

STATEMENT BY
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GROUP

BEFORE THE
COMMISSION ON WARTIME CONTRACTING
IN IRAQ AND AFGHANISTAN
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Co-Chairman Thibault, Co-Chairman Shays and members of the Commission on Wartime Contracting in Iraq and Afghanistan, thank you for the opportunity to discuss Fluor's business systems. My name is David Methot and I serve as Executive Director of Compliance for Fluor Corporation's Government business segment.

Fluor Corporation is one of the world's largest publicly traded engineering, procurement, construction, maintenance and project management companies.

We maintain a network of offices in over 25 countries on six continents to serve the needs of our customers across the globe. For more than a century Fluor, through its operating subsidiaries, has become a trusted global leader in providing exceptional services and technical knowledge.

Fluor is a Fortune 500 company with over 42,000 employees serving 5 business segments including energy and chemicals, industrial and infrastructure, global services, power and the United States government and international agencies.

Our total revenue last year was \$22.3 billion dollars. In 2008 Fluor's largest business segment was energy and chemicals with 58% of our revenue. Projects around the globe include building production facilities, pipelines, refineries and petrochemical plants. Our industrial and infrastructure business segment was second with 15% of our revenue with projects encompassing transportation, mining, life sciences, telecommunications, manufacturing and commercial and institutional. Fluor's global services business segment with 12% of our revenue provides operations and maintenance, equipment services, supply chain solutions and temporary staffing. Our power business segment with 9% revenue builds, commissions and retrofits facilities around the globe to meet power generation demands across all types of fuel. Lastly Fluor's government business segment, which was the smallest with 6% revenue, performed work for the Departments of Energy, State, Homeland Security and Defense.

Fluor works to ensure that all employees have the tools and resources they need to maintain the highest ethical standards. Our

Code of Business Conduct and Ethics is the centerpiece of our commitment to integrity. At the end of 2008, more than 26,000 employees have been trained on our code. In addition we have a company wide Ethics Certification Program. All salaried employees must annually certify that they understand and accept the Code of Conduct.

Fluor also has a Compliance and Ethics Hotline, maintained by an independent third party, where employees can anonymously make reports or ask questions in more than 150 languages, seven days a week, 24 hours a day. In 2008 the Hotline received 306 calls, all of which were investigated. Later this year we will be rolling out a "Speak Up" campaign to further emphasize compliance and ethics issues.

Fluor has been actively supporting the US Government for over 60 years. Throughout this period we have supported the Government's needs including the Manhattan Project, the Strategic Petroleum Reserve, Missile Defense infrastructure in Alaska, the closure and remediation of DOE's facilities at Fernald, Ohio, disaster response and recovery support for FEMA in response to natural disasters including Hurricanes Katrina and Rita and projects for several defense agencies in Iraq and Afghanistan.

Fluor's ongoing projects in Iraq and Afghanistan consist of four task orders for the U. S. Army Corps of Engineers Trans-Atlantic Programs Center (CETAC II) contract and task orders under the Logistics Civil Augmentation Program (LOGCAP IV) contract.

Fluor was awarded the CETAC II contract on January 12, 2004 and has performed work under 22 task orders between 2004 and December 2008. We are still performing work under four task orders the scope of which includes food service, laundry, lodging and fitness and equipment services.

Fluor was awarded one of three LOGCAP IV contracts in July 2007. The Army Contracting Command has competed 8 task orders and Fluor has received 4 awards. Fluor's 1st award was Task Order 2 in September 2008 for the expansion of the Afghanistan Regional Command (RC) East which consisted of the establishment and

continuing life support for four Forward Operating Bases (FOBs). This was followed by Task Order 3 in October 2008 for calibration and repair services for military equipment in Iraq and Afghanistan. Task Order 4 awarded in December 2008 is for construction, expansion, and continuing life support of 8 FOB's in Afghanistan RC South. Five weeks ago, Fluor was awarded Task Order 5 for base life support and theater transportation functions for United States and coalition forces for the Afghanistan North Area of Responsibility (AOR). The total value of this task order is over \$ 7 billion dollars over five years including one base year with four one year option extensions. We are now working closely with the Army to plan and coordinate the transition of this work.

Since our first U.S. government award for work in Iraq in June 2003 Fluor has participated with DCAA in hundreds of audits/reviews of which 58 audits/reviews are in process or awaiting ACO determination.

As the Chief Compliance Officer for Fluor's Government Group (FGG), I directly report to the President of FGG and have an independent reporting relationship up through our Corporate Compliance Officer to the Audit Committee of Fluor's Board of Directors as well as the Corporate Compliance and Ethics Committee. In addition, I chair the FGG Executive Compliance and Ethics Committee to provide governance. I am accountable for ensuring Fluor complies with federal contracting requirements and for implementing and overseeing an effective business ethics and compliance program. This includes maintaining Government-approved business systems. I am supported by our Corporate Finance Operations for DCAA and DCMA coordination of our corporate business systems and indirect rate agreements.

The Government Group compliance organization is divided into two major focus areas: Government Compliance Prevention and Support and Government Compliance Audits. Our prevention and support group focuses on proactive compliance awareness training and communications, monitoring the responsiveness of our audit coordination process, monitoring Government oversight and audit reports for lessons learned and providing Government compliance

support to our management team and employees. Our Compliance Audit Group focuses on reviewing compliance with company policies and federal contracting requirements. In addition, a special LOGCAP IV Contract Compliance Group has been established to provide focused Government compliance support and oversight. Led by a senior Government Compliance Officer and reporting up through the FGG Chief Compliance Officer, this group will mirror the FGG compliance approach described above.

Fluor's business systems and processes are well established and designed to support global execution of engineering, procurement, construction and operation and maintenance services to its customers. These systems are designed to ensure execution excellence and include effective internal controls and sound business operations.

The Fluor Government Group (FGG) business line implements its business through an operating system implementation plan focused on executing and supporting U.S. Government contracts. Policies and procedures have been appropriately modified to incorporate federal contracting requirements including ensuring mandatory flow down to our subcontractors and suppliers.

Fluor Government Group's business systems have received multiple reviews over the years and were determined to be adequate by the U.S Government. Historically, any business system internal controls audit issues identified have been resolved with the Government. Where improvements or deficiencies were identified, timely corrective action plans were submitted to the Government and an appropriate level of senior management attention and oversight ensured implementation. Follow up audits have routinely resulted in adequacy determinations of the affected business system.

Fluor has received 12 adequate determinations of various business systems across Fluor office levels or Cost Accounting Standards (CAS) segment. They include Fluor corporate disclosure statement (effective 1/1/07), corporate accounting and budgeting systems.

Our government group headquarters (FGG HQ) segment has received an adequate determination for our accounting system and for its disclosure statement in 2006 and 2007.

Our Fluor Federal Services (FFS) segment has received an adequate determination for its disclosure statement (effective 1/1/07), and for its accounting, estimating, IT, labor and purchasing systems.

Currently DCAA has seven audits in process for business systems across Fluor office levels or CAS segment. They include our corporate accounting, budgeting, compensation and IT systems; our FGG HQ disclosure statement; and FFS disclosure statement, accounting, estimating and purchasing systems.

Lastly we are working with DCAA and the appropriate ACO to resolve two systems that have been determined by DCAA to be inadequate including our corporate compensation system and the FFS indirect and other direct cost system.

Due to the rapid response demands of contingency contracting support under the LOGCAP program, Fluor is continually examining its processes and systems to ensure they provide timely support to the war fighter while complying with federal contracting requirements.

Ms. April Stephenson, Director, DCAA, in the Commission's May hearing testified about concerns and recommendations to improve contingency contracting support from a Government audit perspective. I would like to address a couple of those from Fluor's perspective as one of the LOGCAP prime contractors.

Fluor demonstrated its commitment and responsibility to provide effective subcontractor oversight during its extraordinary experience supporting the Federal Emergency Management Agency (FEMA) in the emergency response and recovery efforts of Hurricane's Katrina and Rita. Fluor mobilized approximately 5,000 employees and subcontractor personnel in the days and weeks following the devastation of the Gulf Coast of Louisiana and Mississippi. As FEMA's prime contractor we had to estimate, collect and report costs consistently and accurately. We had to manage our subcontractors in a continually changing environment, tracked their costs, managed

their changes, provide adequate oversight and identify whenever over billings were detected. Records documenting costs incurred for this contract were maintained in the same document management system we are using for the LOGCAP IV contract.

Addressing the need to ensure reasonable prices were obtained for FEMA and the American taxpayer, Fluor initiated a program to re-look at subcontractor pricing after emergency response transitioned to the recovery phase, Fluor re-negotiated its prices with its subcontractors to reflect changing market conditions of a post emergency environment which yielded significant savings. Due to the high volume of transactions, we used outside quantity surveyor auditors to reconcile subcontractor invoices against Fluor receiving reports and subcontract prices, to identify potential over billings. This process alone identified significant questioned costs which were later recovered from those subcontractors and resulted in savings to the American taxpayer.

Fluor management systems and processes are designed to be scalable to meet the surge requirements of contingency contracting on a global basis. Our material management system interfaces with our accounting system whether the buyer is in Baghdad, Kandahar or Greenville, South Carolina. On LOGCAP IV we have further integrated this system to interface with an automated maintenance management system to allow tracking of labor and materials by work order and material purchases from order to receipt to final location and consumption to allow comparison with supplier invoices and inventory management. Our contract management system is designed to ensure Fluor effectively manages its subcontractors and documents subcontract awards, changes and oversight in a central database system.

As an improvement on the LOGCAP IV contract, Fluor is in the process of scanning all purchase orders and subcontract files, whether generated in the field or in the home office, into an automated document management system. This will greatly increase the availability of these critical records for internal reviews and lead to more timely responses to Government audit data requests in the future.

Fluor does not use separate accounting books of records in the field which would require later reconciliation as our systems are all on line and integrated eliminating the risk of reconciliation errors.

Regarding records retention, Fluor looks at every new task order award with the end in mind. Every new award eventually must be closed out. Not only do we have to have adequate records and documentation to support audits of change proposals during the performance of the task order, we have to support audits of our final incurred cost submissions for each year costs are incurred under that task order. Ultimately, the contracting officer will be required to establish final costs under each task order based on final indirect rates. Finally, we have an obligation to ensure those records are available for government auditors for three years after final payment in accordance with the Audit Records Negotiation clause of our LOGCAP IV contract. Fluor has systems and processes in place to ensure that happens.

I would like to offer a couple of suggestions I believe would improve the contingency support process for both the Government and the contractor.

The first is associated with audit coordination. Since the beginning of the year, Fluor's audit data and information requests have increased exponentially. Not only have the number of audits increased but the requests are being received individually from each auditor from Afghanistan, Richland WA, Santa Ana CA, Greenville SC, DCAA Iraq, and DCAA Europe. We are experiencing numerous requests for the same data which have been provided numerous times. In order to address this increase, Fluor is increasing its audit coordination staff for LOGCAP IV to ensure timely responses can be provided to DCAA and DCMA.

Since this high volume of audit data requests will likely continue and are expected to originate from domestic and international locations, I recommend DCAA and DCMA establish a central audit coordinator to provide centralized control points of contact for audits and reviews of

contractor business systems and processes supporting the LOGCAP IV Program. This should result in better tracking of audit activity, outstanding data requests and improve turnaround times for DCAA and DCMA.

The second is associated with federal acquisition guidance including audit and contract management oversight. The Federal Acquisition Regulation, its Defense supplement as well as Defense audit and contract management manuals do not adequately address the contingency contracting environment. The LOGCAP IV Program requires rapid response and long-term sustainment support services in wartime environments which does not lend itself to the normal contract management oversight and audit guidance existing today.

I recommend the FAR, DFARS, DCAA and DCMA acquisition guidance be updated to reflect the unique environment of rapid response contingency contracting. There needs to be provisions for contractor oversight when both the Government and the contractor are mobilizing at the same time, rapid review of contractor business systems, real-time audits and a need for centrally managed audit coordination in support of a contingency contracting audit plan which is shared with the contractor, a Task Order change management process in a rapidly changing contingency contracting environment in the field, consideration of a single combined audit/review of contractor purchasing systems rather than separate internal controls and a compliance review and address ACO advance notification and subcontract consent requirements in support of contingency operations just to name a few.

As Chief Compliance Officer for Fluor's Government Group I am proud of our track record of performance and compliance across our government agencies. On behalf of the over 2,100 employees of FGG, we are cognizant of the unique role we play in support of the U.S and coalition forces operating in Iraq and Afghanistan.

I look forward to your comments, questions and dialogue about Fluor and our business systems.