Halliburton and their likes

PART I

“I’m great at looking busy! I once cleaned the same display case window like 8 times to look busy.

When I sold furniture I would walk around the display floor and fluff all the pillows on the sofas, futons, and beds. It takes skill to fluff a memory foam pillow!”

Anonymous confession in the web

It does not have to be a furniture store. Such practices happen at the best of places, and what is more intriguing, is often sanctioned by the supervisors. The case in point is the practices at Halliburton as aptly reported in the following news item.

'Don't worry. Just look busy,' said my boss

Chaffin, Joshua. FT.com (Jun 15, 2004)

In their most recent review of Halliburton's work in Iraq, Pentagon auditors cited deficiencies in the company's billing system that led to "significant" overcharges. But a more poignant assessment has come from a group of whistleblowers who worked for the oilfield services company in Iraq and Kuwait. They recently shared their experiences with Henry Waxman, a Democratic congressman who has been a prominent critic of the company and the Bush administration.

The whistleblowers were not allowed to testify on Tuesday at a hearing by the House committee on government reform but will testify on Capitol Hill next month. In the meantime Mr Waxman has released their signed testimonies. Taken together, these paint a portrait of a disorganized company scrambling to do business in a war zone, where waste is routine and managers either fail to exercise proper oversight or encourage workers to avoid it.
This sense was captured by Mike West, a labor foreman who signed up last August to go to Iraq with Halliburton and was sent to Camp Anaconda. When he and a group of other workers complained that there was no work to be done, Mr West claimed they were told to write down 12 hours on their time sheets anyway. "Don't worry . . . Walk around. Look around. Look busy," he recalled the company's human resources supervisor advising. From there, he was transported to another site, Al Asad, where they continued to do no work. "We just walked around all day," Mr West said, despite billing the government for 12 hours' labor each day. His next stop was Falluja, where, Mr West said: "The warehouser had no warehouse to run, the plumber had no plumbing to work on. The [air conditioning] mechanic had no air conditioners to fix. The heavy equipment operator had no equipment to operate. And the generator mechanic had no generators to work on."

Halliburton did not directly respond to such claims but said: "We were chosen for this important work because we were the best qualified with a proven track record of the ability to perform."

To other employees, however, Halliburton appeared not merely idle but fraudulent. Marie De Young, a logistics specialist, discovered first-hand the company's inability to keep track of its subcontractors - the primary failing identified by Pentagon auditors in a review from last month. Ms De Young said there was no up-to-date list of subcontractors at Camp Udairi in Kuwait, which she did not believe was simply a result of sloppy book-keeping.

"I later observed that the document control database was never adequately updated until after government audits were over, under the assumption that a limited database would also limit the amount of auditable information that could be accessed by the government," she told Mr Waxman's staff. The mismanagement, she said, led to blatant cost overruns.

For example, one Kuwaiti subcontractor, La Nouvelle, charged Halliburton $100 (Euro3, GBP55) to launder a 15-pound bag of clothes. That same company later billed Halliburton for 37,200 cases of fizzy drink when it delivered 37,200 cans. In another case, the company paid a subcontractor twice for the same job despite her objections.

Unfortunately, Ms de Young claims, the so-called "Tiger Team" Halliburton dispatched to the region after such blunders began to appear in the newspapers sought to cover up the problem rather than rectify it.
"The team's sole purpose was to close as many subcontracts as possible, under the mistaken assumption that everything that was closed prior to the arrival of the government audit team would be exempt from further scrutiny," she said. Ms De Young complained to her managers, she said, to no avail. Other former Halliburton employees, such as James Warren, who worked as a truck driver, went so far as to call Randy Harl, the chief executive of the Kellogg Brown & Root division that operates in Iraq.

Mr Warren presumably told Mr Harl - as he did Mr Waxman - that simple maintenance jobs, such as oil changes, were not being performed on $85,000 trucks and that, in some instances, they were being ditched at the side of the road because of flat tires. Mr Warren also complained that theft was "rampant" from the trucks parked at Camp Anaconda. "He promised he would get to the bottom of it, and thanked me," the truck driver said of his conversation with Mr Harl in March.

Five weeks later, however, he was dismissed from the company, he said, after he failed to disclose who had ordered him and other drivers to run Iraqi families off the road if they came too close to convoys - a practice he said was commonplace.

**PART II**

*Now consider the following hypothetical fact pattern (all events described herein are purely fictitious and are intended to highlight issues that arise naturally in many corporate settings).*

**CAST OF ACCOUNTING PERSONNEL**

CFO of Halliburton (Nameless here)

Foxxxy Atrium, Procurement Executive for Feds

John Muir, CPA, controller of Halliburton

Page Brown, Assistant to the CFO Halliburton

Dr. Proffy, former accounting professor and consultant with CFG (international accounting firm)

Paul, Partner at XYZ, and partner in charge of Halliburton Account

Samantha, Senior Manager at XYZ
In the meantime, Foxxy Atrium, the procurement executive for the federal government heard about most of this. She contacted the Halliburton Controller and a CPA, John Muir. Muir directly reviewed the invoices Halliburton sent to Foxxy’s offices. Foxxy told Muir that the amounts billed were totally unreasonable and were in fact, probably fraudulent. Muir also prepared notes to the financial statements.

Immediately, John contacted the assistant to the CFO, Paige Brown. Paige agreed to discuss this with John, but, time allowed her only to invite him to join her for an already scheduled dinner with their mutual friend, and former accounting professor, Dr. Proffy. Proffy is also a consultant with CFG, a national accounting firm.

During the dinner, John explained the issues to both Paige and Proffy. Proffy thought there were probably some very significant problems with the billings, and that Halliburton was at extremely high risk of being sued by the Feds either for fraud or just for overbilling. Proffy asked how large a possible judgment award might be. It looks to be about 2 to 10% of net income.

Muir and Brown strongly agreed with Proffy, but when Brown reported the issues to her boss, the CFO, she was told that there was no problem and that she, Brown, should just forget it. The CFO said he knew someone who worked for the Feds and who was Foxxy’s supervisor. He was sure there would be no problems. Brown was told to pursue it no further, and certainly not mention it in any way that might get to the public, including anywhere in the share of the footnotes or portion of the financial statements that she reviewed or prepared.

In the meantime, the CPAs at XYZ, Halliburton’s auditor, have become aware of the issues. They are quite concerned, of course. Halliburton is a HUGE client. In fact, Halliburton provides about 12% of the auditing revenue for the particular office to which it is assigned. Paul is partner in charge of 3 major clients, including Halliburton, which has been his client for 4 years. Halliburton brings in 50% of his client revenue. He currently has 2 children in Ivy League schools, and his wife is taking care of her aging mother who lives in their home. He is running on empty right now.

Halliburton also hires XYZ for fairly frequent consulting work. Chen is in charge of the consulting branch in the office. The Halliburton consulting work is quite a significant portion (8%) of the consulting revenue for the office.
Samantha, the XYZ senior manager who works on Halliburton, and Paul’s right hand woman, has met with Paul and warned him that she sees huge liability and believes that Halliburton should report at least with a footnote the problems associated with the Halliburton contracts.

Paul meets for lunch with the CFO of Halliburton, and asks about the potential claims. Paul indicates that he wants to make sure that there really aren’t any significant possible disputes with or potential claims to be made by the feds. The CFO soft pedals the problems. The CFO tells Paul that because of the fact that Halliburton must always be prepared for unexpected escalations in demand, they must have excess people on site. The CFO also points out that XYZ has been Halliburton’s auditor for a long, long time, and he would like to keep it that way. The CFO later during their lunch, mentions that he is really enjoying his season tickets to see the local pro football team and sits with the managing partner, Ken, of LMN, another international accounting firm. He asks Paul if he knows Ken.

In the end, the CFO of Halliburton, a CPA, and former partner at LMN, approves financial statements without addressing the potential problems in any way. Paul signs off on the statements as prepared.

1) Questions (for Part I of the case only):

   a. In a country ravaged by war, do the managers of a “disorganized company scrambling to do business in a war zone, where waste is routine and managers either fail to exercise proper oversight or encourage workers to avoid it” display a lack of ethical reasoning, judgment and practice by continuing to operate as before?

   b. Under the sole source cost-plus contracting, one can argue that Halliburton can gain by wasting labor or other resources thereby increasing shareholders wealth, which is also an ethical obligation of the manager. Would you agree? Why or why not?

2) Questions (for Part II (hypothetical part) of the case)

What was happening regarding financial statements

a) Pressed for time, Paige invited John to the dinner with Proffy because she considered it her ethical obligation to address the situation as soon as possible, and that was the soonest she could do it. If you were Paige, what would you have done?
b) Halliburton’s auditor obtains 12% of its firm-wide practice revenues from Halliburton. The local partner-in-charge Paul, obtains 50% of his practice revenue from Halliburton. Does this situation pose a special ethical dilemma for Paul? Should he have discussed this issue with Samantha when she came to him with her concerns? Reflecting upon the subsequent actions Paul took what would you have done, if you were in Paul’s position?