



Highlights of [GAO-07-839](#), a report to congressional requesters

Why GAO Did This Study

The Department of Defense's (DOD) U.S. Army Corps of Engineers (Corps) awarded the \$2.5 billion Restore Iraqi Oil (RIO I) contract to Kellogg Brown & Root in March 2003 in an effort to reestablish Iraq's oil infrastructure. The contract was also used to ensure adequate fuel supplies inside Iraq. RIO I was a cost-plus-award-fee type contract that provided for payment of the contractor's costs, a fixed fee determined at inception of the contract, and a potential award fee. The Defense Contract Audit Agency (DCAA) reviewed the 10 RIO I task orders and questioned \$221 million in contractor costs. We were asked to determine (1) how DOD addressed DCAA's RIO I audit findings and what factors contributed to DOD's decision and (2) the extent to which DOD paid award fees for RIO I and followed the planned process for making that decision. To accomplish this, we reviewed DOD and DCAA documents related to RIO I and interviewed Corps, DCAA, and other officials.

What GAO Recommends

GAO recommends the Secretary of the Army, in contingency situations, ensure that an analysis of the feasibility of following a rigorous award fee process is conducted when using cost-plus-award-fee contracts. In written comments, DOD agreed with the recommendation.

www.gao.gov/cgi-bin/getrpt?GAO-07-839.

To view the full product, including the scope and methodology, click on the link above. For more information, contact John Hutton at (202) 512-4841 or huttonj@gao.gov.

DEFENSE CONTRACT MANAGEMENT

DOD's Lack of Adherence to Key Contracting Principles on Iraq Oil Contract Put Government Interests at Risk

What GAO Found

DOD considered DCAA's audit findings on the RIO I contract and performed additional analysis before deciding to pay the contractor nearly all of the \$221 million in costs that DCAA questioned. DOD did, however, remove about \$112 million of the questioned costs from the amount used to establish the contractor's fee pool, which resulted in an effective lowering of the fee received by the contractor by approximately \$5.8 million. Lack of timely negotiations contributed significantly to DOD's decision on how to address the questioned costs—all 10 task orders were negotiated more than 180 days after the work commenced. As a result, the contractor had incurred almost all its costs at the time of negotiations, which influenced DOD's decision to pay nearly all of the questioned costs. The negotiation delays were in part caused by changing requirements, funding challenges, and inadequate contractor proposals. In our previous work, we have found that negotiation delays can increase risk to the government. Overall, DCAA considers \$26 million of the costs questioned on the RIO I contract to be sustained, which DCAA defines as cost reductions attributable to its audit findings. We compared the sustention rates on DCAA's 11 RIO I contract audits to the sustention rates for 100 DCAA audits of other Iraq contract actions, and found that the sustention rates varied widely for both groups.

DOD's Army Corps of Engineers paid \$57 million in award fees on the RIO I contract, or 52 percent of the maximum possible, and on individual task orders the fee awarded ranged from 4 to 72 percent of the fee available. While the award fee plan required regular award fee boards during the life of the contract, DOD did not conduct a formal board until nearly all work on the contract was complete. As a result, DOD was not able to provide the contractor with formal award fee feedback while work was ongoing, which federal regulations state should be done in order to motivate a contractor to either improve poor performance or continue good performance. DOD officials told us the workload of RIO staff members and logistical difficulties stemming from the challenging conditions in Iraq hindered efforts to hold evaluation boards during the period of performance. DOD also was unable to give us enough documentation for a full assessment of its compliance with other parts of its plan—it did not, for example, provide the scores the award fee board assigned to the contractor on the individual award fee criteria, so we could not see if the award fee board had followed contract criteria and weighting in evaluating performance. We compared the percentage of award fees earned on the RIO I contract to the fees earned on a group of other selected Iraq reconstruction contracts and found that the percentage of award fees earned on RIO I fell within the lower range of fees earned on the other contracts.