Defense Auditors Investigate Potential KBR Overcharges

By Linda D. Kozaryn
American Forces Press Service

WASHINGTON, Dec. 11, 2003 – Halliburton's Kellogg, Brown and Root, a long-time supplier of logistical support for the military, may have overpriced fuel provided to the Iraqi people by as much as $61 million, according to defense contract auditors.

Defense auditors have also discovered a $67 million billing dispute for dining facility services.

"We have found some issues of serious concern that are worthy of immediate attention," said Bill Reed, director of the Defense Contract Audit Agency. Defense officials are making sure aggressive action is taken to resolve these issues, he said, "as expeditiously as possible, and hopefully without interfering with the mission that is so critical."

KBR has two single-bid reconstruction contracts with a not-to-exceed cost of $15.6 billion, Reed said. The Logistical Civilian Augmentation Contract is for $8.6 billion. The Reconstruct Iraqi Oil contract is for $7 billion. About $5 billion has been committed to date on both contracts, he noted.

Senior defense officials say the auditors have focused their attention on two significant issues. The first is potential fuel overpricing on the Restore Iraqi Oil contract.

KBR charged $2.27 a gallon for unleaded gasoline, including transportation from Kuwait. Another contractor charged $1.18 for unleaded gasoline, including transportation from Turkey. KBR's contractor has delivered about 56.6 million gallons through Sept. 30.

Defense auditors do not believe KBR did an adequate subcontract pricing evaluation prior to awarding a contract to a Kuwaiti company to provide the fuel, he said. KBR did not benefit, another official added. The $61 million appears to have flowed to the Kuwaiti subcontractor.

The second issue involves a $67 million billing dispute for dining hall services, a senior defense official said. KBR included a price in their proposal of about $220 million to operate dining facilities. Defense auditors learned that KBR had already awarded a subcontract for $67 million less.

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The discrepancy may be the result of a "serious disconnect" or "miscommunication" between KBR officials in the field and the home office in Houston, the official said. The burden is now on KBR to provide evidence as to how the price discrepancy happened.

Defense auditors have issued an estimating system report, he said, that criticizes KBR's estimating procedures "for not having that integration between the people issuing the purchase orders and contracts and the home office people who prepare the proposals."
Until it's proven otherwise, the official said, the $67 million discrepancy appears to be an "egregious error."