

FINAL RECORD VERSION

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BEFORE THE

**SUBCOMMITTEE ON CONTRACTING OVERSIGHT
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE**

ON CONTRACTING EFFORTS IN AFGHANISTAN

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Introduction

Chairwoman McCaskill, Senator Bennett, and distinguished members of the Subcommittee on Contracting Oversight: Thank you for this opportunity to discuss contracting operations in Afghanistan. We are proud to represent Army leadership, members of the Army acquisition and contracting workforce, and our Soldiers who rely on us for timely and efficient materiel, supplies, and services in support of expeditionary operations. In U.S. Army contracting operations worldwide, we strive to be agile, expeditionary, and responsive to our warfighters, while ensuring proper fiscal stewardship of taxpayer dollars. Our progress has been steady and significant even though expeditionary military operations have placed extraordinary demands on the contracting system and our contracting support personnel.

We appreciate the support by Members of this Subcommittee and other Members of Congress as we continue to rebuild the acquisition and contracting workforce to handle the increasing workload in the number of contracted actions and contracted dollars. Since the mid-1990s, the acquisition workforce (of which contracting officers are a critical part) declined substantially while the contracts awarded and the number of dollars executed increased significantly, in excess of 500 percent. In 2008, for example, the Army awarded 571,000 contracts with a value of approximately \$165 billion. This equated to 25 percent of every Federal contract dollar put on contract. The Army contracting workforce numbers were 55% of what they were in the mid-1990s.

With support from Congress the Army is on a path to grow its contracting workforce which had been dramatically reduced over many years. However, the time it takes to grow capable contracting professionals is measured in years, not months. The level of experience required to be able to adequately perform the complex contracting functions we demand of our

contracting professionals generally is attained after about 6-8 years of school training combined with hands-on, work experience. We still have an uphill climb in meeting our goal of increasing the contracting workforce and ensuring that the quality of our professionals is first rate so that we can support the Soldier while at the same time ensure that we are wise stewards of the taxpayers money. We are aggressively working to reverse the 15 years of dwindling authorized strength levels as well as to restore the skill level of the contracting workforce to enable it to deal with the growing complexities of contracting.

The Army – with the help of Members of Congress and the Office of the Secretary of Defense – is making progress to address these workforce/workload issues for both “expeditionary” and enterprise order contracting operations. We are assisted by recommendations contained in the report, *Urgent Reform Required: Army Expeditionary Contracting* dated October 31, 2007, by Dr. Jacques Gansler and Members of the Commission on Army Acquisition and Program Management in Expeditionary Operations.

In meeting the need for an increase in the number of military and civilian personnel in the Army contracting workforce, Congress also authorized (Section 503(a) of the National Defense Authorization Act for Fiscal Year 2009) five additional General Officer (GO) billets in the Active Component designated for acquisition. I would like to give you a quick status of these billets. Contracting Major General Promotable Bill Phillips will shortly turn over command of the Joint Contracting Command – Iraq/Afghanistan and move to the position of Principal Military Deputy to the Assistant Secretary of the Army for Acquisition, Logistics and Technology, a three star billet. BG Camille Nichols will shortly be taking command of the Joint Contracting Command - Iraq/Afghanistan. Colonel Promotable Joe Bass is the current Commander of the Expeditionary Contracting Command who just replaced Brigadier General

Nichols. The Army had already established the two-star U.S. Army Contracting Command as part of the U.S. Army Materiel Command and one-star billets in the Expeditionary Contracting Command and Mission & Installation Contracting Command – two billets now filled by soon-to-be General Officers. The two remaining billets are the Military Deputy for Contracting in the U.S. Army Corps of Engineers and an acquisition (contracting) GO in the Deputy Assistant Secretary of the Army for Procurement. These positions are currently not filled.

While taking actions to improve contracting in “expeditionary” operations, the Army is also improving our “institutional” contracting functions. This holistic focus on Army contracting across the board is ensuring we attract and retain additional military and civilian contracting professionals, as well as provide them with career development opportunities and the proper training and tools required to meet the increasingly complex demands being placed on them.

Joint Contracting Command - Iraq/Afghanistan

In 2004, the Army Project and Contracting Office was established to support the humanitarian relief efforts in Iraq. In 2006, the various contracting offices operating independently in Iraq were brought under the Multi-National Forces-Iraq (MNF-I) Command, and Joint Contracting Command - Iraq/Afghanistan (JCC-I/A) was established by a U.S. Central Command Fragmentary Order to support *Operations Enduring and Iraqi Freedom*. The JCC-I/A is authorized to contract for-other-than military construction and the Commander's Emergency Response Program (CERP). The JCC-I/A mission does not include reconstruction of Afghanistan because that mission is assigned to the U.S. Agency for International Development in the U.S. Department of State. The JCC-I/A does, however, have a direct role in developing the economy of Afghanistan. Through the "Afghan First" program, since October 1, 2008, and in direct support of the warfighter, JCC-I/A has allocated approximately \$1.8 billion to

businesses in Afghanistan. Of particular importance, the JCC-I/A allocated more than \$11 million to Women-Owned Businesses in Fiscal Year 2010. In addition, JCC- I/A supports Afghan Security Forces Funding (ASFF) programs, which are managed by the Combined Security Transition Command-Afghanistan (CSTC-A). ASFF programs include construction and build-up of Afghan National Security Force posts throughout the Combined Joint Operations Area.

With respect to contract funding, the JCC-I/A accepts requirements and funding from customers. Acquisition Review Boards assess the validity of requirements and approve funding before submitting to JCC-I/A contracting organizations for procurement action. Upon receipt of a funded requirement and prior to contract award, the contracting officers ensure the proper type, year, and amount of funding available.

In support of the President's decision to send an additional 30,000 U.S. troops to Afghanistan, the Commander JCC-I/A is updating his mission analysis to provide contracting support for the surge. JCC-I/A is assessing its current resources, locations, and personnel; participating in Task Force and above planning meetings; and forecasting future resources, location, and personnel requirements. JCC-I/A has liaison officers co-located with U.S. Forces-Afghanistan and other Headquarters throughout theater who are working closely with the Battlefield Operating Systems-Integrators to ensure planning for surge requirements is as accurate and timely as possible.

ASA(ALT) is engaged with the JCC-I/A daily as the senior support staff to provide support. In order to accomplish this the Joint Theater Contracting Support (JTCS) office has been established under the DASA(P) in Washington. Its sole mission is to provide support to the JCC-I/A so that the JCC-I//A is fully funded, manned, and supported in its contingency

contracting mission. The JTSC was key to synchronizing a surge of 53 additional military and civilian contracting professionals to theater so that the JCC-I/A could adequately support the surge of forces into Afghanistan ordered by the President early this year. The JTSC is all the more critical as we continue planning to support the decision to deploy 30,000 more personnel into Afghanistan.

The DASA(P) is actively engaged in finding ways to leverage stateside contracting capabilities to augment the JCC-I/A contracting mission that directly supports the warfighters. The Army has established a “Reach-Back” contracting office as a center of excellence at the Rock Island Contracting Center in Illinois. The Army Contracting Command, JCC-I/A, and DASA(P) are aggressively involved in identifying requirements in theater that can be performed at Rock Island. The Army and Air Force have initiated a plan to provide Air Force contracting officers at Rock Island as part of the Reach Back Team. The Army has established a JCC-I/A specific Contract Closeout Task Force Office now in the process of closing 80,000 contracts written by the JCC-I/A.

Logistics Civil Augmentation Program

The Logistics Civil Augmentation Program (LOGCAP) is an initiative by the U.S. Army to pre-plan during peacetime for the use of civilian contractors to perform selected services in wartime and other contingencies to augment U.S. forces in support of Department of Defense (DoD) missions. LOGCAP can also provide support to other U.S. military services, coalition and/or multinational forces, and other government/non-government agency components in support of joint, combined, coalition and multinational operations. This includes operations other than war, such as 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.

For a good understanding of the current LOGCAP IV contract, let us briefly review the history of the contracts that have supported the program.

In 1992, the Army competitively awarded the first multifunctional logistics support contract, now known as LOGCAP I, to Kellogg Brown and Root (KBR). This contract was established as a force multiplier with a wide-range of logistics services. The LOGCAP I contract was used in support of military operations in Somalia, Rwanda, Bosnia, Haiti, and East Timor and ended with a value of \$811 million over the five years of the contract.

In 1997, the Army awarded a follow-on contract, LOGCAP II, to DynCorp Service, Inc. The demand for LOGCAP services during this time frame was fairly low, with relatively small efforts performed in Panama, Columbia, East Timor, and the Philippines. Expenditures after five years under LOGCAP II totaled approximately \$102 million.

The LOGCAP III contract was awarded on December 14, 2001, to KBR as a result of a competitive best value source selection. The contract is an Indefinite Delivery, Indefinite Quantity (IDIQ) contract with one base year and nine option years. As of December 14, 2009, we are currently in the eighth option year. If all options are exercised against this contract, it will expire in December 2011. It is the largest service contract in the Army with over \$32 billion obligated on more than 160 task orders to date. The contract allows for a variety of task order types including Firm-Fixed-Price, Cost-Plus-Award-Fee, Cost-Plus-Fixed-Fee, and Cost-Plus-Incentive-Fee. Current task orders provide for services in Iraq, Afghanistan, Kuwait, and the Republic of Georgia. The LOGCAP III contract will remain in effect until all services can be transitioned to LOGCAP IV.

When the Army awarded the LOGCAP III contract to KBR in December 2001, there was no way to predict the requirements executed by this contract would reach the unprecedented level of effort as we know it today. The requirements placed on the LOGCAP III contract to support the Overseas Contingency Operations have dwarfed the combined efforts on all previous LOGCAP contracts. In the first four years of LOGCAP III, obligations exceeded previous efforts by almost 300-fold and grew to over \$14 billion by October 2005.

These dramatic increases in the level of effort of the LOGCAP III contract coupled with the challenges and problems that resulted from this rapid expansion made it very clear the Army needed to develop and execute a new contract strategy to support this program. Consequently, in mid-2004, the U.S. Army Sustainment Command began development of a strategy to put in place a contracting approach that would incorporate the lessons learned during all previous LOGCAP contracts and enhance our ability to support future efforts. The primary objectives of the new LOGCAP IV contract were to reduce program risk, increase capacity, and incentivize contract performance. After extensive coordination with DoD, sister Services, Combatant Commands, and industry, the Army determined the best acquisition approach was to competitively award a single LOGCAP support contract and three LOGCAP performance contracts.

The Army awarded the LOGCAP support contract to Serco on February 16, 2007, to obtain support services such as planning, requirements generation, cost estimating, logistic management, and management analysis in support of the LOGCAP program and contracting offices. This support covers both the LOGCAP III and LOGCAP IV contracts.

In addition, the Army awarded three IDIQ LOGCAP IV performance contracts to DynCorp International, Fluor Intercontinental, and KBR respectively on June 27, 2007.

Performance on those contracts did not begin until April 27, 2008, after protests to the Government Accountability Office (GAO) were resolved. Under LOGCAP IV, all three contractors compete for individual task orders that are issued as the need for support in a particular location is defined. Ten task orders have been awarded to date, including seven task orders for performance and three task orders for project management offices (one for each contractor). Services are transitioned from LOGCAP III to LOGCAP IV as task orders are awarded. In addition to protests against the award of the basic contracts, the first three of the task orders issued or awarded to date under LOGCAP IV were protested. Before May 27, 2008, protests against the issuance or proposed issuance of a task or delivery order under an IDIQ contract were not authorized except on the grounds that the order exceeded the scope, performance period, or maximum value of the contract. The enactment of Section 843 of the National Defense Authorization Act for Fiscal Year 2008, Public Law 110-181, “Enhanced Competition Requirements for Task and Delivery Order Contracts,” significantly expanded that protest authority by allowing a protest on any grounds for task or delivery orders valued in excess of \$10 million. That change has had a significant impact on LOGCAP IV awards and transition milestones.

In addition to increasing the number of contract awards, the Army has also instituted cost control measures such as use of a pricing matrix that captures proposed prices for small, medium, and large installations during the fair opportunity competitions at the task order level. Actual costs are tracked biweekly against the matrix as the contractor performs under a given task order. The contractor’s ability to maintain cost within the competitive fair and reasonable prices set forth in the matrix is part of what is considered when calculating award fee earned for

a given period of performance. It is also a factor discussed in the past performance information collected under the contracts.

The Afghanistan task orders contain a clause that limits the circumstances under which task order pricing may deviate from the competitively established service price matrix. This clause protects against unwarranted fee base creep and preserves the integrity of the price matrix.

Cost control is further examined when making the decision to exercise options under the task orders. At the end of each option period for each task order, the Federal government has the unilateral right to exercise the option or re-compete the requirement if exercising the option is not the most advantageous method of fulfilling the government's need, price, and other factors considered. If a contractor does not control costs or has no explanation for variability in the incurred costs, this is considered poor performance and therefore makes it questionable that continuing on with that contractor would be the most advantageous solution for the government.

The transition of requirements is continuing from the LOGCAP III contract to the LOGCAP IV contracts. It began as task orders were awarded under LOGCAP IV in February 2009. Currently, these contingency contracts enable the Army to provide critical support to deployed troops serving on the front lines in Iraq and Afghanistan.

All LOGCAP requirements in Kuwait have successfully transitioned from LOGCAP III to LOGCAP IV and LOGCAP requirements are in the process of transitioning in Afghanistan. The current LOGCAP III contractor supports the responsible drawdown in Iraq through base closure and de-scoping of LOGCAP services which began in May 2009 and continues through August 2010. The two contractors that were awarded the LOGCAP IV Afghanistan task orders, Fluor and DynCorp will increase their support as troops transition to the Afghanistan theater.

The competitively bid pricing matrixes for the Afghanistan task orders will be used to adjust the cost estimate for the increased support associated with the President's decision.

We are currently conducting a fair opportunity competition for Transportation and Corps Logistics Support Services requirements in Iraq that will result in requirements transitioning from LOGCAP III to LOGCAP IV. The next anticipated action involves Base Life Support. We are in the presolicitation phase for that acquisition with a draft Request for Proposal issued the week of December 7, 2009.

The Army anticipates that the LOGCAP III contractor will provide logistics services in support of the Iraq drawdown with theater transportation assets, augmentation of maintenance services, and support for the supply support activities in the retrograde of supplies and equipment from theater. The LOGCAP III contractor also possesses other capabilities in support of the responsible drawdown of forces, such as packaging, blocking, bracing, and crating of equipment for shipment, wash rack operations, and cleaning of equipment for agriculture and customs. These services are available to the supported unit upon request. We expect the LOGCAP IV contractor to provide the same level of services in support of the responsible drawdown but only for those bases that will remain after August 2010.

Our LOGCAP personnel are in daily contact with their customers at U.S. Forces-Iraq/Afghanistan and MNC-I/A. They monitor the planning of the responsible drawdown and transition to the new theater with their focus on identified LOGCAP requirements. Our LOGCAP forward representatives coordinate projected lead times for contract augmentation with the timeline of the supported activity at the operational and tactical levels of war. The LOGCAP program office has identified key drawdown/transition responsibilities to facilitate any unanticipated changes in the timelines. The impact of a change will be affected by the response

time available to meet the new date and where LOGCAP is on the drawdown timeline in Iraq and the transition timeline in Afghanistan.

The LOGCAP Program Director, Mr. Lee Thompson, is responsible for ensuring that the operational force receives all the services we have contracted for under LOGCAP. This highly complex and challenging mission is accomplished by a team comprised of the forward deployed and rear echelon Department of Army civilian employees, Army Reserve Officers, and Non-Commissioned Officers (NCOs) in the LOGCAP support unit; the Officers, NCOs, and civilian employees of the Defense Contract Management Agency (DCMA); and the support contractors from DynCorp, Fluor and KBR who are assigned to the program by their companies. These hard-working, highly skilled people make up team LOGCAP forward, and are further supported by the men and women serving here in the United States for the US Army Materiel Command and its subordinate commands, the U.S. Army Contracting Command and the U.S. Army Sustainment Command. We believe we are managing risk without being averse to risk. We have given our people in the field enough discretion and flexibility to be able to make smart decisions based on instant conditions on the ground.

In addition to oversight provided by forward deployed LOGCAP program office members and Contracting Officer Representatives, we rely on our LOGCAP contracting office and our DCMA/Defense Contract Audit Agency (DCAA) partners to provide oversight of costs charged under the LOGCAP contracts. During contract performance the contractor must maintain its systems to support billing and payment under its contract and must be able to accurately track the costs associated with contract baseline and any contract changes received to date. The cost allocation among various work packages must be verifiable and must track back to discrete contract changes. This is the method the government uses to validate that costs

charged under the contract are fair and reasonable. If a problem with any of the contractor's business systems is noted during a DCAA incurred cost audit or during DCMA surveillance, the contracting officer is notified, DCAA and DCMA work together to resolve what adjustments will be made to the billing rates or invoices (with final decision in DCMA's hands) and the contracting officer support that process by insisting that the contractor pay attention to its internal controls. In the case of an award-fee contract, pressure can be brought to bear through the award fee criteria. That is one of the levers used under the LOGCAP award fee process which has criteria directly associated with corporate management and business systems. Should the contractor not react in a timely manner, the Army will open a dialogue with senior managers in the corporate chain. Depending on the severity of the problem, senior Army or Defense officials may engage with the contractor's most senior managers to ensure that the Army's mission needs are met at a reasonable price.

Further oversight is provided by Contracting Officer Representatives (CORs) who are located on site where the contractors are providing services and observe whether the contractors are performing the work required under the contract at the requisite quality. Increasing the number of adequately trained CORs has become a focus item within the Army. Although we currently do not have enough CORs on station, the Deputy Commander, Support, United States Forces-Afghanistan requested that the Deputy Chief of Staff of the Army G-3/5/7 ensure the units deploying to Afghanistan track the number of adequately trained CORs as a unit readiness indicator. The Headquarters, Department of the Army COR/CERP Pre-Deployment Training execute order released on December 6, 2009, requires that deploying units determine COR requirements, nominate personnel for COR appointment and ensure COR nominees complete applicable Defense Acquisition University training courses before deployment. The U.S. Army

Contracting Command will provide additional pre-deployment training for Brigade nominated CORs to ensure they are prepared to execute their oversight duties immediately upon reaching their station.

Conclusion

The U.S. Army is committed to excellence in all contracting activities. We carefully assess lessons learned from current operations to make improvements and adjustments along the way to ensure mission success and protection of the interests of the United States, our warfighters, and our taxpayers.

Thank you.