

LOGCAP: SUPPORT-CONTRACTING CHALLENGES
IN IRAQ AND AFGHANISTAN

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MONDAY, MAY 4, 2009

Commission on Wartime Contracting in,
Iraq and Afghanistan,
Washington, D.C.

The Commission met, pursuant to notice, at 10:00 a.m.,
in Room 2154, Rayburn House Office Building, Michael J.
Thibault, Co-Chair of the Commission, presiding.

Present: Commissioners Thibault, Green, Ervin,
Gustitus, Henke, Tiefer, Zakheim and Shays.

OPENING STATEMENT OF CHAIRMAN THIBAULT

Chairman Thibault. Good morning. Welcome to all of
you. Welcome especially to Congressman Tierney, who we will
introduce shortly.

I am Michael Thibault. I am Co-Chair of the Commission
on Wartime Contracting in Iraq and Afghanistan.

Beside me is Acting Co-Chair, Grant Green.

The other Commissioners are, and what my notes say,
from left to right, but they went and reassembled
themselves. So it is Dov Zakheim, Linda Gustitus, Bob
Henke, Grant Green, my Co-Chair, Charles Tiefer, Chris Shays
and Clark Ervin. So, welcome, all.

I should note that Commissioner Shays is new to the

Commission. As provided by law, he was recently appointed to the position by the Minority Leader of the U.S. House of Representatives. Mr. Shays represented Connecticut's Fourth District in the House from 1987 to 2009. He has been very active in foreign affairs oversight issues and has made 21 trips to theater, to Iraq. We all welcome and look forward to benefitting from his experience and insight.

Commissioner Shays, I will also note, is now officially a Co-Chair of this Commission. Last week, we received the required designation letter to that effect by Senator McConnell and Representative Boehner, and we will enter this letter into the record.

[The letter follows:]

Chairman Thibault. Commissioner Shays has suggested our Acting Co-Chair, Grant Green, to my right, deliver the Minority's Co-Chair opening statement today.

This is an important hearing. Our first hearing held on February 2nd gave us a good picture of the Inspector General view of problems in the wartime contracting process. The highlight was Stuart Bowen's unveiling of his final report after five years' work as Special Inspector General for Iraq Reconstruction. He told us that billions of dollars in reconstruction work had been wasted or cannot be accounted for.

Today, we focus on another area that also involves billions of dollars of taxpayer money and one that is vital to national policy objectives and to the welfare of the men and women of America's Armed Forces. This is the logistical support services so essential to the care and feeding of the military warfighter. This is a very big contract.

As the Department of the Army said in 2008, when announcing the LOGCAP IV awards, each of the 3 vendors-- DynCorp, Fluor and KBR--could receive as much as \$5 billion a year for work under the contract. That is up to \$15 billion a year total in the future for a contract that could run 10 years. In the past fiscal year, the value of the LOGCAP contract was \$5.7 billion, and over the past 6 years actual disbursements to KBR were approximately \$30 billion.

Clearly, these very large contracts paid for by the American taxpayer, deserve the scrutiny received from many oversight organizations.

This Commission has a mandate to understand this program and make any recommendations needed to strengthen and to improve contracting. We take that mandate seriously and are here today to listen and to explore opportunities to improve LOGCAP contracting and oversight.

I have taken two very recent trips to Iraq and Afghanistan. I have talked at length with the exceptional men and women in our military there. Often, these discussions took place over meals at a DFAC or dining facility. These dining facilities are one key part of the LOGCAP program, which includes housing, recreation, roads, showers, post offices, data centers, vehicle maintenance and many other services that you typically find in any small city.

I always ask these great military men and women: So, how is the logistical support you receive? Are you well fed? Can you take a hot shower? Are your medical needs quickly addressed? And, so forth.

I can tell you that our military at all levels give high marks to LOGCAP contractors. Yes, most of them are aware of and concerned about several tragic injuries and other issues, but overall our warfighters appreciate that

their job at taking the fight to the enemy is well supported and strengthened by the arrangements for their care and feeding.

Still, there is a dark side to the LOGCAP picture. The visible part of the problem, as I see it, is two-fold. First, substantial costs are continuously questioned by government auditors and reimbursement for these questioned LOGCAP costs is now calculated in the billions of dollars. We will receive testimony on this today from Director Stephenson. And, second, a very substantial amount of the LOGCAP work is not being properly evaluated to ensure that billed costs are not excessive or simply could be avoided.

Exactly one month ago, I was one of three Commissioners briefed in Afghanistan by the Defense Contract Management Agency leadership working for Director Williams. DCMA has worked diligently to identify and manage needed LOGCAP contract oversight. Based on my own analysis and observations, I believe that DCMA is to be commended in their efforts to manage this program.

The one example I would like to share in this statement is that as of April 2nd DCMA had identified 504 specific LOGCAP oversight functions, evaluate the LOGCAP program in Afghanistan as requiring a contracting officer representative--or what is referred to as a COR--to be the government's eyes on the ground to confirm that the work was

being performed as required by the LOGCAP contract. This was a very precise and well-documented requirements analysis, but as of one month ago there were only 166 trained and assigned CORs on the ground. That left 338 oversight positions identified as critical by DCMA for checking contractor billings and payments unfilled.

After more than six years of fighting, this is just one example of serious and persistent shortfalls in staffing and training. In military parlance, no one is pulling guard duty on contractor performance. This example and issue, by itself, points to another broader question: Who is responsible? Who is going to fix these types of issues?

In this example, the LOGCAP contracting office evaluated and awarded the contract. The contractor signed the contracts and agreed to perform to certain standards. The LOGCAP contracting officer delegated contract administration and oversight management to DCMA. DCAA is responsible for contract audit, and the military warfighter is generally, usually, predominantly assigned the task of contract oversight where the work is being performed.

Everybody has a role, yet, in my real-time example, there were 338 unfilled positions to oversee the work at the location where the costs were actually being incurred.

When the Commission traveled to Camp Shank last month, the problem came into focus. We were told that the 10th

Mountain Division was responsible to ensure that they have sufficient CORs--contracting officer representatives--in place at FOB Shank. Problem: No one told them until they arrived in January.

So LOGCAP work is well underway. There is a critical military mission to perform. That is the primary. It is very difficult to quickly identify CORs for this part-time responsibility. The warfighters arrive and are surprised to find that they are their own last line of defense for contract oversight. That is not fair to the warfighter or to the mission.

Everyone seems to be responsible and accountable in theory, but, in practice, essential oversight is often not getting done.

What are we paying for work that is being performed on a cost-type, dollar-for-dollar incentive contract? The new LOGCAP IV contracts will have as much as a 10 percent award fee. For every billion LOGCAP dollars, that is up through a \$100 million award fee or performance bonus for work that is too often not being reviewed by the government as it is being performed.

And, ultimately, there could be up to \$15 billion, as I shared earlier, LOGCAP dollars each year ultimately producing up to \$1.5 billion in award fees, essentially performance bonuses.

How can bonuses in the form of award fees, potentially run into hundreds of millions of dollars, be paid out when in this example more than 300 critical contracting officer representative oversight positions are empty?

This one example shows why this hearing is critical. LOGCAP is too important and too costly not to peel this onion and evaluate root problems and their solutions. That is why we have invited the executives that award, manage, oversee and audit the LOGCAP contracts to talk with us today.

After Co-Chair Green has made his comments, we will hear remarks from Congressman John Tierney of Massachusetts. Besides acting as our lawmaker host for this hearing on the House side of Capitol Hill, Congressman Tierney is an important stakeholder in this Commission's work. He is Chairman of the National Security and Foreign Affairs Subcommittee of the House Committee on Oversight and Government Reform and was the lead advocate for the House version of the bill to create an independent Commission to study wartime contracting. His commitment to identifying and removing waste, fraud and abuse from contracting processes is, in no small part, why we are here today.

The Ranking Member of the Subcommittee was unable to be with us today, but we will welcome in a moment Chairman Tierney, and I will thank him for joining us.

We will then take panel from our panel of witnesses, who I will introduce now. Then, after Congressman Tierney is finished, they will give their testimony. They include: Jeff Parsons, Executive Director of the U.S. Army Contracting Command, a major component of Army Materiel Command; Lee Thompson, Executive Director of the LOGCAP Program Office; Charlie Williams, Jr., Director of the Defense Contract Management Agency; and April Stephenson, Director of the Defense Contract Audit Agency.

This Commission is looking to these witnesses for their views of lessons learned from previous LOGCAP contracts, for their actions ongoing and plans to improve contract management and contractor accountability, for their views on staffing and training needs for the acquisition of the auditing workforce and for their judgment on how the transition from LOGCAP III to IV can be effectively managed.

While this hearing will receive testimony from the four witnesses today, we will hold hearings in the near future where we will listen to those contractors providing critical and essential contracting support to the warfighter. In the meantime, at our invitation, KBR has given us a statement on their experiences and their recommendations in LOGCAP contracting. We appreciate their willingness to provide that support for a balanced formal record.

[The prepared statement of KBR follows:]

Chairman Thibault. We will continue to explore questions about LOGCAP through hearings, trips to theater of operations, interviews and research. Our first report will be issued on June 8th by this Commission. Our next hearing will likely focus on private security contractors, and we may well hold that hearing in theater where the work is performed and the costs are incurred.

We have a great deal of work to do today before we submit the Commission's final report to Congress in the Summer of 2010. Today is an important step in that hearing.

Commissioner Green.

[The prepared statement of Commissioner Thibault follows:]

OPENING STATEMENT OF COMMISSIONER GREEN

Commissioner Green. Thank you very much, Commissioner Thibault and let me add my welcome to all those that we will hear from today.

I am very pleased to join in this review of LOGCAP which, as all of you know, provides or augments the combat support and combat service support to America's warfighters. Since 1992, LOGCAP contracts with private vendors have supported global military contingencies and can also be used to support domestic events such as response to natural disasters. Today, however, we are going to focus on LOGCAP's role in Iraq and Afghanistan.

That focus, as all of you know, involves many, many questions: How did we get to the point where so much of the support to the force is contracted out?

How is LOGCAP performing?

What impact does it have on core military functions?

What oversight is being exercised?

What are some of the challenges in transitioning from LOGCAP III to LOGCAP IV?

And, what is the future organization and structure of LOGCAP?

These are just a few of the many areas that this Commission needs to better understand.

As all here know, beginning in the 1980s, the overall

force structure of the military services began to decline. This was particularly evident in tooth-to-tail ratios. Contractors took over the functions of many military combat support and combat service support units.

Following closely on the heels of this shift in support, the Federal Government was opening up for competition work traditionally performed by Federal employees.

Complicating matters during this period, hiring by the Department of Defense, the Department of State, including USAID, often did not keep pace with normal attrition, much less expand to meet increased operational needs.

At the same time, when government was increasing its reliance on contractors and overall procurement budgets were growing significantly, the acquisition workforce--the people charged with contract management and oversight--was declining. The result was, and too often remains, inadequate management and oversight of contracting and contractors.

Thus, we have at least two manpower-related issues that are important: one, not enough organic in-house capability to do the job and, two, not enough personnel with the right skills to provide contract management and program oversight.

Fast-forward to Iraq and Afghanistan, where during the rapid buildup of forces, commanders needed and often

demanded quick response to operational requirements. The rush to provide support across many areas was a natural response to these urgent demands, but it often led to higher costs and lower quality because the contracting and the program management structure was ill prepared to support the weight and the pace of this expansion.

Private sector contractors in Iraq and Afghanistan have assumed many of the logistics and life support functions that military units performed in earlier wars. Supply and transportation, food services, laundry, maintenance, construction, power generation, even base security--the list goes on and on.

Overall, contractors have provided excellent support for our military in their contingency operations, but there is clear evidence that many mistakes have been made and billions of dollars lost to waste, fraud and abuse by government employees as well as contractor employees.

One of our tasks is to minimize repeating errors and incurring more losses as we transition from LOGCAP III to LOGCAP IV and as the focus of combat operations shifts from Iraq to Afghanistan. As additional competition is introduced and as other contractors become involved, it is vital that we learn from our earlier missteps.

As we review overall LOGCAP performance, we will continue to look for instances of waste and, certainly,

individual wrongdoing. We will review staff levels to include management creep as well as proactive efforts by contractors to generate significant savings. It will also be important to understand each company's contracting philosophy including the use of local subcontractors.

We will need to deal with how approved LOGCAP projects and/or partially completed projects and transfer of property will be addressed, particularly as Iraq draws down and our mission in Afghanistan grows. Without careful planning and improved government oversight, we face the risk of massive waste and loss of property that American taxpayers have paid for and that our military needs.

Throughout our review, it will be imperative that we avoid inflammatory or partisan fingerpointing but, rather, draw from the Commission's research as well as the fine work done by the Special Inspector General for Iraq Reconstruction, the Gansler Commission, the various departmental inspectors general and others.

None of what we face lends itself to easy answers or simple solutions, but that is why we are here, to learn more and ultimately arrive at logical and executable recommendations.

I look forward to a productive hearing.

[The prepared statement of Commissioner Green follows:]

Chairman Thibault. Thank you, Commissioner Green.

We have an opportunity here, as I said, as of about last Thursday or Friday, my Co-Chair--and it is long overdue--is Christopher Shays, and if you have a few comments, Commissioner.

OPENING STATEMENT OF COMMISSIONER SHAYS

Commissioner Shays. Thank you very much, Mr. Chairman.

First, let me just say it is somewhat of a shock when you have been in public life for 21 years and all of a sudden to have public policy no longer be part of your domain, and so I just have tremendous gratitude to Mr. Boehner for appointing me to this Commission and to Mitch McConnell then and John for, at the request of my Republican colleagues, allowing me to be the Chairperson. And so, I want to thank my colleagues, Mr. Boehner and Mitch McConnell, as well.

And, just to say for the record that when I joined this Commission about a month ago I was extraordinarily impressed with my fellow Commissioners. Mr. Tierney, you helped establish this and you have two wishes: One, we work on a bipartisan basis and, two, very talented people that I am getting to serve with.

Second, I want to say that the staff is extraordinary. I mean highly talented, experienced, very capable, and so I have tremendous faith in them. So I would like to put that

on the record.

Then, Mr. Tierney, I get to introduce you, and I would say to my colleagues that you have before you an individual who I attended a hearing in his district. He is well loved in his district. They demand a lot. He has tough issues to deal with. He is an experienced member of Congress, a senior member.

He was my chairperson when I served on what is a very important subcommittee of the Government Oversight Committee, and I loved working with him. He always demanded I show up on time. It is just we are very fortunate to have someone like Mr. Tierney and Mr. Platts who was Ranking Member be so supportive of this Commission.

So, John, you are known as very intelligent, as tough, as fairminded and hardworking, and we just appreciate your giving stature to the work of this Commission and to help us do our job. Thank you.

[The prepared statement of Commissioner Shays follows:]

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STATEMENT OF THE HONORABLE JOHN F. TIERNEY, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF
MASSACHUSETTS

Mr. Tierney. Thank you very much, Mr. Shays.

Mr. Thibault, other members of the Commission, I want to thank you very much for allowing me to have this opportunity to appear before you today. I believe the work of your bipartisan Commission is critical. It is a critical counterpart to the oversight role that Congress itself has to play on these contracting issues.

On a personal note, I want to say how pleased I am for the appointment of Chris Shays to your Commission. We worked very closely. He was kind to say that I was the Chairman of that Subcommittee. For the larger part of the years, he was the Chairman before we got the majority back, and I think we had a really good working relationship. We both came at it on the need for a bipartisan approach to oversight, to take the politics out of it and put that forward.

I know that his critical eye is going to be missed in Congress, but you are the beneficiaries now, and it is going to bode you well to have his services with you.

It is important, I think, that we acknowledge the origins of this effort because I think they are instructive to the importance of overcoming partisan concerns about the

conduct of oversight, and, Mr. Thibault, you mentioned a little bit about the oversight. But it was back in 2005 that my Legislative Director, Kevin McDermott, and I were sort of bemoaning the unfortunate condition of the lack of sustained oversight concerning enormous sums of money that were being spent, or misspent in the view of some, on the growing number of American military and civilian lives that were being placed at risk.

There is always a reluctance in the Executive Branch to have any oversight done of its work, and I think the tendency for them to perceive that criticism is going to be politically damaging. When congressional majorities are of the same party as the White House, as they are now and as they were in the early 2000s, I think the concern too often becomes contagious. So, for years, we thought that there was not enough oversight, try as we might, on one of the largest ventures in this Nation's history.

And, Kevin and I were struck by the fact that back in World War II days, then Democratic Senator Harry S. Truman put together a committee that managed to establish a real bipartisan effort to oversee World War II spending and originally did that, of course, over the objections of his Democratic President, Roosevelt. Eventually, he did get it done, though, and Democrats and Republicans on his panel held 432 hearings.

Now I do not wish 432 hearings on you, but you will have extensive hearings obviously, but they did that between 1941 and 1948. But they maintained a stellar reputation throughout that time for accuracy and fairness, and they were credited with saving thousands of lives and over \$15 billion of the American taxpayers' money. The panel's work was eventually embraced by Congress and by President Roosevelt.

So, in 2005, we got the brave co-sponsorship of Republican Jim Leach from Iowa, and he took the stand with us. We filed legislation to establish this select Commission and to conduct oversight of those activities in both Iraq and Afghanistan. That legislation got 39 co-sponsors. We tried as a free-standing bill to get it passed. We tried to put it onto authorization bills. We tried to put it onto appropriation bills. We always came up just shy of getting it past, I think in large part because of the concerns on it being critical or it being somewhat partisan in nature.

In 2007, when Representative Tom Allen and I were refiling the bill, newly-elected Senator Jim Webb expressed an interest in filing it in the Senate as well. He, with Senator McCaskill, managed to put it into an authorization language on a bill, and their excellent legislative skills managed to get it accepted over there and eventually in the

House in the conference bill.

And, I think that now we know the need for neutral, credible and comprehensive wartime contracting commissions is clear, and you are charged with that responsibility. It continues to hold the moniker of the Truman Committee that Kevin and I originally gave it and for good reason. Obviously, we believe that your work is going to closely resemble his panel's work in terms of objectivity and fairness and thoroughness. With that history in mind, we can see that there is an urgency for your review.

Just as the measure was coming into law, then Chairman of the full Oversight Committee, Henry Waxman, was beginning to hold a series of hearings that were rigorously pursuing a number of the alleged abuses that were related to both Iraq and Afghanistan. We learned that American soldiers were being electrocuted because of shoddy work, that there was overcharging for services and commodities ranging from laundry to oil, that there were gross failures to monitor the distribution of enormous sums of cash and much more.

As we now are on a trajectory of redeployment out of Iraq, but I think we are all mindful that there will be a continued presence there of both our military and a developmental aspect and now also, regrettably for some, intensifying the use of our resources in Afghanistan, it is essential that we use every asset at our disposal to protect

our personnel and the taxpayers' money.

This morning's hearing is focused on issues related to the LOGCAP contract in Iraq and Afghanistan as the opening statements have noted, but I think this morning's newspapers also indicate how important that is.

Both Senators McCaskill again and Senator Collins have concerns about whether or not these contracts are being operated the way they should. And, I think the question really looms of: Have we really learned lessons from the first iterations of LOGCAP and are we following those lessons that were learned?

Federal contracting has grown at a very rapid pace since 2000. In that year through 2008, contracting expenditures by the Department of Defense alone doubled from almost \$200 billion to just almost at \$400 billion. Inexplicably, the number of contracting fraud and corruption cases referred by the Department of Defense to the Department of Justice actually declined precipitously during that same period of time. That is a troubling trend. More spending coupled with less oversight is a recipe for disaster.

We need to ensure appropriate oversight is being conducted of all the contracts, and, more importantly, in wartime when contracts are awarded with rapid fashion, urgency should not supplant honesty and fairness.

It is critical that we as a government ensure that we have the right people doing the right jobs and, more importantly, that the taxpayers are getting the appropriate return on their investment.

In short, I would hope that this Commission will find opportunities to right-side our contractor workforce so that we may learn from those experiences. We need a sensible blueprint as we turn to the future. We need to distinguish between those functions which are inherently governmental and those which are appropriately contracted out to private entities. And, as Mr. Green indicated, we need to find out what is wrong with our own in-house capacity and be able to have some recommendations from you as to how we get that correct going forward.

We all have great expectations for what this Commission needs to achieve and the manner in which it must conduct itself. It is an enormous task. We expect tremendous sacrifice of your time and energies.

The Special Inspector General for Iraq Reconstruction and the Government Accountability Office are also working on these matters, and the House Oversight and Government Reform Committee will periodically be assessing progress on all fronts.

We have to make sure that the lessons learned are lessons followed.

Commissioner Thibault, you and your fellow Commissioners and your staff are asked and tasked with a big challenge. Sadly, the environment is ripe for findings, and we look forward to the Commission's release of its interim report in June and then, potentially, its full report.

In the spirit of the Truman Commission, you are charged with ensuring the lives of our military and civilian personnel in combat are being protected to the fullest extent and that taxpayer monies are being spent as wisely and appropriately as possible under very difficult circumstances. This venture is not about blame. It is about oversight so that we can do the best possible job for America.

All of the panel's members are impressive as Mr. Shays said, and you are all known for your public service prior to taking on this role. In the spirit of the Edward M. Kennedy Serve America Act that was just recently signed into law by President Obama, your service stands as a tremendous example of how citizens can serve their Country throughout their lives, and I thank all of you for that very sincerely.

The next time that we get together in this room, it is you who will be in this seat and I who will be in yours. I say that with some joy. It is a different perspective down here, of course.

[Laughter.]

Mr. Tierney. Rest assured that we will be listening to your reports with every bit of respect and expectation that your work will live up to the work done by Harry S. Truman and his colleagues.

Thank you for the opportunity to address your inaugural hearing in the United States House of Representatives. Thank you for your service to your Country, and I wish you only every success in your venture.

Thank you.

[The prepared statement of Mr. Tierney follows:]

Chairman Thibault. Thank you, Congressman.

What we are going to do at this point is we are going to transition to our four witnesses.

Again, I thank you, Congressman Tierney, and we look forward to sitting there and telling you what we are doing.

Co-Chair Shays will see to your oath.

[Witnesses sworn.]

Commissioner Shays. I will note for the record, Mr. Chairman, that all our witnesses have responded in the affirmative.

Chairman Thibault. Thank you.

All right. The order, which is to my left to right, that we are going to hear testimony from our four witnesses: Mr. Parsons, Mr. Thompson, Mr. Williams and then Ms. Stephenson.

So, Mr. Parsons, it is your time for your testimony.

TESTIMONY OF JEFFREY PARSONS, EXECUTIVE DIRECTOR,
U.S. ARMY CONTRACTING COMMAND

Mr. Parsons. Thank you and good morning. Chairman Thibault, Chairman Green and distinguished members of the Commission on Wartime Contracting, thank you for this opportunity to discuss the Logistics Civil Augmentation Program, commonly referred to as LOGCAP.

My remarks today will center on the contracting aspects of LOGCAP. Mr. Lee Thompson, the Executive Director, will follow and discuss the program aspects.

At this point, I respectfully request that my written statement be submitted to the record.

Chairman Thibault. You have got it.

Mr. Parsons. Thank you, Mr. Chairman.

LOGCAP is an Army initiative to preplan during peacetime for contractors to perform services that augment U.S. Forces performing DOD missions. The services may be performed anytime and anywhere in the world, often on short notice. These services are normally performed during wartime but can also support disaster relief, peacekeeping or humanitarian assistance missions. We are pleased to report that the Army, through LOGCAP, has provided quick-reaction support for operations worldwide, including operations in very austere conditions throughout the history of the program.

The current LOGCAP program has evolved over 17 years of successful performance from the award of single performance contracts to multiple award contract arrangements. With the award of LOGCAP IV in April, 2008, we are now transitioning requirements from LOGCAP III and awarding all new work under LOGCAP IV.

The LOGCAP III contract was awarded only a few months after 9/11, and there was no way to predict if the contract would reach the unprecedented level of the effort as we know it today. In the first 4 years of LOGCAP III, obligations exceeded previous efforts by almost 300-fold and grew to over \$14 billion in October of 2005. The challenges and problems that resulted from this rapid expansion made it very clear that the Army needed to develop and execute a new contract strategy to support this program.

In addition, we received notice from various congressional committees as well as oversight activities such as the Government Accountability Office, the Department of Defense Inspector General, the Army Audit Agency and others identifying improvements needed in contract and program management.

The Army took all of this to heart when we developed the strategy for the LOGCAP IV acquisition. We began the acquisition process early, about half-way through the LOGCAP III contract period of performance with the intent to reduce

program risk, increase capacity and incentivize contract performance.

After examining alternative ways to provide quick and flexible worldwide support and consulting with our internal government contract and program experts, to include the Defense Contract Management Agency and the Defense Contract Audit Agency, the Army determined that a multiple award approach for LOGCAP performance coupled with a single separate award contract for LOGCAP program support would best meet the goals of reducing program risk, increasing capacity and incentivizing contractor performance.

The multiple award approach reduces risk by removing a single point of failure. It incentivizes contractor performance by providing built-in quick-response alternatives should any one contractor fail to provide good contract performance.

At the same time, the multiple award approach keeps prices down through competition at the task order level. This strategy increases capacity by broadening the industrial base the Army can draw upon to support many complex operations occurring across the globe at any given time.

The single award for program support provides additional skill sets that can be used to better plan and execute the LOGCAP program. The LOGCAP support contract

provides support services such as planning, requirements generation, cost estimating, logistics management and management analysis. The contractor does not manage the contracts, make program decisions or otherwise do any work that should be done by government personnel. They provide analytical services and technical advice that government officials use to run the program and contracts.

The LOGCAP IV performance contracts were awarded to DynCorp International, Fluor Intercontinental and Kellogg Brown and Root in April, 2008 after the Army took corrective action resulting from a protest to the GAO. Eight task orders have been awarded to date, including five task orders for performance awarded to DynCorp and Fluor and three task orders for project management offices, one to each contractor.

We have applied lessons learned and suggestions from congressional committees and others to improve the acquisition process.

We have improved oversight of contractor performance at the individual task order level as well as how the contractors are managing subcontractor performance and tracking costs at the corporate level.

We increased emphasis on business systems and subcontractor management in the source selection process through specific source selection criteria and in the award

fee structure as well. We used a two-tier approach to award a fee in the LOGCAP IV contracts that allocates 15 percent of the total award fee pool specifically for prime contract or corporate management, corporate business systems and small business subcontracting. We hold a separate annual award fee board to review contractor performance in this area while award fee evaluations for the operation areas of technical performance, project management and cost and schedule control for individual task orders are conducted every six months.

We collect performance data from all members of the LOGCAP team including the soldiers that are receiving the services. This information is considered as part of the award fee determination.

There also have been recent policy changes that require the head of the contracting activity to review the results of the award fee board and final award fee decision. This checks and balances to verify that the award fee board was properly conducted in accordance with regulations and policy. All of these actions will greatly improve the award fee process under LOGCAP IV.

We listened to concerns about properly incentivizing contractor performance. We incentivize performance by ensuring that the contract type used for each individual task order will properly allocate risk between the

contractor and government, given the contract requirements and the operating environment for that specific task.

We have also determined that the award fee available for the costs-plus-award-fee efforts needed to be large enough to incentivize the contractor to improve its performance. Under LOGCAP IV, contractors propose fee as part of the task order competitions. Using this process, all contractors have the opportunity to assess performance risk of each task order and propose a fee that reflects their assessment of the risk.

This is consistent with the Federal Acquisition Regulation direction to offer contractors opportunities for financial rewards sufficient to stimulate efficient contract performance. The fee is held to normal levels for the market due to the competitive nature and the fair opportunity process used to award the task orders. The end result is that the award fee potential now truly motivates the contractor to improve his performance under the contract. I believe this will increase the value delivered to the Army.

We have also listened to concerns about how we describe contract requirements. We created a standard structure for performance work statements that describes work requirements in a way that all three contractors can clearly understand. In part, this improvement can be traced to embedded

logistics support officers that we have placed in requiring activities to help our customers translate their needs into statements of work that use a standard format.

We are also capitalizing on initiatives to improve teamwork across the LOGCAP program. We are reaping the benefits of teaming with our partners in DCMA, DCAA and others to provide a true multi-organizational team approach to contract management.

Improvements in the Army expeditionary contracting structure, including incorporation of planning cells within our contracting support brigades, provide a vital connection with our customers on the ground.

Army officials have also placed additional emphasis on the very important role of the contracting officers representative. The COR acts as the eyes and ears of the contracting officer, ensuring the government is getting the best value for the dollar spent.

We continue to share our lessons learned on the LOGCAP contract with those who are drafting Army doctrine and training.

Let me assure that the Army Contracting Command is committed to excellence in contracting, including these very complex and critical LOGCAP contracts. We changed our acquisition approach and have changed our contracting processes after a diligent examination of lessons learned

and advice from our LOGCAP team members and oversight activities. We continue to make improvements and adjustments along the way to ensure mission success and protection of interests of the U.S. Government and the taxpayer while at the same time providing excellent support to the soldiers on the ground in harm's way. It is my honor to lead the contracting team in achievement of these goals.

Thank you for inviting me to speak today. This concludes my statement.

[The prepared statement of Mr. Parsons follows:]

Chairman Thibault. Thank you, Mr. Parsons.

Our next individual to give testimony will be Lee Thompson, the Executive Director, LOGCAP Program Office.

Mr. Thompson.

TESTIMONY OF LEE THOMPSON, EXECUTIVE DIRECTOR,
LOGCAP PROGRAM OFFICE

Mr. Thompson. Chairman Thibault, Chairman Green, members of the Commission, with your approval, I will present a short oral presentation and ask that my written statement be a matter of record.

Chairman Thibault. Absolutely. All of the written statements will be entered in total, and we appreciate it.

Mr. Thompson. It is my privilege to be here, representing the United States Army Materiel Command as well as the Soldiers, Marines, Sailors, Airmen and civilians supported by LOGCAP. I thank you for your interest in LOGCAP and for the attention you are paying to the services we provide.

It is important to stress that LOGCAP is much more than a set of task orders. It is a critical worldwide Army augmentation program. The program has grown rapidly over the years from 2001 to the present, from a peacetime value of approximately \$55 million to an annual value of \$5.7 billion during fiscal year 2008.

Its mission is to provide critical logistics and life support services to our fighting forces, freeing them to focus on their core mission, combat. LOGCAP is designed to rapidly expand during contingency operations and then draw down when those operations are concluded.

Oversight is provided by Team LOGCAP which includes representation from the Rock Island Contracting Center, the Defense Contract Management Agency, the Defense Contract Audit Agency, the U.S. Army Corps of Engineers, the U.S. Army Reserve LOGCAP Support Unit and contracting officer representatives which are unit subject matter experts and legal counsel.

In concert with our team partners, oversight of contract execution is accomplished on a daily basis. The team captures lessons learned to improve the program and value received. My deputy program directors and LOGCAP support officers forward-assess the operational support we provide and assist units in the development of clearly defined requirements.

Team LOGCAP ensures metrics are met. They ensure compliance with contract terms and conditions, and they raise issues requiring contractor direction through the administrative contracting officer or the procurement contracting officer to resolve performance issues.

Along with my deputy program directors and the contracting officers, I ensure that the right solutions are worked by people with the right skills. The theater deputy program directors provide day-to-day interface with field commanders.

Operational overviews are developed on a continuing

basis to ensure the Army and theater leadership have an accurate view of the program status. This is accomplished in several ways:

First, there are daily interfaces between deputy program directors, commanders and other team members in the area of operation as well as with the CONUS support structure.

A weekly status report on transition issues--LOGCAP III moving to LOGCAP IV and LOGCAP III services--is provided. Biweekly classified reviews with the Army Materiel commanding general or the deputy commanding general are also conducted.

On the ground, monthly contractor performance evaluation boards are conducted to assess performance. Award fee evaluation boards are conducted every six months. A corporate evaluation board will be conducted annually.

Using these management tools provides us with an instant view as to process shortcomings and areas where increased program or contract management surveillance is required or where senior level assistance is needed.

Lessons learned from LOGCAP III are embedded into LOGCAP IV in the way we compete our task orders and how the program is executed and in how and what oversight is to be provided. The transition process itself is complex and requires deliberate planning, attention to detail,

collaboration amongst Team LOGCAP and close coordination with supported units.

I will tell you, though, that the transition of a forward operating base or, for that matter, any function is not a turnkey operation. Accountability of property and equipment is a must as well as making certain that any transfer of functions to LOGCAP IV has to be as transparent to the warfighter as is feasibly possible.

I personally travel extensively overseas to assess program status and meet with the general officers either in command or on staff and those colonels charged with deliberate planning. I also, when I can, travel to forward operating bases to see progress and to find out firsthand how the services are received by talking to our servicemembers.

Having just returned from Iraq on April 22nd, I can tell you that my trip was the result of the message exchanges between the Vice Chief of Staff of the Army, the Commanding General, Multi-National Force Iraq and the Commanding General of the United States Army Materiel Command where the go-ahead was given to proceed with LOGCAP IV deliberate planning. The transition to LOGCAP IV is underway in Kuwait, in Afghanistan and just recently in Iraq. Taken in their totality, these challenges are unprecedented.

What we have done to improve LOGCAP was to conduct a year-long study. The product outcome was to develop a programmatic strategy with the aim of improving readiness, quality and efficiency in LOGCAP-provided services, also provided was a strategic assessment which defines program constraints and issues that limit program efficiency. The assessments provided a strategic and operational program design as the framework to move forward. Finally, an implementation plan was suggested which describes critical steps and tasks to start on this journey of improvement.

These tools will be used by a recently established General Officer Steering Committee to determine the future of LOGCAP.

In conclusion, let me emphasize that LOGCAP is a critical, complex augmentation program dedicated to providing essential support services to our Nation's sons and daughters. We stand ready to meet tomorrow's challenges in support of America's warfighters.

Again, I would like to thank the Commission for inviting me to speak with you today.

[The prepared statement of Mr. Thompson follows:]

Chairman Thibault. Thank you, Mr. Thompson.

Mr. Charlie Williams, Director, Defense Contract
Management Agency.

TESTIMONY OF CHARLIE WILLIAMS, JR., DIRECTOR,
DEFENSE CONTRACT MANAGEMENT AGENCY

Mr. Williams. Thank you, Chairman Thibault, Chairman Green and Chairman Shays and distinguished members of the Commission on Wartime Contracting. I appreciate the opportunity to appear before you to discuss the Defense Contract Management Agency's support role to the Department's contingency contracting efforts.

First, I would like to recognize the men and women who serve our Country and especially the families of our fallen heroes for their courage and their heart. Our servicemen and women and their civilian counterparts lay their lives on the line every day, and I am proud to have the opportunity to serve and support them.

It has been my privilege for the past year to lead DCMA's approximately 10,000 contracting professionals located at more than 900 locations around the world. These individuals are currently responsible for the administration of approximately 320,800 contracts with unliquidated obligations of more than \$213 billion awarded to over 18,500 contractors. Our personnel provide oversight and management of contracts performed across the globe for the full range of products purchased by the military, NASA and other Federal customers.

Each contract has its own challenges and complexities.

One particular contract that encompasses a significant portion of the agency's overseas workload is the U.S. Army's Logistic Civil Augmentation Program, LOGCAP, which is the primary subject of this hearing. As you are aware, LOGCAP utilizes civilian contractors in wartime and contingency missions to provide field logistical services to military forces, thereby freeing those forces to focus on their missions.

DCMA began providing very limited contract administration support to the LOGCAP activities in the late 1990s. Since July, 2002, with LOGCAP III, DCMA's contract oversight has covered a multitude of countries which have included Djibouti, Turkey, Jordan, Pakistan, Republic of Georgia, Uzbekistan, Kuwait, Iraq and Afghanistan. LOGCAP III oversight covers a variety of contract functions such as dining facilities, laundry operations and maintenance, communications, postal operations, fire protection, sanitation, water and ice production and morale, welfare and recreation activities.

With the DCMA mission traditionally framed in industrial plant operations, our LOGCAP learning curve has been steep. Having said that, we are keenly aware of the critical nature of the mission, and we have developed and are continuing to develop the requisite expertise and staff needed to meet the mission needs, often under highly

compressed time frames and difficult environments. We have gleaned many lessons learned during this process, some the hard way, but we are focused on constantly improving our performance in providing contract management of LOGCAP and other contracts we administer.

The importance of the availability and close working relationship between DCMA and its assigned subject matter experts and contracting officer representatives is fundamental to the success of our contract administration efforts and crosses the various functions overseen. For instance, in the absence of DCMA's organic expertise and facilities' electrical services, our administrative contracting officers and quality assurance representatives in Iraq rely on electricians provided by the U.S. Army Corps of Engineers as technical SMEs. Working with DCMA contracting officials and the Multi-National Force Iraq, the electrical SMEs help monitor contractor performance to ensure that we receive safe, effective and compliant electrical support services.

DCMA also relies on an expansive network of CORs that are provided by the military units using the various contract services. The CORs assist DCMA with their technical knowledge and skills. Our ACOs and QARs provide training on the contractual duties of a COR as well as familiarization of the LOGCAP contract. The CORs monitor

the day to day operations of the contractors and report performance to DCMA field personnel for appropriate administration under authority delegated to us by the Army LOGCAP contracting officer.

The assignment of the correct number of technically qualified SMEs and CORs is situational, dependent on contract delegations for LOGCAP and other theater-wide contracting activities. At present, we have 57 unfilled SME theater requirements: 36 SMEs in Iraq and 21 SMEs in Afghanistan. We have unfulfilled requirements for 335 CORs in Iraq and 362 CORs in Afghanistan.

To mitigate the shortages, DCMA works with the customers to identify and assess contract risk: high, moderate and low risk. The SME and COR resourcing is engaged first to the high-risk contracts. Further, the Multi-National Force Iraq recently issued an order requiring units to nominate, train and rate CORs on established performance objectives.

The overall COR requirements will fluctuate as retrograde surge and transition operations continue. Our requirements are regularly provided to the LOGCAP Program Manager and the theater leadership. The SME requirements are filled from the U.S. Central Command Joint Manning Document and obtained in the United States. The theater leadership evaluates our requirements and tasks the military

units to provide the necessary COR personnel.

Assignment synchronization of technically qualified SMEs and CORs to support DCMA QARs and ACOs is absolutely critical. In order to successfully perform our mission, cooperation and coordination with the primary customer is vital. From the beginning of our LOGCAP support role, DCMA has worked closely with the Army Contracting Command and its Rock Island Contracting Center comprised of the Army Sustainment Command and its LOGCAP Operations Directorate Office to manage the delivery of contract life support services.

While there have been many initiatives and actions developed and implemented to strengthen the effectiveness of the contract administration support, the following are some highlights of actions taken during the past few years:

ACOs were granted the authority to issue in-scope contract changes via letter to immediately address warfighter requirements in the dynamic theater environment. These changes are later formally incorporated into the contract by modification by the procurement contracting officer.

ACOs were authorized to approve contractor requests for consent to subcontract, providing oversight on contractor procurement activity and decision-making on significant subcontracts.

ACOs were authorized to approve contractor material requisitions, validating requirements with the LOGCAP support officers and promoting prudent business judgment in the ordering of material and equipment by the contractors.

DCMA teamed with Task Force Safety Action for fire and electricity created by the Multi-National Force Iraq in August of 2008. Similar teaming now applies to the recently established Task Force Power in Afghanistan.

With a focus on anticipated needs, our DCMA Iraq and Afghanistan commands were split and established as two separate entities in January, 2009. We are working to obtain and assign resources to ensure effective LOGCAP mission support.

And, most importantly, my team continues to capture and apply lessons learned and best practices from the Iraq contracting experiences to Afghanistan.

In closing, I appreciate the congressional support for our efforts as the Department's primary contract management agency in providing our Nation's warfighters and allies with quality products and services.

I also want to acknowledge the recent statements by the Secretary of Defense regarding his intent to increase the number of people in the Department's acquisition organizations. This is an absolutely critical step forward and will enable us to rebuild the DCMA workforce to meet the

many complex challenges we face in contracting.

Again, thank you for the opportunity to appear before this Commission to address DCMA's role with LOGCAP. I look forward to answering any questions the Commission may have. Thank you.

[The prepared statement of Mr. Williams follows:]

Chairman Thibault. Thank you, Director Williams.

April Stephenson, the Director of the Defense Contract
Audit Agency.

Ms. Stephenson.

TESTIMONY OF APRIL STEPHENSON, DIRECTOR, DEFENSE
CONTRACT AUDIT AGENCY

Ms. Stephenson. Chairman Thibault, Chairman Green, members of the Commission, thank you for the opportunity to be here today. I am pleased to be here.

I will briefly describe the audit effort performed by DCAA on the LOGCAP program. A more detailed account is provided in the statement that I ask be submitted for the record.

DCAA has been an integral part of the oversight and management controls instituted by DOD to ensure integrity and regulatory compliance by contractors performing contracts in theater. Since April, 2008, DCAA has worked with all U.S. procurement organizations supporting Iraq reconstruction.

DCAA services include audits and professional advice to contracting officials on accounting and financial matters to assist them in the negotiation, award, administration and settlement of contracts, and we do it well. Decisionmaking authority on DCAA recommendations resides with contracting officers within the procurement organizations who work closely with DCAA throughout the contracts in process.

As background, DCAA as an organization employs over 4,200 people and has 104 field offices across the Country and overseas. In fiscal year 2008 alone, DCAA performed

over 30,000 audits covering just over \$500 billion in proposed or claimed contractor costs. These audits have taken issue with \$17.9 billion in questioned costs--these are areas where we recommend reductions in what was proposed or billed--and another \$7.2 billion in unsupported costs, areas where the contractor did not provide sufficient information to explain the basis for estimated amounts.

Regarding support in theater, since April, 2003, DCAA has provided contract audit services to both DOD and other organizations on about 110 contractors. These contractors hold more than 253 prime contracts valued at about \$73.5 billion. The LOGCAP contract is one of these and is, by far, the largest contract.

To carry out these extensive and time-sensitive audit requirements, DCAA has implemented planning and coordination procedures to effectively integrate audit work between the Iraq branch office which was established in May, 2003 and more than 60 DCAA offices across the Country with responsibility for auditing in-theater contracts.

In support of the in-theater effort, DCAA has issued over 2,678 reports through fiscal year 2008, and we anticipate issuing another 400 reports in fiscal year 2009.

DCAA oversight of contracts in theater has found a number of problems. Our resulting action has ranged from recommended changes in processes to collection of

overcharges to referral of our findings to the Inspector General for possible legal action against the contractor. Results of these 2,678 reports have questioned costs of \$7 billion and unsupported costs of \$6.1 billion for all in-theater contracts of which LOGCAP is a portion.

Many contractors that had not had problems in performing their domestic contracts experienced difficulties in adjusting to the business systems and unique environment in theater. On the LOGCAP III contract, DCAA has audited about 80 task order proposals valued at \$28.7 billion. We questioned \$3.2 billion and unsupported an additional \$1.5 billion due to the lack of supporting evidence from the contractor, Kellogg Brown and Root, referred to as KBR.

Appendix I to the written testimony contains a summary list of audit reports we have issued on the LOGCAP III contract.

During our audits of the LOGCAP contract, we found numerous transactions which were either unallowable under the acquisition regulations or unsupported. Where appropriate, DCAA issues a Form I which is a notice of contract costs suspended or disapproved for those costs that the contractor does not voluntarily remove from billings. DCAA has issued over 100 Forms I suspending or disapproving over \$553 million on LOGCAP III. Of this amount, \$439 million has been resolved. Unresolved amounts have been

temporarily recovered from KBR, pending contracting officer determination.

A summary list of DCAA Forms I on LOGCAP III is contained in Appendix II of my written testimony. Due to the brief nature of my oral comments this morning, I will discuss only a few of the audit issues.

It is worth noting that the wartime contingency environment surfaced two major contracting issues: lack of timely establishment of contract prices and unreasonable subcontract prices. The risk of these overcharges of these two issues were exemplified in the audit findings related to the cost of the dining facilities and the living containers.

In the initial phase of auditing the dining facility costs, DCAA prepared over 20 reports and took exception to about \$352 million of the initial \$1.2 billion. The primary reason for the exceptions was that KBR had charged the government for significantly more meals than were actually served. We took exception to the cost of the excessive meals and issued over 90 DCAA Forms I suspending or disapproving over \$130 million.

As a result of our audit findings, KBR changed their subcontracting pricing methodology which we estimate saved the government over \$200 million on subsequent dining facility costs. The dining facility issue is an excellent example of where early identification and correction of

issues in a contingency operation is critical to reducing the risks of overcharges to the government.

Although KBR's efforts in 2004 improved the situation, we continue to have issues with unreasonable subcontract prices. DCAA has issued an additional 5 suspensions for \$64.7 million which remains unresolved as of today.

For example, in one instance, KBR awarded a subcontract for an average daily meal price of \$24 where the price of the remaining subcontractors averaged \$8. KBR was unable to provide adequate justification for the significant price difference.

In addition, last week, we issued an audit report on KBR's purchasing system. This is the system used for acquiring, pricing and monitoring subcontractors among other items. We reported an opinion of inadequate, demonstrating that many of the internal control deficiencies at KBR continue to exist today. As part of the report, we recommended DCMA suspend reimbursement of a portion of KBR's costs to protect the government from future overpayments.

Under Task Order 59, KBR was responsible for acquiring living containers to house the troops and support staff. The living container issue is an example of why early establishment of contract prices in a contingency operation is imperative to reducing the risk of overcharges. KBR incurred a significant amount of costs for the living

containers before submitting a proposal for establishment of contract prices. This delay ultimately resulted in the government reimbursing KBR for what we believe are unreasonable costs.

For example, KBR purchased 4,100 living units at an average price of \$38,000 when a lower price vendor proposed \$18,000 for each container having similar amenities. The \$20,000 price difference equates to about \$82 million.

KBR asserted that the higher priced units had additional features and amenities, but we performed personal observations of these units and found no additional features or amenities to justify the higher prices.

KBR asserted that the lower priced suppliers did not have the production capacity. We found the highest priced supplier acquired living containers from a Middle Eastern manufacturer and then more than doubled the price when selling the units to KBR.

We cite additional audit issues in our written testimony including defense base insurance, force protection costs and award fee. And, in the interest of time, I will refer to my written testimony.

Throughout our audits, auditors may receive information constituting evidence or causing suspicion for fraud or other suspected irregular conduct. Appendix III of the written testimony contains a list of 32 referrals we have

made for in-theater effort including LOGCAP III. An example of a referral includes excessive profit on subcontract billings--in one case, about 75 percent profit.

In our written testimony, we provide nine areas of lessons learned for the Commission's consideration. For each of these lessons learned, we have provided recommendations that we would be pleased to discuss with the Commission.

In closing, I want to underscore that DCAA has worked closely with all acquisition organizations. To date, more than 200 auditors have served tours in theater, all volunteers. DCAA has been and will continue to be vigilant about contract audit oversight and protecting the taxpayers' interests.

I am pleased to take your questions.

[The prepared statement of Ms. Stephenson follows:]

Chairman Thibault. Thank you, Director Stephenson.

Now the process is the first round of questions will go eight minutes to any member of the panel that is testifying, and then we will have a second round of four minutes.

We are doing this in an order predetermined. But if any of you here, my fellow Commissioners, have changed the order, just let me know as we go along, as we did the seating and everything, and we will keep it tight.

So we will start with myself, and I think a big part of what this Commission is about is improvements. We are going to be bringing up issues because issues lead to identification of the cause of situations and the need for improvements.

I found compelling a meeting that three of us Commissioners had in Afghanistan with General John Macdonald, the Deputy United States Forces Afghanistan, Major General John Macdonald. Commissioners Green and Ervin were with me in this extended briefing, and we were talking about this issue.

My question is really going to be for Director Williams and Mr. Thompson and Mr. Parsons, however you want to sort this out.

But General Macdonald, after we were talking about this situation of contracting officer representatives and the shortages and the frustrations that he is hearing from the

military units about, well, you know, it just was not part of the process and now we are really scrambling and, oh, by the way, we have a mission.

General Macdonald, at a certain point in time, just cut right to a suggestion that I would like to see what the three of you think about, and he said it is obvious. It did not matter to him whether it is 50 percent or 60 percent in a situation, that contractors in support of the battlefield operation are a reality, and it varies. And, he said it should be clear now within the military that each and every NCO and officer will at some point in their career be a contracting officer representative.

So we hear a lot about, well, we have this 8-hour course and, by the way, as an anecdote we talked to several CORs, contracting officer reps in military units, and they talked about trying to finish the course, taking 30 days to finish this 8-hour course, not only because of other duties but because of connectivity in the battlefield. They kept getting kicked off, and finally they said all right, I am not going to fight this anymore. And, that is the part where I say it is seems kind of unfair.

Well, General Macdonald said hey, wait a minute. We should train as part of our NCO school each and every E5 NCO as a COR, and General Macdonald said the same thing for young officers as part of what he referred to as captain

school. I know the military does it in different ways.

At that school, they should have that training, and each one should be told to have an expectation that in their career the reality of contractor support in a battlefield is you have to be ready to provide contractor oversight.

So, with that as kind of a lead-in, I am looking for a reaction because I am kind of a champion in my own way now, personally, after listening to what he said with conviction and as many years of experience in his role now. What do you all think of General Macdonald's recommendation?

Mr. Parsons. Chairman, I will go ahead and field that. Actually, I think it is an excellent recommendation and is one that, in part, the Army has already moved out on. We have an office called the Acquisition Logistics Technology Initiatives Office which is a group of folks that are located down at CASCOM, which is part of the TRADOC that focuses on trading and doctrine. And, they have been putting together a number of courses and some blocks of instruction dealing with operational contracting support that is focused and geared towards non-acquisition people.

Last I checked, I think there is close to about 20 different courses that now have a block of instruction on contracting and contractor management. In fact, some of the NCO courses, especially for, and some of the warrant officers, include a block of instruction on contracting

officer representatives.

Also, after a recent trip by General Dunwoody and Mr. Popp over to Afghanistan, she came back in and reiterated the need that these units are finding anywhere from 70 to 100 to 115 individuals within a brigade are being asked to be contracting officer representatives. So she has charged us, the Army Contracting Command, to find a way to start helping these units identify the number of CORs that they will have before they deploy so that we can start providing them some training here in CONUS before they actually deploy to Iraq and Afghanistan. So we have a number of folks that are out now with general contracting support brigades, our battalions and our teams that are actively engaged with units that are deploying and providing

Chairman Thibault. Right, Mr. Parsons.

Let me kind of inject a thought, and then I will let either one of you tee it up. One of the other things that General Macdonald said, it is along your line. He said they are all saying too many courses. Everybody has a course, and it is a matter of identifying, as you say, the right people.

And then, what came out when we went out to the units in the field was we spend a whole year predeploying. It is about the mission, a whole year before we actually go out and we take trips. We do coordination and the activity, and

we do not do much on contracting.

So I mean I might suggest that you come back and you say the solution, of course, is we need more training. But maybe we need to be a little smarter in how we identify that. You got a whole year, rather than in a couple cases we had where he said--an actual case--he said I showed up in January, and they said you need this battery of CORs. It is too late.

So it is a real problem that needs real solutions now. Training is great, and the NCO officer solution is a longer-term solution, but predeployment is going on right now. I would counsel that that is something that needs immediate attention.

Mr. Parsons. I would just add we are actively engaged with units today. Our contracting support brigades and battalions and teams have actually been training units out of the 82nd which will be going over to replace the 101st. So we have heard the message, and we are definitely out there.

But you are right. We need to have a more disciplined approach, so this is part of the planning activity and actually gets put in place and part of the RIP/TOA where the deploying units are working with the deployed units to identify the specific needs that they need so that we can get that training done early.

Chairman Thibault. Okay.

I would ask, and I am very interested in Director Williams because he is at the point of the spear. I know you are also, Lee, Mr. Thompson, but I have a point of inquiry that is a little different. So I would ask you to maybe if you could try to be a little shorter in your response. If you agree, fine. If you disagree, fine. If you want to put an amplification different than Mr. Parsons, I am all for it.

Mr. Thompson. No. One, I agree 100 percent. Two, to validate that, I was down with the 82nd. The last Tuesday and Wednesday, we met with the commanding general, their leadership on their staff, and they have trained all of their NCOs. So the message is certainly getting out to the field, to the warfighters.

During our training, we are introducing that to make sure that they are aware and on the predeployment training they are aware that COR is a requirement.

Chairman Thibault. So, no more 10th Mountain Division? If we went down to Ft. Bragg next week and grabbed 15 deployable NCOs, they would all be talking knowledgeable about CORs?

Mr. Thompson. That is what we were told. The commanding general and his colonel said they are instructing all of their NCOs and the lieutenants.

Chairman Thibault. Okay. Director Williams?

Mr. Williams. Mr. Thibault, first, I just agree completely with General Macdonald's concern, and I also agree with the need for putting it in the predeployment process.

I mean essentially this has to become a part of our doctrine, that we know that we are going to have contractors on the battlefield. We need to have our doctrine state how we are going to support them both in terms of training CORs and some very specific subject matter experts in this arena as well because CORs provide some set of coverage, but in some cases you need a very deep level of expertise.

Chairman Thibault. Thank you, Director Williams.

Director Stephenson, I was compelled as I read your testimony by the last page, which you referred to, and I am going to ask for your observations, and that page had the 32 fraud referrals that you referred to. Being somewhat analytical, I went down and all of a sudden I was struck by the very significant number of subcontracts, and I know Mr. Parsons talked about one of the major initiatives being better subcontract management by contractors and being sure they are doing it. My quick count was 18 out of those 32 referrals were in the area of subcontracts.

So, for the record, before you comment, I am going to ask we are going to give you questions to ask for additional

data that we can take back because those referrals spread from 2004 to 2009. We are very interested in the status. We are very interested to investigative organizations that recognize the importance, have the staffing for that.

But I guess I am going to try to pin you down a little bit. Are you concerned about the nature and the activity and the incidents of referrals and can you share any of that concern if you have it?

Ms. Stephenson. Absolutely concerned. This is the number of 32 being in theater, and although it does not identify the programs you can go down it and see that the vast majority are related to the LOGCAP program. That is unprecedented, and any program that we have had in the past to have that many referrals, it absolutely concerns us.

A number of things that we have done, and in the interest of time I will just limit it to a few. We increased the amount of the transactions that we test on a real-time basis, meaning we do not wait for a submission to come in from the contractor. We start testing them right away. That also led to the number of suspensions you will see in Appendix II.

We also have increased our risk for the contractors, especially related to subcontract prices both before award and after award, and we continue to audit those costs today, especially the subcontract price--gravely concerned.

You will notice in the report we issued last week on the purchasing system where we said their system was inadequate primarily because of the lack of monitoring subcontracts and ensuring reasonable subcontract prices.

Chairman Thibault. Thank you. Other Commissioners might have some comments on subcontracts. We will see how they go.

Commissioner Green.

Commissioner Green. I think we all acknowledge the fact that we are probably spending more on LOGCAP than we need to.

I have a very simple question I think for Mr. Williams, Mr. Thompson. Who is responsible for assuring that the LOGCAP contractor, whoever it may be, operates efficiently?

Mr. Williams. Well, certainly DCMA has a big role in that. I believe that is part of Team LOGCAP in the theater with the program management structure, DCMA's oversight role in terms of what we do in our QAR world and supporting the CORs. That is a part of that overall ensuring that LOGCAP is acting efficiently.

Commissioner Green. Okay. Well, as you all know, a key mechanism in encouraging efficiency is award fee, and cost control I think is an element in determining an award fee. In several award fee determination letters by the government to KBR, they have been criticized for not being

more proactive in seeking cost savings, and I am not talking about \$50,000 for washing air conditioner filters rather than replacing them. I am talking about major efficiencies.

My question to any of you is what further steps can the government take to encourage KBR to be more proactive in major cost savings, seeking major cost savings?

Mr. Thompson. On the, particularly, award fee boards and the cost savings, we took a look at that during the award fee evaluation board process. And, like you, those things that are harvesting wood or cleaning filters is not what we are after.

What we are after is when we looked at the under-run costs, and DCMA provided us the insight to that to go ahead and work with our cost and price people as well as the KBR folks to drive that and narrow that band, if you will, down to where it is on cost rather than under cost because what we are looking as we move the force, an earned value system, is to take a look at the costs and associate it.

Commissioner Green. Related issue, I guess, maybe Mr. Parsons would like to answer this one. That is there has also been criticism of KBR for overstaffing, and we even heard it when we were in-country about management creep, and we were given several examples. What is being done to systemically review KBR's staffing to ensure that they are right-sized?

Mr. Parsons. Mr. Green, I am not aware of any specific actions. I would maybe direct that question to Mr. Williams or Ms. Stephenson who may know exactly whether we are doing any specific audits of the staffing level.

Mr. Williams. We have had one incident recently in the fire department where it was identified that there was an inappropriate level of staffing, additional fire department activity that was referred back. So there are those efforts that go on to look at staffing.

I would like to respond, though, to a part of the other question, and that is I think there are a couple of fundamental things, and some of this has happened in LOGCAP IV. One is the contract structure and the incentive structure. I think in LOGCAP IV there are things put in place to hopefully deal with that. But to drive the contractor to be efficient, you got to get to it through the contract structure and incentive mechanisms in that contract.

Commissioner Green. Okay. Since I let Mr. Parsons off the hook on that last one, let me pose a different question. This happens to do with a new DFAC at Camp Delta, construction to the tune of \$36 million. Completion is set, as I understand it, for the end of this year, calendar year.

The staff has also learned that there is an existing DFAC that has been expanded and refurnished within the past

year at a cost of somewhere over \$3 million.

I guess is there a compelling reason to spend \$36 million to build a new DFAC that will probably be used for 2 years since we are going to come out of there in 2011?

Mr. Parsons. Well, sir, certainly I think on the surface the answer to that would be it does not appear to be. But, again, I am not familiar with the specific circumstances surrounding that DFAC. So there may be some reason why that is justified, but I would be more than happy to get back to you for the record.

I do not know if Mr. Thompson is aware of that issue or not.

Mr. Thompson. No, other than, as we know, we are requirements-driven. So I will have to look at that one to see if there was anything.

Commissioner Green. It just seems to me that the number of folks reportedly being fed and to be fed, that Delta is not significant enough to spend 36 million bucks.

Let me go with one last question, and then I will surrender whatever time I have left if I have any left to Mr. Tiefer.

Mr. Parsons, in your testimony, you made clear the importance of statements of work and the fact that the Army has embedded logistic support officers in the field to help people do a better job of writing statements of work. Yet,

we have learned that the Army Reserve Command, which provides these folks, has decided they will no longer provide these officers to LOGCAP. If these individuals are so important, how can the Army turn its back on providing a stable supply of such officers?

Mr. Parsons. Sir, I do not believe the Army is turning its back on it. I think that the Army has heard the message, the criticalities of these logistic support officers. I know that Mr. Thompson and Major General Radin, in fact, have been up and met with the Army G-3 to discuss those issues and that they are working with the Reserves.

I think as Mr. Thompson mentioned in his opening statements, this general officer steering group that is taking a whole look at the LOGCAP program and how it is managed and run is also going to have to tackle that issue on how to we identify a steady state of these logistic support officers who were originally designed for a temporary type of engagement to a more permanent engagement.

But point well taken. We know that that is an issue, and Mr. Thompson and General Radin are actively engaged with the Army on that.

Commissioner Green. Thank you.

Chairman Thibault. Thank you, Commissioner Green.

Commissioner Charles Tiefer, you are on the clock.

Commissioner Tiefer. My thanks to Chairman Thibault,

whose leadership and insight on LOGCAP made this hearing possible.

And, my respect for you Director Stephenson and to Dave Eck and Ron Meldonian, your two outstanding lieutenants, for your professionalism in addressing the challenge of waste by KBR. Your statement opened many new windows today for the first time on previously undisclosed KBR waste.

First, you have given us a new record total on waste, I want to ask about: \$13 billion in questioned and unsupported costs for all DCAA audits for our Iraq contracts, \$7 billion in questioned costs, \$6 billion in unsupported costs. These two types add up in plain English to \$13 billion in contractor waste--30 percent, \$3 billion over the highest previous such figure.

How do you answer a contractor saying that the \$13 billion is not really waste but was just part of the negotiating process?

Ms. Stephenson. Well, I would have to say I certainly disagree with that sort of categorizing it as just part of the negotiation process. It is a very large amount that needs to be taken seriously.

Commissioner Green. Is your mic on?

Ms. Stephenson. Yes. I will make sure. It is on as far as the light. Is that better, sir?

Chairman Thibault. You have to lean up a little bit, April. I know it does not move, so I know you are doing, but if you could lean a little bit or pick it up. Thank you.

Ms. Stephenson. Is that better?

Chairman Thibault. That is a little better.

Ms. Stephenson. Okay. It certainly is something to be taken seriously, Commissioner Tiefer. I think when you look at it in the two parts, if you take the questioned cost, that is cost that under the acquisition regulations is unallowable, meaning there has been a violation of the contract terms or a violation of the acquisition regulations. That is not just negotiations. That is violation.

The unsupported costs leads to contractors being unable to justify why a cost was incurred, and yet they have billed us. That also is to be taken seriously.

Many of those are resolved throughout the negotiation process primarily because additional information is provided. It is not as though it is just whisked away, and we all say, oh, that is just unsupported. No. Generally, they provide the information. But in some instances it takes some withholdings and it takes some other incentives to get that information to be provided to the government, so it can be properly evaluated and determined what the

appropriate prices should be.

Commissioner Tiefer. Thank you.

I was reading your testimony's appendices that you mentioned when you spoke: Appendix II which lists over 100 of those Form Is actually suspending or disapproving \$553 million and Appendix III, which Chairman Thibault talked about, which has 32 in-theater suspected irregularity referrals. I will call these fraud referrals. Of course, they also include bribery and kickbacks and so forth.

When you say, when you talk about the vast majority in that tone, I would guess that is like 95 percent KBR. Are these unusually high numbers of suspensions and fraud referrals for this amount of contracting?

Ms. Stephenson. Absolutely. I have to say in the history of DCAA I do not think we are aware of a program, a contract or a contractor that has had this number of suspensions or referrals.

Chairman Thibault. Wow. You spoke and your written testimony mentioned a very major DCAA audit report issued just last week, which my Chairman who watches these things, all of them, brought to my attention, and it opens yet another new window at this hearing for the first time. It officially calls to disapprove KBR's inadequate purchasing system, which means its poor subcontract management, and this casts a dark shadow over KBR's performing either LOGCAP

III or IV task orders.

Could these KBR faults result in additional overcharges from tainted subcontracts such as the McCaskill-Collins letter discussed at length?

Ms. Stephenson. Yes, it could, and I think anytime when a contractor's system for monitoring subcontracts and for the justification for subcontract prices is lacking to the extent that we detailed in our report last week, it certainly increases the risk of those subcontracts being overstated and ultimately overcharged to the government.

Commissioner Tiefer. You mentioned that the disapproval, the new audit report that disapproved KBR could lead to a withholding of a part of KBR's subcontractor payments. As a professor of government contracting law, I think 10 percent withholding seems reasonable in this context. At a quick figure, we have \$5.7 billion in billings, 70 percent subcontracting, 10 percent of that comes to about 400 million.

Are figures like 10 percent sometimes withheld the way I just described and what else could protect the taxpayer against this kind of KBR waste?

Ms. Stephenson. Yes, 10 percent is a general rule of thumb that is used. The figure that you are giving sounds right in the ballpark. It certainly is a very large amount that could be suspended from future billings. It is a large

contract.

We have used 10 percent on other contractors for withholdings, and it could increase if the contractor does not correct the issues and we need to provide a greater incentive.

But there are other areas we could provide incentives as well. On the award fee, part of the criteria for the award fee is an adequate system. Clearly, in this instance, we have an inadequate system which could warrant a reduction in award fee.

When it comes to the awarding of the individual task orders, the price reasonableness is called into question now, and there could be perhaps a decrement or a reduction to the prices to protect the government from unreasonable prices in the future.

And, lastly, when awarding the new task orders under LOGCAP IV, with the three contractors in competition, KBR's inadequate system, given the large amount of subcontractors on LOGCAP IV, needs to be given serious consideration when awarding those task orders.

Commissioner Tiefer. I think a last question for this round, about low sustainment rates, is the McCaskill-Collins letter suggests that that is what is going on here. The DCAA keeps trying to question costs, but the Army does not sustain DCAA's questioning. Could it be that the Army is

accepting your audit findings as perfectly valid, but they feel KBR needs full reimbursement because even for proven overcharges, because they already incurred these costs, and could you illustrate from the categories in that letter like DFAC and living containers?

Ms. Stephenson. Yes. I think that I do not think there has been issue with the accuracy of DCAA's findings. I think perhaps, and I do not want to speak for Mr. Parsons, but I will say I think that there have been instances where they have found themselves in a situation where KBR has incurred a significant amount of the costs and the delivery of the services is still needed.

As far as some of the instances of that, I think the living container issue that was discussed in that letter is one of the examples.

Commissioner Tiefer. I guess I do have a little time. One other area that is talked about in your written testimony, and that is Armed Force protection. Your audits found and you suspended about \$19.7 million in this area. This is private security charges from the ESS Company through KBR, another new window at this hearing for the first time.

I believe this connects with the very highly prominent scandal starting in 2004 when 4 Blackwater employees were sent to their death in Fallujah. The press uncovered the

four worked for a subcontractor of the ESS Company, ESS being a subcontractor of KBR--this indicating that KBR was secretly and wrongly charging the taxpayers for protection that it is, by its contract, required to seek from the Army.

When you asked KBR for their documentation on this issue, was their documentation adequate?

And, that is just \$19.7 million. How much did you figure overall KBR was wrongly billing the taxpayers for armed security?

Ms. Stephenson. Yes. KBR support was inadequate, and it did not adequately justify the costs. We issued a report I believe in 2007 that took issue with \$99 million. The \$19 million you refer to is a suspension we did at the request of the Army. We are continuing to analyze whether we should be suspending the entire \$99 million.

Aside from that, KBR, in its own financial statements, stated that if there were a decrement as what was being discussed they thought it could run as high as \$400 million.

Commissioner Tiefer. Four hundred million? Well, okay. All right.

Dining facilities, something we have mentioned several times, your statement talks about a recent phase of waste here for which you have suspended \$64 million of KBR's. Can you flesh out an example of such DFAC overcharges and is it the case that these suspensions continue on unresolved

today, which would be very, very, very late?

Ms. Stephenson. Yes, the suspensions are unresolved as of today. There is \$64 million that is unresolved, and that was a recent suspension that was done. In fact, it was five suspensions.

And, that is related to an issue where KBR had a single subcontractor that had an average daily meal price of \$24 when the remaining subcontractors averaged \$8, and KBR was unable to explain the difference between the average of \$8 and the \$24.

Chairman Thibault. All right, Commissioner. Thank you, Commissioner Tiefer. Great dialogue.

Commissioner Henke.

Commissioner Henke. Thank you, Commissioner Thibault.

I would like to get at the issue of cost control, if I could, with Mr. Thompson and Mr. Parsons. It is LOGCAP I, the first version of this contract, \$811 million over 5 years. LOGCAP II, \$102 million over 5 years. And now, we are 8 years into LOGCAP III, and we have put about \$32 billion across the contract. We put almost as much in one month, \$500 million or \$600 million a month, as we have put across the entire 5 years of the first LOGCAP I vehicle.

My question is or my observation first and then a question, my observation is that it seems to me your contract structure is set up to be responsive and flexible

to the needs of the operation but very poor for controlling costs. You have one vendor, so you have no market competition except back in 2001 when the contract, the underlying IDIQ contract was awarded. You obviously have no competition at the task order level, and it is a cost-plus-award-fee contract structure that relies on massive subcontracting.

I think it would be accurate to say that KBR relies on massive amounts of subcontractors. I have seen estimates that of the 70,000 or 80,000 people employed by KBR, 80 or 90 percent of them are subcontractors. So, if you are trying to get at cost control when most of the costs are incurred by subcontractors, I think you have a very poor arrangement.

My question for you is if you knew in 2001 that you were going to put \$32 billion across a contract that would support up to 215,000 people in theater, you would have never entered into this kind of contract arrangement, would you? Mr. Parsons and then Mr. Thompson.

Mr. Parsons. I think the answer to that is no, we would not have, and I think that is why we moved to the LOGCAP IV. I think we have all recognized that having a multiple award where you institute competition for this type of work is absolutely necessary.

Mr. Thompson. I would echo that. We certainly would

not have, but then controlling the costs and controlling the requirements is something else, lessons learned by the Army and just this past year scrutinizing the actual cost award for LOGCAP.

Certainly, the commanders that come in, they take what services are available and then add on.

Commissioner Henke. Could you say that again? I could not hear you.

Mr. Thompson. They take the services available, made to them, as they RIP in and out, and then they add on those services with the intent of trying to improve or the certain needs that are there.

But, clearly, if we would have known in that time frame, we would not have entered into such an instrument.

Commissioner Henke. Right. What were the planning factors in 2000-2001 when you were awarding this contract? What planning factors did you provide industry for the amount of contract support you would need, for the duration of the support?

You must have given industry a sense of when you come back and bid this, bid a scenario, bid a certain amount of effort. Can you give us a sense for what that was at that time?

Mr. Parsons. Sir, certainly that is something we can get back to you, on what the scenario was based.

I will go under the assumption that when the source selection was conducted, they were operating off the prior history which, as you know, was not a reflection of what we ended up with.

Commissioner Henke. Right. Okay. Mr. Thompson?

Mr. Thompson. I have to echo the same thing because we were not present at that time. But historically looking at it and what we have been briefed, it was low key. It was the dollar threshold of the contract. There were not a lot of requirements. Then, all of a sudden, it ballooned up.

So it was an immediate kind of--I think Commissioner Green mentioned when you move quickly into resolving what the warfighters needed to satisfy the requirements, it ballooned at that time.

Commissioner Henke. The other issue I want to get at with having one vendor is the issue of operational risk. And, to your credit, Mr. Thompson, you had a contractor come in and do a LOGCAP program strategy review just last year, and I think that is necessary and it is a good report.

I do not want to pick a phrase out of it inappropriately, but there is one phrase that concerns me. The report says: "There are no contingency plans in the event that the current LOGCAP outsource provider, KBR, fails to adequately provide services."

My issue is if you have one contractor, you are very

dependent on that one contractor. What steps has the Army, maybe it is the G-4 staff, what steps operationally has the Army taken to assess and manage that risk?

You are very dependent on that one vendor. If they cannot perform for a number of reasons, does not that leave you very dependent in theater?

Mr. Thompson. It certainly is a high risk area, and that is why it took us a couple of years to get LOGCAP IV in place to reduce that risk, to be responsive in case. Let's not just focus on the war. If another event were to occur elsewhere, we were solely dependent upon a single contractor. And so, the risk, to mitigate that risk, the absorption of the function that would have to go on, you fall back on your current organizational structures which we clearly demonstrated we did not have the organic capability to do things.

So you are risk-dependent, but that is what caused us to move as fast as we could into the LOGCAP IV arena.

Commissioner Henke. So what was the backup? What was the backup plan under LOGCAP III to manage those risks? Operationally, what was it?

Mr. Thompson. I am afraid I do not have an answer but certainly would ask my G-4 and get back to you on that, what were the mitigating strategies other than the organic capabilities that were there.

Commissioner Henke. Okay. I think that is very important. I would like to have that follow-up from the Army G-4 because the G-4 is the proponent and responsible for supporting the forces that are deployed. I would like to know what kind of analysis, what kind of risk analysis the Army has done if the contractor was not able to perform.

My sense is it was much more risky than we are probably aware, and I am sure that it leveled out in the 2004, 2005, 2006 time frame.

I will come back in the second round. Thank you.

Chairman Thibault. Thank you, Commissioner Henke.

Commissioner Gustitus.

Commissioner Gustitus. Thank you. Thank you for being here this morning.

I am into lessons learned. I think we all are. It is very, very important. Both Mr. Parsons and Mr. Thompson talked about lessons learned.

In light of what we know about KBR through all the audits, through all the work of the DCAA, the GAO, inspectors general, et cetera, the kinds of words we hear about it, Ms. Stephenson used gravely concerned. We know about inadequate systems, a historic level of suspensions and referrals. They have a failed subcontracting monitoring system, et cetera. I mean the laundry list goes on and on.

In terms of lessons learned, my question is: How did

KBR become one of the contractors on LOGCAP IV?

And, the question is what does a contractor have to do to get the government to not contract with them?

I mean we have gone through this litany of abuses with respect to KBR, and that is fine. That was LOGCAP III. We learned a lot from it. By God, we are moving forward. We are going on LOGCAP IV.

But guess what? One of the contractors on LOGCAP IV is KBR. Now, did their systems all of a sudden become adequate? Did we stop worrying about all these things? What happened?

Who should I ask this question to? Mr. Parsons?

Mr. Parsons. Ma'am, I was involved with the source selection, and you are exactly right. I can understand why the puzzlement when we hear this. In fact, I will be honest with you. I did not know that DCAA had just recently made a recommendation of inadequate.

I can tell you that during the source selection, the business systems were one of the primary focuses of the source selection on the criteria. And, at the time, when we went through the source selection, there were no systems that I am aware of that were identified as being disapproved or inadequate as far as what the contractor was presenting in its proposal.

Commissioner Gustitus. Who makes that decision during

that award situation as to whether the systems are adequate, the business systems are adequate or not? Is that DCMA or is that DCAA?

Ms. Stephenson. I can answer to this. It was DCMA that makes the ultimate decisions under the Federal Acquisition Regulations, and in many of the systems we had reported deficiencies.

And, if we are going to look at it from a lessons learned, I would say a lessons learned through the source selection was as the deficiencies were being addressed the contractor presented their planned corrective actions, which to the source selection evaluation board, I believe, and I do not want to speak to them--it is only what I have seen--thought that the corrections were going to make the systems adequate.

Unfortunately, as we have seen now, two years later, many of those deficiencies we reported at the time of LOGCAP IV still continue.

Commissioner Gustitus. But was not that the history of LOGCAP IV?

I mean you had that contract. You tried to get those task orders definitized back in 2004-2005, and DCAA kept telling KBR: Clean up your systems. Get us the accurate information. Just give it to us. This is the route. This is the map for you to get this contract definitized, so you

can get your award fee.

It did not happen. It did not happen. They end up incurring \$5 billion of costs on a \$6 billion contract by the time that sucker was put down for definitization, and essentially it turned into a fixed-price contract. We just gave them everything that they essentially had incurred.

And so, the history of KBR is delay, delay, delay, delay on fixing up these systems. So how can you possibly have assumed that they were going to do what they said they would do in these business systems and go ahead and award them a contract?

I am not talking about whether they produce what the soldier or warfighter wants in the field. I think everybody agrees that the warfighter seems to be satisfied with what they get from KBR. We are here to talk about the price and what it costs us to get that and if there are other ways to do it.

So I do not know how that board makes that decision that they are going to trust KBR to fix it when our history is that they have not.

Mr. Parsons?

Mr. Parsons. Ma'am, I do not disagree with you. I mean based on that you do have to wonder.

I can tell you that their failure to have the types of systems at the level that you are referring to and the

responsiveness was something that was considered in the source selection, and they did not score as high in that area as some of the other offerors. But absent any specific disapprovals of those business systems, the board was not able to make a recommendation of not awarding or giving a unsatisfactory score to KBR.

Now, I will add, though, that now that KBR has got one of the contracts, that this will all be something. This performance will be something that will be considered, obviously, in the award of new task orders under LOGCAP IV. So if there is any kind of incentive--

Commissioner Gustitus. Is that part of the consideration of the task orders?

Mr. Parsons. Correct.

Commissioner Shays. Will the gentlelady yield?

Commissioner Gustitus. Yes.

Commissioner Shays. Could you just make sure that each respond to what I think is a really important question, have each of them respond to you the question you asked?

Commissioner Gustitus. Which question?

Commissioner Shays. The last question you asked was responded by Mr. Parsons.

Commissioner Gustitus. Oh, will it be taken into account?

Commissioner Shays. But I would love to hear Mr.

Thompson and Mr. Williams respond to it, and I would also like Ms. Stephenson's response.

Commissioner Gustitus. Go ahead, please. I welcome it.

Mr. Thompson. Okay. Thank you.

I do agree with Mr. Parsons. I agree with you as well, Commissioner, because what we have and what we are doing and as you know--let me back up a second.

I have only been on the board for two years, but during the award fee evaluation board what we have moved to is to separate the corporate business systems from the task orders because the view of that when you are wrapped up in the award fee process, it gets averaged in with the rest of the performance that we are looking at. So, therefore, we want to hold it separately, so we can get the attention from the board as well as from their board, their corporate board, as well as how these business systems are going on.

Commissioner Gustitus. Is this just on LOGCAP IV, but it is still the way it was on LOGCAP III?

Mr. Thompson. As you know, we had not and will not have an award fee board for LOGCAP III until we resolve the issues. But if we were to have a board, it would be separate. The corporate would be separated from the normal process of award fee board.

Commissioner Gustitus. Mr. Williams?

Mr. Williams. Yes, ma'am. First of all, yes, as a part of awarding the task orders, information on business system failures, et cetera, should be taken into consideration as the Army moves down to awarding task orders under LOGCAP IV.

I was not a part of the source selection board or panel that looked at LOGCAP IV, and so I do not know what information was introduced into that panel.

As Ms. Stephenson said, her report was not generated or delivered I guess until last week with respect to the fact that they recommend that the purchasing system be disapproved. So I do not know at the time what information was in the source selection, but I do not believe they had a disapproved purchasing system or an audit that said it should be disapproved at the time.

Ms. Stephenson. Yes, and I can answer to this. We had a number of deficiencies that had been reported really since the beginning, and the beginning for us of LOGCAP III is 2003. And, we had I believe at least two to three, if not four, reports on systems that had a number of inadequacies.

We had expressed an opinion of inadequate in part in that it was part of the system, such as the subcontract management.

We realized from a lessons learned, using an inadequate in part opinion in some instances got changed to adequate

when they were evaluating during source selections, and this is just not in LOGCAP. We, from an agency policy, have removed that opinion of inadequate in part and no longer give it. We now have opinions of inadequate or adequate, and that is to ensure that there is no confusion over a serious deficiency.

LOGCAP IV is an example where serious deficiencies that we had reported--and we had several reports on the street that went through the source selection evaluation board with those deficiencies--were turned into adequate primarily because of corrective actions presented by KBR.

Commissioner Gustitus. Who makes the decision of going from your inadequacies to their adequacies?

Ms. Stephenson. I believe it is DCMA who ultimately has the authority.

Commissioner Gustitus. Is that right, Mr. Williams? Is that DCMA's decision? You chose to go from DCAA's recommendation of inadequate to adequate in these systems?

Mr. Williams. I cannot speak specifically to any particular recommendations. I would expect that as a part of the source selection DCMA would make a recommendation based on the information they have. They could have. Whoever represented DCMA in that particular instance may have. I just cannot speak specifically.

Commissioner Gustitus. Well, I think I would like it

in writing to have a very clear explanation of how we got from inadequate to adequate.

Chairman Thibault. Commissioner, might I provide an example?

Commissioner Gustitus. Sure.

Chairman Thibault. Because there was a compelling--and we had the IGs testify in February, but there was an audit report oversight review by what they call CAFU, Contract Audit Follow-up, April 8th, 2009. There were 14 recommendations. DCMA concurred with 13 and put some clarification on a 14th.

But I would like to provide an example because I just put it in my hands on Friday, but it is a great example, and it does not just relate to pre-award. It relates to what Director Stephenson said was a systemic approach that permeates everything, and it was accounting versus subcontract management or the examples we are using.

In six months, when DCAA was trying to figure out the accounting system as far as charges by KBR and could they understand it, and they were doing what I will call a cost transfer review, the transfer of cost. There were 36,000--36,000 accounting changes that were moving costs of totaling \$422 million. Now this is right out of this April 9th report, and DCAA said this part of their system was inadequate because they could not figure out what was going

on with all these transfers.

I think that would be pretty challenging to anyone intuitively saying: You have this assignment. Go tell us it is okay.

Normal companies, Director Stephenson might say, do not have it, but DCAA said that.

Now the opinion, and DCMA has concurred in this report, said that their contracting officer said no, it is adequate, and the reason was they do not care about the volume of transfers. They care about the quality of the accounting changes.

And then, they said compounding that to support the decision. Why it is adequate is that the contractor, in this case, KBR, agreed to do a better job describing these 36,000 changes, which kind of seems like a contradiction. You got to describe the changes better, but it is okay because it is the quality of the change.

I use that as an example in fairness to the Defense Contract Management Agency. They have said you are right, and they have issued all sorts of or agreed to policy changes and training and the like. But that is the part where I think the two agencies need to be getting together in a more real-time mode.

Commissioner, if I might ask a response on whether they should be getting together on a more real-time mode and

working together, saying, hey, what is the best way to handle this, and I might start with you, sir.

Mr. Williams. No question, I absolutely agree. April and I have had meetings in the past, and we probably need to do that more regularly. There are some things that were identified in that report you just mentioned, some things identified in Ms. Stephenson's testimony that concern me gravely, and there are things that we need to go after and capture.

I will tell you that there are some things that DCMA has been concerned about, and, as a result, my directive on contracting has been put in place in terms of boards of review to look at when one of our contracting officers disagrees with the DCAA opinion. We need to make sure that that gets raised to the proper level for adjudication and discussion.

I will also say that there times when there are judgment calls that are being made. So, sometimes there are discrepancies or differences because of that. But when there are some valid factual information that has been presented by the auditor, we need to be respectful of that, understand it and clearly be able to articulate why we agree or disagree and make sure that is documented. I do not think that is necessarily true in every case, and I think in that particular report those are some of the things that we

were concerned about.

Chairman Thibault. Director Stephenson, are you willing to step up and develop some kind of a linkage so these things do not linger?

Ms. Stephenson. Oh, absolutely. As Mr. Williams said, we have already started meeting, and we have been bringing the most high-risk items that our two agencies have found and trying to find a mutual solution going forward.

But I also have to say, from DCAA's own perspective, we needed to change our policy as we did in December and remove that inadequate in part opinion which created confusion and for some who thought that meant it was adequate. Now there is no confusion. So, although I agree we should work together better as an organization by correcting or improving our own policy, I think that will lead to no confusion in the future as to whether we believe a system is in adequate or adequate.

Chairman Thibault. Thank you.

Commissioner?

Commissioner Gustitus. I had another question.

Chairman Thibault. Sure. Thank you.

Commissioner Gustitus. Thank you.

Another lesson learned, it seems to me, from LOGCAP III was we have to definitize these contracts within 180 days. You have said that, I think, Ms. Stephenson. I think that

was a very obvious lesson learned from LOGCAP III.

So, going forward to LOGCAP IV with Fluor and DynCorp and also KBR, are we confident in those task orders and their business systems and can we analyze them sufficiently to know that we will not be caught in a undefinitized situation with respect to the task orders going forward with LOGCAP IV?

That is because SIGIR Stuart Bowen says undefinitized contracts are a license to steal. Ms. Stephenson refers to it as a blank check. It is a very, very dangerous situation. What is the guarantee that you have put in place that we are not going to be in an undefinitized contract situation with LOGCAP IV?

Mr. Parsons. Ma'am, I do not know if there is a guarantee that we will not be. Certainly, there could be a circumstance that would necessitate that. But the plan and the goal is that through fair opportunity competition amongst the three offerors, we should not have to issue a unpriced action, an undefinitized contract action. In fact, since the early days of LOGCAP, I believe there has only been one other task order that we issued on an undefinitized contract action basis, and that was definitized within 180 days.

So, certainly, the fair opportunity and the mechanism we have set up in LOGCAP IV should preclude in the vast

majority of cases a need to issue an unpriced instrument.

Mr. Thompson. If I may, on the practical side, where the contracting officer is perhaps--let's take the RCE, Regional Command East and the Regional Command South. There was potential to have an undefinitized contract action, but there are processes in place within the Rock Island Contracting Center to ensure that does not occur, make sure there is money there, get it definitized and work it.

So, just by letting it go, it is not going to happen anymore.

Commissioner Gustitus. Mr. Williams?

Mr. Williams. I would agree with Mr. Parson's comments. I believe that hopefully in this particular contract we are not going to have the need for the level of undefinitized work as it was in LOGCAP III. From my perspective, it is a business arrangement that we want to try to avoid.

Commissioner Gustitus. And, if you do have it, you are supposed to impose the 15 percent withhold. That is supposed to be the sanction. It did not happen, obviously, in LOGCAP III in the early parts with KBR. That was waived. The 15 percent withhold was waived, but that is a very important tool that law has given the contracting community, the contractors in order to insist on or get to a definitized contract.

Mr. Parsons. Ma'am, I will just add that I think that a number of improvements, the requirements definition, the additional staffing that we have in our contract office, the additional staffing in the program office and the processes, as Mr. Thompson said, that are in place. We really should be able to preclude having to do those undefinitized contract actions.

Commissioner Gustitus. Thank you.

Chairman Thibault. Thank you, Commissioner.

Welcome, Commissioner Zakheim.

Commissioner Zakheim. Thanks very much.

Ms. Stephenson, I want you to walk me through something. You say that with respect to the dining facilities back in 2005, you essentially disallowed about \$350 million. Ultimately only \$50 million was disallowed. Why did that happen? Not why did you disallow it, but why did \$300 million, roughly, out of \$350 million not get disallowed?

Usually, when you guys disallow something, contractors jump 10 feet.

Ms. Stephenson. Well, part of that was during the definitization process and the negotiation with the Army. So part of this I have to defer to Mr. Parsons to explain what the Army did on that.

Some of it I cannot explain because we feel that the

position which we took was a strong position and that these dining facility costs were not supported from the perspective of they were serving significantly more meals than what was needed. However, we recognize that the contract terms and the vagueness as to the level of meals to be served was creating part of the issue. That may have been taken into consideration when the Army ultimately negotiated, but I really need to defer to Mr. Parsons to answer as to what the Army did on that.

Commissioner Zakheim. Just before I turn to Mr. Parsons, normally when you disallow, on every dollar you disallow, how much ultimately gets disallowed? Fifty cents? Seventy-five cents? Twenty cents?

Ms. Stephenson. From an agency perspective, from overall questioned costs that we have?

Commissioner Zakheim. Yes.

Ms. Stephenson. It is probably somewhere around 65 to 70 percent, on average, is sustained or taken into consideration.

Commissioner Zakheim. Seventy percent, okay. So based on that, it would have been roughly \$250 million would have been disallowed.

Ms. Stephenson. If using the agency average.

Commissioner Zakheim. Okay, Mr. Parsons, what happened?

Mr. Parsons. Sir, I think this gets to the point other Commissioners have brought up about the dangers of being in an undefinitized contract action for an extended period of time because the contractor does go off and incur costs, and that is exactly what happened here.

As I remember, when both DCAA and the negotiation team were trying to get additional cost data, it simply was not there. There were not adequate records maintained. Ms. Stephenson has already talked to some of the deficiencies associated with subcontractor management and the pricing of subcontracts. So the government team was basically forced into having to find a way to resolve these two different positions, one where KBR had incurred all of these costs and DCAA who rightfully was saying that, hey, a lot of these costs are questioned or unsupported based on our review.

Commissioner Zakheim. Yes, but there is a difference.

Mr. Parsons. So--

Commissioner Zakheim. Wait a minute. Wait a minute. There is a difference between questioned and unsupported. I can understand unsupported. Okay, you had to find the information. I buy that. But when they question costs, when they disallow costs, that is not an issue of finding more information. That is a disallowed cost.

Why did you allow those costs?

Mr. Parsons. Sir, I will have to go back and verify,

but I thought most of those costs were either in questioned or unsupported. In fact, we sustained over \$56 million in disallowed costs as a result of that negotiation.

Commissioner Zakheim. Ms. Stephenson?

Ms. Stephenson. Yes, I believe, Commissioner Zakheim, what you are referring to is the notice of disapproval that we issued--

Commissioner Zakheim. You got it.

Ms. Stephenson. --which, in some instances of questioned costs and in some instances of unsupported costs depending on the type of unsupported cost, we will do. So you are correct from the disapproval of our notice.

They were questioned, and I would say that when we question costs or we un-support costs, we do not necessarily need a disapproval for saying these costs are indeed something that needs to be taken into consideration.

Commissioner Zakheim. Let me scroll forward. In the last year, okay, so we have had LOGCAP IV now for at least a while. But in the last year, how many, what is the dollar value of costs that KBR has incurred that you have disallowed? Do you have any idea?

Ms. Stephenson. I do not, sir, not off the top of my head. I would need to get back to you on that for this last year.

Commissioner Zakheim. And, what would be the

consequences? Let's say the Army went ahead and upheld everything you have disallowed. Would KBR threaten to walk away?

I mean you have two other contractors there now. What would be the big deal?

Ms. Stephenson. I do not know, sir.

Commissioner Zakheim. Mr. Parsons, what would be the big deal?

Mr. Parsons. Sir, I am not sure what KBR would actually do if we suddenly disallowed all the costs that have been identified as either unsupported or questioned. Again, that is why we went to this LOGCAP IV strategy where in the event one of the contractors failed to perform or decided not to perform, we had other contractors to fall back upon.

Commissioner Zakheim. Okay. How many task orders have you issued in Iraq under LOGCAP IV?

Mr. Thompson. In Iraq, we have not issued any task orders. We are just beginning with LOGCAP IV.

Commissioner Zakheim. How come?

Mr. Thompson. Well, one, it is the way our plan has been is the Kuwait, Afghanistan, Iraq lessons learned as we moved along. Based in Afghanistan and in Iraq, it was conditions-based, the elections, the security agreement and working with the theater commander on when is the

appropriate time to go ahead and compete and award task orders.

Commissioner Zakheim. But we have just been listening. I mean I have been listening for the last couple of hours now at all kinds of horror stories, and Ms. Stephenson has, I do not know, 60 odd pages, and Mr. Williams has a bunch of pages and all the stuff we have been listening to. When are you going to decide it is appropriate?

Mr. Thompson. When the theater commander--

Commissioner Zakheim. I mean I would have thought you want to get away from LOGCAP III in Iraq as soon as you possibly can. I would have put that first. Why did you not put it first?

Mr. Thompson. Because the lessons learned with Kuwait, our acquisition strategy was to get clean, if you will, the errors that could possibly come with a transition because we are talking about physical transition of property, the subcontractors involved. It is, again, not a turnkey operation. So our acquisition strategy and our plan was to look at Kuwait, take the lessons learned, move to Afghanistan at that time.

While we were in Kuwait, remember, we expanded. The President decided we were going to expand in Afghanistan which we did, the Regional Command East and the Regional Command South.

Today, as we sit here, the competition, the RFPs were responded, and the technical evaluations are going on today with an expected mid-May announcement of an award for Afghanistan.

I just came back, as I said in my statement, on the 22nd of April where we had the Commanding General of the Multi-National Force Iraq and the Vice Chief as well as General Dunwoody gave us the go-ahead because the security agreement was already signed off on, the go-ahead to start LOGCAP IV in Iraq. So we are looking at a task order to take care of the logistic support and the transportation support and the postal and the air terminals as the first step in this process.

Commissioner Zakheim. And, under LOGCAP IV, what protections do you have that people are not going to lowball their bids?

Mr. Thompson. I am sorry. Say again?

Commissioner Zakheim. What protections do you have that people will not lowball their bids under LOGCAP IV?

Mr. Thompson. Well, all three must, all three contractors must, if you will, submit a proposal, and they are evaluated by our personnel that are sitting here as well from the field to go ahead and see if their performance is adequately meeting the requirements.

Commissioner Zakheim. What about your cost evaluations? Who is doing your independent cost analysis?

Mr. Thompson. That is also being evaluated.

Commissioner Zakheim. Sorry?

Mr. Thompson. That is separate and being evaluated during the evaluation part.

Commissioner Zakheim. Who is doing that? Who does the independent cost evaluations?

Mr. Thompson. In this case, I defer to Mr. Parsons, but it is the Rock Island Contracting Center has the pricing team. That is about the only one in the Army Contracting Command that still does pricing.

Commissioner Zakheim. Ms. Stephenson, are you comfortable with all of this?

Ms. Stephenson. Mr. Parsons and I have been in discussions of using DCAA to review the proposals for the very fact that you have mentioned, the risk of lowballing, the risk of the undercharges and that one of the prime contractors could bid low, get into the effort, and then it would be perhaps too expensive several years down the road to switch it to someone else. And, we are going to continue that dialogue to ensure that DCAA gets engaged early on.

Certainly, we have risks, and when looking at the subcontract prices the thing we have to consider is the same subcontractor now bidding on all three, given that there may

only be a few subcontractors in that particular area that could possibly provide this information. Those subcontractors could either be continuing to overstate, in which it all would look the same, but we are still paying an unreasonable cost or they could be underbidding in an effort to get into the effort, knowing down the road it will be too expensive to switch it to someone else.

Commissioner Zakheim. Thank you.

Mr. Parsons. Sir, if I could add to that. If I could add to that, sir, I would like to point out that under LOGCAP IV one of the processes we put in place was to develop a cost model for all of the offerors to propose against by work breakdown structure. So when the offerors propose under LOGCAP IV, whether it is prime contract work or subcontract work, they have to propose in the WBS structure. So we understand that now the supplies, the number, the manpower mix, the skill, so we have insight into that during the proposal evaluation.

As Mr. Thompson said, there is a pricing group out at Rock Island now that reviews those proposals when they are submitted to take a look at the number of hours being proposed, the amount of material being proposed by WBS. They are able to compare that, obviously, with each of the proposals that they get from the offerors. But, more importantly, we now have a lot of historical cost

information that provides us some basis to know whether those costs that are being proposed are abnormally low, abnormally high, and that is what the pricing team takes a look at.

Getting back to Ms. Stephenson point is that she and I have agreed that we need to get together to make sure that we include DCAA in that process of evaluating those proposals so that they have a comfort level that the processes we put in place and the way we are conducting an evaluation is protecting the government.

Chairman Thibault. Thank you, Commissioner.

Commissioner Ervin.

Commissioner Ervin. Thank you, Mr. Chairman.

Mr. Parsons, I want to start with you and to focus on a couple of comments in your statement that I found very troubling, to be frank.

To continue on this issue of the point in 2004 when there were 55 undefinitized contracts, you say that there was a deviation from the requirement for the waiver because the Army determined it was necessary because the limitation on reimbursement on LOGCAP would have had a significant negative impact to contract performance, if applied, posing a serious risk to the contractor's ability to support the warfighter.

I do not want to put words in your mouth, and that is

why I am asking the question. But it sounds like you are saying that if we were talking about fewer undefinitized contract actions, with less money at issue, that that would have been one thing, but because the number was so large and because the value we are talking about was so large, it is essentially a too big to fail issue here. I want to know what you meant by that and why the Army made that determination.

And, by saying that it posed a serious risk to the contractor's ability to support the warfighter, does that mean that had that money not been withheld, that KBR would not have supported our troops in the field?

Mr. Parsons. Sir, that was the unknown. To be quite honest, there was a lot of concern. When you took the total amount of money that had been, that was undefinitized at the time, and applying that withhold would have been a significant amount of dollars, additional dollars that were already either being withheld in some nature or tied up in billing.

So the Head of the Contracting Activity at that time, after taking input from many, many different sources, decided that the risk associated with applying that withhold, given the potential operational impacts, in his judgment, was not the right move to make. So that is why we pursued that deviation.

Getting back to some of the other questions, there was concern: What was the fallback position if this contractor either decided to stop performing or failed to perform. To be quite frank, there was not a lot. There was not any real backup plan.

This would have had to been turned back over to the organic force, and there was question on what that would have done. So the HCA, the Head of Contracting Activity at this time, decided to pursue the deviation.

Commissioner Gustitus. Can I just ask one question about that?

Commissioner Ervin. Please.

Commissioner Gustitus. Was not Halliburton the backup for KBR on that contract? So was that not why it was awarded to KBR in a sense, that we knew that Halliburton was going to back up KBR if you got into that situation and did anybody ask KBR if Halliburton was going to step in like it was supposed to?

Mr. Parsons. Ma'am, I do not know if anybody specifically asked Halliburton if they were going to step in, but that was a consideration. I mean that KBR and Halliburton had signed the contract, agreed to perform. So there was an implied assertion that in the event there were some financial difficulties, that Halliburton should be able to step up and cover those.

But, again, based on the input and assessment that the HCA received, he decided to still pursue the deviation.

Commissioner Gustitus. So one question for the record would be to get that information as to whether they pursued that with Halliburton to see.

Commissioner Ervin. Absolutely, absolutely. It sounds like the fundamental issue here is accountability. In Ms. Stephenson's testimony, she says, she recommends that regulations be revised to require a certain withhold when DCAA determines that internal controls and accounting and management systems are not adequate. Would the three of you support that as a requirement as opposed to simply a possibility?

Mr. Parsons. Sir, the clause is in current LOGCAP IV contracts. So, yes, we do. We do support it.

I think the key here is to make sure we do not get ourselves in a position where you have to issue these unpriced contract actions and let them take so long to be definitized because if we can preclude an unpriced contract action or in the event that we cannot, we can definitize it in a timely manner. Then the issue of the withhold really is not that significant, and that is the real key, and that is the direction we are going in.

Commissioner Ervin. Mr. Thompson?

Ms. Stephenson. Can I clarify your question?

Commissioner Ervin. Sure.

Ms. Stephenson. Since you referred to the DCAA testimony, and I do not mean any disrespect in cutting in here, sir, but I think the recommendation we had was in instances where there is an inadequate system or deficiencies.

Right now, the Federal Acquisition Regulations are permissive and say a contracting officer may implement a withhold or should consider a withhold.

Commissioner Ervin. Right.

Ms. Stephenson. That is different than the withhold Mr. Parsons just referred to as the 15 percent withhold for the undefinitized contracts. I just wanted to clarify what withhold we are talking about.

Commissioner Ervin. Thank you.

Mr. Thompson?

Mr. Thompson. I would look at the requirements. If we know early in on the planning and recognize what the requirements are and have the funding there, then we would not get into a box of having undefinitized contract actions.

What we saw in the past was the hurry up, get it, an open checkbook to get things done, move out to try to satisfy the requirements. So I believe it is paramount to us, for us at the Department to make sure the requirements are defined and the funding is there to not put our

contracting officers in a situation like that.

Commissioner Ervin. Mr. Williams.

Mr. Williams. Yes. I am not sure of the extent of Ms. Stephenson's proposal, but if it is just to withhold, a requirement to withhold if a system has failed, then I support withholds for those situations if that is what it is about.

Commissioner Ervin. I have a question about subcontractors. We have talked a little bit about this, but \$21 billion out of the \$30 billion spent on LOGCAP III has gone to subcontractors, and yet we have very little visibility into subcontractors.

Ms. Stephenson makes a number of recommendations there in terms of accountability, that prime contractors should be held accountable for implementing systems and processes, that they should be held accountable for evaluating the reasonable of subcontractor prices. Again, do the three of you agree with that?

Mr. Parsons. Sir, I absolutely agree with that.

Mr. Thompson. Without a doubt, yes.

Mr. Williams. Yes.

Commissioner Ervin. I want to ask about award fee boards. DCAA has asked in certain cases to provide input to the award fee evaluation boards as to contractor cost management, but you say that your input was not always given

due consideration or weight. Can you elaborate on that and then I would like comments from the three of you as to that?

Ms. Stephenson. There were various instances where we were asked to provide input on the status of systems, deficiencies, how timely KBR was being in providing data to support our audits. Some of those items are criteria in the award fee schedule as to what the contractor will be evaluated on. So there were instances in which we described to the board a number of delays we were having, the inadequacies we were having, especially contained to the subcontracts.

And, in some of those instances, although I do not know the actual computation of the award fee, had those items been taken into consideration in accordance with the award fee criteria, KBR's award fee would have been much less and in some instances they may not have received any award fee for that particular board.

Again, I do not have the complete computation, but I can say what our side of it is and how that compared to the award fee criteria that was contained in the contract.

Commissioner Ervin. Should DCAA's input have mandatory weight in the award fee determination in your judgment and then I would like your comments as to whether you agree with whatever your position is on that?

Ms. Stephenson. In my opinion, if there is criteria

for an award fee, whether it is something that is DCAA, something that is DCMA, something that is the Army, if there is criteria for award fee, that criteria should be followed. Otherwise, there is a disincentive for contractors to follow those items that have been stipulated as important enough to have additional award fee. And, in some of those instances, they did involve some of our findings.

Commissioner Ervin. Mr. Williams?

Mr. Williams. I agree with Ms. Stephenson's comments. I think you have to go with the criteria that is established in the award fee plan. We, like DCAA, have input into that process, and multiple inputs come to bear. But it really has to be shaped by the criteria, and what the criteria state are the things that will be evaluated.

Mr. Thompson. I have chaired four or five boards since I have taken over as the LOGCAP Executive Director, and early I said to you we are breaking out the business systems.

I will tell you from the field, the membership of the board. It is myself and representatives from the field. So you have the G-4s, the logistics people. You have the customer, the end customer that sits on the board.

What is very confusing during the board process is when DCAA presents its findings, and then DCMA comes back, and we have this issue of adequate, inadequate. It confuses the

board when you are dealing on the ground, with boots on the ground where the soldiers are. It confuses the task order evaluation. So, during the closed session, and the boards are closed just as a promotion board, we go into a Contracting 101 to explain how, if any, of the DCAA or DCMA decisions impact their task order.

So that is why we are moving, if you will, the corporate systems away from the task order execution piece, to get visibility, to get at this issue of adequate and inadequate. Then, as a Department, I think you have heard that we have to come to an agreement on how we are going to do this.

So I think it is important. I wanted it broken away from the warfighter because it confuses the heck out of him when they do not understand the basic contract. So we, from our side of the business, will be able to provide the visibility that is needed in order to move forward with any of the corporations.

Commissioner Ervin. Mr. Parsons?

Mr. Parsons. Yes, I agree with Mr. Thompson. I think the separation of the issues will go greatly because I do not believe that the fee-determining official ignored any input from anybody during the process. But I think what tends to happen is the actual performance, the technical performance and, as Mr. Thibault mentioned, for the most

part the warfighters have been very happy with the performance that they are receiving. So they are not familiar with the business system side of it. So I think what happens is that performance tends to overshadow some of the business issues associated with it.

So we will see if this works, but we think that by breaking out the corporate business systems and making, setting aside of the award fee, focused on that, that should allow us then to send the messages that we need to the contractors in the performance of those areas.

Mr. Thompson. If I may, one thing, when we have the boards in closed session, we have the corporate ACO from DCMA that is there. So not only is DCAA did not have a vote on the board, but the DCMA corporate person is there representing the Defense Contract Management Agency and why it has reached the decision. Afterwards, I have a management council where DCAA does provide us advice, so we can clear up issues.

But going back to our point, I think when we move into corporate being separate from the execution on the ground, we will have the visibility we need from the Department.

Commissioner Ervin. Thank you.

Chairman Thibault. Thank you, Commissioner.

Commissioner Shays. Thank you very much. I thank our witnesses, and I thank my colleagues for their very good

questions. I have learned a lot from this hearing.

Political corruption is tantamount to treason. It undermines our government. It weakens our military efforts. It endangers our troops. Tolerance of political corruption allows it to fester, grow and undermine our mission. That is what I believe.

Now, I have listened to answers that make me realize my colleague is right. We are concerned with oversight. We are concerned with control. We are concerned with accountability. There appears to be very little accountability.

Ms. Stephenson, I read each report statement beforehand, and I thought, you know, interesting. I got to yours, and it was a litany of abuses. I would think your job would be a bit frustrating because what is the point of your disclosing this if only half is done--in other words, well in the future.

We went from LOGCAP III to IV because III was flawed, and you all have given reasons why. We did not think it was going to be as big as it was, and, and, and. But we knew it was flawed, and in 2007 we said we are going to III.

Tell me why, Mr. Parsons, Mr. Thompson and Mr. Williams. Tell me why if you had a year under litigation you would not have been able to hit the ground running in the Spring of 2008 and incorporate IV. Why did you just

start from then?

Mr. Parsons. Sir, if I follow the question, are you asking when we--

Commissioner Shays. I want to know why IV is not fully being implemented and III is a thing of the past?

Mr. Parsons. As we have said, there was a protest that was lodged against LOGCAP III.

Commissioner Shays. But you were given a wonderful year's time to be ready when it was resolved.

Mr. Parsons. Sir, while that, during that time period with the protest, the people that worked the actions for awarding the new task orders were involved with providing the additional information to resolve the protest. We had to go through another evaluation process. So, to be quite honest with you, we did not have the number of personnel with experience that would be needed to have been actually planning an execution of those task orders during that time period.

So, once the final contracts were--

Commissioner Shays. I hear your answer, and I am going to come back.

Mr. Thompson?

Mr. Thompson. Well, sir, my answer is while the contract--I do not have contract authority. So, while the contracting committee was working the protest, I was working

with the LOGCAP support officers that I have in my Ft. Belvoir office to develop the transition plan. Based on what I said earlier, we are going to Kuwait, Afghanistan and Iraq, and so we put that planning together. And, remember, I said it was not a turnkey operation.

So, with our partner, DCMA, where we get our property administrators from because all property, you talk about accountability, has to be accounted for. That is accounted for, and we rely heavily on the DCMA property administrators to give us that visibility. So we did the planning while we wrestled through, if you will, the contract side.

Commissioner Shays. Mr. Thompson, it is two years since the contract was first given out. It is two years.

Mr. Thompson. Right, and we had one year of protest. So, one year since April of 2008, and then we are just about finished with Kuwait. We have already awarded RC East and RC South.

Commissioner Shays. It sounds to me like you can let sleeping dogs lie. You are already into Kuwait. You are already into Iraq. Let's just deal with it in Afghanistan. That is the impression that I am getting, that we will see it happen in Afghanistan.

Mr. Williams?

Mr. Williams. Yes, sir. I really cannot speak to the question of decisions made as to why not transition to

LOGCAP IV sooner. Those are operational questions, and I think questions with the program office and Army.

I will tell you that there has been a lot of work going on to figure out as you, when you make that decision, what do you need in place to transition property and things of that nature.

Commissioner Shays. Ms. Stephenson, can you tell me your assessment of the answers you heard or put it in a context that you are comfortable with telling me?

Ms. Stephenson. You know, I have to be honest. I am not sure what took place during that two-year period. I know that people were working awfully hard to try to resolve issues with LOGCAP III. I do not know if that was straining some of the work that was going on with LOGCAP IV. I cannot answer for what the Army had done.

Commissioner Shays. You were asked what would happen if we did not fund KBR for expenses they did not deserve. If someone had asked me that question--you were all basically asked that--my answer would be then stop doing it.

But if we are going to still fund them, and it strikes me that DOD would not need basic accounting standards, DOD. There was a few years back a trillion transactions that were not auditable, which is stunning. They would be shut down, but we are not going to shut down DOD.

It is part of the problem that, in essence, with this

one contractor we basically said that KBR is too big to fail. That is what I am struck with. Or, too important. And so, we are almost treating it like we treat DOD. It is too big to fail, so we are going to still fund you.

Is not that part of the problem and is not that why we are going to IV, so we have options? Ms. Stephenson?

Ms. Stephenson. I really have to defer to the Army on this, but I can say from our perspective I think there is a major element that KBR was the only game in town and that the soldiers still needed the meals, still needed the living containers. Having multiple contractors under LOGCAP IV may help.

There is a concern that once a contractor gets a location, that it may be too expensive to move others in. I am hoping that that is not the case.

I hope that the multiple contractor scheme under IV will help resolve the issue of having to go with whomever the contractor is that it is in town.

Mr. Thompson. If I may, sir, there is another step in this process that we are overlooking. LOGCAP IV with the three contractors is one issue under LOGCAP. At the same time, we have the Joint Contracting Command. In order to build up in Iraq, we had the Joint Contracting Command which we look at today to employ, if you will, adequate vendors from the Iraqi economy. So that is an issue that we are

looking at and trying to draw and draw down, if you will, with LOGCAP III and IV is to provide some of the functions and systems that can be taken over by the Iraqis.

So we have a memo out that says before you come to LOGCAP you go to Joint Contracting Command. We have the same kind of a memo in Afghanistan to look and try to employ those nationals.

Commissioner Shays. My time has ended, but I just want to make this point. It should not take two years. It should not take one year.

You all are in a position to argue for changes in the protest system, and once the protest is done--I heard your answer, Mr. Parsons. It is a logical answer, but it is so hugely flawed by the fact that that logical answer costs us billions of dollars. So, if you did not have enough people, you should have a memo on record that says we want to be ready to hit the ground running as soon as this protest is over because it is costing us, literally, billions.

I just would like to say my next round of questions is going to be trying to understand the subcontracting concept, given that like half of our expenditures are that way, and it seems like it is an extra level to which we cannot seem to get any accountability.

Chairman Thibault. Thank you, Commissioner Shays.

We have talked a lot and read a lot and shared a lot

about what I would call the technical oversight and plans and the limitations of it and the importance of solution that are both short-term and long-term.

We have talked a little bit about cost control, cost containment, efficiency in economy. I have not heard any solutions, and it disturbs me, other than we are sensitive and it is really important.

GAO, the General Accountability Office--maybe back then they were called the Government Accounting Office, but it was still GAO--in 2004, issued a report saying that the evaluation of the support and the recommendation on the appropriateness of services being provided, the level of services and the economy and efficiency, talking about the LOGCAP program, was way short and it needed to be emphasized.

So, six months later, DOD stated it would issue a policy memorandum, this is 2004, for teams of subject matter experts to backfill. You know we all talk about what is it going to take to really give the tools and the techniques. So we are talking about 2004.

However, GAO reported in 2005, now we are a couple of years later--we talk about this year stuff--that as of February, 2005, no policy memorandum had been issued. No actions had been taken. No teams of subject matter experts had been established or deployed to review contract

activities, two years late. That is the cost containment.

DOD continues, because we went back to GAO and to the organizations, to agree with the GAO's recommendations.

So flash forward the next four years in a six-year cycle. However, GAO's input from the Office of the Under Secretary of Defense for Logistics and Materiel Readiness told GAO--now we are real time--that the pressing challenge of addressing statutory requirements has taken precedence over the need to issue this policy memorandum to get on with cost containment and cost control. Again, that seems like it is at odds too because maybe we need as an organization to be looking heavily at statutory requirements for cost containment rather than policy which is six years old.

So, as of last month, GAO told the Commission that DOD still has no systemic effort in place to assure that contractors are operating efficiently.

Now in our research we did find one document, something called Joint Pub 410 on planning, assessing and conducting that was updated last year, and it talked about the importance of it, and for the first time it kind of brought DCAA into that process where it states that on-site auditors. Now we talked all about the technical, but on-site auditors. In LOGCAP, we are talking about forward operating bases. On-site is 60 places. In Afghanistan, it might be 30 going to 50 or something akin to that.

They are responsible to identify practices needing improvement on a real-time basis, in other words, not after the fact but looking at the operation. And, DCAA, as you know, provides their recommendations to the contracting officers at all levels as well as the military customer where it is appropriate. And, recommend cost avoidance opportunities.

I am thinking team again and, as a way, some of the same companies. DCAA's operations program was founded in the late sixties in the Vietnam War, and they called it the Flying Squad, and that is because they got on Hueys, and they flew to these forward bases and made observations. They coupled that with contracting officers, and they issued some really interesting audit reports back in the very early seventies, late sixties. It was about having to fly to where the work was.

Well, in Iraq and Afghanistan, where all the work is being performed in LOGCAP, other than these very large bases, the so-called Green Zone, is in outlying areas where you fly to. I am compelled by the similarity.

I guess when we were out in both of our trips, it was explained by DCAA staff and others that at that time, and that is just a couple months ago, four months ago, that DCAA predominantly did its audits in the Green Zone, and--a little slang--they did not go red, to these outlying bases.

Yet, DCAA has established programs where they work with technical and their own auditors applying audit techniques. So you got technical; you got audit.

I guess I am looking for a response, Director Stephenson. First of all, are you willing to go out on those forward bases and do efficiency and economy reviews consistent with this and are there other challenges, such as you say you got all these people willing to go, that maybe they are not willing to go out to these outlying bases?

Can you help us understand that part of this opportunity that it does not seem like we are doing anything? I am looking for solutions.

Ms. Stephenson. Let me answer this in two pieces.

The first is, yes, we do go out to the outlying. We do get in helicopters. We do take whatever security we may need. And, early on, that was much more challenging.

Even then, whether it be LOGCAP or whether it be a linguist contract, whether it be whatever the contracts were, we did get out, and there were some instances where we did operations audits as you referred to. A more simple one to understand would be the lease versus purchase of vehicles, we did, and we did report that there could be some economies if vehicles were purchased as opposed to leased.

Unfortunately, for whether that was early on in the process and vehicles were needed regardless of purchased,

leased, as soon as they were bought, they were destroyed. I am not sure what the instance was, but that recommendation was not adopted by the government.

Now let me answer the second piece. Could we do better? Yes, we can, and we will, and we will assess what additional operations audits we can do.

We have been so heavily focused on the real-time transactions, the unreasonable subcontract prices, the suspensions and disapprovals, that if we can put some of that behind us and get some of those systems improved to where we can then analyze some of the efficiencies that can be had through our operations audits as opposed to just focusing so much on the actual costs that were being incurred. So we will take a look at that to see what more we can do.

The transition of LOGCAP III to IV is a good opportunity. There is the possibility for excess equipment, idle people, idle managers, that we can perhaps have some very good findings in that area.

Chairman Thibault. Well, thank you. The flip side of that, and I will put a question. Then, Mr. Williams, I would appreciate whatever perspectives. I, again, and I think some of the others were singularly pleased, am impressed with some of the strategic planning of the technical reviews, oversight, contract oversight that needed

to be performed by CORs that needed to be managed and trained up and identified in working with customers by DCMA.

In the spirit of coupling, which is what some of this has been about, and the history at DCAA has been to work with DCMA because they bring technical merit. You see a bunch of people sitting around. Well, maybe there is a good reason or maybe there is a really bad reason, and they should be off the contract, and the costs will really go down then. That is not even a questioned cost. It is no cost.

Would DCMA be willing to engage in this in a way that if Director Stephenson steps up and says, all right, I am ready to go now? Is that something that fits your lane?

Mr. Williams. Absolutely, just like we need SMEs in the technical areas and CORs, DCAA has to be a part of the team, and we need to work collaboratively together in the theater to get down this road.

I think that would also help, as we talked earlier about the differences of opinions that occur in award fee boards or whatever. I mean we need to be on the ground together, working through those issues. And, at the end of the day, if we disagree, we disagree and bring it to the proper authorities. But we need to work them together so that at the end of the day it is not a surprise that we disagree, but we know that we disagree.

Chairman Thibault. Great. Thank you.

Commissioner Green.

Commissioner Green. Thank you.

We have one of the major issues that we are wrestling and will have to wrestle with in the future is, obviously, do we have too many contractors. LOGCAP is a big piece of that.

I think there are all sorts of reasons how we got to where we are. I mentioned some of them in my opening comments. The Executive Branch has done things. The departments have done things to limit force structure. Congress and OMB have done things. We went through, as I alluded to, A-76 and so forth. But what we have ended up doing, I think, is painting ourselves in a corner where the options are limited.

In my kind of infantry way of thinking, we either increase force structure, and I am not just talking here about DOD. I am talking about the Federal Government in general. We increase force structure so that we can do things as well as oversee things.

Or, we move forces from the pointy end of the spear to the combat support, combat service support end.

Or, we continue contracting out.

Or, lastly, we reduce the scope and the amount of services that we are providing to the warfighter.

Now, this is by way of background. Secretary Gates has recently recommended that we reduce from 39 to 26 percent the support services provided by contractors and we fill those positions, if we are going to fill them, with Federal Government employees. I would like from each of your perspectives how you see this playing out.

Mr. Parsons. Well, sir, I will start. In regards to Secretary Gates' comments about those conversions, I think that was more in context of like ANAS support, program office type support. I am not sure it was really geared at the operational side.

There have been a lot of people that have asked that question: Have we gone too far, are we too dependent upon contractors?

I think what the Army has come to realize is that maybe you have not gone too far, but when you do make that decision to contract out certain services there is a price associated with that because you need people to plan the requirements, you need people to execute it and you need people to do the oversight.

I think that was one of the key points of the Gansler Commission, and I think the Army has responded by trying. With the recommendation, the Army has responded by standing up our Army Contracting Command. We are adding additional people, continually evaluating if that is enough folks to do

the proper oversight and management.

So I think that that is really the key, proper planning, the recognition that if you are going to contract out, that you have an adequate staff to do that oversight. You have to strike that balance.

Mr. Thompson. I do not have the adequate staff. We put in a concept plan to increase my Department of the Army civilians. I have supporting contract tours out with the Army service component commanders.

My preference, to go your question, I would prefer to have Department of the Army civilians and/or military because we are dealing with the warfighters and I think the interaction with military and Department of the Army civilians is a plus for us, but my dependency today in order to get the job done is on a support contractor.

Commissioner Green. Well, I have just a few seconds left here.

I commend what the Army has done. I think that having spent a lot of years in the Army and seeing how contracting was dealt with or not dealt with, very frankly, I commend what has been done, but I still worry.

And, Jacques Gansler did a fantastic job and made some wonderful recommendations, and I hope our recommendation stand up to his standard. But what I still worry about is when this thing is over will the same priority continue to

be given to contracting.

Mr. Parsons. Sir, I will just comment. I think that is the importance of commissions like you all are sitting on.

And, as I have testified before Congress as well as before different committees, I think it is important that we do learn these lessons and continue them into the next fight. If there is one thing that does keep me up at night, it is exactly that. Are we going to forget these lessons that we have learned going through this process?

While we are building up our acquisition workforce and Secretary Gates is committed to increase that, the big danger is if the world does settle down and we are not as in an era of persistent conflict as we are today, will there be a tendency to try to pull down that structure?

So I think your work that you are doing, the work that other committees should be focused on. How do we maintain that level of capability in the future so that we do not get caught this way again?

Commissioner Green. Thank you.

Chairman Thibault. Thank you, Commissioner.

And, to show our collegial nature, Commissioner Henke has agreed to go now so that Commissioner Tiefer can press on. Commissioner?

Commissioner Henke. Sure. We are spending about \$5

billion a year on LOGCAP. If we were buying hardware, there is no doubt it would be an ACAT Level I program, right?

So my question is, and if I understand correctly the organizational diagram, we are moving the LOGCAP program office from Army Sustainment Command to Army Contracting Command under Mr. Parsons. Is that a rough understanding correct?

Mr. Thompson. No. That has changed. We are now. The program office is attached to the Army Sustainment Command.

Commissioner Henke. Okay. That is the way it is going to be going forward?

Mr. Thompson. It is attached until 1 October 2009 and hopefully, as I mentioned earlier, the General Officer Steering Committee can provide some input to General Dunwoody, the Commanding General, AMC as to where the structure should be.

Commissioner Henke. So, either way, it is going to be an AMC operation, right, whether it is ASC or Army Contracting Command.

My question to you both is LOGCAP a program or a contract?

Mr. Thompson. That has always been question because it is both. It is like the issue is it is services oriented. Unlike we are not dealing with an aircraft or a truck or a weapons system, we are dealing with services.

And so, often, it is in my view--this is the personal-- it is overlooked because we are over there. We are taking care of our sons and daughters. We are taking care of everyone. Everybody has a place to live, a place to eat, get their clothes washed, go to the gym, come back off a rough day to relax as best we can.

So it is a program as the regulation speaks to, and the recognition of it, I think, is becoming more and more visible, if you will, to the rest of the Army as we move down this trail and try to improve it.

Commissioner Henke. Okay. Mr. Parsons?

Mr. Parsons. Yes, I would add that I think it is both a program, and it is obviously contracts because you need the contracts to execute the program.

But I think getting to what Mr. Thompson remarked especially about this General Officer Steering Committee that has just been put together, I think this is a capability. I mean when you take a look at LOGCAP, it is the Army's capability to deliver certain combat support and combat service support services. I think this is where the Army now has gotten focused on trying to understand what is that capability, what is the best structure to deliver that capability and manage that capability.

Commissioner Henke. I would like to get to a second question if I could. Mr. Parsons, your statement says:

Army officials have placed additional emphasis on the very important role of CORs, Contracting Officers Reps. The COR acts as the "eyes and ears of the contracting officers, assuring the government is getting best value".

Mr. Williams, in your statement, you say, after talking about 57 unfilled subject matter expert positions, we have unfilled requirements for 300.

Would you put up Slide 7, please?

We have unfilled requirements for 335 CORs in Iraq. We have unfilled requirements for 362 CORs in Afghanistan. Why? If the Army is emphasizing it and Mr. Williams in his contract administration function is hundreds of people short, what is not happening?

Mr. Williams. I am not sure if I can say what is not happening other than the fact that they are not being identified through the transitions that occur. As recent as maybe a couple weeks ago, the CENTCOM issued a FRAGO to specifically get at this. Now this is a very important aspect of trying to make this happen and bring those forces forward. We have talked about CORs in the Department numerous times since we identified this as an issue and Gansler identified it as an issue.

Commissioner Henke. Right.

Mr. Williams. It has to become a fundamental responsibility of the forces that are deploying to bring

those forward.

Commissioner Henke. So what is not happening? Why are the positions not being filled?

I got it. The Army says it is important to the troop units. You have requirements and thank you for validating those requirements. Why are the commanders not on the ground putting people to task?

Mr. Thompson. Well, just recently, in both Iraq and Afghanistan, they have issued the fragmentation orders that they would have CORs identified. What we put in place for ours, my LOGCAP support officers, the logistic support officers that are out there, anytime there is a new requirement, you have to have the COR identified.

But it becomes the education and training for the warfighters to understand that these are subject matter experts. If they were doing a perimeter defense, they would have the experts out there making sure that the defense and the perimeter was set up. If they were running their own mess hall, the dining facilities, they would have their mess orders there. So they have to understand that their requirements and their ownership of this is that they are satisfying their own requirements to getting what they ask for. But it is a push from the commanding generals, down, to get these folks.

Commissioner Henke. Right. Let me ask you a question

here if I could and wrap up. How many sustainment brigades does the Army have in structure? Thirty-one?

Mr. Parsons. It is something around that number. We will have to get you the accurate number.

Commissioner Henke. Fourteen in the Active component, nine each in the Guard and Reserve, okay. Tell me generally what those units do. Sustainment brigades, what do they do?

Mr. Thompson. They would go ahead on the logistic side. If they had the organic capability, they would probably be doing what laundry and bath and those kinds of things and the expeditionary sustainment commands. The brigades, though, are the lifeline, if you will, for the respective divisions that they are dealing with. So they provide. They would provide those services.

What we do is augment. For example, the direct support, we augment their maintenance. We do their postal today. In LOGCAP, we take care of the transportation mission which is a part of that.

Commissioner Henke. What responsibilities do these sustainment brigades have when it comes to LOGCAP?

Mr. Thompson. Just lessons learned. Each sustainment brigade now is putting together contract management cell, not a contracting officer but a management cell.

Commissioner Henke. Amen. Good.

Mr. Thompson. Yes. What they are doing is to

understand the contractors that are supporting their mission, one. Two, what CORs are needed and when that COR, whether they have been trained, et cetera, and when do they rotate, and so they can replace that COR.

So that is in the works today. The G-4 has pushed that with the TRADOC community to try to get that embedded, and those were after-action reports coming back from the sustainment brigade commanders on what they needed.

Commissioner Henke. It seems to me that if commanders are saying it is important, but we are hundreds of people short, there is a fundamental disconnect, okay. They are giving it good lip service, but they are not doing it because they are probably very busy.

My question for you to take back and answer for the record is: Why do we ask fighting units to provide CORs anyway? Why do you not change your doctrine so that your sustainment brigades, your sustainment battalions perform that function?

And, maybe that is what you are saying, Mr. Thompson, is they are going to do that going forward, that they administer those contracts at those forward operating bases. So your doctrine changes, so you do not have to burden the warfighter with contract administration duties.

Mr. Parsons. Sir, that is one of the things that we are actually looking at. It is a question that has been

raised by others as well. Should we have this COR function coming predominantly out of the sustainment brigades?

So it will be an issue that will be examined under this general officer steering group. That is a committee that is meeting, and it is also being looked at by our Training and Doctrine Command as well.

I met three weeks ago with lieutenant general, maybe about three weeks ago, with Lieutenant General Peterson, who is the DCG for FORSCOM, and he has asked me a similar question in that if he has to provide CORs out of his structure to provide this type of support, how many does he need to identify? Do I need to identify one per platoon? One per company?

So we have a group of people that are looking at that exact issue right now.

I think that what you find with the sustainment brigades, just like everybody else, they are taxed right now. They are stretched. They are relying a lot on LOGCAP and are having to put their soldiers onto convoy duties and those types of things. So we have to find where is that balance, where is the best place to pull it, but it is a very good point and one we are looking at.

Commissioner Henke. Okay. Thank you.

Chairman Thibault. Thank you, Commissioner.

Now Commissioner Tiefer, Charles?

Commissioner Tiefer. Thank you, Mr. Chairman.

Director Stephenson, the McCaskill-Collins letter quotes an exchange back and forth on these tainted subcontracts that DCAA had with KBR in which--I do not know whether it is politeness or what--you said you were confident that KBR would proactively review the tainted subcontracts. I gather from the rest of the exchange, that was just politeness.

But did not KBR just offer on an order of at least \$50 million, well, on a large amount of these tainted subcontracts, \$525,000 as settlement, and was this not literally pennies on the dollar of what you were examining?

Ms. Stephenson. Yes, a couple of things. The terminology that is in the McCaskill-Collins letter as you refer to was a letter in which we wrote KBR to remind them of their accountability in reviewing the subcontract costs, for their own issue of some of their own employees getting involved with the tainted subcontracts. It was in no way to say that KBR will do it in lieu of DCAA. It was a reminder of their responsibility to do it and a reminder they had a duty to provide the government the results of that review.

In the meantime, we have been reviewing those costs and will continue to review those costs.

As far as the settlement, I am not aware of what the exact amount was that they offered to settle, but I do

believe it was significantly less than what the amount may be. But, rest assured, we continue to audit those costs, and in no time did we shift the auditability away from DCAA to KBR.

Commissioner Tiefer. Sure. Thank you. I am pleased with that.

I want to move toward a very, very good line of questioning by Commissioner Zakheim this way. It was about your role in auditing proposals that KBR makes.

I was just restudying your most recent audit of a large KBR proposal on Task Order 159 whereas I see it you found \$1.6 billion in questioned and unsupported costs for items like \$135 million "KBR proposing unreasonable subcontract prices as a result of not obtaining cost and pricing data from sole-source subcontracts".

Now, if I have it right, what you have been finding in these proposals, is it not vital, as Commissioner Zakheim was moving toward, that you be able to do formal audits of KBR cost proposals, not just sort of cooperate together with Mr. Parsons but do a cost realism audit because, as Commissioner Zakheim started, otherwise KBR can lowball you and--I believe the expression we use in my classroom at the University of Baltimore Law School--they will get well later on by change orders and things like that?

Ms. Stephenson. Yes, DCAA should be involved with

auditing those proposals, and the understatement, the lowballing, to buy in, whatever you may call it is certainly a risk. Even when there are the three competitors, that is a risk, and so we would continue to offer our assistance and provide the full audits that the Army, DCMA, anyone else may need to make a well-informed decision on what these prices should be.

Commissioner Tiefer. Okay. My final question, I appreciate the Chairman's indulgence.

On a non-tainted but one of these living container contracts, where you suspended \$51 million, I was looking at the various bases on which you did the suspension and came across this self-dealing phenomenon. Apparently, the Chairman of the First Kuwaiti Company, Mohammed I. H. Marafi, leased the land for storing these living containers from a company, Al-Noor, that he controls, either himself or through his brother, and KBR just blithely passed on inflated self-dealing charges.

I think your Baghdad office did some inspection in this regard, and it is just a patch of desert where they were storing these containers. Is that right?

Ms. Stephenson. Yes, sir. I have to admit I am not as familiar with this issue as I am on some of them, and I may need to fully answer your question for the record as opposed to today. I do apologize.

Commissioner Tiefer. Thank you, Mr. Chairman.

Chairman Thibault. Thank you, Commissioner.

Commissioner Gustitus.

Commissioner Gustitus. Are the costs that KBR incurs when they have to implement a corrective action plan in response to a DCAA audit reimbursable under LOGCAP? Are they allowable and reasonable costs?

Ms. Stephenson. They are, and that is when a contractor needs to correct their system. That is considered to be. Usually, it is an indirect type cost that will be spread among all the various contracts that the contractor may have.

So, in KBR's instance, these corrections that are needed will be to the accounting system that would serve and spread to multiple contracts. LOGCAP is, of course, the largest.

Commissioner Gustitus. So we pay KBR and contractors like that to make their systems adequate for our purposes?

Ms. Stephenson. That is correct, and let me qualify that with saying that if at any time the corrections go into an illegal action, when you cross the legality line, those costs would not be allowable.

Commissioner Gustitus. But it makes that determination of adequacy then of these systems really, really important up-front, before we award the contracts, because otherwise

we end up paying these companies to clean up, bring the systems up to the level that we need them.

Ms. Stephenson. It is absolutely imperative to not only have the systems approved ahead of time, but also they are subject to the cost accounting standards, to have the disclosure statement of what practices they are going to be using under this contract approved and audited by DCAA to ensure they do indeed comply with the acquisition regulations and the cost accounting standards prior to awarding a contract. Otherwise, you get into a mess where all throughout that contract performance you are dealing with these cost issues, which can certainly create an additional cost on top of it.

Commissioner Gustitus. Okay. We were told by I guess it was your staff--I am not sure whose staff--that KBR refused to disclose their management reviews, and I guess this is an issue that might be in litigation. There were three KBR employees who were convicted of kickbacks with respect to the LOGCAP contract, and DCAA asked for KBR's review of these three incidents, but KBR said no.

And then, there was a report by a KBR tiger team that looked at the dining hall subcontracts in 2004, and DCAA asked for the tiger team review, I guess KBR said they lost it. I think that was their answer, that they lost that review.

Ms. Stephenson. I am not sure what their explanation was. We certainly did not get it. We have not yet.

Commissioner Gustitus. You did not get it, and you still do not have it.

Ms. Stephenson. And, we still do not have it, and we should, and we will be pursuing that. This is an area where we have made some revisions, not just for KBR but across all our contractors, on access to records in which we are much earlier on in a process pursuing a subpoena because I do have subpoena authority.

Commissioner Gustitus. Okay.

Ms. Stephenson. It is a limited authority, but I do have a subpoena authority, and we may indeed exercise this in this instance.

Commissioner Gustitus. Okay. Excellent.

I have one question of you, Mr. Williams, and that is if you could put up Staff Chart 3, please. This goes to these corrective action requests.

Mr. Williams, this was a document that you gave us. Boy, we can barely see it there, but it is the lower right-hand corner. Maybe somebody should bring this down.

Are you familiar with this document?

Mr. Williams. I cannot see it real well, so I am not sure exactly.

Commissioner Gustitus. Okay. Well, the lower right-

hand corner is about corrective action requests. I take it that is when you want a contractor to do something because you have deemed that it is inappropriate or it is hurting the contract, the performance of the contract.

You have only got on this little chart: FY 2008 and FY 2009 Year to Date. And, there are three levels: Level 1, Level 2, Level 3.

I take it Level 3 is when something is really bad, very, very serious?

Mr. Williams. That is correct. Those are elevating levels of concern. So the highest would be a Level 4 in our system, our current policy.

Commissioner Gustitus. You did not have an award for Level 4?

Mr. Williams. That is correct.

Commissioner Gustitus. Is this for all DCMA, all your contractors, or is this just Iraq?

Mr. Williams. No. These are for contracts in Iraq and Afghanistan. One of these is to KBR. One of them is to a PSC contractor, and I am talking the Level 3.

Commissioner Gustitus. Yes, the Level 3.

Mr. Williams. And then, there is another one. I cannot remember exactly who that one is to, but only one of these Level 3s is KBR.

Commissioner Gustitus. Okay, and I am aware of that

Level 3 Corrective Action Request.

What I am interested in is the dramatic increase between 2008 and Year-to-Date 2009 in the Corrective Action Requests because that is not a full fiscal year. Otherwise, you would not put Year-to-Date on that.

But you can see. I mean in Fiscal Year 2008 it went from 70 to 239 for a Level 1 and for a Level 2, 144 to 210. Is there an explanation for that? Is that a concern for you or what is the basis for that?

Mr. Williams. The way I would explain that is that I think it is a response to recognizing that the need to clearly document, very clearly, when we believe that there are things that the contractor is not doing in terms of performance, so that we can have that record, and we do that in terms of these CARs.

I will tell you prior to just recently, in all instances, contractor compliance issues were not always documented. So this is a result of saying--

Commissioner Gustitus. Is that why you started in 2008 here? Were there not CARs before 2008 or were there?

Mr. Williams. No, no. There were CARs before 2008. It is just that again in 2009 I think there was just another heightened level of attention. The important piece here is the documentation that is appropriate, and I think this is an attempt to say anytime, with any issue we see, it is

going to get documented and it is going to be in the CAR, and that is what the commander on the ground is doing.

Commissioner Gustitus. Could you give us the list, the full list then going back to fiscal year 2002?

Mr. Williams. Yes, ma'am. I will take that for the record.

Commissioner Gustitus. Thank you.

Chairman Thibault. Thank you.

Commissioner Zakheim.

Commissioner Zakheim. Let me follow up on this discussion of Corrective Action Requests. You issued the one to KBR on September 11th, an ominous day.

Commissioner Shays. Could the gentleman lower his mic? We are not hearing him well.

Commissioner Zakheim. Can you hear me now? Okay.

You issued a CAR to KBR on September 11th, and this involved some serious noncompliance. You were supposed to get a plan back in 10 days. Did you get it in 10 days?

Mr. Williams. No, sir. We received their final report in February. We had several iterations of that. I do not believe the first one was received in 10 days. We gave them an extension. I cannot remember exactly how long.

Commissioner Zakheim. I see. Did you actually meet with anybody senior in KBR? Do you meet with senior people at KBR?

Mr. Williams. Yes, I have met with senior officials in KBR. In fact, shortly after the first Level 3 CAR was issued, we met with the CEO. We met with the president over the part of KBR that controls the contracts in Afghanistan and Iraq.

So, yes, we have met. I have not met with a senior official in KBR recently.

Commissioner Zakheim. So, you met with them, though, after the September 11th CAR.

Have they actually come up with a plan that does correct what the deficiencies were in your view?

Mr. Williams. Our opinion is that if KBR follows the plan that they presented to us in February, that it should correct these deficiencies. Again, it is a matter of follow-through, and we are keeping metrics to understand where they are and what they are doing.

We know that what they said they were going to do is increase the number of electricians, for instance. We know they have done that. We are tracking that.

We know that they have put in place a significant amount of training for their electricians in the theater. So we know those things are taking place. If they continue to follow that path with respect to that CAR, we believe that their corrective actions will be successful.

Commissioner Zakheim. Okay. Well, obviously, in order

to do that you need people, and you are all saying you are understaffed. One question I have is why can you not get people?

I mean the decision was made, for example, to get around the FAR. I think it was Commissioner Gustitus mentioned earlier. You did not do the 15 percent withhold, and you basically worked around the FAR. Why have you not worked around any of the regs to get more people? Is it OPM that is standing in your way?

What is the problem? I would like to hear from each of you.

This is not a new problem. It has been going on for, well, we have been in Afghanistan for eight years. So what is taking so long?

Mr. Parsons. Sir, I think that at least after having watched this for five years, that there is a combination of factors that we are suffering from. One gets on the predictability of the length of this conflict and do you add additional capability, additional people to your structure when you are not certain how long this ongoing action may take. So what has been constraining us is that while we have had dollars to hire temps and terms--

Commissioner Zakheim. Excuse me a second. Excuse me one second. You know when you say we are not certain, maybe in 2001 we were not certain. By 2003, 2004, when just about

every senior official and every senior general was saying it was going to take years, what uncertainty was there?

Nobody was saying it was going to end in a few months after about 2003 or 2004, and now we are in 2009. So what uncertainty?

Mr. Parsons. Sir, I think the Army has responded with what the increases that we are seeing now, and we are hiring additional people.

I can tell you the challenge that I am faced with. It is not my ability to bring entry-level people on board. It is the people at the mid-career who are your journeymen level, and we are all competing for those same journeymen, whether it is me for an 1102 as a contracting officer or Mr. Williams for an 1102 as an ACO. So our challenge right now is bringing on these new people, how do we get them the experience to be able to handle these complex actions.

Mr. Williams. Sir, if I might respond to that, the workforce issue is a grave concern of mine. In 1989, DCMA started as DCMC with 25,000 people, and since that point it has continuously gone down to a point where it is now at about 9,800. This year, we were very successful in walking into the Department and trying to present a very clear case that we have resource concerns. I believe that is why the Secretary has recognized in his recent statement the need to grow the acquisition workforce.

But I think Mr. Parsons makes a good point. These are skills that you do not create overnight. I would tell you one of the areas that we have a difficulty in is in the whole pricing area, and some of the things and concerns that I think we hear expressed is the need to have an adequate pricing capability in the Department, but you do not create those folks overnight.

So we have committed to growing our pricing workforce in DCMA in a very rapid fashion, but it is going to take some time to bring those kinds of skills into the organization and have them adequately do the work. So I think we are on the path to get there.

And, I think the other point I would finally make is it takes recognition that in the LOGCAP perspective it is a program, and it is a program that requires multiple skills multiple organizations to be a part of that. Once you recognize that, then you can understand what the full requirement is.

Commissioner Zakheim. Where do you get most of your people when you hire the specialists you are talking about? Do you bring them all in as sort of junior folks and train them or do you hire them, say, as retired military?

Mr. Williams. Well, in DCMA, it is a combination of both. We are hiring a significant amount of interns this year, about 300. We are also hiring some journeymen, but I

think the difficulty in journeymen, as Mr. Parsons said again, is that we are going to be competing amongst each other for those journeymen because we are all so under-resourced right now and now we have this big urgent need to bring in new folks. We are going to be competing.

So most of them come in as interns, but we have a large portion that we are trying to go out. For instance, in the pricing area that I communicated about, we are going to go hopefully to look to some of the organizations that are laying off folks across the Country, where they may have the skills that we need, and recruit individuals from those companies.

Commissioner Zakheim. Thank you.

Chairman Thibault. Thank you, Commissioner.

Commissioner Ervin. Thank you.

The key for me throughout is accountability. It seems to me that unless and until we hold contractors, not just KBR but all contractors, responsible for poor performance, we are going to continue to get poor performance. And so, a couple of questions for you, Ms. Stephenson.

You mentioned in passing at the end of one round that you have limited subpoena authority. Can you describe what the limits are?

In addition to that, what additional authorities would

you ideally like to have for DCAA to make sure that you get access in a timely fashion to the information you need, and then once you have that information, and you make audit recommendations, to have your audit recommendations stick?

Ms. Stephenson. A couple of things: Limited authority, I mean by that, our authority is limited to what several court decisions have previously termed to be accounting books and records. And, things such as management reviews, one court decision found were outside DCAA subpoena authority because a management review, such as the tiger team review that was mentioned earlier, would have been outside of that limited authority as interpreted by a court decision that was made in 1995.

If I were to change anything, what I would like it to be changed to is that DCAA has subpoena authority to get any documents, records, analysis, management reviews that it feels is necessary in order to carry out the contract audit function for the Department.

Commissioner Ervin. Thank you.

We are talking. We have been talking now for a couple of hours about a number of not just historical problems with KBR but ongoing problems. In your judgment, should KBR, given these ongoing problems, be allowed to bid on work under LOGCAP IV?

Ms. Stephenson. That is a very difficult question for

me to answer because I only know the cost aspect of it. I do not know the technical aspect of it, and so I am not really in the position as Director of DCAA to say whether a contractor should or should not be awarded a contract.

I can say they have serious deficiencies in their system that need to be given the proper weight when awarding future task orders on LOGCAP IV.

Commissioner Ervin. Do the three of you have comments about that?

Mr. Parsons. Sir, I do not disagree with what Ms. Stephenson said, and I can assure you that all of these issues will be considered in the task order competition in LOGCAP IV.

As I have mentioned, we have awarded eight task orders. KBR got one of those task orders, but that was just for the basic program management. The other, the contracts we have competed or task orders in Kuwait and Afghanistan have gone to DynCorp and Fluor.

Commissioner Ervin. One question, one final question, there is, of course, re-basing going on in Iraq and also moving out of equipment. Is there a commitment to ensure that all of that work going forward is done under LOGCAP IV rather than LOGCAP III?

Mr. Thompson. No, there is no commitment to that. What I mean by that is we are meeting. In fact, I go back

over on the 17th, a review by the general officers and the staffs in the planning process. Depending on the time frame that we do because KBR, in LOGCAP III, they are required to close out their bases if they are providing services there, and they are also, the equipment they have, to move that equipment. So we would not necessarily compete that under LOGCAP IV because we are holding them accountable for that.

So, as we move towards and we get the basing decisions, which I believe is going to mid-May, then we will be able to take a look at that to see what we can in fact do because all of this is driven on, as I said, the conditions and then the theater commander.

Commissioner Ervin. A final question if I may, given that the award and base fee structure under LOGCAP III resulted in half a billion dollars to KBR, why was the decision made to have a more generous award and base fee structure under LOGCAP IV?

Mr. Parsons. [Off microphone.] Could you repeat that again?

Commissioner Ervin. Yes, under LOGCAP III, the base and award fee ultimately resulted in \$500 million for KBR, which to me is a lot of money, and yet there is a more generous award and base fee structure under LOGCAP IV. Why was the decision made to have a more generous fee structure under LOGCAP IV than III?

Mr. Parsons. The way the fee structure is under LOGCAP IV is the offerors propose that at the individual task order level. So there is no overall percentage dictated in the contract other than a combination of proposed base fee and award fee cannot exceed 10 percent. But each task order, each of the offerors will propose a base fee and an award fee for that particular work.

Commissioner Ervin. But it can be as high as 10 percent as opposed to LOGCAP III where the maximum was 3 percent. So why is there a contemplation of a more generous arrangement under LOGCAP IV than III?

Mr. Parsons. Well, sir, the Federal Acquisition Regulations state that we are supposed to design our contract strategies in a way that will incentivize contractors to perform and do the work effectively, and that has to do with proportion, out the risk, which is a combination of a contract type and the fee.

What we believe is let the competitive environment drive that fee percentage on what the offerors think are reasonable, and then as a result I think we are going to find a better overall value in terms of performance, including cost to the Army, to the government.

Commissioner Ervin. Do you expect the award fee in the end will be less than it was under LOGCAP III, under LOGCAP IV? Is that your expectation?

Mr. Parsons. Sir, I do not think that the award fees will necessarily be less, the fees that will be proposed. We have seen some fees that have been proposed under the new task orders that are greater than what we have seen under the LOGCAP III, but at the same token we believe that the competition has indicated to us that there is a measure of better cost control and better cost estimating that we are seeing.

Commissioner Zakheim. Mr. Chairman, can I ask for a clarification on something?

Chairman Thibault. Please.

Commissioner Zakheim. Mr. Thompson, when you were talking about just now answering Commissioner Ervin about LOGCAP III in Iraq, does the contract bind you to go to KBR to remove things or is that simply a choice that the Army is going to make, but you could clearly go to LOGCAP IV if you wish to?

Mr. Thompson. No. It is clearly the Army's decision on that.

What I meant by mine is we have to--again, accountability of property--transfer the property. If we are going to transfer to LOGCAP IV, the property that is in their hands, in Iraq, correct me if I am wrong, I think it is about \$3 billion, 650,000 lines of property that we have to transfer.

So we have to look at each base and each instance and then make that decision, whether it is smarter for the Army to compete and move a base or the equipment to LOGCAP IV.

Mr. Parsons. If I could just add, sir, the theater has committed to moving well in excess of a billion dollars of existing requirements in Iraq over to LOGCAP IV. As Mr. Thompson alluded to, the place where we are still working with theater is on the base life support and exactly what will be left in Iraq as we draw down and what would be appropriate to put onto LOGCAP versus, as Mr. Thompson earlier mentioned, might go to local contractors through the Joint Contracting Command.

Mr. Thompson. Right, and I have to say that what we are talking about is kind of classified. So we would be happy to address that in a closed session.

Chairman Thibault. Thank you. We may well take you up on that.

Batting cleanup is Commissioner Shays.

Commissioner Shays. No, not batting cleanup but being able to hear great questions from my colleagues and, frankly, very candid answers from our witnesses. I feel like you are trying to help us understand this. We may not like some of your answers, and you may not like some of your answers, frankly, but I feel like there can be a very constructive effort for you to help us help you.

Real quickly, I just want to ask you, Ms. Stephenson, would it be wise for us to have you have more than just an advisory role?

And, when you make a point about a deficiency with a contractor, should the military be able to just kind of act like they did not read your finding? Should they be required to justify that, notwithstanding, we still decided to do business with this group because?

I need a candid answer. Would it, in your judgment, help the process for your role to be more than advisory?

Ms. Stephenson. I think from the advisory role that is not so much the issue because we do need to maintain our independence under the auditing standards.

I think the issue is accountability in dispositioning our findings and in whether there is an accountability within the acquisition regulations to have a process to adequate disposition them. I think that was part of the report that was issued on the contract audit follow-up system recently that talked about somewhat of a breakdown in that accountability system for the dispositioning of the findings.

To make DCAA findings mandatory, I am not sure that we necessarily want to go there either because that could have the unintended consequence of DCAA not getting into the gray issues, not putting issues on the table that may result on

50 cents on the dollar or 70 cents on the dollar.

Commissioner Shays. Thank you. I think your answer is very helpful.

With regard to subcontracting, would you, Mr. Thompson, be able to tell me--I mean it has been a matter of public record but for this hearing--how much of the dollars spent goes to a subcontractor versus the prime?

Mr. Thompson. I do not have the numbers with me but an average, all three countries that we have, it is 23 percent. But if we look at it, about less than 1 percent goes to subcontracting in Afghanistan, I believe it is 18 percent in Iraq, and I cannot remember the Kuwait number, but I can get that for you.

Commissioner Shays. In the last two years, 18 percent? Not 20? Not 30? Not 40? Not 50?

Mr. Thompson. Right. For that, let me make sure I get the record straight on that.

Commissioner Shays. Well, whatever the number is, I think it is pretty high.

What I am wrestling with, and maybe you can help me sort this out, is we have a cost-plus to the prime and primes can have a fixed to their sub. It seems to me the incentive is perverse because you would want to have the prime. I mean the prime would want the sub's cost to be up higher. Does that not seem a little perverse?

Mr. Thompson. By the way you just explained it, yes, it seems perverse, but certainly the business that we deal with and with the prime and then the subcontract, again, not having privity to them.

Commissioner Shays. Yes, but that gets to the next point. There is the concept of privity of contract. The government's relation is with the prime. Given that it is a cost-plus contract, and I am struck by the fact that we have to go through the prime in even this committee to get information from the sub.

Mr. Thompson. Right.

Commissioner Shays. It seems to me like we have designed the system to have inherent and wasteful cost by allowing that to happen.

Mr. Thompson. Well, I think I would defer to Mr. Parsons, but I would think that is why we have--I understand your point, but that is why with DCAA and DCMA to go look at and scrub these costs to get the visibility we need.

Commissioner Shays. I see you nodding your head. So, Mr. Parsons, you are in agreement.

Mr. Parsons. Sir, I think that there are controls in place, although again I am somewhat disturbed that we apparently have estimating system issues with KBR still at the subcontract, but we do have a consent-to-subcontract provision in the contract. I believe all subcontracts over

\$250,000 are reviewed by somebody in the government before we give KBR the nod to go ahead and issue that subcontract, and the system reviews that take place should give us some element of control to make sure that those costs are being adequately addressed.

Commissioner Shays. One of the things I am going to recommend to my fellow Commissioners is that we meet in public forum every few months because I think it is important for us to wrestle with this publicly.

I will just conclude by saying I am struck by the fact, and it seems logical in one way but again not wise, the military to me does not seem to care about the cost as long as they get the service, and in the heat of the battle the service matters hugely. But it seems like we have developed a system that the major contractors know that we are going to be less focused on cost than on service, and it seems to me we have to have the proper balance.

And, it seems to me that if you have particularly a single vendor, we have the concept of too big to fail. We are wrestling with the question: Well, should it be inherent? If it is such an important mission, should it be a government responsibility?

What happens to the mission if KBR, for instance, goes on strike? KBR gets the soft touch because of operational support from area commanders. This may seem a little trite,

but this was a candid comment I am told by Senator McCaskill. She was told by the military: I want my soldiers to have flavors, many flavors, eight flavors of ice cream. I do not care what it costs.

In a sense, I am not belittling it because you want them to have everything they possibly can have, but in the end we may have a system where the wrong people are having to make the decisions.

I really thank my colleagues for this hearing.

Mr. Chairman, I just want to say I am in awe of how you and your team have put together a group of staff and begun this effort from scratch. It is very impressive.

Chairman Thibault. Well, we all thank you, and we have wound down to a very productive hearing.

On your point, I did hear a consensus that I would like to put on the record, that Mr. Parsons and Mr. Thompson will quickly bond with Ms. Stephenson relative to that failed system that DCAA has reported and figure out the implications. I see a nodding, so I seek an agreement.

A productive hearing, thanks to all. As you know, the Commissioners will be submitting questions for the record. The record will be open 14 days. We will get those to you.

Just before I say we are adjourned, Mr. Shays, Commissioner Shays, all our new partner, my Co-Chair, is going to the same airplane that both Mr. Parsons and Mr.

Williams are going to. So, if one of you has a means of transportation, he is on the same flight. He might be really grateful, and I think it is within any ethics guidelines.

So, thank you, all of you.

[Whereupon, at 1:34 p.m., the Commission was adjourned.]