

December 15, 2006

Congressional Committees

Subject: *Rebuilding Iraq—Status of DOD’s Reconstruction Program*

Of the \$18.4 billion that Congress appropriated for Iraq relief and reconstruction in fiscal year 2004, the Department of Defense (DOD) received the largest share— \$13.5 billion.¹ As of September 30, 2006, DOD had obligated² about \$13.1 billion and disbursed about \$9.7 billion—\$5.6 billion for construction, \$3.6 billion for nonconstruction (e.g., engineering, procurement, and the delivery of equipment), and about \$480 million for related overhead costs. Among the many contracts DOD uses in Iraq, DOD has obligated about \$3.7 billion for 12 large-scale, multiple-year design-build contracts for major construction projects. The design-build contracting approach makes one award for both the design and construction of a project, thus eliminating the need for a separate bidding process for the construction phase.

To help Congress monitor the current progress and costs of DOD’s reconstruction activities in Iraq, this report discusses (1) the status of the current construction work and targeted completion dates and (2) the support costs incurred by the design-build contractors in DOD’s construction program.

To identify the status of DOD’s current construction work, we summarized DOD’s work-in-place metrics provided by the Army Corps of Engineers’ Gulf Region Division/Project and Contracting Office (GRD/PCO) in Iraq.³ DOD uses this metric to compare the value of completed and planned work for its contractors, including the design-build contractors. This metric is a rudimentary measure of earned value, a measure of total value against individual contract amounts, including design and procurements made. The work does not necessarily have to be “in place” or constructed.⁴ To identify the support costs⁵ incurred by DOD’s design-build contractors in Iraq, we analyzed the financial data provided by the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) for each design-build contractor. (See app. 1 for details on our scope and methodology.) As part of our work, we interviewed U.S. government personnel in the United States and Iraq and traveled to Iraq in November 2005 and March 2006 to meet with U.S. government officials overseeing DOD construction activities. We conducted our review from November 2005 to December 2006 in accordance

¹These funds were appropriated to the Iraq Relief and Reconstruction Fund in the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004, P. L. 108-106.

²An obligation is a definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received.

³DOD merged GRD and PCO in late 2005.

⁴For the purposes of this report, DOD’s planned work is defined as the total construction value of its projects and generally includes design, construction, award fee, security, life support, and administrative costs.

⁵Support costs include transportation and mobilization, life support, management, administration, and security.

with generally accepted government auditing standards. We prepared this report under the Comptroller General's authority to conduct evaluations on his own initiative for Congress.

Results in Brief

While financial data show that DOD has obligated most (97 percent) of its \$13.5 billion in fiscal year 2004 reconstruction funds, work-in-place data show that about 29 percent, or \$2.3 billion, of DOD's construction program is incomplete, as of October 8, 2006. Continued congressional oversight of these activities will be needed since DOD estimates that this work will not be completed until mid- to late 2008. The incomplete work varies by sector, with 10 percent of planned construction remaining in the security and justice sector and 38 percent remaining in the communications and transportation sector. Activities in the public works and water sector; the buildings, education, and health sector; and the transportation and communications sector will not be completed until mid- to late 2008. Although the United States has generally not met its goals for reconstruction activities in Iraq, DOD projects that its remaining construction projects will enable Iraq to increase its production of oil, electricity, and clean water and treated sewerage. As GAO's past work has shown, the challenging security environment, persistent attacks on U.S.-funded infrastructure projects, and sustainment challenges could make it difficult for DOD to achieve this progress.⁶ -

DOD's design-build contractors will incur estimated support costs of about \$1.2 billion or about 33 percent of projected completion costs of \$3.7 billion. The support costs include estimated security costs of about \$359.6 million. In response to higher-than-anticipated support costs, DOD officials have pursued alternative contracting strategies. For example, DOD officials have contracted directly with Iraqi firms in the electricity and transportation sectors rather than relying exclusively on U.S. design-build contractors to complete the work. U.S. officials state that the transition to direct contracting with local Iraqi and international contractors could lead to cost reductions. Due to the lack of available information on the costs of direct contracts, we were not able to establish the extent to which support costs could be avoided at the time of our review. The direct contracting approach also has the potential of increasing Iraqi ownership of reconstruction efforts and employing more local Iraqis.

The Department of Defense provided technical comments on our draft report that we incorporated, where appropriate. In its comments, Defense stated that it appreciated the balanced report that GAO has developed. Defense also clarified that the work-in-place measure used in our report is a rudimentary measure of earned value and measures total value against individual contract amounts, including design and procurements made. The measure does not only apply to work that is "in place" or constructed.

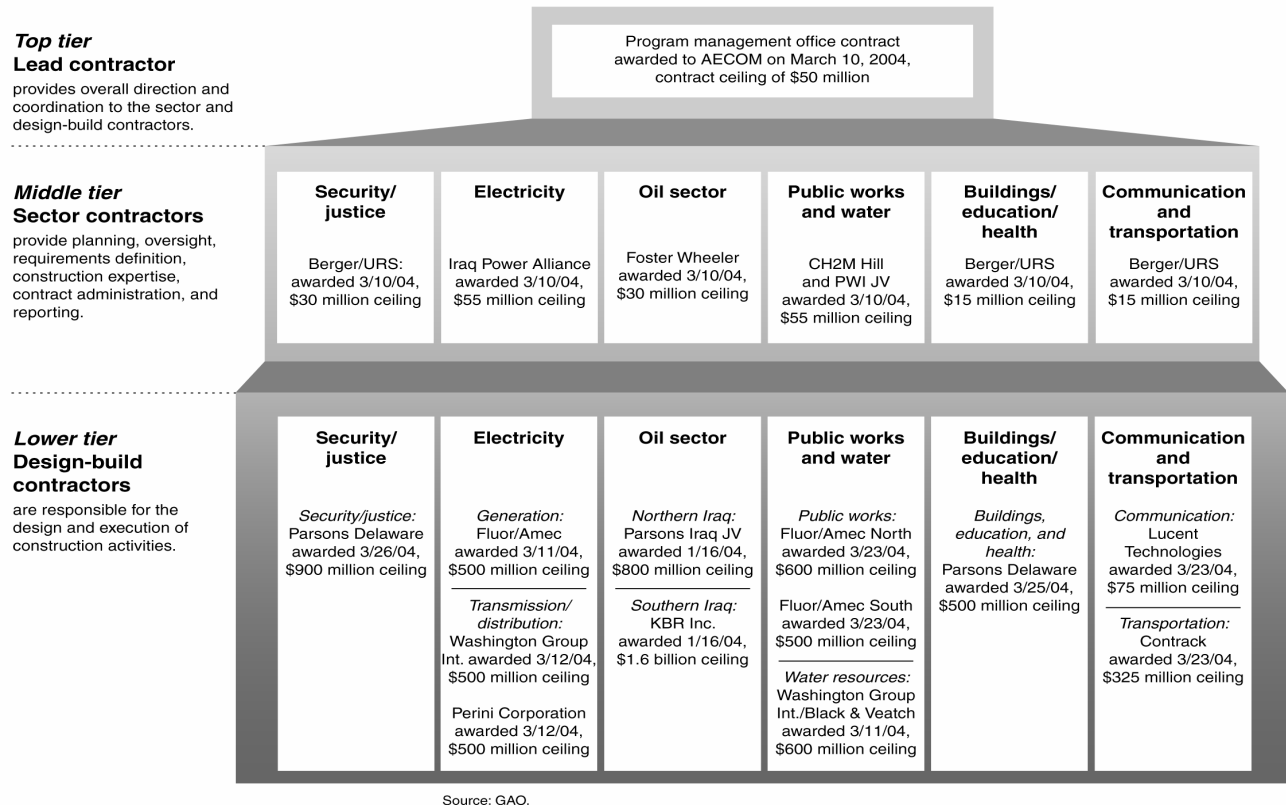
Background

From May 2003 through June 2004, the Coalition Provisional Authority (CPA), led by the United States and the United Kingdom, was the United Nations-recognized authority responsible for the temporary governance of Iraq and for overseeing, directing, and coordinating the reconstruction effort. The CPA used a multitiered contracting approach for Iraq reconstruction activities. The CPA, through various military organizations, awarded 1 lead contract, 6 sector contracts, and 12 design-build contracts in early 2004 (see fig. 1).

⁶GAO, *Stabilizing Iraq: An Assessment of the Security Situation*, [GAO-06-1094T](#) (Washington, D.C.: Sept. 11, 2006); and *Rebuilding Iraq: Governance, Security, Reconstruction, and Financing Challenges*, [GAO-06-697T](#) (Washington, D.C.: Apr. 25, 2006).

Under this approach, the CPA used one lead contract to provide overall coordination and direction for the rebuilding program. Six sector contractors helped define sector priorities and project requirements, and assisted DOD in managing the 12 design-build contractors used to perform the on-the-ground construction work.

Figure 1: DOD Construction Program Carried Out through a Multitiered Contracting Approach



On June 28, 2004, the CPA transferred power to an interim sovereign Iraqi government, the CPA was dissolved, and Iraq's transitional period began. After the transfer, National Security Presidential Directive 36 (NSPD 36) passed responsibility for the supervision and general direction of U.S. reconstruction assistance in Iraq to the Secretary of State. The directive also established a temporary organization within the department called the Iraq Reconstruction Management Office to facilitate the transition in Iraq. The Project and Contracting Office (PCO), a temporary organization in the Department of Defense, was tasked under NSPD 36 with providing acquisition and project management support. In late 2005, DOD merged PCO with the Army Corps of Engineer's Gulf Region Division, which now supervises DOD reconstruction activities in Iraq.

DOD Has Made Some Progress, but Significant Reconstruction Work Remains

Although DOD has made some progress in restoring Iraq's essential services, it has not met program goals and estimates that it will not complete the remainder of its work until mid- to late 2008. While financial data show that DOD has obligated 97 percent of its \$13.5 billion fiscal year 2004 reconstruction funds, work-in-place data show that about 29 percent, or \$2.3 billion, of DOD's planned construction activities valued at \$8 billion are incomplete, as of October 8, 2006. This metric applies to DOD's Iraq construction activities using these funds

and is not exclusive to design-build contractors. Work-in-place data are a measure of progress and compare completed to planned construction work. According to DOD, the remaining work will enable Iraq to increase the production of oil, electricity, clean water, and treated sewerage, among other outcomes. However, the challenging security environment, persistent attacks on U.S.-funded infrastructure projects, and sustainment challenges could make it difficult for DOD to achieve this progress.

Of the \$18.4 billion that Congress appropriated for Iraq relief and reconstruction in fiscal year 2004, DOD received the largest share—\$13.5 billion. As of September 30, 2006, DOD had obligated \$13.1 billion—97 percent. DOD obligated \$8.2 billion of these funds on construction activities, including those of the design-build contractors; \$4.4 billion on nonconstruction items (e.g., engineering, procurement, and delivery of equipment); and about \$520 million in DOD-related overhead costs.

One way DOD measures progress is to use work-in-place data for its construction contractors, including the design-build contractors. These data are reported by the GRD/PCO to the Secretary of the Army every two weeks. Work-in-place measures indicate that about 71 percent of all of DOD's planned work has been completed as of October 8, 2006, including 90 percent in the security and justice sectors, 73 percent of the work in the oil sector, and 64 percent of the work in the electricity sector (see table 1).

Table 1: Comparison of Planned and Completed Work by Sector Using All DOD Acquisition Strategies, as of October 8, 2006

Dollars in billions

Sector	Planned work	Estimated work-in-place (completed work)	Completed work relative to planned work (percent)
Security and justice	\$1.46	\$1.31	90
Electricity	3.00	1.92	64
Oil infrastructure	1.30	0.95	73
Public works and water	1.36	0.93	69
Buildings, education, and health	0.50	0.36	72
Transportation and communications	0.42	0.26	62
Total	\$8.04	\$5.73	71

Source: GRD/PCO.

Note: This measure includes DOD construction activities using Iraq relief and reconstruction funds in these sectors and is not exclusive to design-build contractor activities.

DOD reports that it has increased electricity generation, oil production, and water treatment capacity, and built or renovated schools, hospitals, border forts, post offices, and railway stations. Table 2 shows by sector the planned completion dates and selected reconstruction goals for all DOD reconstruction activity, including the design-build and all other contracts.

Table 2: DOD Reconstruction Goals, Achievements, and Remaining Work, Funded by Iraq Relief and Reconstruction Funds, as of October 2006

Sector (estimated completion date)	Program product	DOD goals		
		Program target	Current achieved	Remaining
Security and justice ^a (Dec. 2007)	Border posts	252	245	7
	Points of entry	13	9	4
	Military facilities	204	120	84
	Police facilities	398	348	50
	Fire facilities	94	86	8
	Prisons/courts	46	29	17
	Miscellaneous facilities	58	33	25
Electricity (Dec. 2007)	Contributed peak generation capacity (megawatts)	1,879	1,420	459
	Hours of power per day (U.S. goal)	10-12 Iraq and Baghdad	10.8 Iraq and 5.1 Baghdad	N/A
	Transmission capacity (megawatts)	6,000	5,500	500
	Distribution substations	89	48	41
Oil (Apr. 2007)	Crude oil capacity (million barrels per day)	3	2.5	0.5
	Natural gas production (million standard cubic feet per day)	800	600	200
	Liquefied petroleum gas (LPG) production capacity (tons per day)	3,000	1,200	1,800
Public works and water (July 2008)	Potable water (delivery capacity added) (thousand cubic meters per day)	1,150	419	731
	Sewerage treatment capacity added (thousand cubic meters per day)	48	0	48
	Repair dams, barrages, and canals (number repaired)	2	1	1
	Irrigated land (hectares)	387k	31k	356k
Buildings, education, and health (July 2008)	Government building projects	6	5	1
	Hospital projects/public health centers/other significant health projects	25/142/2	14/7/0	11/135/2
	Schools built or renovated	810	806	4
Transportation and communications (Dec. 2008)	Railway station renovations	99	85	14
	Port projects/aviation projects	7/19	4/13	3/6
	Village roads and expressways (kilometers)	427	239	188
	Advanced first responder network projects ^b	3	3	0
	Post offices/major communications institutions	34/2	31/1	3/1

Source: GRD/PCO.

^aSecurity and justice sector targets and achievements include projects completed by the Multi-National Security Transition Command—Iraq.

^bFor the purposes of analyzing work-in-place numbers, the Advanced First Responder Network was included in the communications sector. The network is also sometimes considered to be a part of the security and justice sector.

DOD estimates, however, that the remaining 29 percent of the planned work will not be completed until mid- to late 2008. According to DOD, this remaining work will enable Iraq to increase the production of oil, electricity, clean water, and treated sewerage by

- adding 459 megawatts of peak generation capacity, 500 megawatts of transmission capacity, and building 41 distribution substations in the electricity sector;⁷
- increasing crude oil production capacity by 0.5 million barrels per day and increasing petroleum gas production by 1,800 tons per day; and
- adding an additional 731,000 cubic meters of potable water delivery capacity per day, and 48,000 cubic meters of sewage treatment capacity per day, and 356,000 hectares of irrigated land.

However, the metrics used to report progress make it difficult to determine the impact of the U.S. reconstruction effort. For example, we reported previously that in the water resources and sanitation sector, little was known about how U.S. efforts were improving the amount and quality of water reaching Iraqi households or their access to the sanitation services.⁸ Reported output measures overestimated the amount of potable water reaching Iraqi households because U.S. officials estimate that 60 percent of water treatment output is lost due to leakage, contamination, and illegal connections.

The U.S. mission in Iraq reported in December 2005 that it had developed a set of metrics to better estimate the potential impact that U.S. water and sanitation reconstruction efforts were having on Iraqi households. However, it acknowledges that it is difficult to measure how much water the Iraqis actually receive or whether the water is potable. The mission report notes that, without such comprehensive data, mission efforts to accurately assess the impact of U.S. reconstruction efforts on water and sanitation services are limited.

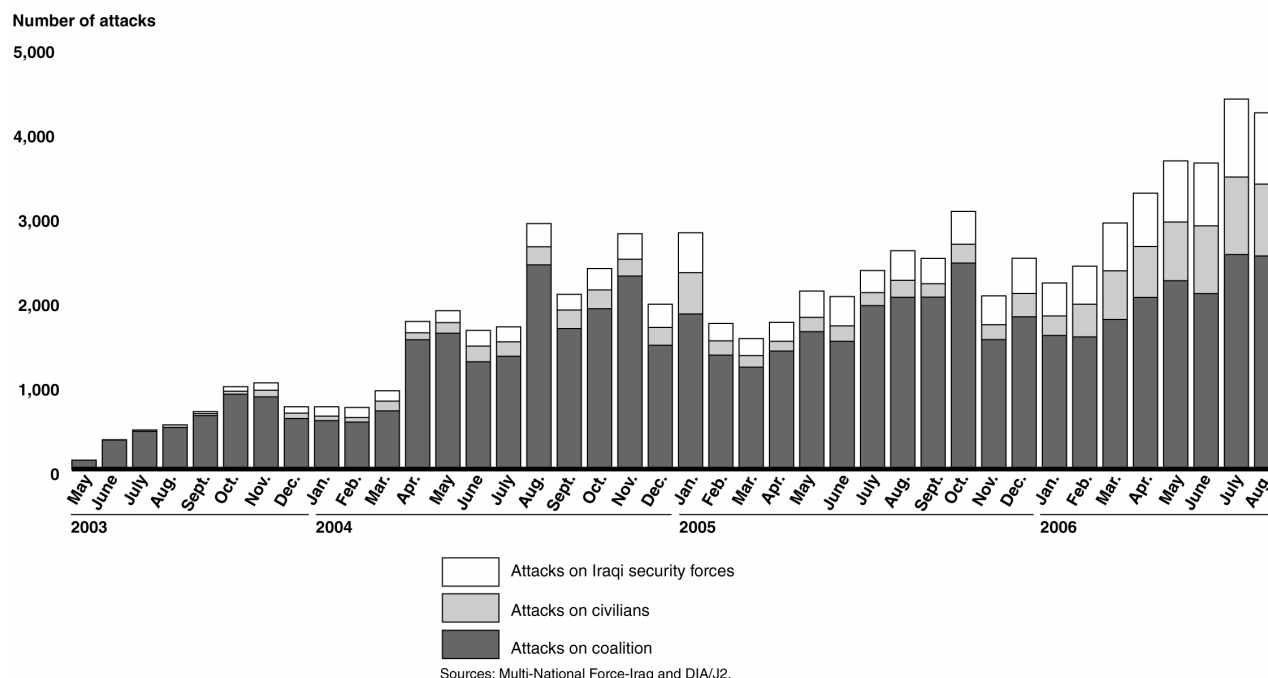
In addition, overall security conditions in Iraq have deteriorated since June 2003, as evidenced by attack trends, growing sectarian violence, and the growth and influence of militias. Enemy-initiated attacks against the coalition, its Iraqi partners, and infrastructure have continued to increase over time, complicating efforts to rebuild and restore essential services. Overall, attacks increased by 23 percent from 2004 to 2005. After declining in the fall of 2005, the number of attacks rose to the highest level ever in July 2006 (see fig. 2).⁹

⁷In providing technical comments on the report, DOD stated that over 1,000 megawatts will be sustained by various projects in its generation program.

⁸GAO, *Rebuilding Iraq: U.S. Water and Sanitation Efforts Need Improved Measures for Assessing Impact and Sustained Resources for Maintaining Facilities*, [GAO-05-872](#) (Washington, D.C.: Sept. 7, 2005).

⁹GAO, *Stabilizing Iraq: An Assessment of the Security Situation*, [GAO-06-1094T](#) (Washington, D.C.: Sept. 11, 2006). The attack data we used provide the best overall assessment of Iraq's precarious security environment and the ensuing challenges in completing reconstruction projects. GAO has requested, but has yet to receive, unclassified attack data for September through November 2006.

Figure 2: Enemy-Initiated Attacks against the Coalition and Its Iraqi Partners, May 2003 through August 2006



In July 2006, the State Department reported to Congress that the recent upturn in violence had hindered efforts to engage fully with Iraqi partners and noted that a baseline of security was a prerequisite for moving forward on the political and economic tasks essential to achieving the conditions to withdraw U.S. forces. Unstable security conditions will make it more difficult for DOD to achieve its planned construction goals and targets.

DOD's Design-Build Contractors in Iraq Will Incur Support Costs of about 33 Percent

Our analysis shows that DOD's design-build contractors will incur support costs of about \$1.2 billion, or about 33 percent of projected completion costs of \$3.7 billion. According to agency officials, the design-build contracting model used in Iraq entailed costs such as mobilizing, feeding, housing, and protecting an expatriate workforce. These officials further stated that these costs are typically incurred on most large-scale international construction projects but were higher due, in part, to the poor security environment and the difficulties in managing contract costs in Iraq. In response to higher-than-anticipated support costs, DOD officials have pursued alternative contracting strategies. For example, DOD officials have contracted directly with Iraqi firms in the electricity and transportation sectors rather than relying exclusively on U.S. design-build contractors to complete the work.

DOD's design-build contractors will incur estimated support costs of about \$1.2 billion, or about 33 percent of the projected completion costs of \$3.7 billion (see table 3).¹⁰ These costs ranged from approximately 24 percent in the public works and water sector to about 67 percent in the transportation sector. In the transportation sector, the design-build

¹⁰In addition to these design-build contractor support costs, the PCO, lead contractor, and sector contractors incurred additional costs of \$443 million for fiscal years 2004 through 2006 in managing the activities of the design-build contractors in Iraq.

contractor demobilized and left Iraq shortly after award of the contract in March 2004 because DOD and the contractor mutually agreed that the overall program costs were too high. As a result, the majority of design-build costs for the transportation sector accrued by the U.S. were support costs accumulated during the contractor's brief stay in-country.

Table 3: Comparison of Design-Build Contractors' Support Costs by Sector, as of October 2006

Dollars in millions

Sector	Design-build contractors' estimated completion costs	Support costs, including security costs	Support costs as a percentage of estimated completion costs	Security costs only	Security costs as a percentage of estimated completion costs
Security/justice	\$343.4	\$ 97.8	28.5	\$ 29.6	8.6
Electricity	732.1	259.9	35.5	105.4	14.4
Oil infrastructure	1,201.3	467.4	38.9	113.8	9.5
Water resources	852.8	207.8	24.4	59.2	6.9
Building, health, and education	369.2	124.6	33.7	27.6	7.5
Communications	158.1	46.6	29.5	20.6	13.0
Transportation	17.6	11.8	67.5	3.4	19.4
Total	\$3,674.5	\$1,215.9	33.1	\$359.6	9.8

Sources: JCC-I/A and design-build contractors.

Note: Support costs generally include transportation and mobilization, life support, management, administration, and security.

Officials in the electricity and oil sectors encountered challenges controlling support costs stemming from the level of contractors' reconstruction efforts. In the electricity sector, high cost estimates by one design-build contractor resulted in the termination of five task orders and the resolicitation of that work. After the task orders were canceled, the design-builder was slow to reduce overhead costs in accordance with the reduced workload, according to agency officials and documents. In the oil sector, DOD officials required the two design-build contractors to reorganize their management structure and improve their cost reporting as a result of concerns regarding high costs.¹¹

DOD also estimates that, across all sectors, the design-build contractors will incur security costs of about \$360 million, or about 9.8 percent of estimated completion costs of \$3.7 billion, during their reconstruction activities in Iraq. According to U.S. officials, the large number of project sites in remote locations and increased attacks on infrastructure have contributed to increased security costs.

The security costs we identified are lower than those reported to Congress by the Department of State in January 2006. State reported in its January 2006 quarterly update to Congress that security remains a critical concern to the reconstruction effort in Iraq. State's analysis indicated that direct and indirect security costs represent 16 percent to 22 percent of the overall cost of major infrastructure construction projects in Iraq. According to the report, these costs included the reprogramming of Iraq Relief and Reconstruction Fund money to the security sector and to cover those costs stemming from schedule delays and

¹¹To increase transparency over support costs, the oil sector developed four administrative task orders that allowed the design-build contractors to more easily report on transportation and mobilization, management and administration, security, and life support costs.

increased maintenance costs. The estimated security costs we identified are unique to the design-build contractors and do not include other broader security costs included in State's analysis.

In response to higher than anticipated support costs, DOD officials have contracted directly with Iraqi firms in the electricity and transportation, among other sectors, rather than relying exclusively on the design-build contractors to complete the work. For example, in the electricity sector, DOD directly contracted with Iraqi firms to reduce the costs of reconstruction efforts not requiring advanced technical and management expertise, such as erecting electrical distribution projects. DOD officials estimate that the department may achieve a cost savings of 20 percent to 50 percent in the electricity sector using direct contracting rather than design-build contractors. In the transportation sector, the design-build contractor demobilized and left Iraq shortly after award of the contract in March 2004 because DOD and the contractor mutually agreed that the overall program costs were too high. DOD then made greater use of Iraqi contractors who were experienced in building roads and bridges. However, due to the lack of available data on direct contracts awarded by DOD, we were unable to determine the level of actual cost avoidance achieved through these contracting efforts.

Agency Comments

We provided a draft of this report to the Department of Defense, which provided technical comments that we incorporated, where appropriate. Defense stated that it appreciated the balanced report that GAO has developed. In its technical comments, the department also clarified that the work-in-place measure used in our report is a rudimentary measure of earned value and measures total value against individual contract amounts, including design and procurements made. The measure does not only apply to work that is "in place" or constructed as we stated in our draft report.

Scope and Methodology

To determine the construction work completed to date and targeted completion dates for construction activities in Iraq, we reviewed documents and obtained data from the Department of Defense (DOD), including the Project and Contracting Office of the Gulf Region Division (GRD/PCO). Data for U.S. appropriated funds and work-in-place are as of September 30, 2006, and October 8, 2006, respectively. We also reviewed Special Inspector General for Iraq Reconstruction and other audit agency reports. Although we have not audited the funding and work-in-place data and are not expressing our opinion on them, we discussed the sources and limitations of the data with the appropriate officials and checked them, when possible, against other information sources. In March 2006, DOD standardized the use of its work-in-place measures to serve as an indicator of construction progress across all of Iraq's reconstruction sectors. We determined that the data were sufficiently reliable for broad comparisons in the aggregate using the category descriptions we have made.

To determine the support costs incurred by the design-build contractors in DOD's construction program, we focused on design-build contractors' efforts in the Iraqi security and justice; electricity; oil; water; transportation and communications; and buildings, health and education sectors. These costs include transportation and mobilization, life support, management, administration, and security costs. We compared the design-build contractor's projected support costs to their estimated completion costs of \$3.7 billion to estimate the level of support costs that will be incurred by DOD's design-build contractors in Iraq. We

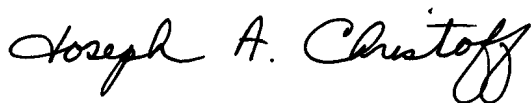
also used the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) data to compare the security costs (one component of support costs) to estimated completion costs to estimate the level of security costs that will be incurred by the design-build contractors. Specifically, we focused on the costs incurred by design-build contractors participating in the construction program and how sectors have adapted to meet these support costs. We obtained support costs information directly from the design-build contractors to ensure greater reliability of the support costs. We collected design-build cost data from the JCC-I/A, including summaries of support costs by sector. These data were based on design-build contractor cost reporting to JCC-I/A and GRD/PCO officials. Although we did not audit the cost data and are not expressing our opinion on them, we reviewed the data for discrepancies and checked them against other sources, when available. We determined that the data were sufficiently reliable to report in aggregate for each sector.

We also reviewed contractor and agency reports and interviewed contractors and agency officials in Iraq and the United States. Specifically, we reviewed CPA, GRD/PCO, State, Army Corps of Engineers, and other reports. We also interviewed agency officials from GRD/PCO, Army Corps of Engineers, State, and State's Iraq Reconstruction Management Office in Washington, D.C., and Iraq. In addition, our analysis is based on our completed and ongoing reviews of efforts to rebuild Iraq, which we have undertaken since 2004, and reports of other inspector generals related to contract management, internal controls, and oversight of U.S. reconstruction activities.

We conducted our review from November 2005 to December 2006 in accordance with generally accepted government auditing standards. In addition to interviews with U.S. officials via teleconference and videoconference, we traveled to Iraq in November 2005 and early April 2006 to interview U.S. officials in Baghdad. In addition, when possible, we interviewed officials when these officials traveled to the United States.

We are sending this report to interested congressional committees and to the Secretaries of State and Defense. We will also make copies available to others on request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions concerning this report, please contact me at (202) 512-8979 or christoffj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report include Stephen M. Lord, Assistant Director; Lynn Cothorn; Tim DiNapoli; Charles Groves; Micah McMillan; Mary Moutsos; and Adam Vodraska.



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