

KBR: Dirty water, dirty deals

by the St. Louis Post-Dispatch

A hundred years from now (maybe longer if John McCain is elected president), when the history of the Iraq war finally is written, students will want to know how KBR Inc. got away with war profiteering.

How did this firm, whose employees have time and again been hauled into court and accused of fraud by government inspectors, continue to prosper? And prosper it has: After being spun off in April 2007 by Halliburton, its former parent company, KBR took in \$8.75 billion in revenue for the year, of which \$520 million was profit.

Not bad for government work.

With \$16 billion in outstanding contracts related to the Iraq war, KBR continues catering diverse parts of the sprawling war, providing everything from pizza parlors and hamburger joints in a desert to millions of rounds of ammunition and millions of gallons of fuel. KBR employees or subcontractors have washed a million sets of dirty BDUs and GI uniforms and have built thousands of showers and hundreds of barracks rooms. In so doing, some people in the company have made out, as the apt cliché goes, like bandits.

"I happen to think we have seen and are seeing the most significant waste, fraud and abuse in the history of this country," Sen. Byron L. Dorgan, D-N.D., said Monday. "And, regrettably, most of the federal government seems to be asleep. That is especially true of this [Bush] administration."

As a unit of Halliburton, KBR came under fire pretty much from the moment the Iraq war began five years ago. The company and some of its people have been under investigation almost that long. Most recently, KBR has been accused of supplying contaminated water for troops to bathe in (and expensive monogrammed towels for them to dry with). Employees have been indicted for fraud and bribery in federal court in Rock Island, Ill.

And according to an investigation by The Boston Globe, the company has long been using a shell company in the Cayman Islands to duck Social Security and Medicare taxes for its employees. Not paying these taxes gives KBR a competitive advantage when it bids for government work, but it leaves employees with fewer Social Security benefits and adds to the long-term Medicare costs of the government. While legal, the practice is not the kind of slick maneuver that the government should tolerate among its contractors.

The fundamental problem with the KBR contracts is the same one that has plagued much of the federal government since the Reagan years: a misplaced faith in the inherent goodness of free-market systems.

This theory reached its apotheosis during the first Gulf War. Under a contract system devised by Dick Cheney, who was secretary of defense in the administration of President George H.W. Bush, military support services first were outsourced to Halliburton. After that Bush administration was voted out of office, Cheney became Halliburton's chief executive.

After Cheney returned to government in 2001 as President George W. Bush's vice president, the second Iraq war started, and business got very brisk. As The Chicago Tribune reported recently, the value of all Army contracts (not just KBR's) went from \$23.3 billion in 1992 to more than \$100 billion in 2006. Meanwhile, the number of Army contract compliance investigators - people assigned to make sure contractors do what they're hired to do and do it right - was dropping from 10,000 in 1990 to 5,500 in 2008.

On Tuesday, the Senate Appropriations Committee held hearings on the subject of contracting in Iraq. Witnesses included David M. Walker, the U.S. comptroller general, and Stuart W. Bowen Jr., the Pentagon's special inspector general for Iraq reconstruction.

The committee was told that "significant," "widespread" and "rampant" fraud and corruption in U.S. contracts in Iraq are costing taxpayers billions of dollars and that administration efforts to prosecute those responsible have been grossly insufficient.

The hearing got very little press coverage; people are so used to waste, fraud and abuse that they barely pay attention. And 100 years from now, students will study the Iraq war and learn that KBR got away with it because people didn't care.

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