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Report No. DODIG-2012-099

June 1, 2012

# Inspector General

United States  
Department of Defense



Adequate Contract Support and Oversight Needed  
for the Tactical Wheeled Vehicle Maintenance Mission  
in Kuwait

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## Acronyms and Abbreviations

ACC-RI	Army Contracting Command-Rock Island
AFSBn-Kuwait	Army Field Support Battalion-Kuwait
APS	Army Prepositioned Stock
ARCENT	U.S. Army Central
ASC	U.S. Army Sustainment Command
COR	Contracting Officer's Representative
CPFF	Cost-Plus-Fixed-Fee
DTS	Direct Theater Support
FFP	Firm-Fixed Price
FIRST	Field Installation and Readiness Support Team
ITT	ITT Corporation
MRAP	Mine Resistant Ambush Protected
TWV	Tactical Wheeled Vehicle



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500

June 1, 2012

MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT MANAGEMENT  
AGENCY  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Adequate Contract Support and Oversight Needed for the Tactical Wheeled Vehicle Maintenance Mission in Kuwait (Report No. DODIG-2012-099)

We are providing this report for review and comment. Army Field Support Battalion-Kuwait's contractor, ITT Corporation, did not consistently meet requirements for contract W911SE-07-D-0006, task order BA-02, currently valued at about \$848.91 million. Not all tactical wheeled vehicles were ready for timely issuance to warfighters in Southwest Asia, which left contingency operations at risk. In addition, U.S. Army Sustainment Command personnel did not sufficiently staff Army Field Support Battalion-Kuwait with experienced personnel to oversee the contract. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Executive Deputy to the Commanding General, U.S. Army Materiel Command endorsed the comments provided by the U.S. Army Sustainment Command and the Army Contracting Command-Rock Island. The comments from the U.S. Army Sustainment Command and the Army Contracting Command-Rock Island on Recommendations A.1, A.2, B.1.a, B.1.b, and B.3.a were responsive and no further comments are required. Comments from the Executive Director, Army Contracting Command-Rock Island on Recommendation B.3.b were not responsive. Therefore, we request that the Executive Director, Army Contracting Command-Rock Island, provide additional comments on Recommendation B.3.b by July 2, 2012. We redirected Recommendation B.2 to the Defense Contract Management Agency because the procuring contracting officer delegated task order BA-02 contract administration to the Director, Defense Contract Management Agency-Kuwait. We request that the Director, Defense Contract Management Agency, comment on Recommendation B.2 by July 2, 2012.

If possible, send a portable document format (.pdf) file containing your comments to [audjsao@dodig.mil](mailto:audjsao@dodig.mil). Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. Comments provided to the final report must be marked and portion-marked, as appropriate, in accordance with DoD Manual 5200.1. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604- [REDACTED] (DSN 664- [REDACTED])

A handwritten signature in cursive script that reads "Amy J. Frantz".

Amy J. Frantz  
Principal Assistant Inspector General for  
Auditing



# Results in Brief: Adequate Contract Support and Oversight Needed for the Tactical Wheeled Vehicle Maintenance Mission in Kuwait

## What We Did

Our objective was to determine whether DoD effectively executed maintenance for tactical wheeled vehicles (TWV) in Kuwait. Specifically, we determined whether DoD provided appropriate contract oversight to ensure that TWVs received the necessary repairs and maintenance. We reviewed Army Field Support Battalion-Kuwait's (AFSBn-Kuwait) oversight of the \$848.91 million contract W911SE-07-D-0006, task order BA-02 with ITT Corporation (ITT).

## What We Found

AFSBn-Kuwait's contractor, ITT, did not effectively execute maintenance for TWVs in Kuwait. In response, DoD contracting personnel issued 149 corrective action and contract discrepancy reports, show cause and cure notices, and a partial termination for default to ITT; however, ITT's performance still did not meet contract requirements. This occurred because Army Contracting Command-Rock Island (ACC-RI) used a contract type and method that did not incentivize the contractor to perform quality work. As a result, warfighters in Southwest Asia and their missions were at risk. Further, the Army Prepositioned Stock-5 (APS-5) set may not be ready for timely issuance to the U.S. and its Allies in response to contingency operations. Direct theater support (DTS) equipment was not always ready to meet deadlines in support of contingency operations. In addition, ITT personnel left APS-5 and DTS equipment exposed to theft and damage, which jeopardized AFSBn-Kuwait personnel's ability to issue that equipment as required. We informed ACC-RI of these problems on October 18, 2011, and on November 22, 2011, the Executive Deputy to the Commanding General, U.S. Army Materiel Command, responded and stated that the ACC-RI initiated plans to award a new contract by June 1, 2012. However, on February 29, 2012, the procuring contracting officer issued a modification exercising option year two at \$302 million. The period of performance for the option year was from March 1, 2012, through February 28, 2013.

AFSBn-Kuwait personnel did not provide appropriate contract oversight to validate that repairs were needed and labor hours billed were accurate. This occurred because U.S. Army Sustainment Command (ASC) did not sufficiently staff AFSBn-Kuwait with experienced personnel to oversee the contract. Also, the Quality Assurance Maintenance Work Plan did not require AFSBn-Kuwait personnel to approve repairs before the contractor could begin work or review contract labor hours billed. As a result, ITT personnel ordered and installed almost 4 million repair parts and billed \$160.75 million for maintenance labor hours worked and the U.S. Army did not have assurance that those costs were justified.

## What We Recommend

We recommend that the Commander, ASC, in coordination with the Executive Director, ACC-RI, amend the current contract to include provisions that incentivize the contractor for efficient and economical performance and award a new contract before option year two ends. We also recommend that the Commander, ASC, sufficiently staff AFSBn-Kuwait to carry out their oversight mission, that the Director, Defense Contract Management Agency-Kuwait establish procedures that require oversight personnel to approve maintenance before the contractor begins work, and the Executive Director, ACC-RI, ensure that contract labor hours billed are reviewed.

## Management Comments and Our Response

The Commanding General, ASC, and the Executive Director, ACC-RI, agreed or partially agreed with the report recommendations. In finalizing the report, we redirected one recommendation because the procuring contracting officer made the Defense Contract Management Agency-Kuwait responsible for managing task order BA-02's contract oversight. We request comments in response to the final report by July 2, 2012, as indicated in the recommendations table on page ii.

## Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director, Defense Contract Management Agency	B.2	
Commander, U.S. Army Sustainment Command		B.1.a, B.1.b
Executive Director, Army Contracting Command-Rock Island	B.3.b	A.1, A.2, B.3.a

**Please provide comments by July 2, 2012.**

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# Introduction

## Objectives

Our objective was to determine whether DoD effectively executed maintenance for tactical wheeled vehicles (TWV) in Kuwait. Specifically, we determined whether DoD provided appropriate contract oversight to ensure that TWVs received the necessary repairs and maintenance. This report focuses on Army Field Support Battalion-Kuwait's (AFSBn-Kuwait) oversight procedures over maintenance conducted by ITT Corporation (ITT) between May 2010 and November 2011. As of November 2011, ITT billed the U.S. Army approximately \$160.75 million for maintenance conducted in Kuwait under task order BA-02. The structure of task order BA-02 did not always allow us to differentiate between maintenance and billings related to TWVs and maintenance and billings related to other equipment. Therefore, in some cases, we analyzed documentation that related to more than just TWV maintenance to draw our conclusions. The announced objective also included a review of whether repair parts were efficiently used. We will review the use of repair parts in a separate project. See Appendix A for the scope and methodology and a discussion of prior coverage.

## Background

~~(FOUO)~~ In Kuwait, the U.S. Army had approximately 2,500 TWVs<sup>1</sup> in its Army Prepositioned Stock (APS)-5, and over 200 TWVs in theater sustainment stocks and used for direct theater support (DTS),<sup>2</sup> as of November 2011. The U.S. Army was responsible for maintaining these vehicles.

### ***Organizational Responsibilities for Managing the Maintenance of TWVs in Kuwait Identified***

Several U.S. Army commands played key roles in managing maintenance of TWVs in Kuwait, including U.S. Army Sustainment Command (ASC), AFSBn-Kuwait, and U.S. Army Central (ARCENT). Army Contracting Command-Rock Island (ACC-RI) was the contracting arm of ASC and provided contracting support to AFSBn-Kuwait.

### **ASC Provided Combat Service Support**

~~(FOUO)~~ ASC's mission, as a subordinate command of the U.S. Army Materiel Command, was to provide combat service support to soldiers serving in combat commands in the continental United States and overseas to ensure expeditionary warfighting readiness. ASC personnel managed and executed the U.S. Army's materiel distribution and redistribution process, including the maintenance of TWVs in Kuwait, Qatar, and Afghanistan. Also, ASC personnel commanded a network of U.S. Army field support brigades and battalions to provide forward logistics support to the U.S. Army. AFSBn-Kuwait, located at Camp Arifjan, Kuwait, and 402<sup>nd</sup> Army Field Support Brigade were among the brigades and battalions serving under ASC.

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<sup>1</sup> See Appendix B for descriptions of the different categories of TWVs in the Army inventory.

<sup>2</sup> For definitions of these and other terms, see the Glossary.

## AFSBn-Kuwait Missions

~~(FOUO)~~ AFSBn-Kuwait had three main mission areas: APS-5, retrograde, and direct theater support. AFSBn-Kuwait personnel also executed more than 40 other missions, including contracting officer's representative (COR) responsibility for task order BA-02. Figure 1 lists the inherent missions of AFSBn-Kuwait.

~~(FOUO)~~ Figure 1. Inherent Missions of AFSBn-Kuwait

~~UNCLASSIFIED//~~FOUO~~~~

### Inherent Missions

<ul style="list-style-type: none"> <li>• Theater Sustainment Stocks (TSS) (5000 pcs)</li> <li>• MRAP Sustainment Facility (MSF) Accountability, QA, and Trans Coordination</li> <li>• Central Receiving and Shipping Point (CREP)</li> <li>• 287 Operational Needs Statement (ONS) 612 pieces of Rolling Stock; 3007 pieces of Non Rolling Stock</li> <li>• CENTCOM Theater Reserve (CTR) (333 pcs)</li> <li>• Foreign Military Sales (FMS) (588 pcs ) for ANA and ANP</li> <li>• Heavy Assistance Advisory Brigade (HAAB) (703 pcs )</li> <li>• Add on Armor missions (M113 family, LSAC, Fueler Family)</li> <li>• JSLIST Sort Mission</li> <li>• BUSK/TUSK Urban Survivability Kit Mission</li> </ul>	<ul style="list-style-type: none"> <li>• Tire Assembly Repair Program (TARP) (7,200 tire assemblies capability/month)</li> <li>• KALMAR Program</li> <li>• Basic Issue Items (BII) Warehouse (harvesting, sorting, and packaging)</li> <li>• MARCENT (Marine Central) SOG (Special Operations Group) Program</li> <li>• L3 Contract (Air Force contract)</li> <li>• DV Tours (over 250 personnel in FY2010)</li> <li>• COMMO Installations</li> <li>• Packaging and Crating Shop</li> <li>• Small Engine Repair, FSS, and Air Conditioning Repair</li> <li>• External APOD, SPOD Trans Coordination and Loading</li> <li>• Allied Trades Shop</li> <li>• De-processing of New Equipment Team</li> </ul>	<ul style="list-style-type: none"> <li>• Class IX Warehouse (14,200 lines of OPSTOCK), Class IX Job Box Warehouse</li> <li>• Depot-level DSETS Test and Repair Facility</li> <li>• COMMO Test Facility</li> <li>• 2 Paint Booth Operations</li> <li>• Motor Pool (9 Work centers/ 186 Bays, 4 PEBS)</li> <li>• AG Cleaning of all TPE on Arifjan and KNB Wash Racks (211 points)</li> <li>• Internal and External Convey Operations (Crane, TEREX, Forklift, Drive-on, Tow and Drive Under Own Power Loading and Downloading of CULT Assets)</li> <li>• PM Heavy Coordination</li> </ul>	<ul style="list-style-type: none"> <li>• Local ARCENT Issue Missions (local units)</li> <li>• PM CREW Coordination</li> <li>• PM FBCB2 Coordination</li> <li>• Downtown Caterpillar Coordination</li> <li>• TPER (Theater Provided Equipment Refurbishment) Coordination</li> <li>• Off-Site FOX Dealer</li> <li>• Off-Site KALMAR dealer</li> <li>• Theater Purge Pit Operations</li> <li>• TC-AIMS</li> <li>• AOA Yard Management</li> <li>• CECOM Harvesting and AG Cleaning</li> <li>• Class III POL Point</li> <li>• Container Repair</li> </ul>
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***"Mission Focused ... Support Driven"***

~~UNCLASSIFIED//~~FOUO~~~~

Source: AFSBn-Kuwait

~~(FOUO)~~ While AFSBn-Kuwait was organizationally under ASC, operationally, ARCENT directed AFSBn-Kuwait by guiding maintenance priorities. According to AFSBn-Kuwait personnel, as of July 2011, the battalion had 94 personnel on hand; 25 of which were contractors.

## ARCENT Provided Priorities for DTS Maintenance

ARCENT was the Army Service Component Command assigned to U.S. Central Command and provided continuous oversight and control of U.S. Army operations throughout the U.S. Central Command area of responsibility. ARCENT was headquartered at Shaw Air Force Base, South Carolina, and also had a forward headquarters located at Camp Arifjan, Kuwait. ARCENT personnel provided DTS maintenance priorities to AFSBn-Kuwait.



## **Contract Task Order BA-02 Awarded in Support of AFSBn-Kuwait's Missions**

ACC-RI personnel awarded contract W911SE-07-D-0006, task order BA-02 in February 2010. The contract was awarded to ITT<sup>3</sup> as part of the Field and Installation Readiness Support Team (FIRST) Program<sup>4</sup> in support of AFSBn-Kuwait's missions and was valued at \$848.91 million as of April 18, 2012. To support APS-5 and DTS in the U.S. Central Command area of operations, task order BA-02's performance work statement contained the following main tasks:

- APS operations,
- equipment retrograde operations,
- direct theater support operations,
- base operations,
- information technology operations,
- Government furnished equipment operations,
- maintenance support operations,
- supply support operations,
- quality control and process improvement services, and
- logistics and maintenance operations center services.

The performance work statement also included annexes for six special tasks, such as refurbishment of U.S. Marine Corps and Central Command vehicles and the Tire Assembly Repair Program operations.

ACC-RI personnel awarded the contract as a firm-fixed price (FFP)/cost-plus-fixed-fee (CPFF) hybrid that included a base year and four, 1-year options. ACC-RI personnel negotiated the FFP portion of the contract based on ITT's proposed labor hours and rates, other direct costs, and various overhead costs. ITT personnel conducted APS-5 maintenance under one of the FFP portions of the contract. These FFP portions were not subject to any adjustment based on the actual costs incurred. The CPFF portions of the contract reimbursed the contractor for costs incurred; however, ACC-RI should not reimburse the contractor for costs that exceeded the contract ceiling. In addition, ACC-RI paid the contractor a fixed fee that it established at the start of the contract. The fixed fee should not vary with actual costs but may adjust as a result of changes to the work to be performed. ACC-RI personnel set the fixed fees at (b)(4) percent for the missions included in the original contract and at generally (b)(4) percent for missions that were added after contract award. ACC-RI personnel based CPFF contract costs upon labor hours and rates, other direct costs, and overhead for work performed. (b)(4)

Therefore, ACC-RI personnel based a majority of the contract costs on labor.

<sup>3</sup> ITT separated into three independent companies in October 2011.

<sup>4</sup> The objective of the FIRST Program was to provide a means to strategically consider the most effective method of satisfying reoccurring logistical support requirements. Army Contracting Agency executed the FIRST Program through multiple indefinite delivery, indefinite quantity contracts.

## **Review of Internal Controls**

DoD Instruction (DoDI) 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 controls. ASC did not sufficiently staff AFSBn-Kuwait with experienced personnel to conduct oversight over the maintenance portions of task order BA-02. In addition, AFSBn-Kuwait’s Quality Assurance Maintenance Work Plan did not require AFSBn-Kuwait personnel to approve repairs before the contractor could begin work or review contract labor hours billed. We will provide a copy of this report to the senior official responsible for internal controls in the Department of the Army.

## **Finding A. Contractor Did Not Meet AFSBn-Kuwait Mission**

AFSBn-Kuwait's contractor, ITT, did not effectively execute maintenance for TWVs in Kuwait. In response, DoD contracting personnel<sup>5</sup> issued 149 corrective action and contract discrepancy reports, show cause and cure notices, and a partial termination for default to ITT; however, ITT's performance still did not meet contract requirements. This occurred because ACC-RI used a contract type and method that did not incentivize the contractor to perform quality work. Specifically, the procuring contracting officer<sup>6</sup> awarded task order BA-02 without sufficient measurable performance standards and quantifiable outcomes, or adequate incentives. As a result, warfighters in Southwest Asia and their missions were at risk. For example, the APS-5 set may not be ready for timely issuance to the United States and its Allies responding to contingency operations. DTS equipment was not always ready to meet deadlines in support of contingency operations. In addition, ITT personnel left APS-5 and DTS equipment exposed to theft and damage, which jeopardized AFSBn-Kuwait's ability to issue that equipment to units at the required maintenance standard and time frame to support their missions.

We issued a memorandum on October 18, 2011, suggesting that ASC and ACC-RI consider issuing a new contract because of problems with the contract and the contractor's performance. On November 22, 2011, the Executive Deputy to the Commanding General, U.S. Army Materiel Command, responding on behalf of ASC and ACC-RI, stated that ASC and ACC-RI officials initiated plans to award a new contract by June 1, 2012.<sup>7</sup> However, on February 29, 2012, the procuring contracting officer issued a modification exercising option year two at \$302 million. The period of performance for the option year was from March 1, 2012, through February 28, 2013.

### **Maintenance Mission Needed Better Contractor Support**

ITT did not effectively execute maintenance for TWVs by not meeting contract requirements for APS-5 readiness, DTS, and the accountability, security, and reporting of equipment. Between June 2010 and January 2012, DoD contracting personnel documented ITT's poor contract performance through 149 corrective action reports and contract discrepancy reports, show cause and cure notices, and a partial termination for default.

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<sup>5</sup> ~~(FOUO)~~ DoD contracting personnel included contracting personnel from the Defense Contract Management Agency, ACC-RI, and AFSBn-Kuwait.

<sup>6</sup> The ACC-RI procuring contracting officer who awarded the contract stated that he gave the responsibility for task order BA-02 to a new procuring contracting officer in August 2010.

<sup>7</sup> See Appendix C for our memorandum and the U.S. Army's response.

### ***APS-5 Readiness Rates Not Met***

ITT personnel did not meet the required readiness rate for APS-5. The contract stated that ITT should manage all aspects of APS stocks to ensure the required readiness is met so the equipment can be issued when needed. However, Defense Contract Management Agency and AFSBn-Kuwait personnel issued <sup>(b)(4)</sup>

(b)(4)

### ***Repair of Vehicles for DTS Missions Not Efficient or Timely***

~~(FOUO)~~ ITT personnel did not efficiently repair vehicles for DTS missions in a timely manner.<sup>9</sup> The contract stated that ITT personnel will maintain the equipment to Technical Manual -10/20 standards,<sup>10</sup> maintain accountability of the equipment, and issue it. However, Defense Contract Management Agency and AFSBn-Kuwait personnel issued <sup>(b)(4)</sup>

(b)(4)

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<sup>8</sup> ~~(FOUO)~~ The <sup>(b)(4)</sup> pieces of equipment included TWVs, tracked vehicles, weapons, and other equipment.

<sup>9</sup> These repairs fall under the CPFF portion of the contract.

<sup>10</sup> The Army's maintenance standard is referred to as the Technical Manual -10/20 standard. Army equipment meets this standard when the equipment is fully mission capable, preventative maintenance is conducted as required, all required modifications have been applied, and authorized basic issue items are present.

<sup>11</sup> (b)(4)

(b)(4)

~~(FOUO)~~

(b)(4)

***Better Accountability and Security of Equipment Needed***

~~(FOUO)~~ ITT personnel did not provide adequate accountability and security of APS-5 and DTS equipment. The contract stated that ITT personnel will maintain accountability of all vehicles and provide security of the APS-5 and DTS equipment. Defense Contract Management Agency and AFSBn-Kuwait personnel issued <sup>(b)(4)</sup>

***Inaccurate Reporting Occurred***

~~(FOUO)~~ ITT personnel did not always meet the contract requirements for reporting the status of APS-5 and DTS equipment. The contract required that ITT personnel provide management and technical information to U.S. Army personnel. However, Defense Contract Management Agency and AFSBn-Kuwait personnel issued <sup>(b)(4)</sup>

***Other Performance Issues Identified***

~~(FOUO)~~ DoD contracting personnel issued <sup>(b)(4)</sup>

(FOUO) (b)(4)

## **Contract Type and Method Were Not Appropriate**

ACC-RI personnel's used a contract type and method for awarding task order BA-02 that was not appropriate for AFSBn-Kuwait's oversight environment. ACC-RI personnel awarded task order BA-02 as a FFP/CPFF hybrid, which did not always include measurable performance standards with quantifiable outcomes or adequate incentives in the performance work statement.

### ***Change in Contract Type Needed for AFSBn-Kuwait Oversight Environment***

(FOUO) ACC-RI's use of a FFP/CPFF hybrid contract type was not appropriate for AFSBn-Kuwait's oversight environment. AFSBn-Kuwait had COR responsibility for task order BA-02, but had limited staff to oversee the (b)(4) contractor personnel assigned to the contract. This left AFSBn-Kuwait personnel unable to oversee critical parts of the contract. Using a FFP/CPFF hybrid contract type in a limited oversight environment increased the risk for the contractor to underperform on the FFP portions of the contract. ITT personnel conducted APS-5 maintenance under the FFP portion of the contract. According to the previous maintenance COR, AFSBn-Kuwait personnel reviewed 20 percent of the preventative maintenance completed on APS-5 equipment each month. The COR further stated that ITT (b)(4)

(b)(4) ASC and ACC-RI should award a new contract that considers the AFSBn-Kuwait oversight and operational environment.

### ***Measurable Performance Standards Not Always Included***

ACC-RI personnel did not always articulate measurable performance standards with quantifiable outcomes in task order BA-02's performance work statement. ACC-RI personnel affected AFSBn-Kuwait's ability to adequately assess the contractor's performance and carry out the battalion's oversight mission by not including measurable performance standards. For instance, ACC-RI personnel included insufficient performance measures for the DTS maintenance mission. In the description for this task, the contract stated the contractor should staff and manage maintenance operations to ensure maximum production capacity using the most efficient utilization of facilities, equipment, parts, personnel and time. However, the performance work statement did not include any measures for how AFSBn-Kuwait would assess whether ITT achieved the maximum production capacity using the most efficient use of facilities, equipment, parts, personnel, and time. Without measureable criteria provided in the performance work statement, AFSBn-Kuwait personnel could not determine if ITT personnel have achieved this task.

Federal and DoD regulations and guidance illustrate the importance of including measurable standards with quantifiable outcomes in performance-based contracts. Federal Acquisition Regulation, subpart 37.6, "Performance-Based Acquisition," states that performance-based contracts for services should include measurable performance standards and the method of assessing the contractor's performance against those standards. The contract should provide measurable performance standards with a structure to permit an assessment of the contractor's performance to ensure that oversight of the contract can be achieved.

### ***Adequate Incentives Needed to Control Costs in a Performance-Based Contract***

~~(FOUO)~~ ACC-RI personnel did not include adequate incentives in task order BA-02 for ITT to control costs. Specifically, ACC-RI personnel did not include procedures in the contract's performance work statement that specified any price or fee reductions for unsatisfactory performance. Rather, the procuring contracting officer's strategy was to document poor performance using corrective action and contract discrepancy reports and show cause and cure notices. The procuring contracting officer's strategy was not adequate or effective because ITT continually performed at an unsatisfactory level.

DoD and U.S. Army guidance address the need for performance contracts to include performance incentives. U.S. Army Materiel Command Pamphlet 715-17, "Guide for the Preparation and Use of Performance Specifications," February 11, 1999, states that service contracts should include incentive provisions to reward quality performance and discourage unsatisfactory performance. The Office of the Under Secretary of Defense for Acquisition and Technology "Guidebook for Performance Based Services Acquisition in the Department of Defense," December 2000, states that a performance-based contract should specify procedures for reductions of prices or fees when services are not performed or do not meet contract requirements. ACC-RI personnel should incorporate incentives into the contract to motivate the contractor to provide the best quality and cost-effective performance and provide terms to address less than satisfactory performance.

### **Warfighter Missions at Risk**

~~(FOUO)~~ Warfighters in Southwest Asia and their missions were at risk <sup>(b)(4)</sup>

~~(b)(4)~~ The equipment stored as part of APS, which includes TWVs, played a critical role in rapidly equipping forces deploying to contingency or other operations. The APS-5 set stored in Kuwait was important because of its close proximity to the current contingency operations in Southwest Asia. <sup>(b)(4)</sup>

(FOUO) (b)(4)

## Plans for a New Contract and Extension to Current Contract

(FOUO) On October 18, 2011, we issued a memorandum suggesting that, because of problems with the contract and contractor's performance, ASC and ACC-RI should award a new contract. The Executive Director, ACC-RI, in coordination with ASC, responded in a memorandum endorsed by the Executive Director, ACC, and the Executive Deputy to the Commanding General, U.S. Army Materiel Command, on November 22, 2011, stating they initiated planning to compete a new contract for theater maintenance efforts in Kuwait by June 1, 2012. The Executive Director also stated that the new contract would include language on performance incentives and performance standards with measurable outcomes.<sup>12</sup> Although the Executive Director stated that ASC and ACC-RI personnel planned to award a new contract, it is critical for ASC and ACC-RI personnel to take immediate action to award the contract. A new contract that considers the oversight and operational environment of AFSBn-Kuwait and includes language that incentivizes the contractor would provide more timely support for ongoing military operations.

On February 29, 2012, the procuring contracting officer issued a modification exercising option year two at \$302 million. The period of performance for the option year was from March 1, 2012, through February 28, 2013. To mitigate the risk of contractor nonperformance, it is important that the contracting officer attempt to amend the current contract to include incentives for good contractor performance. It is also critical that the Executive Director quickly address the limited number of personnel available for the oversight of the contract as discussed in Finding B.

## Management Comments on the Finding and Our Response

A summary of the comments from the Executive Director, ACC-RI on the finding follow, along with our response. The complete text of the Executive Director's comments can be found in the Management Comments section at the end of the report.

### ***Comments on Structure and Type of Task Order BA-02***

The Executive Director provided general comments on the current structure and type of task order BA-02 and those comments were endorsed by the Executive Deputy to the Commanding General, U.S. Army Materiel Command. The Executive Director stated that ACC-RI structured a portion of the current contract as FFP which offers the highest level of incentives for the contractor to perform because the contractor assumes all risk associated with cost and profit. In addition, he stated that the CPFF portion of the contract had the effect of incentivizing the contractor as the fee was only paid for quality

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<sup>12</sup> See Appendix C for our memorandum as well as the U.S. Army's response.



performance as defined in the performance work statement. Specifically, he stated that the procuring contracting officer withheld fees on all cost over-runs, and proportionately withheld fees when mission requirements were delivered late. The Executive Director stated that this combination of approaches provided incentives for the contractor to control costs and perform timely and successfully. Also, he stated that all tasks within the performance work statement include quantifiable performance measures. However, he stated that the new contract would improve incentive arrangements by including a cost-plus-incentive-fee arrangement.

### ***Our Response***

Task order BA-02, structured as a hybrid FFP/CPFF contract-type, did not provide incentives for the contractor to control costs and perform in a timely and successful manner. Conversely, we found that the hybrid contract increased risks for both the FFP and CPFF contract portions, considering AFSBn-Kuwait's limited oversight environment. Without adequate oversight, the FFP/CPFF contract-type allowed the contractor to underperform on the contract's FFP portions. For example, the former lead COR stated that ITT<sup>(b)(4)</sup>

Furthermore, the CPFF portions provided the contractor minimum incentive to control costs. The procuring contracting officer's incentive strategy was not adequate or effective because ITT continually performed at an unsatisfactory level, as evidenced by the 149 corrective action and contract discrepancy reports, a partial termination for default, and other notices of unsatisfactory performance issued by DoD personnel for task order BA-02.

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

**A. We recommend that the Commander, U.S. Army Sustainment Command, in coordination with the Executive Director, Army Contracting Command-Rock Island:**

- 1. Amend the current contract to include provisions that incentivize the contractor for efficient and economical performance.**
- 2. Replace the current contract before option year two ends with a new contract (or contracts) for the missions associated with the Army Prepositioned Stock-5, retrograde, and direct theater support that considers the oversight and operational environment of the Army Field Support Battalion-Kuwait missions in Kuwait. The new contract should include contract language that incentivizes the contractor for efficient and economical performance as well as provides measurable requirements with quantifiable outcomes.**

### ***Department of the Army Comments***

The Executive Director, ACC-RI, partially agreed with Recommendation A.1 and the Executive Deputy to the Commanding General, U.S. Army Materiel Command, endorsed all the comments provided. The Executive Director stated that modifying task order BA-02's option year two to include additional incentive arrangements would not likely

produce the desired results because the period of performance remaining in the option year was so short. However, the Executive Director agreed with Recommendation A.2 stating that ACC-RI would award a new contract before the end of task order BA-02's option year two. He stated that the procuring contracting officer published a sources sought announcement in January 2012 as the first step to planning and conducting that acquisition. The Executive Director explained that because of the acquisition's high dollar value and required approval levels, it was necessary to exercise task order BA-02's option year two. He added that awarding option year two allowed time to conduct the required solicitation reviews and approvals, evaluations, award, and transition of a new contract.

### ***Our Response***

Comments from the Executive Director were responsive, and no further comments are required. Because ACC-RI plans to re compete the current contract by 4<sup>th</sup> Quarter FY 2012, we acknowledge that the procuring contracting officer may not have enough time to achieve the desired effect for task order BA-02 option year two. However, ACC-RI would have had sufficient time to achieve the desired impact had it taken responsive action upon receipt of our October 18, 2011, memorandum.

## **Finding B. Contractor Needed Better Oversight**

AFSBn-Kuwait personnel did not provide appropriate contract oversight to validate that repairs were needed and labor hours billed were accurate. This occurred because ASC did not sufficiently staff ASFBn-Kuwait with experienced personnel to oversee the contract. Of the 13 oversight personnel we interviewed, 11 did not have experience in providing contract oversight before being assigned to AFSBn-Kuwait. Also, the Quality Assurance Maintenance Work Plan did not generally require AFSBn-Kuwait personnel to approve repairs before the contractor could begin work, or review contract labor hours billed. As a result, ITT personnel ordered and installed almost 4 million repair parts and billed \$160.75 million<sup>13</sup> for maintenance labor hours worked and the U.S. Army did not have assurance that those costs were justified.

### **Adequate Oversight Required**

Federal guidance requires DoD managers to establish adequate oversight and internal controls to meet mission goals and control costs. Federal Acquisition Regulation, subpart 16.3, “Cost-Reimbursement Contracts,” states that cost-reimbursement contracts may only be used when appropriate DoD surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used. Further, it states that CPFF contracts<sup>14</sup> provide the contractor minimum incentive to control costs. Therefore, CPFF contracts maximize the Government’s responsibility to control costs.

### **CORs Need to Be More Involved in Maintenance Oversight**

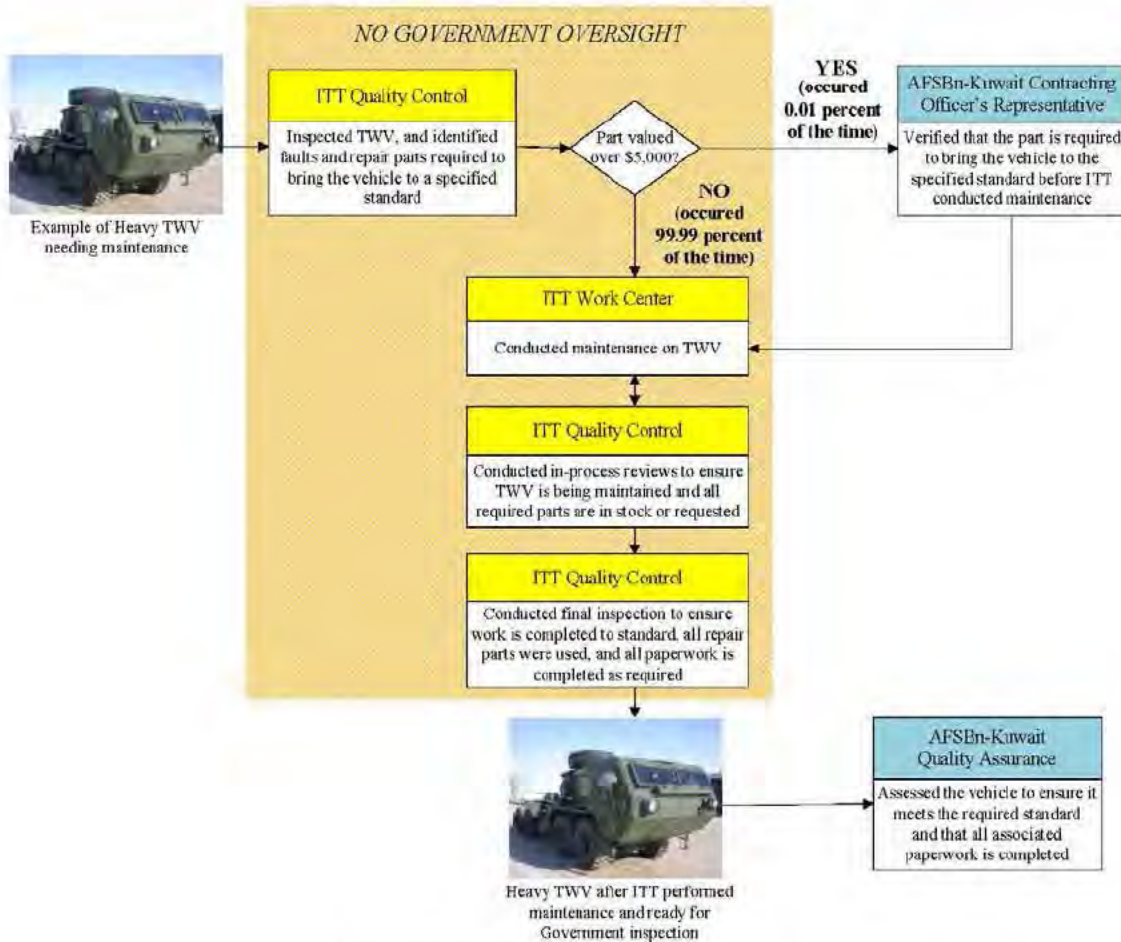
AFSBn-Kuwait had COR responsibility for task order BA-02 and did not provide appropriate oversight to validate that repairs were needed and labor hours billed were accurate. ACC-RI delegated several responsibilities to the CORs and alternate CORs tasked with providing oversight over task order BA-02. AFSBn-Kuwait also had quality assurance specialists assisting with maintenance quality assurance. Specifically, AFSBn-Kuwait personnel were responsible for monitoring the contract’s performance by inspecting and verifying that ITT personnel corrected any deficiencies and conducting final inspection of the services provided. As shown in Figure 2 (page 14), ITT personnel performed inspections of vehicles, identified the maintenance needed, and then conducted that maintenance. After ITT personnel conducted the maintenance, AFSBn-Kuwait personnel provided quality assurance by checking to ensure the vehicles were maintained to the required standard. However, AFSBn-Kuwait personnel were not involved before the maintenance started, unless ITT determined a vehicle needed a repair part valued at \$5,000 or more.

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<sup>13</sup> The \$160.75 million billed for maintenance labor hours worked in Kuwait is comprised of (b)(4)

A CPFF contract is a type of cost-reimbursement contract.

Figure 2. TWV Maintenance Process



Source: ITT and AFSBn-Kuwait personnel

Between May 2010 and August 2011, ITT personnel used about 4 million repair parts for a total cost of about (b)(4)

without DoD oversight or assurance that those repair parts were needed. Because AFSBn-Kuwait personnel were not involved until ITT personnel completed the maintenance, the U.S. Army did not have assurance that the maintenance was needed. An AFSBn-Kuwait official stated that he believed that AFSBn-Kuwait could approve the contractor's proposed maintenance before they begin work. However, he stated AFSBn-Kuwait did not have the staff available.

### Contractor May Have Performed Unnecessary Maintenance

(FOUO) During our review of work orders, we identified one work order for a M1074P1 Palletized Loading Truck that was closed out on March 10, 2011, in which ITT personnel (b)(4)

(FOUO) (b)(4)  
(b)(4)

## Better Oversight Needed Over Labor Hours Billed

(FOUO) AFSBn-Kuwait personnel were also not involved in overseeing the accuracy of contract labor hours billed. (b)(4)

However, AFSB-Kuwait personnel were not involved in providing labor hour oversight. Thus, there was an increased risk associated with ITT's invoices and DoD oversight was essential.

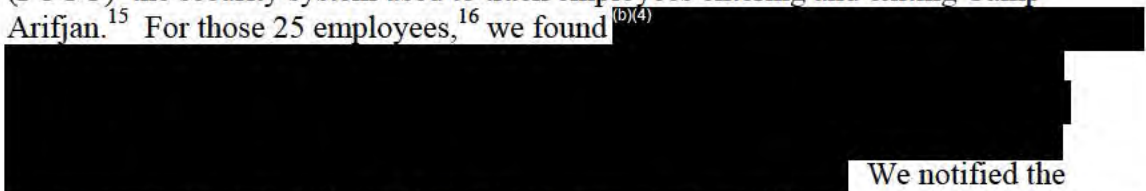
(FOUO) (b)(4)

According to Defense Contract Audit Agency personnel, they compared the time charged on the invoices to the timecards, but did not verify that the labor hours listed on the timecards were accurate. In addition, according to a Defense Contracting Audit Agency official, they have not verified the accuracy of labor hours on timecards for this contractor since 2005. (b)(4)

Further, the Deputy to the Commander and former acting Sergeant Major, AFSBn-Kuwait, acknowledged that the battalion did not review invoices for accuracy.

(FOUO) To illustrate the risk of the U.S. Army paying for services that were potentially not performed, we reviewed the timecards of 25 ITT personnel, selected out of over (b)(4) ITT personnel working under task order BA-02, and compared them with

~~(FOUO)~~ the security system used to track employees entering and exiting Camp Arifjan.<sup>15</sup> For those 25 employees,<sup>16</sup> we found <sup>(b)(4)</sup>

 We notified the procuring contracting officer, administrative contracting officer, lead contracting officer's representative, and Defense Contract Audit Agency officials of this issue for their review and action, which could include recouping any costs associated with inaccurate labor hour billings.

## **AFSBn-Kuwait Not Adequately Staffed**

ASC did not staff AFSBn-Kuwait with sufficient number of personnel or personnel experienced in contract oversight to provide sufficient oversight of the \$160.75 million of maintenance conducted under task order BA-02. According to AFSBn-Kuwait personnel, there were only 25 DoD personnel, which included CORs, alternate CORs,<sup>17</sup> and quality assurance specialists, providing oversight for maintenance conducted under task order BA-02.<sup>18</sup> An AFSBn-Kuwait official stated that when the battalion was established in Kuwait, its only mission was to maintain the APS-5 set. The AFSBn-Kuwait official added that since then, several additional missions were added, including DTS; however, AFSBn-Kuwait did not receive any additional personnel. ASC personnel developed the Quality Assurance Surveillance Plan and AFSBn-Kuwait developed the Quality Assurance Maintenance Work Plan. AFSBn-Kuwait personnel used these documents to guide their oversight of task order BA-02.

Along with being understaffed to provide adequate oversight over maintenance, most AFSBn-Kuwait personnel did not have any experience in providing contract oversight. We interviewed 13 AFSBn-Kuwait personnel who provided oversight for task order BA-02 and their average amount of experience in providing contract oversight was less than 3 months. In fact, 11 out of the 13 oversight personnel that we interviewed did not have any experience in contract oversight before being assigned to AFSBn-Kuwait.<sup>19</sup> Furthermore, one of the CORs stated that AFSBn-Kuwait's personnel rotation rate greatly affected the battalion's ability to provide oversight. He explained that it can take up to

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<sup>15</sup> The Defense Biometric Identification System was the security system used to track personnel entering and exiting Camp Arifjan. The Defense Biometric Identification System served as a physical access control and critical property registration system, using bar codes and biometrics to identify cardholders.

<sup>16</sup> We collected ITT employees' timecards for a period of 2 months between June 2011 and July 2011. However, we were only able to obtain Defense Biometric Identification System data for each ITT employee for select days between June 1, 2011, and July 31, 2011. For the 25 ITT employees' timecards we reviewed, we were able to compare 211 instances with the Defense Biometric Identification System data.

<sup>17</sup> A representative of AFSBn-Kuwait stated that as of August 2011, AFSBn-Kuwait personnel were no longer designated as alternate CORs. Instead, all personnel ACC-RI delegated with contract oversight responsibility were CORs.

<sup>18</sup> ~~(FOUO)~~ On June 1, 2011, the procuring contracting officer delegated the authority to perform contract administration functions to the Defense Contract Management Agency.

<sup>19</sup> Although not experienced in providing contract oversight, the 13 AFSBn-Kuwait personnel that we interviewed averaged almost 17 years of maintenance experience each.

4 months to train new personnel and since the assignment with AFSBn-Kuwait was typically 12 months long, only 8 months were left for personnel to be able to operate at a high level. He added that AFSBn-Kuwait personnel designated as CORs did not receive the required COR training until they reported to Camp Arifjan for duty which added to the time required before CORs could operate as needed. Because of these issues, the COR stated that the assignment with AFSBn-Kuwait would be better as an 18-month tour. ASC, as AFSBn-Kuwait's higher command, should conduct an assessment to determine the appropriate number and experience level of personnel needed, consistent with the risk associated with a cost-reimbursement type contract, so AFSBn-Kuwait personnel can provide the oversight necessary to ensure that the contractor conducts cost-effective, necessary maintenance. The February 2012 contract extension makes it critical that ASC conduct the COR staffing assessment by the end of third quarter FY 2012. ASC should then staff AFSBn-Kuwait accordingly.

## **Maintenance Work Plan Should Include Additional Procedures**

AFSBn-Kuwait personnel did not establish sufficient quality assurance procedures to ensure that maintenance was necessary and labor hours billed were accurate. AFSBn-Kuwait personnel developed their Quality Assurance Maintenance Work Plan<sup>20</sup> to guide their contract oversight, but that plan did not outline procedures to approve the contractor's proposed maintenance or address the accuracy of labor hours billed by the contractor. The Quality Assurance Maintenance Work Plan applied to all personnel assigned to AFSBn-Kuwait's Quality Assurance section in Camp Arifjan, which included those personnel with COR responsibility and those conducting quality assurance on maintenance, and described the basic duties responsibilities of those personnel, as well as the procedures they should follow. However, the Quality Assurance Maintenance Work Plan did not require that AFSBn-Kuwait personnel approve the contractor's proposed maintenance, unless the contractor determined that a repair part valued at \$5,000 or more was needed, and it did not require AFSBn-Kuwait personnel to verify that the contractor's billed labor hours were accurate.

CPFF contracts, such as task order BA-02, provide the contractor minimum incentive to control costs. As a result, this type of contract maximizes the U.S. Army's responsibility to control costs. The U.S. Army was unable to ensure that maintenance conducted was necessary and labor hours billed were actually worked because ASC did not sufficiently staff AFSBn-Kuwait with experienced personnel to conduct oversight. The Defense Contract Management Agency should ensure that oversight personnel develop procedures that substantiate that the repairs and associated repair parts proposed by the contractor for maintenance are necessary before the contractor can begin work. In addition, the procuring contracting officer needs to establish a capability to perform reviews of

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<sup>20</sup> AFSBn-Kuwait's Quality Assurance Maintenance Work Plan was the internal operating procedures used by the AFSBn-Kuwait personnel as their methodology in conducting oversight of the maintenance work.

ITT timecards onsite in Kuwait and engage the Defense Contract Audit Agency to perform detailed reviews of labor costs charged to the contract and recoup any costs associated with inaccurate labor hour billings.

## **Risk of Unnecessary Maintenance and Cost Increases**

~~(FOUO)~~ Without adequate oversight, CPFF contracts provide the contractor only a minimum incentive to control costs. Because AFSBn-Kuwait personnel were not involved in the maintenance process until the end, ITT personnel made decisions that may not have been in the best interest of DoD and there was a risk that ITT personnel may have performed unnecessary maintenance. As of November 2011, ITT billed the U.S. Army approximately \$160.75 million for maintenance conducted in Kuwait under task order BA-02, <sup>(b)(4)</sup>

AFSBn-Kuwait needs sufficient staff with experience to provide oversight of the critical maintenance mission to reduce unnecessary cost risk and encourage economical performance. Contract oversight personnel should be involved in determining whether maintenance is necessary before ITT can begin work and that the labor hours billed by ITT reflect the maintenance completed.

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

### ***Redirected, Renumbered, and Revised Recommendations***

The procuring contracting officer delegated task order BA-02 contract administration, to include managing contract oversight, to the Defense Contract Management Agency-Middle East and requested further delegation to the Defense Contract Management Agency-Kuwait. As such, we revised draft Recommendation B.1.c and renumbered the recommendation as B.2. We also renumbered draft Recommendations B.2.a and B.2.b as B.3.a and B.3.b, respectively.

#### **B.1. We recommend that the Commander, U.S. Army Sustainment Command:**

**a. Conduct an assessment by the end of third quarter FY 2012 to determine the sufficient number and experience level of contracting officer's representatives needed to oversee the tactical wheeled vehicle maintenance missions of Army Field Support Battalion-Kuwait.**

**b. Upon the completion of Recommendation B.1.a, staff the Army Field Support Battalion-Kuwait with the appropriate number of qualified personnel to provide adequate oversight for maintenance to be conducted by a contractor.**

### ***Department of the Army Comments***

The Commanding General, ASC, agreed with Recommendation B.1.a and the Executive Deputy to the Commanding General, U.S. Army Materiel Command endorsed all the comments provided. The Commanding General, ASC stated that ASC will coordinate with



ACC-RI to determine the experience level and the number of CORs required for contract oversight of AFSBn-Kuwait's tactical wheeled vehicle maintenance missions by June 30, 2012.

The Commanding General, ASC, agreed with Recommendation B.1.b. She stated that ASC will identify the recommended COR staffing based on mission requirements by July 31, 2012. She stated that the staffing requirements will vary as mission requirements change. She explained that ASC will meet requirements using temporary assignments or reallocation of existing personnel authorizations as mission priorities allow. The Commanding General stated that any requirement for additional personnel is subject to Department of Army procedures and approval levels.

### ***Our Response***

The Commanding General's responses to Recommendations B.1.a and B.1.b were responsive and met the intent of those recommendations. As such, no further comments are required.

**B.2. We recommend that the Director, Defense Contract Management Agency require Defense Contract Management Agency-Kuwait personnel to develop and implement procedures that substantiate repair parts and labor hours proposed by the contractor for maintenance are necessary before the contractor can begin work.**

### ***Department of the Army Comments***

The Commanding General, ASC, did not agree with Recommendation B.2. She stated that Government pre-approval of repair parts for every work order is not a cost-effective approach, given the magnitude and nature of the maintenance performed in Kuwait. The Commanding General stated that task order BA-02 is a performance-based contract and the contractor is responsible for managing the maintenance process while the Government is responsible for overseeing that process. She also stated that the AFSBn-Kuwait Quality Assurance Standard Operating Procedure is being updated to capture process efficiency gains, but it will not include a 100 percent review of contractor-proposed parts requisitions or a requirement to prepare a mini-proposal for every vehicle inducted into maintenance.

The Commanding General also stated that the Standard Operating Procedure has several controls and procedures in place relative to Class IX repair parts. Those procedures include that:

- the Government quality assurance inspector must verify all faults before a work order is opened or parts are requisitioned if a preventative maintenance checks and services inspection identifies the need for unscheduled maintenance, and
- Government approval is required before the contractor can acquire repair parts that are valued over \$5,000, or to obtain repair parts through a Supply Support Activity, local purchase request, or controlled exchange.

The Commanding General stated that the repair parts required for the services performed as part of the FFP portion of the contract are fairly standardized and the risk that unnecessary

parts will be purchased is considered low. She explained that for maintenance conducted under the FFP portion of the contract, the risk is placed on the contractor to perform within the costs negotiated. Lastly, the Commanding General stated that for maintenance conducted under the CPFF portion of the contract, contractor performance is measured in terms of direct hours expended as compared to the Maintenance Allocation Chart direct hours.

### **Our Response**

~~(FOUO)~~ The Commanding General's comments were nonresponsive. The procedures outlined in the Commanding General's comments were in place during our fieldwork. However, those procedures were not sufficient to yield satisfactory results in oversight of labor hours and the approval of repair parts. As the Defense Contract Management Agency-Kuwait is now responsible for managing task order BA-02 contract oversight, we request that the Director, Defense Contract Management Agency provide comments on Recommendation B.2 in response to the final report by July 2, 2012.

For performance-based contracts like task order BA-02, the contractor is responsible for managing the maintenance process, and the Government is responsible for overseeing that process. For oversight of labor hours performed under the CPFF portions of the contract, additional procedures are needed to ensure maintenance is necessary. Personnel charged with overseeing task order BA-02 should become more involved in ensuring maintenance proposed by the contractor is necessary because the cost-reimbursement type contracts provide the contractor the minimum incentive to control costs. According to the Federal Acquisition Regulation, if cost-reimbursement contracts such as CPFF and cost-plus-incentive-fee contracts are used, Government surveillance should provide reasonable assurance that efficient methods and effective cost controls are used. [REDACTED] of ITT's invoiced amounts were associated with CPFF contract line items between May 2010 and November 2011. Under those CPFF line items, the U.S. Army was responsible for reimbursing the contractor for its labor hour costs and providing the repair parts the contractor deemed necessary. Instead of a 100 percent review of contractor-proposed parts, procedures should be implemented for DoD personnel to disallow maintenance proposed by contractor personnel if it is considered unnecessary. Inspections after ITT completed the work do not ensure that the contractor only performed the necessary maintenance or billed the U.S. Army accurately for the work completed.

We did not review the AFSBn-Kuwait's Maintenance Quality Assurance Standard Operating Procedure because, as of August 2011, the battalion commander did not approve the draft. Instead, we reviewed AFSBn-Kuwait's approved Quality Assurance Maintenance Work Plan, dated August 18, 2010, which laid out the same procedures the Commanding General identified to inspect faults identified during preventative maintenance checks and services inspections which are associated with the FFP portion of the contract. For oversight of the FFP portions of the contract, oversight personnel should continue reviewing whether faults identified that require a work order to be opened are valid. We also agree that any labor hour costs associated with unnecessary maintenance in these areas would be essentially taken out of ITT's profit. However, the U.S. Army did not acquire the repair parts used for maintenance conducted under the FFP portion of the contract through task order BA-02. Therefore, any unnecessary repair parts used would be a cost to the Government. Whether

the maintenance performed was routine or not, task order BA-02's DoD oversight personnel need to ensure the maintenance and associated parts are necessary as a part of their oversight policy and procedures. In addition, the procedures listed by the Commanding General did not identify ways to ensure that labor hours charged by ITT under task order BA-02 were necessary or billed accurately. Lastly, Maintenance Allocation Charts would merely illustrate whether the maintenance conducted was completed in a reasonable timeframe, not that the maintenance was necessary.

We also identified concerns with the procedures for approving repair parts. The Quality Assurance Maintenance Work Plan requires the same Government approval as the procedure identified by the Commanding General if the contractor determines that a repair part valued at \$5,000 or more is required. The Quality Assurance Maintenance Work Plan also had procedures related to obtaining repair parts through a Supply Support Activity, local purchase request, or controlled exchange. (b)(4)

(b)(4) In addition, the Quality Assurance Maintenance Work Plan lacked review or approval procedures regarding acquiring repair parts valued at \$5,000 or less through the Government supply system. ITT personnel replaced almost 4 million parts, worth almost (b)(4), that were under the \$5,000 requirement. Because AFSBn-Kuwait personnel were not involved until ITT personnel completed maintenance, the U.S. Army did not have assurance that the maintenance associated with those 4 million repair parts was needed.

**B.3. We recommend that the Executive Director, Army Contracting Command-Rock Island, direct the procuring contracting officer to:**

**a. Establish a capability to perform reviews of the contractor's timecards onsite in Kuwait.**

***Department of the Army Comments***

The Executive Director, ACC-RI, agreed with Recommendation B.3.a, and stated ACC-RI will request that DCMA conduct an onsite timecard review in Kuwait.

***Our Response***

The Executive Director's response to Recommendation B.3.a was responsive and met the intent of the recommendation, and therefore, no further comment on Recommendation B.3.a is required.

**b. Request Defense Contract Audit Agency assistance in performing detailed reviews of labor costs charged to the contract and recoup any costs associated with inaccurate labor hour billings.**

## **Department of the Army Comments**

The Executive Director, ACC-RI, agreed with Recommendation B.3.b, and noted past assistance provided by the Defense Contract Audit Agency in reviewing ITT's billings and invoices.

## **Our Response**

~~(FOUO)~~ While the Executive Director agreed with Recommendation B.3.b, we found his comments to be nonresponsive. We acknowledge the Executive Director's note that [REDACTED], and that the Defense Contract Audit Agency must review and approve all invoices for payment. However, according to Defense Contract Audit Agency personnel, the personnel who approved those payments were located in Germany at the Defense Contract Audit Agency European Branch office. According to Defense Contract Audit Agency European Branch office personnel, they compared labor hours charged on the invoices to timecards to ensure that the number of labor hours billed was consistent, but they did not verify that the labor hours listed on the timecards were accurate. Because neither the Defense Contract Audit Agency nor AFSBn-Kuwait personnel reviewed ITT's invoices for accuracy, the U.S. Army may have paid for services that were not performed. As such, the procuring contracting officer needs to engage the Defense Contract Audit Agency to perform detailed reviews of labor costs charged to the contract and recoup any costs associated with inaccurate labor hour billings. We request that the Executive Director, ACC-RI, provide additional comments with regard to how he will use Defense Contract Audit Agency assistance in performing detailed reviews of labor costs charged to the contract and recoup any costs associated with inaccurate labor hour billings in response to the final report by July 2, 2012.

## Appendix A. Scope and Methodology

We conducted this performance audit from June 2011 through March 2012 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our objective was to determine whether DoD effectively executed maintenance for tactical wheeled vehicles (TWV) in Kuwait. Specifically, we determined whether DoD provided appropriate contract oversight to ensure that TWVs received the necessary repairs and maintenance. The announced objective included a review of whether repair parts were efficiently used. We will review the use of repair parts in a separate project.

To accomplish the objectives, we reviewed the contract files pertaining to contract W911SE-07-D-0006, task order BA-02, including corrective action reports and contract deficiency reports. We also reviewed documentation that relates to Army Field Support Battalion-Kuwait's (AFSBn-Kuwait) oversight of the task order (such as their quality assurance surveillance plan, quality assurance maintenance work plan, and contracting officer's representative [COR] nomination letters). We reviewed ITT Corporation's (ITT) invoices for services provided between May 2010 and November 2011. As of February 2012, task order BA-02's 5-year contract ceiling was valued at \$848.91 million. Also, because our audit objective focused on contract oversight and not contract administration, we conducted a limited review of the five undefinitized contract actions awarded for task order BA-02 and their subsequent definitizations.

During our review, we identified that ITT billed the U.S. Army about \$160.75 million for maintenance conducted under task order BA-02. The structure of task order BA-02 did not always allow us to differentiate between maintenance and billings related to TWVs and maintenance and billings related to other equipment. Therefore, in some cases, we analyzed documentation that related to more than just TWV maintenance to draw our conclusions. Those instances are notated accordingly. In addition, we reviewed the timecards of 25 ITT employees for a period of 2 months between June 2011 and July 2011. The 25 employees were selected out of over [REDACTED] ITT employees working under task order BA-02. We compared them to Defense Biometric Identification System data; however, we were only able to obtain Defense Biometric Identification System data for each ITT employee for select days.

We contacted personnel from the Army Contracting Command-Rock Island (ACC-RI), U.S. Army Central (ARCENT), U.S. Army Sustainment Command (ASC), the Defense Contract Management Agency, the Defense Contract Audit Agency, and AFSBn-Kuwait. We interviewed ITT personnel and we also conducted a site visit to Camp Arifjan, Kuwait, from July 29, 2011, through September 1, 2011. During our site visit, we met with ITT and AFSBn-Kuwait personnel to review ITT's maintenance process and AFSBn-Kuwait's process to oversee that maintenance.

We also reviewed the Theater-Provided Equipment Refurbishment Program and one of its five contracts, contract W56HZV-07-D-0138, with Oshkosh Truck Corporation. According to a representative from Army Contracting Command-Warren, Oshkosh completed the work under the contract in August 2011. Army Contracting Command-Warren then closed the contract in December 2011. We contacted personnel from TACOM Life Cycle Management Command regarding the genesis of the Theater-Provided Equipment Refurbishment Program and how it fit into TWV maintenance operations in Kuwait. We met with Oshkosh Truck Corporation personnel at their maintenance facility in Jahra, Kuwait, to observe their maintenance process. We also met with Defense Contract Management Agency officials in Kuwait regarding their oversight of the contract. Since work under the contract was completed in August 2011, our review was limited, but we did not identify any reportable conditions.

## **Reliability of Computer-Processed Data Not Assessed**

During our fieldwork, we used information provided to us from two different databases: the Defense Biometric Identification System and the Army War Reserve Deployment System. We used data from the Defense Biometric Identification System to determine whether ITT personnel charged more labor hours to their timecards, which are then used to compile labor hour costs for the contract, than the hours they were at Camp Arifjan for a given day. We did not assess the reliability of that data because we used it to illustrate that without adequate oversight over labor hours billed to the contract, the contractor could bill the U.S. Army for more hours than were worked.

We used data from the Army War Reserve Deployment System to determine whether the APS-5 set in Kuwait was ready for issue at any point between May 2010 and November 2011 and to determine how many repair parts, valued at \$5,000 or more, were required by ITT between May 2010 and August 2011. We did not assess the reliability of this data because the APS-5 set readiness information is widely used by U.S. Army officials and the repair parts information was used to illustrate why DoD oversight or assurance is key to substantiate that maintenance is necessary.

## **Prior Coverage**

During the last 5 years, the Government Accountability Office (GAO) and the Department of Defense Office of Inspector General (DoD OIG) have issued four reports discussing contract oversight, maintenance contracts in Kuwait, and incentives for contractors to control costs. 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>.

## **GAO**

GAO Report No. GAO-08-1087, "DoD Needs to Address Contract Oversight and Quality Assurance Issues for Contracts Used to Support Contingency Operations," September 26, 2008

GAO Report No. GAO-08-316R, "Defense Logistics: The Army Needs to Implement an Effective Management and Oversight Plan for the Equipment Maintenance Contract in Kuwait," January 22, 2008

***DoD IG***

DoD IG Report No. D-2011-081, "Contract Management of Joint Logistics Integrator Services in Support of Mine Resistant Ambush Protected Vehicles Needs Improvement," July 11, 2011

DoD IG Report No. D-2009-108, "U.S. Air Forces Central War Reserve Materiel Contract," September 23, 2009

## **Appendix B. Tactical Wheeled Vehicles**

TWV were multi-purpose or special purpose military wheeled platforms which transport personnel and all classes of supply, to include equipment and dry or liquid cargo. TWVs performed general or specific missions, and supported all warfighting functions. TWVs were specially designed vehicles, or commercial vehicles modified to meet certain military requirements, and were capable of safely operating on primary and secondary roads at highway speeds. TWVs were capable of operating off-road but the degree of off-road mobility varied.

### **Types of Tactical Wheeled Vehicles**

There were four types of TWVs in the U.S. Army's inventory: light, medium, heavy, and Mine Resistant Ambush Protected (MRAP) vehicles.

#### ***Light Tactical Vehicles***

Light tactical vehicles were vehicles which have a payload of less than 2.5 tons and were comprised of three specific mission sets: force application (armament carriers); battlespace awareness (reconnaissance, command and control, and general purpose mobility); and focused logistics (light cargo utility vehicles/shelter carrier/casualty evacuation vehicles). The High Mobility Multi-Purpose Wheeled Vehicle was the U.S. Army's primary light tactical vehicle. It was initially fielded to serve as a light, highly mobile and unarmored vehicle. Figure B-1 depicts an M1151A1-model High Mobility Multi-Purpose Wheeled Vehicle with fragmentation kit 5 and an objective gunner's protection kit installed.

**Figure B-1. M1151A1 High Mobility Multi-Purpose Wheeled Vehicle**



Source: AM General.

#### ***Medium Tactical Vehicles***

Medium tactical vehicles had a payload of between 2.5 and 10 tons, and included many variants such as: cargo, tractor, van, wrecker, 8.8-ton load handling system, and 5- and 10-ton dump-truck models. The Family of Medium Tactical Vehicles increased



U.S. Army requirements as a result of adding armored protection to the vehicles. Figure B-2 shows an M1083A1P2 model Family of Medium Tactical Vehicle with B-kit armor installed.

**Figure B-2. M1083A1P2 Family of Medium Tactical Vehicle**



Source: U.S. Army Tactical Wheeled Vehicle Strategy.

### ***Heavy Tactical Vehicles***

Heavy tactical vehicles had a payload of over 10 tons. The U.S. Army's heavy tactical vehicle fleet consisted of:

- Heavy Expanded Mobility Tactical Truck family of vehicles were a series of 10-ton, 8-wheel drive vehicles designed to provide transport capabilities for resupply of combat vehicles, weapon systems, and supplies (see Figure B-3 on page 28 for a picture of a load handling system which is part of the Heavy Expanded Mobility Tactical Truck family of vehicles);
- Heavy Equipment Transporter System was designed to transport/evacuate tanks and other heavy tracked and wheeled vehicles to and from the battlefield;
- Palletized Load System was a key U.S. Army transportation system and was composed of a prime-mover truck with integral self loading and unloading capability, 16.5-ton payload Palletized Load System-trailer and demountable cargo beds; and
- Line Haul family of vehicles were used primarily in U.S. Army transportation and quartermaster units and for the rapid and efficient transport of bulk supplies from air and sea ports to division support areas within a theater of operation.

**Figure B-3. M1120A4 Load Handling System**



Source: U.S. Army Tactical Wheeled Vehicle Strategy.

### ***MRAP Vehicles***

MRAP vehicles incorporated a V-shaped hull and armor plating designed to provide protection against mines and improvised explosive devices. There were four categories of MRAPs: Category I, which were used for combat operations in confined areas, and hold up to seven personnel; Category II, which were used for ground logistics support operations, could hold up to 11 personnel; Category III, which were primarily used for mine/improvised explosive device clearance operations, and held up to 6 personnel; and MRAP All-Terrain Vehicles, which were used for combat operations in complex and highly restricted rural, mountainous, and urban terrain. The MRAP All-Terrain Vehicle provided better overall mobility characteristics than the original Category I, II, and III MRAP vehicle variants and provided better survivability characteristics than any variant of the High Mobility Multi-Purpose Wheeled Vehicle. Figure B-4 shows an MRAP All-Terrain Vehicle with an objective gunner's protection kit installed.

**Figure B-4. MRAP All-Terrain Vehicle**



Source: U.S. Army Tactical Wheeled Vehicle Strategy

# Appendix C. DoD OIG Quick Reaction Memorandum and U.S. Army Response



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

10/18/2011

MEMORANDUM FOR COMMANDER, U.S. ARMY SUSTAINMENT COMMAND  
DIRECTOR, ARMY CONTRACTING COMMAND –  
ROCK ISLAND

SUBJECT: Concerns Regarding the Field Installation Readiness Support Team (FIRST) Task Order Contract With ITT Systems Corporation for the Maintenance of Tactical Wheeled Vehicles in Kuwait

We are providing this memorandum for your attention and suggested action before completing Project No. D2011-D000JA-0212.000, "Maintenance for Tactical Wheeled Vehicles in Kuwait." We are concerned with the U.S. Army Sustainment Command's (ASC) and Army Contracting Command – Rock Island's (ACC-RI) plans to continue using the Field Installation Readiness Support Team (FIRST) contract for executing the maintenance of tactical wheeled vehicles in Kuwait. Contract W91ISE-07-D-0006, task order BA-02 with ITT Systems Corporation (ITT) is a performance-based contract and has a contract ceiling of (b)(4)

(b)(4)  
The contract does not effectively incentivize the contractor to meet the performance requirements, considering the critical nature of the Army Field Support Battalion-Kuwait (AFSBn-Kuwait) mission. Additionally, ACC-RI personnel did not structure the contract to support the AFSBn-Kuwait mission and the oversight environment. We suggest that the Commander, ASC, in conjunction with ACC-RI, replace the current contract with a new contract (or contracts) that considers AFSBn-Kuwait's mission, oversight, and operational environment and add contract language that incentivizes the contractor to efficiently and economically support AFSBn-Kuwait's mission.

## Background

ASC provides sustainment-level logistics to support Army, Joint, and Coalition forces, including maintenance of APS sets. ACC-RI is the contracting arm of ASC and provides contracting support to AFSBn-Kuwait. AFSBn-Kuwait has three main mission areas: APS-5, retrograde, and direct theater support.<sup>3</sup> According to AFSBn-Kuwait personnel, they also execute more than

<sup>1</sup> Definitization is the agreement on contract terms, specifications, and price. Under certain circumstances, DoD agencies may use an undefinitized contract action to allow a contractor to begin performance before agreement of a price. Undefinitized contracts are a binding commitment that must include a not-to-exceed price ceiling and a definitization schedule.

<sup>2</sup> APS-5 is equipment reserved solely for times of war and is located in Southwest Asia. It includes a heavy brigade combat team, infantry brigade combat team, separate reportable units, and motorized augmentation options.

<sup>3</sup> Direct theater support includes receiving, storing, and issuing battle loss/battle damaged replacement equipment. Retrograde refers to the receiving, prepping for shipment, and shipping of equipment from Iraq.

30 other missions. While AFSBn-Kuwait is organizationally under ASC, it is operationally directed by U.S. Army Central. Because both ASC and U.S. Army Central provide operational requirements for AFSBn-Kuwait to execute, these commands should provide cohesive and constant direction to help AFSBn-Kuwait personnel effectively and efficiently prioritize and execute their missions.

In February 2010, ACC-RI personnel awarded task order BA-02 to ITT in support of AFSBn-Kuwait's missions. ACC-RI personnel awarded the contract as a firm-fixed price/cost-plus-fixed-fee hybrid at a base year price of \$45.4 million and option year 1 of \$46.8 million, with a total contract ceiling of \$230 million for 5 years. Over the past 18 months, the contract ceiling (b)(4)

[REDACTED]

(b)(4)

(b)(4)

[REDACTED]

(b)(4)

(b)(4)

[REDACTED]

(b)(4)

The only APS-5 maintenance contract line items that we could identify were for the maintenance of the heavy and infantry brigade combat teams. Therefore, we could only track the costs associated with those parts of the APS-5 set.

<sup>5</sup> On April 1, 2011, there were 3,120 pieces of equipment in the APS-5 set.

(b)(4)

(b)(4)

(b)(4)

(b)(4)

### **Contract Structure Does Not Support Mission and Oversight Requirements**

ACC-RI personnel selected a contract type and method that is not suited for AFSBn-Kuwait's oversight environment and did not incentivize the contractor to perform quality work and control costs. Specifically, task order BA-02:

- does not include measurable performance standards and quantifiable outcomes in the performance work statement;
- does not include effective incentives; and
- may not be the appropriate contract type for the oversight environment.

Because of these reasons, ASC officials should consider awarding a new contract.

### ***Performance Work Statement Measures Are Inadequate***

Task order BA-02's performance work statement does not always articulate measurable performance standards with quantifiable outcomes, affecting AFSBn-Kuwait's ability to adequately assess the contractor's performance and carry out its oversight mission.

FAR Subpart 37.6, "Performance-Based Acquisition," states that performance-based contracts for services should include measurable performance standards and the method of assessing contractor's performance against those standards. Additionally, the "Performance-Based Services Acquisition (PBSA)" memorandum, issued on April 5, 2000, by the Under Secretary of Defense for Acquisition, Technology, and Logistics states that performance-based service

acquisitions should articulate clear, measurable requirements emphasizing quantifiable outcomes. The lack of measurable performance standards places Government oversight personnel at a disadvantage to address performance issues. The contract should provide measurable performance standards with a structure to permit an assessment of the contractor's performance to ensure that oversight of the Government contract can be achieved.

#### ***Contract Does Not Include Effective Incentives***

ACC-RI personnel did not include effective incentives in task order BA-02 for ITT to control costs. Without effective incentives embedded in the contract, the contractor was not encouraged to perform quality, cost-effective work critical to the AFSBn-Kuwait's mission, and AFSBn-Kuwait personnel did not have tools to counter unsatisfactory performance. U.S. Army Materiel Command Pamphlet 715-17 "Guide for the Preparation and Use of Performance Specifications," February 11, 2009, states that service contracts should include incentive provisions to reward quality performance and discourage unsatisfactory performance. It also states that if the acquisition is either critical to the agency's mission accomplishment or requires a relatively large expenditure of funds, positive and negative incentives are required for performance-based service contracts. The Office of the Deputy Under Secretary of Defense Acquisition Reform, "Guidebook for Performance Based Service Agreements in the Department of Defense," December 2000, states that a performance-based contract should specify procedures for reductions of prices or fees when services are not performed or do not meet contract requirements. However, there are no procedures in the contract's performance work statement that specify any price or fee reductions for unsatisfactory performance. Rather ACC-RI's strategy is to document poor performance using corrective action reports, CDRs, and show cause/cure notices. Based on ITT's continuing unsatisfactory performance on the contract, this strategy is not effective. The acquisition workforce must use contract incentives in a way that results in the most efficient and effective performance that the contractor can deliver. Effective incentives would provide a method to motivate the contractor to the best quality performance and provide terms to address less than satisfactory performance.

#### ***Contract Type May Not Be Appropriate for Oversight Environment***

AFSBn-Kuwait is not able to provide appropriate oversight to adequately manage a firm-fixed price/cost-plus-fixed-fee hybrid. We believe ACC-RI personnel awarded this contract as a firm-fixed price/cost-plus-fixed-fee hybrid without considering the oversight environment. AFSBn-Kuwait has contracting officer's representative (COR) responsibility for task order BA-02, but has limited staff to oversee the (b)(4) contractors assigned to the contract as of July 2011. With a ratio of 1 U.S. Government person to (b)(4) contractor personnel, AFSBn-Kuwait is unable to oversee critical parts of the maintenance process. Specifically, AFSBn-Kuwait personnel do not approve the maintenance needed to "fix" the vehicle; instead, ITT personnel determine the amount of maintenance needed and conduct it before AFSBn-Kuwait's review. In addition, AFSBn-Kuwait personnel do not validate the labor hours worked. As a result, the Government has no assurance that the maintenance performed by ITT was needed and that labor hours charged were actually worked. FAR Subpart 16.3, "Cost-Reimbursement Contracts," states that cost-reimbursement contracts may only be used when adequate Government oversight will provide reasonable assurance that efficient and effective costs controls are used. AFSBn-Kuwait lacks the staff to provide adequate Government oversight of vehicle maintenance

on task order BA-02, and the contract type provides ITT with little incentive to control costs. A different contract type that considers the oversight environment could incentivize the contractor to perform more efficiently and economically.

In addition, the firm-fixed price/cost-plus-fixed fee hybrid contract type in a limited oversight environment presents a risk for the contractor to underperform on the firm-fixed price portions, which are tied to maintaining the APS-5 set. According to the previous maintenance COR, AFSBn-Kuwait personnel review only 20 percent of the maintenance completed on APS-5 equipment each month. He further stated that ITT (b)(4)

[REDACTED]

### Suggested Actions

We suggest that the Commander, ASC, in coordination with ACC-RI:

- replace the current contract with a new contract (or contracts) for the missions associated with the APS-5, retrograde, and direct theater support that considers the oversight and operational environment of the AFSBn-Kuwait missions in Kuwait; and
- include contract language that incentivizes the contractor for efficient and economical performance as well as provides measurable requirements with quantifiable outcomes.

We are performing this audit in accordance with generally accepted government auditing standards and are providing you these interim results, so you may start appropriate corrective actions. We will provide additional details in a forthcoming audit report, which will include any corrective actions taken. Therefore, we request that you apprise us of all corrective actions you take or have taken to address the suggested actions by November 18, 2011. Please contact

[REDACTED] or [REDACTED]



Amy J. Frontz  
Principal Assistant Inspector General  
for Auditing

cc: Deputy Commander, U.S. Army Central  
Auditor General, Department of the Army  
Commander, U.S. Army Materiel Command-Southwest Asia  
Commander, Army Field Support Battalion-Kuwait



REPLY TO  
ATTENTION OF:

**DEPARTMENT OF THE ARMY**  
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND  
4400 MARTIN ROAD  
REDSTONE ARSENAL, AL 35898-5000

AMCIR

NOV 22 2011

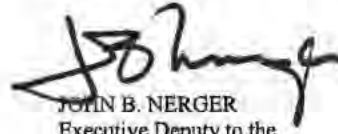
MEMORANDUM FOR Department of Defense Inspector General (DoDIG), ATTN:  
[REDACTED], Room 300, 400 Army Navy Drive, Arlington, VA 22202-4704

SUBJECT: Command Reply to DoDIG Memorandum: Concerns Regarding the Field  
Installation Readiness Support Team (FIRST) Task Order Contract With ITT Systems  
Corporation for the Maintenance of Tactical Wheeled Vehicles in Kuwait (Project No. D2011-  
D000JA-0212.000) (D1126)

1. The U.S. Army Materiel Command (AMC) has reviewed the subject memorandum. AMC  
endorses the enclosed comments provided by the U.S. Army Sustainment Command and the  
U.S. Army Contracting Command.

2. The AMC point of contact is [REDACTED] or email:  
[REDACTED]

Encl

  
JOHN B. NERGER  
Executive Deputy to the  
Commanding General





REPLY TO  
ATTENTION OF:

DEPARTMENT OF THE ARMY  
U.S. ARMY CONTRACTING COMMAND  
3334A WELLS ROAD  
REDSTONE ARSENAL, AL 35898-5000

AMSCC-IR

NOV 14 2011

MEMORANDUM FOR [REDACTED] Director, Internal Review and Audit Compliance  
Office, Headquarters, U.S. Army Materiel Command, 4400 Martin Road, Redstone Arsenal, AL  
35898

SUBJECT: Concerns Regarding the Field Installation Readiness Support Team (FIRST) Task  
Order Contract With ITT Systems Corporation for the Maintenance of Tactical Wheeled  
Vehicles in Kuwait (8638)

1. Reference memorandum, Department of Defense Inspector General, 18 October 2011,  
subject: same as above.
2. The U.S. Army Contracting Command (ACC) concurs with the enclosed comments provided  
by ACC - Rock Island.
3. The ACC point of contact is [REDACTED], or email:  
[REDACTED]

Encl

  
CAROL E. LOWMAN  
Executive Director



REPLY TO  
ATTENTION OF:

CCRC

NOV 4 2011

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

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

SUBJECT: Interim Draft Report Memorandum of Concern DoDIG Audit of Maintenance for Tactical Wheeled Vehicles in Kuwait D2011-D000JA-0212.D00

1. We've reviewed the subject interim draft report memorandum of concern. Our comments are attached.
2. The POC is [REDACTED], AMSAS-IR, [REDACTED] email [REDACTED].

ENCL

*for*  
*Kristina D. Mendoza*  
MICHAEL R. HUTCHISON  
Executive Director  
Army Contracting Command - Rock Island

UNCLASSIFIED

Interim Draft Report  
Memorandum of Concern  
DoDIG Audit of Maintenance for Tactical Wheeled  
Vehicles in Kuwait  
D2011-D000JA-0212.000

Executive Director ACC-RI in coordination with ASC:

Suggested action:

*Replace the current contract with a new contract (or contracts) for the missions associated with the APS-5, retrograde, and direct theater support that considers the oversight and operational environment of the AFSBn-Kuwait missions in Kuwait.*

*Include contract language that incentivizes the contractor for efficient and economical Performance as well as provides measurable requirements with quantifiable outcomes.*

ACC-RI / ASC Coordinated Comments:

Concur with recommendations. ASC and ACC-RI, prior to the receipt of the DoD IG suggested action, has initiated planning to compete a new contract for the Kuwait APS-5, retrograde and in theater maintenance effort. The new contract will include language on performance incentives and performance standards with measureable outcomes. Goal is to have award timeline synchronized with theater mission and operational timelines. Target date for implementation is 1 June 2012.

# Glossary

**Army Prepositioned Stock (APS).** APS consists of U.S. Army equipment that is available to early deploying units to support operations throughout the world while minimizing the requirement for strategic lift. APS allows soldiers to deploy with only a minimum amount of equipment and matches them up with prepositioned equipment already in theater to reduce the time needed to deploy.

**Contract discrepancy report.** A contract discrepancy report is a notification to the contractor of insufficient performance and documents that insufficient performance. A contract discrepancy report is a more severe, serious or major fault or performance discrepancy than a deficiency worthy of a corrective action report (see definition below).

**Contracting officer's representative (COR).** A COR assists in the technical monitoring or administration of a contract. The surveillance activities performed by CORs should be tailored to the dollar value and complexity of the specific contract for which they are designated.

**Corrective action report.** A corrective action report is a notification to the contractor of insufficient performance and documentation of that insufficient performance.

**Cost-plus-fixed-fee (CPFF) contract.** A CPFF contract is a cost-reimbursement contract that also provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract. The fixed fee does not vary with actual cost, but may be adjusted as a result of changes in the work to be performed under the contract.

**Definitization.** Definitization is the agreement on contract terms, specifications and price. Under certain circumstances, DoD agencies may use an undefinitized contract action to allow a contractor to begin performance before agreement of a price. Undefinitized contract actions are binding commitments that must include a not-to-exceed price ceiling and a definitization schedule.

**Direct theater support (DTS).** DTS includes receiving, storing, and issuing battle loss/battle damaged replacement equipment.

**Firm-fixed price (FFP) contract.** A FFP contract provides for a price that is not subject to any adjustment on the basis of the contractor's cost experience in performing the contract.

**Integrated Logistics Support Service.** A composite of all the support considerations necessary to assure the effective and economical support of a system for its life cycle. It is an integral part of all other aspects of system acquisition and operation.

**Retrograde.** Retrograde is the process for the movement of non-unit equipment and materiel from a forward location to a reset (replenishment, repair, or recapitalization) program or

to another directed area of operations to replenish unit stocks, or to satisfy stock requirements. AFSBn-Kuwait's retrograde mission refers to the receiving, prepping for shipment, and shipping of equipment from Iraq.

**Termination for default.** Termination for default means the exercise of the Government's right to completely or partially terminate a contract because of the contractor's actual or anticipated failure to perform its contractual obligations.

**Theater sustainment stock.** Theater sustainment stock is an U.S. Army pool of equipment set aside to rapidly replace equipment damaged and destroyed during operations, including tactical wheeled vehicles.

The following definitions refer to the areas in the performance work statement for task order BA-02.

**Army Prepositioned Stocks Operations.** The contractor shall manage classes of supply for APS and TSS stocks to ensure readiness for issuance in accordance with the PWS.

**Equipment Retrograde Operations.** The contractor shall receive equipment from convoys 24 hours a day, seven days a week, and stage the vehicles. The contractor shall verify the accuracy of property transfer documents and track down equipment that was misshipped.

**Direct Theater Support Operations.** The contractor shall repair and maintain equipment submitted by the Government for either return to use, distribution for tasker, and/or placement into storage.

**Base Operations.** The contractor shall maintain and operate support functions consisting of physical security measures, employee bus service to move employees around post, bottled water and ice distribution, facility upkeep, janitorial and facility utilization management.

**Information Technology Operations.** The contractor shall install and operation information systems security protective devices and software. The contractor shall employ qualified systems administration personnel and provide technical support for end user automation equipment.

**Government Furnished Equipment Operations.** The contractor shall initiate and maintain the processes, systems, procedures, records, and methodologies for effective control of Government property in accordance with applicable regulations.

**Maintenance Support Operations.** The contractor shall operate a Maintenance Operations Center to service as the nerve center for all maintenance operations. The contractor shall establish an oil analysis program, maintain a technical library, maintain records and status of equipment under warranty, perform painting of equipment, deprocess new equipment, and install armor and survivability enhancement kits as necessary.

**Supply Support Operations.** The contractor shall operate a Supply Operations Center as a nerve center to all supply operations. The contractor shall operate a central receiving and shipping point, track and return/re-use all containers, and support download and upload of ships and vessels.

**Quality Control and Process Improvement Services.** The contractor shall develop and implement a first rate quality control and process improvement program that shall include a means to incentivize employees to reduce cost and improve schedule and performance.

**Logistics and Maintenance Operations Center Services.** The contractor is to serve as the primary interface for Government to contractor operational interface and be the nerve center of the operations. This operations center shall tie together and coordinate functional efforts of maintenance, supply, transportation, and other aspects to ensure a synchronized effort in requests.

# U.S. Army Materiel Command Comments



REPLY TO  
ATTENTION OF:

DEPARTMENT OF THE ARMY  
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND  
4400 MARTIN ROAD  
REDSTONE ARSENAL, AL 35898-5000

AMCIR

APR 20 2012

MEMORANDUM FOR Department of Defense Inspector General (DoDIG), ATTN:  
(b)(6) Director, Joint and Southwest Asia Operations, Room 300,  
400 Army Navy Drive, Arlington, VA 22202-4704

SUBJECT: Command Reply to DoDIG Draft Report – Adequate Contract Support and  
Oversight Needed for the Tactical Wheeled Vehicle Maintenance Mission in Kuwait (Project  
No. D2011-D000JA-0212.000)

1. The U.S. Army Materiel Command (AMC) has reviewed the subject draft report and the  
responses from the U.S. Army Contracting Command (ACC) and the U.S. Army Sustainment  
Command (ASC). AMC endorses the enclosed ACC and ASC responses.

2. The AMC point of contact is [REDACTED] or email:  
[REDACTED]

- 2 Encls  
1. ACC memorandum  
2. ASC memorandum

JOHN B. NERGER  
Executive Deputy to the  
Commanding General



REPLY TO  
ATTENTION OF:

DEPARTMENT OF THE ARMY  
U.S. ARMY CONTRACTING COMMAND  
3334A WELLS ROAD  
REDSTONE ARSENAL, AL 35898-5000

AMSCC-IR

11 APR 2012

MEMORANDUM FOR [REDACTED], Director, Internal Review and Audit  
Compliance Office, Headquarters, U.S. Army Materiel Command, 4400 Martin Road,  
Redstone Arsenal, AL 35898

SUBJECT: Adequate Contract Support and Oversight Needed for the Tactical Wheeled  
Vehicle Maintenance Mission in Kuwait, (Project No. D2011-D000JA-0212.000) (D1232)  
(10361)

1. Reference memorandum and audit report, Office of Inspector General – Department  
of Defense, 20 March 2012, subject: same as above.
2. The Army Contracting Command (ACC) concurs with the enclosed comments  
provided by the Army Contracting Command – Rock Island (ACC-RI).
3. The ACC point of contact is [REDACTED], Director, Internal Review and Audit  
Compliance Office, [REDACTED], email: [REDACTED].

Encl

  
CAROL E. LOWMAN  
Executive Director





REPLY TO  
ATTENTION OF:

CCRC

UNCLASSIFIED

DEPARTMENT OF THE ARMY  
ARMY CONTRACTING COMMAND ROCK ISLAND  
1 ROCK ISLAND ARSENAL  
ROCK ISLAND, IL 61299-8000

FOR AMCIR, Attn: [REDACTED] U.S. Army Contracting  
Command, 3334A Wells Road, Redstone Arsenal, AL 35898

SUBJECT: Tasker #10361 DODIG Draft Report Adequate Contract  
Support and Oversight Needed for the Tactical Wheeled Vehicle  
Maintenance Mission in Kuwait (D2011-D000JA-0212.000)

1. We have reviewed the subject report. Our comments are  
enclosed.

2. The POC is [REDACTED], AMSAS-IR, COMM [REDACTED],  
email [REDACTED]

ENCL

MICHAEL HUTCHISON  
Executive Director  
Army Contracting Command - Rock Island

UNCLASSIFIED

ENCL

**ACC-RI Response to DODIG Draft Report, Adequate Contract Support and Oversight Needed for the Tactical Wheeled Vehicle Maintenance Mission in Kuwait, Project No. D2011-D000JA-0212.000, dated March 20, 2012**

DODIG Recommendation

A. We recommend that the Commander, U.S. Army Sustainment Command, in coordination with the Executive Director, Army Contracting Command-Rock Island:

A.1. Amend the current contract to include provisions that incentivize the contractor for efficient and economical performance.

ACC-RI response:

Partially concur on recommendation A.1.

As will be discussed below in our response to Recommendation A.2, ACC-Rock Island is in the process of re-competing the current APS-5 contract in Kuwait. The forecasted award date for that new contract is 4<sup>th</sup> Quarter FY12. As the period of performance remaining in the current contract is so short, modifying additional incentive arrangements into the current contract at this late date is not likely to produce the desired results. The new contract will include improved incentive arrangements, to include a Cost-Plus-Incentive-Fee arrangement.

The current contract is structured as a fixed fee type; however, the manner in which it has been managed has the effect of incentivizing the contractor as fee is only paid for quality performance as defined in the PWS. As an example, throughout the life of this task order, the Contracting Officer has withheld fixed fee on all cost over-runs and proportionately to mission requirements that are delivered late.

Those elements within the contract that are firm-fixed price offer the highest level of incentive for the contractor to perform (FAR 16.101) as the contractor takes on all risk associated with costs and profit. Therefore, the combination of these approaches does provide incentives for the contractor to control costs and perform timely and successfully.

Measurable performance standards are included for all PWS tasks. All 10 tasks within the PWS include quantitative performance measures. For example, in the PWS for DTS, the performance measure within Paragraph 5.1.3 reads as follows: "Satisfactory performance is 90% of on-hand equipment maintained to TM-10/20 standards (IAW AR 750-1) or 100% of required parts on order. Satisfactory performance requires at least 90% of work completed within the MAC chart for direct hours and hours are appropriately inputted in AWARDS." This is a measurable standard with a quantifiable outcome. The remaining nine tasks have similar measurable standards.

**ACC-RI Response to DODIG Draft Report, Adequate Contract Support and Oversight Needed for the Tactical Wheeled Vehicle Maintenance Mission in Kuwait, Project No. D2011-D000JA-0212.000, dated March 20, 2012**

A.2. Replace the current contract before option year two ends with a new contract (or contracts) for the missions associated with the Army Prepositioned Stock-5, retrograde and direct theater support that considers the oversight and operational environment of the Army Field Support Battalion-Kuwait missions in Kuwait. The new contract should include contract language that incentivizes the contractor for efficient and economical performance as well as provides measurable requirements with quantifiable outcomes.

ACC-RI Response:

Concur on recommendation A.2.

Efforts are underway to re-compete the contract with the new award planned in 1<sup>st</sup> quarter FY13 and prior to the end of Option Year 2 of the current contract. The Contracting Officer published a sources sought announcement in FedBizOps in January 2012, as the first step in planning and conducting an acquisition of this magnitude. Because of the high dollar value and the approval levels required for this acquisition, it was necessary to exercise Option Year 2 to allow sufficient time for the required reviews and approvals at the appropriate agency levels before release of a solicitation, and to allow time to conduct the required evaluations, award, and transition of a new contract.

B.2. We recommend that the Executive Director, Army Contracting Command-Rock Island direct the procuring Contracting Officer to:

- a. Establish a capability to perform reviews of the contractor's timecards onsite in Kuwait.
- b. Request Defense Contract Audit Agency assistance in performing detailed reviews of labor costs charged to the contract and recoup any costs associated with inaccurate labor hour billings.

ACC-RI Response:

Concur on recommendation B.2 (a and b).

ACC-RI will request that DCMA conduct a timecard review onsite in Kuwait.

In July 2011, the Contracting Officer requested DCAA assistance in Kuwait because of concerns on ITT's billings and invoices. DCAA responded to the request by conducting a review of the USETTI mission. DCAA then had ITT correct the identified problems. DCAA also informed the Contracting Officer that DCAA planned to conduct a review and audit of ITT's billing

Renumbered as  
Recommendations  
B.3.a and B.3.b.

**ACC-RI Response to DODIG Draft Report, Adequate Contract Support and Oversight Needed for the Tactical Wheeled Vehicle Maintenance Mission in Kuwait, Project No. D2011-D000JA-0212.000, dated March 20, 2012**

system later that year. In March of 2012 DCAA issued a flash report on ITT's estimating system; issued an audit report in April 2011 on ITT's estimating system; and an audit report on the Direct Billing Program-Testing of Paid Vouchers in February 2010. It is important to note (b)(4) and that all invoices must be submitted to DCAA for review and approval for payment.



REPLY TO  
ATTENTION OF:

AMSAS-CG

13 Apr 2012

UNCLASSIFIED

DEPARTMENT OF THE ARMY  
HEADQUARTERS, U.S. ARMY SUSTAINMENT COMMAND  
1 ROCK ISLAND ARSENAL  
ROCK ISLAND, IL 61299-6500

MEMORANDUM THRU US Army Materiel Command (AMCIR\ [REDACTED]),  
4400 Martin Road, Redstone Arsenal, AL 35898-5000

FOR Inspector General, Department of Defense, 4800 Mark Center  
Drive, Alexandria, VA 22350-1500

SUBJECT: DODIG Draft Report Adequate Contract Support and  
Oversight Needed for the Tactical Wheeled Vehicle Maintenance  
Mission in Kuwait (D2011-D000JA-0212.000)

1. The US Army Sustainment Command (ASC) reviewed the draft  
report. Our comments are at enclosure 1.
2. The POC is [REDACTED], AMSAS-IR, DSN [REDACTED], e-mail  
[REDACTED].

Encl

*Patricia E. McQuiston*  
PATRICIA E. MCQUISTION  
Major General, USA  
Commanding

UNCLASSIFIED

**Adequate Contract Support and Oversight  
Needed for the Tactical Wheeled Vehicle  
Maintenance Mission in Kuwait  
Project No. D2011-D000JA-0212.000**

**Finding B. Contractor Needed Better Oversight**

**Recommendations**

B.1. We recommend that the Commander, U.S. Army Sustainment Command:

a. Conduct an assessment by the end of third quarter FY 2012 to determine the sufficient number and experience level of contracting officer's representatives needed to oversee the tactical wheeled vehicle maintenance missions of Army Field Support Battalion-Kuwait.

**ASC Response: Concur. ASC will coordinate with Army Contracting Command - Rock Island to determine the experience level required and the number of Contracting Officer's Representatives (CORs) required for oversight to the tactical wheeled vehicle maintenance missions under AFSBn-KUWAIT. This will be accomplished by 30 June 2012.**

b. Upon the completion of Recommendation B.1.a, staff the Army Field Support Battalion-Kuwait with the appropriate number of qualified personnel to provide adequate oversight for maintenance to be conducted by a contractor.

**ASC Response: Concur with Comment. ASC will identify the recommended COR staffing based on mission requirements. This will not be a static number but will flex as mission requirements change. ASC will meet requirements using either temporary assignments or reallocation of existing personnel authorizations as command-wide, competing missions and mission priorities allow. Any requirement for additional permanent personnel will be subject to Department of Army procedures and approval levels. Target date for completion is 31 July 2012.**

c. Require Army Field Support Battalion-Kuwait to develop and include procedures in its Quality Assurance Maintenance Work Plan that substantiate parts and labor hours proposed by the contractor for maintenance are necessary before the contractor can begin work.

Revised and  
renumbered as  
Recommendation  
B.2.

ASC Response: Non-concur. The AFSBn-KUWAIT Quality Assurance SOP is being updated to capture process efficiency gains but those gains in efficiency will not include requiring 100% review of contractor proposed parts requisitions nor a requirement to have the contractor prepare a mini-proposal for every vehicle inducted into maintenance.

The Kuwait Maintenance contract is performance based. As such, the Government provides the contractor a Performance Work Statement, workload assumptions and performance indicators and standards by which contractor performance will be measured. The contractor is responsible for managing the process; the Government is responsible for contractor oversight. For In Theater Maintenance (ITM) (identified as Direct Theater Support in the PWS), contractor performance is measured in terms of direct hours expended as compared to the Maintenance Allocation Chart direct hours. If contractor performance is found deficient, a Corrective Action Report is issued. On the other hand, APS maintenance is performed under a Firm Fixed Price CLIN; i.e., the Government has negotiated up front the labor costs of maintaining APS. Under this contract type, risk is placed on the contractor to perform within the costs negotiated.

Government pre-approval of repair parts for every work order is not a cost effective approach given the magnitude and nature of equipment maintenance performed in Kuwait. The contractor is required to perform Preventive Maintenance Checks and Services (PMCS) every 90 days and an annual service for nearly every piece of CL VII equipment (upwards of 20,000 pieces). With repair parts required for services fairly standardized based on equipment type, risk that unnecessary parts will be purchased is considered low. The AFSB-KUWAIT, through its Maintenance Quality Assurance SOP, applies personnel resources toward monitoring higher risk maintenance actions. The SOP includes the following controls and procedures relative to CL IX repair parts:

- If PMCS identifies a need for additional work (unscheduled maintenance), the Government QA verifies all faults before a work order is opened or parts are requisitioned.
- Single requisitions over \$5000 require Government approval prior to ordering.
- All requests for walk-thru 02 priority parts are reviewed to determine economy to the Government.
- Government must approve all local purchase requests.

- A contract deficiency is reported if CL IX parts are double ordered.
- A contract deficiency is reported if Controlled Exchange CL IX is not present for inspection.



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