

RECORD VERSION

STATEMENT BY
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Introduction

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 (LOGCAP). LOGCAP is an initiative by the United States Army to pre-plan during peacetime for the use of civilian contractors to perform selected services in wartime and other contingencies to augment US forces in support of Department of Defense (DoD) missions. LOGCAP can also provide support to other US 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.

My remarks today will center on the contracting aspects of LOGCAP. Mr. Lee Thompson, the LOGCAP Program Manger, will discuss the program aspects; Mr. Charlie Williams, the Director of the Defense Contract Management Agency, will discuss oversight issues; and Ms. April Stephenson, Director of the Defense Contract Audit Agency, will discuss cost or pricing related issues.

Discussion

To assist the Commission with their understanding of the current LOGCAP IV contract, I think it's important to give a brief overview of 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. 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 5 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 Kellogg Brown and Root Services (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. We are currently in the seventh option year. If all options were to be exercised against this contract, it would 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 (FFP), Cost-Plus-Award-Fee (CPAF), Cost-Plus-Fixed-Fee (CPFF), and Cost-Plus-Incentive-Fee (CPIF). 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 Kellogg, Brown and Root 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, some of which I will discuss later in my remarks, made it very clear the Army needed to develop and execute a new contract strategy to support this program.

Consequently, in mid 2004 the 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 the Department of Defense, 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 indefinite quantity, indefinite delivery 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. Eight task orders have been awarded to date, including five 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, nearly all the task orders issued or awarded to date under LOGCAP IV have been 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.

LESSONS LEARNED

Eliminating a single point of failure by awarding three contracts was just one of many of the improvements we made in LOGCAP IV. We realized early on that a

number of problems we experienced in LOGCAP III were directly related to the overtaxed business systems and how the prime contractor managed its subcontracts. Examples of problems included issues with the prime contractor's estimating system resulting in delayed submission of proposals and undefinitized contract actions; issues with accounting and billing systems resulting in less accurate cost reports, multiple accounting entries and credits, delayed billing, and payment suspensions; and issues with the prime contractor's purchasing system, resulting in improper subcontractor awards and inadequate subcontractor management. Because of those issues under LOGCAP III, we emphasized the importance of business systems in the LOGCAP IV source selection by including business systems and subcontractor management as specific source selection criteria. We also incorporated a two tiered approach to award fee in the LOGCAP IV contracts that places additional emphasis on business systems during contract performance. The approach segregates 15% of the total award fee pool specifically for "first tier" corporate management, corporate business systems, and small business subcontracting. The balance of the pool is then used for the "second tier" activities, relating to evaluation of technical performance, project management, and cost and schedule control. First tier boards will be conducted annually and second tier (operations) boards will be conducted bi-annually.

Another area of improvement in LOGCAP IV contracts concerns award fee. The LOGCAP III contract had an available award fee of three percent. Typically, a contract with requirements as rapidly changing and complex as LOGCAP requirements would warrant a fee of seven to ten percent to provide a contractor with a "normal" return on investment commensurate with performance risk. 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 level of fee appropriate to the risk. This is consistent with Federal Acquisition Regulation direction to “offer contractors opportunities for financial rewards sufficient to stimulate efficient contract performance, attract the best capabilities of qualified large and small business concerns to Government contracts, and maintain a viable industrial base.”

At the highest operational tempo of LOGCAP III performance, we processed a deviation to FAR 52.216-26. This clause imposes a limitation on reimbursements for undefinitized letter contracts to 85% of costs incurred. One purpose for the limitation is to incentivize contractors to submit cost proposals in a timely manner. In early 2004, the issue of “withholding” 15%” arose in part because of the large number of overaged undefinitized contract actions (UCAs). There were approximately 55 undefinitized contract actions on the LOGCAP contract at that time. The Army determined the deviation necessary because the limitation on reimbursement on the LOGCAP contract would have a significant negative impact to contract performance if applied, posing serious risk to the contractor’s ability to support the warfighter. All overage UCA’s were definitized by March 31, 2005, and there have been no overage UCAs on the LOGCAP contract since that time. The deviation expired January 31, 2007, and was not extended. Having multiple LOGCAP IV contractors lessens the probability that the contractors will become overwhelmed by increases in requirements. In addition, the emphasis on contractor business systems, as well as the requirement for task order competitions makes a scenario of large numbers of UCAs on LOGCAP IV very unlikely.

Another area we improved in the LOGCAP IV contracts relates to the generation of requirements. Clearly, definition of requirements can be difficult in the best of circumstances and is even more challenging in contingency and high op tempo environments. The Performance Work Statements on the LOGCAP III contract have evolved in a sole source environment over a long period of time based on daily interaction between the incumbent contractor and the Government. Because the LOGCAP IV task orders are competed, the performance work statements must be written in a manner that allows a common understanding among the competing contractors. We created a standard structure for performance work statements to promote consistency and clarity in work descriptions. In addition, we have embedded logistics support officers in the requiring activities to help our customers “put pen to paper” and translate their needs into proper statements of work.

We are reaping the benefits of teaming with our partners in DCMA and DCAA 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 placed additional emphasis on the very important role of the Contracting Officer's Representative (COR). The COR acts as the “eyes and ears” of the contracting officers, ensuring that the government is getting the best value for the dollars spent.

We continue to share our lessons learned on the LOGCAP contract with those who are drafting Army doctrine and training so we can continually identify gaps or

changes needed in our doctrine, organization, training, materiel, leader development, personnel, and facilities assessments.

Conclusion

Let me assure you that the Army Contracting Command is committed to excellence in all contracting, including these very complex and critical LOGCAP contracts. We continue to collect lessons learned and make improvements and adjustments along the way to ensure mission success and protection of the interests of the U.S. Government and taxpayer. It is my honor to lead the contracting team in achievement of those goals.

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