United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

MEMORANDUM REPORT

SUBJECT: Evaluation of the Logistics Civil Augmentation Program for Embassy
                    Baghdad, Report Number MERO-A-10-12

Background

In June 2004, the Department of State (Department) signed a memorandum of agreement
with the Department of Defense (DOD), under which the Logistics Civil Augmentation
Program (LOGCAP) contract, through the contractor Kellogg Brown & Root (KBR),
would provide logistical services to support embassy operations within Baghdad's
International Zone. The initial agreement called for the Department to reimburse DOD
for 60 percent of the costs of the contract based on the estimated Department's share of
the supported embassy population under what became task order 151. In October 2007, a
second memorandum of agreement was signed, changing the Department's cost share to
40 percent based on the population level at that time. The Department reimbursed DOD
$738.3 million from FY 2005-2009.

Management officials, both in the Bureau of Near Eastern Affairs and at Embassy
Baghdad, are responsible for ensuring that management and internal control systems are
in place for all areas of operations, including LOGCAP. The Foreign Affairs Manual
(FAM)[1] requires that all Department managers establish cost effective systems to ensure
that U.S. Government activities are managed effectively, efficiently, and economically.[2]
The FAM also requires that expenditures applicable to agency operations are recorded
and properly accounted for to prepare accounts and reliable financial and statistical
reports.

The Middle East Regional Office (MERO) of the Office of Inspector General (OIG)
initiated this performance evaluation in June 2009 under the authority of the Inspector
General Act of 1978, as amended.[3] OIG's primary objective was to determine whether
the Department of State effectively managed the LOGCAP contract in Iraq. Specifically,
the evaluation examined: 1) funding obligated and expended for LOGCAP for FY 2005-

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[1] 2 FAM 020, "Management Controls," including 2 FAM 021.1a.-d., "Policy and Scope"
[2] 2 FAM 021.1b.
[3] 5 U.S.C. App. 3

2009; 2) how the Department ensures that costs are properly allocated and supported; and 3) how the Department monitors the contractor(s) to ensure work requirements are being achieved.

To meet these objectives, OIG interviewed Department officials from the Bureau of Near Eastern Affairs, the Bureau of Administration's Office of Logistics Management, and the U.S. Army Support Command, including the executive director of the Logistics Civil Augmentation Program in Fort Belvoir, Virginia, and the procurement contracting officer at the U.S. Army Garrison Rock Island Arsenal in Illinois. At Embassy Baghdad, OIG interviewed the contracting officer's representative and personnel from the Defense Contract Management Agency including the administrative contracting officer and quality assurance representatives. OIG also interviewed KBR management and obtained documentation relating to financial transactions, food service, maintenance, and fuel.

OIG conducted this evaluation in accordance with the quality standards for inspections and evaluations issued in January 2005 by the Council of Inspectors General on Integrity and Efficiency.

Results

Allocation and Support of Costs

LOGCAP cost expenditure data does not provide the Department with sufficient information to ensure costs are properly allocated and supported. Although KBR could provide cost expenditure data with enough detail to accurately allocate costs between the Department and DOD, the Department has not asked KBR to supply such data in a useable format. This lack of detailed data has adverse consequences, including hindering the ability of the Department to determine whether contractor staffing levels are commensurate with the workload and to detect instances of waste or fraud.

The cost expenditure reports include information by service areas, known as work breakdown structures, and broad functional categories such as labor, equipment, and materials related to multiple activities. According to the administrative contracting officer and KBR officials, current cost reporting focuses on the "burn rate" or the tempo at which actual expenditures match planned expenditures over the course of the contract's performance period. As a result, as currently reported, OIG was unable to determine the cost of performing specific functions and whether costs incurred by the Department are properly allocated and supported.

Cost reports need to be presented in shorter, more meaningful time increments, rather than for the entire contract performance period. The cost data also needs to more directly reflect the actual provision of a service. For example, OIG analyzed automated records of those who ate in embassy dining facilities and found food service costs could be identified and allocated by individual U.S. Government civilian staff member, military

personnel, or contractor. Similarly, vehicle maintenance costs could be allocated to individually assigned vehicles and then summarized by agency. Finally, fuel consumption costs could be identified by distribution to generator storage tanks or individual vehicles, and allocated by the agency of ownership.

When OIG reviewed food services, equipment and facilities maintenance, and fuel operations, the team was unable to make definitive conclusions because of a lack of available data. For example, in food services, KBR's headcount records from meals consumed do not match dining facility account records, and OIG was unable to reconcile the difference. These discrepancies suggest that in FY 2009 there were $2.23 million in unsupported food costs.[4] OIG plans to schedule follow-on evaluations of some of these areas.

Food Services

In an attempt to determine the cost of meals served, OIG examined two sets of KBR records. The first set of records, the dining facilities' monthly account status reports, include the cost of food consumed and the headcount, which indicates how much food should have been consumed. The second set of records summarized manual and automated headcounts for the year. When comparing headcounts in the two sets of FY 2009 records, OIG discovered a discrepancy between them, but was unable to determine which set was correct. If the monthly account status reports are accurate, OIG calculated $2.23 million in unsupported costs. OIG attempted to determine the reason for the $2.23 million discrepancy, but was unable to do so. The monthly account status reports did not agree with the summarized actual headcounts and more importantly, although OIG requested them, KBR did not provide separate manual headcounts for the main dining facility. An examination of both manual and automated headcount entries would have shown whether the summarized headcounts or the monthly account status reports were correct. Manual headcount sheets account for 60 percent of the total headcount at the main embassy dining facility. If the monthly account status reports are accurate, the food service portion of the LOGCAP contract is 18 percent overspent, which exceeds the 3 percent allowable limit.

OIG found that Embassy Baghdad contributed to the lack of accurate information on food service operations in three ways. First, the embassy has enforced policies for logging attendance at "Grab-n-Go" snack areas that inaccurately inflate the amount of money spent on food, resulting in $970,000 in excess expenditures. Second, personnel stationed at dining facility entrances have not enforced rules on who was eligible to eat at the dining facility, resulting in an undetermined number of unauthorized patrons. Third, although the contract requires the embassy to use an automated system for headcount

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[4]The Inspector General Act of 1978, as amended, defines an unsupported cost as "a cost that is questioned by the Office because the Office found that, at the time of the audit, such cost is not supported by adequate documentation." [5 U.S.C. App. § 5(f)(2)]

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data, manual headcount sheets comprise more than 80 percent of the total headcount, making it difficult to allocate costs.

Grab-n-Go Snack Area Procedures

Under the LOGCAP contract, the embassy sets the food cost ceiling; in this case, the embassy set a ceiling of $20 per person per day.[5] KBR operates four dining facilities and three snack areas, known as Grab-n-Go's, at the embassy chancery and annexes 1 and 2. The Grab-n-Go's serve tea, coffee, and cold beverages as well as cereal, cold sandwiches, cookies, yogurt, and other snacks. The annex 1 Grab-n-Go also serves hot food and a wide selection of desserts. In 2009, the embassy management office distributed several management notices and placed signs requiring all patrons to sign in at the Grab-n-Go's during every visit. Figure 1 shows a notice that was published in the embassy's Tigris Times newsletter, which reads, "The headcount scans are used to justify our existing expenses, not increase them."

Figure 1: Newsletter Grab-n-Go Sign-in Reminder

Source: Tigris Times newsletter, September 15, 2009

The message in Figure 1 is technically correct. KBR charges the government for the cost of preparing the food, not for each meal served. Dividing the cost of the food prepared by the total recorded headcount yields the daily plate cost, or the allowable amount that can be spent on food. If a person scans his or her identification (ID) card more than three times a day it raises the headcount and hides the true plate cost.

The OIG team conducted a sample analysis of electronic headcount data for July and August 2009. The data consisted of approximately 154,000 recorded ID card scans. Each

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[5] Allowable plate cost is $4 for breakfast and $8 for all other meals including the midnight meal.

record included the meal, location, personnel category (i.e., military, civilian, or contractor), first and last name, and the date and time of scan. OIG summarized the information using a database and determined that 132,000 scans were for breakfast, lunch, dinner, or the midnight meal; and 22,000 scans were from individuals scanning their ID cards more than once during a meal period. It was not uncommon to see 6-8 scans per individual for the same meal period. One person scanned his card 25 times in two days. For example, eating lunch at 12:00 p.m. and then scanning or signing in at 3:00 p.m. for a cup of coffee would result in nearly $8 more in actual meals. OIG calculates the current embassy policy inflates the reported plate cost by 16 percent. Furthermore, the total excess Grab-n-Go headcounts account for $970,000 of the $14.8 million food service earnings reported for FY 2009.

Verifying Authorized Dining Facility Patrons

Under the LOGCAP contract, the embassy is responsible for providing staff to ensure and document that only authorized personnel are using the dining facilities. The embassy delegated this responsibility to KBR personnel. However, the OIG team found that KBR staff members have only been ensuring that incoming patrons sign or scan in upon entering and have not been not verifying their eligibility or discouraging unauthorized patrons from entering. According to the administrative contracting officer and KBR officials, the task order language precludes KBR personnel from enforcing (or reminding people of) dining facility eligibility rules.

Embassy management officials indicated that an undetermined number of unauthorized people have been eating in the dining facilities. Unauthorized patrons include contractors, family members of locally employed staff, and official visitors eating without prior coordination. OIG's review of headcount data revealed that nearly 80 percent of the patrons at the four dining facilities are contractors. According to embassy officials there are over 240 contractors, including personnel from KBR, Triple Canopy, and DynCorp, working at and supported by the embassy. A number of these contractors are authorized to use the dining facilities, while others are supported under separate food service contracts. Compounding the problem is the lack of an up-to-date registry of those who are authorized to receive food service support under the LOGCAP contract. The OIG team reviewed the Table of Population (an appendix to task order 151), which is supposed to list organizations eligible for food service support. The team found the table was out-of-date with listings of organizations ranging back to 2006-07.

Automated Headcount Records

Although task order 151 requires the Department to use an automated system to track and account for meals served, the embassy does not fully utilize an automated system. OIG's review of available data indicated that 81 percent of the headcount at the four dining facilities was entered on manual headcount sheets. Tallying manual headcount sheets on

a daily basis is labor intensive and time consuming. Using an automated system would be the most accurate means of allocating the headcount between the Department and DOD.

The U.S. military uses an automated headcount system called the Joint Asset Movement Management System (JAMMS). This standard system uses scanners to capture bar-coded identification information from controlled access cards (CAC), passports, and bar-coded letters of authorization. All direct-hire civilian and military personnel deployed to Iraq, including personal services contractors, are issued CACs to sign in when entering dining facilities. The JAMMS headcount system will accept any type of bar code. The embassy could issue locally produced ID cards to personnel who are not issued CACs, but would have to coordinate with the military's JAMMS contractor to ensure the locally produced ID card numbers were properly recorded in the system. If properly managed, embassy-produced local ID cards could greatly reduce the number of manual headcount sheets needed and facilitate the proper allocation of costs.

Monitoring of Contractors

Staffing Issues

According to OIG's review of LOGCAP expenditure data, KBR direct-hire employees and KBR subcontractor staff members account for more than 75 percent of the contract's costs. In the food service area alone, subcontractor and labor costs account for 98 percent of reported costs. According to officials from the Defense Contract Management Agency, the administrative contracting officer is responsible for setting work requirements and assigning specific tasks; it is KBR's responsibility to determine how best to carry out the tasks. It is noteworthy that the LOGCAP contract is a cost-reimbursement contract,[6] and KBR's award fee is based upon customer satisfaction and quality of service, not controlling costs. According to embassy officials knowledgeable about the LOGCAP contract, there has been no effort to ascertain whether KBR's staffing levels are appropriate relative to work requirements for at least 3 years.

In an attempt to determine the appropriateness of KBR staffing levels, OIG conducted an examination of available vehicle maintenance data. OIG compared the total number of mechanic hours included in the database to the number of listed mechanic badge numbers and determined that the average mechanic worked 88 hours per month on maintenance tasks. The database may have included periods when some mechanics worked only part of the month, due to home leave or other departures from Iraq. However, this analysis suggests that the number of mechanics could be reduced.

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[6] Federal Acquisition Regulation, Subpart 16.301-1 states, "Cost-reimbursement types of contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract. These contracts establish an estimate of total cost for the purpose of obligating funds and establishing a ceiling that the contractor may not exceed (except at its own risk) without the approval of the contracting officer."

The LOGCAP contract has been the subject of more than 40 audits from oversight agencies such as the U.S. Government Accountability Office, the U.S. Army Audit Agency, and the Special Inspector General for Iraq Reconstruction. The audits generally concluded that the LOGCAP contract successfully provided support for U.S. Government overseas contingency operations but frequently recommended controlling costs, especially reducing contractor personnel costs. In the coming year, OIG plans to examine workforce levels more closely in a number of LOGCAP service areas.

Conclusion

The LOGCAP logistical support contract at Embassy Baghdad is complex, involving a variety of services and tens of millions of dollars of labor and materials. Once the U.S. military leaves Iraq, the embassy will be required to establish and manage its own services contracts. Success in procuring follow-on stand alone support contracts will be based on capturing accurate and pertinent cost information while the current LOGCAP contract still exists. Additional efforts to obtain such information will help the Department reduce costs while LOGCAP remains operational and can serve as the basis for increased cost control for follow-on support contracts.

Recommendations

Recommendation 1: Embassy Baghdad should request that the administrative contracting officer issue a letter of technical direction to KBR requiring the preparation of cost reports that provide additional information to allow the embassy to establish an accurate baseline for allocating expenditures. (Action: Embassy Baghdad)

Recommendation 2: Embassy Baghdad should request that KBR electronically provide all FY 2009 headcount documentation for the main dining facility to determine whether the monthly dining facility account status reports or the summarized headcount information is accurate. (Action: Embassy Baghdad)

Recommendation 3: Embassy Baghdad should discontinue the policy requiring Grab-n-Go patrons to scan their identification cards or sign-in each time, unless the food being consumed is a substitute for a breakfast, lunch, or dinner meal. (Action: Embassy Baghdad)

Recommendation 4: Embassy Baghdad should request that the administrative contracting officer issue an administrative change letter allocating the cost of KBR personnel assigned to take headcounts solely to the Department and requiring those personnel to verbally enforce written embassy policies against unauthorized dining facility use. If the administrative contracting officer determines that KBR cannot do so, the embassy should designate personnel who can enforce these policies. (Action: Embassy Baghdad)

Recommendation 5: Embassy Baghdad should maintain an up-to-date list of contractors and individuals authorized to receive support under task order 151 of the Logistics Civil Augmentation Program. (Action: Embassy Baghdad)

Recommendation 6: Embassy Baghdad should create a locally produced bar code identification card for authorized dining facility patrons and coordinate an agreement with the U.S. Army to expand the use of the Joint Asset Movement Management System in accounting for meals served. (Action: Embassy Baghdad)

Management Comments and OIG Response

Embassy Baghdad provided written comments on a draft of this report. In its comments on food services, the embassy noted that KBR charges the U.S. Government for the cost of food and beverages consumed, not for the number of meals. The embassy asserted that current polices requiring multiple scans per person per meal period resulted in a decrease not an increase in the Basic Daily Food Allowance (BDFA). As a basis for its policy on multiple scans, the embassy cited the Department of the Army Pamphlet, DA Pam 30-22, "Operating Procedures for the Army Food Program," of February 6, 2007, which states, "personnel entering a traditional service dining facility, while on duty, will sign the appropriate form…regardless of whether a full meal or only a portion of a meal is consumed." OIG notes the embassy is misinterpreting the BDFA which represents the *allowance per person per day* that can be spent on food. Paragraph 3-43 of DA Pam 30-22 requires allocating 20 percent of the BDFA to breakfast and 40 percent each to lunch and dinner. There is no provision for persons eating more than three meals per day. Multiple scans per person per meal period result in overstating the number of people eating, which appears to increase the amount of money that can be spent on food. KBR is spending as much on food as the inflated headcount allows, resulting in excess costs. If the headcount were not inflated, KBR would keep food costs within the amount authorized per person per day.

The embassy contended that KBR is not permitted by contract or administration policy to screen for unauthorized dining facility visitors, including U.S. Government personnel, because it is an inherently governmental function. The embassy further stated that no U.S. military personnel are to be denied service at any LOGCAP facility. OIG notes that embassy officials indicated that unauthorized diners, which included contractors and third-country nationals, were a recognized problem. OIG recommended that only unauthorized personnel be turned away. The Army pamphlet DA Pam 30-22, states, "each individual entering the dining facility will be identified to determine meal entitlement, whether authorized to eat free or if he/she must pay cash for the meal." If the administrative contracting officer determines that KBR cannot screen for unauthorized diners, the embassy should implement another means of verifying eligibility. OIG has modified Recommendation 4 accordingly.

Embassy Baghdad's comments are included verbatim below.

MERO Draft Report - LOGCAP for Embassy Baghdad

Embassy Baghdad Management Section comments on report:

Page 3, Food Services:

The description of accounting at the Grab-and-Go facilities in the report is not completely accurate. Responses from the contractor to requests for information about their accounting procedures have varied somewhat, but the actual procedure is as described below.

As noted in the draft report, the Government is not charged by how many meals are consumed each day; the charge is based on the amount of food consumed, and the headcount (via scanners/ sign-in sheets) is used primarily to aid in that determination, and in the determination of the Basic Daily Food Allowance (BDFA). The headcount provides information on the number of patrons (within a range), which KBR then uses internally to assist them in reordering/restocking the facilities, not for billing purposes.

The BDFA is a goal that KBR attempts to meet via their food ordering process, it is not a method for determining payment to the USG. The headcount being used to help calculate the BDFA follows normal military procedures and is fully in-accordance with U.S. Army standard operating procedures (see reference below), which the Embassy DFAC attempts to emulate.

So while an effect of the current procedure could be the BDFA incorrectly skewed for a person who made multiple visits, this would result in a decrease in the BDFA, not an increase (the increased number on the headcount compared to the food consumed). Similarly, a person who entered the DFAC and only took a cup of coffee would decrease the BDFA because of the reduced amount of food consumed in that one visit compared to the expected amount of a full meal.

And while a large number of repeat visits for small items (coffee, cokes, snacks, etc.) could theoretically cause an increase in the amount of food ordered, there is not a per-meal charge, so this would not result in any direct added cost to the government. Additionally this would be a secondary effect at most, as the food is ordered based on inventory at the main DFAC warehouse, not based on what is consumed at the Grab n Go's).

[Ref: DA PAM 30-22 Appendix D (Standing Operating Procedures for Headcounters), D-2 Admission to dining facility:

- Each individual entering the dining facility will be identified to determine meal entitlement…All diners will be required to sign the appropriate form. This includes all members of the food service preparation staff and other contract personnel. All personnel entering a traditional service dining facility, while on duty, will sign the appropriate form…**regardless of whether a full meal or only a portion of a meal is consumed.]**

Regarding the recommendations section, and page 5 of the report ("Verifying Authorized Dining Facility Patrons"), unfortunately KBR is not permitted by the LOGCAP contract (and per White House policy), to perform "inherently government functions," which we believe would include interpreting the rules and determining which USG employees were eligible to access the DFAC and which were not.

Additionally, LOGCAP guidance (as well as that from U/S Kennedy (M)), is that no U.S. military personnel will be denied service at any LOGCAP facility.