

RECORD VERSION

STATEMENT BY

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COMMANDING GENERAL, U.S. ARMY SUSTAINMENT
COMMAND**

BEFORE THE

**ARMED SERVICES COMMITTEE
UNITED STATES SENATE**

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LOGISTICS CIVIL AUGMENTATION PROGRAM (LOGCAP)

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Mr. Chairman, members of the Senate Armed Services Committee, thank you for this opportunity to report to you on the United States Army's Logistics Civil Augmentation Program (LOGCAP). It is my privilege to represent the United States Army, as well as the dedicated military, DoD civilians, and contractors whose steadfast support of America's fighting forces in Afghanistan, Iraq and Kuwait are critical to our efforts. Our work and our success to date are directly attributable to the resources and guidance you provide. I thank you for your oversight and direction as we continue to improve LOGCAP.

I would also like to thank Mr. Claude Bolton, Assistant Secretary of the Army for Acquisition, Logistics and Technology, who is here today; Ms. Tina Ballard, who is the Deputy Assistant Secretary of the Army for Policy and Procurement; and General Benjamin Griffin, who commands the Army Materiel Command. Their leadership has helped us address numerous challenges and develop improvements in managing LOGCAP.

From three qualified bidders, the LOGCAP III contract was competitively awarded to Kellogg Brown and Root Services, Incorporated, in December 2001. Under the contract, individual task orders are developed to provide specific support services. For many task orders, the contractor is paid negotiated costs plus a 1% base fee; the contractor may earn up to a 2% award fee on the negotiated costs. The program has grown rapidly from a peacetime value of several million dollars per year to over \$5 billion per year today. The program provides logistics and life support services to our fighting forces, freeing them to focus on their combat missions. The program is designed to rapidly expand during contingency operations and to draw-down during peacetime.

LOGCAP III was first used in Southwest Asia in support of the troop buildup in Kuwait. Once U.S. forces crossed the berm into Iraq, LOGCAP crossed with them:

- establishing and operating base camps
- feeding hungry troops
- furnishing transportation services
- operating warehouses
- delivering mail
- transporting fuel and supplies

LOGCAP personnel became a force multiplier for our warfighters.

We encountered a number of challenges with LOGCAP III during the rapid buildup of our forces in Southwest Asia. These challenges included:

- controlling theater requirements
- overwhelming the contractor's business systems
- definitizing task orders
- conducting timely award fee boards
- accounting for property
- fraud

Despite early challenges, at no time did our service members go without our LOGCAP support, we always placed their needs first.

In August 2004, we aggressively attacked these issues and began corrective actions. Many of the issues were later validated in audits conducted by the Defense Contract Audit Agency (DCAA), the Army Audit Agency (AAA) and the Department of Defense Inspector General (DoD IG).

While LOGCAP still has a number of challenges, we have implemented a number of improvements, including:

- Appointing a senior contracting official to run the program
- Establishing a requirement review process
- Insisting KBR improve their business systems
- Definitizing all over-age task orders
- Conducting timely award fee boards
- Establishing property controls
- Working with the Department of Justice to prosecute those who broke the law
- Expanding our partnership with DCMA and DCAA

Rapid program growth drove the need for enhanced oversight. With Mr. Bolton's help, we have established a Senior Executive Service Program Manager for LOGCAP. This person serves as the focal point for day-to-day management of LOGCAP and staff direction. Mr. James Loehrl, who is with me today, serves as my LOGCAP Program Manager and also my Principal Assistant Responsible for Contracting (PARC). We established Deputy Program Management offices in Afghanistan, Iraq and Kuwait. We also improved pre-deployment training for our Logistics Support Unit (LSU) Soldiers.

To address theater requirements, we work directly with forward units to identify and define needed services. We established a Joint Acquisition Review Board to review and approve LOGCAP work requirements. We have a Coalition Acquisition Review Board that provides an additional review and approval for work requirements over \$10 million.

Along with our Defense Contract Management Agency (DCMA) and DCAA partners, we insisted KBR improve their business systems. Now, all of KBR's business systems are acceptable. As I mentioned before, in

October 2004 we began establishing Deputy Program Management offices in Afghanistan, Iraq and Kuwait. These offices are staffed by: logistics specialists, contract specialists, and cost analysts who provide detailed oversight of the contract. Additionally, our DCMA and DCAA partners are co-located and integrated with the Deputy Program Manager staff.

Between November 2004 and March 2005, we definitized 55 over-age task orders valued at \$14 billion. Now, all new task orders are definitized before they are issued or within the normal 180-day standard.

Contract award fee evaluations are now on schedule. The LOGCAP Program Manager has made 11 trips to theater to chair award fee boards. Every three months, we evaluate contractor performance and determine appropriate award fees. Through November 2006, KBR earned \$256 million of a potential \$287 million in award fees; this equates to 89 percent of potential fees. This process provides the contractor with important feedback on where improvements are needed.

To maximize the use of contract-purchased property, we have established a Contractor Acquired Property Review Board that ensures excess contract property is distributed to needed locations. The contractor is required to utilize excess equipment prior to purchasing new items. Also, the contractor implemented a competitive commodity agreement with support vendors for equipment such as generators, communications items and vehicles. This standardizes maintenance and reduces the number of spare and repair parts needed to maintain equipment. To date these efforts have saved over \$26 million.

In cases of waste, fraud and abuse, we fully cooperate with any and all investigations and prosecutions. The U.S. Attorney's office has indicted six

people and successfully prosecuted four cases of fraud. In all cases, restitution has been ordered against the individuals convicted of fraud.

We work closely with DCMA and DCAA to address recommendations, improve contract administration, and improve contractor oversight. To date, we have sustained over \$600 million of DCAA recommendations in our task order negotiations.

We continue to learn and grow from our experience and implement changes as they are needed. Every day we seek to:

- reduce costs
- improve performance and oversight
- reduce program risk

As LOGCAP continues to mature, we recognize that future LOGCAP contract oversight staffs must be on the ground quickly - ready to operate. We will be postured to move Deputy Program Management offices into theaters as required. Tied to this is the rapid development of independent government cost estimates. These estimates will assure that we remain good stewards of the resources provided to us. We are developing automated tools to assist our government teams in preparing statements of work and cost estimates. We will not let future oversight lag when the program grows rapidly to meet warfighter needs.

With regards to cost control the contractor is required to provide cost reports every two weeks for active task orders. These reports identify variances between budgets, actual expenditures, and available funding. This management tool provides DCMA and other program personnel with a quick understanding of trends needing attention.

Another lesson learned that we will carry into future LOGCAP operations is to have standardized statements of work which will allow

combatant commanders to quickly select support options. This standardization will allow the LOGCAP contractor to efficiently plan and establish logistics and life support operations.

Our “Alpha Contracting” initiative emerged from our need to streamline the task order negotiation process. This initiative brings the combatant commander, the contractor, the contracting officer, and the DCAA together so they can rapidly agree on and put needed support operations in place. Cost avoidance from this process has been dramatic. In 2005 and 2006, initial LOGCAP estimates for work in Iraq exceeded \$10 billion. Through the Alpha Contracting initiative and General Casey’s directive to minimize services, this was reduced to \$4 billion – a \$6 billion avoidance. This is also one of the places we are making use of Army Audit Agency reviews. When AAA identifies potential areas of overstaffing or underutilization of equipment, we use that information as a part of our negotiation process.

We recognize the need to have closer oversight of subcontract actions. The prime contractor is now required to obtain our consent to subcontract for services that exceed \$500,000.

LOGCAP III grew so rapidly that it nearly exceeded a single contractor’s capacity. To minimize this risk, LOGCAP IV will utilize multiple contractors. One contractor will provide pre-war planning and program management support. Up to three contractors will provide performance services, with all of them competing for work identified in separate task orders. This will increase government contract oversight and reduce the program risk of exceeding a single contractor’s capacity, while reducing costs through continuous task order competition.

LOGCAP IV will go a long way toward expanding performance capacity, reducing costs, and improving government oversight. It will also provide us with increased flexibility to meet rapidly changing requirements.

In conclusion, LOGCAP is more than just a contract. It is a critical program designed to provide essential support services to our nation's sons and daughters who fight for our freedom.

You specifically asked for my views about the cost effectiveness of this program. I will tell you that this program is operating in a very difficult, complex and ever-changing environment. Given what this program has been asked to do, and the circumstance it operates under, it is cost effective. We've managed to overcome numerous challenges in LOGCAP while always maintaining our support to our nation's Soldiers, Sailors, Airmen and Marines.

Despite any and all program challenges, we performed our mission and succeeded in supporting our servicemembers. In forward battle zones, LOGCAP has served over 533 million meals to hungry troops, washed over 26 million bundles of their laundry, and delivered over 36 million bags of mail that included letters from their loved ones at home.

We stand ready to meet tomorrow's challenges to support America's warfighters where and when they need us.

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