

Prepared Statement of  
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Co-Chair and Commissioner  
Commission on Wartime Contracting in Iraq and Afghanistan  
Hearing:  
“LOGCAP: Support-Contract Challenges in Iraq and Afghanistan”  
Washington, DC  
May 4, 2009

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Welcome. I'm Michael Thibault, co-chair of the Commission on Wartime Contracting in Iraq and Afghanistan. Beside me is Acting Co-Chair Grant Green. The other members of the Commission are, from your left to your right, Dov Zakheim, Linda Gustitus, Robert Henke, Grant Green, Charles Tiefer, Christopher Shays, and Clark Ervin.

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 Iraq. We all welcome him and look forward to benefiting from his experience and insight.

Commissioner Shays, I will also note, is now officially a co-chair of this Commission. Late last week we received the required designation letter to that effect signed by Senator McConnell and Representative Boehner and we will enter this letter into the record. Commissioner Shays has suggested that our Acting Co-chair, Grant Green, deliver the Minority co-chair's opening statement today.

This is an important hearing. Our first one, 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 have been wasted or cannot be accounted for.

Today, we focus on another area that also involves billions of dollars of taxpayers' money – and one that's vital to national policy objectives and to the welfare of the men and women of America's armed forces. That is the logistical support services so essential to the care and feeding of the military warfighter. Contractors provide this support through the Logistics Civil Augmentation Program , better known as LOGCAP.

This is a very big contract. As the Department of the Army said in 2008 when announcing the LOGCAP IV awards, each of the three vendors – DynCorp, Fluor, and KBR – could receive as much as \$5 billion a year for work under the contract. That's up to \$15 billion a year total 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 six 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 improve contracting. We take that mandate seriously and are here today to listen and to explore opportunities to improve LOGCAP contracting and oversight with those Department of Defense organizations responsible for this critical program.

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 one would need in any small city. I always ask these great military men and women, "So, how is the logistical support you receive? Are you fed well, 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 are aware of and concerned about several tragic injuries and other issues. But overall, our warfighters appreciate that their job of 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 observations and analysis, I believe that DCMA is to be commended in their efforts to manage this program.

The one example that I would like to share in this statement is that as of April 2, DCMA had identified 504 specific LOGCAP oversight functions in Afghanistan as requiring a Contracting Officer Representative or COR to be the Government's eyes on the ground to confirm that 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, an 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 contractors 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 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 costs were being incurred.

When the Commission traveled to Camp Shank last month, the problem came into focus. We were told that the 10<sup>th</sup> Mountain Division was responsible to ensure that they have sufficient and trained CORs in place at FOB Shank. Problem: No one told them until they arrived in January. So, LOGCAP work is well under way. There's a critical military mission to perform. It's very difficult to quickly identify and train 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, to the mission, or to the taxpayer.

Everyone seems to be responsible and accountable in theory, but in practice essential oversight is 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% award fee. For every billion LOGCAP dollars, that is up to 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 LOGCAP dollars each year producing up to \$1.5 billion in award fees – essentially performance bonuses. How can bonuses in the form of award fees potentially running into hundreds of millions be paid out when in this example more than 300 critical COR oversight positions are empty?

This one example shows why this hearing is critical. LOGCAP is too important and too costly to not 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'll 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 the Commission's work. He is the 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. The ranking member of the subcommittee was unable to be with us today. We welcome Chairman Tierney and thank him for joining us.

We will then take testimony from our panel of witnesses. They are:

- Jeffrey Parsons, Executive Director of U.S. Army Contracting Command, a major component of Army Materiel Command;
- Lee Thompson, Executive Director of the LOGCAP Program Office, which administers and manages LOGCAP III contractor efforts and the transition to LOGCAP IV;
- Charlie Williams, Jr., Director of the Defense Contract Management Agency. DCMA works directly with Defense suppliers to help ensure that supplies and services for U.S. and allied governments are delivered on time, at projected cost, and up to requirements; and
- April Stephenson, Director of the Defense Contract Audit Agency, which performs all contract audits for the Department of Defense, and provides other services to DoD and some other federal agencies.

The Commission is looking to these witnesses for their views of lessons learned from previous LOGCAP contracts, for their actions and plans to improve contract management and contractor accountability, for their views on staffing and training

needs for the acquisition and auditing workforce, and for their judgment of 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 recommendations in LOGCAP contracting. We appreciate their willingness to provide that support for a balanced, formal record.

We will continue to explore questions about LOGCAP through hearings, trips to the theater of operations, interviews, and research. Our first Commission report will be issued June 8. 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 before we submit the Commission's final report to Congress. Today's hearing is an important step in that process.

Next, our new Co-chair, Commissioner Shays, has asked that former Acting Co-Chair Green deliver an opening statement.

[Minority Co-Chair speaks.]

Now I welcome you, Chairman Tierney, and invite you to share your thoughts; and any concerns and recommendations with us.

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