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IRAQ: PERCEPTIONS, REALITIES AND COST TO COMPLETE

HEARING

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS, AND INTERNATIONAL RELATIONS

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

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IRAQ: PERCEPTIONS, REALITIES AND COST TO COMPLETE

TUESDAY, OCTOBER 18, 2005

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS, AND INTERNATIONAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2154, Rayburn House Office Building, Hon. Christopher Shays (chairman of the subcommittee) presiding.

Present: Representatives Shays, Dent, Kucinich, Maloney, Van Hollen, Lynch, Higgins, and Waxman, ex officio.

Staff present: Lawrence Halloran, staff director and counsel; J. Vincent Chase, chief investigator; R. Nicholas Palarino, Ph.D., senior policy advisor; Robert A. Briggs, clerk; Marc LaRoche, intern; Phil Barnett, minority staff director/chief counsel; Jeff Baran and Michael McCarthy, minority counsels; David Rapallo, minority chief investigative counsel; Earley Green, minority chief clerk; and Jean Gosa, minority assistant clerk.

Mr. SHAYS. A quorum being present, the Subcommittee on National Security, Emerging Threats, and International Relations hearing entitled, "Iraq: Perceptions, Realities and Cost to Complete," is called to order.

It is as true in Biloxi as in Baghdad: People without electricity, clean water or basic governmental services are understandably impatient to rebuild their lives, their homes and their communities. They don't want empty promises. They rightly demand tangible results.

In Iraq, that progress has been slow, hampered by volatile security that disrupts and delays reconstruction while sapping fiscal resources. Initial estimates of security costs have nearly tripled, from less than 10 percent of total project expenses to almost 30. Naive planning assumptions, weak performance metrics and limited project oversight have also slowed infrastructure repairs, training of security forces and efforts to nurture civilian governance. Frequent leadership changes and a legacy of Saddam-era corruption divert still more resources from Iraq's renewal as a prosperous democratic nation.

As a result, the U.S. reconstruction effort in Iraq shows symptoms of suffering the same spiral of delays, reduced capabilities and cost overruns that plagues major weapons programs at the Pentagon. Planned electricity generation and water purification

projects are scaled back, while estimates of the cost to complete them escalate.

That cycle of rosy estimates and stunted outcomes exact high political costs as well. Limited visible progress improving basic services frustrates Iraqis, who wonder why a liberating coalition that conquered their nation in less than 2 months can't keep the lights lit after 2 years.

Similar problems beset the critical program to train Iraqi security forces. Culturally off-key assumptions about the transferability of Western law enforcement and military doctrines to the Iraq security mission wasted limited training time. Classes in handgun etiquette had little relevance to police and soldiers facing an insurgency armed with AK–47's.

At the same time, efforts to build civil society, the rule of law and democratic institutions have been far more successful, propelled by the inspiring courage of average Iraqis who voted in January and on Saturday. But democracy is no silver bullet against entrenched Ba'athists and imported jihadists. Voting hours have to result in increased kilowatt hours or the killers will have all the time they need between elections to feed the insurgency on popular discontent and factional discord.

U.S. support for reconstruction, security and governance programs has helped the Iraqis make undeniable progress toward a better future. But the billions of appropriated dollars being spent in Iraq are an investment by the American people in their security as well. We in Congress have a fiduciary obligation to continually assess the execution and sustainability of our investment strategy.

Major aspects of that assessment have been vigorously pursued by the Special Inspector General for Iraq Reconstruction, the Government Accountability Office and the Inspectors General from other departments and agencies active in Iraq. Their findings and recommendations provide a detailed view of the strengths and weaknesses of our stewardship of Iraqi sovereignty. Other witnesses this morning will offer unique perspectives on security strategy and on the just-completed constitutional drafting and ratification process.

We appreciate the time, dedication and expertise of all our witnesses, and we welcome their testimony.

At this time, it is the pleasure of the chair to recognize the ranking member of the full committee, Mr. Waxman.

[The prepared statement of Hon. Christopher Shays follows:]

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INDEPENDENT

SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS,
AND INTERNATIONAL RELATIONS
Christopher Shays, Connecticut
Chairman
Room B-372 Rayburn Building
Washington, D.C. 20515
Tel: 202 225-2548
Fax: 202 225-2382

Statement of Rep. Christopher Shays
October 18, 2005

It's as true in Biloxi as in Baghdad: people without electricity, clean water or basic governmental services are understandably impatient to rebuild their lives, their homes and their communities. They don't want empty promises. They rightly demand tangible progress.

In Iraq, that progress has slow, hampered by volatile security that disrupts and delays reconstruction while sapping fiscal resources. Initial estimates of security costs have nearly tripled, from less than ten percent of total project expenses to almost thirty. Naïve planning assumptions, weak performance metrics, and limited project oversight have also slowed infrastructure repairs, training of security forces and efforts to nurture civilian governance. Frequent leadership changes and a legacy of Saddam-era corruption divert still more energy and resources from Iraq's renewal as a prosperous democratic nation.

As a result, the U.S. reconstruction effort in Iraq shows symptoms of suffering the same spiral of delays, reduced capabilities and cost overruns that plagues major weapons programs at the Pentagon. Planned electricity generation and water purification projects are scaled back while estimates of the cost to complete them escalate.

That cycle of rosy estimates and stunted outcomes exacts high political costs as well. Limited visible progress improving basic services frustrates Iraqis who wonder why a liberating coalition that conquered their nation in less than two months can't keep the lights lit after two years.

Similar problems beset the critical program to train Iraqi security forces. Culturally off-key assumptions about the transferability of Western law enforcement and military doctrines to the Iraq security mission wasted limited training time. Classes in handgun etiquette had little relevance to police and soldiers facing an insurgency armed with AK-47s.

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U.S. support for reconstruction, security and governance programs has helped the Iraqis make undeniable progress toward a better future. But the billions of appropriated dollars being spent in Iraq are an investment by the American people in their security as well. We have a fiduciary obligation to continually assess the execution and sustainability of our investment strategy.

Major aspects of that assessment have been vigorously pursued by the Special Inspector General for Iraq Reconstruction, the Government Accountability Office and the Inspectors General from other departments and agencies active in Iraq. Their findings and recommendations provide a detailed view of the strengths and weaknesses of our stewardship of Iraqi sovereignty. Other witnesses this morning will offer unique perspectives on security strategy and on the just-completed constitutional drafting and ratification process.

We appreciate the time, dedication and expertise of all our witnesses and we welcome their testimony.

Mr. WAXMAN. Thank you very much, Mr. Chairman, and thank you for holding this hearing today.

The efforts to rebuild Iraq are failing. The Bush administration has spent literally billions of taxpayer dollars on reconstruction in Iraq, yet progress has been limited or nonexistent, and much of that money has been squandered.

Today I am releasing a report that compares the administration's rhetoric with the reality on the ground 2½ years after the invasion. The report finds that the administration has failed to deliver on its promises in three of the most important reconstruction sectors in Iraq: oil, electricity and water.

[The information referred to follows:]

UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM — MINORITY STAFF
SPECIAL INVESTIGATIONS DIVISION
OCTOBER 18, 2005

THE BUSH ADMINISTRATION RECORD: THE RECONSTRUCTION OF IRAQ

PREPARED FOR REP. HENRY A. WAXMAN

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EXECUTIVE SUMMARY

Two years ago, the Bush Administration asked Congress to appropriate over $20 billion for reconstruction efforts in Iraq. At the time, Administration officials promised that the funds would be used to restore oil production to pre-war levels, increase electricity production substantially above pre-war levels, and provide drinking water to 90% of Iraqis. Congress gave President Bush the funds he requested, appropriating $2.5 billion in April 2003 and $18.4 billion in November 2003.

At the request of Rep. Henry A. Waxman, this report examines the Administration's record on the reconstruction of Iraq. The report assesses the status of reconstruction efforts in three key sectors of the Iraqi economy: oil, electricity, and water. And it compares the goals set by the Administration two years ago with the reality on the ground in Iraq today.

The report finds that the reconstruction efforts have consistently failed to meet the objectives set by the Administration two years ago. Oil production remains below pre-war levels, electricity production is unreliable and well below the goal of 6,000 megawatts of peak electricity output, and a third of Iraqis still lack access to potable water. Billions of taxpayer dollars have been spent, but there is little to show for the expenditures in Iraq.

In the oil sector, Administration officials promised the restoration of pre-war oil production levels so that Iraq could "finance its own reconstruction, and relatively soon." However, oil production and export levels have actually dropped below pre-war levels. In March 2003, Iraq produced 2.6 million barrels of oil per day and exported 2.1 million barrels per day. By August 1, 2005, production levels remained below 2.4 million barrels per day and export levels remained below 1.7 million barrels per day. From January 1, 2005, through August 1, 2005, Iraq had to spend $3 billion to import fuels because it still cannot produce enough refined petroleum products, like gasoline, for domestic use.

In the electricity sector, Administration officials promised to increase peak electricity output to at least 6,000 megawatts. But Iraq has never come close to achieving this objective. By August 26, 2005, Iraq's peak output was just 4,635 megawatts, only slightly above the pre-war level of 4,400 megawatts. Actual summer demand was 8,600 megawatts, leading State Department officials to concede that "[w]e'll never meet demand." In August 2005, Iraqis living in Baghdad had just two hours of power followed by four hours without power throughout the day.

In the water sector, Administration officials promised to ensure that 90% of Iraqis had access to drinkable water. Yet today just 66% of Iraqis now have access to drinkable water. Even the Iraqi ministries now say that they are "disappointed with the broken promises and lack of progress on existing projects."

Two major factors have contributed to the Administration's lack of progress. The failure to provide for security inside Iraq has hampered reconstruction efforts in every sector of the economy and has resulted in the cancellation or scaling-down of planned reconstruction projects. With security costs in excess of 25% of billings under several major reconstruction contracts, billions of dollars have been shifted away from rebuilding projects in order to pay private security contractors and to train and equip Iraqi forces more quickly.

These problems have been compounded by a flawed contracting strategy. Instead of maximizing competition and oversight, the Administration opted to award cost-plus, monopoly contracts without price competition and to turn over oversight responsibilities to other contractors with conflicts of interest. These policies have invited overspending and underperformance.

ADMINISTRATION RECONSTRUCTION OBJECTIVES

Since the invasion of Iraq in March 2003, Congress has appropriated over $20 billion in taxpayer funds for the reconstruction of the country.[1] This sum includes $2.5 billion in an April 2003 supplemental appropriation[2] and $18.4 billion in a second supplemental appropriation in November 2003.[3] In addition, prior to the June 28, 2004, transfer of power, the U.S.-controlled Coalition Provisional Authority (CPA) had committed approximately $19.7 billion in Iraqi funds.[4]

At the outset, senior officials from the Bush Administration promised that the reconstruction effort in Iraq would proceed quickly and at minimal cost to the taxpayer. In March 2003, then-Deputy Secretary of Defense Paul Wolfowitz assured members of Congress that Iraq's oil sector would be rehabilitated quickly and to such an extent that Iraq's oil revenues could fund the reconstruction effort. In congressional testimony, he stated, "We're dealing with a country that can really finance its own reconstruction, and relatively soon."[5]

In April 2003, immediately after the fall of Baghdad, the head of the U.S. Agency for International Development, Andrew Natsios, stated that "the American part" of the cost of rebuilding Iraq "will be just $1.7 billion. We have no plans for any further-on funding for this."[6]

By the fall of 2003, it became apparent that the Iraq reconstruction would require significant federal funds. In September 2003, President Bush asked Congress to appropriate an additional $20.3 billion for the reconstruction effort, saying the funds were needed to "help the Iraqi people build a stable and peaceful country."[7] With minor adjustments, Congress enacted the President's request on November 3, 2003, appropriating an additional $18.4 billion for the reconstruction.

To build congressional and public support for the supplemental reconstruction funds, the Administration made specific commitments to rebuild key sectors of Iraq's economy, including the oil, electricity, and water sectors. Many of these were detailed in a 53-page blueprint for the reconstruction effort prepared by the CPA in September 2003.[8] According to the CPA, the reconstruction funds would

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1 Special Inspector General for Iraq Reconstruction, *Quarterly Report and Semiannual Report to the United States Congress* (July 30, 2005).
2 P.L. 108-11 (Apr. 16, 2003).
3 P.L. 108-106 (Nov. 6, 2003).
4 Coalition Provisional Authority, *Development Fund for Iraq: Financial Reporting Matrix* (June 26, 2004).
5 House Committee on Appropriations, Subcommittee on Defense, *Hearing on FY2004 Appropriations*, 108th Cong. (Mar. 23, 2003).
6 *Nightline*, ABC News (Apr. 23, 2003).
7 Coalition Provisional Authority, *Request to Rehabilitate and Reconstruct Iraq* (Sept. 2003).
8 *Id.*

be used to create "a secure, economically hopeful future" for Iraq and make the country a "model" for the Mideast.[9]

With regard to Iraq's oil production, the CPA document asserted that "[t]he funds requested will be used to repair the [oil] infrastructure ... with the ultimate goal of restoring pre-war production levels."[10] With respect to specific oil projects, the CPA promised "higher production rates," "maximize[d] production from existing reservoirs," "optimum production from all petroleum sources," and an "increase [in] the total available supply of oil."[11]

With regard to electricity, the CPA asserted: "We have achieved the initial goal of surpassing pre-war peak output levels of 4,400 MW by Fall 2003. ... The next goal is to build to 6,000 MW by summer 2004."[12] CPA Administrator Paul Bremer later told the House Appropriations Committee: "We intend to reach 6,500 MW towards the end of the summer of 2004."[13]

With regard to water projects, the CPA explained that the supplemental funds for the water sector would be used "to provide potable water access to most of Iraq ... up to 75% access, then working further improvements to reach 90% access for cities, towns, rural areas and villages."[14] According to the CPA, existing rates of access to potable water were 60% in urban areas of the country.[15] The CPA further said that it would reduce the rate of water loss in the water distribution network from 60% to 40%.[16]

METHODOLOGY

At the request of Rep. Henry A. Waxman, this report examines the progress of the reconstruction effort in Iraq, focusing on three key sectors: oil, electricity, and water. It compares the specific objectives for the reconstruction enumerated by the CPA with the results on the ground two years later in Iraq.

In order to evaluate the status of reconstruction efforts, this report relies on audit reports from the Government Accountability Office, Special Inspector General for Iraq Reconstruction, and Inspector General for the U.S. Agency for International Development. The analysis is also based on briefings and documents from the State Department's Iraq Reconstruction Management Office (IRMO) in Baghdad.

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9 *Id.*
10 *Id.*
11 *Id.*
12 Coalition Provisional Authority, *Strategy for a Secure, Peaceful and Sovereign Iraq* (Oct. 2003).
13 Coalition Provisional Authority, *CPA Response to Additional Questions to Amb. Bremer from Sept. 24, 2003 House Appropriations Committee Hearing* (undated).
14 *Request to Rehabilitate and Reconstruct Iraq, supra* note 7.
15 *Id.*
16 *Id.*

The Oil Sector

Over the last two years, the Administration has obligated approximately $2.2 billion in U.S. and Iraqi funds to restore Iraq's oil infrastructure and boost its crude oil production.[17] Crude oil production is an essential source of export revenue, and refined petroleum products are needed to produce electricity and operate vehicles in Iraq.

Despite this massive investment, oil production and export levels have actually dropped below pre-war levels. In March 2003, Iraq produced 2.6 million barrels of oil per day and exported 2.1 million barrels per day.[18] According to GAO, by May 2005, Iraq was producing just 2.1 million barrels per day and exporting only 1.4 to 1.6 million barrels per day.[19] By August 1, 2005, production levels remained below 2.4 million barrels per day and export levels remained below 1.7 million barrels per day.[20] The Iraq Reconstruction Management Office projects that by the end of 2005, production and export will still be below pre-war levels.[21]

Moreover, despite the Administration's spending, Iraq still cannot produce enough refined petroleum products, like gasoline, for domestic consumption. IRMO reports a 50% increase in demand among Iraqis for refined products over the pre-war level. From January 1, 2005, through August 1, 2005, Iraq had to spend $3 billion to import fuels.[22]

Poor performance and overcharging by Halliburton, the lead contractor for the oil reconstruction, have contributed to the lack of progress in the oil sector. Auditors at the Defense Contract Audit Agency (DCAA) have questioned $219 million in Halliburton charges under the no-bid Restore Iraqi Oil (RIO) contract that Halliburton was awarded in March 2003, finding that the costs are "unreasonable in amount."[23] Of the $219 million in questioned costs, $171 million relate to fuel imports from Kuwait and Turkey into Iraq.[24] DCAA has also identified $60 million in "unsupported" charges under the RIO contract.[25]

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17 Government Accountability Office, *Rebuilding Iraq: Status of Funding and Reconstruction Issues* (July 28, 2005).

18 *Id.*

19 *Id.*

20 Briefing by Iraq Reconstruction Management Office to Committee on Government Reform Staff (Aug. 1, 2005).

21 *Id.* By the end of 2005, IRMO expects Iraq's oil sector to produce 2.5 to 2.6 million barrels per day and export 1.8 to 2.0 million barrels per day.

22 *Id.*

23 Committee on Government Reform, Minority Staff, *Halliburton's Questioned and Unsupported Costs in Iraq Exceed $1.4 Billion* (June 27, 2005).

24 *Id.*

25 *Id.*

According to the CEO of Lloyd-Owen International, a U.S. contractor that assessed the status of the infrastructure for Iraq's State Oil Marketing Organization, Halliburton subsidiary KBR has performed no noticeable work on Iraq's fuel distribution and oil infrastructure. In his testimony before the Senate, Lloyd-Owen executive Alan Waller, stated, "We have not, to date, seen a functioning KBR piece of equipment to where we deliver, that is Muftia, Shibar, Nasiriyah, Samawah, Diwaniyah, Amarah, Kut, Najaf, Karbala, and Hillah."[26] Mr. Waller explained, "We visit these sites every single day and we have never come across a KBR official."[27] A former senior planner at the Iraqi Oil Ministry said of Halliburton's oil infrastructure work: "I think we had the worst quality of U.S. service, staff and companies .... We had maximum rhetoric and minimum results on the ground."[28]

The Electricity Sector

The Administration has obligated over $4.4 billion in U.S. and Iraqi funds to increase Iraq's electricity production.[29] Without adequate electricity, households cannot use basic appliances or air conditioning, businesses cannot operate effectively to employ Iraqis, water pumps cannot provide drinkable water, and oil refineries cannot operate at full capacity. As the CPA stated in the September 2003 reconstruction blueprint, "It is hard to overstate the problems caused by the shortfall between generating capacity and demand .... It is the major cause of discontentment of the Iraqi population and, quite apart from physical discomfort, is preventing industries, factories, and oil refineries from operating."[30]

The expenditure of over $4.4 billion has not succeeded in increasing Iraqi electricity production. Two years after the CPA announced the objective of generating 6,000 megawatts of peak electricity output, electricity production in Iraq has never come close to meeting this objective. In fact, Iraq has only recently and inconsistently managed to provide even pre-war levels of electricity.

Before the invasion, Iraq's peak electricity output was 4,400 megawatts and Iraq generated about 100,000 megawatt hours of electricity per day.[31] By August 26, 2005, about two and a half years after the invasion, Iraq's peak output was just 4,635 megawatts and the country generated only 101,057 megawatt hours of

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26 Senate Democratic Policy Committee, *An Oversight Hearing on Waste, Fraud, and Abuse in U.S. Government Contracting in Iraq* (June 27, 2005).

27 *Id.*

28 *Missteps Hamper Iraqi Oil Recovery*, Los Angeles Times (Sept. 26, 2005).

29 *Rebuilding Iraq: Status of Funding and Reconstruction Issues*, *supra* note 17.

30 *Request to Rehabilitate and Reconstruct Iraq*, *supra* note 7.

31 *Rebuilding Iraq: Status of Funding and Reconstruction Issues*, *supra* note 17; U.S. Department of State, *The Electricity Story in Iraq* (July 25, 2005).

electricity per day.[32] This is far short of both the 6,000 megawatt goal and the actual summer demand of 8,600 megawatts. In fact, on August 1, 2005, IRMO officials conceded, "We'll never meet demand."[33]

These figures have a real impact on the daily lives of Iraqis. By late August 2005, Iraqis living in Baghdad had just two hours of power followed by four hours without power throughout a day.[34] Nationwide, Iraqis had power for just 50% of the day.[35] Some days are even worse. On July 31, for example, those living in Baghdad had one hour of power followed by four and a half hours without power.[36]

This absence of tangible progress has been consistent. Although the pre-war peak output of 4,400 megawatts was briefly reached in October 2003, production quickly fell back below the 4,400 megawatts mark.[37] By May 2005, electricity production levels were as low at 51,000 megawatt hours per day and never exceeded 99,800 megawatt hours per day.[38]

In June 2005, the USAID Inspector General examined 22 electricity projects worth $1.1 billion performed by Bechtel, one of the largest electricity contractors operating in Iraq. The IG found that 7 of the 22 projects reviewed had not or were not achieving their intended output. The failing projects represented a $744 million investment.[39]

The IG discussed several problematic projects in detail:

- A new power generation facility project was cancelled. According to the IG, "The project is still expected to incur $69.4 million in costs despite the fact that little has actually been achieved."[40]

- A project to rehabilitate two turbines at the Bayii thermal power plant was cancelled. The IG found that as a result of the cancellation, "no additional power will be realized from this project, which will still incur approximately $1.9 million in direct costs and an estimated $5.0 million in total costs, including overhead."[41]

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32 E-mail from Iraq Reconstruction Management Office to Minority Staff, Committee on Government Reform (Aug. 26, 2005).
33 Briefing by Iraq Reconstruction Management Office, *supra* note 20.
34 E-mail from Iraq Reconstruction Management Office, *supra* note 32.
35 *Id.*
36 Briefing by Iraq Reconstruction Management Office, *supra* note 20.
37 Special Inspector General for Iraq Reconstruction, *Quarterly Report*, *supra* note 1.
38 *Rebuilding Iraq: Status of Funding and Reconstruction Issues*, *supra* note 17.
39 U.S. Agency for International Development, Office of Inspector General, *Audit of USAID/Iraq's Electrical Power Sector Activities* (June 29, 2005).
40 *Id.*
41 *Id.*

- A project to install two new gas turbines in Kirkuk was supposed to be completed by summer 2004, but the project was significantly delayed and the larger of the two turbines was not scheduled to become operational until mid-Sept 2005, two and a half months after the original Bechtel contract expired. One cause of the delay was that the turbine sat in Syria for almost five months and then sat idle in Jordan for another six months.[42]

The USAID Inspector General and IRMO have both expressed concern that the electricity projects that have been completed may not be sustainable because the Iraqi Ministry of Electricity lacks the resources and capacity to maintain and operate the new equipment and facilities.[43]

The Water Sector

The Administration has obligated $1.2 billion for water and sanitation projects in Iraq.[44] As detailed in the September 2003 reconstruction blueprint, this money was to be used to provide drinkable water to 90% of Iraqis and to decrease water loss from 60% to 40%.

The available information indicates that the Administration has failed to deliver on its promises. According to IRMO, just 66% of Iraqis now have access to potable water.[45] This is far fewer than the Administration's goal of 90% and little better than the 60% access in urban areas that the CPA estimated two years ago. There also does not appear to be progress in preventing the loss of potable water through leaks in the transport and delivery system. GAO reported that water loss remains at 60% due to "illegal taps, unmetered usage, and leaking water pipes."[46]

As a result, IRMO officials reported that the Iraqi ministries are "disappointed with the broken promises and lack of progress on existing projects."[47]

Even the IRMO estimate that 66% of Iraqis have access to potable water may be inflated. When GAO tried to audit water reconstruction projects, it was unable to determine whether any real progress has been made. Though the State Department claimed that 64 projects were complete, GAO reported that "State was unable to provide a list of those completed projects."[48] GAO also found that the Administration's methods for tracking progress in this sector "do not show

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42 *Id.*
43 *Id.*; Briefing by Iraq Reconstruction Management Office, *supra* note 20
44 *Rebuilding Iraq: Status of Funding and Reconstruction Issues*, *supra* note 17.
45 Briefing by Iraq Reconstruction Management Office, *supra* note 20.
46 *Rebuilding Iraq: Status of Funding and Reconstruction Issues*, *supra* note 17.
47 Briefing by Iraq Reconstruction Management Office, *supra* note 20.
48 *Rebuilding Iraq: Status of Funding and Reconstruction Issues*, *supra* note 17.

how the U.S. program is affecting the Iraq people" because they do not "measure increased access to clean water and improved sanitation in Iraq."[49]

Auditors have found significant problems when they examined specific water and sanitation projects. When the USAID Inspector General evaluated a sample of projects, he found that four large projects worth approximately $115 million were not achieving their intended outputs.[50] These failing projects represented 31% of the total budget of the projects examined by the Inspector General.[51]

The Special Inspector General for Iraq Reconstruction sent teams to assess four projects and found that three of the four had "significant deficiencies."[52] The Inspector General reported that the Al Wahda Water Treatment Plant project "did not and will not increase the quantity of water to the Iraqi people or elevate the quality of the water to potable standards."[53] The team found that the filter system was not functional and the plant's "customers have sand and sediment in their drinking water."[54] The Inspector General also found that a supposedly completed pipeline to connect the village of Al Sumelat to an existing water main "was in three unusable segments and had not been connected to the water main."[55]

To the extent that any progress has been made in the water sector, these gains may be unsustainable. GAO reported that completed projects "have encountered significant problems in facility operations and maintenance after project handover to Iraqi management. Iraqis lack adequate resources and personnel to operate these facilities in the long term."[56] IRMO is concerned that completed projects may not be sustainable because of substandard training for Iraqis, inadequate funding for operations and maintenance, and a "run it into the ground" culture among the Iraqi operators.[57] In April 2005, Mahmoud Ali Ahmed, the head of Iraq's water distribution system, said, "The money does not exist for the maintenance and rehabilitation of existing projects."[58]

Reasons for the Lack of Progress

There are multiple reasons for the failure of the Administration to meet the reconstruction objectives set two years ago. As mentioned above, key private contractors such as Halliburton have overcharged the federal government and

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49 *Id.*

50 U.S. Agency for International Development, Office of Inspector General, *Audit of USAID/Iraq's Water and Sanitation Rehabilitation Activities* (June 30, 2005).

51 *Id.*

52 Special Inspector General for Iraq Reconstruction, *Quarterly Report*, *supra* note 1.

53 *Id.*

54 *Id.*

55 *Id.*

56 *Rebuilding Iraq: Status of Funding and Reconstruction Issues*, *supra* note 17.

57 Briefing by Iraq Reconstruction Management Office, *supra* note 20.

58 *Millions Said Going to Waste in Iraq Utilities*, Los Angeles Times (Apr. 10, 2005).

failed to perform capably. The failure to train Iraqis to maintain completed projects has also contributed to the failure. Two overarching problems, however, appear to have had the greatest impact on the reconstruction effort: inadequate security and a flawed contracting approach.

Due to the lack of security in Iraq, delays and high security costs have hampered reconstruction efforts in every sector of the reconstruction. Money intended for the rehabilitation and construction of critical infrastructure has been diverted to pay for contractor security or to accelerate the training and equipping of Iraqi forces.

In its July 28, 2005, report, GAO found that security costs represented a significant portion of the total funds spent under major reconstruction contracts. Eight of the 15 reconstruction contracts examined by GAO had security costs in excess of 15% of the total contract billings.[59] Security costs exceeded 25% under four of these contracts.[60] These rates do not reflect all of the security costs under these contracts because they largely exclude the security costs of subcontractors. These rates also do not include the significant premium contractors must pay employees to work in a war zone.

The high security costs have also resulted in the cancellation or scaling down of planned reconstruction projects. For example, GAO found that, in March 2005, USAID cancelled two electricity generation projects worth $15 million to help pay for the increased security costs of another electricity project.[61] According to IRMO, funding for water and public works projects has been reduced from $4.2 billion to $2.2 billion in order to shift funds to the training and equipping of Iraqi security forces.[62] As a result, numerous water projects have been cancelled or scaled back.[63]

The problems created by poor security in Iraq have been compounded by the Administration's use of fundamentally flawed contracting strategies. Instead of maximizing competition, the Administration initially opted to award no-bid, cost-plus contracts to large private contractors. Halliburton's RIO contract is a prime example. Under this contract, Halliburton was reimbursed for its costs and then received an additional fee, which was a percentage of its costs. This created an incentive for Halliburton to run up its costs in order to increase its potential profit.[64]

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59 Government Accountability Office, *Rebuilding Iraq: Actions Needed to Improve Use of Private Security Providers* (July 28, 2005).

60 *Id.*

61 *Id.*

62 Briefing by Iraq Reconstruction Management Office, *supra* note 20.

63 *Id.*

64 *See, e.g.*, Minority Staff, Committee on Government Reform, *Halliburton's Questioned and Unsupported Costs in Iraq Exceed $1.4 Billion* (June 27, 2005).

After receiving criticism for the initial no-bid contracts, the Administration revised its approach in late 2003 and early 2004. The Administration created a Program Management Office (PMO) to manage the reconstruction and develop a new approach to contracting. Under the new approach, the Administration divided Iraq geographically and by economic sector into 12 "monopoly contracts." For example, one monopoly contract covered electricity transmission and distribution in northern Iraq, while another contract covered electricity transmission and distribution in southern Iraq. The PMO then chose a few select contractors to compete for each of the monopoly contracts. All of the monopoly contracts were cost-plus contracts.[65]

This new contracting approach suffered from many of the same flaws as the original approach. Although there was nominal competition for the award of the monopoly contracts, contractors were never asked to bid against each other for specific reconstruction projects. At the time of the competition, the PMO had not identified the specific projects to be completed. Instead, the contracting strategy contemplated that all projects of a specific type — such as all oil projects in northern Iraq — would be automatically assigned to the contactor holding the relevant monopoly contract. Without the discipline of price competition for specific projects, the taxpayer was once again left vulnerable to inflated charges and poor performance.

In the absence of price competition, rigorous government oversight becomes essential for accountability. Yet the Administration turned much of the contract oversight work over to private companies with conflicts of interest. Oversight contractors oversaw their business partners and, in some cases, were placed in a position to assist their own construction work under separate monopoly construction contracts.[66]

CONCLUSION

Two years ago, the Bush Administration set lofty objectives for the reconstruction of Iraq. These objectives, however, have never been met. Despite the spending of billions of taxpayer dollars, oil production and exports are below pre-war levels; electricity production is far below promised levels; and about one in every three Iraqis still lacks access to drinkable water.

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65 Letter from Reps. Henry A. Waxman and John D. Dingell to David J. Nash, Director of the Iraq Program Management Office (Dec. 18, 2003).

66 Minority Staff, House Committee on Government Reform, *Contractors Overseeing Contractors: Conflicts of Interest Undermine Accountability in Iraq* (May 18, 2004).

Mr. WAXMAN. Today's testimony by Mr. Bowen, the Special Inspector General for Iraq Reconstruction, confirms these findings. He, too, has concluded that there is a great chasm between what the administration has promised and what it has delivered. Mr. Bowen calls this the "Reconstruction Gap."

Well, how big is the "Reconstruction Gap?" Here is what we found in our report. In the oil sector, the administration said 2 years ago that it would restore prewar oil production levels so that Iraq could finance its own reconstruction. Remember when we were told this wouldn't cost us anything, Iraq will pay for the reconstruction efforts out of their oil revenues?

But today Iraq's oil production and export levels are still well below prewar levels. We have spent over $2 billion, and the situation is actually worse than when we arrived. According to Mr. Bowen's testimony, Iraqis don't even expect to reach prewar production levels by January 2006.

In the electricity sector, the administration promised to increase Iraq's peak electricity output to 6,000 megawatts. Two years later, after spending $4 billion, peak output remains stagnant at about 4,600 megawatts, nearly the same as what it was before the war began. In fact, embassy officials in Baghdad told our staffs in August that we will never meet demand.

In the water sector, the administration promised that 90 percent of Iraqis would have access to clean, drinkable water. But despite spending over $1 billion, we are nowhere near this goal. Today, a third of Iraqis still lack access to potable water, close to the prewar conditions, and these figures, which come from our embassy in Baghdad, may be overly optimistic. The Government Accountability Office asked for documentation of any progress in providing clean water to Iraqi families, but the administration could provide none.

How did this happen? Why is the reconstruction failing?

In my view, there are several reasons. First, the administration failed to provide a secure environment for the reconstruction. This has caused long delays and soaring security costs. GAO found the security costs exceeded 25 percent of spending under some contracts, which forces billions of dollars to be diverted from reconstruction projects. The administration argues these security costs were unexpected, but they were warned repeatedly about the likelihood of a vicious, lengthy insurgency.

The administration's failure-flawed contracting approach has also contributed greatly to the Reconstruction Gap. Instead of maximizing competition, the administration opted to award enormous cost-plus monopoly contracts to favored contractors like Halliburton. Then it turned over key oversight responsibilities to private contractors with blatant conflicts of interest.

The administration's failures in the reconstruction effort have very real consequences. We are not building what needs to be built to meet the basic everyday needs of Iraqis. Our Nation's credibility is further eroded and American taxpayers are losing confidence in the entire enterprise.

Despite these horrendous efforts and failures, the administration presses on, apparently in a state of denial. Vice President Cheney said just this month that progress in Iraq was superb. This state-

ment is totally disconnected from reality; it is not based on any real measurement of progress.

The first step toward reform must be transparency and accountability. That is why I hope the report we are releasing today and the testimony of the expert witnesses before us will contribute to a greater understanding of the problems crippling the reconstruction effort.

When Hurricane Katrina hit, the President and other senior administration officials told the public that everything was under control and that the response was proceeding smoothly. But because the hurricane struck a major American city and the pictures of devastation were broadcast on TV sets around the Nation, the public could see how hollow these reassurances were. The difference, however, between Biloxi and Baghdad is that American TV crews can get to Biloxi and New Orleans, but outside of Baghdad and even in that city itself, the country is so far away that security concerns make it hard for the most intrepid reporters to cover the story. Few people fully understand how disastrous our reconstruction efforts have been.

This hearing is one step in providing a measure of accountability, and I commend the chairman for his efforts. And I look forward to the testimony of today's witnesses.

[The prepared statement of Hon. Henry A. Waxman follows:]

Opening Statement
Rep. Henry A. Waxman
October 18, 2005

Mr. Chairman, the efforts to rebuild Iraq are failing. The Administration has spent literally billions of taxpayer dollars on reconstruction in Iraq, yet progress has been limited or nonexistent and much of the money has been squandered.

Today, I am releasing a report that compares the Administration's rhetoric with the reality on the ground two and a half years after the invasion. The report finds that the Administration has failed to deliver on its promises in three of the most important reconstruction sectors in Iraq: oil, electricity, and water.

Today's testimony by Mr. Bowen, the Special Inspector General for Iraq Reconstruction, confirms these findings. He too has concluded that there is a great chasm between what the Administration has promised and what it has delivered. Mr. Bowen calls this the "Reconstruction Gap."

How big is the reconstruction gap? Here's what we found in our report.

In the oil sector, the Administration said two years ago that it would restore pre-war oil production levels so that Iraq could "finance its own reconstruction." But today, Iraq's oil production and export levels are still well below pre-war levels. We've spent over $2 billion, and the situation is actually worse than when we arrived.

According to Mr. Bowen's testimony, Iraqis don't even expect to reach pre-war production levels by January 2006.

In the electricity sector, the Administration promised to increase Iraq's peak electricity output to 6,000 megawatts. Two years later – after spending over $4 billion – peak output remains stagnant at about 4,600 megawatts, nearly the same as it was before the war began. In fact, embassy officials in Baghdad told our staffs in August that "[w]e'll never meet demand."

In the water sector, the Administration promised that 90% of Iraqis would have access to clean, drinkable water. But despite spending over a billion dollars, we're nowhere near this goal. Today, a third of Iraqis still lack access to potable water, close to the pre-war conditions. And these

figures, which come from the embassy in Baghdad, may be overly optimistic. The Government Accountability Office asked for documentation of any progress in providing clean water to Iraqi families, but the Administration could provide none.

How did this happen? Why is the reconstruction failing?

In my view, there are several reasons. First, the Administration failed to provide a secure environment for the reconstruction. This has caused long delays and soaring security costs. GAO found that security costs exceed 25% of spending under some contracts, which forces billions of dollars to be diverted from reconstruction projects. The Administration argues that these security costs are

unexpected, but they were warned repeatedly about the likelihood of a vicious, lengthy insurgency.

The Administration's flawed contracting approach has also contributed greatly to the reconstruction gap. Instead of maximizing competition, the Administration opted to award enormous cost-plus, monopoly contracts to favored contractors like Halliburton. Then it turned over key oversight responsibilities to other private contractors with blatant conflicts of interest.

The Administration's failures in the reconstruction effort have very real consequences. We're not building what needs to be built to meet the basic, everyday needs of Iraqis. Our nation's credibility is being further eroded.

And American taxpayers are losing confidence in the entire enterprise.

Despite this horrendous record, the Bush Administration presses on, apparently in a state of denial. Vice President Cheney said just this month that progress in Iraq was "superb." This statement is totally disconnected from reality. It's not based on any real measurement of progress.

The first step toward reform must be transparency and accountability. That is why I hope that the report I am releasing today – and the testimony of the expert witnesses before us – will contribute to greater understanding of the problems crippling the reconstruction effort.

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The same disconnect between Administration assurances and reality is occurring in Iraq. But because the country is so far away – and security concerns make it hard for even intrepid journalists to cover the story – few people fully understand how disastrous the reconstruction effort has been.

This hearing is one step in providing a measure of accountability. I commend the Chairman for his efforts, and I look forward to the testimony of today's witnesses.

Mr. SHAYS. The Chair would now recognize the distinguished gentleman, the ranking member, Mr. Kucinich, of this subcommittee.

Mr. KUCINICH. Thank you very much, Mr. Chairman. I want to thank you and Ranking Member Waxman for the opportunity to be here today and to congratulate Mr. Waxman on the release of that report, which I am sure is going to be of interest to every Member of Congress. I want to bid the members of the panel, good morning.

It is tempting for some to tout the successes of this past weekend's referendum on the draft Iraqi constitution, as there were earlier reports of high voter turnout and for the orderly conduct of Iraqis at the polls. But yesterday, the Independent Electoral Commission of Iraq stated that it would audit the unusually high numbers and results coming from those provinces. The commission's statement came after Sunni lawmaker Meshaan al-Jubouri claimed fraud had occurred in the vote, including instances of voting in hotly contested regions by pro-constitution Shiites from other areas.

Democracy will not be successful in Iraq—or anywhere else, for that matter—unless it is proven to be without fraud. Furthermore, democracy will not succeed unless the reconstruction efforts that underpin democracy are realized and are sustainable. The Iraqi people need statecraft, not stagecraft.

The Bush administration has claimed that economic reconstruction would contribute to stability in Iraq, that goods and services would help the Iraqi people. On the surface, it appears there is much activity. Congress has allocated some $30 billion in assistance for reconstruction efforts. We are helping to restore water, sanitation and other infrastructure, and we are rebuilding schools and communities, providing medicine and foods, helping to restore ports and vital sectors of the economy, efforts that are eerily parallel to those so desperately needed in our own country in the wake of Hurricanes Katrina and Rita.

Yet more than 2 years after our troops entered Iraq, the truth is that most Iraqis still do not have reliable electricity throughout the day. They still do not have adequate health care or clean water and sanitation. Childhood malnutrition is on the rise and so is disaffection with U.S. companies receiving the bulk of reconstruction contracts.

This doesn't seem like much progress to me, and as the course of Inspectors General and Auditors will attest to today, the reality on the ground is that reconstruction of Iraq is dependent on security, not the other way round. It seems to me we are great at building Potemkin villages, but not so good at rebuilding Iraqi society.

The panel of witnesses here today will testify to the enormous obstacles and costs of reconstruction in Iraq. They will illustrate the serious mismanagement, the shoddy recordkeeping, the looting, and the serious cost overruns, constant delays and underperforming reconstruction projects that the American taxpayers are footing the bill for.

In fact, 25 to 50 percent of the costs for any reconstruction project in Iraq goes straight toward providing security for the site and the workers. In fact, it seems that the only people who are prospering in Iraq are the Halliburtons and Blackwaters of the

world. It is truly a Faustian deal that the administration has struck.

Now we have learned that the DOD IG is MIA. The Department of Defense Inspector General office has not had any auditors in Iraq in over a year. Are we to conclude that no one is watching the $141 billion worth of military spending in Iraq, no one is preventing waste, fraud and abuse on behalf of the American taxpayers?

The fox, Halliburton, is guarding the henhouse, while declaring it has lost its taste for chicken. Violence is surging. The lives of over 1,900 American soldiers have been lost thus far, and there are estimates that over 42,000 soldiers have been wounded. By some counts, 100,000 innocent, noncombatant Iraqis have been killed. How many more lives will be lost before this administration gets the message?

Mr. Chairman, as you know, I have never supported the use of force in Iraq, and I continue to believe that our occupation in Iraq has been counterproductive. The American people are correct when increasing numbers of them are disaffected from this war. The prospects for a representative Iraqi Government remain dim at best. The prospects for the breaking apart of Iraq into separate pieces are rising, particularly without Sunni Arabs buying into the process. Throwing more U.S. money into Iraq or more and more American soldiers into harm's way will not right the wrongs.

I hope that today's hearing will shine some light on the truth of the situation in Iraq. Furthermore, I hope the experts here today will provide a realistic projection of how much it will take to reconstruct Iraq.

Thank you.

Mr. SHAYS. Mr. Dent, you have the floor.

Mr. DENT. Thank you, Mr. Chairman.

I would like to thank Chairman Shays for holding this important hearing on the status of the U.S. support for the Iraqi Government's reconstruction and security programs. I think it is important to take note of the progress that has been made in the rehabilitation of Iraq.

In August, I joined a four-member congressional delegation to Iraq, and I had the opportunity to witness some of the reconstruction efforts down in Basra, up in Kirkuk. I saw the generating facility that was being established up there. I think it was referred to as "the mother of all generators," and I was quite impressed by the capabilities of many of our people, not just military, but civilian personnel, in their efforts to reconstruct that nation.

I was also struck by the number of auditors over there. It was my understanding there is ratio of about one-and-a-half construction managers to auditors. It seemed like quite a high number. I would like to find out today during this hearing if there is a coordination between all the various inspector generals from DOD, State and all the Army, everywhere else. There seemed to be inspectors just about everywhere. I would really like to get some insight as to the coordination of that effort.

That said, again, I was struck by the progress that was made up in Kirkuk with generators. I saw some interesting sites down in the port of Umm Qasr near Basra, and, again, I just appreciate the efforts of all involved.

I realize we have a tremendous and daunting objective there in Iraq trying to rebuild a country and establish representative government, all under very difficult—while fighting insurgency is clearly a daunting objective.

I look forward to hearing your comments today.

Mr. SHAYS. I thank the gentleman.

Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman. I want to thank you and Ranking Member Waxman for your continued willingness to examine U.S. efforts to stabilize and rebuild Iraq. I also want to thank the panelists for helping this subcommittee with our work.

On the heels of Saturday's referendum, I appreciate the opportunity to discuss the progress of, as well as the prospects for, Iraq reconstruction, security and self-governance. In addition, I am interested in following up on some the issues that arose before this subcommittee back in June as we conducted the first congressional hearing on the administration's management of the Development Fund for Iraq, which is the successor to the United Nations Oil-for-Food program. We talked about a number of outstanding issues.

For instance, we talked about the indictments of a former Halliburton procurement manager and a general manager of the Halliburton subcontractor, stemming from a kickback scheme that saw the U.S. Government overcharged by about $3½ million. It is also the indication there may be other cases of a similar nature out there.

We also discussed thousands of pages of documents subpoenaed from the Federal Reserve Bank of New York by this subcommittee, indicating there was an 11th-hour spending spree in the final days of the Coalition Provisional Authority's existence with nearly half of the currency shipped into Iraq under U.S. discretion and direction, totaling more than $5 billion flowing into the country, in the final 6 weeks before control of the Iraqi Fund was returned to the interim Iraqi Government in June 2004.

Regrettably, the extent of financial waste we are seeing here, as well as fraud and abuse, has amounted to a lost opportunity to help the Iraqi people. It has frustrated our overall policy in Iraq, an effort for which we have sacrificed a great deal financially and, more importantly, in the lives of our men and women in uniform.

Accordingly, I would very much like to hear the witnesses' perspectives on where we are in terms of tracking the flow of up to $20 billion that has been either stolen or misallocated, and implementing safeguards to ensure greater transparency and accountability in contracting as we continue toward the stabilization and reconstruction of Iraq.

A few weeks back, I concluded my third visit to Iraq and had an opportunity to review some of the construction going on. In particular, we are building a port of entry, rebuilding a port of entry, in al Qaim, which is right on the Syrian border. There is extensive construction there, and it was good to finally see some Iraqi security forces controlling their own borders.

As someone who spent 18 years in the building trades, I know my way around a constructionsite, and I have to say I was very disappointed with the quality of the materials that were there. We went through most of the building materials. I don't think I could

find a straight 2 by 4 on that job site. They tell me it was supplied by an Indian contractor. Just on a threshold basis, I could see that the quality of the materials was not up to par. It is not something that we would be proud of.

The American taxpayer is paying for this effort, and it is bad enough what the situation over there is now. I just look forward to the day when we withdraw. I would hope that the work we have done there and the American taxpayer has paid for is of top quality. Otherwise, our reputation and image suffer even further, which is deplorable given the quality and nature of the sacrifice we are making in Iraq right now.

So I would like to hear about what our efforts are in terms of overseeing the construction there. If we are getting ripped off, I would rather be ripped off by an American contractor than an Indian contractor. If we can't stop it, I would rather have the money flowing into this country and keep it in our economy.

But obviously I think the answer is to stop the corruption, stop the sub-par and shabby construction, and make sure we do a good job over there; and try to get out of there as soon and as safely as possible.

Thank you, Mr. Chairman. I appreciate your courtesy.

Mr. SHAYS. Mr. Higgins, would you like to be recognized?

Mr. HIGGINS. No.

Mr. SHAYS. I just didn't know, you were so far back over there, if it meant you didn't want to.

Let me just take care of some housekeeping here.

I ask unanimous consent that all members of the subcommittee be permitted to place an opening statement in the record and the record remain open for 3 days for that purpose. Without objection, so ordered.

I ask further unanimous consent that all witnesses be permitted to include their written statements in the record. Without objection, so ordered.

Let me just announce our panel. It is an extraordinary group. We are very grateful to each of you. I am sorry you are so kind of closed up here.

We have the Honorable Stuart W. Bowen, Jr., Special Inspector General for Iraqi Reconstruction. We have the Honorable Howard J. Krongard, Inspector General, Department of State. We have Mr. Joseph Christoff, Director, International Trade, U.S. Government Accountability Office. We have Mr. Thomas Gimble, Acting Inspector General, Department of Defense. We have Mr. Joseph Farinella, Acting Inspector General for Audit, U.S. Agency for International Development. And we have Ms. Joyce Morrow, U.S. Army Auditor General.

As you know, this is an investigative committee, and we swear in our witnesses. We invite you to stand to be sworn.

Is there anyone else that might respond to a question that we might ask you that you might prefer for them to speak? If so, if they could stand to be sworn in, that way we don't have to do it twice. Is there anyone you would ask on your staff?

[Witnesses sworn.]

Mr. SHAYS. Note for the record that every one of our witnesses has responded in the affirmative.

Before inviting testimony, I want to say that we want a very candid conversation. We don't want you to leave this room without saying what needs to be put on the record. If we fail to ask the question, then tell us, and we will ask you what your question is that you can answer. But we want everything on the table.

I would just say that I believe as I am going to look at this, I am looking at the political, the security and the reconstruction. As I look at the political, my view is it has been significant progress. One of my measures is, if the press doesn't talk about it, it must have been a success.

Second, on security, having been there 10 times, I have seen the ebb and flow, and from my perspective, in April 2003, I think we dug a huge hole by disbanding the army, police, border patrol and their government.

We have been coming up. Compared to where we are in 2003, maybe not as much progress; compared to the hole we dug, significant progress.

In reconstruction, I have some very real concerns: thousands of schools, lots of money spent. I am particularly interested in your comments on that.

So you do have a pretty diverse view on this subcommittee. You are going to be asked, I think, some very tough questions, and we want very honest answers.

With that, we will go in the order that you are at. We have a large panel. I will allow you to go over 5 minutes, but I don't want you to go to 10. I just want to make sure it is on the record.

Mr. Bowen.

STATEMENTS OF STUART W. BOWEN, JR., SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION; HOWARD J. KRONGARD, INSPECTOR GENERAL, U.S. DEPARTMENT OF STATE; JOSEPH CHRISTOFF, DIRECTOR, INTERNATIONAL TRADE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE; THOMAS GIMBLE, ACTING INSPECTOR GENERAL, U.S. DEPARTMENT OF DEFENSE; JOSEPH FARINELLA, ACTING INSPECTOR GENERAL FOR AUDIT, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT; AND JOYCE MORROW, U.S. ARMY AUDITOR GENERAL

STATEMENT OF STUART W. BOWEN, JR.

Mr. BOWEN. Thank you, Mr. Chairman.

Mr. SHAYS. Is your mic on and is it near enough to you? We need you to project fairly loudly.

Mr. BOWEN. Thank you, Chairman Shays, Ranking Member Waxman and members. I thank you for the opportunity to address you today on the oversight of U.S. reconstruction efforts in Iraq provided by my office, the Special Inspector General for Iraq Reconstruction [SIGIR]. I am charged with auditing and investigating operations funded by the Iraq Relief and Reconstruction Fund [IRRF].

This hearing is timely, coming just 12 days before the release of our seventh quarterly report on the reconstruction oversight in Iraq, and in it we will provide 10 new audits, 12 new inspections, and an update on substantial progress we have made on the investigative front.

In September, I returned from my ninth trip to Iraq since my appointment as Inspector General, and I was encouraged during that trip by the progress that I see that Ambassador Khalilzad and his team are making. They are exerting strategic control over the reconstruction program by focusing on what I see are the most important issues before them now.

One, sustainment. Sustainment means ensuring that both what we provide and the overall Iraqi infrastructure are well planned to endure, both after we turn over those projects and after we leave, that there is an infrastructure in place that will provide power, light, water—potable water.

That was not something that was well thought out ahead of time, but in the last months, is being addressed aggressively. In the course of our audit, we recommended they create an office of sustainability. They took that suggestion, the Ambassador's office, the Iraq reconstruction management office, and they are formulating a formal policy to ensure that there is coordinated sustainment across the board as we move forward.

We have seen much progress, over 2,000 projects completed, but we are facing continuing challenges. Mr. Waxman referenced the "Reconstruction Gap," and that is an issue that we address in detail for the first time in this report. It is not a new issue; it has been developing over this year, and it is a consequence of cost-to-complete, or the lack of adequate cost-to-complete data. Cost-to-complete is not budget-to-complete; it is how much it is going to cost to finish the projects you start.

The bill that created the IRRF required that cost-to-complete data be reported quarterly to the Congress, and that mandate has not been consistently, or even met since then, but I believe that we are there now and that IRMO has developed a good plan for pushing forward more detailed cost-to-complete data.

We have invested over $30 billion in appropriated funds for Iraq reconstruction. As of today, only 7 percent of these funds are yet to be committed. Substantial portions of this funding has been used to provide for security against insurgent attacks, which obviously has left less funds available than planned for construction activities; thus, the "Reconstruction Gap"—one of the causes at least. The "Reconstruction Gap," in simplest terms, are what was the realistic scope of projects we intended to complete in the 2004 plan, what are we actually going to complete, what is actually, realistically achievable at this point.

There has been substantial descoping because of reprogramming and shifting of funds to security. Those are necessary shifts; not criticizing those shifts, but what I am saying is by forwarding that plan in 2004, we made an effective promise of a level of infrastructure we would provide, and we are going to provide something less than that. That needs to be addressed, whether through donor funds, World Bank loans or subsequent appropriations.

My staff is advancing our audit and investigative inspections work rapidly in Iraq. We have 45 personnel assigned to Baghdad; half of them are auditors, 10 investigators and inspectors. We have completed, to date, 26 audit reports, and we have 16 more audits under way. I have auditors and criminal investigators working here

in Arlington, as well following up on the issues that are raised in Iraq.

We are working together with other inspectors general, in particular the Department of State IG, on an audit of the INL appropriation. We have continued to engage the Iraq Inspector General's counsel, addressing Mr. Dent's point, which seeks to coordinate and, among the IGs who provide oversight in Iraq, to ensure that there is deconfliction of audit objectives and that all audit areas are being addressed.

SIGIR is a temporary organization, and thus I want to ensure that our oversight is real-time. By that, I tell my auditors to get out; when they find a problem, to not play hide the ball, but to bring it to management's attention and achieve solutions. The sustainment office is an example of that.

Our award fee correction during the course of the audit is another one. I am pleased with the responsiveness of management over there as we identify problems. They have been responsive.

We continue to work hard over there, and we recognize that there is much left to be done. We expect and hope that the revision in our statute will be forthcoming and that over the next 2 years we will continue to exert effective oversight and help promote program success in Iraq.

Thank you.

Mr. SHAYS. Thank you, Mr. Bowen.

[The prepared statement of Mr. Bowen follows:]

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

BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS, AND INTERNATIONAL RELATIONS

HEARING ON
IRAQ: PRECEPTIONS, REALITIES AND COST TO COMPLETE

Tuesday, October 18, 2005
Washington, DC

Introduction

Mr. Chairman, Ranking Member Kucinich, and members of the Committee -- thank you for the opportunity to address you today on important matters regarding the United States' role in the reconstruction of Iraq and the oversight provided for the reconstruction program by my Office, the Special Inspector General for Iraq Reconstruction, or SIGIR. I hope for a productive exchange of views in today's hearing and that we will shed light on the issues now confronting the leadership of the Iraq reconstruction program.

This hearing is timely, coming as it does just 12 days before the release of our next Quarterly Report, which will provide reporting on a series of new audits, inspections, and investigations. Your emphasis on the costs to complete reconstruction projects parallels our focus on this important matter. It is the subject of audits reports that we will soon release and are discussed extensively the Quarterly Report, which will be delivered to you on October 30th.

We are encouraged by reports by the Department of State of steady, significant progress in Iraq, despite the widespread dangers imposed by a lethal security environment, the tensions of highly charged political climate, and the dangers of operating in a war zone.

Still, the positive facts of reconstruction remain impressive things in themselves. In sheer population served, more Iraqis now have access to potable water, to sewage services, and to electricity than ever before. More than 1,000 kilometers of roads have

been built or repaired across the last 18 months. Strategic Infrastructure Battalions are currently being trained to protect the country's infrastructure of electric grids and oil pipelines. Over 190,000 military and police have received training. Iraqi-run firms continue to compete for and win commercial contracts to develop their own country, in part because of the creation of the Provincial Reconstruction Development Committees (PRDCs). Iraq ministries now receive grants directly from international donors.

In early September, I returned from my ninth trip to Iraq since my appointment as Inspector General 21 months ago. I was encouraged by the progress that I observed during my trip. I met with Ambassador Zalmay Khalilzad and his senior reconstruction leadership in Baghdad, and found them to be aggressively exerting strategic control of the reconstruction program. They are focusing on what I see as the most important issues confronting the program now, namely, the sustainability of the infrastructure we have constructed and the effective management of remaining projects by controlling costs to complete.

The Ambassador met with me shortly before I returned stateside and made it clear that he recognizes the importance of our oversight and fully supports my office's role in Iraq. To that end, my Office, along with its ongoing oversight duties, continues to play a consultative role, serving in an advisory capacity on a number of key reconstruction working groups in Iraq.

SIGIR continues to push reconstruction management for significant, measurable progress, especially in five key areas, which I will address in my statement. These are:

(1) affordable sustainable plans that address a coordinated long-term plan for Iraq's infrastructure, as well as the need for the U.S. to provide some funds for operation and maintenance of the facilities we have built;

(2) reliable and accurate estimates of the costs to complete projects;

(3) effective information management systems;

(4) a deliberate shift to direct contracting with Iraqi companies; and

(5) the Iraqi Anti-corruption initiative.

I will elaborate on these key issues in this testimony.

The Reconstruction Gap

First, however, I would like to highlight what we see as a new area of concern: we call it the Reconstruction Gap.

We define the Reconstruction Gap as the difference between the number of projects that the U.S proposed to build when it first began committing the IRRF to programs in Iraq and the number of projects that the US will ultimately complete.

The causes of the gap include dramatically increased spending on security needs, increases in costs of materials, increased costs arising from project delays, cost overruns on particular projects, multiple reprogrammings of reconstruction priorities, and the allocation of funds for sustainment.

Though the causes may be numerous and valid, the existence of the gap simply means that the completion of the US-funded portion of Iraq's reconstruction will leave many planned projects on the drawing board.

In the coming year, the amount of money needed by the Iraqi government both to carry out the daily operations of its existing health, water, oil and electrical infrastructure, as well as to complete and sustain planned reconstruction projects, will outstrip the available revenue. The gap will need to be addressed by international donor funding for Iraq reconstruction, as well as better budgeting practices on the part of the Iraqis.

The existence of this gap may subject the U.S. to criticism for not fulfilling what was perceived as a promised number of projects. We will soon announce an audit to identify the particulars of the Reconstruction Gap.

To understand the nature of the Reconstruction Gap, let me begin with the needs.

Forty years ago, Iraq was one of the most advanced nations in the Middle East. Self-sufficient in agriculture, it had a vibrant private sector with a highly educated and skilled population, and tremendous oil wealth. Today, Iraq has descended dramatically, to a country with some of the most tragically alarming development indicators in the region.

In October 2003, the World Bank estimated that about $56 billion would be needed to reconstruct the infrastructure of Iraq, noting that Iraq's needs

> *"... are vast and are a result of nearly 20 years of neglect and degradation of the country's infrastructure, environment and social services. Public resources were diverted to support the military and the ruling regime's power; poor economic and policy decisions took a toll; and conflict and international sanctions all combined to erode the standard of living for ordinary Iraqis."*

This estimate did not fully take into account the additional costs for security, which became apparent in early 2004 with terrorist attacks on contractors. Nor could it account for losses from mismanagement, corruption and general inefficiency.

The Iraqi people know their history, their former position in the world, and what it is today. There can be little doubt that the desire of Iraqis is to recover from their history. But, today, in many places throughout the country, they hope for things people of many other nations take for granted: reliable electrical power, clean water, functioning sanitation systems, jobs, incomes, and a future of prosperity and peace.

What resources are available to meet these needs?

The U.S. has met more than half of the funding needs estimated by the World Bank with the investment of almost $29 billion in U.S. appropriated funds for Iraq. As of today, only seven percent of these funds remain to be committed to programs and projects. Yet, this investment has been eroded by the need to provide security, to protect people and facilities from terrorists. By some estimates, this has taken as much as 26% of the funds, leaving less for construction labor and materials for reconstruction projects.

Other nations of the international community have pledged a total of about $17 billion to the overall relief and reconstruction effort. However, the delivery of pledged funds and new pledges may be diminishing, as incidents of terror, along with reports of corruption and mismanagement, leave donors with a lack of confidence in reconstruction efforts.

Beyond international aid, about $30 billion of Iraqi funds, identified as seized, vested, as well as those of the Development Fund for Iraq (DFI) established by the United Nations from Iraqi oil revenues, have also been available for reconstruction. However, SIGIR audits have documented mismanagement and lack of accountability and potential fraud in handling of the funds of the DFI by personnel of the Coalition Provisional Authority. Since sovereignty was returned to the Iraqis in June 2004, audit reports of the Iraqi Board of Supreme Audit, and statements of the Iraqi Commission on Public Integrity have similarly pointed to mismanagement, lack of accountability and potential fraud in handling operating funds of ministries.

New income for Iraq will depend upon expanding oil exports, which Iraqi officials expect will rise to 1.8 million barrels per day by January 2006, just after the scheduled election of a national government. That government will be able to make decisions on foreign investments in their oil sector. For at least the next few years, Iraq will depend upon oil revenues for as much as 60% of its gross domestic product and 95% of its hard currency earnings. Thus, improving the productivity and performance of the oil sector will be the key to jump starting the rest of the Iraqi economy in the years ahead.

While Iraq is sitting on an abundance of crude oil, it is a net importer of refined fuels, due to a lack of refining capacity. This costs the nation more than $300 million a month. As well, the Iraqi Transitional Government policy is to subsidize fuel prices. According to the IMF, the government paid more than $7 billion in 2004 to provide the consumer with gasoline and diesel at about a nickel a gallon. At this price, demand is exaggerated, and smugglers have lucrative opportunities to deliver subsidized fuel to neighboring countries where prices are 100 times greater. One third of Iraq's gasoline and diesel fuel is stolen and sold over the border, costing the country about $2 billion a year.

An additional headwind for the Iraqi economy is the continuing need to service its substantial debts. Despite the reduction by 80% of Iraq's $39 billion debt by the Paris Club, the remaining 20% remains on the books, along with an estimated $80 billion still

owed to other nations, mostly Arab states. As well, this debt will only be increased by any loans accepted by Iraq for reconstruction assistance.

Eventually, at the conclusion of the reconstruction program, it will be up to the Iraqis to operate and maintain the infrastructure of new plants and equipment we leave behind, as well as undertake additional reconstruction on their own. A recently completed SIGIR audit on sustainment estimates that the Iraqi government will need between $650 and $750 million annually to operate and maintain current projects. On top of this, another 20 to 25% will be needed for security, salaries and fuel. Iraqi funding for support of existing infrastructure is a fraction of what is necessary. It will take time for the Iraqi economy to grow to generate revenues at levels needed to sustain the infrastructure. In this regard, the deck is currently stacked against Iraq.

If the U.S. and the world do not buy the necessary time for Iraq to be able to shoulder their own infrastructure, it will risk undermining, or even reversing, the value of the investments we have made.

The U.S. reconstruction effort is shared by a multiplicity of U.S. military and civilian bureaucracies, resulting in uncertainty about the authority each should exercise. What is needed is strong and coordinated leadership of the many key U.S. agencies engaged in Iraq reconstruction – leadership that delivers results at both the program and execution levels and speaks with one voice.

The Chief of Mission, Ambassador Khalilzad, is vested by National Security Presidential Directive (NSPD-36) as the chief authority over the reconstruction program. His chief management arm for this authority is the Iraq Reconstruction Management Office (IRMO), currently directed by Ambassador Daniel Speckhard. SIGIR is convinced that IRMO can and should aggressively assert leadership over the remaining reconstruction strategy and its final stage of execution.

Coordination of leadership should include coordinated changeover of leadership. This year, there have been major leadership changes in most of the U.S. agencies that manage Iraq reconstruction. These have led to periods of turbulent uncertainty and stagnating progress, as new leaders realign their organizations to their own vision and institutional knowledge is lost. Without strong central leadership, and unsynchronized leadership changes, it has been difficult to achieve a true shared vision. SIGIR hopes that future leadership changes will be better coordinated, allowing more transition time and overlap.

Two persistent reconstruction issues will demand attention of reconstruction management: Iraqi sustainment of the operation and maintenance of completed projects; and, the development of useful cost-to-complete data for projects.

We began our SIGIR audit on Sustainment after we learned that there were few indications that long-term maintenance was being adequately planned. Among our recommendations is the implementation of a sustainment plan for IRRF projects,

including a determination of the capacity of Iraq to maintain them. As well, we recommended the development of supportable cost estimates for sustaining the Iraqi infrastructure in the short and long terms. IRMO has responded by creating an office to lead coordinated efforts to address sustainment. However, IRMO needs authority it does not currently have to accomplish this objective.

SIGIR has long pressed reconstruction management for cost-to-complete data for projects managed by the Project and Contracting Office (PCO), U.S. Army Corps of Engineers, and USAID. This data is essential for effective budgeting during construction project life cycles, especially as projects have been affected by reprogramming, de-obligation and transfers between projects of reconstruction funds. "Budget-to-complete" information is not a substitute. Moreover, the FY2004 Supplemental appropriation that provided the $18.4 billion IRRF mandated reporting of cost-to-complete data.

A SIGIR audit report earlier this year found that no cost-to-complete data had been provided because IRMO did not enjoin the other reconstruction offices to develop the information. Over the last few months, however, IRMO has pushed for useful data and developed a model that is expected to result in publication of cost-to-complete data. SIGIR will follow up to evaluate and comment on the adequacy of the methodology and data.

As we consider what it will take to bridge the Reconstruction Gap, we are attracted to Ambassador Khalilzad's efforts to reform global perceptions of Iraq reconstruction as an Iraqi-led initiative, with strong U.S. support. This new emphasis will call for increasing local-level engagement. Evidence of tangible movement in this direction is Ambassador Khalilzad's strong support of the Provincial Reconstruction Development Committees (PRDC).

Earlier this year, I expressed concern over the lack of a single big-picture view of Iraq reconstruction. To provide some leadership in this regard, we drew on individual databases of financial, project, and contract information, and developed the SIGIR Iraq Reconstruction Information System, or SIRIS. SIGIR audits identified problems caused by the failure of reconstruction management to develop a single-project database.

I am pleased to report that IRMO has moved forward on a unified database that promises to improve the timeliness and accuracy of project reporting and allow for improved program management. The draft requirements for this system include the need to deliver complete and usable data to the Iraqis, provided they can implement a system that can receive the data. SIGIR is continuing to audit the quality of the data in the information management system.

For many months, SIGIR has pressed for more fixed-price, direct contracting to displace cost-plus, design-build projects. During my latest tour in Iraq, I learned that all of the major reconstruction organizations are emphasizing direct contracting, and this appears to be yielding cost-efficient results while stimulating the Iraqi economy.

Finally, bridging the reconstruction gap will require addressing corruption in Iraq. Already new anti-corruption institutions have been established that are without precedent in Iraq, or even in parts of the Middle East. The Coalition Provisional Authority established an anti-corruption program of three interlocking parts: the Commission on Public Integrity (CPI); a system of inspectors general for the Iraq ministries; and, the Board of Supreme Audit (BSA).

The Commission on Public Integrity, led by Judge Rhadi al-Rahdi, is a law-enforcement agency -- Iraq's equivalent of the U.S. Federal Bureau of Investigation. The CPI's 600 employees, including 100 investigators, are working 1,500 cases. More than 500 cases have been forwarded to the Central Criminal Court of Iraq (CCCI). This caseload includes 450 cases of corruption in the Ministry of Defense, some of which have been referred to the CCCI. During my recent tour in Baghad, I had two productive meetings with Judge Rahdi. He and I discussed a process for exchanging information on cases, and we are working on an agreement to achieve that end.

SIGIR has buttressed the Iraqi Inspectors General system since its inception during CPA over a year ago. The Iraqi IGs have legal authority to "audit, investigate, and review accountability, integrity and oversight of ministries; and to prevent, deter and identify waste, fraud, abuse of authority and illegal acts. Each ministry has an IG office and about 2,000 staff members are employed nationwide. This is a new institution for Iraq, and it will take some time before they have the training, capacity, power and independence to function effectively.

The Board of Supreme Audit is a holdover from the former regime; however it is well respected by the Ministry of Finance, Deputy Prime Minster and other senior Iraqi officials. Despite numerous challenges, and working in a dangerous environment, the BSA is effective and pursuing a regular schedule of audit work across all ministries. The BSA President has expressed interest in using audit work by SIGIR in his ongoing audits. SIGIR audits are available in Arabic to BSA, CPI and the Iraqi IGs, and others through our Web site (www.sigir.mil).

The Iraqi Anti-corruption Program is a critical lynchpin in the long-term success of the establishment of a free and democratic government in Iraq, and is worthy of aggressive U.S. Government. I have urged Ambassador Khalilzad to call a summit with Iraqi anti-corruption officials to demonstrate support for their courageous efforts.

Background on the Office of the Special Inspector General for Iraq Reconstruction

Permit me now to provide you with a brief background on my Office.

The SIGIR is a temporary organization with a very specific mission – to execute oversight of the Iraq Reconstruction and Relief Fund through audits, investigations, and inspections. In simple terms, the Congress created us to report on how the US spent taxpayer dollars in the post-war reconstruction of Iraq.

Congress initially constituted SIGIR as the Coalition Provisional Authority Office of Inspector General (CPA-IG) in November 2003 through Public Law 108-106. That law also provided $18.4 billion for the Iraq Reconstruction and Relief Fund (the IRRF), which we now oversee. I was appointed in late January 2004, made my first trip to Iraq soon thereafter, and produced our first quarterly report to the Congress in March 2004. SIGIR has produced five more Reports since then.

The CPA ceased operations on June 28, 2004, and the CPA-IG thus was scheduled to expire in December 2004. However, the Congress, recognizing the need for continued oversight, created the Office of the Special Inspector General for Iraq Reconstruction through the 2005 National Defense Authorization Act, which President Bush signed into law on October 29, 2004. I have served as the SIGIR since that date.

I report directly to the Secretaries of State and Defense, and I am charged with auditing and investigating programs and operations funded by the Iraq Relief and Reconstruction Fund. SIGIR is now operating optimally in executing its assigned mission, and we will carry out that mission in the hazardous environment that is Iraq today as long as Congress sees fit.

On-Going SIGIR Activities

During my latest tour in Baghdad, I worked with my staff to advance our audit, investigative, and inspections work. To date, SIGIR has completed and issued 26 audit reports covering a variety of matters affecting the management of Iraq reconstruction. Right now, we have 16 more audits underway, with 14 auditors working them on the ground in Baghdad. Our Quarterly Report to Congress, to be delivered October 30th, will summarize ten new audit reports. These audit reports will provide our concluding reviews of Coalition Provisional Authority activities, our first reporting on CERP, and our next phase of IRRF audits.

I have 10 criminal investigators on the ground in Baghdad, and five in Arlington, who are collectively handling 54 cases as the only significant law enforcement entity on the ground in Iraq looking at corruption issues in the $18.4 billion IRRF program. These investigators average over 25 years of federal law enforcement experience each and come from the FBI, IRS, and other federal agencies. The investigators are working cases in close coordination with Department of Justice attorneys and several matters are approaching the indictment stage.

We also have initiated a task force called SPITFIRE, which stands for the Special Investigative Task Force for Iraq Reconstruction. It is a partnership with the U.S. Immigration and Customs Enforcement (ICE) of the Department of Homeland Security, the Internal Revenue Service, and the U.S. Department of State's Office of Inspector General.

SPITFIRE's purpose is to use specialized capabilities that enhance our capacity to detect fraud, trace international money laundering transactions, and monitor travel of suspects. Working closely with the Money Laundering and Asset Forfeiture Section of

the Department of Justice, SPITFIRE is succeeding in applying advanced and effective investigative techniques and has referred cases to the Department of Justice for prosecution.

I also have several inspection teams, composed of engineers and auditors that span out across Iraq visiting and reporting on projects, despite the significant personal risk. These teams, which are part of an innovative Special Operations Division that I established within SIGIR, have issued nine reports examining water and electricity projects, with seven more out soon that will report on oil, hospital, railroad station, and police station projects. The electricity, oil and facilities reports and their accompanying photographs will appear in SIGIR's next Quarterly Report. The effect of these rapid-results teams is to provide program managers with near real-time feedback on individual or systemic issues related to actual IRRF projects so they can be addressed immediately. Our close teamwork with reconstruction management has enabled us to identify key weaknesses and raise the issues requiring management action.

The Special Operations Division is also using alternative methods for exerting oversight, including overhead imagery and other ground-based assets to analyze sites. The imagery approach, if successful, will be shared with IRRF management as a potential tool for improving oversight of our work on the ground in Iraq.

SIGIR continues to build upon its accomplishments in Iraq, expanding our capabilities to meet our significant mission. I was pleased that Ambassador Khalilzad has agreed to permit SIGIR to station 10 more personnel in Baghdad. These additional auditors, investigators, and inspectors are essential for me to address all of the important issues that stand before us. As the leading U.S. entity reviewing use of the IRRF in Iraq, SIGIR bears the responsibilities for promoting program success through oversight and "near-real-time" auditing advice, and deterring fraud, waste, and abuse.

I believe that the overwhelming majority of U.S. personnel assigned to the reconstruction program in Iraq are doing their best and working long hours to make it work. My job is to serve as an additional resource that promotes success by advancing efficiency through oversight, to root out corrupt practices, and to report to the Congress and the Secretaries of State and Defense what we find.

Given the fact that the SIGIR is a temporary organization, I want to ensure that the effect of our oversight is "real time," and that we discuss inefficiencies with management as they are found, rather than wait for publication of a final report. Some of our most recent audit reports are examples of this approach. These provided management with a review of certain operating procedures, practices, and accountability measures; upon publication of the reports, most of our recommendations had already been accepted and implemented during the course of the audit. This balanced approach – working with management to make changes now, while retaining our required detachment as an oversight organization – maintains our reportorial integrity, while promoting our collective goal, the highest and best use of U.S. resources in the Iraq reconstruction program.

SIGIR has several initiatives that enhance our operations and add to the effectiveness of our reporting. We created the Iraq Inspectors General Council, which brings together each quarter representatives from all oversight organizations that have jurisdiction over Iraq. This Council, which I chair, discusses and de-conflicts oversight activities in Iraq. We have a parallel organization in Iraq, the Iraq Accountability Working Group, which is led by my Assistant Inspector General for Audit and gathers oversight personnel every other month in Baghdad for program updates. Finally, SIGIR developed a Lessons Learned Initiative that will look at the Iraq reconstruction experience. We will examine human resources, contracting, and program management, respectively, over the course of three day-long forums that gather experts and those with Iraq experience to sift through the evidence and arrive at ground truth on these issues. The first panel on human resources met on September 20, at The Johns Hopkins University. The results of this first lessons learned study will be summarized in the Quarterly Report, and will be published in full in November.

Conclusion

The SIGIR is a specialized, temporary oversight organization with an unusual mission. We seek to provide prompt and effective advice and recommendations to those managing Iraq reconstruction, with the goal of working to promote efficiency, prevent waste, and thus save taxpayer dollars. As the Iraq reconstruction program rapidly moves forward, I believe that SIGIR can continue to play an important role in promoting program success.

My most recent trip to Iraq has convinced me that the U.S. reconstruction leadership, beginning with Ambassador Khalilzad, has recognized the importance of resolving the issues necessary to close the Reconstruction Gap, and that the agencies involved are seeking workable solutions. Much is left to be done; but I am encouraged.

I was pleased that Ambassador Khalilzad welcomed SIGIR's presence within the process, and I agreed with him that SIGIR can and will make important contributions to the success of the next phase of Iraq reconstruction.

I am proud of my staff's willingness to serve in the highly hazardous environment that is Iraq today. They are a dedicated cadre of professionals, and many could be auditing or investigating in much safer and more stable environments. Instead, they have volunteered to serve our country in these challenging times, bringing their expertise to bear on this substantial and significant oversight issue.

SIGIR is carrying out the mission that the Congress has assigned with vigor, speed, and efficiency. In a nutshell, the SIGIR is succeeding and will continue to work as the "Taxpayers' Watchdog" to ensure effective oversight, timely reporting, and to promote the ultimate success of the Iraq reconstruction program.

Thank you for your time and I look forward to answering any questions that the committee may have.

Mr. SHAYS. Mr. Krongard.

STATEMENT OF HOWARD J. KRONGARD

Mr. KRONGARD. Mr. Chairman, members of the subcommittee, thank you for the opportunity to discuss the Office of Inspector General's oversight of Department of State programs affecting Iraq reconstruction, governance and security, all of which are critical elements to ensuring stability in Iraq.

With limited resources during the past year, OIG has conducted high-valued projects that identify and recommend ways in which programs can operate more efficiently and economically. This has facilitated the Secretary of State's vision for transformational diplomacy. Obviously, the complexities involved for achieving stability in Iraq are formidable, the amount of resources need is unprecedented and the demand for accountability is imperative.

OIG's Iraq oversight has included eight program and management assessments, seven audits and supervision of three DCAA audits. Our assignments have resulted in recommendations for enhancing offsite support, reducing security vulnerabilities, improving training and staff effectiveness and identifying potential cost recoveries for the U.S. Government. However, the recently completed compendium of Rule of Law programs in Iraq and the joint assessment of the DOD OIG of the Iraqi police training programs are projects most relevant to today's hearing.

OIG was aware of some 19 entities, including U.S. Government agencies, NGO's and private contractors, as well as foreign countries and multinational organizations, that were contributing in one form or another to "Rule of Law' activities in Iraq. We set out to create an inventory of such activities, to identify overlaps and duplication and to find gaps that might exist.

While there is no commonly agreed upon definition for "Rule of Law," we take it to mean a broad spectrum of activities, including a constitution, legislation, a court system and courthouses, a judiciary, police, lawyers and legal assistants, due process procedures, prisons, a commercial code, and anticorruption activities. To successfully implement an emerging Rule of Law, these activities must proceed somewhat sequentially and not randomly.

Exclusive of approximately $1 billion, which was allocated for police training, OIG identified approximately $400 million of U.S.-funded multiple agency programs, all of which come under the general supervision of Embassy Baghdad. Of that amount, $300 million fund major bricks-and-mortar programs for building the physical justice infrastructure, and the remaining $100 million provides for a variety of capacity-building programs.

OIG noted that security requirements and logistics must be heavily factored into the current cost of doing business in Iraq, since security expenditures for individual projects range from 6 percent to as much as 80 percent of the total cost. Security issues detract from the efficiency and productivity of all project activity and can occasionally call into question the value of proceeding with an activity at all.

Our report, which will be issued this week, and is based on work performed over a 9-week period in Washington, Baghdad, Basra, Fallujah, Mosul and Hilla, includes numerous observations and

more than 20 recommendations. Overall, OIG observed that most of the "Rule of Law" funding appeared to be well spent. However, a fully integrated strategic plan does not exist and is critically needed if Iraqi governance is to be effectively promoted and achieved. Moreover, a new phase is beginning, and its defining characteristic must be the successful transition from a U.S.-funded and directed program to a sustainable Iraqi-directed program.

As you are well aware, a successful democracy in Iraq will require an effective anticorruption regime. OIG found that a trio of institutions were taking hold: the Commission on Public Integrity, a system of inspectors general in each of 29 Iraqi Government ministries and agencies, and the Board of Supreme Audit. However, we also noted that the first two are totally new to Iraq; collaboration is imperfect and competition among them exists, which, by the way, is not uncommon in a democracy.

We urged that the United States encourage and support Iraqi efforts to design and establish a training facility for all three anticorruption institutions. Our report should provide a valuable framework from which those numerous entities participating in "Rule of Law" activities in Iraq can go forward in a more integrated and effective manner.

OIG also conducted a joint review with the DOD OIG to assess Iraqi police training programs in Iraq and Jordan. This onsite assessment was self-initiated by both OIGs after recognizing a need for conducting the work. In light of the difficult circumstances that exist, our team concluded that Iraqi police training programs have achieved a qualified success. The police performed well during the January election. The visibility of police on Iraqi streets increased and polls indicated a growing public respect for and confidence in the police force.

If police training programs are to succeed, the Iraqi Government must take full ownership of the program and assume responsibility for leadership and management of the force the Coalition is helping create.

The two OIGs made a number of recommendations to strengthen the role of the Iraqi Ministry of Interior in these respects. By the time of the report's issuance, improvements in cross-communication between coalition leaders and the Ministry of Interior were already evident. Whatever the problems and misgivings, we recognized a consensus that the Iraqi police were improving and more capable as a result of Coalition training.

Mr. Chairman, with your indulgence, I would like to point out that our OIG was able to perform the foregoing oversight activities because we received a $1.7 million supplemental appropriation in 2005 specifically for Iraq activities. We have no such funds for 2006 at the present time and do not have resources to continue these oversight activities in Iraq. The principal activity currently being planned, as Mr. Bowen indicated, is a joint review with his office of major INL programs to determine INL has adequate controls to ensure funds are properly expended in accordance with Federal regulations.

Thank you, Mr. Chairman. I will be pleased to answer questions at the appropriate time.

[The prepared statement of Mr. Krongard follows:]

HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS, AND INTERNATIONAL RELATIONS

TESTIMONY OF
HOWARD J. KRONGARD
INSPECTOR GENERAL
U.S. DEPARTMENT OF STATE AND
BROADCASTING BOARD OF GOVERNORS

OCTOBER 18, 2005

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to discuss the Office of Inspector General's (OIG) oversight of Department of State programs affecting Iraq reconstruction, governance, and security, all of which are critical elements to ensuring stability in Iraq. With limited resources during the past year, OIG has conducted high-value projects that are extremely relevant to issues of the day. My statement will highlight two recently completed assignments: the first is a comprehensive review of programs for establishing rule of law in Iraq, and the second is our joint work with the Department of Defense, Office of Inspector General (DOD/OIG), to assess Iraqi police training programs.

Background

OIG's general approach for oversight in Iraq has been through focused surveys, assessments and audits, to identify and recommend ways in which programs can operate more efficiently and economically. This has facilitated the Secretary of State's vision for transformational diplomacy. Obviously, the complexities involved for achieving stability in Iraq are formidable, the amount of resources needed is unprecedented, and the demand for accountability is imperative.

OIG's Iraq oversight has included eight program and management assessments, seven audits, and supervision of three Defense Contract Audit Agency audits. Some of the work conducted by OIG provides a foundation for further audits and inspections in Iraq, such as our survey of Department of State funding for Iraq and Iraqi related activities *(AUD/CG-05-18, February 2005)*, and our Review of Security Programs at U.S. Embassy Baghdad *(ISP-IQO-05-60, July 2005)*.

Our assignments have resulted in recommendations for improvements and refinements for enhancing offsite support, reducing security vulnerabilities, improving training and staff effectiveness, and identifying potential cost recoveries for the U.S. government. Attachment A contains a list of OIG's Iraq-related reports, including:

- Cashiering Operations at Embassy Baghdad *(AUD/IQO-04-48, September 2004)*,

- Off-Site Support to Embassy Baghdad and Constituent Units *(ISP-IQO-05-53, December 2004),*
- Agreed-Upon Procedures for Daily Direct Labor, Aerial Support Equipment, and Indirect Expense Rates Proposed by Blackwater Security Consultants *(AUD/IQO-05-13, January 2005)*, and
- Excess Fuel Charges In Support of the Jordan International Police Training Center *(AUD/IQO-05-16, March 2005).*

However, the recently completed compendium of rule-of-law programs in Iraq (*ISP-IQO-06-01, October 2005)*, and the joint assessment with the DOD/OIG of the Iraqi police training programs *(ISP-IQO-05-72, July 2005)*, are the most relevant to today's hearing.

Iraqi Rule-of-Law Review

OIG was aware of some 19 entities including U.S. Government agencies, NGO's, and private contractors, as well foreign countries and multinational organizations, that were contributing in one form or another to rule-of-law activities in Iraq. We set out to create an inventory of such activities, to identify overlaps and duplication, and to find gaps that might exist. While there is no commonly agreed upon definition for the rule of law, we take it to mean a broad spectrum of activities including a constitution, legislation, a court system and courthouses, a judiciary, police, lawyers and legal assistance, due process procedures, prisons, a commercial code, and anticorruption activities. To successfully implement an emerging rule of law, these activities must proceed somewhat sequentially and not randomly.

Moreover, effective rule-of-law strategies are essential for the functioning of a democracy and are central to protecting the rights and liberties of individuals. Specifically for Iraq, effective rule of law will serve to promote democratic reform and enhance stability. OIG surveyed U.S.-funded rule-of-law programs in Iraq to determine how effectively they address these multiple components of Iraq's legal complex.

Exclusive of approximately $1 billion allocated for police training, OIG identified approximately $400 million dollars of U.S.-funded, multiple-agency programs, all of which come under the general supervision of Embassy Baghdad. Of that amount, $300 million dollars fund major "bricks and mortar" programs for building the physical justice infrastructure. The remaining $100 million dollars provide for a variety of capacity-building programs.

The report points out that U.S. government attention to rule of law in Iraq is just over two years old. At times, disbursement has been slow, particularly for capacity-building programs, many of which are just coming into existence. For the sake of background, examples of rule-of-law programs include the U.S. Institute of Peace program in support of the constitutional process ($12.8 million); U.S. Agency for International Development program for the reform of legal education ($3.8 million); the U.S. Marshals Service's attention to court security (valued at $133 million); and a joint program involving the Iraq Reconstruction Management Office and Department of Justice's International Criminal

Investigative Training Assistance Program for establishing the Iraqi Commission on Public Integrity ($4.5 million), to name just a few.

OIG noted that security requirements and logistics must be heavily factored into the current cost of doing business in Iraq since security expenditures for individual projects range from 6 percent to as much as 80 percent of the total cost. Security issues detract from the efficiency and productivity of all project activity and can occasionally call into question the value of proceeding with an activity at all.

Our report, which will be issued this week and is based on work performed over a nine-week period in Washington, Baghdad, Basra, Fallujah, Mosul, and Hilla, includes numerous observations and more than twenty recommendations. Overall, OIG observed that most of the rule-of-law funding appeared to be well spent. However, a fully integrated strategic plan does not exist and is critically needed if Iraqi governance is to be effectively promoted and achieved. Moreover, a new phase is beginning and its defining characteristic must be the successful transition from a U.S.-funded and directed program to a sustainable Iraqi-directed program.

As you are well aware, a successful democracy in Iraq will require an effective anticorruption regime. OIG found that a trio of institutions were taking hold – the Commission on Public Integrity, a system of Inspectors General in each of 29 Iraqi government ministries and agencies, and the Bbard of Supreme Audit. However, we also noted that the first two are totally new to Iraq, collaboration is imperfect, and competition among them exists (which is not uncommon in a democracy), and we urged that the United States encourage and support Iraqi efforts to design and establish a training facility for all three anticorruption institutions.

Our report has been well received by the various entities involved, and those within the Department of State -- particularly Embassy Baghdad -- to whom our recommendations were made, have accepted them. Our report should provide a valuable framework from which those numerous entities participating in rule-of-law activities in Iraq can go forward in a more integrated and effective manner.

Iraqi Police Training Review

Coalition authorities led by the United States have played a key role in preparing Iraqis to handle their police function, which is vital for Iraqi stability. OIG conducted a joint review with DOD/OIG to assess Iraqi police training programs in Iraq and Jordan. This on-site assessment was self-initiated by both OIGs after recognizing a need for conducting the work. Oversight falls under the jurisdiction for both Departments as a result of the National Security Presidential Directive 36, which assigns responsibility for training Iraqi security forces primarily to the Department of Defense in collaboration with the Department of State.

As initially conceived, the Iraqi police training program would be implemented in a post-conflict environment. Instead, it has evolved in an environment of high-level violence and

terrorism intermingled with a problematic insurgency movement. Given the dangers involved, it is not surprising that every aspect of the training program has been difficult.

Several governments demonstrated a willingness to participate in training but stipulated that their participation must occur outside Iraq. Likewise, engaging instructors and mentors willing to work in-country, and providing security and movement, has been difficult.

In light of these circumstances, our team concluded that Iraqi police training programs have achieved a qualified success. The police performed well during the January election, the visibility of police on Iraqi streets increased, and polls indicated a growing public respect for and confidence in the police force.

We observed the recruitment and vetting process and determined that more Iraqi involvement is necessary for recruiting and screening candidates. We also observed that greater input is needed from Iraqi leaders to ensure that the process, content, and direction of the training program are a reflection of Iraqi governance. Since inception, the Coalition's objective for the program has been to create a sizeable, orthodox, "law and order" police force. Certainly, standing up a sizable police force was a justifiable objective after the collapse of Saddam Hussein. The joint review concluded that the methodology for arriving at the target figure of 135,000 police officers was logical, and at the time of our review, approximately 63,000 recruits had been trained.

However, the Iraqi Ministry of Interior is in the process of literally building new law enforcement and security functions, and incorporating the police training should be an integral part of that process. Therefore, our joint review recommended a shift in training emphasis focusing more on leadership development and quality of training than on a targeted number of recruits.

If police training programs are to succeed, the Iraqi government must take full ownership of the program and assume responsibility for leadership and management of the force the Coalition is helping create. The two OIG's made a number of recommendations to strengthen the role of the Iraqi Ministry of Interior in these respects. By the time of the report's issuance, improvements in cross-communication between Coalition military leaders and the Ministry of Interior were already evident. Whatever the problems and misgivings, we recognized a consensus that the Iraqi police were improving and more capable as a result of Coalition training.

The Current Year

Mr. Chairman, with your indulgence, I would like to point out that our OIG was able to perform the foregoing oversight activities because we received a $1.7 million supplemental appropriation in 2005 for Iraq activities. We have no such funds for 2006 at the present time and do not have resources to continue these oversight activities in Iraq without dramatically curtailing our oversight of other Department programs and operations, most of which is mandated. The principal activity currently being planned is a joint survey with

the Special Inspector General for Iraq Reconstruction of major Bureau of International Narcotics and Law Enforcement Affairs (INL) programs to determine whether INL has adequate controls to ensure funds are properly expended in accordance with federal regulations.

Thank you, Mr. Chairman, for the opportunity to discuss OIG's valuable contributions on these issues. I will be pleased to answer questions at the appropriate time.

APPENDIX A

U.S. Department of State and
Broadcasting Board of Governors
Office of Inspector General
Iraq Oversight Reports
(Issued as of October 2005)

- Inspection of Rule-of-Law Programs, Embassy Baghdad *(ISP-IQO-06-01, October 2005)*
- Interagency Assessment of Iraq Police Training *(ISP-IQO-05-72, July 2005)*
- Review of Security Programs at U.S. Embassy Baghdad *(ISP-IQO-05-60, August 2005)*
- Embassy Baghdad Communication Security Evaluation *(IT-IQO-05-06, August 2005)*
- Review of Staffing Process for Embassy Baghdad's New Embassy Compound *(ISP-IQO-05-61, August 2005)*
- Survey of Iraq IT Waivers *(IT-IQO-05-04, June 2005)*
- Review of Agreed Upon Procedures of Indirect Cost Rates & Equipment Delivery Charge Proposed by ArmorGroup North America & Review of Accounting System *(AUD/IQO-05-24, March 2005)*
- Review of Agreed-Upon Procedures for the Verification of Excessive Fuel Charges in Support of the Jordan International Police Training Center *(AUD-IQO-05-16, March 2005)*
- Review of the Staffing of Embassy Baghdad *(ISP-IQO-05-57, March 2005)*
- Survey of Department of State's Funding for Iraq *(AUD-CG-05-18, February 2005)*
- Agreed-Upon Procedures for Daily Direct Labor, Aerial Support Equipment, and Indirect Expense Rates Proposed by Blackwater Security Consultants *(AUD/IQO-05-13, January 2005)*.
- Review of Off-Site Support to Embassy Baghdad and Constituent Units *(ISP-IQO-05-53, December 2004)*
- Review of Procurement Competitions to Support the Iraqi Police Training Program *(AUD/IQO-04-47, September 2004)*
- Review of Cashiering Operations at Embassy Baghdad *(AUD-IQO-04-48, September 2004)*
- Factsheet on the Iraqi National Congress Support Foundation *(AUD/CG-04-41, August 2004)*

Audits Contracted with DCAA

- Report on Audit of Billed Costs on Task Order Nos. 03-131, 03-140 and 04-153 Under Integrated Mine Action Services (IMAS) Contract No. S-LMAQM-99-D-0144. Contracted with DCAA (*Audit Report No. 04141-2005B17900005, August 2005*).
- Report on Application of Agreed-Upon Procedures to Calculate Daily Life Support Rates under LOGCAP Task Order 0100. Contracted with Defense Contract Audit Agency (DCAA) (*Report No. 3311-2005K17900015, July 2005.*)
- Report on Audit of Cost-Plus Contract for Police Training by DynCorp under Contract No. SLMAQM-03-C-0028. Contracted with DCAA (*Audit Report No. 03311-2005D1790009, May 2005*)

Mr. SHAYS. Mr. Krongard, what is the amount that you need to have next year to have the similar amount you had this year?

Mr. KRONGARD. Roughly the same amount, slightly higher, between $1½ million and $2 million for Iraq.

Mr. SHAYS. A special allocation. Thank you.

Mr. Christoff.

STATEMENT OF JOSEPH CHRISTOFF

Mr. CHRISTOFF. Mr. Chairman, members of the subcommittee, thank you for inviting GAO to this important hearing.

Over the past 3 months, GAO has issued several reports on security costs and reconstruction issues in Iraq, and my testimony today is based on those reports. I will first discuss who is funding Iraq's reconstruction, and then describe the key challenges the United States faces.

First, the funding: For the past 2½ years, the United States has served as the chief protector and builder in Iraq. Through August 2005, the United States provided about $30 billion and disbursed about $13 billion to rebuild Iraq's infrastructure and train and equip its security forces. International donors have provided $2.7 billion of the $13.6 billion they pledged for reconstruction efforts. Most of the remaining pledges are in the form of loans that the Iraqi Government has just begun to tap.

Iraqi funds have been used primarily to support government operations. Food and fuel subsidies account for 40 percent of the $28 billion in planned expenditures for 2005. As a result, the Iraqi Government's ability to contribute to the rebuilding efforts has been constrained.

More importantly, these collective efforts may not be enough to rebuild and stabilize Iraq. Initial needs estimates assume that reconstruction would take place in a peacetime environment and, therefore, did not include additional security costs. Iraq's infrastructure was more severely degraded than originally estimated and widespread looting and sabotage compounded the problem.

Further, the initial estimates assumed that Iraqi revenues and private sector financing would cover Iraq's long-term requirements. However, these sources of financing may not meet the needs. In the oil sector alone, the Iraqi Government estimates that it will need $30 billion over the next several years to achieve its oil production goals.

The United States faces three key challenges in stabilizing and rebuilding Iraq. The first is security. The continuing strength of the insurgency has made it difficult for the multinational force to transfer security responsibilities to Iraqi forces and draw down U.S. forces.

We reported in March that the Coalition faced challenges in developing the force structure, readiness and leadership of Iraqi troops. Since then, the multinational force has begun to embed training teams within Iraqi units and develop measures to assess troop readiness.

DOD reports that one Iraqi battalion is at readiness Level 1, that is, fully capable of conducting counterinsurgency operations without Coalition support. Thirty-seven units are capable of conducting

operations with Coalition support, Level 2; 78 units are partially capable, Level 3.

Iraqi forces have made progress in developing the skills needed to assume control of counterinsurgency operations. However, they will not be able to operate independently for some time because they need logistical capabilities, ministry capacity and command control and intelligence structures.

GAO's forthcoming classified report on Iraq's security situation will provide the Congress information on the capabilities of Iraqi security forces and the conditions for drawing down U.S. forces.

The second challenge the U.S. faces is measuring impact. Most U.S. measurements are output oriented and do not assess how U.S. efforts are making a difference in the lives of the Iraqi people. In the electricity sector, the U.S. tracks the number of megawatts added to the power grid, but it is not tracking the number of hours of uninterrupted service Iraqis receive daily. In the water sector, the United States reports the number of projects completed rather than the amount of clean water reaching Iraqi households.

GAO has recommended that the State Department establish outcome measures to assess how U.S. efforts are in rebuilding Iraq.

The third challenge is sustainability. The Iraqi Government has not been able to sustainably rebuild infrastructure due to shortages of power, trained staff and supplies. As of July 2005, $52 million in water and sanitation projects were not operating or were operating at low capacity due to these problems.

In the electricity sector, some power plants are using low-grade oil to fuel turbine engines designed to operate on natural gas. This requires additional training to operate and maintain them, which Iraqi power plant officials told us they did not receive. Additional training and preparation are needed for the Iraqis to successfully operate and maintain U.S.-built facilities.

Mr. Chairman, that concludes my statement. I would be happy to answer the subcommittee's questions.

Mr. SHAYS. Thank you.

[The prepared statement of Mr. Christoff follows:]

United States Government Accountability Office

GAO

Testimony

Before the Committee on Government Reform, Subcommittee on National Security, Emerging Threats, and International Relations; House of Representatives

For Release on Delivery
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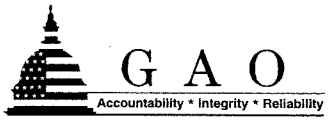
REBUILDING IRAQ

Enhancing Security, Measuring Program Results, and Maintaining Infrastructure Are Necessary to Make Significant and Sustainable Progress

Statement of Joseph A. Christoff, Director
International Affairs and Trade



GAO-06-179T

October 18, 2005

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-06-179T, a testimony before the Committee on Government Reform; Subcommittee on National Security, Emerging Threats, and International Relations; House of Representatives

REBUILDING IRAQ

Enhancing Security, Measuring Program Results, and Maintaining Infrastructure Are Necessary to Make Significant and Sustainable Progress

Why GAO Did This Study

The United States, along with coalition partners and various international organizations, has undertaken a challenging and costly effort to stabilize and rebuild Iraq following multiple wars and decades of neglect by the former regime. This enormous effort is taking place in an unstable security environment, concurrent with Iraqi efforts to complete a constitutional framework for establishing a permanent government. The United States' goal is to help the Iraqi government develop a democratic, stable, and prosperous country, at peace with itself and its neighbors, a partner in the war against terrorism, enjoying the benefits of a free society and a market economy.

In this testimony, GAO discusses (1) the funding used to rebuild and stabilize Iraq and (2) the challenges that the United States faces in its rebuilding and stabilization efforts.

This statement is based on several reports GAO has issued to the Congress over the past three months. In July, we issued two reports on (1) the status of funding and reconstruction efforts in Iraq and (2) the use of private security providers in Iraq. We issued two additional reports in September on (1) U.S. reconstruction efforts in the water and sanitation sector and (2) U.S. assistance for the January 2005 Iraqi elections. Finally, we expect to issue shortly a report on U.S. efforts to stabilize the security situation in Iraq (a classified report). This statement includes unclassified information only.

www.gao.gov/cgi-bin/getrpt?GAO-06-179T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Joseph Christoff at (202) 512-8979 or christoffj@gao.gov.

What GAO Found

The United States is the primary contributor to efforts to stabilize and rebuild Iraq. Since 2003, the United States has made available about $30 billion for activities that include the construction and repair of infrastructure, procurement of equipment, and training and equipping of Iraqi security forces. International donors have pledged $13.6 billion in reconstruction funds (from 2004 through 2007), of which about $2.7 billion was provided in multilateral and bilateral grants through August 2005. However, most of the pledged amount—about $10 billion—is in the form of loans on which the Iraqi government largely has not yet drawn. Iraqi funds have primarily supported the country's operating budget, with some focus on capital improvement projects. For 2005, Iraq planned for about $28 billion in expenditures—largely supported by oil proceeds—to fund salaries, pensions, ministry operations, and subsidies. It is likely that Iraq may need more funds than currently available due to the severely degraded infrastructure, post conflict looting and sabotage, and additional security costs.

The United States faces three key challenges in stabilizing and rebuilding Iraq. First, the security environment and the continuing strength of the insurgency have made it difficult for the United States to transfer security responsibilities to Iraqi forces and to engage in rebuilding efforts. The security situation in Iraq has deteriorated since June 2003, with significant increases in attacks against the coalition and the coalition's partners. Second, inadequate performance data and measures make it difficult to determine the overall progress and impact of U.S. reconstruction efforts. The United States has set broad goals for providing essential services in Iraq, but limited performance measures present challenges in determining the overall progress and impact of U.S. projects. Third, the U.S. reconstruction program has encountered difficulties with Iraq's ability to maintain new and rehabilitated infrastructure projects and to address maintenance needs in the water, sanitation, and electricity sectors. For example, as of June 2005, U.S.-funded water and sanitation projects representing about $52 million of approximately $200 million spent on completed projects were inoperable or were operating at lower than normal capacity.

The United States has made a significant investment in the rebuilding and stabilization of Iraq. To preserve that investment, the United States must address these critical challenges.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the U.S. efforts to rebuild and stabilize Iraq. The United States, along with its coalition partners and various international organizations, has undertaken a challenging and costly effort to stabilize and rebuild Iraq following multiple wars and decades of neglect by the former regime. This enormous effort is taking place in an unstable security environment, concurrent with Iraqi efforts to complete a constitutional framework for establishing a permanent government. The United States reconstruction assistance goal is to help the Iraqi government develop a democratic, stable, and prosperous country, at peace with itself and its neighbors, a partner in the war against terrorism, enjoying the benefits of a free society and a market economy.

My testimony today is based on several reports that we have issued to the Congress over the past 3 months. In July 2005, we issued two reports on (1) the status of funding and reconstruction efforts in Iraq, focusing on the progress we have achieved and the challenges we face in rebuilding Iraq's infrastructure and (2) the use of private security providers in Iraq. We issued two additional reports in September on (1) U.S. reconstruction efforts in the water and sanitation sector and (2) U.S. assistance for the January 2005 Iraqi elections. Finally, we expect to issue a report shortly on U.S. efforts to stabilize the security situation in Iraq (a classified report).

Based on these five reports, I will discuss (1) the funding used to rebuild and stabilize Iraq and (2) the challenges the United States faces in its rebuilding and stabilization efforts.

This statement includes unclassified information only and is based on recent GAO reports. We conducted our review for these reports between September 2004 and August 2005 in accordance with generally accepted government auditing standards.

Summary

The United States is the primary contributor to rebuilding and stabilization efforts in Iraq. Since 2003, the United States has made available about $30 billion for activities that include the construction and repair of infrastructure, procurement of equipment, and training and equipping of Iraqi security forces. International donors have pledged $13.6 billion in reconstruction funds (from 2004 through 2007), of which about $2.7 billion was provided in multilateral and bilateral grants, through August 2005. However, most of the pledged amount is in the form of loans on which the

Iraqi government largely has not yet drawn. Iraqi funds, first under the control of the Coalition Provisional Authority and then the Iraqi government, have primarily supported the country's operating budget with some focus on capital improvement projects. For 2005, Iraq planned for about $28 billion in expenditures—largely supported by oil proceeds—to fund salaries, pensions, ministry operations, and subsidies. While about 21 percent of planned expenditures are for capital investment in the oil and gas sector, food and fuel subsidies account for nearly 40 percent of Iraq's planned expenditures. It is likely that Iraq will need more funds than currently available due to the severely degraded infrastructure, post-2003 conflict looting and sabotage, and additional security costs.

The United States faces three key challenges in rebuilding and stabilizing Iraq. First, the security environment and the continuing strength of the insurgency have made it difficult for the United States to transfer security responsibilities to Iraqi forces and engage in rebuilding efforts. The security situation in Iraq has deteriorated since June 2003, with significant increases in attacks against the coalition and coalition partners. Second, inadequate performance data and measures make it difficult to determine the overall progress and impact of U.S. reconstruction efforts. The United States has set broad goals for providing essential services in Iraq, but limited performance measures present challenges in determining the overall impact of U.S. projects. Third, the U.S. reconstruction program has encountered difficulties with Iraq's inability to sustain new and rehabilitated infrastructure projects and to address maintenance needs in the water, sanitation, and electricity sectors. For example, as of June 2005, U.S.-funded water and sanitation projects representing about $52 million of the approximately $200 million in completed projects were either not operating or were operating at lower than normal capacity.

Background

From May 2003 through June 2004, the Coalition Provisional Authority (CPA), led by the United States and the United Kingdom, was the UN-recognized coalition authority responsible for the temporary governance of Iraq and for overseeing, directing, and coordinating the reconstruction effort. In May 2003, the CPA dissolved the military organizations of the former regime and began the process of creating or reestablishing new Iraqi security forces, including the police and a new Iraqi army. Over time, multinational force commanders assumed responsibility for recruiting and training some Iraqi defense and police

forces in their areas of responsibility.[1] In May 2004, the President issued a National Security Presidential Directive, which stated that, after the transition of power to the Iraqi government, the Department of State (State), through its ambassador to Iraq, would be responsible for all U.S. activities in Iraq except for security and military operations. U.S. activities relating to security and military operations would be the responsibility of the Department of Defense (DOD). The Presidential Directive also established two temporary offices: (1) the Iraq Reconstruction and Management Office to facilitate transition of reconstruction efforts to Iraq and (2) the Project and Contracting Office (PCO) to provide acquisition and project management support for some U.S.-funded reconstruction projects. Other U.S. government agencies also play significant roles in the reconstruction effort. USAID is responsible for projects to restore Iraq's infrastructure, support healthcare and education initiatives, expand economic opportunities for Iraqis, and foster improved governance. The U.S. Army Corps of Engineers provides engineering and technical services to the PCO, USAID, and military forces in Iraq.

On June 28, 2004, the CPA transferred power to an interim sovereign Iraqi government, the CPA was officially dissolved, and Iraq's transitional period began. Under Iraq's transitional law,[2] the transitional period covers the interim government phase (from June 28, 2004, to January 30, 2005) and the transitional government phase, which is currently scheduled to end by December 31, 2005.[3] Under UN Resolution 1546, the Multi-National Force - Iraq (MNF-I) has the authority to take all necessary measures to contribute to security and stability in Iraq during this process, working in partnership with the Iraqi government to reach agreement on security and policy issues. The Presidential Directive required the U.S. Central Command (CENTCOM) to direct all U.S. government efforts to organize, equip, and train Iraqi security forces. The Multi-National Security Transition Command-Iraq, which operates under MNF-I, now leads coalition efforts to train, equip, and organize Iraqi security forces.

[1]The CPA was responsible for police training at the Baghdad and Jordan academies. The Iraqi army units were trained by the Multi-National Security Transition Command-Iraq.

[2]*Law of Administration for the State of Iraq for the Transitional Period*, March 2004.

[3]See GAO, *Iraq's Transitional Law*, GAO-04-746R (Washington, D.C.: May 25, 2004), for more information on key events during Iraq's transitional period.

U.S. Appropriations Primarily Support Iraqi Reconstruction While Iraqi Funds Support Iraqi Government Operations

The United States is the primary contributor to rebuilding and stabilization efforts in Iraq. U.S. appropriations have been used largely for activities that include the repair of infrastructure, procurement of equipment, and training of Iraqi security forces. International donors have provided a lesser amount of funding for reconstruction and development activities; however, most of the pledged amount is in the form of loans that largely have not been accessed by the Iraqi government. Iraqi funding, under CPA or Iraqi control, has generally supported operating expenses of the Iraqi government. Finally, Iraqi needs may be greater than the funding currently made available.

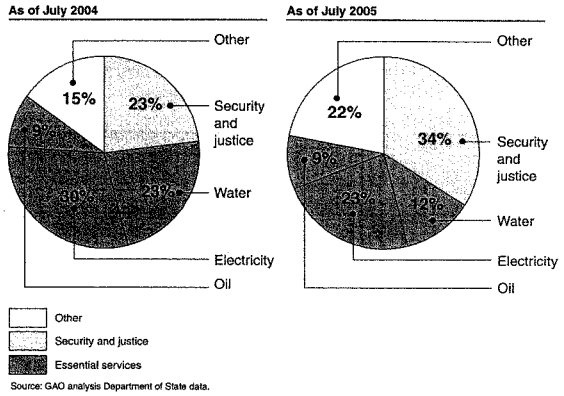
U.S. Funding Supports Rebuilding and Stabilization Efforts in Iraq

U.S. appropriated funding has largely focused on infrastructure repair and training of Iraqi security forces and this funding has been reallocated as priorities changed. As of August 2005, approximately $30 billion in U.S. appropriations had been made available for rebuilding and stabilization needs in Iraq, about $21 billion had been obligated, and about $13 billion had been disbursed. These funds were used for activities that included infrastructure repair of the electricity, oil, and water and sanitation sectors; infrastructure repair, training, and equipping of the security and law enforcement sector; and CPA and U.S. administrative expenses.

Many current U.S. reconstruction efforts reflect initial plans that the CPA developed before June 2004. As priorities changed, particularly since the transition of power to the Iraqi interim government, the U.S. administration reallocated about $5 billion of the $18.4 billion fiscal year 2004 emergency supplemental among the various sectors[4] (see fig. 1).

[4]See Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004, P.L. 108-106.

Figure 1: Funding Distribution of $18.4 Billion for Iraq Relief and Reconstruction, by Sector



Source: GAO analysis Department of State data.

Note: "Other" category includes democracy, education, governance, agriculture, transportation, telecommunications, health, employment, privatization, and administrative costs.

According to State department documents, these reallocations were made to meet immediate needs: in October 2004, for projects in security and law enforcement, economic and private sector development, and governance; in January 2005, for quick-impact projects in key cities; in April 2005, for job creation and essential services activities; and in July 2005, for security force training and election support.[5] As Figure 1 shows, security and justice funds increased while resources for the water and electricity sectors decreased.

[5]See GAO, *Rebuilding Iraq: Status of Funding and Reconstruction*, GAO-05-876 (Washington, D.C.: July 28, 2005), for more information on the October 2004, January 2005, and April 2005 reallocations of the $18.4 billion of fiscal year 2004 appropriations for Iraq relief and reconstruction. In July 2005, the administration reported that it had reallocated $255 million to create Provincial Reconstruction Development Committees, to fund training of security forces, and to support the upcoming elections, among other things.

Some International Funds Have Been Provided for Reconstruction, but Pledges are Mostly Loans

International donors have provided about $2.7 billion in multilateral and bilateral grants, of the pledged $13.6 billion, for reconstruction activities; however, most of the pledged amount is in the form of loans that largely have not been accessed by the Iraqis.[6] International reconstruction assistance provided in the form of multilateral grants has been used largely for activities such as electoral process support, education and health projects, and capacity building of the ministries. As of August 2005, donors have deposited about $1.2 billion into the two trust funds of the International Reconstruction Fund Facility for Iraq (IRFFI).[7] Of that amount, about $800 million had been obligated and nearly $300 million disbursed to individual projects. Donors have also provided bilateral assistance for Iraq reconstruction activities; however, complete information on this assistance is not readily available. As of August 2005, State has identified $1.5 billion—of the $13.6 billion pledged—in funding that donors have provided as bilateral grants for reconstruction projects outside the IRFFI. About $10 billion, or 70 percent, of the $13.6 billion pledged in support of Iraq reconstruction is in the form of loans, primarily from the World Bank, the International Monetary Fund (IMF), and Japan. According to a State Department official, Iraq is in discussions with the government of Japan and the World Bank for initial projects of lending programs that total about $6.5 billion. As of October 12, 2005, Iraq had accessed a loan of $436 million from the IMF and an initial loan of $500 million from the World Bank, according to a State Department official.

Iraqi Funds Support Iraq's Government Operations

Iraqi funds—under the CPA or Iraqi control—primarily have supported the Iraqi operating budget with some focus on relief and reconstruction

[6]According to a State Department official, in addition to the $13.6, donors pledged an additional $203 million for Iraq reconstruction at the International Reconstruction Fund Facility for Iraq (IRFFI) Donors' Committee meeting at the Dead Sea in Jordan, in July 2005. See GAO-05-876 and *Rebuilding Iraq: Resources, Security, Governance, Essential Services, and Oversight Issues* GAO-04-902R, (Washington, D.C.: June 28, 2004), for more information on international donor support for Iraq reconstruction.

[7]The IRFFI was established in response to the June 24, 2003, UN technical meeting and the 2003 Madrid conference's calls for a mechanism to channel and coordinate donor resources for Iraq reconstruction and development activities. The IRFFI is composed of two trust funds, one run by the United Nations Development Group and the other by the World Bank Group.

projects.[8] Of the Iraqi funds under CPA control from May 2003 to June 2004, about $21 billion came from the Development Fund for Iraq (DFI)[9] and $2.65 billion from vested and seized assets from the previous Iraqi regime.[10] The CPA disbursed these Iraqi funds primarily to support the 2003 and 2004 Iraqi budgets for government operating expenses, such as salary payments and ministry operations, the public food distribution system, and regional government outlays. In addition, CPA used Iraqi funds to support efforts such as the import of refined fuels and electricity restoration projects. On June 28, 2004, stewardship of the DFI was turned over to the Iraqi interim government. Proceeds from Iraqi crude oil exports continue to be deposited into the DFI[11] and represent more than 90 percent of the $23 billion in domestic revenue support for the Iraqi 2005 budget.[12]

According to Iraq's National Development Strategy, the 2005 Iraqi budget planned for nearly $28 billion in expenditure. These expenditures exceed estimated domestic revenues by $4.8 billion. However, higher than anticipated domestic revenues may offset this deficit. Planned expenditures of this budget include about 37 percent for direct subsidies; about 21 percent for capital investment, especially in the oil and gas sector; about 20 percent for employee wages and pensions; nearly 18 percent for goods and services; and about 4 percent for war reparations.[13] Direct subsidies included the import of gasoline and other refined fuel products

[8]See GAO-05-876 and GAO-04-902R, for more information on the DFI and vested and seized Iraqi funds.

[9]The DFI was initially comprised of Iraqi oil proceeds, UN Oil for Food program surplus funds, and returned Iraqi government and regime financial assets.

[10]The vested assets were former Iraqi regime funds frozen and held in U.S. financial institutions after the first Persian Gulf War and subsequently vested by the President in the U.S. Treasury in March 2003. In addition, assets of the former regime were seized by coalition forces within Iraq.

[11]As directed under UN Security Council Resolution 1483, 95 percent of oil proceeds are to be deposited into the DFI. UN Security Council Resolution 1546 directed that oil proceeds would continue to be deposited in the DFI after the CPA transfer of power to Iraq. UN Security Council Resolution 1483 directed that 5 percent of oil proceeds are to be deposited into a UN Compensation Fund account to process and pay claims for losses resulting from Iraq's invasion and occupation of Kuwait.

[12]The 2005 Iraqi budget includes an additional $9 billion in aid expected from external sources that is to be spent in accordance with grant and loan conditions.

[13]The $28 billion does not include expenditures associated with the $9 billion in expected aid from external sources.

(projected to cost $2.4 billion) and Iraqs' public distribution system's basic food basket (projected to cost $4 billion). The Iraqi government continues to develop plans to reform fuel price subsidies, partly due to an agreement with the IMF to reduce subsidies by $1 billion per year, according to IMF and agency documents. In addition to subsidy expenditures, Iraq has planned for capital investment levels of 21 percent from 2005 to 2007. In 2005, the majority of these funds were planned for the oil and gas sector—about $3 billion of about $5 billion in total for various ministries.

Iraqi Needs Greater than Originally Anticipated

Initial assessments of Iraq's needs through 2007 by the UN/World Bank and the CPA estimated that the reconstruction of Iraq would require about $56 billion. However, Iraq may need more funding than currently available to meet the needs and demands of the country. The state of some Iraqi infrastructure was more severely degraded than U.S. officials originally anticipated or initial assessments indicated. The condition of the infrastructure was further exacerbated by post-2003 conflict looting and sabotage. For example, some electrical facilities and transmission lines were damaged, and equipment and materials needed to operate treatment and sewerage facilities were destroyed by the looting that followed the 2003 conflict. In the oil sector, a June 2003 U.S. government assessment found that over $900 million would be needed to replace looted equipment at Iraqi oil facilities. In addition, initial assessments assumed reconstruction would take place in a peace-time environment and did not include additional security costs.

Further, these initial assessments assumed that Iraqi government revenues and private sector financing would increasingly cover long-term reconstruction requirements. However, private sector financing and government revenues may not yet meet these needs. In the oil sector alone, Iraq will likely need an estimated $30 billion over the next several years to reach and sustain an oil production capacity of 5 million barrels per day, according to industry experts and U.S. officials.[14]

[14]According to State Department monthly estimates from January 2005 to September 2005, crude oil production averages ranged from 2.08 to 2.17 million barrels per day (bpd) and monthly crude oil export averages ranged from 1.37 to 1.61 million bpd.

Security, Measurement, and Sustainability Challenges in Rebuilding and Stabilizing Iraq

The United States faces three key challenges in stabilizing and rebuilding Iraq. First, the unstable security environment and the continuing strength of the insurgency have made it difficult for the United States to transfer security responsibilities to Iraqi forces and engage in rebuilding efforts. Second, inadequate performance data and measures make it difficult to determine the overall progress and impact of U.S. reconstruction efforts. Third, the U.S. reconstruction program has encountered difficulties with Iraq's inability to sustain new and rehabilitated infrastructure projects and to address maintenance needs in the water, sanitation, and electricity sectors.

Strength of the Insurgency Has Made It Difficult to Transfer Security Responsibilities to Iraqi Forces and Engage in Rebuilding Efforts

Over the past 2 years, significant increases in attacks against the coalition and coalition partners have made it difficult to transfer security responsibilities to Iraqi forces and engage in rebuilding efforts in Iraq. The insurgency in Iraq intensified in early 2005 and has remained strong since then. Poor security conditions have delayed the transfer of security responsibilities to Iraqi forces and the drawdown of U.S. forces in Iraq. The unstable security environment has also affected the cost and schedule of rebuilding efforts and has led, in part, to project delays and increased costs for security services.

Insurgency Intensified through Early 2005 and Remains Strong

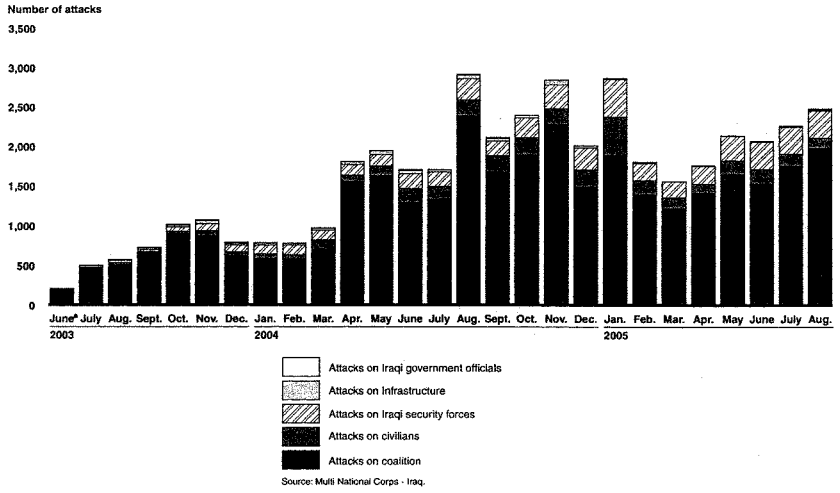
The insurgency intensified through early 2005 and has remained strong since then. As we reported in March 2005, the insurgency in Iraq—particularly the Sunni insurgency—grew in complexity, intensity, and lethality from June 2003 through early 2005.[15] Enemy-initiated attacks against the coalition, its Iraqi partners, and infrastructure had increased in number over time, with the highest peaks occurring in August and November 2004 and in January 2005. The November 2004 and January 2005 attacks primarily occurred in Sunni-majority areas, whereas the August 2004 attacks took place countrywide. MNF-I is the primary target of the attacks, but the number of attacks against Iraqi civilians and security forces increased significantly during January 2005, prior to Iraq's national election for a transitional government that was held January 30, 2005. According to the Director of the Defense Intelligence Agency (DIA), attacks on Iraq's

[15]For more information on security trends and the makeup of the insurgency, see GAO, *Rebuilding Iraq: Preliminary Observations on Challenges in Transferring Security Responsibilities to Iraqi Military and Police*, GAO-05-431T (Washington, D.C.: Mar. 14, 2005).

Election Day reached about 300, double the previous 1-day high of about 150 attacks on a day during Ramadan in 2004.

Although the number of attacks decreased immediately after the January elections, the strength of the insurgency in Iraq has remained strong and generally unchanged since early 2005, according to senior U.S. military officers. As shown in figure 2, although enemy-initiated attacks had decreased in February and March 2005, they generally increased through the end of August 2005.

Figure 2: Enemy-Initiated Attacks against the Coalition and Its Partners, by Category, June 2003 through August 2005



Source: Multi National Corps - Iraq.

*According to DIA officials, June 2003 data are incomplete.

According to a senior U.S. military officer, attack levels ebb and flow as the various insurgent groups—which are an intrinsic part of Iraq's

population—rearm and attack again. As DOD reported in July 2005,[16] insurgents share a goal of expelling the Coalition from Iraq and destabilizing the Iraqi government to pursue their individual and, at times, conflicting goals. Iraqi Sunnis make up the largest proportion of the insurgency and present the most significant threat to stability in Iraq. Radical Shia groups, violent extremists, criminals, and, to a lesser degree, foreign fighters, make up the rest. Senior U.S. military officers believe that the insurgents remain adaptive and capable of choosing the time and place of their attacks. These officers have also predicted spikes in violence around Iraq's upcoming constitutional referendum scheduled for October 15, 2005, and the national elections scheduled for December 15, 2005.

Poor Security Conditions Have Delayed Transfer of Security Responsibilities to Iraqi Forces and Draw Down of U.S. Forces

The continuing strength of the insurgency has made it difficult for the multinational force to develop effective and loyal Iraqi security forces, transfer security responsibilities to them, and progressively draw down U.S. forces in Iraq. In February 2004, the multinational force attempted to quickly shift responsibilities to Iraqi security forces but did not succeed in this effort. Police and military units performed poorly during an escalation of insurgent attacks in April 2004, with many Iraqi security forces around the country collapsing or assisting the insurgency during the uprising. About that time, the Deputy Secretary of Defense said that the multinational force was engaged in combat in Iraq, rather than in peacekeeping as had been expected. The United States decided to maintain a force level of about 138,000 troops until at least the end of 2005, rather than drawing down to 105,000 troops by May 2004 as DOD had announced in November 2003. The United States has maintained roughly the same force level of 138,000 troops in Iraq since April 2004,[17] as it has sought to neutralize the insurgency and develop Iraqi security forces.

[16]Department of Defense, *Report to Congress, Measuring Stability and Security in Iraq*, July 20, 2005.

[17]The United States temporarily increased the number of troops in Iraq to about 160,000 during the January 2005 election period by overlapping units during their planned rotations into or out of Iraq and bringing in an additional 12,000 military personnel. On September 2, 2005, a senior U.S. military officer said that the United States would bring in an additional 2,000 military personnel for the upcoming referendum and national election in Iraq. On October 6, 2005, DOD reported that it had employed overlapping troop rotations to temporarily increase the number of U.S. military forces in Iraq to about 152,000. These forces will provide additional security for the referendum.

In late September and early October 2005, the Secretary of Defense and senior U.S. military officers reported on their strategy to draw down and eventually withdraw U.S. forces as Iraq meets certain conditions. These conditions would consider the level of insurgent activity, readiness and capability of Iraqi security forces and government institutions, and the ability of the coalition forces to reinforce the Iraq security forces if necessary. The ability to meet these conditions will be affected by progress in political, economic, and other areas. According to the commanding general of the multinational force, as conditions are met, multinational forces will progressively draw down in phases around the country. By the time the multinational force's end state is achieved, U.S. forces will be withdrawn or drawn down to levels associated with a normal bilateral security relationship. The defined end state is an Iraq at peace with its neighbors, with a representative government that respects the human rights of all Iraqis, and with a security force that can maintain domestic order and deny Iraq as a safe haven for terrorists.[18]

DOD and the multinational force face a number of challenges in transferring security responsibilities to the Iraqi government and security forces. As we reported in March 2005, the multinational force faced four key challenges in increasing the capability of Iraqi forces: (1) training, equipping, and sustaining a changing force structure; (2) developing a system for measuring the readiness and capability of Iraq forces; (3) building loyalty and leadership throughout the Iraqi chain of command; and (4) developing a police force that upholds the rule of law in a hostile environment. Further, in a July 2005 report to Congress, DOD noted continuing problems with absenteeism in the Iraqi Army, Police Service, and Border Police; among those units conducting operations; and units relocating elsewhere in Iraq. The report also noted that there was insufficient information on the extent to which insurgents have infiltrated Iraqi security forces.[19] However, in an October 2005 report to Congress, DOD noted insurgent infiltration is a more significant problem in Ministry of Interior forces than in Ministry of Defence forces.[20] Moreover, in early

[18]Press conference with Major General Rick Lynch, Deputy Chief of Staff, Multinational Force Iraq, Aug. 25, 2005.

[19]The DOD report noted that insurgent infiltration was low for Special Police Commando battalions but high among the Border Police.

[20]Department of Defense, *Report to Congress, Measuring Stability and Security in Iraq*, October 2005.

October 2005, senior U.S. military officers noted challenges in developing effective security ministries, as well as logistics capabilities of Iraqi forces.

Since March 2005, the multinational force has taken some steps to begin addressing these challenges. For example, the multinational force has embedded transition teams at the battalion, brigade, and division levels of Ministry of Defense forces, as well as in the Ministry of Interior's Special Police Commando battalions, the Civil Intervention Force, and the Emergency Response Unit. Multinational force transition teams conduct new transition readiness assessments that identify the progress and shortcomings of Iraqi forces. According to DOD's report, these assessments take into account a variety of criteria that are similar but not identical to those the U.S. Army uses to evaluate its units' operational readiness, including personnel, command and control, training, sustainment/logistics, equipment, and leadership. The assessments place Iraqi units into one of the following four categories:

- Level 1 units are fully capable of planning, executing, and sustaining independent counterinsurgency operations.
- Level 2 units are capable of planning, executing, and sustaining counterinsurgency operations with coalition support.
- Level 3 units are partially capable of conducting counterinsurgency operations in conjunction with coalition units.
- Level 4 units are forming or otherwise incapable of conducting counterinsurgency operations.

The multinational force is also preparing similar readiness assessments on the Iraqi police through partnerships at the provincial levels. These assessments look at factors that are tailored to the tasks of a police force, including patrol/traffic operations, detainee operations, and case management.

According to DOD's October 2005 report and DOD officials, Iraqi combat forces have made progress in developing the skills necessary to assume control of counterinsurgency operations. However, they also recognize that Iraqi forces will not be able to operate independently for some time because they need logistical capabilities, ministry capacity, and command and control and intelligence structures. According to DOD's October 2005 report, Iraq has 116 police and army combat battalions actively conducting

counter insurgency operations. This number corresponds to the number of battalions in levels 1, 2, and 3 described above. Of these battalions, 1 battalion was assessed as level 1, that is, fully capable of planning, executing, and sustaining independent counterinsurgency operations. Thirty-seven were level 2, or capable of planning, executing, and sustaining counterinsurgency operations with coalition support; and 78 were level 3—partially capable of conducting counterinsurgency operations in conjunction with coalition units. The assessment of Iraqi units' capabilities also considers the threat level they face. According to a senior U.S. military officer, Iraqi forces have more quickly progressed from level 3 to level 2 in areas that have experienced fewer insurgent attacks, such as southern Iraq.

GAO's forthcoming classified report on Iraq's security situation will provide further information and analysis on the challenges to developing Iraqi security forces and the conditions for the phased draw down of U.S. and other coalition forces.

Security Situation Has Affected Rebuilding Efforts

The security situation in Iraq has affected the cost and schedule of reconstruction efforts. Security conditions have, in part, led to project delays and increased costs for security services. Although it is difficult to quantify the costs in time and money resulting from poor security conditions, both agency and contractor officials acknowledged that security costs have diverted a considerable amount of reconstruction resources and have led to canceling or reducing the scope of some reconstruction projects. For example, in March 2005, the USAID cancelled two electrical power generation-related task orders[21] totaling nearly $15 million to help pay for increased security costs incurred at another power generation project in southern Baghdad. In another example, work was suspended at a sewer repair project in central Iraq for 4 months in 2004 due to security concerns. In a September 2005 testimony, the Special Inspector General for Iraq Reconstruction and a USAID official also observed that the cost of security had taken money away from reconstruction and slowed down reconstruction efforts.[22]

[21]Task orders are placed against established contracts for the performance of tasks during the period of the contracts.

[22]U.S. House of Representatives, Committee on Appropriations, Subcommittee on Foreign Operations, Export Financing, and Related Programs, "Oversight Hearing on Iraq Reconstruction," September 7, 2005, Washington, D.C.

However, the actual cost that security has added to reconstruction projects is uncertain. We reported in July 2005, that, for 8 of 15 reconstruction contracts we reviewed, the cost to obtain private security providers and security-related equipment accounted for more than 15 percent of contract costs, as of December 31, 2004.[23] Our analysis and discussions with agency and contractor officials identified several factors that influenced security costs, including (1) the nature and location of the work, (2) the type of security required and the security approach taken, and (3) the degree to which the military provided the contractor security services. For example, projects that took place in fixed locations were generally less expensive to secure than a project, such as electrical transmission lines, which extended over a large geographic location. In addition, some contractors made more extensive use of local Iraqi labor and employed less costly Iraqi security guards, while others were able to make use of security provided by the U.S. military or coalition forces.

Our analysis did not include increased transportation or administrative expenses caused by security-related work stoppages or delays, or the cost associated with repairing the damage caused by the insurgency on work previously completed. We also excluded the cost associated with the training and equipping of Iraqi security forces and the costs borne by DOD in maintaining, equipping, and supporting U.S. troops in Iraq.

In July 2005, to improve agencies' ability to assess the impact of and manage security costs in future reconstruction efforts, we recommended that the Secretary of State, the Secretary of Defense, and the Administrator, USAID, establish a means to track and account for security costs to develop more accurate budget estimates. State did not indicate whether it agreed with our recommendation, Defense agreed, and USAID did not comment on the recommendation.

In addition, the security environment in Iraq also has led to severe restrictions on the movement of civilian staff around the country and

[23]Several contractor officials noted that the cost of security relative to total contract costs can vary over time. For example, they noted that initial security costs, such as for mobilizing and equipping security personnel and purchasing armored vehicles, can be considerable in relation to the amount of reconstruction work authorized. As additional work is authorized, the relative percentage accounted for by security costs may decrease considerably. See GAO, *Rebuilding Iraq: Actions Needed to Improve Use of Private Security Providers*, GAO-05-737 (Washington, D.C.: July 28, 2005) for more information on the use and costs of private security providers.

reductions of a U.S. presence at reconstruction sites, according to U.S. agency officials and contractors. For example, work at a wastewater plant in central Iraq was halted for approximately 2 months in early 2005 because insurgent threats drove subcontractors away and made the work too hazardous to perform. In the assistance provided to support the electoral process, U.S. funded grantees and contractors also faced security restrictions that hampered their movements and limited the scope of their work. For example, IFES[24] was not able to send its advisors to most of the governorate-level elections administration offices, which hampered training and operations at those facilities leading up to Iraq's Election Day on January 30, 2005.

While poor security conditions have slowed reconstruction and increased costs, a variety of management challenges have also adversely affected the implementation of the U.S. reconstruction program. In September 2005, we reported that management challenges such as low initial cost estimates and delays in funding and awarding task orders have also led to the reduced scope of the water and sanitation program and delays in starting projects. In addition, U.S. agency and contractor officials have cited difficulties in initially defining project scope, schedule, and cost, as well as concerns with project execution, as further impeding progress and increasing program costs. These difficulties include lack of agreement among U.S. agencies, contractors, and Iraqi authorities; high staff turnover; an inflationary environment that makes it difficult to submit accurate pricing; unanticipated project site conditions; and uncertain ownership of projects sites.

Limited Performance Data and Measures and Inadequate Reporting Present Difficulties in Determining Progress and Impact of Rebuilding Effort

State has set broad goals for providing essential services, and the U.S. program has undertaken many rebuilding activities in Iraq. The U.S. program has made some progress in accomplishing rebuilding activities, such as rehabilitating some oil facilities to restart Iraq's oil production, increasing electrical generation capacity, restoring some water treatment plants, and reestablishing Iraqi health services. However, limited performance data and measures make it difficult to determine and report

[24]IFES was formally known as the International Foundation for Elections Systems. IFES is a nonpartisan, nonprofit organization founded in 1987 that provides technical assistance concerning democracy and governance to transitional democracies. In 2004, USAID gave IFES a $40 million grant to provide technical assistance to the Independent Electoral Commission of Iraq through the end of 2005 to help it administer elections.

on the progress and impact of U.S. reconstruction. For example, in the water and sanitation, health, and electricity sectors, limited performance data and reporting measures are output focused and make it difficult to accurately measure program results and assess the effectiveness of U.S. reconstruction efforts. Although information is difficult to obtain in an unstable security environment, opinion surveys and additional outcome measures have the potential to help determine progress and gauge the impact of the U.S. reconstruction efforts on the lives of the Iraqi people.

- In the water and sanitation sector, the Department of State has primarily reported on the numbers of projects completed and the expected capacity of reconstructed treatment plants. However, we found that the data are incomplete and do not provide information on the scope and cost of individual projects nor do they indicate how much clean water is reaching intended users as a result of these projects. For example, although State reported that 143 projects were complete as of early July 2005, it could not document the location, scope, and cost of these projects. Moreover, reporting only the number of projects completed or under way provides little information on how U.S. efforts are improving the amount and quality of water reaching Iraqi households or their access to sanitation services. Information on access to water and its quality is difficult to obtain without adequate security or water metering facilities. However, opinion surveys assessing Iraqis' access and satisfaction with water sanitation services have found dissatisfaction with these services. The most recent USAID quality of life survey, in February 2005, found that just over half of respondents rated their water supply as poor to fair and over 80 percent rated their sewerage and wastewater disposal as poor to fair. These surveys demonstrate the potential for gathering data to help gauge the impact of U.S. reconstruction efforts.

- Limitations in health sector measurements also make it difficult to relate the progress of U.S. activities to its overall effort to improve the quality and access of health care in Iraq. Department of State measurements of progress in the health sector primarily track the number of completed facilities, an indicator of increased access to health care. For example, State reported that the construction of 145 out of 300 health clinics had been completed, as of August 31, 2005. However, the data available do not indicate the adequacy of equipment levels, staffing levels, or quality of care provided to the Iraqi population. Monitoring the staffing, training, and equipment levels at health facilities may help gauge the effectiveness of the U.S. reconstruction program

and its impact on the Iraqi people. In addition, opinion surveys assessing Iraqis' access and satisfaction with health services also have the potential for gathering data to help gauge the impact of U.S. reconstruction efforts. For example, the most recent USAID quality of life survey, in February 2005, found that the majority of Iraqis approved of the primary healthcare services they received; although fewer than half of the respondents approved of the level of health care at Ta'mim, Al Basrah, and Maysan governorates.

- In the electricity sector, U.S. agencies have primarily reported on generation measures such as levels of added or restored generation capacity and daily power generation of electricity; numbers of projects completed; and average daily hours of power. For example, as of May 2005, U.S.-funded projects reportedly had added or restored about 1,900 megawatts of generation capacity to Iraq's power grid. However, these data do not show whether (1) the power generated is uninterrupted for the period specified (eg., average number of hours per day), (2) there are regional or geographic differences in the quantity of power generated, and (3) how much power is reaching intended users. Information on the distribution and access of electricity is difficult to obtain without adequate security or accurate metering capabilities. However, opinion surveys assessing Iraqis' access and satisfaction with electricity services have found dissatisfaction with these services. The February 2005 USAID survey found that 74 percent of the respondents rated the overall quality of electricity supply as poor or very poor. The surveys also found that the delivery of electricity directly influenced the perceived legitimacy of local government for many respondents. These surveys demonstrate the potential for gathering data to help gauge the impact of U.S. reconstruction efforts.

In September 2005, we recommended that the Secretary of State address this issue of measuring progress and impact in the water and sanitation sector. State agreed with our recommendation and stated that it is taking steps to address the problem.

Iraq's Capacity to Operate and Maintain U.S.-Funded Projects Presents Sustainability Problems

The U.S. reconstruction program has encountered difficulties with the Iraqis' ability to sustain the new and rehabilitated infrastructure and address maintenance needs. In the water, sanitation, and electricity sectors, in particular, some projects have been completed but have sustained damage or become inoperable due to the Iraqis' problems maintaining or properly operating them.

In the water and sanitation sector, U.S. agencies have identified limitations in the Iraqis' capacity to maintain and operate reconstructed facilities, including problems with staffing, unreliable power to run treatment plants, insufficient spare parts, and poor operations and maintenance procedures. As of June 2005, approximately $52 million of the $200 million in completed large-scale water and sanitation projects either were not operating or were operating at lower capacity due to looting of key equipment and shortages of reliable power, trained Iraqi staff, and required chemicals and supplies. For example, one repaired wastewater plant was partially shut down due to the looting of key electrical equipment and repaired water plants in one southern governorate lacked adequate electricity and necessary water treatment chemicals. In addition, two projects lacked a reliable power supply, one lacked sufficient staff to operate properly, and one lacked both adequate staff and power supplies. In response, U.S. agencies have taken initial steps to improve Iraqi capacity to operate and maintain water and sanitation facilities. For example, in August 2005, USAID awarded a contract to provide additional maintenance and training support for 6 completed water and sanitation facilities.

The U.S. embassy in Iraq stated that it was moving from the previous model of building and turning over projects to Iraqi management toward a "build-train-turnover" system to protect the U.S. investment. However, these efforts are just beginning, and the U.S. assistance does not address the long-term ability of the Iraqi government to support, staff, and equip these facilities. It is unclear whether the Iraqis will be able to maintain and operate completed projects and the more than $1 billion in additional large-scale water and sanitation projects expected to be completed through 2008. Without assurance that the Iraqis have adequate resources to maintain and operate completed projects, the U.S. water and sanitation reconstruction program risks expending funds on projects with limited long-term impact. In September 2005, we recommended that the Secretary of State address the issue of sustainability in the water and sanitation sector. State agreed with our recommendation and stated that it is taking steps to address the problem.

In the electricity sector, the Iraqis' capacity to operate and maintain the power plant infrastructure and equipment provided by the United States remains a challenge at both the plant and ministry levels. As a result, the infrastructure and equipment remain at risk of damage following their transfer to the Iraqis. In our interviews with Iraqi power plant officials from 13 locations throughout Iraq, the officials stated that their training did not adequately prepare them to operate and maintain the new U.S.-provided

gas turbine engines. Due to limited access to natural gas, some Iraqi power plants are using low-grade oil to fuel their natural gas combustion engines. The use of oil-based fuels, without adequate equipment modification and fuel treatment, decreases the power output of the turbines by up to 50 percent, requires three times more maintenance, and could result in equipment failure and damage that significantly reduces the life of the equipment, according to U.S. and Iraqi power plant officials.

U.S. officials have acknowledged that more needs to be done to train plant operators and ensure that advisory services are provided after the turnover date. To address this issue, USAID implemented a project, in February 2005, to train selected electricity plant officials (plant managers, supervisors, and equipment operators) in plant operations and maintenance. According to DOD, PCO also has awarded one contract and is developing another to address operations and maintenance concerns.

Although agencies had incorporated some training programs and the development of operations and maintenance capacity into individual projects, recent problems with the turnover of completed projects, such as those in the water and sanitation and electricity sectors, have led to a greater interagency focus on improving project sustainability. In May 2005, an interagency working group including State, USAID, PCO, and the Corps of Engineers, was formed to identify ways of addressing Iraq's capacity development needs.

The working group reported that a number of critical infrastructure facilities constructed or rehabilitated under U.S. funding have failed, will fail, or will operate in sub-optimized conditions following handover to the Iraqis. They found that a number of USAID and PCO projects encountered significant problems in facility management and operations and maintenance when turned over to the Iraqis or shortly thereafter. To mitigate the potential for project failures, the working group recommended increasing the period of operational support for constructed facilities from a 90-day period to a period of up to one year. According to a State department official, as of September 22, 2005, the recommendations are currently under active consideration and discussion by the Embassy Baghdad and Washington.

Conclusion

For the past two and half years, the United States has served as the chief protector and builder in Iraq. The long-term goal is to achieve a peaceful Iraq that has a representative government respectful of human rights and

the means to maintain domestic order and quell terrorism. To achieve this goal, the United States has provided $30 billion to develop capable Iraqi security forces, rebuild a looted and worn infrastructure, and support democratic elections.

However, the United States has confronted a capable and lethal insurgency that has taken many lives and made rebuilding Iraq a costly and challenging endeavor. It is unclear when Iraqi security forces will be capable of operating independently, thereby enabling the United States to reduce its military presence.

Similarly, it is unclear how U.S. efforts are helping the Iraqi people obtain clean water, reliable electricity, or competent health care. Measuring the outcomes of U.S. efforts is needed to determine how they are having a positive impact on the daily lives of the Iraqi people.

Finally, the United States must ensure that the billions of dollars it has already invested in Iraq's infrastructure are not wasted. The Iraqis need additional training and preparation to operate and maintain the power plants, water and sewage treatment facilities, and health care centers the United States has rebuilt or restored. This would help ensure that the rebuilding efforts improve Iraq's economy and social conditions and establish a secure, peaceful, and democratic Iraq.

We will continue to examine the challenges the United States faces in rebuilding and stabilizing Iraq. Specifically, we will examine the efforts to stabilize Iraq and develop its security forces, including the challenge of ensuring that Iraq can independently fund, sustain, and support its new security forces; examine the management of the U.S. rebuilding effort, including program execution; and assess the progress made in developing Iraq's energy sectors, including the sectors' needs, existing resources and contributions, achievements, and future challenges.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions you or the other Subcommittee members may have.

Appendix I

Contact and Staff Acknowledgements

For further information, please contact Joseph A. Christoff on (202) 512-8979. Individuals who made key contributions to this testimony were Monica Brym, Lynn Cothern, Tim DiNapoli, Muriel Forster, Charles D. Groves, B. Patrick Hickey, Sarah Lynch, Judy McCloskey, Kendall Schaefer, Michael Simon, and Audrey Solis.

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Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548

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Mr. SHAYS. Mr. Gimble, if you would, in your statement, just explain, one, if it is true that DOD has not been looking at Iraq in the last year, and, if so, why not, sometime during statement.

STATEMENT OF THOMAS GIMBLE

Mr. GIMBLE. Yes, sir.

Mr. Chairman, members of the subcommittee, thank you for the opportunity to appear before the subcommittee today to discuss the DOD IG oversight role related to Iraq reconstruction, governance and security efforts. My testimony today will describe our activities with respect to that role, which includes providing oversight to other DOD audit and investigative organizations.

Congress initially established the Special Inspector General for Iraq Reconstruction with the specific responsibility to oversee the $18.4 billion Iraq Reconstruction and Relief Fund. In support of this mission, the DOD IG provided on a full or part-time basis a significant number of staff members to SIGIR and its predecessor, the Coalition Provisional Authority Inspector General.

Recognizing the SIGIR responsibility pertaining to the $18.4 billion, the DOD audit community has focused its efforts on the additional emergency supplemental appropriations of $65.2 billion for fiscal year 2004 and of $76 billion for fiscal year 2005 to support the Global War on Terror and U.S. operations in Iraq and Afghanistan.

Specifically, as of August 31, 2005, the Defense Contract Audit Agency had issued 622 reports with significant cost questioned, deficiencies and, in some cases, referrals for investigations of possible fraud. The service audit agencies collectively have issued 14 audit reports and have 16 ongoing efforts.

The DOD IG limited its audit role to preclude duplicative efforts because of the extensive oversight already provided by SIGIR, the DOD audit community and the Government Accountability Office. However, we do provide an oversight role with respect to the service audit agencies and the Defense Contract Audit Agency. Overall, the DOD IG, as shown in the attachment to my prepared statement, has issued 31 audit reports and has two ongoing efforts pertaining to the Global War on Terror.

Further, our office also regularly participates in scheduled meetings with the Iraq Inspectors General Council, which has representatives from SIGIR, GAO, the Inspectors General of State, AID, Defense Contract Audit Agency, Army Audit Agency and the Army Corps of Engineers.

With respect to investigative oversight, the DOD IG Defense Criminal Investigative Service, as a part of the Department of Justice Task Force, is involved in the review of allegations pertaining to matters that have occurred in Iraq.

Also, beginning in May 2003, DCIS provided two special agents to conduct criminal investigations in support of the CPA in Baghdad. This effort was increased to three special agents in November 2003 due to the magnitude of the work and remained at that level until the operation terminated in November 2004.

Investigative support to the CPA resulted in numerous recoveries and dismantling of criminal operations, to include a multimillion-dollar counterfeiting operation involving Iraqi dinar. It also in-

cluded multiple seizures of weapons and explosive devices destined to be used against the Coalition forces.

Prior to the establishment of SIGIR, at the request of Ambassador Paul Bremer, the DOD Deputy Inspector General for Intelligence served at First Interim Inspector General for the CPA. Further, as a result of a DOD recommendation, the Ambassador established an Inspector General system in the Iraq Government on the U.S. statutory Inspector General System. One of our senior staff members remains in Baghdad to advise the Minister of Defense and senior military officials and his IG staff on maintaining an effective Office of Inspector General.

Also, from the beginning, we have worked with the Department of State and SIGIR to define how best the U.S. Government can support the IG element of the Iraqi anticorruption system. To this end, the DOD IG has proposed to the Iraq Reconstruction and Management Office the Principle Governance Initiative, a plan that includes the establishment of an IG academy, an assessment of the Iraqi IG system and deployment of advisers to each of the 31 Iraqi Inspectors General.

In October 2004, the Inspector Generals of the Department of Defense and State initiated an interagency project to fully examine the processes and organizational relationships associated with training of the Iraqi police service. On July 15, we issued a joint report of the results of that review.

Our study of the training program is a snapshot in time taken between February and March 2005. The snapshot reveals systemic issues that should be addressed in order to create a viable and self-sustaining Iraqi police service. We have noticed significant progress in implementing many of the 30 formal recommendations, and we intend to conduct a followup review of the Iraqi police training effort in the spring of 2006.

To go back to your question about, do we have people in country, we do not have auditors on the ground in Iraq. Most of the contracting offices and the work we are doing deals with the supplementals, and those contracting officers are back here in the United States, as are many of the plants that were doing it, and we have a number of audits ongoing covering those as well as other issues.

That concludes my statement.

Mr. SHAYS. Thank you.

[The prepared statement of Mr. Gimble follows:]

October 18, 2005

Hold for Release
Expected 10:00 a.m.

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

before the

Subcommittee on National Security, Emerging Threats,
and International Relations
House Committee on Government Reform

on

"Iraq Reconstruction, Governance and Security
Oversight"

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to appear before the Subcommittee today to discuss the DoD IG oversight role related to Iraq reconstruction, governance and security oversight efforts by the Department of Defense. My testimony today will describe our activities with respect to that role, which includes providing oversight of other DoD audit and investigative organizations.

Reconstruction

Congress initially established the Special Inspector General for Iraq Reconstruction (SIGIR) with the specific responsibility to oversee the $18.4 billion Iraq Reconstruction and Relief Fund. In support of this mission, the DoD IG provided over 125 staff members, on a full or part-time basis, to SIGIR and its predecessor, the Coalition Provisional Authority Inspector General, and provided significant support from our main headquarters as well.

Recognizing the SIGIR oversight responsibility pertaining to the $18.4 billion, the DoD audit community has focused efforts on the additional emergency supplemental appropriations of $65.2 billion for FY 2004 and of $76 billion for FY 2005 to support the

Global War on Terror and U.S. operations in Iraq and Afghanistan. Specifically, as of August 31, 2005, the Defense Contract Audit Agency has issued 622 reports with significant costs questioned, deficiencies, and in some cases, referrals for investigations of possible fraud. The Service Audit Agencies have collectively issued 14 audit reports and have 16 ongoing efforts. Our oversight during FY 2006 will concentrate on the required review of DCAA quality control system to ensure their audit work complies with Government Auditing Standards. To accomplish this, we will review the adequacy of price proposal, incurred cost, and internal control review audits. I expect the review to include a sampling of DCAA audits of Iraq reconstruction.

To preclude duplicative efforts, the DoD IG limited its audit role because of the extensive oversight already provided by the SIGIR, the DoD audit community and the Government Accountability Office. However, we do provide an oversight role with respect to the Service Audit Agencies and the Defense Contract Audit Agency. Overall, the DoD IG has issued 31 audit reports and has two ongoing efforts on issues pertaining to the Global War on Terror. Those issues include acquisition, chemical and biological defense, cooperative threat reduction program, export controls, force protection, and financial and personnel responsibility. Two of the issued audit reports address the use of FY 2004 Emergency Supplemental Appropriations. Appendix 1 provides a list of recently completed and ongoing audit projects.

Further, to coordinate oversight efforts and avoid duplication, our office also participates in regularly scheduled meetings of the Iraq Inspectors General Council which has representatives from SIGIR, Government Accountability Office, the Department of State Office of the Inspector General, the U.S. Agency for International Development Office of the Inspector General, the Defense Contract Audit Agency, the U.S. Army Audit Agency, and U.S. Army Corps of Engineers. The Army Auditor General will discuss the respective efforts of her office.

As the criminal investigative arm for the DoD IG, Defense Criminal Investigative Service, as part of a Department of Justice Task Force, is involved in the review of allegations regarding matters that have occurred in Iraq. Beginning in May 2003, DCIS provided two special agents to conduct criminal investigations in support of the Coalition Provisional Authority (CPA), in Baghdad, Iraq. This effort was increased to three special agents in November 2003, due to the magnitude of work, and remained at that level until the operation was terminated in November 2004. Investigative support to the CPA resulted in numerous recoveries and dismantling of criminal operations to include a multi-million dollar counterfeiting operation involving Iraqi Dinar, and the multiple seizures of weapons and explosive devices destined to be used against coalition forces.

Governance

Principled Governance Initiative / Support to the Iraqi Inspector General System.

The DoD OIG has worked hand-in-hand with U.S. and Iraqi officials to facilitate the establishment of a viable and credible Iraqi IG system. We have emphasized to the Iraqi government, through the Department of State, that IGs promote rule of law by exposing fraud, waste, abuse and mismanagement in government activities. In an emerging democracy like Iraq, the IG can have a profound affect on the ability of the government to form and operate under the rule of law.

Prior to the establishment of the SIGIR, at the request of the Ambassador Paul Bremer, the DoD IG Deputy Inspector General for Intelligence served as the first interim Inspector General for the Coalition Provision Authority (CPA). At the recommendation of the Department of Defense Inspector General, Ambassador L. Paul Bremer III, signed CPA Order #57 on February 10, 2004 establishing an Inspector General system in the Iraqi government modeled on the U.S. statutory Inspector General System. Before he turned authority over to the Iraqi Interim government on June 28, 2004, he appointed an Iraqi to head each ministerial IG office.

From the beginning, we have worked with the Department of State and SIGIR to define how the United States government can best support this element of the Iraqi anti-corruption system. We are working together to ensure the accomplishment of the following three objectives for the IG system:

1. Stability – the IG must promote the rule of law and complement the anti-corruption efforts of the Commission of Public Integrity (CPI) and the Board of Supreme Audit (BSA). We are working with other government players to define clearly the relationships among the three pillars of anti-corruption in Iraq: the IGs, CPI, and BSA.

2. Sustainability – the IG system must be supported by a permanent training mechanism for leadership, ethics, transparency, principles of democratic rule, as well as advanced auditing, inspections, and investigations. We are working with SIGIR, Department of State, and other agencies to help establish a permanent Iraqi training mechanism to train IGs, auditors, investigators, and the senior management of the Iraqi ministries.

3. Professionalism – Offices must be staffed with highly qualified and trained personnel, operating under standard procedures, and following published government/ministry standards for their operations. Currently, offices are undermanned, inadequately supported, and staff have received only basic, entry-level training as IGs. We have worked in concert with other government players to provide near-term training for inspectors general and their staffs while developing a concept for an Academy of Principled Governance to provide long-term quality and sustainability.

Iraqi officials agree that U.S. intervention in necessary. The Commissioner on Public Integrity and the 31 ministry IGs agree that they need a professional training mechanism that would teach and train not only IGs, but government officials.
On June 23, 2005, the Commissioner of Public Integrity wrote a letter to the Ambassador, stating that:

> ". . .fighting corruption and instilling a culture of ethics, transparency, and accountability are critical requirements for a democratic Iraq. [A training institute] would further our objectives by creating education, training, and capacity-building to personnel from CPI, the Board of Supreme Audit (BSA), the Inspectors General (IGs) in the ministries, other Iraqi government personnel and members of the public."

While there are differences on how best to establish this educational and training institution, there is agreement on its criticality. This educational institution would support the rule of law and transparency throughout the Iraqi government. Properly established, it can support the ministerial capacity-building effort now ongoing in Iraq.

To address the three objectives, DoD OIG has proposed a 5-step plan, called "the Principled Governance Initiative," which includes not only the Academy as described above, but also an assessment of Iraqi IG System, deployment of a handful of advisors to the 31 Iraqi Inspectors General, and a series of exchange visits to facilitate interpersonal

relationships, and communications. This initiative offers a mechanism to help the Iraqi IG system become self-sustaining.

In July 2005, as part of the exchange visit portion of the initiative, we invited Ms. Layla Jassim Al-Mukhtar, the IG for the Ministry of Defense, to the United States to speak to the collective U.S. IGs at their monthly meeting of the President's Council on Integrity and Efficiency. On behalf of her fellow IGs, she reiterated their interest in establishing a cooperative program between the U.S. and Iraqi Inspectors General.

In April 2005, after one year in operation, the Iraqi IGs conducted a self-assessment. They reported that they were manned at the 50% level and were vulnerable to rotating ministers. Despite these obstacles, they had handled 2500 complaints, conducted 1000 inspections, 650 investigations, and 600 audits.

We have deployed a senior IG advisor to Baghdad to aid the Ministry of Defense (MOD) IG set the standard for other IGs. We have formed a rear liaison cell in Washington, DC, to support the deployed advisor and allow him to focus on aiding and advising the MOD and the MOD IG regarding the effective operation of the IG office. Together the forward advisor and the rear cell address a myriad of activities related to both immediate and long-term support requirements, including detailed planning, arranging for inspections training to take place in Baghdad, coordinating joint visits with other IGs, and briefing interested stakeholders, both in Iraq and the United States. We

believe that by showing the way in the Ministry of Defense and by advocating the larger picture, we might encourage other U.S. IGs to reach out to their Iraqi counterparts.

We have enjoyed the support of SIGIR and State IGs, in encouraging officials in Iraq to work together in supporting the joint US-Iraqi fight against corruption. However, despite the combined efforts of SIGIR, State OIG, and DoD OIG, the sustainability of the IG system in Iraq is vulnerable. Without further investment on the part of the United States, it will be difficult to maintain an effective Iraqi IG system.

Security

Assessment of Iraqi Police Training

In October 2004, the Inspectors General of the Department of Defense and Department of State initiated an interagency project to fully examine the processes and organizational relationships associated with the training of the Iraqi Police Service (IPS). On July 15, 2005, we issued a joint report on the results of our Department of State / Department of Defense Inspectors General "Interagency Assessment of Iraq Police Training."

The Departments of Defense and State share oversight responsibilities for U.S. Government-funded training of the Iraqi police. National Security Presidential Directive-36 gives primacy to the DOD for directing all U.S. Government efforts along with coordination of international efforts in support of organizing, equipping, and training all

Iraqi security forces. Department of State was given the responsibility for providing policy guidance. Training of internal security forces, including a police or constabulary force, in a post-conflict environment has typically been a Department of State mission; however, owing to the security situation in Iraq, NSPD-36 gave this responsibility to the Department of Defense.

As of the publication of our report, the U.S. had spent approximately $110 million in constructing police training facilities in Iraq. For the training facility in Jordan an additional $89.5 million had been spent on construction as of February 2005 with another $15.9 million in pending construction costs. Operations and maintenance costs were not determined by our assessment team.

Our study of the training program was a snapshot in time taken in February and March 2005. Nevertheless, the snapshot revealed systemic issues that should be addressed in order to create a viable and self-sustaining Iraqi Police Service (IPS). These issues include:

- Although the IPS is not yet capable of single-handedly meeting the security challenges, Coalition programs are making progress as evidenced by the good performance of the police during the January elections, the increased visibility of police on the streets, and the polls indicating a growing public respect for and confidence in the police force.

- Despite recent improvements, too many recruits are marginally literate; some show up for training with criminal records or physical handicaps; and some recruits allegedly are infiltrating insurgents. Iraqi Ministry of Interior (MOI) and IPS officials contend that Iraqis are better suited to screen candidates than are Coalition military personnel.

- Most of the IPS training programs have been designed and executed by the Coalition with insufficient input from Iraqi leaders.

- The emphasis on numbers overshadows the attention that should be given to the qualitative performance of those trained.

- Iraqi officials agree that training of raw recruits should be suspended in favor of in-service training. In principle, U.S. police training officials agree that this shift will be reflected in the next training cycles. Plans need to be made now to revise curricula, decide on facilities utilization, and adjust instructor staffs.

- Unless and until the MOI takes full responsibility for the management and administration of the IPS program, the Coalition is predestined to fall short in helping to create an effective police force.

- Plans need to be drafted to transfer IPS training program responsibility to Department of State.

The report makes 30 formal recommendations, 23 of which assign lead responsibilities to the DOD (see Appendix 2). We suggest that most of these recommendations should be implemented by our military commands in Iraq. We have

noted significant progress in implementing many of the recommendations made in the report. We intend to conduct a follow up review of the Iraqi police training effort in the Spring of 2006. We are currently working with the State Department Inspector General, SIGIR, and the Special Assistant to the Secretaries of Defense and State for Iraq and Afghanistan to plan calendar year 2006 activities in support of both countries.

This concludes my statement and I would be happy to respond to any questions you may have.

APPENDIX 1

DoD IG Audit Reports related to the Global War on Terror
(2002-2005)

Issued Audit Reports

D-2005-095 DoD Patient Movement System (7/27/2005)

D-2005-045 Operations and Maintenance Funds for the FY 2004 Emergency Supplemental Appropriation Allocated to the Defense Logistics Agency (5/9/2005) (FOUO)

D-2005-053 Operations and Maintenance Funds for the FY 2004 Emergency Supplemental Appropriation Allocated to the Defense Information Systems Agency) (4/29/2005) (FOUO)

D-2005-024 Management of Navy Senior Enlisted Personnel Assignments in Support of Operation Iraqi Freedom (12/15/2004)

D-2004-090 Defense Hotline Allegations Concerning C-130 Aircraft Use in the U.S. Central Command Area of Responsibility (U) (06/17/04) (Classified)

D-2004-086 Management of Marine Corps Enlisted Personnel Assignments in Support of Operation Iraqi Freedom (06/16/04)

D-2004-082 DoD Installation Disaster Preparedness and Consequence Management in the U.S. European Command (U) (05/24/04) (Classified)

D-2004-062 Interagency Review of Foreign National Access to Export-Controlled Technology in the United States (04/19/04)

D-2004-061 Export-Controlled Technology at Contractor, University, and Federally Funded Research and Development Center Facilities (03/25/04)

D-2004-057 Contracts Awarded for the Coalition Provisional Authority by the Defense Contracting Command-Washington (03/18/04)

D-2004-050 Management Structure of the Cooperative Threat Reduction Program (02/05/04)

D-2004-045 Coalition Support Funds (U) (01/16/04) (Classified)

D-2004-039 Cooperative Threat Reduction Construction Projects (12/18/03)

D-2004-033 Terrorism Information Awareness Program (12/12/03)

D-2004-007 Force Protection in the Pacific Theater (U) (10/14/03) (Classified)

D-2004-003 Decontamination Operation Preparedness of Continental U.S.-Based Navy and Air Force Units (U) (10/0803) (Classified)

D-2003-131 Cooperative Threat Reduction Program: Solid Rocket Motor Disposition Facility (09/11/03)

D-2003-126 Interagency Summary Report on Security Controls Over Biological Agents (U) (08/27/03) (Classified)

D-2003-121 Evaluation of DoD Fire and Emergency Services Program (8/12/03)

D-2003-102 Office of the Secretary of Defense Disaster Preparedness (U) (06/17/03) (Classified)

D-2003-070 DoD Involvement in Export Enforcement Activities (03/28/03) (FOUO)

D-2003-069 Interagency Review of Federal Export Enforcement Efforts (04/1803) (FOUO)

D-2003-028 Summary Report on Homeland Defense, Chemical/Biological Defense (CBD), and Other Matters Related to Counter-Terrorist Military Operations (U) (11/25/02) (Classified)

D-2003-021 Export Controls Over Biological Agents (U) (11/12/02) (Classified)

D-2003-014 Facility-Specific Controls Over Biological Agents (U) (10/25/02) (Classified)

D-2003-012 Controls Over Biological Agents at Contractor Facilities (U) (10/21/02) (Classified)

D-2002-154 Cooperative Threat Reduction Program: Liquid Propellant Disposition Project (09/30/02)

D-2002-121 Security: Controls Over Biological Agents (U) (06/27/02) (Classified)

D-2002-102 Summary Report on Homeland Defense, Chemical/Biological Defense (CBD), and Counterterrorism (U) (06/11/02) (Classified)

D-2002-095 Chemical/Biological Defense (CBD) Individual Protective Equipment in CENTCOM and EUCOM Areas (U) (05/30/02) (Classified)

D-2002-087 DoD Medical Support to the Federal Response Plan (05/10/02)

Ongoing Audit Projects

Contracts Awarded to Assist the Global War on Terrorism by the U.S. Army Corps of Engineers (Project No. D2004CF-0186). The objective of this audit is to examine contract requirements, determinations, validation and award procedures for selected contracts and contract actions awarded by the U.S. Army Corps of Engineers in support of the Global War on Terrorism. It is now in its draft report phase.

Audit of Contract Surveillance for Service Contracts (Project No. D2004CF-0140). The overall objective is to determine whether the Government provides sufficient contract oversight for service contracts to ensure that contractors perform in accordance with the contract. Specifically, auditors are determining whether personnel have been appointed to monitor contractors' performance, contractors' work is adequately monitored, contractors perform in accordance with contractual obligations, and contractor performance has been properly documented for future use. It is now in its draft reports phase.

APPENDIX 2

Recommendations of the "Interagency Assessment of Iraq Police Training" (U.S. Department of State/U.S. Department of Defense, July 15, 2005)

Recommendation 1: Coalition authorities should plan and implement training focused on qualitative standards rather than on the numbers of trained IPs. This redefinition of objectives should be made explicit in a revised mission statement for CPATT. (Action: Multinational Force–Iraq (MNF-I) in coordination with Multinational Security Transition Command–Iraq (MNSTC-I) and Embassy Baghdad.)

Recommendation 2: Coalition and Mission Iraq officials should support and encourage efforts by the Iraqi Transitional Government (ITG) to strengthen MOI control over the IPS through re-centralization of administrative processes and development of relevant SOPs. (Action: MNSTC–I and Embassy Baghdad.)

Recommendation 3: A working group of qualified instructors, specifically to include Iraqi representation, should design a range of courses suitable to the training needs of in-service IPS personnel. Mutually established parameters for candidate selection should be integral to this process. Changes in curricula for IP training must be negotiated in advance with the MOI and be implemented only after Iraqi agreement to such changes. (Action: MNSTC–I in consultation with the Iraqi Ministry of Interior.)

Recommendation 4: Coalition authorities should pursue agreement with the MOI to incorporate the existing Emergency Response Unit, Bureau of Dignitary Protection, and provincial SWAT units into the Public Order Battalions, Special Police Commando Units, and Mechanized Brigades. (Action: MNSTC–I in coordination with Embassy Baghdad.)

Recommendation 5: Appropriate parties need to explore the merits, feasibility and conceivable sources of any U.S. Government funding to cover MOI salary shortfalls during the current fiscal year. This determination should take into account possible out-year implications for such support. (Action: MNF–I in consultation with MNSTC–I and Embassy Baghdad.)

Recommendation 6: A joint Coalition/MOI assessment should be conducted to determine operation and maintenance costs of Coalition-built and/or renovated training facilities and to determine how and whether those costs can be sustained. (Action: MNSTC–I in collaboration with Embassy Baghdad and in consultation with the MOI.)

Recommendation 7: Coalition and MOI leaders/trainers should identify a mutually agreeable target number or percentage of IPS trainees who demonstrate ambition and talent for subsequent leadership training. (Action: MNSTC–I in consultation with the MOI.)

Recommendation 8: A joint committee of Coalition and MOI officials should screen and select officers for advanced training based on mutually established qualification standards. (Action: MNSTC–I in conjunction with MOI.)

Recommendation 9: The Coalition recruiting program should be placed under the direction of the MOI, with MNC–I and CPATT providing assistance. (Action: MNF–I in consultation with MNC–I, MNSTC–I, and Embassy Baghdad.)

Recommendation 10: Coalition authorities should assess the extent and quality of Iraqi Ministry of Interior's records relevant to the vetting process, and then conclude a non-binding memorandum of agreement with the Ministry on access to and utilization of such material. (Action: MNSTC–I in coordination with Embassy Baghdad and consultation with the MOI.)

Recommendation 11: Coalition and Iraqi authorities should establish a non-binding agreement that states the MOI is responsible for vetting candidates for Coalition-sponsored police training. (Action: MNF–I in consultation with MNSTC–I and Embassy Baghdad and in collaboration with MOI.)

Recommendation 12: Coalition planners, in coordination with the MOI, should require that cadets first graduate from one of the police academies prior to entering Public Order Brigade (POB) or Emergency Response Unit (ERU) training. An in-service police training program should be developed for "currently serving" POB and ERU members who are not graduates of a police academy. (Action: MNSTC–I in coordination with the MOI.)

Recommendation 13: Contractual arrangements with expatriate instructors should specify that individually devised training courses will be submitted in advance for consideration and possible approval by MNSTC–I and CPATT. (Action: MNSTC–I.)

Recommendation 14: A non-binding agreement should be negotiated by the U.S. Government with the Iraqi Ministry of Interior that specifies that only applicants in possession of MOI-issued identification cards, explicitly stating that the bearer is a member of the IPS, will be accepted for training by the Coalition. (Action: MNSTC–I in coordination with Embassy Baghdad.)

Recommendation 15: Tables of Organization and Equipment should be developed for police stations and deployable police units throughout the country. (Action: MNSTC–I in coordination with MOI.)

Recommendation 16: Coalition authorities should establish internal controls to track transfer and accountability of equipment to the IPS. (Action: MNF–I in coordination with MNSTC–I and MNC–I and in consultation with MOI.)

Recommendation 17: Coalition resources, in close coordination with counterparts in the MOI and IPS, should develop an operational IPS Readiness Reporting System for the MOI. (Action: MNSTC–I in coordination with MOI.)

Recommendation 18: Coalition commanders should conduct a requirements analysis to determine the number of International Police Liaison Officers (IPLOs) who can be gainfully engaged under prevailing circumstances and adjust the number of these mentors accordingly. (MNSTC–I in consultation with Embassy Baghdad and INL.)

Recommendation 19: Standard operating procedures should be developed for the IPLOs, to define the relationships and responsibilities among the police liaison officers and military police. (Action: MNSTC–I in consultation with Embassy Baghdad and INL.)

Recommendation 20: The Department of State must keep Coalition governments apprised of developments at JIPTC, specifically those that relate to provision of training staff at that facility. (Action: Department of State's Bureau of Near Eastern Affairs in consultation with INL.)

Recommendation 21: The Department of State should decide whether and where an ILEA should be established in the Middle East. If Jordan is selected as a venue, negotiations for such a transformation of JIPTC should proceed quickly. (Action: Department of State's Bureau for Near Eastern Affairs in consultation with INL.)

Recommendation 22: Coalition commanders should obtain from the Iraqi Ministry of Interior a written commitment to assume responsibility for direct payment of the salaries of Iraqis trained by the Coalition at JIPTC. (Action: MNF–I in coordination with MNSTC–I and Embassy Baghdad and in consultation with MOI.)

Recommendation 23: Embassy Baghdad should work with the Iraqi Ministry of Interior to define areas in which Coalition advisors can play useful roles. (Action: Embassy Baghdad in collaboration with IRMO and MOI and in consultation with MNSTC–I.)

Recommendation 24: Top priority should be given to recruiting '3161' personnel qualified to fill positions as defined jointly by Embassy Baghdad and the Iraqi Ministry of Interior, then to assigning a full complement of such advisors to the Ministry of Interior. (Action: Embassy Baghdad through IRMO.)

Recommendation 25: Embassy Baghdad should obtain from the MOI a written commitment to assure Coalition authorities can access data relevant to tracking and mentoring IPS personnel trained in U.S. Government-funded programs. (Action: Embassy Baghdad in consultation with MNSTC–I.)

Recommendation 26: Coalition and MOI officials should develop standard operating procedures for personnel administration of the Iraqi Police Service. (Action: MNSTC–I in coordination with Embassy Baghdad.)

Recommendation 27: The Department of State should assign one or more INL officers to work directly within CPATT to ensure INL perspectives are considered in the development of the IPS. (Action: Department of State in coordination with Embassy Baghdad and MNSTC–I.)

Recommendation 28: MNSTC–I should perform an assessment of security and IPS infrastructure development by province to identify opportunities where additional responsibility for IPS training can be transferred to Provincial Police. (Action: MNSTC–I in consultation with the MOI.)

Recommendation 29: The Department of State should propose that the National Security Council establish an inter-agency working group with representatives from the Departments of State, Defense, and Justice. The working group should identify issues to be addressed for the transfer of police training responsibilities from DoD to DoS. (Action: Department of State, Bureau of Near Eastern Affairs, in consultation with Embassy Baghdad, MNF–I, MNSTC–I, and INL.)

Recommendation 30: The Departments of State and Defense, in consultation with the Office of Management and Budget (OMB), should prepare a memorandum of agreement (MOA) to define funding arrangements for future U.S. involvement in Iraqi Police Service-related programs. (Action: Department of State's Bureau of Resource Management (RM) and Department of Defense's Office of the Under Secretary for Policy in consultation with OMB.)

Mr. SHAYS. Mr. Farinella.

STATEMENT OF JOSEPH FARINELLA

Mr. FARINELLA. Mr. Chairman, subcommittee members, thank you for the opportunity to discuss my office's program to review USAID operations in Iraq. I will focus on IG oversight relating to reconstruction and governance since those are the areas you say it is involved in.

Our Baghdad office performs audits and investigations of USAID activities in Iraq. We also use the Defense Contract Audit Agency to conduct financial audits of Iraq activities whose reports we then issue to USAID with recommendations for corrective action. We also provide fraud awareness training to USAID and its contractors.

We have conducted 19 investigations involving Iraq activities. The two open cases currently ongoing involve allegations that USAID contractors either submitted fraudulent costs associated with their work in Iraq or solicited kickbacks in exchange for awarding subcontracts. The closed investigations included similar allegations, as well as employee integrity issues.

On the audit side, we have issued 26 performance audits and 65 financial audits. While security concerns have often prevented us from performing as many site visits as we would normally like to, we have been able to perform alternate tests to accomplish our audit objectives. I will now discuss some of the audits and recommendations we have made in the area of reconstruction.

Our March 2004 education audit found that for eight reported results, six were actually underreported. For example, number of textbooks printed and primary teacher kits delivered were underreported. However, the number of schools rehabilitated was overreported. While USAID reported that 1,500 schools had been rehabilitated, we were able to verify that only 1,356 were.

Consequently, we recommended improvements in how USAID reports its results.

Our May 2004, summary audit report on the contract award process found that USAID generally complied with Federal regulations in awarding contracts using other than full and open competition. However, we recommended improvements in documenting that process.

Our June 2004, infrastructure audit found that 64 of 72 projects were on schedule. For example, a bridge bypass, satellite and telecommunication projects and a sewage treatment plant. For the eight projects behind schedule, USAID was taking steps to resolve performance problems; and we also made recommendations to improve project management.

Our June 2005, electrical power sector audit found that 15 of 22 projects we selected for review were achieving intended outputs. However, the remaining projects were not. Reasons included open hostilities, deteriorating security and a lack of host government cooperation. We recommended steps to insure that newly furbished infrastructure is properly maintained and operated after being turned over to the Iraqis.

Last, our June 2005, water and sanitation audit found that 30 of 34 projects were achieving intended outputs. However, four

projects were not achieving intended outputs primarily due to ownership issues and security concerns.

We see two major challenges regarding future reconstruction efforts. The first, lack of security, is endemic and largely outside of USAID's control. The second challenge, and one that USAID can do something about, is to help insure sustainability. However, the problems involved in doing so are numerous and complex. Our power sector audit, for example, recommended that USAID needs to develop a multi-year strategy to strengthen the Iraqi Ministry of Electricity's capacity to insure the proper operation and maintenance of a rebuilt power sector. This strategy should address adhering to prescribed maintenance and operational systems, developing plant level accountability, maintaining inventory systems and developing a rational fuel strategy.

To date, two of our audits have addressed, at least in part, USAID governance activities, which I will now briefly discuss.

Our September 2004, audit of USAID's Economic Reform Program determined that only 10 of 38 planned activities had been completed, and another 6 had been canceled. Completed activities included drafting commercial laws and establishing a government-wide information technology strategy, but the security situation was a major factor regarding activities not completed as it impacted on contractor implementation, USAID monitoring, and also increased security costs. To help USAID monitoring, we recommended improvements in records management and contractor reporting.

Our January 2005, Community Action Program audit found that 98 percent of intended outputs were achieved, including citizen participation in its own governance and the generation of local employment. We did, however, make one recommendation to improve USAID's data-gathering process.

Future challenges in the areas of governance did not differ significantly from those in reconstruction. Continuing its work with local community organization and all levels of the Iraqi government will depend on the support USAID and its implementers receive from their Iraqi counterparts as well as the security situation on the ground. We will continue oversight of USAID Iraq activities with our staff in Iraq, including the areas of reconstruction and governance.

Thank you for the opportunity to testify. I would be happy to respond to any questions you may have at the appropriate time.

Mr. SHAYS. Thank you.

[The prepared statement of Mr. Farinella follows:]

OFFICE OF INSPECTOR GENERAL

Testimony of Joseph Farinella, Acting Assistant Inspector General for Audit
U.S. Agency for International Development

Submitted to the Committee on Government Reform
Subcommittee on National Security, Emerging Threats, and International Relations
U.S. House of Representatives

Iraq: Perceptions, Realities and Cost to Complete

October 18, 2005

Mr. Chairman, Committee members:

Thank you for the opportunity to provide testimony on my office's program to review USAID operations in Iraq. My testimony will focus on Office of Inspector General (OIG) oversight relating to reconstruction and governance. My testimony will not focus on security since USAID does not work in that area. However, I will mention the impact of security on our work.

The USAID OIG's regional office in Baghdad performs audits and investigations of USAID activities in Iraq. Our Washington headquarters

staff also provides support to our audits and investigations of USAID's Iraq activities.

Our Baghdad office consists of 7 U.S. Direct hire auditors, one investigator and one local administrative support person. We conduct performance audits and investigations with our direct hire staff and use the services of the Defense Contract Audit Agency (DCAA) to conduct financial audits of USAID activities. We then issue the DCAA audits to USAID with OIG recommendations for corrective action. In addition to our audit and investigation services, we are providing fraud awareness training to USAID staff and its contractors on a regular basis. This training helps those implementing our programs to more easily recognize indications of fraud and to know what to do if they suspect illegal behavior.

Andrew Natsios, USAID's Administrator, is very supportive of OIG's field presence in Iraq and we appreciate the time and attention USAID's Senior Management pays to our work. We continue to work with USAID to help ensure that its programs are managed efficiently and effectively to yield results; and that taxpayer funds are well spent.

In Iraq, USAID has obligated about $2.5 billion for reconstruction activities and about $750 million for governance.

As of September 30, 2005, we have closed 17 investigations and have 2 open cases involving Iraq activities. The open cases involve allegations that USAID contractors either submitted false or fraudulent costs associated with their work in Iraq or solicited kickbacks in exchange for awarding subcontracts. The closed investigations included similar allegations as well as employee integrity issues. These investigations resulted in administrative actions being taken by either USAID and/or its contractors.

On the audit side, we have issued 26 performance audits and reviews on USAID activities in Iraq. In addition, we have issued 65 financial audits conducted by DCAA. Much of this work relates to reconstruction in some form or another—everything from reviews to determine if USAID followed applicable laws and regulations in awarding reconstruction contracts to audits of whether USAID achieved intended outputs in reconstructing schools, electrical, water and sanitation facilities.

While security concerns have often prevented us from performing as many site visits as we would normally prefer, we have been able to visit project reconstruction sites in the course of our audits. When we have not been able to travel due to security, we have performed alternate tests to accomplish our audit objectives including increasing our document review and testing of program and financial related material. We also utilize

photos, reports, and conduct interviews with U.S. Army Corp of Engineers and others who visit and often live at project sites. We obtain and review photos and reports, including site visit reports of subcontractors, contractors, and USAID staff. We have also obtained written statements from recipients, including local government officials, confirming that they have received and accepted finished projects and goods. In some cases, results do not require site visits. For example, if the planned result is the development of an information system or policy, we verify that the result is achieved by reviewing the policy or information system and documentation to determine if what was planned was actually completed.

I will now discuss some of the audits and recommendations we have made in the areas of contracting, education, infrastructure, electrical power, and water and sanitation.

Our May 2004 summary audit report on the contract award process found that USAID generally complied with federal regulations in the awarding of contracts using other than full and open competition. However, we recommended improvements in documenting the award process and preparing illustrative budgets and cost proposals so that bidders could be more readily compared.

Our March 2004 education audit found that for eight reported results we reviewed, six were under-reported. Thus, in fact, more was accomplished than USAID had reported. For example, numbers of textbooks printed and primary teacher kits delivered were under-reported. However, the number of schools rehabilitated was over-reported: specifically, while USAID had reported that 1500 schools had been rehabilitated, we were able to verify that only 1356 schools (a difference of about 10 percent) had been. We recommended that USAID develop verification procedures to improve the accuracy of the results it reports.

Our June 2004 infrastructure audit found that 64 of the 72 (89 percent) infrastructure projects we reviewed were on schedule to achieve planned outputs at that time, such as a dredging project, a bridge bypass, satellite and wireless telecommunications projects, a water pumping station and a sewage treatment plant. For the eight activities that were behind schedule, we found that USAID was taking steps to resolve performance problems. We did, however, make four recommendations to improve project management, such as ensuring that environmental reviews were conducted and that specific job orders were prepared.

Our June 2005 Electrical Power Sector audit found that 15 of 22 (68 percent) power sector projects were achieving intended outputs. The

remaining projects were not. For example, a $381 million project to develop a new power generating facility using natural gas was cancelled and funds reprogrammed into other areas. The underlying reasons behind delays and cancellations included open hostilities, deteriorating security, and a lack of host government cooperation. We recommended that steps be taken to ensure that newly refurbished infrastructure is properly operated and maintained after being turned over to the Iraqis.

Lastly, our June 2005 Water and Sanitation audit found that 30 of 34 (88 percent) water and sanitation projects were achieving intended outputs. For example, the Sweet Water Canal project in Basrah, Iraq has improved the quality of the water being delivered to about 1.8 million Iraqis. However, four projects were not achieving intended outputs primarily due to ownership issues and security concerns. As in the Power Sector audit, we found barriers to capacity-building, including a lack of skilled local personnel. Nevertheless, for water and sanitation projects, USAID was taking steps to address this with additional operational and maintenance support and training.

We see two major challenges regarding USAID's future reconstruction efforts. The first—lack of security—is endemic and largely outside of USAID's control. The second challenge—and one USAID can do

something about—is to help ensure sustainability. The problems involved in doing so are numerous and complex. Our Power Sector audit recommended that USAID needs to develop a multi-year strategy to strengthen the Iraqi Ministry of Electricity's capacity to ensure the proper operation and maintenance of a rebuilt power sector. This strategy should address adhering to prescribed maintenance and operational systems, developing plant-level accountability, maintaining inventory systems, and developing a rational fuel strategy.

Our continuing oversight of USAID infrastructure activities includes an audit of USAID's Telecommunications Activities in fiscal year 2006. We are also conducting additional audit work on USAID's basic education activities which we will report on before the end of this calendar year. This audit is examining progress toward the achievement of outputs such as rehabilitating schools, capacity building within the Iraqi Ministry of Education and teacher training.

To date, two of our audits have addressed, at least in part, USAID governance activities.

First, our September 2004 audit of USAID's Economic Reform Program determined that only 10 of the 38 planned activities had been completed—and another 6 were cancelled. Completed activities included

drafting 12 commercial laws, developing an intergovernmental policy framework, and establishing a government-wide information technology strategy. Regarding activities not completed, the contractors' ability to implement them and USAID's ability to monitor were severely restricted due to hostilities in Iraq. Security costs were also much higher than anticipated, rising from $894,000 in the contractor's original proposal to a later estimate of $37 million, which represented 49 percent of total contract costs. In turn, these conditions and increased costs led to the cancellation of some activities and delays in others. To improve monitoring, we recommended that USAID improve record management procedures and contractor reporting requirements.

Second, our January 2005 Community Action Program audit found that 98 percent of intended outputs were achieved, including citizen participation in their own governance, inter-community cooperation, local government cooperation, generation of local employment, and consideration of environmental issues. We did, however, make one recommendation for USAID to develop and implement a plan of action to improve the reliability of the data it collects on each project, such as the number of beneficiaries reached.

Future challenges in the area of governance do not differ significantly from those encountered by USAID in any other field. Continuing its work with local community organizations and all levels of the Iraqi government will depend on the support USAID and it implementers receive from their Iraqi counterparts as well as the security situation on the ground.

We plan to continue OIG oversight of programs in this area and have included an audit of USAID's Local Governance activities in our fiscal year 2006 audit plan to determine if the program is achieving objectives to (1) provide technical and other assistance to strengthen local entities and (2) establish and strengthen the legal framework for a coordinated democratic local governance system.

Again, thank you for the opportunity to testify today. All of the audit reports that I have mentioned are available for viewing on our website. I am happy to respond to any questions you may have.

Mr. SHAYS. Ms. Morrow.

STATEMENT OF JOYCE MORROW

Ms. MORROW. Mr. Chairman and distinguished members of the subcommittee——

Mr. SHAYS. Move the mic a little closer. We are hearing you pretty well, but just move it a little closer. No, closer than that.

Ms. MORROW. Closer.

Mr. SHAYS. Yes.

Ms. MORROW. Thank you for the opportunity to appear before you today to describe our work in support of the Army's role in reconstruction of Iraq.

As the Army's Auditor General, I am responsible for the worldwide operations of the U.S. Army Audit Agency. We support the Army's total force of quality soldiers and civilians by providing objective and independent auditing services that help Army leaders make informed decisions, resolve issues, use resources effectively and efficiently and satisfy statutory and fiduciary responsibilities.

Army Audit is a member of the Iraq Inspector General Council. We coordinate with other audit inspection organizations to share information and to avoid duplication of effort. We currently have 13 add auditors in Iraq and 5 in Kuwait.

Our work supporting the Army's mission in Iraq has focused on the concerns of Army leadership and includes four areas which I will briefly summarize.

The first area is program management and fund accountability in support of Iraq reconstruction. Working primarily through the Project and Contracting Office, which I will prefer to as the PCO, the Army provides acquisition program management and financial management support for most of the $18.4 billion Iraq Relief and Reconstruction Fund that Congress appropriated during fiscal year 2004.

Several audit organizations reported high-risk areas related to program management and contracting in Iraq. In July 2004, we started an audit to determine whether the PCO had controls and sound business processes in place to mitigate previously identified high-risk areas. We found that the PCO had put many controls in place to mitigate risk. However, additional actions were needed to strengthen controls and to increase assurance that the Army was executing the funds in the best possible manner.

We issued our final report on this audit in May 2005. The PCO said it had taken or would take corrective actions based on our recommendations.

Likewise, our ongoing work on fund accountability is focused on making sure the Army and PCO have effective controls and processes in place to properly account for the fiscal year 2004 Iraq Relief and Reconstruction funds that DOD activities execute. We are currently staffing our tentative conclusions and recommendations with Army leadership.

A second area I will discuss is audit work we have done for the Multi-National Security Transition Command—Iraq. We have completed two audits and have a third ongoing related to funds totaling about $280 million it received under the Commanders' Emergency Response Program and Quick Response Fund.

Our first audit covered fiscal year 2004 transactions. We found that the Security Transition Command administered funds according to applicable guidance and program intent but needed to better document transactions and approvals.

During our second audit, we looked at fiscal year 2005 transactions processed from October 2004, through April 2005, and followed up on recommendations in our first report. We confirmed that command's corrective actions had fixed the conditions we had previously identified. We also identified several additional actions command needed to take to gain oversight over funded programs to better track the status of military interdepartmental purchase requests and to reconcile cash overage. Again, command was very responsive to our recommendations and said it had taken or would take corrective action.

We are now reviewing fiscal year 2005 transactions processed from May through September 2005, and are following up on the recommendations in our last report.

A third area we looked at was accountability over vested and seized assets. We found that the Army properly secured and accounted for seized assets and metal bars. However, the Coalition Provisional Authority and Coalition forces didn't adequately control and protect the majority of noncash, seized assets; and adequate audit trails didn't exist to support the on-hand balances in the vested and seized asset accounts. The Army took immediate action on our recommendations to improve controls.

The fourth area we are working is the Logistics Civil Augmentation Program [LOGCAP]. Our work, which is ongoing in Iraq and Kuwait, is focusing on contractor logistics support services to Coalition forces in support of Operation Iraqi Freedom. Since 2003, Army estimated costs under this contract are about $22.7 billion.

We are working with the affected commands and DOD agencies and the prime contractor to improve program management, contract administration and management of functional areas such as food service operations, supply distribution and vehicles used by the contractor. We will issue a series of reports on this program.

I appreciate the opportunity to testify before you today, and will be glad to respond to your questions.

Mr. SHAYS. Thank you.

[The prepared statement of Ms. Morrow follows:]

UNCLASSIFIED

STATEMENT BY MS. JOYCE E. MORROW

AUDITOR GENERAL OF THE ARMY

BEFORE THE

HOUSE GOVERNMENT REFORM COMMITTEE

**SUBCOMMITTEE ON NATIONAL SECURITY,
EMERGING THREATS, AND INTERNATIONAL RELATIONS**

FIRST SESSION, 109TH CONGRESS

**Tuesday, October 18, 2005
Washington, DC**

Mr. Chairman, Ranking Member Kucinich, and distinguished Members of the Subcommittee: Thank you for the opportunity to appear before you today to describe our work in support of the U.S. Army's role in the reconstruction of Iraq.

Background of the U.S. Army Audit Agency

As the Army's Auditor General, I am responsible for the worldwide operations of U.S. Army Audit Agency. I report directly to the Secretary of the Army and I am responsive to the Army's Chief of Staff. Army Audit was established on November 12, 1946 as the Army's internal audit organization. We support the Army's total force of quality Soldiers and civilians by providing objective and independent auditing services that help Army leaders make informed decisions, resolve issues, use resources effectively and efficiently, and satisfy statutory and fiduciary responsibilities.

Army Audit is a member of the Iraq Inspector General Council, which includes representatives from the Special Inspector General for Iraq Reconstruction (SIGIR), DOD Inspector General, State Department, U.S. Agency for International Development, and Government Accountability Office. We coordinate with these activities to make sure we do not duplicate efforts, and we provide information on the status of our audits related to operations in Iraq for SIGIR's quarterly report to Congress. We currently have 13 auditors in Iraq and 5 in Kuwait. In recent years our auditors have deployed alongside our Soldiers in support of operations in Bosnia, Kosovo, Macedonia, Uzbekistan, and Turkey, and we will continue to provide the same level of support to our troops in the future.

Our work supporting the Army's mission in Iraq has focused on the concerns of Army leadership and includes these four areas, which I will outline:

- Program Management and Fund Accountability in Support of Iraq Reconstruction.
- Commanders' Emergency Response Program (CERP) and Quick Response Fund (QRF) for the Multi-National Security Transition Command - Iraq.
- Accountability Over Vested and Seized Assets.
- Logistics Civil Augmentation Program.

Program Management and Fund Accountability in Support of Iraq Reconstruction

Our work has been focused primarily on the functions associated with the Project and Contracting Office (PCO) as the Army provides acquisition, program management, and financial management support for most of the $18.4 billion Iraq Relief and Reconstruction Fund (IRRF) that Congress appropriated during FY 04.

Several audit organizations reported high-risk areas related to program management and contracting for Iraq. Consequently, we looked at how well the Army was carrying out its responsibilities in support of Iraq reconstruction. Our overall objective was to determine whether the Army and PCO had controls and sound business processes in place to mitigate previously identified high-risk areas.

We found that they did. For example, the PCO and U.S. Army Corps of Engineers were awarding task orders within the scope and performance period of existing contracts. The PCO also established controls for monitoring and measuring obligations, and for definitizing contracts in a timely manner.

However, the PCO still needed to strengthen controls and increase assurance that the Army was executing the FY 04 IRRF in the best possible manner. We recommended that the PCO:

- Account for all DOD activities and measure the progress of the program.
- Develop metrics to identify projects encountering cost and schedule variances.
- Monitor slippages in definitization schedules and coordinate with program managers to identify available remedies.
- Reduce the risk associated with contractors performing inherently governmental functions, resolve real or perceived conflicts of interests with contractors overseeing contractors, and administer award fee plans.

Factors contributing to these conditions included difficulty in filling required positions in Baghdad, the limited experience of personnel, and high turnover caused by the frequent rotations. The PCO agreed and said it had taken or would take corrective actions based on our recommendations.

Our ongoing work on fund accountability is focused on making sure the Army and PCO have effective controls and sound business processes in place to properly account for that portion of the $18.4 billion in FY 04 IRRF that DOD activities execute. We are specifically looking at whether the PCO is making sure:

- Commitments, obligations, and disbursements are accurately recorded.
- Operating and program costs are properly allocated and recorded.

Commanders' Emergency Response Program (CERP) and Quick Response Fund (QRF)

Our audit work covers FY 04 and FY 05 transactions related to Multi-National Security Transition Command - Iraq. For the 2-year period ended 30 September 2005, Department of Army distributed to Security Transition Command about

$45 million for CERP and about $235 million for QRF. Our objectives are to answer these questions:

- Were funds for the two programs received, accounted for, and reported according to applicable laws and regulations?
- Were disbursements consistent with the intent of the charter or implementing guidance?

For FY 04 transactions, Security Transition Command administered funds according to applicable guidance, and disbursements were consistent with the charter and implementing guidance. Command properly:

- Showed receipt of funding from Multi-National Corps – Iraq and used the funding for projects authorized by appropriation type.
- Maintained an audit trail that showed accountability over funding and transferred funding to other commands for authorized projects.
- Reported how it used funds to Multi-National Corps - Iraq.
- Documented the receipt of goods and services according to contract specifications.
- Disbursed funds to contractors for authorized projects in the correct amount and forwarded supporting documents, such as the contract, invoice, and receiving report, to the finance office.

However, Security Transition Command needed to better document coordination with local Iraqi government, civil affairs, and reconstruction teams; cost estimates; statements of work; and requirement requests. Command also needed to make sure designated officials signed purchase requests for CERP projects before executing commitments.

For FY 05 transactions processed from 1 October 2004 through 30 April 2005, Security Transition Command received, accounted for, and reported funds

according to applicable laws, regulations, and guidance. We believe that CERP and QRF projects met the intent of program guidance. Command implemented the recommendations in our prior report, and the corrective actions fixed the conditions we identified. But command needed to:

- Track QRF projects to assess their reasonableness and better track the status of military interdepartmental purchase requests.
- Gain oversight over funded programs. Without this oversight, projects that were no longer valid remained listed as active, tying up resources that could be directed to other projects.
- Reconcile a cash overage in the Development Fund for Iraq – Commanders' Emergency Response Program. When the disbursing official for the Development Fund turned in cash and payment vouchers, supporting documents showed a cash overage of $553,202. Because command did not reconcile the records, there was a risk that funds could be mishandled. (In response to our recommendation, command personnel performed a detailed reconciliation and identified a cash shortage of $97,518. Command turned over the results of its reconciliation to SIGIR, and it is pursuing the issue.)

Security Transition Command agreed with our recommendations and said it had taken or would take corrective actions.

We are now answering the same questions for FY 05 transactions processed from 1 May through 30 September 2005. We will also follow up on the recommendations in our last report to determine whether command implemented them and our recommended actions fixed the problems.

Accountability Over Vested and Seized Assets

We focused our effort on determining whether established procedures, controls, and audit trails were in place and operating to effectively secure and account for vested and seized assets in support of Operation Iraqi Freedom.

The Army properly secured and accounted for seized cash and metal bars. Army and Coalition Forces seized about $927 million in cash and 3,350 metal bars belonging to the former Iraqi regime and properly accounted for and safeguarded the assets.

However, the Coalition Provisional Authority (CPA) and Coalition Forces did not adequately control the majority of noncash, seized assets. Some noncash assets were unaccounted for and unprotected. Also, adequate audit trails did not exist to support the onhand balance in the vested and seized asset accounts. Extenuating circumstances may have limited the CPA's and Army's ability to implement the DOD guidance on vested and seized assets. These circumstances included significant hostilities, personnel turnover, and the absence of procedures for administering, accounting for, and using vested and seized Iraqi property until after hostilities began and Forces started seizing assets. The Army took immediate action on our recommendations to improve controls over vested and seized assets.

Logistics Civil Augmentation Program (LOGCAP)

Our work, which began in Iraq and Kuwait in May 2005, is focusing on contractor logistics support services to Coalition Forces in support of Operation Iraqi Freedom. Since 2003 Army-estimated costs under this contract are about $22.7 billion. We are answering these questions:

- Are services acquired under the LOGCAP contract reasonable and cost-effective solutions for satisfying force requirements?

- Are adequate management structures in place to plan, acquire, and manage services obtained under the LOGCAP contract?
- Is contract administration over LOGCAP work in Iraq adequate?
- Are adequate management controls in place over LOGCAP operations in Iraq, especially those areas highly susceptible to fraud, waste, and abuse?
- Do higher levels of management have enough information to provide sufficient oversight over LOGCAP operations in Iraq?

We are working with the affected commands, DOD agencies, and the prime contractor to improve program management, contract administration, and management of functional areas (such as food service operations, supply distribution, and vehicles used by the contractor). We will issue a series of reports on this program.

Conclusion

In conclusion, my Agency continues its tradition of serving the American Soldier and responding to the concerns of Army leadership by providing professional auditing services that offer workable solutions to the Army's challenges.
I appreciate the opportunity to testify before you today and will be glad to respond to your questions.

Mr. SHAYS. Let me give you a sense of what the Chair's intent is. We have primarily Democratic Members, and I am going to go right down the list. We will have 10-minute times, not 5, even though we have a large number of members, because it's the belief of this subcommittee that you really start to learn more if you can pursue the question. In order, I have Mr. Waxman and Mr. Kucinich, Mr. Lynch, Mr. Higgins and Mr. Van Hollen.

I am going to say to those of you responding to questions, Members will state fact, what they believe to be fact and opinion. I particularly would like to make sure, if a fact is stated that is incorrect, that you correct the record. If I say 20 million was this and it was 18.5, then I want that record corrected. If it's not, we will make an assumption you agree with the statement.

Obviously, if it's an opinion about money being misused or not, that is an opinion, you can decide to weigh in on that or not. But one fact we would like to particularly make sure our information is accurate. I would just say that in a number of cases you told us what you were working on, not necessarily your findings, and we appreciate that you were working on these issues, but we want to kind of get at your findings.

I would say to all of you, bureaucracies work more efficiently when someone is looking over their shoulder, and we know you were working, looking over their shoulder. You will have found things that you didn't like, but I am assured that, had you not been looking, there would have been worse things taking place. So we thank you for what you prevented from happening, as well as those things that you have uncovered that need to be improved.

So, with that, Mr. Waxman, you have the floor for 10 minutes.

Mr. WAXMAN. Thank you very much, Mr. Chairman.

The idea of reconstructing Iraq was so that we could provide some stability in that country so that there could be some security and that people could move toward democracy and become a model for the Middle East. I just want to mention that context. So we have committed billions of dollars to this effort, billions of dollars from the taxpayers of the United States for this effort. I want to ask some questions to evaluate what we have achieved, especially in light of the goals that we are set out by the administration.

The administration had an objective in the beginning, in one area that I want to first pursue, to restore the oil production in Iraq to prewar levels. There wasn't a lot of damage because of the war itself on the Iraqi oil fields, but there was a lot of damage because of looting after the overthrow of Saddam Hussein.

Mr. Bowen, has the administration fulfilled its promise of restoring oil production to prewar levels in Iraq to what it was under Saddam Hussein?

Mr. BOWEN. We have not——

Mr. WAXMAN. Your mic is not on.

Mr. BOWEN. We have not reached the goals that we originally set, but I think there are several reasons for that, if I may. First of all——

Mr. WAXMAN. Well, before you go through the reasons, I want to know whether we have achieved the goal. The goal was to restore oil production to prewar levels. Has that been achieved?

Mr. BOWEN. We are not there yet.

Mr. WAXMAN. OK. In fact, Iraq produced in March 2003, 2.6 million barrels of oil per day. By August 1, 2005, production levels were below 2.4 million barrels of oil per day. Is that accurate?

Mr. BOWEN. I can't testify to the accuracy, but I have seen similar figures.

Mr. WAXMAN. Mr. Christoff, GAO also looked at this issue. Did you also reach the same conclusion?

Mr. CHRISTOFF. Yes, we have not reached the prewar levels for oil production.

Mr. WAXMAN. In the electricity sector, the administration said it would increase peak electricity output to at least 6,000 megawatts, and it spent over $4 billion in an attempt to meet this objective.

Mr. Christoff, GAO looked at this sector, too. Has the electricity reconstruction achieved the objectives that Congress was promised in 2003?

Mr. CHRISTOFF. Let me just use a statistic that I think is helpful. The goal was to achieve about 110,000 megawatt hours of additional capacity. We briefly achieved that for a couple of weeks over the past summer but only after we lowered the goal in May from 120,000. We haven't reached it yet.

Mr. WAXMAN. Mr. Bowen, do you agree with that conclusion?

Mr. BOWEN. I have seen similar figures, but I can't testify to the accuracy of the numbers.

Mr. SHAYS. Mr. Bowen, your mic is not working well. Just pull it closer to you. If you are not reading a statement, you can do that.

Mr. BOWEN. As I said, I can't testify to the accuracy of Mr. Christoff's numbers, but the general principle, yes, I agree with.

Mr. WAXMAN. So, what we tried, there are reasons for it, but we tried to reach a level of electricity. Even when we reached that level of electricity for a while, weren't there interruptions in service, Mr. Christoff?

Mr. CHRISTOFF. Well, there were standard interruptions of service because of insurgent attacks but also because there is certain maintenance downtimes that have to occur naturally with electrical power plants.

Mr. WAXMAN. In the water sector, the administration said it would make sure that 90 percent of Iraqis had access to drinkable water, and to meet this objective it spent over $1 billion. Mr. Bowen, has the administration achieved this objective?

Mr. BOWEN. Well, we have looked at more precise issues, for instance, several water treatment plants in the Baghdad vicinity as well as water transfer plants. Our focus has been on inspecting the efficacy of the construction at those plants, and it's been a mixed bag. In some cases, those construction efforts have been productive and effective and in others they have been subpar.

Mr. WAXMAN. Embassy officials told our staff in August that only about 66 percent of Iraqis have access to potable water. That is hardly better than the 60 percent of Iraqis who had potable water before the war. Mr. Christoff, GAO tried to audit the water reconstruction. You asked the administration if it could document how many Iraqis were now receiving clean drinking water as a result of the reconstruction efforts. Can you tell us whether the administration was able to achieve its goal?

Mr. CHRISTOFF. We had asked the State Department to try to give us a better accounting of the number of projects and where they were located within the water sector, and they were not able to provide that detail.

Let me make a comment about water. I think one of the challenges in the water sector is that we don't really have good measures, outcome measurements to begin with. We can generate a lot of good, clean water at these facilities that we are rebuilding, but by the time it reaches the Iraqi household with enormous leakage, as well as the contamination, because sewage pipes are right next to the water pipes, we really don't have a good indication of how many people actually receive potable water.

Mr. WAXMAN. Mr. Bowen, your team went out to a few of these water project sites. They found serious problems with three of the four projects that were examined. Can you describe some of the problems you found?

Mr. BOWEN. Yes. Let me begin with a global comment about the water sector as well. The water sector in the original allocation was assigned just over $4 billion in reconstruction funds. After several reprogramings, which began over a year ago, the transfer of money from water security amounted to about $3 billion. They were reduced to about $1.2 billion, so almost a three-quarters cut. So if you want to talk about a reconstruction gap, we probably should evidently look at water first, because it was substantially cut.

One of the consequences of the lack of cost to complete, related to the reconstruction gap, is the tendency to descope projects. When funds begin to run short, then in order to reach completion the original outcome of the project is descoped, and that occurred with respect to the three water projects you are referring to that we went out and inspected.

The water transfer facilities did not have completed pipelines, and they were inadequate water treatment container facilities as well. There were walls that were incomplete or failing; and so, fundamentally, there were engineering and structural deficiencies that led us to reach our negative conclusions about those particular projects.

Mr. WAXMAN. Thank you. I want to go into some of the reasons for failure to meet these objectives. But does anybody on the panel disagree with the premise that we failed to meet the administration's stated objectives in the oil, the electricity and the water sectors? Does anybody disagree with the statements that have been made that we failed to achieve the objectives?

Mr. CHRISTOFF. I would like to just put it in context somewhat. I think these output goals in terms of increasing electricity and oil, we haven't met them. That is true.

Our reconstruction dollars were never intended to deal with all the problems within Iraq. They were intended as being the first important thrust to try to rebuild the infrastructure with the anticipation that the international community, donors would kick in, and Iraqis would have the capacity to also contribute to their reconstruction needs.

Mr. BOWEN. If I might followup——

Mr. WAXMAN. The goals I took were from the documents that the administration set out and told Congress they were going to achieve.

Mr. CHRISTOFF. Right.

Mr. WAXMAN. Now, obviously, one of the reasons is security.

Mr. CHRISTOFF. Absolutely.

Mr. WAXMAN. Because of the insurgency, we have had to redirect money for security purposes.

But I would like to ask whether there's another major factor that is often overlooked, and that is the administration's flawed contracting strategy. Instead of maximizing competition, the administration opted to award no-bid cost-plus contracts. Halliburton's Restore Iraqi Oil contract is the prime example. Under this no-bid cost-plus contract, Halliburton was reimbursed for its costs and then received an additional fee which was a percentage of its costs. This created an incentive for Halliburton to run up its costs in order to increase its potential profit.

Mr. Bowen, do you think it made sense to award no-bid cost-plus contracts with literally billions of dollars to rebuild Iraq?

Mr. BOWEN. For the security reasons that were at stake in December 2002, January 2003, as the war was being planned, I think that there had to be contingency contracting undertaken in a classified environment.

Because the companies worldwide that are capable of addressing the kinds of problems that were expected, namely those that we saw in the first Gulf war, I think that Kellogg, Brown & Root was an effective choice.

Mr. WAXMAN. Well, they started to rely on big monopoly contracts over sectors of the economy in Iraq. Iraq was divided geographically and by economic sector into a handful of fiefdoms. Individual contractors were awarded these monopoly contracts, and for all of the work within that fiefdom—and these monopoly contracts were awarded before specific projects were identified—there was no actual price competition for more than 2,000 projects. Don't you believe the tipped use of these monopoly cost-plus contracts encouraged or hindered progress?

Mr. BOWEN. You are addressing two different phases of contracting. The contracting that was prewar contracting, that I think the sole source, classified situation was apropos. The second one is the contracting phase that followed 108, 106, the allocation of the $18.6 billion. I think you raise a valid question about whether the $500 million IDIQ cost-plus contracts to cover every conceivable project large and small was the right way to go, and that is something we are looking at. Indeed, we have a lessons learned initiative. We will be looking at this, bringing in everyone who is involved in that process in a December panel to analyze your exact question.

Mr. WAXMAN. Just for those who don't know, will you say what IDIQ means?

Mr. BOWEN. Indefinite quantity, indefinite demand—delivery, I am sorry, indefinite delivery. What it effectively means is you have an open checkbook to go out and pursue—because there's a lack of information to be able to adequately calculate fixed-price costs—so to pursue a fixed-price contract. It's when you were working in an environment when it's impossible to ascertain real costs.

Mr. SHAYS. I thank the gentleman.

Mr. Kucinich, you have the floor for 10 minutes.

Mr. KUCINICH. Mr. Bowen, in the work that you do, where you identify what is to be reconstructed, I would just like to go over what is being constructed. I would just like to go back. Could you describe for this subcommittee the types—just generally, the types of facilities that are being rebuilt?

Mr. BOWEN. Sure. It's divided into four sectors now, electricity, water, oil and facilities and transportation, previously eight, now four. Just at what we have looked at, we have an extra report, inspections of electrical facilities, five substations in Basra. We are looking at the al Fatah bridge, a number of the pipe—the oil transfer facilities that are being reconstructed and sensitive pipeline transfers.

In this report, we will point out that those substations in Basra were well done, that they are effective, but I think it is emblematic of the sustainability problem, while, as substations alone, they are well constructed and presumably for our money's worth, they are not yet tied into the electrical grid through needed wiring. That was because that is not part of the contract. So the issue of sustainability and overall coordination of how what we construct fits within the Iraqi infrastructure is the most pressing issue.

Mr. KUCINICH. OK. Thank you.

When you look at infrastructure that is being rebuilt, do you also make notations as to how that infrastructure was damaged or destroyed and when it occurred?

Mr. BOWEN. We don't. Because when we go look at a project we are looking at a project that is near complete. For instance, the al Fatah Bridge, that is a good question. The al Fatah Bridge was destroyed in a famous video that people may recall. It also took with it the oil transfer pipeline that went underneath it. But that is not something that we necessarily use within our analysis as to whether the reconstruction of that pipeline has been effective.

Mr. SHAYS. If the gentleman would yield and I not take off his time. It's clear to me so far the question is to Mr. Christoff and to Mr. Bowen. The others of you who are here, if you would take notes on any issue you want to elaborate, you have an expertise—not to interrupt the question—but I am going to ask you at the end, is there anything that you would have responded to any of the other questions. So I am just saying, I would like to make sure that you do take notes on any issue that you think is important to share.

I have taken about 10 seconds off the gentleman's time, I will give more than that back.

Mr. KUCINICH. Thank you very much, Mr. Chairman.

I think it would be interesting for this subcommittee to know, since the American taxpayers are paying the bill for reconstruction, how it is that these facilities that we are reconstructing became damaged or destroyed.

Mr. BOWEN. You are pointing to the issue that is a significant one, what part of the infrastructure is being repaired because of war damage and what part is being repaired because it had fallen into decay through 25 years of neglect. I presume is what you are asking.

Mr. KUCINICH. Well, I am particularly interested in what was destroyed because of war damage. It would be particularly interesting for this subcommittee to know that, Mr. Chairman. Is that within your responsibility?

Mr. BOWEN. No, sir. My jurisdiction is to be sure that the $18.6 billion is properly spent.

Mr. KUCINICH. Is that within your responsibility, Mr. Gimble?

Mr. GIMBLE. No, sir, it is not.

Mr. KUCINICH. Is that within your responsibility, Mr. Krongard?

Mr. KRONGARD. No, sir.

Mr. KUCINICH. Mr. Christoff.

Mr. CHRISTOFF. I think we can provide commentary, certainly, on it.

Mr. KUCINICH. Can you provide facts, as far as this was destroyed in the war?

Mr. CHRISTOFF. I think the level of detail that you want to try to——

Mr. KUCINICH. Mr. Farinella.

Mr. FARINELLA. No, sir.

Mr. KUCINICH. Ms. Morrow.

Ms. MORROW. No, sir.

Mr. KUCINICH. OK. So we really don't have any declared responsibility on the part of anyone who has testified here today that they can provide us with certainty information as to the degree to which the facilities that have been damaged or destroyed in Iraq as a result of the war can be identified. We might assume that from news accounts, but we really don't know.

I think it's an important question, because it relates to the responsibility of the administration for a tax on Iraq which has destroyed infrastructure. I think we need to know that.

The fact that the Department of Defense Acting Inspector General, whose job it ought to be to do that, cannot in any way vouch for the responsibilities raises some serious questions. So I would like to go directly to Mr. Gimble. I would like to ask you about the Defense Department Inspector General's oversight work in Iraq. With the billions of dollars of taxpayers' moneys being spent in Iraq and reconstruction of military operations, DOD Inspector General presence is essential. I think most members of the subcommittee would agree. We have heard news reports about abdication. I am wondering, Mr. Gimble, for the record, how many Department of Defense Inspector General auditors and investigators are currently assigned to Iraq?

Mr. GIMBLE. There are none in country. We are working on the supplementals back in the United States, back in the contract offices.

I would like to make just a comment on your——

Mr. KUCINICH. Well, this is my time, so if you could answer the question, I would appreciate it. I will be respectful.

Mr. GIMBLE. The answer to the question is we have none in country at the present. We have four ongoing audits doing the supplemental back in the States in the contracting offices.

Mr. KUCINICH. I have to say, Mr. Chairman, it is incredible that we have this major undertaking in Iraq, and the Department of Defense Acting Inspector General has just said that they don't have

any auditors or investigators assigned to Iraq. I want to say again, you know, I would call that missing in action.

Now, who has the primary oversight responsibility for Department of Defense funds in Iraq? Who has the primary responsibility?

Mr. GIMBLE. For the supplemental, we would have the responsibility, the Congress on the aid, the Iraqi reconstruction, the DOD appropriations has been assigned to Mr. Bowen's unit, and he does oversight with that.

Mr. KUCINICH. But you do have the primary responsibilities for DOD funds in Iraq. Why has DOD IG abdicated its responsibility?

Mr. GIMBLE. We have continued to work on contract operations, and also we have some stuff, some joint small arms work that we are doing. We are doing a number of audits that are affected or funded by the supplementals. However, we still do not have anybody in country at present.

Mr. KUCINICH. You know, you mentioned before about other people looking at some of these things. Now DCAA and other auditors can look at some of these issues but not all of them.

For example—and this is something this subcommittee has talked about, Mr. Chairman. There has been a serious lack of body armor for our troops and a shortage of armored Humvees. This is about the protection of our troops. It's a huge problem. This isn't numbers crunching that the DCAA can handle. It's a management problem for the Inspector General. What are you doing about that?

Mr. GIMBLE. We don't have a project ongoing with that. That would not be done in country, though. That would be done back here and through the procurement system, contracting system.

Mr. KUCINICH. Well, that says a lot to the parents of troops about what the government is not doing to make sure that our troops are protected.

Mr. GIMBLE. Could I interject, unless your time——

Mr. KUCINICH. I am not going to debate you here. I am just asking you a question.

Mr. GIMBLE. I am just happy to give the gentleman more information.

Mr. KUCINICH. I am not.

Mr. SHAYS. I will be happy to give more than 10 minutes. We are going to go a second round. It is not like we have 5 minutes. If the witness has something to say on the issue, I would like them to be able to respond to it. But if you feel you need more than 10 minutes because——

Mr. KUCINICH. Mr. Chairman, keep in mind now, he has just testified that they don't have anybody on the ground looking at these things. That is what most Inspector Generals are about.

Mr. SHAYS. But why don't we find out what he wanted to say and that maybe will answer a part of your question, maybe it won't. If it won't, it will be self-evident.

Mr. KUCINICH. OK, Mr. Chairman. I am just not into filibusters here.

Mr. SHAYS. No, but the gentleman will get more time if he needs it.

Mr. Gimble.

Mr. GIMBLE. I just wanted to make the additional comment we do have a number of investigations that we are assisting on through our criminal investigation that will deal with body armor issues.

Mr. KUCINICH. But do you have anyone on the ground asking troops whether they have what they need?

Mr. GIMBLE. No, sir.

Mr. KUCINICH. Another key issue here, Mr. Chairman, is the treatment of detainees. There have been egregious examples of cases of abuse in Iraq, Afghanistan and Guantanamo Bay. This isn't oversight that can be done from Washington, DC. Does the DOD, Mr. Gimble, Inspector General, have investigators on the ground assessing the treatment of detainees?

Mr. GIMBLE. We had people looking at the issue. We had two projects being done currently that are being finalized. The work is being done here. Our investigative policy group is reviewing some 50 cases.

Mr. KUCINICH. Are they on the ground?

Mr. GIMBLE. They are not on the ground in Iraq.

Mr. KUCINICH. Mr. Chairman, this is a very important exchange here. Because if you would—can we ask the stenographer to play back his initial response? Because, you know, we are kind of equivocating here. I want to make sure that we are very precise. Because I asked the question about whether they had investigators on the ground, and his first response seemed to indicate they did. I pressed forward, and his second response seemed to indicate that they didn't. Could I have——

Mr. SHAYS. Let me just say we won't do that here. I am more than happy to have you keep asking your questions. His comments were made just a few minutes ago.

Mr. KUCINICH. OK. He has now stated for the record that they don't have anyone on the ground assessing the treatment of detainees. It actually is hard to believe that the DOD IG isn't looking at the issues that I have just discussed. With the reconstruction effort failing and the insurgency continuing unabated, we need more oversight, not—instead of increasing its oversight efforts in Iraq, the DOD IG has abandoned its responsibilities. So I will say it again. They are missing in action. You can't tell me that you can check out events in Iraq from here in Washington.

One of my colleagues, Mr. Lynch, just stated this. He was in Iraq, and he saw that the building materials weren't up to par. Now, you can't even do that. This is ridiculous, Mr. Chairman, that we can have an IG represented here, and you are not performing your responsibilities. You are not doing what you are supposed to do to protect the troops, and you are not doing what you are supposed to be doing to protect the U.S. taxpayers.

Mr. SHAYS. Do you need more time?

OK. Thank you.

At this time, the Chair will recognize Mr. Lynch—excuse me, I am sorry. We have Mr. Dent. I apologize.

Mr. LYNCH. Absolutely, I yield.

Mr. DENT. Thank you, Mr. Chairman.

As I mentioned, I was in Iraq this summer, in August. I just want to clarify a point Mr. Kucinich made about up-arming the ve-

hicles. Maybe somebody could correct me if I am wrong. I want to talk about the need for precision. The vehicles coming out of Kuwait are up-armored. Can anybody answer that question? That point was made—it is not the point of this. If not, I would like to get an answer to that. It is my understanding that all those vehicles are up-armored coming out of Kuwait. I witnessed that operation down there near Camp Arafjan in August.

Mr. SHAYS. Can anybody speak to that issue? If you can't, that is fine.

Mr. CHRISTOFF. I can speak to the issue that is one of the engagements that we are pursuing right now, the team that is going into Iraq in 2 weeks. One of the six areas that we are looking at is the up-armor situation. So we are definitely looking into that situation.

Mr. DENT. It was my understanding that every vehicle going into convoy out of Kuwait into Iraq is up-armored.

Mr. CHRISTOFF. It is not near that yet.

Mr. BOWEN. I cannot speak to that either, but I can tell you that we have an audit on up-armored vehicle purchase that will be out in our next vehicle report, and it finds it was substandard.

Mr. DENT. Thank you.

Mr. Bowen, it is my understanding that various agencies involved in auditing and reviewing Iraq reconstruction, including separate GAO, Army Audit Agency and the Defense Contract Agency agreed to coordinate their activities. Furthermore, those two oversight committees have been established to coordinate activities between these two agencies, the Iraq Inspectors General Council [IIGC], and U.S.-Iraq Accountability Working Group [IAWG], in Iraq. That said, it is my understanding that the SIGIR auditors to reconstruction and reconstruction project managers is about 1 to 1½, to about 1½. In your opinion, Mr. Bowen, is that too many auditors? What would be an appropriate number of auditors? One to five? One to 10? What is the number?

Mr. BOWEN. The appropriate number is the appropriate number that is currently there, which is 16 to 1. Thank you for raising that question, because it's a myth that's been floating around that is not true. PCO has about 73 managers; DRD, 518; IRMO, 80; JCCI has 44. That is 715 managers.

We have, when we are fully staffed, 28 auditors. DCAA also has in country 15 auditors. That is about 44 auditors. 715 managers to 44 auditors is about 16 to 1.

What that doesn't address either is something that was alluded to earlier, and that is a substantial portion of the management within PCO has been contracted out. I am sure you saw that. There's a government lead in the sectors. But most of the managers are contractors.

So I think that perhaps, first of all, it's a myth, that it perhaps surfaced by those who would rather not have oversight. Second, it's also fundamentally inaccurate on the raw numbers. Third, I think, circumvents a significant issue, and that is much of the management has been contracted out. That was the structure chosen 2 years ago to do this.

Mr. DENT. Is the current structure effectively allowing for the avoidance of duplicative efforts among all the various Inspector Generals in Iraq?

Mr. BOWEN. Yes, it is.

The IAGC meets quarterly. We specifically call everyone to the table to talk about what they are doing and what they are planning on doing. There have been specific instances in the course of those meetings where we discovered that agencies are—different agencies are aiming at the same target and we deconflicted on it. Either one or the other have stood down.

Mr. DENT. Are there any questions that any of you may want to answer? There may have been some statements made or questions asked that some of you didn't have an opportunity to answer. Is there anything any of you might like to answer, Mr. Farinella or Ms. Morrow, comments or questions on anything that was previously stated here today?

Mr. Bowen, if not—as you know, there are currently several agencies overseeing the reconstruction in Iraq, including the DOD IG, Department of State's IG, USAID's IG, and GAO, the Army Audit Agency. Can you help us with the justification for the proposed extension of the termination date of SIGIR of 2008 and possibly well beyond, given all this?

Mr. BOWEN. Sure. Actually, it wouldn't be 2008. It would be changing the statute from terminating SIGIR 10 months after 80 percent of the IRRF is obligated up to 10 months after 80 percent of the IRRF is extended, which, as what the Comptroller of the GAO said, is the way that should have been done in the beginning, and it makes sense. IG should look at how money is spent, not just at how it is contracted.

DOD IG, as you know, is not looking at the reconstruction effort. The Congress has specifically tasked us to look at it. It's an extraordinary undertaking, and thus Congress deemed that it required special oversight. The issue is, when will—where are we in the reconstruction process vis-a-vis expenditure of funds? And it certainly looks like that we are going to need oversight on the use of those funds for the next 2 years.

Mr. DENT. Thank you.

I yield back the balance of my time, Mr. Chairman.

Mr. SHAYS. I would like to maintain that time and claim it for my own, if you don't mind. I want to be very clear that there's nothing that has been said or asked that no one wants to respond to. I am pretty surprised by that.

Ms. Morrow, you have no comment to make based on any of the questions or answers.

Mr. Farinella, no comment.

Mr. Gimble, this is your chance to have made comments. You have the floor.

Mr. GIMBLE. I do have one comment.

Mr. SHAYS. Mr. Krongard, is there any comment that you wish to make? Any information you wish to correct? Otherwise, it stands on the record as stated in this hearing.

Ms. Morrow, I would like to start with you. Is there anything?

Ms. MORROW. No, I have no corrections to make. The Army is making progress. There are certainly challenges. We are working

with them to try to make improvements, strengthen controls. So certainly there are a lot of challenges ahead, but I believe Army is making progress.

Mr. SHAYS. I would like some specific information other than everybody is trying to do a better job. I don't mean to be disrespectful, but, I mean, you are in the trenches. If there is nothing that you want to add in specifics, I guess, that is OK, but you have been given the opportunity.

Ms. MORROW. Well, certainly some of the things we had found, a lot of them deal with controls, but insuring there's adequate audit trails, documentation, approval level is written.

Mr. SHAYS. And there have not been adequate audit trails?

Ms. MORROW. In some cases, we found that they were not. Again, those areas, as we point those out, the Army is taking action to strengthen those, to provide the audit trails, to show that the funds are properly accounted for and the projects are meeting our intended purposes.

Mr. SHAYS. Mr. Farinella.

Mr. FARINELLA. Well, nothing to correct for the record.

Regarding the work that we have done in Iraq and are finding, I guess a common theme could be—and I believe it was unavoidable—the rush to move into Iraq to get things set up on the ground, which I think, in the beginning, had a lot to do with the firm, total and complete control systems in place, that were some of the problems that were the cause of what we found when projects were behind schedule, when things were not getting done, other issues with coordination between the different parties, between USAID.

Mr. SHAYS. Let me go to Mr. Gimble.

Mr. Gimble.

Mr. GIMBLE. I just had one clarification I would like to put on the record. That was the issue if we had people on the ground in the Iraqi detainee abuse issue.

We did have people there, a person there, early in the investigations. That work has since rolled back in, and we are doing the final touches on that—actually, two projects. One is actually the review of the investigative, quantitative investigative reviews; and we also have another assessment that is due. It was 12 major reviews of issues dealing with detainee Iraqi abuse, and there were 400 recommendations for following on those recommendations. That is all being done here. We did have——

Mr. SHAYS. You have become the Acting Director as of when?

Mr. GIMBLE. September 9th.

Mr. SHAYS. Of this year.

Mr. GIMBLE. Correct.

Mr. SHAYS. So the decision not to be in Iraq was not your decision; is that correct?

Mr. GIMBLE. That's correct.

Mr. SHAYS. I hope you are not just being a good soldier, though, in the sense that you are going to argue for a bad policy. I don't understand why you didn't have some people on the ground in Iraq. I will just say that to you.

Let me just make another point. I understand that we have tremendous oversight in Iraq, and you don't want to duplicate the du-

plication of the duplication. But there, it seems to me, had to have been some areas where your folks had some expertise where they could have been helpful.

Having said that, you know, when a colleague of mine berates someone for not being in Iraq, and they have never been in Iraq but berate what we are doing in Iraq, I have some challenges with that as well. I know that every time I have gone to Iraq, I have learned good things and bad things. I have learned things that have distressed me and things that have encouraged me. I wouldn't have learned them had I not been to Iraq.

So I am—it goes both ways in this business, and I just want you to know that.

Mr. Krongard, any comment?

Mr. KRONGARD. Sir, as to the fact, I don't have any specific comment. Words, like failure, are subjective determination.

Mr. SHAYS. A little closer to the mic, sir. Your mic—both of yours are not good. No, don't grab the other one. Just bring it closer.

Mr. KRONGARD. Is this better?

Mr. SHAYS. Yes.

Mr. KRONGARD. I said, to the facts that were stated, I don't have anything to correct; and words such as failure are subjective determinations that I am not here to make judgments on.

I would point out that in my testimony, with respect to what we found in the rule of law area as well as what we found in the joint assessment of the Iraqi police training programs, that in both of those cases—and first we said that the funds appeared to be well spent, and in the second we determined that it was a qualified success. So I have testified to those.

As far as coordination, which Congressman Dent asked about, I also mentioned that our assessment was joint with DOD. That speaks well for the coordination amongst the IGs. I mentioned the joint program that Mr. Bowen's office and my office are planning with respect to I&L. So I think the coordination amongst this group is very good.

Mr. SHAYS. I won't test the patience of my colleagues. I was using Mr. Dent's time, and I haven't used my own time yet.

Mr. Lynch, thank you for your patience.

Mr. LYNCH. No, not at all. Thank you.

Mr. Chairman, just to followup on Mr. Dent's remarks about the Humvees, when I was there several weeks ago in al Assad and in Baghdad, we actually had some up-armoring facilities that were moving along with the rearmoring and so-called up-armoring process with those vehicles. My understanding at this time is that all vehicles that are being used in circulation, that is off base, have been up-armored.

We do have some problems with—maybe it is something we can address in a future report, Mr. Bowen, regarding transmissions now burning out because we have added 1,300 pounds or 3,800 pounds to the troop carriers, 1,300 pounds to the Humvees, and now the transmissions can't handle that extra weight. So maybe we could look at that.

I also heard from the troops that they were very happy to see the air conditioners added to the Humvees. 130 degrees heat over

there. I guess the air conditioners lower that to about 80 degrees, and they were quite pleased with that.

I do want to talk about the whole auditing process. My understanding, in talking to folks on the ground over there, is that the managing of the contracts is more prospective, making sure that stuff gets built, that troops get the supplies they need, that we move forward. The auditing process is more looking back or trying to measure where we are at a certain point in time in terms of the goals that we have and the expenditures that we have made. So I don't necessarily include the number of managers, Mr. Bowen.

By the way, thank you for your service to our country. All of you, you have difficult jobs, and we don't dismiss that in any respect or degree. We understand you are doing your best. That is a given. In our positions, experience agrees with reason in this case that we have seen a tremendous amount of waste and, in some places, corruption.

We had the experience with the Iraqi Oil-for-Food program where $20 billion was available and $8 billion was stolen. So we know the possibilities there are on the ground for corruption and for misallocation, let's call it. But you are in a very real way our line of defense so that the American taxpayers money are spent wisely and effectively, so we have to ask these questions.

I direct my question to Inspector General Gimble as well as Mr. Bowen; and, Ms. Morrow, you can jump in if you wish.

On March 17th, the Justice Department announced that Jeff Mazon, a former Halliburton procurement manager, and Ali Hijazi, a general manager of La Nouvelle, a trading and contracting company, which is a Kuwaiti firm, and a Halliburton subcontractor had finally been indicted for a kickback scheme for which La Nouvelle overcharged the U.S. Government of about $3½ billion. I have been asking questions of every committee on this, and it took a long time to get the names of these individuals, and it's been like pulling teeth to get some information around these indictments.

Specifically, the indictments allege that Mr. Mazon received a $1 million payment from La Nouvelle in exchange for helping the firm reap more than $5½ million from a LOGCAP 3 subcontract that should have cost less than $2 million. Now, back in June, during this subcommittee's first hearing on the development fund for Iraq, I asked Bill Reed, the Director of Defense Contract Audit Agency, whether, in light of those indictments that have come down in this case, I asked him, are we going through the defense contracts that La Nouvelle was involved in and that these two individuals are involved in, to find out whether this is just a one-time event or whether there might be a pattern or practice of corruption involving contractors and subcontractors.

Mr. Reed assured me that DCAA was in the process of auditing the La Nouvelle contracts. Now, Inspector Gimble, can you update the committee on the status of those La Nouvelle audits?

Mr. GIMBLE. Those are still ongoing investigations, and I can't really get into any more detail, but they are ongoing.

Mr. LYNCH. That is it. They are just ongoing.

Mr. GIMBLE. Yes, sir. The U.S. attorney has asked me not to make any comments on it.

Mr. LYNCH. Have you reviewed?

Mr. GIMBLE. The contracts? We are in the process.

Mr. LYNCH. I do have to agree with the chairman and Mr. Kucinich that boots on the ground—you know, you can give me all the reasons why you don't have boots on the ground as far as auditors, but I have to tell you, how many defense contracts are we managing in Iraq right now? Thousands, right?

Mr. GIMBLE. Yes. I don't have the number. I will say——

Mr. LYNCH. It's astounding. All I am saying is that, with that much going on, there's no reason why you can't have someone on the ground or you shouldn't have someone on the ground. If I could humbly suggest, you need to get some people on the ground in Iraq from the Defense department.

Mr. GIMBLE. Sure.

Mr. LYNCH. Even just to save face. That is a tough position to defend, to hand off the responsibilities to Mr. Bowen or Ms. Morrow or anybody else. When DOD has such a huge exposure over there, to have no one on the ground is just inexcusable, sir.

Mr. GIMBLE. Sir——

Mr. LYNCH. You may respond.

Mr. GIMBLE. Our investigators are actively involved in that task force. That is our people doing that work. It is just that the work is not on the ground in Iraq. It is in other places, but those questions are being addressed by our people.

Mr. LYNCH. It's a tough environment over there. It's a tough environment. You can't manage it from Baghdad, never mind manage it from Arlington. You have to have people around there, whether in Mosul or al Assad or Balad, you know, Ramadi. You have to have people where the work is going on in audit to audit and—whether or not the work is—progress is being done, where we are.

You know, I am a former iron worker, 18 years. You know, I have done enough construction to know that in order to guarantee the quality of the work and that the money is going in the right place and you don't have waste that you have to have people there, to hold people accountable. All I am saying is the Defense Department should be on the ground. That is just my recommendation.

The other point I have is, according to Halliburton, it was the company's own internal rigorous system of checks and balances that led them to the irregularities and informed the Defense Department, Justice Department, assuming this was the case, of any additional financial controls that have been put in place to insure that we are the first to know in the event that such fraud is taking place. Have we made any changes in light of what is going on here?

Mr. GIMBLE. We have active involvement in the ongoing criminal investigations of both of those.

Mr. LYNCH. OK. So there is nothing you can tell the Congress that we are doing differently in light of what we have seen here with these folks and the kickback scheme is going on there?

Mr. GIMBLE. You mean—well, the U.S. attorneys have asked us not to be discussing the cases. That is I guess about where I have to be with it.

Mr. LYNCH. Well, certainly the facts are on the indictment, and the problem that exists there with kickbacks is you don't need to know the details of that case to take steps against other opportunities for corruption. You don't turn a blind eye to kickback schemes

just because you have an active one going on. I mean, that is just——

Mr. GIMBLE. In that regard, we do have some other audits ongoing that were looking at controls of contracting and so forth.

Mr. LYNCH. There you go. Can you tell us more about those?

Mr. GIMBLE. As a matter of fact, I can. We have two audits ongoing, one on the Air Force, other appropriations, that is basically looking at the tracking of the funds, supplemental funds going to the global war on terrorism; and we have another one on Army appropriations, appropriations Army.

We have two contract audits that are just about to be ending up. One is the contracts with the Corps of Engineers that were examining the requirements, determination and work procedures for selected contracts and contracts awarded by the Army Corps of Engineers for the global war on terrorism. That is in a draft audit, so they should be released here, probably final, sometime the first of the year.

We have another audit ongoing that we are looking at trying to determine whether the government provides sufficient contract oversight for service contracts to ensure that the contract is performed in accordance with the contract specifications.

We have also been looking to see whether they have appointed people to monitor contracts, if persons had been appointed to monitor contract performance and the work has been adequately monitored and being performed in accordance with the contractual obligations. That is also in the draft statement, and we will be issuing that out.

Mr. LYNCH. All right. Well, sir, all I can say is that it would help. I don't believe that, with the thousands of contracts we have on the ground in Iraq, that 45 people can handle it, with all due respect. All I would say is that I think that the Defense Department has a primary responsibility to be on the ground in Iraq to police that. I can say it from my own observations there, and I can say it also within the context of Mr. Bowen's earlier remarks about falling short of our goals and that there being a gap.

If folks are going to come back to Congress and ask for an additional appropriation, the fact of whether we have or we don't have an accountability there and a reliable accounting system and auditing system will have definite consequences on how folks vote. I know it will have a consequence on how I vote on future appropriations, knowing that we have a reliable auditing system in place, so that the American taxpayer don't get—we don't get robbed.

OK. Thank you. I appreciate your testimony.

Mr. SHAYS. Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Mr. Chairman. Thank you for holding these hearings. I want to thank all the witnesses for their testimony.

Mr. Waxman, in his questioning, talked about the fact that we had not hit a number of the goals that we set out at the beginning with respect to the reconstruction effort. What I would like to focus on a little bit is being able to sustain operations in those areas where we have met our goals, whether it is water, infrastructure, electricity, the oil sector, because obviously if we are investing hundreds of millions, billions, of dollars of taxpayer money in this re-

construction effort, we want to make sure that when we complete the job and walk away, the Iraqis are in a position to maintain those efforts. Otherwise, I think we would all agree, that investment would have gone for naught.

So if I could just start, Mr. Christoff, I know you have looked at this and GAO has looked at this, as have others. In your testimony, you talked about a number of sectors, the water sector, the electricity sector.

With respect to the water and sanitation sector, you point out that more than a quarter of the projects, $52 million of the $200 million in completed, large-scale water and sanitation projects, were either not operating or were operating at lower capacity due to looting of the equipment and shortages of reliable power, trained Iraqi staff and lack of required chemicals and supplies.

If you could talk about that specific case, but also more broadly about what we are doing or not doing with respect to sustaining the investments that have been made.

Mr. CHRISTOFF. I think sustainability is definitely one of the key challenges that we face. It is one of the areas that we have to begin addressing.

Let me just give you an example. In addition to the water and sanitation sector and the electricity sector, I had a chance to talk to, it must have been about 15 or so, power plant operators who really expressed their frustrations at not getting the kind of training that they needed to try to operate some of these gas turbine engines that we put in place at power plants.

I think that just reiterated the importance of not just turning things over. You just don't turn over, but you have to provide a sustainment framework. You have to go beyond the 90-day warranty and maybe provide an additional year of training for the Iraqis in how to operate the power plants, how to operate the water and sanitation facilities. It is really a critical issue.

Mr. VAN HOLLEN. Are U.S. resources being spent in this way now?

Mr. CHRISTOFF. Moving in that direction, I think, is not only the attention that SIGIR has brought to this, but also the attention that we brought to it and the USAID Inspector General, where the State Department and others are trying to take moneys from some projects and try to focus more on sustainability.

There is a discussion right now, I think, within the administration as to whether or not you go beyond this 90-day period of providing the Iraqis with additional knowledge and training and perhaps extending it to a full year.

Mr. VAN HOLLEN. Mr. Farinella, you also addressed this issue in your testimony, and you talked specifically about your audit and recommendations with respect to the electricity sector and that you recommended the USAID adopt a multiyear strategy.

Can you tell me what progress, if any, USAID had made toward implementing that kind of strategy?

Mr. FARINELLA. Well, since we have issued the report, they are addressing those issues of sustainability that are important. For example, one of the things they are addressing regarding the power sector is a power plant maintenance program whereby, as part of the project, the contractor, Bechtel, is providing something like

60,000 hours of technical and management training to Ministry of Electricity, Iraqi Ministry of Electricity staff, to bring them up to speed, to be able to—once these activities are fully within their power and area of responsibility, to be able to maintain these going forward.

Mr. VAN HOLLEN. What is your assessment now? Let us just take the electricity sector. What is your assessment now of the Ministry of Electricity's ability and competence to maintain the operations?

Mr. FARINELLA. I would say that at this point it is a work in progress. I would say at this point it is a work in progress. It is not something that we could definitively state that, going forward, the sustainability of this is ensured.

Mr. VAN HOLLEN. All right.

Mr. Bowen, you also addressed this issue and identified it as an issue in your testimony. What is your assessment of how prepared we were for the sustainability phase? It sounded like these contracts originally did not envision a sustainability component; it was more of a turnkey operation.

What amount of additional resources are going to be necessary across all these different industries in order to meet the goal of sustainability in terms of training, equipment? What more are we going to have to put in in order to meet these challenges?

Mr. BOWEN. It is an excellent question.

First, SIGIR has been raising sustainability issues since the spring. It was the foremost issue we highlighted in our July report, and we announced with that report a sustainability audit, which we will issue in this next report in 12 days.

The pressure exerted on the sustainability issue has resulted in action, and the Director of IRMO, in response to our initial audit findings, created an Office of Sustainability to coordinate.

So, first off, there needs to be within the Iraq reconstruction program a coordinated sustainability effort. Stovepiping or haphazard approaches don't work. It has been a burden throughout. But this, going forward, as you rightly point out, is perhaps the most significant issue. What we hand over has to endure for democracy to endure there.

How much is it going to cost is your second question, and through the course of our audits, we were able to identify, IRMO identified—Iraq Reconstruction Management Office identified $350 million to $400 million that is available for allocation on sustainability issues.

That is an important start. But the ultimate cost is unknown, because it was not budgeted for at the outset. It has been addressed gradually over the course of this year, but we are still playing catch-up in ensuring that both the planning and the funding are in place.

It is not just United States; let me emphasize, it can't be U.S. funding that makes this work. There are two components. There is operations and maintenance sustainability and there is legacy sustainability. Legacy is how this thing is going to work in the long run, and they have to change the way—they, the Iraqi Government—has to change the way they budget, because they don't budget for sustainability.

That is a message that has to be sent through IRMO to the senior consultants to the ministers and ultimately to the Minister of Finance to be sure there are adequate funds to run the system.

Mr. VAN HOLLEN. Thank you.

Mr. Chairman, I have a really quick followup on one point. You say in your testimony that IRMO currently does not have the authority to address this issue. Could you speak to that point right now?

Mr. BOWEN. About——

Mr. VAN HOLLEN. With respect to, IRMO has responded by creating the office to lead coordinated efforts to address and sustain the issue. However, IRMO needs authority it does not currently have to accomplish this objective.

Mr. BOWEN. Well, essentially what I am asking for there is that the Ambassador—who is, according to the NSPD, in charge of the overall reconstruction program—empowers through delegation of authority to IRMO and, thus, to that office to coordinate sustainment across DOD, USAID, State Department, all other operating entities with IRRF dollars in the country.

So there has been an issue of coordinating among departments in Iraq over time.

Mr. VAN HOLLEN. This isn't legislative authority. The Ambassador today could issue IRMO that authority, right, if he took your recommendation?

Mr. BOWEN. That is correct.

Mr. SHAYS. The gentleman had time.

Under most of my life, going back from Johnson to Nixon to Ford to Carter to Reagan to Bush to Clinton to Bush, the DOD budget has not been auditable. It blows me away. So I know you have more than enough work to do, Mr. Gimble.

The number that we are hearing about not being auditable is this $8 billion stolen. Could someone provide a little bit more insight as to "stolen" versus the $8 billion?

Mr. BOWEN. Yes. I think you are referring to our January 30th audit of the management of DFI.

The Development Fund for Iraq was created in U.N. Security Council Resolution 1483. It essentially transferred the Oil-for-Food account in the Southern District Federal Reserve Bank of New York into a DFI account which became the operating capital for CPA's management of the government.

Mr. SHAYS. So this was Iraqi dollars?

Mr. BOWEN. That is correct. It is not appropriated dollars.

Mr. SHAYS. Basically, Iraqi money to be spent by Iraqis?

Mr. BOWEN. Correct, for the management of the interim Iraqi Government.

Mr. SHAYS. Not U.S. taxpayers' dollars?

Mr. BOWEN. Exactly right.

Mr. SHAYS. But then, go on. Was it stolen?

Mr. BOWEN. It was not stolen. As our audit makes clear, we addressed the lack of effective accountability measures so as to provide information to the Administrator and to the CPA, which had charge of the money and charge of managing the Iraqi Government at that time, to know exactly where that money was going.

It raises concerns. If you don't have feedback on how the billions you are transferring to a fledgling government that, as we discovered early on, was in a bit of a chaotic state, then you are not going to have assurances, which is our job, accountability assurances in IG, that money, which we had charge of, is properly used.

Let me just make one other point. The Commissioner of Public Integrity in Iraq——

Mr. SHAYS. That is the Iraqi Government?

Mr. BOWEN. Yes. He is the FBI counterpart, the Iraqi FBI, a good man whom I have met with on a number of occasions. Each time I go, I meet with him a couple of times; Judge Radi and, really, the point of the spear on the anticorruption effort has announced indictments of Ministry of Defense officials for embezzlement or fraudulent misappropriation of billions of dollars of DFI dollars that were transferred.

So the point I am making is, we cannot conclude that money was stolen or fraudulently misappropriated in any way. What we did say is, we are not sure; there wasn't enough feedback. You remember in our audit that we went out and we looked at some security——

Mr. SHAYS. The bottom line is, you can't trace the dollars because there is not a paper trail?

Mr. BOWEN. Correct. And now we have downstream significant indictments coming up on the Iraqi side of the ledger regarding this.

Mr. SHAYS. So some of that money was clearly taken?

Mr. BOWEN. By Iraqis, correct.

Mr. SHAYS. Mr. Lynch.

Mr. LYNCH. Mr. Chairman, I just want to jump in. We were the custodian, though, of that money——

Mr. BOWEN. That is right.

Mr. LYNCH [continuing]. To be spent on behalf of the Iraqi people, knowing full well that we were going to have a deficiency here where our money, our tax money, is basically filling in that gap that the Iraqis can't pay for themselves. The more money we use of Iraqi money that doesn't get stolen is money we don't have to draw down from the American taxpayer.

So we were the custodians for that reservoir of funds, and we should have had the protections and the infrastructure there basically to make that transference without getting robbed. All I am saying is that we failed in that measure.

Your report, if I read it correctly, doesn't say the money wasn't stolen, it is just we can't figure out what happened to it. There is $8 billion there that, OK, maybe it went here, maybe it went there, but—that is a hell of a way to run a system though.

Mr. BOWEN. Well, let me make clear, we didn't say it was stolen. It was misreported on many occasions in the press that we did. What we said was, there should have been better accountability measures in place regarding the stewardship of those dollars that were transferred by the CPA to the Interim Iraqi Government for their operations.

Mr. LYNCH. We are not talking about a couple of thousand dollars here; we are talking about $8 billion.

Mr. SHAYS. We can agree that some of $8 billion was taken, and the question is how much.

Mr. BOWEN. Yes, eventually.

Mr. SHAYS. I totally agree with your assessment that particularly before the transfer of power in June, we had an extra responsibility to make sure the money was well spent. So I don't want my colleague to think that I am in any way passing judgment on his concern about this issue.

Mr. LYNCH. Understood.

Mr. SHAYS. And I thank him for his fairness in this whole process.

One of the other interesting issues I wrestle with this: They have no checking system in Iraq. Soldiers get paid, they literally go home to provide it to their families. But the other part that is kind of amazing to me, and I would like someone to speak to this.

In Iraq, the generals would say how many soldiers they had, and they were given envelopes of payment. If they said they had 2,000 and they only had 1,800, there were 200 envelopes with cash in them that, who knows where it went?

How is Iraq now trying to deal with that issue? Can someone speak to that? My understanding is the Iraqis themselves have impaneled this.

Mr. Krongard, can you speak a little to that issue?

Mr. KRONGARD. Well, some of us have mentioned the so-called "troika," the three parties that are engaged in anticorruption activities in Iraq. Each of the ministries and agencies, the 29 ministries and agencies, has an Inspector General that is an Iraqi Inspector General. That was instituted during the Coalition Provisional Authority. It was based on the American experience; Inspectors General were not traditionally or previously in Iraq.

In addition, you have the CPI, which, as Mr. Bowen said, is the counterpart to the FBI. They are very actively engaged in anticorruption activities. Then you have the third, which is the Board of Supreme Audit, which has existed in Iraq for many years.

So the Iraqis are proceeding in a manner that has the appearance of fighting corruption. The details and what the court cases will show, I mean, I couldn't possibly forecast that. But the structure is there. Whether it will work out, I couldn't say.

Mr. SHAYS. Mr. Christoff, do you want to make a comment?

Mr. CHRISTOFF. My comment relates a lot to just building up the capacity of the different Iraqi ministries, their accounting capacity, their ability to keep track of even their own employees.

If you look at DOD's report from last Thursday, they talk about the Ministry of the Interior that is responsible for the police functions, and they are trying to figure out all the ghost employees, those employees that are still being paid, but they are not really doing policing work.

So I think it is important to focus, as agencies are trying to do, on building up the accounting capacity, building up the ability of all the different Iraqi ministries to come into a 21st century form of accounting.

Mr. BOWEN. In the latest 2207 report to Congress, the State Department noted that the Iraqis are pursuing a national ID measure and biometric data to address the ghost employee issue. We raised

it in our January 30th report, and we found in the various samplings we made, almost half the employees didn't exist that were being paid.

I am afraid that was epidemic—it was endemic to the system.

Mr. SHAYS. Where was that?

Mr. BOWEN. That was in the January 30th——

Mr. SHAYS. Half of the employees where?

Mr. BOWEN. It was in security details and in certain ministries. It was the Ministry of Transportation. We actually got a report from a CPA employee whom we asked to go out and document how many were actually there getting paid. There were roughly—I can't remember the number; there were 1,800 salaries being paid, 600 people showed up to collect the money.

Mr. SHAYS. One of my observations in my 10 visits is that some Iraqis still don't know whether we are going to stick with them, so some haven't decided which side they want to be on. Because they watch CNN and others who are reporting what they are reporting, and they are saying, you know, we may leave them.

There is an incentive when you have that kind of environment to try to get something in the short run. The more we can convince them that this is a long-term effort, the more we can convince them that there will be a legitimate government that they can become part of.

I hope some of what we see changes, but obviously it is a culture that has allowed for a lot of this kind of stuff to go on.

Mr. BOWEN. Mr. Chairman, I have seen exactly the same thing. There was a question on their side about our commitment, particularly to anticorruption, which is why, when I met with Ambassador Khalilzad during my last trip, I urged him to be forthright and emphatic in his support of the anticorruption foundations in Iraq and, more specifically, to call an anticorruption summit; bring in the CPI Commissioner, bring in the chairman of the Board of Supreme Audit, bring in all the IGs, and endorse their efforts and do what we can to help fund the training academy that Mr. Krongard referred to and do what we can simply to bolster that. Because without integrity at its core, the democracy program could founder.

Mr. SHAYS. Let me just cover this. We invited all of you here because I think it is rather impressive that we have this kind of oversight and because you have the knowledge to tell us what the facts are. If you leave now, I leave a bit confused about some issues.

Mr. Christoff, you might have a more overall view; or maybe you, Mr. Bowen; or others as well. And that is, we are talking literally of hundreds of billions of dollars that have been spent in Iraq.

Mr. Bowen, you folks own $18½ billion of it?

Mr. BOWEN. IRRF I and II, about $22 billion.

Mr. SHAYS. Mr. Krongard, what do you focus on? Is it out of the 18 or just that related to State Department?

Mr. KRONGARD. It is just the State Department, but Mr. Bowen really has the oversight of the IRRF funds. We have some responsibilities, but what we tend to look at is more of the management.

The embassy over there has oversight responsibilities. We look at the efficiency, the management.

Mr. SHAYS. It is a huge embassy, we have 600-plus, give or take.

Mr. KRONGARD. Yes, and we have done a number of reports which is attached to my statement, which indicate what we have looked at in terms of trying to bring efficiency, trying to bring coordination.

Mr. SHAYS. I am going to come back to you, Mr. Christoff.

Mr. Gimble, as Inspector General, you basically have a huge amount. Is it your view that when you look at the hundreds of billions over which you have oversight that it is in salaries?

Explain to me your mind-set that tells me you don't need to be in Iraq. There is an answer. I don't know if I will agree to it.

Mr. GIMBLE. Let me clarify a couple of things.

We have been in Iraq, just not very much. We have a team going over the first week in November with Mr. Krongard. We have had people over there doing the joint police assessment.

Mr. SHAYS. I guess before you go there—and I will give you a chance—I want to make sure you are hearing at least what I am trying to ask you, that is, your job is to audit all of Defense, correct?

Mr. GIMBLE. Correct.

Mr. SHAYS. Are you auditing the troops and the allocation of moneys going to the National Guard, going to the Reservists, going to our active duty forces? You are continuing those audits. They may be in Iraq or may not be.

Mr. GIMBLE. That is correct. Because we have things like payroll audits. We do those routinely as a part of our financial statement audits. Those would cover all of the Army, for example, on military pay appropriations.

We just completed stuff like the DOD patient movement system. It is a little bigger than Iraq, but it definitely has impact.

We have a number of——

Mr. SHAYS. Let me just cut to the chase: How much DOD money is spent in Iraq?

Mr. GIMBLE. The emergency supplementals right now show to be $65.2 billion and $76 billion. That is not all being spent in Iraq. That is supporting the Global War on Terrorism, which includes Afghanistan, and we are doing some work in Afghanistan also.

I cannot make a good case of why we have not had a bigger presence in Iraq. I am not trying to make that case. I am just saying there is a lot of oversight there; we have tried to coordinate and not duplicate.

Should we have been there in a little more presence? The answer is probably yes, we should have.

Mr. SHAYS. Mr. Farinella, what do you audit?

Mr. FARINELLA. We audit the USAID moneys.

Mr. SHAYS. How much?

Mr. FARINELLA. It is roughly about $5 billion that was awarded for contracts——

Mr. SHAYS. In addition to, or in conjunction?

Mr. FARINELLA. As part of those IRRF funds.

Mr. SHAYS. In conjunction with. Mr. Bowen, it is the same dollars, correct?

Mr. BOWEN. Yes, that is right.

Mr. SHAYS. In other words, in some cases we almost have duplication?

Mr. BOWEN. That is what the IIGC does.

Mr. SHAYS. I know what it is, but I want you, for the record, to say what it is. Not the initials, sir. You audit——

Mr. BOWEN. I am sorry, the Iraqi Inspector General's Council.

Mr. SHAYS. You have a council. You get all these folks together and then, what, you divide up the workload?

Mr. BOWEN. We coordinated actually with USAID. The week I was appointed, I went and met with Everett Mosley; then I said, look, we have oversight of your piece of the pie now. We need to coordinate. You are already providing oversight. Let's marshal our resources and ensure there is not duplication of effort.

So we coordinate with USAID on how they are overseeing their portion of the IRRF and review their product.

Mr. SHAYS. Because I want to give Mrs. Maloney time here, Ms. Morrow, the Army is only one part of our effort obviously in Iraq. What do you audit? The Reservists? The National Guard? Do you have a specific mandate?

Ms. MORROW. As it relates to our work in Iraq, the Army is the executive agent for some of the funds, so we are——

Mr. SHAYS. You mean, of all the military? So even money spent by other branches is funneled——

Ms. MORROW. Not funneled, but in terms of having visibility, having some program oversight, the Army's Project and Contracting Office.

Mr. SHAYS. And how many dollars are we talking about?

Ms. MORROW. The DOD portion of that is about $13.1 billion of the $18.4 billion. It is part of——

Mr. SHAYS. And not added to?

Ms. MORROW. No, sir. It would be part of those funds; the IRRF funds, it is part of that. That is the work we are doing as it relates specifically to Iraq.

There is a lot of other work we look at, all the functions that the Army has, to include the National Guard, the Reserves and a whole host of various areas.

Mr. SHAYS. Let me go to you and end with you, Mr. Christoff. You may have more of an overview, given you are not an Inspector General with one area.

Do you have confidence that we are covering the whole gambit of our expenditures in Iraq? Do we need an Inspector General to check out the Inspector Generals?

Mr. CHRISTOFF. Oh, absolutely not. I think the one——

Mr. SHAYS. Are we covering the bases here, sir?

Mr. CHRISTOFF. I think we are covering the bases. And if I could continue, I think what GAO also offers is the fact that since we have the authority to look at all appropriations and all U.S. Government activities, to sit back and look at how the different agencies—USAID, PCO, State Department, the Department of Defense—are working together and collaborating together to deal not just with reconstruction issues, which seems to be the focus, but also the important security issues too, the training and equipping of Iraqi security forces.

Mr. SHAYS. You were comfortable saying under oath, in this subcommittee, what about the overall effort to look at how money is spent?

Mr. CHRISTOFF. I am never going to disagree that more oversight is not needed. More oversight is always needed, particularly given the billions we are spending in Iraq.

I think Mr. Bowen is correct. We have been trying earnestly to coordinate all of the activities that the different Inspectors General are doing with the Special Inspector General and with the GAO as well.

Clearly, you all have an important responsibility as well with the kinds of oversight hearings and continually asking the hard questions I think we are trying to ask as well.

Mr. SHAYS. Thank you.

Mrs. Maloney, you have the floor for 10 minutes plus.

Mrs. MALONEY. First of all, I would like to thank the chairman for his continued oversight and concentration and focus on Iraq. It has been very helpful to Congress and, I think, the Nation.

I would like to get back to policing, since every time we have been to Iraq together, the chairman and I, the focus has always been if we can get the Army and the police up to snuff, strong enough, then we can have a strong, independent Iraq.

What I find very troubling is that they keep reporting that the policing is getting better and stronger. Out of the police, they need 180,000, and we are roughly at 95,000, but many people are saying they are more like beat cops than real strong police officers. And out of the Army troops that were required—this is a July 25th report—they are saying we need 100,000, and we have roughly 78,000. That is 20,000 short.

What I find so troubling is no matter, how many resources we put in it, training in different countries—and I would like to ask Mr. Farinella and Mr. Gimble whether you think 8 weeks training is enough. But I would like to say that I am troubled by the fact that we are focusing so much on it, yet the incidence of brutality, of attacks on the police, of the ability to keep law and order, it seems to be getting worse, not better.

I would like DOD, State and Mr. Bowen, anyone who would like to comment, Mr. Christoff, if you have done any studies on it with the GAO.

But I find that troubling. They keep saying we are training more, we are training more, we are training more, yet the level of uncontrolled activity and violence appears to be getting worse.

Mr. Gimble.

Mr. GIMBLE. Our assessment of the training is, the 8 weeks is probably OK for part of it. However, there needs to be, in our view, more supervisory training to have the leadership that is necessary to have an effective police service.

I guess that would be kind of where I would leave it at.

Mrs. MALONEY. Mr. Farinella.

Mr. FARINELLA. AID is not involved in that area at all.

Mrs. MALONEY. Mr. Bowen, Mr. Christoff, Mr. Krongard of DOD.

Mr. KRONGARD. DOS.

The first thing is to distinguish between police and military. Some of the numbers you referred to I think included both those numbers. The police have a different function. They are just like the police here; they have an urban mandate which is a little bit

different from the overall security mandate that the military forces have.

The 8 weeks is a good starting point as a training. We have recommended that there be additional specialization to determine where they are going to go afterwards. We have recommended more involvement by the Iraqi Ministry of Interior both as to recruiting and vetting, as well as to where these people go afterwards.

So there is a lot that needs to be done. It is a difficult environment for them.

On the other hand, the reason we have called it a qualified success, as I referred to in my testimony, is there has been good performance; there was at the time of the election. It may be too soon to say what happened this past weekend, but the early indications are that the police activities were fairly good. The respect for the police seems to have grown.

Police, unlike military, have, just like here, a more direct involvement with the people, so there has to be a better feeling of the people to the people in the police force, and that does seem to have improved.

So it is a difficult situation. Over 1,600 police have been murdered in various events, and they keep turning up.

Mrs. MALONEY. During the election they had to shut down all the roads. They had to shut down basically the whole country.

Mr. KRONGARD. Yes.

Mrs. MALONEY. What I find disturbing is that the incidence of violence seems to be increasing even though the level of trained troops and trained army is increasing and should be focusing on maintaining order in a more successful way.

Could you comment on that? Why is that happening when you say we are having success with the training, yet the incidence of violence and uncontrolled activity, which police and the army and the military are supposed to control, it just seems to be getting worse in the number of incidents.

Mr. KRONGARD. Well, I don't like not answering your question directly, but I was commenting on an interagency assessment of Iraqi police training that we did along with the DOD. That was not an assessment of the military forces. So I just don't feel qualified to answer your question with respect to the military forces, who have the overall responsibility for maintaining the countrywide security.

The police have a different mandate and a different job, and my comments and my experience and expertise through this has been directed toward the police and not the military.

Mrs. MALONEY. Mr. Christoff, have you done any reports on the increased incidents or lack thereof?

Mr. CHRISTOFF. Yes. In fact, my statement shows statistics that DIA declassified for us that indicates that the number of incidents, violent incidents, against the Coalition infrastructure and the Iraqis is going up. We did have a decrease in the violence shortly after the vote, but the violence is continuing to go up.

I think one of the questions that we are trying to get at is that when you have reports of continuing progress in the training and the equipping of Iraqi security forces, 192,000 trained and

equipped, what does it really mean? What does it really mean in terms of the capabilities of those forces?

We have looked at this number I don't know how many times, 192,000. No. 1, we know that not all the Iraqi forces have all the equipment that they need. They have varying degrees of training. There is absenteeism in the Iraqi forces. There are ghost employees. So you have to peel back these statistics that are being presented as evidence of progress and get behind them.

There is one Iraqi unit that has a capability level of No. 1, that is, fully capable of operating independently of Coalition forces. Well, the question is, for how long? Do they have the logistics that will allow them to sustain themselves? Do they have the maintenance and the operations? Can the Iraqi Government afford the growing amount of security forces that it is now tasked to provide for?

Mrs. MALONEY. Well, this increased incidence of violence that you are tracking, you are tracking that the police and the army are getting stronger, yet the incidence of violence is increasing too. Have you looked at why that is happening? Is that more unrest among the people? Have you tried to understand why the increase in violence? Even though the amount of policing and military force is increasing, why is the violence getting more?

Mr. CHRISTOFF. Because you still have a very capable and lethal insurgency in Iraq.

Mrs. MALONEY. I know, but we had a capable insurgency a year ago, and yet the violence was not as pronounced as it is now, according to your own study.

I would like to move to another subject very quickly, and that is the women. The reports I read on the constitution, they are saying in certain areas of the country, sharia may be imposed, but in other areas of the country it will not be imposed. This is very troubling to me. I certainly have met with my colleagues on both the Democratic and Republican sides of the aisle with many Iraqi women leaders. One was a judge, and they will no longer let her sit as a judge. I find that very troubling. One was a doctor. They are no longer letting her sit as a doctor and perform her work.

I would like to hear maybe, have you done any studies on that at GAO or do you have any information? Can anyone clarify the status of women? I know the status of the constitution is not clear, so therefore the status of women is not clear. But if you could, clarify that aspect.

Mr. CHRISTOFF. We have not done specific studies on women's issues in Iraq, but I think you point out a good point in the sense of how is the constitution that is trying to balance the tenets of democracy and the tenets of Islamic law going to allow for previous rights that women had in Iraq and how is it going to be implemented in the different provinces within Iraq.

Mrs. MALONEY. I think that is an excellent question, and you stated it, and I don't think anyone has the answer right now. Anyway, I hope the State Department and DOD remain firm in supporting women and women's rights.

I just left a committee hearing next door, actually with Mayor Nagin from Louisiana, and it was on Hurricane Katrina and the response there. I would say that you have a great deal of experi-

ence now in monitoring accountability in Iraq for government property and for, really, contracting and for other areas.

I know there have been some mistakes, but looking forward if you could, give our government and the government of the city and State some insight and direction, some guidance, what steps should they be taking right now to ensure more accountability for Hurricane Katrina spending than spending in Iraq, where a lack of controls from the outset really allowed for waste and fraud.

Can you give some direction to what we should be focusing on? And what advice would you give to the leaders responding to Hurricane Katrina, not only to help the people, but to have real accountability and oversight in real time?

Mr. GIMBLE. What we have done is, we have five audits announced, that we are on the way to the various places in that sector. We are also a member of the DOJ task force on the investigative side. In fact, I am going down tomorrow for a press conference they are having down there in the city with a lot of the Inspectors General.

I think one of the big things, the lessons learned, is when they started backing away from the noncompetitive contracts, I think that was a key lesson we learned, and I think it is good to see the folks are doing that.

We will have a number of issues to deal with. I think a lot of the same issues that you say in Iraq are fairly similar. However, I think it is different from the standpoint that somebody pointed out earlier that we can actually go down there and move around in the area, where you can't really do that in Iraq.

So I think you will see a big presence, at least in the DOD IG and the DOD community, where we have about 190 people lined up to go down and do some work in that area.

Mrs. MALONEY. Mr. Krongard, do you have a comment or any advice you would give to the leaders there?

Mr. KRONGARD. My department, the Department of State, is not actively involved in Katrina because we don't have many procurement activities or contracting down there for reconstruction. So I am not participating.

Mrs. MALONEY. From your experiences.

Mr. KRONGARD. I would say that I think this lesson is already being implemented, which is, it is important to look at the way in which money is obligated, not just the way it is spent. And I think that lesson is being learned very quickly, and the IGs are on the ground down there looking at the way contracts are let, the format, the selection of winners and so on. I think that is an important thing, rather than waiting until the money is spent.

Audits are done, looking backward.

Mrs. MALONEY. Would you elaborate? You would suggest that they look more on what they want to accomplish or how they——

Mr. KRONGARD. Well, both. Are the scopes identifiable? Are the deliverables identifiable? Do people understand what a contract objective is, not just how it is being let, what the competitive bidding is—all of those aspects.

Mrs. MALONEY. So you would focus on what you want to accomplish even more than the competitive bidding?

Mr. KRONGARD. I am not sure I would prioritize them. I think they are both very important.

Mr. SHAYS. If we could maybe come back to that, I want to do a second round with everybody. But I would like to make sure that someone explains to us what is the hang-up with competitive bidding? In other words, do we have in process that competitive bidding takes 9 months or 10 months? If it does, then that is the reason we don't have it.

The gentleman has time.

Mr. LYNCH. Thank you, Mr. Chairman.

Just in terms of where we are right now, I think we not only have a Reconstruction Gap, I think that you folks have perhaps a preexisting auditing gap or accountability gap that you have to deal with.

I appreciate the fact, Mr. Bowen, that you have only been there a year in your current position and you have taken some steps in the right direction, I believe. But we are not there yet.

I keep going back to the point of the end of the CPA, the Provisional Authority, massive amounts of cash coming out of New York, the Federal Reserve Bank of New York, where the committee has received documents as to the amount of cash on those planes, all going into Iraq at the 11th hour. We have accountability supported by hard documents as to where that money went, up until the point that it goes over to the interim government and then a lot of it disappears.

So I just have a lack of confidence that we have the infrastructure in place, the accounting procedures and the auditing mechanisms in place. I just don't think they are there yet. But I think we are moving in that direction.

We also have, and I was very happy to hear Mr. Gimble's remarks about not defending that, defending the fact that DOD has no one on the ground. I appreciate your honesty, sir.

I have reports of about $34 million in U.S. assets that can't be traced on the ground; we sort of lost them. There are vehicles, there is equipment, but there is about $34 million that is missing. I suspect it is more than that, but this is what we know is missing.

All this boils down to, really, metrics, and that is what we are looking to you for. After Saturday, with this election and assuming that the constitution is ratified and that the elections go forward in December, our withdrawal from Iraq, getting our sons and daughters home, really depends on metrics, on measuring the things that you are responsible for, the ability of the Iraqi security forces to handle their own security, the ability of the Iraqi police department, the construction efforts in terms of water and electricity and infrastructure there in Iraq. That is all critical to our withdrawal and to the success of the future Iraqi Government. So—it is very, very, very important and we are relying on you, so this system needs to be tight. It needs to be as accurate as possible, because we are betting everything on this.

There are a lot of us here from both parties that want to get our sons and daughters home as quickly as possible and to be there not a day longer than they have to be. That date is determined by those metrics that you supply us with. So it is critically important,

not just with the construction effort, not just with the security effort, but our whole involvement here in this country.

We just need to have DOD on the ground, and if it takes 45 more inspectors, if you need to double the number of auditors to get us there, then, you know, given the fact of the sacrifices that we are making right now, that would seem to be a very modest and reasonable request. It is just one that I offer to you.

Again, I appreciate the good work that you are all doing and your service to this country. I appreciate the chairman continually working on this issue. I just think there is a way we can all do our job a little better here.

Thank you.

Mr. SHAYS. We will be closing up just with a few clarifications.

Mr. Christoff, you make me nervous when you give a statistic that says, or in general—and let me say, you are a very credible witness, so I have nothing but admiration for the job you do and your responses. I think you are trying to be extraordinarily fair and very accurate.

So I just want you to tell me, when you say the violence has gone up, I look at August and your own statistics—November and January of last year—and they are higher than the highest point since February. So we are not as high as we were in August last year, as high as we were in November, as high as we were in January of last year.

Where we are is at a low point in March, which was significantly lower than any part up to April last year.

There has been a slow creeping up again; is that accurate?

Mr. CHRISTOFF. Mr. Chairman, I stand corrected. I think those statistics were characterized to us—and I agree with them—by DIA is, if you look at them going back to 2003, you see lows, you see a peak, it is followed by more lows, and then a slightly higher peak. So there have been ebbs and flows in terms of the violence.

Mr. SHAYS. But there were three high peaks last year that we haven't come close to?

Mr. CHRISTOFF. Right. The November one with Fallujah was one of the high peaks.

Mr. SHAYS. I tend to also want to say that, having been there—and I say "having been there," because I get a different feeling than if I wasn't. I happen to agree with Mr. Kucinich, you need to be there; and I would love for him to come with us, because you see different things.

I could walk in 14 provinces and feel relatively safe except for organized crime. I can't be in four provinces. But I hear people saying, Iraq is a mess, and they think that what they see in Baghdad is what is everywhere. So I get a little sensitive to that.

But with the police issue, I want to be clear that the State Department is involved with the traffic cop part of police work, right? You are not with the paramilitary——

Mr. KRONGARD. That is correct. I am not sure I would call them traffic cops, but you are correct.

Mr. SHAYS. That is not fair. That is not fair. Non-paramilitary. They are on the firing line.

That is a real mistake for me to say that. Thank you for correcting me.

My understanding is you are in charge of that incredible facility in Jordan?

Mr. KRONGARD. When you say in charge, yes, the State Department is, INL is, that is right.

Mr. SHAYS. And you are overseeing it in the State Department?

Mr. KRONGARD. That is correct.

Mr. SHAYS. Is there anything any of you want to put on the record before we get to the next panel? Any issue?

Mr. KRONGARD. The only thing I would say, sir, both yourself and Mr. Lynch emphasized the question of whether we all thought that the oversight was adequate, and we all kind of nodded.

I would like to qualify it in the sense—and I did say this before. I don't want to overly say it, but the fact is, for 2005, I feel I was able to provide oversight, do these assessments of Iraqi police training, evaluate the rule of law programs and do a bunch of audits and other things.

We have zero funding for 2006 in respect of either Iraq or Afghanistan, so I do not feel that we are able to provide the oversight for this current year.

Mr. SHAYS. If you didn't say that, it would be a dereliction of your duty.

Mr. KRONGARD. I think so.

Mr. SHAYS. So it is our job to get you those dollars.

Mr. KRONGARD. Yes, sir.

Mr. SHAYS. Mr. Gimble.

Mr. GIMBLE. I would like to just agree with that. We have not been plussed up to do any work over there. We can redirect and we will do some of that. However, what that does is take away from mission areas in other parts of our responsibilities, of the other $400 billion of the Defense budget. So we have basically been flatlined as an organization for the last several years.

The cost per man-year, or FTE, has gone up. Consequently, on the performance side of our house, on the investigative side, we have actually lost people over the last several years. So we are resource constrained. I am not saying we don't have flexibility.

Mr. SHAYS. I understand. You may not look at the A–22 or whatever. There will be other things that won't be looked at in the process that we as a committee want to make sure you look at. So that is helpful information as well.

Anything else?

What are we doing, Mr. Bowen, in terms of refunding you for the next 2 years?

Mr. BOWEN. Yes, the proposal in the Senate bill would transfer $30 million in IRRF dollars to fund the SIGIR. There is some resistance to that, I think, within IRMO and perhaps OMB. They don't see using IRRF dollars to fund our operations as a proper use of that.

Mr. SHAYS. Then it is up to OMB to tell us where we are going to get the dollars. It is, because the work needs to continue.

Mr. BOWEN. Yes.

Mr. SHAYS. We had mismanagement and corruption in the Civil War, we had it in World War I, World War II. Truman was clearly on top of those issues. It is just a requirement. The fact that people know you are looking means that money will be better spent.

I did make a misstatement, though. I said sometimes when you watch the bureaucracy more, they become more efficient. Sometimes what happens with the bureaucracy is, they tend to cross their T's and dot their I's more and become almost more bureaucratic, when sometimes you need efficiency action. Which gets me to this very last point, and that is the whole issue of—you started to smile when I asked the question earlier about the auditing of dollars. Do you remember what the issue was, both of you?

Mr. BOWEN. The auditing of IRRF dollars?

Mr. SHAYS. No. Give me a second here.

Mr. BOWEN. There is one issue maybe I could address that I didn't get to speak to on the insurgency issue, that you were addressing with Mr. Christoff.

Like you, I have spent a fair amount of time over there, 9 of the last 18 months in Iraq. And you were right; you made the point I wanted to make that this year, that this year it is not a predictable pattern. What it is tied to is January 30th, we had a very successful election, and that had a stabilizing effect because there was a perception of stability at the top.

I see a direct correlation between perceptions of stability within the Iraqi Government and the level of insurgency, because then February and March were the two most peaceful months we have had since the war began.

But the government, you remember, was not able to form. They couldn't build the parliamentary numbers necessary to appoint a president. We were into April without a government, and we were starting to get close to a deadline that we would have lost and had to go through another election. What happened was, the insurgency boomed.

Then, as we moved toward the August deadline for the vote to send the constitution for referendum, we didn't meet it. We had to delay 7 days, and then we had to delay 3 more days, and the insurgency went up.

So the last point is, we have to wait and see how the October 15th election is going to affect it. If it was a success like the January 30th one. The pattern may prove true this will be a stabilizing effect on the country.

Mr. SHAYS. I will just make a quick point though. They missed their deadline, the constitution, by a week, and the press called it a failure. I was struck by the fact that we had our Articles of Confederation, which were an abysmal failure, and a Constitution of the United States that said if you were Black you were three-fifths of a person and a slave, and in order to get Virginia to agree to be part of the Union, fortunately, we adopted 10 amendments.

I am hearing people now being critical that there is negotiation between Sunni, Shi'a and Kurd, as if somehow they failed in their constitution. I am learning from my experience that the Iraqis are taking to politics better in some cases than we ever imagined. They love the bartering and the dialog. Maybe they like the dialog too much.

You gave me the chance to ask my question, so I love you for that, and we will close with this: The bidding. It relates to bureaucracy.

How long does the bidding process take? Can we do a bidding process that takes 2 weeks or a month; or by its very nature you have to announce what you are bidding for, you have to leave so much time, and are we then talking 6 months, and then does that, in a sense, make bidding not practical in some instances?

Mr. BOWEN. Well, there are expedited measures that you can use in bidding contracts.

Mr. SHAYS. All right. Expedited, how long would it take from start to finish?

Mr. BOWEN. I don't know the details of this. Perhaps Mr. Gimble, who knows these very well, can address it.

But I would say in Iraq, we did that, we did 7-day competitions on many contracts, put them up on Federal Business Opportunities; and they were posted and a week later they were competitively awarded.

Mr. SHAYS. Do you all agree we can allow for notice? Can anyone speak to this, or do I need another panel?

Mr. KRONGARD. Sir, are you talking about domestic or foreign?

Mr. SHAYS. Just tell me either way.

Mr. KRONGARD. Because the representative was talking about Katrina, and of course, we are all talking about Iraq.

Mr. SHAYS. I am talking foreign, but I mean—I thought—meant domestic-military here. No, I am talking foreign. I am just trying to understand.

And I don't want to give an excuse to the administration. The excuse to the administration is decisions had to be made, people had to be put in place, we needed cooks, we needed security guards, and we weren't going to take 6 months in order to find them. So we just did it and it was cost-plus.

Now, is there a point where cost-plus gets replaced by bidding? That is all I am trying to understand. If you can't speak to it, that is fine, but I would think Inspectors General could speak to this. No one can?

Mr. GIMBLE. I think there are some reasonable accommodations that can be made to the contracting procedures. One of the things that came up a little earlier was the IDIQ contracts, indefinite delivery, indefinite quantity. Essentially those are competed, and then you just do task orders on them as you come up, complete the task orders. That would cut down, a lot, the time.

I think you see a lot of these contracts when they are pulling back and competing them, they are becoming a basic contract competed. And then you have your task orders, I think.

Is it cumbersome? Yes, it probably is. Can it be worked? It is probably not a good practice, what we would take the position on sole-sourcing without competition ever. There would be certain times in emergency situations that might be the only vehicle available.

I think you will see some of that in Katrina, that there are going to be some sole-source contracts that will stand.

Mr. SHAYS. Well, my colleague and I need to wrestle with this one.

Mr. BOWEN. Mr. Chairman, one other point.

Mr. SHAYS. Then we are going to go to our next panel. If there is any point anyone wants to make before we close, this is your chance.

Mr. BOWEN. On that subject, two issues. One, when I met with General Casey during my last visit, we talked about this issue, how can we provide for a more effective, competitive contracting process in an overseas wartime situation? And I suggested that perhaps the FAR, Federal Acquisition Regulation, should be amended to provide a supplement of sorts, a wartime contracting supplement that promotes competition but does so with more reasonable guidelines, so that when you are trying to build a school in Fallujah and being shot at, you don't want to post on Fed Bus. Opps and wait a month, because that is not possible. So you are forcing the contracting officer to find the quickest way to get it done, and sometimes that leaves him open to criticism.

So I think it is an appropriate subject for the Congress to look at and amend the FAR and provide a supplement that takes accounts in contracting in hazardous wartime environments.

Second, we will be looking at this in our December Lessons Learned Panel on contracting in Iraq. We bring in all the experts who did the contracting, learn the lessons and the problems we encountered in executing it, and in providing solutions like this going forward.

Mr. SHAYS. OK, thank you. Any comments, Mr. Christoff?

Mr. CHRISTOFF. A different topic to put a plug in, I think, for an important report that we want you to read and all members of the subcommittee should read. It's our classified report that will be forthcoming shortly looking at the security conditions in Iraq. It is going to discuss the conditions that are in the campaign plan, and also looking at that strength of the insurgency and the capabilities of the Iraqi security forces.

Mr. SHAYS. Thank you. He loses his job if I don't read the report.

Mr. CHRISTOFF. OK.

Mr. SHAYS. Mr. Gimble.

Mr. GIMBLE. I have nothing else.

Mr. FARINELLA. One point, Mr. Chairman, on the discussion earlier on coordination among the various IGs, because I think it is a very important point, and I think the coordination, from my personal experience sitting on the committee chaired by Mr. Bowen, it's excellent. Not only is the coordination excellent among the various IGs, but during these quarterly meetings, we get down to a level of detail where each individual IG is discussing exactly what they are doing, what they are planing. And there is a conscious effort to avoid any type of duplication in what the various IGs are doing.

I think we have been very successful to date in avoiding duplication. Not only are we discussing what we are doing and what we are planning on a quarterly basis, but we are also exchanging information among each other on a continuing basis. I think it goes a long way to providing the broadest level of coverage that we all can possibly provide without duplicating each other's efforts.

Mr. SHAYS. Anything else?

Ms. MORROW. I would just say that the Army Audit Agency does have 18 auditors currently in Iraq and Kuwait. Our primary focus

with those folks is with the LOGCAP contract. There are a number of challenges with that we are looking at. We are finding that, you know, soldiers are receiving quality goods and service.

But we are concerned about, you know, some of the contract administration issues, so we are working those and we will continue to work those. We have been able to respond to all of the requests that we received from Army leadership to support them from an audit perspective in Iraq. We also have three audits that are currently ongoing related to Katrina. So, again, our focus is to try to help the Army in those efforts to give good stewardship to the dollars it's entrusted to.

Mr. SHAYS. Thank you. Mr. Christoff, you made mention of the report on security. I have read a report a few months ago. That is not the report.

Mr. CHRISTOFF. You read the draft. We are still waiting on the final security review on the part of the DOD.

Mr. SHAYS. Yes. What I read was pretty incredible.

Mr. CHRISTOFF. Yes, sir. Absolutely.

Mr. LYNCH. Thank you, Mr. Chairman. I just want to point out there was a great paper that came out of the Army War College—I know we have a few graduates here—and it discussed the Iraq contracting/auditing-related issues, stuff that you are centrally involved in. There was a quote in there where it said—it warned that contractor loyalty to the almighty dollar, as opposed to support for the frontline soldier, remains a serious issue in Iraq.

That's the point of interdiction for all of your offices. So we are relying heavily on you for that protection for our frontline troops, as well as for the American taxpayer, but we appreciate the job that you are doing.

Thank you, Mr. Chairman.

Mr. SHAYS. I would like to add my words. Thank you for your patience. It's been a while, a long panel discussion, and thank you. Thank you for allowing us to put so many of you in one panel. It helped us out a lot. Thank you.

We go to our second panel and our last panel. I am really looking forward to the dialog we will very having.

Dr. Mary Habeck, the Paul H. Nitze School of Advanced International Studies, Johns Hopkins University; Ms. Judy Van Rest, executive viCe President, International Republican Institute; Mr. Les Campbell, senior associate and regional director, Middle East and North Africa, National Democratic Institute.

Given this is an investigative committee, we do swear in our witnesses. I would ask you to rise and we will swear you in.

[Witnesses Sworn.]

Mr. SHAYS. I would note for the record our witnesses have responded in the affirmative. It is great to have all three of you here. We have an opportunity to have any discussion that you would like on the issue of Iraq and how we are doing and what you have seen happen. You are all experts on this issue. You all work for three outstanding institutions. We are very fortunate to have you here.

Do I pronounce it Habeck?

Dr. HABECK. Habeck.

Mr. SHAYS. Dr. Habeck, right. No, it is not on. You have to clip it down below.

Dr. HABECK. OK.

Mr. SHAYS. Again, how do I pronounce your name?

Dr. HABECK. Habeck.

Mr. SHAYS. Habeck.

Mr. SHAYS. Habeck. Doctor, Welcome. We will allow you 5 minutes, so you can trip over the next 5 and go right down the road here.

STATEMENTS OF MARY HABECK, THE PAUL H. NITZE SCHOOL OF ADVANCED INTERNATIONAL STUDIES; JUDY VAN REST, EXECUTIVE VICE PRESIDENT, INTERNATIONAL REPUBLICAN INSTITUTE; AND LES CAMPBELL, SENIOR ASSOCIATE AND REGIONAL DIRECTOR, MIDDLE EAST AND NORTH AFRICA, NATIONAL DEMOCRATIC INSTITUTE

STATEMENT OF MARY HABECK

Dr. HABECK. Thank you very much, Chairman Shays, for this opportunity to talk about this very important matter. I will be very brief. I was in Iraq for 2 weeks in August and had an opportunity to observe up close how the Corps is fighting their part of the war. I did not have an opportunity to really observe the political process or what is happening economically in the country, so I can't really talk about those parts of it.

But as far as the purely military side of this war goes, it is my expert opinion that the Corps is winning their part of the war. I would like to talk about how precisely we define winning.

This is one of those instances where talking about issues like territory or numbers of attacks really do not get at the heart of the problem. Instead, we have to think about what was the main objective of this war, and that is to create a free, independent, stable Iraq that will not act as a haven for terrorists that could possibly attack us.

That was the main objective of the war, and put in those terms, one can say that there has been tremendous progress made toward winning this part of the war. And, in fact, progress is precisely what is overwhelmingly obvious, no matter what terms of their success are used to look at them. I would like to talk in three different areas.

First of all, there has been progress on the political process. There has been now two successful elections with a tremendous buy-in on the part of the Iraqi population, and it is progress that has been assisted entirely by the fact that the U.S. military has been on the ground assisting that process. Without their presence, none of this would have happened. The military understands that political process is, in fact, how this war will be won and how success will be determined. They are not committed to attrition as the way to win this war, just simply killing off terrorists; they are really committed to the political process.

Second, there has been progress in the creation of the Iraqi armed forces. Many people have commented on the fact that there is only 1 unit, that is put at Level I, and 37, I believe, that are put at Level II, and all the rest at Level III. What this does not take into consideration is the fact that a year ago none of these units even existed, and that over the past year we have seen the

creation of these units and their training successfully bringing one of those units up to American readiness standards.

After conversations with people within the Corps, I can also say that bringing them up to American standards is, in fact, not the standard that they wish to use. And they are perfectly comfortable with Level II that can be used as the standard for measuring success within these units. They will be able to provide, that is, security within their own borders and prevent invasion from—you know, take care of border security.

Third, there's been progress in fighting the insurgencies, although that is not always obvious. I think one thing that should be very clear is that we are not fighting one insurgency here. We are fighting, in fact, four separate insurgencies. That is not four separate insurgency groups, but four separate insurgencies with different goals, objectives, and people they appeal to.

Mr. SHAYS. The four are?

Dr. HABECK. The four that are generally used by the mill to talk about this is, first, the Shi'a, which are sort of represented by militia, such as Sadr's Mokhtiar army. The second one would be the former Baathists or the Saddamists, as they are now called. The third one would be Sunnis, who simply reject the idea of Shi'a being in charge of their country, but were not formerly Baathist.

Finally, there are the foreign fighters or the jihadis, or fighters coming in from abroad with a very different ideology about what they are doing in the country.

If you take a look at all four of those and kind of break down what is happening with each of those, you can say that the political process has managed to disarm three of the four and only one of them is at full strength still. This explains why there was such a huge drop in the number of attacks immediately after the elections in January.

Mr. SHAYS. Why is that?

Dr. HABECK. The fact that three of the four have bought into the political process. Not entirely. There are still Baathists around who believe that they need to take part in an armed insurgency, and there are still a few of the Sunni rejectionists who still believe that they need to do this.

But allow me to give an example. In the town of Ramadi, that was basically a Sunni town, three of the four sheiks there after the elections realized that they were no longer—by the way, this was a place that was full of violence and had all sorts of attacks on Americans and also on Iraqi security forces before the elections. After the elections, three of the four sheiks who control the territory within the town announced publicly that they wanted to participate in the political process and that they were renouncing violence. This explains why in Ramadi, in particular, there was such a huge drop in violence after the elections in January, end of January 2005.

What about that fourth? Well, this explains what I just said, that there are some of the Sunni rejectionists and some of the Baathists who have not bought into the political process. And it's about 25 percent that have decided to continue to fight.

If you take a look at this upswing in violence that people were talking about over the last couple of months, it can be explained

almost entirely by the jihadis increasing the number of their attacks on areas all over the country. But even here, there have been measures, there are ways to measure success against these jihadis. They are not growing in strength nor are they growing in effectiveness. If you take a look at numbers of the attacks and then ask the questions about numbers of effectiveness, you can say that effectiveness has not, in fact, increased over time. That is, none of these insurgents are getting better at what they are doing. They are not able to draw in more people into the insurgency.

So, you know, the number of attacks goes up but the effectiveness is still about 10 to 15 percent. Effectiveness means they actually cause injury to someone or actually cause death or some sort of destruction to the property. That has not changed at all and still remains 10 to 15 percent. They are not becoming more effective. They are not drawing more people into this violence over time. So you can say that even by that sort of measure, there has been success on the part of our military. Thank you.

Mr. SHAYS. Thank you very much.

[The prepared statement of Dr. Habeck follows:]

August Trip to Iraq
Dr. Mary Habeck, SAIS

- I was in Iraq August 13-26 at the invitation of LTG John Vines, commanding general MNC-I, to help the Corps staff understand jihadist ideology.

- I am a military historian, with eleven years experience teaching in the history department at Yale. After July 1 I became an associate professor at SAIS. I have published four books, the latest on jihadist ideology.

- I can only comment on the military's part in the war; I did not meet with any Iraqi political leaders or any Coalition officials working specifically on political issues.

Meetings

- GEN George Casey, commanding general MNF-I
- LTG John Vines, commanding general MNC-I
- LTG 'Abd al-Qadir Jassim, Iraqi Ground Forces commander
- MG Rick Lynch, Deputy Chief of Staff MNF-I
- MG Richard Zahner, C-2 MNF-I
- BG Peter Vangjel, Effects MNC-I
- MG Angelo Pacifici, Deputy Commander MNC-I
- MG Jeong, commanding general MND-NE
- Many members of the MNC-I staff, including the C-2, C-3, C-9, and IO Effects staffs
- Ambassador Daniel Speckhard, Director IRMO

Observations

- The Corps is winning its part of the war.

- The Corps knows that the center of gravity for this war is the political process, i.e. the creation of an independent, free and democratic Iraq through the constitutional referendum, the December elections, and the establishment of an independent military that can protect the new state.

  - The Corps has prioritized protecting the political process and military and predicated reconstruction efforts on their significance for the political process.

- The Corps is committed to winning the military piece of the war through the counterinsurgency tactics successfully used by Gen. Creighton Abrams; that is, they are committed to "clear and hold," not attrition warfare.

  - The problem is that there are not enough US and Coalition forces on the ground in Iraq to clear and hold the entire country.

- But this is a necessary condition. The US could commit another 200,000 troops to Iraq and pacify the country, but this would destroy a significant part of the political process: the creation of an independent Iraqi military that can protect its own state.
  - Iraqi ownership of the war must begin now, not as US and Coalition forces are leaving the country.
  - *Contra* Andrew Krepinevich, the Corps and Force have committed serious resources to creating a strong Iraqi army and police force and to integrating them into Coalition military efforts.
    - The Military Transition Teams (MiTT) are just one expression of this seriousness.
    - When I arrived in Iraq on 14 August, each day saw 1-2 actions (patrols, raids) by Iraq Security Forces (ISF) with US units. By the time I left on 26 August, ISF was participating in a minimum of 5-6 actions every day.
    - The active participation of ISF in the battle at Tall 'Afar was a natural result of this growing partnership.
    - Iraqi units will now be used to hold Tall 'Afar and eventually to clear and hold other cities as well.
    - The Corps has set up an Iraqi Ground Forces HQ within Camp Victory, created an Iraqi Joint Operations Center, and held command post exercises with the Iraqi high command; in other words, there is now an Iraqi military operational leadership to take over their part of the war.
    - There are enough resources in country and in place to create a viable, strong and independent Iraqi military—the only necessity is time to train and equip the ISF for the task ahead.
- The Corps has developed a modification of clear and hold to use until ISF is strong enough to take over the war effort.
  - They have been "clearing and holding" tribes, sub-tribes and clans rather than terrain or cities.
  - This allows them to control cities without large numbers of Americans.

- The clearest example of this strategy can be seen in Ramadi, Samara, Fallujah and other central Sunni cities that were once hotbeds of insurgent activity.

- Ramadi is the perfect example of how this strategy works.

  - The Corps has won over three of the four sheikhs who control the city. The result has been a huge reduction in attacks in the area.

  - The attacks that do occur are due entirely to the hold-out fourth sheikh. He is not actively participating in the fighting, but is allowing al-Qa'ida forces to use his territory as a safe-haven and, in return, al-Qa'ida carries out attacks away from his territory.

  - The Corps is now working to convince the hold-out sheikh—through carrots and sticks—to stop granting al-Qa'ida safe-haven. Once this happens, Ramadi will be pacified.

- The result of the Corps' commitment to the political process is that, of the original four insurgencies (the Shi'a, Saddamists, Sunni rejectionists and al-Qa'ida), three have been mostly neutralized.

  - The Shi'a and Saddamists are basically neutralized (although a few major Ba'thist figures remain potent enemies), the first through the promise of political power and the second through attrition.

  - The so-called Sunni rejectionists have also been mostly neutralized—primarily by the promise of political power through the coming elections.

  - The remaining insurgency, and the only one still at full-strength, is the foreign fighters (the jihadis loyal to Zarqawi and through him al-Qa'ida).

    - Defeating this insurgency is much more difficult and may be a longer-term proposition than the other three, since it folds into the larger global war on jihadism.

    - However, their primary recruiting tool is the American presence in Iraq and the creation of an independent Iraq should disarm them. Of course this could potentially push their recruits back to their home countries, where they may create serious problems for their own governments and even for our own homeland security.

  - I should note that according to their own statements, the jihadis and the Sunni rejectionists have made the Shi'a, not the Americans, their primary target. This helps to explain why there are comparatively fewer attacks on US personnel.

- The Corps and the Force know that this is an ideological struggle, and both have set up serious mechanisms for dealing with this part of the war.
    - It is too early to say if these have been successful, but the fact that the Corps and Force have committed serious resources to winning "hearts and minds" is significant.
    - Of course the most important part of the struggle for hearts and minds remains the political process. See e.g. the seismic shift within Iraq and the region after the January elections.
- One brief comment on the attritional side of the war: I believe that the Corps has been successful in seriously attriting the "middle management" of the insurgencies.
    - This is not a criticism. By getting rid of the "semi-senior" leadership, the Corps has ensured that the insurgencies are not learning from their combat experiences.
    - This can been seen most clearly in the inability of the insurgencies to improve the effectiveness of their attacks. Only about 10-12% of all attacks are effective, a rate that has not changed over the past eight months.

Suggestions For Improving US Performance in Iraq

- Despite the favorable assessment given above, there are three areas that create concern.
    - First, there is not enough institutionalization of the lessons that the military is learning from the experience in Iraq.
        - There is a database of best practices and lessons learned available for forces new to Iraq and GEN Casey is considering the creation of an in-country training base to provide new troops with counter-insurgency training specific to the Iraq war.
        - The key question is: has there been provision made to change basic training in the US, alter officer training courses, or amend ROTC to reflect the lessons learned in Afghanistan and Iraq (or Bosnia, for that matter)?
        - If not, the result will be the same as it has been for every counter-insurgency that the US has fought: only those officers and men who participated directly in the fighting will learn anything, while the next generations of the military will need to learn the same lessons again at a high price in national blood and treasure while courting defeat.
    - Second, there is not enough cooperation between the Corps and State in Iraq.

- I was at the Corps two weeks and never met anyone from State or the Embassy. This is despite the fact that many of the tasks that the Corps has taken on (such as reconstruction on the ground, negotiations with local leaders (sheikhs and imams in particular), and the entire ideological struggle) could benefit from State support.

- None of the civilians at the Embassy that I spoke with during a two-day conference (except one political appointee and the USAID representatives) had been outside the Green Zone. The major reason for this is security concerns and the cost of using contractors to provide the extra security required by State. Of course, this was a rather small sample of Embassy personnel and may not be typical.

- It was apparent that one reason for the conference was to acquaint the new director of IRMO (Ambassador Daniel Speckhard) with reconstruction efforts by the Corps and troops on the ground. No one at the Embassy had any idea what the Corps had been doing.

- Third, there was not enough cultural preparation for Corps staff before they came to Iraq.

  - This was not for lack of trying: LTG Vines had several experts speak to his staff before deployment, had at least one of the experts develop a reading list to prepare the staff for Iraqi and Arab culture, and BG Vangjel had an extra week-long seminar for his IO staff.

  - The problem is, rather, one of conceptualization of the problem before deployment, and is rooted in our understanding of the war on jihadism.

    - The US military must recognize the relationship of the jihadis to the religion of Islam.

    - Training in Islamist and jihadist thought and practice is key for ordinary officers and men on the ground, and especially for the IO staffs.

- I can also second retired Gen. Barry McCaffrey's comment that Corps public relations are a disaster, although I place the blame squarely on the belief by the American presses that only death and destruction deserve front-page coverage.

Conclusions

- We are winning the war in Iraq.

  - Of course, we can still lose if any number of things go badly:

        - The American people might talk themselves into giving up;
        - The US might withdraw too quickly, leaving a weak and unstable Iraq behind;
        - Or a civil war might break out between the rival Badr Corps and Mahdi Militia or between the Shi'a and Sunnis.
    - These imponderables should blind us neither to the good progress made so far, nor to the positive trajectory that the war is taking.

- My positive assessment of progress in the war is largely predicated on the work done by GEN Casey and LTG Vines. The importance of the skill, intelligence and personality of these two men for winning this war cannot be overstated. LTG Vines in particular just gets it.
    - He explicitly links military, political and cultural understandings of the war. Kinetic operations are never given the priority unless they will have a positive political effect.
    - He understands the complexity of the sectarian, tribal and ethnic issues involved in this war and is actively working to win over Iraqis based on this knowledge.

Mr. SHAYS. Ms. Van Rest.

STATEMENT OF JUDY VAN REST

Ms. VAN REST. Thank you, Mr. Chairman, and members of the subcommittee. I am pleased to have this opportunity to appear before you today to discuss recent developments in Iraq and progress in Iraq's struggle for sustainable democracy. Immediately following the fall of Saddam Hussein's regime, I spent more than a year in Iraq working for the Coalition Provisional Authority, and, for the past year, have been involved in the work of the International Republican Institute in Iraq.

Over this period of time, I learned to never be surprised by the resiliency of Iraq's people or by the depth and strength of their desire to live in peace without fear, and by a rule of law that is just and fair. I come before the subcommittee today with a continued optimism and a strong belief that the people of Iraq, with the help and support of the United States and its allies, will succeed in accomplishing the democratic transformation of their country.

Saturday's constitutional referendum is proof of Iraqis' desire and dedication to democracy, as was the January 30th election this year, which brought millions of Iraqis to the polls, despite incredible danger to their lives. Whatever the final outcome of the constitutional referendum, I believe we will continue to see the majority of Iraqi citizens participating in the political process of their country.

Unfortunately, events over the past several months have provided no shortage of material to sustain pessimistic views that many have expressed regarding Iraq's future: terrorist attacks that claim a tragic human toll and have hindered Iraq's efforts to rebuild its infrastructure, energize its economy, and improve living standards. These are the matters of the gravest concern. But these issues do not represent the whole story and should not be allowed to overshadow or diminish the magnitude of what the Iraqi people have accomplished in this historic year.

The story of the past year has been one of extraordinary, frequently heroic public and private perseverance in the face of a ruthless enemy. Much has been accomplished. Prior to January 30th, hundreds of Iraqis participated in the political process, either running as candidates for the Iraqi National Assembly or conducting a wide range of voter education activities.

On January 30th, nearly 60 percent of Iraq's eligible voters came to the polls despite the violence leading up to election day. The Iraqi independent election commission conducted an election that produced a National Assembly that Iraqis feel legitimately represent their interests. And while it took several frustrating months of negotiations, by April 2005 Iraqi leaders established a sovereign government that turned its attention to the drafting of a constitution.

Iraqi civil society organizations across the country provide an input into the constitutional process by conducting hundreds of workshops on the constitution and communicating the results of these workshops to the constitutional drafting committee and members of the National Assembly. The constitutional committee and

leaders of the National Assembly grappled with politically difficult problems and realities.

And while they continued to negotiate, almost to the day of the referendum itself, to resolve differences on issues, the fact that they arrived at a final document that gained support of some major Sunni leaders should be seen as an accomplishment.

Iraq's second electoral event was successfully held on October 15th with an estimated 60 percent turnout. And the process remains flexible. While the compromises contained in the draft constitution were hardly satisfactory to everyone, and many Iraqi citizens were not fully informed of the last-minute changes, there will be opportunity for issues to be addressed in the near future. If adopted, the new constitution will allow amendments to be presented to the Iraqi voters in a referendum within 6 months after a new National Assembly is seated.

One of the most notable developments in these past months has been the beginning of political maturation of Iraqis by their participation and political dialog, negotiation, compromise and voting. The emergence of an organized and vocal Iraqi civil society has been one of the truly great but largely unheralded stories.

The International Republican Institute has supported the development of four major Iraq civil society organizations. Between them, they have reached every corner of Iraq and thousands of Iraqi homes with educational materials, print, TV and radio, that have given Iraqis the chance to be part of the national political debate surrounding the January 30th elections and October 15th referendum. IRI partners, with the financial support of American taxpayers, have aired more than 300 hours of political process-related television programming. These partners have printed and distributed more than 2 million booklets, fliers, and posters to inform the public about voting procedures and constitutionalism.

Prior to the referendum, they conducted 1,400 constitutional workshops throughout the country, reaching more than 57,000 Iraqis. They have risked their lives in public rallies to advocate for human rights and gender equality. To illustrate, in the province of Salahaddin, one community leader held a series of public workshops in schools and mosques to explain the basic principles of Iraq's new constitutional structure. His efforts did not come without tremendous personal cost. He was threatened repeatedly, but he was not deterred. Because of his courage and efforts, more Iraqis have a better understanding of the distribution of powers and responsibilities in the proposed political system.

A few weeks ago, a group of women advocating gender equality decided to hold a rally in a downtown Baghdad square. They were confronted by another more conservative women's group that strongly disagreed with their agenda. After spending the day rallying against each other, the two groups sat down and discussed the issue. While they didn't reach consensus, they did gain greater understanding and appreciation of differing perspectives.

In a television ad, a Sunni cleric urged viewers to participate in the constitutional referendum. The spot taped in the cleric's mosque aired both nationwide and on satellite channels. Given the cleric's religious affiliation, his willingness to support the referen-

dum process in a high-profile manner constituted an act of remarkable courage.

These extraordinary individuals and organizations, which have benefited from partnerships with international nongovernmental organizations such as IRI and the National Democratic Institute, will continue to grow in strength and influence and become powerful in sustaining voices for democracy and rule of law in Iraq. They will, however, need continued support.

IRI intends to be fully engaged in helping Iraqis prepare for the next milestone, the December National Assembly elections. In the weeks leading up to that date, IRI will engage in a broad range of activities designed to encourage political party outreach, as well as to continue to support the election-related activities of Iraqi's emerging civil society groups. The group will place special emphasis on programs intended to draw greater numbers of women and youth into Iraqi politics.

Likewise, it will be imperative that we remain engaged with the new National Assembly and the ministries of the next government. Though some institutional development has taken place, it will take years, and not months, for Iraqis to repair the damage to their governing institutions that resulted from 30 years of Baathist dictatorship and corruption.

American taxpayer-supported programs are making and will continue to make a critical difference. IRI, for example, is working with Iraqi partners to create an arm of the Iraqi National Assembly, similar in concept to our own Congressional Research Service. This and many other initiatives aimed at strengthening Iraqi governing institutions in the capacity of its new bureaucracy are critical investments in Iraq's democratic future, but it will take time.

The story behind the past year's headlines in Iraq has been a story of building an accomplishment and determination in the face of a deadly enemy. This past Saturday's national referendum and likely adoption of a new constitution by the people of Iraq represents another chapter in that story.

I am optimistic that others will follow, and that with continued help and support of the United States and the broader international community, Iraq will successfully transition into a democracy that will serve as an inspiration for the rest of the Middle East.

Thank you.

Mr. SHAYS. Thank you very much.

[The prepared statement of Ms. Van Rest follows:]

Judy Van Rest
Executive Vice President
International Republican Institute
Testimony before the House Government Reform Committee
Subcommittee on National Security, Emerging Threats, and International Relations
Tuesday, October 18, 2005

Thank you, Mr. Chairman and Members of the Subcommittee. I am pleased to have this opportunity to appear before you today to discuss recent developments in Iraq and the progress in Iraq's struggle for a sustainable democracy.

Immediately following the fall of Saddam Hussein's regime, I spent more than a year in Iraq working for the Coalition Provisional Authority (CPA), and for the past year have been involved in the work of the International Republican Institute in Iraq. Over this period of time, I learned to never be surprised by the resiliency of Iraq's people, or by the depth and strength of their desire to live in peace, without fear, and by a rule of law that is just and fair.

I come before the Subcommittee today with continued optimism and a strong belief that the people of Iraq, with the help and support of the United States and its allies, will succeed in accomplishing the democratic transformation of their country. Saturday's constitutional referendum is proof of Iraqis' desire and dedication to democracy, as was the January 30 election this year, which brought millions of Iraqis to the polls despite incredible danger to their lives. Whatever the final outcome of the constitutional referendum, I believe we will continue to see the majority of Iraqi citizens participating in the political process of their country.

Unfortunately, events of the past several months have provided no shortage of material to sustain the pessimistic views that many have expressed regarding Iraq's future. Terrorist attacks on civilians, Iraqi police and National Guard forces, government officials, and members of the Multinational Forces in Iraq have continued to claim a tragic human toll. The insurgency has hindered efforts to rebuild Iraq's infrastructure, energize its economy

and improve living standards. As long as the violence continues, the risk of further escalation and of spreading inter or intra communal conflict remain. These are matters of the gravest concern. They constitute a dangerous and persistent threat to everything that we, our partners, and Iraqi leaders are trying to achieve. Moreover, they present a threat to the broader goals of democratic political reform, economic development, stability and peace throughout the Middle East.

But these issues do not represent the whole story and should not be allowed to overshadow or diminish the magnitude of what the Iraqi people have accomplished in this historic year. The story of the past year has been one of extraordinary, frequently heroic, public and private perseverance in the face of a ruthless enemy. Much has been accomplished.

- Prior to the January 30, 2005, election, hundreds of Iraqi candidates stepped forward to run for the Iraqi National Assembly (INA), and multiple political parties and dozens of civil society groups conducted a wide range of voter education activities. On January 30, more than 60 percent of Iraq's eligible voters came to the polls despite the violence leading up to Election Day.
- The Iraqi Independent Election Commission conducted an election that produced a national assembly that Iraqis feel legitimately represent their interests. According to IRI's poll released on September 27, about 65 percent of Iraqis strongly approve or somewhat approve of the work of the INA.
- Even though it took several frustrating months of negotiations, by April 2005, Iraqi leaders established a sovereign government that turned its attention to the drafting of a constitution.
- Iraqi civil society organizations across the country provided input into the constitutional process by conducting hundreds of workshops on the constitution, and communicating the results of these workshops to the constitutional drafting committee and members of the INA.

- The constitutional committee and leaders of the INA grappled with politically difficult problems and realities including:
    - How to insure that the Sunni community was appropriately represented in the Iraqi National Assembly and in the constitution drafting process following an ill-advised Sunni boycott of the January elections;
    - How to reconcile the Islamic history and character of the Iraqi people with their desire to develop legal structures and institutions that would insure equal rights for women and for minorities and provide the foundations for a successful economy; and
    - How to respect the ethnic and sectarian diversity of the population without undermining its long-term viability as a unified state. De-ba'athification policy and the constitutionally defined ethnic identity of the country were other particularly difficult points of contention.
- While Iraqis continued to negotiate almost to the day of the referendum itself to resolve differences on these and other issues, the fact that they arrived at a final document that gained support of some major Sunni leaders should be seen as an accomplishment. Iraq's second electoral event was successfully held on October 15 with an estimated 60 percent turnout.
- The process remains appropriately flexible. While the compromises contained in the draft constitution put before the Iraqi people October 15 were hardly satisfactory to everyone, and many Iraqi citizens were not fully informed of the last minutes changes, there will be ample opportunity for issues to be addressed in the near future. If adopted, the new constitution will allow amendments to be presented to the Iraqi voters in a referendum within six months after a new national assembly is seated. In addition, many other critically important matters such as the composition of the Iraqi Supreme Federal Court and laws governing division of natural resources and decentralization, for example, have been left for the future consideration of the INA.

Whether the constitution adopted will ultimately provide the foundation for a law-based society in which internationally recognized civil rights and personal liberties are

safeguarded is going to depend in large measure on the character of Iraq's future legislatures and governments. And it will depend on the future choices that Iraqi citizens make at the ballot box.

One of the most notable developments of these past months has been the beginning of political maturation of Iraqis by their participation in political dialogue, negotiation, compromise and voting. Largely unnoticed, the sea change taking place in Iraq's political culture has unfortunately been overshadowed by the terrorism and violence that have dominated headlines around the world. The emergence of an organized and vocal Iraqi civil society, for example, has been one of the truly great, but largely unheralded, stories.

The International Republican Institute (IRI) has supported the development of four major Iraqi civil society organizations. Between them they have reached every corner of Iraq and thousands of Iraqi homes with educational materials - print, TV and radio – that have given Iraqis the chance to be part of the national political debate surrounding the January 30 elections and the October 15 referendum. IRI's partners, with the financial support of American taxpayers, aired more than 300 hours of political process related television programming. These partners have printed and distributed more than two million booklets, flyers and posters to inform the public about voting procedures and constitutionalism. Prior to the referendum, they conducted 1,400 constitutional workshops throughout the country, reaching more than 57,000 Iraqis. They have risked their lives in public rallies to advocate for human rights and gender equality.

To illustrate:

- In the province of Salahaddin, one community leader held a series of public workshops in schools and mosques to explain the basic principles of Iraq's new constitutional structure. His efforts did not come without tremendous personal cost. He was threatened repeatedly, but he was not deterred. Because of his courage and efforts, more Iraqis have a better understanding of the distribution of powers and responsibilities in the proposed political system.

- A few weeks ago, a group of women advocating gender equality decided to hold a rally in a downtown Baghdad square. They were confronted by another, more conservative women's group who strongly disagreed with their agenda. After spending the day rallying against each other, the two groups sat down and discussed the issue. While they didn't reach a consensus, they did gain greater understanding and appreciation of differing perspectives.
- In a television ad, a Sunni cleric urged viewers to participate in the constitutional referendum. The spot, taped in the cleric's mosque, aired both nationwide and on satellite channels. Given the cleric's religious affiliation, his willingness to support the referendum process in a high-profile manner constituted an act of remarkable courage.

These extraordinary individuals and organizations, which have benefited from partnerships with international non-governmental organizations such as IRI and the National Democratic Institute, will continue to grow in strength and influence and become powerful and sustaining voices for democracy and rule of law in Iraq. They will, however, need continued help and support.

IRI intends to be fully engaged in helping Iraqis prepare for the next milestone, the December national assembly elections. In the weeks leading up to that date, IRI will engage in a broad range of activities designed to encourage political party outreach as well as continue to support the election-related activities of Iraq's emerging civil society groups. The Institute will place special emphasis on programs intended to draw greater numbers of women and youth into Iraqi politics. IRI will continue to measure public opinion by conducting national surveys and focus groups, in part to help political parties better understand the views of their constituents. IRI will provide consultations for a national reconciliation effort to foster consensus among different ethnic and religious groups on the issue of possible constitutional amendments. Finally, IRI will continue to encourage peaceful resolution of conflict by expanding ongoing efforts to draw disaffected Sunnis into the political process.

Likewise, it will be imperative that we remain engaged with the new National Assembly and the ministries of the next government. Though some institutional development has taken place, it will take years, and not months, for Iraqis to repair the damage to their governing institutions that resulted from 30 years of Ba'athist dictatorship and corruption. We have seen repeatedly in the course of post authoritarian political transitions in other parts of the world that democratizing processes can be delayed or derailed as a result of ineffective or failed post authoritarian governments. Technical training and assistance in the areas of policy analysis and design, project management and communications, among other things, will be essential for at least the next several years.

American taxpayer supported programs are making and will continue to make a critical difference. IRI, for example, is working with Iraqi partners to create an arm of the Iraqi National Assembly similar in concept to our own Congressional Research Service. It will provide Iraqi legislators, members of government and their staffs with access to unbiased sources of information and analysis on public policy issues, and with connectivity to the worldwide information network. This and many other initiatives aimed at strengthening Iraqi governing institutions and the capacity of its new bureaucracy are critical investments in Iraq's democratic future.

The story behind the past year's headlines in Iraq has been a story of building and of accomplishment and of determination in the face of a deadly enemy. This past Saturday's national referendum, and the likely adoption of a new constitution by the people of Iraq, represents another chapter in that story. I am optimistic that others will follow, and that with the continued help and support of the United States and the broader international community, Iraq's will successfully transition into a democracy that will serve as an inspiration for the rest of the Middle East.

Thank you.

Mr. SHAYS. Mr. Campbell.

STATEMENT OF LES CAMPBELL

Mr. CAMPBELL. Thank you, Chairman Shays, Representative Lynch, it's a pleasure to be here again.

I will dispense with a description of NDI's activities in Iraq. I know you know them well, and they are contained in my written statement. I am afraid I will come across, I think, as slightly less optimistic than my fellow panelists, both about the referendum and also about the general situation.

The trends that NDI observed in mid-2004 and I include in the written part of this statement—part of an excerpt from an assessment that I personally and others from NDI did of the political situation in March 2004—the trends we saw then, the fragmentation of political space, the growth of sectarianism and tribalism, the search for safety and security and safety within one's own ethnic group, the increasing pull of the religious extremists, continues to pace through 2004 and much of 2005.

In the October 15th referendum that took place in this atmosphere, fragmented atmosphere—and the question on the referendum quickly, several months ago, became not whether the draft constitution would help heal ethnic and sectarian divisions, and not even whether the constitution would lead to the—pardon me. The question became whether or not the constitution would help heal sectarian and ethnic divisions, not whether the constitution would lead to the establishment of the important institutions of democracy and to good governance.

Some commentators took to describing a draft constitution as a compact among competing ethnic and sectarian groups, rather than a blueprint for a new political system. That was, I think, an important change through the summer. Indeed, the way that the constitution was drafted, at least 50 laws will have to be passed to define major sections of the constitution, including major questions on revenue sharing, the functioning of the supreme court, which has a big impact on the status of women in Iraq, and the jurisdiction of the various regions.

For Iraqis themselves, according to focus groups conducted recently by NDI, the majority of Iraqis cared less about what was in the constitutional document than they cared about getting this milestone behind them to get a chance to "move on." In the words of one Sunni focus group, a participant from Ramadi, "The constitution is the most important thing because it can pave the way for the achievement of other things."

So I would argue that the draft constitution and the referendum should be viewed neither as a detailed road map for governance, because it is not nor should it be viewed as a compact between potentially warring parties because it didn't even quite work that way because, in fact, some of the big decisions were put off; but it should be viewed as a benchmark or a milestone on the long road to democracy, as something that needed to happen, was important to happen, to get behind us, and the Iraqis to move on.

In that context, the referendum and the process leading to the referendum was a success. Voter turnout, as Ms. Van Rest said, was about 60 percent, maybe slightly higher than the January elec-

tion. But voter turnout in the majority Sunni areas was dramatically higher, going in many cases from 5 percent to as much as 80 percent turnout in Sunni areas. In Al Anbar and Salahaddin, the early returns show 80 percent turnout.

Well, one could take the cynical view that the Sunni population mobilized only to defeat the draft constitution. NDI staff in Baghdad have heard from a number of Sunni political party leaders that a fundamental decision has been made to use the political system to pursue policy goals. While the decision to participate in electoral events may have little immediate impact on the insurgency, Sunni participation in future elections and future governments could have an enormous influence on the development of a truly representative political system.

While the argument can be made that the negotiation process for the constitution was hurried and flawed, the fact is that the majority of Iraqi citizens are happy with the contents of the constitution, or at least they acquiesce to the contents. Certainly the Kurds and many of the Shi'a population of Iraq think it's fine.

And the overall passage—or, I should say, the overall majority in the country for the constitution was never in doubt. What was, though, and still is in doubt, is whether or not the population opposed to the draft, mostly residing in majority Sunni areas of Iraq, could muster the two-thirds majority required in three provinces to veto passage of the document. As of this speaking and writing, the two-thirds threshold has been reached in two provinces, Al Anbar and Salah Eddin, and there is a simple majority against the draft in at least one more province, Ninevah.

The latest information this morning that we have been gathering, and I have had the advantage of receiving a few e-mails during this meeting, says that the "no" vote in Ninevah Province is as high as 54 percent now. That could actually increase.

Part of the bad news of this, I think, is that if the area of Mosul, which I think you know, which has been hotly disputed, full of conflict and so on—if the vote starts adding up near the 60 percent range, and there are a number of irregularities—which there have been, according to the observers in Iraq, and there certainly were in the January election—the outcome of the referendum may, in fact, be disputed. I think it will be disputed. And if that vote in the Ninevah Province does creep up in the mid-60 to high–50 range, I think that dispute will be a legitimate dispute.

In other words, it's possible that the threshold for veto—if not met, could easily be—the threshold could come within 10,000 to 20,000 votes. So the story is not over and I think we will see in the next few days it will continue.

Having said that, the referendum was characterized by the Kurds, shown by the average Iraqi again defying violence to vote—Iraqis have proven that democracy is essential to their view of the future. There is no doubt about that. The referendum was remarkably well run under the circumstances. It is interesting that the election commission itself is the one that is auditing the results. They have taken action right away to audit the results to make sure that people perceive the counting is fair.

So I think the lessons learned are fairly clear. Democracy is a goal shared and embraced by Iraqis. Political processes work best

in Iraq when the citizens feel ownership of those processes and when Iraqis are empowered to organize and implement. U.S. assistance is best when delivered discretely and in a manner designed to bolster and support Iraqi processes and actors. And the political and democratic process in Iraq is not a panacea or a silver bullet, but it is a necessary step on the road to security, economic prosperity, and stability. As such, U.S. support for a democratic Iraq must be clear, steady, and backed by sufficient funding and diplomatic support.

The next steps, to conclude, for democracy in Iraq, despite what happens in the referendum—because it is not a disaster if it is vetoed—we go into an election in December in any case. And Sunni participation will have been cemented, which is good in my opinion for the next step, including the development of the national and local governing institutions, national and local government coordination and communication, the better engagement of youth and women in political processes, and, of course, the operationalizing of the constitution through over 50 pieces of implementing legislation.

Thank you very much.

[The prepared statement of Mr. Campbell follows:]

Statement by

Leslie L. Campbell, Senior Associate and Director of Middle East Programs
National Democratic Institute

Before the Subcommittee on National Security, Emerging Threats and International Relations of the House Committee on Government Reform

October 18, 2005

The National Democratic Institute (NDI) appreciates this opportunity to present its views on fostering democracy in Iraq and in particular to offer observations about the constitutional referendum held on Saturday, October 15, 2005.

Background on NDI's Programs in Iraq and the Middle East

NDI's work in Iraq and in the Middle East has been the natural outgrowth of 21 years of experience of working around the world with the National Endowment for Democracy (NED) and its other core institutes --the International Republican Institute (IRI), the Center for International Private Enterprise (CIPE) and the Solidarity Center.

The appropriate role of these organizations is to provide support for those forces in non-democratic societies that are seeking to promote peaceful political change, often against seemingly insurmountable odds, or at great personal risk to themselves. In new democracies, we offer assistance to governments, political parties and civil society who are finding ways to work cooperatively to construct and consolidate their nascent democratic institutions.

NDI now has 10 offices in the Middle East that are working with a large network of committed Arab democrats and reformers to promote political party development, parliamentary strengthening, and open and fair election processes.

In addition to its main office in Baghdad, Iraq, NDI also operates four sub-offices, several of which house "democracy resource centers" for use by Iraqi political activists, in Basra, Hillah, Kirkuk and Erbil.

NDI's programs in Iraq focus on civil society development, political party strengthening, assistance with the formation of a democratic legislature and executive branch of government, including assistance in drafting the constitution, supporting women's political participation and helping ensure an open and fair electoral process. To implement these programs, NDI draws on a number of Iraqi and international experts and has produced numerous publications in Arabic and Kurdish.

Constitutional Dialogue & Education Program: NDI's Constitutional Dialogue & Education Program, in coordination with five regional Iraqi NGOs, was designed to facilitate constituent involvement in the constitutional process through civic education and public input. More than 3,000 dialogue sessions were held, reaching close to 250,000 Iraqis. The participants in the dialogues shared their opinions on the constitution with members of the National Assembly's Constitutional Committee. Upon completion of the draft, NDI launched a public education program that included information sessions to introduce and broadly explain the content of the constitution to approximately 100,000 Iraqis and small town hall meetings with public officials who will be expected to apply the provisions of the constitution in the course of their work.

Governance Assistance: NDI's governance program has three primary objectives: to provide assistance and technical support to the National Assembly and to the executive branch as well as support the constitutional drafting process. The Institute held orientation sessions and provided materials for members and staff when first elected into office. Additional training sessions are designed from members and staff requests on parliamentary procedures and legislative drafting. During negotiations on the draft constitution, NDI assembled a team of international experts to offer technical and advisory assistance by discussing issues, answering questions, and drafting short advisory papers and memos addressing matters of particular interest to the members of the Constitutional Drafting Committee. NDI is also assisting the Assembly with developing information technology capacity and an enhanced communications infrastructure. The Institute will continue to provide international comparative resources to all Iraqis in support of this program.

Domestic Election Monitoring: NDI's election program focuses on promoting legitimacy and transparency in the electoral process. Specifically, the program concentrates on working directly with civil society groups in the creation of a broad-based civic coalition responsible for monitoring Iraqi elections. Training for the civic coalition focuses on non-partisan domestic election monitoring. For the January 30, 2005 election, an umbrella election monitoring organization, the Iraqi Election Information Network (EIN), assisted by NDI, trained almost 10,000 non-partisan domestic election monitors of which more than 8,000 were present in 80 percent of polling locations in Iraq. EIN built on this success by monitoring the voter registration process in August and presenting its findings to Iraq's electoral commission. NDI continues to provide technical assistance, training, materials and consultative support to changing conditions leading up to the constitutional referendum in October and the December elections.

Supporting Women's Political Participation: NDI's program to strengthen women's political participation in Iraq is designed to foster an environment in which women are viewed as credible and effective leaders. The Institute works with political parties and civil society organizations in developing concrete, organic strategies for including women in political structures. For example, the Institute established an engendering of the constitution project to assist Iraqi women leaders and activists in their efforts to guarantee the inclusion of women's rights in the Iraqi constitution, through a variety of outreach activities, including meetings with members of the National Assembly's Constitutional Committee. NDI also continues to build a network for women political activists, which provides a forum for assistance, along with an electronic newsletter that reaches across party lines and provides women with the skills to present themselves as professional and competitive candidates. More than 200 women political party members have been trained in voter mobilization for the October 15 referendum, and the Institute is currently identifying women party members who are interested in training other party members on the basics of voter mobilization.

Political Party Strengthening: The Institute's political party program has a long-term goal of building coalitions and strengthening political parties that represent a democratic middle. Since January 2004, NDI has trained more than 2,000 political activists from at least 250 parties around the country on issues such as party organization, leadership, voter outreach, communication, fundraising and budgeting. Other political party training includes campaign academies and workshops that provide hands-on activities on message development and dissemination. Prior to the January 30

elections, NDI provided assistance to 40 out of the 111 entities that participated in the parliamentary elections, and 11 out of the 12 political entities that won seats in the National Assembly.

Civil Society Development: NDI's work with Iraqi civil society groups focuses on democratic political awareness and citizen participation in Iraq's political life. Specifically, the Institute assists civil society groups in developing basic organizational structures and strategic plans for becoming actively involved in the political process including monitoring elections and providing citizen input on the constitution. NDI also assists partner organizations develop a collective voice so that they can play an intermediary role between citizens and public officials. The Institute implements these programs by facilitating regular meetings between leaders of civil society groups, organizing seminars to discuss the role of civil society in a democracy and arranging workshops and consultations for groups to build their internal capacity. NDI has awarded more than 100 small grants to organizations around Iraq to implement targeted programs to increase citizen participation in the political process.

Excerpts from a Political Assessment in Iraq, March 2004

I want to start my testimony today by quoting from an assessment of political development in Iraq that I wrote in March 2004. While still retaining the optimism about the future of Iraqi political and democratic development that I had put forward in a first report in July of 2003, I offered a warning:

> In July (2003), while reporting growing Iraqi disillusion with a perceived lack of progress since the end of major combat operations, NDI observers also described an "explosion of politics" with optimistic Iraqis forming political and civic organizations at a rapid pace in order to enter into an expected debate about the future of their country. July focus groups found that a strong majority of Iraqis rejected the idea of clerical rule and that most Iraqis, even Kurds in cities like Kirkuk, retained a feeling of Iraqi identity that trumped most sectarian and ethnic differences. The NDI assessment in June/July was conducted under relatively favorable security conditions, with NDI delegates traveling freely to all areas of the country and interacting easily with Iraqi party and civic activists.
>
> As of this writing in March 2004, some of the political optimism reported in June has faded. While political parties continue to be formed (more than 300 parties now exist by some estimates), the growth of new parties and political entities seems to be more a process of political fragmentation than a sign of democratic exuberance. The fragmentation process has been given institutional encouragement through lack of progress on a political and electoral framework. Not knowing what type of election they might be facing (proportional, constituency-based), unsure about electoral boundaries, lacking laws to regulate political behavior and not perceiving an opportunity to be a part of a public policy debate, parties have little motivation to coalesce around common goals. In this political vacuum many Iraqi parties have become complaining forums for railing against the

"occupation" and criticizing the actions of the unelected Interim Governing Council (IGC). Strong figures on the IGC, many of whom are associated with political parties, have been using their privileged positions and proximity to the Coalition Provisional Authority (CPA) to extend their political power, becoming, in the process, fair political game for the majority of Iraqi parties which have few, if any, ties to the CPA decision-making process.

Party assistance programs and assessments have become more difficult with security conditions worsening, the intentions of foreign organizations being challenged and civilian development workers being attacked. Bombings at Kurdish and Communist party offices and the assassination of several political party figures have sent some aspiring political leaders underground. The importance given to the pronouncements of Shia religious and party leaders (particularly Ayatollah Ali Al-Sistani) has caused a backlash in Sunni dominated regions with the Sunni population looking for a Sunni oriented political force to counter growing Shia activism and influence. Tribal oriented groups and parties are flourishing as insecurity and uncertainty push Iraqis toward political groupings likely to protect narrow, parochial interests at the expense of a larger, democratic project.

While parties representing a broader, more tolerant stream of Iraqi political society - the urban educated and the politically moderate segments of the Sunni and Shia population - continue to form, the political space they need to flourish seems to be shrinking. Friday sermons at Mosques throughout the country are growing more virulent, with preachers exhorting followers to reject "western' political influences, which includes the promotion of women's rights and political participation. Baghdad, while still a relative haven of tolerance, with the mixing of men and women allowed in public places and alcohol openly served and sold at many locations, is becoming more closed, with many restaurants enforcing "family sections" for women and banning the consumption of alcohol.

The October 15, 2005 Referendum

The trends that NDI observed in mid-2004 – the fragmentation of political space, the growth of sectarianism and tribalism, the search for safety and security within one's own ethnic group, the increasing pull of religious extremists – continued apace through 2004 and much of 2005. The October 15th referendum took place in this fragmented atmosphere and the question around the referendum quickly became whether or not the draft constitution would help heal ethnic and sectarian divisions and not whether the constitution would lead to the establishment of important institutions of democracy that would eventually lead to good governance. Some outside commentators took to describing the draft constitution as a "compact" among competing ethnic and sectarian groups, rather than a blueprint for a new political system. Indeed, at least 50 laws will have to be passed to define major sections of the constitution, including major questions of revenue sharing, the functioning of the Supreme Court and the jurisdiction of regions.

In focus groups conducted recently by NDI, the majority of participants cared less about what was in the constitutional document than they cared about getting this milestone behind them to give a

chance to "move on". In the words of one Sunni focus group participant from Ramadi, "The constitution is the most important thing because it can pave the way for the achievement of other things". I would argue that the draft constitution and the referendum should be viewed as neither a detailed roadmap for governance nor a compact between warring parties, but simply as a benchmark or milestone on the long road to democracy.

In that context, the referendum, and the process leading to the referendum, was a success. Voter turnout, estimated at about 60%, was a little higher than the January 2005 election, but voter turnout in majority Sunni areas was dramatically higher. Some early estimates have Sunni participation in Al Anbar and Saluhddin as high as 80%. While one could take the cynical view that the Sunni population mobilized only to defeat the draft constitution, NDI staff in Baghdad have heard from a number of Sunni political leaders that a fundamental decision has been made to use the political system to pursue policy goals. While the decision to participate in electoral events may have little immediate impact on the insurgency, Sunni participation in future elections and future governments could have an enormous influence on the development of a truly representative political system.

Tens of thousands of Iraqis from all walks of life made their views known to the constitutional drafting committee through as many as 185,000 submissions that were received by that committee. More than 100,000 people attended town hall discussions on the constitution and dozens of rallies and meetings were held by Iraqi non-governmental organizations representing a variety of interests. Women's organizations played a particularly large role, organizing petitions and rallies and lobbying members of the Interim National Assembly. Dozens of radio and television spots explained the content of the draft constitution and millions of copies of the document were distributed to eager citizens.

While the argument can be made that the negotiation process was hurried and flawed and that the contents of the document were unclear, the fact is that the majority of Iraqi citizens are happy with what is contained in the document and its adoption by the majority of the population has never been in doubt. What was, and still is in doubt, is whether or not the population opposed to the draft, mostly residing in majority Sunni areas of Iraq, could muster the 2/3 majority required in three provinces to veto passage of the document. As of this writing, the 2/3 threshold had been reached in Al Anbar and Salah Eddin provinces with a simple majority against the draft in a third province,

Ninevah. The last minute compromise to allow changes to the draft to be made for several months after the referendum may help to reduce the impact of the constitution passing over the objections of much of the Sunni population.

Like the January 2005 election, the October referendum in Iraq was characterized by the courage shown by the average Iraqi in defying violence to vote. Again, Iraqis have proven that democracy is central to their view of the future. The referendum was remarkably well run, under the circumstances and organized primarily by Iraqis with relatively modest foreign assistance. Unlike the January election, the referendum saw widespread participation. Some of the lessons learned for the U.S. are clear:

- Democracy is a goal shared and embraced by Iraqis.
- Political processes work best in Iraq when the citizens feel ownership of those processes and when Iraqis are empowered to organize and implement.
- U.S. assistance is best when it is delivered discreetly and in a manner designed to bolster and support Iraqi processes and actors.
- The political and democratic process in Iraq is not a panacea or a silver bullet – but is a necessary step on the road to security, economic prosperity and stability. As such, U.S. support for a democratic Iraq must be clear, steady and backed by sufficient funding and diplomatic support.

Much will continue to be written ands said about the referendum and particularly about the problem of Sunni inclusion in the political process, but October 15th was another milestone that will lead to the goal shared by most Americans and most Iraqis – a peaceful a democratic nation that takes it place in the modern world. Next broad steps for democracy include the development of national and local governing institutions, national/local government coordination and communication, the better engagement of youth and women in political processes, and of course the operationalizing of the constitution through implementing legislation and sufficient attention to revenue and power sharing..

I thank you for the opportunity to testify in front of the committee.

Mr. SHAYS. Thank you very much as well.

We will go with you, Mr. Lynch. We have 10 minutes. Since there are two of us, we can go back and forth.

Mr. LYNCH. Thank you, Mr. Chairman. First of all, I want to thank you each for offering your testimony. It was very helpful. I think it gets to the underlying substantive issue. While the first panel focused on our military objectives and focused more on security, I think your views and your analysis is more targeted toward the ongoing situation, hopefully after withdrawal of U.S. troops from Iraq, and whether or not Iraqis are embracing change as opposed to embracing democracy, as Mr. Campbell has pointed out.

I just want to take a couple of points, because my own observations are just a little bit at odds, not significantly. But, Dr. Habeck, the assessment that the insurgency is becoming less effective—my own observations—just in terms of what we are trying to do to provide better protection for our troops, they have gone, the insurgency, all four—if you accept that view, all four insurgencies have adopted a more effective way, through technology, of killing our soldiers.

About 47 percent, almost half of our casualties now in Iraq, are from IEDs, improvised explosive device, most of them roadside cases in which our soldiers are killed. And yet there is no—because it is done through remote control, we don't necessarily get the insurgent in those cases. In those cases where there's a frontal attack, and it's actually an assault on our folks, generally those insurgents do not attack again. They are basically eliminated. But this dimension of it, this dimension of it where previously we had jammers on all of our vehicles that were able to reduce the effectiveness of these IEDs, again which are responsible for half of our deaths of American men and women in uniform, they have gone to a new technology that is more powerful in terms of its effectiveness. These roadside bombs now can precisely target U.S. convoys as opposed to having something laying in the road and, whoever rides over it, detonates it.

Now they are specifically targeting our folks. And the level of the charges as well as the technology that delivers that blast has been greatly improved. And I understand we are scrambling right now to develop a new generation of jammers that will stop these IEDs, as the previous technology had. But right now we have a gap between development and deployment of these new jammers on our vehicles.

So I would say over the next 3 or 4 months they have an advantage right now that they did not have before. So I would say, based on my visits to Iraq and to Walter Reed Medical Center, that they are indeed at least as effective, if not more effective, than they had been in the past.

I do get a sense of your analysis as well, Ms. Van Rest and Mr. Campbell, that this embracing by the Iraqi population of democracy itself will be the ultimate question here. I always think of—Samuel Adams had a great quote about the American Revolution. He said the revolution was in the hearts and minds of the people. I think it can be said for Iraq as well, whether or not in the hearts and minds of the Iraqi people, democracy is for them. We seem to be going about a process of building democratic institutions in Iraq,

trying to establish a constitution, a legislature, a judiciary that flows from that, law enforcement, all of those systems that are necessary for an operating democracy. But I question whether or not there's viability behind it.

It needs to be the hearts and minds of the Iraqi people that support those institutions, and it can't just be a Hollywood set of a court system or a police system, a parliament. It needs to have behind it people willing to die for it, just as our fathers and mothers and grandparents and other generations of Americans died for our democracy. There is a great sacrifice here. It remains to be seen, at least in my mind, whether or not the Iraqi people have bought in whole hog.

The chairman in his initial remarks talked about some of the Iraqis, a significant amount of the Iraqis sort of sitting on the sidelines waiting to see who wins this so they can decide who they will be with. I think the jury is still out on that.

But I would like you to talk about that a little bit and whether or not there is evidence there, apart from the elections, because the elections are as much a reflection of a desire for change, the desire for change. They have seen what Saddam Hussein and dictatorship brings them. They have seen what terrorists, Islamic extremism, and al Qaeda brings them. I think they are voting for something else. But I am not so sure that if in a matter of months or years that democracy is established there. But failures of democracy will also leave a bad taste in their mouth, and they will wonder whether or not, given this whole struggle that they are going through as well, whether it was worth it.

I know there is no definitive answer, but I do respect the fact that you have been on the ground there, and your institutions have focused on this problem specifically. Do you just—would you each just take a turn and address that underlying issue? Thank you.

Dr. HABECK. I just would like to address the effectiveness issue first. I am not saying there's been a lessening of effectiveness, just that it hasn't changed over time in a way that is worse for us.

Mr. SHAYS. Talk about—effectiveness of whom?

Dr. HABECK. Effectiveness of the insurgency. I am really not saying there has been a lessening of their effectiveness. It has basically stayed steady for the last year. By effectiveness, military measures, by attacks that do actually kill somebody, injure somebody, or damage infrastructure in some way. And that effectiveness level has been 10 to 15 percent for the last year basically, and hasn't changed.

What this means over time, basically, is that the insurgency is really not getting better at carrying out attacks. I think this can be made almost entirely on the fact they have been pretty effective—the military, that is—of killing off the middle management of the insurgency. That is, they haven't gotten off the very top people. They have gotten a lot of the lower people as well, but that middle management that would convey lessons from above to below has been killed off, so they are not learning anything over time.

It also speaks to the issue of whether they are growing in strength over time, are they attracting more people in? Are they—you know, is the insurgency a growing threat over time? And it is not.

So by effectiveness, another measure is how many people are killed per attack, which is what you are addressing. You are right, they have become more sophisticated with their IEDs. But the issue of the fact has to do with there are a very small number, less than 100 explosives makers, who are very difficult to find. They have become more adept over time at making explosives. But that is a very small number of people who are causing an awful lot of trouble throughout the country.

Actually, this is another issue which I am sure many people have brought up and talked about. But the basis of this, of the remaining jihadi insurgency, and also parts of the Saddamist insurgency and of the Sunni rejectionist insurgency, are the Sunnis. They only represent 15 to 20 percent of the population. That means 80 to 85 percent of the population has bought into something other than violence as a way of changing things.

Thanks.

Mr. LYNCH. But, if I may, 15 percent of the population trying to kill you is a serious threat. That is all I am saying.

In terms of the quality of the attacks, Balad Air Force Base, the busiest Air Force base in the world for the U.S. Air Force, probably gets attacked every 2 days, every 3 days, as I was there several months ago. The quality of the attacks, it's basically very amateur. I don't think they have actually caused a casualty in probably 8 months, even though they attack every other day. It is just lobbing something over the perimeter fencing, and it's not very effective.

On the other hand, we have situations in Mosul and the areas around Tikrit where those 100 or so are very active—and the bombmakers—and it appears that technology has advanced somewhat, and their effectiveness, so that small group to cause so much loss among other own troops is very, very troubling.

Dr. HABECK. Absolutely. The one other way of sort of measuring effectiveness is you can take a look at how much territory can they actually control. The fact is, they are not able to take over and run more than one medium-sized city at a time. So they are not spreading. They are not like able to control both Fallujah and Mosul or both Fallujah and Samara or Tal Afar and Samara and Fallujah. And they can only do one or the other.

What happens is, this has been the typical sort of way things have gone, at least up to now, is that the military will go into Fallujah and clean it out. And then they go to Mosul. They clean out Mosul and they go Tal Afar. So there's been this sort of a chasing around of the insurgency.

Mr. LYNCH. They call it "clear and hold," I believe. Clear and hold is the military——

Dr. HABECK. They have switched to that in the last year, and that has proven—actually about 8 months—and that has proven to be far more effective. But in my written statement I argued, and I have argued with other people, it would basically be possible for the U.S. military at the size they are now in Iraq to clear and hold the entire country.

This is why the second part of this is so incredibly important. That is, training up the security Iraqi forces so they can do the holding. We help to clear out, and then you bring in the Iraqi security forces and ask them to hold it for you. In places like Tal Afar,

they have actually now gotten the Iraqis to the point where they don't just hold; they can actually go in there and help with the clearing out process. Once you get to there, then you can turn the war over to them.

Mr. LYNCH. Ms. Van Rest.

Ms. VAN REST. With regard to your questions about whether Iraqis have in their hearts and souls a dedication to democracy, from our experience, we certainly believe that they do. We work with hundreds of Iraqis, multiple civil society groups, political parties. And every day we see them risking their lives to either conduct workshops or to come to trainings. And some folks who have been leaders of the civil society groups have indeed lost their lives.

So we see a dedication to the idea of democracy. As both institutes know, democracy building takes a very long period of time. And so it's one thing to want democracy. It is another thing to put it into place. And that is where our programs are assisting many of these folks to understand the technical sides of building transparent institutions and setting up transparent processes and those types of things.

But there's no question in my mind that the Iraqis we work with—and again, there are hundreds of them—very much want democracy. It's not just change away from Saddam Hussein, it's definitely a democracy of their own making.

Mr. LYNCH. Thank you.

Mr. CAMPBELL. Excuse me. One of the advantages that I have had in looking at Iraq, for more than a decade I have been the director for Middle East programs at NDI for programs across the Arab world, from Morocco through to Iran. I have traveled to Iraq 13 times since the end of the war and have been involved a lot in Iraq.

What I have seen, in my judgment, in Iraq is more profound and more important than anything I have seen in any other Arab country in the sense that, after the war, almost 300 political parties spontaneously formed. We saw them form on any number of different bases, basically affinity groups of various sorts. Countless civil society organizations, citizens organizations. Iraq has now seen twice the mobilization of more than 10,000 Iraqi domestic election monitors. These two mobilizations of domestic election monitors have dwarfed anything that has ever happened in any Arab country. NDI and IRI, in our programs in other countries, have drawn Iraqis in. And Iraqis as individuals are consistently outstanding people who demonstrate incredible leadership.

For example, NDI just organized a campaign school, 4 or 5 days in Kuwait, for potential women political candidates from across the Arab world. The Iraqi women that came were stars. Of course, these are people who are elite people, who are very good at what they do. But all the other people from the Arab world were from the same sort of elite class. And the Iraqi women were very dominant in their performance and their skills.

So I actually believe very, very deeply, there is something important going on in Iraq, and there is something important to build from. My belief doesn't come from—even remotely come from agreeing with the aims of the war itself or the decision to invade, which I personally never thought was the right thing to do. And as an or-

ganization we have struggled with being so involved in Iraq in a project that I would say most of our members of our board of directors, to put it mildly, questioned. So I feel there is something very strongly there we can build on.

I think your point about a desire for change is an important one, though. As I was mentioning—and I probably didn't articulate it that well—about focus groups that NDI conducted throughout the summer. The "yes" vote on the constitution, according to our research, was much more about just getting something behind us. It was more a vote—wanting to move on, to have change, something different, thinking that this would, again, lead to some sort of path where things would get better. So it really wasn't about—you know, I think people who argue I think this was a vote for some more lofty goal are probably wrong.

I read an e-mail this morning from one of the Kurdish party activists who said of course he voted yes, and it was a historic moment. But then he went on in paragraphs to describe his disappointment in many, many things. Again I think it was important that people thought it was important to get out and vote. But I still think that is something we can build on.

My last comment, though, not my area of security—just to enter into this debate for a second—what NDI is finding in protecting many dozens of expatriate staff and many, many hundreds of NDI, local Iraq employees, we have found that we can protect ourselves against the insurgents basically. I won't get too much into that. But we have ways, we have the funding, the security posture, to do that.

What we find to be increasingly difficult in Iraq is the chaos, is the general insecurity; not the sort of organized attacks which we even can protect ourselves against. When we have lost people—and we have lost people—it has been to, for example, militias in Basra, the people masquerading as policemen who have killed people associated with our organization; people in and around Kirkuk who have been killed in local disputes. The country is fragmenting into warring factions, tribal warlords and so on, and it is that genuine security that I think is, frankly, a far bigger problem in the long run than the insurgency.

Mr. LYNCH. Thank you. I yield back.

Mr. SHAYS. You yield back the 20 minutes of your time.

I find, Dr. Habeck, that you are more optimistic than I am, and it is kind of fun to meet someone more optimistic than me. But I just kind of want to assure myself it is not based on naive thinking. I don't mean to imply that you are naive. You have a tremendous background. Your background is knowing the military and knowing Iraq. But what you did is spend most of your time with the military, correct?

Dr. HABECK. Absolutely.

Mr. SHAYS. So you weren't with Iraqis, you weren't with Sunnis, you weren't with Shi'as, you weren't with Kurds as a general rule.

Dr. HABECK. I did actually meet with a minister in Irbil, and I went up to Ramadi as well.

Mr. SHAYS. But you weren't in family homes listening to the conversation, so—and the reason I ask is that, you talk about the four, you know, basic groups: the Shi'as, al Sadr, the Baathists, which

I would assume you would put into that, the Saddamists. Do the Saddamists go with the Baathist or the Sunnis?

Dr. HABECK. With the Baathists.

Mr. SHAYS. Then you have the Sunnis, and you have the foreigners. Now, you said basically they were dealing with one group now.

Dr. HABECK. One and parts of these other two, but they are not at the full strength they were a year ago.

Mr. SHAYS. But let me understand what you mean. We still have the foreigners in full force, right?

Dr. HABECK. Absolutely. In fact, they are stronger than they were a year ago.

Mr. SHAYS. So the Sunnis, I think, are split now. They are not a unified force.

Dr. HABECK. That's right.

Mr. SHAYS. The Baathists are split.

Dr. HABECK. Right. In fact, I have heard some military people speculate that there is one, possibly two, kind of master-minds that are taking care—that are overseeing that entire part of the insurgency left, and the rest have bought in.

Mr. SHAYS. But even among the Shi'as, the Shi'as that are fooling around with the Iranians, it's not—they are not insignificant, particularly in the Basra area and down below; correct?

Dr. HABECK. As he mentioned, I actually agreed with what he had to say—in fact at the end——

Mr. SHAYS. He being? Mr. Campbell?

Dr. HABECK. I am sorry, Mr. Campbell. I do agree with him, that is a serious challenge, this kind of interim splintering of the country.

Mr. SHAYS. What I come up with is a strong foreign opposition, a split among Sunnis, a split among Baathists, and a split among the Shi'as, maybe a smaller split. But if I add up the split, three splits and one full, I get to, you know, potentially 2, 2½. So are you uncomfortable, based upon what you are telling me now, or even then—so it is really not one group, right?

Dr. HABECK. No. These are all groups that also have competing—let's take the Shi'a, for instance. As part of the Shi'a insurgency, I think you would have to, of course, count Sadr and his Mokhtiar Army and a couple of other key groups. But how large are they as part of the overall Shi'a. Well, he actually bought into the political process in January and ran and got somewhere between 2 and 5 percent.

Mr. SHAYS. Where he had 19 seats out of 240; is that right, Mr. Campbell?

Mr. CAMPBELL. Something along that line. I think somewhere in terms of the 2 to 5 percent of votes gathered.

Dr. HABECK. Yes. So that suggests there's a very, very small percent of the Shi'a, and that is why I almost don't count them.

Mr. SHAYS. Hold on a second. I would love to believe your optimism. I would. I want to be optimistic. I am. I am hopeful. Optimistic is not where I am at. I am hopeful to optimistic. Let's put it that way. It's 5 percent of the total vote, so 2 to 5 percent of the total vote, so he is maybe 10 percent of the Shi'as.

Dr. HABECK. Maybe. But you know, that is 65 percent.

Mr. SHAYS. OK. I basically viewed the election as a pretty strong success, and I am being a little facetious, but there's a lot of truth to my point that I knew it was a success when the press stopped talking about it. I mean, really, because it's—of all the—of anything you can say about the Iraqis, the one thing you can say is the election in January was a success. I was there. I know it was a success. It was a huge success. The transfer of power last June was a huge success. People said it wouldn't—I had a press conference with the Iraqi Foreign Minister. It was my press conference. I had no questions.

The Iraqis, who were the press, asked their new leader, as I was now a part of a relationship through the State Department, not part of the ruling party. The election in January was successful, and I think that we will find the election here was a success.

What I am interested in knowing, Mr. Campbell, because you spoke most of this, and Ms. Van Rest and Dr. Habeck, you can respond as well—I want to interpret the challenges of votes. Is it in a few places or within the whole province? I mean, is it within some towns within a province, or is it within the whole province? And is it based upon the fact that there were more—in other words, more voters than registration?

Maybe you could start, Mr. Campbell.

Mr. CAMPBELL. Sure. Well, I think the early information characterized the potential problems in three ways. In predominantly Shi'a areas, the Iraqi—the independent election commission has noted that there are unnaturally high numbers of "yes" votes, as many as 90–95 percent yes. So their assumption——

Mr. SHAYS. In areas where you wouldn't have that?

Mr. CAMPBELL. Well, even in areas where the population is Shi'a, but where 90 or 95 percent just sort of tests reality; where we have said this is basically a threshold that would invite them to audit. So they are actually going to take selected ballot boxes and take X numbers of ballots out of the boxes and see if it tallies up. So the same thing is happening——

Mr. SHAYS. I don't understand it. Do they have a paper trail that enables them to do this? In other words, if you stuff a ballot, how do you know that it's——

Mr. LYNCH. We are not talking about butterfly ballots here, are we?

Mr. CAMPBELL. Well, something along that line. There have been a few—some people are alleging that sort of vote fraud, although our experience from January is that the elections are quite well run. The notion of someone substituting a ballot box with all yeses or——

Mr. SHAYS. What is the potential of abuse?

Mr. CAMPBELL. Not likely, highly unlikely. So what they are trying to determine, they are looking at, actually, international experience. They are saying that because the U.N. and IFES and other American organizations are helping, they are saying that in an international experience, the 90 or 95 percent vote for any option is abnormal. Even if you accept that Iraq is polarized, it's abnormal.

So they will audit. What they will try to do is they will try to determine what a normal result might be. You know, you assume

that not everyone will vote one way. There are also instances in the North among the Kurdish vote where the voting was abnormally polarized.

And it's interesting that the irregularities on the January 30th election, were really in the Kurdish area, primarily where the Kurds, even the Kurdish leaders themselves acknowledged overzealous behavior on the part of the PeshMarga and the Kurdish police and so on to sort of enforce or police a standard vote.

So I think we may see that there was sort of zealotry in the predominantly Shi'a areas and predominantly Kurdish areas. That is important, and I think they will discover if there is some of that going on. However, when we get sort of hard-nosed about it, that probably had no impact on the outcome. This was a straight yes, no, up, down vote. Everyone understood going in that the majority of the Kurds would vote "yes," the majority of the Shi'a population would vote "yes." The fact that they have a bigger Shi'a majority voting "yes" doesn't matter very much.

Where this will come down to really is in places like Mosul, where you have a mixed population, where you clearly had a strong "no" vote, and where actual sort of chicanery and fraud and intimidation—for example, there have been some reports of ballot boxes being stolen at gun point. Where are those ballot boxes, what was in those ballot boxes, were they replaced with other boxes? This is going to probably take weeks to figure out.

I don't think this is a huge, huge issue. I mean, I think I share your feeling, Mr. Chairman, that overall the referendum process was successful in this incident. It went off in a way that Iraqis got a chance to express what they wanted. However, if I am in the shoes of the Sunni opposition to this vote, and I start to get wind that credible objective of local observers and the U.N. and IFES and the Iraqi election officials, who have been very good, are starting to investigate fraud, for example, in Mosul, and I think I am within 20,000 votes, I think, you know, as a political matter, I would probably make the most of this. I would stretch it out for months on end. So I think we are in for a protracted kind of period of them complaining.

Having said that, as I said in my earlier statement, I think what is really interesting and extremely important is that the Sunni population, I think in my opinion, has bought heavily into the political process as a way of making change and policy change. I hope I am right because that would herald, in my opinion, the most important change in the last year or two.

Mr. SHAYS. If you are right on that, Mr. Campbell, and even if it is rejected, if you get Sunni buy-in into a political process——

Mr. CAMPBELL. Or even if as long as these allegations, if they come up, are investigated in a credible, thorough way and people don't rush to judgment, I think that is key.

Mr. SHAYS. Ms. Van Rest, you can jump in.

Ms. VAN REST. I think Les covered it pretty much. But I think the one thing I would like to add is that it's important that the election commission has stepped up to the plate immediately and started auditing rather than just kind of waited for things other than kind of become a larger problem. I have observed elections all over the world, and there have been instances where an election

commission just won't either look at something, denies that there's a problem, and then there's this assumption there's a lot of fraud that occurred, though it might not have.

So that is another reason why I share your optimism about this election is I think that they conducted—the election commission certainly conducted the best election that it could under the circumstances, and they are turning their attention immediately to figuring out if there is fraud in any of these areas.

Mr. SHAYS. Did you want to say something, Dr. Habeck?

Dr. HABECK. Yes, just briefly. I want to emphasize that I am talking right now about the progress that is made. I am not saying they have won the war. I am not saying that anywhere. But they are making good progress toward that goal.

Mr. SHAYS. That part comes across. I was having a hard time sorting out four numbers to one. We straightened it, out and I think we are clear.

Dr. Palarino, who goes with me to Iraq, he wrote down, here is another example of not understanding Islam. If the mullah says to his congregation, vote "yes," just about everyone will vote "yes." Consequently, you will get an unnaturally high "yes" vote in Shi'a areas.

I think I happen to agree with that basic point. Maybe I could be persuaded differently. Doesn't a cleric have sometimes a pretty, you know, significant impact on the vote?

Dr. HABECK. I would say in the Shi'a areas in particular; not so much in the Sunni areas where an Iman can be just kind of somebody who is elected from amongst the congregation itself, but in the Shi'a areas where it is very hierarchical and they are held in a lot more esteem and have more education and so on. So I would say yes.

Mr. SHAYS. One of the most impressive things when I have been to Iraq was the work of NDI and IRI. What amazes me about what you do is you bring in—at least it appeared that way, and tell me if I am wrong—you are not bringing in Americans to sell them democracy. I encountered folks from former Yugoslavia who were there and so on.

Tell me a little about—you go in and you don't try to Americanize—what do you try to do. And then tell me who you brought into Iraq to help Iraqis understand democracy. Why don't we start with you, Ms. Van Rest?

Ms. VAN REST. Yes, we have an expat staff that is a mix of Americans and Eastern Europeans.

Mr. SHAYS. Eastern Europeans are folks that basically kind of experienced democracy as fledgling——

Ms. VAN REST. That is correct. They have gone through a transition period of their own. They were part of the early youth movements in Serbia, for example. These are staff who are there on the ground every day.

In addition to that, we bring in trainers. We have had American trainers who come in and talk about the basics of communications and constituent outreach, that type of thing. But we have also had legislators from Eastern Europe to come in and talk to the Iraqis about what they went through in running for office, and how it worked for them, and how they are struggling with their own tran-

sitions and their country's. We find that it really transfers, the information does certainly transfer a little better to Iraqis.

But we have always, when we have done programs around the world, understood that our American system is sometimes even difficult to explain to people, it is very unique, but there are basic tenets of democracy. So we have had people who are able to come in and talk about just the basic ways of doing things and then helping, say, in the case of Iraqis, figure out how they are going to apply these types of programs.

For example, town hall meetings. As I mentioned in my testimony, we have worked with a variety of civil society groups who held workshops in the runup to this referendum, and they held about 1,400 meetings, town hall meetings. These are not town hall meetings in the way we understand them.

Mr. SHAYS. You are bringing community leaders together, but you didn't do this in the Green Zone.

Ms. VAN REST. This is out. Yes, this is out.

Mr. SHAYS. It would amaze most of my constituents that there were meetings like this that happened, that happened without everyone getting killed all the time, because their impression would be that if you did that, you were a dead man walking.

Ms. VAN REST. Well, one of the important things to note is that, for obvious reasons, for security reasons, our expat staff cannot be out and about all the time, so what we have is the trainer——

Mr. SHAYS. You have Iraqis training Iraqis.

Ms. VAN REST. We train Iraqis, and then they go out. It is a multiplier effect.

Mr. SHAYS. As a former Peace Corps volunteer, that is the Peace Corps way, and I love it. I love it.

Mr. CAMPBELL. I will just jump in and amplify what Judy said. Just since you mentioned this, I was writing down here the nationalities of our staff. Just off the top of my head, and I am probably missing people, but we have people from Serbia, Croatia, from France, Romania, Bulgaria, Canada, Ecuador and Sweden, and I am sure I am missing a few, permanent over there for a year or more in Iraq.

As Judy said, I think that the hallmark of what we do in any country but Iraq are two things: One, as I mentioned in my testimony, we stand behind people, not in front. We are not there to wave flags and sort of drive some kind of agenda. We are there to back up what they are trying to do.

As I mentioned in Iraq, there was a spontaneous outgrowth. People want to take part in the system, and we are there to support that and be behind that.

No. 2, we are not there to impose some kind of system. The criticism often comes that there is a sense that somehow these American organizations are coming in to impose something. We are not. We bring a variety of experiences, and part of that is through the staff that we put forward.

I think both of us, both organizations, are highly committed, and it actually follows on the last panel to how this continues after we leave, because we will leave 1 day. And both organizations employ hundreds of Iraqis, but not just employ hundreds of Iraqis; we rely

on thousands of Iraqis to reach in turn hundreds of thousands of people.

Judy has mentioned statistics for IRI. NDI reached more than 100,000 individuals through its programs through August and September. That maybe was the work of five expatriates or foreigners, but that was probably the work of 2,000 or 3,000 Iraqis reaching those people.

Mr. SHAYS. I remember when I was in Iraq for the vote, and Dr. Palarino and I were there, in this case it was IRI, but I was triggered to comment, because I was so impressed with the staff at the NDI, and so I asked this young woman, she had an accent, and I wanted to know where in the United States she was from. She was younger than 30, and she was in charge of 28 people. I think she was younger than 30.

I said, where are you from? She gave me a town in the former Yugoslavia. And then I said, why are you here? And she said, almost in tears, that our country had shared with her and her country, fellow countrymen, democracy, and it had made all the difference in her life, and she wanted to share it with someone else. It was a very memorable moment in my life.

When I think of, and I make it with very real respect to you, Mr. Campbell, this is not a justification of our being there and so on, but I respect that you recognize that we are there, and your organization does, and it is powerful, the work that you are doing. It is absolutely powerful. I would like more people to know about it, but maybe in some ways it is good that you just do your work and let the results show for themselves.

I am impressed that 160,000 Iraqis, with the training they receive from you and other organizations, were able to pull off two elections, where the U.N. basically told me that these are as good elections as you will find anywhere in the world, and they told me that when I was in Iraq a week and a half ago, better than any almost anywhere else, and I made an assumption even the United States. It just is the very good part of a story that has mixed parts to it.

Is there anything that we need to put on the record before we adjourn, anything you would like to say before we adjourn?

Mr. CAMPBELL. On behalf of maybe Judy and myself, we really appreciate the work you have done on this and your visits. Every time you have visited, I know you met with both the staff of NDI and IRI, and a lot of this work is below the radar. So we also appreciate the support that you have shown through your efforts and being able to go and meet with people and get these kinds of on-the-ground briefings, which we highly appreciate.

Ms. VAN REST. I would just like to add to that, thanks for the support that you are giving to our two organizations. It is obviously very important.

Mr. SHAYS. You are hitting a sensitive chord now, because I am a born again here, because in my youth I was wondering what are we doing funding these institutions, and I was leading the charge to save money. I found myself listening to debate over time and losing the debate, and over time thinking, you know, they are right, and I am wrong. It makes me question other things I do, if I could have been so wrong in that one issue, because you do a great job.

Dr. Habeck, I am really happy you were able to go to Iraq. I appreciate your insights as well.

Dr. HABECK. Thank you. Thank you for giving me the opportunity to express my views.

Mr. SHAYS. With that, this hearing is adjourned.

[Whereupon, at 2:15 p.m., the subcommittee was adjourned.]