

RECORD VERSION

STATEMENT BY

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Commanding General
U.S. Army Materiel Command

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ON CONTRACTING IN IRAQ

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INTRODUCTION

Mr. Chairman and distinguished members of the Committee, thank you for this opportunity to report to you on the Logistics Civil Augmentation Program.

The Logistics Civil Augmentation Program (LOGCAP) provides vital support to our forces both in peace and war. It increases the efficiency and warfighting capability of the Armed Forces, immediately improves the quality of life for soldiers and forces on the ground, and actually allows fewer soldiers to accomplish a larger mission. While this specific program and the capability it provides has been in existence for over a decade supporting American forces in contingency operations around the world, the role of private enterprise and contractors on the battlefield is as old as our nation.

LOGCAP I covered the period 1991 to 1996. The contract was competitively awarded to Brown and Root Company, and managed by the Corps of Engineers. During this period, support was provided for the Southwest Asia pipeline and principally to contingency operations in Somalia and the Balkans.

LOGCAP II covered the period 1997 to 2001. The contract was competitively awarded to DynCorps and managed by the U.S. Army Materiel Command (AMC) and supported contingency operations in East Timor, Colombia and the Philippines.

The latest contract, LOGCAP III covers the period from 2002 to present. Again, this contract was competitively awarded to the company now known as Kellogg, Brown and Root Services, Inc, with continued management by the U.S. Army Materiel Command. As of today, LOGCAP III provides support to contingency operations in Iraq,

Kuwait, Afghanistan, Djibouti, Republic of Georgia and Uzbekistan while planning for contingency operations in other locations depending on our national security needs.

Through LOGCAP, the Army plans for contractor logistics support for existing operational and contingency plans and conducts exercises and training events. More to the point, LOGCAP provides contingency support wherever and whenever required.

The LOGCAP umbrella contract statement of work (SOW) specifies the support, which *may* be provided by the LOGCAP prime contractor divided into three broad categories: supply operations, field services, and operations and services. The flexible nature of the umbrella contract allows the commander in the field to call on contractors to overcome the logistics shortfalls as the situation on the ground evolves.

As I mentioned, LOGCAP is about providing support to our troops and this support covers the full logistics spectrum. Some of the more critical functions include laundry and bath, facilities and billeting, clothing exchange and repair, waste and sanitation, food service, mortuary affairs, supply support, maintenance, transportation and distribution, and power generation and distribution to list but a few. The more austere the operating environment, the more difficult it becomes for the Army to insert these critical services for our troops. The current environments in Iraq and Afghanistan are among the most difficult and challenging in which we have had to operate on a sustained basis.

Although contract support is essential throughout the Army's operations, here at home as well as overseas, exercising the option of LOGCAP is not automatic. The initial choice to use LOGCAP is a careful and deliberate analysis of all available support options in terms of adequacy and time. Combatant commander requirements may be supported by U.S. Active, Reserve and National Guard support units; allied military arrangements such as the North Atlantic Treaty Organization; host and other foreign nation support; and, organic, in-theater contracting capabilities. LOGCAP program

managers assist the supported force with planners to review all support options available.

The LOGCAP III umbrella contract was competitively awarded to Brown & Root Services, Inc. (BRS) of Houston, Texas, now known as Kellogg, Brown and Root, December 14, 2001. The Army Materiel Command awarded this contract following a competitive procurement, using best value source selection techniques. Best value allows the Army to access tradeoffs among cost and non-cost factors and accept the most advantageous proposal. Two other major defense contractors submitted proposals during this competition. We evaluated the companies on their management plan, technical plan, past performance, financial capability and proposed cost structure. We awarded the contract, without protest, to the company determined to provide the Best Value to the U.S. Army considering cost and all other factors.

The contract is an indefinite delivery, indefinite quantity (ID/IQ) contract. This allows the government to immediately set requirements within the scope of the contract without further competition. Requirements are placed against the basic contract as separate task orders. Task orders under the contract may be priced on a cost-plus-award-fee, firm-fixed-price, or cost-plus-fixed-fee basis. Cost-plus-award-fee contracts are appropriate for contingency operations in which the performance parameters of the contract, such as the size, location and field conditions of the supported force, are not known with precision and are subject to change. The Army pays only for work performed. No funds are applied solely for having the contract awarded to a company.

Timing is key to all military operations. A LOGCAP contract is designed to allow the warfighter the ability to place task orders on contract rapidly, to support evolving, dynamic operations to provide critical and essential life support to our forces operating in harsh environments where host nation assets are unavailable or do not satisfy the support requirement. LOGCAP contracts provide a means to respond to a wide range of needs while retaining checks and balances to ensure effective management of tax dollars.

Combatant commanders, or other supported customers such as the Coalition Provisional Authority or the Iraqi Survey Group, develop requirements for support based upon operational plans. The customer examines the possible alternatives for satisfying that requirement which including organic support, reserve component units, host nation support, or LOGCAP.

After the customer determines that LOGCAP is the only viable capability to provide the support, normally within compressed timelines due to operational realities and exigencies, the customer writes a scope of work with the assistance of Army LOGCAP planners. This scope of work is forwarded through channels to the Army's Deputy Chief of Staff, Logistics, or G4, and then to the U.S. Army Field Support Command's LOGCAP contracting office. The AFSC is AMC's subordinate command responsible for executing the LOGCAP program.

Following reviews for legal and contractual compliance, the procuring contracting officer, or PCO, sends the scope of work to the contractor and requests a rough order of magnitude (ROM) estimate of the cost of performance and a technical execution plan. The contractor develops this estimate and plan and provides them to the PCO and the customer. After the customer accepts this estimated cost and execution plan, and funds are received, the PCO issues a notice to proceed to the contractor who initiates action to satisfy the warfighter or customer requirement. In urgent circumstances this process can be completed in 72 hours following receipt of a scope of work. The ability to meet urgent requirements in such an expedited time frame is one of the major advantages and benefits of the LOGCAP contract.

At this point the government and the contractor have entered into an unpriced contractual action, on a cost-plus-award-fee basis. The rough order of magnitude estimate of the cost of performance has become a ceiling, or "not-to-exceed" value for the contract. The estimated cost of the action, against which the award fee will be calculated, has to be "definitized," the negotiated details of specific deliverables and

costs associated with resolution of a previously undefined task order. The contractor will provide the PCO a proposed estimated cost for completing the work under the task order. The Defense Contract Audit Agency (DCAA) audits this proposal and provides the results to the PCO. The PCO negotiates the cost estimate with the contractor and modifies the task order to establish the definitized estimated cost base.

The first task order to support operations in Southwest Asia awarded under LOGCAP III was for an update of the Worldwide Management and Staffing Plan in January 2002 at a price of \$853,000. The first task order to support base camp operations was awarded in April 2002 for Karshi-Khandabad, Uzbekistan, at a price of \$17 million. The Army currently has identified 76 task orders against the LOGCAP III contract. Of these, 16 directly support Operation Enduring Freedom (OEF) and 38 support Operation Iraqi Freedom (OIF).

Two of the task orders that we executed under the LOGCAP contract for OIF involved planning and preparation for the need to immediately restore the Iraqi oil fields following hostilities. Following receipt of funds and a scope of work from the Department of Defense, we issued a task order for development of an oil field restoration plan in November of 2002. With hostilities imminent, OSD requested an additional task order be issued in February 2003 to pre-position personnel and equipment for a restoration effort. Following this effort, the Army Corps of Engineers assumed total responsibility for the program called "Restore Iraqi Oil," and issued a contract to Kellogg, Brown and Root.

LOGCAP is currently supporting America's Global War on Terrorism contingency operations in seven countries. The program also assists with the planning, training and deployment of forces in the United States.

Not only is Kellogg, Brown and Root performing in Iraq, Kuwait and Afghanistan, but also in support of contingency operations in Uzbekistan, the Republic of Georgia, and Djibouti as well as continuing to support planning requirements and missions in the

continental United States. Over 20,000 employees and subcontractor employees are deployed to augment U.S. forces. To date, Kellogg, Brown and Root has suffered a total of 29 casualties, of which five Americans were killed and 12 wounded as a result of hostile fire while performing these services in support of U.S. military operations. The environment in which we are applying the skills and services of our LOGCAP contractors is not only harsh, but continues to be highly dangerous.

At this time the LOGCAP contractor is responding to further changes in requirements due to the current troop rotation in support of OIF. There are pending missions to support the Department of State when they assume the CPA function in July and to support other agency projects in Iraq.

The Government has a contract administration program in place to oversee performance of the contract and manage costs. The PCO has authorized Kellogg, Brown and Root to requisition material from the government supply system and to order material off of General Services Administration supply schedules. The PCO also delegated authority to the Defense Contract Management Agency (DCMA) to provide on site administrative contracting officers (ACO). DCMA is a critical strategic partner in the overall management and execution of this process.

The DCMA ACOs are located at numerous sites to provide daily contract compliance oversight, review and approve all requisitions over \$2,500, evaluate and manage quality assurance, and monitor the use and control of government property acquired under the contract. The ACO team performs technical reviews of contractor cost proposals that support the negotiation of the contract cost base.

The Defense Contract Audit Agency (DCAA) also plays a key role on the government's contract management team. DCAA auditors perform audits on the contractor's cost proposals. They review and approve the contractor's cost estimating and accounting systems. DCAA reviews and approves the contractor's payment vouchers, prior to sending them to the Defense Finance and Accounting Service

(DFAS) for payment. DCAA audits all costs incurred to support the government contracting officer's final determination of which costs are allocable, allowable and reasonably incurred under the contract. Any cost not found allocable, allowable and reasonably incurred under the contract will not be paid by the government.

Kellogg, Brown and Root Services, Inc is also a critical, strategic partner in this effort. In order to properly manage costs, the contractor must account for those costs in accordance with both federal cost accounting standards and generally accepted accounting practices. The contractor is required to maintain adequate accounting systems, purchasing systems and invoicing systems. The corporate ACO periodically reviews these systems.

In addition to the incentive to incur costs in a reasonable manner, the contractor has two other incentives to exercise prudent cost control. Controlling costs is evaluated by the PCO and becomes a part of the contractor's performance record. This record, in turn, is used as an evaluation criterion when the contractor competes for future government business. Contractors who have a record of proven cost control will be better positioned to win additional contracts. Finally, the contractor's performance on cost control is one of the evaluation factors, which determines the award fee.

In these first phases of supporting our troops, the focus and priority has been on responsiveness, but all within the framework established by the Federal Acquisition Regulation (FAR). The process of definitizing task orders has taken longer than we would like and certainly much longer than we expected or even planned for. The speed and volume of task orders placed and the numerous valid changes to the customer's requirements have been major factors. The changing nature of operations in Southwest Asia has impacted the contractor's ability to submit valid cost proposals in a timely fashion and certainly has impacted our collective ability to satisfy the 180-day requirement of the FAR to definitize undefined contractual actions. The pace of setting new requirements and changes to current requirements has greatly exceeded the original plans of both the contractor and the government.

Finally, the harsh operating environment of Iraq and Afghanistan, the non-linear and non-contiguous operating area, and major infrastructure shortfalls have hindered the implementation of robust business management systems. Both the contractor and the government have recently made substantial progress in augmenting personnel and systems support. A firm timeline to establish final requirements and costs has been established along with metrics and standards to measure the performance of all agencies involved in this process. This primarily includes the PCO, DCAA, DCMA, and KBR. Progress has already been made, as we have negotiated three task orders for definitization and have a commitment from KBR to accelerate the schedule of the next few task orders. These include the two contract actions that supported OSD for planning and preparation to restore the Iraqi oil fields.

The negotiated estimated cost will be the base against which the award fee is calculated. The fee structure of the LOGCAP contract was proposed by Kellogg, Brown and Root Services Inc as a maximum of 3 percent, which comprises KBR's projected profit on this contract. One percent is the base fee and a maximum of 2 percent is the award fee. The award fee is determined by the government, following an evaluation of the contractor's performance in terms of timeliness of technical performance to include timeliness of response, quality of response, quality of work, cost control and overall management. In the event we cannot satisfy the established timelines for definitization, or we are unable to agree, the Army is prepared to unilaterally definitize the task orders.

When we enter into a cost-plus-award-fee contract, we realize that the management of costs incurred under the contract is an important responsibility. This instrument enables the contractor to control costs throughout the process as they use their own capital to satisfy our requirements prior to payment. The government only pays for goods and services that meet certain criteria. DCAA audits all costs incurred under the LOGCAP contract, as part of the definitization process and as a final audit prior to the government determining the amount of final payment.

I think it is also important to address the LOGCAP funding process. Army LOGCAP funding starts at the Department of the Army level and is passed down to Forces Command (FORSCOM). FORSCOM in turn allocates funds to their subordinate levels (i.e., Combined Forces Land Component Command or CFLCC). CFLCC issues funding authority to the various OEF/OIF task forces (i.e., CJTF7, CJTF180 and CFLCC Forward). The task forces furnish funds to the Army Field Support Command, AFSC, Resource Manager who validates the accounting data and initiates acceptance.

Upon acceptance, funds are released to the AFSC contracting office to create the task order for fulfillment of an approved requirement. This task order gives the contractor authority to incur cost against the LOGCAP contract. A copy of the task order is made available to the LOGCAP customer for recording of the obligations and disbursements in their own accounting system to meet their financial reporting requirements.

Coalition Provisional Authority and Iraqi Survey Group funds flow is slightly different. Funds are allocated through AMC to AFSC from DA. AFSC establishes the accounting record in the AFSC accounting system. The funds are certified and then released to the AFSC contracting office for generation of the task orders. All accounting for these funds are recorded within the AFSC accounting system and certified at the end of the fiscal year. CPA and ISG funds account for approximately 10% of the LOGCAP funds received at the AFSC.

Over the next 12 months, the LOGCAP government team will work with the combatant commander in theater to continue to improve the process and control costs. The focus is on the requirements process to refine and improve the total LOGCAP process through internal process improvement teams and meetings between government representatives and KBR. We will aggressively definitize completed task orders and stay on task with KBR on the agreed to plan of action. Additionally, we will develop a strategy to determine the most effective method of transition from

contingency contract operations to sustainment contract operations. As needs are definitized, we will seek to transition from cost-based to performance-based, fixed price task orders, whenever possible, to provide maximum incentive for the contractor to perform work in the most efficient and effective manner possible.

The role of the LOGCAP program is recognized and valued by the supported combatant commander and our troops. I believe that it has met its original intended goals and has proven to that it has even greater potential than originally expected of a contingency contracting instrument.

It provides a flexible, viable alternative for supporting our logistics requirements and providing augmentation to our support units for early entry of our forces, as well as long term sustainment needs that would otherwise place great strains on our warfighters. We have seen an unprecedented level of contractors on the battlefield, with more than a division's worth of contractors working side-by-side with our soldiers. They too are our troops and we need to ensure that the policies and systems are in place to support and take care of our total force, which includes our contractors

We are committed to supporting current operations and transform simultaneously. Supporting our soldiers remains our number one priority and ensuring they get the very best quality of life and other logistic support is one way that the people of AMC do that. As I have described to you earlier, LOGCAP contracting is a process we need to constantly review and improve if we are to improve the Army's tooth to tail ratio. We will improve and continue to improve our management of this program. Thank you for your support of America's armed forces and our efforts to support them.