



U.S. HOUSE OF REPRESENTATIVES

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Committee on Appropriations – Democratic Staff

A New “Truman” Investigative Committee  
Against Fraud, Waste and Abuse in Iraq and Katrina Reconstruction

# A New “Truman” Investigative Committee

AGAINST FRAUD, WASTE AND ABUSE IN IRAQ AND KATRINA RECONSTRUCTION

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## Executive Summary

*Washington was full of people seeking contracts, most of them sincerely desiring to be of help to the government, some seeking only their own selfish interests.*

-- Truman commenting on early 1940s contracting practices during pre-World War II military buildup.

In early 1941, with war raging in Europe and Asia and rumors of the United States entering the conflict, Senator Harry S Truman began questioning whether there was favoritism, fraud and waste in the nation's rearmament effort. The outgrowth of his inquiries became the Senate Special Committee to Investigate the National Defense Program, later known as the Truman Committee.

Almost immediately after its creation, Truman Committee began uncovering instances of powerful interests influencing contract awards, businesses overcharging for services, and government failing to be a good steward of the taxpayer's money.

The Truman Committee became synonymous with good government and responsible Congressional oversight. From its creation in 1941 until it expired in 1948, the Committee held 432 public hearings and 300 executive sessions, went on hundreds of fact-finding missions, and issued 51 reports – earning high marks for its thoroughness and efficiency throughout. By the time of its dissolution, the Committee's recommendations saved an estimated \$15 billion, and likely even saved lives.<sup>1</sup>

Today, with war ragging in Iraq and a long, twilight struggle against radical Islamist terrorism ahead, questions similar to those faced by the Truman Committee have arisen. For example, \$8.8 billion of Iraqi funds intended for reconstruction are



Truman fiercely pursued contractors he thought were bilking the taxpayer, but never questioned the conduct of the war.

<sup>1</sup> *Memoirs by Harry S. Truman: Years of Decision*, Doubleday, 1955

unaccounted for, according to the inspector general overseeing Iraq reconstruction funds. As many as 50 investigations were opened involving contractor fraud, kickbacks, bribery, and waste.<sup>2</sup> Not until Stuart Bowen – a former counsel to President Bush – was installed as inspector general of the Coalition Provisional Authority was any real effort was undertaken to get a hold on the problem. Yet, unlike in Truman's day, Congress has conducted little or no oversight specifically related to these and other issues.



Truman at work alongside his Republican colleagues in the Senate, Joseph Ball of Minnesota and Own Brewster of Maine

over the use or misuse of Federal funds, Republicans on that Committee unanimously rejected an effort to subpoena records related to possible wrongdoing in the awarding of a \$7 billion no-bid contract for Iraq reconstruction. In addition, the report states that the chair of the Senate Committee on Homeland Security and Government Affairs, which has similar oversight duties, rejected five requests for hearings related to Iraq reconstruction contracts.<sup>3</sup>

The need for a modern day Truman Commission could not be clearer. Its purpose is simple: to investigate whether taxpayer dollars are being wasted, whether some companies or individuals are gaming the system, and whether we are best supplying the armed forces of the United States. If Congress does not act it will fail to exercise its most basic responsibility – the power of the purse.

## The "Dollar-a-Year" Men

One of the Truman Committee's central areas of interest was inappropriate influence in the awarding of government contracts and the role of so-called "dollar-a-year men."

As the United States undertook a massive effort to rearm, many corporate executives citing patriotic duty volunteered their assistance to the Government at the cost of only a single dollar a year. Some of these executives, however, were serving two masters.

The Truman Committee found that among the "dollar-a-year" men were a number of individuals who were still being paid by their own companies. Given the fact that

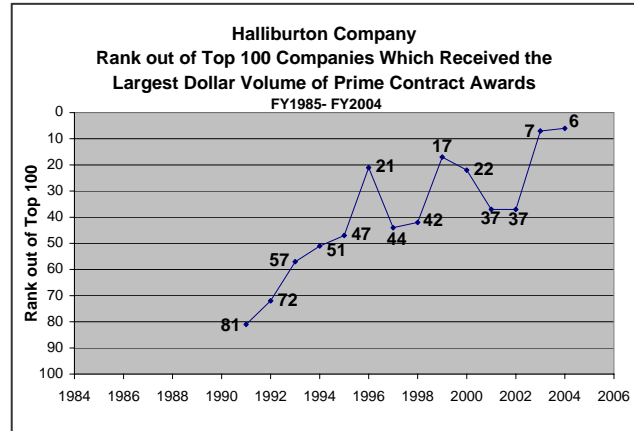
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<sup>2</sup> CBS's *60 Minutes*, 2/12/2006

<sup>3</sup> U.S. House of Representatives, Committee on Government Reform and Oversight, Democratic Staff, "Congressional Oversight in the Bush Administration," January 17, 2006

their old companies were vying for the millions of dollars of government war contracts these former executives now controlled, the conflict of interest was obvious. The Committee discovered that “between June 1, 1940 and April 30, 1941, the Army and Navy had given contracts totaling almost three billion dollars to sixty-six firms whose officials had served the government at a dollar a year.”<sup>4</sup>

Today, with the revolving door between government and industry, there are a great number of questions about undue influence in the contracting process. For example, Vice President Dick Cheney returned to government service in 2001 after heading Halliburton, the oil and gas industry giant, and continued to receive deferred compensation from the company. In 2004 alone, Cheney’s compensation totaled \$194,852 – nearly as much as earned in salary as vice president.<sup>5</sup>



The Vice President denies any knowledge of the awarding of Halliburton’s Iraq contracts. Appearing on NBC’s Meet the Press in September 2003 Cheney stated, “I have absolutely no influence of, involvement of, knowledge of in any way, shape or form of contracts led by the [Army] Corps of Engineers or anybody else in the Federal Government.”<sup>6</sup>

The Washington Post, however, reported that a March 5, 2003 e-mail indicates that the Vice President’s office was aware that a Halliburton subsidiary, Kellogg, Brown, and Root (KBR), was about to receive a \$7 billion no-bid contract in advance of the Iraq invasion.<sup>7</sup>

The KBR contract was originally for extinguishing oil fires but was later expanded to include shipping of fuel to Iraq, a service for which KBR overcharged taxpayers by \$63 million, according to Defense Department auditors.<sup>8</sup>

Numerous other scandals related to Halliburton have come to light, including overcharging for the cost of feeding troops and kickbacks that resulted in overcharges to taxpayers. Yet no Congressional committee has ever undertaken a full investigation of this or other serious issues related to Halliburton and Iraq contracts.

<sup>4</sup> *Memoirs by Harry S. Truman: Years of Decision*, Doubleday, 1955

<sup>5</sup> ‘Bushes Paid \$207,307 In Federal Income Tax,’ Washington Post, April 15, 2005

<sup>6</sup> ‘Meet the Press’ September 14, 2003

<sup>7</sup> ‘E-Mail Links Cheney’s Office, Contract,’ Washington Post, June 2, 2004

<sup>8</sup> ‘Company Overcharged U.S. in Iraq, Bush Says,’ Washington Post, December 13, 2003

Since the Vice President entered office, Halliburton and its subsidiaries have seen their share of government contracts rapidly increase. KBR has reported about \$15.4 billion in revenues from its operations in Iraq since the U.S. invasion in 2003.<sup>9</sup>

To be clear, there is no evidence that Vice President Cheney has ever illegally influenced the awarding of any contract. But since it is human nature to rely on those with whom you are most familiar, government must cast a skeptical eye on any transaction that has even the potential for a conflict of interest. An independent review of such transactions is the surest way to determine how mistakes can be avoided in the future.

## Cost-Plus-Fee Contracts: "Don't Worry About the Price"

One of the Truman Committee's earliest investigations focused on the cost of Army camp construction. In some cases, the Committee found cost overruns due simply to poor planning. But another major culprit was the practice known as "cost plus fee" contracting.

Under a cost plus fee arrangement, the contractor pays all the costs necessary to complete an assigned project and then those costs are fully reimbursed by the government. In addition, the government pays the contractor a percentage of the project's total cost. Of course, there is an inherent inefficiency in this arrangement. There is no incentive to control costs because the contractor knows that he or she

will be fully reimbursed by the government.



The Truman Committee at work. By the time they were their efforts saved taxpayers an estimated \$15 billion – and they likely saved lives by ensuring America's fighting men received the best equipment available.

The Truman Commission also found that, in the haste to get projects off the ground, the government was offering exorbitant fees without asking companies "what they were making in peacetime or what they were willing to take" in exchange for their work. As a result, some companies were making in a three-month period amounts three to four times – in one case fifteen times – as much as they had made over an entire year's work.<sup>10</sup>

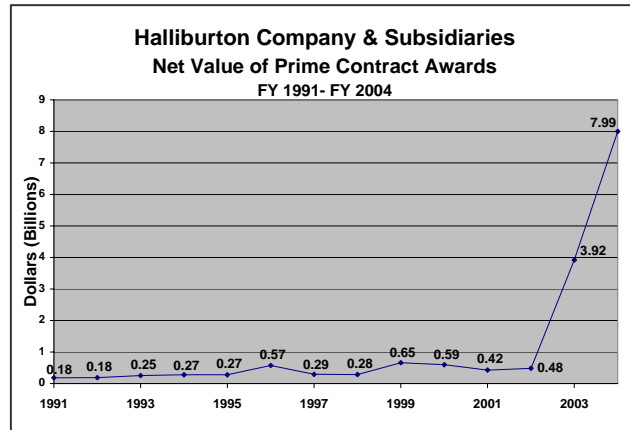
With regard to military camp construction specifically, the

<sup>9</sup> 'Army to pay KBR for most disputed Iraq costs,' Reuters, February 27, 2006

<sup>10</sup> *Memoirs by Harry S. Truman: Years of Decision*, Doubleday, 1955

Committee also found that the average cost per man of 29 camps constructed under cost plus fee contracts was \$684 while 17 camps constructed under lump sum contracts cost of only \$380. The Army Corps of Engineers accepted the Committee's recommendations for future camp construction contracts and saved

taxpayers roughly \$250 million.<sup>11</sup>



Halliburton is keeping the tradition of wasteful, Truman Committee-era contracting alive with its Logcap, or Logistics Civil Augmentation Program contract, for which it is paid to provide housing, food, water, laundry and other basic services to our troops. Logcap is a cost plus fee contract and, according to a

former Halliburton employee, the company is taking full advantage of the arrangement.

According to a veteran procurement specialist who was employed by Halliburton in Iraq, employees were told to keep their purchases below the threshold that would trigger competitive bidding, to use selected vendors regardless of cost, and that, "Halliburton's going to be reimbursed, don't worry about the price." The former employee summed up the racket this way:

*... the more money Halliburton spends the greater their commission. The higher their costs, the more money they make.<sup>12</sup>*

## Shortages: 167 Days

One of the Truman Commissions greatest contributions to the war effort was its ability to get ahead of problems that, if not uncovered, might have undermined the war effort or even cost lives. Such was the case in the Committee's work regarding aluminum and aircraft construction.

In May of 1941, the Committee found that aluminum production lagged far behind the amount necessary to build the number of airplanes the nation required. Back then, aluminum comprised more than 50 percent of an airplane's weight and a shortage would have seriously undermined the nation's rearmament.

In the course of its investigation, the Committee found that a panel of representatives from some of the nation's leading companies controlled the

<sup>11</sup> *The Truman Committee*, Donald H. Riddle, Rutgers University Press,

<sup>12</sup> 'Halliburton's Iraq Gravy Train,' Salon.com, February 27, 2004

allocation of the ore required to make aluminum. Many of these companies also had a need for the metal aside from what was required to build aircraft. Truman surmised that the interests of these companies might run counter to the needs of the nation. As he put it:

*It looks very much to me as if the members of the priority committee represent du Pont, General Motors and people who are most interested in these priorities...I don't believe that is good public policy. The fellow who is most vitally interested makes the decision for his own welfare and benefit.*



A World War II-era Martin B-26 Marauder light bomber. This aircraft was involved in a separate Truman Committee investigation that questioned the plane's safety.

As a result of the Committee's efforts, the government made investments in new aluminum plants that helped ensure enough aluminum to keep airplanes rolling off the assembly lines.

While no one has claimed that nefarious behavior has caused the shortage of body armor in Iraq, a more in depth investigation by Congress into the matter might have helped bring this critical equipment to soldiers and marines more quickly.

The shortage of body armor began with one of the Administration's very first and most important tactical miscalculations in Iraq. Given that the Administration had no plans for maintaining a large occupation force in Iraq the Army stopped purchasing bulletproof vests in April of 2003.<sup>13</sup> By May of 2003, however, with the insurgency becoming increasingly deadly, and with 50,000 soldiers in Iraq without body armor, it became clear just how wrong the Administration had been. The Army quickly moved to purchase body armor for every soldier in Iraq.

Sadly, the Army's order would not quickly be filled. As the New York Times reported:

*...the Pentagon gave a contract for the thousands of ceramic plate inserts to that make the vests bulletproof to a former Army researcher who had never mass-produced anything. He struggled for a year, then gave up entirely ... In all, with additional paperwork and delays, the Defense Department took 167 days just to start to getting the bulletproof vests to soldier in Iraq ...<sup>14</sup>*

The rise of the insurgency led Coalition partners to order body armor for their own forces. By ordering directly from manufacturers instead of going through the Pentagon they avoided the delays and began receiving it in just 12 days.<sup>15</sup>

The Administration's miscalculation likely put troops at greater risk. But that is not end of the body armor story.

<sup>13</sup> 'All's Not Quiet on the Military Supply Front,' New York Times, January 22, 2006

<sup>14</sup> 'Many Missteps Led to Delay of Armor to Protect Soldiers,' New York Times, March 7, 2003

<sup>15</sup> Ibid



In January 2006, a Pentagon study revealed that at least 80 percent of marines killed in Iraq from wounds to their upper body may have lived if they had been provided additional body armor that shields the sides of the torso. Such additional side armor had been available since 2003.<sup>16</sup>

Les Brownlee, then the Army's acting secretary, knew of the expanded armor, but directed his staff to focus on a related concern – the fact that there were still soldiers in Iraq without any armor at all due to the earlier miscalculation and delay.<sup>17</sup>

Both the Marine Corps and the Army have now moved to provide the additional side armor. As of January, the Marines had delivered 9,000 sets and expected to have enough for its entire force by April 2006.<sup>18</sup> The Army had provided a limited amount of side armor starting in November of 2003 but did not order enough for all of its soldiers in Iraq. It placed an emergency order for side armor in January 2006.<sup>19</sup>



Additional body armor could have saved lives in Iraq, according to a Pentagon report.

## Conclusion

There is now ample evidence of the necessity of a modern day Truman Committee. Yet, even after billions have been spent or misspent, Congress continues to fall down on the job of oversight.

What is most troubling is that many of the worst problems, specifically in regard to Iraq reconstruction, were foreseeable and avoidable. Within days after launching the war, the Administration rapidly offered contracts to very large and well-connected private firms to rebuild Iraq without consulting with Congress and with little or no oversight. Industry experts warned of the danger. Thomas Thatcher, whose consulting firm monitored the World Trade Center site cleanup, put it this way:



*Anytime you have an emergency response driven by time, the opportunity for fraud, waste and abuse is huge. And when the opportunity is that great, it will occur.<sup>20</sup>*

Of course, the Administration ignored the warnings and plowed ahead without any independent monitoring process for the billions being handed out.

<sup>16</sup> 'Extra Armor Could Have Saved Many Lives, Study Shows,' New York Times, January 6, 2006

<sup>17</sup> Ibid

<sup>18</sup> 'More Body Armor Is On the Way for U.S. Troops,' Washington Post, January 12, 2006

<sup>19</sup> 'Pentagon Acts on Body Armor,' New York Times, January 21, 2006

<sup>20</sup> 'Who Will Rebuild Iraq,' New York Times, March 23, 2003

Similarly, the Administration seems to have given very little thought to the military's needs in the days after Saddam Hussein was driven from power. One story from 2004 pointed out the major flaw in their post-war plan.

*In March 2003, days before the start of the U.S.-led invasion of Iraq, American war planners and intelligence officials met at Shaw Air Force Base in South Carolina to review the Bush administration's plans to oust Saddam Hussein and implant democracy in Iraq.*

*Near the end of his presentation, an Army lieutenant colonel who was giving a briefing showed a slide describing the Pentagon's plans for rebuilding Iraq after the war, known in the planners' parlance as Phase 4-C. He was uncomfortable with his material - and for good reason.*

*The slide said: "To Be Provided."<sup>21</sup>*

Iraq is a perfect example of what can happen when Congress abrogates its oversight responsibilities. While some mistakes cannot be repaired, a new Truman Committee could get to the bottom of the issues that remain, prevent errors from reoccurring, improve the quality and efficiency of Iraq reconstruction, better safeguard taxpayer dollars, and possibly even save lives. It is past time that Congress got to work.

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<sup>21</sup> 'Post War Planning Non-Existent,' Knight Ridder Newspapers, October 17, 2004

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