

Audit Report



**Audit of the Accountability and Control of
Materiel Assets of the
Coalition Provisional Authority in Baghdad**

Report Number 04-011

July 26, 2004

**Office of the Inspector General
Coalition Provisional Authority**

Report Documentation Page

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COALITION PROVISIONAL AUTHORITY
OFFICE OF THE INSPECTOR GENERAL

July 26, 2004

MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY

SUBJECT: Accountability and Control of Materiel Assets of the Coalition Provisional Authority in Baghdad, Iraq

We are providing this audit report for your information and use. We performed the audit in accordance with our statutory duties contained in Public Law 108-106 which mandates the conduct of audits relating to the treatment, handling, and expenditure of funds by the Coalition Provisional Authority or its successor entities on Iraq reconstruction, and of the programs, operations, and contracts carried out in utilizing such funds. We considered management comments on a draft of this report in preparing the final report.

Management comments are not responsive to the finding or recommendations contained in this report. However, management indicated in its response that corrective actions are planned. Those corrective actions are generally responsive to Recommendation 1. Management did not comment on the Recommendation 2. We continue to believe that Recommendation 2. is valid and will work with Defense Contract Management Agency representatives to reach a mutually satisfactory resolution. We will perform audit follow-up to evaluate management's corrective actions.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Brian Flynn at (703) 343-9229 or Mr. Kevin Ellenberger at (703) 343-9230. Management may request a formal briefing on the results of this audit. See Appendix F for the report distribution.

Stuart W. Bowen, Jr.
Inspector General
Coalition Provisional Authority

**Office of the Inspector General
Coalition Provisional Authority**

Report Number 04-011

July 26, 2004

**Accountability and Control of
Materiel Assets of the Coalition Provisional Authority in Baghdad**

Executive Summary

Introduction. This report is the first in a series resulting from our review of the management of the Logistics Civil Augmentation Program III contract and the associated Task Order 0044. This report discusses accountability and control of materiel assets used to support the Coalition Provisional Authority (CPA) in Baghdad, Iraq.

The Department of the Army issued contract number DAAA09-02-D-0007, Logistics Civil Augmentation Program III¹ on December 14, 2001, to Brown and Root Services, a Division of Kellogg Brown and Root, Inc. (KBR). The Logistics Civil Augmentation Program III contract provides civilian augmentation for base operations and supports U.S. Army operations on a global basis.

Task Order 0044 was issued by the Department of the Army to KBR on March 6, 2003, to provide logistics and life support services for the CPA Regional Offices located in the North, Central/Main, South Central, and the Southern areas of Iraq and for specified CPA satellite locations.

As of April 2004, KBR had performed a reported \$308,529,772² of work on Task Order 0044. The cost of actual completed work and an additional forecast for work in progress for Task Order 0044 was reported by KBR to be \$633 million as of March 27, 2004. As part of Task Order 0044, KBR property records show they managed 20,531 items valued at over \$61.1 million in Baghdad, Iraq.

Objective. The objective of the audit was to evaluate the effectiveness of policies, procedures, and property accountability measures used to account for and control materiel at CPA branch offices, headquarters, and warehouse locations.

Conclusion. We projected that KBR could not account for 6,975 (34 percent) property items from an inventory of 20,531 records valued at \$61.1 million. Further, we projected that 1,425 (6.9 percent) property items were on-hand but were not recorded on hand receipts. In addition, we projected that 5,920 (28.8 percent) hand receipts were not on file or had not been prepared.

¹ The first LOGCAP contract was awarded to KBR in 1992. The second LOGCAP contract was awarded to Dyncorp in 1997. Both LOGCAP I and II were awarded for a term of 5 years, whereas the LOGCAP III contract has a 10 year term. (Source: "Outsourcing War," Business Week Online, September 9, 2003)

² We are unable to validate the accuracy of the dollar amount reported. The Defense Contract Audit Agency has been unable to validate the contractor's cost reporting system. This issue is presented and discussed in detail in CPA-IG Report, Review of Logistics Civil Augmentation Program III, Task Order 44 (Project D2004-DCPAAC-0029), dated May 6, 2004.

As a result, we projected that property valued at more than \$18.6 million was not accurately accounted for or was missing.

Recommendations. We recommend that the Commander, Defense Contract Management Agency, Iraq (DCMA) ensure an accurate property control system analysis is performed after ongoing corrective actions are completed and conduct a thorough review of CPA property in Baghdad, Iraq to locate the missing property. Upon completion of the review, we recommended that DCMA seek to recover the cost of missing equipment from the responsible personnel. Further, we recommended that DCMA initiate appropriate recovery actions from KBR, if it failed to fulfill its contractual obligations.

Management Corrective Actions. According to its response, DCMA and KBR are currently conducting a 100 percent inventory of the Baghdad property and accomplishing Reports of Survey, as appropriate.

Management Comments. DCMA did not concur with the findings, asserting that the majority of the sample items reported as unaccountable were subsequently located and should not have been considered errors. DCMA did not comment on the recommendations.

Audit Response. The management comments are not responsive to the finding or the recommendations. However, management indicated in its response that corrective actions are planned that are generally responsive to Recommendation 1. Although management did not comment on Recommendation 2., we continue to believe Recommendation 2. is valid. We will work with DCMA representatives to reach a mutually satisfactory resolution.

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Background

This report is the first in a series resulting from our review of the management of the Logistics Civil Augmentation Program III contract and the associated Task Order 0044. This report discusses accountability and control of materiel assets used to support the Coalition Provisional Authority (CPA) in Baghdad, Iraq. The scope and methodology used to perform this audit are discussed at Appendix A. The acronyms used in this report are shown at Appendix E and the audit team members are shown at Appendix G.

Logistics Civil Augmentation Program. The Department of the Army issued contract number DAAA09-02-D-0007, Logistics Civil Augmentation Program III (LOGCAP),³ on December 14, 2001, to Brown and Root Services, a Division of Kellogg Brown and Root, Inc. (KBR). This is an indefinite-delivery/indefinite-quantity cost-plus award-fee and an “on-call” provider service contract with actual costs dependent on specific requirements.⁴ The LOGCAP contract provides civilian augmentation for base operations and supports U.S. Army operations on a global basis.

When the Department of the Army identifies a significant “event” or requirement for a specific service or commodity, it issues a Task Order under the LOGCAP contract to specifically address the performance requirements and contract terms for the particular event or requirement. The Task Order generally contains its own statement of work as well as a “Not to Exceed” dollar limitation.

Task Order 0044. Task Order 0044 (TO 0044) was issued by the Department of the Army to KBR on March 6, 2003, to provide logistics and life support services for the CPA Regional Offices located in the North, Central/Main, South Central, and the Southern areas of Iraq and for the CPA satellite locations specified in the statement of work. As KBR performs the requirements cited in the specific TO 0044 it bills for the associated costs. As of April 2004, KBR had performed a reported \$308,529,772⁵ of work on Task Order 0044. The cost of actual completed work and an additional forecast for work in progress for TO 0044 was reported by KBR to be \$633 million as of March 27, 2004.

Property Control Procedures. In 2002, KBR published the LOGCAP III Property Control Procedures to document its property control system in support of the LOGCAP contract. The property control procedures delineate the approved procedures for accounting, controlling, and ordering that are applicable to government furnished and contractor acquired property. The

³ The first LOGCAP contract was awarded to KBR in 1992. The second LOGCAP contract was awarded to Dyncorp in 1997. Both LOGCAP I and II were awarded for a term of 5 years, whereas the LOGCAP III contract has a 10 year term. (Source: “Outsourcing War,” Business Week Online, September 9, 2003)

⁴ Typical requirements associated with the LOGCAP contract include such items as providing Camp Operations (lodging, subsistence, laundry, sanitation needs, etc.), Force Protection (camp and personnel), and Transportation (vehicle motor pools as well as personnel and cargo movement). Additional requirements are initiated by Client Directives (specific requested projects that are within the overall Task Order scope but are not general in nature - e.g., a specific construction request)

⁵ We are unable to validate the accuracy of the dollar amount reported. The Defense Contract Audit Agency has been unable to validate the contractor’s cost reporting system. This issue was presented and discussed in detail in CPA-IG Report, Review of Logistics Civil Augmentation Program III, Task Order 44 (Project D2004-DCPAAC-0029), dated May 6, 2004.

property control procedures require that KBR issue property items to users on DA Form 2062 (hand receipt) or DA Form 3161 (temporary hand receipt) to maintain accurate property accountability. The property control procedures require KBR property managers to conduct periodic inspections of those hand receipts to ensure control of those hand receipts. An accurate and complete set of hand receipts is needed to ascertain the custody and location of the property so that KBR may perform a required 100 percent property inventory annually.

Objective

The objective of the audit was to evaluate the effectiveness of policies, procedures, and property accountability measures used to account for and control materiel at CPA branch offices, headquarters, and warehouse locations.

Accountability and Control of CPA Property

We projected that KBR could not account for 6,975 (34 percent) property items from an inventory of 20,531 records valued at \$61.1 million. Further, we projected that 1,425 (6.9 percent) property items were on-hand but were not recorded on hand receipts. In addition, we projected that 5,920 (28.8 percent) hand receipts were not on file or had not been prepared. This occurred because KBR did not effectively manage government property as it did not properly control CPA property items and its property records were not sufficiently accurate or available to properly account for CPA property items. As a result, we projected that property valued at more than \$18.6 million was not accurately accounted for or was missing.

Logistics Civil Augmentation Program Administrative Contracting Officer

The U.S. Army Materiel Command designated the Defense Contract Management Agency (DCMA) as the LOGCAP administrative contracting officer. The duties of the LOGCAP administrative contracting officer include being the government property administrator. Federal Acquisition Regulation, Part 45, "Government Property," requires the government property administrator to review and approve the overall accuracy, effectiveness, and implementation of the contractor's property control system.

Accordingly, DCMA reviewed and approved the LOGCAP property control system on January 15, 2003. The property administrator was also responsible for conducting a yearly property control system analysis. The property control system analysis review covered 15 property management functions such as inventory records, physical inventories, and receiving and storage procedures. If, during the property control system analysis, the property administrator finds any part of the contractor's property control system to be inadequate, the contractor must take necessary corrective action before the system can be re-approved.

Missing and Unaccounted For CPA Property

We projected that KBR could not account for 6,975 (34 percent) property items from an inventory of 20,531 records valued at \$61.1 million. Further, we projected that 1,425 (6.9 percent) property items were on-hand but were not recorded on hand receipts. In addition, we projected that 5,920 (28.8 percent) hand receipts were not on file or had not been prepared.

Quantitative Analysis. To evaluate the effectiveness property accountability, random statistical sampling was used to identify items for review and to estimate the differences between the KBR inventory records and the audited sample items. We selected our sample from an inventory population of 20,531 items valued at more than \$61.1 million. The quantitative analysis plan and results are discussed at Appendix B.

Property Record Accuracy. Our examination of 164 randomly selected property records disclosed that 52 property items were missing or could not be unaccounted for by KBR. A list of the missing property items is shown at Appendix C. The missing items included 2 generators valued at more than \$878,000 and 18 vehicles valued at more than \$1.1 million. We projected that KBR could not account for 6,975 (34 percent) property items from an inventory of 20,531 records valued at \$61.1 million.

Property Record Completeness. Our examination of 85 randomly selected on-hand property items disclosed that 13 items were not recorded in the property book. We traced the 85 on-hand property items to the property book. The 13 items included a generator found in the warehouse yard and valued at \$144,000 that did not have a hand receipt or issue-document to indicate when the item arrived or how it was received. We projected that 1,425 (6.9 percent) property items were on-hand but were not recorded on hand receipts.

Our examination also disclosed that for 12 of 52 missing items, KBR did not have hand receipts on file. KBR policies required that a hand receipt or temporary hand receipt be completed for all government property issued. The absence of a hand receipt makes it impossible or at least difficult to trace government property items back to the original receiver. We projected that 5,920 (28.8 percent) hand receipts were not on file or had not been prepared.

Oversight of Government Property

KBR did not effectively manage government property as it did not properly control CPA property items and its property records were not sufficiently accurate or available to properly account for CPA property items.

DCMA Oversight. DCMA was unaware of the missing property and the potential errors in the KBR property records. Team members from the DCMA Iraq/Kuwait office completed the fiscal year 2004 property control system analysis in February 2004. The team members concluded that KBR conducted physical inventories within a reasonable period of time and in accordance with the KBR property control procedures. The DCMA physical inventory review identified zero errors and concluded that KBR records and supporting documents were complete and accurate.

Our audit results do not match the results of the DCMA property control system analysis. Contrary to DCMA results, our review, as of April 2004, disclosed 27 (52 percent) of the 52 missing property items were last inventoried between 4 months and 12 months previous to our review. For example, a truck utility vehicle (Item no. 15 in Appendix C) was last “100% inventoried” or was last seen on May 27, 2003, and a Global Positioning System (Item no. 36 in Appendix C) was last inventoried or seen on April 12, 2003. Additionally, the property record for an unaccounted for Satellite Receiver (Item No 31 in Appendix C) did not have a date entered to identify when it was last inventoried. Although the KBR property control procedures require only yearly inventories, KBR personnel stated it is KBR policy to inventory all property items once every three months.

Conclusion

Consequently, we projected that property valued at more than \$18.6 million was not accurately accounted for or was missing.

Management Corrective Actions

After the completion of our audit and according to its management comments, DCMA took a proactive role by requiring KBR accomplish a 100 percent inventory and accounting for all government property in its possession. For example, at the time of this final report, DCMA was searching for and coordinating with KBR on the recovery of all missing vehicles. Further, DCMA located 3 of the missing vehicles and was in the process of recovering them from unauthorized users. Additionally, as of May 4, 2004, there were 113 vehicles for which the users had not returned for a required 2 weeks re-dispatching. DCMA recovered 2 of the 113 delinquent vehicles.

DCMA, with KBR's assistance, has taken the initiative in accomplishing Reports of Survey. For example, DCMA issued 15 reports for lost, damaged, or destroyed government property to recover the cost from personnel who misused the property. Also, DCMA has requested the CPA Director of Logistics and the CPA Chief of Staff to establish a board to process those Reports of Survey.

Recommendations, Management Comments, and Audit Response

We recommend the Commander, Defense Contract Management Agency, Iraq:

1. Ensure an accurate property control system analysis is performed after ongoing corrective actions are completed.
2. Conduct a thorough review of Coalition Provisional Authority property in Baghdad, Iraq to locate the missing property. Upon completion of the review, the Defense Contract Management Agency should seek to recover the cost of missing equipment from the responsible personnel. Further, the Defense Contract Management Agency should initiate appropriate recovery actions from Kellogg Brown & Root, if it failed to fulfill its contractual obligations.

Management Comments. DCMA did not concur with the findings, asserting that the majority of the sample items reported as unaccountable were subsequently located and should not have been considered errors. DCMA did not comment on the recommendations. The management comments are shown at Appendix D.

Audit Response. The management comments are not responsive to the finding or the recommendations. However, management indicated in its response that corrective actions are planned that are generally responsive to Recommendation 1. Although management did not comment on Recommendation 2., we continue to believe Recommendation 2. is valid. We will work with DCMA representatives to reach a mutually satisfactory resolution. Our responses to management's specific comments are provided below.

Management Stated. “The nonconurrence is based on the fact that inventoried sample of Coalition Provisional Authority (CPA) owned items is not representative of the population, and thus no conclusions, recommendations, or results can be accepted. During the audit, 164 randomly selected property records were inventoried of which 52 (32 percent) of the items were reported by the CPA IG to be missing or unaccounted. However, a DCMA review of the results identified problems with the sample. Of the 20 most expensive items determined to be missing, three(3) items should not have been in the sample and three (3) items could not be traced to the Master Property Book where supposedly the sample had been taken. In addition, the remaining fourteen (14) items were physically located by DCMA.”

Audit Response. We disagree with management’s conclusions and comments. The property was not found during the audit, despite numerous attempts by the auditors to locate the property, working with both KBR and DCMA personnel.

The audit was conducted with the Property Book Record provided by KBR. DCMA participated in providing us with the data. Management’s assertion that the audit was accomplished with inaccurate data is, in fact, a further confirmation that property records were not sufficient to effectively manage property. Additionally, if the auditors were provided and evaluated the wrong property book, DCMA does not explain how the auditors were able to find 114 (68 percent) of the items.

DCMA contends that 3 items should not have been in the sample, because they were not accountable to the LOGCAP contract. However, DCMA does not explain why property not accountable to the contractor was recorded in the contractor’s property book. This situation is an additional example of the inaccuracies in the accountable property records. Further, DCMA does not acknowledge that on numerous occasions the auditors tried to locate the property with the help of either or both DCMA and KBR representatives. Those representatives had ample opportunities, during the course of the audit, to point out any data problems but did not do so.

DCMA also asserts that three items that auditors selected for review from the property book provided to us by KBR for our audit could not be traced to the current property book. We have provided copies of the property book record provided to us for our audit for the questioned items to DCMA. We are concerned with this new information. Specifically, management’s assertion indicates the possibility that property records were removed from the property book without their knowledge or approval and a continued lack of controls. We believe a system that allows for items to be deleted, and DCMA to be unaware of those changes, requires careful examination and analysis during the proposed DCMA property control system analysis.

Finally, DCMA indicated in its response that it has taken the corrective action in locating 14 of the items shown as missing in our audit. That action would indicate to us acceptance of the report’s conclusions, recommendations, and results. Although we have not verified those the existence of the 14 located items, we commend DCMA for taking action to locate missing items.

Management Stated. “The audit states that 85 items were randomly selected, and 13 were not recorded on the property book. There was no supporting documentation so we cannot comment on this accuracy. How was the projection that 1,400 items may be on-hand and not on accountable records determined? Appendix C [now Appendix B] shows no statistical projection for this estimate.”

Audit Response. We initially discussed our draft report with management on July 11, 2004. We were unaware management required additional data to fully comment on our report until after our second meeting on July 17, 2004. However, we have provided management with the data in question and included in Appendix B the additional statistical analysis.

Management Stated. “The audit states that 12 of the 52 missing items were not on proper hand receipt and thus 22-36% of all KBR items are projected to be not properly hand receipted. As stated above, we do not believe your sample is valid and thus not representative of the population.”

Audit Response. We evaluated the data provided by KBR and DCMA and worked closely with both organizations in attempting to locate missing property. Our audit and evaluations are accurate and representative of the condition of property records at the time of the audit. Further, DCMA did not provide any evidence to support its contention that the sample is not valid. Nevertheless, management actions subsequent to our audit are commendable, but do not alter the conditions we found while performing the audit.

Management Stated. ”The Defense Contract Management Agency has taken a proactive approach to resolve property accountability issues associated with Task Order 44 of the LOGCAP III contract. These initiatives include requiring KBR to conduct a 100 percent inventory to be completed by 30 September 2004, scheduling a Property Control System Analysis (PCSA) beginning 16 August 2004, and full participation in the DOD/DOS Transition Sub-team on property accountability”

Audit Response. The actions DCMA cited in its response would indicate to us acceptance of the report’s conclusions, recommendations, and results. We commend DCMA for the prompt actions to address deficiencies identified during our audit.

Appendix A. Scope and Methodology

We performed this financial audit from April 2004 through May 2004 in accordance with generally accepted government auditing standards.

We obtained a copy of the Kellogg Brown and Root, Inc. (KBR) property book, as of April 17, 2004. It contained all 20,531 Coalition Provisional Authority (CPA) owned property items located in Baghdad, Iraq. Those property items were valued at \$61,140,695. We randomly selected for our sample, without replacement, 164 items of CPA owned property from the property book database and selected 85 reverse sample items⁶ from April 03 through April 27, 2004. See Appendix B for the statistical plan and projected results.

We also interviewed KBR managers and CPA equipment custodians to determine if all CPA assets were maintained on accountable records. Further, we reviewed KBR records to determine if an annual inventory had been completed and an individual had signed the hand receipt for accepting custodianship. Finally, we reviewed accountability procedures to record, inventory, and reconcile assets and transactions to test the internal controls.

Use of Computer-Processed Data. We relied on computer-processed data contained in the KBR property database file. We comparing output data to physical inventories to validate data accuracy and reviewed output products for completeness, obvious errors, and reasonableness. Despite the fact the KBR property book was not complete; we believe the conclusions and recommendations in this report are valid when viewed with other available evidence.

⁶ We selected for review 80 items in a statistically valid method and 5 judgmentally selected items. Our statistical projection is based on only the 80 items randomly selected.

Appendix B. Quantitative Analysis

This appendix discusses two quantitative plans. The first plan discussed was to determine the accuracy of the inventory records and the second was to determine the accuracy of the inventory items on the floor versus inventory items on the property records.

Quantitative Plan

Objective: The audit objective is to determine the accuracy of the inventory records. Statistical sampling is used to identify items to review and to estimate the differences between audited and inventory records.

Population: An Excel file, CPA.xls, was provided that constituted the inventory population of 20,531 items and representing \$61,140,695 of inventory.

Measures: The sampling plan measures for this project are the differences in the inventory records and the audited items that cannot be supported.

Parameters: We agreed to use a 90 percent confidence level for each estimate.

Sample Plan

A single stage stratified sampling design was used. Items were stratified by inventory price as follows:

Stratum	Population		Sample	
	\$	N	N	\$
\$500k >	2,939,450	4	4	2,939,450
\$100k < \$500k	9,691,447	42	30	6,800,669
\$25k < \$100k	18,714,308	513	30	984,599
\$450 < \$25k	27,831,748	8,999	50	193,405
\$0 < \$450	1,963,743	10,973	50	8,267
Total	61,140,695	20,531	164	10,926,389

Samples were randomly selected using a simple random sample without replacement methodology. Excel 2002 RAND() function was used to randomize the items. 164 items were randomly selected for the sample.

Statistical Analysis And Interpretation

Based on the audit results, we calculated the following statistical projections for the 20,531 inventory items in the population:

90 Percent Confidence Interval			
	Lower Bound	Point Estimate	Upper Bound
Errors	5,531	6,975	8,419
Error rate	26.9%	34.0%	41.0%

We are 90 percent confident that the total amount of errors is between 5,531 and 8,419 and the error rate is between 26.9% and 41.0%.

We statistically projected the total dollar error in the \$61,140,695 inventory population:

90 Percent Confidence Interval			
	Lower Bound	Point Estimate	Upper Bound
Error	\$11,062,543	\$18,628,047	\$26,193,552

We are 90 percent confident that the total dollar error is between \$11,062,543 and \$26,193,552

Additionally, we statistically projected the total number of hand receipt errors for the 20,531 inventory items in the population:

90 Percent Confidence Interval			
	Lower Bound	Point Estimate	Upper Bound
Errors	4,537	5,920	7,302
Error rate	22.1%	28.8%	35.6%

We are 90 percent confident that the total number of hand receipt errors is between 4,537 and 7,302 and the error rate is between 22.1 % and 35.6%.

Documentation, Presentation And Defense Of Results

We have provided documentation of the calculations for the working papers, and will assist in preparing the technical appendix information for the report. If needed, we will respond to questions or challenges concerning the quantitative plan, analysis, or results.

Quantitative Plan

Objective: The audit objective is to determine the accuracy of the inventory items on the floor versus inventory items on the property records. Statistical sampling is used to identify items to review and to estimate the differences between audited and inventory records.

Population: An Excel file, CPA.xls, was provided that constituted the inventory population of 20,531 items.

Measures: The sampling plan measures for this project are the differences in the inventory items audited and inventory items on the property records that cannot be supported.

Parameters: We agreed to use a 90 percent confidence level for each estimate.

Sample Plan

A simple random sampling design was used. The population consisted of 20,531 items of inventory and the sample size consisted of 80 randomly selected inventory items.

We randomly selected without replacement inventory items using a list of 100 random integer values between 1 and 360 representing degrees on a compass and an associated integer value between 1 and 100 representing linear distance from a center point. The random numbers were generated using SAS version 8.

We randomly selected items from each audit location that was used in the book to floor sample. At each location a position as reasonably close to the center point of the most inventory was determined. Using a hand held compass a north heading was determined. Positioned facing north, the next random number in sequence was chosen that represented the degree heading from which to choose the sample. The random number in the second column represented the minimum distance to walk before selecting an item to sample. If an inventory was not encountered at that distance the first inventory item encountered just beyond the distance value was selected for sampling. If the item was not within the scope of the audit for any reason such as a client inventory being occupying the floor space but there was an item within the proximity, this item was chosen. If the compass heading and linear distance produced no items we returned to the central point and used the next random number in the sequence. All random selections began at the center point. In instances where the distance to the farthest item exceeded 100 feet, we estimated the distance, divided the distance by 100 and used that factor to scale the random number distance for that location.

Statistical Analysis And Interpretation

Based on the audit results, we calculated the following statistical projections for the 20,531 inventory items in the population.

	90 Percent Confidence Interval
	Lower Bound
Errors	1,425
Error rate	6.9%

We are 90 percent confident that the total amount of errors is at least 1,425 and the error rate is at least 6.9%.

Documentation, Presentation And Defense Of Results

We have provided documentation of the calculations for the working papers, and will assist in preparing the technical appendix information for the report. If needed, we will respond to questions or challenges concerning the quantitative plan, analysis, or results.

Appendix C. Missing Property Items from the Central Location in Baghdad, Iraq

<u>#</u>	<u>NOMENCLATURE</u>	<u>COST PRICE</u>	<u>GP NUM</u>	<u>INV DATE</u>	<u>HAND RECEIPT</u>
1	GENERATOR 1750 KW	734,863	L055087	2/29/2004	YES
2	TRUCK UTILITY SUV 4X4 ARMORED	255,000	L084329	3/21/2004	YES
3	TRUCK UTILITY SUV 4X4 ARMORED	255,000	L084332	3/21/2004	YES
4	TRUCK UTILITY	150,000	L050475	3/21/2004	YES
5	GENERATOR 648 KW	144,000	L052870	2/29/2004	YES
6	TRUCK UTILITY 8 TON	45,000	L180053	12/8/2003	YES
7	TRUCK UTILITY	36,580	L049795	3/21/2004	YES
8	TRUCK UTILITY	36,580	L049632	3/21/2004	YES
9	TRUCK UTILITY	35,000	L045483	10/3/200 ⁷ 3*	NO
10	TRUCK UTILITY	35,000	L036346	10/24/2003*	NO
11	TRUCK PICK UP	35,000	L127019	11/18/2003	NO
12	TRUCK UTILITY 4X4	34,629	L055305	3/21/2004	YES
13	TRUCK UTILITY 4X4	32,500	L137842	3/21/2004	YES
14	TRUCK UTILITY 4X4	31,900	L137818	3/21/2004	YES
15	TRUCK UTILITY 4X4	30,470	L059598	5/27/2003*	YES
16	TRUCK UTILITY	29,010	L059586	3/21/2004	YES
17	TRUCK UTILITY	27,047	L055031	3/21/2004	YES
18	TRUCK STAKE BED 2.5 TON	25,900	L137898	3/21/2004	YES
19	TRUCK UTILITY SUV 4X4	25,500	L025004	10/14/2003*	YES
20	TRUCK UTILITY 4X4	22,110	L055434	3/21/2004	YES
21	ACCOMMODATION UNIT 8 X 20 FT	10,000	L170974	1/4/2004	NO
22	COMPUTER LAPTOP	2,049	L058301	8/5/2003*	YES
23	COMPUTER LAPTOP	2,049	L058174	10/13/2003*	YES
24	RADIO HANDHELD	1,600	L012805	10/13/2003*	YES
25	COMPUTER LAPTOP	1,553	L013844	8/3/2003*	NO
26	COMPUTER LAPTOP	1,298	L072000	8/1/2003*	YES
27	COMPUTER LAPTOP	1,298	L071594	8/2/2003*	NO
28	COMPUTER LAPTOP	1,298	L072430	8/5/2003*	YES
29	PUMP SEWAGE 3 IN	1,200	L012760	7/8/2003*	NO
30	HELMET BALLISTIC	594	L053195	3/30/2004	YES
31	RECEIVER SATELLITE	500	L057709	**	YES
32	RADIO HF	500	L092264	12/1/2003	NO
33	VEST BALLISTIC SIZE XL	396	L113054	2/17/2004	YES
34	VEST BALLISTIC SIZE L	396	L113327	3/14/2004	YES
35	DOLLY HAND TRUCK	334	L198816	2/11/2004	YES
36	GLOBAL POSITIONING SYSTEM	294	L050009	4/12/2003*	YES
37	DESK OFFICE	150	D19425	7/25/2003*	NO
38	DESK OFFICE 2 DWR	150	D27102	9/5/2003*	NO
39	DESK OFFICE PEDESTAL	150	D19252	2/20/2004	YES
40	CABINET FILE 4 DWR	120	D30442	12/9/2003	YES
41	TABLE FOLDING 6 FT	115	D26569	8/4/2003*	YES

* 27 (52 percent) of the 52 missing items with 100% inventory date over four months.

** 1 missing item without a date to identify when the last 100% inventory was done.

<u>#</u>	<u>NOMENCLATURE</u>	<u>COST PRICE</u>	<u>GP NUM</u>	<u>INV DATE</u>	<u>HAND RECEIPT</u>
42	DESK OFFICE 3 DWR	110	D27306	9/4/2003*	YES
43	CABINET FILE 4 DWR	98	D27634	9/14/2003*	NO
44	CHAIR OFFICE ROTARY HIGH BACK	75	D27202	8/19/2003*	YES
45	CHAIR OFFICE ROTARY HIGH BACK	75	D19389	8/26/2003*	NO
46	CHAIR OFFICE HIGH BACK	75	D27788	9/17/2003*	YES
47	CHAIR OFFICE HIGH BACK	75	D27852	9/17/2003*	YES
48	DRIVE DISK FLOPPY EXTERNAL	35	L072513	6/2/2003*	YES
49	DRIVE DISK FLOPPY EXTERNAL	35	L073208	7/2/2003*	YES
50	DRIVE DISK FLOPPY EXTERNAL	35	L072863	8/5/2003*	YES
51	DRIVE DISK FLOPPY EXTERNAL	35	L072887	8/5/2003*	YES
52	DRIVE DISK FLOPPY EXTERNAL	35	L072884	8/5/2003*	YES

Appendix D. Management Comments



DEFENSE CONTRACT MANAGEMENT AGENCY
DEFENSE CONTRACT MANAGEMENT AGENCY IRAQ
CPA (DCMA)
APO AE 09316



DCMAI-IRAQ

19 July 2004

MEMORANDUM FOR CPA INSPECTOR GENERAL

SUBJECT: Management Comments for Draft Audit of the Accountability and Control of Task Order 44 Material Assets of the Coalition Provisional Authority in Baghdad

1. DCMA Iraq non-concurs with the Draft Audit Report Number 04-005.
2. The nonoccurrence is based on the fact that the inventoried sample of Coalition Provisional Authority (CPA) owned items is not representative of the population, and thus no conclusions, recommendation, or results can be accepted. During the audit, 164 randomly selected property records were inventoried of which 52 (32 percent) of the items were reported by the CPA IG to be missing or unaccounted. However, a DCMA review of the results identified problems with the sample. Of the top 20 most expensive items determined to be missing, three (3) items should not have been in the sample and three (3) items could not be traced to the Master Property Book where supposedly the sample had been taken. In addition, the remaining fourteen (14) items were physically located by DCMA.
3. Specific issues with the Draft Audit Report are provided below:
 - a. **Property Record Accuracy.** The audit states that of the 164 items randomly selected for inventory, 52 (32%) were missing. DCMA and KBR did not participate in the complete conduct of the inventory, and DCMA was just recently made aware of the final results. However, in just 3 days DCMA was able to locate or account for 20 of the most expensive items which account for 98% of the total value:
 - (1) **Two generators worth over \$800,000**—Generator 1750KW (Government Property (GP) # L055087) is in the KBR Generator shop and was physically touched. Generator 648KW (GP# L052870) is in Kuwait for warranty repair (documentation is available).
 - (2) **Eighteen vehicles valued over \$1.1 million**—
 - Two (2) Vehicles (GP# L084332, GP# L084329) are the property of the State Department and are not the property of the LOGCAP contract. KBR only maintains these vehicles and is not responsible for property accountability.

SUBJECT: Management Comments for Draft Audit of the Accountability and Control of Task Order 44 Material Assets of the Coalition Provisional Authority in Baghdad

- One (1) Vehicle (GP# L137842) is the property of CID and is not the property of the LOGCAP contract. KBR only maintains these vehicles and is not responsible for property accountability.
- One (1) Vehicle (GP# L127019) is not the correct Government Property number. The correct number that matches the Vehicle Identification Number is (GP# L137017) and is properly dispatched.
- Two (2) Vehicles (GP# L180053 and GP# L025004) are not in the KBR master property database where supposedly the sample was taken. We cannot verify where these government property numbers came from
- Four (4) Vehicles (GP# L045483, GP# L055305, GP# L137818, and GP# L059586) are located in the KBR TMP lot and were physically touched.
- One (1) Vehicle (GP# L050475) is deadlined in the KBR motorpool.
- Six (6) Vehicles (GP# L049795, GP# L059598, GP# L049632, GP# L036346, and GP# L137898) are on valid dispatch.
- One (1) Vehicle (GP# L055434) is on a delinquent dispatch.

Given the number of discrepancies in the sample (wrong GP numbers, vehicles identified that are not LOGCAP property managed) as well as the fact that we easily located the top twenty items that you identified as missing, we believe your sample is invalid and therefore not representative of the population.

- b. **Property Record Completeness.** The Audit states that 85 items were randomly selected, and 13 (15%) were not recorded on the property book. There was no supporting documentation so we cannot comment on this accuracy. How was the projection that 1,400 items may be on-hand and not on accountable records determined? Appendix C shows no statistical projection for this estimate.
- c. **Hand Receipts.** The Audit states that 12 of the 52 missing items were not on proper hand receipt and thus 22-36% of all KBR items are projected to be not properly hand receipted. As stated above, we do not believe your sample is valid and thus not representative of the population.

DCMAI-IRAQ

19 July 2004

SUBJECT: Management Comments for Draft Audit of the Accountability and Control of Task Order 44 Material Assets of the Coalition Provisional Authority in Baghdad

- d. **DCMA Oversight.** The Defense Contract Management Agency has taken a proactive approach to resolve property accountability issues associated with Task Order 44 of the LOGCAP III contract. These initiatives include requiring KBR to conduct a 100 percent inventory to be completed by 30 September 2004, scheduling a Property Control System Analysis (PCSA) beginning 16 August 2004, and full participation in the DOD/DOS Transition Sub-team on property accountability.

4. Should you have any questions, please feel free to contact the undersigned at (703) 343-8183.



AINSWORTH B. MILLS
Colonel, U.S. Army
Commander DCMA Iraq

Appendix E. Acronyms

CPA	Coalition Provisional Authority
DCMA	Defense Contract Management Administration
KBR	Kellogg Brown and Root, Inc.
LOGCAP	Logistics Civil Augmentation Program

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Director, Program Analysis and Evaluation
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Inspector General, Department of Defense
Director, Defense Procurement and Acquisition

Office of the Secretary of State

U.S. Ambassador to Iraq
Inspector General, Department of State
Director, Iraq Reconstruction Management Office

Department of the Army

Assistant Secretary of the Army, Acquisition, Logistics & Technology
Assistant Secretary of the Army for Policy and Procurement
Auditor General, Department of the Army

Other Defense Organizations

Director, Defense Contract Management Agency
Director, Defense Contract Audit Agency
Director, Iraq Project and Contracting Office

Other Federal Government Organizations

Office of Management and Budget
Government Accountability Office
Inspector General, Department of Commerce
Inspector General, Health and Human Services
Inspector General, U.S. Agency for International Development

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Committee on Foreign Relations
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Appendix G. Audit Team Members

The Logistics Management Division, Office of the Assistant Inspector General for Auditing, Coalition Provisional Authority, prepared this report. Personnel of the Office of the Assistant Inspector General for Auditing, Coalition Provisional Authority, who contributed to the report are listed below.

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