



**CENTRAL REGION RESIDENT OFFICE
AT KELLOGG BROWN & ROOT SERVICES, INC.
DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
4100 Clinton Drive, Mail Drop 03-1098A
Houston, Texas 77020-6237**

In Reply refer to:
820.5/keb (2007-KBRSI-028)

February 28, 2007

Mr. Todd Bishop
Kellogg Brown & Root Services, Inc.
A Division of Kellogg Brown & Root, LLC
4100 Clinton Drive
Houston, Texas 77020-6237

SUBJECT: Reasonableness of Subcontract Costs

Dear Mr. Bishop:

We have been notified over the last several months of KBRSI employees or ex-employees being indicted or convicted of procurement fraud or other illegal activities relative to KBRSI procurements. The following persons have been identified:

| | |
|-----------------|---------------|
| Stephen Seamans | Glenn Powell |
| Jeff Mazon | Laszlo Tibold |

Please provide a listing of all KBRSI procurements that these employees worked on. Please include the subcontractor name, subcontract number, subcontract amount, and prime contract number, and identify the product or service provided.

We are confident KBRSI has proactively examined all subcontracts negotiated and/or administered by these individuals to determine whether the Government paid inflated prices as a result of fraudulent activities. We request KBRSI provide the results and working papers that support any reviews of the related subcontracts. Specifically, we request KBRSI provide DCAA with the results of its reviews and investigations of all subcontracts showing the impact of any inappropriate action. If KBRSI's reviews satisfy our audit needs, we will rely on its work and subsequently curtail our own examination of those subcontracts. However, if we find KBRSI has not performed any reviews or disclosed cost impacts on Government contracts (where appropriate), this will be considered in our overall opinion on KBRSI's accounting control environment and purchasing system internal controls.

Most recently, we requested KBRSI exercise its audit rights on two of Tamimi Global Company's subcontracts or arrange for DCAA to perform these audits if Tamimi denies KBRSI access for competitive reasons. On February 5, 2007, KBRSI sent a letter to Tamimi requesting access for KBRSI auditors to Tamimi's books and records. The major concern with the two

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Tamimi subcontracts was whether the costs were reasonable in light of illegal activity by employees of KBRSI and Tamimi. Additionally, we need to determine what corrective actions KBRSI has taken to strengthen internal controls to reduce the likelihood of procurement employees entering into prohibited procurement activities, e.g., amounts withheld from vendors, reductions to subcontract prices, or removal of vendors from preferred vendor lists. Please provide us a detailed explanation of the corrective actions KBRSI has taken to date.

In order to assist in identifying subcontracts that may have impacted subcontract prices, we are providing a list of activities that may have produced unreasonable subcontract costs. Please do not limit your response to this letter to only the activities and associated subcontracts listed below. We need your response to address all subcontracts KBRSI is aware of that involve employees associated with subcontracts investigated or under investigation. The activities we are aware of that may have resulted in unreasonable subcontract costs are as follows:

- A LOGCAP III subcontract with a Kuwaiti cleaning company related to conviction of Stephen Seamans;
- A LOGCAP III subcontract with La Nouvelle for kickback to Jeff Mazon who has been indicted for fraud;
- A LOGCAP III gravel delivery subcontract awarded for five times the price of a competing vendor by the accused Laszlo Tibold who was fired by KBRSI; A LOGCAP III subcontract awarded by Glenn Powell who admitted subcontract prices were inflated by 20 percent; he received \$110,000 in kickbacks from Iraqi vendor;
- Settlement of \$8 million on the Balkans Support Contract (BSC) associated with 10 foreign based vendors for double billings and delivery of non-conforming goods; and
- An attempted bribe of a KBRSI purchasing employee on the BSC by a vendor performing in Hungary.

Please provide your response to this request by March 8, 2007. For further questions regarding this memorandum, please contact the undersigned at (713) 753-5025 or Mr. Gary R. Catt, Supervisory Auditor, at (713) 753-2548.

/signed/
Teresa A. Lawson
Resident Auditor

Copy furnished:
Jerry Conry, Administrative Contracting Officer, DCMA