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United States
Department of Defense



Contracts Supporting Base Operations in Kuwait Need
Stronger Management and Administration

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Acronyms and Abbreviations

ACC-RI	Army Contracting Command-Rock Island
ASP	Ammunition Supply Point
CSSC-K	Combat Support Services Contract-Kuwait
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DFARS	Defense Federal Acquisition Regulation Supplement
DoD IG	Department of Defense Inspector General
FAR	Federal Acquisition Regulation
IUID	Item Unique Identification
K-BOSSS	Kuwait Base Operations and Security Support Services
OUSD AT&L	Office of the Under Secretary of Defense for Acquisition, Technology and Logistics
PCO	Procuring Contracting Officer
PWS	Performance Work Statement
SSA	Supply Support Activity



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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June 30, 2011

MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT MANAGEMENT
AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Contracts Supporting Base Operations in Kuwait Need Stronger
Management and Administration (Report No D-2011-078)

We are providing this report for review and comment. We performed this audit as a second in a series of reports on contracts supporting base operations in Kuwait. Rock Island Contracting Center can improve contract management and administration in the Kuwait Base Operations and Security Support Services, Supply Support Activity, and Ammunition Supply Point contracts by implementing a recurring process to validate user requirements, establishing fixed-priced requirements, and implementing adequate property accountability. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. While most comments from the Executive Director, Army Contracting Command-Rock Island, were responsive and require no further comment, we request additional comments and documentation for Recommendation 1.e by August 30, 2011.

If possible, send a .pdf file containing your comments to audacm@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9071 (DSN 664-9071).

A handwritten signature in black ink, reading "Bruce A. Burton".

Bruce A. Burton
Deputy Assistant Inspector General
Acquisition and Contract Management



Results in Brief: Contracts Supporting Base Operations in Kuwait Need Stronger Management and Administration

What We Did

This is the second in a series of reports on the contracts supporting base operations in Kuwait. Our overall audit objective was to determine if DoD properly managed and administered the contract supporting base operations in Kuwait. In this report, we evaluated the Kuwait Base Operations and Security Support Services (K-BOSSS) contract, valued at \$1.3 billion; Supply Support Activity (SSA) contract, valued at \$177 million; and Ammunition Supply Point (ASP) contract, valued at \$103 million.

What We Found

Army Contracting Command-Rock Island (ACC-RI) officials did not implement quality contracting processes before awarding the K-BOSSS, SSA, and ASP contracts. Specifically, ACC-RI officials did not implement a recurring process to validate contract requirements, establish fixed prices to control costs, or implement adequate property accountability. This occurred because ACC-RI officials did not properly plan for the transition to the K-BOSSS, SSA, and ASP contracts. DoD Inspector General Report No. D-2010-059, "Contingency Contracting: A Framework for Reform," May 14, 2010, identifies systemic contracting issues in DoD, to include requirements generation, cost controls, and property accountability. The report identifies best practices in contracting that would help improve contracting processes for the K-BOSSS, SSA, and ASP contracts.

ACC-RI officials should implement improvements for validating performance requirements, establishing fixed prices, and implementing property accountability to avoid

problems such as unplanned cost growth and weak accountability for DoD assets.

What We Recommend

We recommend that the Executive Director, ACC-RI, direct the procuring contracting officers for the K-BOSSS, SSA, and ASP contracts to:

- implement a recurring process to validate user requirements with the requiring military units and develop a central repository for all performance requirements and any updates,
- establish fixed prices where appropriate,
- perform detailed reviews of contractor invoices, and
- include the item unique identification requirement in the contracts.

Management Comments and Our Response

We received comments from the Executive Deputy to the Commanding General, U.S. Army Materiel Command, dated June 8, 2011. He endorsed comments from the Executive Director, U.S. Army Contracting Command, and the Executive Director, ACC-RI. The Executive Director, ACC-RI, comments were responsive to most of the recommendations and he provided documentation to support actions taken. Even when the Executive Director only partially agreed, his planned actions and actions taken met the intent of the recommendations for all but one recommendation. For one recommendation, we require additional comments and more documentation. Please see the recommendations table on the back of this page.

Recommendations Table

Management	Recommendation Requiring Comment	No Additional Comments Required
Executive Director, ACC-RI	1.e	1.a-d, 1.f-g

Please provide comments by August 30, 2011.

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Introduction

Objectives

This is the second in a series of audit reports on the contract supporting base operations in Kuwait. Our overall audit objective was to determine whether DoD properly managed and administered the contract supporting base operations in Kuwait in accordance with Federal and DoD policies. Our first report, Report No. D-2010-085, “Kuwait Contractors Working in Sensitive Positions Without Security Clearances or CACs,”

September 22, 2010, focused on management of the contractor’s security program and contractor security clearances. This report focuses on areas that the Army Contracting Command (ACC-RI) officials should improve in management and administration of the Kuwait Base Operations and Security Support Services (K-BOSSS), Supply Support Activity (SSA), and Ammunition Supply Point (ASP) contracts. See the appendix for a discussion of our scope and methodology.

We performed this audit pursuant to Public Law 110-181, "National Defense Authorization Act for Fiscal Year 2008," section 842, "Investigation of Waste, Fraud, and Abuse in Wartime Contracts and Contracting Processes in Iraq and Afghanistan," January 28, 2008. Section 842 requires

thorough audits...to identify potential waste, fraud, and abuse in the performance of (1) Department of Defense contracts, subcontracts, and task and delivery orders for the logistical support of coalition forces in Iraq and Afghanistan; and (2) Federal agency contracts, subcontracts, and task and delivery orders for the performance of security and reconstruction functions in Iraq and Afghanistan.

The K-BOSSS, SSA, and ASP contracts will support base operations in Kuwait, to include logistical support of troops and equipment to and from Iraq and Afghanistan.

Background

The U.S. Army Atlantic Contracting Center awarded the Combat Support Services Contract-Kuwait (CSSC-K), contract DASA02-99-C-1234, in July 1999, for an estimated value of \$503 million if all 9 option years were exercised. The CSSC-K contract was awarded as a cost-plus-award-fee contract. These contract types use an estimate of total cost to obligate funds and establish a ceiling that the contractor may not exceed, except at its own risk, without the approval of the procuring contracting officer (PCO).

The Army Contracting Command Kuwait managed the CSSC-K contract until November 2007 when, due to contracting related fraud and quality issues outside the continental United States, the Secretary of the Army transferred contract management responsibility to ACC-RI. When ACC-RI assumed management responsibility, the CSSC-K contract had increased from \$503 million to \$1.9 billion in 8 years. The CSSC-K contract was scheduled to end in September 2009; however, ACC-RI officials

extended the period of the CSSC-K contract five additional times through September 2011. The five contract extensions, as well as additional funding authorized throughout the contract, increased the contract value to more than \$3.6 billion with 369 contract modifications.

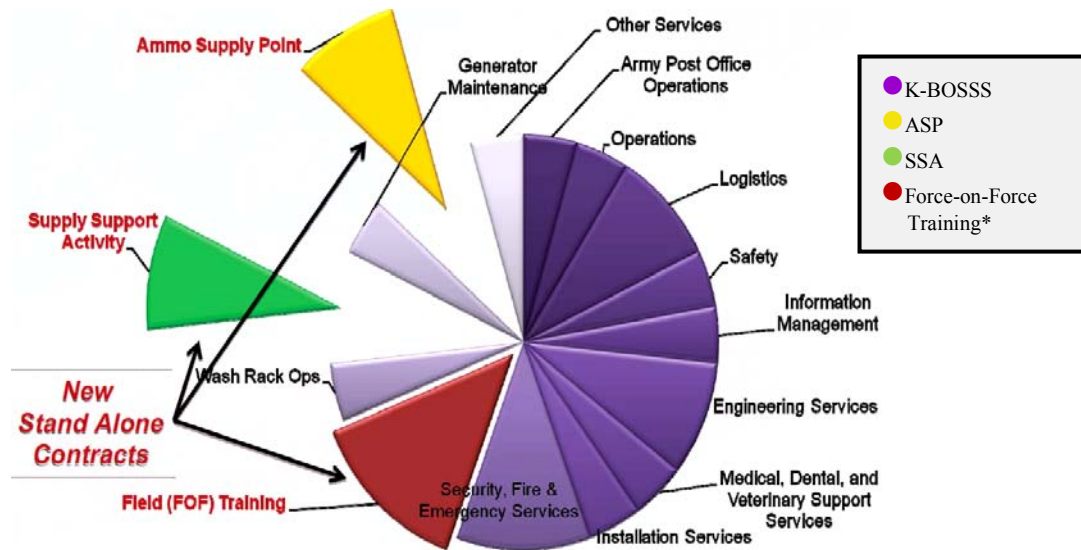
The ACC-RI PCO separated the CSSC-K contract work into three areas and awarded three separate contracts: K-BOSSS, SSA, and ASP.¹ The three follow-on contracts, like the CSSC-K contract, all support base operations in Kuwait. The three performance contractors perform work at Camps Arifjan, Buehring, and Virginia; Khabari Crossing; Ali Al Salem; Al Jalaia; Udairi Range; Kuwait Navy Base; Airport Point of Debarkation; and Military Sea Port of Debarkation.

ACC-RI officials awarded the K-BOSSS contract, W52P1J-10-C-0062, on September 29, 2010, for a potential total value of approximately \$1.3 billion if all option years are exercised. The K-BOSSS contract included the majority of the work from the CSSC-K contract. The base year of the K-BOSSS contract included a phase-in period from November 2010 through February 2011, and a period of performance from February 13, 2011, through September 28, 2011. The K-BOSSS period of performance dates were the same as the period of performance for the closeout of the CSSC-K contract.

On December 30, 2010, the ACC-RI PCO awarded the SSA contract, W52P1J-11-C-0019, for a potential total value of \$177 million if all option years are exercised. The SSA contract was for performance of the SSA warehouse operations for all serviceable and unserviceable U.S. equipment and classes of supply with the exception of Class I (Subsistence), Class IIIB (Bulk Fuel), Class V (Ammunition), Class VI (Personal Demand Items), Class VII (Major End Items), Class VIII (Medical), and COMSEC (Communications Security) controlled items and equipment. Also on December 30, 2010, ACC-RI officials awarded the ASP contract, W52P1J-11-C-0005, for a potential total value of \$103 million, if all option years are exercised. The ASP contract was for performance of the ASP and Theater Storage Area functions. The ASP/Theater Storage Area received, stored, and shipped containerized and break bulk munitions and issued, configured, and maintained theater reserve munitions. The contractor also conducted maintenance and repacking operations for munitions and residue.

¹ Another contract was awarded to another contractor in September 2009, for Force-on-Force Training, originally part of the CSSC-K contract. That contract was not within the scope of our audit since RICC did not manage that contract. The breakout of the CSSC-K services aligned for these contracts is shown in the figure.

Figure. Kuwait Base Operation Services Provided Under Follow-on Contracts



*Source: Rock Island Contracting Center

Review of Internal Controls

DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. ACC-RI officials did not implement all necessary controls to properly manage and administer the three follow-on contracts: K-BOSSS, SSA, and ASP. Specifically, ACC-RI officials did not implement controls for validating requirements, controlling costs, and establishing adequate property accountability before awarding contracts. We will provide a copy of the report to the senior officials responsible for internal controls in the Army.

Finding. Kuwait Base Operations Contracts Must Correct Identified Deficiencies

ACC-RI officials did not implement quality contracting processes before awarding the K-BOSSS, SSA, and ASP contracts. Specifically, ACC-RI officials did not:

- implement a recurring process to validate requirements,
- establish fixed-price requirements to control costs, or
- institute adequate property accountability.

This occurred because ACC-RI officials did not properly plan for the transition to the follow-on contracts. Unless ACC-RI officials improve contracting processes for requirements, cost controls, and property accountability, ACC-RI officials will have problems such as unplanned contract cost growth and inadequate accountability for DoD assets on the K-BOSSS, SSA, and ASP contracts.

Contract Management Improvements Needed

ACC-RI officials did not properly plan for the transition to the K-BOSSS, SSA, and ASP contracts. The contract pre-award phase consists of developing requirements, planning the acquisition, and issuing the solicitation. Before issuing the solicitation, Government officials must define measurable requirements in clear, specific, and objective terms in a performance work statement (PWS) and develop an acquisition plan that outlines how they will fulfill the contract in a timely manner and at a reasonable cost. However, ACC-RI officials did not implement a recurring process to validate contract requirements or provide controls for contract costs. DoD Inspector General (DoD IG) Report No. D-2010-059, "Contingency Contracting: A Framework for Reform," May 14, 2010, identified the top 10 systemic contracting issues in DoD. The report identified both requirements generation and cost controls as systemic contracting issues within DoD. The report identified actions that ACC-RI officials could take to improve their contracting processes and avoid these issues on the K-BOSSS, SSA, and ASP contracts.

Performance Requirements

Contracting activities and their customers should consider technical needs and business strategies when defining and specifying requirements. ACC-RI officials validated the requirements before awarding the K-BOSSS, SSA, and ASP contracts. However, due to the continuously changing environment in Kuwait and the constant increase and decrease of troops in surrounding countries, mission requirements fluctuate and should be revalidated often.

The requirements were documented in the contract and outlined in the PWS. According to Federal Acquisition Regulation (FAR) Subpart 2.1, "Definitions," the PWS must describe the required performance results in clear, specific, and objective terms with measurable outcomes. FAR Part 46, "Quality Assurance," requires Government surveillance of contractor performance. The PWS includes the requirements for the

contract and, therefore, must be comprehensive and available to Government surveillance officials to validate that their reviews identify all contract requirements. ACC-RI officials delegated contract administration and oversight to the Defense Contract Management Agency (DCMA). Like military officials, DCMA personnel rotate every 6 months to 1 year within the Southwest Asia theater. Because of regular rotations of oversight personnel, the ACC-RI PCO should develop a central repository for contract and PWS documents to facilitate the establishment of complete contract files to assist with recurring requirements revalidation.

ACC-RI officials included in the K-BOSS, SSA, and ASP contracts the requirements in objective terms with measurable outcomes; however, these actions alone will not ensure good contract administration and oversight. Specifically, ACC-RI officials should:

- establish a recurring process to validate user requirements with the requiring military units to verify that the PWS adequately defines complete contract requirements;
- modify the K-BOSS, SSA, and ASP contracts to match the validated user requirements as they change during the recurring validation process; and
- develop a central repository readily available to all personnel assigned to the K-BOSS, SSA, and ASP contracts to maintain all PWS contract changes.

Cost Controls

Significant cost increases occurred with the previous Kuwait base support contract. Acquisition planning includes developing the overall strategy for managing the acquisition and includes cost estimates for the total planned procurement. ACC-RI officials must have efficient contract cost controls in the K-BOSS, SSA, and ASP contracts to effectively measure cost, schedule, and performance risks and the plan for mitigating those risks. ACC-RI officials could better manage these risks by negotiating fair and reasonable prices for contract goods and services, conducting thorough reviews of contractor invoices, and establishing fixed prices for known requirements.

ACC-RI officials did not establish fixed-price requirements in the K-BOSS, SSA, and ASP contracts. The FAR requires the Government to develop an acquisition plan to fulfill the contract requirements in a timely manner and at a reasonable cost. The acquisition plan should include the cost estimate and the availability of funds. The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD AT&L) memorandum, "Better Buying Power: Guidance for Obtaining Efficiency and Productivity in Defense Spending," September 14, 2010, states that cost-plus-award-fee contracts only provide limited motivation for cost discipline, and service acquisitions should be predisposed toward cost-plus-fixed-fee or cost-plus-incentive-fee contracts when robust competition or competitive pricing history does not exist, to build sufficient cost knowledge of the services. However, when robust competition already exists or recent competitive pricing history existed, Components should use fixed-price contract arrangements.

ACC-RI officials did not establish fixed-price requirements in the K-BOSS, SSA, and ASP contracts.

The ACC-RI officials responsible for award of the K-BOSSS, SSA, and ASP contracts had at least 10 years of historical data and DCAA audits to determine Government cost estimates. ACC-RI officials stated that they used cost-plus contracts for these three contracts because the level of effort cannot always be determined in a contingency environment. However, ACC-RI officials should have established fixed prices for

ACC-RI officials should use the historical data from the CSSC-K contract to identify goods or services that should be purchased at a fixed price to help control costs for the K-BOSSS, SSA, and ASP contracts.

portions of the contract with well-defined requirements. While officials may not always know the quantity of goods, officials can set fixed prices for goods such as towels, pallets, and ink cartridges that are continuously ordered under the contract. ACC-RI officials should use the historical data from the CSSC-K contract to identify goods or services that should be purchased at a fixed price to help control costs for the K-BOSSS, SSA, and ASP contracts.

The OUSD AT&L memorandum states that components should strengthen market research and develop research teams to better understand industry capabilities and appropriate pricing for the services sought. The PCO should identify fixed prices by using the information developed by the market research teams. ACC-RI officials should, to the maximum extent possible, develop fixed prices for items with sufficient price history.

Further, the ACC-RI PCO continuously increased funding to cover work under the CSSC-K contract, and the contractor's invoices did not identify unit prices or quantity. Specifically, ACC-RI officials increased the ASP contract value by approximately \$216,000 in April 2011, and increased funding on the K-BOSSS contract by approximately \$133.5 million within the 5 months after contract award. To avoid cost increases and ensure that the contractors only bill for allowable, allocable, and reasonable costs, the ACC-RI PCO should perform periodic reviews of the contractor invoices. These reviews should validate that all invoiced amounts are in accordance with the contract and verify that DCMA officials perform all delegated billing responsibilities, such as proper acceptance of supplies and services and proper validation of invoices.

Property Accountability Was Not Established

ACC-RI officials did not have complete property lists to include in the solicitation for the K-BOSSS, SSA, and ASP contracts. As reported in the DoD IG report, "Contingency Contracting: A Framework for Reform," property accountability has been an ongoing issue within DoD. Further, ACC-RI officials did not initially include the item unique identification (IUID) property requirement clause in the K-BOSSS and ASP contracts and still have not included the IUID property clause in the SSA contract.

Incomplete Government Property Lists

The previous contractor did not provide a complete Government property list to ACC-RI officials to include in the solicitation for the K-BOSSS, SSA, and ASP contracts. The previous contractor was required to maintain a list of Government property in its property

system; however, the contractor's property system was not approved. Due to the status of the contractor's property system, ACC-RI officials have no assurance that the property records are accurate.

We compared the list generated from the previous contractor's property system against the property lists contractor officials submitted for the K-BOSSS, SSA, and ASP solicitations. Of the 225 sensitive² and high-dollar items from our judgment sample of contractor lists, we identified 41 items valued at approximately \$3.3 million that were not included on the K-BOSSS, SSA, and ASP solicitation property listings. ACC-RI officials stated that the property lists were the best information available to the Government at the time and that all property had transferred to the follow-on contractors and, if necessary, added to the contracts. However, because ACC-RI officials did not include all property in the solicitation property listings, the amount proposed by the incoming performance contractor may not be adequate to perform the work on the K-BOSSS, SSA, and ASP contracts.

Noncompliance With DoD IUID Registry Requirements

ACC-RI officials did not include the IUID³ property requirement clause in the solicitation or basic contract awards for the K-BOSSS, SSA, and ASP contracts even though we informed ACC-RI officials in December 2009 of the 2008 IUID property requirement. Although ACC-RI officials subsequently issued a modification that added the IUID clause to the K-BOSSS and ASP contracts, they still have not included the clause in the SSA contract. Defense Federal Acquisition Regulation Supplement (DFARS) 252.211-7007, "Reporting of Government-Furnished Equipment in the DOD IUID Registry," established the IUID requirement to implement the use of IUID tags on all items over \$5,000. The IUID Registry is a data repository that receives input from industry and Government sources and provides storage and access to data that identifies and describes tangible personal property. The IUID property requirement clause must be included in contracts with Government-furnished property and requires the contractor to provide accountability and management of Government-furnished equipment at the item level for sensitive items or items over \$5,000.

Although ACC-RI officials subsequently issued a modification that added the IUID clause to the K-BOSSS and ASP contracts, they still have not included the clause in the SSA contract.

The DFARS outlines specific requirements that the contractors' property management systems must meet in order to permit reporting of unique item identifiers to the DoD IUID Registry. Since ACC-RI officials did not include the IUID requirement in the

² Sensitive property refers to property that is potentially dangerous to public safety or security if stolen, lost, or misplaced and is subject to exceptional physical security, protection, control, and accountability. Examples include weapons, ammunitions, radioactive material, explosives, controlled substances, hazardous materials or wastes, or precious metals.

³ According to DFARS 252.211-7007, item unique identification means a system of assigning, reporting, and marking DoD property with unique item identifiers, which have machine-readable data elements to distinguish an item from all other like and unlike items.

solicitation for the K-BOSSS, SSA, and ASP contracts, the incoming performance contractors may not be equipped to implement this requirement. Further, the contractor's proposal could not have included the costs to implement the use of IUID. According to ACC-RI officials the addition of the IUID clause to the K-BOSSS and SSA contracts did not increase costs; however, the IUID requirement could have increased costs had the contractor not been equipped to meet the requirements.

The ACC-RI PCOs assigned to the contracts should immediately modify the SSA contract to include the clause in accordance with DFARS.

Conclusion

ACC-RI officials did not fully implement best contracting practices during the transition and award of the K-BOSSS, SSA, and ASP contracts, which could affect the quality of the administration and oversight of these contracts. ACC-RI officials did not implement a recurring process to validate contract requirements, establish fixed prices for portions of the contracts with well-defined requirements, or ensure consistency in an environment where Government personnel frequently rotate and did not implement the IUID requirement even though it was a standard requirement for more than 2 years before the K-BOSSS, SSA, and ASP contracts were awarded.

Management Comments on the Finding and Our Response

Management Comments

The Executive Director, ACC, informed the audit team that Rock Island Contracting Center changed its name to Army Contracting Command-Rock Island. As a result, he asked that the name of the contracting center be corrected throughout the report.

Our Response

We changed the name of the contracting center to Army Contracting Command-Rock Island, as requested.

Recommendations, Management Comments, and Our Response

Redirected Recommendations

As a result of management comments, we redirected draft Recommendation 1a-g to the Executive Director, ACC-RI.

1. We recommend that the Executive Director, Army Contracting Command-Rock Island, direct the procuring contracting officers assigned to the Kuwait Base Operations and Security Support Services, Ammunition Supply Point, and Supply Support Activity contracts to:

a. Establish a recurring process to validate requirements with the requiring military units, to verify that performance work statements adequately define contract requirements, and modify the contracts to match the validated user requirements.

Management Comments

The Executive Director, ACC-RI, agreed. He stated that 90 days prior to the exercise of the next option year, he will request revalidation of the performance work statement and all supporting documentation, such as Technical Exhibits and Contract Data Requirements Lists, by the requiring military units, to ensure that the contract documents accurately reflect the mission requirements at that time. Additionally, the Executive Director stated that the contractors will then be asked to provide the procuring contracting officer with any necessary updated pricing information due to any requirements changes for evaluation prior to the exercise of the next option year.

The Executive Director stated that in addition to the yearly revalidation process, the performance work statement details a Change Management Process and any changes to the contract made throughout the year are tracked and properly vetted through all applicable parties. The Executive Director stated that the Kuwait Base Operations Supply and Support Services Contract Change Order Request, implemented in April 2011, is the form used to track the change process. The Executive Director stated that the form has allowed for greater visibility of all Kuwait Base Operations changes and is currently being implemented for use with both the Supply Support Activity and Ammunition Supply Point contracts, targeted for completion at the end of third quarter, FY 2011.

Our Response

The Executive Director, ACC-RI, corrective actions taken and targeted completion for the requirements validation process meet the intent of the recommendation. The Executive Director response included the performance work statement Change Management Process contract clause and the K-BOSSS Change Order Request Form. Therefore, no further comments are required.

b. Develop a central repository for the performance requirements and any updates, to verify that the requirements are inclusive and readily available to Government surveillance officials to validate that their reviews encompass all contract performance requirements.

Management Comments

The Executive Director, ACC-RI, agreed. He stated that the contractor developed a SharePoint system as the central repository for the contract, to include performance requirements and all deliverables. The Executive Director stated that all Contract Data Requirements Lists are submitted by the contractor, an e-mail is generated to the applicable contracting officer representatives, DCMA, and PCO, notifying each party that the document has been delivered to the SharePoint folder, which all parties can access.

Additionally, the Executive Director stated that all contract modifications, conformed copy of the contract, and all attachments are provided to DCMA upon PCO signature. The Executive Director also pointed out that the contract and all modifications can be viewed in the Electronic Document Access, which serves as a second central repository. The Executive Director stated that in order to further allow for availability by all parties, all contract attachments will be uploaded to the Electronic Document Access by August 30, 2011.

Our Response

Comments from the Executive Director, ACC-RI, indicate that actions that meet the intent of the recommendation have been taken. Therefore, no further comments are required.

c. Establish fixed prices for commercial items in the performance work statement.

Management Comments

The Executive Director, ACC-RI, agreed. He stated that due to the continuous changes in mission requirements and the environment of the Kuwait Area of Responsibility, the K-BOSSS, SSA, and ASP contracts represent service requirements that are largely noncommercial and driven by level of effort labor. The Executive Director stated that before the recompetition of these requirements, any requirements that were known to be stable enough for fixed pricing were pulled out and competed separately by ACC-RI as stand-alone, fixed-price contracts. In addition, the Executive Director stated that contractors for these three contracts are encouraged to use fixed-price contracts for all commercial items when available. The Executive Director stated that as these contracts move forward and more statistical data become available reflecting trends in the overall mission requirements, continued efforts will be made to identify opportunities to use fixed prices. The Executive Director set a target completion date for evaluating statistical data and fixed-price opportunities for the end of the third quarter, FY 2011.

Our Response

Planned actions of the Executive Director, ACC-RI, to identify opportunities to use fixed prices on the Kuwait contracts and actions taken to pull requirements stable enough for fixed pricing and compete the requirements separately meet the intent of the recommendation.

d. Use the historical data from the Combat Support Services Contract-Kuwait and information developed by market research teams to identify goods or services that could be purchased at a fixed price and develop fixed prices for these items and include these prices before the next contract option is exercised.

Management Comments

The Executive Director, ACC-RI, partially agreed. He stated that as discussed for Recommendation 1c, the availability of items and services allowing for a fixed-price

acquisition under the K-BOSS, SSA, and ASP contracts is extremely limited. The Executive Director stated that all effort is being made to ensure that fixed prices are used to the maximum extent practicable for subcontractors. Additionally, the Executive Director stated that the historical Combat Support Associates information is seriously flawed and the use of such information would not be advantageous to the Government. However, the Executive Director stated that as part of the revalidation process, discussed in Recommendation 1a, the procuring contracting officer will review the stability of the overall requirements and market conditions to identify opportunities to appropriately apply fixed prices to any aspects of the prime contractors' responsibilities. The Executive Director set a target completion date for revalidation of requirements by the procuring contracting officers to identify fixed-price opportunities by the end of the third quarter, FY 2011.

Our Response

Although the Executive Director, ACC-RI, only partially agreed, actions that will be taken by the PCO to review the stability of the overall requirements and market conditions to identify opportunities to use fixed prices meet the intent of the recommendation. Therefore, no further comments are required.

e. Perform detailed reviews of the contractor invoices to validate that all invoiced amounts are allowable, allocable, reasonable, and in accordance with the contract.

Management Comments

The Executive Director, ACC-RI, agreed. He stated that before award of the contracts, multiple teams, including technical experts and DCAA auditors, evaluated costs to determine whether they were allowable, allocable, reasonable, and in accordance with the contract requirements as solicited. The Executive Director enclosed an April 14, 2008, document from the Under Secretary of Defense for Acquisition, Technology and Logistics, which directed that DCAA has sole authority for verifying claimed costs on cost-reimbursable contracts. However, the Executive Director stated that to encourage enhanced review and invoice accuracy, the procuring contracting officer has negotiated additional invoice review procedures with the contractor and has incorporated these review procedures into the contract. The Executive Director stated that these procedures are designed to ensure that the contracting officer representative, administrative contracting officer, and procuring contracting officer are reviewing the contractors' invoiced costs to ensure that costs are in accordance with contractual terms and services provided. The Executive Director set a target completion date for the deliverables for this recommendation for end of the third quarter, FY 2011, and provided a copy of the invoice instructions, which were incorporated into the contract by the PCO.

Our Response

Comments from the Executive Director, ACC-RI, meet the intent of the recommendation. We request that the Executive Director clarify whether the contracting officer

representatives receive all back-up attachments for invoices to assist them in their invoice reviews.

f. Establish regular meetings to validate that the Defense Contract Management Agency performs all billing responsibilities to include proper acceptance of supplies and services and proper validation of invoices.

Management Comments

The Executive Director, ACC-RI, agreed. He stated that all billing responsibility for verifying claimed costs lies with the Defense Contract Audit Agency. The Executive Director stated that on April 26, 2011, the PCO, contract specialists, and ACC-RI price analysts met with DCAA and DCMA officials responsible for oversight of the three contracts in Kuwait to further discuss oversight of the contracts. The Executive Director stated that ACC-RI, DCAA, and DCMA representatives in Kuwait hold a weekly teleconference, to ensure complete communication among all parties.

Our Response

Comments from the Executive Director, ACC-RI, indicate that actions that meet the intent of the recommendation have been. Therefore, no further comments are required.

g. Modify the Supply Support Activity contract to include the item unique identification property requirement clause from Defense Federal Acquisition Regulation Supplement 252.211-7007.

Management Comments

The Executive Director, ACC-RI, agreed. He stated that modification P00005 to the SSA contract included the 252.211-7007 clause, which was signed by the PCO on May 9, 2011. The Executive Director provided a copy of the modification to the contract.

Our Response

The Executive Director, ACC-RI, took corrective actions and provided the audit team with a copy of the modification incorporating clause 252.211-7007 into the SSA contract. Therefore, no further comments are required.

Appendix. Scope and Methodology

We conducted this performance audit from August 2010 through May 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This is the second of a series of audit reports on the management and administration for contracts supporting base operations in Kuwait. For this report, we focused on the K-BOSSS, SSA, and ASP contracts. To determine whether ACC-RI properly solicited and awarded the three Kuwait base operations contracts, we interviewed personnel involved in the management and oversight of the solicitation, reviewed the K-BOSSS, SSA, and ASP contracts and solicitation documents, and reviewed documents as described below. Specifically, we visited the following locations:

- ACC-RI, Rock Island, Illinois
- DCMA International, Alexandria, Virginia
- DCMA-Houston, Houston, Texas
- DCMA-Kuwait, Camp Arifjan, Kuwait
- Contractor Kuwait Offices, Camp Arifjan, Kuwait
- DCAA Kuwait Offices, Camp Arifjan, Kuwait

We reviewed the FAR, DFARS, Department of Defense Procedures, Guidance, and Information, and DoD guidelines to determine contract management and administration responsibilities. We reviewed the K-BOSSS, SSA, and ASP solicitation and contract documentation to determine whether ACC-RI complied with the OUSD AT&L memorandum, “Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending,” and whether ACC-RI officials implemented controls to avoid the cost increases that occurred on the CSSC-K contract. We also reviewed DoD IG Report, “Contingency Contracting: Framework for Reform,” May 14, 2010, and determined that the issues we identified were systemic issues within DoD.

We reviewed the performance work statements for the follow-on contracts to determine whether ACC-RI officials complied with the FAR. We also reviewed the property listings for the K-BOSSS, SSA, and ASP contracts and compared them with our sample from the CSSC-K contract property list to determine whether the contractor accounted for all property that should transfer to the K-BOSSS, SSA, and ASP contracts. To obtain our sample of 225 items, we judgmentally selected high-dollar items, valued at approximately \$13.4 million, and sensitive items, valued at approximately \$664,000, at Camp Arifjan and Camp Buehring. We verified the serial numbers and barcodes and whether the items could be located using the information provided for each item. Our sample consisted of a records-to-floor sample where we judgmentally selected 138 high-dollar and sensitive items. We also conducted a floor-to-records sample where we

judgmentally selected 87 high-dollar and sensitive items and searched for them in the property list by barcode, serial number, and description. Finally, we reviewed the K-BOSSS, SSA, and ASP solicitations and contracts for compliance with the IUID requirements in the DFARS.

Use of Computer-Processed Data

We relied on computer-processed data from the Electronic Document Access Web site. Electronic Document Access is a Web-based system that provides secure online access, storage, and retrieval of contracts and contract modifications to authorized users throughout the DoD. We used documents retrieved from Electronic Document Access to determine the approximate value of the CSSC-K contract. We compared our analysis of the contract modifications with data provided by the contracting office to verify the CSSC-K contract value. As a result of our analysis, we determined that the Electronic Document Access Web site was sufficiently reliable for the purpose of determining the approximate value of the CSSC-K contract.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) issued three reports, the DoD IG issued four reports, and the Army Audit Agency issued one report discussing contracts supporting bases in Kuwait. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil>. Unrestricted Army reports can be accessed from .mil and gao.gov domains over the Internet at <https://www.aaa.army.mil/>.

GAO

GAO Report No. GAO-10-376, "Operation Iraqi Freedom: Actions Needed to Facilitate the Efficient Drawdown of U.S. Forces and Equipment from Iraq," April 2010

GAO Report No. GAO-07-559, "Defense Contracting: Use of Undefinitized Contract Actions Understated and Definition Time Frames Often Not Met," June 2007

GAO Report No. GAO-07-145, "Military Operations: High-Level DOD Action Needed to Address Long-Standing Problems With Management and Oversight of Contractors Supporting Deployed Forces," December 2006

DoD IG

DoD IG Report No. D-2011-033, "DoD Needs to Improve the Management and Oversight of Operations at the Defense Reutilization and Marketing Office-Camp Arifjan, Kuwait," January 12, 2011

DoD IG Report No. D-2010-091, "DOD Needs to Improve Management and Oversight of Operations at the Theater Retrograde-Camp Arifjan, Kuwait," September 30, 2010

DoD IG Report No. D-2010-085, "Kuwait Contractors Working in Sensitive Positions Without Security Clearances or CACs," September 22, 2010

DoD IG Report No. D-2010-059, "Contingency Contracting: A Framework for Reform,"
May 14, 2010

Army

Army Audit Agency Report No. A-2009-0132-ALL, "Contracting Operations: U.S.
Army Contracting Command Southwest Asia - Kuwait," September 29, 2009

U.S. Army Materiel Command Comments



REPLY TO
ATTENTION OF:

DEPARTMENT OF THE ARMY
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND
4400 MARTIN ROAD
REDSTONE ARSENAL, AL 35898-5000

AMCIR

JUN 8 2011

MEMORANDUM FOR Department of Defense Inspector General (DoDIG), [REDACTED]
[REDACTED]

SUBJECT: Command Reply to DoDIG Draft Report: Contracts Supporting Base Operations in Kuwait Need Stronger Management and Administration (Project No. D2009-D000AS-0266.003) (D0950)

1. The U.S. Army Materiel Command (AMC) has reviewed the subject report. AMC endorses the enclosed comments from the U.S. Army Contracting Command (ACC).

2. [REDACTED]
[REDACTED]

Encl


JOHN B. NERGER
Executive Deputy to the
Commanding General

U.S. Army Contracting Command Comments

Final Report
Reference



DEPARTMENT OF THE ARMY
U.S. ARMY CONTRACTING COMMAND
9301 CHAPEK ROAD
FORT BELVOIR, VA 22060-5527

REPLY TO
ATTENTION OF:

AMSCC-IR

JUN 02 2011

MEMORANDUM FOR [REDACTED]
[REDACTED]
[REDACTED]

SUBJECT: Contracts Supporting Base Operations in Kuwait Need Stronger Management and Administration, (Project No. D2009-D000AS-0266.003) (D1127)

1. References:

a. Memorandum, Army Contracting Command – Rock Island (ACC-RI) 27 May 2011, subject: U.S. Army Contracting Command-Army Contracting Command, Rock Island reply to Department of Defense Inspector General (DODIG) DRAFT REPORT, Contracts Supporting Base Operations in Kuwait Need Stronger Management and Administration, (Report Number: D2009-D000AS-0266.003) (enclosed).

b. Memorandum and Draft Report, Department of Defense Inspector General, 5 May 2011, subject: Contracts Supporting Base Operations in Kuwait Need Stronger Management and Administration, (Project No. D2009-D000AS-0266.003).

2. After reviewing the referenced documents, the Army Contracting Command (ACC) concurs with the comments from ACC-Rock Island (ACC-RI).

3. There are two changes that should be made in the report:

a. The recommendations should be addressed to the Executive Director of the Contracting Center.

b. The name of the contracting center needs to be corrected to reflect its current name: ACC-RI (ACC-RI).

4. [REDACTED]
[REDACTED]

JEFFREY P. PARSONS
Executive Director

Encl

Redirected

Revised

U.S. Army Contracting Command-Rock Island Comments



CCRC

REPLY TO
ATTENTION OF:

UNCLASSIFIED
DEPARTMENT OF THE ARMY
ARMY CONTRACTING COMMAND ROCK ISLAND
1 ROCK ISLAND ARSENAL
ROCK ISLAND, IL 61299-8000

MAY 27 2011

MEMORANDUM FOR Inspector General Department of Defense, [REDACTED]
[REDACTED]

SUBJECT: Contracts Supporting Base Operations in Kuwait Need
Stronger Management and Administration Project No. D2009-D000AS-
0266.003

1. The Rock Island Contract Center has reviewed the draft report.
Our comments are enclosed.

2. [REDACTED]
[REDACTED]

ENCL AS

Kristen Mendoza
for **MICHAEL R. HUTCHISON**
Executive Director
Army Contracting Command - Rock Island

UNCLASSIFIED

**DRAFT DoDIG Report Recommendations, Contracts Supporting Base Operations
in Kuwait Need Stronger Management and Administration
Project No. D2009-D000AS-0266.003**

Army Contracting Command – Rock Island Comments

Recommendation 1a: Establish a recurring process to validate requirements with the requiring military units, to verify that performance work statements adequately define contract requirements, and modify the contracts to match the validated user requirements.

Response 1a: Concur. The Kuwait Base Operations and Security Support Services (K-BOSSS), Supply Support Activity (SSA) and Ammunition Supply Point (ASP) contracts began full performance on 13 February 2011. While these contracts are extremely new, it is recognized that requirements can and do change over the course of time. Therefore, ninety days prior to the exercise of the next option year, revalidation of the PWS and all supporting documentation such as Technical Exhibits (TE) and Contract Data Requirements Lists (CDRL) will be requested of the requiring military units to ensure that the contract documents accurately reflect the mission requirements at that time. As a result of this revalidation process, the contractors will then be asked to provide the PCO any necessary updated pricing reflective of any requirements changes for evaluation prior to exercise of the option year.

In addition to the yearly revalidation process, the PWS details a Change Management Process (Enclosure 1) and any changes to the contract throughout the year are tracked and properly vetted through all applicable parties. The form utilized to track this change process is the K-BOSSS Contract Change Order Request Form which was implemented in April 2011 (Enclosure 2) The requiring activity fills out this form which details the documentation needed to capture changes that effect target cost and fees as well as changes that do not impact contract cost or fee. Any changes to the performance requirements are updated and highlighted within the corresponding documents such as the PWS, QASP, CDRLs, and TEs. The documents are re-dated with a new date and new version number to ensure that the documents are clearly marked with all changes incorporated. The form and all supporting documentation are coordinated through the internal requiring activity process, submitted to the LNO and then submitted to the PCO for incorporation into a Request for Proposal to the contractor. Upon receipt of the Proposal, the proposal is evaluated by both a Technical Team made up of the requiring activity and price analysts at Rock Island and DCAA. The final requirements and costs are then negotiated and placed on contract. This form has allowed for greater visibility of all K-BOSSS changes and is currently being implemented for use with both the SSA and the ASP contracts. Target date for completion is the end of the 3rd quarter FY 2011.

Recommendation 1b: Develop a central repository for the performance requirements and any updates, to verify that the requirements are inclusive and readily available to Government surveillance officials to validate that their reviews encompass all contract performance requirements.

Response 1b: Concur. A SharePoint system has been developed by the contractor and is currently in place as the central repository for the contract to include performance requirements

and all deliverables. All CDRLs are submitted to the Sharepoint by the contractor and an email is generated to the applicable COR, DCMA and PCO notifying each party that the document has been delivered to the SharePoint folder. The PCO, DCMA and multiple CORs currently have access to the SharePoint for review of all documents and the PCO will coordinate with DCMA to verify that all CORs have access to the appropriate folders. In addition to the SharePoint, all contract modifications, a conformed copy of the contract and all attachments are provided to DCMA via email upon signature of the modification by the PCO. In order to utilize existing DoD systems, the contract and all modifications can also be found in EDA which serves as a second central repository. EDA automatically generates a copy of all final documents to the DCMA POCs who have responsibility to manage communication with the CORs. In order to further allow for availability by all parties, all contract attachments will be uploaded to EDA by 30 August 2011. Target date for completion is 30 August 2011.

Recommendation 1c: Establish fixed prices for commercial items in the performance work statement.

Response 1c: Concur. Due to the continual changing mission requirements and execution environment of the Kuwait AOR, the K-BOSS, SSA and ASP contracts all represent service requirements that are largely non-commercial and driven in large part by level of effort labor. Prior to the recompetition of these requirements, any requirements that were known to be stable enough for fixed pricing were pulled out and competed separately by the RICC as standalone fixed price contracts. Additionally, the K-BOSS, SSA, and ASP contractors are encouraged to utilize fixed price contracts for all commercial items when available. Furthermore, currently all subcontracts over \$25,000 on the K-BOSS contract and over \$700,000 on the SSA and ASP contracts are submitted to the DCMA ACO for consent prior to issuance in order to ensure that proper contract acquisition procedures are being followed and maximum practical competition has been achieved. With the upcoming Operation New Dawn draw down in Iraq, thousands of soldiers will be moving out of Iraq through Kuwait over the remainder of 2011, which will significantly impact the magnitude of work required under these three contracts in the near future. As these contracts move forward and more statistical data becomes available reflecting trends in the overall mission requirements, continued effort will be made to identify opportunities to utilize fixed prices. Target date for completion is the end of the 3rd quarter FY 2011.

Recommendation 1d: Use the historical data from the Combat Support Services Contract-Kuwait and information developed by market research teams to identify goods or services that could be purchased at a fixed price and develop fixed prices for these items and include these prices before the next contract option is exercised.

Response 1d: Partially Concur. As discussed above in Response 1c, the availability of items and services allowing for a fixed price acquisition under the K-BOSS, SSA and ASP contracts is extremely limited and all effort is being made to ensure that fixed prices are utilized to the maximum extent practicable, at the subcontract level. However, as seen in previous AAA, DoDIG and DCAA audits, the historical CSA information is seriously flawed and the use of such information would not be advantageous to the USG. As part of the requirements revalidation process discussed above, the PCO will review the stability of the overall requirements and

market conditions to identify opportunities to appropriately fix price any aspects of the prime contractors' responsibilities. Target date for completion is the end of the 3rd quarter FY 2011.

Recommendation 1e: Perform detailed reviews of the contractor invoices to validate that all invoiced amounts are allowable, allocable, reasonable, and in accordance with the contract.

Response 1e: Concur. The K-BOSSS, SSA and ASP contracts were all awarded after best value full and open competitions during which the proposed approaches and costs were evaluated by multiple teams including technical experts and DCAA auditors to determine them allowable, allocable, reasonable, and in accordance with the contract requirements as solicited. Additionally as discussed in Response 1a above, any changes to the requirements throughout the life of the contract are validated and evaluated through a similar process.

On 14 April 2008, the Office of the Under Secretary of Defense issued a Memorandum signed by Mr Shay Assad (Enclosure 3) which directed that DCAA has the sole authority for verifying claimed costs on cost-reimbursable contracts. However, to encourage enhanced review and invoice accuracy, the PCO has negotiated additional invoice review procedures with the contractor (Enclosure 4) and incorporated these procedures into the contract. These procedures are designed to ensure that the COR, ACO and PCO are reviewing the contractors' invoiced costs to ensure invoiced costs are in accordance with contractual terms and services provided. Target date for completion is the end of the 3rd quarter FY 2011.

Recommendation 1f: Establish regular meetings to validate that the Defense Contract Management Agency performs all billing responsibilities to include proper acceptance of supplies and services and proper validation of invoices.

Response 1f: Concur. As stated above in Response 1e, according to policy, all billing responsibility for verifying claimed costs falls to DCAA versus DCMA. On 26 April 2011, the PCO, Contract Specialist, and Price Analysts from Rock Island met face to face with DCAA and DCMA POCs responsible for oversight of these three contracts in Kuwait, and spent six days meeting with all parties to further discuss oversight of the K-BOSSS, SSA and ASP contracts. Furthermore, a standing, weekly teleconference is held on Tuesday with Rock Island, DCMA and DCAA representatives in Kuwait participating to ensure complete communication between all parties. Target date for completion is the end of the 3rd quarter FY 2011.

Recommendation 1g: Modify the Supply Support Activity contract to include the item unique identification property requirement clause from Defense Federal Acquisition Regulation Supplement 252.211-7007.

Response 1g: Concur. This action is complete as Modification P00005 to the SSA contract which included the 252.211-7007 clause was signed by the PCO on 09 May 2011 (Enclosure 5). Target date for completion was 9 May 2011



Inspector General Department of Defense

