Testimony of Mr. Fred Roitz
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Chairman Levin, Ranking Member McCain, Senators. My name is Fred Roitz and I am an Executive Vice President and the Chief Sales Officer of Xe Services LLC. Xe Services is the parent of Paravant LLC. Before joining the company I was in the U.S. Army. I retired as a Lieutenant Colonel following service as Commander of the Northern Region Contracting Center for the Army Contracting Agency and the Commander of Defense Contract Management Agency Raytheon Fort Wayne.

Before I begin, let me express my condolences for the May 5, 2009, incident. I am, personally, deeply saddened by the terrible loss of life and injury. The independent contractors' actions that night were in clear violation of many company policies, such as alcohol use, unofficial vehicle use, and weapons policies. Those independent contractors are being held accountable by the law, as they should be. Mr. Chairman and Senators, I express my personal condolences -- and condolences on behalf of Xe Services -- for that terrible and regrettable loss of life and injury.

On behalf of Xe Services and its new management team, I thank the Committee for the opportunity to appear today and to assist the Committee in its fact-finding mission. For the last seven months, Xe Services has been cooperating with the Committee's investigation of security contractors in Iraq and Afghanistan. The company will continue to support the Committee's work.

While providing testimony today is consistent with the company's support of the Committee's work, the company was initially informed weeks ago that the Committee was not seeking testimony from a company executive. Other witnesses were asked to appear as early as February 1, but I received the Committee's letter on February 17. We regret that, for whatever reason, we did not have the same opportunity to prepare for this hearing as others. We also regret that the Committee did not allow my colleague, Mrs. Danielle Esposito, the company's new Executive Vice President and Chief Operating Officer ("COO"), to appear alongside me. To the extent the Committee makes inquiries regarding the operational changes implemented by the company's new management team, including personnel actions and reforms taken in connection with Paravant LLC, Mrs. Esposito would be able to provide the most comprehensive responses.

Having said that, I will do my best to answer the Committee's questions. If I am unable to answer any particular question, my colleagues and I will work to find the answer and report to the Committee as soon as we are able.

I would like to touch briefly on three topics. First, I would like to discuss the significant reforms that have occurred at Xe Services, which is, in many significant ways, a new company when compared to the old Blackwater. Second, I would like to describe the

nature of the work that Xe Services performs in support of critical U.S. government missions around the world, including the work Paravant was performing under its subcontract with Raytheon. Finally, I would like to address the Paravant program generally, including the company's "lessons learned," as well as the May 5, 2009, incident in Kabul, which is one of the subjects of this hearing.

Xe Services Is a Reformed Company

Blackwater was an entrepreneurial company that experienced significant growth in a short period of time. The great majority of that growth occurred in connection with supporting critical U.S. diplomatic and military missions in Iraq and Afghanistan. Much of that work occurred in high-tempo and dangerous environments. Unfortunately, there were times when the first priority of some members of the former leadership of the company was supporting those missions, even at the expense of complying with administrative and regulatory requirements. That will not happen under the company's new leadership team, which emphasizes core values of honesty, integrity, reliability, and accountability. At Xe Services, our leaders, employees, and independent contractors remain just as focused on the success of the mission as before -- that is, on providing the best possible service to the U.S. government -- but only with full compliance and accountability.

This focus has been instilled by our President and Chief Executive Officer ("CEO"), Mr. Joe Yorio, who joined the company in March of last year. Mr. Yorio brings to Xe Services more than nine years of U.S. Army Special Forces experience, as well as eighteen years in senior leadership roles in multinational companies like Unisource Worldwide, Corporate Express, and DHL, where he gained the reputation of a leader who fixes problems. In addition to his focus on responsibility and accountability, he is working to rationalize and professionalize all aspects of the company's business. He is a hands-on leader, who travels frequently to Afghanistan and the other countries where the company operates to supervise and oversee its employees and independent contractors, as well as to ensure that the company is meeting the requirements of our U.S. government customers.

Also appointed to the company's senior management in March 2009 was Executive Vice President and COO Danielle Esposito. Mrs. Esposito, who has been with the company for ten years, has been one of the key managers historically pushing for reforms inside the company. In recognition of her efforts, unique knowledge, and skills, Mrs. Esposito has overall responsibility for leading the company's operations in training and security, among other areas.

Immediately after taking charge in March 2009, Mr. Yorio and Mrs. Esposito have engaged in an intensive top-to-bottom review of all company programs and leadership with a focus on performance, accountability, and responsibility for administrative and regulatory compliance. They identified that the company's operational performance was exceptional and well-received by its customers. However, they identified some gaps in performance of regulatory and administrative functions. As a consequence of this

review, which continues, nine vice presidents (more than half of the total) and sixteen directors have left the company.

To give the Committee some idea of the scope of the task facing the new management team in early March 2009, the company had an estimated 700 employees in North Carolina, 1,200 independent contractors performing personal protective services in Iraq and Afghanistan, 100 independent contractors providing aviation services in Iraq and Afghanistan, and 200 independent contractors training the Afghan Border Police and Narcotics Interdiction Unit. Paravant's training of the Afghan National Army represented an additional 72 independent contractors in Afghanistan and three employees at the company headquarters in North Carolina. Senior management's review was intensive and their reforms were rapid.

Recognizing that compliance must be a cornerstone of the new company and its new culture, Mr. Yorio and Mrs. Esposito quickly restructured Xe's legal department, first by retaining a partner from Crowell & Moring, a law firm with a top-tier government contracts practice, as its Acting General Counsel, and then by recruiting and hiring a new General Counsel, Christian Bonat, who most recently served as Senior Counsel to the General Counsel of the Department of Defense during the Obama Administration and previously as the Deputy General Counsel (Legal Counsel) of the Defense Department in the Bush Administration.

The company has adopted a new anticorruption policy, and it is in the process of developing and implementing comprehensive compliance guidelines and training, to help to ensure that all personnel are responsive to the requirements of U.S. law. The company also is responding to recent public allegations of violations of the Foreign Corrupt Practices Act. While the company believes that there is no basis to these allegations -- the funds referenced in the allegations were intended to be and actually were used to make condolence payments to Iraqi families with the authorization and encouragement of the State Department -- it nonetheless is taking them seriously and is fully cooperating with the subsequent Justice Department investigation.

The company's commitment to accountability is further reflected in the hiring of Karen Jones, Vice President for Export Compliance, who reports to me. In previous years, the company's export compliance program was inadequate to address the regulatory requirements for exports of defense articles and services in support of U.S. government missions. The company has taken responsibility for those shortcomings by fully cooperating with the State Department and its investigation, and by instituting a comprehensive compliance program under Ms. Jones' leadership and the oversight of an independent Export Compliance Committee, consisting of a former Congressman and a former federal judge. The company dedicates substantial resources to what is now a world-class export compliance program.

The company has instituted a new anonymous hotline program operated by a well-respected and independent third party vendor, Ethical Advocate. Under the new web-based hotline program, anyone may file an anonymous complaint or allegation. The

complaint or allegation is first screened for any conflict of interest, and then reviewed, investigated (using outside legal counsel where warranted), and formally closed out with appropriate action also where warranted. The web-based hotline includes a reporting tool that informs the anonymous filer of the status of the complaint and its outcome. The third party vendor is capable of receiving complaints in multiple languages and dialects, which will soon include the ability to translate a number of Afghan dialects. The company wants to ensure that non-English speaking individuals are not inhibited or prevented from using the reporting mechanism.

In addition to these changes in leadership and policy, the company's maturation is reflected in ongoing changes to Xe Services' ownership and corporate governance. I mentioned that the company has approximately 700 employees based for the most part in Moyock, North Carolina. The vast majority of these employees are engaged in typical corporate functions, including human resources, information technology, accounting and finance, quality assurance, legal and compliance, food services, maintenance, janitorial, and other services. Approximately one-third are involved in operational and operational support roles. The company and our employees are good corporate citizens, supporting numerous charitable and civic organizations in the region, including the Special Olympics, the USO, the Boy Scouts, and local nonprofit food service organizations.

In recognition of the importance of our employees to the company's overall success in supporting critical U.S. government missions, the company is in the process of creating an Employee Stock Ownership Plan ("ESOP") under which the company's employees will own approximately 30% of its equity. Employees will be represented by ESOP trustees, and the company's management will owe fiduciary duties to its employee-owners.

With new ownership, the company also will institute new corporate governance in the form of a board of directors that will include a majority of independent directors with backgrounds that will bring the highest integrity to the governance of our new company. The Chairman of the Board will be an independent director.

These changes in personnel, attitude, focus, policy and practice, ownership, and governance represent a break from the past. The new Xe Services remains committed to our nation's critical missions. We are equally committed, however, to a culture of compliance that in all circumstances reflects a responsible U.S. government contractor.

Xe Services Supports Critical U.S. Government Missions

Many people believe that the company got its start after September 11, 2001, and that it began by providing personal protective services. But this is not the case. In fact, the company was awarded its first significant government contract after the attack on the USS Cole on October 12, 2000, under which it trained U.S. Navy sailors to protect their ships against similar attacks in the future.

While Xe Services will continue to provide security and expand into other areas of service, the company remains -- at its heart -- a training company. That is one of our core competencies, it is how we are currently supporting the U.S. military's mission in Afghanistan, and it is how we hope to continue to support the U.S. mission in Afghanistan in the future. The need for training of Afghan troops and police is critical. Recent press coverage of the Marja offensive has highlighted the importance of quality training of Afghan troops. Such training of the Afghan National Army is critical to the success of the U.S. mission there. We are dedicated to supporting this mission. In 2009, we trained 38,657 Afghan National Army troops (through the Paravant program). We performed this training in a high-threat environment where the training locations were unsecured. Xe Services also trained and graduated 3,700 Afghan Border Police personnel and 5,708 Narcotics Interdiction Unit personnel in 2009. This training is done in hazardous and often remote environments.

We not only have trained foreign military and police personnel at the behest of the U.S. government overseas, we also trained approximately 20,000 military, state and local law enforcement, and civilian personnel, at our three U.S. training facilities in 2009.

Xe Services, through its subsidiary Presidential Airways, provides aviation support and medevac services to Defense Department personnel in Africa. Just last week, our personnel evacuated a Congressman from Niger during civil unrest.

The company continues to protect the lives of U.S. diplomats and other government personnel in Afghanistan, including congressional delegations. According to an August 2009 Performance Audit by the State Department Inspector General, we have "met each of [the Bureau of Diplomatic Security's] security goals" in fulfillment of our State Department security contract in Afghanistan. The Office of the Inspector General further reports that our "personal security specialists are well-trained and highly-professional," and that our customers -- the U.S. personnel the company protects -- state that our personnel "are professional, make them feel secure, and are respectful to both officials under chief of mission authority and their Afghan counterparts." Through more than four years of personal protective work in Afghanistan, no one under our protection has been killed, and the company work under the State Department contract has never experienced a lethal escalation of the use of force. For reference, we performed 2,730 personal protective missions in Afghanistan during 2008 alone.

In the process of carrying out our work for the U.S. government in incredibly challenging environments, we have lost 37 of our colleagues, who have sacrificed their lives in support of our country's missions.

The thread that runs through all of these services is that our company and its subsidiaries, provide mission-critical services to the U.S. government both at home and in the world's most challenging operational environment. Our performance is highly regarded by those we train, transport, and protect. Indeed, we seek to exceed minimum standards of conduct, for example, by implementing General Stanley McChrystal's Counterinsurgency Guidance for all our deployed personnel in Afghanistan. That document, which is

binding on NATO forces but not necessarily on contractors, directs personnel to be conscious of the need to protect Afghan nationals in all circumstances, as well as constantly to be aware of the need to win their hearts and minds. Xe personnel are directed to follow this guidance in performing our missions in Afghanistan. The new Xe Services is focused on adding to our record of performance the accountability and responsibility demanded by the company's new management.

Raytheon-Paravant Contract

I will discuss the Raytheon-Paravant contract in general terms first, including the company's "lessons learned," before addressing the May 5, 2009, incident.

The new management team's review of all company programs included a thorough review of the Paravant program. Almost immediately after Mr. Yorio and Mrs. Esposito's arrival at Xe, a number of issues requiring further investigation were identified, including, for example, the absence of Letters of Authorization ("LOAs") that approved the possession and use of weapons by Paravant's independent contractors before being deployed to Afghanistan. Xe Services was working to understand and address such issues when the May 5 incident occurred. Indeed, the company's new management understood, and the documents provided to the Committee support, that Raytheon's leadership and CSTC-A and PEO-STRI were not only aware of the weapons possessed by Paravant personnel, but they were actively seeking to amend the LOAs to approve their use.

As a wholly owned subsidiary of Xe Services, Paravant had required polices, procedures, and practices. It is clear in retrospect, however, that these rules were not always followed. In my view, the failure to commence this program following well-established policy was a failure of Paravant's former leadership and the company director overseeing that program. That leadership and company director reported to me at the time, and I accept my share of the responsibility. That leadership and company director failed to keep me adequately informed that well-established basic policies and practices were not being followed. I believe they were concerned with performing the mission -- which we have been told by the U.S. military that Paravant performed superbly -- but there clearly was a failure to take other important steps, which I will describe.

I can commit to this Committee that the new Xe Services would not act in the same way today. Deploying personnel overseas with the assumption that problems will be resolved after deployment is not the way this company operates today.

It is important for the Committee to understand how the contracting and subcontracting process worked with respect to this contract. For example, Paravant as a subcontractor did not have the authority to interact directly with the contracting authority (PEO-STRI) to obtain weapons authorization. It was up to the prime contractor (Raytheon) to work with PEO-STRI to obtain such authorization.

I will now discuss each of the Paravant issues our new management identified and discuss the lessons the company has learned.

CRC Training

The policy of the company -- both during the performance of the Raytheon-Paravant subcontract and today -- is not to deploy independent contractors without any required CONUS Replacement Center ("CRC") training. (CRC training is a one week course that includes, among other things, medical, dental, and vision exams; a physical fitness test; and cultural sensitivity training.) Quite simply, the company's policy was largely ignored by the Paravant leadership, although Mr. McCracken was working to obtain a waiver that would have allowed CRC training to be provided to independent contractors at our facility in North Carolina, as was approved with respect to other company contracts. The company today is authorized to provide CRC training for all U.S. government programs and personnel, including for individuals affiliated with other contractors. While the documents sent to the Committee indicate that Raytheon and the military were aware that Paravant had deployed personnel without CRC training, that is no excuse.

Today, our company would not permit deployment of independent contractors without CRC training if required by the contract. Moreover, the current culture encourages program leadership to elevate any potential noncompliance, and additional and vigorous oversight, primarily in the operational side of the company, ensures that the policy is followed. A program manager or any individual who violates this policy will be disciplined, up to and including prompt termination.

Vetting of Independent Contractors

New management also identified failures in the Paravant program related to the vetting of independent contractor candidates. It is company policy to verify the military record, including discharge status, of all prospective independent contractors who are veterans. This is done by requiring that the individual submit a Form DD-214, which is a form listing the vital data of an individual's military career, including training, assignments, deployments, and discharge status. It appears that Paravant required prospective independent contractors to sign written statements attesting to this information. With respect to the two independent contractors involved in the May 5, 2009, incident, each signed a statement indicating that he had been honorably discharged from military service. Apparently, Mr. McCracken did not always verify these statements by requiring submission of Form DD-214. The documents submitted to the Committee indicate that the company had a written policy to obtain Form DD-214s in November 2008 and that Mr. McCracken at least started requiring DD-214s on new recruits as of December 17, 2008. To the extent that the Paravant program failed to obtain such forms, it was a violation of company policy then, and it would be a violation of company policy today.

The company has taken a number of steps to ensure proper vetting of independent contractor candidates. First, immediately following the May 5, 2009, incident, the company revetted all Paravant personnel. Second, the company under new management

has an ongoing process of periodically revetting all Xe Services independent contractors worldwide. Third, immediately following the May 5, 2009, incident, the new management restructured company's centralized recruiting office and made it part of the human resources division to ensure adherence to standard operating procedures. Finally, the head of human resources has been elevated to a vice presidential position and reports directly to the CEO. This reflects the company's commitment to appropriate vetting, and ensures that human resources policies, procedures, and practices are respected.

Weapons Authorizations

It has been and remains company policy that employees and independent contractors deployed overseas may not possess firearms unless they hold appropriate authorizations for the relevant theater and contract. In the case of a Defense Department contract in Afghanistan, it is necessary to have an LOA that includes a weapons authorization, as well as an Arming Agreement issued by CENTCOM. This policy was not followed by the then-Paravant leadership, which elected to direct the issuance of weapons to Paravant independent contractors despite the absence of proper authorization. As previously mentioned, however, the company's new management was in the process of trying to understand the current status of weapons authorization given that both Raytheon and CSTC-A were well aware of the Paravant weapons and were seeking to revise the LOA to formally authorize the use of such weapons. Indeed, it is the responsibility of the prime contractor to seek this authorization from the contracting authority if it is necessary for performance of the contract. We are not aware of an instance where Raytheon or the U.S. military told Paravant independent contractors not to carry weapons. Moreover, the documents submitted to the Committee support that after an incident involving unapproved use of weapons at a firing range in December 2008 (resulting in the termination of a team leader), Paravant's leadership directed the limited use of such weapons while formal approval was being sought by Raytheon and CSTC-A from PEO-STRI, including that they were not to be used outside of the forward operating base and locked up when not being used on the range. However, this is not an excuse for failure to comply with applicable U.S. government requirements.

Today, in a situation where the company believed that possession of weapons for personal protection was necessary to the safety of our independent contractors, and LOAs with weapons authorization had not been issued, we simply would not deploy our independent contractors to theater without appropriate weapons authorizations. In addition, we would work harder with the prime contractor, in this case Raytheon, to have the contracting authority amend our independent contractors' LOAs. Similarly, should the company determine that the safety of any personnel deployed without a weapons authorization is in jeopardy, the company would order its personnel to stay in their forward operating bases until authorization was given, and if it were not given, we would request a termination for convenience.

Other policy changes make it highly unlikely that individuals lacking appropriate authorization would obtain weapons from the company's secure weapons facility in Afghanistan. Current weapons policies do not permit issuance of weapons to individuals

without appropriate written authorization. Additionally, regular inventories are performed to confirm the location of weapons in the company's custody. Our management team is vigorously enforcing our new weapons policies.

Bunker 22 Weapons

It is my understanding that there is nothing inherently wrong with Xe Services or other contractors receiving weapons from Bunker 22 for use in U.S. government contracts. Bunker 22 is a weapons facility under the control of the Afghan National Army and the mentorship of the U.S. Army. With the assistance of the U.S. military mentor assigned to Bunker 22, the company obtained weapons in bulk for use on a number of U.S. government contracts. The use of the Bunker 22 weapons was not limited to Paravant, and included other company programs where the LOAs authorized the personnel to possess a weapon. However, the manner in which Bunker 22 weapons were provided to the company lacked appropriate controls and oversight.

Today, if after authorization by appropriate military officials, the company were issued weapons from Bunker 22, our new weapons policies and controls would apply. That is, they would be accounted for in our quarterly inventories, and no weapon would be issued without appropriate written authorization, which (for a Defense Department contract) includes an LOA with weapons authorization and a CENTCOM-issued Arming Agreement.

The company has voluntarily returned many of the firearms it obtained from Bunker 22 to the Afghan government under the supervision of the Disbandment of Illegal Armed Groups ("DIAG"). The remainder have been or will be either (a) turned over to the U.S. Army for destruction or (b) turned in to Bunker 22 under the supervision of CSTC-A. For independent contractors performing other contracts for which weapons authorization has been obtained, replacement weapons were purchased by the company in the United States and were exported to Afghanistan with a valid export license. We understand from the DIAG that Xe Services is the only contractor that obtained weapons from Bunker 22 that has returned such weapons. Paravant independent contractors were never rearmed.

The May 5, 2009, Incident

Xe Services' actions in the days surrounding the tragic May 5, 2009, incident reflect our company's new approach and focus. From mid-February to mid-March 2009, Mr. McCracken was transitioning from his role as head of Paravant to Raytheon's in-country manager. As a result of the company's new management reviewing the Paravant program, the new Director of Paravant, Mr. Hugh Middleton, traveled to Afghanistan on April 28, 2009, for the purpose of relieving the in-country program manager, evaluating other personnel, and instructing Paravant personnel regarding certain company policies and procedures.

Mr. Middleton delivered a briefing on May 1, 2009, to all Paravant team leaders, the substance of which was to be passed down to all independent contractors. Among other

things, the briefing expressly restated a number of crucial company polices, several of which were subsequently violated by the off-duty independent contractors involved in the May 5 incident. He reiterated the company's no alcohol policy, a policy that each independent contractor signed before starting performance. He also instructed the Paravant personnel that weapons could not be carried away from the training range. Finally, he directed that vehicles were to be used for company business only. My understanding is that the four off-duty independent contractors involved in the incident drank alcohol, carried weapons off the training range, and utilized a company vehicle for an unauthorized purpose unrelated to contract performance.

After reviewing Paravant's leadership on the ground, Mr. Middleton informed Raytheon that it was relieving Paravant's in-country program manager, Mr. Walker. Mr. McCracken, in his new capacity with Raytheon, opposed Paravant's replacement of Mr. Walker, whom he had selected while working for Paravant. Mr. Middleton, several days later, terminated a team leader and an assistant team leader for performance reasons. These terminations occurred on May 5, 2009.

The company recognized the potential consequences that this tragic incident may have on the U.S. military's counter-insurgency efforts and strategy in Afghanistan. To that end, the company promptly notified and met with Afghan police and Ministry of Interior officials, and fully cooperated with all U.S. and Afghan law enforcement officials. At company initiative, and with the encouragement and facilitation of U.S. Army counter-insurgency personnel, the company's in-country program management met with families of the victims shortly after the incident and provided compensation for their losses. The company's new President and CEO also traveled to Kabul to meet with the families and express, personally and on behalf of the company, his deepest condolences for their loss.

The morning after the incident, the company's management took the initiative and ordered the immediate collection of all weapons from Paravant personnel. A vice president and a director of U.S. Training Center, another Xe Services subsidiary, traveled to Afghanistan the day after the incident to ensure that weapons were collected and that all personnel were cooperating with the military and Afghan investigations. The company also promptly terminated the four off-duty independent contractors involved in the incident.

I, and my colleagues at Xe Services, regret that the efforts of the new management team to address and correct legacy issues at Paravant had not been fully completed prior to the tragic loss of life and injury to Afghan civilians on May 5, 2009. However, it is important to point out that it is an unfortunate reality that it is difficult, if not impossible, to prevent tragedy when a number of individuals consciously choose to violate strong policies. The four off-duty independent contractors involved in the incident chose to breach a number of key company policies -- they drank alcohol in contravention of the strict no alcohol policy; they left the forward operating base late at night and without authorization; they used a company vehicle for a unofficial purpose; and they carried weapons off-duty and away from the training range.

Thank you.