

Audit Report



Accountability and Control of Materiel Assets of the Coalition Provisional Authority in Kuwait

Report Number 05-002

October 25, 2004

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

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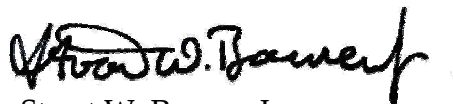
MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY

SUBJECT: Accountability and Control of Materiel Assets of the Coalition Provisional Authority in Kuwait (Report No. 05-002)

We are providing this audit report for your review and comment. We considered management comments on a draft of this report when preparing the final report. 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.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Comments from the Deputy Director, Defense Contract Management Agency were not responsive to Recommendations 1. and 2. Therefore, we request additional comments on Recommendations 1. and 2. within 10 days of the date of this report.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Brian M. Flynn at (703) 343-9440 or Mr. Robert M. Murrell at (703) 428-0240. We will provide a formal briefing on the results of the audit, if desired. See Appendix E for the report distribution.



Stuart W. Bowen, Jr.
Inspector General
Coalition Provisional Authority
Office of the Inspector General

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

Report Number 05-002

October 25, 2004

(Project No. D2004-DCPAAL-0009.02)

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

Executive Summary

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

The Department of the Army issued contract number DAAA09-02-D-0007, LOGCAP III¹ on December 14, 2001, to Brown and Root Services, a division of Kellogg Brown and Root, Inc. (KBR). The LOGCAP 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 Coalition Provisional Authority Regional Offices located in the North, Central/Main, South Central, and the Southern areas of Iraq and for specified Coalition Provisional Authority satellite locations. As part of Task Order 0044, KBR property records show they managed 3,032 items valued at more than \$3.7 million in Kuwait.

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 Coalition Provisional Authority branch offices, headquarters, and warehouse locations.

Results. We projected that KBR could not account for 1,297 (42.8 percent) property items from an inventory of 3,032 records valued more than \$3.7 million. Further, we projected that 108 (3.6 percent) property items were on-hand but were not recorded on hand receipts. In addition, we projected that 401 (13.2 percent) hand receipts were not on file or had not been prepared. As a result, we projected that property valued at more than \$1.1 million was not accurately accounted for or was missing.

Recommendations. We recommend the Commander, Defense Contract Management Agency, Iraq, reevaluate the KBR LOGCAP III property control system to determine that procedures exist to ensure the accuracy and effectiveness of the system and have been properly implemented by KBR, and, if not, identify corrective actions to be taken by KBR and suspend approval of the system until those corrective actions have been implemented; ensure that an accurate property control system analysis is performed after ongoing corrective actions are completed and conduct a thorough review of Coalition Provisional Authority property in Kuwait and Iraq to locate the unaccounted for or missing property; and upon completion of the review, seek to recover the cost of missing equipment from the responsible personnel. Further, we recommend the Commander, Defense Contract Management Agency, Iraq, initiate appropriate recovery actions from KBR, if it failed to fulfill its contractual obligations.

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)

Management Comments and Audit Response. The initial comments on a draft of this report were received from the office of the Director, Defense Contract Management Agency unsigned and undated. Subsequently, a signed but undated version of the management comments were received by facsimile. Finally, a signed and dated version of the management comments were received October 19, 2004, and those are included in the management comments section of this report as the response to the draft report.

The Deputy Director, Defense Contract Management Agency did not concur with Recommendation 1. and stated that the inventoried sample of Coalition Provisional Authority owned items was not representative of the population and that the KBR property control system meets contract requirements and is in compliance. The response also stated that 27 of the 30 items reported as missing in the report were incorrect. We disagree. The simple random sample within each stratum we selected is representative of the population from which it was randomly selected. Further, the fact that KBR is only required to inventory the government property in its charge annually is not indicative of whether the procedures can ensure the accuracy and effectiveness of the system to support that annual inventory. Finally, because Defense Contract Management Agency did not provide any documentation related to the 27 items discussed above, we cannot clearly interpret the meaning of the events described in its examples. Nevertheless, at a minimum, the 27 examples cited in the response would appear to further confirm the inaccuracy of the KBR property book.

The Deputy Director, Defense Contract Management Agency did not concur with Recommendation 2. and stated KBR has put an accurate property control system in place that is effective and an analysis of the system does not need to be performed at this time. The response also stated that, if after September 30, 2004, the KBR property control system is found inadequate, Defense Contract Management Agency will initiate actions requiring KBR to submit a corrective action plan to remedy all discrepancies. We disagree. In the two audits we performed concerning materiel assets in Baghdad (see Appendix A) and Kuwait (this report), our combined results projected that property valued at more than \$19.8 million (adjusted for rounding) was not accurately accounted for or was missing. Therefore, based on the results that significant amounts of property was identified as unaccounted for or missing and that the audit methodology was based on proper statistical sampling plans, we believe that Defense Contract Management Agency should have immediately initiated action to protect government property from potential fraud, waste, and abuse.

The Deputy Director, Defense Contract Management Agency concurred with Recommendation 3. and stated it examined records-to-floor and floor-to-records in August 2004 to verify the accuracy of information provided in the KBR property control system and that the review found satisfactory results for existence, location, and accuracy of recorded information that items had been inventoried within the last 12 months. We commend Defense Contract Management Agency for taking this action but because we were not provided a quantitative analysis plan, we are unable to determine the validity of the statements. Further, we cannot agree that the technique described in the management comments paragraph above could result in a conclusion that records were accurate for "items had been inventoried within the last 12 months."

Overall, we disagree with management's conclusions and comments. Defense Contract Management Agency did not provide any information or documentation that would allow us to determine the validity of its position or cause us to change our recommendations. We continue to believe that the KBR property control system should be reevaluated and that an accurate property control system analysis should be performed. Therefore, we request Defense Contract Management Agency provide documentation associated with its statements so that we may determine the validity of its position. See the Finding section of the report for a discussion of the management comments and the Management Comments section of the report for the complete text of the comments.

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Background

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

Logistics Civil Augmentation Program. The Department of the Army (DA) issued contract number DAAA09-02-D-0007, LOGCAP III,¹ 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.² The LOGCAP contract provides civilian augmentation for base operations and supports U.S. Army operations on a global basis.

When DA 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. TO 0044 was issued by DA 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.

Property Control Procedures. In 2002, KBR published the LOGCAP III Property Control Procedures to document its property control system in support of the LOGCAP III 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 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.

Kuwait Location. Kuwait was the central location for receiving all items subsequently forwarded to locations in Iraq such as Al Hillah, Anaconda (Baghdad), Baghdad, Basra, and Erbil. As such, Kuwait had many temporary storage areas or “lay-down yards.” A lay-down yard is where items such as generators and very large containers were stored temporarily while those items awaited transshipment to Iraq.

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 Typical requirements associated with the LOGCAP contract include such items as providing Camp Operations (camp construction and maintenance, laundry, lodging, sanitation needs, subsistence, etc.), Force Protection (camp and personnel), and Transportation (personnel and cargo movement as well as vehicle motor pools).

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. The scope and methodology used to perform this audit and the prior coverage are discussed in Appendix A. The acronyms used in this report are shown in Appendix D and the audit team members are shown in Appendix F.

Accountability and Control of Coalition Provisional Authority Property

We projected that KBR could not account for 1,297 (42.8 percent) property items from an inventory of 3,032 records valued more than \$3.7 million. Further, we projected that 108 (3.6 percent) property items were on-hand but were not recorded on hand receipts. In addition, we projected that 401 (13.2 percent) hand receipts were not on file or had not been prepared. This occurred because KBR did not effectively manage government property. Specifically, KBR did not properly control CPA property items. Further, the KBR 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 \$1.1 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. In addition, DCMA was 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 government 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.

Unaccounted For or Missing CPA Property

We projected that KBR could not account for 1,297 (42.8 percent) property items from an inventory of 3,032 records valued more than \$3.7 million. Further, we projected that 108 (3.6 percent) property items were on-hand but were not recorded on hand receipts. In addition, we projected that 401 (13.2 percent) hand receipts were not on file or had not been prepared.

Quantitative Analysis. To evaluate the effectiveness of 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 3,032 items valued at more than \$3.7 million. The quantitative analysis plan and results are discussed in Appendix B.

Property Record Accuracy. Our examination of 90 randomly selected property records disclosed that 30 property items could not be accounted for by KBR or were missing. Those property items are shown in Appendix C. The property items included 3 generators valued at more than \$172,000 and 7 vehicles valued at more than \$219,000. We projected that KBR could not account for 1,297 (42.8 percent) property items from an inventory of 3,032 records valued at more than \$3.7 million.

Further, we confirmed that 37 of the 90 sampled property items were not on hand because those items had been shipped to Al Hillah, Anaconda (Baghdad), Baghdad, and Erbil. Although 9 of the 37 items had been shipped to Baghdad, KBR was unable to locate those items during the subsequent audit work we performed in Baghdad. We were unable to physically validate the items that had been shipped to Al Hillah, Anaconda (Baghdad), and Erbil due to security concerns. Items that have been shipped to other locations should be noted in the Kuwait property book for accountability purposes and recorded in the property books of the receiving locations as accountable property.

Property Record Completeness. We also attempted to trace 28 on-hand property items from the floor to the property book. Our examination disclosed that 1 item was not recorded in the property book. We projected that 108 (3.6 percent) property items were on-hand but were not recorded on hand receipts.

Our examination also disclosed that for 10 of 30 unaccounted for or missing items and 11 of 90 sample 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 401 (13.2 percent) hand receipts were not on file or had not been prepared.

Oversight of Government Property

Government property was not effectively managed by KBR. Specifically, KBR did not properly control CPA property items. Further, the KBR property records were not sufficiently accurate or available to properly account for CPA property items.

Although DCMA reviewed and approved the KBR LOGCAP property control system on January 15, 2003, DCMA was unaware of the unaccounted for or 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.

Conclusion

Our audit results do not agree with the results of the DCMA property control system analysis. Contrary to DCMA results, our review of the KBR property book based on statistical sampling techniques, as of April 2004, disclosed, in addition to the unaccounted for or missing property items, that 20 (67 percent) of those 30 unaccounted for or missing property items were last inventoried between 4 months and 11 months previous to our audit. Due to this discrepancy in inventory results in Kuwait, in addition to the discrepancy in inventory results identified in Office of the Inspector General, CPA, Report Number 04-011, "Audit of the Accountability and Control of Materiel Assets of the Coalition Provisional Authority in Baghdad," July 26, 2004 (see Appendix A), we would question the validity of the DCMA approval of the KBR LOGCAP property control system on January 15, 2003, or, at least, the implementation of the approved system by KBR.

In this audit we identified, among others, a spectrophotometer (Item no. 10 in Appendix C) was last "100% inventoried" or was last seen on May 30, 2003, and an 800 kilowatt generator (Item no. 1 in Appendix C) was last inventoried or seen on July 1, 2003. Additionally, a laptop computer and microwave oven (Items no. 12 and 27 in Appendix C, respectively) did not have dates recorded to identify when the last inventory

was completed. 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. Consequently, we projected that property valued at more than \$1.1 million was not accurately accounted for or was missing.

Recommendations, Management Comments, and Audit Response

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

1. Reevaluate the Kellogg Brown & Root, Inc., Logistics Civil Augmentation Program III property control system to determine that procedures exist to ensure the accuracy and effectiveness of the system and have been properly implemented. If not, identify corrective actions to be taken by Kellogg Brown & Root, Inc., and suspend approval of the system until those corrective actions have been implemented.

Management Comments. The Deputy Director, DCMA did not concur with the recommendation. The Deputy Director, DCMA stated that the nonconurrence is based on several facts: 1) the inventoried sample of CPA-owned items is not representative of the population, and 2) KBR's Property Control System meets contract requirements and is in compliance. According to the contract, KBR is required to inventory the government property on an annual basis. They have met this requirement since the contract's inception and their policy to inventory items more frequently was an internal process they initiated and is not required contractually.

Other factors that impacted the DCMA position were the CPA-IG sample-size selection and source data it used to complete the draft report. According to DCMA, CPA-IG used outdated information from a February 2004 property listing to define its sample population and to develop its audit objectives. However, the audit work for this review was not performed until May 2004. Further, the auditors did not pull another property listing query to ensure that information they used in their draft report was accurate and the most current information available. Therefore, they selected a sample size that was not representative of CPA-owned items and had inaccurate facts stated in the draft report. An example of the inaccuracies stated in this report is directly related to the 30 items that the auditors reported as missing in the draft report. Specifically for that sample, 90% of the information reported about the items was incorrect. Below is the current status of the items identified as missing in the report: 8 items were not CPA property; 11 items had been added to the records; 2 items had Lost, Damage and/or Destruction of Government Property report issued; and 6 items had been transferred to the Iraq Property Book Office.

Audit Response. The Deputy Director, DCMA comments are not responsive. The Deputy Director, DCMA provided neither documentation nor a quantitative analysis plan as a basis for its stated position; therefore, the accuracy of the DCMA statements can not be determined. We request DCMA provide documentation associated with its statements so that we may determine the validity of its position.

The statement that "KBR's Property Control System meets contract requirements and is in compliance" is not responsive to the recommendation. The recommendation was to reevaluate and ensure "procedures exist to ensure the accuracy and effectiveness of the system and have been properly implemented." The fact that KBR is only required to inventory the government property in its charge annually is not indicative of whether the procedures can ensure the accuracy and effectiveness of the system to support that annual inventory. The response does not address this recommendation.

In an audit, the sample selection and source data are not continually adjusted to complete the draft audit report. A statistical random sample is a one-time selection on an “as-of-date” from a universe or population of the items to be examined. The “as-of-date” may be determined during the audit process or may be the most recent data available but it is the date for which the records are examined and conclusions are reached. Source data is examined to determine the accuracy of the records on that “as-of-date” in which the sample items were to be recorded. The audit results represent the condition of the records and the items being sampled on the “as-of-date.” The audit results are not adjusted for events that occurred after the “as-of-date” that do not alter the identified condition on the “as-of-date.” For example, in an audit report, we can acknowledge that inventory items were found after the “as-of-date” but that fact does not change the condition identified in the audit results based on the “as-of-date.”

In this particular audit, the automated listing from which the audit universe was established was a listing updated from the manual property book maintained by KBR. The audit team requested from KBR in early April the most recent property listing available. KBR provided a February 2004 listing that it indicated was the most recent property listing available. That fact alone indicates that KBR was not maintaining the property book in a timely manner. Therefore, if in the opinion of DCMA the property listing was outdated, then that occurrence was because the property book was not updated in a timely manner by KBR. This situation would also indicate to us that DCMA was unaware that the property book was not being updated in a timely manner by KBR.

Further, the audit objective was developed first and the objective 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. The date of the information did not impact the development of the audit objectives.

The fact that the most recent property listing provided to the audit team was February 2004 and the audit work was not performed until May 2004 is not relevant. For example, a valid audit technique may select property book data on a date many months previous to the date of the anticipated audit field work. That technique would be used to determine whether the property book entries over a period of time were reliable and to reconcile the sample items to a current property book listing. As for this particular audit, if the population represented the inventory at the end of February 2004, and the audit began in April 2003 (with the sample selection process), property items in the sample selected for audit should have supporting documentation prepared by KBR indicating their disposition.

Nevertheless, in this particular audit, the simple random sample within each stratum we selected is representative of the population from which it was randomly selected. Suitable reconciliation of inventory between the population database and audit date should be supported by the KBR inventory accounting system. In fact, that reconciliation occurred on this audit as the audit team reconciled all the unaccounted for or missing items back to the most current KBR property book at the time of the audit field work in May 2004.

Because DCMA does not provide dates of the events related to the items discussed above, the circumstances involving those transactions, or documentation to support that those events occurred, we cannot clearly interpret the meaning of the events described in the DCMA examples. Further, DCMA does not acknowledge that on numerous occasions the audit team tried to locate the property sample items with the help of KBR representatives in Kuwait and DCMA and KBR representatives in Iraq. Those KBR representatives had ample opportunities, during the course of the audit, to point out any data problems but did not do so.

Nevertheless, at a minimum, the 27 examples cited above by DCMA would appear to further confirm the inaccuracy of the KBR property book. In addition, although we are unable to agree with the DCMA characterization of the 27 property items that DCMA states to be identified, DCMA still could not identify 3 items. If correct, this would also confirm inaccuracies in the KBR property book. We request DCMA provide documentation associated with its statements so that we may determine the validity of its position. The 27 items referred to by DCMA are discussed below.

- **“8 items were not CPA property.”** We requested a current property book from KBR that contained CPA property items. KBR provided us with that property book without representing to us that the property book contained any property other than CPA property. If the property book contained property other than CPA property, we do not know whether KBR (and DCMA) was unaware of what type of property was contained in its property book or decided not to provide that information. Regardless, whether the eight items were CPA property or not, those items were unaccounted for or missing. We note that DCMA has identified an additional problem concerning the inaccuracies of the KBR property book.
- **“11 items had been added to the records.”** DCMA does not indicate when the eleven items were added to the property records. Since we could not sample items that were not part of the records, those eleven items must have been added to the records at a later date. It would appear, then, that the eleven items should have been recorded on the property books in a timely manner as is required but that those items were not properly recorded. We note that DCMA has identified an additional problem concerning the inaccuracies of the KBR property book.
- **“2 items had Lost, Damage and/or Destruction of Government Property report issued.”** DCMA did not provide the date the Lost, Damage and/or Destruction of Government Property report(s) for the two items were recorded in the property records. Since we could not examine source documentation that did not exist, the reports for the two items must have been added to the property records at a later date. It would appear, then, that the two items should have been recorded on the property books in a timely manner as is required as lost or damaged or destroyed but that those items were not properly recorded. We note that DCMA has identified an additional problem concerning the inaccuracies of the KBR property book.
- **“6 items had been transferred to the Iraq Property Book Office.”** DCMA does not indicate the date(s) the six items were recorded in the property records. As we could not examine source documentation that did not exist, the transfer documentation or notation of those six items must have been added to the property records at a later date. It would appear, then, that the six items should have been recorded on the property books in a timely manner as is required as transferred to another location or organization but that those items were not properly recorded. We note that DCMA has identified an additional problem concerning the inaccuracies of the KBR property book.

Given the examples provided by DCMA of items added to the property records, transferred from the property records, or lost, damaged, or destroyed, all of which apparently were not recorded on the property book at the time of the audit; we are unable to understand the DCMA position that the KBR property book was or is presently accurate. We would note, for example, that the KBR property manager was updating his property data files day-by-day as we identified items in the book but not on the floor.

In another example, four Toyota Land Cruiser sample items that were listed in the KBR February 2004 property book in Kuwait were still shown on the property book as

Kuwait items as of May 2004. We were later told by the KBR property manager that those items had been shipped to Anaconda. We were given the shipping documents to prove the existence of the items but we did not physical verify those items due to security reasons. Nevertheless, we advised the KBR property manager to correct and update his property book to reflect that those items that were shown as Kuwait property but had apparently been shipped somewhere else. With exception of the 9 items that were shipped to Baghdad that KBR was unable to locate, we did not claim those items that were shipped to other places, but still recorded as Kuwait property, as unaccounted for or missing in the draft report. We did not do this because we did not physical verify those items due to security reasons.

2. Ensure an accurate property control system analysis is performed after ongoing corrective actions are completed.

Management Comments. The Deputy Director, DCMA did not concur with the recommendation. The Deputy Director, DCMA stated KBR has put an accurate Property Control System in place that is effective and an analysis of the system does not need to be performed at this time. The contractors' Property Control System was certified in January 2003 by DCMA personnel. Currently, KBR has until September 30, 2004, to reconcile their inventory and submit Lost, Damage and/or Destruction of Government Property reports for missing items. If after September 30, 2004, the KBR Property Control System is found inadequate, DCMA will initiate actions requiring KBR to submit a corrective action plan to remedy all discrepancies.

Audit Response. The Deputy Director, DCMA comments are not responsive. In the two audits we performed concerning materiel assets in Baghdad (see Appendix A) and Kuwait (this report), our combined results projected that KBR could not account for 8,272 property items from an existing inventory of 23,563 records valued at \$64.9 million (adjusted for rounding). Further, we projected that 1,533 property items were on-hand but were not recorded on hand receipts. In addition, we projected that 6,321 hand receipts were not on file or had not been prepared. As a result, we projected that property valued at more than \$19.8 million (adjusted for rounding) was not accurately accounted for or was missing.

As we stated in those two audit reports, this problem 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.

Therefore, based on the results of two audits that significant amounts of property was identified as unaccounted for or missing and that the audit methodology was based on proper statistical sampling plans, DCMA should have immediately initiated action to protect government property from potential fraud, waste, and abuse.

3. Conduct a thorough review of Coalition Provisional Authority property in Kuwait and Iraq to locate the unaccounted for or 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, Inc., if it failed to fulfill its contractual obligations.

Management Comments. The Deputy Director, DCMA concurred with the recommendation. The Deputy Director, DCMA stated it has completed this task. DCMA sent a team of experienced Property Specialists to Kuwait and Iraq in August 2004. The specialists selected sample populations that exceeded the DoD standard (298 and 155 items, respectively) to examine Records to Floor and Floor to Records to

verify the accuracy of information provided in the KBR Property Control System. All items were found during the review with the exception of a 200 kw generator at Camp Anaconda and within a week of the team's return, the generator was located at Camp Anaconda. This review found satisfactory results for existence, location, and accuracy of recorded information that items had been inventoried within the last 12 months in accordance with proper Task Order procurement authority and ACO authorization.

Audit Response. We commend DCMA for taking this action. However, because DCMA did not provide us with a quantitative analysis plan, we are unable to determine the validity of the DCMA statements. Further, given our discussion of the methods to use statistical sampling techniques in the performance of an audit, we cannot agree that the technique described in the management comments paragraph above could result in a conclusion that records were accurate for "items had been inventoried within the last 12 months." We request DCMA provide documentation associated with its statements so that we may determine the validity of its position.

Overall, we disagree with management's conclusions and comments. DCMA did not provide any information or documentation that would allow us to determine the validity of its position or cause us to change our recommendations. We continue to believe that the KBR property control system should be reevaluated and that an accurate property control system analysis should be performed. Therefore, we request DCMA provide documentation associated with its statements so that we may determine the validity of its position. We will work with DCMA management to reach a mutually satisfactory resolution.

Appendix A. Scope and Methodology

We obtained a copy of the Kellogg Brown and Root, Inc. (KBR) property book, as of April 2004. It contained 3,032 Coalition Provisional Authority (CPA) owned property items located in Kuwait. Those property items were valued at \$3,739,209. We randomly selected for our sample (see Appendix B for the statistical plan and projected results), without replacement, 90 items of CPA owned property from the property book database and selected 28 reverse sample items from May 3 through May 27, 2004. Our sample contained 37 (41%) of 90 items that had been shipped to Al Hillah, Anaconda (Baghdad), Baghdad, and Erbil. Those shipments occurred because Kuwait was the central location for receiving all items subsequently forwarded to locations in Iraq.

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.

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

Use of Computer-Processed Data. We relied on computer-processed data contained in the KBR property database file. We compared 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.

Prior Coverage. Office of the Inspector General, CPA (IG CPA) reports can be accessed over the Internet at <http://www.cpa-ig.org>. Specific reports related to our audit of the management of the Logistics Civil Augmentation Program III contract and the associated Task Order 0044 are listed below.

IG CPA, Report Number 04-011, "Audit of the Accountability and Control of Materiel Assets of the Coalition Provisional Authority in Baghdad," July 26, 2004.

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 3,032 items and representing \$3,739,209 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	\$
> \$25k	2,022,320	51	30	1,239,290
> \$2.5k <= \$25k	467,972	68	30	166,205
> \$0 <= \$2.5k	1,248,918	2,913	30	14,236
Total	\$3,739,209	3,032	90	1,419,713

Samples were randomly selected using a simple random sample without replacement methodology. Excel 2002 RAND() function was used to randomize the items. 90 items were randomly selected for the sample.

Statistical Analysis and Interpretation

Based on the audit results, we calculated the following accuracy on statistical projections for the 3,032 inventory items in the population:

90 Percent Confidence Interval			
	Lower Bound	Point Estimate	Upper Bound
Errors	859	1,297	1,736
Error rate	28.3%	42.8%	57.3%

We are 90 percent confident that the total amount of errors is between 859 and 1,736 and the error rate is between 28.3% and 57.3%.

90 Percent Confidence Interval			
	Lower Bound	Point Estimate	Upper Bound
Error	\$620,942	\$1,126,292	\$1,631,641

We are 90 percent confident that the total dollar error is between \$620,942 and \$1,631,641.

Additionally, we statistically projected the total number of hand receipt errors for the 3,032 inventory items in the population:

90 Percent Confidence Interval			
	Lower Bound	Point Estimate	Upper Bound
Errors	20	401	782
Error rate	0.7%	13.2%	25.8%

We are 90 percent confident that the total number of hand receipt errors is between 20 and 782 and the error rate is between 0.7 % and 25.8%.

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 3,032 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 3,032 items of inventory and the sample size consisted of 28 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 most inventory items 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 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 completeness on statistical projections for the 3,032 inventory items in the population. We used the exact binominal calculation that may produce asymmetrical intervals.

90 Percent Confidence Interval			
	Lower Bound	Point Estimate	Upper Bound
Errors	6	108	481
Error rate	0.2%	3.6%	15.9%

We are 90 percent confident that the total amount of errors is between 6 and 481 and the error rate is between 0.2% and 15.9%.

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. Unaccounted For or Missing Property Items in Kuwait

#	NOMENCLATURE	COST PRICE	GP_NUM	INV_DATE	HAND RECEIPT
1	GENERATOR 800 KW	153,950	L053089	07/01/2003 ⁽¹⁾	NO
2	TRUCK UTILITY 4X4	38,775	L055269	08/25/2003 ⁽¹⁾	YES
3	TRUCK UTILITY 4X4	38,775	L055275	08/25/2003 ⁽¹⁾	YES
4	TRUCK UTILITY 4X4	38,775	L055272	08/25/2003 ⁽¹⁾	YES
5	TRUCK UTILITY 4X4	38,775	L055276	08/25/2003 ⁽¹⁾	NO
6	TRUCK UTILITY 4X2 ⁽²⁾	28,330	L055029	08/21/2003 ⁽¹⁾	YES
7	TRUCK UTILITY 4X4 ⁽²⁾	18,000	L137002	11/05/2003 ⁽¹⁾	YES
8	TRUCK UTILITY 4X4 ⁽²⁾	18,000	L137009	11/05/2003 ⁽¹⁾	YES
9	GENERATOR 75 KW	14,619	L054994	08/11/2003 ⁽¹⁾	NO
10	METER SPECTROPHOTOMETER	6,435	L052378	05/30/2003 ⁽¹⁾	NO
11	GENERATOR 5 KW	3,614	L054706	07/20/2003 ⁽¹⁾	NO
12	COMPUTER LAPTOP	2,970	L050485	⁽³⁾	NO
13	PRINTER LASERJET ⁽²⁾	2,932	L137556	12/16/2003	YES
14	PRINTER LASERJET ⁽²⁾	2,932	L137557	12/16/2003	YES
15	PRINTER LASERJET ⁽²⁾	2,932	L137555	12/16/2003	YES
16	PRINTER LASERJET ⁽²⁾	2,932	L137554	12/16/2003	YES
17	AIR PACK	2,675	L019252	07/25/2003 ⁽¹⁾	YES
18	HEATER WATER 119 GAL ⁽²⁾	679	L133321	02/29/2004	YES
19	TOILET PORTABLE	438	L058110	06/23/2003 ⁽¹⁾	NO
20	VEST BALLISTIC SIZE 3XL	396	L110031	10/09/2003 ⁽¹⁾	YES
21	VEST BALLISTIC W/STEEL PLATE 3XL	396	L112661	11/08/2003 ⁽¹⁾	YES
22	VEST BALLISTIC W/STEEL PLATE XL	396	L111753	03/14/2004	YES
23	SCANNER ⁽²⁾	391	L133521	03/22/2004	YES
24	VEST BALLISTIC	299	L094027	10/12/2003 ⁽¹⁾	NO
25	HELMET BALLISTIC SIZE L	260	L086836	09/27/2003 ⁽¹⁾	YES
26	HELMET BALLISTIC	165	L048378	02/10/2004	YES
27	OVEN MICROWAVE	118	L029756	⁽³⁾	NO
28	CABINET FILE 4 DWR	116	D20382	10/15/2003 ⁽¹⁾	NO
29	CHAIR OFFICE ROTARY	111	D19525	10/31/2003 ⁽¹⁾	YES
30	TELEPHONE CELLULAR	105	L029554	07/23/2003 ⁽¹⁾	YES

⁽¹⁾ 20 (67 percent) of the 30 unaccounted for or missing items with a 100 percent inventory date over 4 months.

⁽²⁾ 9 items shipped to Baghdad.

⁽³⁾ 2 (7 percent) unaccounted for or missing items without a date to identify when the last 100 percent inventory was done.

Appendix D. Acronyms

CPA	Coalition Provisional Authority
DA	Department of the Army
DCMA	Defense Contract Management Administration
KBR	Kellogg Brown and Root, Inc.
LOGCAP	Logistics Civil Augmentation Program
TO	Task Order

Appendix E. 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)
Principal Deputy Under Secretary of Defense for Acquisition, Technology and Logistics
Inspector General, Department of Defense
Director, Defense Procurement and Acquisition
Director, Defense Support Office-Iraq

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
Deputy Assistant Secretary of the Army for Policy and Procurement
Auditor General, Department of the Army

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Contract Management 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 F. 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.

Brian Flynn

Robert Murrell

Kevin Ellenbeger

Edward Terek

Kayode Bamgbade

David Griffin

James Hartman

Defense Contract Management Agency



DEFENSE CONTRACT MANAGEMENT AGENCY

6350 WALKER LANE, SUITE 300
ALEXANDRIA, VA 22310-3241

OCT 6 2004

IN REPLY
REFER TO DCMA-DSD

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, COALITION PROVISIONAL AUTHORITY

SUBJECT: CPA-IG Draft Report, Project Number D2004-CPAAL-0009.02, Audit of the Accountability and Control of Materiel Assets of the Coalition Provisional Authority in Kuwait

Reference: CPA-IG draft audit report, Project Number D2004-CPAAL-0009.02, subject as above.

We have attached the Headquarters, Defense Contract Management Agency position for findings and recommendations cited in the subject report.

Point of contact is Ms. Sonya Moman, at (703) 428-1732, DSN 328-1732, or email address sonya.moman@dcma.mil.

A handwritten signature in cursive script, appearing to read "Sallie H. Flavin", is positioned above the printed name and title.

SALLIE H. FLAVIN
Deputy Director

Attachment

Finding: Kellogg Brown & Root, Inc., (KBR) did not properly control Coalition Provisional Authority (CPA) property items and the property records were not sufficiently accurate or available to properly account for CPA property items.

RECOMMENDATION 1: Reevaluate the Kellogg Brown & Root, Inc., Logistics Civil Augmentation Program III Property control system to determine that procedures exist to ensure the accuracy and effectiveness of the system and have been properly implemented. If not, identify corrective actions to be taken by Kellogg Brown & Root, Inc., and suspend approval of the system until those corrective actions have been implemented.

DCMA COMMENTS: Nonconcur. The nonconcurrency position is taken based on several facts: 1) the inventoried sample of CPA-owned items is not representative of the population, and 2) KBR's Property Control System meets contract requirements and is in compliance. According to the contract, KBR is required to inventory the government property on an annual basis. They have met this requirement since the contract's inception and their policy to inventory items more frequently was an internal process they initiated and is not required contractually.

Other factors that impacted DCMA's nonconcurrency position were the CPA-IG's sample-size selection and source data they used to complete the draft report (DR). The CPA-IG used outdated information from a February 2004 property listing to define its sample population and to develop their audit objectives. However, the audit work for this review was not performed until May 2004. Further, the auditors did not pull another property listing query to ensure that information they used in their DR was accurate and the most current information available. Therefore, they selected a sample size that was not representative of CPA-owned items and had inaccurate facts stated in the DR. An example of the inaccuracies stated in this report is directly related to the 30 items that the auditors reported as missing in the DR. Specifically for that sample, 90% of the information reported about the items was incorrect. Below is the current status of the items identified as missing in the report:

- 8 Items were not CPA property
- 11 Items had been added to the records
- 2 Had Lost Damaged, Destruction report issued
- 6 Items had been transferred to IPBO

RECOMMENDATION 2: Ensure an accurate property control system and analysis is performed after ongoing corrective actions are completed.

DCMA COMMENTS: Nonconcur. KBR has put an accurate Property Control System in place that is effective and an analysis of the system does not need to be performed at this time. The contractors' Property Control System was certified in January 2003 by Defense Contract Management Agency personnel. Currently, KBR has until September

30, 2004 to reconcile their inventory and submit Lost, Damage and/or Destruction of Government Property (LDD) reports for missing items. If after September 30, 2004 KBR's Property Control System is found inadequate, DCMA will initiate actions requiring KBR to submit a corrective action plan to remedy all discrepancies.

RECOMMENDATION 3: Conduct a thorough review of Coalition Provisional Authority property in Kuwait and 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 responsible personnel. Further, the Defense Contract Management Agency should initiate appropriate recovery actions from Kellogg Brown & Root, Inc., if it failed to fulfill its contractual obligations.

DCMA COMMENTS: Concur. The DCMA has completed this task. DCMA sent a team of experienced Property Specialists to Kuwait and Iraq in August 2004. The specialists selected sample populations that exceeded the DoD standard (298 and 155 items, respectively) to examine Records to Floor and Floor to Records to verify the accuracy of information provided in KBR's Property Control System. All items were found during the review with the exception of a 200 kW generator at Camp Anaconda and within a week of the team's return, the generator was located at Camp Anaconda. This review found satisfactory results for existence, location, and accuracy of recorded information that items had been inventoried within the last 12 months in accordance with proper Task Order procurement authority and ACO authorization.