



**DEFENSE CONTRACT AUDIT AGENCY**  
**AUDIT REPORT NO. 3311-2004K2100028**



September 16, 2004

**PREPARED FOR:** Procuring Contracting Officer  
U.S. Army Corps of Engineers, Fort Worth District  
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**SUBJECT:** Report on Audit of Proposal for Restore Iraqi Oil Task Order No. 6

**REFERENCES:** PCO: Contract No. DACA63-03-D-0005  
Relevant Dates: See Page 26

**CONTRACTOR:** Kellogg Brown & Root Services, Inc.  
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**REPORT RELEASE RESTRICTIONS:** See Page 27

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**SUBJECT OF AUDIT**

As requested by the U.S. Army Corps of Engineers on May 17, 2004, we examined the Kellogg Brown & Root Services, Inc. (KBR) May 16, 2004 Cost-Plus-Award-Fee proposal for Task Order (TO) 6 under Contract No. DCAC63-03-D-0005, RIO I, to determine if the proposed costs are acceptable as a basis to negotiate a fair and reasonable task order price. The \$212,191,705 proposal provides support for restoration support services in response to the Notice to Proceed (NTP) issued by the Procuring Contracting Officer (PCO) on December 5, 2003. The proposed period of performance is December 8, 2003 through December 7, 2004.

The proposal and related cost or pricing data are the responsibility of the contractor. Our responsibility is to express an opinion on the proposal based on our examination.

**EXECUTIVE SUMMARY**

Due to the significant amounts of unsupported cost, as well as additional restrictions discussed in the Scope of Audit, the proposal is not acceptable for negotiation of a fair and reasonable price. Our examination of the \$212,091,705 proposal disclosed significant questioned, unsupported and unresolved costs. The proposal for TO 6 is inadequate because KBR failed to comply in material respects with Federal Acquisition Regulation - FAR 15.408. However, should negotiations proceed the following significant issues should be considered in the negotiation process.

Unsupported Subcontracts	\$17,661,533
Overstated Subcontracts	\$14,908,621

**SIGNIFICANT ISSUES:**

1. We have not received our requested technical analysis regarding the reasonableness of proposed labor hours and requirements for subcontracts, material, equipment, and other direct costs.
2. A significant proportion of the contractor's proposed subcontractor costs (\$17,661,533) are unsupported due to the contractor's failure to perform adequate cost or price analysis.
3. A significant portion of contractor's subcontractor costs (\$14,908,621) are overstated due to disclosure of more current, accurate, and complete cost and pricing data and correction of errors in the proposal.
4. KBR proposed direct costs of \$194,750,436 while \$165,912,636 was charged to the RIO 6 Job Cost Ledger as of August 28, 2004. KBR's did not update the proposal to included current and accurate recorded costs. KBR is currently analyzing the validity of all RIO transactions and expects to make significant adjustments to all RIO TOs upon completion of its analysis. Any

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analysis and consideration of recorded costs during negotiations should include the impact of these adjustments to ensure accuracy of the cost information. (See Restriction Note 3 for further details.)