

**Congress of the United States**  
**House of Representatives**  
**Washington, DC 20515**

March 14, 2005

The President  
The White House  
Washington, DC 20500

Dear Mr. President:

For nearly two years, we have been raising questions about Halliburton's no-bid contract to operate Iraq's oil infrastructure. As part of this investigation, we have now obtained a report by Defense Department auditors concluding that Halliburton overcharged by more than \$100 million for a single task order under this contract. We would like to know why this audit report — and audit reports on nine additional task orders — are being withheld from Congress. We also want to know what steps you are taking to recover these funds from Halliburton.

Under the Restore Iraqi Oil (RIO) contract, the Defense Department issued ten task orders to Halliburton for oil-related work, including the importation of fuel, the preparation of damage assessments, and the repair of oil facilities. Halliburton charged over \$2.5 billion for this work, which is now complete. The Defense Department paid Halliburton approximately \$875 million from U.S. taxpayer funds and \$1.64 billion from Iraqi oil proceeds in the Development Fund for Iraq (DFI).

In December 2003, auditors from the Defense Contract Audit Agency (DCAA) raised initial concerns about Halliburton's prices under the RIO contract. DCAA reported that Halliburton overcharged by up to \$61 million to import fuel into Iraq. This DCAA audit was preliminary, however, and covered only the period through September 2003.

Between August and October 2004, DCAA auditors completed their work and issued final audits on each of Halliburton's ten task orders. However, the Defense Department refused to release these audits to members of Congress or the public. Over five months ago, on October 5, 2004, Rep. Waxman joined with Rep. Chris Shays, Chairman of the National Security Subcommittee, to request the audits from Secretary Rumsfeld. Notwithstanding 12 separate followup requests from congressional staff, the Defense Department refused to turn over unredacted copies of the audits.

Despite the Pentagon's refusal to comply with these requests, we have now obtained an unredacted copy of DCAA's audit for Task Order 5, under which Halliburton charged \$875 million to import fuel into Iraq. Task Order 5 is one of five task orders relating to fuel importation. DCAA found overcharges and questioned other costs of \$108.4 million under this task order alone.

DCAA criticized Halliburton's charges in nearly every area, including labor, material, subcontracts, overhead, and general and administrative expenses. DCAA found that these inadequacies were "significant," and it concluded that Halliburton's charges were not "a fair and reasonable price."

DCAA also detailed numerous specific problems with Halliburton's charges, including the following:

- Halliburton failed to demonstrate that its prices for Kuwaiti fuel were "fair and reasonable" and failed to negotiate better prices with its Kuwaiti subcontractor.
- Citing market price increases, Halliburton made millions of dollars in retroactive payments to Turkish fuel subcontractors, even though Halliburton had negotiated fixed price subcontracts that contained no escalation provisions.
- In one case, Halliburton claimed that it paid over \$27,000,000 to transport \$82,000 worth of fuel from Kuwait to Iraq.
- Halliburton repeatedly refused to provide information requested by Pentagon auditors, including its actual costs for fuel from Turkey and Jordan and the process it used to choose its Kuwaiti subcontractor.

When DCAA first raised concerns about Halliburton's prices in December 2003, you were asked what action you planned to take if the overcharges were confirmed. In response, you promised that DCAA's investigation would "lay the facts out for everybody to see." You also stated: "if there's an overcharge, like we think there is, we expect that money to be repaid."

Contrary to your assertions, however, the Administration has withheld these audits from Congress for months, and Halliburton has repaid nothing under this contract. We would like to know when and how you plan to recover the overcharges from Halliburton and restore them to U.S. taxpayers and the Iraqi people. We also ask you to explain why this audit — and the nine other completed audits — have not been released to Congress and the public.

### **Background**

On March 8, 2003, the U.S. Army Corps of Engineers awarded Halliburton subsidiary KBR a no-bid monopoly contract to restore and operate Iraq's oil infrastructure. The contract

was awarded in secret, and other qualified companies, like Bechtel, which did most of the oilfield work after the first Gulf War, were precluded from bidding.<sup>1</sup>

To date, Halliburton has charged approximately \$2.5 billion under the RIO contract, which had a potential value of \$7 billion.<sup>2</sup> The contract is a “cost-plus” contract, meaning that Halliburton’s costs are fully reimbursed, and the company receives an additional award of 2% to 7% of these costs. Under this arrangement, Halliburton is paid a higher base fee when it bills the government for higher underlying costs.

The Corps of Engineers issued ten different task orders under the RIO contract. The most recent public description of Halliburton’s charges under each task order was provided by the Corps of Engineers in October 2004. The Corps reports that work has now concluded on all ten task orders. These charges are set forth in Table A.

<b>Table A: Purpose and Value of Task Orders Under RIO Contract</b>		
<b>Task Order</b>	<b>Purpose</b>	<b>Amount (millions)</b>
1	Train and advise for safe shut-down, oil spill equipment pre-positioning and damage assessment	\$10.7
2	Design for quick repair of oil facilities	\$1.5
3	Damage assessment, fire fighting and repairs	\$744.3
4	Base camp facilities and life support	\$46.3
5	Preserve distribution capability and fuel distribution support <sup>1</sup>	\$887.4
6	Restoration of Essential Infrastructure <sup>2</sup>	\$222.0
7	Preserve distribution capability and fuel distribution support <sup>2</sup>	\$325.0
8	Preserve distribution capability and fuel distribution support <sup>2</sup>	\$180.0
9	Preserve distribution capability and fuel distribution support <sup>2</sup>	\$64.8
10	Preserve distribution capability and fuel distribution support <sup>2</sup>	\$30.0
<b>Total</b>		<b>\$2,512.0</b>
<sup>1</sup> Of this amount \$90 million is Disbursed Seized Iraqi Assets, and \$725 million is Development Fund for Iraq (DFI) established by UN Security Council Resolution 1483. <sup>2</sup> This amount is all DFI Funds.		

Source: U.S. Army Corps of Engineers, *Frequently Asked Questions: Engineer Support to Operation Iraqi Freedom* (Oct. 7, 2004) (online at <http://www.hq.usace.army.mil/CEPA/Iraq/March03-table.htm>).

<sup>1</sup> *Halliburton’s Gasoline Overcharges*, Special Investigations Division, Minority Staff, House Committee on Government Reform (July 21, 2004) (online at [www.democrats.reform.house.gov/Documents/20040817115902-43717.pdf](http://www.democrats.reform.house.gov/Documents/20040817115902-43717.pdf)).

<sup>2</sup> U.S. Army Corps of Engineers, *Frequently Asked Questions: Engineer Support to Operation Iraqi Freedom* (Oct. 7, 2004) (online at <http://www.hq.usace.army.mil/CEPA/Iraq/March03-table.htm>).

As Table A indicates, Halliburton's work was split generally between oil infrastructure projects and fuel importation tasks: Task Orders 1, 2, 3, 4, and 6 related to various infrastructure projects, while Task Orders 5, 7, 8, 9, and 10 involved the importation of fuel from Kuwait, Turkey, and Jordan. The majority of Halliburton's charges under this contract were for fuel importation and distribution. Halliburton charged approximately \$1.5 billion for fuel work and \$1 billion for infrastructure work. Table A also shows that there were two sources of funding for this work: approximately \$875 million came from U.S. taxpayer funds and \$1.64 billion came from Iraqi oil proceeds and other funds in the U.S.-controlled Development Fund for Iraq.

We began to raise questions about the Halliburton contract in March 2003.<sup>3</sup> In more than a dozen letters between October 15, 2003, and February 17, 2005, we presented evidence that Halliburton was overcharging the U.S. taxpayer and Iraqis for fuel importation.<sup>4</sup> In particular, we raised concerns about the exorbitant prices of Halliburton's imports from Kuwait, as well as concerns about Halliburton's Kuwaiti subcontractor, the obscure and inexperienced Altanmia Commercial Marketing Company.

Independent experts also expressed grave doubts about the reasonableness of Halliburton's price. Phil Verleger, a California oil economist and the president of a consulting firm, said of the price: "It's as if they've put the gasoline on the Queen Mary and taken it around

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<sup>3</sup> Letter from Rep. Henry A. Waxman to Lt. Gen. Robert Flowers, U.S. Army Corps of Engineers (Mar. 26, 2003).

<sup>4</sup> Letter from Reps. Henry A. Waxman and John D. Dingell to OMB Director Joshua Bolten (Oct. 15, 2003); Letter from Reps. Henry A. Waxman and John D. Dingell to Lt. Gen. Robert Flowers, U.S. Army Corps of Engineers (Oct. 21, 2003); Letter from Reps. Henry A. Waxman and John D. Dingell to National Security Advisor Condoleezza Rice (Oct. 29, 2003); Letter from Reps. Henry A. Waxman and John D. Dingell to Lt. Gen. Robert Flowers, U.S. Army Corps of Engineers (Nov. 5, 2003); Letter from Reps. Henry A. Waxman and John D. Dingell and Sen. Joseph Lieberman to Defense Department Inspector General Joseph E. Schmitz (Nov. 25, 2003); Letter from Reps. Henry A. Waxman and John D. Dingell to National Security Advisor Condoleezza Rice (Dec. 10, 2003); Letter from Reps. Henry A. Waxman and John D. Dingell to Defense Secretary Donald H. Rumsfeld (Dec. 19, 2003); Letter from Reps. Henry A. Waxman and John D. Dingell to Lt. Gen. Robert Flowers, U.S. Army Corps of Engineers (Jan. 6, 2004); Letter from Rep. Henry A. Waxman to National Security Advisor Condoleezza Rice (Jan. 15, 2004); Letter from Reps. Henry A. Waxman and John D. Dingell and Sen. Joseph Lieberman to Defense Department Inspector General Joseph E. Schmitz (Jan. 16, 2004); Letter from Reps. Henry A. Waxman and John D. Dingell to Defense Department Inspector General Joseph E. Schmitz (Feb. 24, 2004); Letter from Rep. Henry A. Waxman to Rep. Tom Davis, Chairman, Government Reform Committee (Nov. 10, 2004); Letter from Rep. Henry A. Waxman to Secretary of State Condoleezza Rice (Feb. 17, 2005).

the globe before they deliver it.”<sup>5</sup> Jeffrey Jones, the former Director of the Defense Energy Support Center, stated: “I can’t construct a price that high.”<sup>6</sup> Another expert, who asked that his identity not be disclosed, characterized Halliburton’s prices as “highway robbery.”<sup>7</sup>

In December 2003, the Defense Contract Audit Agency announced at a press conference that it had completed a preliminary draft audit of Halliburton’s fuel importation work. DCAA auditors found that Halliburton had overcharged the U.S. government by as much as \$61 million for gasoline imported from Kuwait into Iraq.<sup>8</sup> DCAA concluded that Halliburton “has not demonstrated ... that they did an adequate subcontract pricing evaluation prior to award” of the Altanmia subcontract.<sup>9</sup> This audit was preliminary, however, and covered only the period until September 30, 2003.

In July 2004, the U.S. Army Corps of Engineers provided fuel cost figures for the entire period that Halliburton imported fuel under the contract (May 2003 through March 2004), reporting that Halliburton’s average price for gasoline imported from Kuwait was \$2.68 per gallon. According to these figures, Halliburton paid Altanmia \$1.14 per gallon to purchase the gasoline from the Kuwait Petroleum Company and \$1.30 per gallon to transport the gasoline from Kuwait to Iraq by truck. Halliburton then charged \$0.24 per gallon in overhead and administrative markups and fees.<sup>10</sup>

### **DCAA Audit of Task Order 5**

Nearly two years after Halliburton began its work under the contract to operate Iraq’s oil infrastructure, we now have the first official Defense Department conclusions as to the extent of Halliburton’s overcharges. Defense Department auditors at DCAA have conducted comprehensive audits of each of Halliburton’s ten task orders under the RIO contract. We

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<sup>5</sup> *The Price of Victory: Unusually High Costs for Gasoline Being Brought into Iraq for US-Led Rebuilding*, NBC News (Nov. 5, 2003).

<sup>6</sup> *Army Eyes Halliburton Import Role in Iraq*, Associated Press (Nov. 5, 2003).

<sup>7</sup> See Letter from Reps. Henry A. Waxman and John D. Dingell to OMB Director Joshua Bolten (Oct. 15, 2003).

<sup>8</sup> U.S. Department of Defense, *News Briefing* (Dec. 11, 2003).

<sup>9</sup> *Id.*

<sup>10</sup> E-mail from U.S. Army Corps of Engineers, transmitted to minority staff of the Committee on Government Reform by the Department of Defense (June 20, 2004) (stating that Halliburton imported a total of 131,181,054 gallons of gasoline from Kuwait into Iraq, charging the Corps of Engineers \$351,691,346).

obtained an unredacted copy of one of these audits, an analysis of Task Order 5, the largest of the ten task orders.<sup>11</sup> This audit questioned more than \$100 million of Halliburton's charges.

According to the audit, Halliburton charged approximately \$875.3 million to import fuel into Iraq under Task Order 5.<sup>12</sup> DCAA concluded that overcharges and other questioned costs under this task order were \$108.4 million.<sup>13</sup> DCAA criticized Halliburton's charges in nearly every area, including labor, material, subcontracts, overhead, and general and administrative expenses. DCAA found that these "noncompliances and inadequacies" were "significant" and concluded that "we do not believe the proposal is an acceptable basis for negotiation of a fair and reasonable price."<sup>14</sup>

DCAA found that Halliburton's cost and pricing submissions were "not adequate" because they were not prepared "in accordance with applicable Cost Accounting Standards and appropriate provisions of FAR," the Federal Acquisition Regulation.<sup>15</sup> According to DCAA, Halliburton "was unable to demonstrate the proposal was based on actual costs."<sup>16</sup>

DCAA's audit reviewed the propriety of the costs submitted by Halliburton for reimbursement under the cost-plus contract. They did not, however, take into account Halliburton's base and award fees of 2% to 7% of these costs. Since DCAA identified overcharges in Halliburton's underlying costs, Halliburton's fees are also overstated, meaning that the total amount of Halliburton's overcharges is even greater than \$108.4 million.

### **Fuel Imports from Kuwait**

Within Task Order 5, the largest area of overcharges related to Halliburton's fuel imports from Kuwait. DCAA questioned a total of \$89 million in Kuwaiti fuel charges. Of this amount, \$27 million represented charges that were not included in Halliburton's schedule of "actual" costs. As DCAA stated, Halliburton "was unable to reconcile the proposed costs to its accounting records."<sup>17</sup>

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<sup>11</sup> Defense Contract Audit Agency, *Report on Audit of Proposal for Restore Iraqi Oil Task Order No. 5* (Oct. 8, 2004) (Audit Report No. 3311-2004K17900055).

<sup>12</sup> *Id.* at 1.

<sup>13</sup> *Id.*

<sup>14</sup> *Id.* at 5.

<sup>15</sup> *Id.*

<sup>16</sup> *Id.* at 18.

<sup>17</sup> *Id.* at 11.

DCAA found that the remaining \$62 million in overcharges relating to fuel imported from Kuwait represented “unreasonable costs.”<sup>18</sup> In repeated criticisms, DCAA found that Halliburton “did not demonstrate the prices for Kuwaiti fuel and transportation were fair and reasonable.”<sup>19</sup> Although Halliburton objected to this conclusion, DCAA reported that Halliburton “did not provide adequate data to demonstrate the reasonableness of proposed fuel prices for the Kuwait supplier, Altanmia.”<sup>20</sup>

DCAA concluded that Halliburton “failed to demonstrate adequate competition in its procurement decision.”<sup>21</sup> Halliburton has repeatedly said that its fuel prices were reasonable because it had conducted a competition before awarding the lucrative fuel importation subcontract to Altanmia. According to David Lesar, Halliburton’s president, “KBR awarded fuel acquisition contracts through an open and competitive bid process.”<sup>22</sup> But DCAA concluded just the opposite. According to DCAA, the subcontract awarded to Altanmia was not “a competitive award,” but instead “must be considered a sole source procurement.”<sup>23</sup>

DCAA also found that Halliburton was not truthful about its efforts to verify the reasonableness of its fuel prices. In justifying its prices from Kuwait, Halliburton claimed to DCAA that “it consulted the Brown & Root Worldwide Suppliers Listing before it negotiated with its fuel subcontractors.”<sup>24</sup> DCAA later discovered, however, that Halliburton “does not currently maintain a Brown & Root Worldwide Suppliers Listing.”<sup>25</sup> DCAA criticized Halliburton for failing to “provide accurate information.”<sup>26</sup>

DCAA’s major criticism of Halliburton concerned the company’s failure to negotiate better pricing for the fuel and transportation costs. Although DCAA “recogniz[ed] the challenges faced by KBR during the early stages of the war,” the audit found that these circumstances should not have prevented action for months:

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<sup>18</sup> *Id.* at 10.

<sup>19</sup> *Id.*

<sup>20</sup> *Id.* at 22.

<sup>21</sup> *Id.* at 16.

<sup>22</sup> *Halliburton Defends Price of Iraqi Fuel*, Platts Oilgram News (Oct. 20, 2003); *see also* Halliburton, *Press Release: Halliburton Provides Update on Fuel Delivery Mission in Iraq* (Oct. 21, 2003) (stating that “[t]hrough an open and competitive bid process, KBR awarded the fuel acquisition contracts”).

<sup>23</sup> DCAA, *supra* note 11, at 16.

<sup>24</sup> *Id.* at 12.

<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

It is not reasonable to use prices negotiated in only a few days, under extremely difficult circumstances, for the entire period of performance which extends for almost a year (229 days). Effective subcontract administration ... requires ongoing (e.g., monthly) documented reviews of the continued reasonableness of the Kuwait fuel prices and efforts to renegotiate these prices if such reviews indicated unreasonable prices.<sup>27</sup>

Taking into account early obstacles, DCAA concluded that Halliburton “should have pursued negotiating lower prices after the ‘urgent and compelling’ circumstances subsided, 30–90 days after the start of the contract.”<sup>28</sup>

DCAA auditors also revealed that the Administration improperly waived Halliburton’s obligation to provide cost and pricing data for fuel. Because Halliburton’s subcontractor, Altanmia, was not selected in an open, competitive process, DCAA auditors sought cost and pricing data to assess whether their costs were fair and reasonable. On December 19, 2003, the Corps of Engineers gave Halliburton a waiver from this requirement and unilaterally declared Halliburton’s fuel prices to be “fair and reasonable.”<sup>29</sup> When DCAA auditors requested support for this conclusion, the Corps replied that it needed DCAA’s assistance “in determining if KBR’s proposed prices for Altanmia are fair and reasonable.”<sup>30</sup> In other words, the Corps granted the waiver without any support for its own assertion that Halliburton’s prices met this standard.

Finally, DCAA found a number of specific problems with Halliburton’s charges for fuel from Kuwait. In one case, Halliburton charged over \$27 million to transport \$82,000 worth of fuel. According to DCAA, “It is illogical that it would cost \$27,514,833 to deliver \$82,100 in LPG fuel.”<sup>31</sup>

### **Fuel Imports from Turkey**

DCAA also found that Halliburton charged \$16.8 million in unreasonable costs for fuel imports from Turkey under Task Order 5. DCAA noted that Halliburton had negotiated “fixed-unit-rate” and “firm-fixed-price” subcontracts with various Turkish subcontractors to import fuel into Iraq. During the term of these subcontracts, the market price of the fuel increased. DCAA reported that the Turkish companies asked Halliburton “to increase the unit price of the fuel to

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<sup>27</sup> *Id.* at 11 and 2.

<sup>28</sup> *Id.* at 12.

<sup>29</sup> U.S. Army Corps of Engineers, *Waiver for Submission of Cost and Pricing Data* (Dec. 19, 2003).

<sup>30</sup> DCAA, *supra* note 11, at 15.

<sup>31</sup> *Id.* at 17.



compensate for losses due to market increases.”<sup>32</sup> According to DCAA, Halliburton “agreed to pay the higher prices retroactively.”<sup>33</sup>

Halliburton argued that these retroactive increases were acceptable “because the subcontract fixed rates were lower than rates paid to the Kuwaiti subcontractor.”<sup>34</sup> Halliburton also argued that “it wanted to definitize the TO [task order] with all of the costs proposed in order to obtain fee for the costs it may incur in the future for subcontractor claims.”<sup>35</sup> But DCAA rejected these arguments and criticized Halliburton’s retroactive increase in pre-negotiated subcontract prices. As DCAA stated: “We do not believe it was appropriate to retroactively adjust the fuel unit prices of KBR’s fixed-unit-rate and firm-fixed-price subcontracts when there are no provisions in the subcontracts to do so.”<sup>36</sup> DCAA found that Halliburton “did not comply with the stated terms and conditions of its own subcontract.”<sup>37</sup>

### **Refusals to Provide Information Requested by Auditors**

DCAA found numerous instances in which Halliburton refused to provide information requested by Pentagon auditors. For example, Halliburton refused to provide requested information about the process by which it chose Altanmia as its Kuwaiti subcontractor. According to DCAA, “Throughout our audit of TO 5, we requested data from KBR supporting its analysis of the competitive bids and/or price analysis for the Kuwait fuel and transportation costs.”<sup>38</sup> As DCAA reported, “We did not receive the requested data.”<sup>39</sup>

Halliburton also refused to provide a schedule of its “actual costs” for fuel from Turkey and Jordan. As DCAA stated, “we have requested a schedule of actual costs for the procurement of fuels from Turkey and Jordan.”<sup>40</sup> According to DCAA, this information was “essential” to

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<sup>32</sup> *Id.* at 18.

<sup>33</sup> *Id.* at 2.

<sup>34</sup> *Id.* at 20.

<sup>35</sup> *Id.*

<sup>36</sup> *Id.* at 2–3.

<sup>37</sup> *Id.* at 18.

<sup>38</sup> *Id.* at 11.

<sup>39</sup> *Id.*

<sup>40</sup> *Id.* at 4.

reconcile Halliburton's charges to its accounting records.<sup>41</sup> But DCAA reported that Halliburton "has not provided the requested data."<sup>42</sup>

The Corps of Engineers also refused to provide information requested by DCAA auditors. For example, on June 4, 2004, DCAA requested that the Corps provide a "determination if there was or was not a sufficient supply of fuel from Turkey and Jordan to justify the need for procuring fuel from Kuwait."<sup>43</sup> DCAA reported that such a determination was "essential for our results."<sup>44</sup> Yet DCAA reported that its auditors were specifically told that the information "would not be provided."<sup>45</sup>

### **Continued Problems with Halliburton's Business Systems**

DCAA also found unresolved systemic problems with Halliburton's business systems. For example, DCAA reported that Halliburton's system for estimating costs was "inadequate."<sup>46</sup> As DCAA stated:

Our examination of the estimating system disclosed the following five significant deficiencies in KBR's estimating system that result in proposed costs that are not current, accurate, and complete.

Inadequate Cost Estimating Development  
Lack of Management Reviews;  
Lack of System Description and Integration;  
Insufficient Training, Experience and Guidance to Estimators; and  
Inadequate Policies, Procedures, and Practices for Providing Updates to the Government.<sup>47</sup>

Although Halliburton provided a corrective action plan for its estimating system, DCAA concluded that Halliburton's plan "is not adequate to ensure the identified actions correct deficiencies noted in our audit report."<sup>48</sup>

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<sup>41</sup> *Id.* at 5.

<sup>42</sup> *Id.* at 4.

<sup>43</sup> *Id.*

<sup>44</sup> *Id.* at 5.

<sup>45</sup> *Id.* at 9.

<sup>46</sup> *Id.* at 26.

<sup>47</sup> *Id.* at 4.

<sup>48</sup> *Id.* at 27.

DCAA also found significant deficiencies with Halliburton's purchasing system. As DCAA concluded, Halliburton "does not adequately maintain file documentation on subcontractor selection or cost"; Halliburton "does not maintain an approved/preferred supplier listing"; and Halliburton "does not adequately maintain documentation as to why other than the lowest bidder is chosen."<sup>49</sup> DCAA attributed some of these problems to Halliburton's continued reliance on "an IBM mainframe legacy system placed into production in 1983" that contained data that "was blank, incomplete, or incorrect for most of 2003 and early 2004."<sup>50</sup>

### **Lack of Administration Action**

Over the past two years, we have written to Administration officials numerous times expressing concern about Halliburton's contract to operate Iraq's oil infrastructure. In several clear statements, you and other Administration officials have publicly committed to recovering any overcharges by Halliburton. For example, at a press conference on December 13, 2003, you were asked about preliminary conclusions by DCAA auditors that Halliburton had overcharged by as much as \$61 million. You answered as follows:

We're going to make sure that as we spend money in Iraq, that it's spent well and spent wisely . . . . And their [DCAA's] investigation will lay the facts out for everybody to see. And if there's an overcharge, like we think there is, we expect that money to be repaid."<sup>51</sup>

Similarly, your National Security Advisor at the time, Condoleezza Rice, wrote to us directly on February 12, 2004, claiming that you personally expected the Pentagon to recover these funds from Halliburton. She stated: "The President expects the Pentagon to review this matter thoroughly, in accordance with its internal oversight procedures, and expects Halliburton to reimburse taxpayers for any overcharges that are proven."<sup>52</sup>

Despite these promises, however, your Administration has refused to provide DCAA's audits to Congress. On October 5, 2004, Rep. Waxman joined with Rep. Chris Shays, Chairman of the National Security Subcommittee, in writing to Secretary Rumsfeld for these audit reports.<sup>53</sup> Subsequently, their staffs made 12 followup requests for the audits, all without

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<sup>49</sup> *Id.*

<sup>50</sup> *Id.* at 24.

<sup>51</sup> *A Region Inflamed: Reconstruction; Bush Sees Need for Repayment If Fee Was High*, New York Times (Dec. 13, 2003).

<sup>52</sup> Letter from National Security Advisor Condoleezza Rice to Rep. Henry A. Waxman (Feb. 12, 2004).

<sup>53</sup> Letter from Rep. Christopher Shays, Chairman, Subcommittee on National Security, Emerging Threats, and International Relations, and Rep. Henry Waxman, Ranking Minority

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success. Indeed, when Government Reform Committee staff indicated that they were considering issuing a subpoena for the audit reports, a Defense Department official replied that "issuing a subpoena will not get the material released any faster."<sup>54</sup>

Moreover, there is no indication that the Administration is taking meaningful action to recover Halliburton's overcharges.

### Conclusion

In many ways, Halliburton has received extraordinary treatment from your Administration. The company was awarded a secret no-bid contract worth billions. Auditor recommendations to withhold payments have been ignored, as has the testimony by former employees about \$45 cases of soda and \$100 bags of laundry. Just last month, the company was given millions in bonuses.

Now that the Pentagon's own auditors have confirmed that Halliburton overcharged by more than \$100 million under just one of Halliburton's ten task orders, this special treatment should stop. As you promised in December 2003, unredacted audits of all ten task orders should be turned over to Congress immediately, and all overcharges identified by Defense Department auditors should be repaid.

We would like to know why the DCAA audits are being withheld and what steps you will take to recover the overcharges and put the interests of the U.S. taxpayer and the Iraqi people ahead of the profits of Halliburton.

Sincerely,



Henry A. Waxman  
Ranking Minority Member  
Committee on Government Reform



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

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Member, Committee on Government Reform, to Defense Secretary Donald Rumsfeld (Oct. 5, 2004).

<sup>54</sup> E-mail from Matthew Horn, Office of the Secretary of Defense, to Majority and Minority Staff, House Committee on Government Reform (Feb. 28, 2005).