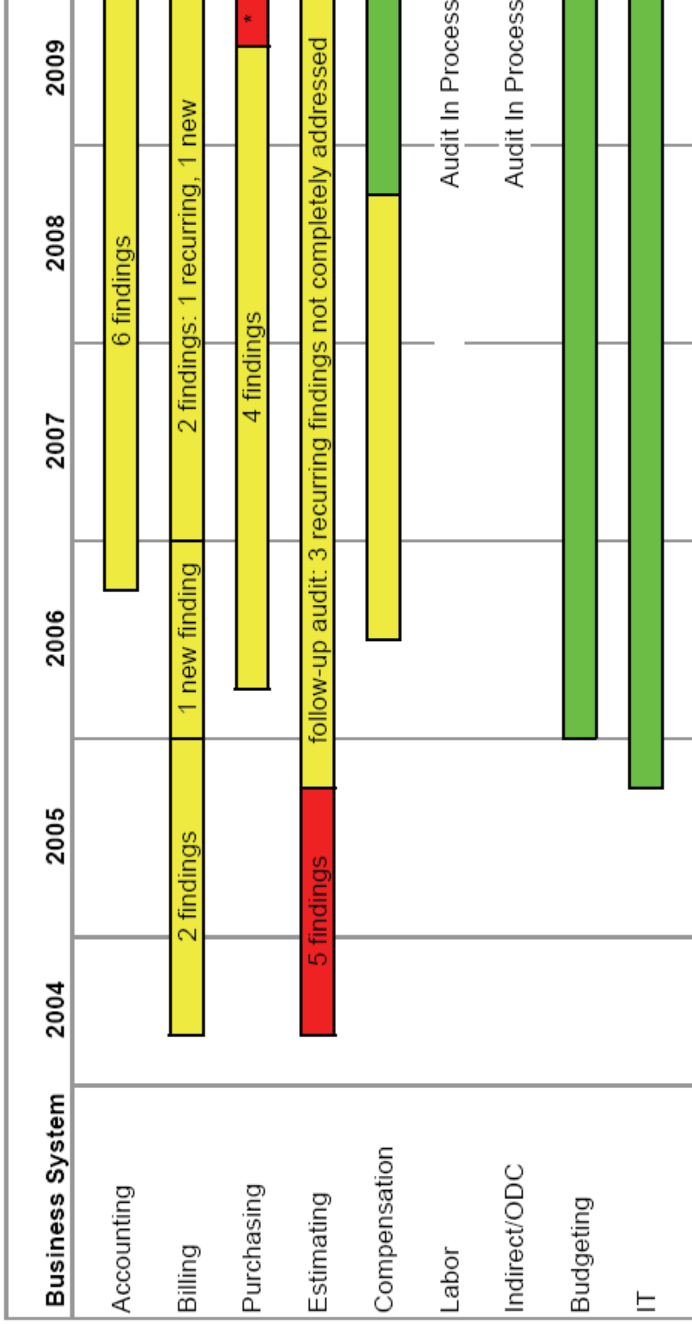


SUMMARY OF INTERNAL CONTROLS

- The chart on page 2 depicts the status of the internal control systems as reported in DCAA audit reports. The following bullets highlight key points:
 - Each segment represents an individual audit issued and identifies the number of audit findings supporting the overall audit opinion (adequate, inadequate in part, or inadequate).
 - A recap of a specific deficiency is noted when the deficiency has occurred in more than one audit report.
 - The status of corrective action on individual findings in the latest report for each internal control system is unknown. **A formal reporting mechanism to track interim corrective actions does not exist.**
 - DCMA has considered the accounting, billing, purchasing, and estimating system to be acceptable.
- The chart on page 3 compares DCMA determinations on internal control systems to DCAA's.

DCAA ASSESSMENTS OF KBR INTERNAL CONTROLS



Graph Segments Represent Individual DCAA Reports Issued

- * Recurring Finding: Failure to refund contract overpayments in a timely manner
- ** Latest Report - 3 findings: 1 recurring, 2 new. Recurring Finding: Inadequate documentation to justify awarding Purchase Orders and subcontracts to other than lowest bidder; insufficient market research prior to solicitation; failure to conduct adequate competition in a timely manner.
- *** KBR needs to provide additional corrective actions relating to management reviews, contract certification, and cost estimating development covering adequate cost/price analysis of subcontract proposals and submission of cost or pricing data on a timely basis. KBR needs to include implemented changes in policy manual.

System Determination

- Inadequate
- Inadequate In Part
- Adequate

DCMA DETERMINATION COMPARED TO DCAA ASSESSMENTS OF KBR INTERNAL CONTROLS

Business System	2004	2005	2006	2007	2008	2009
Accounting - DCAA Accounting - DCMA*					6 findings	
Billing - DCAA Billing - DCMA**	2 findings		1 new finding		2 findings: 1 new, 1 recurring	
Purchasing - DCAA Purchasing - DCMA***				4 findings		
Estimating - DCAA Estimating - DCMA****	5 findings		follow-up audit: 3 recurring findings not completely addressed			

* ACO opined most issues related to documentation, which does not generate significant risk to the Government with regards to cost impact. Risk moderate pending resolution of DCAA findings.

** ACO opined KBR maintained less than one percent error rate for the six months preceding the determination. KBR does not have direct billing. Therefore, DCAA reviews vouchers before payment, which ACO considers justification to classify the system as low risk.

*** Approved based on Contractor Purchasing System Review (CPSR) determination.

**** Based on KBR revisions to its policies/procedures/practices, the ACO considers all outstanding DCAA deficiencies to be adequately resolved.

CURRENT DCAA ASSESSMENTS OF INTERNAL CONTROLS

System	KBR	DynCorp	Fluor
Accounting	Nov-06		Jul-03
Billing	Dec-06	Apr-09	Nov-07
Purchasing	Apr-09	Sep-98	Sep-05
Estimating	Sep-05		May-05
Labor		Mar-09	Sep-04
Compensation	Jul-08	Apr-09	Sep-08
Indirect/ODC		Sep-05	Feb-08
Budgeting	Mar-06	Jan-04	Sep-04
IT	Oct-05	Apr-07	May-05

System Determination

- Inadequate
- Inadequate In Part
- Adequate
- Audit In Process/Audit Rescinded



DFARS 242.7502(a)(4)

“The ACO will consider whether it is appropriate to suspend a percent of progress payments or reimbursement of costs proportionate to the estimated cost risk to the Government, considering audit reports or other relevant input, until the contractor submits a corrective action plan acceptable to the ACO **and corrects the deficiencies.**”