

Congress of the United States
House of Representatives
Washington, D.C. 20515

February 12, 2004

Mr. William H. Reed
Director
Defense Contract Audit Agency
8725 John J. Kingman Road, Suite 2135
Fort Belvoir, VA 22060-6219

Dear Mr. Reed:

In 2001, the Army awarded Halliburton the LOGCAP global logistics contract, which currently is worth over \$3.7 billion. About 90% of this total value is for work in Iraq. We are writing to bring to your attention reports from two whistleblowers that Halliburton has repeatedly and routinely overcharged the taxpayer under the LOGCAP contract.

Recently, two former Halliburton employees who worked for Halliburton's LOGCAP procurement office in Kuwait contacted Rep. Waxman's staff. Henry Bunting, who will be testifying before the Senate tomorrow, worked as a field buyer in the LOGCAP procurement group. His job was to fill requisitions from Halliburton employees by locating vendors who could supply the required materials. The second former employee was a procurement supervisor who did similar work. He has asked that we keep his identity confidential.

These whistleblowers have come forward with detailed information about Halliburton's procurement activities under the LOGCAP contract. According to these whistleblowers, Halliburton engaged in the following improper practices:

- Telling Employees Price Doesn't Matter: High-level Halliburton officials frequently told employees that the high prices charged by vendors were not a problem because the U.S. government would reimburse Halliburton's costs and then pay Halliburton an additional fee. One whistleblower said that a Halliburton motto was: "Don't worry about price. It's cost-plus."
- Wasteful Spending: Ordinary vehicles were leased for \$7,500 a month. Higher prices than necessary were paid for furniture and cellular phone service. Poor quality mobile homes were purchased and accepted even though much better units were available. Under Halliburton's cost-plus contract, all of these wasteful expenditures were passed on to the taxpayer. The company even sought to order embroidered towels at a cost of \$7.50 each when ordinary towels would have cost about one-third of the price.
- Avoiding Competition Among Vendors: Halliburton's objective was to keep as many purchase orders as possible below \$2,500 in value so its buyers could avoid the

requirement to solicit quotes from more than one vendor. Instead of having multiple vendors submit competitive quotes for needed materials and selecting the lowest quote, Halliburton frequently sought only one quote from a single vendor.

- Inviting Unjustifiably High Quotes: It was routine for Halliburton buyers to copy a requisition, hand it to a single Kuwaiti vendor, and tell the vendor to submit any quote below \$2,500 the next day. The focus was not on obtaining a reasonable price.
- Relying on an Inadequate List of Preferred Vendors: Halliburton supervisors provided buyers with a list of preferred Kuwaiti vendors. Many of the preferred firms were unreliable or charged “outrageous” prices. Supervisors did not encourage buyers to identify alternative vendors and, in some cases, wanted to use a higher price vendor on the preferred list rather than a new, cheaper vendor.

According to the whistleblowers, improved business practices could yield significant savings. If multiple quotes were obtained and additional vendors were identified, the cost to the taxpayer would drop. Mr. Bunting estimated that competition could reduce costs by up to 15%. The former procurement supervisor explained that when he obtained three quotes instead of just one, he typically saved up to 30%.

What is most disturbing about these allegations from the whistleblowers is the regular and routine nature of the overcharging. The whistleblowers describe a company that paid inflated prices for goods and services on a daily basis and then passed these overcharges on to the U.S. taxpayer. An approach of “don’t worry ... it’s cost-plus” may be lucrative for Halliburton, but it should be of great concern to the government and the taxpayer.

The Whistleblowers

Two former Halliburton employees contacted Rep. Waxman’s staff to share their knowledge of Halliburton’s procurement process under the LOGCAP contract. Both whistleblowers worked for Halliburton last summer in the procurement group at the LOGCAP office in Kuwait.

One of the whistleblowers, Henry Bunting, was a field buyer responsible for filling requisitions from Halliburton officials by locating vendors to supply needed items. The items purchased were used by Halliburton to provide logistical support to the U.S. Army.

The second whistleblower, who prefers to remain anonymous, served as a procurement supervisor in the same office. Within the Halliburton hierarchy, the two whistleblowers worked under a senior procurement supervisor and a procurement manager.

These whistleblowers provide a unique insight into the internal operations of Halliburton. As described below, the whistleblowers had first-hand experience with unsound Halliburton procurement practices.

Telling Employees that Price Doesn't Matter

The whistleblowers reported that Halliburton officials frequently told employees not to worry about the high prices charged by vendors because the company would be fully reimbursed for these costs.

Halliburton's LOGCAP contract is a cost-plus type contract. Under this arrangement, the U.S. government reimburses Halliburton for its costs and then pays the company an additional fee, which is a percentage of the costs. The higher Halliburton's costs are, the larger its profits will be. Because there is little incentive for the company to control costs, this type of contract is notoriously prone to abuse.

According to the whistleblowers, Halliburton used the cost-plus nature of the contract to justify charging taxpayers inflated prices. Each former employee said that it was common for high- and mid-level Halliburton officials to tell subordinates: "Don't worry about price. It's cost-plus." In fact, the former procurement supervisor referred to this phrase as the Halliburton motto. This individual heard Halliburton's program manager for LOGCAP make this statement in Houston and the procurement manager repeat it in Kuwait. Mr. Bunting heard the senior procurement supervisor and two previous procurement managers express this same sentiment aloud.

According to both whistleblowers, Halliburton managers and supervisors regularly tell their employees not to concern themselves with high costs that will be passed on to the taxpayer. This is an irresponsible corporate ethic and it would violate the company's contractual obligation to provide goods and services to the U.S. government at just and reasonable prices.

Minimizing Competition Among Vendors

The whistleblowers report that Halliburton's goal was to keep as many purchase orders as possible below \$2,500 in value so that buyers could avoid the requirement of soliciting quotes from more than one vendor. They explained that the senior procurement supervisor specifically instructed buyers to employ this system.

When Halliburton employees need materials to perform their duties under LOGCAP, they send requisitions to the procurement group. Buyers within the procurement group then locate a vendor to supply the needed material and issue a purchase order. Several requisitions can be combined into a single purchase order. It is also possible to split a large requisition into more than one purchase order. If a purchase order is valued at \$2,500 or more, the buyer is

required to solicit quotes from more than one vendor. If a purchase order is valued at less than \$2,500, the buyer can solicit just one quote from a single vendor.

According to the whistleblowers, Halliburton officials intentionally broke apart large requisitions into many smaller purchase orders of less than \$2,500. This fragmentation would occur even if there were vendors that could handle the entire requisition. In addition, when Halliburton combined many small requisitions into a single purchase, they capped these orders just under \$2,500 even when they could have been consolidated further. Under both practices, Halliburton could avoid competition by soliciting a quote from just one vendor.

As a result of this manipulation of purchase orders, a very large percentage of purchase orders were awarded without any competition at all. The former supervisor estimated that 70% to 80% of the purchase orders ended up with a value of less than \$2,500. Similarly, Mr. Bunting estimated that buyers needed to solicit more than one quote for only approximately 25% to 30% of the purchase orders.

This noncompetitive approach did not secure reasonable prices for the required materials according to the whistleblowers. The former supervisor said that when he received three quotes rather than just one, the ultimate price was normally about 20% to 30% lower.

Inviting Unjustifiably High Quotes

According to the whistleblowers, Halliburton buyers routinely informed vendors that they would accept any quote below \$2,500 for a requisition, regardless of how much it should actually cost to fill the requisition.

Mr. Bunting stated that buyers would typically receive between 80 and 110 requisitions per day. Because of this heavy workload, Halliburton frequently would copy a requisition, hand it to a single Kuwaiti vendor, and tell the vendor to submit any quote below \$2,500 the next day. The buyers did not care that they might be paying more for the items than was necessary or appropriate. The focus was on filling a requisition quickly, not on obtaining a reasonable price. In other words, Halliburton implicitly invited vendors to overcharge the company and the U.S. taxpayer.

Relying on an Inadequate List of Preferred Vendors

The whistleblowers also explained that Halliburton's buyers often relied on an inadequate list of preferred Kuwaiti vendors to meet their needs. Mr. Bunting informed Rep. Waxman's staff that the senior procurement supervisor gave him a list of 15 to 20 preferred Kuwaiti firms when he arrived in Kuwait. He and the other buyers were encouraged to use the companies on the list to fill their requisitions. The whistleblowers were not told how it was developed.

Mr. Bunting reported that there were preferred vendors that were unreliable and that submitted uncompetitive quotes. The second whistleblower characterized the quality of the list as “not that good.” He added that many of the firms on the list did not respond to requests for quotes and that they charged “outrageous” prices. For example, one of Halliburton’s preferred vendors offered to supply plywood at a price of \$100 per sheet. This is even more expensive than the \$86 per sheet price that Halliburton paid in the Balkans and which the General Accounting Office found to be about \$72 per sheet too high.¹

Despite the list’s weaknesses, Halliburton supervisors did not encourage the whistleblowers or other buyers to identify alternative vendors that could offer greater reliability and lower quotes. When the whistleblowers took the initiative to expand their lists, they encountered resistance, even when new vendors offered lower prices than the preferred firms. For example, Mr. Bunting found a vendor that could provide office furniture at a lower cost than a preferred vendor. When he approached the senior procurement supervisor with this money-saving opportunity, the supervisor stated that he would continue to use the higher priced vendor on the preferred list.

This is not an isolated incident. On another occasion, Mr. Bunting received a requisition for exercise equipment. The Halliburton official who sent the requisition suggested that a specific local vendor be used. Because Mr. Bunting took the time to solicit quotes from additional vendors, he was able to save \$60,000 by awarding the purchase order to an American firm. However, even with the benefit of Mr. Bunting’s efforts, Halliburton apparently opted for local firms instead of the cheaper American company to fill two nearly identical requisitions for exercise equipment.

Specific Instances of Wasteful Spending

The two whistleblowers offered numerous specific examples of wasteful spending by Halliburton.

The former procurement supervisor told Rep. Waxman’s staff that Halliburton paid an unnecessary 10% fee to a “sponsor” company for cellular phone service. This individual explained that, under LOGCAP, Halliburton purchased between 2,000 and 2,500 cell phones for its employees from this company, which went by two different names, National Contracting Company and Rezayat Trading Company. The sponsor company, which had done prior business with Halliburton in the Balkans, charged approximately \$112 for each cell phone. Although the sponsorship agreement between Halliburton and National Contracting Company provided that

¹ General Accounting Office, *Contingency Operations: Opportunities to Improve the Logistics Civil Augmentation Program* (Feb. 1997) (GAO/NSIAD-97-63).

the phones and service were to be provided at cost, National Contracting charged an extra 10% fee for the service.²

When the whistleblower took the initiative to look into this arrangement further, he learned from Halliburton Overseas Limited, a Halliburton subsidiary that has been operating in Kuwait for decades, that a sponsor was unnecessary. The whistleblower then located two companies, MTC and Vodafone, which could provide the same cellular phone service without the additional 10% fee. The phone service could have been transferred in a day without the purchase of new phones. When the whistleblower informed the procurement manager, the manager took away the project from the whistleblower and sent it to a different department. The manager apparently intended to continue to use National Contracting Company despite the unnecessary 10% fee. The whistleblower pointed out that many of the Halliburton employees working in the LOGCAP office had close relationships with the sponsor because of their prior dealings in the Balkans.

The two whistleblowers offered several other examples of waste. Henry Bunting explained that Halliburton leased cars, sports utility vehicles, trucks, and vans for as much as \$7,500 a month. The former procurement supervisor noted that Halliburton had mistakenly purchased 50,000 pounds of nails of the wrong size. He also said that Halliburton purchased accommodation units, essentially mobile homes, from a company it had used in the Balkans. When he conducted a site survey of the units and found them to be of poor quality and in unacceptable condition, he prepared a deficiency report. But Halliburton did not attempt to seek reimbursement or repair costs from the vendor. According to Mr. Bunting, there was no need to use the vendor in the first place because superior units were available for purchase.

Both whistleblowers described a particular example involving embroidered towels. According to the whistleblowers, towels were needed for a recreation center for the troops. Regular towels, which cost between \$2.50 and \$3.00 each, would have adequately met their needs. However, Halliburton insisted on embroidered towels. The towels were intended for a unit responsible for "Morale, Welfare, and Recreation." They wanted the towels to read "MWR Baghdad." The company submitted a requisition to purchase these towels at a cost of \$7.50 each — about three times what should have been spent.

Conclusion

These two whistleblowers are former Halliburton employees with first-hand knowledge of Halliburton's procurement practices. If their accounts are accurate, the company is

² See Kellogg Brown & Root International, Inc., *Agency Agreement* (Oct. 2002). The agreement states, "Agent will also be entitled to reimbursement, at cost, for visa's, processing fees, any other direct expenses which Agent may incur on behalf of [Halliburton] while performing services under this Agreement."

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systematically overcharging the taxpayer on hundreds of routine requisitions every day. While the dollar amounts involved in any single procurement may be small, the cumulative cost to the taxpayer could be enormous.

U.S. taxpayers are paying Halliburton billions of dollars for logistics support in Iraq, and they are entitled to get their money's worth. We therefore urge you to investigate these allegations thoroughly and to initiate action to recover any overpayments to Halliburton.

Sincerely,



Henry A. Waxman
Ranking Minority Member
Committee on Government Reform



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

cc: The Honorable David M. Walker