

Statement of Marie deYoung

Since receiving my commission through Officer Candidate School in 1984, I served more than ten years in the military, as a chief of services, a commander, a chaplain and lastly, as an operations officer. I attained the rank of captain and published two books about women in the military. I'm currently pursuing a doctorate in education leadership and public policy analysis.

During my time with Halliburton, I came to the conclusion that very poor subcontract management practices were evident in every phase of the company's work, from the negotiation and drafting of subcontracts to the oversight of subcontract work and implementation of inventory and property controls, as well as to the management of data, costs, and proper closure of each subcontract.

In December 2003, I began working for Halliburton through the LOGCAP contract in Kuwait. Based on my military service and my work for Halliburton in Kosovo, I was specifically asked to join the Kuwait project as a logistician and a writer for operations and briefings. I worked for night operations at Camp Udairi in Kuwait for two weeks.

On January 2, I was reassigned to Camp Udairi logistics, specifically to tackle subcontracts for Camp Udairi. I was tasked by the manager to bring all expired subcontracts up to date and to address subcontract issues that were making it difficult for staff to deliver timely services to the Army.

I soon discovered there was not a complete up-to-date list of all the subcontracts in the Subcontracts or Document Control departments. I also discovered that the Document Control Department had provided incorrect lists to all of the task order managers from an inaccurate data base. I later observed that the Document Control Database was never adequately updated until after government audits were over, under the assumption that a limited database would also limit the amount of auditable information that could be accessed by the government. A consequence of this approach was that operations management had bad information about the status of subcontracts most of the time, which in turn, contributed to cost overruns and poor management.

As a matter of policy, the Kuwait Document Control Department made only a few subcontract documents available to the Camp Udairi management – and then, only shells, without specific delivery or performance schedules. Lack of subcontract documentation made it impossible for site supervisors to properly manage their subcontracts. This practice continued until at least mid-February 2004.

At the request of KBR's Kuwait Project Manager, I was transferred from Camp Udairi to the Kuwait Subcontracts Department on February 29.

After receiving negative publicity about some of these issues, Halliburton established a "Tiger Team" to address these problems. Not only did the "Tiger Team" fail to correct the problems, it continued questionable auditing and subcontract administration practices. When the Tiger Team examined a subcontract, they just checked to make sure all the forms were in the file. They didn't assess the reasonableness of prices or consult with site managers. The Tiger

Team looked at subcontracts with no invoices and no confirmation that the products contracted for were being used. Instead of investigating further, they would recommend extending the subcontract. The team's sole purpose was to close as many subcontracts as possible, under the mistaken assumption that everything that was closed prior to the arrival of the government audit team would be exempt from further scrutiny. For three months, this Tiger Team occupied waterfront villas at the Hilton Hotel and shuffled papers, but did nothing to effectively clean up old subcontracts.

I worked in the subcontracts department until May 16, 2004. At one point, KBR Tiger Team members told us to bring 400 expired subcontracts up to date. The staff was instructed to cut change orders and requisitions to extend subcontracts, without verifying if site managers and subcontract administrators had already updated the file, or determining if equipment or services were still needed. We were instructed to pay invoices without verifying whether services were delivered. I personally told a KBR Tiger Team member not to pay an invoice that I knew was a double-billing because I helped set up another subcontract through which the services were properly delivered. The long term KBR employee told me I didn't know what I was doing, and she proceeded to cut a change order and an invoice payment authorization for the wrong account, under the prodding of the vendor who had not provided the services. Halliburton rarely collected adequate information from subcontractors to justify payment of invoices. When I attempted to properly verify invoice terms before setting up payment authorization, I was chastised. Management's intent was to pay the old accounts as quickly as possible to close them because only open accounts were being scrutinized in the government audit.

Given these practices, it's not surprising that I observed significant waste and overpricing. Under a subcontract with La Nouvelle, a Kuwaiti company, Halliburton was paying a fixed price of between \$1 million and \$1.2 million per month for laundry for a facility in Kuwait. Because there wasn't very much laundry to be done, Halliburton was paying La Nouvelle around \$100 per 15-pound bag. This was a much higher price than under other subcontracts. For example, Halliburton was paying \$28 per bag under a separate subcontract with the same company, and this laundry originated in Iraq, not Kuwait. However, Halliburton management didn't want to hear about this overpricing. There was no effort by subcontract administrators or the Tiger Team to renegotiate the subcontract or to analyze the price being paid. Logs showing how much laundry was actually being done were maintained from the beginning of this contract by site managers. The subcontract department did not request copies of the logs to determine price reasonableness until DCAA requested an analysis of costs in February or March of 2004. When I started to raise concerns about this contract, I was told that I was providing too much information to the DCAA auditors, and encouraged to discontinue my analysis and attempts to adjust invoices to a reasonable price.

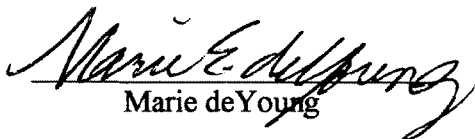
In August 2003, Halliburton entered into another subcontract with La Nouvelle to provide cans of soda with ice for a hospitality bar at the same facility in Kuwait. La Nouvelle charged for 37,200 cases of soda per month at a cost of about \$1.50 per case. However, La Nouvelle delivered only 37,200 cans, and the sodas were just dropped off, without ice or a hospitality bar. Not only were we paying for cases when we received cans, we effectively paid five times the wholesale cost for cans of soda. Only after I insisted that there was a problem did the Tiger Team confirm this overpayment.

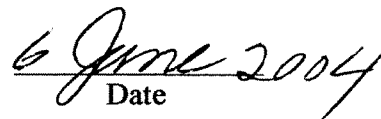
Meanwhile, Halliburton procurement and Tiger Team staff live at the 5-star Kempinski hotel while the troops in Kuwait live in tents. For a three-month period, the Kempinski hotel charged almost \$1 million to house 100 Halliburton employees. By comparison, it costs less than \$200,000 a year to lease tents that could house 400 soldiers. To put it differently, it costs \$110 to house one KBR employee per day at the Kempinski, while it costs the Army \$1.39 per day to bunk a soldier in a leased tent. The military requested that Halliburton move into tents, but Halliburton refused.

During my five months working on subcontracts in Kuwait, I tried to correct some of these practices. But the Halliburton corporate culture is one of intimidation and fear. When a new procurement manager, the thirteenth since the start of the Kuwait project, encouraged subcontract staff to speak up about the failed efforts of the Tiger Team, my co-workers cried out: 'the *last* subcontract manager tried to speak up, but *he* was fired. He was the *twelfth* subcontracts manager.' Ironically, other previous managers who tolerated bad practices were promoted to better paying jobs in Iraq or Houston or Jordan. Some had returned to preside over the Tiger Team efforts, but they were not even correcting bad files they created in the past year. When I approached my new interim subcontracts manager with concerns about over billing and duplicate accounts for the same service, he fearfully said, "I think you're trying to make this company look bad." When I began to make progress in getting La Nouvelle to revise its invoices downward, to reflect actual costs for services provided, La Nouvelle complained to the Halliburton Vice President who headed the Tiger Team. She had me taken off the La Nouvelle accounts. I had been advised by subcontract administrators who quit the company that employees get moved around when they get too close to the truth. I personally observed and experienced this as a routine company practice.

It became evident to me that Halliburton was not going to address systemic business deficiencies, such as badly negotiated subcontracts and inflated and overpriced management and consultant teams that did not provide legitimate operations management or oversight of subcontract operations. This lack of systemic oversight resulted in grossly inflated charges to the government. Consequently, I resigned my position in May. I brought my concerns to the Government Reform Committee because it is critical that our troops receive the services that they need and deserve. Every dollar that is squandered because of waste, fraud, or abuse is a dollar we do not have for critical equipment and supplies for our troops. There are structural problems with the way Halliburton does business that must be fixed so that we don't let down these soldiers, many of whom I know personally from my time in the military.

I requested the opportunity to testify before your committee so that I could elaborate on the management and financial issues that I addressed in this statement.


Marie deYoung


Date