

The Special Inspector General for Iraq Reconstruction Recommends New Procedures to Assure the Management and Reduction of Administrative and Overhead Costs for All Future Reconstruction Contracts

The Office of the Special Inspector General for Iraq Reconstruction (Special IG) has issued an audit report that will likely have far-reaching effects on the recovery of administrative and overhead costs on all future reconstruction contracts. (See *Review of Administrative Task Orders for Iraq Reconstruction Contracts*, SIGIR-06-028, Special IG (October 23, 2006)). In the spring of 2004, the program office responsible for the \$18.4 billion Iraq Relief and Reconstruction Fund 2 issued a new "administrative task order (ATO)" to six contractors that held "design and build" contracts for the reconstruction of Iraq. The government intended the ATOs to capture all administrative and overhead costs, segregated from direct costs, for each individual construction task order under each contract. The government expected that requiring contractors to separately capture and invoice administrative and overhead costs would permit government managers to better understand, control and reduce these costs.

The Special IG reviewed the following issues: (1) did the ATOs vary among the design-build contracts; (2) did the ATOs accomplish the intended purpose of capturing administrative and overhead costs; (3) did increased or decreased periods of direct performance affect administrative and overhead costs; and (4) did a de-scoping of the project affect administrative and overhead costs. (Report at *ii*). The Special IG concluded as follows: (1) the ATOs varied in coverage, having been issued only for some of the contracts and at different times after contract award; (2) four of the five contractors reviewed had accounting and billing systems that were **not adequate** for capturing and reporting administrative costs; (3) during periods of limited direct project activity, contractors incurred substantial administrative costs while waiting for government direction to begin project work; and (4) there was insufficient information to determine whether the de-scoping of the direct contract work affected overhead and administrative costs. (Report at 14).

In light of these findings, the Special IG made the following recommendations to monitor and reduce administrative and overhead costs for **all** future reconstruction projects:

1. Ensure that cost-reimbursement contracts contain **explicit requirements to segregate, track, and bill administrative costs**, such as contractual direction to segregate and include these costs in management cost reports.
2. Ensure that **adequate project planning** is conducted to minimize contractor down-time between the issuance of mobilization orders and beginning of substantial direct activity.
3. **Improve cost monitoring** to assure that administrative activity is appropriately adjusted for work stoppages, de-scoping actions and project completion or close-out. (Report at 15).

The U.S. Army Corps of Engineers, Gulf Region Division – Project and Contracting Office and the Joint Contracting Command – Iraq/Afghanistan concurred with these recommendations. Given the leading and highly visible role of the Special IG and these program offices in our international reconstruction contracts, it is likely that these recommendations will be followed in all future international and domestic reconstruction contracts.

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