



DEFENSE CONTRACT MANAGEMENT

6350 Walker Lane, Suite 220
Alexandria, Virginia 22310-3259

IN REPLY
REFER TO
DCMAI

SEP 11 2008

Mr. Bruce Stanski
President, Government and Infrastructure
KBR, Inc.
2451 Crystal Dr.
Arlington, VA 22202

Dear Mr. Stanski:

I am writing to express my personal concern over a serious issue related to KBR's performance on the LOGCAP III contract. The Defense Contract Management Agency (DCMA) International Division has gathered information which demonstrates a systemic failure of KBR's Quality System to properly detect, correct, and prevent the recurrence of contractual nonconformities within the Iraq Theater of operations. This failure is widespread and manifests itself in electrical services, primarily deficiencies with facility electrical system grounding and bonding. This failure has resulted in life-threatening conditions for deployed personnel.

DCMA issued a Level III Corrective Action Request (CAR) today. This CAR finds that KBR's Quality System is in serious noncompliance with LOGCAP contractual requirements. The CAR identifies numerous deficiencies in KBR's performance and quality oversight. As a result, the Government lacks confidence that KBR's quality processes are under control and are able to effectively detect nonconformances and consistently perform contractual requirements. While KBR services under the LOGCAP III contract will continue, the Government will consider appropriate contractual remedies.

I will closely monitor this serious situation. The safety and welfare of our personnel in Theater is of paramount interest to me; I trust that you and the KBR organization feel likewise. Accordingly, I ask that KBR work diligently and expeditiously to resolve this matter through appropriate contracting channels.

Sincerely,

CHARLIE E. WILLIAMS, JR.
Director

Enclosure:

1. Level III CAR (w/o encl)

cc:

Under Secretary of Defense, Acquisition & Technology
Executive Director, Army Contracting Command
Commander, Joint Contracting Command – Iraq/Afghanistan
Commander, DCMA International Division
Director, DCMA Ground & Munitions Systems Division



IN REPLY
REFER TO

DCMAI-C

DEFENSE CONTRACT MANAGEMENT AGENCY
DEFENSE CONTRACT MANAGEMENT AGENCY INTERNATIONAL
6359 Walker Lane, Suite 220
Alexandria, Virginia 22310-3259

September 11, 2008

Mr. Richard Hack
Senior Vice President, Government and Infrastructure
KBR, Regional Office 677
2451 Crystal Drive
Arlington, VA 22022

Subject: Level III Corrective Action Request (CAR) HQ-08-LOGCAP-QA-001-LIII

Dear Mr. Hack:

The Government has determined that KBR's inspection system is in serious noncompliance with the requirements of contract number DAAA09-02-D-0007, the Logistics Civil Augmentation Program (LOGCAP) contract. KBR has not maintained an acceptable inspection system in accordance with (IAW) the clause at Federal Acquisition Regulation (FAR) 52.246-5 Inspection of Services – Cost Reimbursement Apr/84 (Section E-4 of the LOGCAP Contract) and the quality control requirements in paragraphs 1.14 and 8.0 of the LOGCAP contract Statement of Work (SOW), Attachment 001 to the LOGCAP contract. This failure is widespread and manifests itself primarily in electrical service deficiencies with facility grounding and bonding in Iraq. As such, this failure has created immediate life, health and safety hazards for our deployed personnel.

The performance of services under the LOGCAP contract must continue at present based on the necessity to support combat operations in support of the Global War on Terrorism in the Central Command (CENTCOM) Area of Operations (AOR). This CAR and its enclosure, however, require KBR's immediate attention and serve as supporting documentation to implement the contractual remedies outlined in FAR 52.246-5 and other contractual remedies the Government deems appropriate.

The US Army Corps of Engineers, Gulf Region Division Central District, the Combat Readiness Center/Army Safety Center, and the MNF-I Task Force SAFE (Safe Action for Fire and Electricity) each recently conducted independent inspections of LOGCAP-maintained facilities. The findings of these inspection teams, combined with an assessment of repetitive Corrective Measures Implementation Plans (CMIPs) issued by KBR and previous level II and level III CARs issued by the Government, establish

that KBR's inspection system did not detect, correct, or prevent recurrences of systemic contractual nonconformances. KBR's management overlooked data readily available that could have reduced or eliminated these nonconformances. The major deficiencies noted in this CAR are as follows:

- **Grounding and Bonding:** KBR's inspection/quality control system failed to properly identify and systemically correct facility grounding and bonding deficiencies in the performance of the LOGCAP contract IAW paragraph 1.4 of the LOGCAP SOW, Army Regulation 420-1, the National Electric Code (NEC), and the Task Order 139 SOW, paragraph 8.2.1. This failure has led to potentially hazardous and life-threatening conditions related to electrical bonding and grounding throughout the AOR.
- **Inspection/Quality System:** KBR's inspection/quality control system failed to properly identify and systemically correct numerous Program-wide deficiencies in the implementation, administration, and execution of the LOGCAP contract quality requirements of FAR 52.246-5; LOGCAP SOW paragraphs 1.14 and 8.0, and the Government accepted KBR Quality Control Plan (QCP) Rev 5, dated 3 Dec 2007.

The enclosure contains findings and further comments for each of the deficiencies. As described in the enclosure, the Government found numerous deficiencies in KBR's contract performance, which includes quality oversight. The Government therefore lacks confidence that KBR's quality processes are under control. There is a clear failure of KBR's inspection/quality system to produce consistent and standardized performance of contract requirements.

KBR's failure to maintain a system that detects and corrects nonconformances and prevents their reoccurrence has resulted in conditions that threaten the safety of personnel. KBR's failure has also led to re-work and additional inspection effort at the Government's expense.

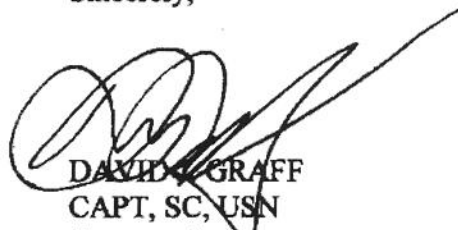
Your immediate attention is required to develop and successfully implement a comprehensive corrective action plan acceptable to the Government. KBR should be prepared to present its plan to senior DoD leadership within 10 days of the date of this CAR. Further details will follow. Additionally, due to the serious nature of these quality issues, the Government expects immediate action to correct and mitigate the current risks while your plan is under development. At a minimum, your corrective action plan must include the following:

- Actions to correct throughout the CENTCOM AOR the root cause of the deficiencies identified.

- Actions to prevent throughout the CENTCOM AOR the recurrence of the deficiencies identified.
- Actions to correct KBR's inspection/quality control system to ensure the detection, correction, and prevention of nonconformances throughout the CENTCOM AOR.
- A milestone schedule and the target date(s) for each of the above three actions.
- A Rough Order of Magnitude (ROM) for the costs associated with each of the above three actions.

The Theater POC for this action is Colonel (b) (6) Commander, DCMA-Iraq/Afghanistan, at COM: (732) 427- (b) (6) 1X (b) (6) DSN: 312- (b) (6) 1X (b) (6) e-mail: (b) (6) @mmcs.army.mil. Other matters should be addressed to CAPT David Graff at COM: (703) 428-1794, e-mail: david.graff@dcma.mil.

Sincerely,



DAVID GRAFF
CAPT, SC, USN
Commander

Enclosure:
CAR HQ-08-LOGCAP-QA-001-LIII, Specific Findings and Supporting Documentation
(electronic file on compact disk)

cc:
Director, DCMA
Director, LOGCAP Program Executive Office
Director, DCMA Ground & Munitions Systems Division
Director, DCMA Contract Integrity Center
Commander, DCMA Soldier Systems & CAP - Phoenix