TEN HALLIBURTON SCANDALS
TEN BILLION IN U.S. CONTRACTS
ZERO SENATE HEARINGS

A REPORT BY THE OFFICE OF
SENATOR FRANK R. LAUTENBERG

SCANDAL	ALLEGED MISCONDUCT	INVESTIGATED BY	REPORT PAGE
No-Bid Contract	Vice President Cheney's office "coordinated" the no-bid contract awarded to Halliburton in early March 2003.	Office of Senator Lautenberg	**3**
Overcharging U.S. Army for Food	Halliburton overcharged the government by $27.4 million for meals that were never served to troops.	Department of Defense Inspector General	**4**
Overcharging Taxpayers for Gasoline	Halliburton overcharged the Army by $61 million for gasoline delivered to Iraq as part of its no-bid contract.	Department of Defense Inspector General	**5**
Misleading Accounting Practices	In 1998, under then-CEO Dick Cheney, Halliburton overstated its earnings by 46%, or nearly $90 million, after secretly changing its accounting practices.	Securities and Exchange Commission	**6**
Waste and Abuse of Taxpayer Dollars	Halliburton deliberately wasted taxpayer funds in order to receive a higher return on a "cost-plus" contract with the Pentagon.	House Committee on Government Reform	**7**
Nigerian Bribes	A subsidiary of Halliburton was involved in payment of $180 million in bribes to win a contract for a natural gas project in Nigeria.	Department of Justice Securities and Exchange Commission French Public Prosecutor Nigerian Financial Crime Commission	**8**
Kuwaiti Kickback Scheme	Halliburton employees took kickbacks in return for awarding a Kuwaiti-based company with lucrative work supplying U.S. troops in Iraq.	Department of Defense Halliburton Internal Audit	**9**
Violation of U.S. Terrorist Sanctions Law	Halliburton and its executives engaged in criminal behavior by illegally doing business with Iran using an offshore company called "Halliburton Products and Services Ltd."	U.S. Attorney for the Southern District of Texas (Grand Jury) Office of Foreign Assets Control, Department of the Treasury	**10**
Human Trafficking	Halliburton subsidiary KBR misled Indian workers into coming to Iraq and coerced them into staying, providing only contaminated water and insufficient rations, and denying them medical care.	Local Police Department, Kollam, India Government of Pakistan	**11**
Cheney's Financial Interest	Vice President Cheney continues to accept hundreds of thousands of dollars in Halliburton deferred salary and continues to hold 433,333 Halliburton stock options.	Office of Senator Lautenberg	**12**

No-Bid Contract

Allegation: Vice President Cheney's office "coordinated" the no-bid contract awarded to Halliburton for the repair and reconstruction of Iraq's oil infrastructure in early March 2003. The no-bid contract ballooned to $2.5 billion before it was opened to competition in January 2004.

Investigated by: Office of Senator Lautenberg

Status: Despite a bipartisan legislative provision brokered by Senators Boxer, Warner and Lautenberg in May 2003 to force all Iraqi contracts to be subject to the federal regulations mandating competitive contracting, the Administration allowed the no-bid contract continued to grow until it reached $2.5 billion.

On March 8, 2003, the Army awarded a sole source contract to Halliburton to restore Iraqi oil fields destroyed during hostilities, and rebuild Iraq's oil infrastructure. The rationale for excluding all other contractors was that Halliburton had already done the contingency planning for this work and that additional competition "would have been a wasteful duplication of effort."

Despite Congressional protest, it took the Pentagon ten months to open this contract up to bids. By that time, Halliburton had already received $2.5 billion.

Growth of No-Bid Contract:

- *March 8* *Awarded*
- *Late May:* *$500 million*
- *July 17:* *$660 million*
- *Aug 28:* *$705 million*
- *Sept. 12:* *$948 million*
- *Sept. 18:* *$1.25 billion*
- *Jan 2004* *$2.5 billion*

The contract was eventually replaced in January 2004 by two competitively-bid contracts totaling two billion dollars, with Halliburton retaining work in southern Iraq for $1.2 billion.

The Vice President claims he had no role in the award of the no-bid contract, but a recently-disclosed March 2003 Army Corps e-mail says that the no-bid contract was "coordinated" with the Vice President's office. Following that disclosure, the Pentagon admitted that it sought the Vice President's approval for the Halliburton contract.

Overcharging for Meals for U.S. Troops

Allegation: Halliburton overcharged the government by $27.4 million for meals that were never served to troops. Auditors are now looking into the company's food contracts at more than 50 other locations.

Investigated by: Department of Defense Inspector General (IG)

Status: Halliburton was forced to repay the government for the undelivered meals.

The Pentagon's IG office said Halliburton overcharged $27.4 million for meals served to troops abroad. Government auditors discovered the over-billing in early 2004, which allegedly took place over nine months last year, during a routine examination of the contract to supply food to five bases in Kuwait.

Halliburton agreed to repay the money and said in a statement that it was cooperating with the government in the investigation. In addition, auditors are looking into food service contracts at more than 50 other locations in Kuwait and Iraq.

Price-Gouging Taxpayers by Overcharging for Gasoline

Allegation: Halliburton overcharged the Army by $61 million for gasoline delivered to Iraq as part of its no-bid contract to help rebuild Iraq's oil industry.

Investigated by: Department of Defense Inspector General

A Pentagon audit found that Halliburton overcharged the Army by $1.09 per gallon for nearly 57 million gallons of gasoline delivered to citizens in Iraq. Auditors found potential overcharges of up to $61 million for gasoline that a Halliburton subsidiary, KBR, delivered as part of its no-bid contract to help rebuild Iraq's oil industry.

Halliburton claims it did not deliberately overcharge U.S. taxpayers; instead, the company claims that it may have paid a Kuwaiti subcontractor too much for the gasoline in the first place.

The allegations of overcharging are not the first against KBR. In 2002, the firm paid $2 million to settle charges that it inflated prices for repairs and maintenance at Fort Ord, California.

Accounting Scandal

Allegation:	In 1998, under then-CEO Dick Cheney, Halliburton overstated its earnings by 46 percent, or nearly $90 million, after secretly changing its accounting practices.
Investigated by:	Securities and Exchange Commission
Status:	Halliburton settled the case by paying a $7.5 million fine.

In 1998, when Dick Cheney was CEO, Halliburton secretly changed its accounting practices, overstating its earnings by 46 percent, or nearly $90 million. Halliburton recently settled the charges with the SEC by paying a $7.5 million fine.

Utilizing the accounting change again in 1999, Halliburton declared an increased profit for that year as well. Although the modification was made in 1998, it was not revealed until March 2000.

During these years, the company's Brown & Root Energy Services business was conducting projects in the Middle East – projects on which they experienced large cost overruns. These excesses would have decreased Halliburton's profits. As a result, Halliburton changed how it accounted for the cost overruns to enable it to continue to report increased profits.

Although this change would have been legal had Halliburton disclosed it, they did not do so, thereby deceiving investors into believing that their profit had increased when, in fact, it would have suffered a loss under the old accounting principles.

The SEC further found that the Halliburton did not sufficiently cooperate with the investigation, saying "there were unacceptable lapses in the company's conduct during the course of the investigation, which had the effect of delaying the production of information and documentation necessary to the staff's expeditious completion of its investigation."

Halliburton paid a $7.5 million penalty and also acknowledged and agreed to a cease and desist order. Its former controller, Robert C. Muchmore Jr., paid a $50,000 fine and agreed to a command to cease and desist from future breaches of securities laws. A civil lawsuit has been filed in Federal District Court in Houston against Gary V. Morris, chief financial officer for Halliburton at the time, after he refused to settle with the SEC.

Waste and Abuse of Taxpayer Dollars

Allegation: Halliburton deliberately and maliciously wasted massive amounts of taxpayer dollars in order to realize profits on a cost-plus contract.

Investigated by: House Government Reform Committee

Status: One hearing in the House of Representatives has been held.

Under its "cost-plus" contract with the Pentagon, the more Halliburton spends, the more profit it makes, regardless of whether its spending is necessary. Several former Halliburton employees have come forward to discuss how the company has taken advantage of its sweetheart deal by spending millions of dollars in Iraq on nonexistent or vastly overpriced goods and services. This "cost-plus" contract is known as "LOGCAP."

According to these former employees, Halliburton engaged in the following wasteful practices:

<u>Extravagant Lodgings</u>

- Over the Army's objections, Halliburton charged taxpayers $10,000 a day to house its employees in a five-star Kuwaiti hotel.
- Halliburton insisted on ordering embroidered towels at three times the price of regular towels.

<u>Paying People To Do Nothing and Abandoning Equipment</u>

- Halliburton employees who worked only once every 5 or 6 days were instructed to bill for 12 hours of labor, 7 days a week.
- Halliburton had its employees drive empty trucks back and forth across Iraq, in order to bill for the trips, despite the obvious risks this practice posed to both the truck drivers and the $85,000 trucks.
- Halliburton removed all the spare tires from its trucks and failed to provide basic maintenance supplies like oil filters. As a result, when tires went flat, or trucks broke down, they were abandoned or torched, with Halliburton making a profit on replacements.

<u>Unnecessary Purchases</u>

- When a Halliburton employee needed one drill, his supervisor told him to order four. When the employee said he did not need four drills, the supervisor responded, "Don't worry about it. It's a cost-plus contract."

- One employee discovered that Halliburton was paying for 37,200 cases of soda every month even though they were only receiving 37,200 cans. In effect, Halliburton was paying $45 for each case of soda; supermarkets charge about $7.

Bribing Nigerian Officials

Allegation: A subsidiary of Halliburton was involved in payment of $180 million in bribes to win a contract for a natural gas project in Nigeria.

Investigated by: Department of Justice
Securities and Exchange Commission
French Public Prosecutor *(Procureur de la Republique)*
Nigerian Economic and Financial Crime Commission

Status: Halliburton has already paid a fine to the Nigerian Economic and Financial Crime Commission. Additionally, it has severed ties with some employees, including an executive, over this scandal.

The Justice Department is investigating a subsidiary of Halliburton Co. that was involved in payment of $180 million in bribes to win a contract for a natural gas project in Nigeria. Such bribes have been illegal in the United States since the mid-1970s under the Foreign Corrupt Practices Act. The $4 billion Nigerian Liquified Natural Gas Plant was built in the 1990s by a consortium that included Kellogg, Brown & Root.

A French magistrate, Renaud Van Ruymbeke, is also investigating the Nigerian payments and has said that embezzlement charges could ultimately be filed against Cheney himself in a French Court. In 2000, France joined the United States and more than 30 other countries in outlawing bribery of foreign public officials under the auspices of a convention negotiated through the Paris-based Organization for Economic Cooperation and Development. It makes the payment of such bribes a criminal offense, and outlaws a tax break that was once claimed by several European companies.

President Olusegun Obasanjo of Nigeria has also ordered Nigerian investigators to determine whether Halliburton officials disbursed money as kickbacks in order to secure the natural gas project.

Kuwaiti Kickback Scheme

Allegation: Halliburton employees took kickbacks in return for awarding a Kuwaiti-based company with lucrative work supplying U.S. troops in Iraq.

Investigated by: Department of Defense
Halliburton Internal Audit

Status: Halliburton repaid the Defense Department $6.3 million

Halliburton admitted to the Pentagon that two employees took kickbacks valued at approximately $6 million in return for awarding a Kuwaiti-based company with lucrative subcontracts under KBR's LOGCAP (cost-plus) contract.

Following the December 2003 admission of the kickbacks by KBR, Halliburton agreed to reimburse the money. The company has fired the two employees, who were based in Kuwait and whose names were not disclosed.

Violating U.S. Terrorist Sanctions Laws

Allegation: Halliburton and its executives engaged in criminal behavior by illegally doing business with Iran using an offshore company called "Halliburton Products and Services Ltd."

Investigated by: U.S. Attorney for the Southern District of Texas (Grand Jury)
Office of Foreign Assets Control, Department of the Treasury

In July 2004, a Federal grand jury empanelled in the Southern District of Texas issued a subpoena to the Halliburton Company for the production of documents related to potentially criminal activity by current and former executives who may have violated U.S. terrorist sanctions law. The grand jury was assembled after the Department of the Treasury's Office of Foreign Assets Control determined that Halliburton officials engaged in egregious conduct that rose to a level of criminality.

At issue is a foreign subsidiary of Halliburton, called "Halliburton Products & Services Limited," that has only one source of revenue: business with the Iranian government and its national oil company. While U.S. sanctions law prohibits American companies, like Halliburton, from doing business with Iran, a loophole in the law allows the foreign subsidiaries of a U.S. company to conduct business with terror-sponsoring states. However, Halliburton may have egregiously abused that loophole by conducting decision-making on Iran operations not out of the foreign subsidiary, but out of the U.S. parent company or its U.S.-based subsidiaries.

The Treasury Department has now referred a criminal case to the Department of Justice regarding Halliburton's business. The Department of Justice has sent the case to the U.S. Attorney for the Southern District of Texas, who has assembled a Federal Grand Jury. If indictments are filed against current or former Halliburton executives, the criminal charges carry a penalty of ten years in prison.

Human Trafficking

Allegation: KBR tricked Indian workers into coming to Iraq and coerced them into staying, providing only contaminated water and insufficient rations, and denying them medical care.

Investigated by: Local Police Department, Kollam, India
Government of Pakistan

Indian workers say they were tricked into going to Iraq by recruiters who said the jobs were in Kuwait. The recruiters were subcontracted through a chain to KBR, a Halliburton subsidiary. Once in Kuwait City, the workers were put on a bus to a camp in Mosul in Northern Iraq.

In Iraq, the workers were kept in tents in 100-degree-plus heat while their western supervisors were given air-conditioned trailers. Western contractors received full protective gear, while the Indian workers did not.

According to the workers, the food the cooks set aside for them was not enough to eat, so they had to take leftovers from the soldiers' meals. Hindu workers were served beef, which is forbidden to them. Muslims were told to handle pork, which is forbidden to them.

While westerners were given filtered bottled water, the Indian workers say they had to drink contaminated Iraqi tap water with chlorine tablets from aluminum buckets. The workers had to go through the soldiers' trash to find empty water bottles they could use as cups. But the chlorinated tablets did not work. When one worker threw up for weeks from the contaminated water, he was allowed to see an Iraqi doctor. The doctor gave him a single pill and did not explain what the pill did. The pill did not alleviate his symptoms.

In addition to being assigned work they were not hired for, such as construction, the workers say they were not adequately compensated for working 12 to 16 hour days.

The workers did not want to be in Iraq, but in order to return home, they would have had to pay their own travel expenses, lose the fees they paid to agents, and give up their paying jobs. Furthermore, their bosses were holding their passports.

In May, when they were offered a bus ride out of Iraq, nearly everyone accepted.

Vice President Cheney's Continuing Financial Interest

Allegation: It is unethical for Vice President Cheney to continue to accept hundreds of thousands of dollars in Halliburton deferred salary and continue to hold 433,333 Halliburton stock options while the company receives multi-billion dollar contracts from the Bush-Cheney Administration.

Investigated by: Office of Senator Frank R. Lautenberg

On the September 14, 2003 edition of *Meet the Press*, in response to questions regarding his relationship with Halliburton where he was employed as CEO for five years, from 1995 to 2000, Vice President Cheney said:

> *"And since I left Halliburton to become George Bush's vice president, I've severed all my ties with the company, gotten rid of all my financial interest. I have no financial interest in Halliburton of any kind and haven't had, now, for over three years."*

However, Vice President Cheney's official financial disclosure filings with the Office of Government Ethics suggest that not only does the Vice President continue to have <u>financial ties to Halliburton</u>, but also that <u>Halliburton is continuing to provide personal financial benefits to the Vice President</u>. The filings list:

- "<u>Deferred Salary</u>" paid to Vice President Cheney by Halliburton; and
- A total of 433,333 <u>unexercised Halliburton stock options</u>.

Deferred Salary

- Deferred salary paid by Halliburton to Vice President Cheney in <u>2001</u>: **$205,298**
- Deferred salary paid by Halliburton to Vice President Cheney in <u>2002</u>: **$162,392**
- Deferred salary paid by Halliburton to Vice President Cheney in <u>2003</u>: **$178,437**

Halliburton paid "deferred salary" to Vice President Cheney in his first two years in office and is apparently scheduled to make similar payments to him in 2003, 2004 and 2005. Deferred salary is not a retirement benefit or a payment from a third party escrow account, but rather an ongoing corporate obligation paid from company funds. If a company were to go under, the beneficiary could lose the deferred salary. The Vice President's disclosure forms also describe the deferred salary payments as "elective" without defining this term.

In an attempt to mitigate the Vice President's continuing financial interest in Halliburton with respect to the payment of this deferred compensation, the Vice President's financial disclosure form states that that the Vice President "acquired" an insurance policy "to ensure that he will receive the equivalents of his remaining deferred compensation account with Halliburton." The terms of this insurance policy, its cost, and who paid for it are unclear.

Stock Options

At the end of 2002, Vice President Cheney's financial disclosure form stated that he continued to hold 433,333 unexercised Halliburton stock options, with exercise prices above the company's current stock market price. Although these exercise prices are above current prices, these options could bring a substantial windfall if Halliburton earnings and stock value continues to grow as it benefits from large government contracts. The Vice President has signed an agreement to donate any profits from these stock options to charity, and has pledged not to take any tax deduction for the donations. Should Halliburton's stock price increase over the next few years, the Vice President could exercise his stock options for a substantial profit, benefiting not only his designated charities, but also providing Halliburton with a substantial tax deduction.

Halliburton Stock Options Held by Vice President Cheney (current to end of 2002):

- 100,000 shares at $54.5000 (vested), expire 12-03-07
- 33,333 shares at $28.1250 (vested), expire 12-02-08
- 300,000 shares at $39.5000 (vested), expire 12-02-09

The Vice President's deferred compensation and stock option benefits are in addition to a $20 million retirement package paid to him by Halliburton after only five years of employment; a $1.4 million cash bonus paid to him by Halliburton in 2001; and additional millions of dollars in compensation paid to him while he was employed by the company.

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