

House Finally Forced to Hearing on Halliburton

by Carl Osgood

After months of resistance, the Republican-controlled House Government Reform Committee was compelled to hold a March 11 oversight hearing on contracting in Iraq, focussing on overcharges and price-gouging by Dick Cheney's Halliburton Corporation. The hearing, in front of an overflow audience and television cameras, lasted almost four hours, concluding shortly before 6:00 p.m. when committee chairman Tom Davis (R-Va.) was forced to concede, "It looks to me like something went wrong here." That the hearing took place at all was a victory for the LaRouche movement and also for the handful of members of Congress, particularly Rep. Henry Waxman (D-Calif.), who have consistently pressed the Halliburton issue and dug out more and more damaging information.

Demonstrating the climate the LaRouche movement has created, Davis began and ended the question-and-answer period with references to Dick Cheney. To undercut the charges being levelled by Waxman and others, Davis began the question period by asking the seven panelists—all Department of Defense officials, including three uniformed generals, and Comptroller Dov Zakheim—whether they had ever had "any discussions with the Office of the Vice President" concerning the awarding of any contract, and whether the fact that the Vice President is a former officer of Halliburton influenced the awarding of any contract. In his closing statement, Davis again commented that "it so happens that the Vice President is a past CEO of one of the companies" subject to the hearing.

Waxman had circulated a memo the day before to the news media, on newly obtained information on Halliburton's contracts in Iraq. On the morning of the hearing, there were stories in all major newspapers on Halliburton's special treatment in Iraq. One major element of the new materials, which figured prominently in the hearing, was a finding by the Defense Contract Audit Agency (DCAA), in a Dec. 31 audit, that there were "significant" and "systemic" deficiencies in the way Halliburton estimates and validates costs. The DCAA audit concluded that "these deficiencies could adversely affect the organization's ability to propose subcontract costs in a manner consistent with applicable government contract laws and regulations." This finding caused the DCAA, in a Jan. 13, 2004 memo, to recommend that the Defense Contract Management Agency "contact us to ascertain the status" of Halliburton subsidiary Brown and Root Services' (BRS) "estimating system, before entering into future negotiations."

Yet, a mere three days later, despite this explicit warning,

the Army Corps of Engineers awarded Halliburton a \$1.2 billion contract! Waxman reported the Corps later claimed, "We have our own internal audit process [and] haven't turned up any serious wrongdoing or major problems."

A review of the DCAA audit would suggest that the Corps was not looking very hard. The audit gives an example of an Oct. 7, 2003 proposal by BRS to provide food services at seven sites in Iraq for \$208.8 million, that did not make reference to the fact that the company had let subcontracts covering the same sites from June through August 2003 totaling \$141.5 million. "Based on our computation," the auditors wrote, "subcontract costs for the seven sites alone were overstated by \$67.3 million." In addition, BRS did not disclose that it had terminated two subcontracts with a particular supplier, subcontracts that were the basis for a \$1 billion proposal to provide food service at 26 sites in Iraq. The auditors also found that the BRS failed to comply with Federal acquisition regulations requiring the provision of cost data in its proposals, as well as data on competition, and price analyses of competing subcontractors. These deficiencies, the report states, "resulted in the loss of significant audit resources. . ."

In its response to the DCAA audit, Halliburton admitted that it did not include the most current pricing data in its proposal, and accepted responsibility for that fact. However, it then turned around to claim that the actual difference on the food service proposal for all 26 sites—not the seven cited by DCAA—was only \$37 million out of the entire \$1.2 billion proposal. The company took issue with DCAA's charge that this indicated a "significant estimating system deficiency."

Waxman on the Attack

In his March 10 memo, Waxman also reported that Government Accounting Office investigators "reported that the Army's Combined Acquisition Review Board approved a six-month renewal contract with Halliburton worth \$587 million in just ten minutes, and based on only six pages of supporting documentation." Waxman concluded that the new information "has major implications for contracting in Iraq. . . . It depicts a situation where costs are virtually uncontrolled and Halliburton can overcharge the taxpayer by phenomenal sums."

In his opening statement on March 11, Waxman called the procurement strategy for Iraq "profoundly flawed," and said it intentionally shields contractors from competition. He noted that of the 2,300 discrete projects in Iraq planned by the Coalition Provisional Authority, not one will be subject to competitive bidding. He charged that the Bush Administration is giving monopolies to certain companies, including Halliburton and Bechtel. Even Tom Davis had to agree that the committee will be holding another hearing on Iraq contracting in April.

Waxman grilled the witnesses on the DCAA Jan. 13 memo and the contract award that followed it. DCAA director William Reed acknowledged that the Army Corps of Engi-

neers did not contact his office prior to the award. He tried to explain that contracting officers are often in possession of information about the contractor besides what they get from the DCAA, and therefore may have other reasons for their decisions. Waxman then turned to Maj. Gen. Carl Strock, the Corp's director of civil works, who spent eight months in Iraq last year. Strock admitted that the Corps did not have any information about Halliburton to contradict the DCAA report, and that the contracting officer had the Jan. 13 DCAA memo in his hands. "I can't understand how the Corps can operate in this way," Waxman said. "We're talking about a contract that will cost the taxpayers \$1.2 billion," he said, "yet it seems that the Corps did not bother to contact the DCAA before issuing the contract."

As Waxman dug deeper into Halliburton's problems, the witnesses became more defensive, especially on the subject of the kickback scandal, wherein two Halliburton employees were dismissed for taking \$6 million in bribes from a Kuwaiti company to steer to it gasoline subcontracts from Halliburton. Zakheim said that the fact that Halliburton reported the kickback case to the DoD, itself, "is not to their detriment." Waxman then listed a series of problems, including the kickback scheme, millions of dollars paid to Halliburton for meals not served to U.S. troops, the use of an obscure Kuwaiti supplier to provide gasoline for Iraq, and the deficiencies in accounting practices. He noted that certain matters have been referred to the DoD's inspector general and the Department of Justice for investigation. "These are criminal investigations," Waxman said. "This means that there is something really wrong."

Zakheim responded that the matters referred for criminal investigation were referred by the DoD, but "an investigation doesn't mean someone's guilty." He judged, "It seems that they are not doing a great job, but they're not doing a terrible job, either." Committee Chairman Davis, in damage-control mode throughout most of the hearing, nonetheless was forced, after all the discussion of Halliburton's deficient accounting and poor cost documentation, to say that the committee needed to hear from the contracting officer who awarded the \$1.2 billion contract to Halliburton despite the DCAA's Jan. 13 memo.

Waxman and Rep. Chris Van Hollen (D-Md.) also spared no effort in going after Halliburton for its \$61 million overcharge for importing gasoline into Iraq from Kuwait, an operation that Waxman first exposed last October. DCAA director Reed reported, in response to questions from Van Hollen, that the DCAA had issued a draft report to Kellogg, Brown and Root asking them to document the costs they were paying for the gasoline in Kuwait. However, Van Hollen noted that, eight days later, the Army granted a waiver to KBR so that it wouldn't have to provide that cost data.

Waxman summed up, "It troubles me that the administration and Halliburton keep putting out false and misleading information. The whole affair does not smell right and is in need of full investigation."