

Congress of the United States
Washington, DC 20515

January 16, 2004

The Honorable Joseph E. Schmitz
Inspector General
U.S. Department of Defense
Washington, DC 20301

Dear Mr. Schmitz:

We are writing to follow up on the briefing your staff provided us yesterday on the status of our November 25, 2003, request that your office investigate Halliburton's overcharges for importing gasoline into Iraq.

On December 11, the Defense Contract Audit Agency (DCAA) issued a preliminary audit concluding that Halliburton failed to conduct an adequate subcontract pricing evaluation for its Kuwaiti subcontractor, the Altanmia Commercial Marketing Company. DCAA also found that Halliburton and Altanmia overcharged the U.S. government by as much as \$61 million through September 30. On December 19, however, the U.S. Army Corps of Engineers unilaterally declared Altanmia's prices "fair and reasonable" and simultaneously waived Halliburton's requirement to provide any cost and pricing data from Altanmia.

According to the briefing from your staff, DCAA requested on January 14 that your office open a formal investigation into the fuel contract. Your staff did not describe the details of the referral on the grounds that this information was law enforcement-sensitive, but they did indicate that the nature of the referral involved matters most appropriately investigated by experienced criminal investigators, rather than civil auditors. Your staff informed us that after receiving this referral from DCAA, you referred this matter for criminal investigation by the Defense Criminal Investigative Service (DCIS) within the Inspector General's office.

In our consultations with other auditors from different agencies, including the U.S. General Accounting Office, we have come across no prior case like this. It was highly unusual for the Corps to block DCAA from effectively auditing Halliburton and Altanmia by releasing Halliburton from its obligation to provide cost and pricing data. And it appears without precedent for DCAA to proceed with a criminal referral after being told — in effect — to drop its audit by the Corps of Engineers.

In order to provide DCIS with additional information that may bear on the criminal investigation, we want to make you aware of the extensive correspondence we have had with the Department of Defense and other Administration officials regarding irregularities in the gasoline contracts. Copies of this correspondence can be found on the following websites:

- http://www.house.gov/reform/min/inves_admin/admin_contracts.htm
- http://www.house.gov/commerce_democrats/dodcontracts/dodcontracts.shtml

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- http://govt-aff.senate.gov/index.cfm?FuseAction=PressReleases.Detail&PressRelease_id=615&Affiliation=R
- <http://govt-aff.senate.gov/index.cfm?Fuseaction=Search.Home&searchtext=halliburton&x=19&y=7>

We hope the information that we are providing will be helpful to your investigators.

Sincerely,



Henry A. Waxman
Ranking Minority Member
Committee on Government
Reform

U.S. House of Representatives

John D. Dingell
Ranking Minority Member
Committee on Energy and
Commerce

U.S. House of Representatives

Joseph I. Lieberman
Ranking Minority Member
Committee on Governmental
Affairs

U.S. Senate