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Fact Sheet

Halliburton's Iraq Contracts Now Worth over $10 Billion

The value of Halliburton's Iraq contracts has crossed the $10 billion threshold. Halliburton has now received $8.3 billion in Iraq work under its LOGCAP troop support contract and $2.5 billion under its no-bid Restore Iraqi Oil (RIO) contract, a total of $10.8 billion.

The mounting value of the contracts has been accompanied by a growing list of concerns about Halliburton's performance. Over the last year, government auditors have issued at least nine reports criticizing Halliburton's Iraq work, and there are multiple criminal investigations into overcharging and kickbacks involving Halliburton's contracts. Former Halliburton employees have testified before Congress about egregious instances of overbilling. Despite these concerns, the Bush Administration continues to reject the recommendations of its auditors that 15% of Halliburton's LOGCAP reimbursements be withheld until the company can provide better substantiation for its charges.

Value of the Contracts

Halliburton has several major contracts in Iraq. The largest, called the Logistics Civil Augmentation Program (LOGCAP), is a cost-plus contract to provide support services to the troops. As of December 2, 2004, the value of Halliburton's Iraq task orders under LOGCAP was $8.26 billion.[1]

The second largest Halliburton contract is the cost-plus RIO contract to restore and operate Iraq's oil infrastructure, which Halliburton was awarded on a no-bid basis in March 2003. The value of the work Halliburton performed under this contract is $2.51 billion.[2]

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[1] U.S. Army Field Support Command, *Media Spreadsheet for AFSC LOGCAP* (Dec. 2, 2004).

[2] 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).

The combined value of these two contracts is $10.77 billion. This is significantly more than any other contractor has been awarded in Iraq. For example, the maximum value of Bechtel's Iraq infrastructure contracts is $2.8 billion. Halliburton will reap profits of between $133 million and $424 million on its two contracts.[3]

The actual value of Halliburton's Iraq contracts is likely higher than $10.77 billion. In January 2004, Halliburton received a follow-on oil contract for southern Iraq worth up to $1.2 billion. The Administration has not disclosed the value of the work given to Halliburton under this contract.

Investigations and Audits

At the same time that the value of Halliburton's contracts is increasing, auditors are finding extensive problems with Halliburton's billings, and criminal investigations of Halliburton and its employees continue.

Auditors from the Defense Contract Audit Agency (DCAA), the Government Accountability Office (GAO), and the Coalition Provisional Authority Inspector General (CPA IG) have repeatedly and consistently criticized multiple aspects of Halliburton's activities in Iraq. In nine different reports, these government auditors have found widespread, systemic problems with almost every aspect of Halliburton's work in Iraq, from cost estimation and billing systems to cost control and subcontract management.

Key findings from these audits include the following:

- In December 2003, a DCAA draft audit reported that Halliburton overcharged the Defense Department by $61 million to import gasoline into Iraq from Kuwait through September 30, 2003.[4]

- On December 31, 2003, a DCAA "Flash Report" audit found "significant" and "systemic" deficiencies in the way Halliburton estimates and validates costs. According to the DCAA audit, Halliburton repeatedly violated the Federal Acquisition Regulation

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[3] Under Halliburton's cost-plus contracts, the government reimburses the company for its actual costs and then pays an additional fee. For LOGCAP, Halliburton receives a base fee of 1% of its costs and an additional award fee of up to 2%. This yields a profit range of $83 million to $248 million. For RIO, Halliburton's base fee is 2% of its costs and its additional award fee is up to 5%. This yields a profit range of $50 million to $176 million.

[4] Department of Defense, *DOD News Briefing* (Dec. 11, 2003). The minority staff of the House Government Reform Committee later determined that the total overpayment to Halliburton through April 1, 2004, was $167 million. *See* Minority Staff, Committee on Government Reform, *Halliburton's Gasoline Overcharges* (July 21, 2004).

and submitted a $2.7 billion proposal that "did not contain current, accurate, and complete data regarding subcontract costs."[5]

- On January 13, 2004, DCAA concluded that Halliburton's deficiencies "bring into question [Halliburton's] ability to consistently produce well-supported proposals that are acceptable as a basis for negotiation of fair and reasonable prices," and it urged the Corps of Engineers to "contact us to ascertain the status of [Halliburton's] estimating system prior to entering into future negotiations."[6]

- In a May 13, 2004, 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." DCAA also found "system deficiencies resulting in material invoicing misstatements that are not prevented, detected and/or corrected in a timely manner." 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."[7]

- On June 25, 2004, the CPA IG found that, as a result of poor oversight, Halliburton charged U.S. taxpayers for unauthorized and unnecessary expenses at the Kuwait Hilton Hotel. According to the IG, the overcharges would have amounted to $3.6 million per year.[8]

- A July 26, 2004, CPA IG audit report found that Halliburton "did not effectively manage government property" and that the company's property records "were not sufficiently accurate or available to properly account for CPA property items." The IG "projected that property valued at more than $18.6 million was not accurately accounted for or was missing."[9]

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[5] Defense Contract Audit Agency, *Audit Report No. 3311-2004K24020001* (Dec. 31, 2003).

[6] Defense Contract Audit Agency, *Status of Brown & Root Services (BRS) Estimating System Internal Controls* (Jan. 13, 2004).

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

[8] Coalition Provisional Authority Inspector General, *Federal Deployment Center Forward Operations at the Kuwait Hilton* (June 25, 2004).

[9] Coalition Provisional Authority Inspector General, *Audit of the Accountability and Control of Material Assets of the Coalition Provisional Authority in Baghdad* (July 26, 2004).

- In July 2004, GAO found ineffective planning, inadequate cost control, and insufficient training of contract management officials under LOGCAP in Iraq. GAO reported that, when Halliburton acted as a middleman for the operation of dining halls, costs were over 40% higher.[10]

- In an August 16, 2004, memorandum, DCAA "identified significant unsupported costs" submitted by KBR, a Halliburton subsidiary, and found "numerous, systemic issues . . . with KBR's estimates." According to DCAA, "[w]hile contingency issues may have had an impact during the earlier stages of the procurements, clearly, the contractor should have adequate supporting data by now." When DCAA examined seven LOGCAP task orders with a combined proposed value of $4.33 billion, auditors identified unsupported costs totaling $1.82 billion.[11]

- On November 23, 2004, the Special Inspector General for Iraq Reconstruction (formerly the CPA IG) examined a $569 million LOGCAP task order and found that Halliburton "did not provide . . . sufficiently detailed cost data to evaluate overall project costs or to determine whether specific costs for services performed were reasonable." The IG concluded that the Army "did not receive sufficient or reliable cost information to effectively manage" the task order.[12]

Multiple criminal investigations of Halliburton's Iraq contracts are also ongoing. The Justice Department is investigating Halliburton's admission that two of its employees received up to $6.3 million in kickbacks to steer LOGCAP subcontracts to a Kuwaiti contractor.[13] The Defense Department Inspector General, the FBI, and the Justice Department are investigating allegations of fraud and overcharging for gasoline under the RIO contract.[14]

Disclosures by Former Employees and Independent Experts

The concerns expressed by government auditors have been corroborated by the testimony of former Halliburton employees. Over the past year, six former employees came forward publicly

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[10] Government Accountability Office, *DOD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight* (July 2004).

[11] Memorandum from Defense Contract Audit Agency to U.S. Army Field Support Command (Aug. 16, 2004).

[12] Memorandum from Special Inspector General for Iraq Reconstruction, *Task Order 0044 of the Logistics Civilian Augmentation Program III Contract* (Nov. 23, 2004).

[13] House Committee on Government Reform, *Hearings on Unprecedented Challenges: Contracting and the Rebuilding of Iraq* (June 15, 2004).

[14] Letter from John R. Crane, Assistant Inspector General, Department of Defense, to Rep. Henry A. Waxman (June 30, 2004); *FBI Investigating Contracts with Halliburton,* New York Times (Oct. 29, 2004).

to provide Congress with information about egregious overcharges by Halliburton. Others have contacted congressional staff privately to echo these concerns. For example:

- Marie deYoung, a Halliburton logistics specialist, testified about 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.[15]

- Henry Bunting, a Halliburton procurement officer, 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. Supervisors routinely told the employees responsible for purchasing: "Don't worry about price. It's cost-plus."[16]

- David Wilson, a convoy commander for Halliburton, and James Warren, a Halliburton truck driver, testified that brand new $85,000 Halliburton trucks were abandoned or "torched" if they got a flat tire or experienced minor mechanical problems. Mr. Warren brought these and other concerns to the personal attention of Randy Harl, the president and CEO of KBR. He was fired a few weeks later.[17]

- Mike 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."[18]

Similarly, independent experts have criticized Halliburton's inflated gasoline prices under the RIO contract. Phil Verleger, a California oil economist and the president of a consulting firm, said of Halliburton's price: "It's as if they put the gasoline on the Queen Mary and take[] it around the globe before they deliver it."[19] Jeffrey Jones, until recently the Director of the Defense Energy Support Center, stated: "I can't construct a price that high."[20] Another expert, who asked that his identity not be disclosed, characterized Halliburton's prices as "highway robbery."

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[15] House Committee on Government Reform, *Hearings on Contracting and the Rebuilding of Iraq: Part IV,* 108th Cong. (July 22, 2004).

[16] Senate Democratic Policy Committee, *Hearings on Iraq Contracting Abuses* (Feb. 13, 2004).

[17] House Committee on Government Reform, *supra* note 15.

[18] Statement of Mike West (June 6, 2004).

[19] *The High Price of Gasoline for Iraq*, NBC News (Nov. 5, 2003).

[20] *Army Eyes Halliburton Import Role in Iraq*, Associated Press (Nov. 5, 2003).

Failure To Withhold Funds

Reflecting the growing problems with Halliburton's Iraq contracts, government auditors have recommended that the Army begin to withhold partial payment to Halliburton under LOGCAP as required by the Federal Acquisition Regulation. On August 16, 2004, DCAA strongly encouraged the Army to begin withholding 15% of Halliburton's reimbursements, stating, "It is clear to us KBR will not provide an adequate proposal until there is a consequence."[21] On November 23, the Special Inspector General for Iraq Reconstruction supported this recommendation with respect to the $569 million LOGCAP task order it attempted to audit.[22]

Instead of following the advice of these independent auditors, the Army has refused to withhold payments for the last eight months. To the contrary, the Army has given Halliburton multiple extensions to provide the adequate cost estimates and supporting data needed to finalize the terms of the contract.

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[21] Defense Contract Audit Agency memorandum, *supra* note 11.

[22] Special Inspector General for Iraq Reconstruction memorandum, *supra* note 12.