

Inspector General

United States
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Procurement of High-Mobility Multipurpose Wheeled
Vehicles and Troop Enclosures for the Afghan
National Security Forces

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INSPECTOR GENERAL
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July 20, 2011

MEMORANDUM FOR COMMANDER, U.S. CENTRAL COMMAND
COMMANDER, NORTH ATLANTIC TREATY ORGANIZATION
TRAINING MISSION-AFGHANISTAN/COMBINED
SECURITY TRANSITION COMMAND-AFGHANISTAN
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Procurement of High-Mobility Multipurpose Wheeled Vehicles and Troop
Enclosures for the Afghan National Security Forces (Report No. D2011-087)

We are providing this memorandum for your information and use. The DoD Office of Inspector General (DoD OIG) performed an audit of the procurement of High-Mobility Multipurpose Wheeled Vehicles (HMMWVs) and troop enclosures for the Afghan National Security Forces (ANSF). The audit was announced, in part, due to a concern of the Afghanistan Deputy Commander for Programs, North Atlantic Treaty Organization Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan (NTM-A/CSTC-A). He expressed to us that the procurement of M1152 HMMWVs with troop enclosures would not meet required delivery dates for the ANSF. M1152 HMMWVs are armored vehicles that can be fitted with an armored troop enclosure kit. NTM-A/CSTC-A officials stated that the troop enclosure equips the vehicle with an armored compartment to protect ANSF troops and to support troop movement during operations and battle.

In conducting the review of HMMWV with troop enclosure deliveries, we determined that the Army took appropriate steps to accelerate the delivery of HMMWVs with troop enclosures to the satisfaction of NTM-A/CSTC-A officials. As of May 31, 2011, the contractor met or exceeded the delivery schedules for HMMWVs and troop enclosures procured from contract W56HZV-10-C-0405.

AUDIT OBJECTIVE

Our audit objective was to determine whether program and contracting officials were effectively and efficiently procuring HMMWVs and troop enclosures. As part of the audit objective, we were to review HMMWV requirements for ANSF. However, because of resource constraints, NTM-A/CSTC-A officials were not able to accommodate Afghanistan-based DoD OIG staff to conduct the requirements portion of the audit. The DoD OIG plans to audit HMMWV requirements at a future date.

BACKGROUND

NTM-A/CSTC-A is responsible for organizing, training, and equipping the ANSF to build Afghanistan's capability to provide for its own security. To equip the Afghan forces, NTM-A/CSTC-A requested the procurement of multiple variants of HMMWVs through the U.S. Army Security Assistance Command (USASAC) in coordination with Defense Security

Cooperation Agency (DSCA), the agency that administers the Foreign Military Sales (FMS) program. TACOM Security Assistance Management Directorate (SAMD) officials stated that DSCA assigned management responsibility of HMMWV FMS and pseudo-FMS cases¹ to the TACOM SAMD, a subordinate command of the U.S. Army Security Assistance Command. TACOM SAMD officials stated that TACOM SAMD coordinated with Army Contracting Command-Warren (ACC-WRN) and the Project Manager for Light Tactical Vehicles (PM-LTV) at TACOM Life Cycle Management Command to procure and provide production support for ANSF HMMWVs.

On July 30, 2010, ACC-WRN awarded contract W56HZV-10-C-0405 to AM General, LLC, as a firm-fixed-price undefinitized contractual action (UCA) for procuring 2,526 HMMWVs and 2,526 troop enclosures for the ANSF, valued at \$279.9 million. As of June 24, 2011, NTM-A/CSTC-A increased the number of HMMWVs and troop enclosures to 7,161 and 4,002, respectively, valued at \$1.1 billion. AM General's subcontractor, ArmorWorks, is responsible for building the troop enclosures.

As of July 18, 2011, contract W56HZV-10-C-0405 was not definitized. Defense Contract Audit Agency (DCAA) issued draft and final reports on AM General's firm-fixed-price proposals for HMMWVs on December 15, 2010, and May 9, 2011, respectively. However, in both reports, DCAA deemed the contractor's cost proposal to be inadequate and unacceptable for negotiating fair and reasonable prices. Because the contract is not yet definitized, we could not review cost and price data.

SUCCESSFUL TROOP ENCLOSURE DELIVERY ACCELERATION

To address the concern of the Afghanistan Deputy Commander for Programs, NTM-A/CSTC-A, we asked PM-LTV officials why scheduled deliveries of M1152 HMMWVs with troop enclosures could not meet NTM-A/CSTC-A requirements. PM-LTV officials stated that ArmorWorks could not produce troop enclosures at the same rate that AM General produced M1152 HMMWVs. PM-LTV officials stated that AM General was producing 35 HMMWVs per day, whereas the subcontractor was producing 8-12 troop enclosures per day. PM-LTV officials stated that the ArmorWorks troop enclosure had been tested at the Aberdeen Test Center and if troop enclosures were procured from another contractor, additional testing and time would be required. PM-LTV officials stated that the ArmorWorks troop enclosures were a light, ceramic-based armor and only a few companies could produce an armored troop enclosure that would meet ANSF requirements.

According to PM-LTV officials, AM General accelerated deliveries of troop enclosures without increasing cost to the contract because ArmorWorks bought a second curing oven to bake ceramic armor panels, and AM General required ArmorWorks to use competition for material suppliers, which resulted in lower material cost. AM General's updated accelerated delivery schedule was presented on January 19, 2011. The Afghanistan Deputy Commander for

¹ FMS is a program through which eligible foreign governments purchase Defense supplies and services from the U.S. Government; however, the supplies and services procured for ANSF are considered "pseudo" because the U.S. Government is selling to another U.S. Government entity.

Programs, NTM-A/CSTC-A, agreed with the updated schedule. On February 14, 2011, the contract was modified to reflect the new delivery dates.

VEHICLES DELIVERED ON SCHEDULE

We reviewed Wide Area Work Flow Receiving Reports for HMMWVs scheduled for delivery from February 2011² through May 2011. From our analysis, we determined that AM General met and exceeded contractual delivery schedules during this timeframe. In June 2011, we confirmed with Defense Contract Management Agency (DCMA) officials that AM General was meeting contractual delivery dates.

The table below shows the number of vehicles delivered and the required delivery dates for February 2011 through May 2011.

Table. Vehicle Deliveries From February 2011 Through May 2011

Description	February		March		April		May	
	Req'd	Actual	Req'd	Actual	Req'd	Actual	Req'd	Actual
M1152 HMMWVs	436	436	805	860	438	438	732	732
Troop Enclosures	140	176	277	619	311	386	250	538

UNDEFINITIZED CONTRACTUAL ACTION

The Army Principal Assistant Responsible for Contracting authorized a UCA based on both an urgent requirement for the HMMWVs to support the ANSF and a prevention of an assembly line production break. According to a statement of impact signed by the Deputy Project Manager for Tactical Vehicles, a production break would have resulted in an estimated cost of \$240 million and a production break of 6 months. In addition, the HMMWVs were procured as commercial items in the previous HMMWV contract with AM General. However, during vehicle production from the previous contract, improvements to increase the survivability of the crew in HMMWVs were required, including incorporating armor and other necessary components to support additional weight. Because of these changes, the contracting officer no longer considered the HMMWVs commercial items for contract W56HZV-10-C-0405. Therefore, the contractor was required to provide cost and pricing data for the current contract.

Contract W56HZV-10-C-0405 is scheduled to be definitized on July 29, 2011, a year after it was awarded. ACC-WRN awarded the contract on July 30, 2010. ACC-WRN officials stated that AM General submitted an inadequate proposal on August 9, 2010, but the contracting officer allowed DCAA to begin an audit on the proposal and complete the audit after AM General submitted a qualifying proposal. During DCAA's audit of this proposal, additional unsupported contractor and subcontractor costs were noted, which delayed the completion of the DCAA

² Our scope was limited to HMMWVs procured from contract W56HZV-10-C-0405 for the ANSF. Deliveries for vehicles from this contract began in February 2011.

audit. DCAA's draft audit report on December 15, 2010, concluded that AM General's proposal was not acceptable for fair and reasonable price negotiations. The contract was initially scheduled to be definitized on December 30, 2010. Subsequently, AM General submitted a revised proposal on February 1, 2011, which the contracting officer deemed as the qualifying proposal. DCAA personnel reviewed the revised proposal and completed their audit on AM General's proposal on May 9, 2011. However, the audit report again concluded that AM General's proposal was inadequate and not an acceptable basis for negotiating a fair and reasonable price.

We could not perform a review on the contracting officer's determination of fair and reasonable prices for HMMWVs procured from contract W56HZV-10-C-0405 because the contract was not definitized.

REVIEW OF INTERNAL CONTROLS

DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. TACOM Life Cycle Management Command internal controls over the procurement of HMMWVs for ANSF were effective as they applied to the audit objectives.

AUDIT STANDARDS

We conducted this audit from January 2011 through July 2011 in accordance with generally accepted government standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

SCOPE AND METHODOLOGY

We collected, reviewed, and analyzed documents that were dated from April 2008 through May 2011. We focused our review on HMMWVs and troop enclosures procured from contract W56HZV-10-C-0405 for ANSF using FY 2009 Supplemental through FY 2011 Afghan Security Forces Funds. We reviewed the contract and its modifications, justifications and approvals, determinations and findings, and other documents supporting contractual actions. We reviewed delivery documents including receiving reports, delivery correspondence, and delivery schedules. We reviewed public law and applicable contracting regulations including the Federal Acquisition Regulation and the Defense Federal Acquisition Regulation Supplement. We visited TACOM Life Cycle Management Command and interviewed ACC-WRN, PM-LTV, and SAMD personnel. We interviewed DCMA personnel including the administrative contracting officer and quality assurance representatives at AM General's manufacturing facility.

USE OF COMPUTER-PROCESSED DATA

We relied on computer-processed data from the Electronic Document Access and Wide Area Workflow Web sites. Both are web-based systems that provide online access to acquisition-related documents. We used these systems to obtain and evaluate the contract and modifications, as well as to obtain receiving reports to determine delivery dates of vehicles. We did not assess the reliability of the systems; however, not assessing the reliability of the systems did not materially affect the results of the audit.

PRIOR AUDIT COVERAGE

During the last 5 years, the Government Accountability Office (GAO) and the DoD Inspector General (IG) have issued reports discussing the procurement of HMMWVs. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

You can obtain information about the Department of Defense Office of Inspector General from DoD Directive 5106.01, "Inspector General of the Department of Defense," April 13, 2006, change 1, September 25, 2006; DoD Instruction 7600.02, "Audit Policies," April 27, 2007; and DoD Instruction 7050.3, "Access to Records and Information by the Inspector General, Department of Defense," April 24, 2000. Our Web site address is www.dodig.mil.

We appreciate the courtesies extended to the staff. If you have any questions, please contact me at (703) 604-9071 (DSN 664-9071).



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Inspector General Department of Defense