



## SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

November 23, 2004

MEMORANDUM FOR COMMANDER, U.S. ARMY MATERIEL COMMAND  
DEPUTY ASSISTANT SECRETARY OF THE ARMY FOR POLICY  
AND PROCUREMENT  
DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

SUBJECT: Task Order 0044 of the Logistics Civilian Augmentation Program III Contract  
(Report No. 05-003)

We are providing this audit report for your information and use. We performed the audit in accordance with our statutory duties contained in Public Law 108-106 which mandated the conduct of audits relating to the treatment, handling, and expenditure of funds by the Coalition Provisional Authority or its successor entities on Iraq reconstruction, and of the programs, operations, and contracts carried out in utilizing such funds.

This report is the third in a series resulting from our review of the management of the Logistics Civil Augmentation Program (LOGCAP) III contract. This report discusses cost data submitted by Kellogg Brown & Root, Inc, (KBR) to the Coalition Provisional Authority (CPA) for work performed under Task Order 0044 (TO 0044). The first report discussed the accountability and control of materiel assets in Baghdad, Iraq, used to support the CPA. The second report discussed the accountability and control of materiel assets in Kuwait used to support the CPA.

Our original overall audit objective was to evaluate services provided under TO 0044. We clarified this objective to determine whether CPA management efficiently and effectively managed the LOGCAP III contract to provide for logistics and life support for personnel assigned to the CPA mission. Specifically, we sought to determine whether the CPA:  
(1) managed TO 0044 of the LOGCAP III contract to ensure required items were properly authorized, performed, and/or received; (2) established policy to limit contract requirements and costs to only those specifically authorized, to include restricting current requirements to only those necessary for CPA use through June 30, 2004; and, (3) effectively managed the TO 0044 costs.

However, during the initiation of our fieldwork, we found we could not effectively address the overall audit objective due to weaknesses in the KBR cost reporting process used for TO 0044. As a result, we are issuing this report to address that condition. Further, due to our limited fieldwork and the more extensive and detailed planned and ongoing work by the U.S. Army Audit Agency (AAA) and the Defense Contract Audit Agency (DCAA), we will terminate further audit work on LOGCAP III and TO 0044 at this time.

We conducted this performance audit from May through July 2004 in accordance with generally accepted government audit standards. We validated certain aspects of the contractor's cost reporting system and tested the controls for authorization, approval, and acceptance of work. Our audit effort focused on Client Directives associated with TO 0044. We used the KBR Bi-Weekly Cost Report, for the period ending March 27, 2004, for cost reporting information. A Senior Government Compliance Manager at KBR also provided, at our request, a sample

spreadsheet of the detailed cost data available from KBR. That spreadsheet contained a list of equipment and material purchases and reflected the totals reported in the Bi-Weekly Cost Report.

We reviewed whether the cost data available to the Administrative Contract Officer (ACO) provided sufficient information for the ACO to provide management with effective cost-related decision information. Our testing was limited to using sample work orders to validate the information typically contained in each step of the contractor work request to invoice process. We recorded the information included in the work orders we reviewed to document the work request to invoice process. We did not perform detailed tests on each work order.

Contract Number DAAA09-02-D-0007, LOGCAP III,<sup>1</sup> was issued to Brown & Root Services, a division of KBR, by the Department of the Army on December 14, 2001. This is an indefinite-delivery/indefinite-quantity cost-plus award-fee and an on-call provider service contract with actual costs dependent on specific requirements.<sup>2</sup> The LOGCAP contract provides civilian augmentation for base operations and supports U.S. Army operations on a global basis.

When the Department of the Army identifies a significant event or requirement for a specific service or commodity, it issues a task order under the LOGCAP III contract to specifically address the performance requirements and contract terms for the particular event or requirement. The task order generally contains its own statement of work as well as a not-to-exceed dollar limitation.

TO 0044 was issued to KBR by the Department of the Army on March 6, 2003, to provide logistics and life support services for the CPA Regional Offices located in the North, Central/Main, South Central, and the Southern areas of Iraq and for the CPA satellite locations specified in the statement of work. As KBR performed the requirements cited in TO 0044, it billed the Department of the Army for the associated costs.

A Principal Contracting Officer assigned to the U.S. Army Field Support Command (AFSC), previously the U.S. Army Operations Support Command, located in Rock Island, Illinois, manages TO 0044. The Principal Contracting Officer appointed an ACO, who is located in Baghdad, Iraq, from the Defense Contract Management Agency. The ACO focuses on general logistical and support functions provided by the contractor. The ACO performs daily contract management and is charged with validating the performance of the contractor against the statement of work. Additionally, the ACO reviews and approves work requests that the contractor identifies as within the scope of the contract but not included in the contractor's performance estimate. As a general procedure, the ACO relies on the contractor's Quality Assurance Program to ensure all statement of work requirements are accomplished.

During the audit, we identified issues concerning cost data submitted by KBR to the CPA for work performed under TO 0044. KBR did not provide the ACO with sufficiently detailed cost data to evaluate overall project costs or to determine whether specific costs for services performed were reasonable. This occurred because neither the basic LOGCAP contract nor TO 0044 required detailed cost data and the LOGCAP contract was awarded to KBR even though the contractor did not have certified billing or cost and schedule reporting systems. As a result, the ACO did not receive sufficient or reliable cost information to effectively manage TO 0044. In addition, the lack

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<sup>1</sup> The first LOGCAP contract was awarded to KBR in 1992. The second LOGCAP contract was awarded to DynCorp International in 1997. Both LOGCAP I and II were awarded for a term of 5 years each, whereas the LOGCAP III contract has a 10 year term. (Source: "Outsourcing War," Business Week Online, September 9, 2003)

<sup>2</sup> Typical requirements associated with the LOGCAP III contract include such items as providing Camp Operations (camp construction and maintenance, laundry, lodging, sanitation needs, subsistence, etc.), Force Protection (camp and personal), and Transportation (personnel and cargo movement as well as vehicle motor pools).

of certified billing or cost and schedule reporting systems hampered the ACO from effectively monitoring contract costs. Finally, due to the lack of contractor provided detailed cost information to support actual expenses incurred, resource managers were unable to accurately forecast funding requirements to complete TO 0044.

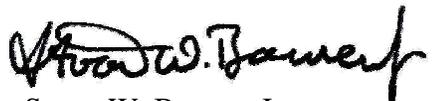
Further, based on our limited audit work, we also believe that Federal Acquisition Regulation (FAR) Clause 52.216-26, Payments of Allowable Costs Before Definitization, should be enforced by the AFSC due to the lack of definitization for TO 0044.

However, subsequent to our audit work, more extensive audit work was performed by DCAA and AAA. For example, AAA issued Audit Report No. A-2004-0438-AML, "Definitization of Task Orders-Audit of Logistics Civil Augmentation Program," August 12, 2004. That report concluded that the process of submitting cost proposals to the AFSC Definitization Office wasn't done in a timely manner and this resulted in delays to the definitization process. In its response, AFSC concurred with the AAA report conclusion but identified several actions that should improve its definitization process, such as a definitization schedule, and also stated that it is considering enforcing including FAR Clause 52.216-26. The parent command for AFSC, the U.S. Army Materiel Command, stated in its response to the AAA report that "While the establishment of a definitization schedule is a step in the right direction, corrective actions can not be considered complete until the process is improved to the point that task orders are routinely definitized in accordance with regulations." The U.S. Army Materiel Command further stated "As AAA has noted, FAR 52.216-26 permits the withholding of 15% on invoices submitted by the contractor pending definitization. The AFSC should enforce this contract provision to encourage the timely submission of fully supported proposals allowing for timely definitization."

In addition, DCAA, in a memorandum, "Implementation of FAR Clause 52.216-26, Payments of Allowable Costs before Definitization, LOGCAP Contract DAAA09-02-D-0007," August 16, 2004, informed AFSC that it had identified significant unsupported costs in KBR LOGCAP price proposals and encouraged the Principal Contracting Officer to implement FAR 52.216-26 payment limitations until KBR submitted adequate price proposals on all its proposals deemed inadequate.

We agree with the U.S. Army Materiel Command and DCAA positions. Further, as a result of the additional audit work, we have deleted the recommendations issued in a draft of this report.

This report does not contain recommendations; therefore, no written response to this report is required. We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Brian M. Flynn at (703) 343-9440 or Mr. Robert M. Murrell at (703) 428-0240. We will provide a formal briefing on the results of the audit, if desired.



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