

Congress of the United States

Washington, DC 20515

May 18, 2004

The Honorable Donald H. Rumsfeld
Secretary of Defense
The Pentagon
Washington DC, 20301

Dear Secretary Rumsfeld:

We are writing to object to the Administration's decision to outsource its oversight of Iraq reconstruction contracts. By its decision, the Administration has abdicated its responsibility to ensure that U.S. taxpayers' dollars are spent wisely. In effect, the Administration is allowing the major contractors in Iraq to police themselves.

To date, the Administration has awarded billions of dollars to a small group of private contractors for reconstruction projects in Iraq. Already, in numerous instances, well-documented by the Defense Contract Audit Agency and the Department of Defense Inspector General, these contracts have been plagued by fraud, waste, and abuse. In view of this, the Pentagon should have redoubled its own oversight efforts.

Instead, on March 10, 2004, the Coalition Provisional Authority (CPA) announced that it was outsourcing the oversight of these contracts – by awarding \$129 million worth of new “management” contracts to the same small group of contractors that is doing much of the reconstruction work in Iraq.

These contractors are being asked to carry out essential government oversight functions, including defining and prioritizing project requirements and actually overseeing the work of construction contractors. It is not appropriate for contractors to exercise these functions – particularly in view of significant conflicts of interest among these companies.

A prime example involves Parsons, a major construction firm. On March 10, the company's joint venture with CH2M Hill was awarded a \$28.5 million contract to oversee the expenditure of \$1.7 billion in taxpayer funds by four other contractors charged with restoring and improving Iraq's public works and water sector. The four other contractors are Fluor, Washington Group International, AMEC, and Black & Veatch. A separate Parsons joint venture with Parsons-Brinckerhoff was awarded a \$43 million contract to oversee \$1.5 billion in electricity reconstruction work to be completed by Fluor, Washington Group International, AMEC, and Perini.

Even if it made sense for one major contractor to oversee another – which it does not – Parsons could not act as an independent watchdog with respect to Fluor's water or electricity work, because of the close business ties between the two companies. Most notably, Fluor and Parsons are 50-50 partners in a \$2.6 billion joint venture to develop oil fields in Kazakhstan. This project dwarfs the value of Parsons' share of its oversight contracts in Iraq.

How can anyone expect Parsons to be an aggressive overseer of a company with which it is a partner in a major joint venture?

Indeed, actions that Parsons takes under the two oversight contracts could directly affect its own reconstruction contracts. Parsons is teamed with Bechtel on USAID's Iraq Infrastructure II contract. This contract, which has a value of \$1.8 billion, covers a range of sectors, including power generation, electrical grids, and municipal water and sewage systems. The prioritization and scheduling of work under the CPA contracts could affect the value and type of water and electricity work available for Parsons to do under the USAID contract. Parsons also has an \$800 million contract for the restoration of the oil infrastructure in northern Iraq, which could also be affected by how it exercises its oversight powers.

Another instance of a conflict of interest involves Parson's partner on the contract to oversee the public works and water projects, CH2M Hill, a global engineering and construction firm. CH2M Hill has ongoing domestic contractual relationships with Washington Group International, Fluor, and AMEC – three of the firms that it and Parsons are supposed to oversee. For example, CH2M Hill and Washington Group International are "integrated partners" on a \$314 million Department of Energy contract in the United States.

Yet another instance of a conflict of interest involves Parsons-Brinckerhoff, which is now supposed to oversee Fluor's electrical work in conjunction with Parsons Corp. In January of this year, Robert Prieto, the former chairman of Parsons-Brinckerhoff became senior vice president of Fluor. Such crossover in management is common among major contractors – and an obvious reason why it makes no sense to have these companies overseeing each other.

We understand that it can sometimes be necessary for government contractors to have business relationships with each other. But in this case, these companies have been given the specific responsibility to provide "oversight" of their business partners. Arthur Andersen's disastrous relationship with Enron illustrates what can go wrong when a supposedly independent company has multiple business relationships with the companies it is overseeing.

To make matters worse, the very structure of the oversight contracts compounds these conflicts of interest. Under the oversight contracts, the award fee provided to the oversight contractors is based in part on an assessment of the performance of the construction contractors it is charged with overseeing. The better the performance, the higher the award fee of the oversight contractor. This creates a financial incentive for the oversight contractor to give high marks to the work of the construction contractors.

The bottom line is that this kind of oversight system cannot work – and that the Pentagon should not abdicate its oversight responsibilities over multi-billion dollar contracts.

This week, we will be offering amendments to the Defense authorization bills in the Senate and House of Representatives, which would require that these contracts be terminated, and that the Pentagon carry out its own oversight responsibilities.

We have enclosed a staff report that provides more detail about these conflicts of interest. We hope that you will review this letter and report carefully and will reconsider the wisdom of these contracting decisions. We also urge you to support our contracting amendments.

Sincerely,


Byron L. Dorgan
U.S. Senator


Ron Wyden
U.S. Senator


Henry A. Waxman
U.S. Representative


John D. Dingell
U.S. Representative