6) (ok)
A/LM/AQM: [Redacted] (b) (6) (for CRead) (ok)
A/LM/AQM: [Redacted] (b) (6) (ok)
A/LM/AQM: [Redacted] (b) (6) (ok)
A FO: [Redacted] (b) (6) (ok)
M: [Redacted] (b) (6) (info)
M/PRI: [Redacted] (b) (6) (info)

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APPENDIX E: BUREAU OF INTERNATIONAL NARCOTICS AND LAW ENFORCEMENT AFFAIRS RESPONSE



United States Department of State

Washington, D.C. 20520

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**MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR
AUDITS NORMAN P. BROWN**

JUN 11 2015

FROM: INL/RM/EX – Raj Rajadhyaksha, Acting *Raj*

SUBJECT: (U) INL Comments on OIG's Draft Audit Report of the Bureau of International Narcotics and Law Enforcement Affairs Aviation Support Services Contract in Iraq (AUD-MERO-15-XX, May 2015)

(U) The Bureau of International Narcotics and Law Enforcement Affairs (INL) welcomes the opportunity to comment on this draft OIG report. Please see the bureau's comments on the OIG's recommendations directed to INL below:

INL Responses to the OIG's Draft Recommendations

(U) **Recommendation 5:** OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, modify its invoice review process to trace requested reimbursements to supporting documentation to ensure that all costs submitted on an invoice are allowable, allocable, reasonable, and supportable.

(U) INL Response (June 2015):

INL agrees with this recommendation, noting that INL/A has already modified its invoice review process to improve the tracing of requested reimbursements in order to ensure that all invoiced costs are allowable, allocable, reasonable, and supported. Changes include having the Assistant Contracting Officer's Representatives (ACORs) and the Contracting Officer's Representative (COR) review each invoice following the review by cost analysts and invoice analysts. There is now a more defined process which has also improved the timeliness of invoice processing. INL/A is currently in the process of finalizing a Standard Operating Procedure (SOP) to document these procedures with a goal of implementation of July 31, 2015.

(U) **Recommendation 6:** OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation (INL/A), assess its

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staffing level to ensure a more rigorous invoice review. If no changes in the staffing level are made INL/A should provide a description of how it intends to increase the invoice reviews.

(U) INL Response (June 2015):

INL agrees and has already added two personnel to the INL/A staff for invoice review. In addition, INL/A has an additional two highly qualified program analysts in the hiring process who should be arriving this summer to assist in this area.

(U) Recommendation 11: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation, ensure that its spare parts inventory and process support its mission capable aircraft requirements.

(U) INL Response (June 2015):

INL agrees with this recommendation, and INL/A staff will continue to monitor and oversee contractor performance and compliance in order to ensure that aircraft availability requirements are met.

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ABBREVIATIONS

A/LM	Bureau of Administration, Office of Logistics Management
A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
AOD	Aviation Operations Director
ARMS	Aviation Resource Management Surveys
COR	contracting officer's representative
DCAA	Defense Contract Audit Agency
DS	Bureau of Diplomatic Security
EA-I	Embassy Air Iraq
<i>FAH</i>	<i>Foreign Affairs Handbook</i>
FAM	Foreign Affairs Manual
FAR	Federal Acquisition Regulation
FMC	Fully Mission Capable
GTM	government technical monitor
INL	Bureau of International Narcotics and Law Enforcement Affairs
INL	Office of Aviation
NEA	Bureau of Near Eastern Affairs
NMCS	Not Mission Capable-Supply
OIG	Office of Inspector General
PerStat	personnel statistics report
PIBs	Procurement Information Bulletins
VIP	very important persons

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