

Senate Democratic Policy Committee
Oversight Hearing on Iraq Contracting Practices

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Good morning. My name is Henry Bunting and I am from Houston, Texas.

I am a purchasing and planning professional with extensive experience in manufacturing and engineering organizations. I am skilled in evaluating purchasing alternatives, negotiating contracts, and developing second source suppliers.

During my professional career, I have worked for Halliburton, Hewlett-Packard, Tyco, and the Houston Metropolitan Transit Authority.

I served in Viet Nam and received an Honorable Discharge from the United States Army as a Staff Sergeant.

I appear before this Committee today to discuss my experiences as a buyer in Halliburton's LOGCAP procurement office in Kuwait from May through mid August 2003. I quit after 15 weeks of 12 to 16 hour days. There was little chance to leave the Khalifa Resort work site and little relief in sight.

There are three levels of procurement staffing at Halliburton. Buyers are responsible for ordering materials to fill requisitions from Halliburton employees. We would find a vendor who could provide the needed item and prepare a purchase order. Procurement Supervisors were responsible for the day-to-day operation of the Procurement section. The Procurement, Materials & Property Manager was a step above them.

On average, my daily open requisition count was between 80 and 150. All requisitions were to be filled as soon as possible. Other buyers averaged 60 to 70 open requisitions. The requisitions covered everything from office supplies and bug spray to telephones, cars and drugs.

While working at Halliburton, I observed several problematic business practices.

For purchase orders under \$2,500, buyers only needed to solicit one quote from one vendor. To avoid competitive bidding, requisitions were quoted individually and later combined into purchase orders under \$2,500. About 70 to 75 percent of the requisitions processed ended up being under \$2,500. Requisitions were split to avoid having to get two quotes.

For purchase orders above \$2,500, buyers were required to obtain two quotes. The buyer would select a high-quoting supplier and a more moderate preferred-quoting supplier. Thus, the buyer

would be able to place the purchase order with a preferred supplier, as he or she knew that the quote submitted by the preferred supplier would be lower.

Let me go through a few examples of Halliburton practices.

On one occasion, I was instructed by my supervisor to go shopping with another Halliburton employee for a camcorder. The Procurement Supervisor told me to remember the \$2,500 limit.

My instructions were to purchase most of the equipment from the camera shop, which I did. I got two receipts so we could cut two purchase orders on a different day. The Supervisor instructed me to return to the supplier to have him combine the receipts into one and lower his pricing so as not to exceed \$2,500. The supplier did as requested.

Another supplier was solicited for the remaining camcorder requirements. The computer related items were purchased from a third supplier. All the purchase orders were kept under \$2,500 each.

After I completed the purchase order paperwork, changes were made to the purchase order without any trace or accountability for these changes. An outsider reviewing the file would assume the purchase order execution followed the normal processing cycle.

Halliburton management stated in May 2003 that an enterprise system was to be implemented within several months that would provide an audit trail by tracking changes to purchase orders. However, buyers believed that Halliburton wanted to keep using MS Word documents and Excel worksheets to avoid generating any electronic audit trail.

The camcorder purchase points out another questionable Halliburton business practice.

There were frequent instructions by Procurement Supervisors and Management to keep material requisitions under the \$2,500 threshold to avoid competitive bidding. Remember this is a "cost plus contract" so Halliburton would get reimbursed for its costs plus a percentage.

Because of the influx of people, the demand for office chairs and desks was high. The preferred supplier had provided office furniture almost from the beginning of Halliburton's time in Kuwait. No one questioned pricing. We simply called, furniture was delivered, and paperwork was completed. The comment by both Halliburton buyers and management was "it's cost plus, don't waste your time finding another supplier." Most requirements for office furniture were filled without competitive quotes.

I took it upon myself to find a second source for the furniture requirement. I received quotes from several suppliers resulting in cost savings of \$30 per office desk and \$10 per office chair. I estimate these savings as \$5,000 to \$6,000 per year.

The point is that competitive pricing is available in Kuwait. But the preferred supplier list is questionable. Halliburton could reduce costs.

Here's another example. Four material requisitions were submitted for cardiovascular exercise equipment. Each requisition was for the same equipment, which was to be installed at four different MWR (morale, welfare and recreation) facilities in Kuwait.

The Halliburton MWR manager who submitted the requisitions specified a specific brand of exercise equipment. He also recommended a supplier who stocks this equipment in Kuwait with delivery within 15 days. The MWR manager stated on several occasions we should use the suggested supplier.

We solicited quotes for two of the four requisitions. My purchase order was awarded to the low cost supplier instead of the requester's "preferred supplier." This produced a savings of approximately \$60,000.

However, the two remaining requisitions were transferred to the Sub-Contracts Section for awarding. Even though the Sub-Contracts Administrator was verbally advised of the history of these four requisitions, I suspect that the low cost supplier was not awarded the order and Halliburton paid a premium for the equipment.

There also was a requisition for 2500 towels for a MWR facility in Baghdad. There were old quotes for ordinary towels. The MWR manager changed the requisition by requesting upgraded towels with an embroidered MWR Baghdad logo. He insisted on this embroidery, which you can see from this towel.

The normal procurement practice should be that if you change the requirements, you re-quote the job. The MWR manager pressured both the Procurement supervisor and manager to place the order without another quote.

I advised my supervisor of the situation but resigned before the issue was resolved. I assume the order for embroidered towels was placed without re-quoting.

A list of suppliers was provided by the Procurement supervisor. It was just a list of names with addresses and telephone number. We were instructed to use this preferred supplier list to fill requisitions. As suppliers were contacted, commodities/product information was added. However, we found out over time that many of the suppliers were noncompetitive in pricing, late quoting, and even later in delivery.

My estimated annual spend was about \$30 to \$40 million, and the LOGCAP spent more than \$250 to \$300 million in Kuwait. Competitive quoting, planned selection, qualifying suppliers and recovery of funds for poor performance could generate real savings in the range of 5 to 15 percent, as much as \$12 to \$45 million.

I would like to thank the Committee for this opportunity to discuss Halliburton's questionable business practices under the LOGCAP contract.