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MILITARY OPERATIONS

DOD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight





Highlights of [GAO-04-854](#), a report to the Ranking Minority Member, House Committee on Government Reform, and the Ranking Minority Member, House Committee on Energy and Commerce

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Why GAO Did This Study

In its contingency operations since the early 1990s, the Department of Defense (DOD) has relied extensively on logistics support contractors to provide many of the supplies and services needed by deployed U.S. forces. As requested, GAO assessed DOD's planning in its use of logistics support contracts in contingency operations; determined whether DOD has had contract oversight processes that are adequate to ensure that quality services were provided in an economical and efficient manner; and assessed the extent to which DOD provided trained personnel qualified to oversee its contractors. GAO focused its efforts on four logistics support contracts chosen because of their size and chosen to represent more than one military service—the Army's Logistics Civil Augmentation Program (LOGCAP) and Balkans Support Contract, the Navy's Construction Capabilities Augmentation Program, and the Air Force's Contract Augmentation Program.

What GAO Recommends

GAO is making a number of recommendations to the Secretary of Defense to improve planning, establish procedures to assure that the contractors are performing as economically and efficiently as possible, and develop training programs for personnel responsible for using and managing logistics support contracts. DOD agreed with the report and all its recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-854.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Neal Curtin, 757-552-8100, curtinn@gao.gov.

What GAO Found

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. Those 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.

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. We have found that when the customer reviews the contractor's work for economy and efficiency, savings are realized, as illustrated in the table below. 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.

Savings Reported through DOD's Review of Contract Activities

Contract	Percent savings	Comments
Balkans Support Contract	10	Savings of \$200 million based on current contract ceiling price of \$2.098 billion
LOGCAP (Djibouti)	18	Savings of \$8.6 million from estimated \$48 million in work
LOGCAP (Kuwait)	43	Savings of \$31 million annually based on change in food service contractor

Sources: DOD (data); GAO (analysis).

DOD did not have sufficient numbers of trained personnel in place to provide effective oversight of its logistics support contractors. The Army has deployed units responsible for supporting the LOGCAP contract, but some of the personnel have little knowledge of the contract. The Air Force did not consistently train evaluators to monitor its logistics support contractor's performance. Military units across the services receiving contractor support have lacked a comprehensive understanding of their roles and responsibilities, which include establishing the work to be done by contractors and monitoring contractors' performance.

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Abbreviations

AFCAP	Air Force Contract Augmentation Program
BSC	(U.S. Army, Europe) Balkans Support Contract
CJTF	Combined Joint Task Force
CONCAP	(Navy) Construction Capabilities Contract
DCMA	Defense Contract Management Agency
DOD	Department of Defense
GAO	Government Accountability Office
LOGCAP	(Army) Logistics Civil Augmentation Program

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United States Government Accountability Office
Washington, DC 20548

July 19, 2004

The Honorable Henry A. Waxman
Ranking Minority Member
Committee on Government Reform
House of Representatives

The Honorable John D. Dingell
Ranking Minority Member
Committee on Energy and Commerce
House of Representatives

The U.S. military has long used contractors to provide supplies and services to deployed U.S. forces. Since the early 1990s, much of this support has come from logistics support contracts—contracts that are awarded prior to the beginning of contingencies and are available to support the troops as needed. These contracts are currently being used by the services in more than half a dozen countries, including Iraq, to provide a wide array of support, such as food service and housing. The contract support in Iraq is the largest effort in the history of such contracts. While these contracts provide vital services, they are expensive. The estimated value of the work under the current contracts we examined is \$12 billion, including \$5.6 billion for work in Iraq as of May 2004. Some of the factors that affect costs are (1) the requirements that must be met from food service to housing, to name just a few; (2) the conditions under which the services must be provided, such as the security situation in Iraq; and (3) the adequacy of government oversight.

You asked us to (1) assess the effectiveness of the Department of Defense's (DOD) planning for the use of logistics support contracts in contingency operations; (2) assess the adequacy of DOD's contract oversight processes; (3) determine if the contracts are being used in an economical, efficient, and cost-conscious manner; and (4) assess the extent to which DOD had qualified personnel in place with the training and skills necessary to provide effective contract oversight. As discussed with your offices, we focused our efforts on four contracts: (1) the Army Logistics Civil Augmentation Program (LOGCAP) Contract; (2) the Air Force Contract Augmentation Program (AFCAP) Contract; (3) the U.S. Army, Europe, Balkans Support Contract (BSC); and (4) the Navy Construction Capabilities (CONCAP) Contract. The Army's LOGCAP contract is by far the largest of these contracts. The contractors for these

contracts and the military services have, for the most part, worked together to meet the customers' needs in sometimes hazardous or difficult circumstances.

In conducting our work, we examined a wide range of contract documents and contracting guidance and met with contracting officers; contract customers; and the contractors to gain a comprehensive understanding of the contracts, the contract management process, and issues related to using the contracts. We visited U.S. military sites using the LOGCAP, CONCAP, and AFCAP contracts, including sites in Kuwait and Qatar, but did not visit sites in Iraq. However, to obtain information about the use of LOGCAP in Iraq, we interviewed personnel who were responsible for contract management in Iraq, reviewed Defense Contract Management Agency (DCMA) situation reports written by contracting officers in Iraq, and met with representatives of the 101st Airborne Division shortly after their return from Iraq to discuss their experiences with the LOGCAP contract. In addition, because we visited the Balkans during our previous reviews of the Balkans Support Contract, we did not visit the Balkans during this review but did meet with Army personnel in Germany administering the contract. We determined that the information and data discussed in this report were reliable for the purpose of the report. We conducted our review from August 2003 through June 2004 in accordance with generally accepted government auditing standards. We discuss our scope and methodology in more detail in appendix I.

Results in Brief

The effectiveness of DOD's planning for the use of logistics support contracts in contingency operations varied widely between the commands that use the contracts. U.S. Army, Europe, followed LOGCAP guidance when it used the contractor to help develop its plans to support the anticipated movement of troops through Turkey into Iraq. Planning for the use of the Army's BSC, the Navy's CONCAP contract, and the Air Force's AFCAP contract was generally successful and involved the contractor in the early phases of planning. On the other hand, the Army Central Command did not follow guidance when planning for Operation Iraqi Freedom. The plan to support its military forces in Iraq was developed in May 2003 even though Army guidance recommends that a comprehensive statement of work be developed during the early phases of contingency planning. Additionally, even as it became clear that U.S. forces would remain in Iraq longer than originally anticipated, LOGCAP planning was still often ineffective, partly because the Army often did not include the contractor in its planning, notwithstanding guidance to the contrary.

Frequent revisions to the LOGCAP plans generated a significant amount of rework for both DOD and the contractor.

DOD's contract oversight processes were generally good, albeit, with room for improvement. DCMA's (the agency that oversees contractor performance) oversight of these contracts has produced good results—for example, contracting officers eliminated unnecessary airfield services and have identified equipment and materials that can be reused to reduce contract costs. Nevertheless, we identified several areas where improvements could be made. For example, DCMA did not always appoint contracting officers' technical representatives who could have assisted DCMA in its quality assurance responsibilities. Recurring contractor problems such as poor cost reporting, difficulties with producing and meeting schedules, and weaknesses in purchasing system controls also made the LOGCAP contract more difficult to administer. Furthermore, an important part of the contract oversight process is the definitizing of task orders; that is, reaching agreement with the contractor on the determination of contract terms, specifications, and cost. Delays in definitizing task orders make cost-control incentives under these award fee contracts less effective. While AFCAP and BSC task orders were definitized quickly, and CONCAP's task orders do not require definitization, most of the LOGCAP task orders have remained undefinitized for months, and sometimes more than a year, after they were due to be completed and after billions of dollars of work has been completed. Furthermore, the Army has not held an award fee board, even though the contract requires that one be held every 6 months, and award fees are important as a contractor incentive. Specifically, award fees can serve as a valuable tool to help control program risk and encourage excellence in contract performance. It will be difficult for the Army to hold a board that comprehensively evaluates the contractor's performance because the LOGCAP customers have not been evaluating and documenting the contractor's performance. Finally, neither the services nor DOD has established programs to collect and share lessons learned from the use of logistics support contracts.

Customers have not always ensured that contractors provide services in an economical and efficient manner and that contract costs are controlled, although they have a responsibility to do so. We recognize that cost control should not be the primary consideration for commanders when U.S. forces are involved in major combat operations or when the operational environment or security situation requires the presence of more troops or the relocation of forces. However, cost control did not become a priority in using LOGCAP in Iraq and Kuwait until late 2003,

when the Army Central Command received guidance from Army headquarters to look for economies. We found that when the customer reviews the contractor's work for economy and efficiency, savings are usually realized, but these reviews have not been routinely conducted by LOGCAP customers at all task order locations. Both the Marine Corps in Djibouti and Combined Joint Task Force (CJTF)-180 in Afghanistan periodically review the level and the type of services provided by the LOGCAP contract, but similar reviews are not being conducted in Kuwait or in Iraq. At times both the Army and the Air Force believed that they had no other option but to use their logistics support contracts to obtain goods and services even when they knew that other methods might have resulted in lower costs. For example, the Army had the contractor provide temporary housing for an Army division in Iraq although it was more costly than allowing the unit to build the housing itself because at the time the Army made the decision to use LOGCAP, it was the only means available to get the 101st Airborne Division into housing by November 15, 2003. Similarly, the Air Force used the AFCAP contract to supply commodities for its heavy construction squadrons because it did not deploy with enough contracting and finance personnel to buy materials quickly or in large quantities. While using the contract to procure and deliver commodities is permitted under the contract, it is generally not a cost-effective use of this type of contract because the customer pays award fees to the contractor in addition to the procurement cost.

Given the size and complexity of these contracts, DCMA often did not have sufficient numbers of personnel in place to provide effective oversight and so used a risk-based approach to sizing its oversight teams. We also found many indications that some of the personnel responsible for overseeing or monitoring the contractors had not been adequately trained. DCMA, the Defense Contract Audit Agency, and the military services have all deployed civilian and military personnel to assist with contract administration and oversee the performance of the logistics support contractors. However, DCMA has not always had enough personnel in theater to effectively administer the logistics support contracts. In addition, many service personnel with oversight responsibilities for the contracts have not received the necessary training to accomplish their missions. As a result, their ability to perform all their duties, such as preparing the independent government cost estimates used to judge the reasonableness of the contractor's cost proposals, was limited. The Navy's contract monitors were all technically qualified engineers or have had significant experience in the construction industry. However, the Army deployed units responsible for supporting its LOGCAP customers with personnel who had little knowledge of the contract, and the Air Force did

not consistently train evaluators to monitor the performance of the AFCAP contractor. Overall, military units across the services receiving contractor support did not have a comprehensive understanding of their roles and responsibilities.

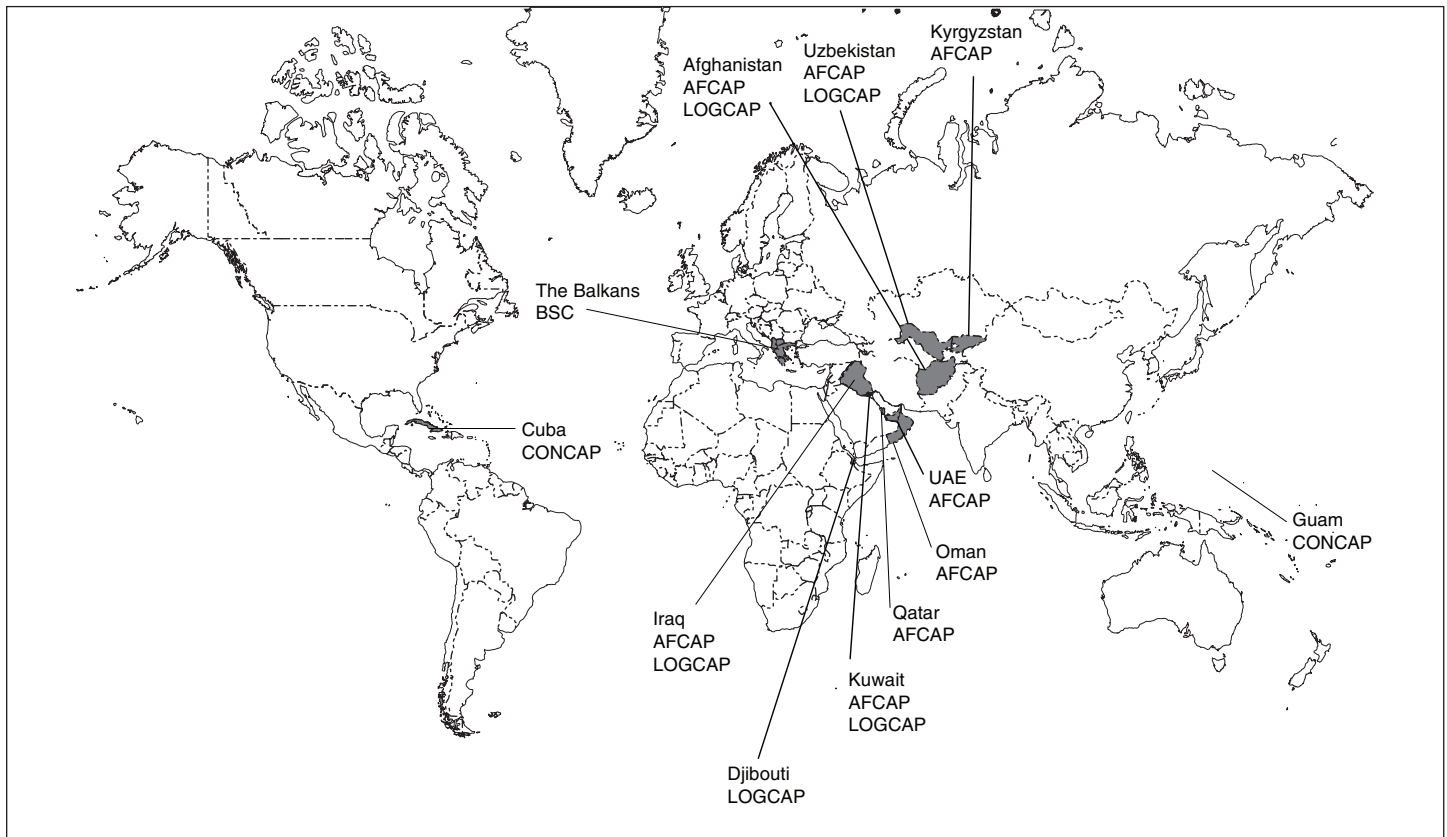
We are making a number of recommendations to improve planning, economy and efficiency, and training at all levels of command. These recommendations include emphasizing the need to comply with applicable planning guidance, establishing teams of subject matter experts to periodically review contractor services to ensure that services are appropriate and being provided in an economic and efficient manner, and implementing a department-wide lessons learned program to draw upon past experience.

In written comments on a draft of this report, DOD stated that it concurred with the report and all its recommendations. We also provided an opportunity for the contractors on the logistics support contracts we reviewed—Kellogg, Brown and Root for LOGCAP; BSC; and CONCAP and Readiness Management Support L.C. for AFCAP—to comment on a draft of this report. Readiness Management Support provided clarifying comments in a written response. A detailed discussion of DOD's and Readiness Management Support's comments is contained in the body of this report.

Background

The U.S. military has relied on contractors to provide supplies and services in support of contingency operations since the Revolutionary War. Since the early 1990s, DOD has used logistics support contracts to meet many of its logistical support needs during combat operations, peacekeeping missions, and humanitarian assistance missions, ranging from Somalia and Haiti to Afghanistan and Iraq. Today these contracts support contingency operations such as Operation Enduring Freedom and Operation Iraqi Freedom as a major part of America's Global War on Terrorism. Figure 1 shows locations where contractors are being used to support deployed forces.

Figure 1: Selected Countries and Possessions Where AFCAP, CONCAP, LOGCAP, and BSC Are Being Used As of May 2004



Sources: DOD (data); GAO (presentation).

Contracts such as AFCAP, LOGCAP, and BSC provide similar logistics and engineering services, such as food preparation, laundry, housing, and construction in support of contingency operations. The Navy's CONCAP

contract is a contingency construction contract designed to meet emergency requirements involving natural disaster recovery, humanitarian assistance, or conflicts.

All of the contracts included in our review are cost-plus award fee contracts. Cost-plus contracts allow the contractor to be reimbursed for reasonable, allowable, and allocable costs incurred to the extent prescribed in the contract. A cost-plus award fee contract provides financial incentives on the basis of performance. These contracts allow the government to evaluate a contractor's performance according to specified criteria and to grant an award amount within designated parameters. Award fees can serve as a valuable tool to help control program risk and encourage excellence in contract performance. To reap the advantages that cost-plus award fee contracts offer, the government must implement an effective award fee process.

Table 1 provides additional contract information on the logistics support contracts we reviewed. As can be seen in table 1, LOGCAP is by far the largest of these contracts both in terms of funds obligated and of the estimated value of work under the contract.

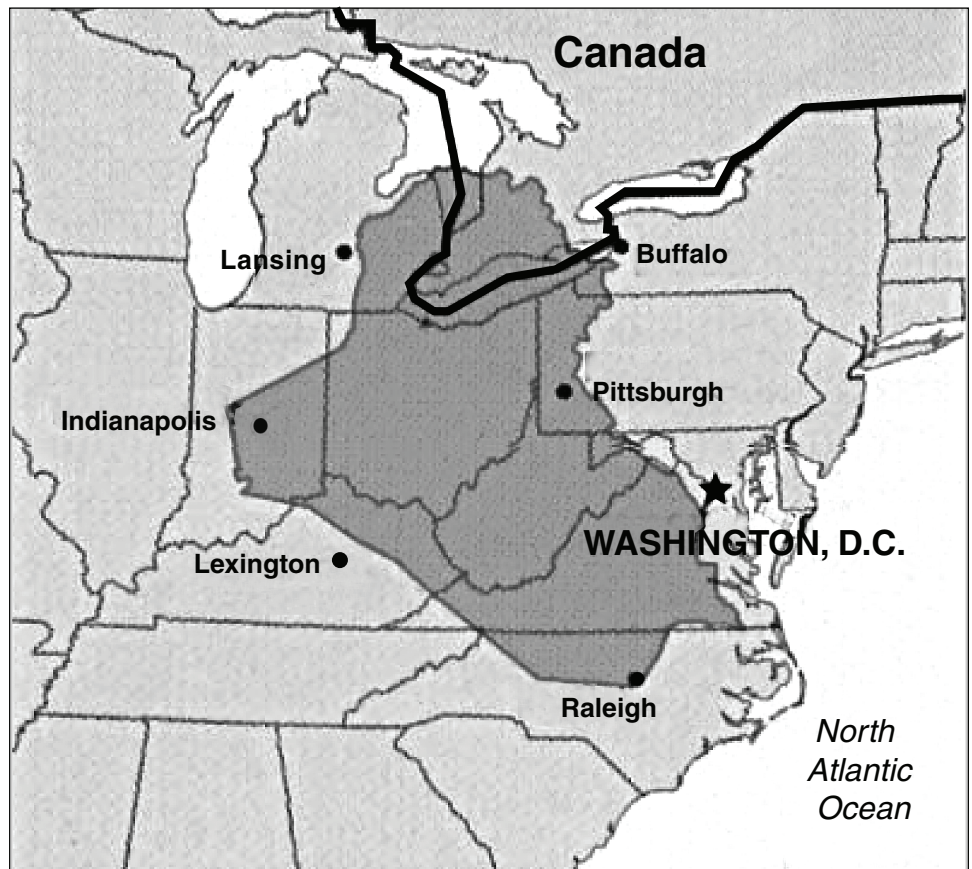
Table 1: Contract Information on Logistics Support Contracts

Category	LOGCAP	AFCAP	CONCAP	BSC
Contractor	Kellogg, Brown and Root	Readiness Management Support	Kellogg, Brown and Root	Kellogg, Brown and Root
Award date	Dec. 2001	Jan. 2002	June 2000	May 1999
Type of contract	Cost-plus award fee	Cost-plus award fee	Cost-plus award fee	Cost-plus award fee
Fee base/award	1 percent/2 percent	1 percent/6 percent	0 percent/2 percent CONUS 0 percent/5.75 percent OCONUS	1 percent/8 percent
Length of contract	1 year plus 9 option years	1 year plus 7 option years	1 year plus 4 option years	1 year plus 4 option years
Obligations (as of Apr. 30, 2004)	\$4.9 billion	\$708 million	\$242 million	\$1.73 billion (as of Mar. 31 2004)
Contract ceiling price	No dollar value; operational requirement used to establish ceiling	\$900 million	\$300 million	\$2.098 billion
Estimated value of work under contract (as of May 2004)	\$9.1 billion	\$653 million	\$242 million	\$2.021 billion

Sources: DOD (data); GAO (analysis).

The use of LOGCAP to support U.S. troops in Iraq is the largest effort in the history of the LOGCAP program both in number of troops supported and in land mass. As of May 21, 2004, the estimated value of contract services in Iraq was \$5.6 billion. Figure 2 illustrates the size of Iraq. As shown, when superimposed over a U.S. map, Iraq covers an area east to west that is comparable to that from Washington, D.C., to central Indiana, and from north to south comparable to Lansing, Michigan, to Raleigh, North Carolina.

Figure 2: Iraq In Relationship to the United States



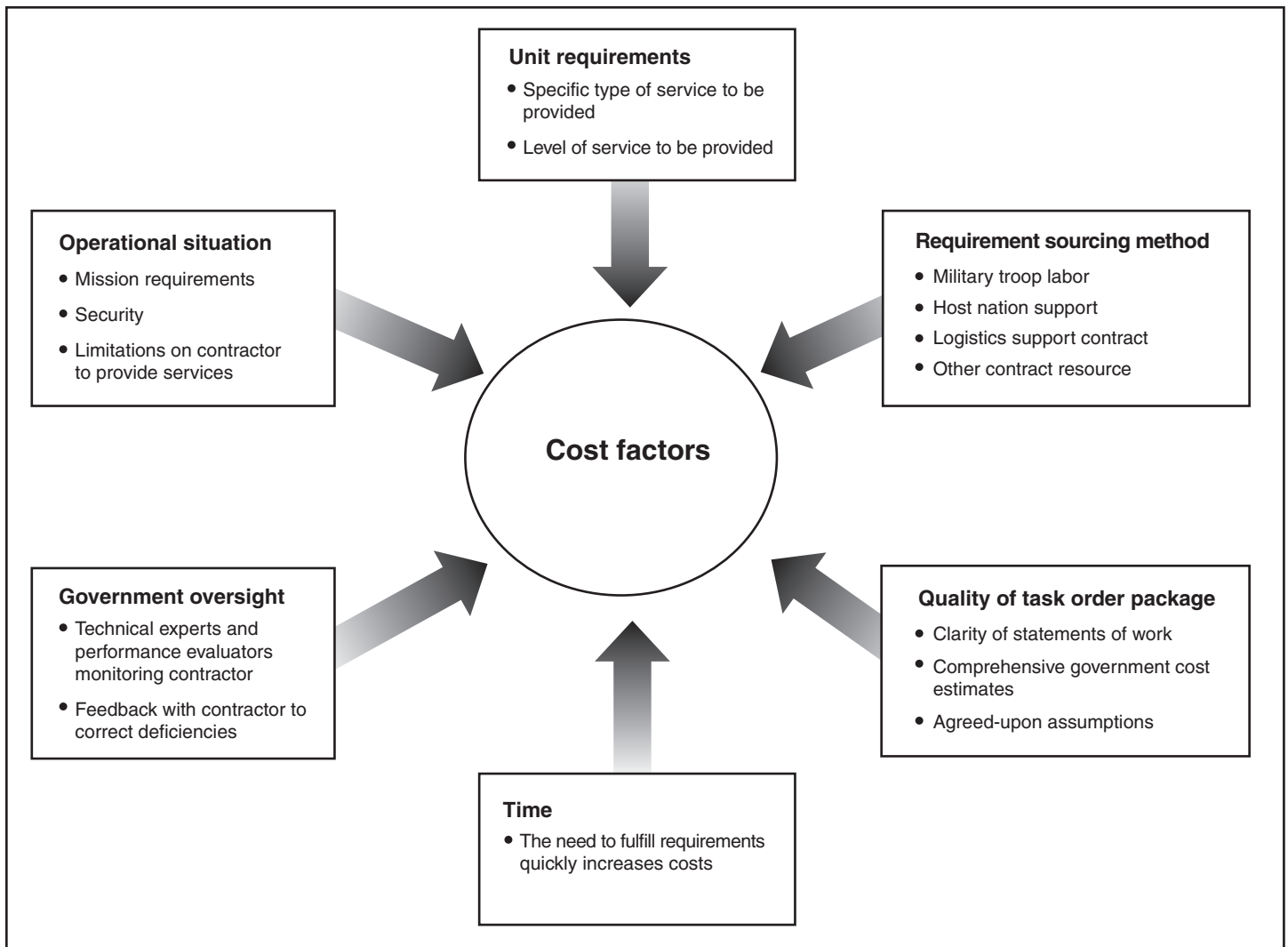
Source: "Central Intelligence Atlas of the Middle East, 1993."

The contractors and the services have, for the most part, worked together to meet the customers' needs in sometimes hazardous or difficult circumstances. For example, the AFCAP contractor is providing air traffic management at air bases throughout central Asia, reducing the operations tempo of selected and scarce Air Force assets. In addition, AFCAP is providing housing and base support in Iraq. Through CONCAP the Navy has constructed detainee facilities (including a maximum security prison) at Guantanamo Bay on time and within budget. CONCAP's projects at Guantanamo have increased the safety of both the detainees and the U.S. forces guarding them and will result in real savings in reduced personnel tempo. For example, CONCAP has increased detainee safety with the construction of more secure cells and guard safety by providing greater separation between guards and detainees. LOGCAP is providing life and logistics support for more than 166,500 soldiers and civilians under

difficult circumstances in Iraq, Afghanistan, Kuwait, and Djibouti, and customers are generally pleased with the service the contractor is providing. Finally, BSC continues to provide troops in Kosovo and Bosnia with a myriad of high-quality services, and the customer works with the contractor to identify costs savings.

Many factors can influence the overall cost of the logistics support contracts. As shown in figure 3, costs can be affected by the size and scope of requirements identified by customers and by the amount of time the customer gives the contractor to plan and execute the mission. Additionally, cost is influenced by the manner in which a unit chooses to fulfill a requirement. Other resources that are more cost-effective may be available to the units, such as military troop labor or host nation support. Cost may also be affected by the quality of documentation prepared by contract customers and program managers. Concise statements of work and comprehensive government cost estimates may reduce the likelihood of incurring additional costs. In addition, the appointment of government contract management personnel to monitor contractors' performance ensures that contractor-provided services meet contract requirements. Lastly, operational concerns, such as the security situation in Iraq, can make providing services more costly.

Figure 3: Some Factors That Can Influence Costs of Logistics Support Contracts



Sources: DOD (data); GAO (analysis).

The military services, as well as DCMA and the Defense Contract Audit Agency, perform contract management functions to ensure that the government is receiving quality services from the logistics support contractors at the best possible prices. The customer is responsible for identifying and validating requirements to be addressed by the logistics support contracts as well as evaluating the contractor’s performance and ensuring that the contract is used in an economical and efficient manner. The contracting officer is responsible for oversight and management of the

contract. However, the contracting officer may delegate some of the oversight and management functions to DCMA. When management functions are delegated by the procuring contracting officer, DCMA may assign administrative contracting officers to provide on-site contract administration at deployed contingency locations. The Defense Contract Audit Agency ensures that costs claimed by the contractor are reasonable, allowable, and allocable. Table 2 provides additional information on the roles and responsibilities of contract management personnel.

Table 2: Key Contract Management Roles and Responsibilities

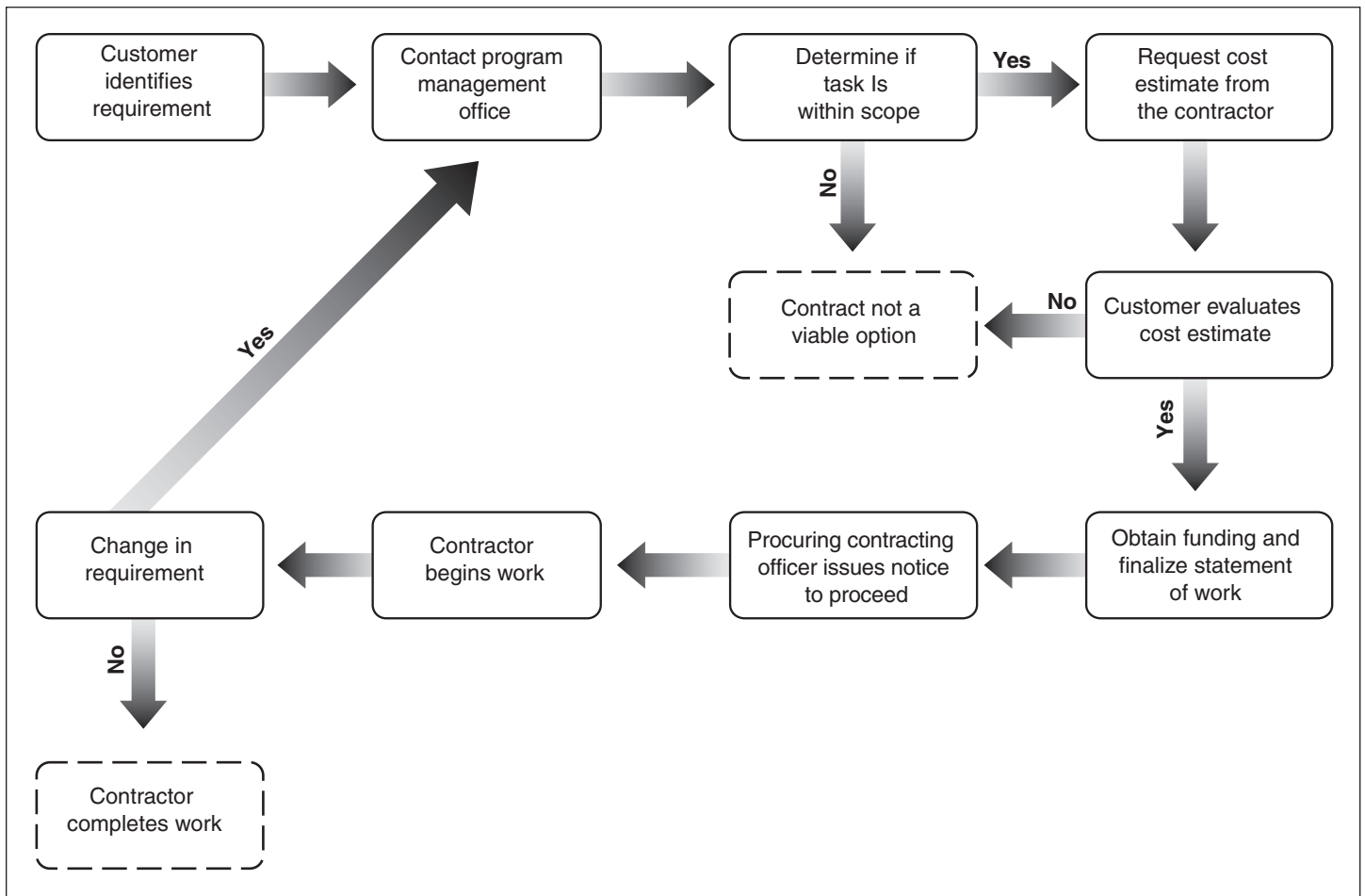
<p>Customers:</p> <ul style="list-style-type: none"> • Develop requirements. • Write statements of work. • Obtain funding. • Monitor contract performance. • Evaluate technical performance. • Provide the award fee board with input. 	<p>Contracting officer:</p> <ul style="list-style-type: none"> • Interpret the contract. • Obligate the government for work under the contract. • Delegate contract administration procedures to administrative contracting officers. • Ensure that the contractor corrects cited deficiencies. • Provide the award fee board with input.
<p>Defense Contract Management Agency:</p> <ul style="list-style-type: none"> • Provide daily contract oversight. • Review and approve purchase requisitions (LOGCAP and BSC). • Evaluate quality assurance. • Monitor government property. • Monitor contract performance. • Evaluate technical performance. • Provide the award fee board with input. 	<p>Defense Contract Audit Agency:</p> <ul style="list-style-type: none"> • Review contractors' financial management systems. • Review cost proposals. • Approve payment vouchers (LOGCAP, BSC, and CONCAP). • Audit incurred costs. • By invitation, provide the award fee board with input.

Sources: DOD (data); GAO (analysis).

Work is done under each of the contracts through task orders. The task order process begins when the customer, or the unit that is requesting support from the contractor, identifies a requirement. The requirement is generally documented in the form of a task order statement of work, which establishes the specific tasks to be accomplished by the contractor and the time frames of performance. If the decision is made to use the logistics support contract to satisfy the requirement, the unit contacts the contract program management office. The program management office, in coordination with the contracting officer, determines whether the task is within the scope of the contract. The program management office obtains an approximate cost estimate from the contractor and provides the customer with the information. From this information, the customer

decides if it will use the contractor to fulfill the requirement. If the government decides to use a logistical support contract, funding is obtained, the statement of work is finalized, and the contracting officer issues the contractor a notice to begin work. Significantly, if the customer identifies a change in the requirement, the process is initiated again. Figure 4 provides an illustration of the key steps in the task order process.

Figure 4: Overview of the Task Order Process



Sources: DOD (data); GAO (presentation).

We have issued reports on the use of contractors to support deployed forces in 1997, 2000, and 2003. In 1997 we reported that there were opportunities to make the use of LOGCAP in Bosnia more efficient and effective, including developing doctrine and guidance, providing

commanders with training, and providing commands with assistance when they are using LOGCAP.¹ In 2000 we reported that the Army should improve its management of BSC, the successor contract to LOGCAP in the Balkans, including examining the level and frequency of services and providing a more extensive predeployment training program for all contract oversight personnel.² In 2003 we reported that commanders had limited visibility and understanding of the extent and type of services being provided by contractors and those commanders and other personnel lacked training on their roles and responsibilities in dealing with contractors.³ DOD generally agreed with the recommendations that we made in each of these reports, including the provision of more training.

Planning for the Use of Contractor Support Varied Widely

Planning for the Navy's CONCAP contract, the Army's BSC, and to a lesser degree, the Air Force's AFCAP contract, included the contractor in task order planning, resulting in more-effective planning. However, while the Army has developed guidance to facilitate the use of LOGCAP that clearly recommends working with the contractor to develop comprehensive support plans and statements of work in the early stages of contingency planning, that guidance was not always followed. For example, the Army Central Command did not follow that guidance when planning for Operation Iraqi Freedom. Even as it became clear that U.S. forces would remain in Iraq longer than originally anticipated, LOGCAP planning continued to be mixed, partly because the Army often did not include the contractor in its planning and planning did not always take advantage of lead-time when it was available. However, U.S. Army, Europe, in planning for the anticipated movement of troops through Turkey into Iraq in support of Operation Iraqi Freedom, and the Marine Corps, in planning for the deployment of forces to Haiti, followed LOGCAP guidance, which proved beneficial. As noted earlier, the LOGCAP contract is the most expensive of the logistics support contracts we examined.

¹ U.S. General Accounting Office, *Contingency Operations: Opportunities to Improve the Logistics Civil Augmentation Program*, [GAO/NSIAD-97-63](#) (Washington, D.C.: Feb. 11, 1997).

² U.S. General Accounting Office *Contingency Operations: Army Should Do More to Control Contract Cost in the Balkans*, [GAO/NSIAD-00-225](#) (Washington, D.C.: Sept. 29, 2000).

³ U.S. General Accounting Office, *Military Operations: Contractors Provide Vital Services to Deployed Forces but Are Not Adequately Addressed in DOD Plans*, [GAO-03-695](#) (Washington, D.C.: June 24, 2003).

U.S. Army, Europe; the Navy; and the Air Force Involve the Contractor in Planning

Planning for BSC, the CONCAP contract, and the AFCAP contract all follow similar processes, which rely on a collaboration between the customer and the contractor to develop comprehensive and clear statements of work in the early stages of planning. For example, we observed during our work that the following guidance and procedures were being followed:

- Guidance issued by BSC’s contracting office, the Army Corps of Engineers—Transatlantic Program Center,⁴ establishes the policy for developing statements of work for BSC. According to the guidance, after the customer identifies a requirement, the customer and the contractor work together to develop the statement of work. After the statement of work is agreed to, the contractor prepares an execution plan that describes how the contractor intends to meet the requirement. The government reviews the execution plan to ensure that the customer’s needs are met in the most economical and efficient manner possible. This process continues until U.S. Army, Europe, is satisfied that the statement of work accurately reflects the command’s requirements and the contracting officer issues a notice to proceed.
- CONCAP planning is a cooperative effort between the Navy Facilities Command, the customer, and the contractor. Customers work closely with the command and the contractor to clearly define the requirements and develop a statement of work, which may vary from a brief description or sketch to a complete design. Depending on the project, the contractor may be given the responsibility to provide the initial statement of work, which the government team reviews and determines if it is acceptable before providing final approval. After the government and the contractor come to agreement on the work to be performed and the cost, the task order is incorporated into the contract.
- The AFCAP planning process is detailed in AFCAP’s Concept of Operations document.⁵ According to this guidance, customers
 - identify requirements,
 - obtain approval to use AFCAP from a Major Command, and
 - develop a statement of work.

After the statement of work is developed, the contractor provides a cost estimate, and the government and the contractor work together to ensure

⁴ U.S. Army, Army Corps of Engineers Transatlantic Program Center Standard Operating Procedures for Task Orders on the Balkans Support Contract” (Nov. 23, 1999).

⁵ U.S. Air Force Contract Augmentation Program, *Concept of Operations* (no date provided).

that all parties understand the requirements, available options, and associated costs. Using information developed through this collaborative effort, the customer finalizes the statement of work and sends it to the procuring contracting officer, who issues a notice to proceed.

Army Guidance Highlights the Early Identification of Requirements as a Key to Maximizing the Effectiveness of Contractor Support

Early planning that identifies requirements and decides which ones will be satisfied by contracting, and the involvement of the contractor in planning, are recurring themes in the Army's doctrine and guidance for using contractor support, in general, and the LOGCAP contract, specifically. According to Army Field Manual 3-100.21—"Contractors on the Battlefield"⁶—integrated planning is a governing principle of contractor support, and for contractor support to be effective and responsive, its use must be considered and integrated into the planning process. Proper planning identifies the full extent of contractor involvement, how and where contractor support is provided, and any responsibilities the Army may have in supporting the contractor. This same emphasis on planning and the early identification of requirements is also discussed in Army Regulation 700-137—"Logistics Civil Augmentation Program"⁷—which establishes the policies, responsibilities, and procedures for implementing LOGCAP. That regulation states that contractor responsiveness similar to that offered by military units can be achieved only through the careful drafting of contract requirements (statements of work), and that to increase proper planning and execution, the contractor should have a clear understanding of the statement of work. The regulation also urges commanders not to classify plans at a level where the contractor cannot have access and, if classification is necessary, commanders should write unclassified contract statements of work and put time frames, geographic areas, and other classified material in appendixes. An Army regulation on contractors accompanying the force similarly states that the most important factor in ensuring that support services are provided at the desired levels of quality and timeliness is the establishment of clear and concise contract requirements in a statement of work,⁸ and Army Materiel

⁶ U.S. Army, "Contractors on the Battlefield," Department of the Army Field Manual 3-100.21 (Jan. 3, 2003).

⁷ U.S. Army, "Logistics Civil Augmentation Program," Department of the Army Regulation 700-137 (Dec. 16, 1985).

⁸ U.S. Army, "Contractors Accompanying the Force," Department of the Army Regulation 715-9 (Oct. 29, 1999).

Command Pamphlet 700-30—Logistics Civil Augmentation Program⁹—designed to help users obtain support through the LOGCAP process reiterates the point that a major consideration for maximizing LOGCAP potential is for the customer to be aware of its LOGCAP support requirements and convey those requirements in a timely manner to the appropriate personnel. This pamphlet also recommends the early involvement of the contractor in planning because it allows the contractor to develop more accurate cost estimates, gives the contractor time to bring on board reliable subcontractors, and can minimize costs. The guidance also recommends that the customer and the contractor develop a comprehensive statement of work in the early stages of contingency planning.

Early decisions on how the contract is to be used facilitate a number of other actions that lead to enhanced contract management and oversight. Once government and contractor planners are notified of a customer's requirements, they can begin developing statements of work. According to the Army's LOGCAP guidance, statements of work specify the products and services required and are the most important documents provided to the contractor. The contractor uses statements of work to (1) plan how to satisfy the customer's requirements in the most efficient and economical manner and (2) develop cost estimates. These estimates are provided to the customer and serve as an important decision tool for assessing contractors' proposals and deciding between alternative support strategies. At the same time, representatives from the LOGCAP program management office use the statements of work to develop independent government cost estimates. An independent government cost estimate is the government's estimate of the costs the contractor is expected to incur in performing the work. The more time the contractor and the government have to refine their estimates, the more useful they are to commanders.

Planners Followed Army Guidance with Positive Results in Turkey and Haiti

Following LOGCAP guidance proved beneficial for Army operations in Turkey and Marine Corps operations in Haiti (LOGCAP is available to all the military services). Specifically, involvement of the contractor as recommended in the LOGCAP guidance led to more informed decision making as follows:

⁹ U.S. Army, "Logistics Civil Augmentation Program," Army Materiel Command Pamphlet 700-30 January 2002).

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- In planning for Operation Iraqi Freedom, U.S. Army, Europe, was tasked with supporting the anticipated movement of troops through Turkey into Iraq, and our review of that planning showed that the command followed Army guidance to good effect. In October 2002 the command brought contractor personnel to its headquarters in Europe to help plan and develop the statement of work. According to U.S. Army, Europe, contractor planners brought considerable knowledge of contractors' capabilities, limitations, and operations, and their involvement early in the planning efforts increased their understanding of requirements and capabilities, facilitated communication regarding the statement of work, and enhanced the mission's completion.
 - Recent planning for the deployment of U.S. forces to Haiti resulted in a similar outcome. U.S. Marine Forces Atlantic, U.S. Southern Command, Army Materiel Command, and contractor personnel visited Haiti to develop support plans. According to an Army Materiel Command official, the planning process was a success because it led to an informed decision by the Marines to use their own assets to support the forces in lieu of LOGCAP.

Planning for Operation Iraqi Freedom Was Not Comprehensive

The Army Central Command—the Army command responsible for LOGCAP planning in Kuwait and Iraq—did not follow the planning process described in Army regulations and guidance as it prepared for operations in southwest Asia. According to a former Army Materiel Command logistics planner, the Army Central Command used the standing LOGCAP plans to prepare for the mission but, after Army forces deployed, the plan changed significantly and Army Materiel Command's involvement was diminished because of security concerns. The planner stated that Army Central Command raised the security classification for the plan above the clearance level of the planners and it took some time to resolve this issue. Thus, during a critical planning period, the planning personnel with the most experience in using the contract were not part of the planning process. The planner also said that the contractor was not involved in the planning because of security concerns. As a result, two key principles needed to maximize LOGCAP support and minimize cost—a comprehensive statement of work and early contractor involvement—were not followed. Specifics follow:

- The Army developed a plan to support the troops in Iraq (task order 59 of the LOGCAP contract) in May 2003, but the plan was not comprehensive because it did not include all of the dining facilities, troop housing, and other services that the Army has since added to the task order. According to an official from the 101st Airborne Division, there was a lack of detailed planning for the use of LOGCAP at the theater and division levels for the

sustainment phase of the operation. He went on to add that Army planners should develop a closer working relationship with the divisions and the contractor.

- Task orders were frequently revised. These revisions generated a significant amount of rework for the contractor and the contracting officers. Additionally, time spent reviewing revisions to the task orders is time that is not available for other oversight activities. While operational considerations might have driven some of these changes, we believe others were more likely the result of ineffective planning. For example, task order 59 was changed seven times in less than 1 year. Specifics follow:
 - Basic Statement of Work—May 30, 2003—provided limited services such as food services (except site A); pest control; laundry services; and morale, welfare, and recreation services at six base camp clusters known as sites A, B, C, D, E, and F.
 - Change 1 on June 7, 2003, added support for the coalition forces (site G).
 - Change 2 on June 20, 2003, added food service; pest control; laundry services; and morale, welfare, and recreation services for Site H (the 101st Airborne Division).
 - Change 3 on June 24, 2003, added troop housing, transportation, and supply service activities at site A.
 - Change 4 on July 22, 2003, removed the coalition forces (Site G) from the task order and added food service for site A. A separate task order was developed for support for coalition forces.
 - Change 5 on August 27, 2003, added housing for sites B, C, D, F, and H.
 - Change 6 on November 3, 2003, made changes to the services being provided and added additional combat support activities.
 - Change 7 on November 14, 2003, added additional combat support services.

Frequent revisions have not been limited to task order 59. Task order 27, which provides support for a significant number of U.S. troops in Kuwait (valued at \$426 million as of May 2004), was changed 18 times from September 2002 through December 2003, including five changes in 1 month, some on consecutive days. As of May 11, 2004, the contracting office, DCMA, and the contractor processed more than 176 modifications to LOGCAP task orders. As discussed above, frequent revisions to task orders generate a significant amount of rework for the contractor and the contracting officer.

LOGCAP Planning Has Not Always Been Timely

While we recognize the uncertainty inherent in wartime operations, planning for some LOGCAP tasks did not take advantage of lead-time when it was available. According to the LOGCAP program manager, early planning is a key to obtaining the best services at the best prices. The following are two examples of where the Army did not use the planning time available:

- The Kuwaiti government gave the Army several months' notice that it needed some Army facilities at the Kuwait International Airport moved because of planned construction. The Army did not inform the contractor, however, until 5 days before the scheduled deadline. Army officials stated that accomplishing the move in only 5 days increased the cost to the Army.
- The Army in Kuwait did not always give acquisition review boards sufficient time or resources to consider alternatives to LOGCAP. Commanders create acquisition review boards to make recommendations about the validity of requirements and the best way to meet them. The boards generally consist of personnel from operations, logistics, legal services, resource management, and contracting that review requirements for contracting support against the priorities established by the commander. The boards screen requirements and determine whether or not they should be satisfied through contingency contract support, through host nation support, LOGCAP, or other sources. However, in December of 2003 in Kuwait, we observed that one board was not given sufficient time to consider alternatives to LOGCAP and that the resources to pursue contingency contracts other than LOGCAP were not available, largely defeating the purpose of the board. For example, several large, preexisting task orders that were to expire within a few weeks were presented with the admonition that it was imperative that the task orders continue. With only a few weeks to renew the task order, the board had no time to explore options to using the LOGCAP contract. Furthermore, the principal assistant responsible for contracting in Kuwait said that her office lacked the resources to explore contracting options to LOGCAP and the legal office lacked the resources to review new contracts.

Contract Oversight Processes Were Generally Good but Not Always Properly Implemented

While oversight of a contract is the contracting officer's responsibility, the contracting officer may delegate some oversight responsibilities to DCMA. The contracting officers for LOGCAP, AFCAP, and BSC have all delegated significant portions of contract oversight to DCMA, while the Navy retains all contract administration and oversight responsibilities for the CONCAP contract. While DCMA's contract oversight generally resulted in cost savings, opportunities exist to improve oversight. For example, DCMA did not perform some of its delegated contract administration tasks under AFCAP, such as ensuring that the contractor maintained appropriate

controls of government property, and the Air Force did not always appoint contracting officers' representatives (subject matter experts) to assist with oversight. Complicating oversight were recurring contractor problems such as poor cost reporting; difficulties with producing and meeting schedules; and inadequate controls over purchasing, which made the LOGCAP contract more difficult to administer. In addition, better government oversight might have avoided a billing disagreement between the government and the LOGCAP contractor involving millions of dollars in food service bills. Moreover, while the AFCAP and BSC task orders have been definitized within the time allowed by the Defense Federal Acquisition Regulation Supplement, most of the LOGCAP task orders have not. Because task orders have not been definitized, LOGCAP contracting personnel have not conducted an award fee board. We believe it will be difficult to comprehensively assess the contractor's performance in an award fee board because customer evaluations of the contractor's performance have not been uniformly documented. Finally, lessons learned are often not shared or are shared only informally, and there is no process in place to systematically collect knowledge and insights about the programs and to disseminate it to those who currently need it to provide oversight and management of the contracts.

DCMA's Oversight of Logistics Support Contracts Has Produced Good Results

The oversight of contracts ultimately rests with the contracting officer, who is responsible for ensuring that contractors meet the requirements set forth in the contract. However, most contracting officers are not located at deployed locations. As a result, contracting officers appoint monitors, who represent the contracting officer and are responsible for monitoring contractors' performance. Contracting officers for AFCAP, LOGCAP, and BSC have chosen to have personnel from DCMA oversee contractors' performance. DCMA is an independent combat support agency within DOD that serves as the department's contract manager, responsible for ensuring that federal acquisition programs, supplies, and services are delivered on time, delivered within cost, and meet performance requirements.

We met with DCMA officials in Kuwait and Qatar and discussed contract oversight activities for the LOGCAP and AFCAP contracts; reviewed Army Audit Agency audits of contract oversight activities in Afghanistan, Uzbekistan, and Turkey; and found that, overall, DCMA is doing a good job of administering the contract. From December 2002 through February 2004, the Army Audit Agency reviewed the Army's use of LOGCAP in Turkey, Uzbekistan, and Afghanistan and found that the contract was being effectively managed. While these audits did not specifically assess

DCMA's oversight of the contract, the audits' included the oversight responsibilities delegated to DCMA. In Turkey, the Army Audit Agency reported that appropriate actions to control costs and ensure effective stewardship of resources were in place; in Uzbekistan, it reported that key management controls had been identified, were in place, and were working; and in Afghanistan, the audit agency reported that adequate procedures were in place to control costs but that the government could improve the management of government-furnished equipment provided to the contractor.

The Army Audit Agency's conclusions are similar to our observations of DCMA's activities in Kuwait, where DCMA's oversight is resulting in contract improvements and cost savings. For example, at one location we visited in Kuwait that included the use of LOGCAP for helicopter airfield operations, the DCMA administrative contracting officer had an aviation background and observed that the contract called for more aviation refueling points than necessary and that the number of sweepers available for cleaning the runways and parking ramps was excessive. He was able to reduce the number of refueling points by half, saving the Army money, and the number of sweepers from five to three. In addition, after conducting a lease/buy analysis, the administrative contracting officer directed the contractor to buy the sweepers instead of leasing them because buying saved the government money. Situation reports filed periodically by DCMA administrative contracting officers also detail a concerted effort to reduce contract costs by conducting lease or buy analyses for nontactical vehicles¹⁰ and generators, critiquing the contractor's proposed cost estimates, and monitoring the disposition of government property. These reports also document DCMA's quality assurance personnel enforcing health and safety standards to ensure, for example, that food served to U.S. military personnel had met all health requirements. Additionally, DCMA officials, along with contractor and service officials in Qatar, the Balkans, and Kuwait were instrumental in transferring excess material and equipment from AFCAP and BSC to LOGCAP. DCMA estimated savings to the LOGCAP contract from the equipment transfer at \$17 million to \$22 million.

¹⁰ Nontactical vehicles are motor vehicles used to support general transportation services and facility maintenance functions not directly connected with combat or tactical operations.

DCMA Failed to Perform Its Property Administration Function on Some Task Orders

While, as discussed above, we believe overall that DCMA provided good oversight, it failed to perform some of its delegated contract administration tasks for the AFCAP task orders in southwest Asia. DCMA failed to ensure that the contractor maintained appropriate controls of government property. The Federal Acquisition Regulation¹¹ states that a government contractor is required to establish and maintain a property system to control, protect, preserve, and maintain all government property. The Federal Acquisition Regulation goes on to say that the government's contracting officer or the designated representative assigned the property administration responsibility should review the contractor's property control systems to ensure compliance with the property clauses of the contract.

On task orders executed in southwest Asia, the AFCAP procuring contracting officer delegated the property administration responsibility to DCMA's administrative contracting officers. However, contract administrators in southwest Asia did not ensure that the contractor had established and maintained a property control system to track items acquired under the contract. In addition, DCMA's contracting officers in southwest Asia did not have a system in place to document what the contractor was procuring in support of AFCAP task orders and what was being turned over to the Air Force. As a result, as of April 2004, neither DCMA nor the Air Force could account for approximately \$2 million worth of tools and construction equipment purchased through the AFCAP contract.

In July 2004 DCMA told us that the AFCAP contracting officer provided DCMA with additional direction regarding the administration of property acquired under the contract. According to DCMA, its Middle East office identified a joint accountability problem for the Air Force engineering squadrons. The AFCAP contracting officer has since clarified that the tools and construction equipment purchased for the Air Force engineering squadrons were to go directly to the Air Force. As a result, DCMA believes that neither it nor the contractor are responsible for the accountability of the property. However, at the time of our visit to the theater in December 2003, and in subsequent conversations with DCMA contracting officers, we observed and were told that at that time DCMA was responsible for property administration but did not have a system in place to document the property that was purchased under these task orders and that DCMA

¹¹ Federal Acquisition Regulation, Part 45, "Government Property."

contracting officers should have been performing this responsibility. Notwithstanding the additional guidance that has since been provided by the AFCAP contracting officer, DCMA was delegated the property administration responsibility and either should have documented all property purchased for the Air Force engineering squadrons or sought clarifying guidance earlier from the AFCAP contracting officer. However, at the time of our review, neither the Air Force nor DCMA could account for approximately \$2 million worth of tools and equipment purchased under the contract.

DCMA Did Not Always Appoint and Use Contracting Officers' Technical Representatives to Monitor the Contract in Iraq

As mentioned, the LOGCAP contract is being used to meet a wide range of military requirements, such as running supply operations for food, water, fuel, construction materials, and repair parts and providing services such as laundry, clothing repair, food service, sanitation, recreation, maintenance, transportation, medical waste disposal, and construction. Effective oversight of this diverse body of work requires personnel with knowledge and expertise in these particular areas. DCMA administrative contracting officers are contracting professionals but may have limited knowledge of field operations. In these situations, DCMA normally uses contracting officers' technical representatives. Contracting officers' technical representatives are individuals who have been designated by their unit and appointed and trained by the administrative contracting officer. They provide technical oversight of the contractor's performance, but they cannot direct the contractor by making commitments or changes that affect any terms of the contract.

In March 2000, the U.S. Army, Europe, audit cell located in Kosovo recommended that the command use the Army's subject matter experts to provide oversight of routine day-to-day services provided by the Balkans Support Contract.¹² The audit cell recommended that the task force designate these experts as contracting officers' representatives, which, according to the audit cell, would improve contract oversight and management and ensure that the command received quality service from the contractor. In October 2002, during a visit to Kosovo, we confirmed that the command had designated subject matter experts from the Area Support Group's Department of Logistics as contracting officers' representatives for BSC.

¹² Draft Memorandum for the Commanding General, Task Force Falcon (Forward), (Mar. 31, 2000) Task Force Falcon Audit Cell.

According to a DCMA official in Iraq, it was the agency's goal to have a contracting officer's technical representative for each functional area (e.g., food service and maintenance) at each division and camp. While representatives were appointed at some locations, they were not at others. For example, 101st Airborne Division officials told us that they had not been asked to provide representatives and had played no role in overseeing the contract. We believe that having contracting officers' technical representatives for each functional area at each division and camp would improve government oversight.

LOGCAP Contract Management Is Made More Difficult by Recurring Contractor Problems

DCMA prepares periodic situation reports that report the status of contractor activities, successes, and problems. Our review of the reports prepared by DCMA from September 2003 through May 2004, which we did not validate but did discuss with the LOGCAP contractor, highlights a pattern of contractor management problems. Some of the problems mentioned in these reports follow:

- Adequate cost reporting and cost management are important because they affect the government's ability to monitor contract spending. Several administrative contracting officers believe that the contractor's cost reports are inadequate and make it difficult to know how much the contractor has actually spent on the individual task orders. For example, in the November 13, 2003, report for Iraq, the administrative contracting officer reported that the contractor was refusing to perform work because of its contention that no funding remained available, while the cost report for the previous reporting period showed that the contractor had expended only 45 percent of the available funds. Furthermore, some administrative contracting officers have noted that the contractor's managers at individual sites have no knowledge of the costs associated with their task orders.
- Difficulties with producing and meeting schedules affect the government's ability to know when contracted support will be provided. The situation reports frequently mention that the contractor has not been able to produce task order schedules as required by the contract. In addition, the reports often note that the contractor is behind schedule on both big and small projects. Additionally, officials from the 101st Airborne Division noted that the contractor did not meet the required schedule for providing housing. They also noted that the contractor did not provide some of the services required by task order 59, specifically pest control and water production.
- Inadequate controls over purchasing and subcontractors hinder government oversight. Several administrative contracting officers have noted that the contractor had inadequate controls over its purchasing

system. For example, administrative contracting officers have observed that requisitions

- are not always provided to the administrative contracting officers as required by the contract,
- frequently lack sufficient documentation to justify the lease or purchase, and
- do not provide an accurate estimate of the cost of the item.

Also, administrative contracting officers have noted that they are unable to gain accurate status about materiel being purchased through the contractor, which increases customers' frustration. In addition, the contractor does not have good control over its subcontractors. One DCMA official reported that the contractor let a subcontract expire without a transition plan, thus disrupting services.

The LOGCAP contractor has acknowledged some of these problems and has been working with DCMA to establish systems and procedures that will be more responsive to the government's needs. For example, in late 2003 the contractor sent a large team of auditors to Kuwait to review its operations in Kuwait and Iraq and develop processes and procedures to help resolve some of the purchasing problems. The situation reports also document that the contractor is working with DCMA to resolve other problems mentioned above, such as issues related to scheduling. However, situation reports from Iraq and Kuwait indicated that scheduling and cost reporting continue to be a problem at some locations while improvements have been noted at others.

Better Oversight of Food Service Might Have Avoided a Contract Disagreement

A disagreement between the LOGCAP contractor and the Defense Contract Audit Agency involving at least \$88 million in food services charges to feed soldiers in Iraq might have been avoided had there been more careful government oversight. The statement of work prepared by the Army required that the LOGCAP contractor provide food service and food service facilities at bases throughout Iraq. It directed that the contractor build, equip, and operate the dining facilities at the base camps and provide four meals a day for the base camp populations. The populations were specified in the statement of work. The contractor subcontracted with six food service companies, which were responsible for building and operating the dining facilities as well as providing food service workers and food. The contractor instructed the subcontractors to do a head count at each meal. A military representative, a contractor representative, and a subcontractor representative signed daily head-count sheets. The statement of work did not specify whether the government

should be billed on the camp populations specified in the statement of work or on the actual head count. Generally, the subcontractors billed the contractor for the base camp population although there were some differences in the subcontractors' billing procedures.

During our review of subcontractors' files, we noted that on many occasions the number of personnel eating in the dining facilities throughout Iraq was less than the base camp population indicated in the statement of work. In response to a Defense Contract Audit Agency audit of dining facility billings, the contractor analyzed selected invoices from a number of dining facilities throughout Iraq for a 4-month period and found that by billing the government for the base camp population instead of the actual personnel served, it had billed the government for food service for more than 15.9 million soldiers¹³ when only 12.5 million—more than 3.4 million fewer—had passed through the dining facilities. The contractor estimated the cost of serving the additional personnel who did not use the dining facilities at approximately \$88 million.

The contractor and the Defense Contract Audit Agency disagree over the appropriate billing procedures for this service. The Defense Contract Audit Agency's interpretation requires billings based on actual head counts while the contractor's interpretation authorizes billings based on the number of soldiers at each base camp as established in the task order statement of work. The parties are currently discussing the issue. We believe that this disagreement could have been avoided through better contract oversight. As discussed above, daily head counts sheets were being prepared at each facility. However, neither the government nor the contractor apparently acted on the disparity between the camp population and the head counts. According to representatives of the 101st Airborne Division, they were not aware of the cost implications of the disparity. They also said that CJTF-7, the next higher headquarters for the 101st, was not interested in the numbers of people that were using the dining facility unless the number exceeded the number contracted for in the statement of work.

¹³ This figure is the number of soldiers in Iraq multiplied by the number of days in a month multiplied by the number of months included in the invoice analysis.

The Navy Provides Oversight for the CONCAP Contract

Unlike the other contracts we reviewed, the Navy has retained all of the contract administration and oversight responsibilities for the CONCAP contract. The Naval Facilities Engineering Command uses frequent communication and technically qualified staff for overseeing CONCAP projects. For example, at Guantanamo Bay, the site of CONCAP's largest project, the contractor's on-site project managers provide the Naval Facilities Engineering Command, Atlantic Division Headquarters in Norfolk, Virginia, with daily situation reports. In addition, Facilities Command engineers and engineering technicians located at Guantanamo Bay provide on-site quality control for the CONCAP projects and document their findings in quality control reports. Partnering sessions with customers, contractors, and subcontractors are held monthly, and project management officials from the command frequently visit the sites to inspect the projects. A command official stated that in contracting one must have people with the technical expertise to provide oversight of the job. According to officials, a minimum of at least one technically qualified person should be on site at each task order location.

The Army Has Not Definitized the Majority of LOGCAP Task Orders nor Has It Held an Award Fee Board

The Defense Federal Acquisition Regulation Supplement requires that undefinitized contracting actions, such as the task orders used in the LOGCAP program, be definitized within 180 days of beginning work or before 50 percent of the work is completed. While AFCAP and BSC complete the definitization process well within the 180-day time limit, many of the LOGCAP task orders have not been definitized despite the fact that work has been completed on some of the task orders. In addition, the Army has yet to hold an award fee board despite the contract requirement to hold a board every 6 months. The award fee board is a mechanism for the government to evaluate the contractor's overall performance and recommend an amount of award fee. Furthermore, it is unclear if the award fee board, when it is held, will be able to conduct a comprehensive evaluation of the contractor's performance because many LOGCAP customers have not been evaluating and documenting the contractor's performance.

Most LOGCAP Task Orders Have Not Been Definitized

The LOGCAP, AFCAP, and Balkans Support Contracts comprise a series of task orders that commit the contractor to provide services and the government to pay for them. The task orders are considered undefinitized contracting actions because the terms, specifications, and price of the task orders are not agreed upon before performance begins. Undefinitized contract actions are used when government interests demand that the contractor be given a binding commitment so that work can begin

immediately and negotiating a definitive contract is not possible in sufficient time to meet the requirement.

The Defense Federal Acquisition Regulation Supplement requires that undefinitized contract actions include a not-to-exceed cost and a definitization schedule. It also requires that the contract be definitized within 180 days or before 50 percent of the work to be performed is completed, whichever occurs first. The head of an agency may waive the limitations.

While the AFCAP and BSC task orders have generally been definitized within the time allowed by the Defense Federal Acquisition Regulation Supplement, and CONCAP task orders do not require definitization,¹⁴ most of the LOGCAP task orders have not been definitized in the required time even though work began on some of the task orders in 2002. For example, Air Force contract administrators definitized contract terms, on average, in 23 days after issuing a notice to proceed. However, as of June 4, 2004, the Army had issued 78 task orders for the LOGCAP contract, of which 54 require definitization. (The 24 task orders that do not require definitization are cost reimbursable or firm fixed-price task orders.) The Army and the contractor have definitized 13 of the 54 task orders, and 30 task orders are in the process of being definitized. In addition, the Army and the contractor have also agreed to a schedule for submitting qualified proposals for the remaining 11 task orders. Table 3 shows the task order award date; the contractually required definitization date; the currently scheduled definitization date; and the value of the task order for the 10 oldest undefinitized task orders, which total \$1.402 billion.

¹⁴CONCAP task orders do not require definitization since the terms, specifications, and price are agreed to before work begins.

Table 3: Information on the 10 Oldest Undefined LOGCAP Task Orders

Task order number	Description	Award date	Required definitization date	Scheduled definitization date	Estimated value of the task order
13	Base camp support in Afghanistan	Aug. 19, 2002	Feb. 15, 2003	July 12, 2004	\$216,263,785
14	Base camp support in Afghanistan	Sept. 29, 2002	Mar. 26, 2003	July 12, 2004	144,864,959
15	Base camp support in Djibouti	Aug. 23, 2002	Feb. 19, 2003	Sep. 3, 2004	107,399,369
27	Base camp support in Kuwait	Oct. 10, 2002	Apr. 6, 2003	July 28, 2004	425,986,448
28	Georgia	Oct. 18, 2002	Apr. 16, 2003	June 28, 2004	14,088,123
31	Secretary of Defense Plan	Nov. 8, 2002	May 7, 2003	June 7, 2004	1,883,681
33	Base camp support in Afghanistan	Dec. 29, 2002	June 27, 2003	July 4, 2004	68,511,111
34	Seaport logistics support in Kuwait	Dec. 30, 2002	June 28, 2003	July 5, 2004	136,548,891
35	Base camp support in Kuwait	Jan. 8, 2003	July 7, 2003	June 21, 2004	51,912,923
36	Airport logistics support in Kuwait	Jan. 4, 2003	July 3, 2003	July 19, 2004	234,100,634
Total					\$1,401,559,925

Sources: U.S. Army (data); GAO (analysis).

The table does not include task order 59, which is the LOGCAP contract's largest task order, with an estimated value of \$3.894 billion, as it is not among the 10 oldest undefinitized task orders. Work began on this task order in June 2003 and according to the contract, it was to be definitized by December 2003. According to the Army Field Support Command, the definitization process for task order 59 began on May 6, 2004.

According to the Commanding General of the Army Materiel Command, the Army and the contractor have agreed to a schedule for definitizing the remaining task orders, and as of May 2004 the contractor has been meeting that schedule. Furthermore, if the contractor does not adhere to the schedule, the general said that the Army intends to unilaterally definitize the contract. Agency officials attribute much of the delay in definitizing the task orders to the growing number of task orders, the frequent revisions to the task orders, contractor staffing problems, and the contractor's antiquated accounting system.

The Army Has Not Held an Award Fee Board for the LOGCAP Contract

Timely definitization of LOGCAP task orders has been a long-standing problem. In 1997 we reported that the LOGCAP contracting officer (then the Army Corps of Engineers) and the contractor had not definitized the LOGCAP task orders in a timely fashion.¹⁵ We noted that because the task orders had not been definitized, contract provisions that give the contractor major incentives to control costs were not effective. Seven years later, we continue to have those same concerns. In June 2004, we again reported that delays in defining contract terms increase the risk to the government by making cost control incentives in award fee contracts less effective.¹⁶ We have also noted that DOD is required to ensure that the profit allowed on an undefinitized contract for which the final price is negotiated after a substantial portion of the work is completed reflects the possible reduced risk to the contractor.¹⁷

The LOGCAP contract requires an award fee board every 6 months, but the Army has yet to hold one even though work under the contract began in 2002. The award fee board is a mechanism for the government to evaluate the contractor's overall performance and recommend an amount of award fee. Award fees can serve as a valuable tool to control program risk and encourage contractors' performance. According to LOGCAP officials, several issues have delayed the award fee boards. First, the LOGCAP award fee plan has not been finalized; second, no one has been appointed to the award fee board; and third, as we noted above, many LOGCAP task orders have not been definitized. Definitization is an essential step in the award fee process because it establishes the amount of money available for the award fee.

We believe that the Army will find it difficult to hold a board that comprehensively evaluates the contractor's performance to date because some customers have not been documenting their LOGCAP experience as required. According to the Army's LOGCAP guidance, DCMA and LOGCAP customers, as part of "Team LOGCAP," should evaluate and document contractors' performance and participate in the award fee boards.¹⁸ DCMA

¹⁵ [GAO/NSIAD-97-63](#). At that time, LOGCAP was being used to provide logistics support in the Balkans.

¹⁶ U.S. General Accounting Office, *Rebuilding Iraq: Fiscal Year 2003 Contract Award Procedures and Management Challenges*, [GAO-04-605](#) (Washington, D.C.: June 1, 2004).

¹⁷ 10 U.S.C. § 2326(e).

¹⁸ Army Materiel Command Pamphlet 700-30.

documents contractor performance in the periodic situation reports it provides the contracting officer and through site-specific performance evaluation boards discussed below. On the other hand, customers have not been asked by the contracting officer to document their experiences or their evaluations of the contractor's performance, and as a result, some have not done so. The contracting officer told us that it is important to have customers' input. However, many customers with direct knowledge of the LOGCAP contractor's performance have left their unit, and capturing this information may be difficult. For example, at the 101st Airborne Division, the four key officials involved with LOGCAP—the Assistant Division Commander for Support, the division's logistics officer, the LOGCAP focal point, and the housing officer—are all in the process of moving to their next posts.

DCMA has documented customer-performance evaluations in site-specific performance evaluation boards at some locations. In Djibouti, the Marine Corps and DCMA hold performance evaluation boards every 2 months to evaluate the contractor's performance and provide the contractor with feedback. During these meetings, key command officials and DCMA meet to evaluate the contractor's performance using the evaluation criteria established in the LOGCAP contract. While no fee is awarded, scores are tabulated and provided to the contracting officer. Performance evaluation boards have also been held for some of the Afghanistan and Iraq task orders.

Lessons Learned Have Not Been Systematically Collected, Shared, or Implemented

Despite over 10 years of experience in using logistics support contracts, the Army continues to experience the same types of problems it experienced during earlier deployments that used LOGCAP for support. For example, in our previously cited 1997 report on the Army's use of LOGCAP in Bosnia, we cited inadequate training as a cause of many of the Army's problems in controlling contract costs.¹⁹ In that report we recommended that the Army provide commanders with training on the fundamentals of using the LOGCAP contract. In our 2000 report on U.S. Army, Europe's, use of BSC we again cited the need for better training.²⁰ In 2004 Army officials told us again that LOGCAP training needs to be improved. In addition to training concerns, we also reported in 1997 that U.S. Army, Europe, officials felt the contractor's cost-reporting system

¹⁹ [GAO/NSIAD-97-63](#).

²⁰ [GAO/NSIAD-00-225](#).

used in Bosnia was not sufficient to track the cost of the operation or report on how LOGCAP funds were spent. As we noted above, from September 2003 through May 2004, DCMA expressed similar concerns about the LOGCAP contractor's current cost reports.

The Army requires that lessons learned be captured. Army Regulation 700-137, which establishes the LOGCAP program, makes customers that receive services under the LOGCAP contract responsible for collecting lessons learned.²¹ However, there are no procedures in place to ensure that lessons learned are collected and shared and, as we noted above, LOGCAP customers are generally not documenting their experiences. In the Army, a primary organization responsible for collecting lessons learned is the Army Center for Lessons Learned. The center collects and analyzes data from a variety of current and historical sources, including Army operations and training events, and produces lessons for military commanders, staff, and students. The Center for Army Lessons Learned database contains numerous articles on using logistics support contracts, but our review found little information on the challenges and problems commanders have faced in using these contracts or what commanders should plan for and anticipate when using them. For example, we found nothing on the challenges that commanders' face in controlling costs. While U.S. Army, Europe, which has had the most experience in using logistics support contracts, has periodically advised us of the steps it has taken to improve its management of BSC, it has not consolidated these lessons learned and made them available for others. U.S. Army, Europe, does maintain a lessons learned database that captures the experiences of soldiers in Bosnia and Kosovo, including the use of LOGCAP and BSC; however, it might be difficult to access the database as it is not mentioned on the U.S. Army, Europe, Web site. In a meeting with the commanding general of the Army Materiel Command, he agreed that there was a need for a lessons-learned system, which would "push" lessons and best practices down to the organizations using the contract.

The LOGCAP and the Balkans Support contracts both require that the contractor collect lessons learned and provide the government with them. Generally, these lessons learned are collected at the small task level (e.g., how to prevent slipping in the shower) rather than at the macro-level. While useful, these types of lessons-learned do not address systemic contract management problems or help improve contract management. In

²¹ Army Regulation 700-137.

addition, the contractor does not have an internal lessons learned program. Instead, contractor personnel take lessons they have learned as they move from deployment to deployment, and contract to contract.

The Military Services' Efforts to Ensure That Contractors Perform in an Economical, Efficient, and Cost Conscious Manner Vary Widely

OMB circular A-123 requires all managers of federal funds to ensure that cost-effective controls be implemented for the expenditure of appropriated funds, and the Army's senior leadership has recognized the Army's responsibility to be good stewards of the taxpayers' dollars. While contract oversight is the responsibility of the contracting officer, as indicated in the OMB circular, all managers have a responsibility to ensure that agency programs operate in an economical and efficient manner and that costs are controlled. Efforts to control costs vary widely both across and within logistics support contracts. The Army and the Army Central Command did not make the need to control LOGCAP spending for activities in Iraq and Kuwait a high priority until late 2003. However, CJTF-180 made controlling LOGCAP costs in Uzbekistan an important goal during the early days of Operation Enduring Freedom. Managers for BSC, CONCAP, and AFCAP recognized the need to be good stewards of the taxpayers' dollars and have taken steps to control costs. We have noted that when the customer reviews the contractor's work for economy and efficiency, savings are realized. However, steps to conduct these reviews have not been taken by LOGCAP customers at all task order locations. In addition, both the Army and the Air Force believed that at times they had no other option but to use their logistics support contracts to obtain goods and services even when they knew that other methods might have resulted in lower costs. For example, the Army had the contractor provide housing for an Army division although it was more costly than allowing the unit to build the housing itself because at the time the Army decided to use LOGCAP, it was the only means available to get the 101st Airborne Division into housing by a November 15, 2003, deadline. Similarly, the Air Force used the AFCAP contract to supply commodities for its heavy-construction squadrons because it did not deploy with enough contracting and finance personnel to buy materials quickly or in large quantities although the use of the contract to procure and deliver commodity supplies required that the Air Force pay the contractor's costs plus an additional award fee.

Efforts to Control Costs Vary across Logistics Support Contracts

We recognize that cost control should not be the primary consideration for commanders when U.S. forces are involved in major combat operations or when the operational environment or security situation requires the presence of more troops or the relocation of forces. However, cost

constraint did not become a factor in using LOGCAP in Iraq and Kuwait until almost a year into the operations in Iraq. The Army Central Command, the Army command responsible for paying for LOGCAP, had no spending limits for LOGCAP until spring 2004, when a \$6.5 billion limit was placed on the amount that could be spent in fiscal year 2004 on the basis of the estimated cost of required work. The spending limit followed a December 2003 message from the Army Vice Chief of Staff that asked units to control costs and look for alternatives to the LOGCAP contract and the realization that LOGCAP costs were growing rapidly. According to a study commissioned by the Army Budget Office, from September 2003 through January 2004, projected LOGCAP costs for services in Kuwait, Iraq, and Afghanistan grew from \$5.8 billion to \$8.6 billion. In late 2003, the Army Central Command requested that “Team LOGCAP” review the cost estimates for the task orders being used in Kuwait, Iraq, and Afghanistan to determine if the cost estimates could be reduced. According to the Army Budget Office, this review reduced the estimated cost of using LOGCAP in the Army Central Command’s area of responsibility from \$8.6 billion to \$6.5 billion, although most of the reduction came from the use of more accurate cost data rather than a reduction in requirements or more economical approaches. According to the Army Central Command, commanders in the area of operations have established additional review procedures. For example, all requests for services greater than \$50,000 must be approved by a general officer before the requests can be considered for approval by the local acquisition review board. Additionally, all requests that would add services to the LOGCAP contract valued at more than \$10 million must be reviewed by a LOGCAP and service contract review board. Members of the review board include the deputy commanding general for support and other high-ranking members of the command staff.

As we noted earlier, the Army Audit Agency examined the use of LOGCAP in Turkey,²² Afghanistan,²³ and Uzbekistan.²⁴ They reported that commanders in each location had adequate procedures in place to control costs. In particular, the Army Audit Agency reported that program

²² U.S. Army Audit Agency, *Management of Resources-Army Forces Turkey*, Army Audit Agency, A-2004-0033-IMU (Oct. 23, 2003).

²³ U.S. Army Audit Agency, *Logistics Civil Augmentation Program-Camp Stronghold Freedom, Uzbekistan*, Army Audit Agency, A-2003-0110-IMU (Dec. 21, 2002).

²⁴ U.S. Army Audit Agency, *Operation Enduring Freedom-Logistics Civil Augmentation Program*, Army Audit Agency, A-2004-0156-IMU (Feb. 27, 2004).

managers in Uzbekistan and Turkey had made cost control a priority and in Afghanistan had taken appropriate action to control costs and ensure effective stewardship.

Cost control has long been a matter of importance for contract administration officials for CONCAP, AFCAP, and BSC. Navy and Air Force officials believe that using the CONCAP and AFCAP contracts to fulfill a requirement is often the most expensive option available; consequently, they have taken steps to control costs. For example, to control costs, CONCAP establishes a budget for each project and works closely with the contractor and customer to agree on requirements and costs before the project gets under way.

The AFCAP contracting officer and program managers have retained cost-control responsibilities and review and substantiate the contractor's cost estimate at the beginning of each task order. At the initiation of each task order, AFCAP contract administrators negotiated costs proposed by the contractor in order to receive advantageous pricing for the government. Additionally, the government's review of proposed costs allows it to better define its requirements for the contractor. We reviewed several examples of the memoranda detailing these negotiations and found that the government developed cost estimates that were significantly less than the contractor's original proposal. For example, the government achieved reductions that ranged from 6 percent to 97 percent on the basis of the review and substantiation of the contractor's cost proposals. Regarding the largest proportionate reduction, the AFCAP contractor estimated that it would cost \$23.1 million to provide and maintain equipment for Air Force construction units. However, in reviewing this proposal, the AFCAP contract administrator determined that the government had overstated its requirements, resulting in a 97 percent, or \$22.3 million reduction.

U.S. Army, Europe's, focus on cost control has increased since BSC was first awarded. Beginning in the fall of 2001, U.S. Army, Europe, has taken a number of steps to control the costs of BSC, as shown below:

- In fiscal year 2003, resource managers established a cost reduction goal for the contract.
- Command leadership issued guidance on the need to be cost conscious.
- Cost control became the most important criterion for determining the contractor's award fee.
- The command sets cost-control goals for the contractor at every award fee board.

Steps to Ensure That the Contractors Provide Service in an Economical and Efficient Manner Have Not Been Taken at All Task Order Locations

Customers who use the logistics support contracts have a role in ensuring that the contracts are used in an economical and efficient manner, and our previous work has shown that when government officials (including customers) review the contractor's work for economy and efficiency, savings are generated. For example, in part as a result of our previously cited 2000 report on managing BSC, U.S. Army, Europe, has developed a proactive approach to managing BSC and ensuring that the contractor provides services in an economic and efficient manner. U.S. Army, Europe, reported savings of approximately \$200 million by reducing services and labor costs, and by closing or downsizing camps that were no longer needed. The \$200 million in savings is about 10 percent of the current contract ceiling price of \$2.098 billion. In addition to these savings, U.S. Army, Europe, routinely sends in teams of auditors from its internal review group to review practices and to make recommendations to improve economy and efficiency. Examples of the audit results are as follows:

- In March 2001, U.S. Army, Europe, auditors reported that shuttle bus services within Task Force Falcon (Kosovo) were not well utilized and that the services should be reduced.²⁵ The auditors estimated that reducing bus service would result in a savings of more than \$700,000 during the remaining 3 years of BSC.
- In September 2001 Army auditors recommended that the Army provide the contractor with gravel and sand as government-furnished equipment partly because the contractor was maintaining excessive inventories of these materials.²⁶ Auditors estimated that by providing sand and gravel as government-furnished materiel, the Army could save approximately \$365,000 over the remaining 3 years of the contract.

The Marines have also taken actions to ensure that the contractor is working in a cost-efficient and economical manner. When Marine Corps forces replaced Army forces in Djibouti in December 2002 (to provide humanitarian assistance and fight the Global War on Terrorism), they also took over responsibility for funding LOGCAP services. Marine commanders immediately undertook a complete review of the statement of work and were able to reduce the \$48 million task order by an

²⁵ U.S. Army, Memorandum for the Chief of Staff, Task Force Falcon, *Review of Shuttle Bus Service in Task Force Falcon*, Audit Report TFF-056 (Mar. 22, 2001)(unpublished).

²⁶ U.S. Army, Memorandum for the Chief of Staff, Task Force Falcon, *Cost of New and Recurring Gravel and/or Sand Requirement*, Audit Report TFF-068 (Sep.17, 2001)(unpublished).

estimated \$8.6 million, or 18 percent.²⁷ The savings came by eliminating or reducing services in the following areas:

- building and construction projects—\$2.8 million,
- equipment—\$2.9 million,
- labor hours—\$2.0 million, and
- materials and miscellaneous items—\$0.892 million.

Marine Forces Central Command deploys teams of subject matter experts to Djibouti semiannually to identify services that could be eliminated, reduced, or changed. Since its initial review, the Marines have identified potential additional savings totaling more than \$2 million, including \$75,000 a year as a result of having the contractor switch from a popular commercial laundry detergent to a detergent available through the Marine Corps' supply system.

In the Balkans and in Afghanistan, command policy requires a periodic review of all services being provided by contractors to determine if the appropriate services as well as the appropriate level of services are being provided. During our visit to Bosnia in October 2002, commanders reported that these reviews resulted in a yearly cost savings of approximately \$120,000.²⁸ Among the services reduced were cleaning and janitorial services and operating hours for wash racks and fuel service facilities. U.S. Army, Europe, requires that these reviews be conducted three times a year prior to the award fee boards. In Afghanistan CJTF-180 guidance requires that the reviews be held monthly; however, the Army Audit Agency noted that these reviews were not taking place. In response to the Army Audit Agency report, the command revised its guidance to include procedures for the reviews.

On the basis of our visit to Kuwait in December 2003 and a review of CJTF-7 policies, it appears that neither the Army Central Command in Kuwait nor CJTF-7 in Iraq have established similar policies mandating regularly scheduled reviews of services. However, some reviews of services have been undertaken since January 2004, as shown below:

²⁷ Since the Marines assumed this mission, they have added requirements to the task order. As a result the May 2004 estimated value of the task order is \$107 million. This amount would have been higher if not for the Marine Corps' efforts to control costs.

²⁸ The \$120,000 is in addition to the U.S. Army, Europe, estimated cost savings of \$200 million mentioned above.

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- On the basis of the Army Central Command estimate that \$2.6 million could have been saved in March 2004 if it removed food service from the LOGCAP contract and contracted directly for food service at six locations in Kuwait, we calculated that this could save almost \$31 million a year. The transition has been directed to take place in June 2004, and a schedule has been established setting out the dates on which each location is to transition. By eliminating the use of LOGCAP and making the LOGCAP subcontractor the prime contractor, the command reduced meal costs by 43 percent without a loss of service or quality.
 - During a review of task order 59, change 7, CJTF-7 was able to reduce the estimated cost of the task order by over \$108 million by eliminating services and an extra dining and laundry facility.

Circumstances Did Not Always Allow the Army and Air Force to Select a More Economical and Efficient Method to Obtain Services

Circumstances did not always allow the Army and the Air Force to use a more economical and efficient means to obtain services. Both the Army and the Air Force believed they had no other options but to use their logistics support contracts to obtain goods and services even when they knew that other methods would have resulted in lower costs. For example, as discussed below, CJTF-7 concluded that it had no choice but to use the LOGCAP contract to provide housing for the 101st Airborne Division despite the fact that CJTF-7's own cost estimate showed that having the contractor provide the housing would cost the Army tens of millions of dollars more than having the 101st Airborne Division build its own housing. Air Force engineering squadrons used the AFCAP contract to provide supplies for construction projects because they were not able to deploy with sufficient assets to obtain the needed supplies. However, by using the contractor, the Air Force paid an award fee on task orders with limited risk.

The Need for Housing Made Using LOGCAP the Only Viable Choice for the Army

In July 2003, a decision was made to extend the deployment of the 101st Airborne Division through February 2004. As a result, getting the division's soldiers out of tents before the onset of winter in northern Iraq became a priority for division leadership. To achieve the division's goal of getting its soldiers out of tents by November 15, 2003, the division, in conjunction with CJTF-7, considered three courses of action as follows:

- Allow the division to build its own housing, purchasing the necessary material and using the division's engineer brigades to do the construction. This was the division's preferred option, as division leadership felt it would get the troops "out of tents" by November 15, 2003, and also provide a valuable training opportunity for its engineers. However, CJTF-7 concluded that this was not a viable option, since it would require the use

of military construction funds, which CJTF-7 believed were no longer available. According to an official with CJTF-7, the task force did not believe that military construction funds would be available until November 2003 at the earliest, so work would not start until December 2003 and possibly as late as February 2004.²⁹

- Divide the division's entire housing requirement into 33 individual projects so that the individual projects could be built with operation and maintenance funds, allowing the division to build its own housing.³⁰ CJTF-7 concluded that this was not a legally sound option, as it would involve dividing one project into several projects.
- Obtain the housing under the LOGCAP contract. The Army determined that CJTF-7 could use operation and maintenance funds to buy movable buildings, since the buildings could be moved as necessary for mission requirements unlike nonmovable buildings, which would require military construction funds. This was the course of action ultimately accepted, and in early October 2003, the administrative contracting officer directed the LOGCAP contractor to provide the housing for the 101st Airborne Division. The statement of work required that the housing be provided by November 15, 2003. However, according to officials from both CJTF-7 and the 101st Airborne Division, the contractor did not meet the scheduled delivery date.

The decision to use the LOGCAP contract carried a substantial cost premium. The division estimated that it would cost about \$25 million to build its own housing. The \$25 million included building material for the housing, as well as showers, power generation and heating and air conditioning. Latrines were not included in the cost estimate and were to be provided by a contractor. The government's cost estimate to use LOGCAP to provide housing, showers and power generation, was about \$65 million plus over \$8 million in administrative costs and potential award fee. The \$65 million included the purchase of (1) reusable containers for housing and showers, (2) maintaining the containers, (3) installing the units at locations around northern Iraq, and (4) procuring and installing power. In discussions with CJTF-7 on how housing was obtained, we were told that using the LOGCAP contract was more costly

²⁹ This timeline is based on the CJTF-7 official's assumption that the fiscal year 2004 Supplemental Appropriation for the global war on terrorism would be passed by November 2003.

³⁰ Congress allows the services to use funds from its operations and maintenance appropriation to build construction projects with an estimated cost of less than \$750,000. Projects costing over \$750,000 generally need congressional notice.

then having the 101st Airborne Division build the housing units themselves; however, at the time they made the decision to use LOGCAP, they concluded that it was the only legal means available to get the 101st into housing by the November 15 deadline.

Although buying the trailers was more expensive than allowing the division to build its own housing, the cost of the two options is not directly comparable because the trailers are reusable and moveable whereas the housing built by the division is not.³¹ Should the trailers ultimately be reused elsewhere, thus reducing future housing costs, the disparity between the options could be reduced in the long term. At this time, how well the trailers will hold up in the Iraqi climate and the extent to which the trailers will be reused once they are no longer needed in northern Iraq is unknown, so a full cost comparison cannot be done.

The Air Force and Others Have Used AFCAP to Purchase Supplies Despite the Fact That It May Not Be a Cost-Effective Use of the Contract

The Air Force has used the AFCAP contract to supply commodities such as building materials, tools, and equipment for its heavy construction squadrons. According to Air Force officials, engineering squadrons use the AFCAP contract for commodities because they do not deploy with enough contracting and finance personnel to buy materials quickly or in large quantities. Additionally, the U.S. Agency for International Development has used the contract to provide disaster relief and humanitarian assistance supplies. In many instances, the contractor provided a service for the customer, such as equipment maintenance, in addition to the procurement of the supplies. In other cases, however, the contractor simply bought the supplies and delivered them to the customer. The contractor received more than \$2 million in award fees since February 2002 for these commodity supply task orders. While contractually permitted, the use of a cost-plus award fee contract as a supply contract may not be cost-effective. In these instances, the government reimburses the contractor's costs and pays additional award fees for task orders with little risk.

The Air Force and other federal agencies that use the contract to procure and deliver commodity supplies are required to pay the contractor's costs plus an additional award fee—a 1 percent base fee and up to 6 percent award fee—on each task order performed. Air Force program managers have recognized that the use of a cost-plus award fee contract to buy commodities may not be cost-effective. According to these officials, the

³¹ The building material might have been reused, however, as it was in the Balkans.

next version of the contract may allow for either firm-fixed prices or cost-plus fixed fee procurements on these types of task orders. Firm-fixed price or cost-plus fixed fee contracts will reduce the potential amount of fees paid to the contractor, thereby providing the government with a more cost-effective alternative.

DOD Did Not Always Have Enough Personnel to Manage Its Logistics Support Contracts, and Available Personnel Often Lack the Training to Effectively Use and Monitor the Contract

Given the scope and complexity of logistics support contracts, there were not always enough personnel responsible for contract oversight and monitoring the performance of the contractor, and oversight personnel have not always been adequately trained. DOD deploys civilian and military personnel to provide contract administration and oversight of its logistics support contractors. For example, DCMA has deployed administrative contracting officers to several countries throughout southwest and central Asia and the Balkans to provide on-site contract administration. The Defense Contract Audit Agency has provided audit assistance in contingency locations to ensure that the costs claimed by the logistical support contractors are appropriate. The military services have also deployed personnel to assist unit commanders that are receiving contract services and to monitor the performance of the contractor.

We could find no guidelines on the appropriate number of DCMA oversight personnel and hence relied on the judgments expressed in DCMA's situation reports and the views of oversight personnel with whom we spoke as to the adequacy of staffing. A DCMA official told us there are no specific criteria for determining the size of a deployed contract administration team. Each request for assistance is reviewed, and the team size is based on the risk associated with the contract. DCMA has recognized its human capital challenges, including its staffing challenges, and has developed a strategic plan to address them.

DCMA officials believe that additional resources are needed to effectively support the LOGCAP and AFCAP contracts. Administrative contracting officers in Iraq, for example, have been overwhelmed with their duties as a result of the expanding scope of some of the task orders. Additionally, some Army and Air Force personnel with oversight responsibilities did not receive the training necessary to effectively accomplish their jobs. On the other hand, the Navy has provided contract monitors that are qualified and trained for their responsibilities under the contract. In addition, military units receiving services from the contracts generally lacked a comprehensive understanding of their roles and responsibilities. For example, officers do not understand their role in establishing LOGCAP requirements.

Limited Number of Personnel Support the Oversight of the Logistics Support Contracts

Several defense agencies and the military services deploy civilian and military personnel to assist with contract administration and oversight. For example, as of April 14, 2004, DCMA had approximately 65 personnel deployed to locations in southwest and central Asia to provide on-site contract administration. The agency has contracting officers in Iraq, Kuwait, Qatar, Afghanistan, Uzbekistan, and Djibouti in support of the LOGCAP and AFCAP contracts, as well as other contracts. In addition, three DCMA personnel in Bosnia and three in Kosovo have been deployed to support the Balkans Support Contract and other contracts.

The Defense Contract Audit Agency provides contract oversight and audit assistance for the military at deployed locations. The agency planned to have 31 auditors in its Iraq branch office by May 31, 2004, to oversee the LOGCAP contract as well as other contracts. Defense Audit Agency offices located at contractor facilities in the United States also provide contract oversight. The agency oversees the Balkans Support contractor on request from the Corps of Engineers–Transatlantic Programs Center.

The Army has also deployed military personnel to assist unit commanders in implementing services provided by its logistics support contractor. As of April 14, 2004, 19 members of the 66-person support units were deployed in the Persian Gulf and central Asia. Members of the units are not contracting officers and cannot direct the contractor nor make changes to the contract. Members advise commanders on LOGCAP and help customers develop statements of work. Members also develop independent government cost estimates. Frequently, the unit members are responsible for several task orders concurrently.

While the defense agencies have effectively supported the military in these locations, DCMA administrative contracting officers in Iraq believe that they need an increase in the number of qualified staff to fully meet their oversight mission. DCMA not only provides contract administration for the LOGCAP and AFCAP contracts, it also supports other large contracts in Iraq. The Army requires that DCMA review and approve purchase requisitions valued at more than \$2,500 for LOGCAP task orders. A DCMA official who served in Iraq estimated that the six administrative contracting officers in his command reviewed from 200 to 500 requisitions a week. Another DCMA official indicated a need to hire contracting and procurement technicians to improve the operations of DCMA in Iraq. Moreover, Marine Forces, Central Command officials we spoke to believe that the number of DCMA personnel providing contract oversight in Djibouti is insufficient. As we noted above, DCMA has approximately 65 contracting officials deployed to support the LOGCAP and AFCAP

contracts in the Central Command's area of responsibility having an estimated value of more than \$6.5 billion. In contrast, DCMA deployed a 30-member team to administer the LOGCAP contract in Bosnia in 1996. At that time, the value of the work in Bosnia was approximately \$461.5 million. Essentially, in the Central Command's area of responsibility, including Iraq, DCMA had slightly more than twice the number of people it had in the Balkans and an estimated value of work that is almost 15 times more than in the Balkans.

DCMA officials in southwest Asia told us that they need an additional administrative contracting officer and property administrator to account for \$2 million worth of construction tools and equipment that are currently unaccounted for in the AFCAP contract. Under AFCAP task orders in southwest and central Asia, the procuring contracting officer delegated certain administrative responsibilities to the contracting officers, to include property administration. However, DCMA did not assign a property administrator for the AFCAP contract. According to officials, DCMA deployed one property administrator who was responsible for all property in the theater. An additional administrative contracting officer and a property administrator would assist the Air Force to close out the approximately 80 completed task orders in southwest Asia. The Air Force cannot close out completed task orders until the property is accounted for.

According to DCMA, it has limited resources to support the military at deployed locations because staffing has been reduced by 55 percent over the last 11 years. DCMA uses its in-plant personnel, who oversee the acquisition of major weapon systems, such as aircraft, to support its contingency contract administration services. Increasing the number of deployed DCMA personnel means reducing the number of DCMA personnel at defense plants. One possible approach to overcome staffing shortages is being tried in the Balkans. DCMA has reduced its presence there and has replaced some U.S. citizens with contracted host country nationals that assist the administrative contracting officers and quality assurance personnel. This has allowed DCMA to adjust its limited pool of personnel.

Military Members with Key Oversight and Management Roles Either Had No Training or Insufficient Training to Do Their Jobs

The personnel deployed by the military services to monitor the performance of the logistical support contractors have not always received the training necessary to accomplish their missions. Army guidance on the use of the LOGCAP contract describes the logistics support unit as a significant player in LOGCAP event execution.³² Logistics support unit members may be called upon to write statements of work, prepare independent government cost estimates, review the contractor's cost estimates and technical plans, and act as an interface between the customer and the contractor. According to LOGCAP officials, the original members of this unit were deployed in the early stages of Operation Iraqi Freedom. When the original members returned home, the unit was staffed with individuals with no prior LOGCAP or contracting experience. For example, most of the replacement support unit members we met during our December 2003 trip to Kuwait had received only a 2-week training session before deploying and had little experience or training in developing independent government cost estimates. These cost estimates are used to judge the reasonableness of the contractor's cost proposal and to determine if sufficient resources are available to fund the statement of work. In a 2004 report on the use of LOGCAP in Afghanistan, the Army Audit Agency also noted that members of the logistics support unit needed better training, particularly when it came to developing independent government cost estimates.³³

The Air Force has not consistently provided training for its personnel overseeing the performance of the AFCAP contractor. The Air Force appoints quality assurance evaluators (who are subject matter experts) to ensure that the contractor is performing in accordance with the task order statement of work. Air Force guidance requires quality assurance personnel to be appointed and trained prior to assuming quality assurance responsibilities.³⁴ However, the Air Force quality assurance evaluators assigned in southwest and central Asia were not consistently appointed, trained, or performing their responsibilities. Specifically, AFCAP contract administrators have not consistently provided Air Force quality assurance evaluators with appointments and training. For example, while a quality assurance evaluator had been appointed for a major construction project

³² Army Materiel Command Pamphlet 700-30.

³³ Army Audit Agency A-2004-0156-IMU (Feb. 27, 2004).

³⁴ U.S. Air Force, Performance Based Service Contracts, Air Force Instruction 63-124 (Apr. 1, 1999).

in Qatar, the evaluator told us that he had received no training on the AFCAP contract or on his duties and responsibilities as an evaluator. Quality assurance evaluators have also not been effectively documenting the performance of the contractor. Without comprehensive performance evaluations conducted regularly by quality assurance evaluators, the government has had difficulty in determining the amount of fee to award the contractor.

Conversely, the CONCAP contract administrator has technically qualified staff providing day-to-day oversight at specific job sites. During our visit to Guantanamo Bay, Cuba, we observed that the Navy Facilities Engineering Command has the basic construction contract administration functions performed by personnel in one of the three following general categories:

- Engineers, including degreed engineers or architects, with many licensed by one or more states. In addition to formal education and licensure, engineers receive Navy-specific training in safety, quality management, and other construction-related areas. Typically, engineers serve in contracting officers' technical representative positions and Navy technical representative positions.
- Engineer technicians that are generally trade-specific individuals with extensive construction-related background. Their positions are often titled as "quality assurance representative." As with engineers, they receive Navy-specific training as part of their position. In certain instances, technicians may serve as Navy technical representatives, usually when the work is of limited scope. In those cases where an engineer serves as the Navy technical representative or contracting officer's technical representative, it is common practice to have one or more technicians working under the technical supervision of the engineer in the management and oversight of contract work.
- Contract specialists and contracting officers that have extensive education and training requirements. All Navy Facilities Engineering Command personnel in this category are appropriately trained, certified, and warranted at the appropriate level.

DOD Personnel Often Lacked the Training to Effectively Use the Contract

Customers using the logistics support contracts also have a role in ensuring that the contracts are used in an economical and efficient manner, yet many are unaware that they have any role in the contract management or oversight process. We found that officers and noncommissioned officers using the LOGCAP and AFCAP contracts had little understanding of these contracts and did not fully understand their contract management responsibilities because they had had little or no

training on using contractors, including the LOGCAP contractor, on the battlefield. In interviews, Army customers told us that they knew nothing about LOGCAP before they deployed and had received no training regarding their roles and responsibilities as a LOGCAP customer. For example, a senior logistics officer in the 101st Airborne Division told us that the Army does not educate its battalion and brigade commanders on LOGCAP or on the Army regulation governing the contract. Furthermore, he noted that information about the LOGCAP contract was not included in any of his precommand training courses.

In our 2003 report on DOD's use of contractors to support deployed forces,³⁵ we noted a lack of training or education for commanders or senior personnel on the use of contractors, and we recommended that DOD develop training courses for commanding officers and other senior leaders who are deploying to locations with contractor support. DOD agreed with our recommendation. We also noted in our 2003 report that U.S. Army, Europe, had responded to our earlier concerns regarding the lack of training for commanders and now includes contract familiarization during mission rehearsal exercises for the Balkans deployments.

The Commanding General of the Army Materiel Command has also expressed his concerns about the lack of training regarding LOGCAP for soldiers. In an e-mail message to the Army Deputy Chief of Staff for Logistics discussing reasons why the LOGCAP contractor is slow to respond to the Army's needs, the general said:

"The first is the lack of preparation our officers have for dealing with LOGCAP: we don't train this as a capability that our officers consider during deliberate planning. This unfamiliarity with LOGCAP in general contributes to considerable delay up front, as we rely on the requesting unit to generate the statements of work that are the catalyst for the entire process"

In our previously cited 2000 report on BSC, we highlighted the problem of poorly written statements of work. For example, we noted that the Army did not provide the contractor with guidance regarding the level of power generation redundancy (i.e., backup power) needed in Kosovo. As a result, the contractor bought and leased generators to provide 100 percent power redundancy. Army officials later told us that much less redundancy was needed and by reducing the redundancy and shifting from leased to

³⁵ [GAO-03-695](#).

purchased generators, the Army was able to save approximately \$85 million over 5 years. The problem of poorly written statements of work continues with the current LOGCAP contract. For example, task order 59 requires the contractor to provide water for units within 100 kilometers of designated points. However, the statement of work does not indicate how much water needs to be delivered to each unit or how many units will need water. The statement of work also requires that the contractor maintain the capability to recover vehicles. According to the contractor's deputy project manager, problems with this requirement include the following: (1) there is no indication if the contractor will provide the primary vehicle recovery support or be the backup to the Army, (2) the time frame for recovery is not specified, and (3) whether the contractor is supposed to recover vehicles both on and off road is not specified. Without this information, the contractor cannot determine how to meet the needs of the Army and may take excessive steps to ensure customers' satisfaction. According to LOGCAP guidance, statements of work must be specific in detail and to the point.

AFCAP program managers expressed frustration that Air Force customers lacked institutional knowledge of the contract. AFCAP program managers stated that they have attempted to institutionalize training for the Air Force's major commands but have been unsuccessful to date in convincing the commands to send representatives for training. According to the program managers, the Air Force's major commands are not interested in the AFCAP contract until its services are needed; whereupon the program managers are required to train the command personnel.

Conclusions

Over the past few years, DOD and the Army have developed doctrine and guidance for using logistics contracts to support operations, which include the early identification of requirements, and involving the contractor in developing comprehensive statements of work as recurring themes. These principles support a concept that when the contractor has adequate time to plan and prepare to accomplish its mission, service quality improves and costs are lowered. However, planning for the use of the LOGCAP contract to support the troops in Iraq did not begin until after the fall of Baghdad, was not comprehensive, and did not include the contractor. Instead, a piecemeal approach to planning occurred and resulted in constant changes to the statement of work and forced the contractor to scramble to meet contract requirements, resulting in unmet expectations, lower-quality services, and unnecessary costs. Even considering the inherent uncertainty of wartime planning, a more deliberate approach

involving the contractor, as discussed in the doctrine and guidance, would, in our opinion, have resulted in a better product at a lower cost.

Our previous and current work has repeatedly shown that when customers of logistics support contracts review the types and level of services provided by contractors for both economy and efficiency, savings can be realized. While some customers have developed procedures for periodic reviews of recurring services using subject matter experts, others have not. Until all customers develop review programs, DOD will have limited assurance that it is paying only for services it truly needs.

DOD, particularly the Army, has had more than 10 years of experience using logistics support contracts such as LOGCAP and the Balkans Support Contract, yet it often makes the same mistakes in new deployments. Unless it establishes a lessons learned program, DOD is likely to repeat the same costly mistakes it has made since first using logistics support contracts to support deployed forces.

The lack of contract training for operational commanders, customers, and others with responsibilities to use, manage, and oversee logistics support contracts has adversely affected the use of such contracts to support deployed forces in contingency operations. Commanders and other senior leaders must understand that they have a key role in identifying requirements, ensuring that the contractor works in a cost-effective manner, and evaluating contractors' performance. Without such an understanding, the government's ability to control contract costs and ensure quality service at the best possible price is severely limited.

Recommendations for Executive Action

To promote better planning, improve oversight, and improve efficiency when using logistics support contracts to support military operations, we recommend that the Secretary of Defense ensure that the four following actions be taken:

- Emphasize to the heads of DOD components the need to comply with guidance to identify operational requirements that are to be provided by contractors early in the planning process and involve the contractor in the planning, where practicable. If security concerns prevent the involvement of the contractor, direct that unclassified statements of work be developed and provided to the contractor.
- Direct the service secretaries to establish teams of subject matter experts who will periodically travel to locations where contractor services are being provided by logistics support contracts to evaluate and make

recommendations on (1) the appropriateness of the services being provided, (2) the level of services being provided, and (3) the economy and efficiency with which the services are being provided.

- Implement a department-wide lessons learned program that will capture the experiences of others who have used logistics support contracts. This system should include lessons learned from operations as well as lessons learned and best practices documented by DOD's audit agencies.
- Develop and implement training courses for commanding officers and other senior leaders who are deploying to locations with contractor support. Such training should provide information on the role of commanders and others in the contracting process. Specifically, the training should provide instruction on (1) developing and documenting requirements, (2) ensuring that contractors perform in a cost-effective manner, and (3) assessing contractors' performance. The training should also include information on the limits of commanders' authority vis-à-vis contractors and include information on the roles and responsibilities of DCMA and other oversight agencies.

Agency Comments and our Evaluation

In written comments on a draft of this report the Acting Deputy Secretary of Defense for Logistics and Materiel Readiness stated that the department concurred with the report and all its recommendations. The department's comments are reprinted in appendix II.

In its comments, DOD described the steps it plans to take to implement our recommendations. Regarding our recommendations on emphasizing the need to comply with guidance on planning for the use of contractors and the establishment of teams of subject matter experts to evaluate and make recommendations where appropriate on the appropriateness and level of services being provided and the economy and efficiency with which they are being provided, DOD noted the discussion in the draft report on the existing guidance and efforts to review services. The department stated that it will reiterate this guidance and the need for subject matter experts to make periodic visits in policy memoranda and in such issuances as a draft DOD instruction on procedures for the management of contractor personnel during contingency operations. Regarding our recommendation to implement a department-wide lessons learned program that will capture the experiences of others who have used logistics support contracts, DOD stated that it will investigate how best to capture lessons learned. DOD said it initially will explore the possibility of establishing such a database as part of the Logistics Community of Practice at the Defense Acquisition University. Regarding our recommendation for training for commanding officers and other

senior leaders who are deploying to locations with contractor support, DOD stated that it will begin discussions with the Defense Acquisition University, the services, and the Defense Contract Management Agency on how best to unify current disparate training and create a training capability that will be applicable and available to all. DOD said that an initial proposal would be to establish a continuous learning-type training module that could be utilized by each of the mid- and senior- level service schools, including staff and war colleges. DOD will aim to get such a module into the Defense Acquisition University's plans for fiscal year 2005 development.

We also provided an opportunity for the contractors on the logistics support contracts we reviewed— Kellogg Brown and Root for LOGCAP, BSC, and CONCAP and Readiness Management Support L.C. for AFCAP—to comment on a draft of this report and Readiness Management Support provided written comments. In its comments Readiness Management Support stated that it concurred with many statements in the report and provided several comments to clarify its position regarding the costs associated with logistics support contracts and the role of the contractor in property administration under the AFCAP contract. The company's comments and our response are contained in appendix III.

We plan no further distribution of this report until 10 days after its issuance unless you publicly disclose its contents earlier. At that time we will send copies to the Chairman, House Committee on Government Reform; the Chairman, House Committee on Energy and Commerce; the Chairman and Ranking Minority Member, Senate Committee on Governmental Affairs; the Chairmen and Ranking Minority Members, House and Senate Committees on Armed Services, and other interested congressional committees. We are also sending a copy to the Secretary of Defense and the Director, Office of Management and Budget, and will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions, please contact me on (757) 552-8100 or by e-mail at curtinn@gao.gov. Major contributors to this report are included in appendix IV.



Neal P. Curtin
Director, Defense Capabilities and Management

Appendix I: Scope and Methodology

We focused our efforts on four contracts: (1) the Army's Logistics Civil Augmentation Program (LOGCAP) Contract; (2) the Air Force's Contract Augmentation Program (AFCAP) Contract; (3) the U.S. Army, Europe's Balkans Support Contract (BSC); and (4) the Navy's Construction Capabilities (CONCAP) Contract. We selected these contracts (1) on the basis of their size and scope and (2) to include more than one of the military services.

We took a number of actions to assess the effectiveness of the Department of Defense's (DOD) planning for the use of these logistics support contracts. We reviewed the guidance prepared by the Chairman, Joint Chiefs of Staff; the Army's regulations and guidance related to planning for contractor support to deployed forces; and an array of additional guidance specific to each of the logistics support contracts as follows:

- the Army Materiel Command's LOGCAP battle book,
- U.S. Army, Europe, Users' Guide to the Balkans Support Contract and operating procedures written by the Balkans Support Contract procurement contracting office on task order development,
- the Air Force's guide for using the Air Force's AFCAP contract—the AFCAP Concept of Operations, and
- the Navy's CONCAP Users' Guide.

We met with representatives of the Army Materiel Command's LOGCAP program management office to discuss LOGCAP planning and met with the Army Materiel Command's LOGCAP planners for Europe and southwest Asia to determine their roles in planning to use LOGCAP to support Operation Iraqi Freedom. Additionally, we met with representatives of U.S. Army, Europe, to discuss planning for both BSC and the command's use of the LOGCAP contract and with representatives of the Army Central Command to discuss their role in planning for Operation Iraqi Freedom. We also met with the contracting officers for both the Balkans Support Contract and the LOGCAP contract to obtain their perspective on planning. To gain a comprehensive understanding of AFCAP and CONCAP planning, we met with the program managers for both the AFCAP and CONCAP contracts as well as the procuring contracting officers for both contracts. We also talked to customers of the four contracts to gain a better understanding of the customer's role in planning and the customer's views of the planning process. Finally, we spoke with representatives of Kellogg, Brown, and Root—the CONCAP, LOGCAP, and BSC contractor—and Readiness Management Support, the AFCAP contractor, to obtain their views on the planning process.

To determine the adequacy of the contract oversight process, we undertook a number of actions. We reviewed a wide array of documents, including

- the Department of Defense's and the Army's policies, regulations, and instructions that relate to the use of contractors to support deployed forces;
- documents specific to the AFCAP, CONCAP, LOGCAP, and Balkans Support Contracts;
- audit reports prepared by DOD agencies on these contracts, including the Defense Contract Audit Agency, the Air Force Audit Agency, the Army Audit Agency, and the Army Materiel Command Inspector General, and we met with representatives of these organizations as well to discuss their findings; and
- the Defense Contract Management Agency's (DCMA) situation reports for September 2003 through May 2004 for Iraq, Kuwait, Afghanistan, and Djibouti to get a better understanding of the types of oversight actions that administrative contracting officers and quality assurance representatives were taking.

During our visits to Kuwait and Qatar, we met with DCMA representatives to discuss oversight issues and observe some of their oversight practices and procedures. In Germany we met with the DCMA administrative contracting officers assigned to monitor BSC. To gain further insight into LOGCAP oversight in Iraq, we interviewed one of the senior DCMA administrative contracting officers responsible for overseeing the LOGCAP contract in Iraq after he redeployed. We also met the DCMA representatives located at the headquarters of the Halliburton Company (the parent company of Kellogg, Brown and Root) to gain a better understanding of the role of the corporate administrative contracting officer. We met with officials at all levels of command to gain an understanding of what they believed their roles were in the oversight process, and we met with contractor representatives to discuss contract oversight and contract management from their perspective. We also did the following:

- To understand the definitization process, we reviewed relevant portions of the Defense Federal Acquisition Regulation Supplement, interviewed those government-contracting officials responsible for the definitization process, and reviewed negotiation memoranda documenting the results of definitization negotiations. We also discussed the definitization process with representatives of the contractors. To understand the award fee process and the requirements for an effective award fee board, we reviewed the Army Audit Agency's Report on Award Fee best practices

and reviewed the award fee plans for the CONCAP, AFCAP, and Balkans Support Contract and a draft of the award fee plan for the LOGCAP contract. We reviewed documentation prepared for award fee boards to understand the types of contractor performance evaluations that customers and oversight officials provided. We also attended award fee boards for CONCAP, AFCAP, and BSC. At the time we completed our review, the LOGCAP contracting office had not yet held an award fee board.

- To determine if lessons learned were being collected, we reviewed the Center for Army Lessons Learned database and the U.S. Army, Europe, Lessons Learned database to determine if they contained any lessons learned related to the use of BSC or the LOGCAP contract. In addition, we reviewed the Coalition Forces Land Component Command's lessons learned database for any relevant LOGCAP lessons learned. We met with contract customers to determine how they documented lessons they might have learned and to ascertain if lessons learned were shared between contract users. We also met with officials from DCMA and the contractors to discuss their lessons learned programs.

To determine if the logistics support contracts were being used in an economic, efficient, and cost-conscious manner, we reviewed previous audits by DOD organizations and command-level audit agencies, such as the U.S. Army, Europe's, Office of Internal Review and Audit Compliance. We met with representatives of the Army Central Command to determine if they had issued any guidance to the LOGCAP customers on the need to be cost conscious, and we obtained and reviewed guidance issued by CJTF-7 and CJTF-180 to determine if they had (1) established the need to be cost conscious as a priority and (2) established procedures for reviewing and approving requirements and reevaluating recurring services. We also met with representatives of Marine Forces Central Command and U.S. Army, Europe, to get a better understanding of their review processes for LOGCAP and BSC, respectively. In addition, we met with Navy officials to determine how they control costs and ensure that the contractor provides service in an economical and efficient manner and with CONCAP customers at Guantanamo Bay to determine their involvement with cost control. Similarly, we met with Program Management and Contracting Office officials for the AFCAP contract to determine what steps they take to ensure that the contract is used in an economic and efficient manner and met with AFCAP customers at Al Udeid Air Base, Qatar, and discussed cost control. We also reviewed DCMA situation reports to determine if DCMA officials at deployed locations had any insight into improving cost control and economy and efficiency.

To assess the extent to which DOD had a sufficient number of qualified personnel with the training and skills necessary to provide effective contract oversight and management in place, we determined the numbers of DCMA, Defense Contract Audit Agency, and Army Materiel Command personnel that were deployed in support of AFCAP, LOGCAP, and BSC. Since we could find no guidelines on the appropriate number of oversight personnel, we spoke with DCMA officials who oversaw the LOGCAP and AFCAP contracts to determine if they believed that the number of DCMA personnel deployed was adequate. We also reviewed DCMA situation reports to determine if DCMA staffing affected contract oversight. We interviewed Navy and Air Force officials responsible for overseeing the CONCAP and AFCAP contracts to determine if sufficient oversight personnel were available. To determine if the personnel with contract responsibilities, including customers, had sufficient training to satisfactorily fulfill their responsibilities, we met with personnel at all levels to discuss the training they had received regarding the use of logistics support contracts and their understanding of their specific roles and responsibilities. We also asked them to assess the adequacy of the training they received. We met with members of the program management offices to determine if they believed that personnel such as quality assurance representatives, contracting officers' representatives, and contracting officers' technical representatives had been adequately trained.

We visited the following locations during our review:

Office of the Secretary of Defense:

- Inspector General Office, Arlington, Va.

Defense agencies

- Defense Contract Management Agency, Alexandria, Va.
- Defense Contract Management Agency Middle East, Kuwait.
- Defense Contract Management Agency Middle East, Qatar.
- Defense Contract Audit Agency, Houston, Tex.
- Defense Contract Audit Agency, Atlanta, Ga.
- Defense Contract Audit Agency, Iraq Branch Office.
- Defense Contract Audit Agency, European Branch Office.

Department of the Army:

- Office of the Deputy Chief of Staff-Logistics, The Pentagon.
- United States Army, Europe, Heidelberg, Germany.
- United States Army Forces Command, Fort McPherson, Ga.
- United States Army Central Command (Rear), Fort McPherson, Ga.
- United States Army Central Command (Forward), Kuwait.
 - Camp Udairi, Kuwait.
 - Camp Arifjan, Kuwait.
 - Camp Doha, Kuwait.
 - Other LOGCAP sites in Kuwait.
- U.S. Army Corps of Engineers—Trans Atlantic Program Center, Winchester, Va.
- U.S. Army Materiel Command, Ft. Belvoir, Va.
 - Army Field Support Command, LOGCAP Program Manager, Alexandria, Va.
 - Army Field Support Command, LOGCAP Procurement Contracting Office, Rock Island, Ill.
 - Army Materiel Command, Europe.
 - Army Materiel Command, Kuwait.
- U.S. Army Audit Agency, Alexandria, Va.
 - Army Audit Agency, Mainz Kastel, Germany.
- United States Army Criminal Investigation Command, Fort Belvoir, Virginia

Department of the Air Force:

- U.S. Air Force Civil Engineer Support Agency, Tyndall Air Force Base, Fla.
- U.S. Air Force 325th Contracting Squadron, Tyndall Air Force Base, Fla.
- U.S. Central Command Air Forces, Shaw Air Force Base, S.C.
 - Al Udeid Air Base, Qatar.
- U.S. Pacific Air Forces, Hickam Air Force Base, Hawaii.

Department of the Navy:

- Marine Forces, Central Command, Camp Smith, Hawaii
- Naval Facilities Engineering Command, Atlantic Division, Norfolk, Va.
- Naval Facilities Engineering Command, Pacific Division, Pearl Harbor, Hawaii.

Regional Combatant Commanders:

- U.S. Southern Command, Miami, Fla.
 - Joint Task Force, Guantanamo Bay, Cuba.

Logistics Support Contractors:

- Kellogg Brown and Root Services, Houston, Tex.
- Kellogg Brown and Root Services, Arlington, Va.
- Readiness Management Support, LC, Panama City, Fla.

We also obtained written responses from the U.S. Central Command in response to written questions we provided them on their role in managing logistics support contracts.

Since we had done extensive work in the Balkans over the past several years, we drew upon past work where appropriate and visited Germany to talk to Army personnel administering the contract. In addition, although we did not travel to Iraq, we spoke with a senior DCMA Administrative Contracting Officer who was recently based in Iraq and obtained situation reports, which document observations regarding contractor performance. We also met with representatives of the 101st Airborne Division, who had been customers of LOGCAP services in Iraq, upon their return to the United States, and talked to contractor officials working in Iraq. We relied on data provided us by DOD and the contractor, which we verified where possible. For example, in assessing billing for dining facilities, we verified the contractor's summary data by tracing the summary numbers to the raw data. The data were sufficiently reliable for the purpose of this report. We performed our work from August 2003 through June 2004 in accordance with generally accepted government auditing standards.

Appendix II: Comments from the Department of Defense



DEPUTY UNDER SECRETARY OF DEFENSE FOR
LOGISTICS AND MATERIEL READINESS
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

JUL 9 2004

Mr. Neal P. Curtin
Director, Defense Capabilities and Management
U.S. General Accounting Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Curtin,

This is the Department of Defense (DoD) response to the GAO draft report, "MILITARY OPERATIONS: DoD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight," dated June 17, 2004 (GAO Code350427/GAO-04-854).

The Department concurs with the report. Although, as the draft report states, there is sufficient policy in place to identify early in the planning process the operational requirements that are to be provided by contractors, the Department will re-emphasize the need to comply with existing guidance and to involve the contractor in the planning. The Department will also reiterate that teams of experts be created to evaluate the appropriateness, level and economy and efficiency of services. Further, the Department plans to capture lessons learned for DoD-wide sharing, and will work toward development of training, where it doesn't currently exist, for commanders who are deploying to locations with contractor support. Detailed DoD comments on the draft GAO recommendations are provided in the enclosure. The DoD appreciates the opportunity to comment on the draft report.

Sincerely,


Bradley Berkson
Acting

Attachment
As stated



GAO DRAFT REPORT DATED June 17, 2003
GAO CODE 350427/GAO-04-854

GAO DRAFT REPORT - DATED JUNE 17, 2004
GAO CODE 350427/GAO-04-854

“MILITARY OPERATIONS: DoD’s Extensive Use of Logistics Support Contracts Requires
Strengthened Oversight”

DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense emphasize to the heads of DoD Components the need to comply with guidance to identify operational requirements that are to be provided by contractors early in the planning process and involve the contractor in the planning, where practicable. If security concerns prevent the involvement of the contractor, direct that unclassified statements of work be developed and provided to the contractor. (Page 54/GAO Draft Report)

DoD RESPONSE: DoD concurs. Although, as the draft report states, that this is the stated DoD policy, and that in most cases the Services have implemented this policy, the DoD will reiterate this in policy memoranda and such issuances as a draft DoD Instruction on Procedures for the Management of Contractor Personnel During Contingency operations. The draft DoD Instruction contains language to facilitate better integrated planning between the Combatant Commanders and DoD activities that award contracts for contractor logistic support during contingency operations. The language requires that DoD Components coordinate with Combatant Commanders, in advance, any proposed contractor logistics support arrangements that may impact the Combatant Commanders’ operation plans and operation orders. Similarly, Combatant Commanders are responsible to identify operational specific contractor requirements in the operation plan, operation order, or separate annex. Together, these efforts will help facilitate and emphasize the importance of identifying operational requirements and communicating those requirements to contractors earlier in the process. The proposed policy reiteration will also include direction that unclassified statements of work be developed for the contractor should security concerns prevent the contractor from active involvement in the early planning.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense direct the Service Secretaries to establish teams of subject matter experts who will periodically travel to locations where contractor services are being provided by logistics support contracts to evaluate

- 1 -

Note: Page numbers in
the draft report may differ
from those in this report.

and make recommendations where appropriate on (1) the appropriateness of the services being provided, (2) the level of services being provided, and (3) the economy and efficiency with which the services are being provided. (Page 54/GAO Draft Report)

DoD RESPONSE: DoD concurs. As stated in the draft report on page 40, policy currently exists in both the Balkans and Afghanistan requiring periodic review of all services being provided by contractors to determine if the appropriate services and the appropriate level of services are being provided. The U. S. Army Europe requires that these reviews be conducted three times a year prior to the award fee boards. Moreover, the Marine Forces Central Command deploys teams of subject matter experts to Djibouti semi-annually to identify services that could be eliminated, reduced, or changed. The Department will reiterate the need to have teams of subject matter experts make periodic visits to evaluate and make recommendations on the logistics support contracts as part of the same policy memoranda mentioned in the DoD response to Recommendation 1 above.

RECOMMENDATION 3: The GAO recommended that the Secretary of Defense implement a department-wide lessons learned program that will capture the experiences of others who have used logistics support contracts. This system should include lessons learned from operations as well as lessons learned and best practices documented by the DoD's audit agencies. (Page 54/GAO Draft Report)

DoD RESPONSE: DoD concurs. As the draft report mentions on page 34, the Army already requires that lessons learned be captured. Army regulation 700-137, Logistics Civil Augmentation Program, makes customers who receive services under LOGCAP responsible for collecting the lessons learned. The draft report also mentions such established centers as the Army Center for Lessons Learned and the U.S. Army Europe. Additionally, there is a Joint Lessons Learned Program governed by CJCSI 3150.25A, 1 October 2000, under the J-7, Operational Plans and Joint Force Deployment Directorate. The principal provider of these joint lessons learned is the Joint Warfighting Center of the U.S. Joint Forces Command in Norfolk, VA. The Department also has a lesson learned capability established at the Defense Acquisition University at Ft. Belvoir, VA. The Department will investigate as to how best to capture the user, customer, and auditor lessons learned and determine a central data base that would be available to all communities. Initially, the Department will explore the possibility of establishing such a data base as part of the Logistics Community of Practice at the Defense Acquisition University.

RECOMMENDATION 4: The GAO recommended that the Secretary of Defense develop and implement training courses for commanding officers and other senior leaders who are deploying to locations with contractor support. Such training should provide information on the role of commanders and others in the contracting process. Specifically, the training should provide instruction on (1) developing and documenting requirements, (2) ensuring that contractors perform in a cost effective manner, and (3) assessing contractor performance. The training should also include information on the limits of commanders' authority vis-à-vis

contractors and include information on the roles and responsibilities of the Defense Contract Management Agency and other oversight agencies. (Page 54/GAO Draft Report)

DoD RESPONSE: DoD concurs. The Department will begin discussions with the Defense Acquisition University, the Services, and the Defense Contract Management Agency as to how best to unify current disparate training for Logistics Support personnel, including unit commanders, and create a training capability that would be applicable and available to all. An initial proposal would be to establish a continuous learning-type training module that could be utilized by each of the Mid and Senior-level Service schools, including Staff and War Colleges. The Department will aim to get such a module into the DAU plans for FY05 development.

Appendix III: Comments from Readiness Management Support L.C.

Note: GAO's comments appear at the end of this appendix.



Mr. Steve Sternlieb
Assistant Director
United States General Accounting Office
Washington, DC 20548

July 4, 2004

Subject: MILITARY OPERATIONS: DOD's Extensive Use of Logistics Support Contracts Require Strengthened Oversight (GAO-04-854), (Your 17 Jun 04 Memo)

Dear Mr. Sternlieb:

I appreciate the opportunity to comment on the subject report. RMS, through the AFCAP contract, provided diverse and cost effective responses to the government on numerous occasions many times in hostile situations. I cannot speak for other contracts, but I can speak for the AFCAP contract, RMS actions and contingency activities based on seven years with the AFCAP contract and 27 years as an Air Force engineer. We concur with many of the statements in the report, but I would like to comment on or clarify a few areas.

- Administration of the contract – The report is accurate in the assessment that ACO and QAE training was limited. On many task orders, there was either no ACO or the ACO was not trained on our contract. RMS was in the position to protect the government interests and control costs and quality which we did because of the integrity of the RMS team. Customer evaluations were also limited eliminating opportunities to correct any issues early.
- Requirement identification and planning - Although there were indications that the AFCAP contract was better than others in preplanning and identification of requirements, there is room for improvement. Planning for the “CAP” contracts does not happen early enough in the process. The contractors need to be trusted members of the planning staffs to be ready for various options and, more importantly, provide options based on the worldwide capabilities and experiences of the contract teams. This is a significant benefit provided by the contractors. The identification of requirements is difficult. There were comments regarding many changes to task orders. Given the dynamic nature of the tasks provided to CAP contractors and the environments in which they are issued, this is to be expected. The reality is that, although these are cost plus contracts, the contractors take great risks given the inability of the government to define requirements quickly and accurately. This is a result of the circumstances not necessarily poor performance.

Appendix III: Comments from Readiness
Management Support L.C.

See comment 1.

See comment 2.

See comment 3.

- Cost of Contract – Comments were made regarding the “common knowledge” that CAP contracts are the most expensive solution for the government. This basically is not true. As an example, our power production contracts, when analyzed by ACC, were determined to be less expensive than using military in their current method. In addition, the services provided were more consistent and reliable, allowing the military to concentrate on other requirements. There are occasions when the contractor does cost more than military execution; but, in many of those cases, the contractor is the only solution. Cost comparisons rarely include all government costs in the comparisons.
- Property control – There are numerous references to property control in the AFCAP contract. Although administration was not specifically as required by the government, it is important note that in each of the cases, the material or equipment was procured properly, documented on receipt and then signed over the government recipients. It is true that we did not “control” the property after the government took possession for use; but, until that point, controls were in place and used. Reference to 80 task orders requiring resolution of property issues does not appear to be accurate...many of these have disposition instructions already or material lists have been provided to the government to request disposition.
- Procurement of Materials – Throughout the report, there are continued references that state using the CAP contracts is not an effective method to procure equipment and materials. In my opinion, the research is incomplete. An analysis performed by OFDA under USAID showed that we actually provided items at a lower cost than they could provide. Additionally, we improved the quality of the materials received as we discovered that the government had accepted materials that did not meet specifications and then we directed an effort to update specifications based on current industry standards. I am not certain about the point being made regarding RMS receiving \$2 million in award fee for these procurements. First, for task orders, RMS received 1% base fee and then the award fee...the small profit for our services. The report failed to mention that with the tight and difficult requirements of the task orders that we did not receive any award fee when we missed schedules. All must remember that these efforts were accomplished in contingencies. The comments that the Air Force used AFCAP because the government did not bring sufficient personnel to perform procurements is only part of the story. Contractors have a significant advantage overseas since we have worked in these areas and already have contacts and people in place. In addition, many vendors would rather contract with large contractors versus the government. Our costs are many times lower than what the government would pay and lower than GSA prices. Procurement for construction projects involves more than just obtaining materials. These projects involved management of batch plants and quality control of all operations – complex with difficult schedules and many requirement changes. To say that the government would get things cheaper assumes that the government can get items at the same cost as contractors and the cost of government procurement personnel is not included. In addition, our team helped prevent the government from violating contract regulations and public laws through the dedicated actions of the professionals on our team. These allegations and comments regarding costs are not substantiated.

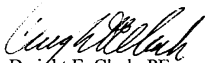
Note: Page numbers in
the draft report may differ
from those in this report.

See comment 4.

- Map on Page 6 – Please note that RMS is also operating in Kuwait, Kyrgyzstan and UAE
- On page 38, the government claims a 97% savings through negotiations on an AFCAP task order. The reality is that cost proposals are prepared based on poorly defined requirements. Many times, we prepared cost estimates and provided the assumptions we used to obtain these estimates. During negotiations, the requirements are better identified and new proposals are provided. The interaction with the PCO to negotiate costs is effective but does not directly produce the savings indicated...that is accomplished during the negotiations when the requirement is adjusted. As written, the statements are misleading.

We recognize the difficult challenge faced by GAO to provide a complete analyses of the CAP contracts...they are complex and diverse...and useful. The AFCAP contract has been a great benefit to the US Government. There have been mistakes and they have been corrected. The success has been achieved by teamwork between the government and the contractor...and dedicated contractors willing to take the extra step and risk to help support national security objectives. Please contact me if you have any questions concerning these comments. We are also interested in any actions that would improve the process for these critical contracts.

Sincerely,



Dwight E. Clark, PE
Chairman and General Manager

The following are GAO's comments on the Readiness Management Support's letter dated July 4, 2004.

GAO Comments

1. Readiness Management Support expressed concern that the draft report characterized the use of logistics support contracts as the most expensive solution for the government. The company stated that, in the case of its power production contracts, the Air Combat Command determined it to be less expensive than using military in the command's current method while acknowledging that there are occasions when the contractor does cost more than military execution, but that, in many of those cases, the contractor is the only solution. We state in the report that both Air Force and Navy officials believe that using the AFCAP and CONCAP contracts to fulfill a requirement is often the most expensive option available and consequently they have taken steps to control costs. We recognize that this may not always be the case. However, we are not aware of any comprehensive analysis comparing the cost of using logistics support contracts to provide logistics support with the cost of using military personnel to provide that support. Regarding AFCAP, we were told by Air Force contract customers that the use of the AFCAP contract was a "level of magnitude" more expensive than other alternatives because of the premiums associated with the manpower the contractor can access and the speed in which the contractor can provide services.
2. Readiness Management Support stated that it did not control certain property acquired under the AFCAP contract but noted that in each instance the property was properly purchased, documented, and turned over to the Air Force. In reviewing the government's role in property administration under the contract, we stated that DCMA did not ensure that the contractor maintained appropriate controls of government property. For task orders performed in southwest and central Asia, the AFCAP contract administrator delegated the property administration responsibility to DCMA. From our observations and conversations with DCMA contract administrators in southwest Asia in late 2003, we found that DCMA did not have a system in place to document what was purchased under the contract and what was turned over to the Air Force, although it was delegated this responsibility. As a result, at the time of our audit work, neither DCMA nor the Air Force could account for approximately \$2 million worth of tools and equipment purchased under the AFCAP contract.
3. Readiness Management Support described our report as stating that using civil augmentation contracts are not an effective method to

procure equipment and materials and stated that it believed our research to be incomplete. Our report discusses how circumstances did not always allow the Army and the Air Force to select a more economical and efficient method to obtain services. In the case of AFCAP, we discussed how Air Force engineering squadrons used the AFCAP contract to buy commodities because they did not deploy with enough contracting and finance personnel to buy materials quickly or in large quantities and that the U.S. Agency for International Development also used the contract to provide disaster relief and humanitarian assistance supplies. We reported that the AFCAP contractor received more than \$2 million in award fees since February 2002 for these commodity supply task orders. To calculate this amount, we reviewed data on the amount of award fees that the contractor received for commodity supply task orders from February 2002 through February 2004. To ensure that we captured only those task orders in which the contractor purchased commodities, we provided the AFCAP contract administrator with our analysis of the task orders to , and he concurred with our analysis. We stated in the report that Air Force program managers recognized that the use of a cost plus award fee contract to buy commodities may not be cost-effective and are considering alternative types of contract options for these task orders for the next AFCAP contract.

4. We revised the report to reflect this comment.

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

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