

# **Logistics Civil Augmentation Program in Kuwait**

**U.S. Army Field Support  
Command**

**24 November 2004  
Audit Report: A-2005-0043-ALE**



**U.S. Army Audit Agency**





**DEPARTMENT OF THE ARMY**  
**U.S. ARMY AUDIT AGENCY**  
Europe Field Office  
Unit 29623  
APO AE 09090

24 November 2004

Commander, U.S. Army Field Support Command

This is our report on the audit of the Logistics Civil Augmentation Program in Kuwait. The audit was part of an Armywide effort that focused on overall program management, cost controls and asset management.

These are the report's key sections:

- The Summary of the Audit is an overview of what we audited and found.
- General Information tells how we conducted the audit and includes important information on matters related to the audit.
- The Findings section describes in detail the conditions we found. It also presents our recommendations and will include your command comments.
- Annex A contains the official Army position and your verbatim comments on the specific recommendations. Annex B lists others receiving copies of the report. Annex C lists the audit staff.

I appreciate the courtesies and cooperation extended to us during the audit.

FOR THE AUDITOR GENERAL:



# CONTENTS

	<b>Page</b>
<b>Summary of the Audit</b>	
What We Audited .....	5
Objectives, Conclusions and Command Responses .....	5
<b>General Information</b>	
Audit Scope and Methodology .....	11
Responsibilities and Resources .....	12
<b>Findings, Recommendations and Comments</b>	
A – Management of the Logistics Civil Augmentation Program Contract .....	17
B – Procedures to Control Contract Costs .....	24
C – Management of Government-Furnished Property .....	41
D – Value Added Tax Payments .....	48
<b>Annexes</b>	
A – Official Army Position/Verbatim Command Comments .....	55
B – Others Receiving Copies of This Report .....	75
C – Audit Staff .....	76

## **SUMMARY OF THE AUDIT**

## **WHAT WE AUDITED**

---

At the request of the Commanding General, U.S. Army Materiel Command, we reviewed the Logistics Civil Augmentation Program (known as LOGCAP) in support of Operation Iraqi Freedom in Kuwait. The audit was part of an Armywide effort that focused on overall program management, cost controls and asset management.

## **OBJECTIVES, CONCLUSIONS AND COMMAND RESPONSES**

---

We had three objectives for the audit. Here are those objectives, our conclusions, and command's comments to the related findings, recommendations and potential monetary benefits:

**Objective:** To evaluate the overall management of the LOGCAP contract.

**Conclusion:** The contract for LOGCAP needed better management. We found that:

- Statements of work weren't geared to performance-based contracting and didn't include performance measures or performance summaries listing contract requirements that were critical to satisfactory performance.
- Reports on lessons learned during event execution weren't periodically prepared and submitted as required.
- Program planners didn't have clear goals, objectives and procedures and believed they were to perform various contract execution roles that the procuring and administrative contracting officers should have carried out.

U.S. Army Field Support Command could enhance customer satisfaction and contractor performance by complying with *performance-based contracting procedures*, enforcing contract requirements, delegating contract administration promptly, and providing better oversight and guidance for its LOGCAP Support Unit.

**Command Comments:** Field Support Command agreed and said it had taken or would take corrective action on the recommendations.

(Our recommendations and a summary of command comments are in Finding A. Verbatim command comments are in Annex A.)

**Objective:** To evaluate the procedures in place to control costs under LOGCAP contracts.

**Conclusion:** Controls over contract costs for LOGCAP needed improvement during task order planning. Cost estimates for the task order statements of work we reviewed could have been reduced by at least \$40 million if program personnel:

- Prepared accurate government cost estimates.
- Reviewed customer requirements more closely.
- Reviewed the contractor's rough orders of magnitude and technical execution plans more thoroughly.
- Definitized task orders promptly.

In addition, the contractor incurred about \$1.7 million in value added taxes that didn't apply to the Army. However, the administrative contracting office and the contractor didn't take prudent actions to stop the improper taxes and collect reimbursement for those already paid.

Program management and LOGCAP Support Unit personnel began corrective actions by instructing support unit personnel in the preparation of government cost estimates and reviews of contractor rough orders of magnitude. In conjunction with the development of review and approval procedures and the acceleration of task order definitization, these initial actions will help enhance contract cost controls during the planning phase.

**Command Comments:** Field Support Command agreed and said it had taken or would take corrective actions. Command tentatively agreed with the reasonableness of the potential monetary benefits identified in Finding D, pending results of a review by Defense Contract Management Agency.

(Our recommendations and a summary of command comments are in Findings B and D. Verbatim command comments are in Annex A.)

**Objective:** To evaluate the management of assets used in conjunction with LOGCAP contracts—assets contractors acquired and assets the government provided to contractors.

**Conclusion:** Although we couldn't evaluate the management of assets the contractor acquired, we found that the Army didn't fully account for more than \$77 million worth of government-furnished property used in conjunction with the contract. Specifically, the statements of work:

- Didn't have procedures for formal accountability transfer.
- Didn't adequately identify what government property would be provided to the contractor.

Program management and procuring contracting personnel can make sure government property is adequately accounted for by coordinating property procedures with the task force commander and clearly stipulating property controls and other appropriate information in statements of work.

**Command Comments:** Field Support Command generally agreed and said it had taken or would take corrective action on the recommendations.

(Our recommendations and a summary of command comments are in Finding C. Verbatim command comments are in Annex A.)

\* \* \*

If Field Support Command carries out the recommendations in this report, there could be monetary benefits (based on the estimates we could reasonably make at the time of the audit).

## **GENERAL INFORMATION**

## **AUDIT SCOPE AND METHODOLOGY**

---

We performed the audit:

- From April 2003 through October 2004.
- At the request of the Commanding General, U.S. Army Materiel Command.
- In accordance with generally accepted government auditing standards and included the tests of management controls that we considered necessary under the circumstances.
- At the forward deployed headquarters element of U.S. Army Field Support Command in Kuwait and at several base camp sites. We reviewed various aspects of the statements of work for six task orders issued against contract DAAA09-02-D007 awarded in December 2001.

The audit covered transactions representative of operations current at the time of the audit. To answer our objectives we:

- Interviewed key personnel assigned to the Army Materiel Command LOGCAP contracting office, LOGCAP Support Unit and program management office, the U.S. Army Central Command Principal Assistant Responsible for Contracting, Defense Contract Management Agency, and various customer activities and units.
- Reviewed applicable guidance, including the Federal Acquisition Regulation and its DOD and Army supplements; DOD instructions, regulations and manuals; Army regulations, pamphlets, field manuals and technical manuals; and Army Materiel Command guidance.

To evaluate the overall management of the LOGCAP contract, we:

- Interviewed key personnel from the program and supported customers.
- Reviewed regulatory guidance and available management reports applicable to the program.
- Reviewed and analyzed the current and proposed LOGCAP Support Unit mission and mission-essential task lists.
- Reviewed statements of work and visited various base camps.

To evaluate the procedures in place to control costs under the LOGCAP contract, we:

- Interviewed key personnel from the LOGCAP Management Office, LOGCAP Support Unit, procuring contracting office, Central Command staff, customer units, and Defense Contract Management Agency to identify procedures for controlling, validating and monitoring contract costs.
- Examined, compared and evaluated supporting documentation for contract costs, including statements of work, independent government cost estimates, rough orders of magnitude and technical execution plans.

To evaluate the management of assets used in conjunction with LOGCAP contracts—assets contractors acquired and assets the government provided to contractors, we:

- Reviewed applicable guidance.
- Reviewed and analyzed LOGCAP's basic contract clauses, basic statement of work and delegation authority for contract administration applicable to assets the contractor acquired and the government provided.
- Interviewed key personnel from Army Materiel Command's LOGCAP Management Office, the procuring contracting office, LOGCAP Support Unit, Defense Contract Management Agency, and the contractor.
- Obtained and reviewed the contractor's government-furnished property listings for task orders 27, 33, 36 and 38.

## **RESPONSIBILITIES AND RESOURCES**

---

The Office of the Deputy Chief of Staff, G-4 is both Army and Joint Staff proponent for LOGCAP. Army Materiel Command implements overall policy, guidance and direction as the DA executive agent for the program. Field Support Command is the contracting agent for the program and awards, manages and executes the program's contract. Command is a subordinate command of Army Materiel Command, which is responsible for making sure Field Support Command takes action on the recommendations addressed to it.

Army Materiel Command's Logistic Support Elements coordinate and provide support to Army Service Component Commands and other DOD agencies and activities with a centralized management structure at each approved LOGCAP site. The Support Elements are responsible for coordinating and monitoring program requirements during a contingency event.

Army Service Component Commands and other DOD activities and their respective commanders are responsible for determining requirements and providing detailed statements of work for LOGCAP. Component commands fund program execution during an actual contingency event. As of July 2003, 24 open task orders, with estimated costs of about \$1.5 billion, supported Operation Iraqi Freedom.

Defense Contract Management Agency is the DOD proponent for contract administrative services and provides Field Support Command with technical advice and expertise, in-theater contract administration and quality assurance.

## **FINDINGS, RECOMMENDATIONS AND COMMENTS**

## **FINDING A: MANAGEMENT OF THE LOGISTICS CIVIL AUGMENTATION PROGRAM CONTRACT**

**For the Commander, U.S. Army Field Support Command**

### **SUMMARY**

---

Contract management for LOGCAP needed improvement. Specifically:

- Performance-based contract procedures weren't followed during the task order planning and statement of work preparation phases.
- Recurring reports and support plans from the contractor sometimes weren't prepared.
- Contract administrative authority wasn't promptly delegated to the Defense Contract Management Agency.
- Standing operating procedures for the LOGCAP Support Unit, which defined roles and responsibilities for contingency event contracting, weren't developed.

As a result, the Army had no assurance that contractor performance was meeting expectations. However, little was done to take meaningful corrective actions because the perceived performance shortfall was primarily caused by government actions or inactions.

Our recommendations to correct these conditions begin on page 22.

### **BACKGROUND**

---

#### **Guidance**

AR 700-135 (Soldier Support in the Field) has Army policy for providing levels of soldier support in the field, including laundries, clothing repair, shower facilities, latrines, mortuary affairs, aerial delivery, and tactical water support. The regulation also identifies how the support can be delivered through host-nation support agreements, inter-Service support

agreements, Force Provider modules, and LOGCAP—or a combination of these options. AR 700-137 (Logistics Civil Augmentation Program) describes the concepts, responsibilities, policies and procedures for implementation of the program. U.S. Army Materiel Command Pamphlet 700-30 (Logistics Civil Augmentation Program) addresses the purpose of the program and the roles and responsibilities of agencies and organizations that participate in it.

## **Performance-Based Contract Procedures**

The Federal Acquisition Regulation, the Guidebook for Performance-Based Service Acquisition in the Department of Defense, and the Army Materiel Command Contracting Guide identify procedures for performance-based contracting. To achieve the benefits of performance-based contracting, both the Army and the contractor have to exercise good management practices by developing documentation to meet several requirements:

- Performance requirement summaries that identify desired outcomes, performance objectives, performance standards and acceptable levels of quality.
- Statements of work that describe customer requirements in terms of measurable outcomes.
- Performance assessment plans that describe how the contractor's performance will be measured against the performance standards.

These documents, in conjunction with the contractor's approved quality control plans, technical execution plans and rough orders of magnitude, give the Army a reliable baseline for ensuring acceptable contract services.

## **DISCUSSION**

---

This section discusses four areas:

- Performance-based contract management.
- Contract reporting requirements.
- Delegation of contract administration authority.

- Standing operating procedures.

## **Performance-Based Contract Management**

Statements of work for contract task orders didn't have the critical elements necessary for effective performance-based contract management. This occurred because the program management office didn't provide adequate oversight to the LOGCAP Support Unit to ensure implementation of procedures for effective performance-based contracting.

### **Performance Requirement Summaries**

The LOGCAP Support Unit didn't help customers develop performance requirement summaries for statements of work. Performance requirement summaries, which should be prepared before the statements of work, itemize requirements that are critical to the satisfactory performance of the contract and identify the standards the contractor's performance will be inspected against. Support unit personnel didn't know they were supposed to make sure customers were preparing performance requirement summaries for each statement of work, nor did they have guidance from the program management office that required them to help prepare the summaries. However, neither the procuring contracting office nor the administrative contracting office questioned the lack of requirement summaries because they weren't familiar with this aspect of performance-based contracting.

Without adequate summaries, the Army didn't have a standard for measuring the contractor's performance. Moreover, the lack of the summaries negates any advantages that would accrue from performance-based contracting—especially for a cost reimbursable contract.

### **Performance Assessment Plans**

The support unit didn't help customers develop performance assessment plans in conjunction with statements of work. Performance assessment plans describe how contractor performance will be measured and assessed against the performance standards; they relate the assessments to the award factors stipulated in the basic contract. The plans, which should be developed by knowledgeable personnel, also allow the administrative contracting officer to evaluate and monitor the contractor's performance.

Defense Contract Management Agency was the administrative contracting officer and was responsible for monitoring and measuring the

contractor's performance. Because the agency is outside our scope of audit authority, we couldn't review its procedures to assess how the agency was acquitting its responsibilities without the prescribed assessment plans. However, without assessment plans to measure whether the contractor is meeting customer requirements, the Army and its customers couldn't effectively evaluate contractor performance and assess the appropriate award fee. The procuring contracting office needs to make sure performance-based contracting procedures are followed. In August 2003 support unit personnel were provided training that included instruction on development and preparation of performance-based statements of work. This initial training, in conjunction with specific guidance and direction from the procuring contracting officer, should improve contract management.

We address the actions necessary to implement performance-based contract management in Recommendation A-1.

## **Contract Reporting Requirements**

Contract reports and plans either weren't provided or weren't useful. The basic contract and the statements of work for task orders specified that the contractor was to provide a variety of reports and plans at various intervals throughout the contract. For example, the basic contract required a "lessons learned" report every 30 days during the execution of an event. The lessons learned reports should have been provided to the procuring contracting and program management offices.

When we tried to review the reports (which should have totaled about 50 based on the number of months and active task orders for Southwest Asia), personnel in the procuring contracting office told us the reports weren't available. Lessons learned reports would have helped the procuring contracting officer, the program manager, the customer and even the administrative contracting officer identify and correct systemic problems hindering contractor performance.

The Army can't be sure that services are received, costs are controlled or operations are effective without requiring the contractor to provide usable management reports. Failure to enforce reporting requirements or demand accuracy within a reasonable timeframe is considered acceptance of the contractor's performance related to reporting.

Actions needed to improve the effectiveness of reports and plans are in Recommendation A-2.

## Delegation of Contract Administration Authority

The procuring contracting officer didn't promptly delegate administrative authority to Defense Contract Management Agency. We reviewed the delegation letters for six statements of work. None of them were issued promptly:

Task Order	Notice to Proceed	Delegation Letter	Days Late
27	10 October 2002	9 February 2003	122
33	24 December 2002	30 December 2002	6
36	4 January 2003	11 February 2003	38
38	5 February 2003	11 February 2003	6
43	20 February 2003	24 February 2003	4
44	6 March 2003	10 March 2003	4

Defense Contract Management Agency appointed administrative contracting officers to monitor the contractor, but they had no authority to enforce the contract provisions without properly executed delegation authority. During the audit the LOGCAP Program Manager's office recognized that administrative authority had not been delegated in a timely manner. It proposed that the procuring contracting officer issue the letter of delegation to Defense Contract Management Agency at the same time the contracting officer issues the contractor's notice to proceed. If this procedure is implemented, it should help make sure administrative contracting authority is delegated promptly.

Action needed to appoint administrative contracting officers in a timely manner is in Recommendation A-3.

## Standing Operating Procedures

The LOGCAP Support Unit didn't have established goals and objectives or standing operating procedures to define its program support role in Southwest Asia. Moreover, the support unit's mission-essential task list included tasks that couldn't be performed in Southwest Asia. Consequently, support unit personnel weren't sure of their roles and responsibilities and frequently performed tasks that fell outside their authority. Support unit personnel were devoting significant efforts to oversight of contract compliance—as described in the task list—although contract administration functions and authority were delegated to Defense Contract Management Agency.

The support unit should develop goals, objectives and standing operating procedures that apply to the theatre of operations in Southwest Asia.

The goals and objectives should relate to customer support and the planning phase for the statement of work—including emphasis on performance-based contracting. The standing operating procedures should define the processes used during contingency operations and event deployments.

During our audit the support unit and program management office began standardizing some procedures, such as developing an automated customer checklist and templates for statements of work. In August 2003 the program management office updated its guide for supported units. The update includes program guidelines and a checklist that will help the customer identify requirements, develop statements of work and prepare the initial independent government cost estimates. The information should reduce processing time and improve customer support.

Actions necessary to develop standing operating procedures are in Recommendation A-4.

## **RECOMMENDATIONS AND COMMENTS**

---

This section contains specific recommendations and a summary of command comments for each recommendation. The official Army position and verbatim command comments are in Annex A.

**A-1 Recommendation:** Have the program management office issue instructions for performance-based statements of work to the LOGCAP Support Unit in Southwest Asia. Make sure the instructions include specific guidance for preparing performance requirement summaries and performance assessment plans. Also, determine how Defense Contract Management Agency is developing its performance assessment plans to make sure customer requirements are satisfied.

**Command Comments:** Field Support Command agreed and said it took corrective action. Since completion of the audit fieldwork, performance-based contracting was added to LOGCAP Support Unit training. The support unit updates training guidelines for each unit that deploys. The most recent training update was in June 2004. The program management office for LOGCAP also updated its operators and support unit guides in August 2003. In addition, monthly operational reviews with all involved parties (including Defense Contract Management Agency) occur to track ongoing actions, set priorities and focus on problem solving.

**A-2 Recommendation:** Direct the program management office and the procuring contracting officer to reinforce the reporting requirements on each subsequent statement of work and to review and use the reports as intended.

**Command Comments:** Field Support Command agreed and said it took corrective action. The procuring contracting officer took action to enforce reporting requirements. The contractor is submitting lessons learned reports.

**A-3 Recommendation:** Delegate administrative contract authority to Defense Contract Management Agency with the contractor's notice to proceed, as appropriate at the time of the task order award.

**Command Comments:** Field Support Command agreed and said it took corrective action. In April 2003 the procuring contracting office began delegating administrative contract authority, when needed depending on the requirements of the contract, to a contracting officers representative or administrative contracting officer when the notice to proceed is issued or the task order is awarded.

**A-4 Recommendation:** Develop goals and objectives as well as standing operating procedures that identify roles and responsibilities and provide meaningful instructions for contingency operations.

**Command Comments:** Field Support Command agreed and said it took corrective action. Standing operating procedures are available. Command also reiterated its comments for Recommendation A-1.

**Official Army Position:** The Office of the Deputy Chief of Staff, G-4 provided the official Army position. The office agreed with the results of the audit and the comments and corrective actions from Army Materiel Command and Field Support Command. The office also said it and Field Support Command have contracted for a 1-year review of LOGCAP in its entirety, including practices and procedures from the DA level to the supported commander in the field.

## **FINDING B: PROCEDURES TO CONTROL CONTRACT COSTS**

**For the Commander, U.S. Army Field Support Command**

### **SUMMARY**

---

Controls over the program's contract costs during the task order planning stages needed improvement. Cost estimates for the task order statements of work we reviewed were overstated by at least \$40 million because program personnel didn't:

- Review customer requirements more closely.
- Prepare accurate government cost estimates.
- Review contractor cost estimates in rough orders of magnitude more thoroughly.
- Definitize task orders promptly.

Program personnel assigned to the LOGCAP Support Unit didn't have written procedures describing the planning process and their roles in the program during a contingency. In addition, the program management and procuring contracting offices provided little feedback and support during the planning process. Consequently, contractor cost estimates in rough orders of magnitude and projected contract costs, which became spending targets because task orders weren't definitized promptly, were too high.

Our recommendations to correct these conditions begin on page 37.

### **BACKGROUND**

---

LOGCAP provides support for operation commanders. After the Office of the Deputy Chief of Staff, G-4 approves use of the program, the contracting officer works with the program manager and customer to develop requirements for each site. For Operation Iraqi Freedom, the contracting officer awarded task orders for several diverse sites and operations

throughout Southwest Asia. The basis for each task order is a statement of work and a rough order of magnitude.

Customer units submit requests for support to the LOGCAP Support Unit. Personnel from the support unit work with customer units to define requirements for statements of work. Logistics, engineering and contracting personnel review the requirements once the statement of work is complete. After approval, the procuring contracting officer requests a rough order of magnitude from the contractor.

The contractor prepares rough orders of magnitude based on requirements in statements of work. The rough order of magnitude is the contractor's detailed cost estimate broken out for labor (by personnel positions), equipment, material and other direct costs. The Federal Acquisition Regulation requires that contracting officers ensure the fairness and reasonableness of proposed costs. The Army Materiel Command Contracting Guide requires independent government cost estimates for all proposed contract actions. The cost estimate is supposed to establish a ceiling amount for contract expenditures (75 percent of the total estimate) that remains in effect until the task order is definitized.

## **DISCUSSION**

---

This section discusses four areas:

- Review and approval of contract requirements.
- Preparation of independent government cost estimates.
- Review of contractor rough orders of magnitude.
- Cost and definitization of contract.

### **Review and Approval of Contract Requirements**

The LOGCAP Support Unit in Southwest Asia needed to improve its processes for reviewing customer requirements used to prepare statements of work and for documenting approval by the customer's chain of command. Careful validation of requirements is a key cost control method. Support unit personnel reviewed requirements proposed by various customers and usually prepared statements of work for approval and contract action. But the process the support unit used wasn't clearly defined and documentation wasn't available to verify approval.

## **Support Unit Procedures**

The support unit didn't have written standing operating procedures that explained the review and approval process. We had difficulty clarifying the process from the customer request for support to approval of the statement of work because unit personnel didn't codify the steps. In addition, documentation for most reviews and approvals wasn't available. Support unit personnel told us the documentation was scarce because few support unit personnel and minimal document storage space was available during the early months of operations in Southwest Asia.

When we discussed the lack of specific procedures with support unit personnel, they began to establish a defined process. For example, they introduced a requirements board that was designed to resolve problems with customers who requested support without having clearly defined requirements. The board helped customers articulate their requirements for the statements of work. Support unit personnel also said they intended to establish standing operating procedures. These corrective measures should help to define and establish the steps in the review and approval process for requirements.

## **Requirements Documentation**

The support unit didn't retain supporting documentation for requirements customers submitted and kept only a few approval documents. Support unit personnel reviewed statements of work with personnel from the functional areas of logistics, engineering and contracting to determine if the requests for support were reasonable. Support unit personnel said they often walked through the statements of work because of time constraints and sometimes overlooked the need to retain supporting documentation. Moreover, many of the task order statements of work for Southwest Asia were initiated before February 2003 when only three support unit personnel were in Southwest Asia, and support unit personnel said the initial staff didn't have the resources necessary to document actions related to statements of work. Consequently, no records were available for us to evaluate the criteria personnel used to review and approve requirements.

When we discussed the need to maintain supporting contractual documentation with support unit personnel, they started to develop a system to organize and file documentation relevant to the preparation and approval of statements of work for contract task orders. The staff also developed forms and checklists for customers to request contract support and approval. For example, one checklist identified many potential generic requirements the contractor provided. Customers marked their applicable requirements and identified the quantities needed.

Another form was a routing slip to document approvals. In addition, the program management office updated its guide for supported units in August 2003. These prompt initial corrective actions will help make sure the customer has defined requirements.

Actions needed to further improve the review and approval process for statements of work are in Recommendations B-1.

## **Preparation of Independent Government Cost Estimates**

Independent government cost estimates couldn't be used to evaluate the contractor's rough orders of magnitude because the estimates weren't properly prepared. Support unit personnel were responsible for preparing the government cost estimates with customer assistance. However, estimates:

- Didn't include enough detail for effective comparison with the contractor's cost estimates.
- Weren't adequately reviewed by the program management and procuring contracting offices.

The Federal Acquisition Regulation requires independent government cost estimates to validate contractor cost estimates. Without adequate government estimates, the contracting officer is at a disadvantage when analyzing the contractor's cost. Although it should have been apparent that the support unit cost estimates weren't sufficient or accurate, personnel received little feedback or guidance from the program management and procuring contracting offices.

### **Detail of Estimates**

The independent government cost estimates the support unit prepared didn't have enough details and thus couldn't be used to effectively evaluate contractor cost estimates. The contractor's rough orders of magnitude had separate sections for each work breakdown structure element (according to contract requirements). Each element was further separated by labor and nonlabor costs:

- For labor costs the contractor identified each position, weekly hours, period of performance and all additional labor costs (add-ons) to estimate the total labor costs.

- For nonlabor costs the contractor generally included a separate line for each type of material, equipment, subcontract and other direct cost.

In contrast, the government cost estimates that support unit personnel prepared generally had less than 10 cost-related entries—corresponding to the statement of work—not the work breakdown structure stipulated in the basic contract and used by the contractor. The lack of detail and uniform principles reduced the chances for meaningful cost comparisons and potential cost reductions.

For example, a government cost estimate for change 13 to the statement of work for task order 36 included only four lines of direct costs:

- Camp 1: \$500,000.
- Camp 2: \$20,000.
- Camp 1 and 2 Ration Cycle: \$1,200,000.
- Labor: \$175,000.

The government estimate included no details and was less than \$1.9 million—compared with the contractor’s cost estimate increase of about \$12.8 million. The contractor’s update also included 44 pages of details covering the entire task order—not just the recent changes to the current statement of work.

In another example, change 11 to the statement of work for task order 27 also had four lines of direct costs:

- Combat support hospital mission: \$1,900,000.
- Organizational maintenance: \$500,000.
- Labor: \$200,000.
- Equipment and material: \$200,000.

The independent government estimate totaled about \$2.8 million for direct costs; the contractor’s cost estimate for the change totaled about \$10.8 million.

These examples indicate the disparity in the level of detail and costing principles between government cost estimates and rough orders of magnitude. Support unit personnel, in conjunction with customer units, need to prepare cost estimates using the same level of detail and costing principles as the contractor.

Army Materiel Command's Contracting Guide states that more complex acquisitions require a detailed independent government cost estimate to provide a baseline for pricing and establishing the reasonableness of the proposed cost or price. The guidance also states that the estimate normally includes the kinds and amounts of labor hours, labor rates, indirect rates, materials, travel, and other direct costs that are a result of the requirement. However, because there was no written requirement to do so, support unit personnel didn't receive feedback from either the program management office or the procuring contracting office stating that the government estimates needed more details, better accuracy or improved costing principles. Support unit personnel said the only criticism they received related to cost estimates was from the program management office—but only when a cost estimate wasn't submitted as part of the statement of work.

### **Review of Estimates**

We found no indication that the program management or procuring contracting office reviewed the independent government cost estimates support unit personnel prepared. Although the government estimates and contractor's rough orders of magnitude had significant differences and lacked detail, the support unit wasn't advised of the need to revise, modify or correct its cost estimates by either the management or the contracting office. These offices were willing to rely on the contractor's cost estimates with little or no question. Support unit personnel had limited contracting experience and didn't know how to prepare viable government cost estimates. Consequently, in the absence of any feedback, they didn't know their cost estimates couldn't be used to evaluate the contractor's estimates.

When we brought the problem with government cost estimates to the attention of a representative from the program management office who was in Southwest Asia during our review, support unit personnel received instruction on how to prepare independent government cost estimates. After the instruction, unit personnel developed a factor-based method for estimating costs, and they used the method to estimate costs for an \$800 million task order. The estimate was adequately detailed and useful to personnel evaluating the reasonableness of contractor costs.

Actions needed to improve independent government cost estimates are in Recommendation B-2.

## **Review of Contractor Rough Orders of Magnitude**

Program personnel didn't effectively evaluate rough orders of magnitude the contractor submitted. The contractor submitted rough orders of magnitude based on customer requirements in the statements of work. The rough orders of magnitude included enough detail to determine whether the cost estimate was consistent with the services required by the statements of work.

The contracting officer established cost control measures and believed that the measures were sufficient. These measures included:

- Onsite contract administration.
- Approval procedures for contractor requisitions.
- Authority to use government sources for supplies and services.
- Assist audits by the Defense Contract Audit Agency.
- Joint training for contract administration and support unit personnel that included lessons learned.

If fully implemented, these measures should help control costs during contract execution if the rough orders of magnitude and contractor execution plans include accurate data. But if rough orders of magnitude are overstated and other data isn't accurate, most irregularities and deviations can't be readily detected. If irregularities and deviations can't be detected, control measures are less effective. Accurate rough orders of magnitude and execution plans are necessary to help make sure controls measures are fully effective.

The Federal Acquisition Regulation (Subpart 15-4) requires the contracting officer to ensure fair and reasonable pricing. Thus part of the contracting process is cost analysis, which includes evaluating the necessity for and reasonableness of estimated costs (including allowances for contingencies). We recognized that the rough orders of magnitude were estimates based on the best information available at the time of the cost estimate. But until the task order was definitized, the rough orders of magnitude were spending targets for the contractor and represented tacit approval of the contractor's execution and spending plans. The procuring contracting officer accepted the rough orders of magnitude with little input and review by customer, support unit and program management personnel because, although only an approximation, the rough orders of magnitude were considered reliable. Although we questioned only those costs that were obviously skewed, we found more than \$40 million in questionable costs for just four rough orders of magnitude.

## **Reviews by Cost Category**

We reviewed four contractor rough orders of magnitude and identified about \$40 million in questionable costs. Although we found indications that customers and the program management office did some review of contractor rough orders of magnitude, the reviews were usually limited to technicalities and geared toward execution plans instead of cost estimates. The contract defined cost categories by work breakdown structures, such as camp construction, camp maintenance, laundry service and power generation. Within each breakdown structure, the contractor further categorized costs by labor, equipment, materials, subcontracts and other direct costs. Four task orders we reviewed had rough orders of magnitude of about \$464 million. We identified more than \$40 million in proposed costs that exceeded requirements necessary for contractor performance.

**Labor Category.** The contractor's rough orders of magnitude included about \$6.8 million in questionable labor costs. For example:

- Employees for management and administration exceeded needs. The rough orders of magnitude included 19 full-time personnel, 3 of which were located at the contractor's corporate headquarters. We estimated that at least nine positions, with associated costs of about \$507,000, were redundant and excess to the contractor's limited mission at the site. The nine positions included an operations supervisor, two quality assurance technicians and a safety technician.
- Labor for the general superintendent position was for 611 days. The period of performance for base camp maintenance was 323 days. The extra 288 days cost almost \$124,000.

**Equipment Category.** The contractor's rough orders of magnitude included about \$7.5 million in questionable equipment costs. The equipment category includes contractor-purchased items but doesn't include leased items. Here are some examples of proposed equipment that should have been excluded:

- Morale, welfare and recreation equipment (worth about \$112,000) should have been excluded because the statement of work designated that the equipment would be government-furnished.
- Tractors and trailers worth about \$569,000 should have been excluded because the equipment wasn't necessary. The rough orders of magnitude also included subcontracts for line haul services.

- Secure radios, worth about \$202,000, should have been disallowed because the statement of work didn't identify a requirement.
- Binoculars and night vision goggles, with an estimated value of about \$104,000, were class VII items (major items) and needed proper authorization and approval. Use of the contractor to purchase controlled items circumvented the Army's policies and restrictions for equipment authorization and issue.

**Material Category.** The contractor included about \$12.1 million in questionable costs for material. For example:

- Property and durable tags were designated for material handling and property control. The unit cost was \$200 for each property tag and \$150 for each durable tag. The total cost estimate for the tags was almost \$1 million.
- Soft drink (consumable soda) costs of about \$617,000 on one task order for about 2,500 personnel were listed as a morale and welfare-related cost. Not only was the cost associated with individual drinks excessive, but it duplicated soft drinks included as part of food service costs.
- Movie library costs to support about 2,500 personnel, estimated at about \$152,000, were excessive. The amount represented about 10,000 movies.

**Subcontract Category.** The contractor's rough orders of magnitude included almost \$12.6 million in questionable costs for subcontracts. For example:

- Costs for the laundry subcontract, which included 250 host country employees, totaled about \$3.4 million. The subcontract provided 936,000 hours of labor and wasn't questioned by reviewers.
- Subcontracts for cleaners and general laborers had 20 employees at a cost of \$268,000. But the recreation facilities consisted of only two tents: one for the gym and one for the recreation center.
- Subcontracts proposed to support airfield and combat support hospital maintenance included too many host country personnel. The proposed cost for the 146 personnel to provide carpentry, electrical, plumbing, cleaning and general service was about \$1.4 million. The contractor had only 62 personnel onhand.

- Subcontracts for tailoring, seamstress service and textile repair had proposed costs of about \$1.5 million for full-time support. But on the same rough orders of magnitude, the contractor had another subcontract offering sewing service in \$100 lots (on an as-needed basis). Pricing by lot was the more reasonable pricing method.

**Other Direct Cost Category.** Estimates for other direct costs included about \$1.6 million that was questionable. The main components of other direct costs were vehicle and equipment leases. The contractor's rough orders of magnitude included:

- Heavy equipment that exceeded support needs. The only construction-related requirements in the statement of work were for site preparation at the combat support hospital and repair and maintenance of the airfield. The contractor's proposed cost was about \$151,000 to lease construction equipment for the entire 6-month period of performance.
- Material handling equipment was excessive for one task order that had four sites. The contractor proposed five 25-ton rough terrain container handlers and five 20- to 50-ton cranes. The population at the main site was only 2,000 personnel, and the 3 satellite sites had only 150 personnel each. The scope of work at each satellite site didn't justify the amount of material handling equipment in the cost estimate. A decrease in material handling equipment based on reasonable expectations and site population would result in savings of about \$1.4 million.

Program personnel need to thoroughly review contractor rough orders of magnitude and question unreasonable estimates as a method for reducing the chances of excessive costs and unneeded services—especially during contingency operations when several task orders are executed based on rough orders of magnitude the contractor submitted.

### **Consistency of Costs**

We found more excessive contractor cost estimates when we compared costs in changes to task orders for the identical items on different task orders and for similar (duplicate) services on the same task order. For example:

- Laundry costs increased by almost \$1 million from one change to another for one task order, although the laundry requirements weren't the subject of the change. The contractor identified three subcontracts for four camps, with the number of personnel

supported at each camp. The period of performance for two of the subcontracts was 6 months (to accommodate more personnel) and the third was 12 months. However, the unit cost for the subcontracts was about \$14.85 a laundry bag (based on two bags of laundry a person each week). The cost estimate should have been questioned as excessive because the government provided facilities, equipment and water.

- Equipment leases with a 40-percent cost increase, adding about \$1 million to proposed contracted costs, were submitted 8 days after a previous change. We found no documentation that reviewers questioned the increases. Contractor performance began about 2 months before the change, so the contractor probably knew actual lease costs before the latest change but didn't submit them.
- Prices for gym towels varied for different task orders, as did the prices for video players. For one task order the estimated unit cost was \$5 a towel. In the contractor's estimate for another task order, the price was \$2.31 a towel. In the same task order as the \$5 towels, video players had estimated costs of \$1,000. Other task order estimates showed players costing \$300.
- Proposed costs of about \$2.2 million for three flights of a leased cargo aircraft and about \$7.6 million for freight costs for equipment and materials imported from the United States appeared to be duplicate costs. Government personnel responsible for reviewing the rough orders of magnitude should question the duplication of transportation costs because costs for leased aircraft shouldn't be approved when freight costs are in the same estimate.

Comparison of similar items between task orders is a simple method for determining the reasonableness of prices.

## **Personnel Requirements**

The contractor significantly overstated estimates of personnel requirements. Contract costs increased significantly for each employee because the contractor added costs for insurance, mobilization labor, rest and relaxation labor, airfare (CONUS to Kuwait, one or two rest-and-relaxation trips), and other miscellaneous costs.

To illustrate, the total costs for in-transit personnel (which included costs for mobilization and rest and relaxation trips) for task orders 27, 36 and 38 was almost \$10.6 million for 507 personnel—or an average of about \$20,850 an employee. But the contractor didn't employ the

number of personnel proposed in the rough orders of magnitude, as shown:

Task Order	Start of Performance	Number of Expatriate Personnel		
		Estimated Requirement	Onhand*	Difference
27	10 October 2002	303	294	(9)
36	6 January 2003	95	42	(53)
38	6 February 2003	109	58	(51)
Total		507	394	(113)

\* As of 23 May 2003.

Program personnel told us the contractor didn't have any significant performance deficiencies, which indicated that its labor estimates for expatriate personnel were inflated. Army personnel need to rigorously review labor requirements the contractor proposes to ensure that the estimates are reasonable. Expatriate personnel represent significant costs that should have an appropriate level of evaluation.

During the audit program management and support unit personnel initiated actions to improve the review process, including training support unit personnel in methods to identify the key elements of contractor estimates. For example, support unit and contracting personnel reviewed a rough order of magnitude for a new task order. Their questions and comments indicated thorough understanding of the cost issues related to the estimate.

Actions needed to improve the evaluation of contractor rough orders of magnitude and to reduce excessive costs are in Recommendations B-3 and B-4.

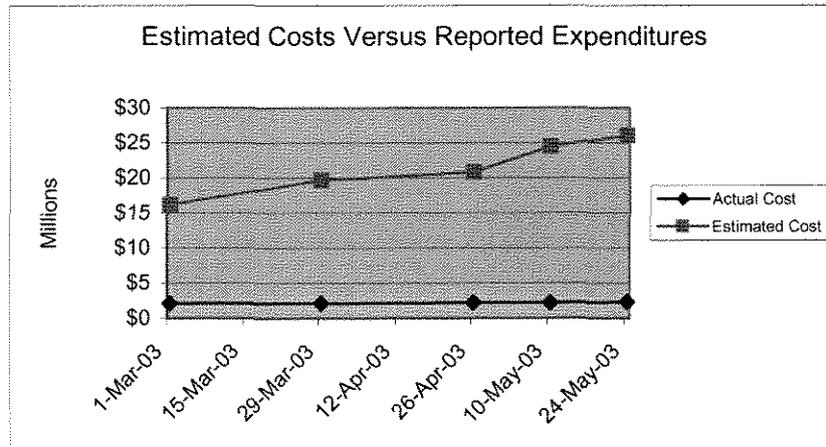
## **Cost and Definitization of Contract**

Program personnel didn't have the actual cost data that would have helped them establish more effective cost control procedures and accelerate the definitization of task orders.

### **Monitoring Expenditures**

Cost reports the contractor submitted weren't on time and accurate enough to effectively track costs. For the task orders we reviewed, the contractor submitted cost reports monthly instead of biweekly for March and April 2003. For May and June 2003, the contractor provided the reports biweekly, in accordance with contract requirements, but the data

didn't accurately report contractor expenditures. For example, this chart details 3 months of cost data for task order 27 showing that estimated costs continued to climb while reported expenditures remained constant:



Incomplete cost data prevented effective monitoring of contractor cost controls. In addition, program personnel couldn't effectively evaluate the contractor's estimates against actual contractor costs. To effectively monitor cost performance, the contracting officer should require the contractor to provide cost data that accurately portrays expenditures.

Action needed to improve the contractor's cost reports is in Recommendation B-5.

### Definitization of Task Orders

The contractor didn't comply with target dates set forth in contract provisions for definitizing task orders. The contract specified target dates for three phases of the definitization process:

- Submission of the contractor's proposal 45 days after award of the task order.
- Negotiation 90 days after award.
- Definitization 180 days after award.

As of 20 June 2003, none of these phases had been initiated for Southwest Asia task orders. Consequently, the government's risk, which was already high for cost reimbursable contracts, was significantly increased because of limited visibility and control over contractor costs.

We previously reported this condition in December 2002.<sup>1</sup> In that report we recommended a decrease in the 180-day target to 120 days. Although U.S. Army Joint Munitions Command (then known as U.S. Army Operations Support Command) agreed and said corrective actions were ongoing, this next chart offers examples of task orders that exceeded schedules for definitization stipulated in the contract:

Phase	By Contract	Date Due By Task Order			Average Days Past Due*
		27	36	38	
Submission of Proposal	45 Days	16 Nov 02	4 Feb 03	13 Mar 03	141
Begin Negotiation to Definitize	90 Days	31 Dec 02	21 Mar 03	27 Apr 03	96
Definitization of Task Order	180 Days	31 Mar 03	19 Jun 03	26 Jul 03	6

\* As of 11 June 2003.

Definitization establishes a reliable cost estimate for a task order, which in turn is used to determine the amount of funds to set aside for award fee. It also gives contract administrators an enforceable basis for measuring the contractor's expenditures and cost controls and helps simplify overall contract management. But the Army can't achieve any of the benefits associated with contract definitization until it enforces contract requirements by having the contractor submit proposals within 45 days of the notice to proceed.

Action needed to reduce the time it takes to definitize task orders is in Recommendation B-6.

## **RECOMMENDATIONS AND COMMENTS**

This section contains specific recommendations and a summary of command comments for each recommendation. The official Army position and verbatim command comments are in Annex A.

**B-1 Recommendation:** Establish written local guidance for developing, reviewing and approving statements of work. Make sure the guidance includes the use of newly developed templates, checklists and routing slips and the requirement to document the review and approval process. Also, establish a requirement to retain supporting documentation as part of the contract files. Incorporate the

<sup>1</sup> Audit Report: A-2003-0110-IMU, 31 December 2002, Logistics Civil Augmentation Program, Camp Stronghold Freedom, Uzbekistan.

written guidance with the local standing operating procedures discussed in Recommendation A-4 of this report.

**Command Comments:** Field Support Command agreed and said it took corrective action. Program guidance was available in the LOGCAP Battle Book and pamphlets. The LOGCAP Support Unit continuously updates its training, and in August 2003 the program manager's office updated local guidance for developing, reviewing and approving statements of work. Also, as noted in the report, LOGCAP Support Unit personnel started implementing corrective actions during the audit.

**B-2 Recommendation:** Continue instructing support unit personnel in helping customers prepare effective independent government cost estimates. Require the program management and procuring contracting offices to properly review all cost estimates and provide feedback. Make sure the instructions and feedback address:

- Completing estimates to evaluate all customer changes and contractor estimates.
- Preparing detailed estimates of costs, in accordance with the work breakdown structure of the contract, with costs for the kinds and amounts of labor hours, materials, equipment and other direct costs.
- Documenting the basis for assumptions and sources of cost data.

**Command Comments:** Field Support Command agreed and said it took corrective action. Since completion of the audit fieldwork, training for support unit personnel has improved and includes instructions on how to assist customers with cost estimates.

**B-3 Recommendation:** Implement detailed processes and procedures for reviewing contractor rough orders of magnitude and make sure the processes and procedures are followed. The processes should include documenting comments and approvals, including review of each contractor revision. Require support unit personnel to coordinate reviews of new and revised contractor rough orders of magnitude with each customer affected.

**Command Comments:** Field Support Command agreed and referred to its response to Recommendation B-2.

- B-4 Recommendation:** Review contractor rough orders of magnitude for task orders 27, 36, 38 and 44 and reduce contract estimates and related obligations by about \$40 million for the elements identified in this report and for any other excessive costs identified during review. Review all existing contractor rough orders of magnitude for undefinitized task orders to identify and reduce other potential excessive costs.

**Command Comments:** Field Support Command agreed and said the program manager's office has procedures in place to review all rough orders of magnitude to identify excessive costs. It also referred to its previous comments on improved training and how review procedures for rough orders of magnitude have been clarified. The proposals for these task orders are currently under review (target dates for completion were provided) for price reasonableness, and the government employee will consider all aspects of the review. Command further stated that rough orders of magnitude are conservative estimates prepared under extreme conditions. Of the 40 task orders currently waiting definitization, 80 percent have cost proposals that are less than the rough order of magnitude. Overall, the cost proposals are about \$410 million less than the corresponding rough orders of magnitude.

- B-5 Recommendation:** Enforce contract provisions for reporting and make sure the contractor provides meaningful information about cost expenditures in biweekly cost reports.

**Command Comments:** Field Support Command agreed and said it took action in February 2004.

- B-6 Recommendation:** Make sure the contracting officer directs the contractor to meet the target dates for definitization proposals.

**Command Comments:** Field Support Command agreed and said it has taken several alternative actions to improve the process, such as establishing definitization schedules with required milestones, establishing a cost pricing definitization team, and establishing monthly operational reviews to track status and

set priorities. Command also said it considered enforcing Federal Acquisition Regulation provisions of withholding 15 percent of invoices until definitization. Command considers actions for this recommendation complete, but will continue its efforts to improve the definitization process.

**Official Army Position:** The Office of the Deputy Chief of Staff, G-4 provided the official Army position. The office agreed with the results of the audit and the comments and corrective actions from Army Materiel Command and Field Support Command. The office also said it and Field Support Command have contracted for a 1-year review of LOGCAP in its entirety, including practices and procedures from the DA level to the supported commander in the field.

## **FINDING C: MANAGEMENT OF GOVERNMENT-FURNISHED PROPERTY**

**For the Commander, U.S. Army Field Support Command**

### **SUMMARY**

---

The Army didn't adequately account for government-furnished property the contractor used to support contract task orders for LOGCAP in Southwest Asia. Specifically:

- Procedures in statements of work for contract task orders didn't establish formal transfer of accountability for government-furnished property, but did require joint inventories—although the inventories weren't performed.
- Statements of work didn't adequately identify government-furnished property provided to the contractor for contract execution.

As a result, the Army didn't fully account for at least \$77 million in government-furnished property the contractor used in Southwest Asia, and it can't accurately identify what property it provided the contractor.

Our recommendations to correct these conditions begin on page 46.

### **BACKGROUND**

---

#### **Army Property Classification**

AR 710-2 (Supply Policy Below the National Level) classifies property as nonexpendable, durable or expendable for accounting purposes:

- Nonexpendable property retains its original identity during the period of use. It requires formal accountability throughout the life of the item.

- Durable property doesn't require property book accountability after issue from the stock record account, but does require hand receipt control when it is issued to the user.
- Expendable property requires no formal accountability after it is issued from stock record accounts to the user.

## **Federal Acquisition Regulation**

Federal Acquisition Regulation, Part 45 prescribes policies and procedures for providing government property to contractors, and the use and management of the government property. Two categories of clauses that can be used when providing government property to the contractor stipulate that either:

- Responsibility and accountability for government-furnished property is transferred to the contractor.
- The contractor is assigned responsibility and the Army retains accountability.

## **Army Property Accountability**

AR 735-5 (Policies and Procedures for Property Accountability) requires the use of specific procedures if government-furnished property is transferred to a contractor:

- Accountable officers release government property to a contractor on a Request for Issue or Turn In (DA Form 3161) when directed by the official with command responsibility over the property required by a contract. The contracting officer approves the document transferring accountability.
- The Army and the contractor conduct a joint physical inventory. The contractor acknowledges receipt in writing, and the Army posts the transfer document as a loss to the Army property accounting records.
- The Army and the contractor also conduct a joint physical inventory at completion of the contract. The contracting office reconciles the transfer document for shortages and approves the transfer before the accountable officer accepts accountability. The property is then posted to the Army property accounting records.

If the Army retains accountability for government-furnished property, it is laterally transferred to the contracting office. The property

administrator for the contract maintains the property records, and responsibility for the government property is assigned to the contractor using a technical exhibit to the contract. Defense Contract Management Agency is the property administrator for the LOGCAP contract.

## **DISCUSSION**

---

This section discusses two areas:

- Procedures for transferring accountability and conducting inventories.
- Identification of government property.

### **Procedures for Transferring Accountability and Conducting Inventories**

The statements of work for task orders 27, 33, 36 and 38 didn't specify procedures for transferring government property to the contractor. And although the statements of work required joint inventories before the contractor took possession of property, the joint inventories weren't performed.

#### **Transferring Accountability**

The Army didn't properly transfer accountability for government property to the contractor. When we tried to obtain support documentation (DA Form 3161) to validate that accountability for government property for the four task orders was appropriately transferred to the contractor, Army personnel couldn't locate the records or identify the responsible accountable officers.

Contractor personnel told us that government property for these and other task orders wasn't officially transferred to the contractor. They believed the problem occurred because no accountable officers were designated to specifically deal with the contractor and government-furnished property when contractor personnel arrived to start work. We talked to personnel from Defense Contract Management Agency, who told us they didn't believe the government property was jointly inventoried and properly transferred. But they also said they had verified that the contractor had an approved property accountability system, and the

Army was responsible for doing the joint inventories and ensuring proper transfer of accountability.

We reviewed the contractor's property control records to determine what government-furnished property was in the contractor's possession. The records showed that most of the high-cost government-furnished property the contractor acknowledged consisted of Force Provider modules. But many other items were also onhand.

**Force Provider Modules.** The Army lost full accountability over 12 Force Provider modules worth about \$75.6 million. Force Provider modules are containerized, rapidly deployable tent cities that can each accommodate up to 550 soldiers. Each module costs about \$6.3 million and is classified as a nonexpendable class VII item, which requires formal accountability throughout the life of the item. The contractor's records included these Force Provider modules:

- Camp at Arifjan, six modules worth about \$37.8 million.
- Camp at airport of debarkation, two modules worth about \$12.6 million.
- Camp at seaport of debarkation, two modules worth about \$12.6 million.
- Camp in Kingdom of Jordan, two modules worth about \$12.6 million.

The Army needs to regain full accountability over the 12 modules, which are valued at about \$75.6 million.

**Other Accountable Property.** The Army lost proper accountability for other items worth about \$1.3 million. Army Materiel Command Logistics Support Element personnel at the camp in Arifjan transferred accountability for about \$183,000 worth of property to the contractor by hand receipt. However, we found other property on the contractor's property list that the Army didn't account for:

- 332 gas masks worth valued at \$67,000.
- 111 body armor vests worth about \$39,000.
- 91 helmets with an estimated cost of about \$13,000.
- 55 modular tent systems worth about \$478,000.
- 405 commercial general-purpose medium tents valued at about \$684,000.

The Army lost proper accountability over these items, valued at almost \$1.3 million, because they weren't properly transferred. The Army needs to regain full accountability over this and other government-furnished property in the contractor's possession. If the original accountable records aren't corrected, the Army could account for the property twice if it processes documentation at the end of the contingency to post the property to the accounting records as "found on installation."

### **Joint Inventories**

The Army didn't perform joint inventories with the contractor. Statements of work for task orders we reviewed required that the contractor and the accountable officer conduct joint inventories. Here are two examples.

- Task order 27 required that "The contractor shall perform a joint inventory of government furnished equipment with the Army's current property accountable officer. Damaged items and shortage items shall be documented."
- Task order 36 required that "The contractor shall perform a joint inventory of the two Force Provider Modules and equipment with the Army's current property accountable officer. Damaged items and shortage items shall be documented."

Contractor personnel told us joint inventories weren't done because an accountable officer wasn't available. Instead, contractor personnel inventoried the government property, identified missing items, entered the results of the inventory in contractor records, and noted discrepancies. Here are some examples of contractor inventory results:

- Module 14 was missing two 3,000-gallon fabric tanks, two 30-gallon-a-minute water pumps, one M-180 water heater and one modern burner unit.
- Module 12 was missing two 30-gallon-a-minute water pumps, two 3,000-gallon fabric tanks and one hydrochlorination unit.

Because the Army and the contractor didn't jointly inventory property and correctly transfer accountability, the Army couldn't determine the cause of the inventory discrepancies or when they occurred.

Actions needed to adequately identify accountability and responsibility in statements of work for government-furnished equipment issued under the LOGCAP contract are in Recommendations C-1 and C-2.

## Identification of Government Property

Army personnel didn't properly identify government-furnished property that was provided to support various task orders. We reviewed task orders 27, 36 and 38. Although some government-furnished property was identified, we found differences between the statements of work and the contractor's rough orders of magnitude. Here are some examples:

- The contractor's rough order of magnitude for task order 27 had 100 computers as government-furnished property. The statement of work used to support the contractor's rough order of magnitude didn't list any computers.
- The statement of work for task order 36 didn't identify water storage equipment as government-furnished property. The contractor did.

The statement of work for task order 27 did identify some government-furnished property, but it also stated that government-furnished property would include "All Army procured or leased equipment currently in process of being acquired in support of the operations in this SOW." The statement is not only confusing, but is also a poor substitute for a specific list of government-furnished property.

Action needed to adequately identify government-furnished property in statements of work is in Recommendation C-2.

## RECOMMENDATIONS AND COMMENTS

---

This section contains specific recommendations and a summary of command comments for each recommendation. The official Army position and verbatim command comments are in Annex A.

**C-1 Recommendation:** Establish, in coordination with the Task Force Commander, specific procedures for transferring accountability for government property and include them in statements of work for each task order. Have the property administrator confirm the joint inventory and proper transfer if joint inventories are required in future task orders.

**Command Comments:** Field Support Command agreed with the intent of the recommendation and said that policy and procedures for transferring property to contractors are in existing regulatory

guidance. To ensure the policies and procedures are followed, LOGCAP Support Unit personnel will receive training and work with customers during the requirements determination phase to make sure government-furnished property is identified in statements of work and properly transferred to the contractor. The support unit training will also include instructions emphasizing that all inventories must be jointly performed.

The procuring contracting office will work through Defense Contract Management Agency to regain accountability over the equipment discussed in the report and to verify that property transferred to the contractor is properly accounted for. Issues of noncompliance will be reported to the command group for corrective action. Target date for completing these actions is 30 November 2004.

**Agency Evaluation of Command Comments:** Command's actions satisfy the intent of the recommendation.

**C-2 Recommendation:** Include a complete list of government-furnished property in the statement of work for each task order.

**Command Comments:** Field Support Command agreed and said that LOGCAP Support Unit personnel will work with customers to ensure that complete lists of government-furnished property are included in statements of work. In addition, this subject will be reinforced in the training provided to support unit personnel. Command said actions were complete as of 15 September 2004.

**Official Army Position:** The Office of the Deputy Chief of Staff, G-4 provided the official Army position. The office agreed with the results of the audit and the comments and corrective actions from Army Materiel Command and Field Support Command. The office also said it and Field Support Command have contracted for a 1-year review of LOGCAP in its entirety, including practices and procedures from the DA level to the supported commander in the field.

## **FINDING D: VALUE ADDED TAX PAYMENTS**

**For the Commander, U.S. Army Field Support Command**

### **SUMMARY**

---

The contractor incurred about \$1.7 million in value added tax charges although the Army and its contractors were exempt from the tax levy. However, because contractor and administrative contracting personnel didn't take prudent corrective actions when they became aware of the improper charges, the taxes weren't recovered from the host country. Moreover, contractor correspondence indicated that tax costs could be higher because the contractor wasn't accurately accounting for the taxes. As a result, the Army may be improperly billed for the \$1.7 million in taxes.

Our recommendations to correct these conditions begin on page 50.

### **BACKGROUND**

---

DOD Directive 5100.64 (DOD Foreign Tax Relief Program) defines DOD's tax relief policy and delineates implementation and monitoring responsibilities for the program. DOD policy is to obtain relief from all foreign taxes unless the total economic burden of the tax is so small that the administrative burden to obtain tax relief would be out of proportion to the amount of relief obtained. Commanders of unified commands designate a single military commander as the point of contact for the investigation and resolution of specific matters that relate to the foreign tax relief program within the country of responsibility and for forwarding major problems that affect the program to the DOD General Counsel.

Federal Acquisition Regulation, Part 29 prescribes policies and procedures for foreign taxes. It states that contract tax problems are essentially legal in nature and vary widely. It also stipulates that before purchasing goods or services from foreign sources, the contracting officer should consult the agency-designated counsel for information on tax-relief programs and for help resolving tax questions. Tax responsibilities were delegated to Defense Contract Management Agency as part of contract administration.

## DISCUSSION

---

This section discusses two areas:

- Obtaining value added tax relief.
- Recovering payments.

### **Obtaining Value Added Tax Relief**

The administrative contracting office and the contractor didn't use the prudent measures needed to avoid unnecessary costs related to the value added tax. Although the host country had agreed to tax relief in 1996, the administrative contracting office and contractor personnel did little to identify the procedures they needed to follow to ensure that unnecessary taxes weren't paid. Instead, a representative from the LOGCAP Support Unit tried to correct the tax problem, but the actions were outside the scope of the support unit's authority. The administrative contracting office should have resolved the tax problem.

Correspondence prepared by the contractor in April 2002 indicated that some local vendors were including the value added tax because the exemption letter provided by the U.S. Embassy wasn't acceptable. To remedy the problem, LOGCAP Support Unit personnel tried to obtain a replacement letter. The request for another exemption letter was denied, and some vendors continued to charge the tax. Moreover, the correspondence also indicated that the amount of taxes paid could be more than \$1.7 million because some vendors didn't itemize invoices, and the contractor wasn't sure about the amount of the overall tax burden. We concluded that the contractor didn't properly account for incurred costs.

We found no indication that personnel in the administrative contracting office tried to prevent or resolve the value added tax issue in accordance with procedures in the Federal Acquisition Regulation. Further, available data offered no indication that the contractor stopped dealing with vendors who didn't honor the tax exemption letter. The administrative contracting office should have addressed the value added tax issue before local vendors were used (as described in the Federal Acquisition Regulation). In addition, the administrative contracting office was responsible for issuing tax exemption certificates—specifically stipulated in the contract administration delegation matrix—and was, therefore, also responsible for validating certificates.

Actions needed to establish procedures for obtaining tax relief are in Recommendation D-1.

## Recovering Payments

The administrative contracting office didn't try to recover value added taxes paid to the host nation and didn't notify the contractor that reimbursement for the tax wasn't an allowable cost. Although personnel were doing some research, discussions with responsible Army personnel indicated that the administrative contracting office had no plans to recover taxes paid to the host nation. We also found no indication that the office notified the contractor that the taxes weren't an allowable cost. The contract administration office needs to either recover the taxes from the host nation or issue a notice of intent to the contractor to disallow costs of about \$1.7 million.

Actions needed to recover improper payments of the value added tax are in Recommendation D-2.

## RECOMMENDATIONS AND COMMENTS

---

This section contains specific recommendations and a summary of command comments for each recommendation. The official Army position and verbatim command comments are in Annex A.

**D-1 Recommendation:** Issue guidance that emphasizes the proper procedures for foreign tax relief addressed in DOD Directive 5100.64, the Federal Acquisition Regulation and its DOD supplement. Require the procuring contracting officer to emphasize tax relief requirements and the need for compliance in delegation of authority letters issued to the Defense Contract Management Agency. Remind the contractor of its responsibilities related to tax relief.

**Command Comments:** Field Support Command agreed with the intent of the recommendation and said the procuring contracting officer's delegation letters to the administrating contracting officer will emphasize the proper handling of foreign tax relief. In addition, command said its definitization teams will ensure that no value added tax costs are included and command will disallow the taxes when possible. However, the government sometimes shares a portion of the tax burden, and the contractor may be allowed reimbursement but no added fee. In addition, this issue is regularly discussed with the contractor, including during the latest partnering session held the week of 23 August 2004. Command

said corrective actions were complete on this recommendation as of 15 September 2004.

**D-2 Recommendation:** Make sure the procuring contracting officer tells the administrative contracting office to recover the improper tax payments from the host country using DOD's prescribed procedures. If the taxes can't be recovered from the host nation, require the contracting office to issue the notice of intent to disallow costs to the contractor.

**Command Comments:** Field Support Command agreed and said responsibility for investigating the tax was delegated to Defense Contract Management Agency. Because of the emphasis the agency has placed on definitizing task orders, the target date for its review was extended to 30 November 2004. Until the issue is settled, the contractor and contracting officer agreed to set aside all value-added tax costs out of the award fee pool.

Command tentatively agreed with the \$1.7 million in potential monetary benefits pending the results of the review.

**Official Army Position:** The Office of the Deputy Chief of Staff, G-4 provided the official Army position. The office agreed with the results of the audit and the comments and corrective actions from Army Materiel Command and Field Support Command. The office also said it and Field Support Command have contracted for a 1-year review of LOGCAP in its entirety, including practices and procedures from the DA level to the supported commander in the field.

## **ANNEXES**

# OFFICIAL ARMY POSITION/VERBATIM COMMAND COMMENTS



DEPARTMENT OF THE ARMY  
OFFICE OF THE DEPUTY CHIEF OF STAFF, G-4  
500 ARMY PENTAGON  
WASHINGTON, DC 20310-0500



DALO-PLS

*22 NOV 2004*  
*100 21 NOV 04*

MEMORANDUM THRU DEPUTY CHIEF OF STAFF, G-4

FOR U.S. ARMY AUDIT AGENCY, OFFICE OF THE DEPUTY AUDITOR GENERAL,  
ACQUISITION AND MATERIEL MANAGEMENT, 3101 PARK CENTER DRIVE  
ALEXANDRIA, VA 22302

SUBJECT: USAAA Draft Report, Audit of the Logistics Civil Augmentation Program in  
Kuwait, U.S. Army Field Support Command (Project Code A-2003-IMU-0536.000)

1. We concur with the results of the subject audit of the Logistics Civil Augmentation Program (LOGCAP) presented in the draft report. Further, we have reviewed the U.S. Army Field Support Command (AFSC) and the U.S. Army Materiel Command comments to the draft and support the described corrective actions. These include the establishment of a Task Order Definitization Schedule, the recently completed LOGCAP Awards Fee Board held in Kuwait, and Army and AFSC training initiatives for the LOGCAP Support Unit.
2. Also, the Deputy Chief of Staff, G-4 and AFSC, together, have contracted for a one year review of the entire Logistics Civil Augmentation Program. The review will include a microscopic examination of LOGCAP practices and procedures from Department of Army level all the way through the supported commander and his or her staff.
3. Point of contact for this action is [REDACTED]



DEPARTMENT OF THE ARMY  
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND  
9301 CHAPEK ROAD  
FORT BELVOIR, VA 22060-6527

AMCIR (36-2)

24 September 2004

MEMORANDUM FOR [REDACTED]

SUBJECT: USAAA Draft Report, Audit of the Logistics Civil Augmentation Program in Kuwait, U.S. Army Field Support Command (Project Code A-2003-IMU-0536.000) (AMC No. A0358-A)

1. We have reviewed the subject draft report and the U.S. Army Field Support Command (AFSC) comments to the draft. We endorse the AFSC's comments. Our endorsement includes additional comments for your consideration.
2. The point of contact for this action is [REDACTED]

FOR THE COMMANDER:



*On 10 November 2004 Field Support Command revised its target dates for implementing Recommendations C-1 and D-2 to 30 November 2004 (reference e-mail, HQ, AFSC/JMC, [REDACTED], 10 Nov 04, subject: RE: Update to Implementation Dates in LOGCAP Kuwait Report).*

HQ, AFSC  
USAAA Draft Report  
Audit of Logistics Civil Augmentation Program  
Kuwait

Finding A - Management of LOGCAP

The USAAA found that:

Contract management for the Logistics Civil Augmentation Program needed improvement. Specifically:

- Performance based contract procedures weren't followed.
- Recurring reports and support plans from the contractor were of little value because they sometimes weren't prepared, accurate or meaningful.
- Contract administrative authority wasn't promptly delegated to the Defense Contract Management Agency.
- Standing operating procedures for contingency event contracting weren't developed.

As a result, there was no assurance contractor performance was meeting expectations.

**Recommendations for HQ, AFSC:**

A-1 **Recommendation:** Have the procuring contracting officer issue performance-based contracting instructions, through the program management office, to the Logistics support Unit in Southwest Asia. Make sure the instructions include specific guidance on preparing performance requirement summaries and performance assessment plans. Also, determine how Defense Contract Management Agency is developing its performance assessment plans to make sure customer requirements are satisfied.

**Command Comments:** Concur with recommendation. Performance based contracting is included in the LSU training. The LSU updates the training guidelines with each unit that deploys. The most current update was for the Y-8 for the units deploying in June 04. The PM LOGCAP updated the LOGCAP Operators Guide and the LOGCAP Guide for supported Units in Aug 03. There are also now Monthly operational Reviews with all involved parties (AFSC,

KBR, DA, AMC, DCAA, DCMA) to track the status of on-going actions, set priorities, and focus on problem solving. Corrective actions are complete on this recommendation

**A-2 Recommendation:** Direct the procuring contracting officer to reinforce the reporting requirements on each subsequent statement of work and to review and use the reports as intended.

**Command Comments:** Concur with recommendation. The PCO took actions to enforce the reporting requirements. They're now receiving lessons learned reports from the contractor. Corrective actions on this recommendation are complete.

**A-3 Recommendation:** Delegate administrative contract authority to the Defense Contract Management Agency with the contractor's notice to proceed.

**Command Comments:** Concur with recommendation. Since April 03, the cognizant PCO began delegating administrative contract authority when needed, depending on the requirements of the contract, to a COR or a DCMA ACO at the time the notice to proceed is issued or the task order was awarded. Actions are complete.

**A-4 Recommendation:** Develop goals and objectives as well as standing operating procedures that identify roles and responsibilities and provide meaningful instructions for contingency operations.

**Command Comments:** Concur with recommendation. SOPS and procedures are available for the functions and responsibilities of assigned personnel. As noted above, the PM'S updated the LOGCAP Operator Guide and the LOGCAP Guide for supported Units. The LSU is continually updating LSU training to include instructions for contingency operations. This recommendation's complete.

#### Finding B - Procedures to Control Contract Costs

Controls over the program's contract costs during the task order planning stages needed improvement. Cost estimates for the task order statements of work we reviewed were overstated by at least \$40 million because program personnel didn't:

- Review customer requirements more closely.

- Prepare accurate government cost estimates.
- Review contractor cost proposals more thoroughly.
- Definitize task orders promptly.

Program personnel assigned to the Logistics Support Unit didn't have written procedures describing the planning process and their roles in the program during a contingency. Contractor cost proposals in rough orders of magnitude and projected contract costs, which became spending targets because task orders weren't definitized promptly, were too high.

**Recommendations for HQ, AFSC:**

**B-1 Recommendation:** Establish written local guidance for developing, reviewing and approving statements of work. Make sure the guidance includes the use of newly developed templates, checklists and routing slips and the requirement to document the review and approval process. Also, establish a requirement to retain supporting documentation as part of the contract files. Incorporate the written guidance with the local standing operating procedures discussed in Recommendation A-4 of this report.

**Command Comments:** Concur with recommendation. Program guidance for capabilities, multiple responsibilities were in place with LOGCAP Battle Book and pamphlets. LSU updates training for these issues continually. The PM updated local guidance for developing, reviewing and approving statement of work in Aug 03. As noted in the report, LSU personnel began developing and implementing procedures to organize, standardize, and file documentation necessary for approval of statements of work. Actions are complete on this recommendation.

**B-2 Recommendation:** Continue instructing support unit personnel in helping customers prepare effective independent government cost estimates. Require the program management and procuring contracting offices to properly review all cost estimates and provide feedback. Make sure the instructions and feedback address:

- Completing estimates to evaluate all customer changes and contractor estimates.
- Preparing detailed estimates of costs, in accordance

with the work breakdown structure of the contract, with costs for the kinds and amounts of labor hours, materials, equipment and other direct costs.

- Documenting the basis for assumptions and sources of cost data.

**Command Comments:** Concur with comments. Since the date of audit fieldwork we've improved the training program for the LSU's. For units deploying, their training includes instruction on assisting the customer prepare IGCE's. Actions are complete on this recommendation. As noted above, the LSU will continue to update and improve training for deployed personnel.

**B-3 Recommendation:** Implement detailed processes and procedures for reviewing Rough Orders of Magnitude and make sure the processes and procedures are followed. The processes should include documenting comments and approvals, including review of each contractor revision. Require support unit personnel to coordinate reviews of new and revised Rough Orders of Magnitude with each customer affected.

**Command comments:** Concur with recommendation. As noted above, we've improved our training program for the LSU'S. This training includes instruction on reviewing contractor cost estimates. Actions are complete on this recommendation.

**B-4 Recommendation:** Review Rough Orders of Magnitude for task orders 27, 36, 38 and 44 and reduce contract estimates and related obligations by \$40.4 million for the elements identified in this report and for any other excessive costs identified during review. Review all existing Rough Orders of Magnitude for undefinitized task orders to identify and reduce other potential excessive costs.

**Command Comments:** Concur with recommendation. The PM has procedures in place to review all ROMs to identify excessive costs. As discussed in previous comments, improved training for the LSUs has also clarified review procedures for ROMs.

Qualifying proposals for these task orders (TO) are currently under review for price reasonableness (definitization) by the Defense Contract Audit Agency (DCAA), the Defense Contract Management Agency (DCMA), and HQ, AFSC Price/Cost Analysts. The target date for the contract mod definitization for each task order: TO 27 - 2 Aug 04, TO 36 - 26 July 04, TO 38 - 31 August 04, TO 44 - 20 July 04.

As more requirements were added, these task orders experienced multiple changes. For example, TO 27 has had 18 changes, TO 36 has had 21 changes. Consequently, the ROMs reviewed in July 03 for this audit have changed.

The ROM amounts are estimates prepared under sometimes extreme conditions, consequently these estimates tend to be prepared in a conservative manner. Of 40 task orders currently awaiting definitization, 80% have cost proposals less than the ROM. In the aggregate summary of these orders, the cost proposals are \$410 mil less than the corresponding ROMs.

The government negotiation position for definitization will incorporate auditor, technical evaluator, and analyst findings for cost reasonableness. Actions are complete.

**B-5 Recommendation:** Enforce contract provisions for reporting and make sure the contractor provides meaningful information about cost expenditures in biweekly cost reports.

**Command Comments:** Concur with recommendation. The PCO's taken actions to enforce the reporting requirements.

**B-6 Recommendation:** Make sure the contracting officer directs the contractor to meet the target dates for definitization proposals.

**Command Comments:** We've taken several alternative corrective actions to improve the definitization process.

We've established a Definitization Schedule, if the contractor doesn't meet required milestones, command will unilaterally definitize task orders.

We've incorporated a cost pricing definitization team to coordinate the submission of all qualified cost proposals in coordination with DCMA/DCAA/KBR to improve the process.

There are also now Monthly Operational Reviews with all involved parties (AFSC, KBR, DCAA, DCMA) to track the status of actions and set priorities. This includes a specific Tiger Team to look at definitization issues.

We've also considered enforcing FAR 52.216-26, Payments of Allowable Costs Before Definitization. The enforcement of this contract clause would require a 15% withhold on invoices

submitted by KBR until the contract action is definitized. The application and execution of this clause is under review.

Corrective actions specific to this recommendation are complete. However, we'll continue our efforts to improve the Definitization process.

**Finding C - Management of Government-Furnished Property**

The Army didn't adequately account for government-furnished property the contractor used to support contract task orders for the Logistics Civil Augmentation Program in southwest Asia. Specifically:

- Contract clauses and the statement of work in the basic contract didn't adequately define whether the Army or the contractor would maintain accountability over government-furnished property during contract execution.
- procedures in statements of work for contract task orders didn't establish formal transfer of accountability for government-furnished property, but did require joint inventories-although the inventories weren't performed.
- Statements of work didn't adequately identify government-furnished property provided to the contractor for contract execution.

**Recommendations for HQ, AFSC:**

**C-1 Recommendation:** Establish, in conjunction with the task Force Commander, the correct specific procedures for transferring accountability for government property and include them in the statements of work for each task order. Have the property administrator confirm the joint inventory and proper transfer if joint inventories are required in future task orders.

**Command Comments** : Concur with the intent of the recommendation. Policy and procedures for transferring property to contractors are currently set forth in existing regulatory guidance. To ensure these policies and procedures are followed, LSU personnel will receive training and work with customers during the requirements determination phase to ensure government furnished property is identified in statements of work and properly transferred to the contractor. The LSU training also

includes instructions emphasizing that all inventories must be jointly performed. The PCO will work through the DCMA to regain accountability of the equipment discussed in the report and verify that property transferred to the contractor is properly accounted for. Issues of non-compliance will be reported to the command group for corrective action. Target date for completion is 30 October 2004.

**C-2 Recommendation:** Include a complete list of government furnished property in the statement of work for each task order.

**Command Comments:** Concur with recommendation. LSU personnel work with customers to ensure a complete list of GFP's included in the statement of work. This is also reinforced in the LSU's training. Actions are complete.

**Finding D - Value Added Tax Payments**

The contractor incurred about \$1.7 million in value added tax charges although the Army and its contractors were exempt from the tax levy. However, because contractor and administrative contracting personnel didn't take prudent corrective actions when they became aware of the improper charges, the taxes weren't recovered from the host country. Moreover, contractor correspondence indicated that tax costs could be higher because the contractor wasn't accurately accounting for the taxes. As a result, the Army may be improperly billed for the \$1.7 million in taxes.

**Recommendations for HQ, AFSC:**

**D-1 Recommendation:** Issue guidance that emphasizes the proper procedures for foreign tax relief addressed in DOD Directive 5100.64, the Federal Acquisition Regulation and its DOD supplement. Require the procuring contracting officer to emphasize tax relief requirements and the need for compliance in delegation of authority letters issued to the Defense Contract Management Agency. Remind the contractor of its responsibilities related to tax relief.

**Command Comments** Concur with intent of recommendation. The LOGCAP procuring contracting officers ACO Delegation Letter will include additional language to emphasize the proper handling of foreign tax relief in accordance with DOD Directive 5100.64 and Federal Acquisition Regulations. In addition, the

AFSC Definitization Team scrubs all contractor documents to ensure no VAT related costs are included. We'll disallow VAT costs during definitization to the extent possible. In some cases where a review of the facts show that the Government shares some of the burden then VAT may be allowed for some cost reimbursement but will not receive any fee on it. This issue's discussed with the contract on a regular basis including during the latest partnering session held the week of 23 Aug 04. Corrective actions are complete.

D-2 Recommendation: Make sure the procuring contracting officer tells the administrative contracting office to recover the improper tax payments from the host country using DOD's prescribed procedures. If the taxes can't be recovered from the host nation, require the contracting office to issue the notice of intent to disallow costs to the contractor.

Command Comments: Concur with comments. Responsibility for investigating the Value Added Tax discussed in the audit was delegated to the DCMA. Because of the emphasis DCMA's placed on definitizing task orders, the revised target date is 30 Oct 04. Until the issue's settled, the contractor and the PCO agreed to set-aside all VAT TAX cost out of the award fee pool.

Monetary Benefits: We concur with the estimated monetary benefits pending results of the DCMA review.



REPLY TO  
ATTENTION OF:

DEPARTMENT OF THE ARMY  
HEADQUARTERS, U.S. ARMY FIELD SUPPORT COMMAND  
1 ROCK ISLAND ARSENAL  
ROCK ISLAND, IL 61299-6500

JAN 24 2004

AMSFS-CS

MEMORANDUM FOR U.S. Army Audit Agency, Europe Field Office, Unit  
29623, APO AE 09096

SUBJECT: Audit of the LOGCAP Program in Kuwait (Project Code A-  
2003-564.000)

1. The US Army Field Support Command has reviewed subject  
report. Our comments are enclosed.

2. The POC is [REDACTED]

Encl [REDACTED]

Printed On  Recycled Paper

HQ, AFSC  
USAAA Draft Report  
Audit of Logistics Civil Augmentation Program  
Kuwait

**Finding A - Management of LOGCAP**

The USAAA found that:

Contract management for the Logistics Civil Augmentation Program needed improvement. Specifically:

- Performance-based contract procedures weren't followed.
- Recurring reports and support plans from the contractor were of little value because they sometimes weren't prepared, accurate or meaningful.
- Contract administrative authority wasn't promptly delegated to the Defense Contract Management Agency.
- Standing operating procedures for contingency event contracting weren't developed.

As a result, there was no assurance contractor performance was meeting expectations.

**Recommendations for HQ, AFSC:**

**A-1 Recommendation:** Have the procuring contracting officer issue performance-based contracting instructions, through the program management office, to the Logistics Support Unit in Southwest Asia. Make sure the instructions include specific guidance on preparing performance requirement summaries and performance assessment plans. Also, determine how Defense Contract Management Agency is developing its performance assessment plans to make sure customer requirements are satisfied.

**Command Comments:** Concur with recommendation. Performance based contracting is included in the LSU training. The LSU updates the training guidelines with each unit that deploys. The most current update was for the Y-8 for the units deploying in June 04. The PM LOGCAP updated the LOGCAP Operators Guide and the LOGCAP Guide for Supported Units in Aug 03. There are also now Monthly Operational Reviews with all involved parties (AFSC, KBR, DA, AMC, DCAA, DCMA) to track the status of on-going

actions, set priorities, and focus on problem solving. Corrective actions are complete on this recommendation.

**A-2 Recommendation:** Direct the procuring contracting officer to reinforce the reporting requirements on each subsequent statement of work and to review and use the reports as intended.

**Command Comments:** Concur with recommendation. The PCO took actions to enforce the reporting requirements. They're now receiving lessons learned reports from the contractor. Corrective actions on this recommendation are complete.

**A-3 Recommendation:** Delegate administrative contract authority to the Defense Contract Management Agency with the contractor's notice to proceed.

**Command Comments:** Concur with recommendation. Since the date of audit fieldwork, the cognizant PCO delegates administrative contract authority when needed to a COR or a DCMA ACO depending on the requirements of the contract. Actions are complete.

**A-4 Recommendation:** Develop goals and objectives as well as standing operating procedures that identify roles and responsibilities and provide meaningful instructions for contingency operations.

**Command Comments:** Concur with recommendation. SOPS and procedures are available for the functions and responsibilities of assigned personnel. As noted above, the PM's updated the LOGCAP Operator Guide and the LOGCAP Guide for Supported Units. The LSU is continually updating LSU training to include instructions for contingency operations. This recommendation's complete.

**Finding B - Procedures to Control Contract Costs**

Controls over the program's contract costs during the task order planning stages needed improvement. Cost estimates for the task order statements of work we reviewed were overstated by at least \$40 million because program personnel didn't:

- Review customer requirements more closely.
- Prepare accurate government cost estimates.
- Review contractor cost proposals more thoroughly.
- Definitize task orders promptly.

Program personnel assigned to the Logistics Support Unit didn't have written procedures describing the planning process and their roles in the program during a contingency. Contractor cost proposals in rough orders of magnitude and projected contract costs, which became spending targets because task orders weren't definitized promptly, were too high.

**Recommendations for HQ, AFSC:**

**B-1 Recommendation:** Establish written local guidance for developing, reviewing and approving statements of work. Make sure the guidance includes the use of newly developed templates, checklists and routing slips and the requirement to document the review and approval process. Also, establish a requirement to retain supporting documentation as part of the contract files. Incorporate the written guidance with the local standing operating procedures discussed in Recommendation A-4 of this report.

**Command Comments:** Concur with recommendation. Program guidance for capabilities, multiple responsibilities were in place with LOGCAP Battle Book and pamphlets. LSU updates training for these issues continually. The PM updated local guidance for developing, reviewing and approving statement of work in Aug 03. As noted in the report, LSU personnel began developing and implementing procedures to organize, standardized, and file documentation necessary for approval of statements of work. Actions are complete on this recommendation.

**B-2 Recommendation:** Continue instructing support unit personnel in helping customers prepare effective independent government cost estimates. Require the program management and procuring contracting offices to properly

review all cost estimates and provide feedback. Make sure the instructions and feedback address:

- Completing estimates to evaluate all customer changes and contractor estimates.
- Preparing detailed estimates of costs, in accordance with the work breakdown structure of the contract, with costs for the kinds and amounts of labor hours, materials, equipment and other direct costs.
- Documenting the basis for assumptions and sources of cost data.

**Command Comments:** Concur with comments. Since the date of audit fieldwork we've improved the training program for the LSU's. For units deploying, their training includes instruction on assisting the customer prepare IGCE's. Actions are complete on this recommendation. As noted above, the LSU will continue to update and improve training for deployed personnel.

**B-3 Recommendation:** Implement detailed processes and procedures for reviewing Rough Orders of Magnitude and make sure the processes and procedures are followed. The processes should include documenting comments and approvals, including review of each contractor revision. Require support unit personnel to coordinate reviews of new and revised Rough Orders of Magnitude with each customer affected.

**Command Comments:** Concur with recommendation. As noted above, we've improved our training program for the LSU's. This training includes instruction on reviewing contractor cost estimates. Actions are complete on this recommendation.

**B-4 Recommendation:** Review Rough Orders of Magnitude for task orders 27, 36, 38 and 44 and reduce contract estimates and related obligations by \$40.4 million for the elements identified in this report and for any other excessive costs identified during review. Review all existing Rough Orders of Magnitude for undefinitized task orders to identify and reduce other potential excessive costs.

**Command Comments:** Concur with recommendation. The PM has procedures in place to review all ROMs to identify excessive costs. As discussed in previous comments, improved training for the LSUs has also clarified review procedures for ROMs.

Qualifying proposals for these task orders (TO) are currently under review for price reasonableness (definitization) by the Defense Contract Audit Agency (DCAA), the Defense Contract Management Agency (DCMA), and HQ, AFSC Price/Cost Analysts. The target date for the contract mod definitization for each task order: TO 27 - 2 Aug 04, TO 36 - 26 July 04, TO 38 - 31 August 04, TO 44 - 20 July 04.

The government negotiation position for definitization will incorporate auditor, technical evaluator, and analyst findings for cost reasonableness.

**Monetary Benefits:** The monetary benefits noted on the report have been overcome by events. As more requirements were added, these task orders experienced multiple changes. For example, TO 27 has had 18 changes, TO 36 has had 21 changes. Consequently, the ROMs reviewed in July 03 for this audit have changed.

The ROM amounts are estimates prepared under sometimes extreme conditions, consequently these estimates tend to be prepared in a conservative manner. Of 40 task orders currently awaiting definitization, 80% have cost proposals less than the ROM. In the aggregate summary of these orders, the cost proposals are \$410m less than the corresponding ROMs.

**B-5 Recommendation:** Enforce contract provisions for reporting and make sure the contractor provides meaningful information about cost expenditures in biweekly cost reports.

**Command Comments:** Concur with recommendation. The PCO's taken actions to enforce the reporting requirements.

**B-6 Recommendation:** Make sure the contracting officer directs the contractor to meet the target dates for definitization proposals.

**Command Comments:** We've taken several alternative corrective actions to improve the definitization process.

We've established a Definitization Schedule, if the contractor doesn't meet required milestones, command will unilaterally definitize task orders.

We've incorporated a cost pricing definitization team to coordinate the submission of all qualified cost proposals in coordination with DCMA/DCAA/KBR to improve the process.

There are also now Monthly Operational Reviews with all involved parties (AFSC, KBR, DCAA, DCMA) to track the status of actions and set priorities. This includes a specific Tiger Team to look at definitization issues.

We've also considered enforcing FAR 52.216-26, Payments of Allowable Costs Before Definitization. The enforcement of this contract clause would require a 15% withhold on invoices submitted by KBR until the contract action is definitized. The application and execution of this clause is under review.

Corrective actions specific to this recommendation are complete. However, we'll continue our efforts to improve the Definitization process.

**Finding C - Management of Government-Furnished Property**

The Army didn't adequately account for government-furnished property the contractor used to support contract task orders for the Logistics Civil Augmentation Program in Southwest Asia. Specifically:

- Contract clauses and the statement of work in the basic contract didn't adequately define whether the Army or the contractor would maintain accountability over government-furnished property during contract execution.
- Procedures in statements of work for contract task orders didn't establish formal transfer of accountability for government-furnished property, but did require joint inventories—although the inventories weren't performed.
- Statements of work didn't adequately identify government-furnished property provided to the contractor for contract execution.

**Recommendations for HQ, AFSC:**

**C-1 Recommendation:** Establish, in conjunction with the Task Force Commander, the correct specific procedures for transferring accountability for government property and include them in statements of work for each task order. Have the property administrator confirm the joint inventory and proper transfer if joint inventories are required in future task orders.

**Command Comments:** Non-Concur with recommendation. As an alternative, we will take actions to ensure that the installation property book officer is notifying the Defense Contract Management Agency of all government-furnished assets transferred to the LOGCAP Program Contractor. We will also work through the DCMA to attempt to regain accountability of the equipment noted in the report.

During the initial stages of Operation Enduring Freedom, the Force Provider Modules noted in the report were opened and used by the Army units as they marched through Afghanistan. They opened the modules, used what equipment they needed, and moved on to other sites with the equipment. This was all prior to the LOGCAP contractor even having boots on the ground. As units transferred out, the entering units refused to inventory property. The Joint Task Force Commander must be directed to account for all property assigned.

**C-2 Recommendation:** Include a complete list of government-furnished property in the statement of work for each task order.

**Command Comments:** Concur with comments. It is incumbent on the Task Force Commander to ensure government furnished property is identified and provided to the contractor. The Joint Task Force Commander must be directed to provide a list of government furnished equipment to the LOGCAP planners for inclusion in the statements of work.

**Finding D - Value Added Tax Payments**

The contractor incurred about \$1.7 million in value added tax charges although the Army and its contractors were exempt from the tax levy. However, because contractor and administrative

contracting personnel didn't take prudent corrective actions when they became aware of the improper charges, the taxes weren't recovered from the host country. Moreover, contractor correspondence indicated that tax costs could be higher because the contractor wasn't accurately accounting for the taxes. As a result, the Army may be improperly billed for the \$1.7 million in taxes.

**Recommendations for HQ, AFSC:**

**D-1 Recommendation:** Issue guidance that emphasizes the proper procedures for foreign tax relief addressed in DOD Directive 5100.64, the Federal Acquisition Regulation and its DOD supplement. Require the procuring contracting officer to emphasize tax relief requirements and the need for compliance in delegation of authority letters issued to the Defense Contract Management Agency. Remind the contractor of its responsibilities related to tax relief.

**Command Comments:** Concur with intent of recommendation. The LOGCAP procuring contracting officers ACO Delegation Letter will include additional language to emphasize the proper handling of foreign tax relief in accordance with DOD Directive 5100.64 and Federal Acquisition Regulations. In addition, the AFSC Definitization Team scrubs all contractor documents to ensure no VAT related costs are included. We'll disallow VAT costs during definitization to the extent possible. In some cases where a review of the facts show that the Government shares some of the burden then VAT may be allowed for some cost reimbursement but will not receive any fee on it. Corrective actions are complete.

**D-2 Recommendation:** Make sure the procuring contracting officer tells the administrative contracting office to recover the improper tax payments from the host country using DOD's prescribed procedures. If the taxes can't be recovered from the host nation, require the contracting office to issue the notice of intent to disallow costs to the contractor.

**Command Comments:** Concur with comments. Responsibility for investigating the Value Added Tax discussed in the audit was delegated to the DCMA. DCMA representatives anticipate completion of their review by 31 July 04.

Monetary Benefits: We concur with the estimated monetary benefits pending results of the DCMA review.

**OTHERS RECEIVING COPIES OF THIS REPORT**

Assistant Secretary of the Army (Financial Management and  
Comptroller)  
Deputy Chief of Staff, G-1  
Deputy Chief of Staff, G-4  
Assistant Chief of Staff for Installation Management  
Deputy Assistant Secretary of the Army for Budget  
Director, Program Analysis and Evaluation