

STATEMENT BY WILLIAM WALTER
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BEFORE THE COMMISSION ON WARTIME
CONTRACTING IN IRAQ AND AFGHANISTAN

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Thank you distinguished members of the Commission. My name is William Walter. I am the Senior Vice President of Government Compliance for KBR with oversight responsibility for the business systems which are the subject of today's hearing. My professional career spans both the Government and contracting industry. I began my career as an auditor for the Defense Contract Audit Agency. I went on to help companies that worked for the Federal Government and worked as a teacher for George Washington University's government contracts program. In these positions, I have had extensive experience with the issues the Commission is examining today, and bring an important perspective to the discussion, having worked for both government and industry.

I welcome the opportunity to appear here today to support the Commission in fulfilling its mandate of examining contingency contracting and identifying ways to improve the current expeditionary contracting system. KBR looks forward to helping the Commission identify lessons learned that can be applied to current operations as well as focused, actionable recommendations that will enable positive change of the contingency contracting process. KBR has worked with the Commission from the outset, providing it with requested information, and participating in meetings and briefings domestically and in Iraq, Afghanistan, and Kuwait. This Commission, much like the Truman Commission sixty years ago, must lead the way for continued improvement in the contingency contracting process.

KBR has been proud to serve the Government and the Military since World War II. Our service and support mission has taken us around the world to numerous hostile and austere environments. KBR is one of many contractors providing support to U.S. and Coalition forces, diplomats, and civilians in Iraq, Afghanistan, and elsewhere across the globe.

In the Commission's invitation to testify, you identified a number of topics, all generally related to business systems. In my testimony today, I will discuss our business systems and also provide a few of the lessons we have learned and our recommendations for improving contract support and contract management processes and procedures. Critical to this discussion is understanding the unique operational challenges inherent in a war zone, as well as understanding the challenges posed by competing governmental priorities inherent in a contingency contracting environment.

KBR uses a variety of business systems to manage the day to day requirements of its operations. These include systems to acquire goods and services and estimate, accumulate, and report the costs incurred to provide services and support to the warfighter. The primary systems include accounting, billing, purchasing, estimating, and property. Our systems are regularly reviewed and approved by the Government. Just last month, the Government's most recent review resulted in the continued approval of our purchasing system. The approval letter concluded with the following: "I appreciate your professionalism during the review and your cooperation with the CPSR Team. Congratulations for having a system that merits Government approval and please remain vigilant so that this approval may be maintained."

These approvals are not done in a vacuum. DCMA and DCAA are resident at KBR facilities throughout the world, with close to 50 Government personnel in our Houston offices alone. We are in daily dialogue with Government representatives to ensure cooperative

communication and implement feedback in real-time to provide transparency and improve our services. For example, KBR leads interactive monthly meetings with representatives of DCMA and DCAA regarding business systems.

Throughout our history as a government contractor, which dates back to World War II, KBR's business systems have been appropriate and sufficient. Our business systems evolved over the years to keep pace with the also evolving requirements of the Government and the marketplace. Prior to the Iraq War, our most recent experience had been supporting military forces in the Balkans. Based on the original LOGCAP III scope of work, we anticipated that the volume of work would be comparable. However, as everyone knows, what happened in Iraq was dramatically different.

The magnitude and urgency of the logistical support needed in Iraq presented new and extraordinary contracting challenges that any company with any business system would have faced. As you know, the Military and their contractors encountered a rapidly changing and increasingly perilous situation in Iraq. It was in this environment that the initial levels of services required of KBR under LOGCAP III evolved to meet the exigencies of the situation that America's courageous Soldiers, civilians and the contractors who supported them, confronted. This was true with respect to the number of personnel on the ground, the duration of the troop presence, and the hazards posed by the insurgency.

While the original contract clearly stated the various essential services for which KBR would be responsible, the specific requirements associated with the location, the types of facilities that would be available or required to be built at each camp, and the availability of supplies and services to support the effort were in constant flux. Thus, contractors frequently

developed solutions to wartime logistical challenges on the ground and in real time to support the 211,000 service members at over 215 sites throughout the theater.

In this volatile situation, the pace of paperwork trailed the pace of the demand for services and this led to further challenges for KBR and the Governmental administrative teams. Another inherent challenge relates to the expectation of the acceptable quality and extent of documentation. In the Iraq and Afghanistan theaters, while there may be vendors that can provide the services needed, few, if any, have experience with the level of documentation expected by the U.S. Government. When this is combined with the demand for KBR to provide services to the warfighter in an extremely compressed schedule and in a war zone, the resulting documentation often does not meet the traditional, state-side expectation.

It is helpful to provide one specific, concrete example of the contracting challenges KBR faced at the outset of the Iraq War. Given the immediate needs of the operation, KBR identified an urgent requirement for diesel, heavy-duty SUVs, went to local dealerships in Kuwait, and were charged the market rate of \$43,000 each. KBR had no choice but to pay this amount in order to meet the Government's urgent needs. Subsequently, KBR worked diligently to put a supply chain in place in order to procure these types of vehicles at a discounted, fleet rate and, by December 2003, was successful in doing so. This is but one example of the realities of contracting in a war zone and the demands placed on a contractor to meet the Government's demands on its schedule.

With regard to the application of business systems in this challenging and ever-changing environment, we identified the need in 2003 to upgrade our accounting system to keep pace with the significant increase in data requirements associated with LOGCAP III. During the implementation of this change, we invited DCAA technical experts to participate and observe the

entire process. Further, once the system implementation was completed, KBR made presentations to DCAA personnel on its functionality and operation.

Our business systems evolved over time. As security, communications, and the acquisition work force improved, we identified opportunities to utilize more state-side business systems and processes. KBR often was the leader on these issues. For example, KBR established our Procurement and Supply Chain Management Training Academy to address the critical need for trained contracting professionals. We are committed to continue taking such steps as necessary to maintain the very best business systems and to serve the Military's needs in Iraq and around the globe.

Our experiences in Iraq and extensive history in government contracting afford us a somewhat unique perspective on the challenges faced by the Military and its wartime contractors. Perhaps the most vivid observation that I might make is that contractors are often faced with multiple and at times competing priorities from the Government with respect to our contract. The Military Commander on the ground may express an immediate need with the urgency of real time battlefield necessities. Both the Army Sustainment Command and DCMA are responsible for overseeing our contract, and both give us instructions on what is or is not required or permitted under the contract. DCAA and other after the fact auditors later come in and provide their view. As you might imagine, many contract expenditures and actions look different to the Soldier and his Commander during the heat of battle, than they may appear months or years later to a state-side auditor. As the contractor, we face the challenge of meeting the very real needs of the army fighting the war, while also satisfying the important demands of contracting officers and Government auditors. If the Commission can identify the means that will allow the Government to speak with one voice in instructing its contractors in future

wartime contingencies, this would be a significant improvement to the current expeditionary contracting system.

A second observation involves the nature of the auditing process. From our perspective, the current audit process for adequacy determinations contains too many subjective aspects that vary significantly between auditors, leaving the contractor in an untenable position. A greater reliance on objective criteria would provide contractors with an enhanced ability to meet and exceed the Government's expectations, and would indeed result in increased contractor efficiency for the Government.

Finally, given the importance of advance planning to the efficient delivery of services, we recommend that the Government develop a method that allows contractors to play a consultative role during the Military's own operational planning process. In saying this, we are very cognizant of the concerns that have been expressed regarding contractors assuming inherently governmental functions. However, while the actual planning should properly remain the job of the Government, those of us who will bear the responsibility for providing the food, shelter, equipment, and other logistical support necessary for the successful execution of those plans would be able to do a better job and have knowledge that can be useful to the military planners if we are consulted during that process.

KBR remains proud of the work it performs in Iraq and around the world. Our employees perform their jobs in austere, unpredictable conditions at great sacrifice to themselves and their families. We remain committed to engaging in a transparent and, more importantly, a fact-based dialogue while pledging continued full cooperation and support to our Military. I look forward to answering your questions.