

RECORD VERSION

STATEMENT BY
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BEFORE THE
COMMISSION ON WARTIME CONTRACTING
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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 subcontracting activities in Iraq and Afghanistan. My name is Norm Powell and I serve as the Acquisition Executive 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 began work in the 1930's in Bahrain and has continuously operated in the Middle East for over 50 years.

Fluor is a Fortune 500 company with over 50,000 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 billion dollars. In 2009 Fluor's largest business segment was energy and chemicals with 54% 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 22% of our revenue with projects encompassing transportation, mining, life sciences, telecommunications, manufacturing and commercial and institutional. Fluor's global services business segment with 9% of our revenue provides operations and maintenance, equipment services, supply chain solutions and temporary staffing. Our government business also with 9% revenue, performed work for the Departments of Energy, State, Homeland Security and Defense. Lastly Fluor's power business segment with 6% of our revenue, builds, commissions and retrofits facilities around the globe to meet power generation demands across all types of fuel.

Our global footprint has required Fluor to have a robust and active ethics and compliance organization. Fluor helped found, and continues to lead, the World Economic Forum's Partnering against Corruption Initiative (PACI). Led by Fluor Chairman and CEO Alan Boeckmann, PACI is the only global, business-driven, multi-industry anti-corruption initiative. By joining PACI, businesses commit to adopting zero-tolerance policies toward bribery and corruption and maintaining programs that guide the behavior of employees, agents, suppliers, contractors, and joint-venture partners.

Today, there are more than 140 PACI signatory companies from the global energy, engineering and construction, mining and metals, professional services,

food and beverage, chemicals, consumer goods, logistics and transport, insurance, and health care industries.

Fluor's Management and Board of Directors are committed to ensuring the company has an effective Compliance and Ethics Program. The Audit Committee of the Board of Directors oversees Fluor's Compliance and Ethics Program and receives periodic reports, at least quarterly, from management regarding the program. The Chief Financial Officer has executive oversight and the Vice President, Corporate Compliance oversees the day-to-day activities of the Program.

Fluor's Compliance and Ethics Committee, comprised of cross-functional senior management, assists the company's management and Audit Committee to enable Fluor to operate in accordance with the highest ethical business standards and applicable laws. The committee is responsible for the following: the continued development, implementation, and operation of an effective Compliance and Ethics Program, promoting an organizational culture that encourages ethical conduct and considering and resolving any issues of interpretation regarding any aspect of the program.

Fluor provides a variety of training programs to ensure its employees understand and observe the company's stringent ethical standards. Employees worldwide have completed Fluor's Code of Business Conduct and Ethics training. The company's live, interactive program includes ethics training in the areas of Procurement Integrity, Conflicts of Interest, Accuracy of Information and Reports, Time Charging, Unallowable Costs, and Hiring of Former Government Officials. Additionally, the program includes anti-corruption training for sales and marketing, project management, field operations, procurement, subcontractors, and legal personnel; fair disclosure training for spokespersons and executive management, and export control and anti-boycott training for procurement and logistics personnel.

All employees are required to review the Code and certify their acceptance every year, a practice which requires employees to disclose ethical concerns or situations that could be interpreted as presenting a conflict of interest.

Fluor employees, clients, suppliers, subcontractors, and partners may call the global, toll-free Compliance & Ethics Hotline to ask Code questions or anonymously report suspected misconduct. Fluor has developed a Supplier Ethics Brochure outlining Fluor's expectation of subcontractor ethics and conduct. Fluor subcontracts ensure mandatory requirements from our prime contracts are flowed down to our subcontractors and suppliers as well as expectations regarding Compliance and Ethics.

Fluor is also compliant with new Contractor Compliance and Business Conduct Program requirements for federal contractors and subcontractors including

establishing a review process for identifying potential violations of certain criminal statutes as well as ensuring compliance with required contractual notifications, statutory and federal contract compliance.

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 whose scope includes food service, laundry, lodging and fitness services.

Fluor was awarded one of three LOGCAP IV contracts in July 2007. 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. Task Order 4 is being transitioned to DynCorp and is scheduled to be complete this month. Fluor was awarded Task Order 5 in July 2009 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. Last month we completed the transition from KBR and are performing full services at Bagram and 57 FOB's.

Our operational success is due to extensive planning and training, our global reach and decades of project and logistical experience working in this region. Fluor direct hires personnel for major activities including Project Management, Planning, Quality Assurance, Compliance, Estimating, Quality Control, Engineering Management, Purchasing, Materials Management, Government Property Control, Contracting and Safety. Other scopes of work may be subcontracted, and that depends on Fluor's regional presence and capabilities, technical and quality risks and control over interfaces, our ability to outsource

and the degree of adequate competition, Fluor's procurement history for the same or similar services, and prime contract requirements like Iraq First/Afghan First and Small Business Goals. The contracting strategy then becomes a part of the Project Execution Plan.

Contractors are identified through several different avenues; market research, small business conferences, previous performance history and trade fairs to name a few. Each potential contractor must submit their "Representation and Certification" documents for review by Acquisition Management. They must be determined to be financially sound through Dunn and Bradstreet financial reporting or other means and checked for debarment or suspension through the Excluded Parties List System (EPLS). Finally they must respond to acceptance of Fluor's Terms and Conditions of Purchase before being allowed to participate in competitive bidding against Fluor's requirements.

To monitor subcontractor performance post-award, Fluor uses multiple sources of information. As quantified in our Acquisition Manual, these include correspondence, meeting minutes, records of telephone conversations, status reports and schedules, contractor daily reports, subcontractor daily timesheets, inspection/deficiency reports/QC documentation and/or certified payrolls, depending on the contract type.

Fluor executes its scope of work using a project task force approach. A Project Director with the required experience is appointed to lead the project team. Functional organizations, who are responsible for training and oversight of their personnel, assign personnel with functional expertise to the project team. The project team is responsible for execution of the project scope, and functional management is responsible for the general policies and procedures utilized by their personnel on the projects. Direction is given to subcontractors by operations personnel called contract technical representatives. They monitor the day to day work of the subcontractors, collect daily reports, and advise the subcontract administrator of any concerns with subcontractor performance.

The use of sub-tier contractors is discouraged to control excessive pass-through costs. However, general construction contractors generally have plumbing, electrical and mechanical sub-tier contractors. Our medical provider has a sub-tier contract with a hospital, our labor broker has a sub-tier contract for provision of craft labor, our air transportation contractor is partnered with a sub-tier contractor for provision of rotary wing aircraft, and our cost-plus contractor uses sub-tier contractors to provide computers, T1 data lines and phone communications. Contractors and their sub-tier contractors are vetted against the EPLS database to ensure they are not debarred from United States government work.

If subcontractors use sub-tier contractors to perform a portion of the work, they must advise Fluor during the solicitation phase of the subcontract as required by

Part III of our standard terms and conditions. The contractor must guarantee that its sub-tier contractors will fully comply with the terms of the contract. The contractor must authorize assignment of such sub-tier contracts to Fluor without requiring further consent from the sub-tier contractor. The use of sub-tier contractors does not relieve the contractor for full responsibility for the scope of work to be performed.

The oversight of contractors and their sub-tiers includes status reports and schedules, contract daily reports, subcontractor daily timesheets, inspection/deficiency reports, quality control documentation and certified payrolls if required. Subcontract administrators who are all U.S. expatriates, work with the contract technical representatives at the FOB's to obtain the daily reports, timesheets, and other required documentation.

Additional oversight of subcontracts awarded on a cost-reimbursement basis is required. This includes verification of corporate business system adequacy, reasonableness of forward pricing and billing indirect rates and CAS compliance. Fluor currently has only one subcontractor working on a cost-reimbursement basis and relies on the subcontractor's cognizant DCAA office recommendations.

Working in a rapidly changing wartime battlefield has presented some challenges. The Federal Acquisition Regulations (FAR), contemplates that there is sufficient time to develop supplier resources, prepare RFP's, and receive quotes from multiple sources. Fluor has a vast database of potential subcontractors, but many are not able to execute in a contingency environment, and this has led to the award of contracts using market research. Another challenge is the ability to house personnel in secure locations and within the limits of "trafficking in persons" requirements. With the surge in military personnel, real estate in the forward operating bases is often not sufficient to meet minimum TIP requirements. Additionally the extensive training and education needed of the local workforce to meet the Afghan First requirements under our LOGCAP IV contract has at times presented issues relating to culture, language and knowledge of US standards not commonly understood in Afghanistan.

While these issues have presented challenges at various times and locations, we are continually working together with our client to overcome them.

I look forward to your comments, questions and dialogue about Fluor and our subcontracting methodologies and oversight in performance of our work in Iraq and Afghanistan.