

LOGISTICS CIVIL AUGMENTATION
PROGRAM TASK ORDER 130:
REQUIREMENTS VALIDATION,
GOVERNMENT OVERSIGHT, AND
CONTRACTOR PERFORMANCE

SIGIR-07-001
JUNE 22, 2007

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SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

June 22, 2007

MEMORANDUM FOR MANAGEMENT COUNSELOR, U.S. EMBASSY-IRAQ
COMMANDING GENERAL, U.S. ARMY SUSTAINMENT
COMMAND
COMMANDER, DEFENSE CONTRACT MANAGEMENT
AGENCY
COMMANDER, JOINT AREA SUPPORT GROUP-CENTRAL

SUBJECT: Logistics Civil Augmentation Program Task Order 130: Requirements
Validation, Government Oversight, and Contractor Performance
(SIGIR-07-001)

We are providing this audit report for your information and use. We performed the review at the request of the Management Counselor, U.S. Embassy-Iraq to determine whether the U.S. government is receiving the services paid for under the U.S. Department of the Army's Logistics Civil Augmentation Program (LOGCAP) Task Order 130 and whether the support provided is reasonable, efficient, and cost effective.

We considered written and verbal comments from the U.S. Embassy-Iraq, the Joint Area Support Group-Central, the Army Sustainment Command, and the Defense Contract Management Agency on the draft of this report when preparing the final report. Written responses received are included in the Management Comments section of this report.

This report is embargoed until 12:01 a.m., Eastern Daylight Time, Monday, June 25, 2007. We request that the recipients not publicly release, in any medium, information contained in this report until the embargo expires.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Clifton E. Spruill (clifton.spruill@iraq.centcom.mil / 703-343-9275) or Mr. Frank Slayton (frank.slayton@iraq.centcom.mil / 914-360-9371). For the report distribution, see Appendix G.

A handwritten signature in black ink that reads "Stuart W. Bowen, Jr." followed by a period.

Stuart W. Bowen, Jr.
Special Inspector General for Iraq Reconstruction

cc: See Distribution

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Logistics Civil Augmentation Program Task Order 130: Requirements Validation, Government Oversight, and Contractor Performance

SIGIR-07-001

June 22, 2007

Executive Summary

Introduction

Established in 1985, the Logistics Civil Augmentation Program (LOGCAP) is a U.S. Department of the Army (Army) program that preplans for the use of global corporate resources in support of worldwide contingency operations. In the event that U.S. forces deploy, contractor support is then available to a commander as an option. The LOGCAP objectives are twofold:

- Provide combat support and combat service support augmentation to both combatant and component commanders, primarily during contingency and other operations (including reconstitution and replenishment within reasonable cost).
- Facilitate the management and physical responsibility to support deployment, site preparation, set preparation, modules operations and maintenance, redeployment, and transportation requirements for the force provider.

Examples of the type of support available include supply operations, laundry and bath, food service, sanitation, billeting, maintenance, fuel services, transportation, and power generation and distribution. LOGCAP has been used to support U.S. forces in operations in Somalia, Haiti, and Bosnia, and is currently being used to support operations in Afghanistan, Kuwait, and Iraq. The use of LOGCAP to support U.S. troops in Iraq is the largest effort in the history of LOGCAP.

Additionally, LOGCAP support is authorized for other U.S. military services, coalition forces, other government agencies, and nongovernmental organizations. The basic contract requires the contractor, unless indicated otherwise, to adhere to functional Army regulations and to gather operational performance data required by regulations or the contract's required list of deliverables.

Awarded on December 14, 2001, the LOGCAP contract (DAAA09-02-D-0007) comprises a series of task orders that commit both the contractor to provide support services and the government to pay for those services. Task orders under this contract can be either fixed price or cost-reimbursable. In Iraq, the total cost of all 149 task orders issued under the LOGCAP contract as of March 4, 2007, is approximately \$22.5 billion.

The focus of this review is LOGCAP Task Order 130 that was awarded on April 27, 2006, to Kellogg, Brown and Root Services Inc. (KBR) to provide services necessary to support, operate, and maintain the Chief of Mission and Multi-National Force-Iraq staffs located at the U.S. Embassy-Iraq, and at other Chief of Mission sites within Iraq located in Baghdad, Basra, Al Hillah and Kirkuk. The task order has an estimated value of about \$243 million, and was scheduled to expire on April 7, 2007. On April 7, 2007, the task order was extended for up to 90 days. This task order is a continuation of services previously awarded under Task Orders 100 and 44 which were awarded on November 5, 2004, and March 6, 2003, respectively. Because these task orders provided support to both the Department of Defense (DoD) and Department of State (DoS) missions in Iraq, an agreement was reached between DoD and DoS that the reimbursement of costs associated with the three task orders would be shared 60% by DoS and 40% by DoD. The total cost associated with these three task orders is approximately \$1.3 billion dollars.

The primary government offices involved with the operation of Task Order 130 in Iraq are:

- The DoS Embassy Management Office headed by the Counselor for Management Affairs, U.S. Embassy-Iraq, is responsible for the day-to-day support of Chief of Mission (COM) operations in Iraq.
- The DoD Joint Area Support Group–Central (JASG-C), located in the International Zone, is the military component of the Multi-National Force–Iraq that provides administrative and logistical services and coordinates military support to the U.S. Mission–Iraq.
- The Baghdad, Iraq, office of the Defense Contract Management Agency (DCMA) provides on-site monitoring of the contractor. For additional details on DCMA’s responsibilities, see Appendix D.
- The U.S. Army Sustainment Command is responsible for administration of the LOGCAP program. The Procuring Contracting Officer, the LOGCAP Program Manager, and the Logistical Support Element Office—established in Iraq to help customers with LOGCAP requirements—are assigned to this command.
- The Defense Contract Audit Agency provides its expertise in reviewing the contractor’s financial management system and ensuring that costs claimed by the contractor are reasonable, allowable, and allocable.

Objectives

We performed this review at the request of the Management Counselor, U.S. Embassy-Iraq. The broad objectives of this review were to determine whether the U.S. government is receiving the services paid for under LOGCAP Task Order 130 and whether the

support provided is reasonable, efficient, and cost effective. This report specifically addresses three issues:

- Does the government have a process in place that ensures requirements are properly validated?
- Did KBR's performance meet contractual requirements in an effective and efficient manner?
- Is the government performing adequate oversight of KBR's performance?

This is a partial review of Task Order 130 and specifically examined elements of contractor operations conducted within the International Zone of Baghdad, Iraq, for services in four areas: fuel operations, food service, billeting, and morale/welfare/recreation services.

On October 26, 2006, we issued an interim report, *Inappropriate Use of Proprietary Data Markings by the Logistics Augmentation Program (LOGCAP) Contractor*, (SIGIR-06-035), which discussed KBR's practice of routinely marking information provided to the government as "KBR Proprietary Data" and KBR's initial refusal to provide data we requested in its native electronic format.

We plan to issue additional reports as we continue our review of other elements of LOGCAP Task Order 130.

Results

DoS and JASG-C have a process in place to ensure that all new requirements, including those initiated by the contractor, are properly validated. However, the standard operating procedure guide that describes the process is not current. At the time of this report, a DoS/JASG-C working group was in the process of revising this guide to reflect the current procedures for new requirements validation. As of May 31, 2007, a revised guide had not been issued.

Although KBR, according to its customer survey results, satisfactorily supplied the required services, we identified several areas where we believe contractor services and government oversight could be improved. Specifically, improvement can be made to the U.S. government oversight of KBR's performance and in the management and use of government resources. Independent quality assurance reviews were not conducted on KBR's internal controls, nor were reviews for its compliance to applicable government policies and Army regulations. However, several actions were initiated by U.S. government activities during the course of our review to improve the monitoring and delivery of KBR's services, such as the appointment of Contracting Officer's Technical Representatives (COTRs), and improving the oversight of the billeting tracking system.

Fuel Service. We found weaknesses in KBR's fuel receiving, distributing, and accountability processes of such magnitude that we were unable to determine an accurate measurement of the fuel services provided. These weaknesses were material and

identified a high risk of a potential improper use of fuel. We also determined that government monitoring was not particularly strong during this period due to the lack of qualified staff to perform oversight for this technical area. However, during our on-going discussions with KBR management, corrective action was implemented to improve controls and reduce the high risk of unauthorized use or improperly recorded issuances of fuel supplies. The government has also appointed a COTR as a government monitor with the necessary technical skills to improve the government's oversight.

Food Service. We found that during fiscal year 2006, the food service subsistence account was overspent by \$4.5 million when compared to the Department of the Army's Basic Daily Food Allowance (BDFA) and the recorded level of service provided, and that responsibilities for oversight of the account had not been clearly understood or established by the government oversight participants. According to officials from the Management Counselor's Office, they were not aware of the applicable food service guidance provided in Army Regulation 30-22 relating specifically to the operations of LOGCAP dining facilities.¹ Consequently, these requirements associated with government management and oversight were not being followed in accordance with the contract terms and Task Order 130. DCMA told us that there were two reasons for the overspent status of the subsistence account: (1) that the menu used to support the COM dining facilities may have provided a significant number of higher cost food items from the standard Army dining facility menu published by the Army's Center of Excellence, Subsistence; and (2) that the government did not have the requisite number of qualified personnel to properly oversee the headcount in accordance with applicable guidance. KBR also cited similar reasons for the overspent status.

However, for the first reason, we could not determine who gave this order to use more of the higher cost food items. We could not find any documentation authorizing KBR to exceed the normal BDFA meal allowance costs; and nothing in the current LOGCAP contract or statement of work (SOW) for Task Order 130 authorizes the contractor to procure subsistence for meals for the dining facilities supporting the COM in excess of the established Army standard BDFA rate for Iraq. We were told by the DoS staff that they did not believe the Army's guidance applied to them.

We also determined that, because Management Counselor officials told us they were unaware of the requirement, they did not appoint a disinterested inventory officer to oversee the semiannual subsistence (food) inventory which is conducted in March and September. As a result, prior to SIGIR pointing out the requirement for an independent inventory, the contractor was performing self-oversight of the acquisition and use of food. In September 2006, the government did conduct a proper fiscal year 2006 inventory with the appropriately appointed government staff.

Billeting. We found numerous errors in KBR's automated billeting tracking tool, which were caused primarily by poor in- and out-processing procedures for housing allocations that resulted in less than optimal use of available trailers. Trailers are to be assigned as single or shared occupancy according to rank, grade, or status, and properly relinquished

¹ U.S. Army Regulation (AR 30-22), The Army Food Program, May 10, 2005.

upon out-processing for subsequent allocation. Furthermore, while both DoS and JASG-C billeting guidance require trailers for COM and MNF-I contractors to have shared occupancy, we found housing disparities because the government allowed KBR to manage its own separate billeting area (Camp Hope), and that in most cases, KBR employees (749 of 835, or 90%) are housed as single occupants in trailers—a higher standard than for those they support.

DoS officials told us they were generally unaware of their ability to control KBR's billeting practices. Our review of the contract and task order showed that the contractual language in this area is vague and we found no fault with KBR's actions. However, we could not identify a specific reference in the contract or task order that relieved the government of its oversight function in regards to KBR billeting or allowed KBR to establish its own standard. As a matter of economy and an effective use of limited housing, we question the difference in standards given that the government pays all costs associated with KBR's billeting. Adherence to the current COM and JASG-C billeting policy could have the potential of a 45 % reduction in housing requirements of the LOGCAP contractor for Task Order 130. Further, there may also be opportunities for the COM and JASG-C to utilize any excess billeting space now in full control of the contractor.

Moral, Welfare, and Recreation Services. We found no significant problems with KBR's performance or government oversight in this area. A COTR has been appointed.

Government Oversight. The examples cited support what we consider to be two key weaknesses in the government's oversight of the LOGCAP contract. The first weakness identified was an oversight process that did not carefully examine the contractor's internal controls over the services being provided. The second weakness was the limited oversight to ensure economy and efficiency in the use of the LOGCAP contract. Our review identified that DCMA's oversight processes tended to focus too heavily on the delivery of service under the contract without focusing sufficiently on whether adequate controls were in place to protect the access to and use of government resources. For example, we found numerous problems with the contractor's fuel receiving and disbursing processes that were not identified by DCMA's fuel services quality assurance reviews. Instead, DCMA staff conducted their quality assurance reviews in conjunction with the contractor's quality assurance auditors using a quality assurance checklist based on KBR's internal procedures. As a result, DCMA's quality assurance reviews focused on KBR's operational processes rather than its internal controls. We believe this flawed quality assurance review methodology led to material weaknesses that were not identified by the government. The reviews were also documented on the contractor's forms marked as proprietary, limiting their use to the government, and questioning the independence of the government's participation in these reviews.

We determined that part of the DCMA's shortfalls in performing adequate oversight can be attributed to problems its staff has described to us in identifying and appointing qualified COTR's—normally subject matter experts provided by the customer to assist DCMA in its administrative contracting officer duties and an important element in effective oversight. However, we found that no COTRs were appointed until September

2006, when we were conducting our review. In fact, from September 2006 to December 2006, DCMA has identified and appointed a total of 18 COTRs to this task order from JASG-C and DoS. We believe that had these appointments been made earlier, many of the control shortfalls we identified in the fuel and food service area may have been detected earlier.

We also determined that there was no formal government-led process that actively pursued economy and efficiency in the use of contractor-provided services except in the new requirements validation and approval process. We determined that although the primary customers—DoS and JASG-C—had a process for approving requirements and ensuring that adequate funds were available, they did not always determine for each category of services provided: (1) the appropriateness of the day-to-day services, (2) the level of services being provided, and (3) the economy and efficiency with which the services are being provided. Customer-based reviews that focus on these attributes have not been conducted by the government, but would have increased the likelihood of identifying issues we found such as the difference in the application of billeting standards between KBR employees and COM- and DoD-affiliated contractors. We believe first line responsibility for defining the level of support in any contract belongs to the customer who should periodically evaluate each category of contracted service for potential savings and improved service delivery.

Further, we also noted that in its letter dated April 6, 2006, the Headquarters, U.S. Army Field Support Command delegated the Administrative Contracting Officer (ACO) functions to DCMA. In this letter, the administrative support functions were defined and included such functions as ensuring the contractor performs in accordance with the statement of work and the basic terms and conditions of the contract. It also stated that DCMA was to ensure the efficient use of contractor personnel, but it did not specifically direct DCMA to ensure that the contract was performed in a cost efficient and effective manner. We believe that had the delegation letter been more specific, DCMA may have performed its oversight beyond compliance to delivery of services. We will report on the overall program management aspects of the full task order in a future review.

Government and Contractor Management Actions

During the review, COM, JASG-C, DCMA, and the contractor all took actions to address several of the U.S. government management control weaknesses discussed in this report.

The DoS Management Office and the JASG-C established a working group in September 2006 to revise the standard operating procedure guide to reflect current procedures for validating new requirements. However, as of May 31, 2007, a revised guide had not been issued.

For the ongoing services being performed, DCMA identified and appointed staff from both the COM and JASG-C as COTRs to monitor all services required under this task order.

For the fuel area, KBR had taken positive actions to address weaknesses in the control over the receipt, issuance, and accountability of fuel that we noted during the review. KBR also modified the fuel database to add data integrity controls and exception reports to ensure data is entered accurately and to identify attempts to enter data that is outside of acceptable parameters.

For the food services area, during our review, DCMA appointed, as required, a disinterested, independent government representative to oversee the September 2006 fiscal year-end subsistence (food) accountability inventory.

For the billeting services, DoS Management Office, U.S. Embassy-Iraq, and the JASG-C both took action during the course of this review to verify the billeting assignments under the COM/JASG-C control and, in coordination with KBR, took action to update and correct the information in the automated billeting tracking tool. This verification did not include the separate KBR-controlled housing. However, at our recommendation, the Procuring Contracting Officer under the U.S. Army Sustainment Command told us that he drafted proposed contract modification language that states KBR's billeting is subject to government billeting oversight. He said he was going to consider this new language in future LOGCAP task orders.

Further, the U.S. Army Sustainment Command, in response to our interim report regarding KBR's propriety data markings on documents, took immediate action by adding modification P00018, dated October 30, 2006, to the basic LOGCAP contract, which among other things added specific language to the contract that we had recommended concerning government proprietary information and electronic submission directions. In response to discussions regarding a draft of this report, the U.S. Army Sustainment Command made several contract management changes to the Statement of Work for the successor to Task Order 130 (Task Order 151) to improve oversight in the areas of food service, fuel operations and billeting operations.

Recommendations

We recommend that the Counselor for Management Affairs, U.S. Embassy-Iraq:

1. Continue working with JASG-C to revise the standard operating procedures to include requirements for validating new work under Task Order 130 and successor task orders.
2. Continue working with JASG-C to verify billeting assignments and ensure proper assignment of billets based on published criteria.
3. Develop and issue, in coordination with the JASG-C, a process and procedure for central in-out processing. This process should be added to a standard process for personnel arriving into and departing from Task Order 130 supported billets in Iraq. All personnel (military, federal civilian employees, contractors, etc.) should

be required, as part of the departure process, to present a sign-off from billeting that they have cleared billeting before permanently departing from Iraq and that they no longer have a recurring need for bed space under Task Order 130 and successor task orders.

4. Continue working with JASG-C to improve management controls over food services, including developing proper controls to ensure that there is an accountability process for tracking the personnel utilizing the dining facilities and that those personnel are properly authorized to receive food services subsistence.
5. Work with Army and DoS representatives to clearly define each government entity's responsibilities in overseeing Task Order 130 and successor task order activities. If the determination is made that additional assistance is needed from either organization to oversee key activities then the Management Counselor should formally request specific assistance.

We recommend that the LOGCAP Procuring Contracting Officer take the following actions:

6. Amend the delegation letter for the Administrative Contracting Officer duties to include:
 - a. Examining the contractor's internal control practices including contractor reporting data integrity to ensure that basic and proper internal controls are established and adhered to and that the services are performed in an efficient and cost effective manner.
 - b. Developing DCMA-specific quality assurance criteria, procedures, and reports to conduct an independent government review.
7. Reinforce its delegation for DCMA to ensure that qualified contracting officer's technical representatives are formally identified, appointed and assigned, as necessary, to assist DCMA-Baghdad in reviewing technical aspects of the contractor's functions.
8. In accordance with Army Regulation 30-22 dated May 10, 2005, render a procuring contracting officer's determination as to the reasons why the overspent status occurred and take appropriate action in accordance with the LOGCAP contract terms.

Because of the potential for improving the utilization of housing resources and reducing costs of the LOGCAP contractor life support services, we recommend that the LOGCAP Procuring Contracting Officer, in coordination with the overall LOGCAP Program Management Office, take the following actions:

9. Address the appropriateness of any LOGCAP contractor controlling its own billeting assignments/standards during negotiations for any future task orders that may be issued under the current LOGCAP contract as well as during negotiations for the follow-on LOGCAP contracts. As a matter of public policy, two issues that should be addressed in this regard are:
 - a. Should a LOGCAP contractor be permitted to define its own billeting standards for its own employees that are above the established standards for other contractors and/or federal military and civilian personnel for whom the contractor supports, and be reimbursed for the full cost?
 - b. Should a LOGCAP contractor be permitted to have exclusive control of billeting assignments for its own employees? If so, what are the proper controls needed to ensure LOGCAP billeting is operating in an economical and efficient matter as determined by the appropriate government oversight entity?

Management Comments and Audit Response

We received written management comments on a draft of this report from the DoS Management Counselor's Office and technical comments from DCMA, which are included in the Management Comments section of this report. Actions have been taken to meet the intent of our recommendations. While both organizations stated that they believed there had always been adequate oversight on Task Order 130, each organization (1) acknowledged the need for changes in their contract management processes, and (2) listed specific actions taken in response to each of the issues we brought to their attention during the course of our review. We extended the comment period to accommodate the time required by DCMA to respond to the draft report to be able to include copies of these responses as part of the final report.

We received oral comments from representatives of the U.S. Army Sustainment Command in which those officials generally concurred with our findings and recommendation. Further, U.S. Army Sustainment Command used several of our verbal recommendations made during the audit to revise the Statement of Work for the successor to Task Order 130 (Task Order 151) to improve oversight in the areas of food service, fuel operations and billeting operations. We did not receive written comments from the U.S. Army Sustainment Command.

Introduction

Background

The Logistics Civil Augmentation Program (LOGCAP) is a U.S. Department of the Army (Army) program that preplans for the use of global corporate resources in support of worldwide contingency operations. In the event that U.S. forces deploy, contractor support is then available to a commander as an option. The LOGCAP objectives are twofold:

- Provide combat support and combat service support augmentation to both combatant and component commanders, primarily during contingency and other operations (including reconstitution and replenishment within reasonable cost).
- Facilitate the management and physical responsibility to support deployment, site preparation, set preparation, modules operations and maintenance, redeployment, and transportation requirements for the force provider.

Examples of the type of support available include supply operations, laundry and bath, food service, sanitation, billeting, maintenance, fuel services, transportation, and power generation and distribution. LOGCAP has been used to support U.S. forces in operations in Somalia, Haiti, and Bosnia, and is currently being used to support operations in Afghanistan, Kuwait, and Iraq. The use of LOGCAP to support U.S. troops in Iraq is the largest effort in the history of LOGCAP.

Additionally, LOGCAP support is authorized for other U.S. military services, coalition forces, other government agencies, and nongovernmental organizations. The basic contract requires the contractor, unless indicated otherwise, to adhere to functional Army regulations and to gather operational performance data required by regulations or the contract's required list of deliverables.

On December 14, 2001, the Army awarded LOGCAP contract DAAA09-02-D-0007 to Brown & Root Services, a division of Kellogg Brown & Root Inc. The contract was issued for a base year (December 14, 2001 to December 13, 2002) with nine option years. On December 14, 2005, by modification P00014, the Army exercised option year 4 of the contract for the period December 14, 2005 to December 13, 2006. The official name of the contractor was changed on December 14, 2003, by modification P00007, to Kellogg Brown & Root Services Inc. (KBR). The overall contract was awarded as a cost plus award fee contract in which KBR earns a 1% base fee and up to a 2% award fee. Specific services under the LOGCAP contract are awarded through the issuance of task orders. Task orders under this contract can be either fixed price or cost-reimbursable. As of March 4, 2007, 149 individual task orders were issued for Iraq under this contract for a total cost of approximately \$22.5 billion.

Task Order 130—the focus of this review—was awarded April 27, 2006, to provide services necessary to support, operate, and maintain the Chief of Mission (COM) and

Multi-National Force-Iraq staffs at the U.S. Embassy-Iraq, and at other Regional Embassy sites within Iraq located in Basra, Al Hillah, and Kirkuk. This task order was scheduled to expire on April 7, 2007. However, it was extended for up to 90 days.

The specific category of services provided under Task Order 130, as identified in the statement of work are:

- Facilities Management/Base Camp Operations
- Billeting/Office Space
- Laundry Service
- Food Service
- Office Automation/Supplies & Operational Requirements
- Communications
- Force Protection/Security
- Transportation Motor Pool
- Retail Fuel Support
- Equipment Maintenance
- Transportation
- Power Generation
- Property Accountability and Supply
- Vector Control
- Waste Management
- Morale, Welfare, and Recreation (MWR) Support
- Interpreter/Translator Support
- Graphic Design
- Fire Protection
- Postal Services
- Heliport Maintenance Support
- Medical Support Services

Task Order 130 is a continuation of services previously obtained under Task Order 100, which was awarded on November 5, 2004. Task Order 100, in turn, was a continuation of services provided under Task Order 44, which was awarded on March 6, 2003, to support the then Coalition Provisional Authority mission in support of Operation IRAQI FREEDOM. Because Task Orders 44, 100, and 130 provided support to both Department of Defense (DoD) and Department of State (DoS) missions in Iraq, an agreement was reached between DoD and DoS that the costs associated with these three task orders would normally be shared 60% by DoS and 40% by DoD. As of March 4, 2007, the total cost associated with these three task orders is approximately \$1.26 billion dollars, as shown in Table 1.

Table 1—LOGCAP Estimated Task Order Support Costs as of March 4, 2007

Task Order	Performance Dates	Total (millions)*
44	03/06/2003-10/07/2004	\$ 579.0
100	10/08/2004-04/07/2006	\$ 440.2
130	04/08/2006-04/07/2007	\$ 242.6
TOTAL		\$1, 261.8

* Source: Costs identified are estimated costs identified within the contract task orders and associated modifications and do not necessarily reflect actual costs incurred or paid.

The U.S. government organizations involved with the operation of Task Order 130 in Iraq are:

- The Army’s Office of the Deputy Chief of Staff, G-4 (Logistics), is both the Army and Joint Staff proponent for LOGCAP.
- Army service component commands² and other LOGCAP-supported customers and their respective commanders are responsible for determining requirements and providing detailed statements of work for services performed under LOGCAP.
- The U.S. Army Materiel Command, as the executive agent for the program, implements overall policy, guidance, and direction.
- The U.S. Army Sustainment Command at Rock Island, Illinois, a subordinate command of the U.S. Army Materiel Command, is the contracting agent for the program and awards, manages, and executes the LOGCAP contract through a duly appointed Procuring Contracting Officer. The Procuring Contracting Officer then delegated Administrative Contracting Officer (ACO) duties to the Defense Contract Management Agency (DCMA), a DoD proponent for contract administrative services. The U.S. Army Sustainment Command also established a logistics support element at each approved LOGCAP site to coordinate and monitor LOGCAP requirements during a contingency mission.
- The Baghdad, Iraq, office of the DCMA provides on-site monitoring of the contractor. DCMA, as the ACO provides technical advice and expertise, and in-theater contract administration and quality assurance. For additional detail on DCMA’s responsibilities, see Appendix D.

² There are nine Army Service Component Commands, comprised primarily of operational organizations, serving as the Army component for a combatant commander. Specifically: U.S. Army Europe, U.S. Army Central, U.S. Army North, U.S. Army South, U.S. Army Pacific, U.S. Army Special Operations Command, Military Surface Deployment and Distribution Command, U.S. Army Space and Missile Defense Command/Army Strategic Command, and Eighth U.S. Army.

- The DoS Embassy Management Office, headed by the Counselor for Management Affairs, U.S. Embassy-Iraq, is responsible for the day-to-day support of COM operations in Iraq. The DoS has assigned a contracting officer's representative (COR) to this task order.
- The DoD Joint Area Support Group–Central (JASG-C), located in the International Zone, is the military component of the Multi-National Force–Iraq that provides administrative and logistical services and coordinates military support to the U.S. Mission–Iraq.
- The Defense Contract Audit Agency provides its expertise in reviewing the contractor's financial management system and ensuring that costs claimed by the contractor are reasonable, allowable, and allocable.

Objectives

We performed this review at the request of the Management Counselor, U.S. Embassy-Iraq. The broad objectives of this review were to determine whether the U.S. government is receiving the services paid for under LOGCAP Task Order 130 and whether the support provided is reasonable, efficient, and cost effective. Specifically, our announcement of the review stated we will answer the following questions:

- Are all requirements, including those initiated by the contractor, properly validated?
- Is a proper and adequate review process in place for all work?
- Does the contractor present auditable invoices?
- Is all work properly evaluated against criteria?
- Do proper controls exist for the property associated with this task order?
- What are the lessons learned from the management and execution of the service contract process and practices related to this task order?

In addition, our review announcement stated we will assess the suitability of continuing a LOGCAP-type contract arrangement for selected services when the U.S. Embassy-Iraq moves into its new embassy compound.

This report addresses three of the review objectives identified in the announcement:

- Does the government have a process in place that ensures requirements are properly validated?
- Did KBR's performance meet contractual requirements in an effective and efficient manner?
- Is the government performing adequate oversight of KBR's performance?

This is a partial review of Task Order 130 and specifically examined elements of contractor operations conducted within the International Zone of Baghdad, Iraq, for services in four areas: fuel operations; food service; billeting; and morale, welfare, and recreation support.

We plan to issue additional reports as we continue our review of other elements of LOGCAP Task Order 130.

For a discussion of the review's scope and methodology, and summary of prior coverage, see Appendix A. For the acronyms, see Appendix B. For a description of the requirements validation process, see Appendix C. For a discussion of DCMA's responsibilities, see Appendix D. For details on the requirements of Contracting Officer's Technical Representatives, see Appendix E. For a description of the billeting criteria published by the COM and JASG-C, see Appendix F. For the report distribution, see Appendix G. For a list of the review team members, see Appendix H.

Requirements Validation

DoS and JASG-C have a process in place to ensure that all new requirements, including those initiated by the contractor, are properly validated; however this process is currently being documented. We did determine that a guide exists that describes the process that was in effect for the prior Task Order 100. However, this process was written in an undated standard operating procedure document and a decision was made by DoS and JASG-C to update the document for Task Order 130 and the follow on task orders. This new document was still in the process of being developed as of May 31, 2007.

Our review of the requirements validation process, which was orally described to us by DoS, JASG-C, and the Logistics Support Office staff, determined that the government was doing a good job of properly evaluating the validity and affordability of new work under Task Order 130. New work requests over \$50,000 were evaluated by the DoS COR and by the LOGCAP logistical support officer³ assigned to the U.S. Embassy-Iraq. Once reviewed, the new work requests were submitted first to a working group of the Requirements Advisory Panel for evaluation of the justification and affordability of the requested work, and then finally to the formal Panel for approval. For a detailed description of the requirements validation process, see Appendix C.

While the process being used for managing requirements was adequate, the written guidance or standard operating procedures describing the requirements validation process specific to Task Order 130 was not up to date. Current documentation of the practices and process is particularly important for successful operations in Iraq, where personnel from several government entities have to work together and where high turnover of key personnel is the norm.

A formal working group composed of DoS Embassy and JASG-C personnel was established in September 2006 to develop the requirements validation process as a Standard Operating Procedure that will be specific to Task Order 130. As of May 31, 2007, however, the new procedures had not been approved or issued.

³ The LOGCAP Logistical Support Officer is part of the LOGCAP Program Management Team assigned to Iraq by the U.S. Army Sustainment Command.

Contractor Performance

Based on the results of KBR's customer surveys, KBR supplied the end product or service to the customers' satisfaction in each of the four areas we examined. However, KBR did not always implement basic internal controls over its operations in the areas of fuel, food service, and billeting, to ensure that performance was accomplished economically and efficiently and that those resources were properly safeguarded. As a consequence, KBR's operations may have resulted in excessive government costs and high risk that government resources could have been used improperly. On the positive side, as we identified control weakness during the review, the contractor took immediate corrective action to improve or start a series of events to improve the controls.

Fuel Service

We found weaknesses in KBR's fuel receiving, distributing, and accountability processes. These weaknesses were material and identified a high risk of a potential improper use of fuel. We also determined that the government monitoring was not particularly strong during this period due to the lack of qualified staff to perform oversight for this technical area. However, during our on-going discussions with KBR management, corrective action was implemented to improve controls and reduce the high risk. During our review, DCMA also appointed a contracting officer's technical representative for fuel service, with the necessary technical skills, to improve its oversight. The overall appointment of contracting officer's technical representatives (COTRs) for contractor services is discussed in the government oversight section of this report.

Contract Requirements

The fuel operations Statement of Work (SOW) requires that KBR provide bulk and retail fuel support and storage and distribution by tank truck, tank trailer, or other means for all assigned equipment and vehicles. It also requires that KBR maintain a system that allows only authorized users of fuel provided under COM authority to draw fuel from the support system and that fuel dispensed be (1) recorded as to type and quantity disbursed; (2) identified by Vehicle Identification Number, make, model and color to whom it was disbursed; and (3) identified by which assigned agency has the responsibility for the asset that service was rendered. KBR is also required under the SOW to provide reports as directed that track and monitor dispensed fuel as well as fuel stocks on hand. The SOW for retail fuel support does not state what reports or to whom the reports are to be provided. However, we identified during our review that production of reports are directed by DCMA.

The basic LOGCAP contract and the SOW also require that, except as otherwise set forth in the contract or SOW, the contractor shall, at a minimum, meet the Army standards set forth in Army regulations for the type of work performed. The basic Army Regulation

(AR) applicable to fuel operations is AR 710-2⁴, which in turn cites specific fuel procedures and controls that must be followed as stated in Department of the Army (DA) Pamphlet 710-2-1.⁵

Customer and Government Views of KBR's Performance

According to KBR customer surveys, KBR appears to have satisfactorily performed the mission of providing bulk and retail fuel support as required. In addition, DCMA Quality Assurance reviews of fuel operations conducted during the period August 2005 to June 2006 also reported that KBR fuel operations were in general conformance with KBR's standard operating procedures.

Internal Controls

While KBR performed the mission of providing bulk and retail fuel as required, the internal operations within KBR lacked some basic internal controls routine to the operation of retail fuel operations, such as the effective use of totalizers, calibrated meters, strapping charts and gauge sticks, and receipt documents.

Totalizers. One of these controls is the utilization of totalizers that exist on fuel pumps. The totalizer is a meter designed to continuously record all issues of fuel from the pump. Figure 1 shows a retail fuel pump used by KBR and the locations of the totalizer meter and the normal dispensing meter. The totalizer meter normally cannot be reset without physically opening up the fuel pump cabinet and removing a seal or using a reset key or electronic pin code. The normal dispensing meter is usually reset at the end of each vehicle fill-up by the fuel pump operator or customer and is used to identify the amount of fuel disbursed to each customer.

Under most retail fuel operations, a manager or other trusted employee would record the totalizer meter amount on a routine basis, such as at the beginning and end of a work shift. This amount would then be compared to the paperwork showing fuel issues made by the pump during the same timeframe as a control to ensure that no unrecorded fuel issues were made. KBR fuel managers, however, told us that they never recorded the totalizer meter amounts. Thus, a basic built-in control that could have been used to detect potential unauthorized and unrecorded issuances of fuel was rendered useless. The bulk storage tanks also had meters attached to them that included totalizers. As with the retail meters, the fuel managers told us that they never recorded the totalizer amounts, similarly rendering the bulk meter totalizers useless as a control tool.

⁴ AR 710-2, Supply Policy Below the National Level, July 8, 2005.

⁵ DA Pamphlet 710-2-1, Using Unit Supply System Manual Procedures, December 31, 1997.

Figure 1—Retail Fuel Pump at the Fuel Site in the International Zone

Retail Fuel Pump



Location of Totalizer Meter



Normal Dispensing Meter

Source: Picture taken by SIGIR review team at Task Order 130 Retail Fuel Site on September 5, 2006.

Calibrated Meters. Another control is proper calibration of fuel meters to ensure accurate measurements. However, neither the retail nor bulk fuel meters had been calibrated since being installed. As a result, the meters may not accurately reflect the amount of fuel received or issued. KBR fuel management personnel advised us that the meters were not calibrated because KBR did not have the capacity to perform calibration within the International Zone. As a result, KBR told us that they relied upon bulk fuel inventory measurements, rather than upon fuel meter readings, to determine the amount of bulk fuel received and issued.

Homemade Gauge Sticks and Strapping Charts Used for Inventory Measurements.

In conducting inventory on the bulk fuel storage tanks, KBR used their own internally developed gauge sticks⁶ and strapping charts⁷ to determine the fuel quantity in the storage tanks, many of which were legacy tanks obtained as needed to accomplish the mission. However, fuel accuracy is not usually something that can be determined by the use of homemade gauge sticks and strapping charts. Gauge stick inventory measurement is normally used with a strapping chart based on manufacturing specifications or exact scientific measurements for the fuel tank being measured. Fuel tanks, even though they may look the same size and be designed to hold the same amount of fuel may vary as to the specific internal dimensions of the tanks (due to wall thicknesses and other variables). As such, a strapping chart for a tank is designed to convert measurements to gallons or liters based on exact manufacturing specifications of the storage tank and cannot normally be used interchangeably with other tanks produced by other manufactures.

Volumetric Conversions. KBR did not conduct volumetric temperature conversions to determine the quantity of the fuel it received or inventoried that equaled or exceeded 3,500 gallons.⁸ Fuel volume is extremely sensitive to changes in the temperature, so accurate measurement of fuel, especially when fuel may be subject to extremes of temperatures (such as may occur in the Iraqi desert during day and night), is not possible unless the fuel received is converted to a standard volumetric temperature (either 60 degrees Fahrenheit or 15 degrees Celsius) to permit determination of net quantity of fuel received.

Controls Over Fuel Received From the Military. Due to security issues, KBR had difficulty in obtaining a reliable commercial supply of fuel for the International Zone from vendors. As such, KBR obtained approximately 95% of its fuel used for Task Order 130 in the International Zone directly from the U.S. military fuel depot at Camp Victory. However, according to KBR officials, when their fuel transport trucks picked up fuel from the military depot, neither the transport drivers nor the KBR management at the International Zone fuel point⁹ received any paperwork or other documentation indicating how much fuel was actually received. KBR stated that they determined the amount of fuel received from the military by using a gauge stick measurement of the fuel tanker trucks upon receipt of the fuel at Camp Victory and again when the tanker trucks unloaded the fuel at the International Zone fuel point. This process put KBR in the position of self-reporting.

⁶ A gauge stick, made of wood or other non-sparking material, is used to measure the depth of liquid in a storage tank. Typically, such sticks are marked or notched in 1/8 inch (or in a metric measure) increments starting with the bottom of the stick.

⁷ A strapping chart (sometimes referred to as a tank chart) is a table (usually provided by a tank manufacture) used to convert measurement readings taken from a gauge stick into gallons or liters. For conversion accuracy, the strapping chart must exactly match the tank being measured.

⁸ In accordance with AR 710-2, paragraph 2-37, volumetric conversions will be conducted when measuring volumes equal to or exceed 3,500 gallons.

⁹ The fuel point is the name of the central location used by the contractor to receive, store, and disburse fuel.

The lack of paperwork showing how much fuel was issued by the military to KBR represents a significant material control weakness, particularly when combined with another common control not used by KBR—pre-numbered seals to secure fuel tankers during transport. The use of seals is a common industry control that requires the tanker's fuel outlet nozzles to be sealed with a pre-numbered seal when a truck receives a load of fuel. Upon reaching the delivery point, the seals should be checked to determine that they were not broken and that the seal serial number matches with the paperwork provided the delivery driver. This control, along with the verification of fuel received from delivery sheets, is designed to provide reasonable assurance that fuel was not pilfered or tampered with at anytime between pick up and delivery. However, neither the controls for paperwork nor seals was in place or used during KBR's pickup of fuel from the military depot at Camp Victory for delivery to KBR's International Zone fuel point.

KBR Management Actions. On April 11, 2007, DCMA told us that KBR has taken or are in the process of taking actions to address the internal control problems we identified. These actions include:

- New fuel truck meters are installed and operational meters for fixed dispensers are on order and expected to arrive mid-May 2007.
- KBR is currently dispensing from fuel trucks in US gallons using the meter totalizers.
- In coordination with DCMA, a 100% technical review of all fuel storage tanks was completed. Fuel tanks capacities have been reconciled and added to the database as a control check to fuel delivered. Verification is in progress to ensure that volumetric measurements are performed.
- KBR is currently developing accurate strapping charts which should be available for use by April 2007.
- Fuel receipts (signed DA 2765-1) are being obtained when bulk fuel is received from the military.
- Anti-pilferage seals are installed on all tanker trucks when fuel is transported.

KBR Fuel Management Database Data Integrity

We also found numerous errors in KBR's fuel management database. KBR maintains a comprehensive fuel management database, recording all fuel issuances and information related to the fuel issuances (vehicle or generator receiving the fuel, number of fuel liters issued, type of fuel issued, date of fuel issue, etc.). This database, developed by KBR under Task Order 130 (and as such paid for by the government under cost-reimbursable terms of the contract), contained detailed information on individual vehicle and generator fuel issuances. The database also contained information on vehicles authorized to draw fuel from the International Zone fuel point and served as the mechanism under which vehicle fuel issuance cards¹⁰ were produced and printed. KBR initially refused to provide

¹⁰ Vehicle fuel cards are issued to authorized users for identification.

us with a copy of this database¹¹. However, KBR did provide us with a copy of this database after being directed to do so by the government Procuring Contracting Officer.

We received the database in September 2006 for information as of September 22, 2006, and our analysis identified numerous obvious errors in the database leading us to conclude that the database lacked basic data integrity controls. For example, KBR's database contained 194 separate fuel issues, totaling 12,622 liters of fuel, recorded as actual fuel issued for the month of December 2006; a future date and an obvious impossibility. The same database contained over 1,000 individual fuel issuance entries with inconsistent spellings for generator fuel locations and generator control reference numbers that did not agree with the location name.

Furthermore, we could not always tell if problems with fuel data inaccuracies noted in the database were the result of errors made in recording the data or were symptoms of other problems, such as no controls to ensure data reconciliation or to detect possible improper use of fuel resources. For example, we identified 372 individual instances of fuel recorded as issued to generators (based on the recorded generator reference control number) in which the amount of fuel issued to the generator exceeded the capacity (as provided to us by KBR) of the generator fuel tank. According to our analysis of information in the contractor's database, we determined that in total for the period June 2004 – September 2006, the contractor had issued over 1 million liters of fuel that was beyond the capacity of the generator fuel tanks if filled when empty. However, we believe that although KBR populated this database daily from the original records, it contained so many errors that it can not be relied upon as an official record.

DCMA officials told us that formal accountability for fuels is tracked through the use of manual Army forms and that a conclusion that the contractor cannot account for fuel issues should not be based on a review of its database, but rather the actual fuel issue documents. However, during a meeting with contractor officials on March 9, 2007, KBR's fuel management personnel advised us that the issue information contained on the manual Army forms was entered into the database and that the information in the database was used to produce ad hoc fuel-related reports when requested by the government. Thus, while the database may not have been explicitly contractually required, the contractor, at government expense:

- developed the database
- recorded over 200,000 instances of individual fuel issues taken from the manual Army forms into this database
- used the database to produce ad hoc fuel reports as requested by government officials

¹¹ On October 26, 2006, SIGIR issued, *Inappropriate Use of Proprietary Data Markings by the Logistics Augmentation Program (LOGCAP) Contractor* (SIGIR-06-035), which discussed KBR's practice of routinely marking information provided to the government as "KBR Proprietary Data" and initial refusal to provide data we requested in its native electronic format.

As such, we believe that the contractor had an obligation to ensure that the fuel database entries were accurate and that the fuel database is a de facto accountable record under the contract.

To assess the accuracy of the database and the contractor records, we compared the automated data to the KBR-generated original source documents used by the contractor and DCMA as the official record to document fuel issued to generators. We also compared these records against the capacity of each generator that was receiving the fuel¹². We selected 23 entries from the database that represented fuel issued to generators that the record showed exceeded capacity by 1,000 liters or more. The period of time the records were generated under Task Order 130 was April 8, 2006 to September 22, 2006.¹³ The comparison was performed with representatives from both the contractor and DCMA present. Our comparison of the 23 entries in the database to the supporting paperwork shows that 16 entries matched the paperwork and 7 entries did not match and could be a result of data entry errors. For the 16 entries in the database that matched the supporting paper documentation, the fuel delivered was above the capacity of the generator fuel tanks. Table 2 shows the computed number of liters over capacity for each of these fuel delivery entries.

In summary, our concern is that there was no control to ensure reconciliation of the actual amount of fuel dispensed by the contractor's drivers to the recorded capacity of the generator fuel tanks. A second concern is that if data entry errors were made in the automated system, there were no controls in place to reconcile the manual totals for the day to the automated totals for the same day.

¹² The capacity of the generator fuel tanks receiving fuel was based on the official capacities verified by the contractor and DCMA and provided to SIGIR on December 11, 2006.

¹³ This is the starting period of Task Order 130 and the period at which the contractor database ended for our selection.

Table 2—Amount of Individual Fuel Deliveries That Were Over Capacity of Generator Fuel Tanks Receiving the Fuel

Fuel Issue Based on Paper Document				Information provided by KBR	SIGIR Computed Amount
Document Reference Number ¹⁴	Generator Location	Fuel Issue Date	Liters Issued	Maximum Tank Capacity	Liters Over Capacity
142	Fire Station	4/27/2006	9,300	2,000	7,300
48	Conention Center Back Up	5/02/2006	5,258	4,000	1,258
113	New Gerker Camp	5/25/2006	3,290	1,130	2,160
101	British Embassy	5/28/2006	22,000	4,583	17,417
113	New Gerker Camp	6/01/2006	4,108	1,130	2,978
113	New Gerker Camp	6/06/2006	3,312	1,130	2,182
113	New Gerker Camp	6/08/2006	5,442	1,130	4,312
113	New Gerker Camp	6/09/2006	6,266	1,130	5,136
65	RTI	6/12/2006	8,000	5,647	2,353
147	State Department	7/19/2006	4,130	2,550	1,580
113	New Gerker Camp	7/19/2006	3,762	1,130	2,632
40	Greker Camp	7/23/2006	21,585	8,860	12,725
55	Freedom Rest	7/26/2006	10,615	3,000	7,615
6	TAMIMI	7/30/2006	3,050	1,900	1,150
141	Check Point 12	8/18/2006	7,746	1,130	6,616
141	Check Point 12	8/18/2006	2,586	1,130	1,456

Source: SIGIR-produced table based on information in KBR Fuel Database reconciled to fuel issue amounts in KBR paper fuel issue receipts, KBR Generator Capacity List provided to SIGIR on December 11, 2006, and SIGIR computations.

Note: The spellings of the generator location names, although inconsistent, are as provided to SIGIR.

We also identified 289 separate vehicles in the database in which the fuel issued to the vehicle was different than the fuel that the database recorded as normally issued to the vehicle (e.g., a vehicle normally issued unleaded fuel was shown as being issued Diesel

¹⁴ The document reference number is the primary control that links the specific generator to a specific location.

fuel and vice versa). We find it extremely unlikely that a vehicle that normally requires unleaded fuel would operate on Diesel fuel, thus leaving one of three options:

- vehicle identification was entered incorrectly in the database
- fuel type was recorded incorrectly in the database when the vehicle was filled
- improper fuel entries were made in the database

KBR Management Actions. On February 21, 2007, contractor officials advised us that they had made significant control improvements to the fuel database. KBR stated that they added both data integrity controls to ensure data is entered accurately, and exception reports to flag attempts to enter data outside acceptable parameters.

Risk Assessment of Use of Fuel

Based on the foregoing problems, we believe that KBR's fuel operations under Task Order 130 were at a high risk for potential improper uses of fuel resources. Thus, while KBR accomplished its mission of providing fuel as needed to the government, KBR's internal management processes did not ensure adequate controls were in place to properly control, account for, and safeguard government fuel resources. Further, because of the need for KBR to self report its fuel pickup at Camp Victory, we made a recommendation at the Iraq Inspector General Council¹⁵ in February 2007 that a separate review should be considered of the fuel operations at Camp Victory. The DoD Office of Inspector General, the Army Audit Agency, and SIGIR are in the planning phase for such a review.

Food Service Operations

Although the contractor provided quality food service at an estimated cost for fiscal year 2006 of about \$28 million, we found control weaknesses in government oversight of the food service that may have led to a \$4.5 million overspent status¹⁶ when compared to the Department of Army's Basic Daily Food Allowance (BDFA) and the recorded level of service provided for the food service subsistence account during fiscal year 2006. We also determined that Army Regulation 30-22¹⁷, which is the applicable guidance on food service in accordance with the contract terms, was not being followed because, according

¹⁵ The Iraq Inspectors General Council was formed in March 2004 to provide a forum for discussion of oversight in Iraq and to enhance collaboration and cooperation among the U.S. government Inspectors General of the agencies that oversee Iraq relief and reconstruction. Ten accountability organizations attended the most recent meeting held on February 14, 2007.

¹⁶ SIGIR took a conservative approach to identify the \$4.5 million overspent status. KBR records showed that the transportation costs included within the food costs ranged from \$5.4 million to \$7.5 million. We used the higher estimate of \$7.5 million to subtract from the overall food cost to arrive at the \$4.5 million overspent status. When the LOGCAP Procuring Contracting Officer performs its required reviewed, this overspent status could actually be higher.

¹⁷ AR 30-22, The Army Food Program, May 10, 2005.

to Management Counselor officials, they were unaware of the requirement before being informed of such during the course of this review. In the government oversight section of this report, we discuss the shortfalls in the government oversight and that responsibilities for oversight of the account had not been clearly established by the government oversight participants.

Under the food services part of the SOW under Task Order 130, KBR is required to provide three hot meals a day for personnel located at COM sites within Iraq. According to KBR customer surveys, individuals rated KBR's level of food services as high. However, while mission output services (furnishing of quality meals) were accomplished satisfactorily, the KBR food service subsistence account for the dining facilities operating in the International Zone was in an overspent status for fiscal year 2006 by more than \$4.5 million. In our discussion with various contractor staff responsible for the food service, we were told that there were two main causes of the overspending status. First, DoS management officials told them that they did not have to conform to the Army regulations; and second, that no one from the government was enforcing the proper use and documentation of the head count at meal time. Properly recording head counts is important because the subsistence account income is based on documenting the number of meals served. We discuss the government response and actions in the government oversight section.

Contract Requirements

To accomplish the food service requirement, KBR operates four dining facilities within the International Zone located in Baghdad and three dining facilities at COM sites located in Basrah, Al Hillah, and Kirkuk. These dining facilities serve meals to DoS employees as well as other authorized military, civilian, contractor, and foreign personnel who are working or residing at the COM sites within Iraq. The food service SOW requires that the contractor shall, at a minimum, meet Army regulatory standards for the type of work performed. Our review only looked at food service operations within the International Zone.

AR 30-22, *The Army Food Program*, dated May 10, 2005,¹⁸ and DA Pamphlet 30-22, *Operating Procedures for the Army Food Program*, dated August 30, 2002, lay out the basic regulatory, management, fiscal and operational principles for operations of Army dining facilities. Army dining facilities operating in accordance with AR 30-22 are required to balance the cost of subsistence (food) purchased with the monetary allowance earned through dining facility headcounts. The monetary allowance provided to dining facilities is established by the Army as a BDFEA. During fiscal year 2006, the Army's basic daily food allowance for dining facilities in Iraq was \$17.70 per authorized patron (as recorded in the dining facility headcount), with the allowance earned at the rate of 20% for the breakfast meal, 40% for the lunch meal, and 40% for the dinner meal (including any midnight meals authorized).

¹⁸ AR 30-22 was originally published on August 30, 2002, and revised on May 10, 2005.

DA Pamphlet 30-22 further specifies that because of menu selection/variety and headcount fluctuation, the dining facility is authorized to be, and may be, over- or under-spent at the end of the month, but that the primary requirement of the dining facility is to conclude the fiscal year in a zero or under-spent status. It also states that any dining facility that exceeds the established year-to-date management factor of 3% over-spent status at the end of any month will undergo an analysis and validation by a responsible food adviser to determine the reason(s) the facility exceeded the established management factors. On Task Order 130, KBR had a 19.45% over-spent rate for fiscal year 2006 based on the basic daily food allowance for reimbursement criteria established by the Army.

AR 30-22 requires that a report of survey be initiated for relief from loss whenever an installation food program financial status does not end the fiscal year at zero or an under-spent status. In the case of contractor operated dining facilities, paragraph 3-17d of AR 30-22 states that the contracting officer's letter of determination will be used in the place of the report of survey. We determined that neither the report of survey nor a letter of determination had been done.

Possible Reasons for Overspent Status

DCMA advised us that one of the reasons for the overspent status of the subsistence account was that the menu used to support the COM dining facilities may have provided a significant number of higher cost food items from the standard Army dining facility menu published by the Army's Center of Excellence, Subsistence. However, we could not determine who gave this order for a higher food standard. LOGCAP personnel also indicated that the DoS menu requirements for the COM dining facilities may have been higher than for the standard Army dining facility menu, thus accounting for increased subsistence costs. We could not find any documentation authorizing KBR to exceed the normal BDFA meal allowance costs; and nothing in the current LOGCAP contract or SOW for Task Order 130 authorizes the contractor to procure subsistence for meals for the dining facilities supporting the COM in excess of the established Army standard BDFA rate for Iraq.

Summary of Food Services Operations

Management Counselor officials told us they were unaware of the requirements of AR 30-22 before being informed by SIGIR during the course of this review. Consequently, the Food Services Operations function was being performed without effective oversight by the government to ensure that the cost of the food provided was reasonable in relationship to the number and cost of meals provided. The cost of the food itself should be compared to the appropriate allowance earned; which is based on the number of meals served (headcount) in a dining facility operation. This comparison, over a period of time, is an important management control mechanism to ensure that the cost of meals remains in line with appropriate guidelines.

Future SIGIR Work

During this review we determined that DoS has not reimbursed DoD for actual costs of the subsistence (food) used in Task Order 130 dining facilities. This issue, as well as other issues related to DoS-DoD reimbursement costs, will be addressed in a subsequent report on Task Order 130.

Billeting Operations

Although, according to customer surveys, KBR provided a good service in providing for and maintaining living accommodations, we found numerous errors in the contractor's automated billeting tracking tool caused primarily by poor in- and out-processing procedures for housing assignments that resulted in less than optimal use of available trailers.

We also determined that KBR was allowed by the government to manage its own billeting and, that in most cases, KBR employees (749 of 835, or 90% of KBR employees) are housed at a higher standard than those they support. Both the COM and JASG-C have billeting criteria¹⁹ that specifies that contractors are to be assigned to double-occupancy half-trailers (roommates - 2 persons in living area of a containerized trailer). However, although the contractual language is vague, we could not identify a specific reference in the contract or task order that would have prevented the government from conducting fully its oversight function in regards to KBR billeting or allowed KBR to establish its own standard. Management Counselor officials told us they were generally unaware of their ability to control KBR billeting or of their responsibility to oversee the cost and use of KBR billeting resources. However, as a matter of economy and effective use of limited housing, we question why the government allowed the difference in standards given the government pays all costs associated with KBR's billeting.

Adherence to the current COM and JASG-C billeting policy, rather than the housing standard utilized by KBR could have the potential of a 45% reduction in housing requirements of the LOGCAP contractor for Task Order 130. Further, there may also be opportunities for the COM and JASG-C to utilize any excess billeting space that is now in full control of the contractor.

Contract Requirements

The billeting operations SOW requires that KBR use a software system that will enable KBR not only "to allocate, issue, account for, and maintain a correct number of available billets," but also to locate individuals and provide billeting status twenty-four hours a day.

¹⁹ See Appendix F for the COM and JASG-C billeting criteria.

Billeting Information Data Integrity

The software system used by KBR (an Excel spreadsheet) did not contain accurate information as to personnel currently housed in the COM International Zone housing. Inaccurate billeting status information reflected in KBR's billeting spreadsheets occurred both as a result of the government's failure to enforce established billeting practices during in-/out-processing of personnel and errors by KBR in entering names and checkout dates in the billeting spreadsheets.

KBR provides living accommodations under Task Order 130 both within the International Zone and at three other COM sites located in Basrah, Al Hillah, and Kirkuk. This review only evaluated KBR billeting operations within the International Zone. The billeting normally provided was a containerized living unit (trailer), divided into two separate living sections with a shared bathroom between the sections. Personnel were supposed to be assigned to either a single half-trailer or a shared half-trailer (2 persons per half-trailer) based upon published billeting criteria. The DoS General Services Office (GSO) housing manager has overall authority for billeting. Actual responsibility for assignment of billets is shared between the General Services Office housing manager and the JASG-C. Both the GSO housing manager and the JASG-C had published guidance (see Appendix F) defining who was authorized what type of billeting (single or shared half-trailer room), using such criteria as the billeted person's affiliation (with COM or military), position (civilian, military, or contractor), grade or rank, and length of tour. Priority for assignment of personnel to Task Order 130 billets is for personnel (including civilians, military, and contractors) operating for or in support of COM. Other military, civilians, and contractors not directly associated with or in support of the COM were supposed to be permitted to utilize the billets on a space available basis only.

We requested and received a copy of the KBR billeting spreadsheets in September 2006. Our initial review of the billeting assignments shown on the spreadsheets identified instances of duplicate housing assignments (for same individual), names of individuals who had left Iraq but shown as still occupying billets²⁰, first and last names reversed, misspelled names, and incorrect supporting units and nationalities. In addition, we noted that the billeting spreadsheet did not contain a contract number (a requirement in the SOW) or civilian occupants' grade/rank (a requirement to verify proper billeting assignment). Both the DoS GSO housing manager and the JASG-C initiated their own review of the billeting spreadsheets and reached the same conclusion that we did—the current billeting spreadsheets were unreliable and did not contain adequate information to verify appropriate billeting assignments.

As a result, on November 1, 2006, the Management Counselor, U.S. Embassy-Iraq, issued an administrative notice requiring that a 100% inventory of trailer (billeting) keys be conducted for all billeting occupants during the period November 2, 2006 to December 2, 2006. During this period, all occupants of Task Order 130 billets in the International Zone were required to come to the KBR Billeting Office and provide proper identification, including office assigned, contract number, etc. Simultaneously with this

²⁰ We identified SIGIR staff that still had billets assigned that had departed Iraq.

action, the contractor agreed to work with the DoS GSO housing manager and JASG-C to develop a new and accurate billeting database. When we asked how many trailers were made available as a result of the 100% inventory of trailer residents, we were told by DoS officials, including the DoS COR, that they believed 20 half trailers were made available; representing 20 to 40 beds depending on how each half of a trailer would be used.

Central In-Out Processing

One of the reasons that the KBR billeting spreadsheets contained inaccurate information was that there is no central in-/out-processing procedure that verified the billeting information was cleared before personnel out-processed and left the International Zone and/or Iraq. As a result, individuals who departed Iraq sometimes left their billeting keys with their organizations, which in turn apparently turned the keys and the billeting space over to new personnel in their organization without in-processing through the KBR Billeting Office. Also, in the past some units and offices were assigned bulk billeting spaces and rotated personnel into and out of billeting trailers without notifying the KBR Billeting Office of the change of personnel. The JASG-C billeting COTR, appointed by DCMA in September 2006, took action to correct this problem by collecting unassigned keys from contractors and military units that previously received block assignments of housing. JASG-C has also advised all military units housed in Task Order 130 billets to individually request a housing assignment and to include billeting key turn-in as part of their out-processing checklist. The GSO housing manager is also taking action, concurrent with the billeting verification process, to restrict bulk assignment of billeting space and enforce the requirement that all COM related individuals out-process through the KBR Billeting Office.

Chief of Mission (COM) Concern

One of the concerns expressed to us by COM Management Counselor officials was that COM billeting space was increasingly being utilized by military personnel and contractors with no COM affiliation. As of August 30, 2006, KBR records reflected that 70% of the Task Order 130 billeting space was utilized by Multi-National Force-Iraq-related personnel and only 30% by COM personnel. Because of the unreliability of the current billeting assignment spreadsheets, we could not independently confirm these percentages, but they do provide an indication that COM management concerns may be correct.

Compliance to COM Billeting Standards

Our analysis of the KBR billeting assignment spreadsheets shows that some personnel below the rank/grade and/or tour length authorized for assignment to double half-trailers appear to be assigned to single-occupancy half-trailers, as opposed to the double-occupancy half-trailers (2 persons in each half of a containerized trailer). This issue is being examined during the current billeting assignment verification. Unless a valid exception exists, COM and JASG-C management personnel have told us that personnel will be assigned based upon published billeting criteria.

Management of the LOGCAP Contractor's Billeting

Both the GSO housing manager and the JASG-C have published guidance (*see Appendix F*) that states that all DoD- and COM-affiliated contractors are to be assigned to double-occupancy half-trailers. KBR, however, maintains a separate billeting area (Camp Hope) in the International Zone exclusively for KBR employees assigned to Task Order 130. KBR managed and assigned billet spaces at Camp Hope itself, without oversight by the government billeting officers. KBR's billeting assignment spreadsheet for Camp Hope for September 2006 showed that 749 (90%) of the 835 KBR employees were assigned to single living areas (no roommates) in this self-managed KBR billeting area. This is contrary to published guidance on billeting assignments for contractors established by the government for Task Order 130 and exceeds the JASG-C billeting standards for military officers at the rank of O-3 and below and enlisted personnel at the rank of E-7 and below, as well as civilian federal employees at the rank of GS-12 and below.

Not only does KBR have 90% of its employees assigned to single rooms, KBR also maintains executive and other trailers within the International Zone which have both single rooms and private baths in which KBR employees were billeted. This exceeds published standards (shared bath) for all federal civilian and military personnel.

According to the contract terms, the government will provide life and logistics support to the contractor in accordance with Special Contract Provisions specified in Section H of the basic contract and the following:

Basic life support includes government-controlled working and living space and accommodations, material, equipment, and services, which the government determines can be made available at, or through any site where LOGCAP support services are performed. All government property in the possession of the contractor, provided through the basic life support clause, shall be used and managed in accordance with the government property clause applicable to this task order.

Section H-25 of the basic contract, *Living Under Field Conditions* states:

The government at its discretion may provide to contractor employees deployed in the theater of operations the equivalent field living conditions, subsistence, emergency medical and dental care, sanitary facilities, mail delivery, laundry service, and other available support afforded to government employees and military personnel in the theater of operations, **unless otherwise specified in the contract.**

Section 3.2 of the statement of work addresses Living Conditions:

The standard contractor living accommodations will be a containerized living unit or hardstand structure with the following furnishings for each person if possible:

- Twin-sized bed, lockable wall locker or closet, desk, chair.

When we discussed this issue with COM Management Counselor officials, we were told that they believed that the contractor was authorized to manage its own billeting and that the Camp Hope billeting was not part of the billeting managed by the GSO housing manager. However, these officials could not provide any documentation to support this belief. As far as we can determine, the government allowed KBR to maintain exclusive control of its own employees' billeting assignments and neither the GSO housing manager nor the JASG-C has ever managed the billets at Camp Hope even though all costs associated with these billets are part of Task Order 130 costs which are paid for by the U.S. government. Further, if Camp Hope was managed under the rules applied to other U.S. government contracts, there may have been an opportunity to reduce the cost of the contractor's billeting up to 45%. Further, if the government was managing this space it may be able to take advantage of excess capacity of the contractor's billeting area. We did not review the contractor's capacity rates but we intend to follow up on this in a future Task Order 130 review.

LOGCAP-wide Issue

While we did not perform any work outside of Task Order 130 on billeting, our discussions with personnel associated with other LOGCAP task orders within Iraq suggest that the situation of KBR controlling its own billets is not unique solely to Task Order 130, but applies to LOGCAP as a whole within Iraq. The LOGCAP contract is a cost-reimbursable contact and, as such, the total costs for any billeting criteria that KBR implements within Iraq for its own employees are fully reimbursable by the government. While changing KBR's control of its own billeting standards may not be possible during the current LOGCAP task orders, we believe the U.S. Army Sustainment Command may have an opportunity to improve the cost effectiveness of housing the LOGCAP contractor in conducting negotiations for any future task orders that may be issued under the current LOGCAP contract and during negotiations for the follow-on LOGCAP contracts.

Morale, Welfare, and Recreation Support Operations

The Task Order 130 SOW requires that KBR "shall provide, operate and maintain the morale, welfare, and recreation (MWR) facilities to include a movie theater, game room, library, weight room, aerobic/cardiovascular workout facility, and Internet café." According to the KBR customer surveys, KBR did a good job of performing this mission. Our limited review of the cost of this service found that most of the current costs are for salaries, and that cost to provide the MWR service appeared reasonable.

We found no significant problems with government oversight and that a COTR has been appointed.

Government Oversight

During the course of this review we examined the government's oversight of KBR's performance for the following services: fuel, food, billeting, and morale, welfare, and recreation. Based on our review, we identified two key weaknesses in the government oversight of the LOGCAP contract. The first weakness identified was an oversight process that did not carefully examine the contractor's internal controls over the services being provided. The second weakness was the limited oversight to ensure economy and efficiency in the use of the LOGCAP contract. Our review identified that the government's oversight processes tended to focus too heavily on delivery of service under the contract without focusing sufficiently on whether adequate controls were in place to protect the government's resources. As a result we determined that government oversight was not adequate to ensure that contractor's processes used to supply the end product or services:

- were conducted in an efficient and economical manner
- conformed to regulatory requirements
- properly accounted for and safeguarded government resources

We determined that part of DCMA's shortfalls in performing adequate oversight can be attributed to problems its staff described to us as (1) a lack of qualified DCMA resources and (2) difficulty in recruiting qualified Contracting Officer's Technical Representatives (COTRs) for appointment. We also determined that there was limited government-led process that actively sought out economy and efficiency in the performance of the contract except in the validation and approval of new requirements and tracking trends of cost expenditures across the services provided. We determined that although the Management Counselor had a process for approving requirements and ensuring that adequate funds were available, it did not always determine for the day-to-day services provided: (1) the appropriateness of the day-to-day services, (2) the level of services being provided, and (3) the economy and efficiency with which the services are being provided. Overall, Management Counselor officials appeared to be generally unaware of the requirements associated with oversight of the LOGCAP contractor. We believe the responsibility for defining the level of support in any contract belongs to the customer, the Management Counselor, which should periodically evaluate each contracted service. Overall program management will be covered in a future report on Task Order 130.

Responsibility for Oversight

The LOGCAP Procuring Contracting Officer, located at the U.S. Army Sustainment Command, Rock Island, Illinois, has overall responsibility for oversight of the contract. For Task Order 130, the Procuring Contracting Officer delegated Administrative Contracting Officer functions to DCMA in a memorandum.²¹ This memorandum stated

²¹ AMSFS-CCF-L Memorandum dated April 6, 2006, Subject: Delegation of Administrative Contracting Officer (ACO) Functions for Contract DAAA09-02-D-0007, Task Order #0130, Chief of Mission, U.S. Embassy, Baghdad and Iraq.

that to “ensure contractor compliance, it is necessary to have continuous on-ground Government oversight” and that administrative support functions “should include, but not be limited to: performance IAW the terms and conditions of the basic contract and task order; performance IAW the SOW; property administration surveillance; ensuring personnel manning requirements are met; ensuring efficient use of contractor personnel; ensuring contractor is compliant with level of effort necessary; and ensuring the contractor is compliant with quality assurance requirements”.

Further, we noted that although the procuring contracting officer stated in the April 6, 2006, delegation letter that DCMA was to ensure the efficient use of contractor personnel, it did not specifically mention that DCMA should also ensure the contract was being performed in a cost efficient and effective manner. We believe that had the delegation letter been more specific, DCMA may have performed its oversight beyond compliance to delivery of services. This report only focuses on the four reviewed services and the process for approval of new services. We will report on the overall program management aspects of the full task order in a future review.

DCMA implemented a review process in Iraq (*see Appendix D*) to provide on-the-ground government oversight of the contract in accordance with the delegation memorandum. Our review determined that they generally followed this process. However, we also determined that DCMA’s process did not always provide adequate oversight of KBR’s performance. Specifically, DCMA did not exercise proper oversight because it did not:

- adequately evaluate KBR’s internal controls and management processes when conducting quality assurance reviews
- prior to the start of our review, aggressively recruit for or appoint COTRs — government representatives familiar with the technical and functional aspects of the services required—to assist in the evaluation of KBR’s operations
- prior to the start of our review, establish its own quality assurance and oversight process but relied upon KBR-produced Quality Audit/Inspection Reports, which were marked *KBR Proprietary Data*, as documentation for its own quality assurance reviews


Oversight of KBR’s Internal Controls. DCMA’s quality assurance reviews did not adequately evaluate KBR’s internal controls and management processes. Within DCMA-Baghdad, a quality assurance representative is responsible for oversight of contractor operations through scheduled quality assurance reviews. These reviews are jointly conducted by the DCMA Quality Assurance Representatives and KBR quality assurance auditors and are designed to monitor KBR’s compliance with contractor-generated procedures. In conducting these audits, the DCMA quality assurance personnel used checklists that are based on KBR’s Standard Operating Procedures and did not independently develop its own oversight program. As a result, the reviews only identified instances when KBR did not comply with its own procedural requirements. DCMA reviews did not detect—nor was an adequate review methodology developed to detect—fundamental control problems and internal recordkeeping discrepancies, such as those that we identify in the contractor performance section of this report.

Independent Government Quality Assurance Reviews. We also identified a control shortfall with the process used by DCMA-Baghdad to produce and maintain its quality assurance reports because the office did not independently record the results of its reviews. In conducting the government's quality assurance reviews, DCMA-Baghdad conducted joint reviews with KBR Quality Assurance/Quality Control auditors and recorded its results on a KBR form entitled *Quality Audit/Inspection Report*. When we requested copies of the DCMA Quality Assurance reports for reviews conducted on Task Orders 100 and 130, DCMA provided us with copies of the KBR form and stated that these were the DCMA Quality Assurance reports. An example is shown in Figure 2. This illustrated report is for a DCMA Quality Assurance review performed on August 21, 2006, of the main Palace dining facility within the International Zone. While the report does reflect that the inspection was done with the DCMA quality assurance representative, the fact that the report is produced on a KBR form, shown as being approved by an KBR employee (APPROVAL block of form), and labeled as *KBR Proprietary Data* gives the distinct impression that this report is a KBR product and not an official government quality assurance review of the contractor.

In addition, the KBR labeling of the report as *KBR Proprietary Data* may limit its use to the government. SIGIR does not agree that information within the form should be considered proprietary information. Further, such markings appear to be inconsistent with the intent to provide an independent government quality assurance review of a contractor's performance. Nevertheless, for the purpose of being able to publish the KBR form that is used as the DCMA Quality Assurance report, SIGIR has redacted specific information from the report as highlighted in Figure 2.

On April 11, 2007, in our discussion on the facts and conclusions of this report, DCMA stated that, in November 2006, they had established an independent quality assurance checklist review and reporting process. DCMA further stated that in conducting the government's quality assurance reviews, DCMA-Baghdad, quality assurance representatives (QARs) have the opportunity to perform surveillance inspections independently, or as a joint inspection with the contractor (KBR). The decision to perform independent or joint inspections can be based upon several factors to include, but are not limited to: process stability, sophistication, performance history or simply familiarization of the service provided. The results of these reviews are prepared and controlled by the DCMA Theater Lead QAR. Each document is unique for the functional service performed, and will reference those requirements as provided by the SOW and standard operating procedure (SOP). However, according to the samples DCMA provided to us, it appears that review criteria are still based on the KBR SOPs.

Figure 2—DCMA Quality Assurance Review Report

 KELLOGG BROWN & ROOT SERVICES		CONTRACT #: DAAA09-02-D-0007	
QUALITY AUDIT / INSPECTION REPORT		CMIP #: N/A	
		QAIR #: N/A	
BY: <i>KBR Name Redacted</i>	APPROVAL: <i>KBR Name Redacted</i>	DATE: 21 August 06	PAGE 1 OF 1
AREA: US MISSION IRAQ/CENTRAL		SOP # 3B	
FUNCTION: Food Service - Palace		SOP Dated: 29 June 2006	
TYPE OF INSPECTION:	Preparatory <input type="checkbox"/>	In-Process <input checked="" type="checkbox"/>	Initial <input type="checkbox"/>
	Special <input type="checkbox"/>	Remote <input type="checkbox"/>	Follow-up <input type="checkbox"/>
		Pre-Final <input type="checkbox"/>	Final <input type="checkbox"/>

Narrative Description of the Audit/Inspection Activity:

An in-process service inspection was conducted with DCMA (*DCMA Name Redacted*) on the 21st of August 2006 on SOP # 3B: Food Service- Palace. The inspection revealed the following deficiencies.

Deficiencies

• *Results Redacted*

• *Results Redacted*

• *Results Redacted*

Observations:

• *Results Redacted*

For Further Information Please Contact:
 Inspector: _____
 Desk: *Information Redacted*
 Email: _____

CORRECTIVE MEASURES REQUIRED: YES NO

FOLLOW-UP ON: **8/24/06**

CONDUCTED IN-BRIEF/OUT-BRIEF WITH:

CORRECTIVE MEASURES IMPLEMENTATION PLAN (CMIP) REQUIRED: YES NO

IF A CMIP IS REQUIRED THE FOLLOWING SHALL BE ADDRESSED:

HALLIBURTON

Kellogg Brown & Root Proprietary Data

NOTE: This document contains information which may be withheld from the public because disclosure would cause a foreseeable harm to an interest protected by one or more Exemptions of the Freedom of Information Act, 5 USC Section 552. Furthermore, it is requested that any Government entity receiving this information act in accordance with DoD 5400.7-R, and consider this information as being for official use only (FOUO), and mark, handle and store this information so as to prevent unauthorized access.

QA/QC Form 2 – 25 Sep 05 Rev. 2

Source: DCMA-Baghdad

Note: SIGIR redacted the names of the persons involved in the quality assurance/inspection, the deficiency results and the observations noted.

Government Oversight of Task Order 130 Subsistence (Food) Account. DCMA, as part of its quality assurance reviews of food service operations, conducted more than 20 joint reviews with KBR's quality assurance auditors/inspectors during fiscal year 2006, addressing basic operational aspects of food service operations in such areas as menu planning, food preparation, cooking temperature, sanitation, etc. DCMA conducted these reviews utilizing DCMA's Quality Assurance review checklists which were derived from KBR's Standard Operating Procedures. As such, the checklists were designed to verify that KBR was following its own procedures; which did not address the issue of the monetary status of the subsistence (food) account. As a result, the DCMA review checklists did not address the status of the subsistence account and DCMA never evaluated the subsistence account status during its reviews. A DCMA official advised us that DCMA was not responsible for oversight of the financial status of the subsistence (food) account for the dining facilities; that DCMA Quality Assurance personnel are not trained in food subsistence issues; and that DCMA-Baghdad was not staffed to perform subsistence account oversight to LOGCAP dining facilities operated under AR 30-22. Further, based on our discussions with COM, JASG-C and DCMA staff, we could not determine if any of these organizations believe that they had individual responsibility to provide this oversight. We intend to address this issue further when we report on the overall program management of Task Order 130.

Oversight by the Military for Other Dining Facilities in Iraq. The other KBR LOGCAP-operated dining facility subsistence accounts within Iraq (other than Task Order 130 dining facilities) were monitored during fiscal year 2006 by military food advisers appointed as COTRs. We discussed the issue of the Task Order 130 dining facility subsistence account with military food advisers at the various military command levels within Iraq and Kuwait, to include those at Multi-National Corps-Iraq, Multi-National Force-Iraq, and Coalition Forces Land Component Command. Each of the respective military command food service advisers told us that they did not get involved with or conduct oversight of the Task Order 130 dining facilities subsistence accounts. They also told us that they believed oversight of Task Order 130 dining facilities was DoS's responsibility. DoS COM personnel, however, were not aware of the details of the operation of the dining facilities subsistence accounts, and therefore, did not monitor the subsistence accounts.

Oversight of Food Service. During our review, we noted two other problems concerning compliance with provisions in the SOW and AR 30-22. The SOW for food service operations specifically requires that, "The Government will provide uniformed service members from supported units to serve as headcount personnel IAW applicable U.S. military regulations". There were no military personnel verifying headcounts within the Task Order 130 dining facilities during the period of our review; and, we found no evidence that government personnel had ever been appointed or used to verify headcounts for dining facilities under Task Order 130 or the prior Task Orders 100 and 44. In addition, we could find no evidence that the requirements in AR 30-22 concerning the appointment of a disinterested inventory officer to oversee the semiannual (March and September) accountable subsistence (food) inventories for the dining facilities under

Task Order 130 (or predecessor Task Orders 100 and 44) had ever been accomplished. In September 2006, we brought the disinterested inventory officer requirement to the attention of DCMA who promptly took action to arrange for disinterested government officer oversight of the September 2006 Task Order 130 dining facility subsistence inventories, and we expect this to continue for future semiannual inventories.

Contracting Officer's Technical Representatives (COTRs)

We determined at the beginning of our review, that DCMA had not identified or appointed COTRs to assist it in the evaluation of KBR's operations. COTRs are normally subject matter experts provided by the customer to assist DCMA in its administrative contracting officer duties and are an important element in effective oversight. COTRs are used to perform specific oversight tasks within functional areas by augmenting and assisting the DCMA Quality Assurance Representatives in assessing contractor's performance in areas where specific technical expertise is required. We also determined that COTRs had not been appointed for the previous Task Orders 100 and 44. However, during our review, starting in September and continuing through December 2006, DCMA identified and appointed a total of 18 COTRs to this task order from both of its primary customers, JASG-C and DoS. We believe that had these appointments been made earlier, many of the control shortfalls we identified in the fuel and food service area may have been detected earlier.

We believe the use of these COTRs should greatly improve the government oversight of KBR operations. However, we are concerned that this is not the first time this issue has been identified and pointed out to DCMA. The need to appoint COTRs to assist in quality assurance oversight has been discussed in previous audit reports. For example, a U.S. Government Accountability Office (GAO) report, *DOD's Extensive Use of Logistics Support Contract Requires Strengthened Oversight* (GAO-04-854), dated July 19, 2004, also found in the LOGCAP contract for Iraq that "DCMA did not always appoint contracting officer's technical representatives who could have assisted DCMA in its quality assurance responsibilities," and "that having contracting officer's technical representatives for each functional area at each division and camp would improve government oversight."

Conclusion and Recommendations

Conclusion

The government has a process in operation to ensure that all new requirements, including those initiated by the contractor, are properly validated. However, the specific procedure as to how the process operates is based upon an undated Standard Operating Procedure (SOP) issued for the prior Task Order 100, and has not been updated for the current Task Order 130.

According to KBR customer surveys, KBR's performance was adequate to ensure that KBR met the end product or service requirements to the satisfaction of the customer. Government oversight, however, was not adequate to ensure that KBR's processes used to supply the end product or services were conducted in an efficient and economical manner, that regulatory requirements were adhered to, and those government resources controlled/utilized by KBR were properly accounted for and safeguarded.

In three of the four areas we evaluated, KBR did not implement basic internal controls over its operations as indicated by the following conditions:

- *KBR's fuel operations*—lack of basic controls and significant instances of incorrect fuel issuances recorded in KBR's fuel issue database
- *KBR's management of the food subsistence account*—overspent status of over \$4.5 million for fiscal year 2006
- *KBR's billeting operations*—inaccurate billeting assignment records

As a consequence, KBR's operations may have resulted in excessive government costs and possible improper use of government resources.

We also noted that KBR managed and assigned billet spaces at its own housing area in Camp Hope, without oversight by the government billeting officers, and that 90% of KBR's employees enjoyed a billeting standard of living in excess of that authorized for the military and civilian personnel they support or other contractors in Task Order 130 billets in the International Zone. While we did not perform any work outside of Task Order 130 on billeting, our discussions with personnel associated with other LOGCAP Task Orders within Iraq, suggest that the situation of KBR controlling its own billeting is not unique to Task Order 130, but applies to LOGCAP as a whole within Iraq. However, we believe had Management Counselor officials been aware of its responsibilities to monitor the cost of the contractor billeting and the government's right to control this activity, they could have applied the applicable billeting standards to KBR. Had they taken this action there may have been an opportunity to reduce KBR billeting requirements and essentially the cost of the KBR billeting by as much as 45%. Further, there may also be opportunities to more effectively and efficiently utilize Camp Hope's unused billeting.

Finally, although government officials are taking steps to improve controls over the costs and use of government resources related to Task Order 130, as a result of this review, we were concerned about the lack of awareness by government officials as to their oversight responsibilities. We were also equally concerned as to how much the government relied on the contractor to self-manage and self-report on its performance under Task Order 130.

Government and Contractor Management Actions

During the review DCMA took actions to address several of the control weaknesses discussed in this report. Between September and December 2006, DCMA appointed 18 functional representatives from JASG-C and COM as COTRs to monitor services required under the contract. Further, in September 2006, DCMA appointed independent government representatives to oversee the fiscal year-end accountability inventory of the dining facilities that was conducted in September 2006.

The DoS Management Office of the U.S. Embassy-Iraq, and the JASG-C both took action during the review to verify billeting assignments and, in coordination with KBR, took action to improve the accuracy of the billeting database. In addition, the DoS Management Office and the JASG-C established a working group in September 2006 to revise the SOP to reflect current requirements validation procedures. However, as of May 31, 2007; a revised SOP had not been issued.

KBR took positive actions to address control problems over the receipt, issue and accountability of fuel that we noted during the review. KBR also modified the fuel database to add data integrity controls and exception reports to ensure data is entered accurately and to identify attempts to enter data that is outside of acceptable parameters.

The U.S. Army Sustainment Command, in response to our interim report, took immediate action by adding modification P00018, dated October 30, 2006, to the basic LOGCAP contract (DAAA09-02-D-0007), which among other things added specific language to the contract that we had recommended concerning government proprietary information and electronic submission directions. The U.S. Army Sustainment Command also drafted proposed contract language that states KBR billeting is subject to government billeting oversight.

Future SIGIR Work

We plan to continue our review of Task Order 130 and will report periodically on our findings and recommendations. During this review we determined that while KBR received over 95% of its fuel directly from the military, KBR did not incur actual costs for the military fuel. Thus, these costs were not reflected as part of the Task Order 130 cost of fuel operations. This issue, as well as other issues related to DoS-DoD reimbursement costs and program management, will be addressed in subsequent reports on the continuing review of Task Order 130, and its successor, Task Order 151.

Recommendations

We recommend that the Counselor for Management Affairs, U.S. Embassy-Iraq:

1. Continue working with JASG-C to revise the standard operating procedures to include requirements for validating new work under Task Order 130 and successor task orders.
2. Continue working with JASG-C to verify billeting assignments and ensure proper assignment of billets based on published criteria.
3. Develop and issue, in coordination with the JASG-C, a process and procedure for central in-out processing. This process should be added to a standard process for personnel arriving and departing Task Order 130 supported billets in Iraq. All personnel (military, federal civilian employees, contractors, etc.) should be required, as part of the departure process, to present a sign off from billeting that they have cleared billeting before permanently departing from Iraq and that they no longer have a recurring need for bed space under Task Order 130 and successor task orders.
4. Continue working with JASG-C to improve management controls over food services, including developing proper controls to ensure that there is an accountability process for tracking the personnel utilizing the dining facilities and that those personnel are properly authorized to receive food services subsistence.
5. Work with Army and DoS representatives to clearly define each government entity's responsibilities in overseeing Task Order 130 and successor task order activities. If the determination is made that additional assistance is needed from either organization to oversee key activities then the Management Counselor should formally request specific assistance.

We recommend that the LOGCAP Procuring Contracting Officer take the following actions:

6. Amend the delegation letter for the Administrative Contracting Officer duties to include:
 - a. Examining the contractor's internal control practices including contractor reporting data integrity to ensure that basic and proper internal controls are established and adhered to and that the services are performed in an efficient and cost effective manner.
 - b. Developing DCMA-specific quality assurance criteria, procedures, and reports to conduct an independent government review.

7. Reinforce its delegation for DCMA to ensure that qualified contracting officer's technical representatives are formally identified, appointed and assigned, as necessary, to assist DCMA-Baghdad in reviewing technical aspects of the contractor's functions.
8. In accordance with Army Regulation 30-22 dated May 10, 2005, render a procuring contracting officer's determination as to the reasons why the overspent status occurred and take appropriate action in accordance with the LOGCAP contract terms.

Because of the potential for improving the utilization of housing resources and reducing costs of the LOGCAP contractor life support services, we recommend that the LOGCAP Procuring Contracting Officer, in coordination with the overall LOGCAP Program Management Office, take the following actions:

9. Address the appropriateness of any LOGCAP contractor controlling its own billeting assignments/standards during negotiations for any future task orders that may be issued under the current LOGCAP contract as well as during negotiations for the follow-on LOGCAP contracts. As a matter of public policy, two issues that should be addressed in this regard are:
 - a. Should a LOGCAP contractor be permitted to define its own billeting standards for its own employees that are above the established standards for other contractors and/or federal military and civilian personnel for whom the contractor supports, and be reimbursed for the full cost?
 - b. Should a LOGCAP contractor be permitted to have exclusive control of billeting assignments for its own employees? If so, what are the proper controls needed to ensure LOGCAP billeting is operating in an economical and efficient matter as determined by the appropriate government oversight entity?

Management Comments and Audit Response

We received written management comments on a draft of this report from DoS Management Counselor's Office and technical comments from DCMA, which are included in the Management Comments section of this report. Actions have been taken to meet the intent of our recommendations. While both organizations stated that they believed there had always been adequate oversight on Task Order 130, each organization (1) acknowledged the need for changes in their contract management processes and (2) listed specific actions taken in response to each of the issues we brought to their attention during the course of our review. We extended the comment period to accommodate the time required by DCMA to respond to the draft report to be able to include copies of these responses as part of the final report.

We received oral comments from representatives of the U.S. Army Sustainment Command in which those officials generally concurred with our findings and recommendation. Further, U.S. Army Sustainment Command used several of our verbal recommendations made during the audit to revise the Statement of Work for the successor to Task Order 130 (Task Order 151) to improve oversight in the areas of food service, fuel operations and billeting operations. We did not receive written comments from the U.S. Army Sustainment Command.

Appendix A—Scope and Methodology

This review was announced on July 24, 2006, (Project No. 6029) with the overall objectives to determine whether the U.S. government is receiving the services paid for under LOGCAP Task Order 130 and whether the support provided is reasonable, efficient, and cost effective.

We conducted this review at Kellogg Brown & Root Services Inc. (KBR) sites located in Baghdad, Iraq, and at the procurement contracting officer's office located at the U.S. Army Sustainment Command, Rock Island, Illinois. As part of this review we interviewed government personnel involved with the administration or oversight of Task Order 130, as well as government personnel involved in services similar to that provided by Task Order 130, including:

- Defense Contract Management Agency (DCMA) commander, administrative contracting officer, and other DCMA personnel in Iraq
- Defense Contract Audit Agency in Iraq
- Department of State personnel assigned to the U.S. Embassy-Iraq, such as the Chief of Mission (COM) Management Counselor, the Task Order 130 contracting officer's representative, the senior financial management officer, and the General Services Office housing officer, and others
- Functional support personnel with the Joint Area Support Group-Central newly appointed Task Order 130 contracting officer's technical representatives
- Personnel with the Camp Victory Logistics Support Element, such as the Deputy Program Director for LOGCAP in Iraq and the Task Order 130 LOGCAP Support Officer
- U.S. Army Sustainment Command procurement contracting officer and other personnel, such as legal counsel
- Military food service advisers for the Multi-National Corps-Iraq , Multi-National Force-Iraq, and Coalition Forces Land Component Command
- Personnel at the Army Center of Excellence, Subsistence, U.S. Army Quartermaster Center and School, Fort Lee, Virginia
- KBR managers and operational personnel

We visited KBR operational sites in the International Zone, Iraq; observed ongoing KBR operations; observed the methods used by KBR to capture, maintain, and report data; and examined reports that KBR provided to the government. We also requested, received, analyzed, and evaluated KBR internal reports and databases, such as the fuel database, the dining facilities subsistence account and inventory reports, the billeting assignment spreadsheet, and the morale, welfare, and recreation reports.

We also reviewed the Federal Acquisition Regulation (FAR) and information maintained by the defense acquisition community to identify FAR clauses and other potential contract documents applicable to conditions we noted during this review. We reviewed the following significant Army regulations, pamphlets, and other guidance applicable to the performance and oversight of Task Order 130:

- Army Regulation 30-22, *The Army Food Program*, May 10, 2005
- Department of the Army Pamphlet 30-22, *Operating Procedures for the Army Food Program*, August 30, 2002
- Army Regulation 710-2, *Inventory Management: Supply Policy Below the National Level*, July 8, 2005
- Department of the Army Pamphlet 710-2-1, *Inventory Management: Using Unit Supply System (Manual Procedures)*, December 31, 1997
- Memorandum of Agreement Between Department of State and Department of Defense for Support Services in Iraq, dated June 10, 2004
- Army Regulation 215-1, *Morale, Welfare and Recreation Activities and Nonappropriated Fund Instrumentalities*, June 28, 2004
- Defense Contract Management Agency Contract Management Office Quality Assurance Surveillance Plan for DCMA Iraq, June 2005

We performed this review from August 1, 2006 to May 31, 2007, in accordance with generally accepted government auditing standards.

Prior Coverage

Special Inspector General for Iraq Reconstruction (SIGIR)

Reports issued by the Office of the Special Inspector General for Iraq Reconstruction (SIGIR) can be accessed on its website <http://www.sigir.mil>.

SIGIR Report No. 05-003, *Task Order 0044 of the Logistics Civilian Augmentation Program III Contract*, dated November 23, 2004, noted that weaknesses in KBR cost reporting process used for Task Order 0044 prevented SIGIR from effectively addressing the audit objectives. That audit was terminated and addressed only the issue of cost data submitted by KBR to the Coalition Provisional Authority for work performed under Task Order 0044. The report noted that KBR did not provide the administrative contracting officer with sufficiently detailed cost data to evaluate overall project costs or to determine whether specific costs for services performed were reasonable. This occurred because both the basic LOGCAP contract and Task Order 0044 required detailed cost data and the LOGCAP contract was awarded to KBR even though the contractor did not have certified billing or cost and schedule reporting systems. As a result, the administrative contracting

officer did not receive sufficient or reliable cost information to effectively manage Task Order 0044. In addition, the lack of certified billing or cost and schedule reporting systems hampered the administrative contracting officer from effectively monitoring contract costs. Finally, due to the lack of contractor provided detailed cost information to support actual expenses incurred, resource managers were unable to accurately forecast funding requirements to complete Task Order 0044.

SIGIR Report No. 06-035, *Interim Audit Report on Inappropriate Data Markings by the Logistics Civilian Augmentation Program (LOGCAP) Contractor*, dated October 26, 2006. This report noted that KBR routinely marks almost all the information it provides to the government as KBR proprietary data, citing the FAR section 3.104 as the justification. This provision of the FAR, however applies to the protection of bid or source selection information during the procurement process, while the information KBR is marking as proprietary is data produced by KBR for the government related to its performance under a contract that has already been awarded. This practice is not consistent with FAR direction as to what constitutes proprietary data. The routine use of proprietary markings when the data marked is not internal contractor information, such as indirect costs, labor rates, or internal processes is an abuse of FAR procedures, inhibits transparency of government activities and the use of taxpayer funds, and places unnecessary requirements on the government to both protect from public disclosure information received from KBR and to challenge inappropriate proprietary markings. The result is that information normally releasable to the public must be protected from public release just because the information gathered for the government by KBR, pursuant to KBR's contractual obligations, was marked as proprietary. In effect, KBR has turned FAR provisions designed to protect truly proprietary information and to enhance procurement competition by protecting proprietary data from unauthorized disclosure into a mechanism to prevent the government from releasing normally transparent information, thus potentially hindering competition and oversight.

U.S. Army Audit Agency (AAA)

AAA Audit Report A-2006-0099-ALL, dated April 25, 2006, *Audit of Program Management in the Iraq Area of Operations, Audit of Logistics Civil Augmentation Program Operations in Support of Operation Iraqi Freedom*, concluded that the current management structure over LOGCAP operations in the Iraq area of operations was not fully conducive to ensuring the program is managed in the most effective and efficient manner to provide the greatest potential for being a force multiplier for the battle space commander. Specifically, contracting activities in theater have been fragmented and too understaffed to effectively furnish overall integrated support to component commands. At the same time, more centralized control over LOGCAP operations is needed within the Multi-National Forces-Iraq command to ensure requirements are properly managed and contract support is effectively integrated into its combat service support mission.

AAA Audit Report A-2006-0168-ALL, dated August 4, 2006, *Report on the Subsistence Prime Vendor Contract, Audit of Logistics Civil Augmentation Program Operations in Support of Operation Iraqi Freedom*, concluded that the operations related to providing subsistence items under the prime vendor contract to dining facilities in Kuwait and Iraq were effective and efficient for the prime vendor-owned products. The management of government-owned operational rations inventory at the prime vendor's warehouses could be improved. The inventory balances and locations of operational rations in the bulk storage facilities at the Kuwait Free Trade Zone did not match what was recorded in the work management structure database because those facilities did not have an automated inventory tracking system or an adequate warehouse identification system to manage and store operational rations. Operational rations with more than one national stock number were not being pulled according to the first-to-expire inventory method required by the prime vendor contract. The prime vendor did not maintain adequate and accurate supporting documentation for the destruction of government-owned operational rations. The government has incurred excess storage fees due to inadequate monitoring of expired government-owned products in the prime vendor's warehouse. There were over 400,000 cases of government-owned operational rations worth approximately \$34 million stored in the prime vendor's warehouse that were on hand or were en route to the warehouse. These rations exceeded the average quantity that the prime vendor ships out each month plus the 3-month safety stock that the Army attempts to maintain in the prime vendor's warehouses. The government was not adequately monitoring contractor performance. The administrative contracting officer and the contracting officer's representative were not using a Quality Assurance Surveillance Plan to monitor contractor performance. In addition, we found the designation memorandum appointing each of these officials lacked specifics on their quality assurance requirements. The overall approach to monitoring the requirements of the contract was not reviewed to ensure the terms of the contract were fulfilled.

AAA Audit Report A-2006-0022-ALL, dated November 28, 2005, *Logistics Civil Augmentation Program, U.S. Army Materiel Command*, concluded overall that the Army's management of the LOGCAP contract was adequate. LOGCAP was providing essential support to Soldiers and doing a good job of meeting the Army's needs. In addition, the contract was competitively awarded; the contract type was appropriate for the type of work performed; appropriate pre-award reviews were conducted on the contractor's proposals, management controls, and accounting system; and appropriate structures were in place to manage the contract. Although the contract was adequately managed, some problems did occur up front because of the volume of work involved and the need to process contract actions quickly. Specifically, independent government cost estimates were not prepared in sufficient depth to evaluate contractor cost estimates, and task orders awarded under the contract often were not definitized in a timely manner.

AAA Audit Report A-2005-0043-ALE, dated November 24, 2004, *Audit of Logistics Civil Augmentation Program in Kuwait*, concluded that the program management office did not provide adequate oversight to the LOGCAP Support Unit to ensure implementation of procedures for effective performance-based contracting. The audit also found that 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. The contract reports and plans either were not provided or were not useful. The LOGCAP Support Unit did not 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 could not be performed in Southwest Asia. Consequently, support unit personnel were not sure of their roles and responsibilities and frequently performed tasks that fell outside their authority.

U.S. Government Accountability Office (GAO)

Report GAO-04-854, *DoD's Extensive Use of Logistics Support Contracts requires Strengthened Oversight*, dated July 19, 2004, found that the effectiveness of DOD's planning to use the logistics support contracts during contingency operations varies widely between the commands that use them and the contracts themselves. In many cases, planning was done effectively, in close coordination with the respective contractors. For LOGCAP, however, the Army Central Command did not develop plans to use the contract to support its military forces in Iraq until May 2003, even though Army's LOGCAP guidance calls for early planning and early involvement of the contractor. These plans, moreover, have undergone numerous changes since that initial planning. In Kuwait, as well, the Army has made frequent changes in its use of LOGCAP. The report notes that DOD's contract oversight processes were generally good, although there is room for improvement. DOD customers have not always ensured that contractors provide services in an economic and efficient manner, although they have a responsibility to do so. GAO found that when the customer reviews the contractor's work for economy and efficiency, savings are realized. Under the LOGCAP contract, months-long delays in definitizing contract task orders have frequently undermined the contractor's cost control incentives and the absence of an Army award fee board to comprehensively evaluate the contractor's performance has further limited DOD's oversight.

Report GAO/NSAID-00-225, *Army Should Do More to Control Contract Costs in the Balkans*, dated September 29, 2000, found that both the Army and its contractor, Brown & Root Services, had taken various actions to control the cost of services provided under the Balkans Support Contract. These actions include a contract provision requiring the contractor to regularly identify cost savings, recycling materials from elsewhere in the Balkans and Europe and using soldiers to perform such tasks as building construction whenever possible. Nevertheless, the Army should have done more to control costs. One step it should have taken was to give more consideration to costs in making decisions on the extent of services to be provided by the contractor.

Appendix B—Acronyms

AAA	Army Audit Agency
ACO	Administrative Contracting Officer
AR	Army Regulation
BDFA	basic daily food allowance
COM	Chief of Mission
COR	contracting officer’s representative
COTR	contracting officer’s technical representative
DA	Department of the Army
DCMA	Defense Contract Management Agency
DoD	Department of Defense
DoS	Department of State
GAO	U.S. Government Accountability Office
GSO	General Services Office
JASG-C	Joint Area Support Group-Central
KBR	Kellogg Brown & Root Services Inc.
LOGCAP	Logistics Civil Augmentation Program
LSO	logistical support officer
MWR	Morale, Welfare and Recreation
QAR	quality assurance representative
RAP	Requirements Advisory Panel
SIGIR	Special Inspector General for Iraq Reconstruction
SOP	standard operating procedure
SOW	statement of work

Appendix C—Description of the Requirements Validation Process

The specific procedure on how the government’s requirements validation process operates is based upon an undated Standard Operating Procedure (SOP) issued for the prior Task Order 100, which has not been updated for the current Task Order 130. Requirement processing procedures and approval authorities (as orally described to us by Department of State (DoS), Joint Area Support Group-Central (JASG-C), and the Logistics Support Office staff) differ depending upon if the requirement is considered a routine service order or a work request.

Service requests for normal day-to-day operational requirements, such as the need for air conditioning service repair for example, are initiated by the person or office requesting the work to be performed by completing a service request form and submitting it to the contractor’s work desk. The contractor automatically initiates actions on routine service orders.

Work requests were verbally described to us as any new work designed to modify existing assets, replace equipment, or new construction. Work requests received at the contractor’s work desk are scanned and submitted electronically to the DoS U.S. Embassy-Iraq Facilities Office. The facilities manager examines the work request to determine if the work requested is primarily in support of the Department of Defense (DoD) or the DoS.

If the work request is DoD-related, it is forwarded to the JASG-C for review and initial approval. If JASG-C approves the request, the work request is then forwarded to the DoS’s contracting officer’s representative (COR) for the task order for disposition as discussed below.

Work requests related primarily to DoS operations are forwarded directly by the DoS facility manager to the DoS COR. The COR reviews the work request using “staff guidance” (described to us as information received from U.S. Embassy-Iraq senior management officials during weekly meetings) and the Task Order Statement of Work (SOW) to differentiate the work as, “maintaining versus new,” or a “work request versus a service request”. The COR reviews the work request to determine if the funding would come from the existing Logistics Civil Augmentation Program (LOGCAP) contract or if the work can be done by a local company with a different contract, paid for by the requesting agency. If the COR believes that the work should be accomplished under the LOGCAP contract, he can approve the work request up to \$5,000 and forward it back to the contractor for accomplishment. If the work request is greater than \$5,000 but less than \$50,000, the COR forwards the work request to the Administrative Contracting Officer, a member of the Defense Contract Management Agency (DCMA) staff, who has approval authority for work requests between \$5,000 and \$50,000.

Work requests determined by the COR to be within the LOGCAP contract scope that exceed \$50,000 are forwarded to the LOGCAP Support Officer (LSO) within the U.S. Embassy-Iraq. The LSO, who is a member of the Logistical Support Element staff, then conducts a meeting with requesting agency or unit to review requirements and helps develop a SOW that defines the work requirement in contract terms. The ACO may be invited to attend the meeting. The LSO submits the work request to the contractor for development of a Project Planning Estimate. If needed the LSO, contractor, and requesting agency or unit will meet to discuss the estimate with the goal of gaining agreement from all stakeholders. The requesting agency or unit with the assistance of the LSO, prepares and submits a LOGCAP work request to include the Project Planning Estimate and SOW, to the COR for final approval before submittal to the Requirements Advisory Panel (RAP) working group.

Work requests received by the RAP working group are reviewed for completeness and necessity before being forwarded to the formal RAP itself. The purpose of the RAP working group is to answer questions from the area experts that are part of the working group before the work requests are presented to the formal RAP meeting. After approval by the RAP working group, the work request project is submitted to the formal monthly RAP for approval. The RAP is co-chaired by the DoS Counselor for Management Affairs and JASG-C Commander.

Appendix D—Defense Contract Management Agency Responsibilities²²

The Defense Contract Management Agency (DCMA) is the Department of Defense component that works directly with Defense suppliers to help ensure that government supplies and services are delivered on time at the projected cost and that contractors meet all performance requirements. DCMA professionals serve as "information brokers" and in-plant representatives for military, federal, and allied government buying agencies during the initial stages of the acquisition cycle and throughout the life of the resulting contracts. Before contract award, DCMA provides advice and services to help construct effective solicitations, identify potential risks, select the most capable contractors, and write customer-responsive contracts. After contract award, DCMA monitors contractors' performance and management systems to ensure that cost, product performance, and delivery schedules are in compliance with the terms and conditions of the contracts.

DCMA quality assurance representative (QAR) oversight is critical to the mission because of the requirement for services 24 hours a day, 7 days a week. These representatives conduct oversight of the contractor by visiting camps or sites, by evaluating process performance, and by assuring that work orders are completed. The QAR presence assures the monitoring of the quality of work and services. The interaction allows the customer to learn about the DCMA mission and articulate expectations. Services that are necessary for the needs of the Soldier are ongoing and require constant monitoring. This monitoring ensures the health, safety, morale, readiness, and overall well-being of soldiers to be capable of performing their missions.

QARs are responsible for applying the Quality Assurance Surveillance Plan to the quality missions within their area of responsibility. They interface with the contractor's site managers, quality control managers, quality assurance/quality control representatives, and other contractor staff. These representatives are authorized to access contractor standard operating procedures for all services performed under the Logistics Civil Augmentation Program (LOGCAP) contract. QAR responsibilities include:

- Following and maintaining this surveillance plan.
- Maintaining records of completed audit reports, corrective action requests logs, continuous improvement opportunities logs, and contracting officer's technical representatives' roster.
- Providing an independent audit of contractor operations.
- Accomplishing audits via the lead QAR audit checklists.
- Tracking audit results via the lead QAR provided trending spreadsheets.
- Maintaining an audit schedule of inspections performed.

²² Source: Defense Contract Management Agency Contract Management Office Quality Assurance Plan for DCMA Iraq dated June 2005.

- Maintaining contractor standard operating procedures (SOP) library.
- Keeping SOP audit library provided by the lead QAR.
- Initiating corrective action requests and track to closure.
- Communicating regularly with partner administrative contracting officer and the lead QAR.
- Regularly interacting with customers to ensure problems are resolved adequately and in a timely manner.
- Providing input regarding the award fee.

QARs will continually review relevant contractor and DCMA data with an eye to past performance history, evaluating the contractor's quality plan, classifying process risks, performing process proofing and process/product audits.

Among other staff personnel, DCMA-Baghdad includes an administrative contracting officer, a QAR, and a government property administrator.

Appendix E—Contracting Officer’s Technical Representatives Responsibilities²³

According to the Statement of Work for Task Order 130, contracting officer’s technical representatives (COTRs) will monitor the following services:

Custodial Services

Refuse & Solid Waste

Septic & Solid Waste

Service Order Desk

Heating, Ventilation, and Air Conditioning Equipment Maintenance

Non-Tactical Vehicles Transportation Motor Pool

Morale, Welfare, and Recreation (MWR)

Billeting & Grounds

Facilities Management

Electrical Service

Power Generation

Food Service

Class III Bulk & Retail Fuel

HAZMAT

Laundry

Water Operations

Fire Protection

It should be noted that a COTR can be assigned to monitor more than one service.

²³ The source of this information is the DCMA appointment letters to the COTRs September – December 2006.

Appendix F—Billeting Criteria

The following documents are the billeting criteria used by the Joint Area Support Group-Central (JASG-C) and Chief of Mission (COM) for making housing assignments and the criteria we used in this report when assessing the billeting service. JASG-C provided its JASG-C Memorandum on Command Policy Letter SPO#3 (Embassy Annex Billeting Policy), dated March 5, 2006. The SPO represents the organizational code within JASG-C and the number 3 represents its third policy. The Department of State Housing Manager provided the Chief of Mission Housing Assignment Policy on September 27, 2006. The COM policy is undated, but we confirmed this was the policy in effect at the time of our review.

Joint Area Support Group–Central Embassy Annex Billeting Criteria

GRADE	LENGTH OF TOUR	AUTHORIZED HOUSING
O-7 and above SES1/SIS1 and above	Any	Single unit
O-6, CW5, E-9, and GS-15	> or = 120 days	Single unit
	<120 days	Shared unit
O-5, O-4, CW4, CW3, E-8, GS-14, and GS-13	> or = 180 days	Single unit *
	<180 days	Shared unit
O-3, O-2, O-1, WO2, WO1, E-7 and below, GS-12 and below	Any	Shared unit
Contractor	Any	Shared unit

Unit = ½ trailer

* Note: This table shows the priority of assignment for single units when sufficient housing allows for full implementation of the policy. Persons below the rank of O-6/GS-15/E-9 may be required to share a unit as the situation dictates.

CHIEF OF MISSION HOUSING ASSIGNMENTS POLICY

Welcome to Baghdad!

Embassy Management and GSO Housing are working to improve quality of life at Post. Direct-Hire (Federal Affiliates) under Chief of Mission (COM) authority; personnel assigned to a one year, six month tour or of duty will be assigned a single ½ trailer (single occupancy) with a shared bathroom. All contract personnel under COM will share at ½ trailers (two persons per half room).
...

No employee will be assigned to the same residential trailer as his/her supervisor or rating/reviewing officer. For clarity, a residential trailer consists of rooms on either side of the shared bath.

COM ½ trailers will be based on length of tour. Those on six months to 1 year or longer tours will have priority.

Initially, the following guidelines will be used for assigning personnel, as resources become available:

Six months to One-year or longer tour of duty (Federal Affiliates PCS or TDY): two persons per residential trailer (one per private room) with shared bath. Single ½ trailers will be assigned only to those who tour is 6 months or more.

91 – 365 days (COM contractors and subcontractors): four persons per residential trailer (two persons per room), as available, with shared bath.

- Whenever possible, personnel will be assigned room-mates within commensurate and appropriate grade levels.
- Contractors and subcontractors of the same company will be matched as shared trailer mates.

1 – 90 days (TDY): eligible for Transient Trailer (single room with separate bathing/toilet facilities located near the room).

COM Tandem couples: Tandem couples will be assigned to the same unit; this will be one couple per trailer.

Contractors: Contractors under COM Authority with a tour over 91 days will be assigned shared quarters. Four persons per trailer (two persons per room), in the event that a COM contractor is in a single ½ trailer you will receive a room mate, this policy is not negotiable.

Male/Female: Unless designated as a “tandem couple,” males and females will not share trailers. Couples must present travel orders and certificate of Marriage before assignment of housing is approved.

Arrival date: In addition to the above criteria, date of arrival at post will dictate assignments. Personnel will not be given priority based on rank, assignment status (except tandem), etc.

Appendix G—Report Distribution

Department of State

Secretary of State

Senior Advisor to the Secretary and Coordinator for Iraq

Director of U.S. Foreign Assistance/Administrator, U.S. Agency for
International Development

Director, Office of Iraq Reconstruction

Assistant Secretary for Resource Management/Chief Financial Officer,
Bureau of Resource Management

U.S. Ambassador to Iraq*

Director, Iraq Transition and Assistance Office

Mission Director-Iraq, U.S. Agency for International Development

Inspector General, Department of State

Department of Defense

Secretary of Defense

Deputy Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Deputy Assistant Secretary of Defense-Middle East, Office of Policy/International
Security Affairs

Inspector General, Department of Defense

Director, Defense Contract Audit Agency

Director, Defense Finance and Accounting Service

Director, Defense Contract Management Agency*

Commander, Defense Contract Management Agency – Iraq*

Department of the Army

Assistant Secretary of the Army for Acquisition, Logistics, and Technology

Principal Deputy to the Assistant Secretary of the Army for Acquisition,
Logistics, and Technology

Deputy Assistant Secretary of the Army (Policy and Procurement)

Commanding General, Joint Contracting Command-Iraq/Afghanistan

Assistant Secretary of the Army for Financial Management and Comptroller

Chief of Engineers and Commander, U.S. Army Corps of Engineers

Commanding General, Gulf Region Division

Chief Financial Officer, U.S. Army Corps of Engineers

Auditor General of the Army

U.S. Central Command

Commanding General, Multi-National Force-Iraq

Commanding General, Multi-National Corps-Iraq

Commanding General, Multi-National Security Transition Command-Iraq

Commander, Joint Area Support Group-Central*

*Recipient of the draft audit report

Other Federal Government Organizations

Director, Office of Management and Budget
Comptroller General of the United States
Inspector General, Department of the Treasury
Inspector General, Department of Commerce
Inspector General, Department of Health and Human Services
Inspector General, U.S. Agency for International Development
President, Overseas Private Investment Corporation
President, U.S. Institute for Peace

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

U.S. Senate

Senate Committee on Appropriations
 Subcommittee on Defense
 Subcommittee on State, Foreign Operations and Related Programs
Senate Committee on Armed Services
Senate Committee on Foreign Relations
 Subcommittee on International Operations and Organizations, Democracy and Human Rights
 Subcommittee on International Development and Foreign Assistance, Economic Affairs and International Environmental Protection
 Subcommittee on Near East and South and Central Asian Affairs
Senate Committee on Homeland Security and Governmental Affairs
 Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security
 Permanent Subcommittee on Investigations
 Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

U.S. House of Representatives

House Committee on Appropriations
 Subcommittee on Defense
 Subcommittee on State, Foreign Operations, and Related Programs
House Committee on Armed Services
House Committee on Oversight and Government Reform
 Subcommittee on Government Management, Organization, and Procurement
 Subcommittee on National Security and Foreign Affairs
House Committee on Foreign Affairs
 Subcommittee on Middle East and South Asia
 Subcommittee on International Organizations, Human Rights, and Oversight

Appendix H—Review Team Members

This report was prepared and the review was conducted under the direction of Joseph T. McDermott, Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who conducted the review and contributed to the report include:

Karen D. Bell

Glenn Furbish

Taghreed A. Mahdi

Sandra A. March

Robert L. Pelletier

Ronald L. Rembold

Nadia Shamari

Frank W. Slayton

Steven H. Sternlieb

Management Comments

U.S. Embassy-Iraq and Joint Area Support Group-Central



Embassy of the United States of America
Baghdad, Iraq

May 16, 2007

Mr. Joseph T. McDermott
Assistant Inspector General for Audit
Special Inspector General for Iraq Reconstruction
400 Army Navy Drive
Arlington, VA 22202

Dear Mr. McDermott:

On behalf of the Chief of Mission (COM) and the U.S. Military Joint Area Support Group-Central (JASG-C), I would like to thank the Special Inspector General for Iraq Reconstruction (SIGIR) team for all of their hard work in responding to the Management Counselor's request of July 2006 to review the Logistics Civil Augmentation Program Task Order 130.

COM and JASG-C have read the report dated May 3, 2007, that examined services in four areas: fuel operations, food service, billeting, and moral, welfare and recreation. All areas of concern are being or have been addressed and corrective actions taken. While we are of the opinion that there has always been adequate oversight of the task order, lack of COM and JASG-C personnel have made it difficult to more appropriately perform this function. After mutual consultation we are providing the following consolidated responses to the COM directed recommendations (e.g. 1-5) found on page viii of the Draft Report.

1. COM and JASG-C expect to complete the revision of the standard operating procedures by June 1, 2007.
2. COM and JASG-C confirm billeting assignment verifications and the assignment of billets based on published criteria is ongoing.
3. Billeting – In-processing procedures have since been established. Both COM and JASG have a billeting officer assigned. All COM personnel validate with the COM billeting officer and all MNFI personnel validate with the JASG billeting officer. Out-processing is also handled by the respective organizations.
4. The quarterly DFAC Council Meetings have been increased to monthly meetings. Through the DFAC Council Meetings we have identified some basic controls that must be put in place to improve accountability and lower costs.

- a. The 21-day menu will be reviewed by the DFAC Council to identify items outside this basic menu. These items will be evaluated to determine which items can be eliminated from the menu, while still maintaining the level of quality food service at the main DFAC.
 - b. The new JASG, anticipated to arrive in Theater in Jun 07, will provide DFAC oversight, to include headcount.
 - c. Backpacks and large bags will be prohibited in the DFAC. This will help in curtailing the removal of additional food items. Purses and briefcases will still be permitted (each will be searched prior to entering the DFAC).
 - d. Take out meals will be limited to specific hours, identified in an ALL HANDS to be published NLT 1 June 2007.
5. COM and JASG-C have identified and appointed Contracting Officer Technical Representatives (COTRs) to assist DCMA in its administrative contracting officer duties. Implementation of an active COTR program should facilitate the identification of potential savings and improve delivered services. This will complement the overall trend in reduction of costs that the COMTO has exhibited since its inception under the CPA.

Sincerely,



Steven J. White
Counselor for Management Affairs

Management Comments

Defense Contract Management Agency



DEFENSE CONTRACT MANAGEMENT AGENCY
6350 WALKER LANE, SUITE 300
ALEXANDRIA, VA 22310-3241

IN REPLY
REFER TO

DCMA-DMI

JUN 08 2007

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDIT,
SPECIAL INSPECTOR GENERAL FOR IRAQ
RECONSTRUCTION

SUBJECT: Special Inspector General for Iraq Reconstruction (SIGIR) Draft Report,
SIGIR-07-001, Logistics Civil Augmentation Program Task Order 130:
Requirements Validation, Government Oversight, and Contractor
Performance

Reference: SIGIR draft audit report, SIGIR-07-001, subject as above.

We have attached the Headquarters Defense Contract Management Agency
technical comments to the findings and recommendations cited in the subject report.

Point of contact is Ms. Sonya Moman at (703) 530-3163 or
sonya.moman@dcma.mil.


KEITH D. ERNST
Acting Director

DCMA Technical Comments for SIGIR Draft Report: Audit of Logistics Civil Augmentation Program Task Order 130: Requirements Validation, Government Oversight and Contractor Performance

1. Contractor services provided under TO 130.

a. **Question Presented:** Is DCMA-Iraq's customer, U.S. Embassy-Iraq (USM-I), receiving services paid for under LOGCAP TO 130, and whether the support provided is reasonable, efficient, and cost effective.

b. **Answer:** Overall, we believe that the customer is receiving adequate services under LOGCAP TO 130. There are a few issue areas that DCMA, AMC/ASC, the contractor, and others must address, some of which are noted in subject SIGIR draft report. These areas of concern include (1) Fuel services, (2) Food Services, (3) Billeting, and (4) Morale, Welfare, Recreation Services (MWR). SIGIR's report raises concerns regarding DCMA's involvement in the first three of the four areas audited. We will address each one individually under each issue area noted above (as applicable).

2. Government Oversight Requirements: Government oversight of contractor services provided under TO 130 and oversight responsibilities of DCMA's Contract Management Office (CMO) DCMA-Iraq. Included in this discussion area are DCMA-Iraq's Quality Assurance (QA) Review process; specifically (1) review processes and their applicability to the contractor's internal control functions, (2) the focus of DCMA-Iraq QA reviews, (3) QA methodologies used by DCMA-Iraq, (4) administrative contracting controls, and (5) property administration.

a. Is DCMA-Iraq providing adequate government oversight of contractor's performance and internal control processes and are the methodologies to perform QA review in accordance with SoW, Task Order, and delegation requirements?

b. Yes. DCMA-Iraq is providing oversight of the contractor's performance and auditing the contractor's internal control processes, where appropriate. The CMO is meeting its obligations under the LOGCAP SoW, Task Order 130, and the delegation letter provided by Army Sustainment Command (ASC).

(1) That is why the Agency is concerned with the report's assertion on page 23 which states: "**we identified two weaknesses in the government oversight of the LOGCAP contract. The first weakness identified was an oversight process that did not carefully examine the contractor's internal controls over the services being provided. The second weakness was the limited oversight to ensure economy and efficiency in the use of the LOGCAP contract.**" While the Agency agrees that there is always room for improvement, we do believe that the CMO provided effective oversight over the contractor's internal processes over the services provided.

(2) First, DCMA acknowledges that DCMA-Iraq Quality Assurance representatives (QARs) in the IZ were not following established procedures for retaining completed DCMA inspection checklists and instead were relying on the final inspection reports as documentation. This practice was corrected in early November 2006. The CMO recognizes that documented evidence of independent oversight is absolutely necessary and the need to perform oversight in sufficient volume and variety in order to identify systematic, theater-wide deficiencies pertaining to contractual requirements. Therefore, the CMO has instituted a policy that requires 25 independent process audits be performed per month. Also, the CMO is targeting their attention on high-risk areas and areas where they see trends developing across the theater.

(3) Second, DCMA-Iraq has put in place a functioning quality assurance system that provides for effective noncompliance management. The CMO QARs under TO 130 have issued Corrective Action Requests (CARs) whenever noncompliant activities were identified. These CARs range from level I to level III, contingent upon the criticality and frequency of the nonconforming activities in question. CARs are not closed until the Government accepts that a satisfactory resolution has been identified and institutionalized into the contractor's mode of operations.

(4) Third, the CMO is fully engaged in administrative contracting oversight activities and processes. The process start with the requirements validation and the need for ACO (and C-8) approval of Material Requisitions (MRs) at various thresholds for purchases over \$100K, and a Government consent requirement for any subcontracts over \$500K. This review process ensures that any significant request for expenditures is determined to be within the scope of the requirements of the contract. If deemed otherwise, the material request is channeled through an additional requirements and funding validation process requiring senior leader Government approval.

(5) Last, in the area of property administration, the CMO investigates all cases of lost, damaged and destroyed property; determines responsibility for the losses and damages; approves cannibalization of parts from unserviceable assets and the modification of government property; recommends completion of repairs; and assures that excess government property is properly and promptly disposed.

3. Contractor Performance:

a. **Fuel Operation:** With regard to SIGIR's concerns about fuel services, the Agency believes that the customer does indeed receive adequate fuel services under TO 130. SIGIR notes in their draft report, a number of areas for improvement. When these areas of concern were noted in August and September of 2006, immediate action was taken at that time to resolve the cited deficiencies. Also, in response to the fuel issues identified, DCMA-Iraq immediately implemented a corrective action plan to rectify all fuel issues identified.

Specifically, the CMO completed the following actions to address the cited deficiencies:

(1) The CMO partnered with their customers in the International Zone (IZ) to identify individual(s) who possessed requisite knowledge of fuel service operations. These individuals were appointed as the COR for this operation and integrated in the CMO's oversight process. Currently, the CMO's procedure is to track the DA Forms 3643 (daily) and 3644 (monthly) provided by the contractor as deliverables under the contract. These forms are submitted to the ACO and a copy is also provided to the Multi National Corps –Iraq (MNC-I) Fuel section. Also, the COR, appointed in December 2006 (CW5 Lynn Deaven), reviews and compares the DA 3643, DA 3644 and DA 6702-R IAW AR 710-2, the governing regulation, and assesses for any inconsistencies. To date, the CMO has never been notified by MNC-I that problems have been encountered with the DA forms submitted by the contractor.

(2) To address the generator issues identified by SIGIR's report on page 12 where SIGIR states: "... **we identified 372 individual instances of fuel recorded as issued to generators ... in which the amount of fuel issued to the generator exceed the capacity ... of the generator fuel tank.**"

The CMO took the following steps:

- a) Developed and implemented a corrective action plan that was put in September 2006,
- b) Met with the Joint Area Support Group (JASG-C) and the contractor to conduct a systematic review.
- c) In conjunction with JASG-C took action to perform independent efforts to re-measure and re-validate fuel tank capacities reported by the contract in order to address SIGIR's conclusion that the contractor has been issuing fuel in excess of the capacity of generator fuel tanks. These validated tank capacities have been institutionalized in the contractor's fuel management procedures.

b. **Billeting:** With regard to SIGIR's concerns about billeting provided under TO 130, we would like to address this matter and elaborate further so SIGIR and others can understand the role of DCMA-Iraq in overseeing billeting under TO 130. SIGIR notes in their draft report, the following on page 18: "... **the contractor was allowed by the government to manage its own billeting and, that in most cases, the contractor employees ... are housed at a higher standard than those they support.**"

(1) This is not a unique situation to TO 130. The Government life and logistics support responsibilities at each location assigned by the Government to the contractor are defined in section 3.2 of the TO 130 SOW as follows:
"The Government will provide the following life and logistics support consistent with the level of service at each contractor assigned location, as follows: Billeting; Food Service; Mail Services; Electrical; Power Generation; Waste Management/Disposal; Black/grey water removal and disposal; Laundry; Vector control; MWR; Fire Protection; Physical

Security; Transportation support; Office support to include, but not limited to, office space, furniture, and supplies."

(2) Additionally, as SIGIR notes in the draft report, section 3.2 of the SOW also defines the requirement for contractor living accommodations as follows: "the standard contractor living accommodations will be a containerized living unit or hardstand structure with the following furnishings for each person if possible: Twin-sized bed; lockable wall locker or closet; desk; Chair."

(3) The Agency is responding to this SIGIR concern because it implies that DCMA-Iraq allowed the contractor to "live above Army standards" and that the contractor was not following the COM and JASG-C billeting criteria. As a result, SIGIR further asserts that DCMA-Iraq was not effectively utilizing billeting resources under TO 130. The Agency's response is intended to clarify the situation and respond to SIGIR's claim. SIGIR's claim is based on a misunderstanding of the requirements of TO 130 (as noted above). The point the CMO wants to emphasize is that COM and JASG-C are the policy makers as it pertains to billeting and COM has addressed this matter in paragraph 2 of their response to SIGIR draft report.

(4) While the customer may modify contractor "living accommodations" under TO 130, such action must be initiated by the customer through the appropriated contractual vehicle. To date, the Agency is unaware of any action taken by the customer to address the contractor's COM housing standards. In their report, SIGIR states on page 18, that "**Adherence to the current Chief of Mission (COM) and JASG-C billeting policy, rather than the housing standard utilized by the contractor could have the potential of a 45% reduction in housing requirements of the LOGCAP contractor for Task Order 130.** Neither the referenced JASGC Memorandum of Command Policy Letter SP01#6, dated 5 March 2006, nor the Chief of Mission Housing Assignments Policy, undated, (portions of both are provided as Appendix F to the Audit Report) have been incorporated into Task Order 130 as would be required to provide contractual authority to enforce them as a change to the original provisions of the SOW.

c. Food Service. SIGIR notes the following on page iv: "**We could not find any documentation authorizing the contractor to exceed the normal BDFA meal allowance costs ...**" The COM has appointed a DFAC council who will review and identify items outside the 21-day menu. The items will be evaluated to determine which items can be eliminated from the menu while still maintaining the level of quality food service at the main DFAC.

(1) Also, SIGIR states in their draft report, on page 15: "**...we found control weakness in government oversight of the food service that may have led to a \$4.5 million overspent status when compared to the Department of the Army's Basic Daily Food Allowance (BDFA) ...**" The amount that TO 130 DFACs overspent for FY 2006 cannot be accurately determined because of the inclusion of Prime Vendor transportation costs for subsistence received from 15 December 2005 through 15 June 2006. Moreover, while DCMA does provide oversight for the administration and

the running of the DFAC, as well as from time to time, reviewing the subsistence account, DFAC oversight functions are performed by Army food service units assigned by Major Subordinate Commands to LOGCAP DFACs in accordance with FRAGO 200 and the MNC-I "Military Oversight Responsibilities to Contract Dining Facilities" SOP. Resulting inventory and financial account data are accordingly staffed through, and overseen by, MNC-I, MNF-I, CFLCC, and ACES. To date, no Army food service units have been assigned to TO 130 DFACs, precluding the performance of these specific military oversight functions IAW FRAGO 200 and the MNC-I SOP regularly. However, the contractor has reported TO 130 DFAC financial status through these organizations in accordance with established procedures. To date, the ACO as well as MNC-I receive a monthly DFAC financial summary Form 7554. This report is reviewed and analyzed regularly by the Government, including DCMA.

(2) Furthermore, SIGIR states in their draft report, on page 17: "**Consequently, the food service operations function was being performed without effective oversight by the government ...**" The Agency acknowledges that the lack of assigned Army food service personnel in the Joint Area Support Group (JASG) in the IZ has made it difficult to perform the dining facility oversight functions identified in FRAGO 200 and the MNC-I SOP. But, the replacement JASG-C that arrives in June 07 will have a total of 80 personnel more than the group that is currently in theater. Among them will be a Food Service Officer (LT, 92A MOS) and up to eight enlisted members who will be designated as CORs (full time if necessary) to assist in the management and oversight of the four TO 130 DFACs. Also, the COM has already designated a person in their Management Office with financial background as a COR to monitor the financial aspects of the DFAC in the IZ.

4. **Government Oversight:** DCMA does acknowledge that no CORs were appointed at the time the audit started. This has since been rectified. The CMO has been actively pursuing the JASG, the COM as well as the MNC-I, asking if they have any food service personnel they can spare or if they have anyone that knows something about generators. The CMO encourages their customers to take a close look at the skill sets of the personnel they employ and provide feedback to them about the personnel. DCMA's responsibility is to provide COR training and appointment letters to the subject matter experts the customer designates.

5. **Recommendations:** We would like to address SIGIR's recommendations as they pertain to DCMA-Iraq on pages 32 - 33 of the SIGIR report.

RECOMMENDATION 6: Amend the delegation letter for the Administrative Contracting Officer duties to include:

- a. Examining the contractor's internal control practices including contractor reporting data integrity to ensure that basic and proper internal controls are established and adhered to and that the services are performed in an efficient and cost effective manner.
- b. Develop DCMA-specific quality assurance criteria, procedures and reports to conduct an independent government review.

DCMA COMMENTS for 6a: The CMO does not believe this to be necessary on the part of ASC. The current delegation does not preclude DCMA-Iraq from examining the contractor's internal control processes. DCMA regularly assesses the contractor's management / internal control processes. The scope of these assessments includes, but is not limited to, process proofing, review of personnel, training, procedures, equipment, as well as data integrity and reports associated with the performance of a given function in the SOW. Nonetheless, it is important to note that it is the contractor's SOPs that define their internal controls, and that both the contractor's SOPs and DCMA-Iraq's corresponding QA inspection checklists are derived directly from the applicable government policies and Army regulations that govern each service provided as identified in the SOW.

DCMA COMMENTS for 6b: The CMO believes this recommendation to be unnecessary. DCMA-Iraq Quality Assurance personnel are responsible for maintaining a risk management surveillance system based on four main factors: risk planning, assessment, monitoring, and documentation. In addition, the QARs are expected to make a determination of consequence or impact of the risk event and the likelihood or probability of occurrence. These assessments constitute the basis for determining frequencies of both process and product reviews conducted by DCMA. Again, the contractor has developed hundreds of processes that are captured in their SOPs. These processes are derived from the many regulations and standards referenced in the contract; they represent both objective standards and external authorities. Our QARs regularly conduct independent process proofing and reviews to ensure that these SOPs conform to governing regulations.

RECOMMENDATION 7: Reinforce its delegation for DCMA to ensure that qualified contracting officer's technical representatives (COTRs) are formally identified, appointed and assigned, as necessary, to assist DCMA-Baghdad in reviewing technical aspects of the contractor's functions.

DCMA COMMENTS: The CMO believes this recommendation to be unnecessary. As stated above, the DOS Management has assigned a TDY staff member with a financial background to act as a DFAC COR. It is important for SIGIR to understand that the customer provides the COR to DCMA Iraq.

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