



**United States Senate
Committee on Homeland Security & Governmental Affairs
SUBCOMMITTEE ON CONTRACTING OVERSIGHT**

**NEW INFORMATION ABOUT
COUNTERNARCOTICS CONTRACTS IN
LATIN AMERICA**

**Majority Staff Analysis
Prepared for Chairman Claire McCaskill
June 7, 2011**

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Executive Summary

At the request of Senator Claire McCaskill, this analysis examines State Department and Defense Department spending on contracts to supply counternarcotics assistance to governments in Latin America. The analysis reviews counternarcotics contract spending over a five year period focusing primarily on eight countries: Mexico, Colombia, Peru, Bolivia, Ecuador, Haiti, Guatemala, and the Dominican Republic.

The analysis finds that from 2005 to 2009, the federal government's annual spending on counternarcotics contracts in Latin America rose by 32%, from \$482 million in 2005 to \$635.8 million in 2009. In total, the government spent more than \$3.1 billion on counternarcotics contracts during this period.

Key findings in the analysis include:

- From 2005 to 2009, the majority of counternarcotics contracts in Latin America went to only five contractors: DynCorp, Lockheed Martin, Raytheon, ITT, and ARINC, who collectively received contracts worth over \$1.8 billion.
- The State Department and the Defense Department spent nearly \$2 billion on counternarcotics contracts in Colombia alone from 2005 to 2009.
- More than half (52%) of counternarcotics contract dollars during this time period were spent to acquire goods and services related to aircraft, which are used for drug location and eradication. In total, the federal government spent approximately \$1.6 billion on aircraft-related services, maintenance, logistics, support, equipment, and training from 2005 to 2009.
- Neither the State Department nor the Defense Department has adequate systems in place to track counternarcotics contract data. Testifying before the Subcommittee on Contracting Oversight in 2010, Defense Department Deputy Assistant Secretary for Counternarcotics and Global Threats William Wechsler called the Defense Department's processes for managing counternarcotics contracts "inconsistent," "time-consuming and error prone." The State Department simply does not have a centralized system to collect or track this type of information.
- While spending on counternarcotics contracts increased by 32% over the five year period under review, contract management and oversight has been insufficient, and has not kept pace with the government's increased reliance on contractors.
- The federal government does not have any uniform systems in place to track or evaluate whether counternarcotics contracts are achieving their goals.

Introduction and Methodology

Since the mid-1970s, the federal government has spent billions on counternarcotics assistance programs intended to reduce the flow of illicit drugs from Latin America into the United States. The majority of these programs focus on reducing the supply of illegal drugs, primarily through crop eradication and interdiction.

The White House Office of National Drug Control Policy is charged with overseeing the overall strategy of the nation's drug control mission, but three government agencies are primarily used to fund counternarcotics assistance programs in Latin America: the Department of State, the Department of Defense, and the U.S. Agency for International Development (USAID). From 1980 to 2008, counternarcotics assistance from the State Department, USAID, and the Department of Defense to Latin America totaled approximately \$13.1 billion.¹

The State Department coordinates all counternarcotics assistance programs in Latin America and also provides the majority of funding. Within the State Department, the Bureau of International Narcotics and Law Enforcement Affairs (INL) leads efforts against international drug trafficking.²

The Department of Defense is the lead agency for interdiction efforts, which includes detecting and monitoring aerial and maritime transit of illegal drugs into the United States in support of law enforcement agencies. In this role, the Defense Department provides aircraft and patrol ships, military personnel, and other forms of assistance to support U.S. law enforcement agencies and foreign security forces. Within the Department of Defense, the Office of the Deputy Assistant Secretary of Defense for Counternarcotics and Global Threats is responsible for counternarcotics policy, including managing and overseeing the Department's counternarcotics activities.³

To assess the extent to which the federal government relies on contractors to carry out counternarcotics programs, in February 2010, Chairman McCaskill and then-Ranking Member Robert Bennett requested information and documents regarding counternarcotics contracts awarded by the State Department and Defense Department.⁴ The State Department's data was

¹ Congressional Research Service, *Latin America and the Caribbean: Illicit Drug Trafficking and U.S. Counterdrug Programs* (April 30, 2010).

² U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs (online at www.state.gov/p/inl/narc/index.htm) (accessed May 3, 2011).

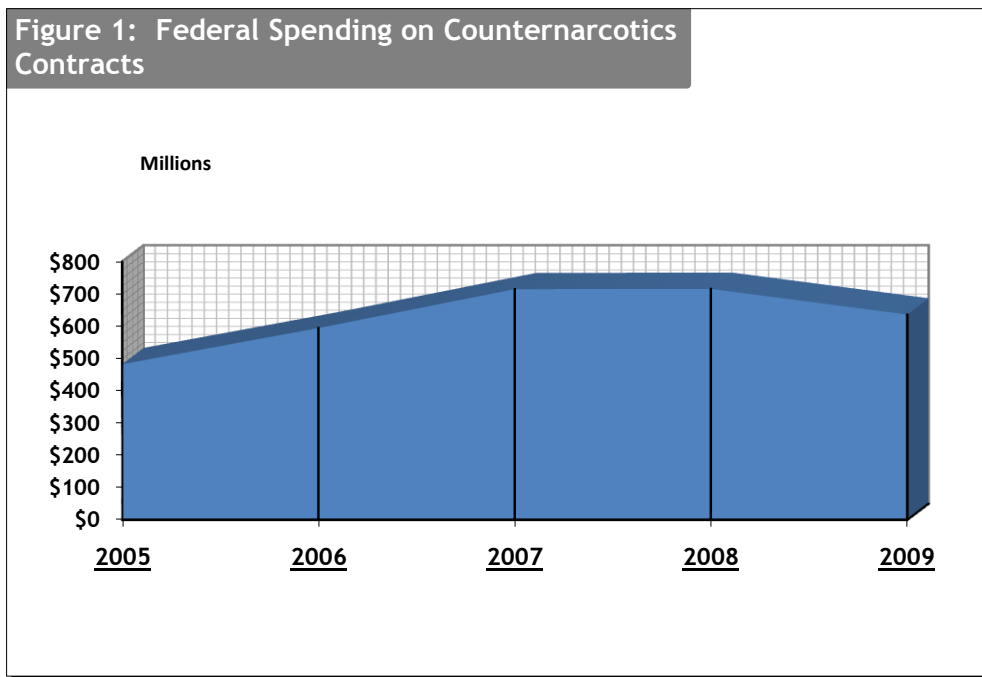
³ United States Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Contracting Oversight, hearing on *Counternarcotics Contracts in Latin America*, Testimony of William F. Wechsler, Deputy Assistant Secretary of Defense for Counternarcotics and Global Threats (May 20, 2010).

⁴ Letter to David T. Johnson, Assistant Secretary, Bureau of International Narcotics and Law Enforcement Affairs, United States Department of State from Chairman Claire McCaskill and Ranking Member Robert Bennett, Subcommittee on Contracting Oversight (Feb. 12, 2010); Letter to the Honorable Robert Gates, Secretary of Defense from Chairman Claire McCaskill and Ranking Member Robert Bennett, Subcommittee on Contracting Oversight (Feb. 12, 2010).

compiled from embassies and posts in Latin America, the Regional Procurement Support Center, and contract files maintained in Washington D.C.; it was then reconciled with data from the Federal Procurement Data System, the government database of contract awards and obligations. The Defense Department's data includes contracts awarded by the U.S. Army, U.S. Navy, U.S. Air Force, Defense Intelligence Agency, National Security Agency, and the National Geospatial Agency. This analysis also relies on information received at the Subcommittee's May 2010 hearing on counternarcotics contracts.

Counternarcotics Contract Awards in Latin America

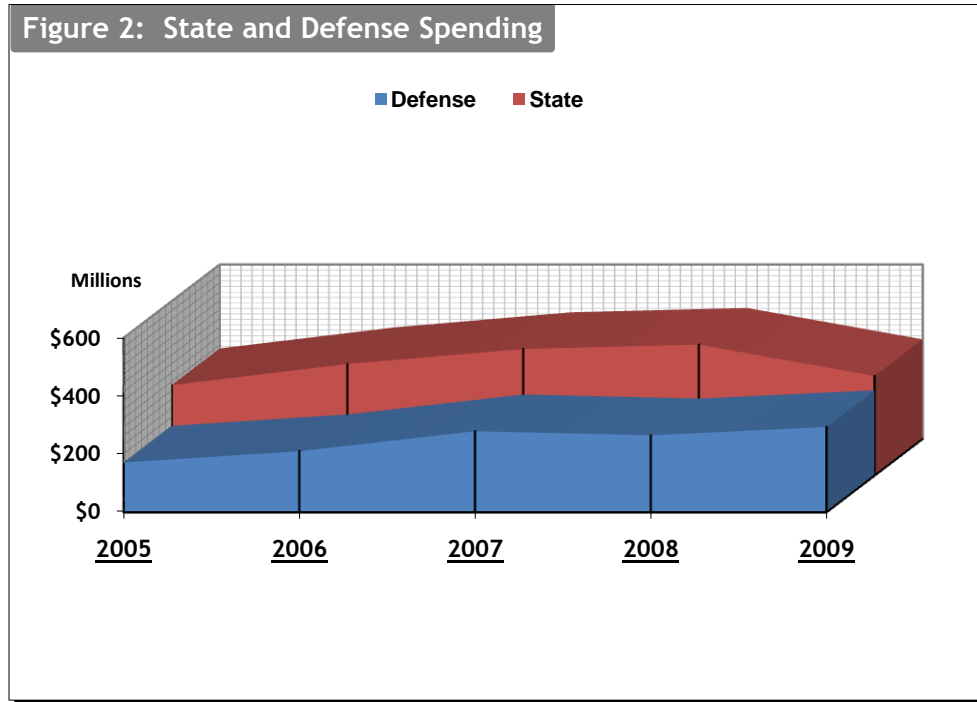
From 2005 to 2009, the federal government's annual spending on counternarcotics contracts in Latin America increased by 32%, from \$482 million in 2005 to \$635.8 million in 2009. In total, the government spent more than \$3.1 billion on counternarcotics contracts in the region during this period. In 2008, spending on counternarcotics contracts rose to their highest levels, reaching \$715 million in expenditures for the fiscal year.⁵ See Figure 1.



⁵ Data in this analysis are based on information compiled by the Department of State and the Department of Defense and produced in response to the Subcommittee's February 12, 2010 requests for information. Cumulative totals were reached by combining the amounts obligated by the Departments of Defense and State on counternarcotics contracts from 2005 to 2009. Unless otherwise noted, years cited denote fiscal years.

Spending by Agency

The State Department spent more than \$1.9 billion on counternarcotics contracts between 2005 and 2009.⁶ From 2005 to 2008, the State Department's contract awards increased 45%, from \$311.1 million in 2005 to \$450.4 million in 2008. Between 2008 and 2009, the State Department's spending dropped to \$342.5 million. *See* Figure 2.



The Department of Defense spent more than \$1.2 billion on counternarcotics contracts in Latin America during this period. Defense Department contracts for counternarcotics activities rose from \$170.9 million in 2005 to \$293.3 million in 2009, representing a 72% increase in contract spending. *See* Figure 2.

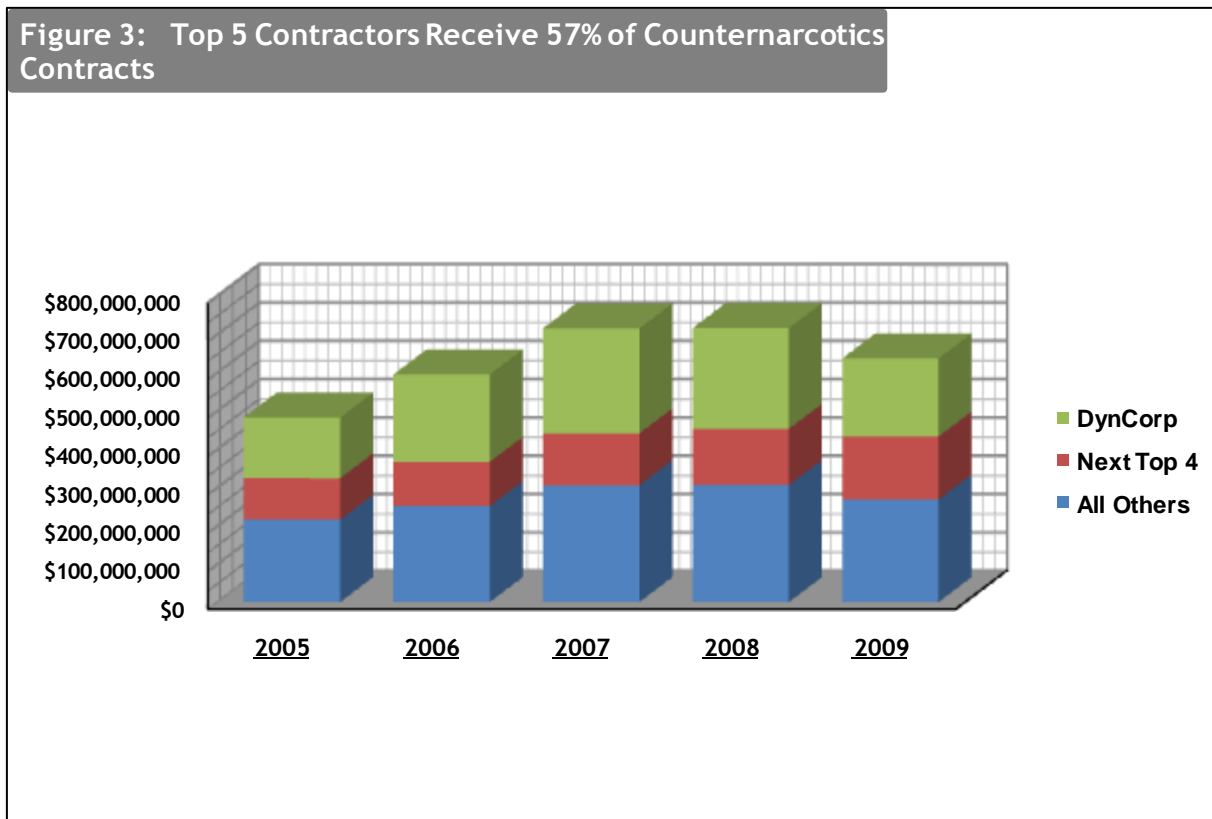
Spending by Company

From 2005 to 2009, the majority of counternarcotics contracts in Latin America were awarded to five contractors; DynCorp, Lockheed Martin, Raytheon, ITT, and ARINC. These five companies received approximately 57% of all counternarcotics contracts from 2005 to 2009, with a combined total of spending worth over \$1.8 billion.

The single largest recipient of counternarcotics contracts is DynCorp. From 2005 to 2009, DynCorp received approximately \$1.1 billion in counternarcotics contracts. DynCorp's

⁶ Because the State Department's contract data excluded task orders valued at less than \$100,000, inter-agency agreements, and personal services contracts, the Department's total spending on counternarcotics contracts during this period is likely higher.

contract awards represent 36% of total counternarcotics contract spending in this region by the Department of State and the Department of Defense during this time period. See Figure 3.

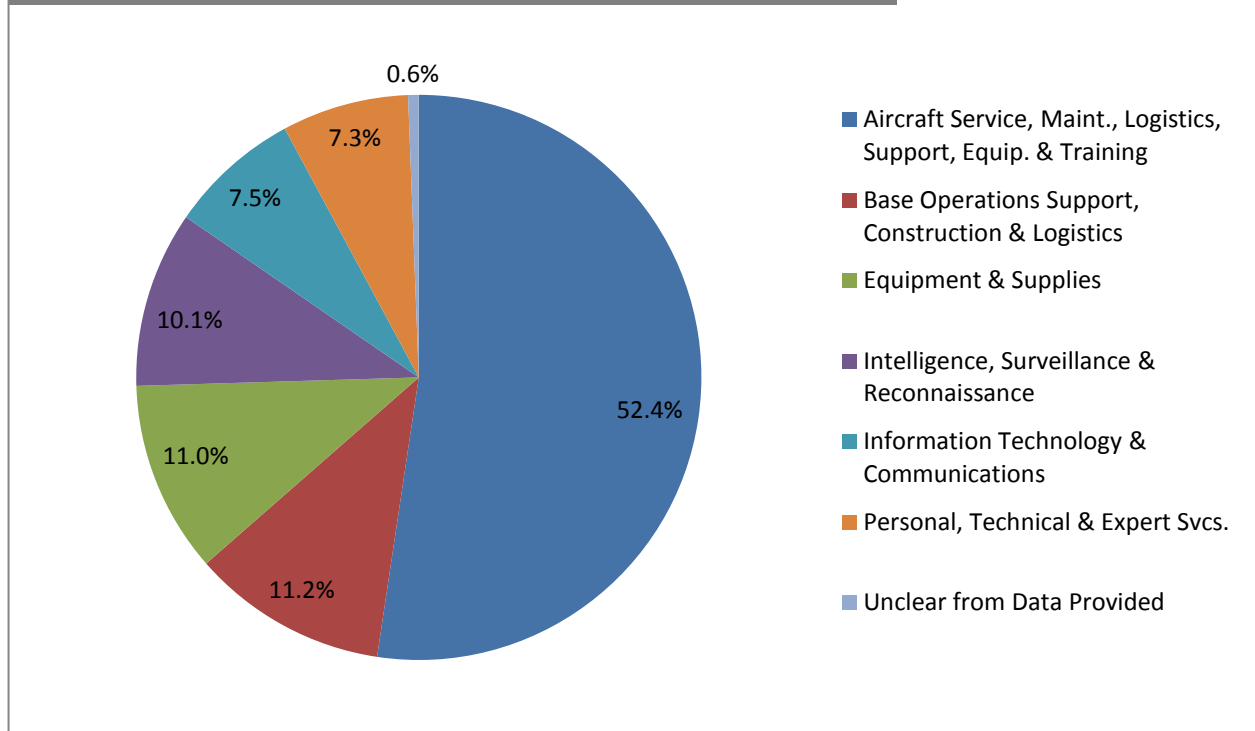


Spending by Types of Goods and Services

Approximately 52% of counternarcotics contract dollars were spent to acquire goods and services related to aircraft, which are used for drug location and eradication. In total, the federal government spent approximately \$1.6 billion on aircraft-related services, maintenance, logistics, support, equipment, and training from 2005 to 2009.⁷ The federal government also spent approximately \$345 million on contracts for equipment and supplies, \$317 million on contracts for intelligence, surveillance, and reconnaissance services, \$237 million on contracts for information technology and communications equipment and services, \$352 million for base operations support, construction, and logistics services, and \$228 million for personal, technical, and expert services. See Figure 4.

⁷ The Subcommittee examined the scopes of work of the Defense and State Departments' counternarcotics contracts and placed each contract, as well as its amount obligated, into one of the categories of goods and services listed in Figure 4. These categories were devised by the Subcommittee for the purpose of this report.

Figure 4: Counternarcotics Contract Spending Focused on Aircraft



From 2005 to 2009, the State Department spent approximately \$1.5 billion, 76% of its total contract spending, on aircraft-related services, equipment, and training. The single largest category of contracts awarded by the Defense Department was contracts for intelligence, surveillance, and reconnaissance, which totaled \$313.2 million, approximately 26% of the Defense Department's counternarcotics contracts from 2005 to 2009. The Defense Department spent \$190.9 million on aircraft-related contracts, less than 16% of its total contract spending.

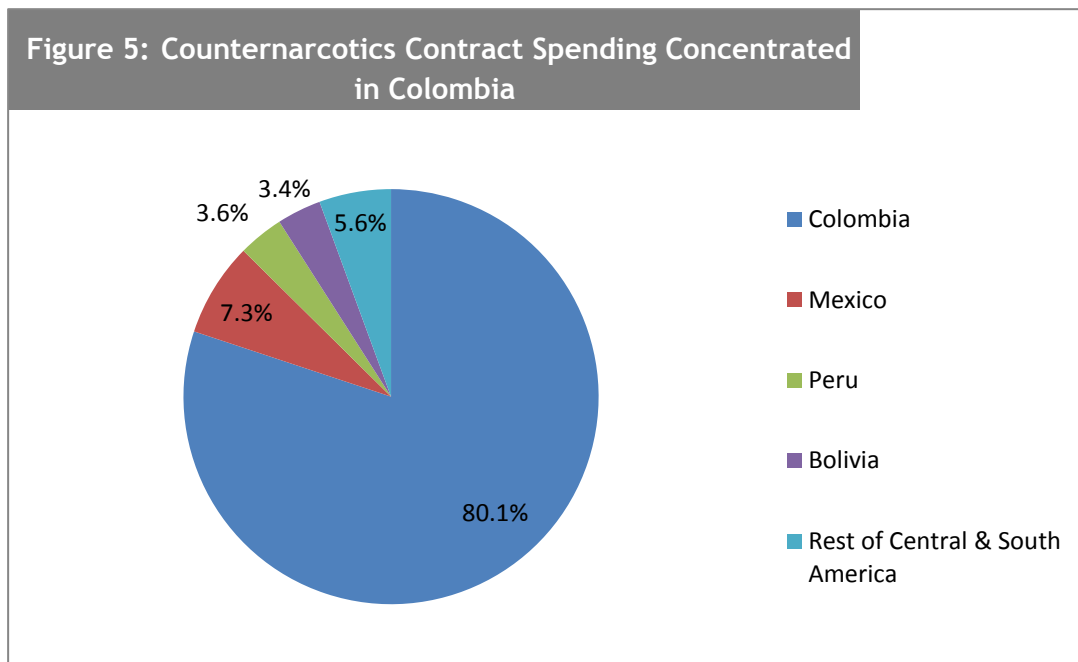
The federal government also awarded contracts for some items that are difficult to characterize. For example, in 2007, the Army spent more than \$5,000 to acquire rubber ducks and approximately \$75,000 for paintball supplies.

Spending by Country

The federal government spent more on counternarcotics contracts in Colombia than in any other country in Latin America during this time period. *See* Figure 5. From 2005 to 2009,

the government spent at least \$1.9 billion on counternarcotics contracts in Colombia alone.⁸ This number represents approximately 80% of the counternarcotics contract dollars that were spent exclusively in one country in this region. From 2005 to 2009, counternarcotics contract spending in Colombia rose by 48%, reaching its peak in 2007 at approximately \$438 million.

The reduction in contract spending after 2007 reflects legislative actions to reduce the number of American contractors in Colombia in order to transition to greater participation by Colombian nationals in their nation’s counternarcotics mission. These efforts are not intended to end all U.S. counternarcotics assistance to Colombia, but rather to reduce it to levels that existed before “Plan Colombia,” the multi-year counternarcotics assistance package introduced in fiscal year 2000.⁹



After Colombia, the federal government awarded the next highest share of counternarcotics contracts in Mexico. From 2005 to 2009, the federal government spent at least \$170.6 million in counternarcotics contracts in Mexico.¹⁰ See Figure 5. Spending on

⁸ Because there were counternarcotics contracts that covered Colombia in addition to other countries, the federal government actually spent more than \$1.9 billion on contracts in Colombia.

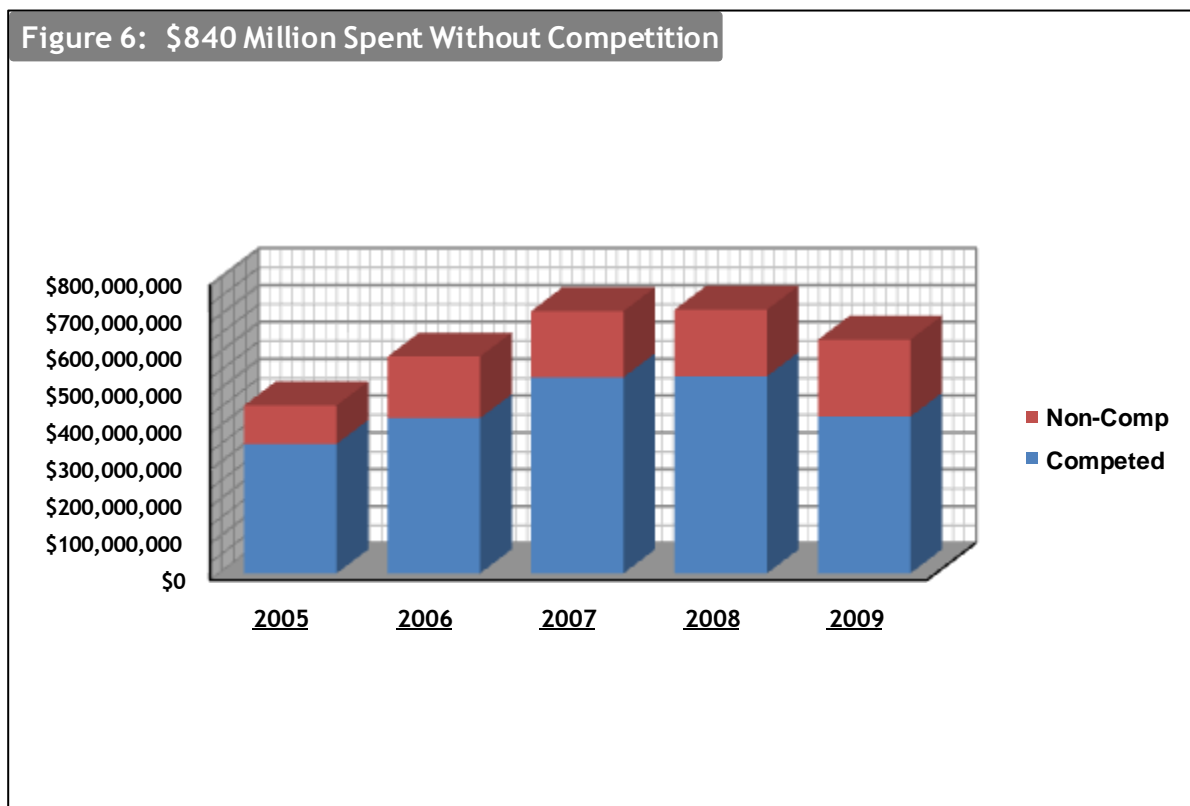
⁹ Pub. L. 107-228, § 694(b), *The Foreign Relations Authorization Act, Fiscal Year 2003* (Sept. 30, 2002); Congressional Research Service, *Latin America and the Caribbean: Illicit Drug Trafficking and U.S. Counterdrug Programs* (April 30, 2010); U.S. Department of State, *Report on the Multiyear Strategy for U.S. Assistance Programs in Colombia, Report to Congress* (April 2009).

¹⁰ Because there were counternarcotics contracts that covered Mexico in addition to other countries, the federal government actually spent more than the number cited above on contracts in Mexico.

counternarcotics contracts in Mexico has fluctuated, and reached its peak in 2008, with \$64.4 million in spending. This spending increase coincided with the beginning of the Mérida Initiative, a \$1.4 billion package of U.S. counternarcotics and anticrime assistance for Mexico and Central America.

Award of Noncompetitive Contracts

From 2005 to 2009, the federal government spent approximately \$840 million on contracts awarded without adequate competition. This represents approximately 27% of counternarcotics contract dollars during this time period.¹¹ See Figure 6.



In one instance, the State Department awarded a \$2.1 million no-bid contract to “miscellaneous foreign contractors” to purchase pickup trucks in Bolivia. According to the Department, the lack of competition was justified because the source was unique. The Department did not provide information to explain why the particular source was uniquely qualified to provide pickup trucks.

Another example of the government’s reliance on noncompetitive contracts is its award of contracts to Alaska Native Corporations (ANCs). From 2005 to 2009, the State Department

¹¹ The State Department did not provide competition information for approximately \$35 million worth of contracts.

awarded one ANC, Olgoonik, contracts worth nearly \$37 million for meal services in Bolivia and “personnel support services” in Colombia. As an ANC participating in the Small Business Administration’s 8(a) program for small and disadvantaged businesses, Olgoonik was eligible to receive sole-source contracts of unlimited value without justification or approval during this time period.¹²

Other ANCs that received noncompetitive counternarcotics contracts from the federal government during this time period include Alutiiq, which received over \$8.8 million from the State and Defense Departments for security guard and “personnel support” services, among other services, and Chugach McKinley, Inc., which received \$6.4 million from the Defense Department for engineering and software support activity.

Lack of Transparency

Neither the Defense Department nor the State Department has a centralized database or system with the capacity to track counternarcotics contracts. In testimony before the Subcommittee in May 2010, William Wechsler, the Deputy Assistant Secretary for Counternarcotics and Global Threats, called the Department’s management of contract records among the various Defense Department entities “inconsistent.” According to Deputy Assistant Secretary Wechsler:

In compiling the information requested by the Subcommittee for this hearing, my office found inconsistent records management among the various contracting entities, found that the volume of procurement actions overwhelms staff capacity in some instances, and found that many of the acquisition steps are manual processes that are both time-consuming and error prone.

Wechsler also stated that the division of responsibilities among entities within the Department of Defense resulted in ambiguous and inconsistent monitoring of contract performance.¹³ Acknowledging that improved oversight of the Department’s Counter-Narcoterrorism Technology Program Office (CNTPO) was required, the Department told the Subcommittee that it had requested an internal management review of all CNTPO contract actions and has improved its contract oversight system.¹⁴

¹² Pub. L. 111-84, Sec. 84 (Oct. 28, 2009). On March 16, 2011, the Federal Acquisition Regulation was amended to prohibit the award of sole-source contracts valued at \$20 million or more to Alaska Native Corporations and other companies participating in the Small Business Administration’s 8(a) program. See Federal Acquisition Circular 2005-50 (March 16, 2011).

¹³ United States Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Contracting Oversight, hearing on *Counternarcotics Contracts in Latin America* (May 20, 2010).

¹⁴ United States Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Contracting Oversight, hearing on *Counternarcotics Contracts in Latin America*, Testimony of William F. Wechsler, Deputy Assistant Secretary of Defense for

The State Department simply does not collect or track this type of information in a comprehensive or centralized manner. To respond to the Subcommittee's request for information on counternarcotics contract spending in Latin America, INL had to compile basic contract information from diplomatic posts throughout the region, as well as its Regional Procurement Support Center and its own contracting files, and then "reconcile" that information with the Federal Procurement Data System, the government's database of contract obligations.

The State Department has stated that it plans to implement a new system to improve its ability to track spending on counternarcotics contracts.¹⁵ In response to a question for the record submitted following the Subcommittee's May 2010 hearing on counternarcotics contracts about whether INL had a system able to track contract spending in this area, the Department stated:

INL relies on the Department's official financial systems for contract tracking but must augment these systems with bureau-specific accounting. INL established new procedures for project accounting in FY 2008, which makes it difficult to account by project prior to FY 2007. INL anticipates the new system will be able to prepare various standardized and ad-hoc reports to control contract allotments and their subsequent execution. Until this system becomes fully functional later this year, INL must manually develop reports from the Department's Global Financial Management System, the Regional Financial Management System, and post financial records. The new system, along with the changes made with the accounting sub-object class code, will improve our ability to track money spent on contracting activities.¹⁶

However, according to GAO, as of May 2011, INL still could not adequately account for counternarcotics contract spending.¹⁷

The lack of transparency is compounded by the failure to collect sufficient detailed information about individual contracts. For example, from 2005 to 2009, according to the data provided, the State Department spent \$54.4 million on contracts with entities identified only as

Counternarcotics and Global Threats (May 20, 2010); Department of Defense, *Briefing for Subcommittee Staff* (April 20, 2010).

¹⁵ Ambassador David T. Johnson Response to Chairman McCaskill Questions for the Record, United States Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Contracting Oversight, hearing on *Counternarcotics Contracts in Latin America* (May 20, 2010).

¹⁶ Ambassador David T. Johnson Response to Chairman McCaskill Questions for the Record, United States Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Contracting Oversight, hearing on *Counternarcotics Contracts in Latin America* (May 20, 2010).

¹⁷ Government Accountability Office, *Briefing for Subcommittee staff* (March 10, 2011); *see also* Government Accountability Office, *Department of State's Counternarcotics Performance Management System* (May 26, 2011) ("INL does not have a comprehensive inventory of counternarcotics contracts.").

“miscellaneous foreign contractors.” The State Department awarded approximately \$6.8 million for “miscellaneous commodities, supplies, and/or services.”

Lack of Oversight

Both the State Department and the Defense Department failed to adequately oversee counternarcotics contracts during this time period. The State Department, which has awarded over \$1 billion in counternarcotics contracts in Latin America to one company, DynCorp, has conducted sporadic oversight of that company. One State Department evaluation of DynCorp, found that “[o]ne area that needs immediate improvement is the Contractor’s inadequate accounting of government property . . .” Evaluations recorded “instances where contract personnel were allowed to depart the contract without recovering all issued property, loss of laptop computers, and other valuable items such as GPS’s.”¹⁸ In March 2009, DynCorp received an unsatisfactory evaluation from the State Department on another contract for its “perpetual issue over clearances and background investigations,” which, according to the State Department, cost “additional money to assist in catching up on delinquent investigations.”¹⁹

In a separate instance, DynCorp was the subject of a 2003 False Claims Act lawsuit, which alleged overcharges to the State Department for employee expenses over a six year period on a counternarcotics contract in South America.²⁰ That case settled in 2008 pursuant to a confidential settlement agreement.²¹ DynCorp has subsequently been awarded a new contract for similar work in Latin America.²²

In questions submitted after the Subcommittee’s May 2010 hearing on Counternarcotics Contracts in Latin America, Chairman McCaskill asked whether the State Department had ever questioned any payments to contractors on any of its counternarcotics contracts. The Department responded that “INL does not . . . maintain discrete records of such occurrences since these challenges routinely occur at the embassies”. Instead, the Department provided examples

¹⁸ United States Department of State, Bureau for International Narcotics and Law Enforcement Affairs, Office of Aviation, Memorandum re: 2nd Trimester Interim Award Term Performance Evaluation; Contract AQMPD-05-C-1103; Award Term Year One (Aug. 11, 2009).

¹⁹ Embassy of the United States of America, Bogota, D.C., Colombia, Memorandum re Performance Evaluation for the first trimester; Contract AQMPD-05-C-1103; Option Year Three (March 9, 2009).

²⁰ *Longest v. DynCorp Int., LLC*, 6:03-CV-00816 (M.D. Fla 2003).

²¹ POGO Federal Contractor Misconduct Database, online at (<http://www.contractormisconduct.org>) (accessed May 12, 2010).

²² Federal Procurement Data System, online at (<https://www.fpds.gov/common/jsp/LaunchWebPage.jsp?command=execute&requestid=26082151&version=1.3>) (accessed May 6, 2011).

of three contracts where the Department had identified and addressed questionable performance based on challenges by INL program officers at embassies.²³

The Department of Defense also failed to adequately oversee counternarcotics contracts. The Defense Department provided data to the Subcommittee showing that it only failed to adequately oversee ten contract actions from 2005 to 2009. Upon further inquiry about these ten contract actions, the Department revised its response, stating that its records showed that inadequate oversight had occurred in only three out of over 2,000 contract actions.²⁴

However, in 2009, the Defense Department's Office of Inspector General released a report, which found weaknesses in the management, surveillance, and billing processes of the Department's Counter-Narcoterrorism Technology Program Office (CNTPO), the office with primary responsibility for the Defense Department's counternarcotics-related contracts. The Inspector General found that contracting officials and contracting officer's representatives failed to manage contracts properly. The report found that government officials lacked proper training, maintained incomplete contract files, and failed to develop quality assurance plans.²⁵

Another problem appears to be lack of knowledge by the departments about what is happening with contracts in individual countries of performance. In one example, in a 2007 contract awarded by the Army to supply tractor trailers in Bogota, the contractor, Talleres Los Pitufos, sent the government a letter stating that it would not provide the trailers without an "up front" payment of 50%. Although no payment was made, no one in the Army's in-country office or at the Defense Department took any immediate action. The Army appeared not to realize that the contract had not been performed until a year after the request for up front payment was made. The contract was finally terminated in 2009.²⁶

²³ Ambassador David T. Johnson Response to Chairman McCaskill Questions for the Record, United States Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Contracting Oversight, hearing on *Counternarcotics Contracts in Latin America* (May 20, 2010).

²⁴ As part of the data and document submissions requested by the Subcommittee, the Department of Defense was asked to confirm, among other things, that appropriate oversight and surveillance, defined to include all "documentation from the Government related to the performance of the work under the obligation" took place on contracts from 2005 to 2009. Examples of oversight and surveillance documentation included quality surveillance plans, program management reviews, delivery assurance reports, inspection reports, property management reports, and material receiving reports.

²⁵ U.S. Department of Defense Office of Inspector General, *Contracts Supporting the DOD Counter Narcoterrorism Technology Program Office* (Sept. 25, 2009) (Report No. D-2009-109). The Inspector General reviewed contract management, surveillance, and billing for 35 task orders worth approximately \$98.8 million under a 5-year, \$15 billion contract awarded by the U.S. Army Space and Missile Defense Command/Army Forces Strategic Command (SMDC) on behalf of CNTPO in August 2007.

²⁶ Letter from Talleres Los Pitufos to the American Embassy (May 20, 2008); Memo to the File, Contracting Officer, Department of the Army, U.S. Expeditionary Contracting

Conclusion

This analysis examines State Department and Defense Department spending on contracts to supply counternarcotics assistance to governments in Latin America. It finds that the federal government's annual spending on counternarcotics contracts in Latin America rose by 32%, from \$482 million in 2005 to \$635.8 million in 2009. It also finds that the increase in spending on counternarcotics contracts in Latin America requires greater oversight and transparency. The State Department and the Defense Department do not adequately monitor counternarcotics contracts and have failed to implement centralized databases or systems to track counternarcotics contract spending.

Command, 410th Contracting Support Brigade (Americas), Colombia Contracting Office, U.S. Embassy, Bogota (June 22, 2009); Notice of Termination of Contract by RCO Bogota, US Embassy to Talleres Los Pitufos (June 24, 2009).