DEFENSE CONTRACT AUDIT AGENCY
CENTRAL REGION
ARLINGTON BRANCH OFFICE
1201 NORTH WATSON ROAD, SUITE 174
ARLINGTON, TX 76006-6223

In reply refer to:
3311-820.9

August 16, 2004

MEMORANDUM FOR DEPARTMENT OF THE ARMY, HEADQUARTERS, U.S. ARMY FIELD SUPPORT COMMAND, 1 ROCK ISLAND ARSENAL, ROCK ISLAND, ILLINOIS 61299-6500

ATTENTION: Mary Beth Watkins, Lead PCO

SUBJECT: Implementation of FAR Clause 52.216-26, Payments of Allowable Costs before Definitization, LOGCAP Contract DAAA09-02-D-0007

On June 15, 2004 you extended the date for implementation of the subject clause. Your extension was based on the efforts on the part of KBR to provide adequate data to negotiate the undefinitized contract actions under the LOGCAP contract. Since that time, DCAA has had the opportunity to review and complete audits of more KBR proposals; AFSC has tried to definitize some of the task orders, and we have completed our Estimating System Audit Report.

Our estimating report summarizes the numerous, systemic issues we have had with KBR's estimates. We reported KBR submitted approximately $13 billion of price proposals to the Government between March 2003 and May 2004. Additionally, our estimating system report and proposal audit reports identified significant unsupported costs during our audits of the following LOGCAP proposals:

Task Order	Proposed Value ($000)	Unsupported Costs ($000)
28	$ 1,900	$ 302
38	54,238	4,323
41	3,449	585
45	2,963	711
53	33,729	5,791
59	4,187,731	1,808,164
60	10,026	2,368
Total	$4,334,036	$1,822,244

Unsupported costs represented 42 percent of the total proposed value under the LOGCAP Task Orders identified in the schedule. Inadequate proposals have, and will continue to, result in significant delays in issuing our audit reports, significant unsupported costs, and/or reports containing an adverse opinion, which impairs the Government's ability to negotiate contracts in a timely manner. The very purpose of FAR 52.216-26 is to provide an incentive to negotiate contracts in a timely manner.

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We have attempted to work with KBR in establishing the types of proposal support needed to assist our audit effort. For example, we have requested a list of the significant subcontracts, equipment and material purchases; the costs incurred for these elements through a specific cut-off date agreeable to KBR; and the Estimates to Complete for each of these cost elements, and the methodology used to develop these estimates. To date, KBR has not provided this basic supporting data for the significant task order proposals. While contingency issues may have had an impact during the earlier stages of the procurements, clearly, the contractor should have adequate supporting data by now. In fact, KBR personnel have informed us they intend to provide additional supporting data during negotiations. We believe this approach is unacceptable. KBR should provide the supporting data during the DCAA audits.

Your June 15 letter to KBR stated you would continue to assess the timeliness and quality of cost proposals received and progress made toward successful definitization. We do not believe the quality of KBR's proposals has improved. In the case of the TO 59 proposal, each successive update continues to be significantly deficient. It is clear to us KBR will not provide an adequate proposal until there is a consequence. Therefore, we strongly encourage you not to extend the implementation of this clause any further and only allow payment of the 85 percent as specified in the clause until KBR submits adequate proposals on all proposals deemed inadequate.

Please contact me with any questions regarding this memorandum or any other issue about the subject contract.   I can be reached at 817-640-4948 x224 or by e-mail at bdaneke@dcaa.mil.

/signed/
William F. Daneke
Branch Manager

Copy furnished:
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