

Democratic Policy Committee hearing on Iraq contracting abuses

Friday, February 13, 2004

10:00 a.m. - Noon

Dirksen 628

Sen. Byron L. Dorgan (D-ND)

Sen. Dick Durbin (D-IL)

Sen. Frank Lautenberg (D-NJ)

Sen. Barbara Boxer (D-CA)

Witnesses:

Henry Bunting: former Field Buyer, Halliburton in Kuwait

Jeffrey Jones: former Director of the Defense Energy Support Center, the Pentagon office responsible for supplying gasoline for military activities

William Hartung: President's Fellow at the World Policy Institute at the New School for Social Research

Steve Ellis: Vice President for Programs at Taxpayers for Common Sense

Transcript:

Senator Dorgan: [prepared statement] Today's hearing is intended to shine a light on Iraq contracting practices.

At the outset, I want to explain why oversight in these matters is important. And to do that, I will borrow a few lines from the Congressional Record, dating back to 1966.

In August of 1966, during the Vietnam War, a young Republican Congressman from Illinois named Donald Rumsfeld stood in the floor of the House of Representatives. He delivered a passionate speech about a contract for the construction of air fields in South Vietnam. The work had been awarded largely to a company named Brown and Root, amid charges of cronyism.

This is what Congressman Rumsfeld had to say: "The potential for waste and profiteering under such a contract is substantial." He told his House colleagues that "it is beyond me" why the contract "has not been and is not now being adequately audited."

We are holding today's hearing about Iraq construction contracts in precisely the same spirit.

The fact is that this Administration has chosen to award huge contracts without benefit of a competitive, transparent process. And the result has been a steady stream of reports of apparent waste and abuse.

Ironically, many of these reports have involved Halliburton, a company that acquired the successor to Brown and Root, the same company that then-Congressman Rumsfeld had on his mind in 1966.

It is not my intention to make a single company the focus of this hearing. However, it is only natural that much of today's discussion will involve Halliburton — first, because that company has obtained the lion's share of Iraq contract business, and second, because there have been so many reports of problems with Halliburton's contracts.

These reports of waste, individually, are serious enough. But it is important that we determine whether they are symptoms of a larger, more pervasive problem.

For instance, what are we to make of reports that Halliburton charged \$2.64 a gallon to import gasoline into Iraq from Kuwait — resulting in overcharges well over \$100 million?

Or that Halliburton employees took up to \$6 million in kickbacks to funnel subcontracts to particular Kuwaiti companies?

Or that Halliburton overcharged \$28 million for meals served to troops in Iraq? That, in just one month, that same company billed the U.S. Army for 42,000 meals per day, when it had served only 14,000 meals?

It seems to me that these incidents may well reflect a broad mindset: one that was born on the day that these contracts were awarded without competition, and that was nurtured through a lack of oversight by this current Administration and majority-controlled Congress.

If sunshine is the best disinfectant, then we can only imagine what grows in the dark.

So it falls upon this Committee to call today's hearing. And we have a panel that will hopefully throw some welcome light into this situation.

We will be hearing today from a former Halliburton employee — who until last August was a field buyer for Kellogg, Brown, and Root in Kuwait. This gentleman has first-hand experience of Iraq contracting practices.

We will also hear from the former director of the Pentagon office responsible for supplying gasoline for U.S. military activities worldwide, who is uniquely qualified to help us assess the issue of gasoline overcharges.

Our other two witnesses will help to put these issues into a broad context, and to determine whether there is a pervasive pattern of waste, fraud, and abuse here.

With that, let me invite Mr. Bunting to begin his testimony. [end of prepared statement]

Let me call on my colleagues, Senator Boxer and then Senator Durbin, and then, following that, if Senator Lautenberg is here at that time, I will call on him for an opening statement and then I will call on our witnesses. Senator Boxer.

Senator Boxer: Thank you very much, Mr. Chairman, and thank you Senator Durbin for joining us.

I just want to say, Senator Dorgan, that you have been stalwart in your efforts to root out, what I call war profiteering. It's just, you can dance around it but that's what it's about. When we were all in the House together, in the '80s, I was involved and you all helped me rooting out some of the frauds that were going on. Remember the \$1,100 coffee pots and the \$600 toilet seats and the \$90 wrenches and all of that. We changed laws, we thought we had taken care of it. But here it is back again.

I'm just going to take about two minutes to give you a true story about a Halliburton contract that just will not end, despite our best efforts to stop it. And you were helping me on the floor of this.

Last May we were on the Senate floor demanding that the sole source contract awarded to Halliburton for the repair and upkeep of Iraqi oil infrastructure be placed by a fully competitive, be replaced with a fully competitive follow-on contract. During that debate, Senator Warner and I came to an agreement on an amendment stating that the sole source contract should be terminated by April 31, 2003. That amendment passed 99-0.

Let me tell you what's happened since. April 8—remember, we came to the floor in August, so April 8, 2003, the Bush administration announces that the contract is worth up to \$7 billion but the bulk of it will be open to competitive bids soon. April 14, the Army Corps says that the contract's value won't be \$7 billion, it will be less than \$650 million and they expect to renew the bidding process by the end of April. May 2, the Army discloses that the contract also includes operation of oil facilities and the distribution of oil. The contract award is delayed until August. June, the Army delays the contract award until October. July, \$461 million obligated to Halliburton. October, \$1.6 billion obligated to Halliburton. The Army delays the contract award until December; December the contract award is delayed until January; December 11, they award \$2.2 billion to Halliburton. Last month, yeah, they had two follow-on contracts and Halliburton won the larger one worth up to \$1.1 billion.

In the same week that the DOD Inspector General announced an investigation into Halliburton for serious contracting irregularities, which Senator Dorgan has discussed, we have learned that Halliburton has charged the American taxpayer at least \$61 million through September 2003 for gas deliveries.

Halliburton has admitted that two employees took kickbacks valued up to \$6 million in return for awarding a Kuwaiti-based company a contract to supply US troops serving in Iraq. Halliburton through its network of subcontractors billed for 42,000 meals a day but served 14,000 meals a day. That's a new low in wartime profiteering. Maybe akin to charging our military for their meals when they are in hospital.

The Pentagon last year, meaning the individual soldier, the Pentagon last year paid Halliburton more than \$30 million for meals between January through July. A bill that included charges for nearly \$4 million for meals that were never served. Maybe they want to make up for it and serve \$4 million in meals for the homeless or something.

It's because of these outrageous acts that a lot of us have been involved in different ways. Senator Lautenberg and I introduced a bill that would specifically make companies that are under investigation for contract fraud by the Inspector General, ineligible for no-bid government contracts. The bill is structured so that if the President says, "Ah well, that's the only company that can serve meals," he can *waive it be he will have to explain why*.

I also sent a letter to Secretary Rumsfeld asking him to begin dispensation or disbarment proceedings against Halliburton. Halliburton should be banned immediately from bidding on any federal contracts for a number of years. Mr. Chairman, I look forward to hearing from our witnesses today. I thank you so much for being so dogged in your work on this and proud to be with both of you in this issue, this hearing.

Senator Dorgan: Senator Boxer, thank you so much. We are joined by Senator Durbin from Illinois. Senator Durbin.

Senator Durbin: Senator Dorgan, thank you for your leadership on this.

Senator Boxer, I'm glad that you are here today and the other colleagues who will join us and particularly those who have gathered at this table to testify. If you were not willing to come forward and testify, it would never have been known and frankly, we would be derelict in our duty and responsibility.

During WWII, Harry Truman called war profiteering treason. President Roosevelt said, "I don't want to see a single war millionaire created in the United States as a result of this world disaster." And here we sit today, wondering if we can find or summon the same level of outrage from this administration or from our colleagues in Congress with the clear actions that have been taken by companies at taxpayers' expense who are not serving America.

We will hear specifics today, they are eye-openers and they tell us that our suspicions have been confirmed. Taxpayers' dollars are being wasted ... wasted in the name of national defense and that is absolutely unacceptable.

I want to also commend, Congressman Henry Waxman in the US House of Representatives and Congressman John Dingell. They too have really been leaders and they too have been unable to find colleagues in the House of Representatives who will step forward and have a hearing, to get to the bottom of this, to ask the hard questions. Why are we here on Capitol Hill if it's not to act as an oversight on these activities?

Historically, Congress has done that. A young Senator from Missouri named Harry Truman, who ferreted out all of the waste and misdeeds during World War II. A Democratic Senator from Missouri with a Democratic President and a Democratic Congress who wasn't afraid to tell the truth! And yet we find with a Republican President and a Republican Congress, no Republicans willing to step forward and ask the hard questions. Why? How can we explain this? I don't think there is an explanation.

Currently Halliburton is running ads on television to rehabilitate its image. And you don't need to tell the four of us at the table here who raise a lot of money, to run a lot of ads, what's going on. They know what the American people think of their company and now they're trying to put on a pretty face and tell a happy story about what they're doing. Well, there's a former Governor of Texas named Ann Richards who said that you can put lipstick on a pig and call it Yvette, put it's still a pig. And in this situation, until Halliburton comes clean and tells the truth and is held accountable for its actions, then frankly, we are not doing our duty and Halliburton is not serving this country as it should.

The last point that I'll make, Mr. Chairman, is this: the waste of taxpayers' dollars is bad enough. To think that hard-working Americans are paying their taxes, and that money is being wasted, is a terrible thing.

This is even worse. Just the other night, a number of us Senators went out to Walter Reed Hospital to meet with the wounded soldiers: the very best in America. The very young Americans who have given their lives, given their arms and legs, have given their futures in serving for this country. We met with them, you couldn't have asked for a greater bunch of people. And you leave there inspired that they were willing to do it.

And they raised questions. “Senator, do you think that we could get some armor-plating on the 8,400 Humvees in Iraq? Like the one that blew up under me and took my leg. Can we afford to come up with the armor plating? Could we get the vests?”

The vests that protect the soldiers over there. I don’t understand why we all don’t have them if we need them. Simple hard questions. Questions this Senator can’t answer because the resources, the billions of dollars put into this war, is still not enough to protect them in these basic ways. Today we’re going to hear about money that has been appropriated by this Congress, that has been wasted. Money that has been going into obscene profits, money that has been going into waste and fraud that should never be tolerated. This story needs to be told to every American. It’s one thing to wave the flag but we don’t waive our common sense in saying that we’re patriots. And our common sense tells us that the companies that are serving us have to be patriots as well. Thank you, Mr. Chairman.

Senator Dorgan: Senator Durbin, thank you very much. We’ve been joined by Senator Lautenberg. Senator Lautenberg, do you have any statements?

Senator Lautenberg: Thank you for convening today’s hearing on Halliburton. It’s quite an incredible scene that we have out there.

And my colleague, Senator Durbin was talking about some of the ads that we are viewing on television that are kinda cachinnation about how we don’t always do things right but we always correct them. Sometimes it takes a good amount of years and a good smack on the wrist to — to make ’em do it. But the fact of the matter here is that we are looking at a scandalous picture.

I am a member of the Senate Committee on Governmental Affairs and have been requesting that it hold a similar hearing for the past nine months. I’ve written three letters to the Chairman and have gotten virtually no response. I regret that our Republican colleagues on the Governmental Affairs Committee have shied away from dealing with this critical subject. While the Kuwaiti Parliament saw fit to open investigations of Halliburton’s business practices in Iraq, this Congress has so far refused to investigate what, I think, is becoming more and more obvious: the company’s record of cronyism, fraud, and price gouging.

Several months ago, I discovered that Vice President Dick Cheney, who was the Chief Executive Officer at Halliburton before his election, continues to receive a salary from the company that actually exceeds his pay as Vice President. It is deferred compensation, but the non-partisan Congressional Research Service determined that the payment constitutes an “ongoing financial relationship” despite the Vice President’s protestations to the contrary.

And I was induced to look at this when I saw Vice President Dick Cheney on *Meet the Press*, when he denied any financial interest in the company. Today, as we discuss the critical topic of how American taxpayers’ dollars are being used to reconstruct Iraq, we have a chance to say, “Enough is enough.” Enough cronyism and sweetheart no-bid deals. Enough accounting misdeeds and overcharging of the U.S. taxpayer. And enough bending of the law to suit the needs of Halliburton.

Halliburton’s record of overcharging, bribery, and accounting fraud recites like a textbook example of corporate irresponsibility. Yet Halliburton has virtually monopolized contracts in Iraq and has collected over \$9 billion dollars through its subsidiaries.

Vice President Cheney gave a speech a few weeks ago in Rome, in which he strongly chastised those who — and I quote — “tolerate and profit from corruption and maintain ties to terrorist groups.” This line struck me as ironic, because as we have recently discovered, when Vice President Cheney was the head of Halliburton, he seems to have conducted his business in a manner that embraces all that he now criticizes.

This week, my staff uncovered documents from the Department of Commerce revealing a “flurry of business activities” between Halliburton and the Iranian government when Vice President Cheney ran the company. The documents indicate contacts between an Iranian oil company called Kala Limited and a subsidiary of Halliburton, Halliburton Products and Services, which has “offices” in Dubai but is registered in the Cayman Islands. [points to poster]

And here we have this poster. This document is dated in 1998. In May of 1998.

These stacks of documents, which I would be happy to provide to my colleagues, seem to be part of the reason that Department of Treasury investigators recently reopened an investigation of Halliburton for evading and possibly breaking U.S. sanctions prohibiting trade with Iran. Although the Treasury Department had investigated this allegation in the past, a new investigation was begun this month, subsequent to new revelations of Halliburton’s shell games to avoid the sanctions preventing U.S. corporations from doing business with terrorist states.

In late January, the news program *60 Minutes* reported that while Vice President Cheney headed Halliburton in the late 1990s, the company set up a foreign subsidiary in the Cayman Islands called Halliburton Products and Services. Although the subsidiary was wholly owned by the U.S.-based Halliburton, it was deliberately located there so that Halliburton could do business with Iran and avoid U.S. sanctions for doing so. When investigators visited the Halliburton Products and Services Company in the Cayman Islands, they found no employees, no actual office, and no real business. All they found was a “mail drop” that forwarded mail received there to Halliburton’s headquarters in Houston.

President Bush has characterized Iran as one of the two remaining members of the “Axis of the Evil.” It is on this short list because it is directly responsible for terrorist attacks that have taken hundreds of U.S. lives since the early 1980s. Two young women from New Jersey, Sarah Duker and Alyssa Flatow, are among the hundreds of American victims of Iranian’s proxy terrorism. Iran funds Hamas, Hezbollah and Islamic Jihad, all terrorist organizations, according to this administration’s own designation. The sanctions against Iran, which I helped put in place, were instituted by Congress to punish Iran for its sponsorship of terrorism.

Now, despite the possibility that Halliburton — under Vice President Cheney’s watch — was deliberately bypassing U.S. sanction law to conduct business with the terrorist regime in Tehran, this administration, which purports to be waging a “global war on terrorism,” has given Halliburton contracts exceeding \$9 billion to rebuild Iraq.

I look forward to discussing how we can protect American tax dollars from Halliburton’s abuses. I have focused on the evasion of U.S. sanctions law because this is the newest, and I believe most shocking, revelation regarding Halliburton.

Again, Senator Dorgan, I applaud you for convening this hearing. It’s amazing how things can change. It’s why I wanted to come back to this Senate. I look forward to working with you and our colleagues to meet the challenges America now faces here and abroad.

Senator Dorgan: Thank you, Senator Lautenberg.

I want to make two points before I turn to the witnesses. Number one, let me also thank Congressman Waxman who has done substantial work in the U.S. House of Representatives on this issue and he is even now continuing his inquiry in the House of Representatives and we thank him for his cooperation. The creation of the policy committees in the Senate, Republican and Democrat, anticipated our holding inquiries, our holding queries on issues.

When you have issues such as kickbacks, overcharging for gasoline for our troops, charging taxpayers for meals that never reached the troops in the field, it seems to me that you ought to have committees in the United States Senate lining up to have hearings to demand answers, but that regrettably has not been the case. So we will demand answers.

Some who don't want tough questions asked about these issues will shout politics. And that's fine. While they shout, we're gonna search.

We want the truth and we want it now. And we are determined to find the end of this string and to shut down this waste and abuse. The fact is, those who engage in waste and abuse, undermine our military. Those of us, all of you who are willing to shine a spotlight on this waste and abuse, strengthen our military.

So I want to thank the witnesses who have agreed to come today. It is not easy to do this, it is not easy for us to hold hearings to shine a spotlight on things that are as unsavory as this but it is our responsibility to do so.

Henry Bunting has joined us today from Houston, Texas. Henry Bunting is a purchasing and planning professional with extensive experience in manufacturing and engineering companies. He has expertise in purchasing alternatives and negotiating contracts and developing second-source suppliers. He received a B.A. in Business Administration from Kent State University and has worked for Halliburton, Hewlett Packard, Tyco, and Houston Metropolitan Transit Authority. Mr. Bunting served in Vietnam and received an honorable discharge from the United States Army as a Staff Sergeant. Mr. Bunting, thank you for joining us and would you please begin with your statement.

Mr. Bunting: [prepared statement] 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 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 the next step above them.

On average, my daily open requisition count was between 80 and 150. All requisitions were to be filled on as soon as possible basis. 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.

The plan was 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 decided 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 2,500 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 logo, which you can see from this towel.
[break in prepared statement] [Shows towels.]

Senator Dorgan: Please tell us what KBR means.

Mr. Bunting: Oh, Kellogg, Brown and Root. All of the signs that I ordered to identify things, most of them had KBR on some place on the sign. For example, for the fire department, stating where the fire department was, had KBR on the lower part of the sign, so that people knew what it was.

Senator Dorgan: And MWR?

Mr. Bunting: MWR stands for Morale, Welfare, and Recreation. This towel comes from an exercise facility that the military used to keep in shape. And these were throughout Kuwait and ISG was in the Iraqi facility.

Senator Lautenberg: What period of time are we talking about here. From when you were there —

Mr. Bunting: I was there from the first part of May. The first week, the second week of May. And I terminated, er, quit in Mid-August. I was home by August 20.

Senator Lautenberg: And what year are we talking about?

Mr. Bunting: Of 2003.

Senator Dorgan: Since you worked for Halliburton, KBR is the subsidiary of Halliburton?

Mr. Bunting: KBR is a subsidiary of Halliburton. That is correct.

Senator Dorgan: And yeah, can you tell us the difference in price here. You tell us that the original requisition just asks for towels. And then it changed to insist that there be a logo that says KBR or the Halliburton Corporation. What's the increase in price?

Mr. Bunting: The original purchase order for that, that I was discussing for these 2,500 towels was for towels at a price of .38KD which was roughly \$1.60 a towel. That towel would have cost around \$4.50 and \$5.50 per towel. For two reasons —

Senator Boxer: So it's \$1.50 without the logo —

Mr. Bunting: Yes, Ma'am.

Senator Boxer: And five bucks with the logo?

Mr. Bunting: Yes, Ma'am. But that is also an upgraded towel. That's a much higher quality towel than the original order called for. The difference of the upgraded towel if we bought the plain towel would have been about \$1.85, \$1.90. So we're looking at a difference of about perhaps, \$4, with the logo and 2,500 was the quantity.

Senator Dorgan: You may proceed, Mr. Bunting.

Mr. Bunting: [resumes prepared statement] 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 verbally 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 \$5 to \$10 million in the first year.

I would like to thank the Committee for this opportunity to discuss Halliburton's questionable business practices under the LOGCAP contract. [end of prepared statement]

Senator Dorgan: Mr. Bunting, thank you very much. We're gonna have questions. Let me ask you just one, and then we'll go one to hear one of the other witnesses. Based on your testimony, it seems to me the case, that requiring a logo for this company to be put on a towel asks the taxpayer not only to pay for the logo but also earns the company a profit because it's a cost plus contract. Is that right?

Mr. Bunting: That is correct. That is absolutely correct. Any time you add something to the basic commodity that can be purchased on the open market, you're going to pay a premium.

Senator Dorgan: And there's nobody in the military overseeing this, saying "Hey, we don't need the logo on the towels." Go ahead and spend your money, pad your profit. Put logos on towels with your company name on it.

Mr. Bunting: The contracting officer for the military did approve the requisition.

Senator Dorgan: Unbelievable. Alright we're gonna hear from three other witnesses and then we'll ask questions. Thank you, Mr. Bunting, for your testimony.

Jeffery Jones is the former director of the Defense Energy Support Center at the U.S. Department of Defense. Since November of 2003, when Mr. Jones retired after 30 years of distinguished federal service including two Presidential rank awards, he has worked as a consultant to firms seeking to improve logistics and other business practices. Prior to that time he directed the Center for Energy Support in the Department of Defense... it's the Defense Energy Support Center, or I should say. An

organization responsible for purchasing, managing, storing, and distributing all petroleum resources worldwide by the U.S. Military in Peacetime and Wartime. And again, Mr. Jones, you directed that center.

Mr. Jones: That's correct.

Senator Dorgan: July 1995 to March 2000 you served as the Deputy Director of the logistics operations in the Defensive Logistics Agency, where your responsibilities including overseeing all of DLA's supply chain functions at five supply site centers and twenty-two distribution centers. I won't go through your entire background but that certainly demonstrates a substantial amount of public service and you were at the Pentagon at the highest level of responsibility for purchasing, managing, storing all petroleum resources used worldwide.

We've asked you here because we know, you've seen the same reports that we have seen of the, the amount being paid to taxpayers for the purchases of gasoline in Kuwait and delivered into Iraq and many of us just shake our heads in disbelief at what's happening. We want to get your background and experience and your comments on this subject. Thank you for being willing to come to testify, Mr. Jones.

Mr. Jones: Thank you, Mr. Chairman, Senator Boxer from my original home state. Senator Durbin, Senator Lautenberg, can you hear me now? I don't mean for this to be a Verizon commercial. I'll summarize my remarks today by delving into some of the points that you've all been raising here for very good reasons. The three basic issues are:

One: How we got into the situation we found ourselves in with KBR, and you've all spoken to this. I also have a view that some of the outsourcing of federal jobs is tied to the same philosophy of how this contract is operating and the lack of transparency in government. Senator Boxer and Senator Durbin, I think that both of you spoke to those points very well.

DESC is a field agency of DLA is a, as the Chairman had mentioned. It supplied fuel to all the armed forces throughout all the major military campaigns in recent years. Its predecessor or the first organization actually was formed during WWII to get the Army and the Navy to get together in buying petroleum to support troops in Europe. The organization's mission has grown exponentially and the DESC has met some huge in the Balkans conflict, Operation Enduring Freedom, and now Operation Iraqi Freedom.

During my tenure at DESC we were occasionally forced to pay sole-source prices in some locations but not even in remote central Asia did we pay close to \$2 a gallon for jet fuel and that's delivered. I believe that the most that ever paid for delivered fuel was \$1.40 although I could be overlooking a few cases and those would primarily be in places at airports that most people haven't heard of.

When I got the first call about \$2.65 gasoline in Iraq, it was a real head-scratcher; I did have a full head of hair before this started. A number of reporters managed to find me in Florida and my retirement quickly went down the drain for at least a month.

Ask me for my opinions on whether this made sense or not, frankly I've never seen the contracts. I can't imagine why it should cost that much money. Especially in light of the fact that gasoline being brought down from Turkey, much longer line of communication, was a dollar cheaper. And that was really quite an interesting finding right there.

But in today's market, \$1.65 is considered pretty reasonable. As a matter of fact, if the President wanted to check local gasoline prices, he'd find that it's about \$1.65 in Daytona, but I don't think that will be part of the program down there.

In any case, at about the same time the House Government Reform Committee hearing, my office began getting calls from the Corps of Engineers, asking what DESC could do to help out. It appears there might have been a misestimate, misunderstanding from an earlier conversation we had with them in which they had asked to help move propane into Iraq.

Now my former organization never handles propane, doesn't have any particular expertise or licensing to do that. So we basically told them that was not going to happen. However, there was a lot of surprise later on when KBR began the massive gasoline and diesel fuel movements and pretty much right alongside what we were doing particularly in Turkey.

We had provided KBR sourcing information for both fuel and trucks and we were also providing information about trucking agencies like Melbauric in the Emirates so that they could know where to find the resources they need to shorten their search cycle. If I recall correctly, we had been inspecting Turkish trucks for jet fuel deliveries. Some of those wound up in KBR gasoline service.

I don't mean to imply any wrongdoing, but we were almost tripping over each other in, in Turkey, managing essentially the same kind of program. DESC's Iraq operations have mostly been limited to operations in the Northern Zone. There were some problems from time to time, but the Army was providing security and it was my understanding that they were providing security, at least to some extent, in the South as well for the KBR operation. Now I could be somewhat off on that but that was the way it was in the beginning in any case.

The drivers that we used were a little less willing to drive when they had to drive a little bit further south. The troops were saying, "Go on down to Baghdad," and they didn't want to do that. The jet fuel that we used came from out of the Turkish pipeline; we put it in under an old agreement that predated the fuss that we had with them diplomatically over putting troops into Turkey.

But first, one of the things about this \$2.65 gasoline. One moral of the story is: Don't tinker with the price of something that every citizen in the U.S. can directly relate to. But on a more significant level, some of the more significant issues that I believe the Congress should take up and if they won't then I certainly commend to you are ones that I'm going to go into.

I don't mean to criticize anyone here, because in many ways I think that the corps was under such pressure that they did what they could with what they had with the guidance they were given. But there were some significant issues.

There was some terrible communication within the U.S. organizations within Iraq. We've had an office, DESC's had an office in Bahrain for forty years and that office was in on every aspect that it could possibly be in on, although it was not particularly involved in the Kuwait part of it because the Army was designated the responsible agent. Also, most of that fuel was free and that was done under a State Department agreement that we were not a contract party to.

The second issue was the lack of organic resources to manage contractors. Now that's already been brought up by you, the members of the committee, but it's absolutely the case that part of the connection to federal job outsourcing that I make is that when you outsource, the people who can tell whether the job was being done right then you don't have any control over this situation and you build yourself, you dig yourself your own grave. As a matter of fact, the organization that I just left is one of those that is being looked at for outsourcing by the Pentagon. I can only imagine what would happen if it were not around and this problem came up; there really wouldn't be anybody to turn to.

And then there's the lack of the overall transparency in the process, which Senator Durbin spoke to very well — if you don't have transparency, whether the process is right or wrong, you undermine the confidence of the American people and even some of the employees within the government; they're doing what they think is best under the circumstances.

And then, of course, the fraud issues that have already been mentioned.

As I said in my written statement, we as Americans are seldom able to take the full measure of a situation before we are up to, up to our necks in it. By underestimating the extent of support that would be needed in a longer-than-expected engagement and the added support of aiding the largest Arab nation in the Gulf, while opponents to the U.S. action attempt to reverse our reconstruction efforts. This reality versus the expectation has brought us here. Costs are so much higher than the original \$20 billion estimate, not because the estimate was wrong but because the estimate only considered what it knew. The Defense Department — with DLA, my former command — the Army, and the Air Force are all taking steps, working to improve their own logistics capabilities in an expeditionary environment.

But that has not helped this particular problem. The reliance on contractors has got to be accompanied with responsible oversight. Those two things go together or nothing will work right.

I'll summarize by saying that no executive likes his power diminished but that's our form of government and our only protection against tyranny. Going to war is serious business and serious questions have to be asked.

The Middle-East is not the Mid-Atlantic, the Midwest, or Western Europe, old or not-so-old. Iraq came with lots of baggage: colonial baggage, wealth from before Saddam, a history of mixing tribes (sometimes mixing better and sometimes mixing worse) but someone has to ask harder questions before we send 19 year old with M16s into such places.

Second, if this greatest nation on Earth wants to continue to stand for the values in the — its Declaration of Independence, it has to act in a way before the fight and after the fight that represents those values. Many reasonable people around the world see our ouster of Saddam in Iraq looks a lot like a colonial act, like what the British did decades earlier and what the United States was accused of in Iran in 1952. We may be repelled by these views but they are out there and they carry guns and Kellogg, Brown and Root cannot fix that.

As you know from my prepared statement, I do not want to discredit the hard-working people, particularly the soldiers, but a lot of individual contract employees, civilians, and others who are doing their best in a difficult situation. We should thank all of those who are working to the best of their ability.

But for all of the reasons I've mentioned, we need to raise the quality of the dialogue in this country. We need serious discourse about serious issues. We need transparency back in the decision process.

You can't act ad hoc and ad lib on the world stage and can't turn the U.S. government and then fundamentally moral decision-making into a business case in a boardroom.

Ladies and gentlemen, I'll be pleased to take questions when the time comes.

Senator Dorgan: Thank you very much, Mr. Jones. We appreciate you being here.

Next we'll hear from William Hartung. He is the President's Fellow at the World Policy Institute at the New School. He is the founder and director of the institute's arms project, established in 1993 to provide independent research and analysis to journalists, policy-makers, and citizens organizations on issues concerning global weapons proliferation. He's the author of a good many books including, *How Much Are You Making on the War, Daddy?* He's appeared in most of the major journals and on television broadcasts as an expert in his area. He's a graduate of Columbia with a B.A. and a member of Phi Beta Kappa.

Mr. Hartung, thank you very much for joining us today.

Mr. Hartung: Thank you, Senator Dorgan, for your leadership.

Representative Waxman, I think, I grew up in a Republican household. My dad was an accountant. He finally came around to my point of view late in the Reagan administration, that instead of arguing with the phone company about a ten-cent call, we should be arguing with the Pentagon about the tens of billions that they spend on our behalf.

I think that this is certainly a time when we need some leadership on both sides of the aisle and I think we'll get it. I think that after what we've heard today, the country's not going to stand for a situation where this money is wasted, because it's not just about taxpayer money, as Senator Durbin pointed out. It's also about the safety and security of our troops, because money that's wasted on monogrammed towels, on leasing autos for outrageous rates, and meals not being served, is money not being spent on body armor, that's not giving support our troops need and I think that the more people understand that they more they will demand that these hearings be held not just in this room but that they be held in the full bodies of this Congress, with all of the power necessary to get to the bottom of this.

I'm going to depart only slightly from my prepared remarks only to say that when I heard what Henry Bunting and his colleague had to say, I had to think a little bit more about the case with Halliburton. I'm starting to wonder if this is a company on the verge of an ethical nervous breakdown. Sorta like the case we had with Enron and Arthur Anderson. Because not only have we had a company that has overcharged us for gasoline, that has had kickbacks, been charging for meals that they are not serving to our troops — because quite frankly our troops do not want to eat the meals because they are not of a quality that they really want to deal with — that has a motto that stated, "Don't worry, it's cost plus."

But it's also a company that is being investigated for bribery in its operations in Nigeria. It's a company that's being investigated by the FEC for funny money accounting practices. It's a company that Senator Lautenberg said, that's used offshore entities to hide trading with companies and countries that have involved themselves with terrorists. It's a company asbestos liabilities and that frankly, these cost plus contracts to supply our military are the best thing it's got going. So I'm just wondering if maybe there's a larger story going here. That there's a little desperation at the top of this company that is perhaps created a corporate culture that is perhaps run out of control. And that maybe they have

some very good people in theater, there's a corporate ethos that has gone off the rails here. And that our government is nodding and winking because they've got a friend in the White House with the name of Dick Cheney.

And we've seen in this week's *New Yorker* a very good piece where she points out, there's a quote in there that says that, "Well, if you want something done about Iraqi contracting, you got to Dick Cheney."

So when I was writing my book about war profiteering, the Bush Administration — I've been doing this for twenty-five years — I've never seen this level of cronyism. It's more like Sarto in Indonesia than what I recognize as democracy in America.

So that's just a little scene-setter, but I think in terms of the work in Iraq, what struck me is that whenever Halliburton gets caught they always say they had to do it for expediency. They say, "Well, you know, the reason that we got the contract in secret to put out the oil fires was because we were the best company for the job."

But the late Mark Feinman, who recently died of a heart attack in Iraq, did a piece where he looked into that question and it ends up that there were better qualified companies to put out those oil fires. In fact, Boots and Coots, the company that Halliburton had a joint venture with was on the verge of bankruptcy and may not well have been able to put out the oil fires had we had a significant number of them. They had to bring in a second company after the fact and if that company had said that, "You know, we would have been better off had we been brought in for the initial planning." So in that case, the secrecy did not serve the case for expediency, it actually made the job harder.

And then, of course, Senator Waxman found out that this was not a contract just about oil well fires, it was about running the entire oil infrastructure of Iraq. Likewise, on the gasoline kickbacks, they used a Kuwaiti firm called Altanmia and they said, "Ah, well, you know, it's the only company that would take the risk, that would bring the gasoline over the border, and so forth."

Well, first off, some experts claimed that you needed a middleman company at all and then when Representative Waxman's staff looked into it, they found that this company had no experience dealing with fuel and it had some possible ties to the ruling family in Kuwait. So the secrecy actually hid the fact that this deal had more to do with nepotism than it did with expediency.

So what we find time and time again is that secrecy hides wrongdoing; it's not something that serves expediency or that serves our troops.

And then finally, Senator Boxer had raised this issue up of um, should we basically debar or shut Halliburton out of future military contacts. And I think that the problem there is that you need a strategy for doing that because Halliburton, due to actions dating back to the last ten years, is basically the privatized logistics arm of the U.S. Army at this point.

As my friend, Mr. David Eisenburg, of the British-American Security Information Council has said, that, like the American Express card, the U.S. military can't leave home without them. They build the bases, they do the laundry, they maintain the vehicles.

They do jobs that used to be done by reservists and there's a couple of problems with this. One is this cost control problem, that they are not being monitored. The other is, some people have questioned, including top logistics officials in our own Army, whether in Iraq, they have not shied away from going into dangerous areas for weeks or months at a time. Not just Halliburton but other private companies so that our troops have been deprived of fresh water, fresh food, the services that they need

because when you go in as a private contractor, you don't have the same social contract as when you go in as a member of the U.S. military. We haven't really dealt with that. If we are going to depend on these companies, what is their responsibility to go into a war zone, to get shot at, to provide services that our military really needs.

I think that if we are going to discipline these companies we have to look at the bigger question of privatized military companies. Exactly where do we want to draw the line? What services do we want to depend on them for and what services do we want to bring back into the US government and no matter how we do it, we gotta compete it.

We got to open the bidding to qualified foreign companies, be they German, be they French, be they Russian. We gotta let U.S. companies in on the deal and not just the big Halliburtons and Bechtels, the smaller firms. We'd have to let skilled Iraqi entrepreneurs in on the deal, not on the outskirts, where the only way they can get in is hiring a foreign Bush Administration official to help them get on the gravy train.

I think that's a good synopsis of what's in my testimony, but I'd certainly be willing to discuss this more because I think that bottom line is that it's not just about the money but about supporting our troops. I think that it's really our troops who are suffering the burden of this corrupt process at the moment.

Senator Dorgan: Mr. Hartung, thank you very much. I know that you'll for questions.

Next we will hear, last we will hear from Steve Ellis who is with an organization called Taxpayers for Common Sense. He is Vice President for Taxpayers for Common Sense, where he overlooks programs and serves as a leading media and legislating spokesperson. A persistent critic of the mounting deficit and federal fiscal policy, Mr. Ellis has testified before many Congressional committees and has appeared on all of the national network news programs and we appreciate very much his appearance here. He's been an officer in the Coast Guard six years including doing a tour of duty as a department head and deck watch officer aboard the Coast Guard cutter, Sorrell, managing the Coast Guard's inland waterway fleet and managing a small acquisition contract. Mr. Ellis has a B.S. in government from the Coast Guard Academy.

We appreciate very much his willingness to testify on behalf of the Taxpayers for Common Sense. Mr. Ellis, you may proceed.

Mr. Ellis: [prepared statement] Good morning, Chairman Dorgan and members of the committee. Thank you for inviting me to testify before you today. I am Steve Ellis, Vice President of Programs at Taxpayers for Common Sense (TCS), a national, non-partisan budget watchdog group.

Throughout the history of our great country, threats to our national security have required America to commit significant amounts of government resources to defend our nation. While estimates vary, it is likely that more than \$166 billion has been spent in support of the war on terror in Iraq and Afghanistan to date. But to successfully prosecute any war, or peace for that matter, the public has to have faith that the money is being spent wisely and appropriately. Just as importantly, American men and women in uniform have to trust that the government is helping them win the peace they are fighting for.

Along with the war on terror and its associated military operations has come a rapid proliferation of government responsibility for overseeing all the gears and cogs of the commercial machinery that has been brought to bear in the war effort. With so many moving parts, oversight is stretched thinly across different agencies and committees, dramatically increasing the risk of waste in the contracting process. Some former military officials have gone so far as to describe the contracting process as a “patronage system.” All too often, the line between the public and the private interest gets blurred and taxpayers pay the price.

Government waste is always a serious matter, and in times of war it is even more so. To allow shoddy management and poor oversight of taxpayer dollars to dominate the process is unconscionable. More needs to be done to bring accountability to this process and rein in waste. That is why today we are calling for a war profiteering committee or commission to coordinate efforts to root out waste, fraud, and abuse in the war on terrorism in Afghanistan and Iraq.

Because of the continued historic levels of secrecy coupled with the high risk of waste, an elevated degree of congressional oversight is required. A bipartisan commission based on the Truman Committee model should be created with the goal of rooting out waste and malfeasance, thereby preserving the trust of our men and women in uniform and sustaining the people’s confidence in the prosecution of the war on terror.

One doesn’t need to look farther than the accounting errors and service failures that have already cast clouds over the rebuilding process in Iraq to see the necessity of restoring and maintaining trust and confidence. Recently, Halliburton, who has received twice as much money to date as all other contractors combined, was found to have overcharged the Pentagon for a contract to provide meals to soldiers serving in Iraq. This news followed on the heels of revelations that Halliburton employees took kickbacks in return for awarding a Kuwaiti company with a contract to supply US troops. As the largest contractor thus far, Halliburton has drawn much of the heat, but it should not be assumed that these problems are isolated to a single contractor or a single contract. The confusion over Halliburton’s culpability in these matters and the very existence of possible mistakes are enough to demonstrate that we have failed to use taxpayer dollars in the best way possible. We believe this may only be the proverbial tip of the waste iceberg.

The concerns over Halliburton’s performance also cast doubt on the initial contracts awarded to them, worth a total of \$6 billion. While the exigencies of war sometimes require us to sacrifice efficiency for speed, the after effects of doing so should prompt us to investigate so as to confirm that taxpayer funds are being spent wisely.

But, whether or not wrongdoing was involved in recent contracting, the very discovery should send a signal to lawmakers that there is a fundamental problem with the processes that govern both the award and the oversight of private contracts. Because of the sheer size of the appropriations for the war thus far, because the money for Iraq and Afghanistan has been spent outside the normal appropriations process, and because that money is not centrally processed but instead is divvied up between U.S. Army Corps of Engineers (USACE), U.S. AID, Pentagon, Coalition Provisional Authority and others, transparency and accountability have been lost.

To solve the problems posed by the fragmented control of wartime expenditures and the unusual emergency appropriations process, there is a growing need for a central entity that can provide oversight for every step of the process and use what it learns to directly influence legislation. The existence of a special oversight committee will send a message to all private contractors that someone is watching them. A bipartisan committee of Congressional lawmakers with the power to subpoena the

appropriate parties and conduct far-ranging investigations into the nature of the contracting process will perform an important public service to American taxpayers in this time of huge government outlays.

I don't think there is anyone in this room that doesn't agree that our troops should have the financial resources they need to fight the wars in Afghanistan and Iraq. It is clear that we will be there for the long haul and men and women in uniform need our support until the war on terror is won and the last soldier flies home from Baghdad International Airport. That is why it is critical that each dollar spent prosecuting the war on terror gets at least a dollar's worth of results in return. We need a commission to provide the oversight that will expose waste and free up funds to support the work of our troops on the ground.

Special commissions have long been employed to monitor the massive outlays of public money that inevitably accompany the run up to and the aftermath of a war. Most famously, the Truman Committee held hundreds of hearings and conducted exhaustive investigative missions that laid bare the machinations of America's military industrial complex and saved taxpayers billions of dollars. The savings generated are staggering compared to the cost of setting up and running the committee: the Truman Committee was launched with just \$15,000, but may have saved in excess of \$15 billion.

The legal precedent for such a committee was affirmed in the 1942 Supreme Court opinion on *United States v. Bethlehem Steel Corporation*. Their decision upheld the power of Congress to pass legislation to address excess profits accrued by contractors. The opinion stated this principle clearly: "If the Executive is in need of additional laws by which to protect the nation against war profiteering, the Constitution has given to Congress ... the power to make them."

In fact, similar committees have been created during nearly every major American war or weapons buildup, including the Civil War, both World Wars, the Korean War and the Vietnam War. The upshot of most of these committees has been a leaner, more efficient partnership between the military and their private contracting partners. However, there are other important lessons to be learned from earlier committees. For instance, the committee established during the Civil War was very partisan and overly aggressive. And because the commission focused on second-guessing military tactics rather than helping to root out waste, the committee often hindered the prosecution of the war rather than helped it. This led General Robert E. Lee to comment, "The committee was worth about two divisions of Confederate troops."

In contrast, the Truman Committee has been characterized as the most successful investigative effort in the history of the United States. It played an important public education role during World War Two. Its responsible, common-sense approach to investigation set a standard not often seen these days.

The committee proved crucial to the war effort. According to many estimates, the committee saved \$15 billion and perhaps saved the lives of hundreds of soldiers by finding and ferreting out cases of defective weapons.

In May of 1940, as Germany rolled across Europe, congressional opposition to rearmament faded and the floodgates opened for extensive defense expenditures. Altogether, over a four-month period, almost \$10.5 billion in defense-related contracts were awarded. No single agency in the Roosevelt administration had complete control over defense projects. At this time, a committee was set up to investigate war profiteering. As the historian Donald H. Riddle noted, the goal of the Senate Special Committee to Investigate the National Defense Program was, "the purpose of informing itself, controlling the executive branch, or informing the public."

Like many Senators today, Truman had become concerned and outraged by the waste, fraud and lack of oversight in the defense program. After hearing of waste in the defense buildup he traveled more than 10,000 miles looking at bases to get a complete view of exactly what was happening. Senator Truman's proposal was to set up a committee to investigate how defense dollars were being spent and allocated. Because he felt a responsibility to spend taxpayer dollars wisely and efficiently, Truman wanted "every safeguard possible to prevent their being misused or mishandled." It was his belief then, and ours today, that this type of committee is essential to maintaining public trust in the war efforts. The committee was searching for the truth without regard for political considerations. As Senator Truman explained, "I am merely stating what I believe to be conditions that deserve investigation. If nothing is wrong, there will be no harm done. If something is wrong, it should be brought to light."

While it wasn't an easy task, the Truman Committee did yeoman's work, holding 432 hearings and producing more than 27,000 pages of non-classified testimony. A key tool for success of the Truman Committee was the right to subpoena witnesses, a power critical in the future establishment of such a committee.

The Truman Committee acted as a deterrent to private companies motivated only by profit. Truman himself observed, "I have never yet found a contractor who, if not watched, would not leave the government holding the bag. We are doing him a favor if we do not watch him."

The Nye Committee, operating in the period between the World Wars, offers another example of a successful attempt to police defense spending. The Nye Committee produced 14,000 pages of hearings and hundreds more pages of reports. The Nye Committee found evidence suggesting that an interdependence had developed between private ship builders and the Department of Defense — an early version of the military-industrial complex. The Nye Committee concluded that Naval procurement was too often conducted with the best interests of the ship builders in mind, instead of the best interests of American taxpayers. The discovery forced Naval officials to reconsider the ways they did business with private ship builders.

Both these committees led to the more efficient use of taxpayer dollars and both aided the war effort by freeing up funds for more crucial procurement and uncovering defective systems. In fact, some of the lessons learned from these two committee's efforts are still applicable today. One of the major concerns raised by the Truman Committee was the government's use of cost-plus contracts. Similar problems exist today because there are few incentives for companies who receive these contracts to control costs. Six decades ago these types of contracts were flagged as problematic and problems still exist today.

Successful profiteering committees of the past have been based on strong bipartisan cooperation, with a noted lack of political overtones. The Truman and Nye Committees were successful because they did not seek to score political points with their findings and were instead dedicated to unbiased oversight of the process.

As we envision it, the new committee would conduct an ongoing, in-depth appraisal of all the expenditures in Iraq, Afghanistan, the overseas war on terror, and the manner in which they are executed. The end result will be a series of recommendations on how to address the findings of the committee.

At a time of a half trillion-dollar deficit, it is incumbent upon us to make sure our investment in prosecuting this war on terror is well spent. We are confident that a Truman-like commission would help us do this.

The current budget realities are stark: present deficit projections of \$521 billion in Fiscal Year 2004 do not include any emergency spending. In fact, the administration's Fiscal Year 2005 budget assumes no emergency spending for the next five years, despite the fact that this is the way we have paid for our war related military activities. Just this Tuesday, the heads of the Army, Marine Corps and Air Force all raised questions about how the administration plans to pay for operations in Iraq and Afghanistan. Furthermore, the Comptroller General of the General Accounting Office commented on last year's \$87 billion supplemental, saying, "It's fairly clear there are going to be costs beyond that. It's too early to tell ultimately how much it's going to cost. But it's going to cost well more than we have been told so far."

Already the rebuilding process in Iraq has been plagued by accusations of war profiteering and poor management. Halliburton has fallen under intense public and media scrutiny for its own misconduct, but little criticism has been leveled at the Pentagon for its secretive awarding of several contracts and its failure to detect the irregularities sooner.

Where there's smoke, there's usually fire. We can't afford to bury our heads in the sand now that we know the questionable ways in which contracts have been awarded and carried out in Iraq. A bipartisan commission devoted to investigating these processes, reporting on them, and recommending improvements will produce a substantial return to taxpayers in the long run.

Thank you again for inviting me to testify. I would be happy to answer any questions you might have.
[end of prepared statement]

Senator Dorgan: Senator Lautenberg has a time conflict this morning, so I'm going to recognize him first for questions. Senator Lautenberg.

Senator Lautenberg: Thank you very much. Thank you to those at the witness table for your forthright testimony.

I could hardly describe it as refreshing, but it's certainly noteworthy that you are willing to say what you meant and let us hear it here and it will be up to the public to judge it.

There is one thing that befuddles me. When you have a business that says the more that you spend, the more you make, there is something unholy about that and it's an invitation to disaster, as we can see from the non-compete contract that we fought so hard to get to the public limelight. And then we found out that \$50 million contract that we had put out to fight fires exploded until it concluded at \$2 billion, on its way to substantially more than that. They were so embarrassed by the public scrutiny that they had to shut it down. And again, if you say, as Professor Hartung did, that if a company like that, running amok with its costs and markups, raises the question, that if why should they possibly get a no-compete, no bid, in the dark of night, contract.

What is this? Cronyism. That's what it is. It's pitiful to the witness.

And I say this, Mr. Ellis, thank you very much for your suggestion for a commission. I mentioned it in my opening remarks that three times now I have requested a hearing on Halliburton. And frankly didn't even get a response, so we couldn't get a Truman-Nye hearing, because there is no such interest in bipartisan review. So, Mr. Chairman, I poorly defined my question into a statement and I hope you'll forgive me. Thank you all.

Senator Dorgan: Well, Senator Lautenberg. We intend to pursue this.

I know that you've requested hearings. Others in other committees have requested hearings and no hearings are being held, none are anticipated and it seems to me that you cannot wake up in the mornings and pull up the newspaper and see the stories on this sort of thing and understand that there is a requirement, and absolute demand that hearings be held. And so that's the purpose of at least beginning this process to find out what's happening, who's doing it, how's it being done, and how do we correct it?

Senator Durbin: I do, and I'd like to ask the panel first to joining me in putting this into perspective. Mr. Bunting, thank you for coming forward.

I have a friend of mine who is in the army, is in Iraq, and his dad got concerned. Because his son was not supplied with a Kevlar vest. And he was told that that was the best way to save his son's life to keep his son safe. So he and his wife said we are going to buy one. So they put down \$1,500 and sent their son a Kevlar vest. In the city of Chicago, a young soldier, from a South Side church, wrote home and said, "I don't have a vest either." So the church took a collection for \$1,500 to buy the vest. It is hard to believe that when you are spending \$15 billion that these things happen, but they do.

Mr. Bunting, the decision was made by Halliburton's gang that they needed for their own vanity, their own corporate vanity to put a logo on these towels. We probably lost as taxpayers somewhere around \$10,000 just from that decision.

Mr. Bunting: This is just one order. There were other towels ordered for other operations, which had KBR, our NWR logo on it. We are only talking about this one order.

Senator Durbin: Could you give me an idea on how much you think we wasted on putting the Halliburton logo on these towels.

Mr. Bunting: We probably, if the order is placed, there is 2,500 towels at \$4 a piece, that's \$10,000. The buyer that was across the way from me, he probably he had two orders that was probably 1,000 pounds on each order. There is another \$4,000, another \$8,000 there, roughly. If you combine the orders together, you might have some savings in quantity.

Senator Durbin: Let's just take a rough number in \$18,000 —

Mr. Bunting: Perhaps...

Senator Durbin: — we lost so that Halliburton could stick their logo on these towels. That would have bought twelve Kevlar vests.

Mr. Bunting: Well they could have used that money to buy proper armor to buy proper armor for the KBR employees going to Iraq.

Senator Durbin: Well what you find here is that this decision, made for profit, made for vanity, was at the expense of the security and safety of our soldiers. And let me take it a step further. You talk about Halliburton leasing vehicles at \$7,500 a month.

Mr. Bunting: When I got in country I was waiting to get a computer and I worked in the subcontracts area trying to put invoices together. And there was several invoices where the dollar amount per month was \$7,500 for an SUV, similar to perhaps to the Ford Expedition. You know, a large ... these were Toyotas. Whatever the Toyota one was.

Senator Durbin: And how many vehicles do you think — just give me a rough estimate — that you ran across, we were paying 7,500 a month for Halliburton folks to drive around in?

Mr. Bunting: That was one invoice. There was another invoice; I had a stack of invoices perhaps half an inch and a half to two inches. Which were for various vehicles. Number of vehicles that they leased were in the hundreds. They went from trucks to vans to SUVs.

Senator Durbin: Now stop and think for a minute. \$7,500 a month to lease an SUV. Hundreds of vehicles. And do you know what it costs to armor-plate that Humvee? So that soldier out at Walter Reed might not have had his arm or leg blown off? \$36,000. So for about four months of these outrageous leases from Halliburton, we could have turned around armor-plated a Humvee.

Mr. Bunting: Absolutely.

Senator Durbin: That's what it boils down to. I mean, it's bad enough, I said it earlier, we are wasting taxpayers' dollars. We are doing this at the expense of our troops and their safety. You worked with how many people at Halliburton when you were overseas, Mr. Bunting?

Mr. Bunting: In our section of the — there were four or five buyers or people in transit from the U.S. or Houston going to Iraq, at one time we had about 20, 22 people doing purchasing.

Senator Durbin: And you said that you work ten and twelve hour days; I'm sure you did. When you did have a chance for a break to kick back to relax, maybe drink a beer, whatever, with your colleagues there? Did any of you ever turn to one another and say this is just wrong? This is outrageous.

Mr. Bunting: There were no breaks and it was more like twelve to fourteen hours. You did three things: you worked, you ate, and you slept. That's it.

Senator Durbin: But did you ever hear your fellow employees express any concern or disappointment or anger or outrage over what you have described to us today?

Mr. Bunting: Well, a lot of them thought that we were wasting a lot of money. No question about that. But, but that's ... It's kinda like the — what my great grandfather said one time, you got the “you load the wagon I'll worry about the mules.”

We were loading the wagon. We were placing the orders because the demand was there. Get 'em out.

Senator Durbin: But what I want, what I'm getting to is this, is this just a renegade office of Halliburton?

Mr. Bunting: No.

Senator Durbin: That is doing something that is counter to their corporate-culture. Or is this a much bigger deal? Is Halliburton, is this their corporate culture, this kind of waste abuse that you've seen.

Mr. Bunting: I think it's very common in the Kuwait theater, the Kuwait and Iraq theater, doing what we were doing, yes.

Senator Durbin: Now who was looking over your shoulder?

Mr. Bunting: Nobody. A supervisor, a supervisor was telling us to get the requisition placed. Telling us that it was also cost plus.

Senator Durbin: Did anybody show up from the Pentagon or in a uniform show up and question some of these procedures?

Mr. Bunting: When I was there, I heard that we had the auditors in and that we were not supposed to talk to the auditors; that was the quickest way home. I wouldn't lie to anybody and if you want to send me home now, give me a ticket, I'm outta here.

Senator Durbin: So did the auditors ever come by your office?

Mr. Bunting: The auditors did not — They were at another site, that was what I was told. They would call for a file, the file would be sanitized and be handed over to them.

Senator Durbin: What kind of salaries were paid to people in your line of work by Halliburton?

Mr. Bunting: You had a base salary — my base salary was approximately \$45,000; with all the adders added to it on an annual base it would have been about \$112,000 to \$115,000 based on a 84-hour work week plus and I averaged more than 84 hours per week. The supervisor would have been perhaps \$50,000 base and the adders would take it up to \$130,000 a year. If you spent the full 12 months.

Senator Durbin: In fairness, was it a dangerous environment?

Mr. Bunting: No. Kuwait was not a dangerous environment, although there were alerts. You could drive on the Kuwaiti roads. We were in a resort area away from the main city, the city of Kuwait. So no, it was not a dangerous environment, though it potentially could have been. Iraq definitely was.

Senator Durbin: Let me ask, if I might, the other colleagues at the table with you here. There was a big discussion at one point about whether we would allow foreign corporations would be allowed to bid for this work. And I think the conclusion was reached by the administration that if you were not part of the coalition of the willing that you were not part of our patriotic effort and should therefore not expect to do any business here. As we hear the practices of Halliburton described. It's hard to characterize them as patriotic much closer to the word profiteering as far as I am concerned.

Should we at this point be challenging this administration to open up this bidding to try to break away from this single source of Halliburton that dominates and obviously abuses the process. I open this up to Mr. Jones, Mr. Hartung, Mr. Ellis.

Mr. Hartung: Well, I mentioned in my testimony that, because some of these are in large complex engineering tasks.

You need big companies, you need to have global companies in there if you want competition on price. And what the administration has said is that, "Well, you know some of these companies like Siemens from Germany will be subcontractors but that doesn't get it done." Because if you don't compete on the prime contractor level, you don't get competition on price. And as we have seen with Halliburton, they have been very lax in their selection of subcontractors; they don't seem to have competition on the subcontractor level.

So I think it's time to open up the process and there has been some talks on the certain contracts on doing it but it's got to be open, transparent. I think it's got to be well-monitored. And I think that a lot of the countries that disagreed with us about going to war with Iraq did so because they said Iraq did not pose an imminent threat. And I think that we are seeing now that is in fact the case.

Senator Durbin: That's a topic for another time.

Mr. Hartung: Right, but I think the issue is can they do the work, can we monitor the work? And even if they compete and not win, the fact that they are in the pool competing means that we get a better price for the taxpayer.

Mr. Ellis: I would just to add on that, too, I think that, I also think of something that my mother liked to say to me to some extent, cutting off foreign competition is like cutting nose to spite your face. In the fact that essentially, not only, at the same time that we are asking other nations to forgive debt to Iraq or whatever and we are asking them to contribute, you know like what we did during the first Iraqi war with Operation Tin Cup and we went around and got a lot of contributions from other countries. We are saying that their contractors, their Siemens, can't compete for these contracts, must come back to the American till, right into companies like Halliburton, which it defeats the purpose; it's hindering us in other ways of actually having this paid for and making this war more expensive for us not only in the competition frame but also in the fact of getting contributions from other countries to pay for our reconstruction efforts.

Senator Durbin: So if we limit the number of contractors supplying our troops we are adding to an environment that leads to profiteering, less competition, less oversight... Mr. Jones?

Mr. Jones: I'll give you a perfect example, Senator Durbin. Where did Halliburton get its fuel? Not from Halliburton. They had to get it from a contractor. And so what was the value added? I mean that's the real question. I mean if you really have to get a job done you go to the people who do the job you don't go to a second or third-tier contractor with no experience in this particular job that goes to a subcontractor with no experience with this job, who with no oversight. What value is being added? None.

And so if we could not, and I am referring to my former job, if we had to depend on companies like Halliburton, we'd be out of business and rightly so.

We go to the people who do the oil company work; we go to refiners; we go to the technically qualified transporters; we build a supply train and manage it tightly. And that's what they should be doing, if they are actually going to be doing this kind of work and not carelessly grabbing this piece and that piece on a cost plus basis, throwing together some kind of a non-process that may or may not produce the right result.

Senator Durbin: Chairman, I have a few more questions, but I will defer to you at this point.

Senator Dorgan: Senator Durbin, thank you very much.

Mr. Jones, let me continue with you if I might. I was at dinner the other evening at Walter Reed with my colleague Senator Durbin. And one of the soldiers said, "You know, interesting thing about Iraq is that I stood in a place in Iraq where my boots were black because the oil was just coming out of the ground." There's so much oil in Iraq. You can find spots where you just see oil.

So hauling oil to Iraq is like hauling coal to Newcastle I guess. But in any event in the interim there needs to be some fuel going into Iraq. You were the head of the defense energy support center when the administration awarded the oil contracts to Halliburton.

Mr. Jones: Yes.

Senator Dorgan: I want to understand the timing of that. When that happened, what were your thoughts about that? Because I assume that your agency has routinely done this sort of thing and done it successfully, so what were your thoughts when this was awarded to Halliburton?

Mr. Jones: Well, let me make a distinction between the front end of the oil process, the exploration, development, refining and production. We are almost entirely a downstream marketing purchasing distribution to the end user. So it probably would not have been useful to put us in the business of building trying to build oil infrastructure.

Senator Dorgan: But from that contract flowed the opportunity for Halliburton to bring gasoline into Iraq.

Mr. Jones: And that's where the sense begins to fall apart.

Senator Dorgan: And that would have normally been your function?

Mr. Jones: Normally it would have.

Senator Dorgan: And so you wake up and read in the newspaper one day that gasoline is being imported into Iraq at \$2.65 a gallon by Halliburton. And your response to that is?

Mr. Jones: Well, I almost didn't have a chance to respond, because at that point, Congressman Waxman had put it in the newspapers and the corps was already calling us for help.

Senator Dorgan: What did you, I mean, had you read that the American taxpayer was paying \$2.65 for gasoline being hauled into Iraq by Halliburton, was your impression that this is nuts?

Mr. Jones: Yeah. I think that's a fair way to put it.

Senator Dorgan: And you in your previous role had contracted to move gasoline into many areas of the world, some including combat zones. Is that correct?

Mr. Jones: That's correct.

Senator Dorgan: Have you ever seen a price approaching this?

Mr. Jones: No, as a matter of fact; to give you an example, we moved jet fuel from Pakistan and still are moving it into our camps in Afghanistan. I don't know what the price is today, but it was under \$1 per gallon the last time and that's through enemy territory with no protection and so forth. We weren't paying truck drivers \$100,000 a year, which is a figure that I've heard, I can't verify that for KBR, I don't know if that's true or not.

Senator Dorgan: And so that's from Pakistan to Afghanistan. Senator Durbin and I have both been to that region of the world and understand the difficulty of transporting fuel in that region and so you're saying that there's nothing like \$2.65 a gallon in those areas, and it's less than half of that.

Mr. Jones: That's right.

Senator Dorgan: So, what can describe the reason for this? I mean, is there — my own view is that this is so out of balance with reality and what we'd expect to happen normally. There's got to be something fundamentally wrong here. What do you attribute it to?

Mr. Jones: Now I think that with the information that we are getting, I think that we can see a lot of things: cronyism, fraud, and other not even bad business practices, illegal business practices.

When at the time that we first heard this, of course, being inside the government and knowing how difficult contracting can be, I presumed, and I don't think that the corps particularly broke any rules but I presume that there were cost elements that I just didn't know about. I presume that this couldn't be a case of sheer fraud or worse.

So my answers tend to be a little bit soft-pedaled because not knowing the facts you say something that proves you a liar that ruins your reputation; not good in this town. But the more that I find out, the more my basic instincts were right. This is simply out of control. And there was nobody watching the store and this is an area in which it didn't need to happen in. That's the other piece of it.

Senator Dorgan: [muffled] Why would DOD, when they see the same headlines and they know what they are paying, why would they not say, "Wait a second. Stop. We are going to put an end to this right now, and we are going to go back to DOD inside and have them contract for that fuel because in every instance, in every circumstance, they've done it for less than half of this cost so clearly we're being cheated, clearly we're being ripped off." Why would you expect someone in DOD not to say immediately: "End of this game! We are not going to put up with this!"

Mr. Jones: I can only tell you that there are more people in DOD looking to outsource our organization than looking to use it for better purposes.

Senator Dorgan: So they've got this philosophy of outsourcing even if it costs us double?

Mr. Jones: I would say that that's a good possibility. I don't think that anybody would call it that, but imagine if there were no government experts to call on, to get into these kinds of issues, you wouldn't have witnesses.

Mr. Hartung: Well on that point, Senator Durbin, there is this kind of symbiotic relationship between a company like Halliburton and the Army. In the Balkans they built Camp Bondsteel. We spent billions of dollars on Halliburton. The army was apparently happy with them but a lot of the things we see now. You saw the beginning of the symptoms there. You saw the cleaning of the offices four times a day, they were running crews twenty-four hours, some of the crews, eighty-five percent of

them were said to have more people than they needed. About half of them, forty-five percent of them weren't doing anything.

So they were already pushing that cost plus envelope to get money but already at that point but the army felt, "Well, it's alright because we are getting hot food, showers, we don't have to call up any reservists; it's politically convenient to use a private company."

But what I think we are seeing in Iraq is that not only is it costing us a lot but they are not getting the service they need. So I think they've really stretched this outsourcing model to the limit. And I think that's why that it's really got to get reined in, it's got to get looked at across the board.

Senator Dorgan: Mr. Hartung, I certainly agree with that. Let me ask, if I might, Mr. Bunting a couple of questions and then Senator Durbin would like to ask additional questions.

You actually heard supervisors say in the company that you worked for say, "Don't worry about price, it's cost plus?"

Mr. Bunting: Yes, yes I did. It was very common. A manager once walked through and said, "Get those req[uest]s placed. Remember, it's all cost plus," or something to that effect, but the word was, get them out, we don't care what the price is.

Senator Dorgan: So that becomes a culture? I mean it can, it could become a culture, if a company doesn't have the ethics and the values system, they could decide that they are going to fleece the taxpayer and could easily do it in a cost plus contract.

Mr. Bunting: Absolutely, there was no concern over price. We didn't worry about what it cost; we worried about whether it was available.

Senator Dorgan: And did you ever have any DOD auditors there looking over your shoulder?

Mr. Bunting: There was nobody physically there. As I said earlier, there was some auditor supposedly in-country doing some audit, but I never saw him.

Senator Dorgan: If there's a \$2,500 threshold with respect to some of these purchases that you describe and the policy was to try to break these things up, always try to keep just below the \$2,500, then you can aggregate them later. You keep them out of the line of sight of auditors. Is that not fraud? Or I shouldn't say fraud in a legal sense, but it seems to me to be a fraudulent way to do business.

Mr. Bunting: It's poor business ethics, no question about that, it could be considered fraud, I would say if I were looking at it. But the auditors would never catch it because the paper work matches what you did. The file was all, was generally correct, during the time that I was there.

Senator Dorgan: And so, whether it's gasoline at a buck a gallon plus what it ought to be at perhaps, a towel that is purchased at triple the cost of what the original requisition would have implied. This is just a culture in which a company can actually profit by being not only inefficient but by padding costs?

Mr. Bunting: Yes. Absolutely.

Senator Dorgan: Mr. Ellis, you mentioned Truman and Nye — Gerald Nye was a North Dakota Senator as you know — and served here many many years ago, but one of the hallmarks of his services was investigating these kinds of abuses and, look, you will, perhaps because you testified today that this is all about politics, it's just politics. And frankly, this is not politics for me.

I am furious this is going on. I happen to support and vote for defense appropriations. I'm on the Defense Appropriations Subcommittee in the Appropriations Committee in the United State Senate. My colleague as well is on the Appropriations Committee in the United State Senate. We appropriate money and it makes me furious when I see it get used this way.

Senator Durbin said it eloquently: Kevlar vests, plating for Humvees, the kinds of things that will protect soldiers. We want the money spent for that. And to see this kind of waste, and this kind of corporate culture that says, well, it's just the American taxpayer, stick it to 'em. Inflate the costs, jack up the price, shame on them.

Shame on them. And shame on those who refuse to investigate it and look at it. And shame on those in DOD who ought to call a halt to it immediately. If we are paying \$2.60 for gasoline, it ought to stop this afternoon. Not another minute ought to pass. And they ought to give that job to the agency in DOD that can do it for a dollar less.

I mean, this makes no sense to me at all what's happening. And that's why we are trying to shine some light on it all, as Senator Lautenberg indicated, he's made repeated requests for hearings. You would think that committees would line up to hold hearings; not for the purpose of embarrassing anybody but for the purpose of finding out how this money's being spent. To make darn sure it's being spent in support of our country's troops, who are doing a job that this country asked them to do. And you know, it's hard for me to describe how I feel when I read these reports and hear testimony of the type that we hear here today. Senator Durbin —

Senator Durbin: Let me add another element here. We've talked about Halliburton. We've talked about the DOD and their outlook and culpability and we certainly don't want to overlook the culpability of Congress in this whole equation.

Let me remind those of us who are following, that in the Iraq supplemental request, Senator Pat Leahy along with a lot of us who co-sponsored it, put in a provision that would have criminalized war-

profiteering; made it a crime. And he didn't dream this up. He took the same basic law that was passed during WWII. He said, let's apply it to this law, so that profiteers, those that profit at the expense of taxpayers, and are involved in scandalous conduct, are held accountable. While it was quietly accepted in the Senate and then unceremoniously dumped in the conference committee.

So it's not part of the law of the land. So that mentality stretches beyond the White House, beyond the Pentagon, it stretches all the way up here to Capitol Hill. And the idea is: we're going to protect our friends. And for many people who are involved in their campaigns and their special interest groups, they are protecting their friends, but at the expense of taxpayers and the expense of soldiers.

I might say, Mr. Bunting, we used to call it string bidding. Does that ring a bell with you? When you try to make sure everything's under \$2,500 and you string it out in tiny little pieces, so that it's always under \$2,500 so you never have to compete it, you never have to report it, that's such an old trick, we tried it in Illinois fifty years ago. People were caught for it.

Well, it's still alive and well. It's the way the insiders get around the "goo goos," those good government types who want to bid those contracts and make sure there's a competitive bid. But this is part of the ethic I understand. This is what you were told to do day after day after day. Keep it under \$2,500.

Mr. Bunting: Yes, we were told to keep it under \$2,500. That way you didn't have to get competitive bidding on it.

Senator Durbin: No matter how many bids you had, how many req[uest]s you had to have — keep it under \$2,500.

Mr. Bunting: Keep it under \$2,500 to somebody, have them give you a price and do the paperwork.

Senator Durbin: And then you had the preferred list of suppliers too. What do you make of that? I mean, these are just people who happened to have done business before with Halliburton? Are these people who have economic ties to the company or to people who involved in the whole contracting process?

Mr. Bunting: The list that I originally got were people that the original buyers there generated. As it turned out, going down the lists and trying to place reqs with these people. Some of them were really lousy. I wouldn't do business with them on a bet.

Senator Durbin: But you were told to do business with them?

Mr. Bunting: I was told to do business with them. I was told to place... not to place reqs with certain suppliers because they were ticked off at them.

Senator Durbin: And when you found savings for the taxpayers and the government for office equipment, that job basically was taken away from you.

Mr. Bunting: They started placing those reqs with other buyers who were placing them with other companies.

Senator Durbin: A good ol' boys network.

Mr. Bunting: Yes. They came to me for information as to what we were buying for office furniture and desks, the other buyers. And I would tell them and where I bought it from and they would use somebody else.

Senator Durbin: Are you familiar with Congressman Waxman's letter about the phones and what was done with the phone service? Or is that something another person worked on?

Mr. Bunting: The buyer in front of me was the buyer involved in —um, yeah sure I'm familiar with the phones.

Senator Durbin: Why don't you explain that because I don't think we've touched on that this morning; we should.

Mr. Bunting: We have an agency, KBR has an agency agreement for, with a company, it's a sponsoring type of agreement. You have to have a sponsor to do business in Kuwait. And the agency agreement stated that we would receive, I believe that it was \$5,000 a month and in addition to that they would be reimbursed for their additional expenses. Well, phones are considered, we considered them part of the normal requirement and it was just a pass through cost, the actual cost, no mark-up.

The, as it turned out, the buyer in front of me discovered that we were paying a ten-percent premium for those phones. We were paying ten percent more than we had to. We went to his supervisor and said, "Look, we're paying more than we have to. This is the agency agreement." And he said, "Look, we're paying them and that's it." And then he walked off.

Senator Durbin: So this was a kickback of ten percent on these phones that didn't have to be paid by American tax dollars.

Mr. Bunting: That's correct. Somebody was getting something, I felt. Couldn't prove it, but it had to be.

Senator Durbin: The Halliburton supervisor said that this is going to be business as usual, we are going to continue this.

Mr. Bunting: The — yes, the manager did.

Senator Durbin: And there's another element here that talks about an order for 50,000 lbs of nails. Are you familiar with that?

Mr. Bunting: Yeah, we tried to work that down. That was ordered long before I arrived. And they were sitting at one of the camps and we learned...

Senator Durbin: Wrong nails, wrong product?

Mr. Bunting: They were nails that were too short. And the —

Senator Durbin: Fifty thousand pounds of nails that were too short?

Mr. Bunting: Fifty thousand pounds.

Senator Durbin: Twenty five tons of nails?

Mr. Bunting: Yes, sir.

Senator Durbin: Sitting in a warehouse —

Mr. Bunting: No, not even sitting in a warehouse. Just sitting on the ground. They didn't even have warehousing facilities.

Senator Durbin: Well, I'll tell you what bothers me and I think it bothers Senator Dorgan as well. Whether we questioned the policy that led us up to this war, a lot of us have said that when it comes to supplying the troops with what they need to win and come home safely, we're gonna do it. I'm not going to short-change them. And a lot of us have said that when the Department of Defense and the President have come to us and asked for a certain amount of money to fight this war, we're gonna provide it.

And I think that's been the mentality and frankly, most of the people that I represent expect that of me. When it's their son or daughter who's over there, their life's at stake, they expect that out of me. But how can I, blindly continue on with that approach, knowing that this kind of waste is going on?

This isn't protecting our troops or winning or a war or making peace. This is fattening up some fat cats that happened to have won a contract or be on the good bid list with Halliburton, and that to me is absolutely inexcusable. I think as Senator Dorgan has said, we've got to start asking some hard questions here. And I'm convinced that if the American people followed this hearing and what we have said, they are going to respond with an outrage, that our money's being wasted that our soldiers are being endangered because of this situation. A situation that this administration has ignored.

And let me just say finally, we talk about accountability: accountability for teachers, accountability for politicians, accountability for everybody. Where is the accountability here? When are these contractors going to be held accountable for not profiteering and for providing the products and services that they promised.

I think that this hearing is a beginning, an important beginning. I think the Chairman for bring this together. And I particularly thank all of you because it's difficult. Some of you are sticking your neck out here. It's not going to be a lot of fun facing some of your old friends after what you have done today. But believe me, you've done what you should do, as Americans interested in making certain that we are dealing on honest terms. Thank you very much.

Senator Dorgan: Senator Durbin, thank you. Mr. Ellis, has your organization, knowing what you know about this and being concerned about this, asked through letters any of the committees to hold hearings?

Mr. Ellis: This is actually going to be the beginning of that process. I know that our calling for a hearing here, we're sort of preaching to the choir if you would on the fact, that calling for a commission or a committee is sort of preaching to the choir. Both of you, Senator Boxer, Senator Lautenberg seem to be firmly in agreement with us on that issue and so really we see this as a launching-off point in that we are going to be beating that drum very soundly.

I think that, one thing that I would say to you is that when fellow Senators are saying to you that we shouldn't have these hearings or commissions, something that Senator Truman said that when he had his commission that, quote, "I've never found a contractor who, if not watched, would not leave the government holding the bag. We are doing him a favor if we do not watch him."

And I think that it is the charge, it is true that Congress needs to step up to the plate here and to really exert the oversight, which is your responsibility. And we will certainly be willing to go wherever to keep calling out that we need to have oversight over these contracts and spending and to make sure that our men and women are treated appropriately and have the support that they need and that we are not wasting taxpayer dollars.

Senator Dorgan: You know, you have given us a book full of examples and we see more, of course, all around us what I think represents waste and abuse and it weakens our defense and in my judgment injures our troops. And we must have this inquiry. We must pursue it, must be aggressive. There's an old saying, "When you hit someone over the head with a book and there's a hollow sound, it doesn't mean that the book is empty."

[**Mr. Bunting** chuckles.]

Senator Dorgan: Now there will be those who watch these hearings and understand the body of evidence and the book of facts about what's happening out there and there will be a hollow sound but I think that this Country is going to demand that the Pentagon take action that the Congress take action and put a stop to this. Whether it's fifty pounds of nails or — excuse me — fifty thousand pounds, twenty-five tons of nails sitting on a ground, \$7,500 a month to lease an SUV. Overcharging for telephones, charging for meals that were never served, paying a buck a gallon more above the suggested price of gasoline, on and on and on.

There are a lot of hard-working American taxpayers who are struggling to make ends meet and don't want their taxes used this way. They're going to demand that the taxpayers get some answers through this congress and especially the Pentagon. Because frankly, when we work on the Appropriations Committee, this year, the request is for over \$400 billion. And as Senator Durbin said, and I will agree with him, we have an obligation to support these troops of ours.

I don't want it ever said that I didn't support the men and women we asked to serve this country. We have an obligation to support them, and we will support them by demanding accountability for the money that we appropriate in their name to support this country's freedom. And so this is not the end of this.

This is the first chapter of this book, and let me add my appreciation as well for your testimony. It is not easy for you to spend your morning doing this at our request. I understand that some will have heartburn at the fact that you speak out and you contribute to this country when you contribute when it's necessary to do so. Far too many people shy away from doing the right thing at the right time. You did not this morning and this country is grateful to you.

This hearing is adjourned.