

# Inspector General

United States  
Department of Defense



DOD Needs to Improve Management and Oversight  
of Operations at the Theater Retrograde-  
Camp Arifjan, Kuwait

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## Acronyms and Abbreviations

ACO	Administrative Contracting Officer
AMC	U.S. Army Materiel Command
ARCENT	U.S. Army Central
COR	Contracting Officer's Representative
DCMA	Defense Contract Management Agency
DRMO	Defense Reutilization and Marketing Office
NSE	Nonstandard Equipment
NSN	National Stock Number
QAR	Quality Assurance Representative
SARSS	Standard Army Retail Supply System
TRC	Theater Redistribution Center
USCENTCOM	U.S. Central Command



INSPECTOR GENERAL  
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September 30, 2010

MEMORANDUM FOR COMMANDER, U.S. CENTRAL COMMAND  
DIRECTOR, DEFENSE CONTRACT  
MANAGEMENT AGENCY  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: DOD Needs to Improve Management and Oversight of Operations at the  
Theater Retrograde-Camp Arifjan, Kuwait (Report No. D-2010-091)

We are providing this report for your information and use. As of May 2009, DOD estimated that the drawdown from Iraq would include the withdrawal of approximately 3.4 million pieces of equipment. The Theater Retrograde at Camp Arifjan, Kuwait, is responsible for receiving and processing containers of equipment and ensuring the equipment's proper disposition. We determined that DOD officials at the Theater Retrograde did not effectively manage and oversee operations, which resulted in increased risks that a foreign country or adversary could gain a military or economic advantage over the United States, increased safety risks, and decreased amounts of serviceable materiel being reutilized.

DOD Directive 7650.3 requires that recommendations be resolved promptly. We considered management comments when preparing the final report. The comments from the Deputy Commanding General, 1<sup>st</sup> Theater Sustainment Command; Acting Executive Director, Rock Island Contracting Center; and Commander, Defense Contract Management Agency International were responsive. Therefore, we do not require any additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to Ms. Carol N. Gorman at (703) 604-9179 (DSN 664-9179).

A handwritten signature in blue ink that reads "Daniel R. Blair".

Daniel R. Blair, CPA  
Principal Assistant Inspector General  
for Auditing





# Results in Brief: DOD Needs to Improve Management and Oversight of Operations at the Theater Retrograde-Camp Arifjan, Kuwait

## What We Did

We conducted this audit in response to a request to focus oversight on U.S.-funded assets to ensure they are properly accounted for and there is a process for assets' proper transfer, reset, or disposal. As of May 2009, DOD estimated that the drawdown from Iraq would include the withdrawal of approximately 3.4 million pieces of equipment. The Theater Retrograde at Camp Arifjan, Kuwait, is responsible for receiving and processing containers of equipment and ensuring the equipment's proper disposition.

## What We Found

DOD officials did not effectively manage Theater Retrograde operations. Specifically, Army and Defense Contract Management Agency (DCMA) officials did not ensure that contractor personnel complied with contract requirements and applicable regulations when processing materiel at the Theater Retrograde. Army and DCMA officials also did not ensure the contractor had sufficient staffing at the Theater Redistribution Center to meet container processing requirements.

This occurred because Army officials did not develop and implement effective policies and procedures for processing materiel at the Theater Retrograde. In addition, Army and DCMA officials did not resolve all deficiencies identified during performance reviews and did not perform administrative functions in accordance with their appointment letters and the Federal Acquisition Regulation.

As a result, DOD remains at an increased risk that a foreign country or adversary could gain a military or economic advantage over the United States, which could impact national security. In addition, officials will continue to be exposed to

increased safety risks and serviceable materiel may not be reused to its maximum potential. DOD may also be receiving a reduced value for the services performed, paying undue award fees, and wasting resources by purchasing the same materiel in the unprocessed containers for use in other overseas contingency operations.

We commend the Army and DCMA for taking immediate action to address issues identified during the audit.

## What We Recommend

Among other recommendations, we recommend Army officials develop applicable, auditable, and measurable performance requirements for processing materiel and clearly define the requirements and limitations for officials providing contract administration and oversight. We also recommend Army and DCMA officials determine the staffing required at the Theater Redistribution Center to process the current and increased number of containers.

## Management Comments and Our Response

In response to management comments to the draft report, we revised Finding A to delete DCMA from the requirement to develop and implement policies and procedures for processing materiel, and we revised Finding B to state that the Army should consider shifting staff to locations that are deficient. We also moved draft report Recommendation B.2.a to Recommendation B.1.c. Management comments are responsive, and no additional comments are required. Please see the recommendation table on page ii.

## Recommendations Table

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Commander, 1 <sup>st</sup> Theater Sustainment Command		A.1, A.2, B.1, B.2
Commander, Defense Contract Management Agency-Kuwait		A.2, A.3, B.2
Executive Director, Rock Island Contracting Center		A.4, B.3

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# Introduction

## Objectives

The overall objective of our audit was to determine whether DOD was effectively managing Theater Retrograde operations at Camp Arifjan, Kuwait. Specifically, we determined whether adequate policies and procedures were in place at the Theater Redistribution Center (TRC), General Supply Warehouse (Warehouse), and Bulk Yard for proper equipment reutilization and disposition. In addition, we determined whether adequate resources were available to effectively process the current and anticipated volume of equipment at the Theater Redistribution Center during the drawdown of U.S. forces from Iraq. See Appendix A for a discussion of the scope and methodology, Appendix B for prior audit coverage related to the audit objectives, Appendix C for examples of alternate contracting officer's representative compliance audits, and Appendix D for other matters of interest.

## Background

This audit was conducted (1) in response to a U.S. Central Command (USCENTCOM) request to focus oversight on U.S.-funded assets to ensure they are properly accounted for and there is a process for assets' proper transfer, reset, or disposal; and (2) based on fieldwork performed during an audit, DOD Inspector General (IG) Report No. D-2010-027, in which we issued a memorandum to USCENTCOM and U.S. Army Central (ARCENT) leadership expressing our concerns that the transport of excess equipment to and within the Theater Retrograde contributed to the destruction of potentially serviceable materiel.<sup>1</sup> USCENTCOM officials responded to the memorandum stating that USCENTCOM, Multi-National Corps-Iraq (currently U.S. Forces-Iraq), ARCENT, and the U.S. Army Materiel Command (AMC) were working collaboratively to ensure the proper disposition of equipment and provide a timely and responsible drawdown of U.S. forces and equipment from Iraq.

### ***Drawdown from Iraq***

On January 1, 2009, the United States entered into an agreement with the Government of Iraq for the complete withdrawal of U.S. forces and equipment from Iraq by December 31, 2011. As of May 2009, DOD estimated that the drawdown from Iraq would include the withdrawal of approximately 3.4 million pieces of equipment. To assist units and bases with the drawdown, USCENTCOM officials implemented assistance teams in Iraq to move equipment and materiel to designated locations, including the Theater Retrograde,<sup>2</sup> which is the collection point for excess materiel in the USCENTCOM Theater of Operations.

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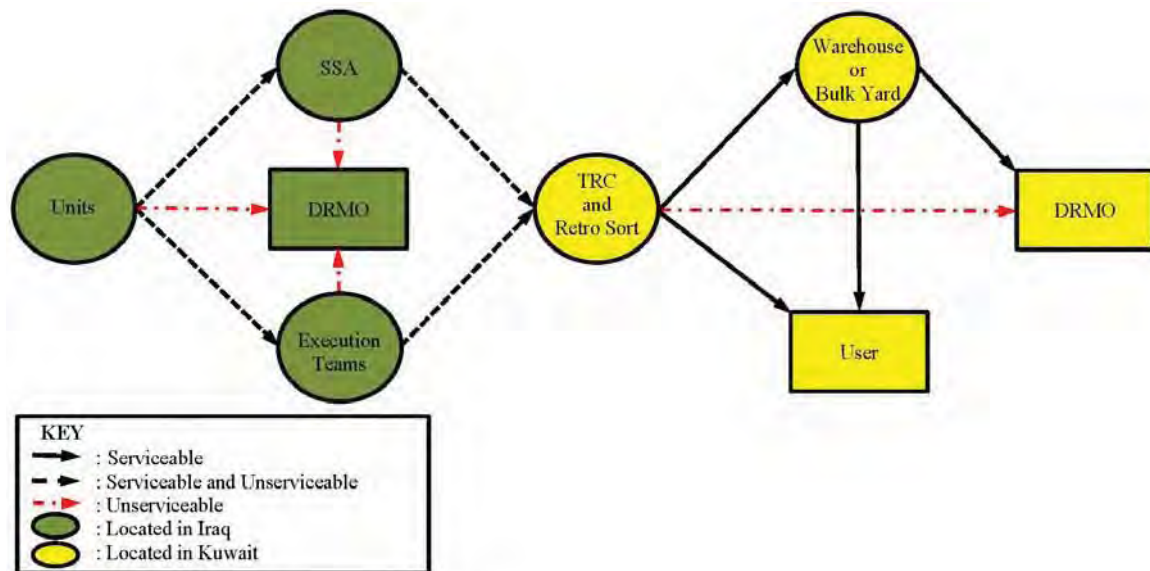
<sup>1</sup> The memorandum was included in Appendix D of DOD IG Report No. D-2010-027, "Army's Management of the Operations and Support Phase of the Acquisition Process for Body Armor," December 8, 2009.

<sup>2</sup> The Theater Retrograde encompasses multiple operations. For purposes of this report, the term Theater Retrograde will include operations only at the TRC (includes Retro Sort), Warehouse, and Bulk Yard.

## Theater Retrograde

The Theater Retrograde consists of the TRC (includes Retro Sort), Warehouse, and Bulk Yard, and employs approximately 980 contractor personnel and 18 military officials. The Theater Retrograde contractor personnel are responsible for processing materiel and ensuring proper disposition, which includes reutilization or disposal. Although the Theater Retrograde can receive materiel from any location in the USCENTCOM Theater of Operations, contractor personnel mainly receive materiel from Iraq supply support activities (SSA) or one of the assistance teams aiding in the drawdown. Please see Figure 1 for the proper flow of excess materiel from Iraq through Kuwait.

**Figure 1. Proper Flow of Materiel from Iraq through Kuwait**



Note 1: We reviewed operations at the TRC, Retro Sort, Warehouse, and Bulk Yard.

Note 2: The term “user” represents a location for repair and/or reutilization.

TRC personnel are responsible for receiving, sorting, and inspecting materiel. TRC personnel store unserviceable<sup>3</sup> materiel for subsequent repair or send the materiel to the Camp Arifjan Defense Reutilization and Marketing Office (DRMO) for disposal. TRC personnel also send serviceable<sup>4</sup> materiel to the Warehouse and Bulk Yard for reutilization. Warehouse personnel process and store serviceable materiel at an indoor location, and the Bulk Yard personnel process and store serviceable large and bulk materiel at an outdoor location. Once contractor personnel at the TRC, Warehouse, and Bulk Yard receive materiel, they record the items in the Standard Army Retail Supply System (SARSS), which provides automated disposition instructions based on programmed algorithms established by AMC. The disposition instructions could include

<sup>3</sup> Unserviceable materiel is categorized as: repairable and can be shipped to a depot for maintenance, cannot be repaired, or is no longer authorized for use and must be disposed.

<sup>4</sup> Serviceable materiel is in “like new” condition and can be immediately returned to the supply system for use or may be disposed of if excess to Theater requirements.

storing the materiel, shipping the materiel to a location for repair or reutilization, or sending the materiel to the DRMO for potential reutilization or disposal.

## **Roles and Responsibilities**

The Army Deputy Chief of Staff for Logistics (G-4) serves as the principal military advisor on logistics to the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), and AMC provides acquisition, logistics, and sustainment support for the Army. AMC is also the Army's executive agent for retrograde, which is the movement of equipment and materiel from a deployed theater to a reset program, or another theater of operations, to replenish unit or stock requirements. To support this effort, AMC has teams in Kuwait that search for specific Army-managed items designated for reutilization. AMC also works closely with ARCENT in an effort to provide disposition instructions for materiel that is still needed in the USCENTCOM Theater of Operations.

Within the Theater, ARCENT has overall responsibility for Army operations and provides logistical and personnel support for the drawdown, equipment retrograde, and Afghanistan buildup. The 1<sup>st</sup> Theater Sustainment Command is a subordinate command of ARCENT and provides joint command and control of logistics and personnel in support of combat operations, redeployment of rotating forces, and sustainment of operating forces, to include providing oversight of Theater Retrograde operations.

## **Theater Retrograde Operations**

In 1999, the U.S. Army Atlanta Contracting Center awarded Combat Support Associates the Combat Support Services Contract-Kuwait, a \$503 million cost-plus-award fee contract that encompasses several operations, one of which is the Theater Retrograde.<sup>5</sup> The contract consists of one base year, nine option years, and two 6-month extensions, extending contract performance through September 2010. The total contract value through March 2010 was more than \$3 billion. Throughout the life of the contract, multiple organizations were responsible for contract management, administration, and oversight. Currently, contract management is assigned to the U.S. Army Contracting Command, Rock Island Contracting Center; contract administration is delegated to the Defense Contract Management Agency (DCMA); and day-to-day contract oversight is delegated by the 1<sup>st</sup> Theater Sustainment Command to an Army sustainment brigade.

Contracting officers are responsible for overall contract management, to include monitoring contractor performance and compliance with the terms and conditions of the contract and applicable laws, regulations, and procedures. Prior to contract award, contracting officers are also responsible for reviewing solicitations to determine whether the contractor may require access to classified or controlled information during contractor performance. If access might be required, the contracting officer is responsible for inserting clauses into the contract required by the Federal Acquisition Regulation and Defense Federal Acquisition Regulation Supplement. Inserting these clauses ensures contractor personnel are aware of the requirements regarding access to classified and controlled information and increases assurance that the data is protected. Subsequent to

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<sup>5</sup> The other operations, which are not discussed in this report, will be discussed other DOD IG reports.

contract award, the contracting officer is responsible for approving any modifications that may affect the scope, level of effort, or cost of the contract. To assist in performing all of the required duties, the contracting officer may also delegate some authority.

For the Combat Support Services Contract-Kuwait, the Contracting Officer, Rock Island Contracting Center, delegated contract administration responsibilities to DCMA, a DOD Component that works directly with contractors to help ensure supplies and services are delivered on time, at projected cost, and meet performance requirements. The DCMA Administrative Contracting Officer (ACO) for the contract is responsible for administrative support functions and providing technical direction to contractor personnel including: approving administrative changes, reviewing invoices, ensuring efficient use of personnel and compliance with quality assurance procedures, and validating compliance with the contractor's level of effort necessary to meet the requirements. In addition to providing administrative support, the ACO appointed a Contracting Officer's Representative (COR)<sup>6</sup> and multiple alternate CORs to provide oversight of contractor personnel on a day-to-day basis. The COR and alternate CORs monitored contractor personnel performance and adherence to the contract through weekly performance reviews and monthly audits. The COR submitted the audit reports to a DCMA Quality Assurance Representative (QAR) once a month for review and corrective action. In addition to reviewing the COR audit reports, the DCMA QAR and COR performed joint monthly audits that were also used to assess contractor performance.

## **Review of Internal Controls**

DOD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010, requires DOD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. However, internal control weaknesses existed within the Army and DCMA's contract management, oversight, and administration of Theater Retrograde operations.

Army and DCMA officials did not develop and implement policies and procedures to adequately monitor contractor performance to ensure compliance with contract requirements and Federal, DOD, and Army regulations when processing materiel at the Theater Retrograde. Implementing the recommendations in Finding A should protect classified and controlled materiel from a foreign adversary, decrease safety risks from exposure to hazardous materiel, and increase the reutilization rate of serviceable materiel. Implementing the recommendations in Finding B should increase assurance that DOD is receiving the best value for contracted services performed, and that the TRC has adequate staffing to meet contract requirements for processing containers and the estimated increase in the number of containers expected during the Iraq drawdown. We will provide a copy of the final report to senior Army and DCMA officials in charge of internal controls for the processing of materiel at the Theater Retrograde.

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<sup>6</sup> During this audit, the COR was a 593<sup>rd</sup> Army Sustainment Brigade official.

## **Finding A. Management of Theater Retrograde Operations Needs Improvement**

DOD officials did not effectively manage Theater Retrograde operations for the reutilization and disposition of equipment at Camp Arifjan. Specifically, Army and DCMA officials did not ensure that contractor personnel complied with contract requirements and applicable Federal, DOD, and Army regulations when processing materiel at the Theater Retrograde. For example, contractor personnel did not:

- comply with security requirements to prohibit foreign nationals from unauthorized access to classified and potentially controlled materiel,
- store hazardous materiel properly or have the required equipment to safely respond to a hazardous spill,
- conduct adequate research to identify serviceable nonstandard equipment for reutilization, and
- assign correct national stock numbers to serviceable materiel.

This occurred because Army officials did not develop and implement effective policies and procedures for processing materiel at the Theater Retrograde. In addition, Army and DCMA officials did not resolve all deficiencies identified during contractor performance reviews and did not perform administrative functions in accordance with their appointment letters and the Federal Acquisition Regulation. As a result, DOD remains at an increased risk that a foreign country or adversary could gain a military or economic advantage over the United States, which could impact national security. In addition, officials will continue to be exposed to increased safety risks and serviceable materiel will not be effectively reutilized, but instead may be potentially destroyed or sold without direct monetary benefit to the Government.

Army and DCMA officials took immediate action to address some of the issues identified during the audit. Specifically, Army officials issued guidance for classifying and distributing nonstandard equipment (NSE), and stated they are considering using other inventory databases at the TRC to assist contractor personnel in identifying and properly distributing NSE. Army and DCMA officials also stated they increased the number of oversight personnel at the Theater Retrograde and updated oversight procedures. See Management Actions on page 16 for a list of actions taken.

## Laws and Regulations

Federal, DOD, and Army regulations provide policies and procedures for safeguarding controlled materiel, to include classified, export controlled, and sensitive materiel. As required by Executive Order 12829, “National Industrial Security Program,” January 6, 1993, and under the authority of DOD Directive 5220.22, “National Industrial Security Program (NISP),” September 27, 2004; the DOD Manual 5220.22, “National Industrial Security Program Operating Manual,” February 28, 2006, prescribes requirements and safeguards necessary to prevent unauthorized disclosure of classified information in the interest of national security. Specific to exports, contractors are not to disclose export controlled information and technology (classified or unclassified) to a foreign person unless such disclosure is authorized by an export license, other authorization from a U.S. Government authority, or an exemption to export licensing requirements. Contractor personnel cleared to access classified data, to include export controlled data, may also be required to develop a technology control plan, which includes safeguards such as unique badging, escorts, and segregated work areas necessary to prevent unauthorized access.

Consistent with national security objectives, DOD Instruction 2040.02, “International Transfers of Technology, Articles, and Services,” July 10, 2008, provides guidance related to the release and disclosure of dual-use<sup>7</sup> and defense-related (controlled) technology, articles, and services. The guidance states that controlled technology or technical data is considered to be released or disclosed when information is transferred to foreign persons by means of a visual inspection, oral exchange, application of the technology or data, or the use of any other medium of communication. Any release or disclosure of controlled technology to any foreign person, whether it occurs in the United States or abroad, is deemed to be an export.

To implement Federal and DOD guidance, the Army issued regulations for protecting classified and controlled materiel. Army Regulation 735-5, “Policies and Procedures for Property Accountability,” February 28, 2005, provides policies and procedures to account for Army property and defines classified, sensitive, and controlled materiel. According to the regulation, classified materiel requires protection in the interest of national security, and controlled materiel is defined as materiel designated to have characteristics requiring that they be identified, accounted for, secured, segregated, or handled in a special manner to ensure their safekeeping and integrity. Sensitive materiel is defined as materiel requiring a high degree of protection and control because of statutory requirements or regulations and is high-value, highly technical, or hazardous. The Army also issued Army Regulation 190-51, “Security of Unclassified Army Property (Sensitive and Non-sensitive),” September 30, 1993, which provides handling procedures for sensitive materiel and physical security policies and procedures for the safeguarding of U.S. Army property. For the purposes of consistency within this report, we will refer to materiel as either classified or controlled (sensitive and export controlled).

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<sup>7</sup> Dual use commodities are those goods or technologies that have both commercial and military use.

## Ineffective Management of Theater Retrograde Operations

DOD officials did not effectively manage Theater Retrograde operations for the reutilization and disposition of equipment at Camp Arifjan. Specifically, Army and DCMA officials did not ensure contractor personnel complied with contract requirements and applicable Federal, DOD, and Army regulations when processing materiel at the Theater Retrograde. Contractor personnel did not comply with security requirements to prohibit foreign nationals from unauthorized access to classified and potentially controlled materiel, properly store hazardous materiel or have the required equipment to safely respond to a hazardous spill, conduct research to identify serviceable NSE for reutilization, and assign valid national stock numbers (NSN) to serviceable materiel.

### ***Classified and Controlled Materiel Processing Procedures***

Army and DCMA officials did not ensure that contractor personnel complied with security requirements to prohibit foreign nationals<sup>8</sup> from unauthorized access to classified

*Contractor personnel also had unauthorized access to potentially controlled materiel during the receiving, inspecting, and sorting processes...*

materiel during the receiving process. Contractor personnel also had unauthorized access to potentially controlled materiel during the receiving, inspecting, and sorting processes, which did not comply with security

requirements. The contract required the contractor to comply with applicable security regulations for handling classified and controlled materiel.

### **Unauthorized Personnel Receiving Materiel**

Contractor personnel without the appropriate clearance, to include foreign nationals, were the first to open the containers of materiel and check for classified and controlled items. According to the contract, classified and controlled materiel requires a high degree of protection and control and must be handled in a special manner to ensure their safekeeping and integrity. To comply with security regulations set forth in the contract, the contractor developed an internal requirement that only cleared U.S. contractor personnel could initially open and inspect the container contents. To differentiate between the cleared U.S. contractor personnel and foreign nationals, the U.S. contractor personnel were required to wear red hard hats and the foreign nationals blue hard hats. However, we observed on several occasions that a foreign national was the first and only employee to view the contents of a container and screen for classified or controlled materiel (Figure 2). Although classified materiel was not in any of the containers we observed, our review of calendar year (CY) 2009 container violation reports indicated that officials in Iraq improperly shipped classified materiel to the TRC in the past.

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<sup>8</sup> For purposes of this report, the term “foreign national” is used to refer to a local and/or third-country national.

**Figure 2. Instances Foreign Nationals (Blue Hard Hats) Were the First to Open and Inspect Containers of Materiel at the TRC**



We also observed that cleared U.S. contractor personnel were not always the first to inspect materiel upon receipt at the Warehouse. Instead, Warehouse contractor personnel stated that foreign nationals were responsible for alerting a cleared U.S. contractor official when they received classified or controlled materiel. If Army and DCMA officials do not ensure the contractor complies with applicable security requirements, DOD has an increased risk that foreign nationals may have unauthorized access to classified and controlled materiel.

### **Unauthorized Personnel Inspecting Materiel**

Foreign nationals at the TRC had unauthorized access to potentially controlled materiel during the inspection process. Specifically, contractor personnel inspected and conducted

*...the contractor did not comply with the contract and security regulations by allowing foreign nationals to identify and inspect controlled items...*

research to identify potentially controlled materiel that arrived at the TRC with no documentation, and determined whether the materiel was serviceable or unserviceable. The official documented the materiel and its serviceability on an inventory processing sheet and provided the sheet to a technical inspector. The technical

inspector was a U.S. contractor official who validated that the information for the materiel was correct. Although our observations showed that a U.S. contractor official always validated the information, the contractor did not comply with the contract and security regulations by allowing foreign nationals to identify and inspect controlled items, such as smoke grenades and weapons' parts. Contractor personnel stated that U.S. contractor officials were previously required to process pilferable and controlled materiel in a separate controlled location; however, they were no longer required to do so. Instead, contractor personnel processed materiel according to Table 1, which the contractor included as an attachment in their request to the ACO to process some controlled materiel in a separate location due to the increased amount of controlled materiel received.



**Table 1. TRC Controlled Materiel Processing Instructions**

CIIC	Definition
1	Highest Sensitivity - Non-nuclear missiles and rockets, launcher tube and explosive rounds
2	Highest Sensitivity - Arms, Ammunition and Explosives
3	Moderate Sensitivity - Arms, Ammunition and Explosives
4	Low Sensitivity - Arms, Ammunition and Explosives
7	Items assigned a Demil other than A, B, or Q, Subject to theft or unlawful disposition
9	Controlled Cryptographic Item (CCI)
A	Confidential, Formerly Restricted Data
B	Confidential, Restricted Data
C	Confidential
I	Aircraft Engine Equipment and Parts
J	Pilferable
M	Hand Tools and Shop Equipment
N	Firearms Piece Parts and Nonlethal Firearms
O	Naval Nuclear Propulsion Info, preclude Non authorized Access
R	Precious Metals, Drugs, or other Controlled Substances
S	Secret
V	Pilferable, Clothing and Equipment
X	Pilferable, Photographic Equipment and Supplies
Y	Communications/Electronic Equipment and Supplies
Z	Vehicular Equipment and Parts

Note: Controlled Inventory Item Code (CIIC)

Source: Army Sustainment Brigade

The new materiel processing procedures only required the materiel highlighted in red (CIICs 1, 2, O, R, and S) to be inspected in a separate location by personnel with a security clearance. Contractor personnel considered the other listed items (in green and yellow) to be “lower level items” and those items could be inspected by U.S. contractor personnel without a clearance and foreign nationals with all other materiel in an uncontrolled area.

We reviewed the contractor’s processing procedures referenced in Table 1, compared those procedures to guidance cited in the contract, and noted inconsistencies. For example, Army Regulation 190-51 states that controlled cryptographic items require protection from unauthorized access, including uncontrolled physical possession, which provides the opportunity to obtain detailed knowledge of the item. However, the table depicts that controlled inventory item code “9” materiel could be processed by foreign nationals in an uncontrolled area with all other materiel. In addition, Army Regulation 735-5 states that sensitive materiel, including those coded “N” and “9,” require a high degree of protection and control; however, those items were also processed with all other materiel in accordance with Table 1.

We also observed controlled materiel comingled with other materiel being inspected or waiting to be sorted and inspected by foreign nationals, such as night vision cameras.

When we questioned the QAR as to whether the cameras had to be processed in a secure location, the QAR immediately instructed a cleared U.S. contractor official to move the cameras to a secure storage location for processing. We also observed instances where potentially controlled items on the U.S. munitions list, such as body armor and laser sights, were inspected for serviceability by foreign nationals.<sup>9</sup> DOD Instruction 2040.02 states that any release or disclosure of controlled technology or technical data to any foreign person, to include visual inspection, whether it occurs in the United States or abroad, is deemed to be an export. By allowing foreign nationals to visually inspect controlled materiel without first obtaining a license, waiver, or other authorized approval, the contractor could be in violation of U.S. export regulations.

### **Unauthorized Access to Controlled Item Storage**

Foreign nationals at the Bulk Yard had unauthorized access and possession of keys to controlled item storage containers, which contained materiel such as mobile lasers, sight units, and machine gun barrels. The contract required the contractor to comply with Army Regulation 190-51, which states that a key control plan must be created and keys will only be issued to individuals authorized to have access to the materiel. The guidance also states that in order to have authorized access, personnel must be on a key control register. However, we observed foreign nationals that were not on the key control register who had possession of keys to the controlled storage containers and appeared to have access on a routine basis. Unauthorized access and inadequate safeguards for protecting controlled materiel and technologies from unauthorized disclosure could give a foreign country or adversary a military or economic advantage over the United States, potentially impacting national security.

### ***Improper Storage and Safety Equipment for Hazardous Materiel***

Army and DCMA officials did not ensure that TRC contractor personnel stored hazardous materiel properly or had the required equipment to safely respond to a hazardous spill in accordance with contract requirements. The contract required the contractor to comply with Army Regulation 700-68, "Storage and Handling of Liquefied and Gaseous Compressed Gasses and their Full and Empty Cylinders," June 16, 2000, which states that all compressed gas cylinders awaiting use or shipment shall be secured in an upright position, placed tightly together, and stored in an area where it is unlikely that they will be knocked over. However, while accompanying the QAR on his monthly audit of TRC operations on January 29, 2010, we observed gas cylinders stored on their side and not properly braced or protected.

The contract also stated that the contractor shall have three hazardous materiel spill kits, which include all necessary supplies to respond to emergency situations. However, we observed that the contractor only had two spill kits on hand, and one of the kits was incomplete and not in an easily accessible location. In addition to the improper storage and the lack of required spill kits, the contractor also did not comply with the contract

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<sup>9</sup> The U.S. Munitions List controls the export of defense-related technologies in order to safeguard national security. In the U.S. Munitions List, body armor is included in Category X and lasers are included in Category XII.

requirement to provide secondary containment devices<sup>10</sup> during temporary and permanent storage. The secondary containment device used by the contractor resembled a tarp but had more than four holes, which would not have protected the area from a spill had one occurred. Subsequent to identifying the issues with improper storage and safety measures, the QAR issued a corrective action request that required contractor personnel to immediately correct the safety violations. Army and DCMA officials should continue to enforce compliance with safety procedures to ensure contractor personnel and military officials are not at risk.

### ***Research Needed to Identify NSE***

Army and DCMA officials did not ensure that TRC contractor personnel complied with the contract by exercising due diligence and conducting adequate research to identify NSE<sup>11</sup> that arrived without documentation. Army and DCMA officials also did not ensure that TRC contractor personnel contacted AMC or other appropriate officials for disposition guidance in accordance with the contract. The contract stated that the contractor must use multiple resources and make every attempt to identify undocumented NSE. Contractor personnel can identify NSE by a part number or other legible marking and research the materiel using the Federal Logistics Database<sup>12</sup> or the internet. If contractor personnel cannot identify the materiel, the contract requires them to segregate the NSE and contact the AMC to obtain disposition instructions. Instead of following procedures outlined in the contract, however, TRC contractor personnel assigned low dollar values to serviceable NSE and sent those items directly to the Camp Arifjan DRMO (the DRMO).

Contractor personnel stated that they applied low dollar values because they believed the dollar value was irrelevant, since they were sending all NSE to the DRMO for disposal. Contractor personnel also stated that they were sending serviceable NSE to the DRMO because AMC officials would only provide disposition instructions for Army managed equipment, to include materiel with a nonstandard NSN.<sup>13</sup> The contractor personnel further stated that if they processed the serviceable NSE in SARSS to obtain disposition instructions, the materiel would be directed to the Warehouse, which does not accept NSE. Therefore, rather than processing the materiel through SARSS, contractor personnel completed manual shipping documentation to send the materiel to the DRMO.

During several site visits to the DRMO in February 2010, we physically inspected multiple NSE with low dollar values and researched four of the items using the Federal Logistics Database and internet. We found three of the four NSE with minimal effort, and documented the approximate values listed in Table 2.

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<sup>10</sup> Secondary containment devices were placed under hazardous materiel to minimize the impact and spread of a spill.

<sup>11</sup> NSE is materiel commercially acquired and fielded outside the normal acquisition process to bridge mission capability gaps and meet urgent requirements.

<sup>12</sup> The Federal Logistics Database is used to reference information on items, such as diagrams, and their part numbers to their NSN.

<sup>13</sup> A nonstandard NSN should be applied to NSE in order to identify and account for the NSE.

**Table 2. NSE Inspected at the DRMO**

<b>NSE Materiel</b>	<b>Assigned Value</b>	<b>Approximate Value</b>
<b>Shredder</b>	\$50.00	\$13,000.00
<b>Solar Panel</b>	\$1.00	\$250.00
<b>Water Heater</b>	\$25.00	\$700.00

Although the DRMO contractor personnel may have made the NSE available for reutilization, the low dollar values assigned by TRC contractor personnel could impact the likelihood of the items being reutilized. For example, an Army official with a requirement for a high-capacity shredder would have no way of knowing the \$50.00 shredder at the DRMO was the same item as the \$13,000 high-capacity shredder, unless the official physically observed the inventory for reutilization at the DRMO. After a 42-day reutilization period at the DRMO, all serviceable NSE is potentially destroyed or sold without direct monetary benefit to the Government.

We also reviewed DRMO turn-in receipt data for CY 2009,<sup>14</sup> and found that TRC contractor personnel sent potentially serviceable NSE valued at approximately \$16.8 million to the DRMO. Using the DRMO reutilization rate of 7 percent, we estimated that DRMO contractor personnel may have destroyed or sold potentially serviceable NSE valued at approximately \$15.6 million in CY 2009.<sup>15</sup> In addition, due to TRC contractor personnel assigning low dollar values to the NSE as discussed above, the total dollar values of NSE sent to the DRMO and potentially destroyed or sold could be significantly underestimated.<sup>16</sup> To increase the reutilization rate, Army officials should determine whether AMC is the appropriate command to provide TRC contractor personnel disposition guidance for NSE and develop business rules to ensure contractor personnel are using the proper care to identify NSE and apply realistic dollar values.

### ***Applying Incorrect National Stock Numbers***

Army and DCMA officials did not ensure that TRC, Warehouse, and Bulk Yard contractor personnel manually applied the correct NSN to serviceable materiel as required by the contract. The contract stated that when materiel arrives at a location with identifying documentation, the contractor will verify that the NSN, quantity, and nomenclature are correct prior to entering the materiel into SARSS. However, Warehouse contractor personnel stated that TRC contractor personnel often mistakenly applied the incorrect NSN to materiel. Subsequently, we observed Warehouse contractor personnel validating the NSN for materiel received from the TRC using the Federal

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<sup>14</sup> Data was provided by Defense Logistics Agency Disposition Services officials.

<sup>15</sup> We calculated the 7-percent reutilization rate using data provided by Defense Logistics Agency Disposition Services officials. We used the total dollar value of all materiel reutilized for CY 2009 and divided that number by the total dollar value received. We then applied the 7-percent reutilization rate to the total dollar value of NSE received to determine the amount reutilized, and further calculated the amount potentially destroyed or sold.

<sup>16</sup> This statement is based on the results of auditor observations, interviews, and identification of NSE shredders, solar panels, and water heaters that were underestimated by approximately 260; 250; and 28 times their approximate acquisition value, respectively.

Logistics Database, and the documentation originally prepared by the TRC contractor personnel was incorrect. Although Warehouse contractor personnel identified and corrected the NSN prior to entering the materiel into SARSS, the number of Warehouse and Bulk Yard inventory adjustment reports illustrates that those contractor personnel also did not always identify or apply the correct NSN.

We reviewed January 2009 to September 2009 inventory adjustment reports and found that Warehouse and Bulk Yard contractor personnel submitted 112 inventory adjustment reports, the majority of which resulted from contractor personnel applying the incorrect NSNs to materiel. We also conducted a physical inventory using a judgment sample of approximately 15-percent of the controlled materiel at the Bulk Yard and found that contractor personnel applied the incorrect NSN to controlled materiel. For example, we selected “light warnings” and counted 28 lights. However, a review of SARSS indicated that 84 light warnings were on hand. After further review, we determined that the contractor improperly applied the NSN for light warnings to 56 other items. Although the light warnings were not missing, having an error of actual inventory on hand could impact the likelihood of materiel being reutilized or fulfilling a requirement for supporting other overseas contingency operations. To increase assurance that inventory records are accurate, Army and DCMA should increase oversight to ensure contractor personnel are consistently verifying that the NSN, quantity, and nomenclature are correct prior to entering the materiel into SARSS.

## **Materiel Processing Policies and Procedures Need Improvement**

Army officials did not implement effective policies and procedures for processing materiel at the Theater Retrograde. In addition, Army and DCMA officials did not resolve all deficiencies identified during contractor performance reviews and perform administrative functions in accordance with their appointment letters and the Federal Acquisition Regulation.

### ***Effective Policies and Procedures Not Implemented***

The COR did not implement effective policies and procedures to adequately monitor contractor performance and ensure compliance with contract requirements. The appointment letter required the COR to monitor contractor performance by conducting monthly compliance audits using a standardized checklist to verify compliance with contract requirements. The COR divided the checklist into multiple sections and delegated responsibility to the alternate CORs to verify each requirement through daily audits until the alternate CORs completed the checklist.<sup>17</sup> However, we reviewed approximately 170 daily audit reports from September 2009 through December 2009 and identified that none of the standardized checklists were completed each month. For example, the audit reports did not include any data on whether the contractor processed the required amount of materiel. Without this data, the COR was unable to determine if the contractor complied with the materiel processing requirement as stated in the

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<sup>17</sup> It should be noted that providing oversight of the Theater Retrograde contractor personnel was the COR and alternate CORs’ full-time responsibility.

contract. In addition, completion of the standard checklist did not always provide assurance that the contractor provided services in accordance with the contract. See Appendix C for examples of the inadequate audit reports the COR provided to the QAR.

Joint monthly audits conducted from September 2009 through December 2009 by the QAR and COR also did not provide assurance as to whether the contractor complied with contract requirements. For example, one of the audit objectives was to verify whether the TRC contractor only allowed cleared personnel to process controlled items. Rather than physically observing or testing procedures to verify whether the contractor personnel complied with the requirement, the QAR relied on testimonial evidence from the TRC Department Manager, who stated that only contractor personnel with the appropriate clearance process controlled items. Relying on testimonial evidence rather than observing and validating compliance with the requirement does not provide adequate assurance that controlled items are being properly protected in accordance with Federal, DOD, and Army regulations.

### ***Procedures Needed to Resolve Deficiencies***

Subsequent to the alternate CORs identifying deficiencies during performance reviews, the COR and QAR did not ensure the deficiencies were resolved. For example, the COR and QAR identified during a November 2009 audit that the spill kits in the TRC hazardous materiel area were incomplete. During our review of December 2009 audit reports, we found that an alternate COR identified the same issue. Alternate CORs also identified during an October 2009 audit that Warehouse contractor personnel improperly rejected serviceable materiel from the TRC, for reasons such as the incorrect NSN. Some of the serviceable materiel the contractor personnel rejected and sent back to the TRC included two Marine Mine Roller Systems, valued at \$600,000; three hydraulic tool kits, valued at \$150,000; and two transfer transmissions, valued at \$40,000. Although the alternate COR identified and reported the deficiency, the COR and QAR did not follow up on the issue to ensure the contractor personnel resolved it, and the alternate CORs continued to identify and report the same issue five times during that same month. To ensure the performance reviews conducted by the alternate CORs are useful and effective, Army and DCMA officials should develop procedures to ensure deficiencies are resolved in a timely manner.

### ***Inadequate Contract Administration***

The COR and ACO did not administer the contract in accordance with their appointment letters, and the Contracting Officer did not perform functions in accordance with the Federal Acquisition Regulation. The COR appointment letter required the COR to verify

*The COR was also unaware of which requirements the contractor was required to comply with.*

the technical requirements of the contract; however, as discussed above, the COR failed to review or verify the performance requirements during monthly audits. In addition, the COR was unable to provide us a conformed copy of

the contract and instead, provided us multiple copies of contractual requirements, which included current requirements and one requirement for a different contract. The COR was also unaware of which requirements the contractor was required to comply with.

The appointment letter also states that the COR may not make any contractual agreements or take any action that may affect the contract scope. However, the COR improperly approved the contractor's internal procedures that allowed them to send serviceable NSE directly to the DRMO without contacting AMC for disposition instructions, which were procedures that contradicted the requirements in the contract. Rather than allowing the contractor to not comply with the contract, the COR should have reported the issue to the QAR, which could have resulted in DCMA and Army officials determining who should provide disposition instructions, potentially increasing the reutilization rate of NSE.

The ACO also acted without proper authority by approving changes to the contract for processing controlled materiel at the TRC. Specifically, the ACO approved the contractor's request to process only certain controlled materiel in a separate location, and according to the ACO appointment letter, the ACO did not have the authority to make that type of change. Based on the change, foreign nationals were allowed to process the remaining controlled materiel along with all other materiel (refer to Table 1 on page 9). Because the ACO issued the change, DOD increased its risk that foreign nationals could process controlled materiel, potentially impacting national security. Army and DCMA officials should review the changes and ensure compliance with Army, DOD, and Federal regulations.

Although the Federal Acquisition Regulation requires the Contracting Officer to ensure the contractor complies with all requirements of law, executive orders, regulations, and other applicable procedures during the performance of the contract, the Contracting Officer did not ensure that the ACO's changes to processing controlled materiel complied with Federal, DOD, and Army security regulations. In addition, the Contracting Officer did not modify or incorporate by reference the Defense Federal Acquisition Regulation Clause 252.204-7008 into the contract. The Contracting Officer is required to include the clause in all solicitations and contracts to remind DOD contractors and subcontractors of their obligation to comply with the International Traffic in Arms Regulations and the Export Administration Regulations. The clause is specifically to be used when export controlled items, including information or technology, are expected to be involved in contract performance, or when there is a possibility these items may be used during the period of contract performance. Had the Contracting Officer included the Defense Federal Acquisition Regulation clause in the contract, it may have precluded some of the unauthorized technical inspections of export controlled materiel from occurring at the Theater Retrograde.

## **Conclusion**

Because Army and DCMA officials were not providing adequate management and oversight of Theater Retrograde operations, DOD remains at an increased risk that serviceable materiel may not be processed accurately and may be destroyed or sold without direct monetary benefit to the Government. Improving contract oversight and identifying the proper command to provide disposition instructions should decrease the amount of potentially serviceable NSE sent to and possibly destroyed at the DRMO. Ensuring compliance with the contract and applicable requirements should also protect

classified and controlled materiel from unauthorized disclosure, decrease safety risks from exposure to hazardous materiel, and increase DOD's capabilities to fulfill support requirements for overseas contingency operations.

To increase the Contracting Officer's assurance that the Army and DCMA officials are providing adequate oversight to ensure contractor performance and compliance with the terms of the contract; requirements of law, executive orders, regulations; and all other applicable procedures, the Contracting Officer should require that the officials maintain a conformed copy of the contract and update and consolidate all contract files prior to each rotation. In addition, to prevent Army and DCMA officials from acting outside their authority and ensure they perform their required duties, the Contracting Officer should clarify roles and responsibilities for each official providing contract oversight and reconsider the amount of authority delegated.

## **Management Actions Taken to Improve Theater Retrograde Operations**

We commend the Army and DCMA for taking immediate action to address issues during our site visits. Army officials issued guidance for classifying and distributing NSE and stated they are considering using other inventory databases at the TRC, such as the Materiel Enterprise Nonstandard Equipment, to assist contractor personnel in properly identifying and distributing NSE. During our second site visit in February 2010, Army officials removed the COR for poor performance. Army and DCMA officials also stated that they:

- conducted an audit of the Bulk Yard and addressed security deficiencies;
- started formalizing the business rules necessary to catalog NSE;
- introduced the Nonstandard Line Item Number Module at the TRC, which provides contractor personnel additional researching tools to assist in identifying undocumented materiel;
- coordinated with AMC officials to obtain assistance in cataloging and identifying materiel at the TRC;
- increased the number of CORs and alternate CORs assigned to the TRC, Warehouse, and Bulk Yard to provide day-to-day oversight;
- updated the COR, alternate COR, and QAR audit standardized checklists and are developing additional steps in the QAR checklist to evaluate how well contractor personnel are identifying serviceable materiel; and
- issued 11 corrective action requests to the contractor within a 6-month time period.



Due to yearly rotations, a new Command replaced the Sustainment Brigade in May 2010. Although Army and DCMA officials stated they took the above actions, we did not modify our recommendations in an effort to further increase assurance that the recommendations will be implemented. While the recommendations in this report will improve current Theater Retrograde operations, once a new contract is awarded, it will be equally important that Army and DCMA officials properly manage the contract and oversee contractor performance and adherence to the contract requirements to ensure DOD is receiving the services contracted for. Therefore, the recommendations in this report should also be applied to the follow-on Theater Retrograde contract.

## **Management Comments on the Finding and Our Response**

### ***DCMA Comments***

The Commander, DCMA International, disagreed in part with the finding. The Commander stated that DCMA is not responsible for developing and implementing policies and procedures for processing materiel at the Theater Retrograde, and policies and procedures are set forth in the terms and conditions of the contract. Furthermore, the Commander stated that DCMA officials are not subject matter experts in Theater Retrograde Operations, and DCMA relies on the expertise of the CORs to help identify the contractor's technical deficiencies. The Commander also stated that they have not located documentation of the ACO's change to the contract for processing controlled materiel, and that DCMA ACOs are generally authorized to make administrative contract changes. The Commander added that without reviewing the contract change document, they cannot agree that the ACO exceeded his authority.

The Commander provided multiple actions taken since the audit, to include implementing a robust Management and Internal Control Program; updating Kuwait's Theater Quality Plan and DCMA's surveillance checklists; increasing the number of inspection lanes for materiel and the number of security personnel; and issuing multiple corrective action requests for improper handling of materiel.

### ***Our Response***

We agree with the Commander's comment that DCMA is not responsible for developing and implementing policies and procedures for processing material at the Theater Retrograde. Therefore, we revised the finding to state that the Army did not develop and implement effective policies and procedures. In response to the Commander's comment that they cannot agree that the ACO exceeded his authority without reviewing the contract change document, we obtained the documentation from Army officials and met with DCMA-Kuwait officials on February 4, 2010. The ACO verified that he signed the documents, which approved the contractor to process controlled materiel differently. As discussed on page 15, the ACO did not have the authority to make this change.

## **Recommendations, Management Comments, and Our Response**

**A.1. We recommend the Commander, 1<sup>st</sup> Theater Sustainment Command, coordinate with officials from the U.S. Army Materiel Command and the Army Deputy Chief of Staff for Logistics (G-4) to develop business rules so that nonstandard equipment at the Theater Redistribution Center is reutilized to its maximum capability. These rules should provide guidance for the amount of time a contractor should spend researching specific items based on dollar value, critical or future need, or other requirement; and a point of contact to assist in obtaining disposition instructions.**

### ***1<sup>st</sup> Theater Sustainment Command Comments***

The Deputy Commanding General, 1<sup>st</sup> Theater Sustainment Command, provided comments through the Commander, Third Army/ARCENT, that agreed with Recommendation A.1. The Deputy Commanding General stated that officials from the 1<sup>st</sup> Sustainment Brigade, AMC, ARCENT, Deputy Chief of Staff for Logistics (G-4), Rock Island Contracting Center, and Defense Logistics Agency worked together to develop and implement business rules to improve NSE disposition at the TRC. The Deputy Commanding General stated that improvements include implementing a Letter of Technical Direction that specifies research time-periods to the contractor; incorporating the AMC Installation Supply Representative and Life Cycle Management Commands into the identification and research processes; and improving overall contractor oversight through trained CORs, which is critical to addressing the security concerns reported in the audit. The Deputy Commanding General further stated that the 1<sup>st</sup> Theater Sustainment Command has continued to work with key stakeholders to improve business rules regarding the disposition process at the strategic level.

### ***Our Response***

The Deputy Commanding General, 1<sup>st</sup> Theater Sustainment Command comments are responsive. Subsequent to providing official comments, an ARCENT official e-mailed us stating that corrective actions were implemented no later than August 26, 2010. No additional comments are required.

**A.2. We recommend the Commander, 1<sup>st</sup> Theater Sustainment Command, and the Commander, Defense Contract Management Agency-Kuwait:**

**a. Update the audit standardized checklists for the Contracting Officer's Representative and Quality Assurance Representative to ensure they are able to verify whether contractor personnel complied with contract requirements and applicable Federal, DOD, and Army regulations.**

**b. Develop procedures that ensure deficiencies identified by the Contracting Officer's Representative, Alternate Contracting Officer's Representative, and Quality Assurance Representative are resolved in a timely manner based on the severity of the deficiency.**

## ***1<sup>st</sup> Theater Sustainment Command Comments***

The Deputy Commanding General, 1<sup>st</sup> Theater Sustainment Command, agreed and stated that significant improvements were made to the COR and QAR standardized checklists in May 2010, and 1<sup>st</sup> Theater Sustainment Command officials will continue to refine these documents and provide contractor performance feedback. The Deputy Commanding General also stated that officials within the 1<sup>st</sup> Theater Sustainment Command and 1<sup>st</sup> Sustainment Brigade have implemented daily, weekly, and monthly procedures to improve contract oversight and communication between the contractor and U.S. Government.

### ***Our Response***

The Deputy Commanding General, 1<sup>st</sup> Theater Sustainment Command comments are responsive. Subsequent to providing official comments, an ARCENT official e-mailed us stating that corrective actions were implemented no later than August 26, 2010. No additional comments are required.

## ***DCMA Comments***

The Commander, DCMA International, agreed and stated that the QAR reviewed and updated all audit/surveillance checklists to ensure they coincided with the COR checklists and addressed specific findings in the report. The Commander also stated that DCMA-Kuwait officials performed a comprehensive review and revision of its Theater Quality Plan, June 24, 2010.

The Commander stated that DCMA-Kuwait has procedures in place to adequately track contractor deficiencies. DCMA officials address the deficiencies through corrective action requests and track them using a network share drive. All pertinent information, to include subject matter, milestone dates, and status, is included in the database. DCMA officials track the corrective action requests through closeout.

### ***Our Response***

The Commander, DCMA International comments are responsive. For Recommendation A.2.b, although the Commander did not specifically state that DCMA would develop procedures to ensure deficiencies are resolved, we believe the procedures discussed in the Commander's comments, if implemented, will meet the intent of the recommendations. Therefore, no additional comments are required.

### **A.3. We recommend the Commander, Defense Contract Management Agency-Kuwait:**

**a. Direct contractor personnel at the Theater Redistribution Center to comply with the business rules referenced in Recommendation A.1.**

**b. Direct contractor personnel at the Theater Retrograde to comply with hazardous materiel and security regulations as stated in the contract and export control laws and regulations.**

## ***DCMA Comments***

The Commander, DCMA International, agreed and stated that the QAR will provide oversight and ensure that the contractor is complying with the business rules when the contract is modified. The Commander also stated that the function of DCMA is to verify whether the contractor complies with the terms and conditions of the contract. If not, the QAR may issue a corrective action request, or the deficiency may warrant the attention and direct involvement of the ACO, depending on the immediacy, severity, and risk assessment of the deficiency.

## ***Our Response***

The Commander, DCMA International comments are responsive. We contacted a DCMA-Kuwait official for clarification on DCMA's response to Recommendation A.3.b, and the official stated that DCMA officials direct contractor personnel to comply with the contract through issuing corrective action requests and track the requests through completion. The official also stated that the revised audit checklists used by the QAR include steps to ensure compliance with hazardous materiel and security regulations. No additional comments are required.

### **A.4. We recommend the Executive Director, Rock Island Contracting Center:**

**a. Modify the contract to include the required Defense Federal Acquisition Regulation clauses requiring compliance with laws and regulations specific to processing export controlled materiel.**

**b. Review the Administrative Contracting Officer's change to the processing of controlled materiel and assess compliance with Federal, DOD, and Army regulations.**

**c. Require the Administrative Contracting Officer, Quality Assurance Representative, Contracting Officer's Representative, and Alternate Contracting Officer's Representatives to maintain a conformed copy of the contract and update and consolidate all contract files prior to their departure from Kuwait.**

**d. Redevelop and issue appointment letters for the Administrative Contracting Officer, Quality Assurance Representative, Contracting Officer's Representative, and Alternate Contracting Officer's Representative that clearly define their roles, responsibilities, and authority for providing contract administration and oversight.**

**e. Direct the Administrative Contracting Officer to review the Quality Assurance Representative's monthly audit reports and direct the Quality Assurance Representative to review the Contracting Officer's Representative monthly audit reports. The reviews should ensure that DOD officials conducted the audits appropriately, met the intent of the audit, discussed actions needed with the contractor, and resolved the issues in a timely manner.**

## ***Rock Island Contracting Center Comments***

The Executive Deputy to the Commanding General, AMC and the Executive Director, U.S. Army Contracting Command, endorsed and forwarded comments for the Acting Executive Director, Rock Island Contracting Center. The Acting Executive Director agreed with Recommendations A.4.a, A.4.b, A.4.d, and A.4.e, and stated that the applicable Defense Federal Acquisition Regulation clauses are expected to be incorporated into the contract by September 30, 2010. The Executive Director also stated that Rock Island Contracting Center will review the ACO's change to the processing of controlled materiel and assess compliance with applicable regulations by September 30, 2010.

The Executive Director stated that Rock Island Contracting Center delegated contract administration to DCMA, which is responsible for appointing ACOs, QARs, CORs, and Alternate CORs. However, Rock Island Contracting Center is developing a Contract Administration Plan to clearly define the roles and responsibilities of all contract officials. The Acting Executive Director further stated that DCMA currently reviews QAR monthly audit reports and is responsible for conducting monthly audits. Monthly management assessments are also being conducted to discuss quality issues and corrective actions.

The Acting Executive Director, Rock Island Contracting Center, partially agreed with Recommendation A.4.c and stated that they will require the ACO, QAR, CORs, and Alternate CORs to maintain a conformed copy of future contracts and will update and consolidate all contract files prior to their departure from Kuwait. However, the Acting Executive Director stated that because the current contract expires on September 30, 2010, and there are more than 300 modifications, there would be no value in consolidating the current contract.

## ***Our Response***

The comments from the Acting Executive Director are responsive. For Recommendation A.4.c, we agree that the Acting Executive Director should require DCMA officials to maintain a conformed copy of future contracts, and that consolidating the current contract is not beneficial since it expires on September 30, 2010. For Recommendation A.4.e, we contacted a Rock Island Contracting Center official to obtain clarification on planned actions. The official stated that a requirement for the ACO to review the QAR reports and for the QAR to review the COR reports will be included in the Contract Administration Plan, which is expected to be completed by October 30, 2010. No additional comments are required.

## **Finding B. Increased Oversight Needed at the Theater Redistribution Center**

DOD did not ensure that the contractor had sufficient staffing at the TRC to effectively process the required number of containers in accordance with the contract. In addition, DOD may not have sufficient contracting personnel to process the increased number of containers as the drawdown from Iraq progresses. This occurred because:

- the ACO removed the performance workload requirement without proper authorization, written justification, or consideration in accordance with Federal acquisition regulations, and
- Army and DCMA officials did not hold the contractor accountable for complying with the staffing and performance requirements in the contract.

As a result, DOD may be receiving a reduced value for the services performed and could pay undue award fees. In addition, if Army and DCMA officials do not ensure the TRC has the staffing necessary to process the current and estimated containers, the backlog of containers could increase from more than 520 containers in March 2010 to more than 2,290 containers in August 2010. The increased backlog could further increase the likelihood that DOD may waste resources by purchasing the same materiel in the unprocessed containers for use in other overseas contingency operations.

Army and DCMA officials took immediate action to address some of the issues identified during the audit. Specifically, Army officials stated that they worked closely with officials from DCMA and the Rock Island Contracting Center to develop effective performance metrics to be incorporated into the contract and appointed an Army Sustainment Brigade official to gather many of the previously missing contract documents and maintain the contract files. Army officials also stated they examined the staffing shortfalls at the TRC and recommended that the contractor hire an additional 55 contractor personnel. See Management Actions on page 29 for a list of actions taken.

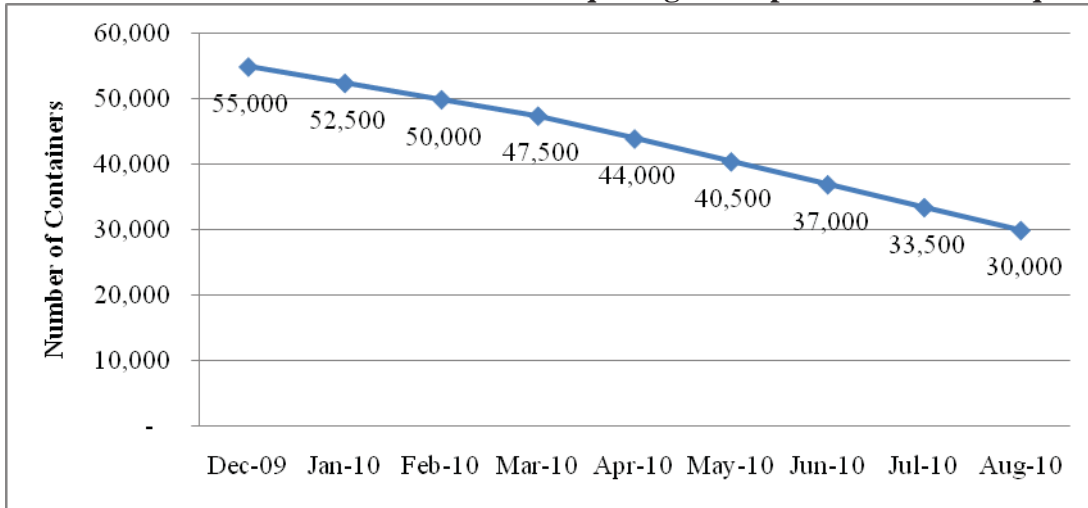
### **Background**

The contract provides staffing and performance requirements. For staffing, the contract required the contractor to maintain a 90-percent staffing level. The performance requirements included the requirement to comply with the receipt processing time outlined in Army Regulation 710-2, "Supply Policy Below the National Level," March 28, 2008, and the performance workload requirement in the contract. Army Regulation 710-2 defines receipt processing as the time materiel is received to the time the stock control activity accounts for the materiel, which should be completed within 24 hours. The performance workload requirement in the contract stated that the contractor should be able to process at least 300 containers a week and should estimate

that approximately 80 percent of the materiel received would be undocumented.<sup>18</sup> If the contractor fails to meet any of the contract requirements, the Government may, with approval of the Contracting Officer, perform or supplement performance of such services with Government personnel, request consideration, or reduce any fee payable under the contract to reflect the value of the services performed.

ARCENT officials, responsible for providing logistical and personnel support during the drawdown, provided container drawdown plans that estimated approximately 55,000 containers would require transportation from Iraq as of December 2009. From December 2009 through March 2010, ARCENT officials estimated that approximately 2,500 containers would be transported from Iraq each month, and could increase to approximately 3,500 containers each month from April 2010 through August 2010 (Table 3).<sup>19</sup>

**Table 3. Estimated Containers Requiring Transportation from Iraq**



From December 2009 through March 2010, the TRC received approximately 730 of the estimated 2,500 (29.2 percent) containers leaving Iraq each month. If the trend continues, beginning in April 2010, the TRC could receive 1,022 of the estimated 3,500 containers leaving Iraq each month, an increase of 292 containers.

## Insufficient Staffing

DOD did not ensure that the contractor had sufficient staffing at the TRC to effectively process the required number of containers in accordance with the contract. In addition, DOD may not have sufficient contracting personnel to process the increased number of containers as the drawdown from Iraq progresses. The contract stated that the contractor is required to maintain a 90-percent staffing level and provide the flexibility to increase manpower as the workload and volume increases. The staffing levels, agreed to by

<sup>18</sup> The contractor was also required to process 300 pallets of materiel or 450 20-foot equivalent units per week; however, we did not audit this requirement due to the amount of time and audit resources required to thoroughly review container processing at the Theater Retrograde.

<sup>19</sup> ARCENT container estimates may vary based on changes to the conditions and mission in Iraq.

Army, DCMA, and contractor officials, included numbers for both U.S. contractor personnel and foreign nationals, as foreign nationals can not process all materiel at the TRC.

We reviewed TRC staffing levels as of January 21, 2010, and determined that the contractor did not comply with the staffing requirement as illustrated in Table 4. Specifically, the contractor did not comply with the 90-percent requirement for U.S. contractor personnel in all six TRC areas and foreign nationals in two areas. During fieldwork, DCMA officials stated that the contractor planned on increasing the number of U.S. contractor personnel and foreign nationals; however, as of April 11, 2010, the contractor had not complied with the 90-percent requirement.

**Table 4. TRC Contractor Staffing Levels**

Areas	January 21, 2010		April 11, 2010	
	U.S.	FN	U.S.	FN
	%	%	%	%
1	88	93	71	153
2	80	88	60	97
3	54	86	89	83
4	84	96	74	83
5	79	96	69	102
6	75	100	75	133

Note 1: Shaded cells indicate noncompliance with the 90-percent staffing level

Note 2: Foreign national (FN)

We were particularly concerned with the shortage of U.S. contractor personnel in the Download and Sort area (Area 2), where the download, sort, and inspection of materiel occur. Although contractor personnel could use up to nine lanes to download, sort, and

*Although contractor personnel could use up to nine lanes to download, sort, and inspect materiel, we observed contractor personnel operating only one to three lanes.*

inspect materiel, we observed contractor personnel operating only one to three lanes. To operate a lane, a U.S. contractor must be present. However, contractor

personnel stated that they were only operating one to three lanes because of the shortage of U.S. contractor personnel. Increasing the staffing levels for both U.S. contractor personnel and foreign nationals should increase the number of operating lanes and the amount of materiel processed and available for reutilization.

## **Contractor Noncompliance with Container Processing Requirements**

TRC contractor personnel did not process the number of containers received or the required number of containers in accordance with the contract. The contract stated that contractor personnel were required to process at least 300 containers of materiel per week, and that the materiel receipt processing time (24 hours) be strictly enforced.



## ***Container Processing Rate***

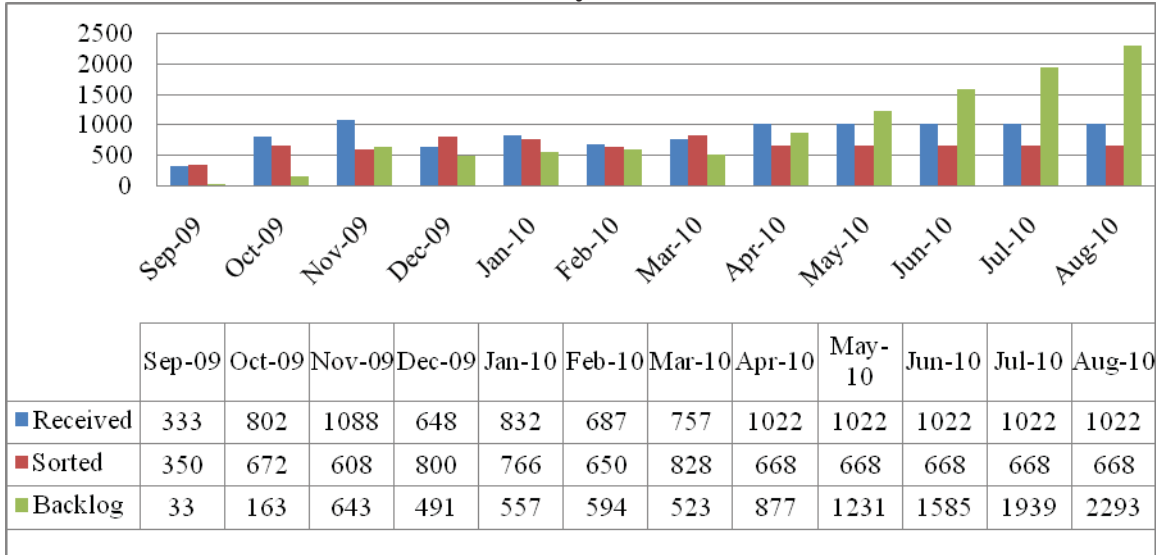
We reviewed TRC daily container production reports from September 2009 through March 2010 and found that when the TRC received less than 300 containers per week, contractor personnel did not process the containers in accordance with the 24-hour receipt processing time in the contract. Specifically, from September 2009 through March 2010, the TRC received on average 172 containers per week (735 per month) and only processed on average 156 containers per week (668 per month). In addition, when contractor personnel received more than 300 containers in a week, they were unable to process the minimum requirement of 300 containers. Contractor personnel stated that one of the reasons they could not process 300 containers per week was because of the poor packing and shipping by DOD officials in Iraq and the lack of materiel documentation, which required additional processing time. While the majority of the materiel being received at the TRC was undocumented and contractor personnel required additional processing time, the contract stated that the contractor should estimate that approximately 80 percent of the materiel being received would be undocumented and therefore, the contractor should have had measures in place to process containers in accordance with contract requirements (See Appendix D).

Because contractor personnel were unable to process all containers in accordance with the performance requirements, the TRC had a backlog of unprocessed containers. During our first site visit in December 2009, the TRC had a backlog of approximately 447 unprocessed containers (increased to 491 containers by the end of the month), some of which arrived at the TRC two months earlier. During our second site visit in February 2010, the backlog of unprocessed containers had increased to 594 containers. While we understand that contractor personnel will eventually process the backlog of containers, DOD does not always know what materiel is in the containers, which could include materiel that DOD may need to retrograde for other overseas contingency operations.

## ***Container Processing Estimates***

Using ARCENT estimates, the TRC could start to receive 1,022 containers per month, beginning in April 2010. If contractor personnel continue to process materiel at the average rate of 668 containers per month, the backlog of unprocessed containers could reach 2,293 containers by August 2010, which could take a minimum of 3 months to process (Table 5).

**Table 5. TRC Monthly Container Estimates**



Note 1: April through August 2010 numbers are estimated

Note 2: See Appendix A for calculations

Even though the TRC workload will likely increase as the drawdown from Iraq progresses, the amount of containers the TRC is estimated to receive is still less than the contract requirement to process 300 containers per week (1,200 per month). Based on ARCENT estimates, the TRC could receive 238 containers per week (1,022 per month), which is still 62 containers less than the contract requirement. To prevent further backlog, DOD needs to ensure compliance with the staffing and performance requirements in the contract so that materiel is being processed in a timely manner and reutilized to its maximum potential.

## Contract Administration and Monitoring of Contractor Performance Needs Improvement

The contractor did not have sufficient staffing at the TRC necessary to process the required number of containers and may not have the staffing necessary to process the increase in containers as the drawdown progresses. This occurred because the ACO

*...the ACO removed the performance workload requirement from the contract without proper authorization, written justification, or consideration.*

removed the performance workload requirement from the contract without proper authorization, written justification, or consideration. In addition, Army and DCMA officials did not hold the contractor accountable for complying with the staffing level or performance requirements in the contract.

### ***Improper Removal of the Performance Workload Requirement***

In April 2009, the ACO approved via e-mail the contractor's request to remove the performance workload requirement. The contractor's request stated that Army, DCMA, and contractor officials agreed to remove the performance workload requirement in February 2009 and replace it with the performance standards listed in Army

Regulation 710-2.<sup>20</sup> Army Regulation 710-2 required the contractor to process materiel within 24 hours of receipt. The request also stated that the 24-hour processing requirement should only be applicable to documented materiel and that, “every effort will be made to process undocumented items within 48 hours.” Although the ACO approved the contractor’s request in April 2009, the ACO did not formalize the approval until January 2010.

On January 13, 2010, the ACO improperly issued a Letter of Technical Direction (Technical Direction)<sup>21</sup> without authorization. When we questioned the ACO on his authority to remove the performance workload requirement, he stated that the previous ACO made the actual decision, and that he only issued the Technical Direction to formally document the decision. In March 2010, the Contracting Officer confirmed that the ACO did not have the authority to remove the performance requirement or modify the contract. Removal of the performance workload requirement would require a modification or change to the contract subject to approval by the Contracting Officer. Therefore, until the Contracting Officer issued the modification, the contractor should have been held accountable for meeting the 300-container-per-week performance workload requirement.

We requested documentation from Army and DCMA officials to justify removing the performance requirements. Both Army and DCMA officials stated they were unable to provide written justification because the officials who had previously approved the removal of the performance requirement had rotated.<sup>22</sup> While Army and DCMA officials

<p><i>Had a cost analysis been performed, the removal of the performance workload requirement could have likely resulted in a decrease in cost or other form of consideration.</i></p>	<p>are always impacted by rotations, the Federal Acquisition Regulation states that contract administration officials shall maintain all documentation supporting the basis for actions taken pertinent to the contract, including justifications, approvals, and cost analyses. In addition, when we requested documentation to support whether a cost analysis had been performed, the ACO stated that prior to the issuance of the Technical Direction, he verbally confirmed with the contractor that the removal of the requirements were at no cost. Had a cost analysis been performed, the removal of the performance workload requirement could have likely resulted in a decrease in cost or other form of consideration.</p>
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On March 2, 2010, the Contracting Officer issued a modification to the contract that officially removed the performance workload requirement. Since the Contracting Officer did not remove the requirement until March, the Contracting Officer should coordinate with Army and DCMA officials and determine if the Government should receive consideration based on the terms and conditions cited in the contract, which states, “if

<sup>20</sup> Army Regulation 710-2 requirements were included in the original contract.

<sup>21</sup> Technical direction was considered to be an interpretation of the contract by a representative of the Contracting Officer, with no authority to change or modify a contract.

<sup>22</sup> The Army Sustainment Brigade in Kuwait rotates on a yearly basis, and DCMA officials rotate from Kuwait on a 6-month basis.

any of the services performed do not conform with contract requirements, the Government may reduce any fee payable under the contract to reflect the reduced value for the services performed.” In addition to the Contracting Officer increasing coordination with the Army and DCMA officials, the 1<sup>st</sup> Theater Sustainment Command should also become more involved in reviewing contractor proposed changes and developing requirements to provide continuity because of recurring Army unit and DCMA officials’ rotations.

### ***Not Holding the Contractor Accountable***

Audit reports and weekly and monthly performance reviews showed that Army and DCMA officials did not hold the contractor accountable for not complying with the contract staffing level and specific performance requirements.

### **Audit Reports**

As previously discussed in Finding A, we reviewed approximately 170 Army and DCMA daily audit reports from September 2009 through December 2009. We found that officials did not hold the contractor accountable for failing to comply with the staffing-level, 300-container, or 24-hour processing requirements. In some cases, officials actually marked “N/A” for “Not Applicable” next to the performance standards on the audit checklist. Corrective action requests for FY 2009 through FY 2010 also showed that the QAR never issued a report to the contractor regarding noncompliance with the staffing or performance requirements.

We questioned Army and DCMA officials on why they did not hold the contractor accountable for not complying with the staffing and performance requirements. Officials stated that for the staffing requirement, Kuwait law prohibits the contractor from hiring U.S. contractor personnel and foreign nationals within 90 and 180 days, respectively, from the end of the contract.<sup>23</sup> For the 300-container requirement, officials stated that because the ACO removed the performance workload requirement, contractor personnel were no longer required to meet the standard. For the 24-hour processing requirement, officials did not believe the standard was applicable because Army Regulation 710-2 provides policy for the management of materiel at supply support activities, and they did not believe the TRC should be considered a typical supply support activity.

### **Performance Reviews**

We attended one weekly and one monthly performance review for the contractor in December 2009 and January 2010, and we observed that Army and DCMA officials did not communicate the contractor’s noncompliance with the staffing level or performance requirements. We also reviewed the contractor’s briefing charts from the weekly performance reviews from July 2009 through January 2010 and found that contractor personnel always marked “N/A” in the requirement column for the number of containers sorted, implying that contractor personnel believed they were not required to meet the performance workload requirements in the contract. The results of the weekly and

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<sup>23</sup> Our site visits occurred in December 2009 and January 2010, and at the time the contract end date was March 31, 2010.

monthly performance reviews were used to assist in determining the contractor's bi-annual award fee. Because Army and DCMA officials did not include the staffing or performance noncompliance in their performance reviews, we question whether the issues will be considered by the Award Fee Review Board when determining the contractor's award fee. Army and DCMA officials should report the contractor's noncompliance with the staffing level and performance requirements to the proper officials to be considered in the next Award Fee Board Review and decrease the risk of DOD paying the contractor undue award fees.

Although Army and DCMA officials believed that both the 300-container and 24-hour processing requirements were not applicable, according to the Contracting Officer, he or the Procurement Contracting Officer were the only officials with the authority to remove these requirements. Instead of not requiring the contractor personnel to comply with requirements, Army and DCMA officials should have coordinated with the contractor to develop alternate requirements that were applicable, auditable, and measurable, and coordinate those requirements with the Contracting Officer for consideration as a modification to the contract. In addition, while we understand the contractor may not be able to hire additional contractor personnel due to legal restrictions, Army and DCMA officials should review the current staffing levels and the Army should consider shifting manpower from locations that are above the staffing requirement to locations that are deficient. If staffing is still inadequate to process the containers in accordance with the applicable requirements, Army officials should consider assigning Government personnel to assist with operations at the TRC.

## **Summary**

With low staffing levels and a lack of contractor accountability, the TRC backlog of unprocessed containers, which included more than 520 containers of unprocessed materiel as of March 2010, will continue to increase. If the TRC does not obtain additional staffing or increase the container processing rate, the TRC could have more than 2,290 unprocessed containers by August 2010. If this occurs, DOD will not likely be able to reutilize serviceable materiel in a timely manner and instead, may waste resources by purchasing the same materiel to support other ongoing contingency operations. As a result, DOD does not have assurance that the TRC will have the staffing necessary to reutilize materiel to its maximum potential as the drawdown from Iraq progresses.

## **Management Actions Taken to Improve Theater Redistribution Center Operations**

Since our site visits to the TRC, Army officials stated that they have worked closely with officials from DCMA and the Rock Island Contracting Center to develop effective performance metrics to be incorporated into the contract. Army officials also stated they examined the staffing shortfalls at the TRC and recommended that the contractor hire an additional 55 contractor personnel. Army officials also stated that in order to obtain and

maintain accurate contract documentation, they appointed an Army sustainment brigade official to gather many of the previously missing documents and maintain the contract files.

## **Management Comments on the Finding and Our Response**

### ***DCMA Comments***

The Commander, DCMA International, generally concurred with the finding. The Commander stated that DCMA does not have the authority to shift contract staffing without customer direction, and DCMA does not assign Government personnel to assist with any contract operations.

The Commander provided additional comments and actions taken since the audit. The Commander stated that the ACOs have received all applicable training, and they are expected to understand their limits. However, DCMA officials will place additional emphasis on the Basic Contingency Operations Training to highlight the ACO's limitations when writing letters of technical direction.

### ***Our Response***

Based on comments provided by the Commander, DCMA International, we revised the finding to state that the Army should consider shifting staff from locations that are above the staffing requirement to locations that are deficient, or consider assigning Government personnel to assist with operations at the TRC.

## **Recommendations, Management Comments, and Our Response**

### ***Renumbered Recommendation***

As a result of comments from the Commander, DCMA International, we renumbered Draft Recommendation B.2.a as Recommendation B.1.c. The Commander stated that DCMA has no responsibility in determining the need to supplement the contractor's staff with Government personnel, but they can assist in determining staffing numbers if the 1<sup>st</sup> Theater Sustainment Command requests their assistance.

#### **B.1. We recommend the Commander, 1<sup>st</sup> Theater Sustainment Command:**

**a. Develop appropriate performance requirements for processing materiel that are applicable, auditable, and measurable, and coordinate those requirements with the Contracting Officer for consideration as a modification to the Combat Support Services Contract-Kuwait.**

**b. Review and provide written concurrence for new contract requirements or contractor proposed changes to the proper contracting official.**

**c. Determine the staffing required at the Theater Redistribution Center to process the current and increased number of containers as the drawdown from Iraq progresses. In addition, if the contractor cannot obtain the required staffing, consider assigning Government personnel to assist with operations at the Theater Redistribution Center.**

### ***1<sup>st</sup> Theater Sustainment Command Comments***

The Deputy Commanding General, 1<sup>st</sup> Theater Sustainment Command, provided comments through the Commander, Third Army/ARCENT that agreed with Recommendation B.1. The Deputy Commanding General stated that the 1<sup>st</sup> Theater Sustainment Command, 1<sup>st</sup> Sustainment Brigade, and the Procurement Contracting Officer developed requirements for processing materiel. These performance requirements were included in the Performance Board Incentive Fee requirements in June 2010 as part of an extension to the Combat Support Services Contract – Kuwait. The Deputy Commanding General also stated that 1<sup>st</sup> Theater Sustainment Command and the 1<sup>st</sup> Sustainment Brigade have sent personnel to Rock Island Contracting Center to participate in meetings to clarify the new performance work statement and discuss changes with the contracting officials. The Deputy Commanding General further stated that the 1<sup>st</sup> Sustainment Brigade has conducted an analysis on the Theater Retrograde, which was forwarded to the Rock Island Contracting Center for use in articulating the proper staffing requirements to meet cost, schedule, and performance obligations with the contractor.

### ***Our Response***

The Deputy Commanding General, 1<sup>st</sup> Theater Sustainment Command comments are responsive. Subsequent to providing official comments, an ARCENT official sent us an e-mail stating that the 1<sup>st</sup> Sustainment Brigade completed their analysis prior to August 26, 2010. No additional comments are required.

### **B.2. We recommend the Commander, 1<sup>st</sup> Theater Sustainment Command and Commander, Defense Contract Management Agency-Kuwait:**

**a. Document noncompliance with contract requirements, specifically the performance and staffing requirements, and report the noncompliance during weekly and monthly performance reviews for consideration in the Award Fee Board Review.**

**b. Maintain all documentation supporting the basis for actions taken pertinent to the contract, including justifications, approvals, and cost analyses in the contract file.**

### ***1<sup>st</sup> Theater Sustainment Command Comments***

The Deputy Commanding General, 1<sup>st</sup> Theater Sustainment Command, stated that 1<sup>st</sup> Theater Sustainment Command officials have made improvements in documenting contractor compliance, such as establishing monthly briefings on contractor performance. In addition, the 1<sup>st</sup> Sustainment Brigade issued a memorandum to the DCMA QAR

stating that the contractor was not in compliance with the 90 percent staffing requirement. Further, the Deputy Commanding General stated that they have developed a system to improve continuity between CORs as they rotate through theater.

### ***Our Response***

The Deputy Commanding General, 1<sup>st</sup> Theater Sustainment Command comments are responsive. Subsequent to providing official comments, an ARCENT official e-mailed us stating that the 1<sup>st</sup> Sustainment Brigade implemented corrective measures, procedures, and systems prior to August 26, 2010. The ARCENT official also stated that establishing continuity and maintaining files is an ongoing process. No additional comments are required.

### ***Defense Contract Management Agency Comments***

The Commander, DCMA International, stated that DCMA officials updated the audit checklists to include surveillance of the contractor's staffing numbers, and the contractor currently reports the staffing numbers weekly. The Commander also stated that the DCMA ACOs maintain all contract documentation electronically.

### ***Our Response***

The Commander, DCMA International comments are responsive. We contacted a DCMA official to obtain clarification on planned actions for the recommendation. The officials stated that the updated checklists used by the QAR during audits include steps to monitor, identify, and ensure compliance with staffing and performance requirements. If the QAR identifies deficiencies during the audits, the QAR will write a corrective action request. The corrective action requests are presented during the Award Fee Board Reviews. No additional comments are required.

**B.3. We recommend the Executive Director, Rock Island Contracting Center, re-evaluate the use and effectiveness of Letters of Technical Direction. If the Executive Director determines that the Administrative Contracting Officer will continue to issue Letters of Technical Direction, the Director should coordinate with the Commander, Defense Contract Management Agency-Kuwait, and put in place:**

**a. Standards that clearly define the requirements and limitations of the Administrative Contracting Officer for issuing Letters of Technical Direction and the supporting documentation required, such as justifications, approvals, and cost analyses.**

**b. An internal review process to ensure appropriateness of the Letters of Technical Direction and concurrence from the Commanders of the 1<sup>st</sup> Theater Sustainment Command and Defense Contract Management Agency-Kuwait.**

### ***Rock Island Contracting Center Comments***

The Executive Deputy to the Commanding General, AMC and the Executive Director, U.S. Army Contracting Command, endorsed and forwarded comments for the Acting



Executive Director, Rock Island Contracting Center. The Acting Executive Director agreed and stated that they are developing a Contract Administration Plan that provides guidance to the ACO on issuing letters of technical direction and addresses the internal process for executing the letters of technical direction. The expected completion of the plan is September 30, 2010.

***Our Response***

The Acting Executive Director, Rock Island Contracting Center comments are responsive and no additional comments are required.

## Appendix A. Scope and Methodology

We conducted this performance audit from December 2009 through June 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To accomplish our objectives, we coordinated with or interviewed officials from:

- AMC
- Army Deputy Chief of Staff for Logistics (G-4)
- USCENTCOM
- ARCENT
- 1<sup>st</sup> Theater Sustainment Command
- 593<sup>rd</sup> Army Sustainment Brigade
- 180<sup>th</sup> Transportation Battalion
- U.S. Army Support Group-Kuwait
- Rock Island Contracting Center
- DCMA-Kuwait
- Responsible Reset Task Force
- TACOM Life Cycle Management Command
- Communications-Electronics Command
- 402<sup>nd</sup> Army Field Support Brigade
- Defense Logistics Agency
- DRMO-Kuwait
- Defense Distribution Depot Kuwait-Southwest Asia

We obtained and reviewed ARCENT container drawdown estimates and Federal, DOD, and Army regulations, directives, and instructions specific to safeguarding classified and controlled materiel. In addition, we reviewed applicable sections of the Federal Acquisition Regulation and Defense Federal Acquisition Regulation, as well as Army Supply Discipline, accountability procedures, and contractor staffing levels. We also reviewed contract requirements, standard operating procedures, contractor internal work instructions, and storage and handling procedures for hazardous materiel specific to the Theater Retrograde. Additionally, we observed the TRC, Warehouse, and Bulk Yard receiving, inspecting, sorting, classifying, and storing procedures, and using a judgment sample, conducted an inventory of controlled materiel at each location.

We coordinated with the Army Audit Agency personnel who were conducting concurrent audits that involved reviewing Theater Retrograde operations.

## **Use of Computer-Processed Data**

We conducted an assessment of computer-processed data used to maintain a record of containers received, processed, and waiting to be processed at the TRC. Specifically, we obtained and reviewed daily container production reports generated in Excel from September 1, 2009, through March 31, 2010, provided by Army officials. The spreadsheet depicted the number of containers the contractor reported that the TRC received and processed each day. We relied on ARCENT container estimates, as well as the number of containers the contractor reported as received and processed. To determine the backlog of unprocessed containers, we subtracted the number processed from the number received.

We also conducted an assessment of computer-processed data generated by the SARSS. Combat Support Associate contractor personnel generated the total number of sensitive materiel on hand at the TRC, Warehouse, and Bulk Yard and, using those numbers, we conducted a judgment inventory of the controlled materiel at each location. Specifically, we sampled materiel and physically counted the amount of materiel and verified the number in SARSS. If the number we counted did not match the number in the system, we conducted a second and third count. If the inventory on hand still did not meet the inventory after the third count, contractor personnel completed an inventory adjustment report.

We briefed our methodology and data analysis results with Army and DCMA officials to ensure the report was factually accurate. As a result, the computer-processed data were sufficiently reliable for our purposes.

## **Use of Technical Assistance**

Quantitative Methods and Analysis Directorate (QMAD) personnel reviewed TRC daily container production reports to determine the number of containers received, processed, and waiting to be processed from September 2009 through March 2010. QMAD personnel also reviewed container estimation tables that depicted the number of containers the TRC could receive from December 2009 through August 2010. The objective of their review was to calculate the container processing rate and using ARCENT estimates, determine what the backlog of unprocessed containers would be if the TRC contractor personnel continued to process containers at that same rate.

Using ARCENT's estimates of containers leaving Iraq and TRC daily production reports from December 2009 through March 2010, QMAD personnel calculated the percentage of containers shipped from Iraq to the TRC and the average number of containers the TRC contractor personnel processed per month. ARCENT officials estimated that approximately 2,500 containers would leave Iraq each month from December 2009 through March 2010, totaling 10,000 containers. Using TRC daily production reports, QMAD personnel calculated that the TRC received 2,924 containers during these 4 months, or an average of approximately 730 containers per month. QMAD personnel determined that the TRC received 29.2 percent of the containers leaving Iraq, which is 730 containers divided by 2,500 containers.

QMAD personnel used the rate of 29.2 percent to determine the amount of containers that the TRC is estimated to receive each month from April 2010 through August 2010. ARCENT officials estimated that approximately 3,500 containers per month will be transported from Iraq during this period. Therefore, if trends continue, QMAD personnel estimated that the TRC could receive 1,022 containers per month, or 29.2 percent of the 3,500 containers.

We calculated and QMAD personnel verified that from September 2009 through March 2010, TRC contractor personnel sorted a total of 4,674 containers, or an average of approximately 668 containers per month. QMAD personnel used the 668 containers sorted per month as the standard to estimate future performance at the TRC. QMAD personnel estimated that from April 2010 through August 2010, the TRC could receive 1,022 containers and sort 668 containers per month, increasing the backlog of unprocessed containers by 354 containers each month.

QMAD personnel calculated the monthly container backlog by taking the prior month's ending container backlog amount, adding the new month's amount of containers received, and subtracting the number of containers sorted. QMAD personnel repeated this process with actual data listed in the daily production reports from September 2009 through March 2010. Then, to calculate the backlog for April 2009 through August 2010, QMAD personnel estimated that the backlog would increase by 354 containers each month and result in 2,293 unprocessed containers at the TRC as of August 2010.

## Appendix B. Prior Audit Coverage

During the last 5 years, the Government Accountability Office (GAO), the DOD IG, and the Army have issued 13 reports on equipment retrograde and the drawdown of U.S. Forces from Iraq. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DOD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. Unrestricted Army reports can be accessed from .mil and gao.gov domains over the Internet at <https://www.aaa.army.mil/>.

In addition to the audit reports listed below, subsequent to our first site visit to the Theater Retrograde, the Commander, 1<sup>st</sup> Theater Sustainment Command, initiated an investigation on materiel processing procedures in Iraq and Kuwait. The investigation found that TRC contractor personnel were sending new, unused, and serviceable materiel to the Camp Arifjan DRMO for reutilization, destruction, or sale without direct monetary benefit to the U.S. Government. After we completed fieldwork in Kuwait, we briefed senior AMC, ARCENT, and 1<sup>st</sup> Theater Sustainment Command officials on the potential findings and applicable recommendations, some of which they included in the investigation report.

### **GAO**

GAO Report No. GAO-10-376, “Operation Iraqi Freedom, Actions Needed to Facilitate the Efficient Drawdown of U.S. Forces and Equipment from Iraq,” April 9, 2010

GAO Report No. GAO-10-551T, “Continued Actions Needed by DOD to Improve and Institutionalize Contractor Support in Contingency Operations,” March 17, 2010

GAO Report No. GAO-10-179, “Operation Iraqi Freedom, Preliminary Observations on DOD Planning for the Drawdown of U.S. Forces from Iraq,” November 2, 2009

GAO Report No. GAO-08-930, “Operation Iraqi Freedom, Actions Needed to Enhance DOD Planning for Reposturing of U.S. Forces from Iraq,” September 10, 2008

GAO Report No. GAO-08316R, “The Army Needs to Implement an Effective Management and Oversight Plan for the Equipment Maintenance Contract in Kuwait,” January 22, 2008

GAO Report No. GAO-07-439T, “Preliminary Observations on the Army’s Implementation of its Equipment Reset Strategies,” January 31, 2007

GAO Report No. GAO-06-943, “DoD Excess Property: Control Breakdowns Present Significant Security Risk and Continuing Waste and Inefficiency,” July 25, 2006

GAO Report No. GAO-06-604T, “Defense Logistics: Preliminary Observations on Equipment Reset Challenges and Issues for the Army and Marine Corps,” March 30, 2006

GAO Report No. GAO-05-277, "DoD Excess Property: Management Control Breakdowns Result in Substantial Waste and Inefficiency," May 13, 2005

***DOD IG***

DOD IG Report No. D-2010-60, "Drawdown and Reset of Equipment in Iraq-Operation Clean Sweep," June 11, 2010

DOD IG Report No. D-2010-027, "Army's Management of the Operations and Support Phase of the Acquisition Process for Body Armor," December 8, 2009

***Army***

Army Audit Agency Report No. A-2010-0022-ALL, "Audit of Retrograde Operations Southwest Asia, Multi-Class Retrograde, Camp Arifjan, Kuwait," December 7, 2009

Army Audit Agency Report No. A-2006-0083-ALL, "Audit of Retrograde Operations, Audit of Logistics Civil Augmentation Program Operations in Support of Operation Iraqi Freedom," March 21, 2006

# Appendix C. Inadequate Alternate Contracting Officer’s Representative Audits

We reviewed approximately 170 alternate COR daily audit reports issued from September 2009 through December 2009. We compared the results of the audits to the audit standardized checklists to determine if the alternate CORs verified compliance with each requirement on the checklist. We found in numerous cases that the contract requirement in the checklist or subject areas being audited were not sufficiently verified or examined, the intent of the audit was not met, or the requirements in the checklist were not verified. In the three examples listed below, the alternate CORs’ audit results are taken verbatim from the reports. For examples 1 and 2, we redacted the personal names that were referenced in the audit results.

Example 1 shows two different alternate COR audits on the same section of the contract, one in September 2009 and the other in December 2009. Neither audit verified the contract requirement listed in the audit checklist.

## Example 1

<b>Audit Checklist Requirement</b>
<p>1. Does the contractor provide flexibility to allow increased manpower as the workload/volume increases?</p> <p>2. Does the contractor provide trained personnel to perform technical tasks associated with U.S. Army stock control and warehouse management procedures?</p> <p>3. Does the contractor allow only personnel with appropriate clearances to handle sensitive/classified items in accordance with AR 380-67, AR 190-11, and the basic contract?</p>
<b>Alternate COR Audit Results – September 8, 2009</b>
<p>On 08 September 2009 at 1330, the ACOR inquired to the section supervisor of shipping, [REDACTED], about how many employees are assigned and how many are present. She knew immediately that there are 17 eastern workers assigned and 13 were present and four were off. [REDACTED] also stated that her workers are always on an assigned task. Therefore, the contractor is IAW the SOW that states that “The contractor shall provide trained personnel and supervisors to perform technical tasks associated with US Army stock control and warehouse management procedures.”</p>
<b>Alternate COR Audit Results – December 10, 2009</b>
<p>On 10 December 2009 at 2245, the ACOR inquired to [REDACTED], nighttime warehouse supervisor for W7A, about personnel. [REDACTED] informed ACOR that out of 69 assigned easterners and 6 assigned westerners, there were 49 easterners and 3 westerners present. [REDACTED] informed the ACOR that because of some employees being on a “S-3” status that those employees weren’t allowed to have overtime and need to be given more days off. Therefore, contractor is acting IAW the SOW that states “The contractor shall provide contract flexibility to allow increased manpower as the workload / volume increases.”</p>

Example 2 depicts two alternate COR audits performed on separate days on the same section of the contract. The audit results reported by the alternate COR do not sufficiently verify that the alternate COR answered the four objectives for the audit or that the contractor met the contract requirements.

**Example 2**

<b>Audit Checklist Requirement</b>
<ol style="list-style-type: none"> <li>1. Does the contractor conduct retrograde sort operations in conjunction with the overall retrograde yard operation?</li> <li>2. Does the contractor download all received items?</li> <li>3. Does the contractor check every item and/or container for unit turn-in documentation; sealed depot packed items need not be opened?</li> <li>4. Items identified as serviceable will be shipped to the serviceable Warehouse for processing and items identified as unserviceable will remain at the unserviceable TRC for further processing.</li> </ol>
<b>Alternate COR Audit Results – September 14, 2009</b>
<p>On 14 Sept 09 at 2210hrs, the ACOR visited the Download and Sort yard. The ACOR found about fifty (50) Handle, Mattock Pick NSN 2540-01-557-5830 which had a kickback form from QSU for reclassification, with a yellow tag Code A. The ACOR found items were serviceable. The ACOR researched the items thoroughly in FEDLOG. The SOW could not have been followed to justify rejection at the warehouse.</p>
<b>Alternate COR Audit Results – October 8, 2009</b>
<p>On 08 Oct 2009, the ACOR visited the ALOC area. TRC Tech Inspectors [REDACTED] and [REDACTED] directed the attention of the ACOR to items returned from W7A/ QSU. The ACOR observed two (2) original packaged and banded boxes containing Transfer Transmissions NSN 2520-01-556-4710 w/ MRO addressed to W7A W91QSU from W91OM2. On one of the boxes was a sheet of paper stating, “Need clean and drain certificate”. These items come from the manufacturer containing a preservative to protect the new and/or repaired item from degrading. The preservative is removed at the maintenance level shop. Both items are listed in FEDLOG unit issue at the cost of \$20,933.98 each.</p>

Example 3 shows two audits on different days completed by the same alternate COR. It appears that the alternate COR may not have performed an audit on the subject area on December 16, 2009, but rather copied the same information from the prior October 24, 2009, audit report and changed the date. In addition, neither audit thoroughly addressed the requirements.



**Example 3**

<b>Audit Checklist Requirement</b>
<ol style="list-style-type: none"><li>1. Does the contractor determine if there is a NSN or part number for the items?</li><li>2. Does the contractor use FEDLOG to determine the Source of Supply, unit cost, correct NSN, nomenclature, class of supply, and any other information to process items into SARSS?</li><li>3. Does the contractor ensure that turn-in of all serviceable electrical/electronic components, motors, and generators; not in their original packing receive a technical inspection with a Department of the Army Form 2407 and a yellow serviceable tag (DD Form 1574)?</li><li>4. Does the contractor ensure all property book items, both serviceable and unserviceable, receive technical inspection with appropriate paperwork and tags?</li></ol>
<b>Alternate COR Audit Results – October 24, 2009</b>
<p>On Oct. 24 2009 at 2030 ACOR conducted an audit on Undocumented Items. ACOR went to Receiving Section where items are placed that have no documents attached. When receiving parts the Receiving Section looks for the paperwork and checks the actual part to see if they match. If the part has no paper with it, but has NSN or Part Number on it the Receiving Section then goes in the SARRS system selection menu and choose “ACT ”. This selection will identify the part. If the part can be identified the receiving section will then create the paperwork. If the part cannot be identified it is kicked back to the sender. Therefore the contractor is in compliance with the SOW which states “The contractor shall determine if there is a NSN or part number for the items. The contractor shall use FEDLOG to determine the SOURCE OF SUPPLY, unit cost, correct NSN, nomenclature, class supply and any other information to process items into SARSS.”</p>
<b>Alternate COR Audit Results – December 16, 2009</b>
<p>On DEC 16, 2009 at 1330 ACOR conducted an audit on Undocumented Items. ACOR went to receiving section where items are placed that have no documents attached. When receiving parts the receiving section looks for the paperwork and checks the actual part to see if they match. If the part has no paper with it, but has NSN or Part Number on it the receiving section then goes in the SARRS system selection menu and choose “ACT ”. This selection will identify the part. If the part can be identified the receiving section will then create the paperwork. If the part cannot be identified it is kicked back to the sender. Therefore the contractor is in compliance with the SOW which states “The contractor shall determine if there is a NSN or part number for the items. The contractor shall use FEDLOG to determine the SOURCE OF SUPPLY, unit cost, correct NSN, nomenclature, class supply and any other information to process items into SARSS.”</p>

## Appendix D. Other Matters of Interest— Inadequate Shipment of Materiel from Iraq to Kuwait

We observed the effects of improper container shipping procedures from Iraq supply support activities. The pervasiveness of this problem is further evidenced by both TRC military and contractor officials, who confirmed that the overwhelming majority of containers received at the Theater Retrograde are either inadequately packed, lacking proper documentation, or contain scrap materiel and trash.

### Improper Packing and Shipping of Containers

While at the TRC, we found that the majority of containers received were not adequately packed and did not contain proper documentation of contents. We observed containers that were not properly blocked and braced and contained scattered equipment. The poor packaging of these containers is not only detrimental to expeditious processing of materiel through the TRC, but it also poses a safety hazard to military and contractor personnel, as we also observed containers that held hazardous materiel without appropriate markings on the outside of containers. Furthermore, military and contractor personnel stated that the majority of containers arrived with little to no documentation about the contents of the container.

The figures below illustrate some of the containers received at the TRC from Iraq supply support activities, which were not properly packed, blocked, or braced. Figure 3 illustrates heavy equipment that had fallen on top of three gas cylinders, which according to contractor officials, could have exploded from the impact. A second example of a container that officials in Iraq did not properly pack, block, and brace is illustrated in Figure 4.

**Figure 3. Safety Hazard**



**Figure 4. Fallen Materiel**



In addition, not only is the improper shipping of materiel a safety hazard, but there is a greater likelihood that the materiel being shipped will arrive damaged. For example, Figure 5 illustrates boxes of brake pads that have fallen beside fragile items that could have been broken by the collapsing materiel.

**Figure 5. Collapsing Materiel with Fragile Items**



An additional potential safety hazard existed when multiple containers arrived at the TRC on flatbed trucks from the Al Asad supply support activity. Figures 6 and 7 illustrate the containers leaking a glue-like potentially hazardous substance (circled in yellow) from the transportation truck.

**Figure 6. Leaking Substance 1**



**Figure 7. Leaking Substance 2**



Proper shipping to include markings, documentation, and the blocking and bracing of containers could avoid further waste, provide safer working conditions, and expedite the processing of equipment.

## **Scrap and Trash Materiel**

Military and contractor personnel at the TRC stated that containers being shipped from Iraq frequently include scrap materiel or trash, which contractor personnel expend a considerable amount of time sorting. In most cases, the scrap materiel and trash could

have been dispositioned in Iraq and not transported by convoys to Kuwait, potentially endangering the lives of soldiers. Figure 8 illustrates a container of trash that contractor personnel received at the TRC.

**Figure 8. Trash in a Container Shipped from Iraq**



Based in part on our observations, a DOD IG audit team in Iraq announced Project No. D2010-D000JB-0219 on May 7, 2010. The audit objective was to determine whether DOD was effectively managing operations at the supply support activities and central receiving and shipping points in Iraq.

# U.S. Army Central and 1st Theater Sustainment Command Comments



REPLY TO  
ATTENTION OF

DEPARTMENT OF THE ARMY  
1<sup>ST</sup> SUSTAINMENT COMMAND (THEATER)  
APO AE 09366

ACEN-TSC

26 AUG 2010


MEMORANDUM THRU Commander, Third Army/USARCENT, APO AE 09366

MEMORANDUM FOR Department of Defense, Office of the Inspector General, 400 Army  
Navy Drive, Arlington, VA 22202-4704

SUBJECT: Draft Report: DOD Needs to Improve Management and Oversight of Operations at  
the Theater Retrograde-Camp Arifjan, Kuwait (Project No. D2010-D000JA-0055,000).

1. Thank you for the chance to review the draft report. Comments from the command are enclosed.
2. The point of contact for this memorandum is [REDACTED], 1<sup>st</sup> TSC Support Operations Officer, at [REDACTED] or [REDACTED].

ENCL

  
NICKOLAS P. TOOLIATOS  
Brigadier General, US Army  
Deputy Commanding General

Enclosure 1: 1<sup>st</sup> Theater Support Command (TSC) Comments to DODIG Draft Report: DOD Needs to Improve Management and Oversight of Operations at the Theater Retrograde-Camp Arifjan, Kuwait (Project No. D2010-D000JA-0055.000).

#### DODIG DRAFT REPORT

#### DOD Needs to Improve Management and Oversight of Operations at the Theater Retrograde-Camp Arifjan, Kuwait (D2010-D000JA-0055.000)

#### COMMENTS TO THE DRAFT REPORT

**RECOMMENDATION A1:** We recommend the Commander, 1st Theater Sustainment Command (TSC), coordinate with officials from the U.S. Army Materiel Command and the Army Deputy Chief of Staff for Logistics (G4) to develop business rules so that nonstandard equipment at the Theater Redistribution Center (TRC) is reutilized to its maximum capability. These rules should provide guidance for the amount of time a contractor should spend researching specific items based on dollar value, critical or future need, or other requirement; and a point of contact to assist in obtaining disposition instructions.

**RESPONSE:** Concur with comment. First TSC and its current subordinate command, 1<sup>st</sup> Sustainment Brigade (1<sup>st</sup> SBDE), have worked with Army Materiel Command (AMC), US Army Central (USARCENT) Deputy Chief of Staff for Logistics (G4), Rock Island Contracting Command (RICC) and Defense Logistics Agency (DLA) to develop and implement business rules to improve non-standard equipment usage/disposition at the Theater Distribution Center (TBC). Improvements include implementing a Letter of Technical Direction (LOTD) that specifies research time-periods to the contractor; the incorporation of the AMC Installation Supply Representative (ISR) and Life Cycle Management Commands (LCMCs) into the identification and research processes; and the improvement of overall contractor oversight through trained Contracting Officer Representatives (CORs). Business rules, processes, and procedures have already been implemented to ensure better operational oversight which is critical to addressing the security concerns reported in the audit. We are also better codifying the business rules and process improvements in the contract Performance Work Statement (PWS) that is in final staffing. The contract competition process will begin soon. 1<sup>st</sup> TSC and 1<sup>st</sup> SBDE are participating in the process.

At the strategic level, we've continued to work with key stakeholders to improve business rules regarding the disposition process. Army Materiel Command, for example, has established a command and control element called the Responsible Reset Task Force (R2TF). This element not only tracks and ensures the expeditious movement of property in support of Army Reset, but has provided process maps, business rules and technical expertise in support of materiel distribution (including standard and non-standard equipment) in support of the theater.

**RECOMMENDATION A2:** We recommend the Commander, 1st Theater Sustainment Command, and the Commander, Defense Contract Management Agency-Kuwait:

- a. Update the audit standardized checklists for the Contracting Officer's Representative and Quality Assurance Representative to ensure they are able to verify whether contractor personnel complied with contract requirements and applicable Federal, DOD, and Army regulations.

Enclosure 1: 1<sup>st</sup> Theater Support Command (TSC) Comments to DODIG Draft Report: DOD Needs to Improve Management and Oversight of Operations at the Theater Retrograde Camp Arifjan, Kuwait (Project No. D2010-D000JA-0055.000).

- b. Develop procedures that ensure deficiencies identified by the Contracting Officer's Representative, Alternate Contracting Officer's Representative, and Quality Assurance Representative are resolved in a timely manner based on the severity of the deficiency.

**RESPONSE:** Concur with comment. Significant improvements have occurred in the area of COR and QAR standardized checklists since the DODIG team conducted this audit. Initial updates were completed ICW Defense Contracting Management Agency (DCMA) in May 2010. We will continue to refine these documents as necessary in order to provide relevant contractor performance feedback regarding cost, schedule and performance.

In terms of procedures, 1<sup>st</sup> SBDE and 1<sup>st</sup> TSC have implemented procedures to improve communication between the contractor and those representing the US Government and providing contract oversight. Process improvements include:

- Daily - COR reviews audit checklists. Deficiencies are brought to the immediate attention of the Quality Assurance Representative (QAR). Corrective Action Reports (CARs) are now used as a formal means to document actions.
- Weekly - the COR and QAR meet to formally discuss contract cost, schedule and performance. During these sessions, previously filed CARs are reviewed for corrective actions; and problems are addressed before they become negative trends and impact the mission.
- Monthly - The CORs for the TRC and Warehouse activities brief the 1<sup>st</sup> SBDE Commander regarding contract performance trends and on-going CARs. 1<sup>st</sup> TSC and DCMA participate in these sessions as well.

**RECOMMENDATION B1:** We recommend the Commander, 1st Theater Sustainment Command;

- a. Develop appropriate performance requirements for processing materiel that are applicable, auditable, and measurable, and coordinate those requirements with the Contracting Officer for consideration as a modification to the Combat Support Services Contract-Kuwait.
- b. Review and provide written concurrence for new contract requirements or contractor proposed changes to the proper contracting official.

**RESPONSE:** Concur with comment. As part of the Extension 2 to the Combat Support Services Contract - Kuwait, 1<sup>st</sup> SBDE, 1<sup>st</sup> TSC and the PCO developed requirements for processing materiel and specified these performance standards in the Performance Board Incentive Fee requirements in June 2010. The metrics are scaled in a manner that rewards processing performance. Additionally, these performance requirements have been included in the pending PWS. Under the new PWS, the contractor will be required to properly process 800 twenty-foot containers and 500 USAF 463L pallets monthly.

In terms of vetting contract requirements, Rock Island Contracting Command (RICC) circulated proposed changes to the PWS in May 2010 and staffed the document again in August 2010. Both 1<sup>st</sup> SBDE and 1<sup>st</sup> TSC have sent personnel to Rock Island in order to participate in sessions to better clarify the PWS and discuss changes with contracting

Enclosure 1: 1<sup>st</sup> Theater Support Command (TSC) Comments to DODIG Draft Report: DOD Needs to Improve Management and Oversight of Operations at the Theater Retrograde-Camp Arifan, Kuwait (Project No. D2010-00001A-0055,000).

officials. Anticipate completing the PWS review NLT 1 Sept 2010.

**RECOMMENDATION B2:** We recommend the Commander, 1st Theater Sustainment Command and Commander, Defense Contract Management Agency-Kuwait:

- a. Determine the staffing required at the Theater Redistribution Center to process the current and increased number of containers as the drawdown from Iraq progresses. In addition, if the contractor cannot obtain the required staffing, consider assigning Government personnel to assist with operations at the Theater Redistribution Center.
- b. Document noncompliance with contract requirements, specifically the performance and staffing requirements, and report the noncompliance during weekly and monthly performance reviews for consideration in the Award Fee Board Review.
- c. Maintain all documentation supporting the basis for actions taken pertinent to the contract, including justifications, approvals, and cost analyses in the contract file.

**RESPONSE:** Concur with comment. The 1<sup>st</sup> SBDE has conducted analysis on the operation and has determined the minimum conditions needed to support the TRC. All information has been forwarded to the PCO at RICC for use in articulating proper manning requirements to meet cost, schedule and performance obligations with the contractor. As previously stated, 1<sup>st</sup> SBDE and 1<sup>st</sup> TSC are involved in revising the new PWS and 1<sup>st</sup> SBDE will participate in the upcoming Technical Evaluation Source Selection Board to provide subject matter expertise regarding operational requirements particularly in the areas of security and workload/staffing.

The command continues to make improvements in terms of documenting contractor noncompliance with requirements. A recent example from 1<sup>st</sup> SBDE addressed the contractor providing less than 90% of the workforce as specified in the contract (less than 80% in terms of its manning for Westerners with SECRET security clearances). The 1<sup>st</sup> SBDE COR documented the problem on a memorandum which was then sent to the DCMA QAR for action. Additionally, the 1<sup>st</sup> SBDE Commander has established a system where he receives briefs from CORs regarding contractor performance on a monthly basis.

The 1<sup>st</sup> SBDE reports that the COR and ACO have established continuity and historical files regarding this contract. Records will transfer to the new COR as part of the unit transfer of authority process. Additionally, 1<sup>st</sup> TSC has developed and emplaced systems to improve continuity between CORs as they rotate through theater.

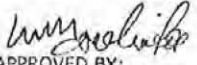
Renumbered  
Recommendation  
B.2.a as  
Recommendation  
B.1.c





Enclosure 1: 1<sup>st</sup> Theater Support Command (TSC) Comments to DODIG Draft Report: DOD Needs to Improve Management and Oversight of Operations at the Theater Retrograde-Camp Arifjan, Kuwait (Project No. D2010-00001A-0055,000).

#### GENERAL COMMENTS ON THE REPORT

The 1<sup>st</sup> TSC in coordination with 1<sup>st</sup> SBDE, RJCC and DCMA have made a concerted effort towards rectifying the findings summarized in this audit and the TRC operation. Operationally, the TRC is playing an instrumental role in the Responsible Drawdown of Iraq while simultaneously providing a means to bring Army property back-to-record so that it may be redistributed to Afghanistan or fill other priorities in support of DOD. Several of the findings of the DODIG team are attributable the uniqueness of this mission and the initial lack of clear regulatory guidance and supporting business processes - all of which have improved significantly. The base contract itself, awarded in 1999, could not have predicted the scope of this mission or how oversight for the contract migrated between commands over the past 10 years. Regardless, 1<sup>st</sup> TSC and its subordinate units will continue to team with all process stakeholders in an effort to continuously improve processes, management and oversight of the operation.

  
APPROVED BY:  
NICKOLAS P. TOOLIATOS  
BG, USA  
Deputy Commanding General

  
PREPARED BY:  
KENNETH C. DYER  
COL, USA  
1<sup>st</sup> TSC Support Operations Officer  


# U.S. Army Materiel Command, U.S. Army Contracting Command, and Rock Island Contracting Center Comments



REPLY TO  
ATTENTION OF:

DEPARTMENT OF THE ARMY  
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND  
9301 CHAPEK ROAD  
FORT BELVOIR, VA 22060-5527

7 SEP 2010

AMCIR


MEMORANDUM FOR DODIG, ATTN: [REDACTED] Joint and  
Southwest Asia Operations, 400 Army Navy Drive, Arlington, VA 22202-4704

SUBJECT: DODIG Draft Report, "DOD Needs to Improve Management and Oversight of  
Operations at the Theater Retrograde-Camp Arifjan, Kuwait," August 6, 2010 (Project No.  
D2010-D000JA-0055.000) (D1005)

1. The U.S. Army Materiel Command (AMC) has reviewed the subject draft report and the  
responses provided by the U.S. Army Contracting Command (ACC) and the Rock Island  
Contracting Center (RICC). AMC endorses the enclosed response from ACC and RICC.

2. The AMC point of contact is [REDACTED]

Encl

  
TERESA W. GERTON  
Executive Deputy to the  
Commanding General



REPLY TO  
ATTENTION OF:

DEPARTMENT OF THE ARMY  
U.S. ARMY CONTRACTING COMMAND  
9301 CHAPEK ROAD  
FORT BELVOIR, VA 22060-5527

AMSCC-IR

AUG 25 2010

MEMORANDUM FOR [REDACTED] Director, Internal Review and Audit Compliance Office, Headquarters, U.S. Army Materiel Command, 9301 Chapek Road, Fort Belvoir, VA 22060

SUBJECT: DoD Needs to Improve Management and Oversight of Operations at the Theater Retrograde – Camp Arifjan, Kuwait (Project No. D2010-D000JA-0055.000) (D1005)

1. References:

- a. Memorandum, Rock Island Contracting Center, CCRC, 19 August 2010, subject: same as above (enclosed).
- b. Memorandum, DoD Inspector General, 6 August 2010, subject: same as above.
- c. Draft Report, DoD Inspector General, 6 August 2010, subject: same as above.

2. Having reviewed the documents at references 1b and 1c, the U.S. Army Contracting Command concurs with the comments within reference 1a.

3. The ACC point of contact is [REDACTED]

Encl

JEFFREY P. PARSONS  
Executive Director



REPLY TO  
ATTENTION OF:

CCRC

**UNCLASSIFIED**  
**DEPARTMENT OF THE ARMY**  
**ROCK ISLAND CONTRACTING CENTER**  
**1 ROCK ISLAND ARSENAL**  
**ROCK ISLAND, IL 61299-8000**

AUG 19 2010

MEMORANDUM Inspector General Department of Defense, 400 Army Navy Drive,  
Arlington, VA 22202-4704

SUBJECT: Draft Report: DoD Needs to Improve Management and  
Oversight of Operations at the Theater Retrograde-Camp Arifjan,  
Kuwait, Project No. D2010-D000JA-0055.000

1. Thank you for the opportunity to review the draft report. Our  
comments are enclosed.

2. The POC is [REDACTED]

ENCL

*Michael R. Hutchison*  
MICHAEL HUTCHISON  
Acting Executive Director  
Rock Island Contracting Center

UNCLASSIFIED

**DoDIG Draft Report  
DOD Needs to Improve Management and  
Oversight of Operations at the Theater  
Retrograde-Camp Arifjan, Kuwait**

*A.4. We recommend the Executive Director Rock Island Contracting Center:*

*a. Modify the contract to include the required Defense Federal Acquisition Regulation clauses requiring compliance with laws and regulations specific to processing export controlled materiel.*

**RICC Response:** Concur. RICC will incorporate applicable Defense Federal Acquisition Regulations clauses. Expected completion date: 30 September 2010.

*b. Review the Administrative Contracting Officer's change to the processing of controlled materiel and assess compliance with Federal, DOD, and Army regulations.*

**RICC Response:** Concur. RICC will review the Administrative Contracting Officer's change to the processing of controlled materiel and assess compliance with applicable regulations. Expected completion date: 30 September 2010.

*c. Require the Administrative Contracting Officer, Quality Assurance Representative, Contracting Officer's Representative, and Alternate Contracting Officer's Representatives to maintain a conformed copy of the contract and update and consolidate all contract files prior to their departure from Kuwait.*

**RICC Response:** Partially Concur. RICC will require the Administrative Contracting Officer, Quality Assurance Representative, Contracting Officer's Representative, and Alternate Contracting Officer's Representatives to maintain a conformed copy of future contracts and update and consolidate all contract files prior to their departure from Kuwait. However, the current contract expires 30 September 2010. Due to the voluminous amount of contract modifications (356) since contract inception (circa 1999), there is no value in generating a conformed copy of the current contract. RICC does maintain a tracking spreadsheet of all contract changes (inclusive of section C changes).

*d. Re-develop and issue appointment letters for the Administrative Contracting Officer, Quality Assurance Representative, Contracting Officer's Representative, and Alternate Contracting Officer's Representative that clearly defines their roles, responsibilities, and authority for providing contract administration and oversight.*

**RICC Response:** Concur. RICC delegates contract administration to Defense Contract Management Agency (DCMA). DCMA is responsible for appointing Administrative Contracting Officers, Quality Assurance Representatives (QAR), Contracting Officer's Representatives and Alternate Contracting Officer's representatives.

However, RICC has developed a Contract Administration Plan (CAP) that clearly delineates roles and responsibilities by all performers (e.g., DCAA, DFAS, DCMA, ACO, QAR, etc.) The CAP is under review by the DCMA-KU Commander. Upon approval, DCMA and RICC will be signatory to the CAP. It is envisioned that the CAP will be deployed for all contract actions that will be delegated to DCMA Kuwait for administration. Corrective actions considered complete.

*e. Direct the Administrative Contracting Officer to review the Quality Assurance Representative's monthly audit reports and direct the Quality Assurance Representative to review the Contracting Officer's Representative monthly audit reports. The reviews should ensure that DOD officials conducted the audits appropriately, met the intent of the audit, discussed actions needed with the contractor, and resolved the issues in a timely manner.*

**RICC Response:** Concur. It is our understanding that DCMA currently reviews QAR monthly audit reports since DCMA is responsible for contract administration relative to quality assurance and conducting the monthly audits. Additionally, monthly management assessments (MMA) are being conducted. During the MMA's, COR reports, corrective actions and other issues relative to quality are discussed. Corrective actions considered complete.

*B.3. Recommend the Executive Director, Rock Island Contracting Center, re-evaluate the use and effectiveness of Letters of Technical Direction. If the Executive Director determines that the Administrative Contracting will continue to issue Letters of Technical Direction, the Director should coordinate with the*

*Commander, Defense Contract Management Agency-Kuwait, and put in place:*

*a. Standards that clearly define the requirements and limitations of the Administrative Contracting Officer for issuing Letters of Technical Direction and the supporting documentation required, such as justifications, approvals, and cost analyses.*

**RICC response:** Concur. RICC has developed a CAP that provides guidance to the ACO on letters of technical direction. The CAP is currently under review by DCMA Kuwait. Expected completion date: 30 September 2010.

*b. An internal review process to ensure appropriateness of the Letters of Technical Direction and concurrence from the Commanders of the 1st Theater Sustainment Command and Defense Contract Management Agency-Kuwait.*

**RICC response:** Concur. The CAP noted above will address the internal process for executing Letters of Technical Direction. Expected completion date: 30 September 2010.

# Defense Contract Management Agency International Comments

Final Report  
Reference



**DEFENSE CONTRACT MANAGEMENT AGENCY**  
**DEFENSE CONTRACT MANAGEMENT AGENCY INTERNATIONAL**  
6359 WALKER LANE, SUITE 220  
ALEXANDRIA, VIRGINIA 22310-3259

DCMAI-H

September 14, 2010

MEMORANDUM FOR Assistant Inspector General Department of Defense, Program Director  
Joint and Southwest Asia

**SUBJECT:** Response to Department of Defense Office of Inspector General (DoDIG) Audit Report "DOD Needs to Improve Management and Oversight of Operations at the Theater Retrograde-Camp Arifjan, Kuwait: Project No. D2010-D000JA-0055.000" dated 6 August 2010.

DCMA provides the following comments to the draft report's findings and recommendations:

***Finding A. Management of Theater Retrograde Operations Needs Improvement***

**DCMA Response to Finding A.:** DCMA generally concurs with the draft report's findings on pages 5 through 17. We offer the following specific comments to clarify actions taken since the audit was conducted:

- 1.) On page 4 the report states that, "...internal control weaknesses existed within the Army and DCMA's contract management, oversight, and administration of Theater Retrograde operations."

**DCMA Response:** Concur.

**Action Taken:** Since the audit, DCMA has implemented a robust Management and Internal Control (MIC) Program that calls for periodic reviews by DCMA International subject matter experts of the DCMA Quality Assurance, Contracting and Property surveillance procedures. DCMA has conducted two MIC reviews, one in February and one in August 2010. Both reviews found DCMA in compliance with evaluated processes in the areas of contract administration, quality, and property administration.

- 2.) On page 5, the report states that, "This occurred because Army and DCMA officials did not develop and implement effective policies and procedures for processing materiel at the Theater Retrograde, resolve all deficiencies identified during contractor performance reviews, and perform administrative functions in accordance with their appointment letters and the Federal Acquisition Regulation."

**DCMA Response:** Non-concur in part. DCMA is not responsible for developing and implementing policies and procedures for processing material at the Theater Retrograde. These policies and procedures are set forth in the terms and conditions of the contract.

Revised



Additionally, DCMA QARs are not Subject Matter Experts (SME) in Theater Retrograde Operations. While DCMA can oversee contractor operations per the Statement of Work, DCMA relies on the expertise of the Contracting Officer Representative (COR) to help identify the contractor's technical deficiencies.

**Action Taken:** Since the DODIG audit, DCMA Kuwait's Theater Quality Plan has since undergone revision, establishing improved procedures for quality oversight by specifically creating separate observations to audit for every line number and paragraph in the SOW. The surveillance checklists utilized by the DCMA QAR and the CORs have received a comprehensive review and re-write, and now include additional contract requirements (see Tab A).

- 3.) On page 7, the report states that, "Army and DCMA officials did not ensure that contractor personnel complied with security requirements to prohibit foreign nationals from unauthorized access to classified materiel during the receiving process. Contractor personnel also had unauthorized access to potentially controlled materiel during the receiving, inspecting, and storing processes, which did not comply with security requirements. The contract required the contractor to comply with applicable security regulations for handling classified and controlled materiel according to the contract."

**DCMA Response:** Concur.

**Action Taken:** Security requirements have been added to DCMA's surveillance checklists and are reviewed during monthly audits by both the QAR and the COR. The contractor updated its Standard Operating Procedure (SOP) on 15 March 2010 to direct personnel to be trained on recognition of security markings and proper handling of classified items on an annual basis, at a minimum. Additionally, contractor policy now states that when classified or suspected classified material is discovered a western employee (Red Hat) with appropriate clearance will secure the items and follow the appropriate protocols to effect disposition of the classified material. The contractor currently has thirty (30) personnel categorized as Red Hats that inspect the seven (7) inspection lanes on a daily basis. Additionally, the current controlled material site and sensitive items cages have guards 24 hours a day. The controlled material site is secured using T-Wall style barriers, with concertina and barbed wire surrounding the top. Access into the one entrance is controlled by a manned guard tower. Only personnel with controlled material site badges are granted entrance. The Accountable Officer, the Theater Retrograde Center Branch Manager, and the Branch Manager for Production Control are the only personnel that can grant access.

- 4.) On page 10, the report states that, "Army and DCMA officials did not ensure that TRC contractor personnel stored hazardous material properly or had the required equipment to safely respond to a hazardous spill in accordance with contract requirements. ... However, while accompanying the QAR on his monthly audit of TRC operations on January 29, 2010, we observed gas cylinders stored on their side and not properly braced or protected."

**DCMA Response:** Concur.

The checklists were omitted because of length. Copies will be provided upon request.

**Action Taken:** The current HAZMAT site is too small to adequately store the amount of material that transits through. The area is not temperature controlled, which also limited the amount and type of HAZMAT that can be safely stored until disposition is determined. In November 2009, the 593 SB identified these issues and recommended improvements to the HAZMAT area, which included a tent with temperature controlled storage. The improvements were part of the project upgrade packet that was submitted to the 1<sup>st</sup> Sustainment Command (Theater) (1 TSC) and went to the Army Central Command (ARCENT) Combined Acquisition Review Board (CARB) for approval 11 June 2010. The tentative completion date of all the upgrades in the TRC is November 2010. DCMA updated our Audit Checklist with observations to specifically check to ensure the contractor is in compliance with the contract paragraphs C.5.24.25, Hazardous Materials (HAZMAT) Shipments, and C.5.1.24.26, Hazmat Plan.

- 5.) On page 10, the report states that, “The contract also stated that the contractor shall have three hazardous material spill kits... However, we observed that the contractor only had two spill kits on hand, and one of the kits was incomplete and not in an easily accessible location. In addition to the improper storage and the lack of required spill kits, the contractor also did not comply with the contract requirement to provide secondary containment device during temporary and permanent storage.”

**DCMA Response:** Concur.

**Action taken:** The contractor has corrected the nonconformance. DCMA has continued to monitor compliance and no further deficiencies have been noted.

- 6.) On page 11, the report states that, “DCMA officials did not ensure that TRC contractor personnel complied with the contract by exercising due diligence and conducting adequate research to identify NSE that arrived without documentation. Army and DCMA officials also did not ensure that TRC contractor personnel contacted AMC or other appropriate officials for disposition guidance in accordance with the contract.”

**DCMA Response:** Concur.

**Action Taken:** On 2 March 2010, a Letter of Technical Direction (LOTD), drafted by DCMA at the request of the COR, was provided to the contractor to further explain the NSE research procedures. Under Section C.5.1.24.13 of the contract statement of work, unidentified items must be researched using the internet or GSA catalog for determining the type of item and recommending pricing. Two Level I CARs and one Level II CAR were filed in the past six months regarding improper handling of materials. The Level I CARs were resolved in less than five days. The Level II CAR, filed 17 February 2010, was accepted 4 March 2010 and closed out on 26 May 2010. DCMA continues to meet with CORs at least once a week and are responsive to the needs of the CORs. DCMA has also worked to complete new audit checklists for the CORs. The CORs received the checklists in April 2010 and have been using them effectively. Additionally, the Quality Assurance Representative completed checklists for measures of performance / effectiveness of the contractor’s daily activities. The new checklists include tracking methods for catalog build

accuracy. By monitoring the catalog builds in SARSS, the 1 SB developed a measure of effectiveness to evaluate how well the contractor is identifying serviceable materials. DCMA has also added a catalog build accuracy level of 90% to the next proposed incentive plan, dated 24 May 2010.

- 7.) On page 14, the report states that, “the QAR relied on testimonial evidence from the TRC Department Manager...”

**DCMA Response:** Concur.

**Action Taken:** DCMA QARs are trained to visually confirm contractor performance during their monthly scheduled audit. The QARs and CORs are trained to perform audits using this methodology. This is discussed during initial QAR transition training and reiterated throughout the duration of the DCMA contingency contract deployment.

- 8.) On page 14, the report states that, “Subsequent to the alternate CORs identifying deficiencies during performance reviews, the COR and QAR did not ensure the deficiencies were resolved. For example, the COR and QAR identified during a November 2009 audit that the spill kits in the TRC hazardous material area were incomplete.”

**DCMA Response:** Concur.

**Action Taken:** The approved DCMA process is to document non-conformances and ensure they are corrected. Upon initial discovery of the deficiency in spill kits in their November audits, the QAR and COR adequately documented the non-conformance. However, the QAR did not adequately process the non-conformance per the DCMA Theater Quality Plan. Since the Contractor did not correct the non-conformance when first discovered in November, the QAR should have written either a Level I or II CAR based on the risk associated with the consequence of the deficiency. A written CAR would have forced the contractor to correct the conformance.

The contractor has corrected the nonconformance. DCMA has continued to monitor compliance and no further deficiencies have been noted with spill kits.

- 9.) On page 14, the report states that, “Although the alternate COR identified and reported the deficiency, the COR and QAR did not follow up on the issue to ensure the contractor personnel resolved it, and the alternate CORs continued to identify and report the same issue five times during that same month. To ensure the audits conducted by the alternate CORs are useful and effective, Army and DCMA officials should develop procedures to ensure deficiencies are resolved in a timely manner.”

**DCMA Response:** Concur.

**Action Taken:** The procedures in the DCMA Theater Quality Plan dictate that any nonconformity brought to DCMA’s attention shall be immediately addressed with the contractor and a level I or level II CAR will be submitted to the contractor. Effective use of

these procedures will prevent reoccurrence of the reported finding. We now review compliance with these procedures as part of the DCMA MIC process.

- 10.) On page 15, the report states that, “The ACO also acted without proper authority by approving changes to the contract for processing controlled materiel at the TRC. Specifically, the ACO approved the contractor's request to process only certain controlled materiel in a separate location, and according to the ACO appointment letter, the ACO did not have the authority to make that type of change. Based on the change, foreign nationals were allowed to process the remaining controlled materiel along with all other materiel [refer to Table 1 on page 9]. Because the ACO issued the change, DOD increased its risk that foreign nationals could process controlled materiel, potentially impacting national security. Army and DCMA officials should review the changes and ensure compliance with Army, DOD, and Federal regulations.”

**DCMA Response:** We have not located documentation of the change that is referenced in the draft audit report. Additionally, we cannot determine from the draft report the type of contract change this was that the ACO was not authorized to make. DCMA ACOs are generally authorized to make administrative contract changes within the scopes of their warrants and the delegated functions assigned to DCMA for administration. Without reviewing the contract change document, we cannot agree that the ACO exceeded his authority. Without reviewing the contract change document, we cannot agree that the ACO exceeded his authority. Having the change document will also help us review with the Army whether any changes made are in compliance with regulations.

**Recommendation A.2. We recommend the Commander, 1st Theater Sustainment Command, and the Commander, Defense Contract Management Agency-Kuwait:**

*a. Update the audit standardized checklists for the Contracting Officer's Representative and Quality Assurance Representative to ensure they are able to verify whether contractor personnel complied with contract requirements and applicable Federal, DOD, and Army regulations.*

**DCMA Response:** Concur.

**Action Taken:** All audit/contract surveillance checklists were reviewed by DCMA QAR's and updated in conjunction with the COR checklists. Additionally, audit checklists are reviewed and updated when modifications are issued that revise Statements of Work (SOW). Newly appointed CORs, as the subject matter experts, review audit checklists and SOWs to verify compliance with applicable Federal, DOD, and Army regulations. A revised checklist, “Combat Support Services Contract – Retrograde Operations, SOW Section: C.5.1.24” is provided at Tab B. Specific findings from the DoDIG report were addressed in the updated checklist (Tab A). DCMA Kuwait also performed a comprehensive review and revision of its Theater Quality Plan (TQP) dated 24 June 2010 (Tab C).

Statement of Work (SOW) Section C.5.1.24, checklists, and Theater Quality Plan were omitted because of length. Copies will be provided upon request.

*b. Develop procedures that ensure deficiencies identified by the Contracting Officer's Representative, Alternate Contracting Officer's Representative, and Quality Assurance Representative are resolved in a timely manner based on the severity of the deficiency.*

**DCMA Response:** Concur.

**Action Taken:** DCMA Kuwait has procedures in place to adequately track deficiencies. Contract deficiencies are addressed through CARs and are tracked through the use of a CAR Log on a network share drive. All pertinent information, to include subject matter, milestone dates and current status, is included on the log. CARs are tracked through closeout and are verified up to six months after closeout as part of DCMA Kuwait's trend analysis process as detailed in paragraph 6.0 CARs and associated Annexes of the TQP. Each QAR has access to the CAR Log which is monitored by the Lead QARs and the Theater Quality Assurance Representative on a weekly basis. Level II CARs require a Corrective Action Plan (CAP) from the contractor. The QAR accepts/rejects the CAP with a CAP acceptance/reject letter.

**Recommendation A.3. We recommend the Commander, Defense Contract Management Agency-Kuwait:**

*a. Direct contractor personnel at the Theater Redistribution Center to comply with the business rules referenced in Recommendation A.1 which recommended the 1<sup>st</sup> TSC coordinate with the U.S. Army Material Command to develop business rules so that nonstandard equipment at the TRC is reutilized to its maximum capability.*

**DCMA Response:** Concur.

**Action taken:** DCMA QARs can only monitor and enforce contractor performance to the standards set forth in the Statement of Work. The COR has the capability and responsibility to set the priorities within the terms of the contract for the contractor to follow and to offer technical guidance, but not to direct the contractor. Specifically, for Recommendation A.1, should the Commander 1<sup>st</sup> TSC establish business rules that provide guidance to the contractor at the TRC, these business rules will need to be incorporated into the Statement of Work through a contract modification or contract action. This action will need to be initiated by the 1<sup>st</sup> TSC and processed through the ARCENT requirements process. Once the Statement of Work has been modified to include any business rules changes, the QAR, in conjunction with the COR, will modify the surveillance audit checklist to include oversight of those changes.

*b. Direct contractor personnel at the Theater Retrograde to comply with hazardous material and security regulations as stated in the contract and export control laws and regulations.*

**DCMA Response:** Concur.

**Action taken:** The contract itself directs the contractor to comply with hazardous material and security regulations. DCMA coordinates government responses to any contractor questions regarding the processing of hazardous material and applicable security regulations. DCMA's Quality Assurance function is to verify whether the contractor is complying with the terms and conditions of the contract. DCMA monitors the contractor's performance, reports deficiencies, and validates and monitors contractor-developed corrective actions. Should DCMA discover contractor deficiencies and non-conformances through the QAR or COR audit process, DCMA will process this in accordance with our Theater Quality Plan. This may involve the processing of a CAR. Contractor deficiencies may also warrant the attention and direct involvement of the DCMA ACO depending on the immediacy, severity, and risk assessment of the deficiency.

***Finding B. Increased Oversight Needed at the Theater Redistribution Center***

**DCMA Response to Finding B.:** DCMA generally concurs with the draft report's findings on pages 19 through 26. We offer the following specific comments to clarify actions taken since the audit was conducted:

- 1.) On page 23, the report states that, "The ACO removed the performance workload requirement from the contract without proper authorization, written justification, or consideration."

**DCMA Response:** Concur.

**Action Taken:** DCMA ACOs are warranted and thus have received all applicable training. Being fully trained, warranted ACOs are expected to understand the limits of their warrants. Additional emphasis will be incorporated into the Basic Contingency Operations Training (BCOT) to highlight warrant and ACO limitations when writing LOTDs.

- 2.) On page 24, the report states that, "Both Army and DCMA officials stated they were unable to provide written justification because the officials who had previously approved the removal of the performance requirement had rotated."

**DCMA Response:** Concur.

**Action Taken:** DCMA ACOs are warranted and thus have received all applicable training. As warranted ACOs, they are briefed on the limits of their warranted authority. The ACO should not have relieved the contractor of a performance requirement without adequate government consideration. DCMA continues to provide specific training to ACOs and CAs prior to deployment during Basic Contingency Operations Training (BCOT). This training, along with their DAU training and experience, are essential to ACOs making well thought out and thorough decisions on behalf of the government. Additionally, ACOs and CAs are trained during BCOT and our "left-seat, right-seat"

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transition training that maintaining thorough documentation in the contract folder is required.

DCMA Kuwait's Records Management Standard Operating Procedure establishes a uniform procedure for maintaining a contract file. Contracting files were recently audited during the MIC reviews for compliance, with no adverse findings.

- 3.) Comment: On page 26, the report states "Army and DCMA officials should consider ... shifting manpower from locations that are above the staffing requirement to locations that are deficient. If staffing is still inadequate to process the containers in accordance with the applicable requirements, Army and DCMA officials should consider assigning Government personnel to assist with operations at the TRC."

**DCMA Response:** Non-concur. It is not within DCMA's delegated authority to shift contractor manpower without customer direction. Additionally, DCMA does not assign Government personnel to assist with any contract operations.

***Recommendation B.2. We recommend the Commander, 1st Theater Sustainment Command and Commander, Defense Contract Management Agency-Kuwait:***

***a. Determine the staffing required at the Theater Redistribution Center to process the current and increased number of containers as the drawdown from Iraq progresses. In addition, if the contractor cannot obtain the required staffing, consider assigning Government personnel to assist with operations at the Theater Redistribution Center.***

**DCMA Response:** Non-concur. DCMA receives its FAR Subpart 42.302 delegated contract authority from the Procuring Contracting Officer. Neither FAR Subpart 42.302 nor the contract delegation allows DCMA to determine contract requirements. Additionally, DCMA has no responsibility in determining the need to supplement the contractor's manning with government personnel. Both recommendations are the responsibility of the customer, 1<sup>st</sup> TSC. Certainly, DCMA can facilitate the right-sizing of contractor manning numbers should the 1<sup>st</sup> TSC request assistance.

***b. Document noncompliance with contract requirements, specifically the performance and staffing requirements, and report the noncompliance during weekly and monthly performance reviews for consideration in the Award Fee Board Review.***

**DCMA Response:** Concur.

**Action taken:** Per the Kuwait Theater Quality Plan, DCMA monitors all contract requirements, to include any requirements related to staffing, that are specified in the Statement of Work. Non-compliances that are discovered are processed as CARs. CARs are reported by the QAR in the Award Fee process. DCMA and COR audit checklists have been updated to include surveillance of the contractor's manning numbers and the contractor currently reports the manning numbers weekly.

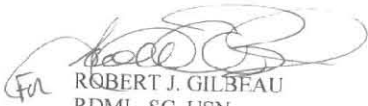
Revised, Page 29

Renumbered as  
Recommendation  
B.1.c

*c. Maintain all documentation supporting the basis for actions taken pertinent to the contract, including justifications, approvals, and cost analyses in the contract file.*

**DCMA Response:** Concur.

**Action taken:** DCMA Administrative Contracting Officers maintain all contract administration documents electronically according to our Records Management Standard Operating Procedure and FAR Part 4.8.

  
For  
ROBERT J. GILBEAU  
RDML, SC, USN  
Commander, DCMA International







# Inspector General Department of Defense

