



Subcontracting risks in combat zones to be probed at July 26 Wartime Contracting hearing on Capitol Hill

ARLINGTON, VA, July 20, 2010 – The risks of subcontracting government work in combat zones will be examined during a July 26 hearing of the federal Commission on Wartime Contracting in Iraq and Afghanistan.

Fragmentary data—the best the government has—suggest that at least a third of the roughly 200,000 contractor employees in Iraq and Afghanistan work for subcontractors. Because the federal government has no direct contractual relationship with subcontractors, it has limited visibility into who they are and what they are doing. Prime contractors are legally responsible for managing subcontractors, but the primes' internal controls and the effectiveness of federal oversight have often been inadequate.

“Subcontracting is a normal business practice,” said Commission Co-Chair Christopher Shays, “but what makes sense for an office-renovation project in Maryland can create some unique risks when the contractor is hiring subcontractors in a combat zone half a world away.”

Shays, who will preside at Monday's hearing, said risks of wartime subcontracting include weak oversight by prime contractors, abuse of unskilled foreign laborers, excessive costs from “tiering” or layering subcontracts, performance complications and ethical concerns with foreign business practices, poor documentation of work and costs, and security concerns.

Co-Chair Michael Thibault said, “The fact that no one knows how many subcontractor employees there are should be a warning sign in itself. And the critical missions and fast-changing needs in a violent region aggravate the problem. Without good subcontract control by prime contractors and good oversight by the government, we risk not only wasting money, but also depriving our troops of support they need, overlooking misconduct that alienates local populations, and even handing funds to violent insurgents. There are many efficient and effective contractors and subcontractors working for the United States in Southwest Asia, but we've seen enough bad cases to warrant some pointed questions.”

Subcontracting issues that Commission staff have researched include:

- The Defense Contract Management Agency has not approved the purchasing systems of two of the three prime contractors for the Army's LOGCAP IV logistical-support contract that is essential for U.S. operations in Iraq and Afghanistan. The government relies on data from contractors' purchasing systems to help ensure that subcontract costs will be reasonable.
- A company providing linguist services to the U.S. military billed the government for \$5 million of work by a Kuwaiti-owned subcontractor that it could not document. The subcontractor refused federal auditors access to its books, saying Kuwaiti law did not require them to do so.

The hearing will begin at 9:30 a.m. on Monday, July 26, in Room 106 of the Dirksen Senate Office Building, Washington, DC. The hearing is scheduled to end about 4 p.m.

Three panels of witnesses will testify during the approximate time frames indicated:

Panel 1: Government Panel:

- Edward Harrington, Deputy Assistant Secretary of the Army for Procurement

- Patrick Fitzgerald, Director, Defense Contract Audit Agency
- Cathy Read, Director, Acquisition Management, Department of State
- Drew W. Luten III, Acting Assistant Administrator for Management, United States Agency for International Development

Panel 2: Prime Contractors:

- Cheryl Ritondale, Global Director, Procurement and Supply Management, KBR, Inc.
- Norm Powell, Vice President and Government Business Acquisition Executive, Fluor Corp.
- John Supina, Senior Vice President, Business Administration, DynCorp International
- Chris Taylor, Chief Executive Officer, Mission Essential Personnel, LLC

Panel 3: Subcontractors:

- Fred Brune, President, Government Facilities & Infrastructure, CH2M Hill (subcontractor to DynCorp)
- Perry Dalby, Manager and Ethics Committee Director, Tamimi Global, Ltd. (subcontractor to KBR)
- Paul Hinks, CEO, Symbion Power Services (subcontractor to Louis Berger/Black & Veatch)
- Mark Kleckner, Chief Operating Officer, McNeil Technologies (subcontractor to DynCorp)
- Marc Krens, Chief Financial Officer, The Diplomat Group (subcontractor to Fluor)
- Jerry Torres, President and CEO, Torres Advanced Enterprise Solutions, LLC (subcontractor to MEP)

Shays and Thibault noted that while contractors are responsible for planning and managing their use of subcontractors, the government is responsible for ensuring that contractors are effectively managing their subcontractor force so that required work is performed adequately, on time, and economically. The hearing panels will be questioned both on shortcomings in subcontracting and on their views on how all parties can better meet their responsibilities in the special stress of a wartime environment.

“We are looking for ways to improve the entire process,” Shays said, “such as starting with the government’s requirements definition, evaluation criteria, and statements of work. That’s essential to making a good decision on the prime contractor and its subcontracting plan to prevent many of the problems we’ve seen turn up in audits after the fact.”

Congress created the Commission in 2008 (Public Law 110-181) to examine contingency contracting for reconstruction, logistics, and security functions, and to recommend improvements. Its final report to Congress is due in July 2011. Co-chairs are Michael Thibault and Christopher Shays; other members are Clark Kent Ervin, Grant Green, Robert Henke, Katherine Schinasi, Charles Tiefer, and Dov Zakheim. The Commission website is www.wartimecontracting.gov.

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Note: This release has been updated since its first posting.