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MEMORANDUM

To : Steve Appleton

From: Fred Chace

Subject: USPI Termination

Date: June 12, 2006

USPI has a contract dated October 24, 2005 with UNOPS to provide security for selected projects in the Secondary Roads program. These projects are:

1) Ghazni to Sharan Road
2) Farah to Ring Road
3) Lashkar Gah to Ring Road
4) Kabul to Gardez Road (KM 87 to KM 125)
5) Jalalabad to Asmar Road

Over the course of the project, USPI has continued to be non-responsive to the needs of the Employer. Consequently, consideration is being given to terminating the contract with USPI for the Employer's convenience (T4C) in accordance with the provisions of Sub-Clause 73.1 of the Conditions of Particular Application in the contract between USPI and UNOPS.

In consideration of this action, LBG is reviewing a proposal provided by Aegis to provide security for some of the projects presently protected by USPI. They are:

1) Kabul Ops Center
2) Jalalabad to Asmar
3) Ghazni to Sharan
4) Kabul to Gardez (KM87 to KM125)

The Farah and Lashkar Gah projects are very close to completion, so security on those two projects would continue to be provided by USPI. It is anticipated that Farah will be complete by the end of June and Lashkar Gah by the end of July.

Cost

Aegis has provided monthly rates as follows:

1) Kabul: $198,023
2) Jalalabad: $349,039
3) Ghazni: $332,662

4) Gardez: $332,662

Based upon the present schedules for completion (allowing 1 month's security beyond the substantial completion date), and assuming a July 1st start of services, the project cost for security would be:

1) Kabul: Service until April 30, 2007 = 10 months x $198,023 = $1,980,230
2) Jalalabad: Service thru Dec 31, 2006 = 6 months x $349,039 = $2,094,234
3) Ghazni: Service thru Nov 30, 2006 = 5 months x $332,662 = $1,663,310
4) Gardez: Service thru Dec 31, 2006 = 6 months x $332,662 = $1,995,972

This would bring the total monthly charges to $7,733,746. In addition to the monthly rates are mobilization fees as follows:

1) Kabul: $116,515
2) Jalalabad: $195,696
3) Ghazni: $185,408
4) Gardez: $185,408

The total mobilization is $683,027. This means that the minimum cost for Aegis is ***$8,416,773.***

LBG has completed a financial analysis of the USPI contract. The present contract value is $18,658,536. Billing thru May 2006 (inclusive of retention) is $9,462,394. This leaves a balance of $9,196,142. If we assume that the June invoice is comparable to May, then the June billing will be $1,265,507. The balance in the contract as of June 30th will be $7,930,635. In addition to these cost, the following may occur as well:

1) The monthly rate for Management & OH per the contract BOQ is $86,285. To date they have billed $375,182 ($318,321 Management and $56,861 OH) against these two items. Based upon the BOQ for these items, they have earned $603,981 thru May 2006 (7 months). Therefore they are under billed by $228,799. Upon termination they would be entitled to this amount.
2) We refer to Sub-Clause 65.8 of the Conditions of Contract to determine what USPI's entitlement would be under the T4C action. It would be as follows:
   a. 65.8(a) – payment for all work performed on the project. This is accommodated in the financial analysis above.
   b. 65.8(b) – any materials or equipment ordered by the contractor. This is not an issue because USPI has been either paid for materials per the unit price schedule or they have been provided by the Employer.
   c. 65.8(c) – any expenditure made by USPI in anticipation of completing the whole of the Works. This could mean payment of the remaining anticipated profits. This could be up to another $600,000.
   d. 65.8(d) – cost related to special risk. Not applicable.

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   e. 65.8(e) – demobilization of equipment. Not applicable except for any cost associated with the cancellation of any vehicle leases.
   f. 65.8(f) – repatriation of staff. They would be entitled to reimbursement of this cost. Estimated at approximately $100,000.

3) At the end of June, USPI will still have an outstanding balance on their advanced payment in the amount of $535,076. This would be credited towards any other amounts that may become due to them.

The total other cost associated with the T4C of the contract could be up to $393,723 depending upon the determination of the value associated with 65.8(c). If we deduct these amounts from the remaining contract value of $7,930,635 we get $7,536,912 to compare to the Aegis proposal of $8,416,773. We could then be paying a premium of approximately ***$879,861*** for Aegis to take over the work.

Operations

Aegis is an experienced and qualified firm. There is no doubt about that. In a visit with them on June 11th, we asked them how they would make the transition without jeopardizing either the safety of our staff or interrupting the program. They admitted that if USPI was not cooperative with them during the takeover it would be difficult. Though we would not anticipate that USPI would be disruptive, when you consider the fact that they are basically being fired I don't know why they would go out of their way to help Aegis take over their contract,

It is the intention of Aegis to use the same MOI/ANP that USPI are using. Considering the probable flow of the money, it would be a security risk to the project, LBG and Aegis if they did anything that disrupted that flow of money. They also do not have any other mechanism in place to get that many people on such a short notice. The use of the existing MOI was somewhat of a surprise since one of the criticisms of USPI has been their ragtag MOI soldiers. Though Aegis pledges they would do additional training, at this stage these projects may be too far along to actually benefit from that training. Aegis would also prefer to phase in the projects one at a time which means the transition could take up to 30 days. In that case, the assumption of a July 1st change over for financial comparisons could be wrong and some of the cost understated.

We would have to see a detailed transition plan before we could satisfy ourselves that the transition could be achieved without any detrimental effects on the program. In order to do this, Aegis would need considerably more details as to the state of each project and do an individual field assessment on each one. It is difficult to do this without compromising the confidentiality of this possible change over in security providers.

Conclusions

The first and foremost consideration is the safety of the project teams in the field. The primary complaint with USPI is the failure of their Kabul management to support their field security advisors and to comply with the requirements of UNOPS in regard to reporting and other administrative functions. There is also the implied overall failure of USPI to cooperate with other UNOPS departments that are involved in the successful administration of the program. USPI has not been part of the "team". UNOPS has also expressed its concerns over the ability of USPI to assure that their security force has a sufficient supply of ammunition to fight off any attack on the projects. In discussions with Aegis, they stated that they could get ammunition but it also presents them some challenges as well.

In spite of these items, it has always been stated by UNOPS and USAID that the security coordinators in the field are doing a very good job in protecting the projects, even if this is in spite of the alleged lack of support from USPI management. This being said, we are still confident that the project teams are being adequately protected in the environment we are working under. We are confident that a review of the total manhours worked in this program and the numbers of incidents that have taken place would confirm that the project security is working overall.

It does not appear that there is any economic benefit to changing security providers; in fact it could cost the program up to $900K more. Based upon the conversation with Aegis yesterday it was also implied that there could be some other additional cost should we choose certain optional security devices. We are also not convinced that this transition could be made without any initial impacts that could jeopardize the security of the staff and result in further damages by the possible suspension of the works due to a decrease in security until Aegis is up to force. Therefore, we can not recommend the T4C of the USPI contract under these present circumstances.

We will naturally support any final decision that UNOPS makes as the Employer and will do whatever we can to make the change work if UNOPS still wishes to move in that direction. Otherwise, we will arrange to meet with the President of USPI in the next few days and not only insist that he comply the program needs and change their attitude towards cooperating with UNOPS, but also that he defines a specific course of action that he will implement immediately.

Thank you for your attention and we await either your concurrence with our recommendation or further direction.