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ONE HUNDRED EIGHTH CONGRESS

Congress of the United States

House of Representatives

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June 14, 2004

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The Honorable Tom Davis
Chairman
Committee on Government Reform
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I am writing to express my objection to your decision to prevent testimony of waste, fraud, and abuse involving Halliburton from being presented at tomorrow's hearing on Iraq contracting — and to advise you that I and other members will be seeking subpoenas at the hearing in order to obtain this important testimony.

Three weeks ago, my staff informed your staff of the identity of six individuals, five who worked directly for Halliburton and one who worked for a major Halliburton subcontractor. These individuals have firsthand knowledge of egregious examples of waste, fraud, and abuse involving Halliburton's Iraq contracts. At the minority's expense, we brought four of these individuals to Washington for in-person interviews with your staff and arranged extended telephone interviews for the other two individuals. These individuals described a wide array of wasteful and fraudulent practices:

- David Wilson, a convoy commander for Halliburton, and James Warren, a Halliburton truck driver, described instances in which brand new \$85,000 Halliburton trucks were abandoned or "torched" if they got a flat tire or experienced minor mechanical problems. They also described repeated incidents of theft involving both Halliburton and Army personnel. Mr. Warren stated that he brought these and other concerns to the personal attention of Randy Harl, the president and CEO of the Halliburton subsidiary for which they worked. He was fired a few weeks later.
- Marie deYoung, a Halliburton logistics specialist, described widespread overcharging and mismanagement by Halliburton. For example, Ms. deYoung described (and offered to provide documentation of) subcontracts under which Halliburton paid \$45 per case of soda and \$100 per 15-pound bag of laundry. Ms. deYoung also disclosed that Halliburton did not comply with the Army's request to move Halliburton employees from a five-star hotel in Kuwait, where it cost taxpayers approximately \$10,000 per day to

house the employees, into air-conditioned tent facilities, which would have cost taxpayers under \$600 per day.

- Michael West, a Halliburton labor foreman, described how he and other Halliburton employees spent weeks in Iraq with virtually nothing to do, but were instructed to bill 12-hour days for 7 days a week on their timesheets. In addition, his superior directed him to buy unnecessary equipment, telling him: “Don’t worry about it. It’s a cost-plus-plus contract.”
- Henry Bunting, a Halliburton procurement officer, described an almost complete disregard for costs among Halliburton officials. He described how he and other buyers were instructed to split large purchase orders into multiple purchase orders below \$2,500 in order to avoid the requirement to solicit multiple bids. When he raised questions, he was also told: “Don’t worry about price. It’s cost-plus.”

The sixth individual, who requested that the Committee protect his identity, raised some of the most serious charges of all. This individual, who was an executive at one of Halliburton’s subcontractors, has personal knowledge of millions of dollars paid by Halliburton for nonexistent or vastly overpriced goods and services.

Government auditors from the Defense Contract Audit Agency (DCAA) have found similar problems. DCAA previously raised concerns about Halliburton’s accounting systems in a December 2003 “Flash Report” and a January 13, 2004, memorandum. Now a new audit from DCAA discloses serious deficiencies in the bills Halliburton is submitting to the federal government, including billings that “are not prepared in accordance with applicable laws and regulations and contract terms.” This new Pentagon audit, which was prepared on May 13, 2004, finds that Halliburton has inadequate controls over subcontractors and “does not monitor the ongoing physical progress of subcontracts or the related costs and billings.” As the Committee will learn at tomorrow’s hearing, the General Accounting Office has also discovered serious problems with the Army’s oversight and planning mechanisms for LOGCAP in Iraq and Kuwait, including a lack of concern about cost.

Despite the significance of the information that the six individuals offered to provide — and the corroboration offered by DCAA and GAO — you turned down my request that they testify under oath before the Committee. You also turned down my request that Halliburton be extended a written invitation to testify at the hearing. Moreover, you have not issued subpoenas to the Defense Department and USAID despite their persistent failure to provide relevant documents to the Committee.

Our Committee is not fulfilling its obligation to protect the taxpayer from waste, fraud, and abuse. For this reason, I and other members intend to use all procedural options available to the minority at tomorrow’s hearing — including moving for the issuance of subpoenas and

requesting a minority day of hearings — to ensure that the Committee receives this essential information.

The Witness Interviews

Halliburton holds the largest contracts in Iraq. Under a logistical support contract (the LOGCAP contract), Halliburton has been awarded task orders worth more than \$4.5 billion to provide supplies, equipment, and services to support U.S. military units in Iraq and Kuwait. Under a sole-source contract to repair Iraq's oil infrastructure (the RIO contract), Halliburton has been awarded task orders worth about \$2.5 billion to import fuel and rebuild Iraq's oil infrastructure. Halliburton also received a follow-on contract worth up to \$1.2 billion to repair Iraq's southern oil fields. In total, Halliburton has received Iraq-related contracts worth approximately \$8.2 billion — far more than any other firm doing business in Iraq.

Over the past few months, several individuals have contacted my office with accounts of waste, fraud, and abuse involving these Halliburton contracts. These individuals have firsthand knowledge of Halliburton's conduct because they worked directly for Halliburton or its major subcontractors. Their accounts detail significant problems with procurement, planning, theft, fraud, and overcharging, all of which relate directly to the Committee's oversight of the U.S. contracting activities in Iraq. Six of these individuals agreed to share their experiences — under oath — if called to testify before the Committee.

On May 26, our staffs met to discuss the Committee's upcoming hearing on Iraq contracting. At this meeting, my staff proposed that the Committee invite the six individuals to testify at the hearing. Over the next week, my staff went to great lengths to organize interviews for your staff with each of the individuals, even arranging for four of them to travel to Washington, D.C., from as far away as Texas to meet with your staff personally. The other two individuals were interviewed at length by our staffs over the phone.

All of the individuals described significant incidents of waste, fraud, or abuse, and all were cooperative and forthcoming during the interviews. Several individuals offered to provide documentation supporting their claims. All of the individuals made clear that they were willing to spend as much time as necessary with your staff and that they were available for followup at any time. Moreover, five of the six individuals granted your staff permission to contact Halliburton and the Defense Department regarding the information they provided.

Nonetheless, I was informed on June 4 that you would not permit any of these individuals to appear before the Committee at the upcoming hearing. Your staff claimed that these witnesses were not yet "ripe" and that your staff would have to research whether the individuals were "credible" enough to testify before members of Congress at a hearing.

The Accounts of the Individuals

After you refused to allow the individuals to appear, I asked my staff to obtain statements describing what these individuals would tell the Committee if they were invited to testify. I have enclosed with this letter the statements we received from five of the individuals. These individuals worked for Halliburton in a wide variety of capacities, but their accounts have a common theme: a pattern of waste, inefficiency, and overcharges characterized virtually everything Halliburton did in Iraq and Kuwait. Their independent accounts portray Halliburton as a company with near total disregard for cost, poor or nonexistent oversight and management of subcontracts, and a pattern of avoiding meaningful accountability and oversight.

1. David Wilson's Statement

As a "convoy commander" under Halliburton's LOGCAP contract, David Wilson conducted more than 100 missions, hauling supplies and equipment by truck between Camp Cedar II in southern Iraq and Camp Anaconda near Baghdad. According to Mr. Wilson:

For some reason that was never explained to us, [Halliburton] removed all the spare tires in Kuwait. So when one of our trucks got a flat tire on the highway, we had to leave it there for the Iraqis to loot, which is just crazy. I remember saying to myself when it happened, "You just lost yourself an \$85,000 truck because of a spare tire."

We lost other trucks too. We lost a truck because we didn't have a \$25 hydraulic line to assist the clutch. . . . In my time on the road, I saw disabled trucks — or what was left of them — abandoned on the side of the road on a daily basis.

Mr. Wilson observed many other instances of waste and inefficient practices. According to Mr. Wilson, Halliburton "would run trucks empty quite often. Sometimes they would have five empty trucks, sometimes they would have a dozen. One time, we ran 28 trucks and only one had anything on it." Despite the harsh conditions in Iraq, Mr. Wilson witnessed a near total disregard for basic maintenance of convoy trucks, stating: "There were absolutely no oil filters or fuel filters for months on end. I begged for filters, but never got any. I was told that oil changes were 'out of the question.'"

He also described rampant theft of supplies from Halliburton trucks by Iraqis, Halliburton employees, and U.S. service members. According to Mr. Wilson, it was like "rats swarming on cheese."

2. James Warren's Statement

Mr. Warren is a truck driver who worked under Mr. Wilson's command in LOGCAP convoys from Camp Cedar II to Camp Anaconda. He corroborated Mr. Wilson's account,

adding that the practice in Iraq was to simply “torch” trucks that were abandoned rather than towing them to secure locations to be repaired. According to Mr. Warren, Halliburton, “didn’t seem to care about what happened to its trucks.”

Part of the problem, according to Mr. Warren, was that Halliburton performed little or no maintenance on its fleet of newly acquired trucks. Mr. Warren stated, “By the time I left Iraq about six months later, the truck assigned to me had 59,000 miles on it and never got a single oil change.” Mr. Warren also explained:

[Halliburton] removed the spare tires from the trucks on my convoys. I don’t know why they did this. But on one convoy, one of the trucks got a flat tire. Since we didn’t have any spares, we had to leave the truck on the side of the road. As someone who has been in trucking for 13 years, I do not understand how a company could ditch a brand new truck because they didn’t have a spare tire. No trucker I know would have been that careless with his own truck.

Mr. Warren also confirmed that there were widespread and repeated incidents of theft of convoy cargo. According to Mr. Warren, “people would steal things off the truck on a daily basis. . . . Sometimes I would wake up inside the truck as it was rocking back and forth from people on top of the truck loosening boxes and taking things.” When he reported this activity to his superiors, he was told not to worry about it because “it’s the Army stealing from the Army.”

In March 2004, Mr. Warren called Randy Harl, the President and CEO of Halliburton subsidiary Kellogg, Brown and Root, to warn him personally about these and other abuses. But according to Mr. Warren, no action was taken after he made this call. Mr. Warren was fired by Halliburton a few weeks later.

3. Marie deYoung’s Statement

As a logistics specialist in Halliburton’s LOGCAP subcontracts department in Kuwait, Ms. deYoung observed firsthand inadequate management and oversight of subcontractors that led to significant waste and overpricing. Ms. deYoung found that “very poor subcontract management practices were evident in every phase of the company’s work.” Employees were instructed to pay subcontractor invoices and to extend subcontracts without evaluating whether prices were reasonable, and without verifying that services and equipment were actually being delivered.

Ms. deYoung offered specific examples of inflated prices paid by Halliburton. Under one laundry subcontract, Halliburton paid a subcontractor about \$100 for each 15-pound bag, even though much lower prices were available. However, according to Ms. deYoung:

Halliburton management didn't want to hear about this overpricing. . . . When I started to raise concerns about this contract, I was told that I was providing too much information to DCAA auditors, and encouraged to discontinue my analysis and attempts to adjust invoices to a reasonable price.

Ms. deYoung also discovered that, under another subcontract with that company, Halliburton paid for 37,200 cases of soda each month even though the subcontractor delivered only 37,200 cans. Essentially, Halliburton was buying soda for \$45 per 30-can case. When Ms. deYoung began to make progress in reducing prices, a Halliburton Vice President had her taken off the accounts. Ms. deYoung concluded that "the Halliburton corporate culture is one of intimidation and fear."

In addition, Ms. deYoung described Halliburton's refusal to comply with an Army request to move more than 100 Halliburton employees out of the five-star Kempinski hotel in Kuwait and into leased, air-conditioned tent facilities like the ones used by our troops. She stated that Halliburton's refusal to move the employees had significant implications for the taxpayer: while Halliburton was paying approximately \$10,000 per day to house the employees at the Kempinski, they could have been housed in tent facilities for under \$600 per day.

4. Michael West's Statement

Mr. West was hired as a labor foreman for Halliburton's LOGCAP contract, but throughout his time at Camp Arafjan in Kuwait and Camp Anaconda, Al Asad, and Fallujah in Iraq, he and many other Halliburton employees had virtually no work to do. According to Mr. West, Halliburton officials instructed employees to bill 12-hour days for 7 days a week on their timesheets. For example:

When I got to Camp Anaconda in Iraq with 15 to 20 other Halliburton employees, the company had no plan for how to put us to work. Of the 35 or so Halliburton employees at Anaconda, only a handful had anything to do. At the first nightly staff meeting, the question of pay came up because so few people had any work. The human resources supervisor said: "Don't worry. Just write down 12 hours. Walk around, look around, look busy."

Mr. West witnessed this same lack of concern with cost when ordering equipment:

One day, I was ordering some equipment. I asked the Camp Manager if it was okay to order a drill. He said to order four. I responded that we didn't need four. He said: "Don't worry about it. It's a cost plus plus contract." I asked him, "So basically, this is a blank check?" The Camp Manager laughed and said, "Yeah." He repeated this over and over again to the employees.

According to Mr. West, Halliburton exercised virtually no supervision over a Jordanian subcontractor that was building a dining facility in Fallujah. He explained, "Once or twice a day, I would go to the site and take a few pictures. No one else from Halliburton was supervising them and no one asked me to do anything except stop by and take pictures."

Mr. West also witnessed a Halliburton truck force a car carrying an Iraqi family off the road, a practice characterized by a Halliburton truck driver as "normal." Describing his morning security duty at the front gate in Fallujah, Mr. West stated, "Even though I didn't have any security training, they told me to check trucks for bombs."

5. Henry Bunting's Statement

As a field buyer in Halliburton's LOGCAP procurement office in Kuwait, Mr. Bunting observed an almost complete disregard for cost. Supervisors and managers explicitly told him and other buyers: "Don't worry about price. It's cost plus." According to Mr. Bunting, "Prices obtained from vendors were never questioned by supervisors or managers."

Mr. Bunting said that buyers were told to keep purchase orders below \$2,500 in value so they could avoid the requirement to solicit quotes from more than one vendor. In order to comply with this instruction, buyers frequently split single purchase orders over \$2,500 into separate purchase orders below this threshold. In fact, Mr. Bunting said that it was routine for a buyer to hand requisitions to a single vendor and accept any quote below the \$2,500 level, regardless of whether the price was reasonable. He explained, "Vendors knew that any quote below \$2,500 would be accepted. Because we had a lot of requisitions to get through every day, the buyers didn't worry that the price might be unreasonably high." In addition, buyers were told to use preferred Kuwaiti vendors, even though many were unreliable and submitted inflated quotes.

Mr. Bunting pointed to "plenty of specific examples of wasteful spending." Halliburton leased SUVs and trucks for as much as \$7,500 a month. The company also insisted on and ordered embroidered towels at three times the price of ordinary towels. According to Mr. Bunting:

[M]anagement wasn't interested in saving money or improving the company's business practices. In June, we were informed that government auditors might be coming to our office. One supervisor told us to make sure that we portrayed Halliburton in a positive light. When I spoke up and said that I wouldn't lie to a government auditor, the supervisor said, "Don't give them any information they don't ask for." Even at the orientation in Houston, we were told that the quickest way home was to talk to the press or to Congress.

6. The Sixth Individual's Statement

In addition to the five ex-Halliburton employees described above, our staffs interviewed a sixth individual about major fraud involving a prominent Halliburton subcontractor on the RIO contract to restore Iraq's oil infrastructure. This individual was formerly an executive with the subcontractor. As he explained to our staffs, he has personal knowledge and documentation of fraudulent charges for millions of dollars worth of nonexistent services, vast markups on goods purchased by Halliburton, and ongoing charges for services that were unnecessary and largely unused. He informed us that Halliburton officials and the subcontractor's outside auditors were aware of these overcharges but did nothing. He also said that when he protested to the subcontractor's CEO, he was told, "Don't worry, Halliburton will take care of us." Ultimately, his employment was terminated because he complained about other potentially illegal practices.

Because of concern about potential retaliation, this individual has requested anonymity and declined to provide a written statement. He did indicate, however, that he would be available to testify at the upcoming hearing if subpoenaed by the Committee to appear.

Corroboration by DCAA and GAO

The whistleblower accounts are supported by the findings of government auditors. I have obtained — and am enclosing — a copy of a May 13, 2004, audit report issued by DCAA that is highly critical of Halliburton's billing system and subcontract management.¹ For reasons that have not been explained, this audit report was withheld from the Committee when the Defense Department delivered other DCAA audits to the Committee on June 4, 2004.

In the May 13 audit, DCAA reported "several deficiencies" in Halliburton's billing system that resulted in billings to the government that "are not prepared in accordance with applicable laws and regulations and contract terms."² DCAA "also found system deficiencies resulting in material invoicing misstatements that are not prevented, detected and/or corrected in a timely manner."³ The report emphasized Halliburton's inadequate controls over subcontract billings. The auditors "identified inadequate or nonexistent policies and procedures for notifying the government of potential significant subcontract problems that impact delivery, quality, and price" and determined that Halliburton "does not monitor the ongoing physical progress of subcontracts or the related costs and billings."⁴

¹ Defense Contract Audit Agency, *Audit Report No. 3311-2002K11010001* (May 13, 2004).

² *Id.*

³ *Id.*

The May 2004 audit report presented Halliburton's payment of subcontractor invoices for dining facilities as the prime example of the company's flawed billing system and weak subcontract oversight. The auditors found that the dining hall invoices are "not reasonable in amount and are not computed in accordance with subcontract terms and conditions."⁵ Although the subcontract analyzed by DCAA explicitly requires billing to be based on the number of actual meals served, Halliburton billed by projected headcounts, which, according to DCAA, "resulted in billings to the Government for as much as three times the meals actually served."⁶

GAO has reached similar conclusions. In an investigation that Rep. John Dingell and I requested, GAO has found serious problems with the Army's oversight and planning mechanisms for the LOGCAP contract with Halliburton in Iraq and Kuwait, including inadequate concerns about costs, reliance on inexperienced reservists with little training to advise military commanders on the proper use of the contract, and a lack of pre-war planning for how to provide LOGCAP services to the troops.

The Committee will learn more about the findings of these auditors at tomorrow's hearing, when both DCAA and GAO testify.

The Rationale for Not Inviting the Whistleblowers

The main rationale your staff provided for blocking the six Halliburton whistleblowers from testifying is that the Committee staff needs more time to investigate their allegations before their testimony would be "ripe" to bring before the Committee. Unfortunately, the Committee has not always followed through on these commitments. Promises to investigate in the future have served to deflect criticism of the Committee's inaction, but the actual investigations have not been pursued as vigorously as the circumstances warrant.

On March 26, following our first hearing on Iraq contracting, we sent joint letters to Defense Secretary Rumsfeld and USAID Administrator Natsios seeking a long list of documents related to the implementation of the largest contracts in Iraq. Both Secretary Rumsfeld and Administrator Natsios have failed to comply with large portions of these requests. Today, over two months since the requests were sent, the Committee still has not received most of the documentation requested. Yet despite this persistent failure to provide the information that the Committee requested — and that the Committee needs in order to conduct a meaningful investigation — you have not issued a subpoena to compel production of the documents.

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*

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The Committee's deferential approach toward Halliburton is a telling indicator of the Committee's priorities. Given that Halliburton is the single largest contractor in Iraq, my staff requested on May 26 that you invite Halliburton officials to testify at the upcoming hearing. Although your staff agreed to my request, they never issued a written invitation, and Halliburton representatives told my staff they had not been invited. Despite further requests by my staff, your staff refused to issue Halliburton a written invitation to testify. As a result, the Committee's June 15 hearing will now consist exclusively of government witnesses, just as the Committee's March 11 hearing did.

Conclusion

The statements of the six individuals, combined with what GAO and DCAA will report, portray a company and a contracting environment that has run amok. Although aggressive oversight by Congress is urgently needed, it appears that you have decided on a different course. This is inconsistent with our Committee's fundamental mission.

Accordingly, I am advising you that at tomorrow's hearing, the minority will use our rights under the House and Committee rules to obtain further information about waste, fraud, and abuse involving Iraq contracts, including seeking recorded votes on subpoenas for witnesses and documents and requesting a minority day of hearings.

Sincerely,



Henry A. Waxman
Ranking Minority Member

cc: Members of the Government Reform Committee