

Inspector General

United States
Department of Defense



Audit of the Afghanistan National Army Equipment
Maintenance Apprenticeship and Services Program
Contract



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-4704

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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
COMMANDING GENERAL, JOINT THEATER SUPPORT
CONTRACTING COMMAND

SUBJECT: Audit of the Afghanistan National Army Equipment Maintenance Apprenticeship
and Services Program Contract
(Report No. D-2011-073)

We announced the subject audit on March 4, 2010. The audit objective was to determine whether adequate quality assurance and quality control procedures existed for the Afghanistan National Army (ANA) Vehicle and Maintenance Contract, which is part of the Equipment Maintenance Apprenticeship and Services (EMAS) Program contract. Specifically, we determined whether Government contractual requirements were met and adequate contractor surveillance was conducted. To accomplish this objective, we reviewed Class IX¹ inventory accountability and ANA maintenance training. We also were to determine whether the contractor submitted a fair and reasonable request for equitable adjustment for parts reimbursement and required additional warehouse space to effectively perform contract tasks. The Kabul Regional Contracting Center-Afghanistan (KRCC-A), Defense Contract Management Agency (DCMA), and the North Atlantic Treaty Organization Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan (NTM-A/CSTC-A) took action concerning each of the objectives before or during the audit. Specifically, KRCC-A personnel denied the contractor's request for equitable adjustment for parts reimbursement and DCMA personnel denied the contractor's proposal for additional warehouse space. Additionally, in response to issues identified by the audit team, DCMA personnel:

- suspended most of the contractor's procurement activities for Class IX items because we identified significant discrepancies in the contractor's Class IX inventory accountability records, and
- directed the contractor to conduct a 20 percent inventory of the Central Maintenance Facility (CMF) because we identified inaccurate inventory records.

NTM-A/CSTC-A officials stated they used the results of our audit to revise the performance work statement of the Afghanistan-Technical Equipment Maintenance Program (A-TEMP) contract, which was awarded on December 30, 2010, and replaced the EMAS Program contract. The revisions included the removal of ANA supply chain management as a contractor-provided

¹ Class IX items are defined as equipment replacement part(s) for vehicles, or any fielded equipment used to perform repairs on the ANA assets.

function and instead turned that responsibility over to the ANA Logistical Command with contractor advisor-mentor support. The A-TEMP contract also requires the contractor to design a training program suited to the low literacy rates of ANA personnel and establish Mobile Training Teams (MTTs) to deploy to training sites as needed, instead of establishing apprentice programs at every site as required under the EMAS contract. To determine the effectiveness of the A-TEMP contract terms, we plan to audit the contract in FY 2012. The audit will focus on determining whether the contractor is meeting contractual requirements and DoD is conducting adequate contractor surveillance.

Background

KRCC awarded the EMAS Program contract (W91B4M-08-C-0009) on December 19, 2007. The contract included a base year, ending December 31, 2008, and two option years, ending December 31, 2009, and December 31, 2010, respectively. KRCC exercised both option years and extended the contract until March 31, 2011. The estimated cost of the base contract and two option years was \$246.7 million. Contract administration functions for the EMAS contract were delegated to DCMA, which made DCMA responsible for ensuring contractor compliance with contractual and quality assurance requirements and property administration.

Contractor's Requests Denied

Before the audit, KRCC-A and DCMA denied the contractor's request for equitable adjustment for parts reimbursement and additional warehouse space. Regarding the parts reimbursement, the contractor's initial proposal included a clause allowing the contractor to receive an equitable adjustment if parts reimbursement costs exceeded \$15 million per year. KRCC denied the request for reimbursement because the contractor's initial proposal was not incorporated into the final contract. Regarding the additional warehouse space, DCMA denied the request because the expansion was outside the scope of the contract. Consequently, we did not pursue these issues during our audit.

Inventory Accountability and Maintenance Training Issues

We identified improvements needed concerning Class IX inventory accountability and ANA maintenance training. We conducted site visits to the CMF in Kabul; the Equipment Maintenance sites in Pol-E-Charky, Kandahar, and Herat; the Combat Service Support sites in Kandahar, Shorabak, and Herat; and the Forward Support Team sites in Shorabak and at the Headquarters Security Service Brigade in Kabul. During those site visits, we examined the Class IX inventory and reviewed the contractor's maintenance apprenticeship training program to determine whether it fulfilled contract requirements.

Class IX Inventory. The contractor misstated the Class IX inventory at various sites visited. At the CMF, we could not locate 2,406 of the 7,767 line items² listed on the inventory records. We also identified 1,830 line items³ that had inaccurate quantities listed on the inventory records. The CMF inventory was valued at about \$86.7 million and the absolute value

² We statistically project that we are 90 percent confident the number of line items that could not be located from the inventory records is between 1,565 and 3,247, with a point estimate of 2,406.

³ We statistically project that we are 90 percent confident the number of line items with inaccurate quantities posted to the inventory records is between 1,063 and 2,616, with a point estimate of 1,830.

of the misstatement was \$30 million.⁴ At the other sites, we non-statistically selected 150 Class IX items from the contractor's inventory records (in total) and compared stock on hand to those records. Of the 150 Class IX items selected, 49 had quantities on hand that did not match the quantities on the inventory records. These inventory misstatements occurred because DCMA did not conduct periodic reviews of the contractor's Class IX inventory under the EMAS Program contract.

Equipment Maintenance Training Program. We determined that the contractor did not provide the ANA with adequate equipment maintenance training and that the ANA commanders did not provide a sufficient number of personnel for training. Specifically, the ANA equipment maintenance training program was:

- not well suited to ANA soldiers' education levels because a high percentage of the ANA students were illiterate,
- designed with course material that was too complicated and course modules that were too long, and
- not well attended because of a lack of commitment from ANA Commanders, who removed students from the program before completion for other mission requirements. We were unable to observe training at four of the nine sites that we visited because ANA Commanders did not provide students for the classes.

Management Action Taken

Based on the CMF inventory testing results, DCMA issued memoranda to the contractor on March 22, 2010, and April 4, 2010, requesting contractor action. Specifically, the:

- March 22, 2010, memorandum required the contractor to take immediate action to identify and correct information reported in its inventory database and to submit a corrective action plan within 14 calendar days of receipt of the letter.
- April 4, 2010, memorandum instructed the contractor to suspend all procurement activities (except for parts for vehicles awaiting repair, oil and lubricants, and filters not already in the inventory) and directed them to conduct a 20 percent inventory.

At the request of NTM-A/CSTC-A, we briefed the Deputy Commander for Programs in April 2010 on our initial observations and concerns with the inventory and the training program. CSTC-A officials stated that the A-TEMP Performance Work Statement was revised based, in part, on those observations and concerns. The following table describes the differences between the EMAS and A-TEMP contract requirements and the expected benefits of the A-TEMP contract.

⁴ We statistically project that we are 90 percent confident the absolute value misstated amount is between \$17.5 million and \$42.5 million, with a point estimate of \$30 million.

EMAS and A-TEMP Contract Differences and Expected Benefits

EMAS Contract Requirement	A-TEMP Contract Requirement	Expected Benefit
<p>The contractor will manage, operate, and maintain a Class IX warehouse; and manage, operate, and maintain a parts procurement, storage, issuance, and replenishment of Class IX parts in Afghanistan.</p> <p>The contractor will provide apprenticeship training within the areas of Class IX parts procurement, storage (warehousing), and issuance and replenishment operations.</p>	<p>The ANA Logistical Command will procure, manage, receive, store, issue, and distribute all vehicle repair parts with the assistance of a contractor advisor-mentor team, whose focus will be to lead the ANA warehouse workers to properly manage and operate an Army Supply warehouse.</p>	<p>Shifting the responsibility for supply chain management from a contractor to the ANA Logistics Command with only advisor-mentor support should help ensure the ANA will be able to maintain an Army Supply warehouse without U.S. support.</p>
<p>Student testing requirements were not specified in the contract.</p>	<p>ANA personnel are required to take a test at the end of each course.</p> <p>A task performance test instead of a written test will be the primary means of certification because of low literacy rates of ANA personnel.</p>	<p>Requiring an end-of-course test will help to ensure the effectiveness of the training program.</p>
<p>The contractor will provide interim equipment maintenance and apprenticeship program capabilities at each Equipment Maintenance site, Combat Services Support site, Forward Support Team site, and the CMF.</p>	<p>In addition to National-level training at the Central Workshop in Kabul, the contractor will establish MTTs that deploy to ANA locations for apprenticeship training to ANA personnel in equipment management and equipment maintenance.</p> <p>The training sites may be modified as the capability and requirements of the ANA change and more shops are transitioned to Afghan control.</p>	<p>Establishing MTTs and the ability to modify the training sites should reduce the risk of paying to establish training programs at sites where training is not occurring.</p>

We commend the Commander, DCMA, for taking immediate action to address the issues identified during our fieldwork and the Commander, NTM-A/CSTC-A, for considering our findings when developing the A-TEMP Performance Work Statement. We believe that the actions taken address the issues we identified in the audit. In FY 2012, we plan to initiate an audit of the A-TEMP contract to determine whether the revisions in the Performance Work Statement have improved Class IX inventory accountability and the vehicle maintenance training program. We will also determine whether other contractual requirements are being met by the contractor and adequate contractor surveillance is being conducted by the Government.

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. We identified internal control weaknesses for DCMA.

DCMA did not establish internal controls that required a review of the contractor's Class IX inventory under the EMAS Program contract. Although we identified internal control weaknesses, we are making no recommendations because the EMAS Program contract has been replaced by the A-TEMP contract and an audit of the A-TEMP contract is planned for FY 2012. A copy of this memorandum will be provided to the senior official responsible for internal controls in DCMA.

Audit Standards

We conducted this performance audit from March 2010 through May 2011 in accordance with generally accepted government auditing 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Scope and Audit Methodology

To accomplish our objectives, we reviewed contract terms in the EMAS Program contract Statement of Work (W91B4M-08-C-0009). We interviewed personnel from NTM-A/CSTC-A, KRCC-A, DCMA, and the contractor. We obtained and reviewed Federal Acquisition Regulations; DoD regulations and instructions; contractor inventory management system records; and contractor and Government quality assurance documentation. Additionally, we conducted site visits to the CMF and eight other contractor-managed maintenance facilities. At the CMF, we conducted an inventory of the Class IX line items using a statistical sampling methodology. We conducted an inventory of the Class IX line items using a non-statistical sampling methodology at the Equipment Maintenance sites in Kandahar and Herat; the Combat Service Support sites in Kandahar, Shorabak, and Herat; and the Forward Support Team site at the Headquarters Security Service Brigade in Kabul. We were unable to conduct inventory testing at the Equipment Maintenance site in Pol-E-Charky because the inventory list provided included inventory from three other sites. We were unable to conduct inventory testing at the Forward Support Team site in Shorabak because we were not provided with an inventory list. We also reviewed the original and revised training program developed by the contractor, training statistics provided by the contractor, and observed training being conducted by the contractor.

Use of Computer-Processed Data

Our objective was to assess quality control procedures for the EMAS contract which included evaluating inventory control processes. We used computer-processed data from the contractor's inventory management system to perform the audit. We obtained inventory reports produced by that system to identify Class IX inventory levels. We tested the accuracy of the data in the reports generated by the system by performing physical inventories. The results of our inventory testing indicated that the inventory data was inaccurate and absolute value was misstated. See the finding for a discussion of the data errors and actions taken by management to address data reliability issues.

Use of Technical Assistance

The DoDIG Quantitative Methods and Analysis Division assisted us with the audit. Using the CMF inventory list of 9,551 items, valued at \$87.4 million, from the contractor's inventory

system, the Quantitative Methods and Analysis Division provided us with a statistical sample stratified by dollars. For the purposes of this sample, we eliminated 1,327 parts that were listed with a zero dollar value. At the request of DCMA, we also removed 457 parts ordered through Foreign Military Sales as indicated in the records with a location code of "N/Stock."⁵ The resulting universe for our projection was based on 7,767 inventory line items with a stated value of approximately \$86.7 million. The statistical sample contained 200 items and was at the 90 percent confidence level.

Prior Audit Coverage

During the last 5 years, the Government Accountability Office (GAO), the DoDIG, and the Military Departments have issued reports discussing contract management, oversight, and quality assurance. In addition, the Defense Contract Audit Agency issued one report on interim vouchers for parts reimbursement on the EMAS Program contract (W91B4M-08-C-0009). Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoDIG reports can be accessed at <http://www.dodig.mil/audit/reports>. Defense Contract Audit Agency audit reports are not available, except by restricted distribution.

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 Ms. Carol Gorman at DSN 318-237-1532, or carol.gorman@dodig.mil.



Daniel R. Blair
Deputy Inspector General
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⁵ Inventory items with a location of N/Stock were not procured by the contractor and not part of the contract.

cc:

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Inspector General Department of Defense

