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March 26, 2003

Lt. Gen. Robert Flowers
U.S. Army Corps of Engineers
441 G St, NW
Washington, DC 20314

Dear General Flowers:

I am writing to inquire why the Administration entered into a contract potentially worth tens of millions of dollars or more with a subsidiary of Halliburton without any competition or even notice to Congress. The contract — which is to extinguish oil well fires in Iraq — has no set time limit and no dollar limit and is apparently structured in such a way as to encourage the contractor to increase its costs and, consequently, the costs to the taxpayer.

Little is known about the contract between Halliburton subsidiary Kellogg Brown & Root and the U.S. Army Corps of Engineers. The contract was apparently entered into on March 8, 2003, but was not disclosed publicly until March 24. According to information I received yesterday from the Army Corps of Engineers, the contract is a "cost-plus" contract. What this means is that Kellogg Brown & Root will recover its costs and receive an additional 2% to 5% of those costs. This type of contract is generally discouraged in the executive branch because it provides the contractor with an incentive to increase its profits by increasing the costs to the taxpayer.

The contract structure is particularly troubling given previous concerns raised by the General Accounting Office about the Army's ability to monitor and control costs of Brown & Root contracts. In a 2000 report regarding Brown & Root work for the Army in the Balkans, GAO found that Army officials "frequently have simply accepted the level of services the contractor provided without questioning whether they could be provided more efficiently or less

frequently and at lower cost."[1] Furthermore, the new contract does not appear to have a set time-limit.

The only rationale offered for the contract is that the contract work involves the implementation of a contingency plan for extinguishing oil well fires that the Army asked Kellogg Brown & Root to develop in November 2002. It is not clear, however, whether any other companies were asked to submit similar plans.

This contract raises a host of issues. Specifically, I ask that you explain:

1. Why did the Administration fail to provide an opportunity for other companies to bid on this contract?

2. When Kellogg Brown & Root was asked by the Army to develop a contingency plan for extinguishing oil well fires in Iraq in November 2002, were any other companies asked to develop similar plans? If not, why not?

3. What is the estimated cost and duration of the contract?

4. (a) Why is the contract structured in such a way as to encourage Kellogg Brown & Root to increase its expenses?

   (b) Does the contract structure comply with federal law and regulations?

   (c) What steps have been taken to ensure that the contractor's costs are not inflated?

5. Why was the contract not publicly announced until over two weeks after it had been awarded?

I would appreciate receiving a response to these questions by April 4, 2003.

Sincerely,

Henry A. Waxman
Ranking Minority Member

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[1]General Accounting Office, *Contingency Operations: Army Should Do More To Control Contract Cost in the Balkans* (Sept. 2000) (GAO/NSIAD-00-225). *See also* General Accounting Office, *Contingency Operations: Opportunities To Improve the Logistics Civil Augmentation Program* (Feb. 1997) (GAO/NSIAD-97-63) (noting that the Army was "unable to ensure that the contractor adequately controlled costs and furnished the appropriate level of support").