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**APPROACHES TO AUDIT OF RECON-
STRUCTION AND SUPPORT ACTIVITIES
IN IRAQ**

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES
ONE HUNDRED TENTH CONGRESS
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**APPROACHES TO AUDIT OF RECONSTRUCTION AND
SUPPORT ACTIVITIES IN IRAQ**

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
Washington, DC, Thursday, January 18, 2007.

The committee met, pursuant to call, at 10:00 a.m., in room 2118, Rayburn House Office Building, Hon. Ike Skelton (chairman of the committee) presiding.

OPENING STATEMENT OF HON. IKE SKELTON, A REPRESENTATIVE FROM MISSOURI, CHAIRMAN, COMMITTEE ON ARMED SERVICES

The CHAIRMAN. Ladies and gentlemen, it is shortly past 10 o'clock. We like to do our best to start on time. We have asked our witnesses to condense and summarize their testimony into four minutes if at all possible. They, of course, will make their full statements ready for the record. We have had two hearings thus far, and I have got to brag on you; you have done very well thus far staying within the five-minute rule, and we will continue to do that. I will remind those in the front row that when Secretary Gates once appears, we will begin with the front row because you did not have the opportunity to ask the Secretary questions then.

But we will start with this. Today's witnesses will testify regarding honest reconstruction and support activities in Iraq. This will be the first of many oversight hearings from the full committee as well as the other committees, including but not limited to the Subcommittee on Oversight and Investigations. Our witnesses will give us their honest opinions on how things are going in Iraq. They are here today because being forthright is their job. They are honest and independent. That is their primary duty. In fact, it is written in law.

The Inspector General Act of 1978 says inspectors general shall be chosen solely on the basis of integrity and no one shall prevent or prohibit the inspector general from initiating, carrying out, or completing any audit or investigation, or from issuing any subpoena.

With that in mind, I welcome our witnesses. Today we have the Honorable David Walker, the Comptroller General of our country. He leads the Government Accountability Office, the GAO, which is doing tremendous work helping Congress provide oversight to the Department of Defense. He has served in this capacity since 1998.

Thomas Gimble, Acting Inspector General of the Department of Defense, who spent a career in the field of audit and accountability in the Department of Defense. He also served in the Army, receiv-

ing the Purple Heart and Combat Infantry Badge and the Bronze Star.

Howard Krongard, the Inspector General of the State Department. Like Mr. Walker, Mr. Krongard came to government from the accounting industry.

We also have Mr. Stuart Bowen, the Special Inspector General for Iraq Reconstruction. Mr. Bowen came to his current job from the legal profession, which, I might point out, was also my field before I was fortunate to come to Congress.

So, gentlemen, welcome to the Armed Services Committee. We have two missions to accomplish today. First, we must identify the critical lessons learned from the war in Iraq; for today, now, while we are still engaged in the fight. If we are to have any hope of improving our course, we cannot wait five years, or even one year. Gentlemen, we look forward to your helping this committee understand what has been done right and what has been done wrong in Iraq. We want to eliminate what has been done wrong and do what has been done right. Mr. Bowen told me he has already visited Iraq 15 times, and I know our other witnesses have been closely monitoring the situation. We value your insight this morning.

Second, we must identify the lessons learned in Iraq for the future because, unfortunately, this government and our military are likely to be asked to engage in reconstruction and rebuilding activities again elsewhere. We don't know what the future holds. Iraq will not be a model that we will ever seek to repeat. Nevertheless, there are failed states and ungoverned areas elsewhere in the world and there will be a next time, I am convinced. But we must do better when that next time arrives.

My own conclusion is that reconstruction in Iraq can best be described by paraphrasing General Pace's analysis of the war itself. He said: we are not winning but we are not losing.

Well, the story in reconstruction is it is not a total failure, but it is not in any means a success. Unfortunately I don't think a middling outcome in a situation as complex and volatile as Iraq is good enough. I have been told that as much as 20 percent of the reconstruction funding spent in Iraq thus far has been wasted, largely as a result of the lack of security. And, gentlemen, if this is true, then somewhere between \$4 billion and \$6 billion of taxpayers' money has been wasted.

Let me briefly point out the charts along the wall. Two of the major areas of reconstruction are displayed. Electricity production. The chart shows the supply of electricity has increased at times and fallen again. From start to finish the chart shows almost no change. That, of course, is not good enough.

Oil production. That chart shows that oil production has consistently fallen short of our goals of prewar production levels. That is not good enough.

The chart also shows attacks steadily increasing; casualties of Iraqi civilians are also increasing. That is not good enough. Gentlemen, we must do better.

I yield to the gentleman from New Jersey, Mr. Saxton.

**STATEMENT OF HON. JIM SAXTON, A REPRESENTATIVE FROM
NEW JERSEY, COMMITTEE ON ARMED SERVICES**

Mr. SAXTON. Thank you, Mr. Chairman. Let me thank you for holding this very important hearing. And I would also like to welcome our witnesses this morning. All four of you perform valuable services both for the American taxpayers and in keeping this Congress informed. You and your staffs ensure that U.S. funds are spent appropriately and as effectively as possible.

This inspection and auditing task is especially difficult when we consider the amount of funds dedicated to Iraq reconstruction and the challenging security environment in which these duties must be carried out. So please accept our thanks and extend this expression of appreciation to your staffs.

Iraqi reconstruction efforts constitute one element of what the chairman of the joint chiefs of staff recently called the three-legged stool for the government strategy for Iraq. This strategy's long-term success rests in part on the effective reconstruction of Iraqi society including projects addressing, as the chairman just pointed out, electricity democracy, roads, bridges, water sanitation, transport, and telecommunication needs.

And, of course, there are others as well.

To date, Congress has appropriated more than \$25 billion for these efforts. Because the U.S. Government is accountable to the U.S. taxpayers for that money, we must have the right inspection and auditing mechanisms in place to provide sufficient oversight. We certainly look forward to your perspective on these issues this morning, and, again, I would like to thank all of you for being here with us this morning.

And thank you, Mr. Chairman.

The CHAIRMAN. We will begin with your four-minute summary. Mr. Walker.

STATEMENT OF HON. DAVID M. WALKER, COMPTROLLER GENERAL OF THE UNITED STATES, GOVERNMENT ACCOUNTABILITY OFFICE

Mr. WALKER. Thank you, Mr. Chairman. It is a pleasure to be here before you today to provide a strategic overview of GAO's work relating to securing, stabilizing, and rebuilding Iraq.

My statement today is based upon the extensive work the GAO has done since 2003 in which we have issued some 67 Iraq-related reports and testimonials, and most recently I sent up to the Congress, early in January, our report that includes a number of key issues that we believe Congress needs to seriously consider in connection with oversight activities dealing with Iraq.

GAO and the inspector generals of individual departments and agencies have different clients, different roles and responsibilities, and different professional standards that govern their work in some circumstances. Our work at GAO includes very broad audit authority. The Congress is our sole client and we are able, through our multifaceted skills and knowledges and staff, to be able to cut across multiple federal agencies and to take a longer-range and broader view with regard to the work that we do on behalf of the Congress.

Our work spans the security, political, and economic prongs of the U.S. strategy for Iraq. It is very broad-based and cross-cutting in nature. This by itself helps to minimize the possibility of overlap and duplication of individual engagements.

However, we also participate in the periodic coordination meetings that take place, as well as have supplemental one-on-one activities with the special inspector general of Iraq as well as the other inspector generals to minimize the possibility of duplication of effort.

To give you a sense as to the scope of our work, our analysis of the national strategy for victory in Iraq recommended that the National Security Council improve the strategy by articulating clearer roles and responsibilities for the U.S. and others, specifying future contributions and identifying current costs and future resource needs. In our examination of the cost of the U.S. military operations abroad, we recommended that the Secretary of Defense improve the transparency of and reliability of DOD's global war on terror obligation data. We also recommended that DOD build more funding into the baseline budget once an operation reaches the level of known effort and more predictable cost.

In assessing the capability of Iraqi security forces, a particularly important and timely topic, we found that the overall security conditions in Iraq have deteriorated despite increases in the numbers of trained and equipped security forces. A complete assessment of Iraqi security forces capabilities is dependent upon the GAO being provided access to individual unit transitional readiness assessments. We have been seeking this for months. It has not been forthcoming. I have an agreement in principle with Deputy Secretary of Defense Gordon England to provide it, but we need to get it and we need to get it soon. This is invaluable information for the Congress of the United States and is particularly important at this critical juncture given the status in Iraq.

We have also done work with regard to the impact of extending U.S. presence overseas, on the stress of our forces, on the need to reset our equipment as well as a variety of other issues.

On acquisitions. In assessing acquisition outcomes, we found that DOD often entered into contract arrangements with unclear requirements which posed additional risk to government and taxpayers. They also lacked adequate capacity to conduct effective oversight. We have extensive quality control procedures over our work which I am happy to answer questions on. I know that is one of the issues that the staff was interested in.

In summary, GAO's work highlights the critical challenge that the United States and its allies face in the ongoing struggle to help the Iraqis stabilize, secure, and rebuild their country.

Many forthright answers to the questions included in this document are essential in order for the Congress to be in a position to make informed and timely decisions with regard to its constitutional responsibilities. We look forward to continuing to work to support the Congress in these and other areas, and I am happy to answer questions after my co-panelists have had a chance to make their presentation. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Walker, thank you very much. We will have some questions a bit later.

[The prepared statement of Mr. Walker can be found in the Appendix on page 49.]

The CHAIRMAN. Mr. Gimble.

**STATEMENT OF THOMAS F. GIMBLE, ACTING INSPECTOR
GENERAL OF THE DEPARTMENT OF DEFENSE**

Mr. GIMBLE. Mr. Chairman, members of the Committee on Armed Services, I would like to thank you for the opportunity to appear before this committee. I also want to publicly thank the men and women who serve in our armed forces. Each time I make a visit to Iraq and Qatar, it reminds me of the importance of my office in providing oversight necessary to ensure funds are being appropriately managed and properly used to warfight and achieve the DOD mission.

As I stated in my last semiannual report to Congress, the global war on terror is at the forefront of our Nation's concerns and continues to be a priority for the DOD office of the inspector general (OIG). Currently we have about 140 OIG personnel working with the Department and the Congress in providing oversight in the \$400 billion in DOD supplemental funds appropriated to support our fight against terrorism and to support the men and women of our armed forces in Southwest Asia.

To accomplish our oversight mission, we recognized that we needed a combination of initiatives while simultaneously aiding in the reconstruction and support activities in Iraq. We recognize we needed a combination of initiatives. One is to establish an in-country oversight presence; two is to expand oversight coverage of funds that are predominantly being executed in the United States; and three, to improve interagency coordination and collaboration to minimize any duplication efforts within the oversight community.

To briefly highlight our first initiative, it is important to know that we continue to move forward with expanding our presence in theater. We are currently working to increase our presence in Iraq and Afghanistan and Kuwait before the end of the year. We currently have an office in Qatar. We extended our oversight since my testimony in September of 2005, and we have currently 23 ongoing audits inspections. We also have 39 criminal investigations that were completed through the audits. These audits involve critical readiness issues that directly impact the warfighter such as personnel and operational equipment readiness, and resetting ground vehicles and equipment with the combatant commands. Also, the Defense Criminal Investigative Services (DCIS) which is the criminal investigative arm of the DOD Inspector General, has been engaged in investigating DOD-related matters pertaining to the Iraqi theater, to include Kuwait, since the start of the war.

The presence of DCIS in the region has led to numerous investigations of corrupt business practices, loss of U.S. funds through contract fraud, loss of Iraqi military equipment; and our investigations have been focused on matters such as bribery, theft, gratuities, bid-rigging, product substitution, and conflicts of interest.

Our intelligence component continues to review and assess high-profile issues such as the DOD-directed investigations of detainee abuse. We are also evaluating the U.S. Government's relationship

with the Iraqi National Congress, and we have a review ongoing of congressional concerns regarding the Rendon Group.

Finally, our policy and oversight component continues to play a key role in promoting establishment of effective oversight operations in both Afghanistan and Iraq. We are continuing also to conduct joint critical assessment of police training and counter-narcotics programs with the department of state inspector general. We are committed to remaining an active player in improving interagency coordination and collaboration to minimize the duplication of efforts.

I am confident that my colleagues within the oversight community will attest that the continuous interagency collaboration is essential for our business. We participate in the inspector council that is hosted by Inspector General Bowen.

We also recognize that the joint staff and combatant commands inspectors general are key players in helping us achieve our oversight responsibility. And we plan to host the next joint staff combatant commands and inspector generals conference. Further, we are hosting the Southwest Asia audit planning group which will coincide with the combatant commands inspector generals conference and the joint staff.

Operational constraints, such as travel restrictions, impact oversight efforts, including those of my office. Operational tempo requirements and anticipated surge of war patterns may present operational challenges for us to enter Southwest Asia; specifically Iraq and Afghanistan. Nonetheless, our in-country presence to conduct adequate oversight is imperative.

In closing, we recognize the men and women of the U.S. armed forces are facing enormous challenges ahead for the defense of our Nation's goals. We offer our commitment that the DOD resources that are appropriated and provided to those men and women of those armed forces are effectively used in the global war on terror.

Again, thank you for the opportunity to appear before you.

[The prepared statement of Mr. Gimble can be found in the Appendix on page 67.]

The CHAIRMAN. Mr. Krongard.

STATEMENT OF HOWARD J. KRONGARD, INSPECTOR GENERAL OF THE U.S. DEPARTMENT OF STATE AND BROADCASTING BOARD OF GOVERNORS

Mr. KRONGARD. Congressmen, thank you for the opportunity to discuss the Department of State's Office of Inspector General's view of audit and oversight activities related to Iraq. OIG's approach to oversight in Iraq has been through audits, inspections, investigations, assessments, and surveys to identify and recommend ways in which State Department programs can operate more efficiently and economically. These are programs affecting the various operation of Embassy Baghdad, including the construction of the new embassy compound as well as Iraq reconstruction, governance and security, all of which are critical elements to ensuring stability in Iraq.

With resources limited due to statutorily and mandated audit and inspection requirements and flat budgets in an increased cost environment, OIG has nevertheless constructed high-value projects that have included, in fiscal years 2005 and 2006 and thus far into

2007, 10 program and management assessments, 15 audits with 4 more in progress, and supervision of 4 defense contract agency audits. Significant program assessments included an assessment of Iraq police training and inspection of rule of law programs in Iraq and a survey of anticorruption programs in Iraq. Significant audit work has included a survey of the Bureau of International Narcotics and Law Enforcement (INL) funding for Iraq and currently in progress is a review of a large contract for Iraq police training support.

I should note that I have been a strong proponent of interagency inspector general undertakings as a way of leveraging my own way of limited resources and of enhancing cooperation among the three OIG offices before you today, as well as others. In that vein, the assessment of Iraq police training was done jointly with the DOD, OIG. The survey of anticorruption programs and the audits of INL funding and of the Iraq training support contract were all done in conjunction with SIGIR. And parenthetically, an assessment of the police training program in Afghanistan and an assessment of Afghanistan counternarcotics programs were done jointly with DOD and OIG.

In addition to the foregoing reports, I have personally traveled to Iraq to accomplish specific objectives. For example, during my visit this past September, I met with all 29 Iraqi inspectors general. I said to them, among other things, and I quote, "Each of your prime ministers and deputy prime ministers have recently identified corruption as one of the two greatest threats, along with violence, to the stability and long-term success of Iraq as a free and democratic country. Indeed, violence and corruption go together. Corruption feeds and funds the insurgency and contributes to an environment where both can thrive. You are in the very front line of this great battle against corruption, and I look forward to seeing how we can assist and support you in this crucial fight for your country."

To assist them, for example, I undertook to identify someone experienced in the U.S. inspector general community to become a senior adviser to Iraqi IGs in Embassy Baghdad. I succinctly identified such an individual who is now being processed and should be in Baghdad shortly. I believe the foregoing is responsive to your question as to what is working with respect to oversight in Iraq.

With respect to what is not working, I would point first to the limited resources available to my office. The work in Iraq I have described to you was funded by an allocation of 1.3 million from the fiscal year 2005 supplemental and 1.7 million from the fiscal year 2006 supplemental. That \$3 million over 2 years was intended to provide for our work in both Iraq and Afghanistan. As for 2007, we have received no supplemental fundings for Iraq or Afghanistan.

By way of contract, I believe SIGIR's initial and supplemental spending have approximated \$100 million. So at a time when the costs and risks attributable to State Department programs in Iraq continue to increase, OIG's resources have remained flat and perhaps have decreased after considering mandatory wage increases, higher travel costs, and lower dollar exchange rates.

In closing, Mr. Chairman, I would like to recognize the brave and the dedicated military and civilian personnel in Iraq who are making enormous efforts to bring about a safe, secure, and democratic

environment where rights and liberties of individuals are protected. This is a difficult challenge, and we in OIG want to do our part in assuring that U.S. resources are used to the optimum possible efficiency and effectiveness in such trying circumstances.

Thank you.

The CHAIRMAN. Thank you, sir.

[The prepared statement of Mr. Krongard can be found in the Appendix on page 77.]

The CHAIRMAN. Mr. Bowen, we will call on you, but my recollection is we had a conversation—and I made reference to that in my opening statement—that you said as much as 20 percent of the reconstruction funding spent in Iraq thus far has been wasted. During your comments, would you be kind enough to make reference to any details you might have in that regard?

Mr. Bowen.

**STATEMENT OF STUART W. BOWEN, JR., SPECIAL INSPECTOR
GENERAL FOR IRAQ RECONSTRUCTION**

Mr. BOWEN. Yes. Thank you, Mr. Chairman, members of the committee, for this opportunity to address you on the work of my office, Special Inspector General for Iraq Reconstruction, in its mission to provide oversight of the expenditure of the Iraq relief and reconstruction fund.

And let me address that issue of waste right off the bat. As I said when I met with you, it is an issue that we recognize that Congress has asked my office to explore, and we have looked at it from the start since we began our work 3 months ago in the conduct of 74 audits and over 90 audit products. The real number that we were able to derive regarding waste of that fund will come out as we do audits of each of the major contractors, and that is a program that I have initiated and we are ongoing, looking at what all the top six contractors provided the United States for the money that they were allocated.

I was appointed, as I said, the Coalition Provisional Authority (CPA) IG three years ago this week and departed on my first trip for Iraq two weeks thereafter. I am going to leave for my 15th trip in 2 weeks, and I have spent just over a year in Iraq supervising our work.

Today we have 55 auditors, inspectors, and investigators assigned on the ground in Iraq, and they travel across the country carrying out the mission that Congress has assigned us.

To date, my office has produced 11 quarterly reports, the 12th one will be out in 2 weeks. We have completed over 90 audits, 90 onsite inspections across Iraq, opened 236 investigations and have 87 ongoing. Five have been convicted, U.S. officials, of fraud; and four sentenced to date.

We also are managing a robust lessons learned program looking at what has and has not worked in Iraq. We have issued two reports, one on human capital management, the other on contracting in Iraq. The third report on program and project management will be out this quarter and we are looking at a capping report that will be out at the end of the year which will explore the complete picture of the story of Iraq reconstruction.

SIGIR's audit work to date has resulted in direct savings of over \$50 million in taxpayers' money and has pointed to potential savings and recoveries of over another 100 million.

We will have eight new audits coming out in the next quarterly report, which will be issued at the end of this month, including a review of police training in Iraq and an update on our report on the primary health care clinics, specifically looking at how equipment was used in those clinics, a review of how Bechtel managed their property, a thorough review of that; a review of the improper obligations of the Iraqi Relief and Reconstruction Fund (IRRF), a follow-up to the report that we issued last quarter; and also a review of security costs, a question that continues to dog the entire program.

Our inspection work continues apace, and we will have visited over 90 sites by the end of this month, resulting in tens of millions of dollars in direct savings from our advice and reporting.

Most notably this quarter, we will have a follow-up on the Baghdad Police College. We issued a quick reaction report last quarter that resulted in remedial activity. We will identify the efficacy of that remedial activity in this newest report which will be out next week.

Our investigative work continues to show progress. Most notably this quarter we—SIGIR established the Joint Task Force on International Contract and Corruption. And that is in conjunction with the FBI and the Department of State IG, Department of Defense IG, and we are maintaining a Joint Operation Center SIGIR headquarters here in Arlington to coordinate investigative efforts among those various agencies.

Coordination is essential to efficient oversight in Iraq. And to that end, when I began this job, I created the Iraq Inspector General Council which brings together, every quarter, all entities that have oversight responsibility in attempts to deconflict our oversight efforts and to identify areas that need to be looked at. And we will continue to coordinate with GAO and the inspector generals of the Department of Defense and State as we look forward to carrying out the important mission that you have assigned my office.

Thank you.

The CHAIRMAN. Mr. Bowen, thank you very much.

[The prepared statement of Mr. Bowen can be found in the Appendix on page 81.]

The CHAIRMAN. Let me take this opportunity to welcome a brand-new member to this committee, the gentleman from Maryland, Mr. Elijah Cummings, seated in the first row, a veteran lawmaker. And we are very very pleased, Mr. Cummings to welcome you to your new position here. I know that you will enjoy it as we do. Thank you for being with us here.

In asking questions today, I note we have four members of the panel, and five minutes is five minutes, and I would strongly suggest you to ask one or two members of the panel, unless it is a question that all of them can answer quickly.

So we will start by one question of Mr. Walker and Mr. Gimble. What is the big problem?

Mr. WALKER. Well, I think security, obviously, is problem number one. The U.S. plan assumed that there would be a relatively

stable and secure and permissive environment. That assumption obviously proved false and it has a pervasive effect on the ability to build capacity, on the ability to engage in reconstruction activities, and in the ability to be able to maintain and protect whatever reconstruction has been performed. And that is the number one problem is the lack of adequate security. And the lack of adequate security also impairs the ability to make progress with regard to oil, electricity, potable water, as well as employment, increasing employment opportunities for Iraqis.

The CHAIRMAN. Mr. Gimble.

Mr. GIMBLE. Mr. Chairman, I would just second what my colleague Mr. Walker has said, because that is, as he so eloquently put it, is exactly the issues. So I really don't have much to add to that.

The CHAIRMAN. Mr. Saxton.

Mr. SAXTON. Mr. Walker, I have just one observation or question and that is with regard to your inquiry with the Department of Defense relative to the level of readiness of Iraqi forces. I guess my question is—you have some good reasons for asking that question. What do you anticipate you would see in answer to that question?

Mr. WALKER. Thank you for the question, Mr. Saxton. I believe this is critically important for the Congress of the United States, this information. I have an agreement in principle with Defense Deputy Secretary Gordon England that we would be provided this data. But it has been a number of months and we still don't have it. I am expecting to hear back from the deputy secretary, hopefully by the end of this week. That is tentatively what we agreed. If we gain access, then great. If we don't, I will be sure to let this committee and other committees of jurisdiction know.

This is critically important because basically what it does is it moves beyond the numbers that have been trained and it provides a more thorough assessment of their leadership capabilities, whether they are adequately equipped, and a variety of other critical factors which, quite frankly, we do on our own troops, and we have reported to the Congress periodically, in fact, we will soon report again on the state of readiness of our own troops, which has frankly deteriorated in part because of the long duration of this conflict.

Mr. SAXTON. Thank you for that.

And, Mr. Chairman, I would just add, I would want to say this for the benefit of it being part of the process. We know certain things about Iraqi troops. We know that in the beginning, they were totally untrained. We know that at a later stage, they were able to fight and carry out operations as kind of followers to U.S. troops. We know that at another stage they were able to carry out operations alongside U.S. troops. We know that at a later stage they have become able to lead some operations with U.S. troops as their supporters. And so I have asked for this information as well, and I haven't gotten it either. And I kind of understand that it is a difficult thing for the Department of Defense to provide because they don't know how it will be used. And I think that we need to be very careful of being expressly critical of Iraqi troops because of the difficulty of training them, the difficulty of getting the Iraqi government to pay them in spite of the fact that we have given them the money to do so. And so I think it is important that we

know, but I think it is also important that we be careful how we use the information once we have it.

Mr. WALKER. I agree with that, Mr. Saxton. It is important to note that this transitional readiness assessment at the unit level will be classified. We will treat it accordingly. But it is critically important that you have the benefit of our professional, independent, objective analysis, given the situation in Iraq right now.

Mr. SAXTON. Thank you. I agree with you.

The CHAIRMAN. Thank you very much. Let me follow through. Are there some recommendations, Mr. Walker, that, bottom line, probably should not be classified that are?

Mr. WALKER. Mr. Chairman, I think there is no question that we have seen that there is a tendency to overclassify throughout government. In some departments and agencies, it is more of a challenge than others. As you know, the way that our system works, the decision on whether or not to classify is made by the respective department and agency that has the information. And human nature being what it is, if there is information that is somewhat sensitive or potentially embarrassing, sometimes there can be a tendency to try to classify things that otherwise shouldn't be classified. I don't want to just point to any particular agency. I think that this is a broader challenge, and it is one that, quite frankly, I think that we may need to do some more work on on behalf of the Congress to give you a better sense as to the scope and magnitude of this challenge.

The CHAIRMAN. Thank you. Mr. Ortiz.

Mr. ORTIZ. Thank you, Mr. Chairman. Let me say I appreciate the fine work that you do. I see that you have many restraints, especially not being budgeted to do your work. I hope that they are not intentional to keep you away from doing what you are supposed to do. You have a serious responsibility and I know it is hard to do the work that you are doing under the circumstances in Iraq.

But Mr. Walker, you mentioned in your statement about the readiness of our troops. "DOD faces significant changes in maintaining readiness for overseas and homeland missions and in sustaining rotational deployments of duty, especially if the duration and intensity of current operations continue at the present pace."

I know you have been there. We are about to send 21,000 troops. We hope that we send them—if that is what the President decides to do—with the right equipment, what they need. And I don't know whether you have had a chance to talk to the troops. Do you think that they are going to have the equipment that they need to do their job? Do you think we are going to be able to begin to give them the proper body armor? I mean to move 21,000 troops, I know they are not going to be moving all at one time. I am concerned about putting our young men and women in harm's way especially if they don't have the equipment, if they don't have the Humvees, the armor, the tanks. And not only that, in fact I encourage my colleagues to go and look at their reserve units and go look at the national guard units. Some of them don't even have equipment because most of the equipment is in Iraq. I wonder if maybe you can touch a little bit on that, especially when we are about to send 21,000 soldiers to Iraq.

Mr. WALKER. Mr. Ortiz, let me note that we are at the present point in time taking a look at the state of readiness of U.S. forces. I just got briefed on our preliminary work within the last couple of days. One of the things that I want us to try to do is to place a special emphasis on those forces that are targeted to go to Iraq. Basically what is going on is there is a decline in overall readiness but there is an uneven distribution. What is happening is for those forces that are going overseas or staying overseas, you are taking equipment and other types of things for the forces that remain here, and that is one of the reasons that there has been such a significant problem associated with guard and reserve equipment because it has been given to active units, if you will, in order to make sure that they are adequately equipped.

Let me mention one other thing. We have a serious funding problem. We are not being picked on. We are covered by continuing resolution (CR) like everybody but the Department of Defense and the Department of Homeland Security. I have been to Iraq twice. I have met with my counterpart four times. And we send teams into Iraq on a recurring basis. We want to establish a limited continuing presence in Iraq, but if we don't get the funding for it, we are not going to be able to do it. We save the American people \$105 for every dollar invested in GAO. You would think that we would get credit for that; but the appropriations process is badly broken, and we don't.

Mr. ORTIZ. Mr. Bowen, you know, when I look at your statement, I see the amount of money that you have been able to save or recover, \$50 million, have identified better use of \$7.8 million. That is a lot of money. Now this money that you have been able to—or equipment—is that equipment, most of the stuff that you have been able—when you talk about the \$50 million that have been identified?

Mr. BOWEN. It has to do with audits of programs and projects in Iraq wherein, for instance, in the award fee process when we went in to look at how the large contractors were receiving award fees, we found that there were no—there was not adequate criteria in place to govern the process, and thus the award fees, in our view, were much higher than they should have been in some cases. Through our efforts, proper criteria were implemented and a proper governance system was put in place to ensure that the award fees are merited.

But I think one of the lessons learned from Iraq reconstruction is that those kinds of issues need to be understood and implemented at the beginning of the process because our audit found that there was clearly some lost funds in that.

Mr. ORTIZ. My time is up now. Keep up doing all of the work that you are doing because this is very sacred money that we are spending. This is taxpayers' money.

The CHAIRMAN. I thank the gentleman.

Mr. Bartlett.

Mr. BARTLETT. Mr. Chairman, I came to this committee 14 years ago. I sat in the corner seat down there beside Congresswoman Drake. Many times you never got to me. I never got to ask my question. So as is my custom, I yield my time to a low-ranking member.

Mrs. DRAKE. Thank you. I am not sure that I like that description, but I will take the time.

Mr. ABERCROMBIE. Mr. Bartlett continues to have a way with words.

Mrs. DRAKE. Thank you for being here with us today. This is extremely important for us to get your information. On my last trip to Iraq last April, one of the things that we did—and Mr. Saxton was with us on that trip—was go and visit your reconstruction team. And that was very enlightening to us to, number one, learn that the infrastructure in Iraq was in much poorer condition than we anticipated because of Saddam Hussein's actions. It was also impressive to me to hear of the countries that were partnering with us and breaking the country into provinces, and countries like Japan and South Korea and Canada and France, of the countries that were willing to take a province, even tiny Moldova that helped out with other nations, and to look at the current list of 42 countries who have given aid or money.

So my question revolves around, first of all, Iraq and the \$10 billion dollars that they are now saying that they will put into capital projects in the next year, to make sure, Mr. Bowen, that you think what you have put in place will have the proper oversight of that \$10 billion. We know the Iraqis haven't done a very good job with their oil and even tracking the amount of oil that is going out of the country. So my question is, do we have that in place, particularly with the Iraqi money and certainly with the other 42 countries that are assisting us?

Mr. BOWEN. First of all, the biggest problem last year and with respect to the Iraqi side of the ledger was the failure of the Iraqi ministries to execute their capital budgets. Indeed, the 10 billion number comes from the amount that was left in the treasury at the end of 2006 because of lack of budget constitution. That is a capacity-building issue within the ministries, and we have an audit coming out in this next quarterly report that explores problems with capacity-building in Iraqi ministries. But nevertheless, the relief and reconstruction of Iraq ultimately is Iraq's burden, and they must sustain it over time; and as you pointed out, given the severity of the deterioration of that infrastructure, that is a long process and it is one that they are going to have to shoulder much more than they have to date.

Indeed, the relief and reconstruction of Iraq has three phases. First was primarily U.S.-led, about 32 billion, including security expenditures put into it. The second will be an international compact-driven effort that will bring the efforts of these other countries into more coordinated relief and reconstruction efforts. The third will be the Iraqi Government itself, and that requires strategic planning but also requires the controls that you alluded to that are controls that are not in place yet.

The corruption, as Deputy Prime Minister Barham Salih said just three days ago, it is a huge problem. And indeed he was referring to lost funds from the Baiji refinery in northern Iraq amounting last year to about a billion dollars and he believes that they went to the insurgents.

Mrs. DRAKE. Could I also ask quickly about the banking system in Iraq? I know that has been a huge problem because there is no

way to pay people. Are they making progress on that? Something as simple—in our country, we do everything automatically, if we want to, and they don't even have a system in place.

Mr. BOWEN. They do not have electronic funds transfer in place, and that is a huge hindrance, and you cannot have an electronic audit trail to track how funds move. So it is still primarily a cash economy and that includes payment of the armed forces.

We looked at logistic support, the capacity of Iraq logistics to support their own forces, in our last quarterly and found that it is weak at best; and one of the chief areas of weakness is proper payment of troops. And when troops don't get paid, they disappear from the field.

Mrs. DRAKE. I hope we are doing something to bring our bankers in to help us set up a system that will work.

Mr. WALKER. Ms. Drake, one of the primary problems in Iraq is the lack of adequate capacity to execute. They don't have enough people with the right kind of skills and knowledge to do it. There is a real problem in execution with regard to their authorities and resources. They have candidly—I don't think that we can expect that we are going to get a lot more international assistance with regard to military activities. I do believe, however, that we should try and take steps to try to engage the international community to try to do more through capacity building. In many cases we have military personnel engaging in capacity-building exercises. They may be very capable and dedicated individuals, but they may not be experts in what they are trying to advise on, and having somebody in a uniform serving as an adviser to civilian personnel is not necessarily a good idea.

So more can, should in fact, must be done I think with regard to this capacity building.

Mrs. DRAKE. Thank you.

The CHAIRMAN. Mr. Meehan from Massachusetts.

Mr. MEEHAN. Thank you for being here today. Mr. Bowen, let me also thank you for your work. You are doing a great service to your country, and I look forward to working with all four of you as I assume my new role as the chairman of Oversight and Investigation.

I wish that we were meeting in better circumstances. Unfortunately, the situation in Iraq leaves much to be desired. Gentlemen, it has been nearly four years since we invaded Iraq, nearly four years since we started rebuilding the country. Four years, \$25 billion, over 3,000 American lives. And you look at what we have to show for it, and as concerning oil production as this chart shows, oil production is less than two million barrels per day. That is 20 percent lower than before. Three million fewer people have access to potable water. Iraqis in Baghdad have access to electricity for about 4 hours per day on average so far this month now, if you compare that it was 16 hours per day before the war.

In 2003, the President promised a Marshall Plan, but the only thing that seems to me that that would seem as a failed plan. We don't seem to be getting very far.

Now, Mr. Bowen, I am aware that your office is responsible for saving tens of millions in taxpayers' dollars. I have seen the reports. I have no doubt that you are uncovering evidence of waste,

fraud, and abuse. I remember that you discovered thousands of weapons that were provided to Iraqis that were missing.

Given the mistakes that you have been able to expose and the amount of money that your office has recovered with a staff of less than 100 people, how much do you think that you are overlooking? In other words, do you feel that you have enough resources, and how much do you think we don't know because of the lack of resources?

Mr. BOWEN. Well, there is a lot more that I would like to do, and I would if I had more resources. You are right. The expenditure of \$32 billion in the environment that is Iraq today is an extremely challenging oversight mission. And I have got 55 people assigned to Iraq, about 30 auditors, 10 investigators, 10 inspectors. But just traveling outside the Green Zone is such a difficult task that it requires significant advance planning, and frequently inspectors have their trips canceled. So simply executing the oversight mission because of the security issue is a significant problem.

Nevertheless, I think we have had a good deterrent effect by being present on the ground there for almost three years. And I think that that has saved us a significant amount of taxpayer dollars. However, your core point is well taken. I would like to do more.

Mr. MEEHAN. You mentioned you are going in two weeks. How long will you be there?

Mr. BOWEN. I usually spend every third month in Iraq now. That is my cycle, two months here to produce my quarterly reports and one month there to push it forward.

Mr. MEEHAN. So far we have allotted \$6 billion to the top 10 U.S. contractors in Iraq alone. It has been reported that many of the projects that these companies were responsible for were found to have been seriously wanting. In the case of one company, I think 13 of the 14 projects that they worked on were found to be deficient. Yet it seems that time and time again we continue to pay, regardless of the quality of the product. How many of these cost-plus contracts have been awarded over the past four years?

General BROGAN. Well, the cost-plus contract system was the one adopted in 2003–2004 when the Iraq relief and reconstruction program was developed. And that meant that very large cost-plus contracts were awarded to 12 major contractors, many \$500 million each. And what that means is that in exchange for those companies assuming the risk of working in Iraq, the government assumes pretty much to pay their costs. And—

Mr. MEEHAN. Excuse me just one second, but I don't see how we can hold contractors accountable if they are assured a profit regardless of the quality of their product.

Mr. BOWEN. Well, we had an audit that came out last summer in our July report wherein SIGIR identified a core failing in the cost-plus system, and that is the failure to incentivize cost within those countries. There is a requirement to go in, you go in, you don't know what your costs are going to be, but within a certain amount of time a company needs to identify what those costs are. And that requirement was not enforced in Iraq.

And indeed in my testimony before the Senate Homeland Security and Government Affairs Committee last August when we re-

leased our contracts and lessons learned report, I emphasized that the cost-plus mechanism needs careful review by Congress.

The CHAIRMAN. Thank you, Mr. Meehan.

Let me say I am going to continue the hearing as best I can. It is a motion to adjourn. I will continue and those of you who need to vote, go vote and please hurry back. And, Dr. Snyder.

Dr. SNYDER. Thank you, Mr. Chairman.

Mr. Walker, on page 12 of your written statement you say many reconstruction projects are falling short of your expectations and DOD has yet to resolve longstanding challenges and mismanagement in oversight of contractors in deployed locations. These challenges often reflect shortcomings in DOD's capacity to manage contractor efforts, including having sufficiently focused leadership, guidance, between requirements and resources, sound acquisition approaches, and an adequate number of trained contracting and oversight personnel.

I just want to ask about one specific phrase in there. I mean, we are well over 200 years as a country. We are several years into this war. Why do we not have, quote, sound acquisition approaches?

Mr. WALKER. Candidly, as you probably know, the issue of inadequate contracting and acquisition approaches is one of the items that has been on GAO's high-risk list for many years, and it will remain on GAO's high-risk list when the new list comes out on January 31st. There are longstanding fundamental acquisition and contracting problems within the defense department and many other departments and agencies. They are exacerbated when you deal with a conflict zone that is half a world away. One of the most fundamental problems is there is not an adequate definition of the requirements, and not having an adequate definition of the requirements and not stabilizing those requirements causes a tremendous opportunity for waste and abuse, especially in cost-plus contract arrangements.

Furthermore, not having adequate personnel who can manage cost, quality, and performance, including determining when and whether under what circumstances incentive and award fees ought to be paid, results in tremendous amounts of waste and potential abuse as well.

Dr. SNYDER. In our congressional system here, which committee here is responsible to provide the oversight and make the legislative changes necessary?

Mr. WALKER. I think it would probably be a shared responsibility.

Dr. SNYDER. Shared between whom and whom?

Mr. WALKER. The Armed Services Committee, obviously, is the authorized committee, and you have House Government Reform which oversees government operations. Off the top of my head, those would be the two that I think would have the most interest in this.

Dr. SNYDER. Mr. Walker, quick question. Not talking about your colleagues sitting next to you, but as a whole in government, are the inspector generals independent enough? I saw a smile.

Mr. WALKER. They are clearly intended to be independent and there are a number of features associated with their appointment that can lead them to be independent. They do, however, have a

divided client base. They work for the head of the agency and they periodically report to the Congress of the United States. And so they are independent of the line operations within individual departments and agencies. They are not independent of the executive branch. So it depends upon how you want to define "independence."

Dr. SNYDER. The topic came up from Ms. Drake a moment ago about the \$10 billion in Iraqi money. I would assume that you all—and you talked about five convictions—that we have no jurisdiction over Iraqi money. Is that a fair statement?

Mr. WALKER. This is a very important point and something that I included in this document. The United States had a fiduciary responsibility to properly use and account for the DFI funds, the Development Fund for Iraq. Stuart Bowen and I have worked together along with my colleague, Dr. Abdul-Basit, who is head of the Board of Supreme Audit in Iraq, to gain access to those documents for the Board of Supreme Audit so they can do the audit work. It took a number of months to make it happen. They now have it.

I think it is important that we recognize that while we don't have audit authority over it, the appropriate entity to do it is the Board of Supreme Audit in Iraq, and we need to make sure that we are giving them the records that they need to do their work, and the U.S. should not wash its hands of this. We had a fiduciary responsibility with regard to those funds.

Dr. SNYDER. Are we giving them the records that they need?

Mr. WALKER. My understanding is that most of the information has been provided, but now the U.S. government is trying to get the Board of Supreme Audit to sign an agreement that basically says the U.S. government is not responsible for anything once the records are turned over. Furthermore, it also came to my attention that the U.S. Army entered the home of the Auditor General of Iraq, unexplained, took the weapons of his security forces, his predecessor was assassinated. He still has not been given an explanation nor an apology.

Dr. SNYDER. Mr. Bowen, you mentioned the number of people who were convicted: five. Seems pretty small. That averages about one and a quarter people a year for the four years we have been in the war. How many people that are U.S. personnel or contractors or military personnel have been fired, reprimanded, had something happen to their careers?

Mr. BOWEN. I don't have those figures, but I can tell you that we have 23 cases at the Department of Justice now that are in various stages of completion, and I expect over the next quarter that we will see that number—

Dr. SNYDER. I am correct, you said at this point you have had five convictions?

General BROGAN. That is right. Fraud investigations are time consuming, and they usually take two years; and thus, given that time line, a number of them are ripening right now.

The CHAIRMAN. Thank you.

Ms. Bordallo.

Ms. BORDALLO. Thank you very much, Mr. Chairman.

Gentlemen, the numbers and amounts of funds that we are talking about today are perhaps too large to get our hands around. The task of providing effective oversight of figures in the hundreds of

billions is admittedly enormous, and I commend you for your efforts even in an environment where it seems we had many who didn't welcome your oversight. Let me tell you this: this Congress supports your efforts, but America and we want to hear the truth.

I have a question for you, Mr. Krongard. You mentioned in your testimony about limited resources and security was—one of you mentioned that security was one of the top priorities. You also mentioned the embassy, the U.S. Embassy compound. I am curious, what is the cost of that compound?

Mr. KRONGARD. The Congress, I believe, appropriated \$592 million for the building of that new embassy.

Ms. BORDALLO. Five hundred ninety-two million dollars. And it is ongoing; is that correct?

Mr. KRONGARD. That is correct.

Ms. BORDALLO. Now I don't really understand that when they are bombing Baghdad, throwing missiles around, even if it is in the green zone, why would we put that as a priority? Wouldn't you want to wait until things calm down a bit before going into building an American Embassy at that cost? Isn't that a risk?

Mr. KRONGARD. That is a policy judgment that was made by the Congress and by the Secretary of State, so I really couldn't comment on it.

Ms. BORDALLO. Congress set a time?

Mr. KRONGARD. Excuse me?

Ms. BORDALLO. Congress set a time when we should—

Mr. KRONGARD. A proposal, I believe, was submitted to the Congress for construction of the new embassy, and it is due to be completed in this coming July with a move into the embassy beginning in September and to be completed by year end.

Ms. BORDALLO. Well, I understand. I have been in Iraq many times, and I have stayed even overnight at the palace, what they call it now, where the embassy is housed, and I just wonder why. You know, it could very well be that that could be destroyed during all of these attacks going on, and I just wonder why we made that a priority. And certainly it could have been put on hold. That was my question. How do you feel about that, Mr. Walker?

Mr. WALKER. Well, first the security situation is a lot more stable inside the green zone than it is outside the green zone. It is not that there is zero risk in the green zone; there is some. When I was there last, I was going to meet with my counterpart, and we had to relocate because a bomb-sniffing dog sniffed a bomb where we were supposed to meet. I think from a practical standpoint, there is some risk, but the risk is relatively low in the green zone, I would say.

Ms. BORDALLO. Okay. And my second question is to you, Mr. Walker. As you may know, I represent a small territory, the U.S. territory of Guam. We don't have enormous companies like Bechtel and Parsons doing business in Guam, although the potential of \$15 billion in military construction (MILCON) in the next decade or so has attracted these folks to Guam. But we do have many, many small businesses who do fantastic work and who become real parts of our community. And I am interested—

The CHAIRMAN. Would the gentlelady suspend? Would you take the chair since it is necessary that I go vote?

Ms. BORDALLO. I will just take it from here, Mr. Chairman.

The CHAIRMAN. No. You need to come up here, please.

Ms. BORDALLO [presiding]. When I was speaking on how small I am, now I have become quite a bit larger. I am very honored to represent the Chairman, and I will kind of take time here so that we can keep the hearing going.

But I represent Guam. We are U.S. citizens. We are part of the U.S. family; however, we do not vote on the floor. So that is one reason that I am here, and hopefully that will change in the near future.

But getting back to the small business, and this question is addressed to you, Mr. Walker. And I mentioned that possibly because of the increase of military personnel to Guam from Okinawa, we are going to do a lot of military construction, and we probably will be attracting some of these larger companies. But I am interested in your thoughts on how effectively our policies have engaged small businesses, whether U.S. or Iraq. Has the large size of the contracts we have utilized made oversight more difficult and abuse more likely as compared to if we had smaller contracts and were engaging smaller businesses? I would like to hear from you, Mr. Walker.

Mr. WALKER. We have done work with regard to the small business set-aside and with regard to some of these issues. I would like to be able to provide some more specific information for the record, but I will tell you that with regard to Iraq, the biggest problem is providing contracts to Iraqis to make sure that Iraqis have an opportunity to benefit from the reconstruction of their own country and in order to be able to try and help deal with their, you know, very high unemployment level, which then could potentially provide some more stability.

I will be happy to provide you some information for the record, though, with regard to what else we have done on the small business set-aside.

[The information referred to can be found in the Appendix beginning on page 98.]

Ms. BORDALLO. Thank you very much. I am a member of the Small Business Committee, so I am very interested.

At this time I would like to recognize Mr. Forbes from the State of Virginia.

Mr. FORBES. Thank you, Madam Chairman.

And, gentlemen, thank you all for being here. We appreciate your testimony and your expertise. And I want to thank you, Mr. Walker. We appreciate your enthusiasm to offer your suggestions and for all of you for being here today.

Before I came to Congress, I had the opportunity in practicing law to represent a lot of corporations. At any given time I would represent approximately 300 corporations, and they would range from large ones to small, medium-sized companies. And one of the most frustrating times of the year is when we would sit down with our audit teams, because I would always be frustrated because the audit teams would always come in and tell us all the things that happened wrong with the corporation, and I would always think, why in the world didn't two guys come in in the beginning and get

involved in the planning that would do it? You guys are here today to get involved in the planning.

The other two observations that I have is that when we look at agencies throughout government, we know that it is great to say because I am in charge of an agency today that I have responsibility for that agency, and that is fair to say, but we know those agencies have been built up not just over years, but over decades, and the inertia to change agencies is incredibly difficult. My constituents and people who talk to me across the country, when we look at them, they are always saying, look at Federal Express, look at UPS how they can manage these budgets, they can get stuff, they can deliver products; but look at our agencies, and we have a hard time doing it, whether it is in Katrina, whether it is in Iraq.

And the two questions I would ask for you guys to respond to for us today is, one, have you seen that there is any threshold beyond which in terms of dollar amount of budgets that we just don't have the governmental capability as agencies to manage without significant waste, or does the dollars not really matter? Because I hear over and over again, we just can't manage X number of dollars and do it effectively. And then the second thing is what kind of built-in institutional problems do we have governmentally that keep our agencies from really cutting down on some of the waste that we see, be it in Iraq, Katrina or wherever? So if you would take a bite at those two, I would appreciate it, and thank you.

Mr. WALKER. Well, first I agree with you, Mr. Forbes, and it is frustrating when somebody comes in after the fact and said, you know, the horse is out of the barn, and it shouldn't have gotten out of the barn, and it doesn't do a lot of good, quite frankly. That is why one of the things we try to do, and I would imagine my colleagues also try to do, is to focus on planning, systems, controls, people, process, the key elements that can help assure that you don't have a problem to begin with.

Now, unfortunately the larger the department or agency, the more complexity, the more diversity, the more ingrained nature, you know, that there is. I mean, Defense Department, 60 years, it will have its 60th anniversary this year. So my view is that we need to focus on what types of systems, controls, processes and people, practices need to be in place in order to minimize the possibility of having problems down the road, and that is how we are trying to focus our efforts.

Last thing, the federal government, quite frankly, its organizational model, its classification/compensation systems, many of its financial management systems are based on the 1940s through the 1970s, and at least it is the 1940s rather than the 1840s, but this is a key part of our effort to try to help transform government, and it is also addressed in detail in our 21st Century Challenges document, reexamined the base federal government which was issued in February of 2005.

Mr. BOWEN. Congressman, I think you are exactly right with respect to how others can best help an organization be more efficient, and particularly in Iraq, given the short timeline between appropriation and execution. Real-time advice is essential, and others will tell you that has been my watchword from the start, real-time auditing, which means a much more consultative approach than a

long-term review approach. I tell my auditors, we don't play gotcha. We work with management to identify what the problems are as we find them, and essentially what I like when I see my audits done is that the findings that we had are already resolved by the time the reports come out.

Mr. KRONGARD. Sir, if I could add to what Mr. Bowen has said. And I, like yourself, have been a product of the private sector, having spent 40 years there before coming to government less than 2 years ago. I do believe that if people such as ourselves were able to be a little bit earlier in the process, it might be helpful. However, if you noticed from the questioning today, there have been several questions raised using the term "independence" and questioning just how independent people such as ourselves are, and every time we get involved in the front end of things rather than the back end, people challenge the independence and whether we are getting involved in policymaking and planning and operations and so on.

So I think it is a little bit of a Catch-22. I do come in from—I was a lawyer for 40 years, and I understand client services, and I think you can be a consultant and you can bring to bear good ideas. And the comptroller general is very correct that, without generalizing, it is true that the government agencies and policies and structures are rooted in past decades, and there isn't enough turnover to bring in new expertise as new forms of technology and management rear their heads. So I think on both counts it would be helpful to have more turnover, more new people coming in. It would also be helpful to get people such as ourselves involved a little bit earlier in the process without the risk that we all run of being challenged as being non-independent.

Ms. BORDALLO. Thank you. Thank you, Mr. Forbes.

The Chair now recognizes the gentleman from New Jersey, Mr. Andrews.

Mr. ANDREWS. Thank you, Madam Chairwoman.

I very much appreciate the testimony of the panel. I apologize for not being personally present during the testimony.

Mr. Walker in particular, I wanted to thank you for the great work of your staff and colleagues. I have had the opportunity now on, I believe, three occasions to receive a classified briefing on the status of affairs in Iraq. The work of your colleagues has been exemplary, thorough, and I commend your colleagues for the great work that they have done. And it leads to two questions I have as follow-up to that work.

The first is that this was a classified briefing, and, obviously without getting into the substance of the briefing, it was my conclusion that much of the material that was shared with me should not be classified. Much of the material really goes to subjective interpretations of the dynamic on the ground in Iraq as opposed to specific facts that might put our individual people in jeopardy.

Could you give us your assessment as to whether generically there is overclassification throughout the executive branch, and specifically whether you think that there has been overclassification of the information that I have made reference to?

Mr. WALKER. As I touched on earlier, I believe that there is a problem with potential overclassification within the executive

branch. I think part of it is inherent in the system. The way the system works is the department or agency who has the information is the one that makes the classification determination, and, in fact, this is an area where I believe we may have some work going on right now. If not, it is something we may want to take a look at to try to get a sense as to whether and to what extent this is an area of concern, and what, if anything, ought to be done about it.

Let's face it, departments and agencies are comprised of human beings, and human beings have to make judgments, and it is not just an issue with regard to whether or not it might compromise our security, but sometimes there is information that could be embarrassing, and human nature being what it is, people would prefer not to release that. But I think people need to understand it is eventually going to get out.

Mr. ANDREWS. I think you draw the line at exactly the right place. I think we should always err on the side of protecting sources and assets so as not to jeopardize any American serving this country or any other innocent person serving his or her country. But our job in oversight is to find embarrassing realities and let the constituents of the countries know they exist. And the realities of the reports I have heard from your agency or—there is a lot of information that I think needs to be in the public domain. I would encourage you to take whatever steps that you feel are appropriate to do that.

Second, and it is a related question, I note that in the summary of your testimony, you talk about some difficulty of getting complete assessments of Iraqi security forces at the unit level, and it seems to me that one of the central questions in light of the Baker-Hamilton report is the level of readiness of Iraqi forces. Overall generic characterizations are not very useful; unit-by-unit assessments are quite useful.

I wonder if you could elaborate on the difficulties you have encountered and make any suggestions you could to the committee as to how we could help you get access to that very, very important information.

Mr. WALKER. Well, I am working with Deputy Secretary Gordon England, and we have agreement in principle that we are going to receive this information, but unfortunately we haven't received it yet. As you know, the department is a very large bureaucracy, and there are differences of opinions within the department about what should or shouldn't be released. I am expecting to hear back from the deputy secretary by the end of this week. I am hopeful that we will get it favorably resolved, but if not, believe me, I will let this committee and other relevant committees know because I believe that this is absolutely critical information that the Congress needs to know, although I will say that this is classified information. I mean, you know, at the level of detail we are talking about, it is classified information.

Mr. ANDREWS. I think it should be, and we would welcome your cooperation on it.

Mr. Bowen, let me thank you in particular for your courageous and exemplary service. Do you have the tools and resources you need to do the work you are doing, or is there more that we need to give you to make your efforts even more effective?

Mr. BOWEN. Well, Congress recently extended the term of our office and in doing so requested that SIGIR perform a forensic audit, which is, as I have learned, a very significant undertaking and will require substantial additional resources to execute. And a forensic audit means really a thorough review of how the Iraq Relief and Reconstruction Fund was committed, obligated and expended, and that is over \$21 billion spent in a war zone. That is a significant task, and thus very directly we will need more resources to execute that significant endeavor.

Beyond that, I think that there is more to be done to answer the core question that Congress has asked, and often that is what have we got for an investment in Iraq's infrastructure?

Mr. ANDREWS. I will tell you the last couple of days' testimony fueled my skepticism that we heard that we need 15,000 new Americans to go secure Baghdad. At the same time we have also been told we have 325,000 trained Iraqis. If the training has been as effective as has been represented, it seems to me that there would be sufficient numbers of Iraqi soldiers to carry out that effort. I know that you are more focused on reconstruction, but I am particularly interested in training or the lack thereof.

Mr. BOWEN. Well, we do look at that as well, because a significant portion of the Iraq Relief and Reconstruction Fund was used to fund the training of Iraq forces, and issued an audit report last quarter looking at just the logistical supports to those forces and found that it was weak. And indeed 325,000 have been trained, but how many are operational is a different question.

Mr. ANDREWS. Thank you very much.

The CHAIRMAN [presiding]. Dr. Gingrey.

Dr. GINGREY. Mr. Chairman, thank you very much.

I would like to thank the comptroller and the inspector generals for being here this morning. I wanted to pertain my question I guess to the inspector general of State and to Mr. Bowen as well. It is my understanding from what the President said when he addressed the Nation last week that he was going to ask for in the supplement of an additional \$1.46 billion from the State Department for a number of things, the CERP program, the Commander's Emergency Response Program. I would like for you to tell us a little bit about that in regard to how far down that goes in regard to allocating some of that money to your field offices down to what level. And what is the average amount of money that is given, and do we have audit oversight or responsibilities for that particular line item?

And then the other thing, maybe even more importantly, and, again, this would be, Mr. Krongard, under your jurisdiction, the \$486 million that would be going to Iraqi political parties and human rights groups, I am real concerned about the possibility of waste, fraud and abuse in an area like that, and I would like for you to discuss that.

And maybe finally, a couple of years ago we were talking about building the embassy. I don't think I was the only one that was concerned about the \$750 million price tag for embassy Baghdad. I think that that got reduced to maybe the low \$600 million, but even that seemed like an awfully high number, and if you can address those issues, I would appreciate it.

Mr. KRONGARD. First, let me say that the Commander's Emergency Response Program is already under the Department of Defense, so for that portion I would turn to Mr. Gimble, who I know can answer those questions.

With respect to the new embassy, the number, I believe, came out to \$592 million. We have been providing oversight with respect to various aspects of that construction. It is presently on target. It is on schedule and on budget, which is kind of unique.

There have been a great deal of unforeseen challenges in building that embassy. I have been there a couple of times. I have toured it. I participate in a program that reviews it every month under the leadership of the Assistant Secretary of State for Overseas Building Operations, General Williams. And so I believe that when you try and consider how much interference you can have and how much oversight you can have as something is being built, I am comfortable with what we are providing. There were policy judgments made as to how big it would be and when it would be constructed and where it would be constructed. Those decisions were made in consultation, I believe, with the Members of Congress who provided the funding. So I have some feeling that the oversight has been provided with respect to the new embassy.

Dr. GINGREY. And, Mr. Gimble, yes.

Mr. GIMBLE. With regard to the CERP funds, Army Audit Agency completed an audit on the Iraqi CERP fund, I believe, last year, and we are in the process of completing. We will issue probably within the next three weeks a review of the CERP funds in Afghanistan. I know this has been primarily aimed at Iraq, but we do a lot of work in Afghanistan also, and it is probably time to do a follow-up on the CERP funds in Iraq, and we will certainly take it under advisement. I will be working with our partners from Army audit, and then also if we need to do the work, we can do the work also.

Mr. BOWEN. Mr. Gingrey, we are conducting an audit of CERP now as well as we have done two previous audits. In both audits, although there were problems with how some of the money was executed in documentation, overall the program has been one of the more successful in Iraq, and in our lessons learned report on contracting in Iraq, we recommended that the CERP program be expanded and thus believe that this additional money put into CERP is a wise and proper move.

Dr. GINGREY. In my remaining time, if you could address the \$486 million that was called for for the political parties and the human rights groups, is it just sort of a payoff; is it a payoff money to buy loyalty? Sometimes going to the highest bidder? I can imagine that the audit will be very difficult on this fund, and if you can respond to that.

Mr. KRONGARD. Sir, I will have to get back to you on that because I am not sure what makes up that \$482 million request. I am simply not familiar with that. So if you would like, I will look into that and get back to you.

[The information referred to can be found in the Appendix beginning on page 98.]

Dr. GINGREY. Thank you very much.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. Let me mention to you gentlemen as we mentioned to the previous panel, be as timely as possible in making your for-record responses. We would appreciate that rather than weeks away. If you can do it just as quickly as possible, we would appreciate that.

Mr. Larsen.

Mr. LARSEN. Mr. Krongard, I have a question regarding your statement on page two of your testimony. You said, a significant audit work has included a survey of the bureau of international narcotics and law enforcement funding for Iraq and currently in progress review of large contracts for Iraq, police training and support. I have visited twice, most recently in July, the Jordanian International Police Training Center, which I think was funded for operations through the INL, if I am not mistaken. But I was wondering, while we were there, they said that JIPTC was going to close on December 16 despite the capital investment that we made there to build the facility and use the facility. I was wondering, did the facility close? And what is its disposition?

Mr. KRONGARD. Sir, I have been to JIPTC as recently as late September. I share your—if you are saying it was a very good facility, and there was a lot of good training there—

Mr. LARSEN. It is a facility that is in great shape, and millions of taxpayer dollars built it, and we are going to close it.

Mr. KRONGARD. Well, as I understand it, it is being closed for the training of Iraq police, but it is going to be continued for other uses, which include training of security forces from other entities in the region and doing other things.

I share with you and I have voiced my concern that I have a very high regard for that facility, and it should be used to the highest degree possible. I also expressed concern that the staff, which was a multinational training staff which had been put together, was highly efficient, worked very well together, has put together some wonderful computerized reference materials for the training of police, and I was concerned that this organization was going to be disbanded and that the next time we had a need somewhere in the world for that kind of a resource, we would not have that.

This being early January, I don't know exactly whether the multinational training force has stood down or is being continued in a skeleton way. But I do know that the facility itself is being continued to be used, and there are a lot of economic considerations because of the cost of operating that. But I do share your concerns, and I have voiced some of those.

Mr. LARSEN. Well, what was driving the closure of that facility as a training facility? I am not going to sit here and argue that I have any confidence in the Iraqi police force because I do not, but the capital facilities there and, as you said, the multinational nature of the staff there certainly had a lot of value, and yet there was still this direction headed toward closing it as a training facility for the Iraqi police.

Mr. KRONGARD. Let me answer in a couple ways. First, let me point out that in July of 2005, nearly a year and a half ago, we and my colleagues at the Department of Defense issued an inter-agency assessment of Iraq police training, and you can find in

there a great deal of discussion about what was going to happen to the JIPTC facility.

Second, with regard to the reasons for closing, the Iraqis themselves have expressed concern about sending their trainees out of country and into Jordan for the training. And so they have been perhaps the leading reason why it is being closed as a facility for training Iraq.

Mr. LARSEN. What is underlying that concern? We heard that as well when we were there. What is underlying that concern?

Mr. KRONGARD. It is security. It is people being taken out of the country. It is concern that other trainees who are being trained, as Mr. Bowen referred to, Baghdad police, colleagues in other places would look down upon it or would maybe look up upon it as a way of getting out of the country. I mean, it creates a rivalry, a competition.

The language problem is severe in terms of training these people with international trainers from many different dialects and speakers.

So for a number of reasons, the Iraqis have not been desirous of continuing the training at Jordan. I am also told that there are continuing DOD classes that are going to be using that facility as well. I don't know if you have anything that you can add to that.

Mr. LARSEN. Perhaps we can get the—the yellow light is on. I have a question for Mr. Bowen. If I can ask Mr. Johnson to move to your right just a little bit. Mr. Johnson, can I ask you to move over a little bit? Thanks a lot.

Given that there has been extensive support to Iraqi security forces funded to IRRF, is it appropriate that a similar review be given to funds provided to support the Iraqi security forces through the Iraq Security Forces Fund?

Mr. BOWEN. Yes. And those reviews are ongoing. I know DOD IG Mr. Gimble is conducting a review now, and the GAO is also reviewing those forces.

So you are exactly right. We looked at the IRRF portion of the funding, but that money was commingled with Iraq Security Forces Fund allocations as well, and thus to get the full picture, the balance of that expenditure needs to be addressed.

Mr. LARSEN. Do you feel like you need to be doing that, or are you comfortable with DOD and the comptroller general doing it?

Mr. BOWEN. I think just the execution of oversight is important of how that money is used.

The CHAIRMAN. Thank the gentleman.

Mr. Hayes. May I just interrupt a moment, Mr. Hayes?

Mr. Bowen, could you help me? A few moments ago we discussed, and we also discussed in my office, the figure of 20 percent waste. In a few moments I would like for you to in—as much as possible to detail that, and if there are some unaudited areas, please tell us that, too. But think about that for a few moments.

Mr. Hayes.

Mr. HAYES. Thank you, Mr. Chairman.

Thank you, gentlemen, for coming. Certainly you face a daunting challenge, and we appreciate your efforts. They are absolutely crucial.

Could you comment in general, there is a—and at the risk of mischaracterization, there is a history and culture, a different way of doing business, in Iraq as it relates to items that you all are monitoring. Is there any way in your monitoring process that you are evaluating their practices based on our principles, if that makes any sense? How do you—given the differences, and unfortunately, yes, their similarities, how do you filter that as you evaluate? I know the facts are the facts, but just the culture differences, does that impact your ability to get information that you need to present to us? And have I made myself at all clear?

Mr. Walker.

Mr. WALKER. Well, obviously we are all auditing U.S. funds, and to a great extent, to the extent you are talking about, these cultural differences, a lot of that would have to do with Iraqi funds rather than U.S. funds.

I can tell you as an example that we at the GAO have agreed to provide a number of capacity-building assistance items to our counterparts in Iraq, and that is not only with regard to sharing professional standards and methodologies, but also training some of their leadership and some of their emerging leaders, and also providing a periodic senior advisor, although the State Department needs to, you know, deal with its paperwork problems in approving this. But we are trying to focus on enhancing the capabilities, their capacity to deal with some of the systemic problems that exist, many of which fuel corruption.

Mr. GIMBLE. I would also like to add that we have actively—the three inspector generals down here have had an ongoing process to try to establish and foster an inspector general community in the Iraqi system, and what that entails is, as Mr. Walker just said, laying our standards out and business approaches to try to give them a tool to track corruption, and which is basically an underlying problem in that society.

So we believe we have made good progress on that. There is a lot left to be done. Mr. Krongard just alluded that he and the State Department has just hired a senior person to kind of lead that group. I have two people, permanent detail now to Iraq, that are working through the Multi-National Security Transition Command-Iraq (MNSTC-I) group to establish an inspector general in the Ministry of Defense (MOD) and the Ministry of Interior (MOI), making some progress, but it all needs to come under the auspices of the 31 Iraqi inspectors general and then also with the Board of Supreme Audit (BSA).

Mr. HAYES. Mr. Walker, thank you. Your answer crafted my question much better than I did. For the benefit of the committee and the American public, I think you are providing us with a great service. Going forward, my training the folks who are managing—and in most cases it is U.S. funds going through Iraqi hands, if you can keep us updated as to how you feel in terms of their adopting traditional international accounting anticorruption standards, I think that is a measure, as well as the charts and other things we talk about daily, that will give us and the people back home a feeling about whether substantial progress is being made. So that was very helpful.

Mr. WALKER. Of course you know, Mr. Hayes, we are focussing on our counterparts, which would be the accountability community rather than management, but then they have a government wide perspective, and part of their job is to try to make sure these types of systems and controls and other items, you know, are input in order to fight corruption and in order to improve performance and assure accountability. We will continue to do our part.

Mr. HAYES. So you have seen some progress in that regard? I am not trying to lead the witness.

Mr. WALKER. We are in the early stages, but there is clearly committed professionals who want to do the right thing. I might also add that the auditor general community has an international organization which I am on the board and head of strategic planning, and I have also worked with my counterparts in that part of the world, the Middle East, as well as headquarters to try to help them help the Iraqis as well, not just relying upon us, including Arabic-speaking countries.

Mr. HAYES. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Before I go to Mr. Johnson, Mr. Bowen, in your professional judgment, would you tell us how you reach the 20 percent figure that in your opinion is wasted?

Mr. BOWEN. Well, in our discussion in your office, as I said, we are working on getting supportable hard data on the amount of money that was potentially wasted, and that requires defining waste. What you asked me is what my—what the potential estimate of that amount was, and I said it could be up to \$3 billion, which is a little under 20 percent.

The CHAIRMAN. Could you get details on that?

Mr. BOWEN. Specifically what we are doing is we are looking at each of the large contractors and going to do an audit of them. The first one is almost done, and that is Bechtel. They were the largest recipient of Iraq relief and reconstruction funds, and what I have tasked my auditors to do is to identify, what did Bechtel construct and complete with the money that they were allocated, and what did they initially contract to complete; how much money was spent in executing that versus how much was initially contracted for those projects; and what is the delta. I think as we analyze that delta, the difference between how much—what they built and actually completed cost and how much they set out to build, then we can begin to parse what the actual waste number is.

The CHAIRMAN. Do you know what the figure is as of this date?

Mr. BOWEN. I don't have a figure yet.

The CHAIRMAN. Your judgment as to this date.

Mr. BOWEN. As I said, the potential loss, you know, could be 10 to 15 percent, but we are waiting until we finish the actual hard analysis of how those large contractors did before I can—

The CHAIRMAN. When will that be?

Mr. BOWEN. That will be executed in the course of this year.

The CHAIRMAN. I will can ask the other gentlemen the same question.

Mr. Walker.

Mr. WALKER. Well, first we have done work on reconstruction contracts, noting that about 30 percent of the cost on average of reconstruction contracts deals with overhead, which is very high. That 30 percent includes approximately 10 percent associated with security cost. Obviously that is due to the unstable security environment.

My personal opinion is it depends upon how you define waste. I think there is a lot of waste that doesn't have anything to do with security issues. For example, when the government says, I want you to do X by Y time, but you don't give enough guidance on the details, or you ask the contractor to do something that is totally unrealistic, that can result in tremendous waste. And so I think the numbers, frankly, will be higher than you might expect.

The CHAIRMAN. Well, then, what is your best professional judgment as we speak?

Mr. WALKER. Given GAO's professional standards to be able to have an evidential manner, I can't give you an estimate right now. I can tell you it is billions. How many billions, I can't tell you right now.

The CHAIRMAN. Mr. Gimble.

Mr. GIMBLE. We haven't done the work to have an estimate, but one thing I would like to point out as I mentioned to you earlier in our off-line conversation, the reconstruction fund is somewhere in the \$22 billion to \$32 billion arena. There is a number of other contracts out there that increase that number significantly. If you take the total supplementals, it is an additional \$400 billion that this Congress has appropriated for the war on terrorism since we started, most of which has been—is being spent in Iraq.

We are concentrating in our efforts in that area more so than in the reconstruction. For example, we are doing some work on the acquisition of armored vehicles which is being bought within the supplemental funds. So there is a bigger picture to that than just the reconstruction fund. There is a lot of work that is being engaged in the oversight community in that.

The CHAIRMAN. Mr. Krongard.

Mr. KRONGARD. Sir, I cannot give you a specific figure, but I want to tie into what Mr. Bowen said about a lot depends on how you define waste. And we have all talked about the highly increased costs because of the logistics and security requirements, and in some ways you could say that is waste because it didn't go to the actual construction project, it went to protecting and moving people and supplies; but on the other hand, it had to be paid, and people received it, so it went somewhere for a service. So there is a question really is as to what you include under the heading of waste.

Mr. BOWEN. Mr. Chairman, if I may follow up, too, we did an audit last quarter on the administrative overhead issue that Mr. Walker referred to, and precisely to address the waste issue. And it arose as a result of the fact that once those costs-plus contracts were awarded in the spring of 2004, contractors were ordered to deploy to Iraq ready to do \$500 million worth of work. However, the actual issuance of task orders was very slow, and as a result there was administrative overhead funding those large contingent con-

tractors who didn't have much work to do in 2004, early 2005. That is—we termed as waste and that audit substantiates lost funds.

The CHAIRMAN. Let me ask, would you, each of you, within 60 days of today, A, agree on what waste is, and, B, tell us your best professional opinion individually based upon that standard that you agree upon, how much waste is involved, both percentagewise and dollarwise. That is a request 60 days from now.

[The information referred to can be found in the Appendix beginning on page 97.]

The CHAIRMAN. Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman. And I would like to thank all of you gentlemen for appearing in front of this panel today, and just to follow up on the chairman's request to you, I might ask with respect to the definition of waste, does that include fraud?

Mr. WALKER. Well, I think clearly, fraud would be a subset. To me, waste is much broader than fraud. It is mismanagement, it is commissions, omissions, it is where we are not getting appropriate value for money because people either did or didn't do certain things that they should have done. Fraud is a narrow subset, I believe.

Mr. JOHNSON. Anyone else have any—

Mr. GIMBLE. I agree with that, and I think to me the bright line on that is fraud is somebody that is doing a willful crime to benefit themselves versus the just—you know, bad management or whatever.

Mr. JOHNSON. Correct.

Mr. BOWEN. And fraud has been a relatively small component of the loss in Iraq. Waste is clearly the overwhelming issue.

Mr. KRONGARD. I agree. Fraud is clearly part of waste.

Mr. JOHNSON. Well, certainly fraud would be prosecutable, whereas waste would simply be a matter of efficiency in doing one's job, but now have there ever been any investigations of fraudulent activity with respect to taxpayer funds?

Mr. BOWEN. Yes, there have. We have 87 cases going on right now arising from allegations of fraud, waste and abuse, and indeed have had five convictions to date of U.S. officials who have fraudulently disposed of U.S. funds.

Mr. JOHNSON. How much money did those five prosecutions allege was fraudulently dispersed and the 87 investigations that are ongoing, or the 83 investigations that are ongoing, how much fraud is alleged to have occurred as a result of those prosecutions and ongoing investigations? Dollar amount.

Mr. BOWEN. With respect to the 87, those are ongoing investigations, so we can't talk about the specifics of them, but with respect to the convictions, they centered around a conspiracy to defraud the government that occurred during the coalition provisional authority days in Hillah involving a significant contractor and the comptroller, the south central comptroller for the coalition of provisional authority and over \$10 million was in issue there.

Mr. JOHNSON. Ten million dollars. And as I understand it, there have been over \$495 billion allocated or appropriated by the Congress agencies, military and diplomatic for efforts in this global war on terror, most of it having been spent in Iraq, and about I think

on September 30, according to Mr. Walker's paper, \$257.5 billion for military operations in Iraq. Additionally, as of October of 2006, about \$29 billion had been obligated for Iraqi reconstruction and stabilization efforts. However, problems with the processes for recording and reporting global war on terror costs raised concerns that these data may not accurately reflect the true dollar value of war-related costs, and that being the case, I believe it would probably be difficult to speculate as to how much waste was involved, and certainly how much fraud was involved, but we also understand that about \$14 billion in oil revenues from the country of Iraq have been spent or allocated for reconstruction, about \$14 billion. Mr. Bowen, is that a true figure?

Mr. BOWEN. That is development fund for Iraq money and that is derived from oil revenues, but as I said earlier, the actual execution, the capacity of the Iraqi government to execute its own capital budget is weak.

Mr. JOHNSON. Certainly, and I understand from listening to Secretary Gates's testimony last week that that \$14 billion is on deposit in U.S. banks?

Mr. BOWEN. That is right.

Mr. JOHNSON. And who has the authority to allocate that money or administer that money? Is it the banks themselves, government officials here in the U.S.? Or Iraqi officials?

Mr. BOWEN. It is the Iraqi officials.

Mr. JOHNSON. And how much money have they spent of the \$14 billion for reconstruction?

Mr. BOWEN. Well, given the fact that there has been three governments over the last three years in Iraq and the lack of accountability on the Iraqi side of how they have disposed of their funds, we don't have a firm figure of how much has been spent since 2004.

Mr. JOHNSON. So they have deposited \$14 billion into American banks but have they withdrawn that same amount?

Mr. BOWEN. Yes. That money was formerly the oil for food money, and it was redesignated development fund for Iraq.

The CHAIRMAN. Mr. Wilson.

Mr. JOHNSON. Thank you.

The CHAIRMAN. Mr. Wilson.

Mr. WILSON. Thank you, Mr. Chairman, and thank you for your service, and I have always been impressed by inspectors general, your independence and how you look out for the taxpayers, so thank you for your service.

I am very familiar, I have been to Iraq now six times, been to Afghanistan twice. The challenge that we have of reconstruction, it was really shocking to me to find out that the funds that would normally be and the infrastructure of the country, such as the electrical generation grids, that the money had been diverted by Saddam Hussein to his palaces, but in fact, there were two grids in Baghdad, one for the elite, which was a modern electrical system, and then for the general public, there was actually a grid that dated back to the 1930's, and then if you really wanted service, you had to bribe the electrical provider, so the challenge is just incredible that has to be faced. Part of facing that, and Mr. Gimble, you referenced it with your work in Afghanistan, the provincial reconstruction teams, could you tell how these work? And part of the

President's program, the new way forward, is to enhance the provincial reconstruction teams in Iraq.

Mr. GIMBLE. The reconstruction teams basically are U.S. military that have expertise to rebuild, and if they go out and build a school or a hospital or whatever, and those funds are generally spent for the core engineers. Challenges they have obviously in Iraq or Afghanistan—number one they don't have the security, have the safety to go out and do the work they need to do. We have done limited work on that in Afghanistan. We plan to do more work, and it goes back to determining how the requirements are determined and how that money is executed, and we will be doing that in the future as part of our plan in increased presence in Afghanistan.

To whether they do a good job or not, I think they are very critical, rebuilding the infrastructure of the country, and in my view, that is the way forward.

Mr. WILSON. And I was very impressed, the persons I met with indeed were with the U.S. Corp of Engineers working with forces of allies such as South Korea, the Netherlands. It was just really impressive what was being done, and I am very hopeful that can be continued, but obviously being monitored. Additionally, Commander's Emergency Response Program that you referenced, several of you referenced, the CERP program, I was very happy in my introduction of that to see that the first level of accountability are judge advocate generals. I happen to have been one for 25 years, which I think is a really excellent use of military attorneys. Can you tell us what the levels of accountability are or whoever would be responsible for the CERP?

Mr. GIMBLE. As I understand it, the CERP is really a commander's fund and I think the staff and judge advocates you are talking about are probably his own judge advocates. What I review of the CERP program in Afghanistan, frankly we went down and went to the accountability of funds and how the funds were—primarily cash operation, and so we looked at the accountability and control and documentation of the expenditures. Overall, we found a few minor issues that we thought could be corrected and move forward, but the overall purpose of the program we thought was very good and being executed very well.

Mr. WILSON. And when you say the program, can you tell us what these funds were being spent for?

Mr. GIMBLE. Such things as school building and, you know, village reconstruction and so forth.

Mr. WILSON. Wells, bridges, sewage?

Mr. GIMBLE. In Afghanistan, I don't think there is sewage. Having been there, you know, it is very primitive as you get into the outlying villages, in my view, is it is much more primitive than even Iraq is kind of my—

Mr. WILSON. And these are direct efforts to win the hearts and the minds of the people we are working with, is that correct?

Mr. GIMBLE. Correct, yes.

Mr. WILSON. And any suggestions you have on how this can be improved or enhanced or expanded, I look forward to hearing.

Mr. GIMBLE. Okay.

The CHAIRMAN. Thank you very much, Mr. Wilson. Ms. Gillibrand.

Ms. GILLIBRAND. Thank you, Mr. Chairman. And thank you for each of you for coming to testify before our committee. We are very appreciative of your work. I would like you to address the current status of the oil revenues in Iraq. Who owns them, how are they distributed, what is the current oversight, do we have a role, and what do you foresee as the next six to nine months of how we address them?

Mr. BOWEN. Well, the current status of the oil revenues is going to be determined by the passage of a hydrocarbon law, which has been pending now for a couple of months, and reports indicate that resolution of that is imminent. Agreements on distribution will be provided for through the hydrocarbon law, but currently, the revenues are deposited in the Federal Reserve Bank in New York, and then disposed of or expended by the government of Iraq, but managed primarily by the ministry of oil, and that is why a hydrocarbon law is necessary, because for instance, there is no effective agreement in place between the ministry of oil and ministry of electricity for providing fuel to power plants in Iraq, and thus, some of the power plants we have built are running on the wrong fuel. There is no arrangement between the ministry of oil and the ministry of defense for fueling Iraqi units in the field, and thus, the United States government is paying for virtually all the fuel that keeps the Iraqi security forces going. All of that is a waiting resolution by the Iraqi counsel of representatives through the hydrocarbon law.

Ms. GILLIBRAND. So currently we have no role in the oversight? Because I have received reports from men in the field that there is extraordinary amount of oil on the black market, and that there is extraordinary amounts of profiteering with regard to at that. So do you have any information about the status of it?

Mr. BOWEN. Well, that is right; corruption within the oil sector is significant. Three days ago, deputy prime minister Barham Salih said just from the Baiji refinery last year, about \$1.5 billion was lost to corruption. It is a huge problem, and it needs legislative resolution, but it also needs bolstering of the oversight entities, that is the ministry of oil inspector general's office, the CPI, Commission on Public Integrity, which has many, many cases ongoing involving corruption in the oil sector.

Ms. GILLIBRAND. Did you have anything to add?

Mr. WALKER. Yes, if I could give you some benchmark data, from 2006 to the present time, oil production in Iraq is about 2.1 million barrels per day, and that compares to 2.6 million barrel as day prior to the war and compares to a goal of 3 million barrels per day. There is tremendous theft and corruption associated with the energy field. There is no question with it. When I was over and participated in our top leadership meeting in Iraq involving both military and civilian leaders, they showed some data, this was last January, with regard to all production pricing and it didn't take me more than about 10 seconds to say there is tremendous theft going on, the numbers just don't come close to working out.

Mr. KRONGARD. I would just add to that, that in addition to what you would think of as pure corruption, there is also some waste that arises and encouragement toward corruption that arises out of economic theory. The fuel in Iraq is subsidized to keep prices low.

That is an encouragement for people who can get their hands on fuel to take it outside the country, or sell it on the black market within the country to go outside at higher prices. So you have economic theory in government policy which get into this as well.

Ms. GILLIBRAND. My second question is about the reconstruction, America has 56 engineering construction projects in the oil and gas sector right now, 25 are completed, 31 are ongoing. Going forward, the U.S. contractors are doing its reconstruction. Is there any potential or ability to begin to transfer reconstruction contracts both in this sector and in basic infrastructure, roads, schools, hospitals to Iraqis? Do they have the capability to begin to be doing that reconstruction work?

Mr. BOWEN. The oil sector was probably the most sophisticated of the infrastructure sectors in Iraq prior to 2003. 95 percent of their income comes from the sale of oil and gas products, and there are 26 separate entities operating within that universe that produces oil and gas.

The CHAIRMAN. Mr. Hunter.

Ms. GILLIBRAND. Thank you.

Mr. HUNTER. Thank you, Mr. Chairman. If you want to finish your thought there with the gentlelady, that would be fine too. I will yield for that.

Mr. BOWEN. Thank you. Just 9 percent of the Iraq relief and reconstruction fund was spent on the oil sector, even though the oil sector produces 94 percent of Iraq's income. Thus, given the dilapidated state of that infrastructure, significant more investment must come in both from the Iraqi government and from the outside.

STATEMENT OF HON. DUNCAN HUNTER, A REPRESENTATIVE FROM CALIFORNIA, RANKING MEMBER, COMMITTEE ON ARMED SERVICES

Mr. HUNTER. Thank you, Mr. Chairman. Gentlemen, this has been an excellent hearing, and Mr. Chairman, I want to congratulate you on this hearing. I think it is very timely. Let me go into a couple of things. First, you may have seen a little turbulence in the newspapers over the months following the defense bill in which it was—some quarters allege that somehow we had cut off Mr. Bowen as a special inspector, you had been cut off too quickly, and that the provision that we had in the defense authorization bill was somehow a trick to try to get you and your shop off the job, and that what we did in October or in September we put this bill together.

Actually, August, we looked at the rules that said that when the reconstruction money was 80 percent spent, I believe it was 10 months after that your shop was supposed to hand off their jobs since the money would be gone at that point, back to Mr. Gimble at the Inspector General for DOD and Mr. Krongard for State. And you would hand that off.

So our staff folk putting the bill together in August said, looks like we are about 25 percent spent. So it looks like we are close to 80. So let us add about 10 months from November or October, and we will complete the bill. Looks like that is about October of 2007. So the hand-off shall take place, and I think it was October 10th of 2007. So we don't do things in the dark of night. We have

signature sheets for Democrats and Republicans when we all agree on something that is non-controversial. So we had the little sheet that said the hand-off will take place October of 2007 and everybody signed it over, signed it, Democrat and Republican and Senate and House. And it wasn't even on my radar screen. I didn't think it was a big deal. The *New York Times* said, "Ah-ha, it is a trick. The Armed Services Committee is trying to cut off this special inspector general before he can do his job." And subsequent editorials were somewhat derogatory with respect to Mr. Gimble's shop and said this is giving the fox control of the hen house; DOD, OIG is not competent to do this.

Was it a trick, Mr. Bowen? Was that about the right formula to make this hand-off?

Mr. BOWEN. No, it wasn't a trick, and the only additional fact in that mix is that I think also the Defense Authorization Act expanded the funds that SIGIR should have oversight of. But as of September when this agreement was made, your estimates I think were spot on that, under our previous jurisdiction, SIGIR's oversight would expire in October of this year.

Mr. HUNTER. So it makes sense to have a date certain when you handed off to Mr. Gimble?

Mr. BOWEN. That is right.

Mr. HUNTER. And he appears to be quite competent?

Mr. BOWEN. Yes.

Mr. HUNTER. There is your seal of approval.

Let me go to the heart of this issue which has been discussed which I think is waste. I think we have got a responsibility here. We have got submarines that are based in my district and other districts around the country which we are producing right now and all of the king's horses and all of the king's men in a construction environment with nobody shooting at them with all of the Congress pressing them to cut down costs will, instead of being the one and a half billion dollars they were supposed to cost, be well over \$2 billion. And there are a lot of reasons for that. We have got two yards building them instead of one. That is estimated by most sources to be an additional cost for \$200 million per submarine. You have got the problem that if we build a small number so the economies of scale do not apply. We are going to overrun the cost of those submarines by probably \$500 million per submarine. That means if I had 10 of them, which I would love to have in San Diego at any given time, that is roughly twice the overrun that you have said may attend your audit with respect to funds spent in Iraq.

My point is that those—that extra money we spent on those submarines is not waste. It is an overrun. There are lots of reasons for it. We try to beat them down. We try to achieve the economy of scales and other things, level funding and all of the things that Mr. Walker regularly recommends to us to pull down the cost of weapons systems. And in my good colleague the distinguished chairman's district, we have got the B-2 bomber. Those B-2 bombers all cost more than \$300 million a piece more than they were supposed to cost. And all of the king's horses and all of the king's men building them in quiet factories in places with nobody shooting at them somehow couldn't pull the cost of those bombers down to what we initially said we were going to be able to build them

for. Nonetheless, the chairman and I know, knowing how effective those B-2 bombers are in serving Americans and how they throw down those joint direct attack munition (JDAMs) to precise points of the face on the earth where we want to project American power, we don't think it is a waste.

So I think you have got to be careful when you describe money if it is wasted. If somebody is making a hole and filling it back up and they are calling and they are giving you a bill, that is a waste. But if you look at what is happening in Iraq with what you have described, that is lack of competent local subcontractors, massive security problems, lack of enablers like electricity, water, food, tools competent companies. Add a corruption problem in the culture, I think that, you know, in that environment, of all of those attendant factors which are going to drive costs sky high, I think you need to be careful before you say that the things that we needed to start reconstructing, to start bringing electricity to hospitals and to start bringing fuel to the places where the Iraqi government could start to stand up, those things have to happen. They are happening in a very inefficient way. But don't ascribe inefficiency or describe that as cost because that thing called a television over there will immediately translate that into some idea in a pejorative way that there are dishonest people in the American government who are undertaking massive, massive wasteful programs with the implication of self-dealing. If there is self-dealing in a given case, it should be prosecuted.

But please differentiate between what is always, standing up, in an occupied country with no infrastructure and massive security problems, standing up public works projects and comparing them to the cost in a benign environment is one that will always give you a massive overrun, and if you describe that overrun as waste, then I think to some degree you are disserving the conversation.

So, Mr. Chairman, just a couple little things, and the last thing I wanted to ask to get your take on is this: I think these big projects lend themselves to sabotage. For example, if you have got a big electrical plant and the bad guys can blow up one line and put a city out of juice, that is an enormous leverage that you give them. If you take the same amount of money and you put a generator on a truck and you run it into a neighborhood and the neighborhood takes their electricity out of their generator and it could be moved, it is modular, it is mobile, and it can be repaired by guys with wrenches and a modicum of understanding with respect to electricity and generators and engines; then you have given the community something that they can use that will endure.

So my question to you is a little bit off your subject, but do you think we would be more efficient if we moved these infrastructure-enabling projects in small pieces, smaller generators rather than the big power plants, smaller potable water producers, smaller modular hospitals and clinics that can be moved around that don't require big standups? Small things that average people can handle and that the people of Iraq can maintain?

Thank you, gentlemen.

Mr. BOWEN. Congressman Hunter, I think that is what—you are exactly right, and that is what the CERP emphasis aimed at, and that is executing local high-impact, easy-to-execute projects, specifi-

cally small water projects. Indeed, as the water program evolved from its initial strategic plan to what it currently is, it moved down that path from very large treatment facilities to water sustainment plants which built hundreds of small projects serving local villages that has, in the end, even though the water program was cut by half, effected great improvement to millions of Iraqis. They now have pure potable water that they didn't have before.

So I think the emphasis on the CERP project seeks to achieve exactly that, and that is the emphasis of the joint contract and command of Iraq now, and that is to execute small projects through Iraqi contractors.

The CHAIRMAN. I thank the gentleman from California. Thank you very much.

In response to my request, the 60 days from now request, a note of suggestion early on, please agree on the definition of waste. I don't want you to come up after 59 days and say, "Hey, we can't agree on what waste is." So I am sure, Mr. Walker—

Mr. WALKER. Let my say for the record now, if the government doesn't do a good job in defining requirements, and if the government ends up constantly changing those requirements, that is waste, at least that is going to be my definition. And we have billions of waste every year outside of Iraq, and so it is exacerbated when you get into a conflict zone, obviously.

The CHAIRMAN. Okay. Just so you all are singing from the same sheet of music when you send your answers 60 days from now.

Mr. Marshall.

Mr. MARSHALL. Thank you, Mr. Chairman.

I guess I have a joint question for the inspectors general, and I would ask that you respond to this in writing if you have a response, if you have something to add.

I take it that, for the most part, you feel that you have access to what you need to have access to, that you have the funding that you need to have, that you have the authority that you need to have in order to ferret out what each of you individually think should be ferreted out in order to assist us in our oversight, in order to assure that taxpayer dollars aren't being wasted, and we are heading in the right direction. If I am wrong about that, and if in fact you think there are gaps in any of those categories, it would be very helpful to the committee if you would share those gaps with us. And I would rather not do it right now because I have a series of questions for Mr. Walker, and I only have five minutes. But if each of you can do that, I will take the failure to respond that I—that that is an indication that you think everything is fine as far as those categories are concerned.

Mr. Walker, I appreciate very much what you do, and I appreciate this report that you are working on. And I have just a couple of questions about it. Very briefly, if you know, and if you don't, there is somebody on your staff that does, when DOD was not receptive to all of your suggestions concerning securing ammo dumps throughout Iraq, and basically, I think the language that you used was that they partially concurred with the recommendation that be done, and it was made in December of 2006, it was the same recommendations that repeated delegations of Members of Congress have made for three years now. Could you list real quickly why it

was only a partial concurrence and what reluctance DOD had? If you can't do it right now, what I would like to do is get whoever on your staff who has the expertise to come to my office and give us the quick summary of that.

[The information referred to can be found in the Appendix beginning on page 98.]

Mr. WALKER. We will do that. Davi D'Agastino is responsible for that work and will get that done.

I will tell you, part of this was because it was inadequate planning, and there was an inadequate number of boots on the ground in order to be able to adequately secure these facilities.

Mr. MARSHALL. This is regarding the current status. We have had three years to deal with this. Either dispose of what is there—we have the capacity and we use the capacity to remove damaged tanks. We haul those things out of Iraq. Seems to me a higher priority needs to be put on the access that insurgents might have that can harm us rather than a tank, but that is—it is important to remove technology that might be inspected and consequently used to our disadvantage later.

But still, you mentioned that you know GAO gives us \$105 return for every dollar that is invested. You know, if we doubled the dollars and the return dropped to \$52.50, then we really haven't improved. In fact, the situation has gotten worse because we are spending twice as much for the same thing. It is statistics like that that tend to suggest what the answers should be but don't conclusively prove what the answers should be. I would like to focus a little bit on your emphasis that in order for us to assess where we are, we need to have very current accurate detailed information about unit-by-unit readiness measured by us for the Iraqi military.

Do you—does your group—are you of the opinion that we ought to have level one units in the Iraqi security forces? Do you have an opinion about what level they should be?

Mr. WALKER. Well, if our objective is to make sure that the Iraqis are in a position to take the lead and to function independently, then obviously one needs to understand to what extent do we have Iraqi units that, based upon their readiness, on a full scope of readiness, are in that category.

Mr. MARSHALL. Have you made the conclusion that we as a country should want the Iraqi security forces to be in a position to act independently?

Mr. WALKER. That is a policy decision. I think what is important for us to do is to provide the facts such that Congress can properly discharge its constitutional responsibilities. That is a policy assertion that is being made, but you don't have enough facts in order to determine whether or not the assertions that are being made as to the numbers and the readiness and the adequacy are accurate.

The CHAIRMAN. The time has expired.

I have in this order, Mr. Taylor, Mrs. Boyda, Mr. Ellsworth, Ms. Davis, Mr. Courtney and Mr. McIntyre. We have two votes right now. We can probably get through Mr. Taylor and Mrs. Boyda. And is the desire of the remaining colleagues to come back? I will be glad to do so for those who wish to come back.

Mr. TAYLOR. I yield to the gentleman from Georgia.

The CHAIRMAN. The gentlemen yields.

Mr. MARSHALL. Briefly following up on the question, so GAO as an auditor does not plan to give us advice concerning whether or not, for example, there is an appropriately mature political system in Iraq so that level one military units would be subjected to civilian control and are not apt to go off on a frolic of their own. That sort of thing. You are not going to be focusing on that, and you are not going to be making some recommendation of what level of competence we should be seeking for Iraqi units at this point?

Mr. WALKER. We don't contemplate that at the present time. We are concentrating on political, economics, on all of those dimensions; we are going on that. But I will make sure that we can come up and have you briefed on the other issues. I also want to provide for the record an answer for the record because the answer is, we are not adequately funded.

Mr. MARSHALL. I would like to ask all of you that. I want all four of them to answer. I would like to talk to the staff that is doing that.

The CHAIRMAN. The gentleman from Mississippi.

Mr. TAYLOR. Mr. Walker, a year ago right now, we were still dealing with the aftermath of Hurricane Katrina. One of the no-bid cost-plus contracts was delivery of travel trailers. By the time my staff put a pencil to it, it turned out we were paying \$16,000 per trailer just to pick them up and move them about 60 miles, hook them up to plug them in, hook them up to a garden hose, hook them up to a sewer tap. And the company that did it, being on cost-plus contract, had no incentive to get better. In fact, they probably delivered fewer trailers toward the end on a daily basis than they did in the beginning. The long and short of it is, I promised that vendor that based on his shoddy performance in south Mississippi, that I wanted to look into every one of his contracts in Iraq. That vendor happened to be Bechtel. I made that promise to rally Bechtel. So what I am asking from you is I would like a copy of every report you have on Bechtel Incorporated because my hunch is as horrible as their work was in Mississippi, it is probably ten times worse in Iraq.

Second, I would like to know one of the frustrations I saw in that people from GAO would come back to us and say, "Well, it was a cost-plus contract. We are not here to determine whether or not it was a good idea to give it to them. We are just here to see if the money is being spent properly." My question is, in Iraq, how often do you look at something and say, "Gee, that was a stupid way to spend money. Why did we spend \$15 million to repair the water palace so the generals would have a really nice office when large segments of the economy don't have water?" How often do you go out seeking out waste and fraud, do you say, why on earth are we doing this?

Mr. WALKER. First, Mr. Taylor, with regard to Bechtel, I will be happy to provide that, but I would respectfully suggest that most of that work is probably going to be in SIGIR's hands because they are on the front lines. They are probably going to have it, but if we have it, I will be happy to give it to you.

Second, I think we need to understand that Katrina and Iraq both represented catastrophic events of different natures but that many of the contracting problems that we are experiencing are

similar because they were catastrophic events. One of the things that government needs to do, it needs to recognize the reality that hurricanes are going to happen, that other natural disasters are going to happen, that man-made catastrophic events could occur and other things are going to happen. We need to move beyond cost-plus contracts as much as absolutely possible, and when we do our audit work—

Mr. TAYLOR. What recommendations are you going to give to our committee toward that end, because I would welcome them.

Mr. WALKER. Don't worry. You will get plenty. We have had some in the past. We rely too much on cost-plus contracts.

Mr. HUNTER. Would the gentlemen yield on that point?

Mr. TAYLOR. Certainly.

Mr. HUNTER. When you said that, how do you get people who are going into something like Katrina or a situation like Iraq with massive uncertainties, if you don't have a cost-plus contract and we have tortured ourselves over this in other ways, how do you get somebody to ever give you a firm bid on accomplishing something when you have uncertainties that could run them bankrupt? Will you be able to get any companies to bid?

Mr. WALKER. It depends upon what it is. Trailers, we make trailers all the time. There is nothing new about making trailers. With regard to providing food and lodging and things of that nature, you do that. There are certain things you are not going to get an advanced bid on. There are other things you could. You can draw on a task order, so that the taxpayers get a reasonable deal for their money. Right now we don't do it until after the event occurs. There is no way you have any leverage on that. And as a result, you are trying to deal with the people who need to be dealt with and costs go through the roof.

The CHAIRMAN. Mr. Taylor, you have another minute and a half.

Mr. TAYLOR. Do you have the legal authority, number one? And are you legally charged to make recommendations as to how to avoid waste, and give me an example of when you have recently done that if it is so.

Mr. WALKER. We do it all the time. We can give you the legal authority. Our job is to maximize government performance and assure accountability. It is economy, efficiency, effectiveness and equity. It is much more than legal. As you know, the law represents the floor of acceptable behavior. You can do something that is not illegal, but it represents waste and abuse and so, you know, we make—

Mr. TAYLOR. The example, sir.

Mr. WALKER. With regard to this particular area? What I will do is I will send up to you the 15 generic problems that we have identified and made recommendations on with regard to acquisitions and contracting and DOD. There are 15 specific problems and many of which we have talked about today.

Mr. TAYLOR. Thank you, Mr. Chairman.

The CHAIRMAN. I would like to ask Mrs. Boyda and Mrs. Davis to come back. And, gentlemen, we will finish before 1 o'clock.

Okay. Thank you.

[Recess.]

The CHAIRMAN. Mrs. Davis.

I understand that Mr. Walker's deputy is here. Who is that? Your name, please.

Mr. CHRISTOFF. Joseph Christoff. I am GAO's director.

The CHAIRMAN. Mrs. Davis.

Ms. DAVIS OF CALIFORNIA. I know my colleagues have asked a number of questions, and I hope I am not going to repeat any of those, but I also wanted to just say, reading the report, especially the GAO report I found that such a damning document; I don't know whether you would like to respond to that in terms of the difficulty with looking at some of these issues and being able to fix them and if you wanted to just, you know, let me know what were the thoughts of the folks who were encountering all who were there, if you could respond to that very quickly, and I want to go on with my questions.

Mr. CHRISTOFF. I think we tried to cover at GAO all of the efforts in Iraq, political efforts. Also the security forces, and I think in each of those areas you find just enormous challenges to help this country help itself, and we have made a series of recommendations starting with strategy when the President does give you the details of his revised strategy that you need to focus on whether they are clear roles and responsibilities, what are the costs? What are the outcomes and measurements of the strategy? All of the way down to whether these natural gas turbine engines that we bought so proudly three years ago don't work today.

Ms. DAVIS OF CALIFORNIA. Thank you. I appreciate that. I think trying to fix that and put into place the kind of procedures and the implementation of some of these ideas is going to be tough.

I wanted to turn, Mr. Krongard, to you and just talking about the recruiting and the retaining of audit personnel, particularly you mention in your testimony, in your written testimony that that is a major concern. Could you address how we get there given the security situation in Iraq, the fact that people are not going to want to go in to Iraq. You mentioned Qatar. But I am also concerned about what kinds of training over and above other requirements of folks who are decent auditors, having been in the green zone on a number of occasions, I know that we called on people who did not have the professional capabilities to do their job and in this instance, it would be very important to do that. How do we get there?

Mr. KRONGARD. If you are talking about, in our current capacity, it is a significant problem. We were focusing at the time on the transition, if there were to be one, from SIGIR to the rest of us. And at that point in time, I went over to Iraq and with Mr. Bowen's assistance and cooperation, we talked to all of the existing people who were there, and we were very pleased to find that more than enough people were willing to stay on and interested in staying on under our leadership, were there to have been a transition. So that we would have been able to get the people because the people are already there. In other words, if Mr. Bowen's organization were to have gone out of existence, those people would have become available. It isn't like they were off to do another thing.

So the problem is different whether you look at it in terms of our ongoing situation or whether we would have been transitioned. In the ongoing situation, we need either 3161 authority or the ability

to hire personnel service contractors because those are the ways you get people. I don't have the ability to direct my people to go there, and we don't have direct assignments. So that is a significant problem.

Ms. DAVIS OF CALIFORNIA. Is that something that you asked for, that authority?

Mr. KRONGARD. We have. We have asked each legislative session, and there have—I believe each time there has been a bill under consideration, but I don't think it has gotten anywhere.

Ms. DAVIS OF CALIFORNIA. Why do you think that is true?

Mr. KRONGARD. I couldn't answer that.

Ms. DAVIS OF CALIFORNIA. I think General Walker mentioned as well that we are just beginning to call on the international community to help in this regard. Is it that we never asked, that there was little interest, the security problems obviously were overwhelming? Why has it taken so long to get more of that involvement on the part of the international community in this regard in the audit area?

Mr. CHRISTOFF. In the audit area, I think what we have been trying to do is the inspector general in the different ministries and our equivalent are in the process of trying to establish their own audit procedures standing up their own services, just getting the staff that is needed. And it is difficult for them, as it is with GAO, to try to do good auditing in a poor environment, a security environment. Just the international community in general has made a commitment to try to help Iraq with its reconstruction efforts. It pledged \$13.8 billion at the Madrid conference years ago. Most of that was in loans, and they have been slow to try to provide their reconstruction assistance because they understand it is not a good environment, and they want to make sure that their money is being spent in the right places and they can audit the results.

Ms. DAVIS OF CALIFORNIA. One of the others that has been raised is the ability of the Iraqi government to actually spend the dollars that have already been committed. We then look at the dollars that are being proposed. What ability does the government have to actually spend those dollars to get those out on the street and to be able to make good on the kinds of development that we are all looking for? How would you grade that?

Mr. CHRISTOFF. That is infant stage in trying to be able to establish good budgeting procurement, contracting personnel rules. The United States Agency for International Development (USAID), the State Department do have programs, what is called ministerial capacity building, but as we pointed out in this report, the minister of oil, for example, was supposed to have spent \$3.6 billion to repair the dilapidated infrastructure. He spent \$4 million because it did not have all of the contracting procurement procedures in place to do its job.

Ms. DAVIS OF CALIFORNIA. You talked about fraud, abuse, incompetency, all of those being a large factor in the situation that we face today. If there is any one message that you would like to leave the committee with, that we can address. The investigations and oversight committee is obviously going to be taking the reports and testimony that you presented and having the—and having some opportunity to take a look at those issues, what would you like, all

of you, just to share, if you might, I know there has been some time lapse between the beginning of your testimony and now. Could you deliver that one message that we need to have?

Mr. CHRISTOFF. Well, I think the one critical message is, we began our reconstruction efforts in 2003 with the presumption that we would have a secure environment, a permissive environment. All of the cost estimates, all of the hopes, all of the expectations, all of the projects, that long list of projects was based upon having a secure environment. Didn't happen. So a lot of the money had to go into security. A lot of the challenges in trying to engage not only in oversight but building what we promised to build has been complicated by that overwhelming problem with security.

Mr. GIMBLE. I would agree with that. The other point I would make, and I probably haven't made this very well, but the reconstruction fund is very critical. There is a lot of money. It is around \$30 billion. And the Department of Defense, we have—Congress has put another \$4 billion out there, and it is in direct support, and it is imperative that we have the oversight in both Iraq also as well as back in the continental United States. So our challenge is going to be to ensure that we have a good comprehensive plan that covers all of those issues that come up both in Iraq and back in the States.

Mr. KRONGARD. I would agree with security and I would also emphasize the need to get our hands around corruption in not just Iraq but every place because in order to get an international compact, in order to get foreign investment, you need an investable environment.

Mr. BOWEN. Three things. First, the Iraqi government has to be held accountable for executing its own burden in the reconstruction program, and as we have learned, as you have heard at this hearing, the Iraqi government didn't do that last year, and that is unacceptable. Thus the U.S. taxpayer bore the great preponderance of funding the reconstruction program. And that must change. And indeed one of the things that has worked in Iraq is the International Monetary Fund (IMF) Standby Agreement entered into a little over a year ago which required the Iraqi government to take specific steps, economic adjustments, for instance, subsidy reform, in order to receive debt relief. And it worked, and thus providing incentives like that may help push them to respond.

Second, simply engaging the international community to come through on their pledges. The international contract for Iraq is the next step, so the United States doesn't have to bear the burden of reconstruction.

And third is simply to have an effective program, be it funded by Iraqi dollars, international, U.S. dollars. There has to be some semblance of security, and that is not there.

Ms. DAVIS OF CALIFORNIA. Thank you all very much. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mrs. Davis.

The World Bank, the U.N. Development Group, and the Coalition Provisional Authority back in 2003 estimated that there would be or there was a requirement for \$55 billion reconstruction in Iraq. Have you identified the needs as we speak toward that \$55 billion that they identified?

Let us go down the line.

Mr. CHRISTOFF. The \$55 billion was developed by the World Bank, and the U.S. helped with that development. And it was premised on the assumption that all of the reconstruction efforts again would be done in a benign environment, and the additional costs associated with security were not even part of that \$53 billion. In other words, it was going to be more than \$53 billion. Subsequently, the minister of oil and the minister of electricity have stated that they collectively need \$50 billion just to rehabilitate their two sectors. The U.N. estimate was on most of the sectors across Iraq. So, clearly, more money is going to be needed beyond the \$29 billion that we provided in reconstruction, the roughly \$4 billion the international community has provided and, quite frankly, the minimal amount that the Iraqis have provided.

The CHAIRMAN. How much have the Iraqis provided?

Mr. CHRISTOFF. As we stated in this report, in—for capital dollars, they have proposed to spend about \$6.5 billion dollars in 2006. And at most, they have spent in the hundreds of millions.

The CHAIRMAN. Not even close.

Mr. CHRISTOFF. No.

The CHAIRMAN. I thank you very, very much for sticking it out with us today, and the testimony has been excellent. This is a landmark hearing, and we are most appreciative. If there is no further business, we are adjourned.

[Whereupon, at 1 p.m., the committee was adjourned.]

A P P E N D I X

JANUARY 18, 2007

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

JANUARY 18, 2007

United States Government Accountability Office

GAO

Testimony
Before the Committee on Armed Services,
House of Representatives

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SECURING, STABILIZING,
AND REBUILDING IRAQ

GAO Audit Approach and
Findings

Statement of David M. Walker
Comptroller General of the United States



GAO-07-385T

Mr. Chairman and Members of the Committee:

I am pleased to be here today to provide a strategic overview of GAO's work related to securing, stabilizing, and rebuilding Iraq. In my statement today, as requested, I will highlight (1) GAO's scope, authority, and coordination; (2) some of the insights stemming from our work in Iraq; and (3) the rigorous quality assurance framework that GAO uses to ensure relevant, reliable, and consistent results in all of our work.

My statement today is based upon extensive work spanning several years. Since 2003, we have issued 67 Iraq-related reports and testimonies. For example, I sent a report to the Congress last week on a range of key issues for congressional oversight of efforts to secure, stabilize, and rebuild Iraq.¹ Although many of our sources are classified, we strive to report information to the Congress in a public format to promote greater transparency and accountability of U.S. government policies, programs, and activities. As provided for in our congressional protocols, most of our work in Iraq has been performed under my authority to conduct evaluations on my own initiative since it is a matter of broad interest to the entire Congress and numerous committees in both chambers. Our work also helped inform the deliberations of the Iraq Study Group; I personally briefed this group on the results of our Iraq work in June 2006. We also provided significant additional information to the Iraq Study Group for its use.

The work supporting this statement is based on our analysis of agency plans and documents and discussions with relevant senior officials from the Departments of Defense (DOD), Energy, State, and the Treasury; the U.S. Agency for International Development (USAID); the Army Corps of Engineers; the multinational force; the Defense Intelligence Agency; and the Central Intelligence Agency. We conducted our reviews in accordance with generally accepted government auditing standards.

Summary

GAO and the Inspectors General (IG) of individual departments and agencies have different roles and responsibilities. GAO's broad audit authority allows us to support Congress through strategic analyses of issues that cut across multiple federal agencies and sources of funding.

¹GAO, *Securing, Stabilizing, and Rebuilding Iraq: Key Issues for Congressional Oversight*, GAO-07-308SP (Washington, D.C.: Jan. 9, 2007).

Our work spans the security, political, and economic prongs of the U.S. national strategy in Iraq. The broad, cross-cutting nature of this work helps minimize the possibility of overlap and duplication by any individual Inspector General.

Based on our work, we have made some unique contributions to Congress. Our past and ongoing work has focused on the U.S. strategy and costs of operating in Iraq, training and equipping the Iraqi security forces, governance issues, the readiness of U.S. military forces, and acquisition outcomes. Some highlights from our work follow:

- Our analysis of the National Strategy for Victory in Iraq recommended that the National Security Council improve the strategy by articulating clearer roles and responsibilities, specifying future contributions, and identifying current costs and future resources.
- In our examination of the cost of U.S. military operations abroad, we recommended that the Secretary of Defense improve the transparency and reliability of DOD's Global War on Terror (GWOT) obligation data. We also recommended that DOD build more funding into the baseline budget once an operation reaches a known level of effort and costs are more predictable.
- In assessing the capabilities of Iraqi security forces, we found that overall security conditions in Iraq have deteriorated despite increases in the numbers of trained and equipped security forces. A complete assessment of Iraqi security forces' capabilities is dependent on DOD providing GAO with the readiness levels of each Iraqi unit.
- We found that DOD faces significant challenges in maintaining U.S. military readiness for overseas and homeland missions and in sustaining rotational deployments of duty, especially if the duration and intensity of current operations continue at the present pace.
- In assessing the impact of ongoing military operations in Iraq on military equipment, we found that the Army and the Marine Corps have initiated programs to reset (repair or replace) equipment and are likely to incur large expenditures in the future.
- In reviewing efforts to secure munitions sites and provide force protection, we recommended that DOD conduct a theaterwide survey and risk assessment of unsecured conventional munitions in Iraq and incorporate storage site security into strategic planning efforts.

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- In assessing acquisition outcomes, we found that DOD often entered into contract arrangements with unclear requirements, which posed additional risks to the government. DOD also lacked the capacity to provide sufficient numbers of contracting, logistics, and other personnel, thereby hindering oversight efforts.

In April 2005, an international peer review team gave our quality assurance system a clean opinion—only the second time a national audit institution has received such a rating from a multinational team. Thus, the Congress and the American people can have confidence that GAO's work is independent, objective, and reliable.

GAO's Work in Iraq Is Broad and Coordinated with Other Audit Authorities

While the IGs are designed to focus primarily on exposing fraud, waste, and abuse in individual federal agency programs, GAO's broad audit authority allows us to support Congress through strategic analyses of issues that cut across multiple federal agencies and sources of funding. Although the IGs report to the heads of their respective departments and make periodic reports to Congress, GAO reports directly to Congress on a continuous basis. GAO consults regularly with its oversight committees and relevant committees of jurisdiction regarding key issues of national importance, such as U.S. fiscal solvency, emergency preparedness, DOD transformation, global competitiveness, and emerging health care and other challenges for the 21st century.

The Congress established the GAO in 1921 to investigate all matters relating to the receipt, disbursement, and application of public funds. Since then, Congress has expanded GAO's statutory authorities and frequently calls upon it to examine federal programs and their performance, conduct financial and management audits, perform policy analysis, provide legal opinions, adjudicate bid protests, and conduct investigations. In 2006, the GAO issued more than 1,000 audit products and produced a \$105 return for each dollar invested in the agency.²

GAO has developed substantial expertise on security and reconstruction issues, as well as having long-term relationships with State, Defense, and USAID. Our work spans several decades and includes evaluations of U.S. military and diplomatic programs and activities, including those during

²GAO, *Performance and Accountability Report: Fiscal Year 2006*, GAO-07-2SP (Washington, D.C.: Nov. 15, 2006).

and following contingency operations in Vietnam, the Persian Gulf (Operations Desert Shield and Storm), Bosnia, and Afghanistan.

We also have many years of expertise in evaluating U.S. efforts to help stabilize regions or countries; we have, for example, monitored U.S. assistance programs in Asia, Central America, and Africa. The depth and breadth of our work and the expertise we have built has helped facilitate our ability to quickly gather facts and provide insights to the Congress as events unfold, such as the conflict in Iraq. Our current work draws on our past work and regular site visits to Iraq and the surrounding region, such as Jordan and Kuwait. Furthermore, we plan to establish a presence in Iraq beginning in March 2007 to provide additional oversight of issues deemed important to Congress. Our plans, however, are subject to adequate fiscal 2007 funding of GAO by the Congress.

Our work in Iraq spans the three prongs of the U.S. national strategy in Iraq—security, political, and economic. The broad, cross-cutting nature of our work helps minimize the possibility of overlap and duplication by individual IGs. We and other accountability organizations take steps to coordinate our oversight with others to avoid duplication and leverage our resources. In that regard, the ability of the Special Inspector General for Iraq Reconstruction (SIGIR) to provide in-country oversight of specific projects and reconstruction challenges has enabled us to focus our work on more strategic and cross-cutting national, sector, and interagency issues.

The expansion of SIGIR's authority underscores the need for close coordination. We coordinate our work in Iraq through various forums, including the Iraq Inspectors General Council (IGC) and regular discussions with the IG community. Established by what is now SIGIR, IGC provides a forum for discussion and collaboration among the IG and staff at the many agencies involved in Iraq reconstruction activities. Our work is coordinated through regular one-on-one meetings with SIGIR, DOD, State, and USAID. We also coordinate our work with other accountability organizations, such as the Federal Bureau of Investigation's (FBI) public corruption unit.

Key Findings and Recommendations from GAO's Work in Iraq

Let me highlight some of the key findings and recommendations we have made as a result of our continuing work in Iraq.

Assessment of the November 2005 National Strategy for Victory in Iraq and the U.S. Military Campaign Plan

In November 2005, the National Security Council issued the National Strategy for Victory in Iraq (NSVI) to clarify the President's strategy for achieving U.S. political, security, and economic goals in Iraq. The U.S. goals included establishing a peaceful, stable, and secure Iraq. Our July 2006 report assessed the extent to which the NSVI and its supporting documents addressed the six characteristics of an effective national strategy.³ While we reported that the NSVI was an improvement over previous U.S. planning efforts for stabilizing and rebuilding Iraq, we concluded that the strategy fell short in at least three key areas. First, it only partially identified the agencies responsible for implementing key aspects of the strategy. Second, it did not fully address how the United States will integrate its goals with those of the Iraqis and the international community, and it did not detail Iraq's anticipated contribution to its future needs. Third, it only partially identified the current and future costs of U.S. involvement in Iraq, including maintaining U.S. military operations, building Iraqi government capacity, and rebuilding critical infrastructure.

We recommended that the NSC improve the current strategy by articulating clear roles and responsibilities, specifying future contributions, and identifying current costs and future resources. In addition, our report urged the United States, Iraq, and the international community to (1) enhance support capabilities of the Iraqi security forces, (2) improve the capabilities of the national and provincial governments, and (3) develop a comprehensive anti-corruption strategy. In our view, congressional review of the President's 2007 plan for Iraq should consider

³The six characteristics are (1) a clear purpose, scope, methodology; (2) a detailed discussion of the problems, risks, and threats the strategy intends to address; (3) the desired goals and objectives, and outcome-related performance measures; (4) a description of the U.S. resources needed to implement the strategy; (5) a clear delineation of the U.S. government roles, responsibilities, and mechanisms for coordination; and (6) a description of how the strategy is integrated internally among U.S. agencies and externally with the Iraqi government and international organizations. See *Rebuilding Iraq: More Comprehensive National Strategy Needed to Help Achieve U.S. Goals*, GAO-06-788 (Washington, D.C.: July 11, 2006).

whether it addresses the key elements of a sound national strategy identified in our July 2006 report.

In October 2005, we issued a classified report on the military's campaign plan for Iraq.⁴ In that report, we discussed the military's counterinsurgency plan for Iraq and the conditions and phases in the plan. The report contained a recommendation to link economic, governance, and security indicators to conditions for stabilizing Iraq. Congress acted on our recommendation in the 2006 National Defense Authorization Act and required DOD to report on progress toward meeting the conditions referred to in GAO's report. We have supplemented this work with a series of classified briefings to the Congress on changes to the campaign plan and U.S. efforts to train and equip Iraqi security forces and protect weapons caches throughout Iraq. We will continue to provide Congress these classified briefings.

**Limited Transparency on
the Costs of the Global
War on Terror**

Since 2001, Congress has appropriated about \$495 billion to U.S. agencies for military and diplomatic efforts in support of the global war on terrorism; the majority of this amount has gone to stabilize and rebuild Iraq. Efforts in Iraq involve various activities such as combating insurgents, conducting civil affairs, building capacity, reconstructing infrastructure, and training Iraqi military forces. To date, the United States has reported substantial costs for Iraq and can expect to incur significant costs in the foreseeable future, requiring decision-makers to consider difficult trade-offs as the nation faces an increasing number of long-range fiscal challenges. Funding for these efforts has been provided through annual appropriations, as well as supplemental appropriations that are outside the annual budget process. In our view, moving more funding into baseline budgets, particularly for DOD, would enable decision-makers to better weigh priorities and assess trade-offs.

As of September 30, 2006, DOD had reported costs of about \$257.5 billion for military operations in Iraq.⁵ In addition, as of October 2006, about \$29 billion had been obligated for Iraqi reconstruction and stabilization efforts. However, problems with the processes for recording and reporting GWOT

⁴GAO, *Rebuilding Iraq: DOD Reports Should Link Economic, Governance, and Security Indicators to Conditions for Stabilizing Iraq*. GAO-06-217C (title is unclassified, Washington D.C.: Oct. 31, 2005).

⁵DOD's reported costs in Iraq do not include the costs of classified activities.

costs raise concerns that these data may not accurately reflect the true dollar value of war-related costs.

U.S. military and diplomatic commitments in Iraq will continue for the foreseeable future and are likely to involve hundreds of billions of additional dollars. The magnitude of future costs will depend on several direct and indirect variables and, in some cases, decisions that have not been made. DOD's future costs will likely be affected by the pace and duration of operations, the types of facilities needed to support troops overseas, redeployment plans, and the amount of military equipment to be repaired or replaced. Although reducing the number of troops would appear to lower costs, we have seen from previous operations in the Balkans and Kosovo that costs could rise—if, for example, increased numbers of contractors replace military personnel. With activities likely to continue into the foreseeable future, decision-makers will have to carefully weigh priorities and make difficult decisions when budgeting for future costs.

Over the years, we have made a series of recommendations to the Secretary of Defense intended to improve the transparency and reliability of DOD's GWOT obligation data, including recommendations that DOD (1) revise the cost-reporting guidance so that large amounts of reported obligations are not shown in "miscellaneous" categories, and (2) take steps to ensure that reported GWOT obligations are reliable. We also have recommended that DOD build more funding into the baseline budget once an operation reaches a known level of effort and costs are more predictable. In response, the department has implemented many of our previous recommendations.

Progress in Transferring Security Responsibilities to Iraq Has Not Led to Improved Security Conditions

Overall security conditions in Iraq continued to deteriorate in 2006 and have grown more complex despite recent progress in transferring security responsibilities to Iraqi security forces and the Iraqi government. The number of trained and equipped Iraqi security forces has increased from about 174,000 in July 2005 to about 323,000 in December 2006, at the same time as more Iraqi army units have taken the lead for counterinsurgency operations in specific geographic areas. Despite this progress, attacks on coalition forces, Iraqi security forces, and civilians have all increased, reaching record highs in October 2006. Because of the poor security in Iraq, the United States could not draw down U.S. force levels in Iraq as planned in 2004 and 2006, and U.S. forces have continued to conduct combat operations in urban areas, especially Baghdad.

Transferring security responsibilities to the Iraqi security forces and provincial governments is a critical part of the U.S. government's strategy in Iraq and key to allowing a drawdown of U.S. forces. Since 2003, the United States has provided about \$15.4 billion to train, equip, and sustain Iraqi security forces and law enforcement. However, it is unclear whether U.S. expenditures and efforts are having their intended effect in developing capable forces and whether additional resources are needed. A key measure of the capabilities of Iraqi forces is the Transition Readiness Assessment (TRA) reports prepared by coalition advisors embedded in Iraqi units. These reports serve as the basis for the Multinational Force-Iraq (MNF-I) determination of when a unit is capable of leading counterinsurgency operations and can assume security responsibilities for a specific area.

The TRA reports provide the coalition commander's professional judgment on an Iraqi unit's capabilities and are based on ratings in personnel, command and control, equipment, sustainment and logistics, training, and leadership. To conduct future work on this issue, GAO has made multiple requests for full access to the unit-level TRA reports over the last year. However, DOD has not yet complied with our requests. This serves to seriously and inappropriately limit congressional oversight over the progress achieved toward a critical U.S. objective.

DOD May be Unable to Ensure that U.S.-Funded Equipment Has Reached Iraqi Security Forces

Since 2003, the United States has provided about \$15.4 billion for Iraqi security forces and law enforcement. According to Multinational Security Transition Command-Iraq (MNSTC-I) records, MNF-I has issued about 480,000 weapons, 30,000 vehicles, and 1.65 million pieces of gear (uniforms, body armor, helmets, and footwear), among other items, to the Iraqi security forces as of October 2006.

Congress funded the train-and-equip program for Iraq outside traditional security assistance programs, which, according to DOD officials, provided DOD with a large degree of flexibility in managing the program. Since the funding did not go through traditional security assistance programs,⁶ the accountability requirements normally applicable to these programs did not necessarily apply, according to DOD officials. It is currently unclear what

⁶Traditional security assistance programs operate under State authority and are managed in country by DOD through security assistance organizations under the direction and supervision of the Chief of the U.S. Diplomatic Mission.

accountability measures, if any, DOD has chosen to apply to the train-and-equip program for Iraq, as DOD officials have expressed differing opinions on this matter. As part of our ongoing work, we have asked DOD to clarify what accountability measures it has chosen to apply to the program.

While it is unclear which regulations DOD has chosen to apply, beginning in early 2004, MNF-I established requirements to control and account for equipment provided to the Iraqi security forces by issuing orders that outlined procedures for its subordinate commands. These included obtaining signed records for equipment received by Iraqi units or individuals and recording weapons serial numbers. Although MNF-I took initial steps to establish property accountability procedures, limitations such as the initial lack of a fully operational equipment distribution network, staffing weaknesses, and the operational demands of equipping the Iraqi forces during war hindered its ability to fully execute critical tasks outlined in the property accountability orders. Since late 2005, MNSTC-I has taken additional steps to improve its property accountability procedures, including establishing property books⁷ for equipment issued to Iraqi Ministry of Defense and Ministry of Interior forces. According to MNSTC-I officials, MNSTC-I also recovered existing documentation for equipment previously issued to Iraqi forces. However, according to our preliminary analysis, DOD and MNF-I may not be able to account for Iraqi security forces' receipt of about 90,000 rifles and about 80,000 pistols that were reported as issued before early October 2005. Thus, DOD and MNF-I may be unable to ensure that Iraqi military forces and police received all of the equipment that the coalition procured or obtained for them.

In our ongoing review, we will continue to assess MNF-I records for Iraqi equipment distributed to Iraqi forces. We plan on issuing a final report on these and related intelligence matters by March 2007. Our work focuses on the accountability requirements⁸ for the transportation and distribution of U.S.-funded equipment and did not review any requirements relevant to the procurement of this equipment.

⁷A property book is a formal set of property accounting records and files.

⁸DOD defines accountability as the obligation imposed by law, lawful order, or regulation, accepted by an organization or person for keeping accurate records, to ensure control of property, documents or funds, with or without physical possession (DODI 5000.64, *Accountability and Management of DoD-Owned Equipment and Other Accountable Property*, E2.2).

Challenges in Improving Governance and Spending Budgeted Capital Project Funds

The U.S. government faces significant challenges in improving the capabilities of Iraq's central and provincial governments so that they can provide security and deliver services to the Iraqi people. According to State, the Iraqi capacity for self-governance was decimated after nearly 30 years of autocratic rule. In addition, Iraq lacked competent existing Iraqi governmental organizations. Since 2003, the United States has provided the Iraqis with a variety of training and technical assistance to improve their capacity to govern. As of December 2006, we identified more than 50 capacity development efforts led by at least six U.S. agencies. However, it is unclear how these efforts are addressing core needs and Iraqi priorities in the absence of an integrated U.S. plan.

Iraq also faces difficulties in spending budgeted funds for capital goods and projects in the security, oil, and electricity sectors. When the Iraqi government assumed control over its finances in 2004, it became responsible for determining how more than \$25 billion annually in government revenues would be collected and spent to rebuild the country and operate the government. However, unclear budgeting and procurement rules have affected Iraq's efforts to spend capital budgets effectively and efficiently. Since most of the U.S. reconstruction funds provided between fiscal years 2003 and 2006 have been obligated, unexpended Iraqi funds represent an important source of additional financing. Iraq had more than \$6 billion in unspent capital project funds as of August 2006. For example, Iraq's Oil Ministry spent only \$4 million of \$3.6 billion in budgeted funds to repair Iraq's dilapidated oil infrastructure.

The inability to spend this money raises serious questions for the government, which has to demonstrate to citizens who are skeptical that it can improve basic services and make a difference in their daily lives. The U.S. government has launched a series of initiatives in conjunction with other donors to address this issue and improve ministry budget execution.

Impact of the War on U.S. Military Readiness

Since September 11, 2001, U.S. military forces have experienced a high pace of operations to support homeland security missions, Operation Enduring Freedom in Afghanistan, and various combat and counterinsurgency operations in Iraq. These operations have required many units and personnel to deploy for multiple tours of duty and, in some cases, to remain for extended tours. DOD faces significant challenges in maintaining readiness for overseas and homeland missions and sustaining rotational deployments of duty, especially if the duration and intensity of current operations continue at the present pace.

Ongoing military operations in Iraq are inflicting heavy wear and tear on military equipment. Some equipment items used by U.S. forces are more than 20 years old, and harsh combat and environmental conditions over time have further exacerbated equipment condition problems. The Army and the Marine Corps have initiated programs to reset (repair or replace) equipment and are likely to incur large expenditures in the future. We are currently assessing these programs, including the extent to which the military services are tracking reset costs and the extent to which their reset plans maintain unit equipment readiness while meeting ongoing operational requirements.

**Problems in Securing
Munitions Sites and
Providing Force Protection**

U.S. ground forces in Iraq have come under frequent and deadly attacks from insurgents using weapons such as improvised explosive devices (IED), mortars, and rocket launchers. IEDs, in particular, have emerged as the number one threat against U.S. forces. Because of the overwhelming size and number of conventional munitions storage sites in Iraq, combined with prewar planning assumptions that proved to be invalid, there were an insufficient number of U.S. and coalition troops on the ground to prevent the widespread looting of those sites. The human, strategic, and financial costs of the failure to provide sufficient troops on the ground have been high, since IEDs made from looted explosives have caused about half of all U.S. combat fatalities and casualties in Iraq and have killed hundreds of Iraqis. In addition, unsecured conventional munitions sites have helped sustain insurgent groups and threatened the achievement of the Operation Iraqi Freedom's (OIF) strategic goal of creating a stable Iraqi nation.⁹

DOD's actions to date have primarily focused on countering IEDs and not on the security of conventional munitions storage sites as a strategic planning and priority-setting consideration for future operations. Although good first steps, these actions do not address what we believe is a critical OIF lesson learned: If not secured during initial combat operations, an adversary's conventional munitions storage sites can represent an asymmetric threat to U.S. forces that remain in country.

In December 2006, we recommended that the Chairman of the Joint Staff conduct a theaterwide survey and risk assessment regarding unsecured

⁹These issues are discussed in a classified GAO report, *Operation Iraqi Freedom: DOD Should Apply Lessons Learned Concerning the Need for Security over Conventional Munitions Storage Sites to Future Operations Planning*, GAO-07-71C (Washington, D.C.: Dec. 20, 2006). We plan to issue an unclassified version of this report.

conventional munitions in Iraq and incorporate conventional munitions storage site security as a strategic planning factor into all levels of planning policy and guidance. DOD partially concurred with our recommendations.

Efforts to protect U.S. ground forces with increased body and truck armor have been characterized by shortages and delays, which have reduced operational capabilities and forced combat commanders to accept additional risk in completing their missions.¹⁰ We are currently reviewing force protection measures, including body armor, for current operations, as well as the organization and management of the Joint IED Defeat to counter the IED threat.

In prior reports, we recommended that the process for identifying and funding urgent wartime requirements be improved and that funding decisions be based on risk and an assessment of the highest priority requirements. More recently, we have recommended actions to ensure that the services make informed and coordinated decisions about materiel solutions developed and procured to address common urgent wartime requirements. DOD generally agreed with these recommendations.

Improving DOD Acquisition Outcomes

DOD has relied extensively on contractors to undertake major reconstruction projects and provide logistical support to its troops in Iraq. Despite making significant investments through reconstruction and logistics support contracts, this investment has not always resulted in the desired outcomes. Many reconstruction projects have fallen short of expectations, and DOD has yet to resolve long-standing challenges in its management and oversight of contractors in deployed locations. These challenges often reflect shortcomings in DOD's capacity to manage contractor efforts, including having sufficiently focused leadership, guidance, a match between requirements and resources, sound acquisition approaches, and an adequate number of trained contracting and oversight personnel.

¹⁰For further information on these issues, see GAO, *Defense Logistics: Actions Needed to Improve the Availability of Critical Items during Current and Future Operations*, GAO-05-275 (Washington, D.C.: Apr. 8, 2005); *Defense Logistics: Several Factors Limited the Production and Installation of Army Truck Armor during Current Wartime Operations*, GAO-06-160 (Washington, D.C.: Mar. 22, 2006); and *Defense Logistics: Lack of a Synchronized Approach between the Marine Corps and Army Affected the Timely Production and Installation of Marine Corps Truck Armor*, GAO-06-274 (Washington, D.C.: June 22, 2006).

The challenges encountered in Iraq are emblematic of the systemic issues that DOD faces. In fact, GAO designated DOD's contract management activities as a high-risk area more than a decade ago and have reported on DOD's long-standing problems with its management and oversight of support contractors since 1997.¹¹ For example, because information on the number of contractor employees and the services they provide is not aggregated within DOD or its components, DOD cannot develop a complete picture of the extent to which it relies on contractors to support its operations. DOD recently established an office to address contractor support issues, but the office's specific roles and responsibilities are still being defined.

In assessing acquisition outcomes government-wide over many years, we have applied a framework of sound acquisition practices that recognizes that a prerequisite to having good outcomes is to match well-defined requirements and available resources. Shifts in priorities and funding invariably have a cascading effect on individual contracts. Further, to produce desired outcomes with available funding and within required time frames, DOD and its contractors need to clearly understand DOD's objectives and needs and how they translate into the contract's terms and conditions; they need to know the goods or services required, the level of performance or quality desired, the schedule, and the cost. When such requirements were not clear, DOD often entered into contract arrangements that posed additional risks. Managing risks when requirements are in flux requires effective oversight, but DOD lacked the capacity to provide sufficient numbers of contracting, logistics, and other personnel, thereby hindering oversight efforts. With a considerable amount of DOD's planned construction work remaining and the need for continued logistical support for deployed forces, it is essential to improve DOD's capacity to manage its contractors if the department is to increase its return on its investment.

GAO's Quality Assurance Framework

GAO's value to the Congress and the American people rests on its ability to demonstrate professional, independent, objective, relevant, and reliable work. To achieve this outcome, we set high standards for ourselves in the conduct of our work. Our core values of accountability, integrity, and

¹¹GAO, *Military Operations: High-Level DOD Action Needed to Address Long-standing Problems with Management and Oversight of Contractors Supporting Deployed Forces*, GAO-07-145 (Washington, D.C.: Dec. 18, 2006).

reliability describe the nature of our work and, most importantly, the character of our people. In all matters, GAO takes a professional, objective, and nonpartisan approach to its work. GAO's quality assurance framework is designed to ensure adherence to these principles.

The framework is designed around people, processes, and technology and applies to all GAO work conducted under generally accepted government auditing standards. GAO has a multidisciplinary staff of approximately 3,200 accountants, health experts, engineers, lawyers, national security specialists, environmental specialists, economists, historians, social scientists, actuaries, and statisticians. GAO leverages this knowledge by staffing engagements with teams proficient in a number of areas. For example, engagement teams comprise a mix of staff supported by experts in technical disciplines, such as data collection and survey methods, statistics, econometric modeling, information technology, and the law. To add additional value and mitigate risk, GAO has a forensic audits and special investigations team to expose government fraud, waste, and abuse.

A key process in our quality assurance framework is providing responsible officials of audited agencies with the opportunity to review and comment on our draft reports. This policy is one of the most effective ways to ensure that a report is fair, complete, and constructive.

In April 2005, an international peer review team gave our quality assurance system a clean opinion—only the second time a national audit institution has received such a rating from a multinational team. Thus, the Congress and the American people can have confidence that GAO's work is independent, objective, and reliable. The team, under the auspices of the Global Working Group of national audit institutions, examined all aspects of GAO's quality assurance framework. The team found several global "better practices" at GAO that go beyond what is required by government auditing standards. These practices included its strategic planning process, which ensures that GAO focus on the most significant issues facing the country, serious management challenges, and the programs most at risk.

The team identified other noteworthy practices:

- GAO's audit risk assessment process, which determines the level of product review and executive involvement throughout the audit engagement.

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- GAO's agency protocols, which provide clearly defined and transparent policies and practices on how GAO will interact with audited agencies.
 - GAO's use of experts and specialists to provide multidisciplinary audit teams with advice and assistance on methodological and technical issues—vastly expanding GAO's capacity to apply innovative approaches to the analysis of complex situations.

As an organization in constant pursuit of improvement, we benefited from the peer reviewers' recognition of our quality control procedures as global "better practices" as well as their suggestions on how to strengthen guidance and streamline procedures.

Concluding Observations

Our work highlights the critical challenges that the United States and its allies face in the ongoing struggle to help the Iraqis stabilize, secure, and rebuild their country. Forthright answers to the oversight questions we posed in our report of January 9, 2007, are needed from the U.S. agencies responsible for executing the President's strategy. Congress and the American people need complete and transparent information on the progress made toward achieving U.S. security, economic, and diplomatic goals in Iraq to reasonably judge our past efforts and determine future directions. For future work, GAO will continue to provide this committee and Congress with independent analysis and evaluations and coordinate our efforts with the accountability community to ensure appropriate oversight of federal programs and spending.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or other members may have at this time.

GAO Contacts and Acknowledgments

For questions regarding this testimony, please call Joseph A. Christoff at (202) 512-8979. Other key contributors to this statement were Nanette Barton, Donna Byers, David Bruno, Dan Cain, Lynn Cothorn, Tim DiNapoli, Mike Ferren, Rich Geiger, Tom Gosling, Whitney Havens, Lisa Helmer, Patrick Hickey, Henry L. Hinton Jr., John Hutton, Steve Lord, Judy McCloskey, Tet Miyabara, Mary Moutsos, Ken Patton, Sharon Pickup, Jason Pogacnik, Jim Reynolds, Donna Rogers, and William Solis.

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January 18, 2007



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Statement
of

Mr. Thomas F. Gimble
Acting Inspector General
Department of Defense

before the
House Armed Services Committee

on

"Audit of Reconstruction and Support Activities in Iraq"

Mr. Chairman and Members of the Committee on Armed Services:

I would like to thank you for the opportunity to appear before this committee. I also want to publicly thank the men and women who serve in our Armed Forces. Each visit I make to Southwest Asia, most recently last November to Iraq and Qatar, reminds me of the importance of my office in providing the oversight necessary to ensure funds are being appropriately managed and are being used to support the warfighter and achieve Department of Defense (DoD) mission requirements.

As I stated in our last Semiannual Report to Congress, the Global War on Terror is at the forefront of our nation's concerns, and continues to be a priority for the DoD Office of the Inspector General (OIG). Currently we have about 140 OIG personnel working with the Department and the Congress in providing the oversight needed on the \$400 billion in DoD supplemental funds appropriated to support our fight against terrorism and to support the men and women of our Armed Forces in Southwest Asia.

OIG Strategy

To accomplish our oversight mission, we recognized that we needed a combination of initiatives: (1) establish an in-country oversight presence, (2) expand oversight coverage of funds that are predominantly being executed in the United States, and (3) improve interagency coordination and collaboration to minimize duplicative efforts within the oversight community. First, we established an audit field office in Qatar under sponsorship of the Commander, U.S. Central Command, which is also where

his forward deployed base is located. We use Qatar as a hub where teams deploy into Iraq, Kuwait, and Afghanistan. The field office is staffed by auditors on a rotational cycle for tours of duty that range from 4, 6, or 12 months. That office has conducted command requested reviews such as the Commander's Emergency Response Program. Separately, we have had auditors deploy from Qatar into Iraq to review the Status of Equipment Resources, Iraqi Security Forces Fund, and Potable and Nonpotable Water Quality. Additional audit teams are planned to review reset of ground vehicles and equipment in Iraq. Also, we currently have four auditors and investigators in Iraq, who are the initial staff for our established in-country presence in Iraq. Second, as of December 2006, we have initiated 15 ongoing audits staffed with about 108 auditors on issues that pertain to Operation Iraqi Freedom. Third, we are establishing a Joint Planning Group on oversight activities in the Southwest Asia Region so that oversight work by the Military Inspectors General and Auditors General, the Inspectors General of State and the Agency for International Development, the Special Inspector General for Iraq Reconstruction and Relief, and the Combatant Commands Inspectors General can better coordinate and deconflict oversight activities in the region.

In-Theater Presence

We continue to move forward in expanding OIG in-theater presence in Southwest Asia. Almost a year ago, we established our first forward field site, Qatar, in Southwest Asia. We are working towards increasing our presence in Southwest Asia, specifically to

Iraq, Afghanistan and Kuwait, before the end of this year. In the meantime, our organization continues to actively conduct audits, investigations, inspections, and intelligence oversight in the Continental United States (CONUS) and Southwest Asia that supports the war efforts in Iraq and Afghanistan. Our oversight mission covers DoD funds appropriated for the Global War on Terror, and is conducted by DoD Inspector General personnel in Southwest Asia to obtain the essential documentation or evidence to evaluate audits issues, allegations, or other claims. Each OIG component, Audit, Investigations, Inspections and Evaluations, and Intelligence, is actively involved in oversight efforts in Iraq as well as Afghanistan.

Audits

We have 15 on-going Iraq-related audit projects involving critical readiness issues that directly impact the warfighter such as personnel and operational equipment readiness; the sustainability of small arms programs, and resetting ground vehicles and equipment with the combatant commands. Our audits include the oversight of funds and evaluation of internal controls relating to the Commanders' Emergency Response Program, as well as the execution of supplemental funds to train and equip the Iraq security forces.

Many of our audits are initiated in response to congressional requests. Examples include the use of contractors for dissemination of information within Iraqi local

community populations, procurement policies for armored vehicles, water quality for U.S. forces serving in Iraq, and equipment status of deployed forces. With respect to our audit of Information Operations Activities in Southwest Asia (the Lincoln Group), we concluded that the Multi-National Force-Iraq and Multi-National Corps-Iraq complied with applicable laws and regulations in their use of a contractor to conduct Psychological Operations and their use of newspapers as a way to disseminate information. With respect to procurement policies of armored vehicles, we have completed five site visits to examine the procurement history of armored vehicles and to determine whether proper contracting policies were followed. On the potable and non-potable water audit, the audit team completed site visits in Camp Ar Ramadi in December 2006. We are also completing our audit of the equipment status of deployed forces where we visited Iraq and Afghanistan. Comments have been received from the Assistant Deputy Under Secretary of Defense for Program Support, the U.S. Central Command, and the Department of the Army, and we plan to issue this report by the end of the month.

Investigations

The Defense Criminal Investigative Service (DCIS), the criminal investigative arm of the DoD Inspector General, has been engaged in investigating DoD-related matters pertaining to the Iraqi theater, to include Kuwait, since the start of the war. From May 2003 through October 2004, DCIS had teams of two to three agents deployed to Baghdad. From October 2004 to present, the DCIS European office as well as multiple

CONUS DCIS offices continued to investigate Iraq related matters. In September 2006, DCIS re-deployed four special agents to the theater – two special agents are assigned to Iraq and two special agents are assigned to Kuwait. Both offices are conducting criminal investigations and examining matters that pertain to the Department.

The presence of DCIS in the region has led to numerous investigations of corrupt business practices; the loss of U.S. funds through contract fraud; and the loss of Iraqi military equipment. Our investigations are focused on matters such as bribery, theft, gratuities, bid-rigging, product substitution, and conflicts of interest. These alleged crimes expose U.S. and coalition forces to substandard equipment and services, or shortages that aggravate an already harsh and harmful environment.

DCIS seeks to protect America's warfighters by assuring the readiness of U.S. and coalition forces through the vigorous investigation of alleged thefts, anti-trust violations, and other breaches of public trust that affect programs and services with critical security applications.

As a result of the magnitude of alleged criminal activity, DCIS played a significant and pivotal role in the creation of the International Contract Corruption Task Force (ICCTF), whose mission is to investigate and prosecute contract fraud and public corruption related to U.S. Government spending in Iraq and Afghanistan. DCIS has partnered with other agencies that include the Federal Bureau of Investigation, the Special Inspector General for Iraq Reconstruction, the U.S. Army Criminal Investigation

Command, the Agency for International Development Office of the Inspector General, and the Department of State Office of the Inspector General.

The ICCTF has activated a Joint Operations Center to coordinate criminal investigations and employ criminal intelligence capabilities to achieve maximum interagency cooperation and successfully prosecute fraud and corruption cases in Iraq and Afghanistan.

Intelligence

Our intelligence component continues to review and assess high-profile issues such as review of DoD-directed investigations of detainee abuse; evaluating the U.S. Government's Relationship with the Iraqi National Congress, and review of congressional concerns regarding the Rendon Group.

Inspections and Evaluation

Finally, our Policy and Oversight component continues to play a key role in developing and promoting the establishment of effective oversight and security organizations in Afghanistan and Iraq. To help ensure that we succeed in this effort, we continue to assign a full time person to the Multinational Security Transition Command in Iraq (MNSTC-I) in Baghdad to assist the Iraq Minister of Defense (MoD) and Minister of Interior (MoI) establish, coordinate and develop Inspector General training for the

Iraqi. We are also continuing to conduct joint critical assessments with the Department of State—an interagency effort.

Interagency Coordination

We are committed to remaining an active player in improving interagency coordination and collaboration to minimize duplication of efforts. I'm confident that my colleagues within the oversight community will attest that continuous interagency coordination and collaboration is essential for our business. To minimize the impact on forward command operations, deconflict overlapping and duplicative oversight requests, and facilitate the exchange of oversight information in Iraq, we participate in the Iraq Inspectors General Council chaired by the Special Inspector General for Iraq Reconstruction.

We also recognize that the Joint Staff and Combatant Commands Inspectors General are key players in helping us achieve our oversight objectives. To highlight the importance of collaborative oversight responsibilities, we recently agreed to host the next Joint Staff and Combatant Commands Inspector General Conference, which will be held in April 2007. Further, the first meeting of the Southwest Asia Joint Planning Group will coincide with the Joint Staff and Combatant Commands Inspectors General Conference. It is our intent that this joint planning group will enhance supportive dialogue and

minimize or eliminate operational constraints in gaining access to the theater of operation, which may potentially delay delivery of results of high-level interest.

Operational Constraints

Operational constraints, such as travel restrictions, impact oversight efforts including the DoD Inspector General. Operational tempo requirements and the anticipated surge of warfighters may present operational challenges for us to enter Southwest Asia; specifically in Iraq and Afghanistan. We recognize that the surge of personnel and Army's Relief In-Place Transfer of Authority (RIPTOA) also present a challenge for the commands. Nonetheless, our in-country presence to conduct adequate oversight is imperative.

Although a significant number of our reviews are conducted in the "green zone" areas, we must enter the "red zone" or high threat areas to assess claims or allegations. Therefore, we actively engage with the combatant command to ensure that the coordination, timeliness, and force protection measures for movement in and out of "red zone" areas are reasonable enough to minimize or manage the risk to the auditor or investigator as well as force protection staff.

Way Ahead

The way ahead for our organization is to continue executing our strategy. We must continue working towards placing forward field sites in Southwest Asia; specifically in Iraq, Kuwait, and Afghanistan, by the end of the year. We are committed to performing oversight of Department operations related to the Global War on Terror by directing our resources to provide the necessary oversight at CONUS locations and Southwest Asia. The way ahead is to continue coordinating and collaborating with the respective Inspectors General, Department of State, the Special Inspector General for Iraq Reconstruction, Government Accountability Office, and other audit and investigative agencies who are supporting the Global War on Terror in Southwest Asia to leverage collective oversight capabilities. We continue to work with the combatant commanders to minimize or eliminate any operational constraints in the performance of our mission.

In closing, we recognize that the men and women of the U.S. armed forces are facing enormous challenges ahead for the defense of our nation's goals. We offer our commitment in ensuring that the DoD resources that are appropriated and provided to those men and women of the U.S. Armed Forces are used effectively in the Global War on Terror in Southwest Asia.

Thank you for the opportunity to appear before the committee today to address our ongoing oversight work regarding Iraq.

HOUSE ARMED SERVICES COMMITTEE

TESTIMONY OF HOWARD J. KRONGARD

INSPECTOR GENERAL

U.S. DEPARTMENT OF STATE AND

BROADCASTING BOARD OF GOVERNORS

JANUARY 18, 2007

Chairman Skelton, Ranking Member Hunter, and Members of the Committee:

Thank you for the opportunity to discuss the Department of State Office of Inspector General's view of audit and oversight activities related to Iraq. Since my office did not become aware of your invitation until Tuesday morning, less than 48 hours before this hearing, we were unable to meet the 48 hour advance requirement for a written statement. I would like to make a brief introductory statement and then I will be pleased to respond to questions at the appropriate time. With your permission, I will hereafter submit a written statement for the record.

OIG's approach to oversight in Iraq has been through audits, inspections, investigations, assessments, and surveys to identify and recommend ways in which State Department programs can operate more efficiently and economically. These are programs affecting the various operations of Embassy Baghdad, including the construction of the New Embassy Compound, as well as Iraq reconstruction, governance, and security, all of which are critical elements to ensuring stability in Iraq.

With resources limited due to statutorily mandated audit and inspection requirements and flat budgets in an increased cost environment, OIG has nevertheless conducted high-value projects that have included, in fiscal years 2005 and 2006 and thus far into 2007, 10 program and management assessments, 15 audits with 4 more in progress, and supervision of 4 Defense Contract Audit Agency audits. Significant program assessments included an Assessment of Iraq Police Training, an Inspection of Rule-of-Law Programs in Iraq, and a Survey of Anticorruption Programs in Iraq. Significant audit work has included a survey of the Bureau of International Narcotics and Law Enforcement funding for Iraq and, currently in progress, a Review of a large Contract for Iraqi Police Training Support.

I should note that I have been a strong proponent of interagency Inspector General undertakings as a way of leveraging my limited resources and of enhancing cooperation among the three offices before you today, as well as others. In that vein, the Assessment of Iraq Police Training was done jointly with DOD/OIG, the Survey of Anticorruption Programs, and the

audits of INL Funding and of the Iraqi Police Training Support Contract were all done in conjunction with SIGIR. Parenthetically, an Assessment of the Police Training Program in Afghanistan and an Assessment of Afghanistan Counternarcotics Programs were done jointly with DOD/OIG.

In addition to the foregoing reports, I have personally traveled to Iraq to accomplish specific objectives. For example, during my visit this past September, I met with the 29 Iraqi Inspectors General. I said to them, among other things: “Each of your Prime Minister and Deputy Prime Minister have recently identified corruption as one of the two greatest threats – along with violence – to the stability and long term success of Iraq as a free and democratic country. Indeed, violence and corruption go together: corruption feeds and funds the insurgency, and contributes to an environment where both can thrive. You are in the very front line of this great battle against corruption, and I look forward to seeing how we can assist and support you in this crucial fight for your country.”

To assist them, I undertook to identify someone experienced in the U.S. Inspector General community to become a Senior Advisor to Iraqi IG’s in Embassy Baghdad. I identified such an individual, who is now being processed and should be in Baghdad shortly.

In my meeting with the leader of Iraq’s Board of Supreme Audit, I undertook to identify someone experienced in audit standard setting to become a Senior Advisor to the Board of Supreme Audit. Because it was more in his area, I turned to Comptroller General Walker for his assistance. The Comptroller General has identified a candidate who is presently being considered.

I believe the foregoing is responsive to your question as to what is working with respect to oversight in Iraq. With respect to what is not working, I would point first to the limited resources available to my office. The work in Iraq I have described to you was funded by an allocation of \$1.3 million from the FY 2005 Supplemental and \$1.7 million from the FY 2006 Supplemental. That \$3 million over two years was intended to provide for our work in both Iraq and Afghanistan. As for 2007, we have received no Supplemental funds for Iraq or Afghanistan. By way of contrast, I believe

SIGIR's initial and supplemental fundings have approximated \$125 million. So, at a time when the costs and risks attributable to State Department programs in Iraq continue to increase, OIG's resources have remained flat and perhaps have decreased after considering mandatory wage increases, higher travel costs, and lower dollar exchange rates.

A second problem is the heightened security issues in Iraq which detract from the efficiency and productivity of all oversight activities and can occasionally call into question the value of proceeding with an activity at all. Additionally, OIG, like other U.S. Government entities operating in Iraq, shares the same problems of recruiting and retaining qualified staff willing to work in Iraq. Unlike some other entities, however, OIG does not have the legal authority to hire 3161 term employees or personal service contractors, who are used by others to fill staffing requirements in Iraq.

To ameliorate the foregoing difficulties, OIG has wanted to establish a Middle East regional office, perhaps in Qatar where we could share costs with DOD/OIG's office already there, specifically to provide oversight for crisis and post-conflict programs in Iraq and elsewhere in the region. However, the funding for this office has not been made available.

In closing, Mr. Chairman, I would like to recognize the brave and dedicated military and civilian personnel in Iraq who are making enormous efforts to bring about a safe, secure and democratic environment where rights and liberties of individuals are protected. This is a difficult challenge, and we in OIG want to do our part in assuring that U.S. resources are used to the optimum possible efficiency and effectiveness in such trying circumstances.

Thank you.

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**STATEMENT OF STUART W. BOWEN, JR.
SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION**

BEFORE THE

**UNITED STATES HOUSE
ARMED SERVICES COMMITTEE**

REVIEW OF IRAQ RECONSTRUCTION

**Thursday, January 18, 2007
Washington, D.C.**

Chairman Skelton, Ranking Member Hunter, and members of the Committee: thank you for this opportunity to address you today on important matters regarding the role of the Special Inspector General for Iraq Reconstruction (SIGIR) in auditing the reconstruction of Iraq.

The Congress tasked SIGIR to provide oversight of the U.S. investment in the relief and reconstruction of Iraq. In this testimony, I will provide you with the most current reporting on SIGIR's oversight efforts in Iraq. I look forward to a productive exchange with the Committee regarding SIGIR's work in Iraq.

BACKGROUND

I was appointed Inspector General of the Coalition Provisional Authority (CPA-IG) in January 2004 and immediately began to staff and develop the organization and to structure an oversight plan for the Coalition Provisional Authority's programs and operations. I deployed my first contingent of auditors to Iraq at the end of March 2004, and SIGIR has expanded its presence substantially since then. SIGIR now has 55 persons assigned to Iraq. Of note, my Office's oversight work began just a few months before the June 28 dissolution of CPA.

The Congress created the Office of the Special Inspector General for Iraq Reconstruction in October 2004 to continue oversight of reconstruction in Iraq as the CPA had been dissolved and the predecessor CPA-IG was being terminated. SIGIR's mandate was extended again last month, when the Congress granted SIGIR additional authority over all FY 2006 reconstruction funding. SIGIR, however, does not currently possess legal authority to provide oversight of any FY 2007 relief and reconstruction funding that may be appropriated.

SIGIR reports jointly to the Secretaries of State and Defense and keeps them fully informed about challenges and deficiencies in reconstruction programs and operations; importantly, our reports include suggested approaches for corrective action. Further, SIGIR provides all reports directly to the Congress and makes them available to the public on our website, www.sigir.mil.

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To date, my Office has produced 11 Quarterly Reports, issued 73 audit products, and produced 80 project assessments. Additionally, SIGIR criminal investigators are working on 87 live cases. SIGIR's investigations have produced five arrests and four convictions, with another 23 cases at the Department of Justice. SIGIR also has a robust Lessons Learned Program, with two reports already published (one on Human Capital Management and the other on Contracting). The third and final report, which addresses Program and Project Management, will be published this quarter. A Lessons Learned capping report, called The Story of Iraq Reconstruction, will be published by the end of this calendar year.

IMPACT OF SIGIR'S WORK

SIGIR's work has produced direct and indirect financial benefits to the American taxpayer and the government of Iraq, as well as improvements in the overall management of the Iraq reconstruction effort, including:

1. SIGIR audit has saved or recovered \$50 million, and have identified better use of \$7.8 million, and has identified the potential to recover \$106 million.
2. SIGIR investigations have recovered or seized assets amounting to \$9.5 million, and are working on the recovery of an additional \$15 million.
3. SIGIR inspections made recommendations to ensure the effective use of an estimated \$39 million in reconstruction projects.
4. SIGIR enabled U.S. reconstruction management officials to:
 - a. Improve efficiency/effectiveness and reduce expenditures;
 - b. Implement or improve fund and asset controls;
 - c. Enhance construction quality by ensuring adequacy of design specifications, stopping inadequate construction, and avoidance of re-work;
 - d. Avoid waste and unnecessary expenditures.

SIGIR inspectors also found that engineering improvements to oil pipelines could increase oil export volume, and potentially increase Iraqi oil revenues by more than \$1 billion annually if the pipeline can be effectively secured.

OVERVIEW OF SIGIR AUDIT WORK

As of January 30, 2007, SIGIR will have issued a total of 92 audit products. This quarter's audits address a wide range of issues, including:

- a review of a Department of State (DoS) \$188.7 million task order for Iraqi police training, training support, and the construction of several training support camps;
- an update on the status of medical equipment purchased to support the delayed Primary Healthcare Center project and an assessment of other non-construction contracts supporting the PHC project;

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- a follow-up on 17 recommendations that SIGIR previously made in audit reports on the control and accountability for contracts, grants, and cash transactions using the Development Fund for Iraq (DFI);
- a review of government property management controls by the U.S. Agency for International Development (USAID) and its contractor, Bechtel National, Inc.;
- a review of improper obligations using Iraq Relief and Reconstruction Funds, the circumstances related to these obligations, and subsequent actions taken or planned regarding the use of these funds;
- a review of internal controls related to disbursements of IRRF apportioned to the DoS, DoD, and USAID;
- a report on security costs as reported by design-build contractors on IRRF projects; and
- a review of U.S. government plans and programs for capacity development in Iraqi government ministries.

In carrying out their mission, SIGIR's auditors apply a balanced approach, providing oversight, insight, and foresight in the Iraq reconstruction program. SIGIR's *oversight* efforts, an IG's traditional focus, assess the return on the U.S. taxpayer investment and promote transparency and accountability of the U.S. administration of any Iraqi resources used. SIGIR's *insight* efforts advise the U.S. reconstruction leadership on management issues, with the emphasis on creating an environment of accountability, rule of law, and public trust in Iraq. SIGIR's *foresight* efforts focus on end-state issues, such as the cost to complete of U.S. projects the transition of U.S. funded projects to the government of Iraq; sustainment of U.S. funded projects and programs, and capacity building within the Iraqi government and civil society.

SIGIR audits generally have four distinct phases:

1. engagement planning to evaluate the adequacy and effectiveness of controls built into a project or program, and establish detailed plans for fieldwork in a design matrix;
2. fieldwork to conduct detailed examinations, tests, and analyses to collect appropriate and adequate data;
3. reporting audit results and recommendations; and
4. audit closure and follow up on the implementation of the audit recommendations.

SIGIR's audit planning is driven by the requirements of Public Law 108-106, and it incorporates significant research into key areas of interest to management, SIGIR, and the Congress, and provides balanced coverage of the SIGIR mission with the resources currently, and projected to be, available.

Given the unique nature of the Iraq reconstruction effort, SIGIR's audit plan is tailored to provide quick and useful responses and recommendations for Iraq reconstruction programs and operations. SIGIR primarily conducts performance audits that assess the

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economy, efficiency, effectiveness, and results of Iraq reconstruction programs and operations.

SIGIR's 2007-8 audit plan addresses:

- the oversight and accounting of the obligation and expenditure of IRRF funds and FY 2006 funds;
- the monitoring and review of reconstruction activities funded by the IRRF and FY 2006 funds;
- the monitoring and review of contracts funded by the IRRF and FY 2006 funds;
- the monitoring and review of the transfer of IRRF and FY 2006 funds and associated information between and among departments, agencies, and entities of the United States, and private and nongovernmental entities; and
- the maintenance of records on the use of IRRF and FY2006 funds to facilitate future audits and investigations of the use of such funds.

Final audit findings and recommendations resulting from audits are communicated to the responsible program managers and senior management in audit reports or other IG communications, depending on the complexity and significance of the issues involved. The implementation of audit recommendations is crucial to the effectiveness of SIGIR efforts, and thus SIGIR has an ongoing follow-up program.

SIGIR has 16 ongoing audits, including:

Review of Close-out Processes and Procedures for IRRF Contracts (SIGIR-6006)

This audit will determine whether contracts funded by IRRF (including task orders, grants, and cooperative agreements) are being closed out on time and whether they comply with the Federal Acquisition Regulation (FAR) 4.804 1(a) and other applicable regulations, policies, and procedures. We will also determine what steps the government program and contract officials take to ensure that the delivery of the goods or services meet the identified requirements and the payments were reasonable for goods and services received.

Fact Sheet: U.S. Government Organizations' Roles and Responsibilities for Iraq Relief and Reconstruction Activities (SIGIR-6012)

This report describes the roles and responsibilities of the principal U.S. government organizations engaged in Iraq relief and reconstruction. This report examines how officials in those organizations view their authority and role in the Iraq effort and how the officials believe they interface with other organizations.

Iraq Relief and Reconstruction Fund (IRRF) Financial Review: Unliquidated Obligations (SIGIR-6026)

The overall objective of this audit is to determine the amount of IRRF unliquidated obligations and whether the U.S. government agencies responsible for reconstruction projects in Iraq have established adequate management controls over IRRF 1 and IRRF 2 unliquidated obligations.

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Review of Spending of Where the Money Went Under the USAID Bechtel Contract and the Recording and Reporting of Associated Costs (SIGIR-6028)

The objective of this review is to determine, in detail, the costs incurred by the contractor in performing work under selected contracts with USAID for reconstruction projects in Iraq, as well as the methods used to record and report associated costs. SIGIR also will evaluate the controls associated with program and contract management.

Review of Logistics Civil Augmentation Program (LOGCAP) Task Order 130 (SIGIR-6029)

This review was requested by the Office of the Chief of Mission, U.S. Embassy-Iraq. The overall objective is to determine whether the U.S. government is receiving the services paid for under Logistics Civil Augmentation Program (LOGCAP) Task Order 130 and whether the support provided is reasonable, effective, and cost-effective. Task Order 130 was awarded to provide services necessary to support, operate, and maintain Chief of Mission and MNF-I staffs at the U.S. Embassy-Iraq. SIGIR will review two service areas in particular: (1) vehicle service and maintenance and (2) fuel procurement, delivery, and pricing.

Lessons Learned from Management and Organizational Challenges of the Iraq Relief and Reconstruction Fund (SIGIR-6032)

This continues the SIGIR review (SIGIR 6012) on how roles and responsibilities have been assigned for the management of IRRF. This study will identify leading practices that may be used to guide future multi-organizational interaction for managing similar relief and reconstruction initiatives.

Review of the Advanced First Responder Network Implementation and Sustainment (SIGIR-6039)

The objective of this review is to examine how effective the Advanced First Responder Network (AFRN) is now that it has been implemented and to determine whether there are any sustainment issues regarding the operation and maintenance of the system.

Lessons Learned: Contracting in Iraq Reconstruction: Design-build vs. Direct Contracting (SIGIR-7001)

The objective of this assessment is to understand how the major construction contracts were in Iraq. SIGIR is comparing the two major project delivery systems used in Iraq—design-build and direct contracting—to U.S. industry-leading practices to identify the circumstances that enhance or limit their successes. SIGIR is also assessing the outcomes of the use of each delivery system and how each met the U.S. strategic goals for relief and reconstruction.

Iraq Relief and Reconstruction Fund (IRRF) Financial Review: DoS Unmatched Disbursements (SIGIR-7002)

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The overall objective of this audit is to determine the amount of IRRF unmatched disbursements and whether DoS has established adequate management controls over IRRF 1 and IRRF 2 unmatched disbursements.

Review of Financial Reporting and Cost-to-Complete Estimates for Iraq Relief and Reconstruction U.S.-Funded Programs and Projects (SIGIR-7003)

The overall objective is to determine whether IRMO, USAID, GRD, and MNSTC-I provide accurate project financial data in required reports to the Congress.

Progress Review of the Transition of Iraq Relief and Reconstruction Fund Projects to the Government of Iraq (SIGIR-7004)

The overall objective is to determine whether DoS, USAID, GRD, and MNSTC-I have developed and implemented plans for the transition of IRRF-funded projects to the Iraqi Government.

Review of U.S. Sources and Uses of Fiscal Year 2006 Funding for Iraq Relief and Reconstruction (SIGIR-7005)

The overall objective of this review is to assess how the funds from U.S. sources were used in Iraq. These funds include the IRRF, ESF, DFI, CERP, and any other funds identified during our review if used to support the Iraq relief and reconstruction mission in Fiscal Year 2006.

Survey of the Department of State's International Narcotics and Law Enforcement IRRF Projects and Efforts in Support of the Iraq Relief and Reconstruction (SIGIR-7006)

This review is a spin-off of our review of the INL efforts to build the Adnan Police Academy. In this review we identified serious weaknesses in contracting, contract administration, accountability, and overall management. This review will identify if the conditions and weaknesses identified in the review of the Adnan Police Academy. This review will also include INL's program at the International Jordanian Police Training Center.

Review of the Commander's Emergency Response Program (CERP) for Fiscal Year 2006 (SIGIR-7007)

SIGIR plans to assess management controls and project documentation of the Fiscal Year 2006 CERP funds, including what controls are in place to ensure the accountability, of CERP funds and project records, whether the CERP funds were used for intended and authorized purposes, and the status of coordination of the CERP with other reconstruction funds and programs. We will also examine whether commanders are ensuring the sustainment of completed CERP projects by the Government of Iraq and how these CERP projects are being transitioned to the Government of Iraq. Further, this review will follow up on and assess actions taken by U.S. government officials on the recommendations made in our prior reports on the use of CERP.

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Review of U.S.-Funded Weapons Provided to Iraqi Security Forces (SIGIR-7008)

The overall objective is to determine whether proper accountability has been established for U.S.-funded weapons provided to Iraqi security forces.

Review of the Status of U.S. Government Anticorruption Efforts in Iraq (SIGIR-7009)

The overall objective is to assess the U.S. Government's anticorruption efforts in Iraq, including whether the U.S. Government has developed a strategic anticorruption program with identified goals across agencies and whether relevant U.S. Government agencies developed action plans or implemented the recommendations made in previous reports?

SIGIR will announce the following audits during the next quarter:

Review of the Effectiveness of U.S. Government Contracts to Enable Budgeting and Financial Management Capabilities in Iraqi Ministries

Comparative Analysis of the Air Force Center for Environmental Excellence Versus Gulf Region Division in IRRF (Project Management and Contracting)

Review of Spending on Parson Facilities and Transportation Sector Design-Build Contracts and the Recording and Reporting of Associated Costs

Review of U.S. Government Organizations' Efforts to Execute Jobs-Producing Programs in Iraq

Review of U.S. Government Organizations' Efforts to Expand Provincial Reconstruction Teams in Iraq

Controls Over U.S. Government Property and Equipment in the Possession of Design-Build Contractors

Review of the Use of Sector Project and Contracting Office Contractors (SPCOCs) in Managing IRRF Projects

Review of U.S. Government Efforts to Expand the Micro-Loan Program

OVERVIEW OF SIGIR INSPECTIONS WORK

As of December 31, 2006, SIGIR had completed 80 project assessments, 96 limited on-site inspections, and 266 aerial assessments. The 80 project assessments entail visits to project sites all across Iraq; the 96 limited on-site inspections are visits to sites by SIGIR contractors; and the 266 aerial assessments involve the use of satellite imagery.

During this quarter, SIGIR visited on site, assessed, and reported on 15 construction projects across Iraq, yielding a variety of results. SIGIR found several well-constructed projects with sufficient contractor quality control (QC) and effective U.S. government quality assurance (QA) programs in place. In one notable instance, however, the Baghdad Police Academy, SIGIR found continuing serious construction deficiencies that stemmed

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from insufficient oversight and inadequate contractor performance. Recurrent construction problems included contractor failure to comply with international standards provided for in the contract, construction on non-compacted soil, deficient concrete pours, substandard plumbing installation, and unsafe electrical wiring.

SIGIR's Inspections directorate selects projects from each of the major reconstruction sectors to survey, assess, and report on. Each projects assessment seeks to determine whether:

- Project components were adequately designed before construction or installation.
- Construction or rehabilitation met the standards of the design.
- The Contractor's Quality Control plan and the U.S. Government's Quality Assurance program were adequate.
- Project sustainability and operational effectiveness adequately has been addressed.
- Project results are or will be consistent with original objectives.

To date, SIGIR has conducted 90 on site inspections of construction projects, and assessed another 370 projects using satellite imagery or local engineers. This represents roughly 15 percent of the total. Approximately 70 percent of the projects inspected *on site* by SIGIR complied with contract specifications. The biggest issue identified by the unsatisfactory inspections was a lack of management oversight— both by the government and the contractor—of the construction project. For example, SIGIR's inspection of the Baghdad Police College, which SIGIR has visited several times in Sadr City, found that both the government and the contractor failed to comply with the contract's quality assurance and quality control requirements, resulting in a project that failed to meet requirements.

Security problems have greatly impeded SIGIR's assessment program. Because of security concerns, SIGIR assessment teams were unable to travel to several sites. Despite this limitation, SIGIR's presence across Iraq continues to positively affect reconstruction efforts. SIGIR's ability to convey an objective sense of the status of projects often not otherwise available to project managers has enabled projects mangers to take quick corrective action.

SIGIR's inspection work this quarter includes the following reports:

Al Alwaiya Maternity Hospital (\$1.99 million)

The project was sufficiently well-designed to renovate the facility, and construction work was consistent with the standards of the contract design. The contractor's quality control plan was sufficiently detailed to effectively guide the contractor's quality management program, and the government's QA program effectively monitored the contractor's QC program. As a result, the city of Baghdad, Iraq, should receive a renovated and modernized maternity hospital.

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Al Alwaiya Children's Hospital (\$1.29 million)

SIGIR found that the project was sufficiently well-designed to renovate the facility, and that construction work was consistent with the standards of the contract design. The contractor's QC plan was sufficiently detailed to effectively guide the contractor's QM program, and the government's QA program effectively monitored the contractor's QC program. As a result, this renovation/modernization will result in a modern facility that provides a healthy and safe environment for patients, visitors, and employees.

Dahuk Rehabilitation Center (\$5.63 million)

The contract's design and specifications were specific enough to complete construction of the facility because the U.S. Army Corps of Engineers (USACE) conducted a prudent evaluation of pre-existing conditions and current requirements. In addition, closely supervised craft-specific crews performed the construction work, and effective QM practices ensured adherence to design standards. SIGIR also found that project sustainability was adequately addressed in the contract. As a result, when completed, the Dahuk Rehabilitation Center project should meet its intended objective to finish discontinued construction of a modern self-contained prison facility as it was designed.

Al Kasik Water Storage Tanks (\$4.9 million)

SIGIR found that the completed construction work complied with the design standards for the Al Kasik Water Storage Tank project, and the contractor's QC and the U.S. government's QA were adequate and ensured effective QM during construction. The system of water storage tanks is designed to remain in place and supply clean water to the water distribution system. If completed as designed, the project will likely be sustainable for years to come.

Al Kasik Waste Water Treatment Plant (\$2.7 million)

In general, project components were adequately designed before construction. However, the chlorination system disinfected wastewater at the pre-filter stage: the unfiltered suspended solids reduced the efficiency of the disinfection. SIGIR found that the contractor's QC and the U.S. government's QA programs were found to be generally effective. Construction at the Waste Water Treatment Plant met design standards, with two exceptions—the clarifier tank's sweep-arm assembly and the G-3 pump station were deficient.

Some aspects of project sustainability were not adequately addressed in the contract. First, the inventory of backup replacements and spare parts provided was not sufficient to effectively maintain components to sustain operations. Second, it is likely that insufficient operational/run testing and ineffective plant operator training before turnover contributed to the failure of the clarifier tank.

51st Brigade Iraqi Army Barracks (\$.99 million)

SIGIR found that the USACE design package was adequate to construct the buildings and most of the facilities included in the contract scope, and that most of the construction appeared to meet the standards of the Statement of Work (SOW) and design. The contractor's QC plan was sufficiently detailed to effectively guide the contractor's QM

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program, and the government's QA program effectively monitored the contractor's QC program.

Sustainability, however, was not adequately addressed in the basic contract and was not mentioned in the task order requirements. In addition, this report identified low-quality plumbing fixtures and barracks building doors used by the contractor. The use of these items will present the Iraqi Army with continual maintenance problems. While the project has resulted in the construction of new buildings and facilities, which will provide additional facilities for Iraqi Army soldiers to live and work, SIGIR's report documents concerns with the motor pool that require follow up by USACE.

Al Hillah Police Firing Range (\$43 million)

SIGIR found that the firing range components were adequately designed before construction, and that the work completed at the time of SIGIR's on-site inspection met the standards of the design. USACE ensured quality and compliance with the contract requirements. The completed project work will result in a fully functioning firing range with 12 rifle-firing stations and 12 pistol-firing stations for the Iraqi Police.

402nd Battalion Iraqi Army Headquarters Barracks (\$74 million)

SIGIR found that the USACE design package was adequate to construct the buildings and most of the facilities included in the contract scope. In general, the construction appeared to meet the standards of the SOW and design. While the contractor's QC and the government's QA program were effective, sustainability was not adequately addressed in the basic contract and was not mentioned in the task order requirements. In addition, this report identified low-quality plumbing fixtures and barracks building doors used by the contractor. The use of these items will present the Iraqi Army with continual maintenance problems.

Baghdad Police College (\$72.25 million)

SIGIR found a number of problems with this project. Project components were not adequately designed before construction. The contractor did not provide and the government did not review the required number of design drawings. For the design drawings that were reviewed, the government determined that the submittals were generally incomplete and inadequate. For several buildings, the 100% design drawing submittals were rejected by the government reviewer.

Most of the work that SIGIR observed did not meet the standards of the contract and task orders. SIGIR identified significant construction deficiencies, such as poor plumbing installation, expansion cracks, concrete segregation and honeycombing, reinforcement bar exposure, and poor brickwork. Also, the construction and equipment installation were performed at a low level of workmanship by the contractor and did not comply with the international standards required by the contract and task orders.

The government's QA program was essentially non-existent in monitoring the contractor performance. The government did not review the contractor's daily QC reports. In addition, the government QA representatives tracked project progress and did not identify quality issues. They did not identify any construction deficiencies noted in the

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contractor's daily QA reports. Consequently, USACE was not aware of significant construction deficiencies at the project site. In addition, while sustainability was addressed in the task order requirements, it had yet not been adequately administered by USACE.

Electrical Substation Sustainment (\$28.27 million)

SIGIR found that these facilities were secured and in good repair, and that the substation operation was staffed by personnel with adequate skills to manage and operate them. Also, spare parts, drawings, and operating manuals were provided as required by the contract. However, these substations were distributing only 36% of their power capacity because of insufficient input from upstream transmission substations. In addition, protective relays used to manage power surges in the distribution feeders may not be as robust as necessary.

OVERVIEW OF SIGIR INVESTIGATIONS WORK

SIGIR Investigations has opened a total of 236 cases, with 87 currently open and the balance either closed or referred. SIGIR continues to field the largest number of fraud investigators in Iraq. Department of Justice prosecutors continue to make progress on the 23 SIGIR cases.

Over the past quarter, SIGIR, in conjunction with five other investigative agencies, established the International Contract Corruption Task Force (ICCTF) to coordinate the Iraq fraud investigative work of these agencies: the Major Procurement Fraud Unit (MPFU) of the U.S. Army Criminal Investigation Division (CID); the DoS OIG Criminal Investigations Directorate; USAID OIG; Defense Criminal Investigation Service and the Federal Bureau of Investigation. On October 2, 2006, a Joint Operation Center (JOC) was established at SIGIR headquarters in Arlington, Virginia. It will serve as the nerve-center for ICCTF to gather intelligence and disseminate information on corruption and fraud investigations. The ICCTF-JOC will coordinate intelligence gathering and dissemination of intelligence and appropriate case information. It will also provide analytical and target linkage data response reporting for use by all partner agencies. The start-up of this initiative has generated a great deal of momentum and promises to accelerate the flow of federal law enforcement activities during the next several quarters.

As part of the ICCTF-JOC coordinative effort, the FBI has assigned eight significant SIGIR criminal investigations to FBI field offices throughout the country. In addition, the FBI has agreed to run investigative leads for SIGIR at the preliminary stages of investigations. The use of resources with FBI field offices throughout the country and legal attachés around the world will have add vital value to criminal investigations originating in Iraq and Kuwait.

SIGIR is a member of the DoJ National Procurement Fraud Task Force (NPFTF), and serves as part of the International Working Committee (IWC). The IWC serves as a valuable link between federal law enforcement agencies and DoJ, as well as a venue to discuss issues concerning additional funding for corruption/fraud investigations,

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prosecutorial venue, extra-territorial jurisdiction, liaison with DoS and foreign governments, and coordination with legal attachés, agencies with deployed investigators, and auditors.

SIGIR continues to work with the U.S. Army Procurement Fraud Branch on suspensions and debarments of individuals and companies. And SIGIR investigators also work closely with the DoJ Commercial Litigation Section, Civil Division, pursuing civil remedies against individuals and companies and in many cases proceeding with side criminal investigations.

SIGIR COORDINATION OF IRAQ OVERSIGHT

SIGIR has sought to foster communication among the agencies with oversight responsibility in Iraq through the Iraq Inspector Generals Council (IIGC), which meets quarterly to review audit progress and deconflict audit planning. Participating members of the IIGC include the U.S. Government Accountability Office; the Office of the Inspector General, Department of State; the Office of the Inspector General, Department of Defense; the Office of the Army Inspector General; the Office of the Inspector General, Department of Treasury; the Office of the Inspector General, U.S. Agency for International Development; the Defense Contract Audit Agency; the U.S. Army Audit Agency; the Naval Audit Service; and the Air Force Audit Agency to minimize duplicative work.

In Baghdad, SIGIR established the Iraq Accountability Working Group (IAWG), which brings together in-theater elements with financial oversight responsibilities. SIGIR initiated the IAWG to complement the on-going coordination provided by the state-side IIGC. The IAWG is a forum for the forward deployed audit staffs of the various federal agencies with audit presence in Iraq to coordinate audits, share data relative to Iraq relief and reconstruction, minimize audit disruption to clients, and avoid duplicative efforts.

SIGIR has one review underway supporting conjunction with the DoS OIG. In addition, SIGIR is coordinating several other efforts with the various accountability organizations of Multi-National Force-Iraq (MNF-I) and the Multi-National Security Transition Command-Iraq (MNSTC-I).

We engage in a regular dialog with GAO about upcoming audits to avoid duplication of effort. We know that GAO has a wide mandate as the oversight organization for the legislative branch, so we work closely with them to maximize our respective strengths. Since GAO has a more strategic approach, while SIGIR's work tends to be more tactical, we try to enhance one another's work through differing levels of detail and timing of work.

SIGIR also attends the quarterly meetings of the UN International Advisory and Monitoring Board, and we work with the World Bank and International Monetary Fund to facilitate cross-agency oversight and reporting.

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CONCLUSION

In conclusion, SIGIR remains committed to supporting the reconstruction efforts in Iraq by identifying ways to accomplish the mission more effectively and efficiently, and by deterring fraud, waste, and abuse of U.S. taxpayer dollars. SIGIR's 55 auditors, inspectors and investigators will continue to carry out the duties and responsibilities assigned by the Congress in the highly dangerous environment that is Iraq today.

I remain proud of my staff's commitment and willingness to continue to serve in harm's way, far from their families, and in rapidly evolving circumstances. I will continue to do my best to ensure effective oversight and timely reporting, and to thereby advance the success of the Iraq reconstruction plan. Thank you for the opportunity to participate in this important hearing, and I look forward to answering any questions that the Committee may have.

**QUESTIONS AND ANSWERS SUBMITTED FOR THE
RECORD**

JANUARY 18, 2007

QUESTIONS SUBMITTED BY MR. SKELTON

The CHAIRMAN. Let me ask, would you, each of you, within 60 days of today, A, agree on what waste is, and, B, tell us your best professional opinion individually based upon that standard that you agree upon, how much waste is involved, both percentage-wise and dollar-wise. That is a request 60 days from now.

Mr. GIMBLE. The Department of Defense Office of the Inspector General (DoD OIG) has not performed the body of work required to provide a dollar amount or a percentage amount of funds "wasted" in contracts for reconstruction and support activities in Iraq. The DoD OIG issued several reports which identified mismanagement of funds for the global war on terror (GWOT) and lack of appropriate oversight related to contracting for goods and services.

In DoD OIG Report No. D-2006-007, "Contracts Awarded to Assist the Global War on Terrorism by the U.S. Army Corps of Engineers," October 14, 2005, we found that design and construction requirements were unclear and kept changing, which increased the cost of the work, and standards for Afghan construction were not formalized. In addition, we found that the Army Corps of Engineers:

- inappropriately used Army operations and maintenance funds for a construction project for U.S. troops valued at \$35.2 million, a potential violation of the Anti-deficiency Act;
- had two contracting offices awarding contracts pertaining to the same projects;
- although several options were available, the U.S. Army Corps of Engineers still placed requirements (valued at \$19.7 million) with a single contractor when more competitive contracts were available;
- contracting officials permitted out-of-scope items on one contract; and
- improperly awarded task orders without clearly describing the work to be performed and without negotiating a fair and reasonable price prior to a contractor beginning work.

In DoD OIG Report No. D-2004-057, "Contracts Awarded for the Coalition Provisional Authority by the Defense Contracting Command-Washington," March 18, 2004, we found that:

- personnel who generated contract requirements did not establish firm contract requirements;
- contracts were awarded using General Service Administration Federal Supply Schedules and contracting officers misused General Service Administration Federal Supply Schedules;
- contracting officers inappropriately awarded personal services contracts;
- contracting officers permitted out-of-scope activity;
- contracting officers did not support price reasonableness determinations; and
- officials performed little or not Government surveillance on awarded contracts.

Additionally, we have identified DoD organizations that did not track or review GWOT related funds resulting in \$7.9 million of unused funds that were returned to the DoD Comptroller, where it was put to better use. We also have identified potential GWOT funds of \$4.6 million that were used for activities that did not support areas of Afghanistan and southwest Asia.

The CHAIRMAN. Let me ask, would you, each of you, within 60 days of today, A, agree on what waste is, and, B, tell us your best professional opinion individually based upon that standard that you agree upon, how much waste is involved, both percentage-wise and dollar-wise. That is a request 60 days from now.

Mr. KRONGARD. With regard to the definition of "waste", Comptroller General Walker transmitted to you on February 7, 2007, on behalf of all four witnesses, such a definition. With regard to a professional opinion as to the amount of waste, please be advised that my Office of Inspector General has not done sufficient work to permit such an overall estimate to be made.

QUESTIONS SUBMITTED BY MR. MARSHALL

Mr. MARSHALL. I take it that, for the most part, you feel that you have access to what you need to have access to, that you have the funding that you need to have, that you have the authority that you need to have in order to ferret out what each of you individually think should be ferreted out in order to assist us in our oversight, in order to assure that taxpayer dollars aren't being wasted, and we are heading in the right direction. If I am wrong about that, and if in fact you think there are gaps in any of those categories, it would be very helpful to the committee if you would share those gaps with us.

Mr. GIMBLE. The authorities given Inspectors General under the Inspector General Act of 1978, as amended, are sufficient to allow this office to obtain the information required to conduct audits, investigations, and inspections of Department of Defense programs and operations. Additional resources would enable us to undertake more projects. Within our current fiscal year budget we have expanded our presence regarding Iraq to include offices in Camp Victory, Qatar, and Kuwait.

QUESTIONS SUBMITTED BY MS. BORDALLO

Ms. BORDALLO. I am interested in your thoughts on how effectively our policies have engaged small businesses, whether U.S. or Iraq. Has the large size of the contracts we have utilized made oversight more difficult and abuse more likely as compared to if we had smaller contracts and were engaging smaller businesses? I would like to hear from you, Mr. Walker.

Mr. WALKER. [The information referred to was not available at the time of printing.]

QUESTIONS SUBMITTED BY DR. GINGREY

Dr. GINGREY. If you could address the \$486 million that was called for for the political parties and the human rights groups, is it just sort of a payoff; is it a payoff money to buy loyalty? Sometimes going to the highest bidder? I can imagine that the audit will be very difficult on this fund, and if you can respond to that.

Mr. KRONGARD. [The information referred to was not available at the time of printing.]