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Statement of Rep. Henry A. Waxman, Ranking Minority Member
Committee on Government Reform
Hearing on
The Complex Task of Coordinating Contracts Amid Chaos: The Challenges of
Rebuilding a Broken Iraq

March 11, 2004

Mr. Chairman, I want to thank you for holding this hearing today. The subject we are going to consider — contracting in Iraq — urgently needs congressional oversight. It is an issue that has crucial implications for the success of our efforts in Iraq and for the U.S. taxpayer, yet it is being badly mismanaged.

Usually, I keep my remarks short at Committee hearings. But today, I am going to speak at some length. I have been investigating contracting in Iraq for many months, and I believe few of my colleagues understand just how big a mess this Administration has created. I want to explain to the members of this Committee — and to the public — what is going wrong and why.

The problems start with the procurement strategy that the Administration is using in Iraq. It is profoundly flawed.

I have a chart that I want to display. It shows two numbers. The first — 2,300 — is the number of discrete reconstruction projects that the Coalition Provisional Authority is planning to do in Iraq. The second — 0 — is the number of projects that will be subject to competitive bidding.

Instead of promoting competition, the Administration is giving contractors monopolies over huge sectors of the reconstruction effort. One company — Halliburton — gets all work related to oil reconstruction in southern Iraq, and another company — Parsons — gets all work related to oil reconstruction in northern Iraq. And they never have to bid against each other for any specific project.

The Administration has a procurement strategy that intentionally shields contractors from competition.

Think about this. For nearly a year, both Halliburton and Bechtel have had enormous operations in Iraq. Both companies can do virtually the same work. But never once have they had to compete against each other for a specific project.

This is a great deal for Halliburton and Bechtel, but it's an absolutely horrendous arrangement for the taxpayer.

These problems are compounded by the fact that many of the contracts that are being issued are "cost-plus" contracts. Under a cost-plus contract, the more the contractor bills, the more money the contractor makes. That's why cost-plus contracts are notoriously prone to abuse.

In the absence of competition to discipline prices, the taxpayer has to rely on contracting officers working for the Defense Department to keep prices reasonable. These officials are supposed to scrutinize the proposals submitted by Halliburton and the other contractors and reject those that are loaded up with unnecessary expenses.

But they are inexperienced and overwhelmed.

Rep. John Dingell and I asked GAO to investigate what kind of job the Defense Department is doing managing the largest contract in Iraq: Halliburton's LOGCAP contract. This contract alone is worth over \$4 billion to Halliburton.

GAO told us that Army Central Command in Kuwait has not made cost control a priority. GAO found that the Army does not have the expertise or the personnel in Kuwait needed to ensure that taxpayers are not overcharged. According to GAO, inexperienced reservists are being sent to Kuwait and given key oversight responsibilities. A two-week training course on contract management is the only preparation they receive.

GAO told us that in one instance, the Army approved a LOGCAP contract worth \$587 million to Halliburton in just ten minutes. The documentation for this mammoth contract was just six pages long.

In essence, this Administration's approach to contractors like Halliburton is "trust but don't verify." Auditors like the Defense Contract Audit Agency and criminal investigators with the Inspector General and the Justice Department can try to catch waste, fraud, and abuse after it occurs. But there are few mechanisms in place to prevent overcharges from occurring in the first place.

We are now learning that the Administration's approach is an enormous mistake. This week, the Committee received two recent audits of Halliburton by DCAA. At the appropriate time, I will move that the Committee release these documents publicly.

These audits are a scathing indictment of Halliburton. According to DCAA, Halliburton's cost accounting system has "significant deficiencies," and the company has repeatedly violated federal acquisition regulations.

Anybody who has followed this issue has heard Halliburton say over and over again that any violations or overcharges are isolated occurrences. This is what it said when it was revealed that Halliburton sought fees for millions of meals it never served. And this is what Halliburton said when it disclosed that company procurement officials participated in a \$6 million kickback scheme.

This is also what Halliburton said to DCAA. When the audit agency gave Halliburton a chance to respond to its preliminary findings, Halliburton wrote: “This issue is not a ‘significant estimating system deficiency’ as stated in the DCAA draft report. Rather, this was a unique situation.”

The problem with Halliburton’s response is that it’s not true. According to DCAA — and I quote — “the estimating deficiency is not a one time occurrence; it is systemic.”

Here’s a stunning fact that is revealed in the DCAA audit documents. DCAA brought these systemic problems to the attention of the Army Corps of Engineers on January 13. Three days later — on January 16 — the Army Corps gave Halliburton another \$1.2 billion contract. It was as if the decisionmakers simply didn’t care.

Yesterday, I sent my colleagues a briefing memorandum that went through some of these issues in detail. I ask unanimous consent that it be made part of this hearing record.

It is not just the government auditors who are complaining about Halliburton’s practices. Halliburton’s own internal auditors have said that the company’s procedures are “antiquated” and that it has “weak internal controls.”

And last month, my staff was contacted by two former Halliburton procurement officers. They described company practices that systematically overcharged the taxpayer on hundreds of routine requisitions every day. When they tried to protest, they were ignored. They said that the company’s motto was “Don’t worry about price. It’s cost-plus.”

It’s very hard to get details from the Administration about the specific amounts Halliburton is charging for particular projects. The White House, the Secretary of Defense, and U.S. AID all have an aversion to any form of oversight. When Rep. Dingell and I write letters raising significant issues, they are almost always ignored.

But we have been able to penetrate one particular contract: Halliburton’s contract to import fuel from Kuwait to Iraq. And what we have learned is that Halliburton and its obscure subcontractor Altanmia have been gouging the taxpayer.

I have another chart I want to show. Halliburton imports gasoline from Kuwait into Iraq for Iraqis to use. The Defense Energy Support Center imports gasoline from Kuwait into Iraq for the military to use. The chart simply compares the prices the government pays with those that Halliburton pays.

The differences are astounding. Gasoline in the Mideast is a commodity. Everyone should be able to get it at essentially the same price. But Halliburton is paying over 20 cents more per gallon than the Energy Support Center just to purchase the fuel.

Both Halliburton and the Energy Support Center have to transport the fuel through dangerous conditions into Iraq. Both entities are using private contractors to handle the transportation. And both entities receive protection from military convoys. But it costs the Energy Support Center just \$0.36 per gallon, compared to \$1.21 for Halliburton.

And then Halliburton adds on a “markup” for itself of 24 cents per gallon and an “other” charge of 2 cents per gallon.

The end result is that it costs the taxpayer twice as much when Halliburton imports fuel as it costs when the government does.

Rep. Dingell and I first raised this issue on October 15. Since then, all I’ve been hearing from the Army Corps of Engineers, which is the agency responsible for the fuel contract, is a string of denials and platitudes. As recently as February 1, the Corps spokesman said: “We have our own internal audit process [and we] haven’t turned up any serious wrongdoing or major problems.”

And when you get to the bottom of this, that’s the real problem. The policymakers in this Administration don’t seem to care about the pattern of waste, fraud, and abuse that is coming to light. Fifty years ago, the CEO of General Motors said, “What is good for the country is good for General Motors, and what is good for General Motors is good for America.”

Well, I have a message to this Administration, “What’s good for Halliburton is not always good for America.”

Iraq is a dangerous country. All of us in Congress want to do whatever is necessary to make sure our troops have the equipment and protection they need. And Americans are a generous people. They are willing to spend billions to help Iraqis rebuild their nation and establish democracy. But gouging and profiteering is heinous and should never be tolerated.

I firmly believe that Congress has an important oversight role to play in ensuring the wise expenditure of taxpayer dollars. Part of the problems that we are experiencing can be attributed to the lack of vigorous congressional oversight. But I am encouraged by recent steps that Chairman Davis has taken. He joined with me in requesting the DCAA audit documents. He scheduled this hearing. And he has promised to hold another hearing in April or May,

This is not easy for him to do, and I am sure it will alienate many in the Administration. But I commend him for the steps that he is taking — even as I will be pressing him to do more.

In closing, let me say that I look forward to today’s hearing and the opportunity to hear from and question the distinguished witnesses before us.