

Joint Statement of  
Christopher Shays and Michael Thibault, Co-Chairs  
The Commission on Wartime Contracting in Iraq and Afghanistan

Hearing:

Transitions in Iraq:  
Rightsizing the Contractor Workforce and  
Moving from LOGCAP III to LOGCAP IV

Room 106, Dirksen Senate Office Building, Washington, DC  
9:30 a.m., March 29, 2010

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[As prepared for delivery.]

Good morning. I am Christopher Shays, co-chairman of the Commission on Wartime Contracting in Iraq and Afghanistan. This opening statement is made on behalf of Co-Chairman Michael Thibault, my fellow Commissioners, and myself. Commissioners Dov Zakheim and Grant Green could not be with us today. The other Commissioners at the dais are Michael Thibault, Clark Kent Ervin, Robert Henke, Katherine Schinasi, and Professor Charles Tiefer.

We are here today to talk about transitions in Iraq. March 20 was the seventh anniversary of the U.S., British, and other allies' invasion of Iraq. American combat operations there have lasted almost twice as long as the American Civil War or U.S. involvement in World War Two.

American involvement in Iraq will continue for many more years in the form of political

engagement and support for good governance and economic development. But the end of our active military involvement there is in sight. The President has directed that American military forces in Iraq be reduced to no more than 50,000 by the end of August 2010. And our agreement with the government of Iraq calls for American troops to be out of the country entirely by the end of 2011.

The U.S. troop drawdown, already under way, is welcome news. It reflects significant success based on hard work, bravery, and sacrifice by coalition and Iraqi forces, federal civilian employees, contractors, and non-governmental organizations. Extremists and terrorists still lash out at military, government, and civilian targets, but have become less of a threat to the government of Iraq.

Conducting the drawdown of forces, however, is not a simple task like turning down a thermostat. Thousands of troops must be redeployed. Thousands of contractor employees must be reassigned or released. Hundreds of military bases have to be closed or handed over to the Iraqis. Millions of items of equipment, whether military or acquired by contractors and now government-owned, must be moved, donated, or scrapped.

The bulk of this work will fall to contractors, who have been a vital part of U.S. operations in Iraq from the outset. The Department of Defense expects that contractor employees in Iraq will exceed 70,000 in August 2010. That would be about half the contractor count of January 2009 – but still nearly one and a half times the U.S. troop-strength target for August.

Contractor employees have outnumbered military personnel in both Iraq and Afghanistan. This reflects the reduction in the size of the U.S. military since the end of the Cold War as well as the extent of support services required for contingency operations. Those services include construction, dining-facility and laundry operations, base security, transportation, equipment maintenance, and more.

We don't expect contractor-employee numbers to decline in rigid lockstep with reductions in troop numbers. Some minimum number of people is needed to operate a dining facility. A certain number is needed to guard a base perimeter even if the garrison is shrinking. And some staffing flexibility is needed to meet sudden demands. Nonetheless, the contractor-to-

military ratio expected in August requires looking carefully at our contract planning and management arrangements.

The historical record shows that the United States went into Iraq assuming quick victory, swift handover of power, and rapid exit, and had therefore made no plans for contracting, managing, and auditing large-scale logistics, security, and reconstruction support for a long stay. After seven years of sacrifice and enormous costs, we are examining whether planning and management of contracting for the drawdown is adequate and effective.

KBR expects to have about 30,000 employees in Iraq by late summer of this year, compared to more than 60,000 in March 2009. But the planning to synchronize contractors' drawdown with military needs does not appear to be as advanced as the military's planning for removing its own personnel and property. Part of the reason for that may be that the U.S. military has yet to make key decisions that will affect contractors' drawdown plans. It appears the government is not giving contractors adequate guidance on events, dates, and requirements for them to trim or redeploy workforces appropriately.

We need proper mechanisms to ensure contractors are drawing down their personnel in Iraq consistent with the reduction in military forces and with operational requirements. The military needs the right number of contractors in the right places as the drawdown continues. But taxpayers need assurance that contractors don't have unnecessary staff

hanging around—accidentally or by design—without work, but still drawing pay.

This hearing will also inquire whether a satisfactory transition is occurring in Iraq between Version Three and Version Four of the multi-billion-dollar LOGCAP contract for logistical support. As we have seen in earlier hearings, LOGCAP 3 is a competitively awarded, single-vendor contract upon which task orders for work are drawn as needed. Under this contract, the sole vendor, KBR, Inc., has collected \$15 billion in just the past three years—far more than anyone could have anticipated when our Iraq involvement began.

Work continues under LOGCAP 3, but the intent is to transition new work to the LOGCAP 4 contract, which has three vendors—KBR, Fluor, and DynCorp—each of whom must submit an offer for every new task order issued under the contract. The aim is to sharpen competition on price and performance.

On February 26, KBR won the first task-order competition for logistics support, postal service, and theater transportation. KBR could collect as much as \$2.3 billion under this one task order. Even with the drawdown under way, such big expenditures raise important questions about government requirements, business planning, and contract oversight. For example: Why has the transition taken so long? And does it still make economic sense to conduct the transition this close to the American military's exit from Iraq?

We have two panels today. One panel will comprise senior officials; the other will

feature two executives representing KBR, whose employees account for half of all contractors in the country. We are interested in the government panel's views on planning and managing contractors during the drawdown and the LOGCAP transition. We look to KBR for its view of those matters, its plans and procedures for downsizing the Iraq workforce, and its recommendations for improving the contracting process.

We also want to explore what appear to be alarming data revealed in audits by the Defense Contract Audit Agency and the Inspector General of the Department of Defense. Those agencies' reviews of KBR corps logistics-support services, including tactical-vehicle maintenance work under a LOGCAP 3 task order, found labor-force utilization rates at or below 10 percent, when Army regulations require at least 85 percent. For the year ending August 31, 2009, the DoD IG calculated that this under-utilization meant that about \$4.6 million of the \$5 million charged for this work at the Balad base in Iraq – 92 percent of the cost – was not necessary, a waste!

KBR reported its labor utilization rates. But the IG's report says the Army did not adequately review the data or require corrective action. We want to know why. We also want to ask KBR about its sense of responsibility for managing a workforce that was clearly too big for the work being done. This case study raises serious questions about overall contractor performance and government oversight.

Our first panel has three witnesses, each with deep and direct knowledge of the

issues that concern us today:

- Lieutenant General James H. Pillsbury, Deputy Commanding General, Army Materiel Command. That Department of Defense agency is responsible for much of Army contracting, including LOGCAP and systems-support contracts being used in Iraq and Afghanistan.
- Patrick Fitzgerald, Director, Defense Contract Audit Agency. DCAA is working, at the request of the Defense Contract Management Agency, to determine whether KBR is reducing its workforce in Iraq commensurate with the military drawdown and the descoping of work on LOGCAP III.
- James Loehrl, Executive Director and Principal Assistant Responsible for Contracting, U.S. Army Contracting Center Rock Island, which is part of Army Sustainment Command. LOGCAP III and IV are under his jurisdiction.

Our second panel has two witnesses representing KBR, Incorporated. They are executives involved in operations who can address our concerns about the company's performance and the adequacy of government planning and oversight of their

projects:

- Doug Horn, Vice President, Operation, Maintenance and Logistics, Government and Infrastructure.
- Guy A.J. LaBoa, Principal Program Manager, LOGCAP III Middle East/Central Asia, North American Government & Defense

▪ We have asked our witnesses to summarize their testimony in 5 minutes to allow adequate time for questions and answers. The full texts of their statements will be entered into the hearing record and posted on the Commission's website. We also ask that witnesses submit any additional information they may offer to provide and responses to any questions for the record within 15 business days following this hearing.

The Commission appreciates the cooperation of our witnesses, and looks forward to an informative session. The Iraq drawdown and contract work under LOGCAP are operations of enormous importance to America's warfighters, taxpayers, and national-security objectives. Today's hearing will help us judge the status of those operations and identify areas that need improvement.

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#### **SWEARING THE WITNESSES**

If the witnesses will please stand and raise their right hands, I will swear them in.

Do you swear or affirm that  
the testimony you give  
today  
will be the truth, the whole  
truth, and nothing but the  
truth?

Please be seated.

We will begin with General Pillsbury. Please  
proceed, Sir.

Let the record show that all witnesses  
responded in the affirmative. Thank you.

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