

RECORD VERSION

STATEMENT BY
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Introduction

Chairman Andrews, Congressman Conaway, and distinguished members of the Defense Acquisition Reform Panel: Thank you for this opportunity to discuss the Army's initiatives to improve service contracting. We are pleased to report that these initiatives enable our contracting mission to be agile, expeditionary, and responsive to our warfighters, while ensuring proper fiscal stewardship of taxpayer dollars. We are pleased to report to you that we have increased the resources devoted to oversight of services contracts and have also developed improved techniques for evaluating and managing those contracts to provide good value to the taxpayer and effective support to deployed warfighters. The Army has improved its Contracting Officer Representative (COR) program, has a plan in place to increase the number of personnel in the contract administration area, and has improved its ability to inspect the worldwide contracting offices that execute the Army's acquisition program. In addition, the Army has increased the rigor of its acquisition process to focus on obtaining better values from the service contracts it awards.

One of the primary service contracts the Army uses to support deployed warfighters is 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 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.

Discussion

To assist the Panel 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 competitively awarded a follow-on contract, LOGCAP II, to DynCorp Service, Inc. The demand for LOGCAP services during this timeframe (1997-2001) 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 prediction that we would execute the level of requirements that we have experienced to date. 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 clear to the Army that it needed to develop and execute a new contract strategy to support the Soldier. 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 acquisition strategy 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 analysis, cost estimating, logistics 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. 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, five of the eight 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

The Army used its experience from LOGCAP I, II and III to develop not only a new acquisition strategy but also a new program strategy on how to execute and administer LOGCAP IV. Eliminating a single point of failure by awarding three contracts was just one of many 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 percent 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 3 percent. Typically, a contract with requirements as rapidly changing and complex as LOGCAP requirements would warrant a fee of 7 to 10 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 percent 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 percent 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 UCAs 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 operations tempo (OPTEMPO) environments. The Performance Work Statements on the LOGCAP III contract have evolved in a single award 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 among the three contract holders, 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.

Lessons learned from LOGCAP III are embedded into LOGCAP IV in how the Program is executed. Numerous improvements are underway to improve internal practices. One such improvement was the development of a Prime Value Chain and a

Programmatic strategy with the aim of improving readiness, quality, and efficiency in LOGCAP provided services. The strategic assessment defines program constraints and issues that limit program efficiency. We also have a framework for key strategic and operational program design and an implementation plan that describes critical implementation plans and tasks. We are working with senior Department of the Army and the Army Materiel Command military and civilian leaders and other key stakeholders through a General Officer Steering Committee (GOSC) to review doctrine and resourcing. The first meeting of the GOSC was held on April 23, 2009, and chaired by the Deputy Chief of Staff of the Army for Logistics. The GOSC established two working groups to 1) determine the most effective means of sustaining and empowering the LOGCAP Program, and 2) refining LOGCAP's scope, and future roles and responsibilities.

The Army sees LOGCAP as the future for its civil augmentation program, especially as it relates to Overseas Contingency Operations. For LOGCAP to support the Army and its Title 10 responsibilities, several actions are being taken. These actions include re-structuring the program to ensure that we have the right numbers of people with the right skills. This organization only had 19 Department of the Army Civilians authorized since its inception. Their primary mission was to train units for pre-deployment, participate in deploying unit's exercises, provide reach back support to forward deployed offices, and stand ready to respond to events worldwide. The organization is augmented by our support contractor both stateside and overseas in our forward deployed sites in Kuwait, Iraq, and Afghanistan and with the Army Service Component Commands.

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. As stewards of the taxpayers' dollars, the Army is committed to excellence in managing and documenting contractor performance and the overall discipline of contract administrative services. With service contracts representing an ever increasing percentage of our overall contract dollars, greater emphasis is rightfully being placed on their management and oversight. This includes documenting the contractor's current and past performance and developing key metrics related to

cost, schedule and performance during acquisition planning that focus on value delivered to the Army and tracking those metrics as part of contract administration and oversight. Those metrics are key early warning signals to program officials as they are the first indicators that a program is in trouble- be it from technical difficulties beyond the contractor's control due to changes in the operating environment caused by war related issues or problems directly related to contractor performance. We believe this will allow us to react earlier and take corrective actions at the most cost effective point which will help improve services delivery.

Despite exceptionally hard circumstances, the Army's contracting and acquisition staff has made improvements in the strategic management of Army requirements and specifically has better insight into the values being delivered under key service contracts. We believe with improved staff levels in contract administration this trend will continue. The Army is dedicated toward executing its warfighting mission while simultaneously protecting the taxpayer's interest. It is my honor to lead the contracting team as we persevere to achieve those goals.

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