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A NEW ASSESSMENT OF IRAQ

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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A NEW ASSESSMENT OF IRAQ

TUESDAY, APRIL 25, 2006

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 10:02 a.m., in room 2154, Rayburn House Office Building, Hon. Christopher Shays (chairman of the subcommittee) presiding.

Present: Representatives Shays, Waxman, Van Hollen, and Ruppersberger.

Staff present: J. Vincent Chase, chief investigator; R. Nicholas Palarino, Ph.D., staff director; Robert A. Briggs, analyst; Marc LaRoche, intern; Phil Barnett, minority staff director/chief counsel; Karen Lightfoot, minority communications director/senior policy advisor; Jeff Baran, minority counsel; David Rapallo, minority chief investigative counsel; Andrew Su, minority professional staff member; Earley Green, minority chief clerk; and Jean Gosa, minority assistant clerk.

Mr. SHAYS. The quorum being present, the Subcommittee on National Security, Emerging Threats, and International Relations hearing entitled, "A New Assessment of Iraq," is called to order.

The selection of a prime minister offers hope Iraq will continue on the path toward a representative government, diminished violence and economic growth. But for the foreseeable future, Iraq will require continued support. And because we overthrew the former Iraqi regime, the majority of that support must come from the American people.

As we look to the future, it is essential we ask ourselves the right questions. We have been asking, when do we pull our troops out of Iraq? This is the wrong question. We should be asking, what can we do to help the Iraqis succeed? And we should be clear what we mean by success.

To help answer the question of how to succeed, we require objective on-the-ground assessments. We cannot afford to be mislead by rosy assessments painted by some, nor apocalyptic assessments by others.

In this regard, I call attention to a bipartisan group formed at the urging of Congressman Frank Wolf of Virginia, myself and others, the Iraqi Study Group. This group is charged with conducting a fresh-eyes assessment of the current and prospective situation in Iraq, and is cochaired by former Secretary of State James Baker

and former Congressman Lee Hamilton. We look forward to this bipartisan group's findings and recommendations.

Today we are here to receive testimony from David Walker, Comptroller General of the Government Accountability Office. Mr. Walker and his audit teams have recently returned from Iraq. The GAO's examination identifies mistakes, progress and, most importantly, future challenges we face. His testimony can help us better understand how to empower Iraqis so they may have security, representative government and economic prosperity.

I recently returned from my twelfth trip to Iraq. While there, we also visited three countries in the region, the United Arab Emirates, Jordan, and Israel. Their leaders provided us with one overriding message: We must not fail in Iraq, and the United States should not withdraw from Iraq prematurely.

I am convinced premature withdrawal of our military will guarantee failure. I believe we must replace our withdrawal mindset with a mindset that appreciates what our military, State Department and others have accomplished in Iraq and the sacrifices made by the people of Iraq to grasp hold of democracy and live a better life.

I agree with Comptroller David Walker and his team when they say, "the war in Iraq will not be won by the military alone, that Iraq's future requires strong Iraqi leadership, sustained U.S. commitment and a reenergized international community."

I think we get the first point; are wrestling with the second, sustained U.S. commitment; and are not doing enough on the third, to reengage the international community.

As always, we thank the GAO for its absolutely invaluable oversight and look forward to the Comptroller General's testimony this morning.

At this time, the Chair would recognize Mr. Waxman.

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

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"A New Assessment of Iraq"
Statement of Representative Christopher Shays
April 25, 2006

The selection of a prime minister offers hope Iraq will continue on the path toward a representative government, diminished violence and economic growth.

But for the foreseeable future Iraq will require continued support. And because we overthrew the former Iraqi regime, the majority of that support must come from the American people.

As we look to the future it is essential we ask ourselves the right questions.

- We have been asking, "When do we pull our troops out of Iraq?" This is the wrong question.
- We should be asking, "What can we do to help the Iraqis succeed?"
- And we should be clear what we mean by success.

To help answer the question of how to succeed we require objective, on the ground, assessments. We cannot afford to be misled by rosy assessments painted by some, nor apocalyptic assessments by others.

In this regard, I call attention to a bipartisan group formed at the urging of Congressman Frank Wolf of Virginia, myself and others—the Iraq Study Group. This group is charged with conducting a fresh eyes assessment of the current and prospective situation in Iraq and is co-chaired by former Secretary of State James Baker, and former Congressman Lee Hamilton. We look forward to the group's findings and recommendations.

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His testimony can help us better understand how to empower Iraqis so they may have security, representative government and economic prosperity.

I recently returned from my twelfth trip to Iraq. While there we also visited three countries in the region, the United Arab Emirates, Jordan and Israel. Their leaders provided us with one overriding message—we must not fail in Iraq. And the United States should not withdraw from Iraq prematurely.

I am convinced premature withdrawal of our military will guarantee failure. I believe we must replace our withdrawal mindset with a mindset that appreciates what our military, state department and others have accomplished in Iraq, and the sacrifices made by the people of Iraq to grasp hold of democracy and live a better life.

I agree with Comptroller David Walker and his team when they say, "The war in Iraq will not be won by the military alone," that "Iraq's future requires strong Iraqi leadership, sustained US commitment, and a reengaged international community."

I think we get the first point; are wrestling with the second—sustained US commitment; and are not doing enough on the third to reengage the international community.

As always, we thank the GAO for its invaluable oversight and look forward to the Comptroller General's testimony this morning.

Mr. WAXMAN. Thank you very much, Mr. Chairman, for calling this important hearing.

In March 2005, the Bush administration took the United States to war against Iraq. Today, more than 3 years later, Iraq is actually worse off in key reconstruction sectors than before we arrived, and the Bush administration is nowhere near feeling the rosy promises it made before the war.

In October, I released a report, the Bush Administration Record, The Reconstruction of Iraq. This report compared the administration's rhetoric with the reality on the ground, and it found that the administration had failed to deliver on its promises in three of the most important reconstruction efforts: oil, electricity and water.

I would like to make this report part of the record for today's hearings, Mr. Chairman.

[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 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. SHAYS. Without objection, so ordered.

Mr. WAXMAN. The report found that, in the oil sector, the administration promised to restore Iraq to pre-war oil production levels. This was important so Iraq could "finance its own reconstruction," but today, Iraq's oil production and export levels are still well below the pre-war levels. We spent over $2 billion, and the situation is worse than before we started.

In the electricity sector, the administration promised to increase Iraq's peak electricity output to 6,000 megawatts. After spending more than $4 billion, peak output in October was 4,600 megawatts. Today, it has dropped to 4,100 megawatts, which is below pre-war levels. In fact, embassy officials in Baghdad told our staffs we'll 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're nowhere near this goal. Before the war, 50 percent of Iraqis had access to drinkable water. By late 2005, only 32 percent did.

The special inspector general for Iraq reconstruction, Stuart Bowen, confirmed these findings. In testimony before this subcommittee, he concluded that there is a great chasm between what the administration has promised and what it has delivered. Mr. Bowen called this the reconstruction gap. In January, Mr. Bowen's office issued its own report concluding that reconstruction efforts in these three key sectors of the Iraqi economy are failing.

And these aren't the only areas in which progress has been poor. A Washington Post article just this month described how the Parsons Company will complete only 20 health centers out of a planned 142. Despite spending $200 million over 2 years, this reconstruction project will suffer an 86 percent shortfall, which is really just shocking.

This morning, in the New York Times, in their lead story on the left-hand side, Rebuilding of Iraq Oil Pipeline As Disaster Waiting to Happen, this front-page article described Halliburton's atrocious work and the Bush administration's atrocious oversight on a key project to build oil pipelines under the Tigris River at a crossing called Al Fatah. The article describes how Halliburton was specifically and repeatedly warned by geologists and other experts that its approach was flawed and wouldn't work, but the company ignored these warnings, pushing forward with the project and wasting over $75 million.

The article, which I would also like to have included in the record, is astounding. Halliburton received a $100,000 a day just for waiting around and doing nothing. Halliburton cut a deal with a subcontractor that required them to drill holes, not to actually succeed, but to drill holes. In essence, the taxpayer was paying Halliburton to drill holes to nowhere, but Halliburton still received its percentage of profits on the deal.

We know that large government contractors like Halliburton have repeatedly overcharged the taxpayers. Auditors and the Defense Contract Audit Agency have identified over $1.4 billion in unreasonable and unsupported charges by Halliburton in Iraq. $1.4 billion. Yet, the Defense Department keeps awarding Halliburton

millions in reimbursements, profits and bonuses that the auditors recommended against paying.

The problem is that the administration's management of the reconstruction has been fundamentally incompetent. Billion dollar contracts were awarded with little or no competition to favored contractors. Competition for discrete projects was suppressed by dividing the country into a handful of thiefdoms.

The administration shipped nearly $12 billion in cash to Iraq but disbursed it with virtually no financial controls. U.S. Government officials, contractors and subcontractors have been charged with kickback and bribery schemes, and dozens of additional criminal corruption cases are now being processed. Against this backdrop, the Bush administration continues to ignore reality.

Vice President Cheney says that the insurgency is in its last throes and that progress on Iraq reconstruction has been superb. And in a major speech in December, President Bush claimed there had been quiet, steady progress in Iraq. Either the President and the Vice President are remarkably out of touch, or they are not leveling with the American people.

Today, as we mark more than 3 years since the invasion, GAO will update the subcommittee on the status of these key areas, and I look forward to the Comptroller General's testimony.

Thank you very much, Mr. Chairman.

Mr. SHAYS. Thank you, Mr. Waxman.

Thank you, Mr. Van Hollen, for being here, and you have the floor.

Mr. VAN HOLLEN. Thank you, Mr. Shays, for holding this hearing. I also want to thank Mr. Waxman for his leadership on a whole series of these issues, including his unveiling of the misexpenditures of funds of Halliburton and the other problems in the reconstruction effort.

Mr. Walker, welcome to you. I'm looking forward to your testimony.

Let me just say, we know from the record that the Bush administration has bungled the operations in Iraq in many different ways. They planned for the immediate invasion and toppling of Saddam Hussein, but they did not plan for winning the piece. In fact, we know now that, with respect to the warfighting effort, they ignored the advice of many of the generals at the Pentagon with respect to the number of troops. General Shinseki's prediction was famously, of course, proved right despite the fact that he was ignored, and worse than that, sort of panned at the time by senior leaders at the Pentagon with respect to what he said would be needed for boots on the ground in order to make the reconstruction of Iraq successful.

Because of many failures, the fact of the matter is, a lot of the funds that we had hoped to spend on reconstruction had to be diverted simply to provide security for those people who have been involved in the reconstruction effort.

We also know that while there were plans in place at the State Department and elsewhere for the reconstruction effort, the fact of the matter is those plans were essentially junked and ignored. The whole reconstruction effort was turned over to the folks, Secretary

Rumsfeld and others at the Pentagon, who were totally unprepared for the reconstruction effort and for rebuilding in Iraq.

We famously heard before the war from Under Secretary Wolfowitz at the time that the Iraqi oil production would quickly be able to pay for the costs in Iraq. We know now that we have not even come up yet to pre-war production levels, and that is not beginning to cover the costs that we are incurring in Iraq and, of course, doesn't begin of course to pay for the lives lost.

So I think there are many, many serious questions that we are facing in Iraq. We have heard rosy predictions continuously from the administration with respect to Iraq, and sometimes you just have to think that it's Alice in Wonderland over there.

So I'm looking forward to your assessment, a hardnosed assessment; I hope a realistic assessment of what's going on in Iraq.

And, Mr. Chairman, again, thank you for holding the hearing.

Mr. SHAYS. Thank the gentleman.

Before swearing you in, Mr. Walker, and receiving your testimony, I would like to 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, and without objection, so ordered.

Ask further unanimous consent all witnesses be permitted to include their written statement in the record. Without objection, so ordered.

Mr. Waxman, I know you wanted two requests. We put the first in; what was the second?

Mr. WAXMAN. The second was today's New York Times article about Halliburton drilling holes.

Mr. SHAYS. We'll put the New York Times in without objection, so ordered. The other one was?

[The information referred to follows:]

The New York Times

PRINTER FRIENDLY FORMAT SPONSORED BY W.

April 25, 2006

Rebuilding of Iraqi Pipeline as Disaster Waiting to Happen

By JAMES GLANZ

When Robert Sanders was sent by the Army to inspect the construction work an American company was doing on the banks of the Tigris River, 130 miles north of Baghdad, he expected to see workers drilling holes beneath the riverbed to restore a crucial set of large oil pipelines, which had been bombed during the invasion of Iraq.What he found instead that day in July 2004 looked like some gargantuan heart-bypass operation gone nightmarishly bad. A crew had bulldozed a 300-foot-long trench along a giant drill bit in their desperate attempt to yank it loose from the riverbed. A supervisor later told him that the project's crews knew that drilling the holes was not possible, but that they had been instructed by the company in charge of the project to continue anyway.

A few weeks later, after the project had burned up all of the $75.7 million allocated to it, the work came to a halt.

The project, called the Fatah pipeline crossing, had been a critical element of a $2.4 billion no-bid reconstruction contract that a Halliburton subsidiary had won from the Army in 2003. The spot where about 15 pipelines crossed the Tigris had been the main link between Iraq's rich northern oil fields and the export terminals and refineries that could generate much-needed gasoline, heating fuel and revenue for Iraqis.

For all those reasons, the project's demise would seriously damage the American-led effort to restore Iraq's oil system and enable the country to pay for its own reconstruction. Exactly what portion of Iraq's lost oil revenue can be attributed to one failed project, no matter how critical, is impossible to calculate. But the pipeline at Al Fatah has a wider significance as a metaphor for the entire $45 billion rebuilding effort in Iraq. Although the failures of that effort are routinely attributed to insurgent attacks, an examination of this project shows that troubled decision-making and execution have played equally important roles.

The Fatah project went ahead despite warnings from experts that it could not succeed because the underground terrain was shattered and unstable.

It continued chewing up astonishing amounts of cash when the predicted problems bogged the work down, with a contract that allowed crews to charge as much as $100,000 a day as they waited on standby.

The company in charge engaged in what some American officials saw as a self-serving attempt to limit communications with the government until all the money was gone.

And until Mr. Sanders went to Al Fatah, the Army Corps of Engineers, which administered the project, allowed the show to go on for months, even as individual Corps officials said they repeatedly voiced doubts about its chances of success.

The Halliburton subsidiary, KBR, formerly Kellogg Brown & Root, had commissioned a geotechnical report that warned in August 2003 that it would be courting disaster to drill without extensive underground tests.

"No driller in his right mind would have gone ahead," said Mr. Sanders, a geologist who came across the report when he arrived at the site.

KBR defended its performance on the project, and said that the information in the geotechnical report was too general to serve as a warning.

Still, interviews by The New York Times reveal that at least two other technical experts, including the northern project manager for the Army Corps, warned that the effort would fail if carried out as designed. None of the dozen or so American government and military officials contacted by The Times remembered being told of the geotechnical report, and the company pressed ahead.

Once the project started going bad, senior American officials said, an array of management failures by both KBR and the Corps allowed it to continue. First, some of those officials said, they seldom received status reports from the company, even when they suspected problems and made direct requests.

"Typically when you manage a project, you have people who can tell you that you've got so much of your project finished and this much money that has been spent," said Gary Vogler, a senior American official in the Iraqi Oil Ministry. "We couldn't get anything like that."

Some warnings did in fact make their way to senior officials who could have stopped the project, said Donna Street, a Corps engineer who examined correspondence on the project after it failed. But neither the Corps nor the company seemed to act on them, Ms. Street said.

"It seems to me that there was pretty much an absence of anything," she said. "The reports went out. The questions were asked. But there was just no response."

An independent United States office, The Special Inspector General for Iraq Reconstruction, began an investigation of the project and issued a report earlier this year. It sharply criticized KBR for not relaying the problems, and concluded that "the geological complexities that caused the project to fail were not only foreseeable but predicted."

The company received a slap on the wrist when it got only about 4 percent of its potential bonus fees on the job order that contained the contract; there was no other financial penalty.

In interviews, two of the top Army Corps commanders who have had involvement at Al Fatah were reluctant to criticize the work done by KBR in Iraq. That was also the case in February when the Army Corps agreed to pay Halliburton most of its fees on a large fuel supply contract in Iraq, even though Pentagon auditors had found more than $200 million of the charges were questionable.

Congressional Democrats have accused Halliburton of enjoying special privileges because Vice President Dick Cheney was its chief executive before he became vice president.

Although independent experts have noted that it is one of a handful of companies with the experience and size to handle enormous jobs like the reconstruction effort, KBR is often sheltered by a military that is heavily dependent on it.

Through a spokeswoman, Melissa Norcross, KBR rejected the criticisms leveled at it in the Fatah pipeline case by the inspector general and other officials, saying that the company had responded properly to an urgent request by the United States government to build the crossing quickly in a dangerous area.

Ms. Norcross asserted in a written response to questions that the geotechnical report was too general to suggest any measures but extensive ground testing, which would have required sophisticated equipment. "Such equipment was not available in the region, and certainly not in Iraq," she said.

She said statements that the company did not report regularly about the project are "completely without merit" and that daily and monthly reports were duly filed. Ms. Norcross said that when serious problems arose, "the Corps directed KBR to continue" with the drilling.

With the failed effort at Al Fatah, the inspector general estimated lost money from crude oil exports at as much as $5 million a day. The United States was forced to issue a new $66 million job order that includes another attempt to run pipelines across the Tigris — this time using a different technique.

Stunned by a Change in Plans

On April 3, 2003, invading American troops had reached the outskirts of Baghdad and were eyeing its smoking skyline. A naval aircraft dropped a single bomb on the Fatah crossing.

Gen. T. Michael Moseley, the Air Force chief of staff who was the allied air commander, said that bridges were not generally targets in the war, but that he approved the Fatah strike to stop the enemy from crossing the bridge on which the original pipelines had run through openings beneath the road.

The pipelines had carried crude oil from the fields around Kirkuk, 60 miles to the northeast, crossed the Tigris at Al Fatah and transported the crude to refineries or to export terminals in Turkey.

Still, there was reason for optimism. The Fatah bridge was one of three bridges chosen as high priorities in an initial $680 million rebuilding program mandated by Congress. Army Corps engineers estimated that it would cost some $5 million and take less than five months to string the pipelines across the bridge once it was repaired.

"There is an urgent and compelling need to accomplish this feat as soon as possible," Douglas Lee Cox, the northern Iraq project manager for the Army Corps, wrote in a memo on June 9, 2003.

Then, as quickly as the bridge project had been approved, it was dropped with little explanation, in favor of a bridge in Tikrit. Older buried pipelines were able to carry limited amounts of oil, American officials said, but breakdowns were a constant worry.

Army Corps officials were stunned. Without the Fatah bridge, they were forced to consider new ways of putting pipelines across the river. They debated options like digging a huge trench in the riverbed and laying the pipelines in it -- the option that would later be chosen after the KBR project failed.

KBR ultimately settled on trying to put the pipelines under the Tigris using a technique called directional drilling, in which nearly horizontal holes are bored out in an arc through the riverbed. In a written response to questions, the company said it chose the technique because it was the only one that could be used to complete the project as quickly as the Army Corps had demanded.

Mr. Cox said he had not even been consulted. Gary Loew, another senior Corps official in Iraq at the time, remembers that the idea for drilling came from KBR and said that the Corps approved it verbally in the summer of 2003.

Mr. Cox, who was familiar with the technique from his own work in Texas, knew that with the heavy equipment and supplies needed for the job, his colleagues' claims that Fatah could be finished in 60 to 90 days were nonsense, particularly with the deteriorating security on the road from Kirkuk, where the supply planes would land.

"I said, 'Now how in the heck do you think you're going to do directional drilling with the situation we have here?' " Mr. Cox recalled, adding that he had told KBR officials, "It takes us forever to get enough security to drive down this road, and that's at 70 miles an hour."

That same month, a KBR pipeline expert saw a preliminary design and advised the company "that the project would probably fail," according to the inspector general report.

The most blatant warning came from the study that KBR had commissioned from Fugro South, a geotechnical firm. The study stated repeatedly that the project should not begin without extensive field exploration and laboratory testing of the area.

KBR went ahead with the work without sharing the report with senior oil officials in Iraq. Nor did it carry out the testing that the report strongly recommended.

The report had cited "past tectonic activities near the site." The words, suggesting slippage of the earth's crust in eons past, would prove prophetic.

Troubles From the Start

The Fugro report did have one important consequence.

KBR included it in a "request for proposals" to drilling subcontractors — along with contradictory information from KBR suggesting that the ground was made of ordinary clays, silts and sandstones, the inspector general report found.

Faced with that contradictory information, the subcontractor that won the bid negotiated a contract that required it only to try drilling holes on a daily basis — not necessarily succeed.

"There was no requirement that the subcontractor complete any holes," the inspector general wrote.

Ms. Norcross, the KBR spokeswoman, said that no subcontractor would have been "willing to mobilize equipment and personnel to an unstable war zone" if the contract had been written more stringently.

An official in the inspector general's office saw it differently. "It was a horrible contract," the official said. "It's basically, 'Give it your best shot, spend six months doing it.' "

In late January, 2004, drilling began. The plan called for boreholes to accommodate 15 pipelines, which would arc beneath the Tigris at shallow angles. Troubles turned up instantly. Every time workers plied the riverbed with their drills, they found it was like sticking their fingers into a jar of marbles: each time they pulled the drills out, the boulders would either shift and erase the larger holes or snap off the bits.

The area had turned out to be a fault zone, where two great pieces of the earth's crust had shifted and torn the underground terrain into jagged boulders, voids, cobblestones and gravel. It was just the kind of "tectonic" shift that the Fugro report had warned of — hardly the smooth clays and sandstones that KBR had suggested the drillers would find.

The crew abandoned the first borehole and started a second, the inspector general reported. Twenty-six days later, the borehole went through. But the crews found it impossible to enlarge the hole enough for a 30-inch pipe to pass through. By the end of March, five months after arriving in Iraq, they managed to jam a 26-inch pipe through.

The crews would never again get anything larger than that across the riverbed. To make matters worse, the project

suffered from constant equipment shortages, just as Mr. Cox, the Army Corps project manager, had predicted.

If KBR had declined to write performance clauses into the drill subcontract, the company had also included language that prevented the crews from speaking directly with the Army Corps, let alone passing along word that some of them knew that the effort was futile.

The company "restricted subcontractor communications by requiring all communications be addressed to them," the inspector general found.

Mr. Vogler, the senior Oil Ministry official, said he began hearing rumors from Iraqis in the ministry in Baghdad that something had gone terribly wrong, but the company itself seemed determined not to clarify what had happened. "We couldn't get a good status report," Mr. Vogler said.

"We kept asking for it," he said. "We couldn't get one."

Still, a trickle of information found its way through the command structure of the Army Corps. Ms. Norcross of KBR said that in April 2004, the company notified a contracting officer in Baghdad that 75 percent of the $220 million allocated for the job order had been exhausted.

By then the insurgency had worsened, and the camp suffered regular attacks. The threat became so severe that drilling was temporarily suspended "while KBR and the Army Corps of Engineers worked to address the lack of adequate force protection," Ms. Norcross said.

After security concerns were addressed, the work at Al Fatah resumed and so did problems with the drilling. Troubling reports from KBR officials at the site eventually reached higher in the Army Corps, but there was little reaction.

J. Michael Stinson, an American who took over as senior oil adviser to the Oil Ministry in March, said not all of the blame for the project lies with the company.

"I don't know that the Corps covered itself with glory either," Mr. Stinson said. "The engineers, the managers, probably should have said: 'Time out. Let's send a bunch of people home. Let's find out if this is going to work.' "

'Culpable Negligence'

Finally, in early July 2004, some eight months after the project began, the Army Corps sent Mr. Sanders to Al Fatah.

A geologist with a Ph.D. from the University of Oklahoma and a former oilman, the blunt-spoken Mr. Sanders, now 68, said he joined the Army Corps when he grew bored with retirement. One of the first documents he found

at the site was the Fugro report, and it set off alarm bells.

"You just don't see a consultant's report like that that is totally dismissed," he said.

"That put them on notice," Mr. Sanders said. "When they didn't take that notice, they accepted what I would call culpable negligence."

KBR maintains that the report did not contain enough detailed information to raise questions about the project.

But Mr. Sanders said drill supervisors at the site, the kind of workers he liked to call "tool pushers," had indicated otherwise.

Hoping to start a conversation with them during his visit, Mr. Sanders said the geology around the area looked as if it could be tough on a drilling operation. The men did not hesitate. "They agreed that it was just the wrong place for horizontal drilling," Mr. Sanders said. "They didn't see any probability of getting one of the big holes done."

But he said they had been told to keep drilling -- pushing their tools, anyway. Of course, by giving Mr. Sanders any information, they had probably violated their contract with KBR.

Mr. Sanders, outraged by the poor quality of the work and what he described as the indifference of the Army Corps to it, contacted the inspector general. "Everything I could see out of it was being swept under the rug," he said.

But it was already too late. One morning at about the time of his visits, American officials in the Oil Ministry in Baghdad finally obtained a status report from KBR.

All the money had been spent.

Col. Emmett H. Du Bose Jr., who in December 2003 assumed command of the task force of the Corps in charge of the project, said other items in the $220 million job order, like putting emergency power generators at oil installations, did get done.

KBR provided him with optimistic assessments nearly to the end of the line, Colonel Du Bose said in a telephone interview, and he was convinced that the project would be a success. But he said that he was not sure who, if anyone, might have seen the contradictory information in the Fugro report.

"In hindsight, knowing what I know today, I would have probably said we need more geology information before we start drilling those holes," Colonel Du Bose said.

The new Al Fatah project is being carried out by a joint venture involving Parsons Corporation and the Australian

company Worley, said Col. Richard B. Jenkins, commander of the Gulf Region Division-North for the Army Corps, in a telephone interview from Iraq.

The work relies on a less risky method in which the pipelines are laid down in a trench dug into the river bottom and encased in concrete. Colonel Jenkins said that Al Fatah was now "essentially a completed project."

But as of last week, an official at Iraq's State-owned North Oil Company said, oil was still not flowing at Al Fatah.

Eric Schmitt contributed reporting from Washington for this article, and an Iraqi employee of The New York Times from Kirkuk, Iraq.

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Mr. WAXMAN. The first one was our report on last October.

Mr. SHAYS. OK. This is the report of the minority staff of the full committee.

Mr. WAXMAN. Correct.

Mr. SHAYS. Mr. Walker, it's a pleasure to have you here. I would like to swear you in, but I think, as I mentioned to you, anyone else who may be asked to give some comment, I would like you to stand up, not sit at the desk, but at least stand up and be sworn in. Only two.

[Witnesses sworn.]

Mr. SHAYS. I'd note for the record the witnesses responded in the affirmative.

I think it's fairly clear you're the only witness, the only panel. I have no interest in you trying to finish in 5 minutes. I want you to say whatever you need to say and then what we're going to do is we're going to have the Members have 10 minutes. We'll keep time but keep coming back so we may have one, two, three, four, whatever rounds, and maybe there will be some other Members that will join us.

At this time, Mr. Walker, we're going to keep the clock on and keep turning it over every 5 minutes so you get a sense of how long, but speak as long as you need to.

STATEMENT OF DAVID M. WALKER, COMPTROLLER GENERAL, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, ACCOMPANIED BY JOSEPH CHRISTOFF

Mr. WALKER. Thank you, Mr. Chairman, Mr. Waxman, Mr. Van Hollen. I appreciate all of you being here today, and I also appreciate the opportunity to testify before this subcommittee on the U.S. efforts to stabilize and rebuild Iraq. Since you have entered my entire statement in the record, Mr. Chairman, I will summarize so we have more time for questions and answers.

Between fiscal years 2001 and 2005 the U.S. direct financial commitment to securing and establishing Iraq grew to $278 billion. In February 2006, the administration requested an additional $123 billion to support U.S. stabilization and reconstruction operations in Iraq and Afghanistan in fiscal years 2006 and 2007. These amounts do not include future direct costs nor do they include the significant additional recapitalization and other longer-term costs that will be incurred due to the conflict in Iraq.

In November 2005, the President issued the National Strategy for Victory in Iraq. That strategy states that progress along the political, security or economic track serves to reinforce the other tracks. My testimony today is based on the four reports that we've issued to the Congress since July 2005 and on our team's recent trips to Iraq, including my own most recent visit to Iraq earlier this year.

In summary, the war in Iraq will not be won by the military alone. Real success requires an integrated Iraqi, United States and international effort to meet the political, security, economic and other needs of the Iraqi people. In this regard, calendar 2006 will be a critically important year, and more needs to be done by both the United States and the international community to help ensure that it results in real and sustainable progress within Iraq.

The United States, our partners in Iraq have made some progress in stabilizing and rebuilding Iraq. Iraqis have voted in increasing numbers, with over 12 million casting votes in the December 2005 election.

The number of security forces that the Coalition has trained and equipped has increased from about 142,000 in March 2005 to about 242,000 in March 2006. In addition, the Iraqi forces are increasingly assuming greater responsibility for their Nation's security.

Finally, the United States has completed or has underway about 500 water, oil and electricity reconstruction projects. However, this progress is tempered by the overwhelming challenges faced in forming a permanent government, quelling the insurgency and sectarian violence, providing basic services, and financing future reconstruction efforts.

As previously noted, the Iraqis have held three national elections, each with higher voter turnout percentages than the previous election. This is a real accomplishment. However, 4 months after the December 2005 election, Iraq is still forming a permanent government. Recent events provide some hope that the new government will be formed in the near future.

Once formed, the new government will confront the enormous task of strengthening a range of government institutions, disbanding the militias, resolving disputes over national borders and oil revenues, and addressing significant corruption. Appointments to the key ministries of interior, defense and oil in particular will be critical to unifying Iraq and minimizing sectarian violence.

As the new government develops, the Iraqis will need assistance in training to help strengthen their national and provincial governments. They need more capacity-building assistance of a civilian nature, and it needs to come not just from the United States but also from others in the international community.

From 2004 to 2005, attacks against the Coalition, Iraqis and infrastructure increased 23 percent. Despite Coalition efforts, the insurgents continue to demonstrate to recruit, supply and attack Coalition and Iraqi security forces.

In addition, the sectarian tensions and violence increased following the February 2006 bombing of the Shi'a shrine in Samarra. Since then, Iraqis have become increasingly concerned that civil war could break out.

U.S. reconstruction efforts have focused on restoring Iraq's basic services, including refurbishing oil facilities, increasing electrical generating capacity and rebuilding water treatment plants. As of March 2006, oil and electricity production were below pre-war levels, and reconstruction goals for oil, electricity and water had not been met.

Higher than expected security costs, funding reallocations, inadequate maintenance and other challenges have slowed the pace of reconstruction efforts and limited the impact of the services provided.

Iraq will likely need more than $56 billion, more than the additional $56 billion estimated, for reconstruction and stabilization efforts. Let me restate that. They will likely need more than the originally estimated $56 billion in order to achieve the reconstruc-

tion and stabilization objectives, but it is unclear how Iraq will finance its reconstruction needs.

U.S. commitments are largely obligated, and future commitments focus on sustaining existing infrastructure, strengthening ministerial capacity, and training and equipping Iraqi security forces. International donors have been reluctant to commit additional funds until security improves and Iraq accounts for the donors' previous contributions.

Iraq can only contribute to its future reconstruction needs if it increases its oil revenues, reduces energy and food subsidies, controls government operating expenses and takes steps to effectively combat corruption.

Iraq is at a precarious stage in its emerging democracy. 2006 will be a critically important year in its development. In moving forward to achieve U.S. goals, it is important that the United States continue training and equipping Iraqi security forces and, more importantly, ensuring that these forces have the logistical capabilities to support and sustain themselves. This is a key gap and a critical need.

The United States, along with the international community, should also help Iraqis develop the budgeting and administrative tools they need to run their national and provincial governments. Additionally, transparency and accountability mechanisms are essential, given the legacy of corruption inherited from the previous regime.

Efforts should also be taken to assure the Iraqis are capable of maintaining power plants, water treatment facilities and other U.S.-funded infrastructure improvements. Although the United States has played a key role in addressing these challenges, it is important for the Iraqis to assume greater leadership and for the international community to increase its efforts.

Collectively, Iraq's future requires strong Iraqi leadership, sustained U.S. commitment, and a reengaged international community that can provide support for a range of civilian needs for a significant period of time. More needs to be done to help the Iraqis help themselves build capable government institutions that can deliver real results that benefit all the Iraqi people. All of these steps will be essential in order for real success to be achieved in a reasonably timely and sustainable manner.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Walker follows:]

United States Government Accountability Office

GAO

Testimony

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

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REBUILDING IRAQ

Governance, Security, Reconstruction, and Financing Challenges

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

GAO-06-697T

April 25, 2006

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Highlights

Highlights of GAO-06-697T, a testimony before the Subcommittee on National Security, Emerging Threats, and International Relations; Committee on Government Reform, House of Representatives

REBUILDING IRAQ

Governance, Security, Reconstruction, and Financing Challenges

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 transition to its first permanent government.

In November 2005, the President issued the National Strategy for Victory in Iraq. According to the strategy, victory will be achieved when Iraq is peaceful, united, stable, secure, well integrated into the international community, and a full partner in the global war on terror.

In this testimony, GAO discusses the key challenges that the United States, international community, and Iraq face in rebuilding and stabilizing Iraq.

This statement is based on four reports GAO has issued to the Congress since July 2005 and recent trips to Iraq. Since July 2005, GAO issued reports on (1) the status of funding and reconstruction efforts in Iraq, the progress achieved, and challenges faced in rebuilding Iraq's infrastructure; (2) U.S. efforts in the water and sanitation sector; and (3) U.S. assistance for the January 2005 Iraqi elections, and (4) U.S. efforts to stabilize the security situation in Iraq (a classified report).

www.gao.gov/cgi-bin/getrpt?GAO-06-697T

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

What GAO Found

The war in Iraq will not be won by the military alone. Iraq's future requires strong Iraqi leadership, sustained U.S. commitment, and a reengaged international community.

The United States, Iraq, and its partners have made some progress in stabilizing and rebuilding Iraq. Iraqis have voted in increasing numbers, with over 12 million casting votes in the December 2005 election. Over the past year, the number of security forces that the coalition has trained and equipped has increased from about 142,000 to about 242,000. Finally, the United States has completed or has underway about 500 water, oil, and electricity reconstruction projects.

However, this progress is tempered by the overwhelming challenges the coalition faces. First, sectarian divisions delayed the formation of a permanent government and created a political vacuum. Recent events provide some hope that a new government will be formed in the near future. Once formed, the new government will confront the enormous tasks of strengthening government institutions, disbanding the militias, resolving disputes over internal boundaries and oil revenues, addressing corruption, and delivering results to the Iraqi people. Of particular importance is providing the Iraqis with the training and technical assistance needed to run their national and provincial governments. A transparent and accountable government can reduce corruption and deliver results to the Iraqi people.

Second, the security environment continues to be a concern as insurgents demonstrate the ability to recruit, supply, and attack coalition and Iraqi security forces. From 2004 to 2005, attacks against the coalition, Iraqis, and infrastructure increased 23 percent. Since the bombing of a Samarra mosque in February 2006, Iraqis have become increasingly concerned that civil war may break out. The poor security situation in much of Iraq has impeded the development of an inclusive Iraqi government and effective Iraqi security forces.

Third, higher than expected security costs, funding reallocations, and inadequate maintenance have impeded U.S. reconstruction efforts. As of March 2006, oil and electricity production were below pre-war levels and reconstruction goals for oil, electricity, and water had not been met. Iraq produced 2.6 million barrels of oil per day before the war; in 2005, production averaged 2.1 million barrels per day. Production levels alone do not measure the impact of reconstruction efforts. While U.S. efforts have helped Iraq produce more clean water, 60 percent is lost due to leakage and contamination. Continued focus on developing outcome measures is critical to ensure that reconstruction efforts are making a difference in the lives of the Iraqi people.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss U.S. efforts to stabilize and rebuild 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 transition to its first permanent government.

Between fiscal years 2001 and 2005, the U.S. direct financial commitment to securing and stabilizing Iraq grew to $278 billion. Approximately $248 billion has been provided to support U.S. military operations and forces, which currently number about 130,000 troops, and about $30 billion to develop capable Iraqi security forces, restore essential services, and rebuild Iraqi institutions. In February 2006, the administration requested an additional $123 billion to support U.S. stabilization and reconstruction operations in Iraq and Afghanistan in fiscal years 2006 and 2007.[1] These amounts do not include future direct costs nor do they include the significant, additional recapitalization and other longer-term costs that will be incurred due to the Iraq conflict.

In November 2005, the President issued the National Strategy for Victory in Iraq. According to the strategy, victory will be achieved when Iraq is peaceful, united, stable, secure, well integrated into the international community, and a full partner in the global war on terrorism. The new strategy also aimed to provide a more comprehensive and coordinated focus on U.S. stabilization and reconstruction efforts in Iraq. Success in Iraq requires progress on the three tracks of the President's National Strategy for Victory in Iraq. The strategy states that progress along one of these tracks—political, security, or economic—reinforces progress along the other tracks.

[1]A separate breakout for Iraq was not provided. For fiscal year 2006, the administration requested $72.4 billion in supplemental funds, including $38 billion for defense and intelligence operations in Iraq and Afghanistan, plus $3.7 billion to develop Iraqi security forces and $3.3 billion for State to continue its operations in Iraq. For fiscal year 2007, the defense budget request includes $50 billion that the Office of Management and Budget terms "bridge funding" to continue the global war on terror in Iraq and Afghanistan. State's 2007 budget submission requests an additional $836 million for reconstruction and embassy operations in Iraq.

My testimony today is based on the four reports that we have issued to the Congress since July 2005 and on our recent trips to Iraq. Since July 2005, we have reported on (1) the status of funding and reconstruction efforts in Iraq, focusing on the progress achieved and the challenges faced in rebuilding Iraq's infrastructure; (2) U.S. reconstruction efforts in the water and sanitation sector; (3) U.S. assistance for the January 2005 Iraqi elections; and (4) U.S. efforts to stabilize the security situation in Iraq (a classified report).

Based on these four reports and recent audit work conducted in Iraq, including my most recent visit to the country earlier this year, I will discuss the key challenges that the United States, the international community, and the Iraqi government face in stabilizing and rebuilding Iraq. We conducted our reviews for these reports under my authority as Comptroller General in accordance with generally accepted government auditing standards. In addition, we recently completed audit work in Iraq in November 2005, January 2006, and March-April 2006.

Summary

The war in Iraq will not be won by the military alone but only through an integrated U.S., Iraqi, and international effort to meet the political, security, economic, and other needs of the Iraqi people.

The United States, our partners, and Iraq have made some progress in stabilizing and rebuilding Iraq. Iraqis have voted in increasing numbers, with over 12 million casting votes in the December 2005 election. The number of security forces that the coalition has trained and equipped has increased from about 142,000 in March 2005 to about 242,000 in March 2006. Finally, the United States has completed or has underway about 500 water, oil, and electricity reconstruction projects.

However, this progress is tempered by the overwhelming challenges faced in forming a permanent government, quelling the insurgency and sectarian violence, providing basic services, and financing future reconstruction efforts.

- Four months after the December 2005 election, Iraq is still forming a permanent government. Sectarian divisions have delayed the formation of a permanent government and created a political vacuum. Recent events provide some hope that a new government will be formed in the near future. Once formed, the new government will confront the enormous tasks of strengthening government institutions, disbanding the militias, resolving disputes over internal boundaries and oil revenues, and

addressing corruption. Appointments to the key ministries of Interior, Defense, and Oil will be critical to unifying Iraq and minimizing sectarian violence. As the new government develops, the Iraqis will need assistance and training to strengthen their national and provincial governments. A transparent and accountable government will reduce corruption and deliver results to the Iraqi people.

- From 2004 to 2005, attacks against the coalition, Iraqis, and infrastructure increased 23 percent. Despite coalition efforts, insurgents continue to demonstrate the ability to recruit, supply, and attack coalition and Iraqi security forces. In addition, sectarian tensions and violence increased following the February 2006 bombing of a Shi'a shrine in Samarra. Since then, Iraqis have become increasingly concerned that civil war may break out. Many Iraqis in Baghdad and the central and northern Sunni areas have lost confidence in the Iraqi army and police to improve the security situation. In some Sunni areas, support for the insurgents has increased, and Iraqi Shi'as have expressed greater confidence in their militias. The poor security situation in Iraq has impeded the development of an inclusive Iraqi government and hindered the development of effective Iraqi security forces.

- U.S. reconstruction efforts have focused on restoring Iraq's basic services, including refurbishing oil facilities, increasing electrical generating capacity, and rebuilding water treatment plants. As of March 2006, oil and electricity production were below pre-war levels and reconstruction goals for oil, electricity, and water had not been met. Iraq produced 2.6 million barrels of oil per day before the war; in 2005, production averaged 2.1 million barrels per day. Higher than expected security costs, funding reallocations, and inadequate maintenance have slowed the pace of reconstruction efforts and limited the impact of the services provided. For example, in the water sector, $1.9 billion was reallocated to the security and justice sectors, which delayed or terminated many large water projects. In addition, production levels alone do not measure the impact of reconstruction efforts. While U.S. efforts have helped Iraq produce more clean water, 60 percent is lost due to leakage and contamination. Continued focus on developing outcome measures is critical to ensure that U.S. efforts are making a difference in the lives of the Iraqi people.

- Iraq will likely need more than the $56 billion originally estimated for reconstruction and stabilization efforts, but it is unclear how Iraq will finance its reconstruction needs. U.S. commitments are largely obligated, and future commitments focus on sustaining existing infrastructure, strengthening ministerial capacity, and training and equipping Iraqi security forces. International donors are reluctant to commit additional

funds until security improves and Iraq accounts for the donors' previous contributions. Iraq can only contribute to its future reconstruction needs if it increases oil revenues, reduces energy and food subsidies, controls government operating expenses, and minimizes corruption.

Background

From May 2003 through June 2004, the 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. The U.S.-led Multi-National Force-Iraq (MNF-I) conducts counterinsurgency operations and leads coalition efforts to train, equip, and organize Iraqi security forces.

The Department of State (State) is responsible for all U.S. activities in Iraq except security and military operations. State's Iraq Reconstruction and Management Office (IRMO) is responsible for planning and prioritizing reconstruction requirements, monitoring spending, and coordinating with the military commander. Other U.S. government agencies also play significant roles in the reconstruction effort. The U.S. Agency for International Development (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 USAID, State, and military forces in Iraq. In December 2005, the responsibilities of the Project Contracting Office (PCO), a temporary organization responsible for program, project, asset, and financial management of construction and nonconstruction activities, were merged with those of the U.S. Army Corps of Engineers.

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, the transitional period included the completion of a draft constitution in October 2005 and two subsequent elections—a referendum on the constitution and an election for a permanent government. The Iraqi people approved the constitution on October 15, 2005, and voted for representatives to the Iraq Council of

Representatives on December 15, 2005. The Independent Electoral Commission of Iraq certified the election results on February 10, 2006.

Iraq Has Made Some Progress in Political, Security, and Economic Areas

The Iraqi government, in partnership with the United States and others, has made some progress in rebuilding and stabilizing Iraq. Since June 2004, Iraqis have approved a new constitution and increasingly participated in the process of forming the first permanent government under this constitution. The United States has helped train and equip a growing number of Iraqi security forces, and these forces have taken on increasing responsibility for the nation's security. Iraq's economy is growing and the United States has completed a number of projects to help Iraq add to, maintain, or refurbish its electrical, water supply, and oil production capacity. Although making progress in many areas, Iraq has also had setbacks.

Iraqis Have Increasingly Participated in the Political Process

The U.S. goal is to work with the Iraqi government to form a permanent national unity government that is inclusive. According to the UN Secretary General, Iraq has met all key benchmarks for transitioning to a permanent government under Security Council Resolution 1546.[2] In January 2005, Iraqis elected a transitional National Assembly. Despite intimidation and threats of violence, almost 8.5 million Iraqis (59 percent of those registered) cast ballots and elected the assembly. In October 2005, the transitional government endorsed a draft constitution that, according to the U.S. ambassador for Iraq, protects human rights, religious freedom, women's equality and Iraqi unity. Iraqis approved the constitution, with nearly 10 million voters casting ballots (63 percent of those registered). Then, in December 2005, over 12 million Iraqis (78 percent of those registered) voted to elect the first Council of Representatives. According to the National Security Council's Director for Iraq, the increasing participation of all Iraqis in the political process, especially Sunnis, demonstrates significant political progress. However, the majority of Iraqis voted along sectarian lines.

[2]U.N. Security Council Resolution 1546 endorsed a timetable for Iraq's transition to a democratic government which included drafting a permanent constitution for Iraq leading to a constitutionally elected government by December 31, 2005.

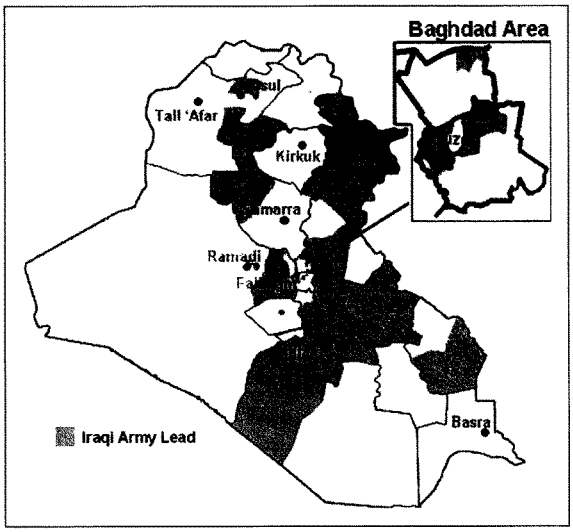
Iraqi Forces Are Increasingly Responsible for the Nation's Security

U.S. goals are to defeat the terrorists and neutralize the insurgency, develop capable Iraqi security forces, and help the government advance the rule of law, deliver services, and nurture civil society. Over the last several months, the Secretaries of State and Defense, as well as MNF-I, reported progress in developing Iraqi security forces, saying that these forces continue to grow in number, take on more responsibilities, and increase their lead in counterinsurgency operations. The numbers of operational army personnel and trained and equipped police have increased from about 142,000 in March 2005 to about 242,000 in March 2006. However, as we have previously reported, the number of trained and equipped forces does not provide reliable information on their status. DOD reports the capabilities of Iraqi units using transition readiness assessments. This information is provided to the Congress in quarterly classified reports.

In April 2006, MNF-I also reported that 52 Iraqi army battalions, 14 Iraqi Army brigades, and 2 Iraqi Army divisions had taken the lead for counterinsurgency operations, with coalition support in areas of Iraq shown in figure 1 below. The Administration reports that these areas of operation cover about 18 percent of Iraq's territory, including about 65 percent of Baghdad. [1] According to the Director for National Intelligence, Iraqi security forces are taking on more-demanding missions, making incremental progress toward operational independence, and becoming more capable of providing security.

[1] Six National Police battalions also conduct counterinsurgency operations in Baghdad.

Figure 1: Areas of Iraq Where the Iraqi Army Leads Counterinsurgency Operations with Coalition Support, as of March 30, 2006



Source: MNF-I Iraq Operational Update Briefing, April 13, 2006

However, according to a DOD report, Iraqi army units remain largely dependent on coalition support for key logistics and other combat enablers such as transportation and communications. Several problems have hampered the Ministry of Defense's ability to sustain Iraqi forces independently, including weaknesses in payroll, material readiness, contracting, and construction. Furthermore, although a concept of logistical support exists, the Iraqi army will continue to rely on a U.S. supply chain because Iraq does not have a defense industrial base.

Iraq's Economy Is Growing and Projects Seek to Improve Essential Services

The U.S. economic goal in Iraq is to help the Iraqi government establish the foundations for a sound economy with the capacity to deliver essential services. The economy continues to grow; the International Monetary Fund estimated that Iraq's GDP in 2005 grew by 2.6 percent and estimates that it will grow by 10.4 percent in 2006. While the Iraqi economy continues to be overwhelmingly dependent on oil exports, which are projected to accounted for approximately 90 percent of government revenue in 2006, other sectors have begun to pick up activity, including the trade and services sector. According to State and DOD reporting, the United States has completed or has underway about 500 water, oil, and electricity reconstruction projects. These projects have added or restored more than 2,700 megawatts of electricity generation capacity and improved other essential services. U.S. efforts have helped to restart Iraq's oil production and export capacity, including the restoration of the Qarmat Ali water reinjection and treatment plant, and several gas and/or oil separation plants near Kirkuk and Basrah. However, crude oil production and export and electricity production levels remain below pre-war levels, according to State.

The Iraqi Government and the United States Face Key Challenges to Stabilizing and Rebuilding Iraq

The United States and Iraq must address four key challenges if they are to successfully stabilize and rebuild Iraq. First, Iraq needs to form a permanent government. Second, Iraq and the United States must neutralize the insurgency and address sectarian violence. Third, the Iraqi government and the United States must restore and maintain basic services. Fourth, Iraq must secure funding to continue reconstruction efforts begun by the United States.

Sectarian Divisions and Immediate Challenges Will Confront Iraq's Permanent Government

Forming a permanent government in Iraq is critical to defeating the insurgency and securing the peace. However, sectarian divisions delayed the formation of a permanent government and created a political vacuum. Recent events provide some hope that a new government will be formed in the near future. Once formed, the new government will face four immediate challenges: building effective national and provincial governments, stemming corruption, disbanding militias, and resolving disputes on boundaries and ownership of future oil fields.

Sectarian Divisions Delay Government Formation

Sectarian divisions delayed formation of Iraq's permanent government creating a political vacuum that increases the risk that terrorists and former regime elements will succeed in stopping Iraqi progress toward democracy. According to the Defense Intelligence Agency (DIA) Director, the December 2005 elections appeared to have heightened tension and polarized sectarian divides. In February, the Kurdish parties' nomination of Jalal Talabani to be president of Iraq was not challenged. However, Shi'a, Kurdish and Sunni parties could not agree on a prime minister. In this regard, the Secretary of State emphasized that the prime minister had to be a leader who could be a unifying force bringing stability to the nation.

In February 2006, the holy Shi'a shrine in Samarra was bombed, intensifying sectarian conflicts. The bombing provoked violence and reprisal attacks in Baghdad, Basra, and other urban centers and almost daily reports of sectarian intimidation and murder, according to the UN. During March and April, the Iraqi parties continued efforts to identify a prime minister and a cabinet. On April 22, Iraq's legislative body selected their speaker and the Presidency Council. Also, a candidate for prime minister was nominated with support of the Sunnis, Kurds, and Shia coalition.

According to the President of the United States, Iraq's leaders have 30 days to finalize the Iraqi cabinet. Among the ministries of key concern are Interior, Defense, and Oil, according to State officials. The Ministry of Interior was seriously compromised by sectarian influences of militias, corruption, and a culture of impunity, according to State's 2006 human rights report. Defense is responsible for the Iraqi military services, with over a 100,000 forces and plays the primary role in stabilizing the country. The Ministry of Oil generates about 90 percent of the Iraq government's revenue and is the focus of considerable concern regarding oil smuggling and corruption.

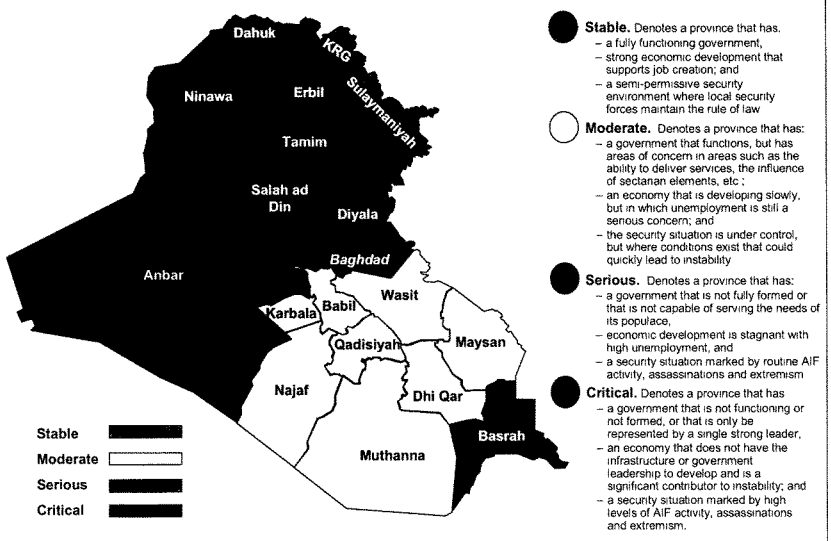
Iraq's Government Faces Four Major Challenges to Unifying the Nation

The new government will face four immediate challenges once formed.

Developing effective national and provincial governments. Strengthening national and provincial institutions is a key step in improving governance and supporting efforts to build Iraqi self-reliance and defeat the insurgency. However, according to U.S. assessments, Iraqi ministries have limited capacity to provide government services to the Iraqi people. These assessments identified limitations in managers' skills and training; weak technical expertise; outdated work processes and procedures; and an inability to identify and articulate strategic priorities. In January 2006, State reported a new initiative to address Iraqi ministerial capacity development at 10 national ministries. According to State, Embassy Baghdad plans to undertake plans to provide key ministries with training in civil service policies, requirements-based budget processes, information technology standards, and logistics management systems.

In addition to a weak national government, Iraqi provinces also have limited capacity to provide governmental services. A January 2006 joint U.S. embassy and MNF-I assessment of stability in each of Iraq's 18 provinces showed varying levels of stability across Iraq's 18 provinces (see fig. 2).

Figure 2: Iraq Provincial Stability Based on Governance, Security, and Economic Conditions, as of March 2006



Source: U.S. Embassy/MNF-I National Coordination Team, Provincial Stability Assessment

As figure 2 illustrates, the three provinces in Kurdistan have fully functioning governments, strong economies, and relative security. Eight provinces have functioning governments with problems in delivering services and dealing with security. The remaining seven provinces are in serious or critical condition, with Anbar province rated as critical.

To help build government capacity at the provincial level, the U.S. embassy in Baghdad and MNF-I are developing provincial reconstruction teams (PRTs). These teams are designed to provide a link between provincial and national level efforts to improve governance. These teams are charged with helping provincial governments improve security, rule of law, and political and economic development. State officials said that U.S.-led PRTs in Hillah, Mosul, and Kirkuk have been fully operational since December. Another PRT in Baghdad has been initiated but is not yet fully operational. The anticipated four other U.S.-led, four coalition-led, and six Iraqi-led PRTs have not been initiated. Each PRT requires more than 100 staff and considerable financial and security support. However, program documents indicate problems in providing funding and security.

Stemming corruption. U.S. and international officials reported increased concerns about corruption. In our discussions with IMF, World Bank, Japan, and the European Union, representatives reported that "donor fatigue" might limit their ability to provide future assistance to Iraq, especially if the current security environment did not improve and the Iraqi Ministries did not improve their procurement and financial management practices. Corruption in the oil sector was cited as a special problem. According to State officials and reporting, about 10 percent of refined fuels are diverted to the black market, and about 30 percent of imported fuels are smuggled out of Iraq and sold for a profit.

According to World Bank and UN specialized agency officials, public tendering is still an "alien concept" within Iraq Ministries. These officials reported several recent attempts by Ministry officials to subvert the public procurement process. For example, World Bank financing for two projects worth $40 million each was cancelled after Iraqi ministry officials awarded contracts to firms that were not included in the competitive bidding process.

U.S. officials also reported instances of corruption related to the protection of essential infrastructure. According to IRMO officials, the Ministry of Electricity contracts with tribal chiefs, paying them about $60-$100 per kilometer to protect transmission lines running through their areas. However, IRMO officials reported that the protection system is

flawed and encourages corruption. According to U.S. and UN Development Program officials, some tribes that are paid to protect transmission lines are also selling materials from downed lines and extracting tariffs for access to repair the lines. IRMO officials stated that they want the Ministry of Electricity to change the system so that tribes are only paid when the lines remain operational for a reasonable period of time.

Disbanding militias. Disbanding the militias or integrating them into Iraq's armed forces is a critical challenge facing a new Iraqi government. Iraq's 2004 transitional law outlawed all militias not under the command structure of the Iraqi transitional government, except where provided by federal law. Iraq's constitution similarly states that formation of military militias outside the framework of the armed forces is prohibited. Despite these prohibitions, militias continue to operate throughout Iraq. The largest militias include the Kurdish Peshmerga organization in Kurdistan, the Shiite Badr organization in southern Iraq, and the Shiite Jayash al-Mahdi (Mahdi Army) in central and southern Iraq. In March 2006, the UN reported that militias challenge Iraq's rule of law and that the consolidation of local militia power in southern Iraq is resulting in systematic acts of violence against the Sunni community.[4] Such developments, including recent efforts to form a Sunni Arab militia could undermine efforts to promote national accord. According to the Secretary of State, controlling the militias is one of the new government's top priorities.

Resolving disputes on boundaries and ownership of future oil fields. Resolving disputes over territorial boundaries, especially in Kirkuk, poses another challenge. The Kurds believe that this oil-rich region is part of the Kurdish regional government's territory. According to the 2003 State Department Human Rights report, the previous regime had systematically forced the removal of ethnic minorities under its admitted policy of "Arabizing" arable land. Specifically, the regime "Arabized" certain Kurdish areas, such as the urban centers of Kirkuk and Mosul, through the forced movement of local residents from their homes and villages and their replacement by Arabs from outside the area. According to the U.N., resolution of the dispute over Kirkuk is an issue that needs to be addressed.

[4]U.N. Security Council, Report of the Secretary General pursuant to paragraph 30 of resolution 1546 (2004), S/2006/137, Mar. 3, 2006.

In addition, a new Iraqi government will need to agree on how to share the proceeds from crude oil exports from both current and future Iraqi oil fields. The constitution states that oil and gas are owned by the people of Iraq in all regions and governorates. It also states that the federal government, with the producing governorates and regional governments, shall undertake the management of oil and gas extracted from the present fields, provided that it distributes its revenues fairly and in proportion to the population.[5] However, the specific details of revenue sharing have yet to be worked out, and the status of revenues from future fields is unclear.

A Strong Insurgency and Increased Sectarian Violence Threaten Progress in Political and Security Areas

Over the past 3 years, significant increases in attacks against the coalition and coalition partners, as well as recent increases in sectarian violence, have made it difficult for the United States to achieve its political and security goals in Iraq. The insurgency in Iraq intensified from June 2003 through October 2005 and has remained strong and resilient. Sectarian tensions and violence recently increased following the bombing of a holy Shi'a shrine in Samarra in February 2006. Poor security conditions threaten to undermine the development of an effective Iraqi government and the transfer of security responsibilities to the Iraqi government.

Insurgency Has Intensified and Sectarian Tensions Increased

The insurgency intensified through October 2005 and has remained strong and resilient since then. The insurgency—particularly the Sunni insurgency—grew in complexity, intensity, and lethality from June 2003 through early 2005.[6] According to a late February 2006 testimony by the Director of National Intelligence, insurgents are using increasingly lethal improvised explosive devices and continue to adapt to coalition countermeasures.[7]

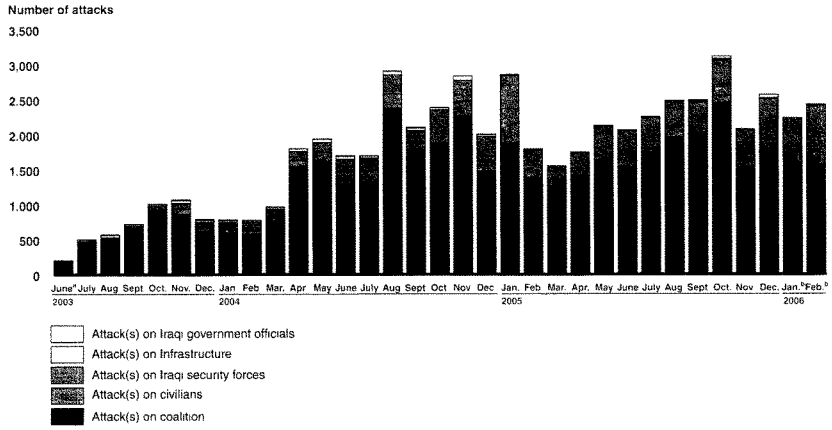
[5]The constitution also states that the federal government shall specify an allotment of the oil revenue "for a specified period for the damaged regions which were unjustly deprived of them by the former regime, and the regions that were damaged afterwards in a way that ensures balanced development in different areas of the country, and this shall be regulated by a law."

[6]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).

[7]U.S. Senate, Senate Armed Services Committee, Current and Projected National Security Threats to the United States (Washington, D.C.: Feb. 2, 2006).

As shown in figure 3, enemy-initiated attacks against the coalition, its Iraqi partners, and infrastructure increased in number over time. The highest peak occurred during October 2005, around the time of Ramadan and the October referendum on Iraq's constitution. This followed earlier peaks in August and November 2004 and January 2005. According to a senior U.S. military officer, attack levels ebb and flow as the various insurgent groups—almost all of which are an intrinsic part of Iraq's population—rearm and attack again. Overall, attacks increased by 23 percent from 2004 to 2005.

Figure 3: Enemy-Initiated Attacks against the Coalition and Its Partners, by Category, June 2003 through February 2006



Source. Multi-national Corps-Iraq, Multi-national Force-Iraq, February 2006

[a]According to DIA officials, June 2003 data are incomplete.

[b]The data did not break out attacks against Iraqi government officials from attacks against Iraqi civilians in January and February 2006

According to a March 2006 UN report, an increasingly complex armed opposition continues to be capable of maintaining a consistently high level of violent activity across Iraq. Baghdad, Mosul, and the western province of Al Anbar have been experiencing the worst violence. Although the southern and northern governorates are less affected, some areas,

particularly Basra and Kirkuk, have recently witnessed increased tension and a growing number of violent incidents. A recent U.S. embassy-MNF-I assessment showed that, of Iraq's 18 provinces, 1 province—Al Anbar—had a security situation marked by a high level of insurgent activity, assassinations, and extremism; 6 provinces, including Baghdad and Basra, had routine insurgent activity, assassinations, or extremism; 8 provinces had the security situation under control but conditions existed that could quickly lead to instability; and 3 provinces in the north had a semi-permissive security environment where local security forces maintained the rule of law.

As the administration has reported, insurgents share the goal of expelling the coalition from Iraq and destabilizing the Iraqi government to pursue their individual and, at times, conflicting goals.[8] Iraqi Sunnis make up the largest portion of the insurgency and present the most significant threat to stability in Iraq. In February 2006, the Director of National Intelligence reported that the Iraqi Sunnis' disaffection is likely to remain high in 2006, even if a broad, inclusive national government emerges. These insurgents continue to demonstrate the ability to recruit, supply, and attack coalition and Iraqi security forces. Their leaders continue to exploit Islamic themes, nationalism, and personal grievances to fuel opposition to the government and recruit more fighters.

According to the Director of National Intelligence, the most extreme Sunni jihadists, such as al-Qaeda in Iraq, will remain unreconciled and continue to attack Iraqi and coalition forces. The remainder of the insurgency consists of radical Shi'a groups—some of which are supported by Iran—violent extremists, criminals, and, to a lesser degree, foreign fighters. According to the Director, Iran provides guidance and training to select Iraqi Shi'a political groups and weapons and training to Shi'a militant groups to enable anticoalition attacks. Iran also has contributed to the increasing lethality of anticoalition attacks by enabling Shi'a militants to build improvised explosive devices with explosively formed projectiles, similar to those developed by the Lebanese Hizballah.

According to the March 2006 UN report, the deteriorating security situation is further evidenced by the increased levels of sectarian strife and the sectarian nature of the violence, particularly in ethnically mixed

[8]Department of Defense, Report to Congress, Measuring Stability and Security in Iraq, July 20, 2005. National Security Council, National Strategy for Victory in Iraq, November 2005.

areas of Iraq. The UN expressed concern about the role of militias and irregular armed elements in the almost daily reports of intercommunal intimidation and murder. These include regular reports of bodies of Sunni and Shi'a men with signs of torture and summary execution in Baghdad and its surrounding areas. Violence against Kurds and Arabs has also been reported in Kirkuk, while the abduction and intimidation of ordinary Iraqis is a growing problem. According to the report, repeated bombings against civilians, mosques, and more recently against churches are creating fear, animosity, and feelings of revenge within Iraq's sectarian communities.

Poor Security Conditions Hinder Development of Political and Security Institutions

According to UN and U.S. reports, the continuing insurgency and recent increase in sectarian violence have impeded the development of an effective, inclusive Iraqi government. In March 2006, the UN reported that persistent attacks and terrorist actions by armed groups against the Iraqi government in large parts of the country challenged the stability of the country and the government's ability to protect its citizens. According to a March 2006 State Department survey, Iraqis have become increasingly concerned that civil war may break out. Iraqis in Baghdad and the central and northern Sunni areas have lost confidence in the ability of Iraqi army and police to improve the security situation. At the same time, support for the armed resistance increased in some Sunni areas, and Iraqis in Shi'a areas expressed confidence in two large Shi'a militias, the Badr Organization and the Mahdi Army. In early April 2006, the State Department reported that the recent terrorist activity and rise in sectarian violence impeded efforts to further the understanding and trust between political groups necessary to establish a government of national unity. The report noted the importance of Iraq developing ministries that sectarian interests do not control.

Recent U.S. reports have recognized that the security situation has the potential to hinder progress in developing effective Iraqi security forces, thereby delaying the transfer of security responsibilities to the Iraqi government and the drawdown of U.S. forces. For example, in February 2006, the Director of National Intelligence testified that Iraqi security forces are experiencing difficulty in managing ethnic and sectarian divisions among their units and personnel, while the director of the Defense Intelligence Agency reported that many elements of the Iraqi security forces are loyal to sectarian and party interests. In the November 2005 National Strategy for Victory in Iraq, the administration cited a number of challenges to developing effective Iraqi security forces, including the need to guard against infiltration by elements whose first loyalties are to institutions other than the Iraqi government. Moreover, in March and April 2006, a senior U.S. military officer stated that to help quell

sectarian tensions and violence, MNF-I increased the number of coalition and Iraqi troops in Baghdad. These troops increased patrols in areas that had been transferred to the Iraqi security forces.

GAO's October 2005 classified report and recent classified briefing to your staff provided further information and analysis on the challenges to developing Iraqi security forces and the conditions for the phased drawdown of U.S. and other coalition forces.[9] In response to a Congressional mandate based on our report, the administration reported to Congress additional details on the current U.S. mission and the conditions necessary to transfer security responsibility to the Iraqi government, including criteria used to evaluate progress.[10]

Reconstruction Goals Not Yet Reached Because of Security, Management, and Sustainment Challenges

U.S. reconstruction efforts have focused on restoring basic services in Iraq, such as repairing oil facilities, increasing electricity generating capacity, and restoring water treatment plans. However, key reconstruction goals in the oil, electricity, and water sector have yet to be achieved due to security, management, and sustainment challenges in U.S.-funded projects.

Key Reconstruction Goals Have Not Been Achieved

U.S. electricity, oil, and water projects have focused on restoring essential services, such as refurbishing and repairing oil facilities, increasing electrical generating capacity, and restoring water treatment plants but key reconstruction goals have not been achieved (see table 1).

[9]GAO, *DOD Reports Should Link Economic, Governance, and Security Indicators to Conditions for Stabilizing Iraq*, GAO-06-152C (Washington, D.C.: Oct. 2005).

[10]Department of State, *Report to Congress submitted pursuant to U.S. Policy in Iraq Act, Section 1227 of the National Defense Authorization Act for Fiscal Year 2006 (P.L. 109-163)* (Washington, D.C., April 2006).

Table 1: Reconstruction Goals Not Met for Oil Electricity and Water Sectors

Sector	Metric	Pre-War (2003)	Current (March 2006)	Planned U.S. end state
Oil	Crude Oil Production Capacity	2.6 MBPD	2.0 MBPD	3.0 MBPD
Electricity	Peak Generation Capacity	4300 MW	4,092MW (5387 MW peak in 7/14/05)	6,000 MW
Water	New or Restored Treatment Capacity	Unknown	1.1 M m3/day	2.5 M m3/day

MBPD = millions of barrels per day

MW = megawatts

M m3/day = million cubic meters per day

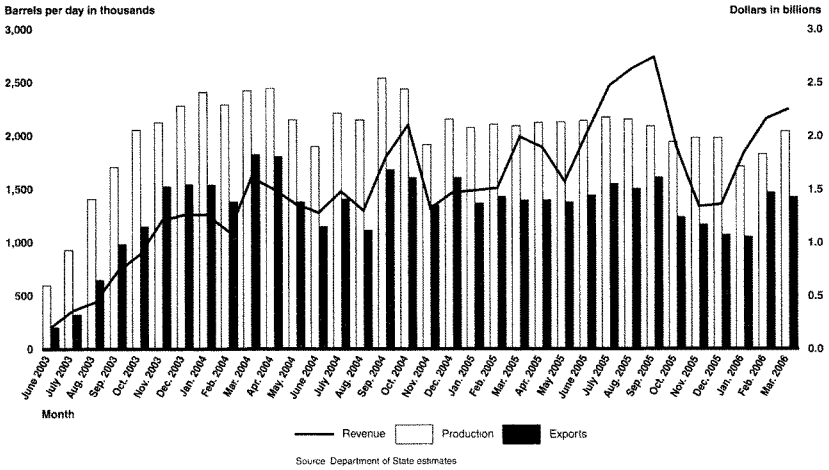
Source U S Embassy Baghdad, "Reconstruction Progress in Iraq," March 29, 2006

As of March 2006, oil, electricity, and water sectors were below the planned U.S. end state. Before the war, oil production in Iraq averaged 2.6 million barrels per day (mbpd). In March 2006, State reported that oil production was about 2 mbpd, significantly below the desired goal of 3 mbpd. A combination of insurgent attacks on crude oil and product pipelines, dilapidated infrastructure, and poor operations and maintenance have hindered domestic refining and have required Iraq to import significant portions of liquefied petroleum gas, gasoline, kerosene, and diesel.

In March 2006, electric generation capacity was about 4,100 megawatts. This level was below the post-war peak of about 5,400 megawatts and the planned U.S goal of 6,000 megawatts. Insurgent attacks have weakened the grid and the lack of fuel and spare parts has contributed to disruptions in service. In the water sector, the U.S. goal of providing 2.5 million cubic meters of water per day has not been achieved. As of March 2006, only 1.1 million cubic meters of water per day was produced.

Specifically, production levels for oil and electricity have consistently fallen below their respective pre-war levels. As shown in Figure 4, since 2004, oil production levels have consistently averaged below pre-war levels of about 2.6 mbpd. In addition, although the capacity for export is theoretically as high as 2.5 million bpd, export levels averaged about 1.4 million bpd in 2005.

Figure 4: Iraqi Oil Production, Export, and Revenues, June 2003 through March 2006

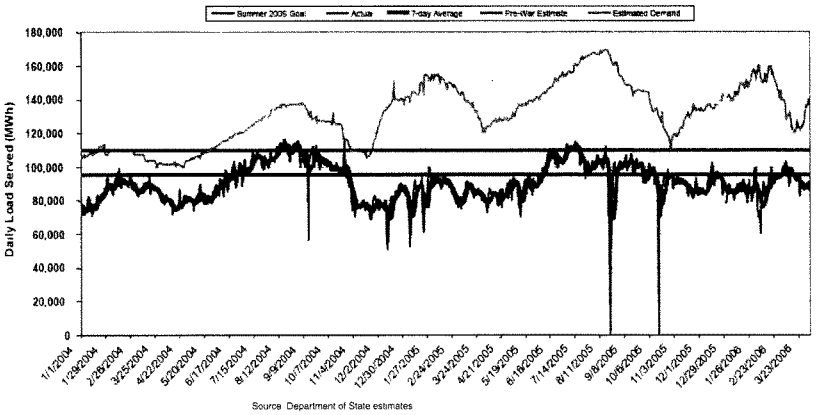


Source: Department of State estimates

Note: March data as of March 24, 2006

In the electricity sector, production has largely fallen short of the original target goal of producing 120,000 megawatt-hours of electricity per day. In May 2005, agency reports show this target goal was reduced to 110,000 megawatt-hours. As shown in figure 5, this target goal was last reached briefly in the summer of 2005 and has not been met since. In March 2006, about 89,000 megawatt-hours was produced. Agency reports have attributed the downward spikes in production to several causes, including planned and unplanned maintenance, fuel shortages due to insurgent attacks on oil pipeline that supply fuel to power plants, and limited supply of fuels.

Figure 5: Estimated Daily Electricity Produced in Iraq, January 1, 2004-March 23, 2006



Source: Department of State estimates

Note: GAO has not assessed the reliability of the data provided by State.

Further, supply has not improved much over last year when judged by hours of power. According to agency reporting, the national average of available electricity was 12.3 hours per day in the last week of February, 2006, and 11.7 hours per day last week of March. The average for Baghdad was 8.1 hours per day in February 2006, and 5.7 hours per day in March 2006. According to agency reporting, Iraqis have become greater consumers and this had dramatically altered demand and diluted the effect of increased generation capacity on actual results.

Security Conditions Have Hindered Reconstruction Efforts

The security situation in Iraq has also 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 and delays 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. In January 2006, State reported that direct and indirect security costs represent 16 to 22 percent of the overall cost of major infrastructure reconstruction projects.[11] In addition, the security environment in Iraq has led to severe restrictions on the movement of civilian staff around the country and reductions of a U.S. presence at reconstruction sites, according to U.S. agency officials and contractors. For example, in February 2006 the Project Contracting Office reported that in October 2005 the number of attacks on convoys and casualties had increased from 20 convoys attacked and 11 casualties compared with 33 convoys attacked and 34 casualties in January 2006.

Project Management Challenges Also Affect U.S. Reconstruction Program

While poor security conditions have slowed reconstruction and increased costs, a variety of management challenges also have 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 led to the reduced scope in 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

[11] Department of State, Report to Congress, Section 2207 Report on Iraq Relief and Reconstruction, January 2006.

inflationary environment that makes it difficult to submit accurate pricing; unanticipated project site conditions; and uncertain ownership of project sites. Further, between Jan 2004 and April 2006, the Administration reallocated $3.5 billion from the water and electricity sectors to security, justice, democracy and other programs which contributed to the cancellation and delays of water and electricity projects.

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

The U.S. reconstruction program has encountered difficulties with Iraq's 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 Iraq's problems in maintaining or properly operating them. State reported in January 2006 that several efforts were under way to improve Iraq's ability to sustain the infrastructure rebuilt by the United States.

- In the water and sanitation sector, U.S. agencies have identified limitations in Iraq's 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. In March 2005, State reallocated funding from an electrical generation project and provided $25 million to USAID to support the operations, maintenance, and logistics for USAID's reconstructed water and sanitation projects for up to 1 year. According to a senior IRMO official, the U.S. government has allocated an additional $110 million to the Project Contracting Office to sustain water and sanitation facilities and equipment that were procured, constructed, or rehabilitated using IRRF monies. The program, expected to begin soon after the USAID effort ends in April 2006, will consist of two major components—operations and maintenance support and assistance and capacity development. The objectives of the program are to effectively operate U.S. government-funded facilities in the near term and to help the Iraqi government sustain these efforts over the long-term.

- The U.S. government purchased 41 natural gas turbines to support Iraq's efforts to generate more electricity, but Iraqi power plants are using fuel oil for all these engines due to limited access to natural gas. The use of oil-based fuels, without adequate equipment modification and fuel treatment, decreases the power output of the gas turbines by up to 50 percent, requires three times more maintenance, and could result in equipment failure and damage that significantly reduce the life of the equipment,

according to U.S. and Iraqi power plant officials. IRMO estimates that the yearly cost of operating these turbines with oil-based fuels instead of natural gas totals $1.25 billion.[12] If Iraq were able to capture the gas it currently flares and use it in these turbines, IRMO estimates that the annual operating cost would be about $81.8 million. However, this latter cost does not include initial capital expenditures for the infrastructure needed to collect and process the natural gas and transport it to the power plants. In addition, the IRMO analysis assumes that the cost of natural gas is zero since this gas is currently flared in Iraq's oil fields. These cost comparisons will be analyzed in more detail as part of our ongoing review of Iraq's energy 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. 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. In January 2006, State reported that it has developed a strategy with the Ministry of Electricity to focus on rehabilitation and sustainment of electricity assets.

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 and building ministry capacity. In January 2006, State reported that it has several efforts under way focused on improving Iraq's ability to operate and maintain facilities over time. As part of our ongoing review of Iraq's energy sector, we will be assessing the extent to which the administration is providing funds to sustain the infrastructure facilities constructed or rehabilitated by the United States.

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

While State has set broad goals for providing essential services, and the U.S. program has undertaken many rebuilding activities in Iraq, limited performance data and outcome measures make it difficult to determine and report on the progress and impact of U.S. reconstruction. In January

[12]Total annual operating costs by type of oil used: (1) $228 million for crude oil in 4 turbines; (2) $206 million for residual oil in 20 turbines; and (3) $819 million for diesel oil in 17 turbines. IRMO based these calculations on International Standards Organization rated capacity in megawatts for each engine.

2006, State reported that it is currently finalizing a set of metrics to better track the impact of reconstruction efforts.

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. 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. For example, the United States reports that, as of March 2006, Iraq has the capacity to produce 1.1 million cubic meters of water per day. However, this level overestimates the amount of potable water reaching Iraqi households because U.S. officials estimate that 60 percent of water treatment output is lost due to leakage, contamination, and illegal connections. In addition, potable water and sewage lines in Iraq are sometimes adjacent to each other, allowing leaking sewage to enter the water mains when there is insufficient pressure in the lines. In the absence of metering and quality measures, it is unclear how U.S. efforts are improving Iraqi access to water and sanitation services.

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. 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 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. However, these data do not show whether (1) the power generated is uninterrupted for the period specified (e.g., 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.

Iraq Faces Challenges in Financing Future Needs

As the new Iraqi government forms, it must plan to secure the financial resources it will need to continue the reconstruction and stabilization efforts begun by the United States and international community. Initial assessments in 2003 identified $56 billion in reconstruction needs across a variety of sectors in Iraq. However, Iraq's needs are greater than originally anticipated due to severely degraded infrastructure, post-conflict looting and sabotage, and additional security costs. The United States has borne the primary financial responsibility for rebuilding and stabilizing Iraq; however, its commitments are largely obligated and remaining commitments and future contributions will focus on sustaining rebuilt infrastructure, building government institutions, and training and equipping Iraqi security forces. Further, U.S. appropriations were never intended to meet all Iraqi needs. 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 Iraq has just begun to access. Iraq's ability to contribute financially to its additional rebuilding and stabilization needs is dependent upon the new government's efforts to increase revenues obtained from crude oil exports, and reduce expenditures.

Iraqi Needs Are Greater Than Originally Anticipated.

Initial assessments of Iraq's needs through 2007 by the U.N., World Bank, and the CPA estimated that the reconstruction of Iraq would require about $56 billion.[13] However, Iraq is likely to need more funding than currently available to meet the 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. In addition, insurgents continue to target electrical transmission lines and towers as well as oil pipelines that provide needed fuel for electrical generation.

[13]The October 2003 joint UN/World Bank assessment identified $36 billion, from 2004 through 2007, in immediate and medium-term needs in 14 priority sectors, including education, health, electricity, transportation, agriculture, and cross-cutting areas such as human rights and the environment. For example, the assessment estimated that Iraq would need about $12 billion for rehabilitation and reconstruction, new investment, technical assistance, and security in the electricity sector. In addition, the assessment noted that the CPA estimated an additional $20 billion would be needed from 2004 through 2007 to rebuild other critical sectors such as security and oil.

Further, these initial assessments assumed that Iraqi government revenues and private sector financing would increasingly cover long-term reconstruction requirements. This was based on the assumption that the rate of growth in oil production and total Iraqi revenues would increase over the next several years. However, private sector financing and government revenues may not yet meet these needs. According to a January 2006 International Monetary Fund (IMF) report, private sector investment will account for 8 percent of total projected investment for 2006, down from 12 percent in 2005.[14] 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. For the electricity sector, Iraq projects that it will need $20 billion through 2010 to boost electrical capacity, according to the Department of Energy's Energy Information Administration.

Future Contributions for Iraq Reconstruction May Be Limited.

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 have largely focused on infrastructure repair and training of Iraqi security forces. As of January 2006, of the $30 billion appropriated, about $23 billion had been obligated and about $16 billion had been disbursed for activities that included infrastructure repair, training, and equipping of the security and law enforcement sector; infrastructure repair of the electricity, oil, and water and sanitation sectors; and CPA and U.S. administrative expenses.

International donors have provided a lesser amount of funding for reconstruction and development activities. According to State, donors have provided about $2.7 billion in multilateral and bilateral grants—of the pledged $13.6 billion—as of December 2005. About $1.3 billion has been deposited by donors into the two trust funds of the International Reconstruction Fund Facility for Iraq (IRFFI),[15] of which about $900 million had been obligated and about $400 million disbursed to individual projects, as of December 2005. Donors also have provided

[14]International Monetary Fund, *Iraq: Request for Stand-by-Arrangement* (Washington, D.C.: January 2006).

[15]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 UN Development Group and the other by the World Bank Group.

bilateral assistance for Iraq reconstruction activities; however, complete information on this assistance is not readily available. Most of the pledged amount is in the form of loans that the Iraqis have recently begun to access. 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 IMF, and Japan.

Iraq Must Address Budget Constraints to Contribute to Future Rebuilding and Stabilization Efforts.

Iraq's fiscal ability to contribute to its own rebuilding is constrained by the amount of revenues obtained from crude oil exports, continuing subsidies for food and energy, growing costs for government salaries and pensions, increased demands for an expanding security force, and war reparations and external debt.

Crude oil exports are projected to account for nearly 90 percent of the Iraqi government revenues in 2006, according to the IMF. Largely supporting Iraq's government operations and subsidies, crude oil export revenues are dependent upon export levels and market price. The Iraqi 2006 budget has projected that Iraq's crude oil export revenues will grow at an annual growth rate of 17 percent per year (based on an average production level of 2 million bpd in 2005 to 3.6 million bpd in 2010), estimating an average market price of about $46 per barrel. Oil exports are projected to increase from 1.4 million bpd in 2005 to 1.7 million bpd in 2006, according to the IMF. Iraq's current crude oil export capacity is theoretically as high as 2.5 million bpd, according to the Energy Information Administration at the Department of Energy. However, Iraq's crude oil export levels have averaged 1.4 million bpd as of December 2005, in part due to attacks on the energy infrastructure and pipelines. In February 2006, crude oil export levels averaged about 1.5 million bpd.

While Iraq produces crude oil, its ability to produce refined fuel products, such as diesel and gasoline, is limited. According to State, the Iraqi Oil Ministry imported roughly $500 million of fuel each month in 2005. As a result, Iraq must import fuel to meet domestic demand. According to State, the imported fuel is sold at a subsidized price, further constraining Iraqi budgetary resources.

Current government subsidies constrain opportunities for growth and investment and have kept prices for food, oil, and electricity low. Low prices have encouraged over-consumption and have fueled smuggling to neighboring countries. Food and energy subsidies account for about 8 percent of Iraq's projected gross domestic product (GDP) for 2006.

As part of its Stand-By Arrangement with the IMF, Iraq plans to reduce the government subsidy of petroleum products, which would free up oil revenues to fund additional needs and reduce smuggling. According to the IMF, by the end of 2006, the Iraqi government plans to complete a series of adjustments to bring fuel prices closer to those of other Gulf countries. However, it is unclear whether the Iraqi government will have the political commitment to continue to raise fuel prices. The scheduled March increase in the price of diesel and gasoline was delayed until June 2006. Iraqis currently pay about $.26 per gallon for regular gasoline compared to about $.91 per gallon in neighboring countries.

Generous wage and pension benefits have added to budgetary pressures. Partly due to increases in these benefits, the Iraqi government's operating expenditures are projected to increase by over 24 percent from 2005 to 2006, according to the IMF. As a result, wages and pensions constitute about 21 percent of projected GDP for 2006. The IMF noted that it is important for the government to keep non-defense wages and pensions under firm control to contain the growth of civil service wages. Under the IMF agreement, the Iraqi government must complete a census of all public service employees by June 2006. The census will help address the issue of ghost employees in Iraqi ministries—employees on the payroll but not working, according to a U.S. Treasury official.

Iraq plans to spend more resources on its own defense. Iraq's security-related spending is currently projected to be about $5.3 billion in 2006, growing from 7 to about 13 percent of projected GDP. The amount reflects rising costs of security and the transfer of security responsibilities from the United States to Iraq.

The Iraqi government also owes over $84 billion to victims of its invasion of Kuwait and international creditors. As of December 2005, Iraq owed about $33 billion in unpaid awards resulting from its invasion and occupation of Kuwait. As directed by the UN, Iraq currently deposits 5 percent of its oil proceeds into a UN compensation fund. Final payment of these awards could extend through 2020 depending on the growth of Iraq's oil proceeds. In addition, the IMF estimated that Iraq's external debt was about $51 billion at the end of 2005.

Conclusion

Iraq is at a precarious stage in its emerging democracy and 2006 will be a critically important year in its development. Continuing insurgent violence and growing sectarian divisions make it increasingly difficult to achieve the ultimate U.S. goal of a united and stable Iraq that is well integrated into the international community and a full partner in the global war on terrorism. The United States, Iraq, and our international partners face daunting challenges in achieving this goal and making a difference in lives of the Iraqi people. These include forming a national unity government, quelling the insurgency and sectarian violence, providing basic services, and financing future reconstruction efforts.

In moving forward to achieve U.S. goals, it is important that the United States continue training and equipping Iraqi security forces and, more importantly, ensuring that these forces have the logistical capabilities to support and sustain themselves. The United States along with the international community should also help Iraqis develop the budgeting and administrative tools they need to run their national and provincial governments. Additionally, transparency and accountability mechanisms are essential given the legacy of corruption inherited from the previous regime. Efforts should also be taken to ensure that Iraqis are capable of maintaining power plants, water treatment facilities, and other U.S.-funded infrastructure.

Although the United States has played a key role in addressing these challenges, it is important for the Iraqis to assume greater leadership and for the international community to increase its efforts. In assuming leadership, the Iraqis need to form a permanent government and address unresolved constitutional and budgetary issues. Of particular importance is disbanding the militias, reducing subsidies, and controlling a bloated bureaucracy. Even as they address these difficult challenges, Iraq must reengage the international community to fund the enormous reconstruction tasks that remain. This will not be easy since donors are demanding accountability for funding they have provided over the past 3 years.

Collectively, Iraq's future requires strong Iraqi leadership, sustained U.S. commitment, and a reengaged international community. All these will be essential in order for real success to be achieved.

Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I will be happy to answer any questions you may have.

GAO Contacts and Acknowledgments

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Mr. SHAYS. Thank you, Mr. Walker. We appreciate your testimony.

There are three Members here. I think I'll start with Mr. Waxman then I'll jump in, and then we'll go to Mr. Van Hollen, and then we'll just come back.

Mr. Waxman, you have 10 minutes.

Mr. WAXMAN. Thank you, Mr. Chairman.

Mr. Walker, I'm pleased that you're here. Six months ago, we had a hearing in this subcommittee where we heard from a panel of inspectors generals and auditors and their unanimous opinion was that the Bush administration had not fulfilled its reconstruction promises in three critical areas; in the oil, electricity and water areas. Some sectors were actually in worse shape than before the war. So I appreciate your testimony because it gives us an opportunity to assess the current status of these key sectors.

Based on your testimony, it seems clear that the reconstruction efforts are continuing to fail. In the oil sector, the administration committed to restoring Iraq's oil production and exports to pre-war levels, and to do that, it has already spent over $2 billion to meet the objective.

Mr. Walker, has the administration met this objective?

Mr. WALKER. No. The objectives have not been met with regard to the oil, electricity and water sectors.

Mr. WAXMAN. Are we still below pre-war levels?

Mr. WALKER. We're still below pre-war levels with regard to oil and electricity. It's unclear what the water level was pre-war. That's information we don't have.

Mr. WAXMAN. Well, is the oil part higher or lower than before we arrived?

Mr. WALKER. It's lower.

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

Mr. WALKER. No, it has yet to reach that objective.

Mr. WAXMAN. Are we close?

Mr. WALKER. We've got a ways to go. We are slightly below pre-war levels but quite a bit below what the goal is.

Mr. WAXMAN. My understanding is that the peak electricity output of 4,100 megawatts is lower than the pre-war levels of 4,400 megawatts, and of course, that's far short of the 6,000 megawatts promised.

Mr. WALKER. My data, Mr. Waxman, says peak level post-war was about 5,400 megawatts, which was achieved in July 2005, but now we're down to about 4,100 megawatts. The pre-war was 4,300 megawatts, and the goal is 6,000 megawatts.

Mr. WAXMAN. Why is that? We evidently went up, but down again.

Mr. WALKER. There continues to be a significant amount of instability in much of Iraq. There continues to be a problem with regard to the effects of the insurgency, continues to be a problem with regard to the ability of the Iraqis to be able to maintain facilities that we rebuild. So it's a combination of a number of factors that have caused us to be where we are.

Mr. WAXMAN. What impact is this having on the Iraqi people?

Mr. WALKER. Obviously, the Iraqi people are like people anywhere in the world, they care about safe streets, having electricity, clean water, having the trash picked up. And obviously, to the extent those areas are not at the levels that they need to be, it has an adverse effect on their daily quality of life.

Mr. WAXMAN. How many hours a day do the average Iraqis have electricity?

Mr. WALKER. It depends on the area. It varies. As you know, Mr. Waxman, before the war, we had a situation where the regime was trying to focus its efforts on providing essential services, including electricity, to primarily the Sunni areas, and other areas were not provided as much capability. I would ask Mr. Christoff to provide some more details.

Mr. CHRISTOFF. The national average as of last week was 12.3 hours, but that varies. The Kurds have about 16 to 18 hours a day. The Shi'as in the south are averaging around 10. Baghdad is at about 5 to 8.

Mr. WAXMAN. It's reverse rather. The Shi'a areas are getting more electricity.

Mr. CHRISTOFF. And the Kurds.

Mr. WALKER. The stability, obviously, as you know, Mr. Waxman, and we've got it in our testimony, varies by region of the country. Some of the most challenging areas of the country are in the Sunni-dominated areas.

Mr. WAXMAN. Are these temporary problems, or are production levels consistently below pre-war levels?

Mr. WALKER. They have gone up and down. They have not consistently been below pre-war levels because pre-war levels were 4,300 megawatts. As I mentioned to you, in July 2005, we'd gotten up almost to 5,400 megawatts at one time, but we've never reached our goal. But keep in mind, our goal is significantly higher than the pre-war level. The pre-war level was 4,300; our goal was 6,000.

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, we spent over $1 billion. Have we achieved this objective?

Mr. WALKER. We have not with regard to potable water. Even though production has increased of late, we still have a problem because there are problems in transmission; there's a significant amount of loss of water between the water treatment facilities and Iraqi homes.

Mr. WAXMAN. The administration officials keep telling us we're not hearing the good news stories from Iraq and that substantial progress has been made in rebuilding the country. Six months ago, the inspectors general and auditors told us there was a huge gap between the administration's rhetoric and reality. In fact, Stuart Bowen, the special inspector general for Iraq reconstruction, called this a reconstruction gap. Seems to me your testimony confirms that the reconstruction is still failing in key sectors.

Mr. Walker, I'd like to take a closer look at the oil sector. I recently released a report that examined Halliburton's second oil contract, called RIO 2, which was a followup to Halliburton's original no-bid oil contract. The report analyzed hundreds of pages of pre-

viously undisclosed correspondence, evaluations and audits. It revealed that government officials and investigators have harshly criticized Halliburton's performance under RIO 2.

Here are the exact words that the government officials and investigators used to describe Halliburton's performance, "Profound systematic problems, exorbitant indirect costs, misleading, distorted cost reports, a lack of cost control, an overwhelming negative evaluation and an obstructive corporate attitude toward oversight."

Halliburton's cost reports were so bad that the Army took the extreme step of issuing a cure notice in January 2005. They notified Halliburton that its RIO 2 contract could be terminated if the problems were not fixed.

Are you, Mr. Walker, aware of any other cure notices issued under major Iraq contracts?

Mr. WALKER. I'm not. That was not our work, Mr. Waxman, but I will check with my staff. And if we're aware of anything else, I'll be happy to provide it for the record. As you know, there's a special inspector general that has been created for Iraq which has primary responsibility for doing audit, investigation and evaluation work for contracting activities in Iraq.

I hate to say it, but the simple fact is that the contracting area has been on GAO's high-risk list for the Defense Department for many years, and Iraq is no exception. I wish our problems were frankly confined just to Iraq, but we have serious contracting problems all throughout the Defense establishment.

Mr. WAXMAN. Let me ask you this, in conclusion. Halliburton's overall performance was so poor that it received no award fees for first year of work. Are you aware of any other major contractor in Iraq that received no award fee over—on over a quarter of a billion dollars of work?

Mr. WALKER. I'm not, but I'll check and provide it for the record. I would note with regard to the article that you referred to at the outset of the hearing that I had an opportunity to review, that they did receive a 4 percent award fee, it's my understanding, at least that's what was reported.

I think one of the problems we have in government, Mr. Waxman, is that if we're paying incentive and award fees, we need to pay for positive results achieved. The people do what they promise or what we need and what they promise when they promised it and at the cost that was agreed to. Unfortunately, that's not the case for all too many contracting arrangements in government. They pay for effort, and that's it, not results.

Mr. WAXMAN. On the House floor when we considered the supplemental appropriations bill for the future work in Iraq, Afghanistan and other areas, I offered an amendment that said if the government has been overcharged by any contractor by a sum of at least a hundred million dollars, the government shouldn't be giving any other contracts to that contractor.

The argument that was advanced on the House floor was, well, what if you still need the contractor, what if you still need that contractor even though the contractor has taken advantage and overcharged us as its client?

Are we so dependent on Halliburton or any private contractor that we couldn't find anybody else to do work if they turn out to be doing poor work and overcharging for that work?

Mr. WALKER. Several things. First, the practical problem is, how do you define overcharged? That would be the practical problem. Second, the Defense Department has relied upon KBR, which is a subsidiary of Halliburton, to provide logistical support and a range of other services for many years.

There are other options, but there aren't many options, and that's one of the things we need to be looking at, is we need to be making sure that we have viable options with regard to known and recurring type needs such that if people aren't delivering what they promise or if the taxpayers aren't getting the type of deal that they deserve, that we have viable options that we can pursue.

So the need may still be there, the question is, how many people can meet the need?

Mr. WAXMAN. I appreciate that answer. That's really somewhat distressing because, one, we ought to insist if we're paying the money, they do what they're required to do. And if they're not going to do what they're required to do, they should be sanctioned and forced to give back the money, and then we ought to be seeking out others who can do specific tasks instead.

Mr. WALKER. Mr. Waxman, if I might add, one of the challenges that exists within the Defense Department is we need to improve our contracting arrangements so we are very clear as to what we are asking the contractor to do: We expect X result by Y time for Z cost.

Now it's not always possible to do that, but many times it is, and we haven't done that. All too frequently we're paying for efforts rather than results. That's got to change.

Mr. WAXMAN. The Bush administration and others have argued that security has been the big problem; that these contractors can't perform because we haven't been able to get a secure environment for reconstruction.

I would submit, and be interested in your comment, that we've had some devastatingly poor choices made with respect to disbanding the Iraqi army. This RIO 2 contract shows that poor contractor performance, aside from security, poor contractor performance is a major factor, not an incidental one. Do you agree?

Mr. WALKER. It is a problem. With regard to security, I think it's important to keep two things in mind: As our statement notes, estimates of the direct cost associated with providing security associated with reconstruction efforts range from 16 percent to around 25 percent or so. But what that does not capture, which is very, very important, that's the direct cost of providing security.

You also have productivity losses. When you have an unstable security environment, then you can end up having a significant amount of reduction in productivity and lost work effort because of that. That number is not captured in there. So if you wanted to totally absorb the cost, I would argue, on a full absorption basis, it would be much higher.

Mr. WAXMAN. Just looking at today's New York Times article where Halliburton had a project to build oil pipelines under the Tigris River, and then Halliburton was, even after they specifically

and repeatedly have been warned by geologists and other experts that their whole approach to this work was flawed and it wouldn't work, they went ahead anyway. And they spent over $75 million before they finally had to admit I guess it wasn't such a good idea to ignore all the geological experts.

That had nothing to do with security; that was plain incompetence, and it didn't hurt them at all because they still got paid.

Mr. WALKER. That's an example, Mr. Waxman, of wholly inadequate transparency among other things with regard to what the situation was. That was an instable area, there's no question about that. There were security challenges. But there were other problems that occurred that led to that. One of the problems was there was not enough transparency over exactly where do they stand and what progress was being made and what results were we getting for the costs that was being incurred, and not only how much direct security costs being incurred, but how much time was being lost in other efforts associated with that.

Mr. WAXMAN. Well, the transparency, we should have been able to see their terrible judgment, which ended up costing us at least $75 million.

Thank you, Mr. Chairman.

Mr. SHAYS. You're welcome.

Mr. Walker, thank you for being here. I want you to first tell me how you've allocated your folks. You basically have done four studies to this subcommittee, but tell us about your four studies that you have done, not in any great depth but basically what you have done.

Mr. WALKER. We did work, Mr. Chairman, spanning all three major dimensions. As you know, these are just four that we've issued within the last several months. We have many other engagements ongoing.

Basically, we've tried to do work dealing with the security environment, the governance situation, also with regard to reconstruction efforts. The specific reports that are referred to I think are outlined in my testimony. But we're trying to follow those three major dimensions because they are consistent with the plan that the executive branch has developed for Iraq, and we think it makes sense for us to try to follow that framework to the extent possible.

As you know, we do all this work under the Comptroller General's authority but with your support and the support of other Members and I want to compliment you again for the number of hearings, oversight hearings you have had. There's not enough oversight going on in Congress, but this subcommittee is clearly an exception to that general rule.

Mr. SHAYS. Thank you.

What I'd like to do is I'd like to isolate each part, the security, the governance and the reconstruction. I'm going to say one of my concerns is, when I hear your recommendations, which I agree with, I want to be clear whether you think we fail if we don't—for instance, your primary point is we need to involve the international community. And this is clearly a crucial year. If the international community basically sticks their nose up at us and says, forget it, are you saying we're going to fail? Or are you saying it's going to be a lot more difficult and take a lot more time?

Otherwise, if you are saying that if we don't get international help, we fail, you are basically putting it right in the hands of the international community. I would like to think that's not true. If it is true, I need you to tell me.

Mr. WALKER. I believe it is critically important that the international community be much more engaged with regard to capacity building for the new Iraqi government than it has been. As you know, there were strong differences of opinion within the international community about whether and to what extent we and others should have gone into Iraq, but it is in our combined interest for the entire international community for Iraq to succeed.

Can we be successful if the Iraqi community—pardon me, if the international community does not engage? Yes, it's not impossible to be successful, but a lot more difficult, take a lot more time, a lot more money.

We also have to keep in mind that the international community, the U.N. as an institution, as well as other countries have significant expertise in trying to help other countries help themselves be successful. It's important that come forth at this point in time because, in some cases, they may be able to do things that we won't be able to do. We have limited resources; we have limited capacity. And, candidly, one of the big concerns, Mr. Chairman, is, at certain levels, we may have 15 to 20 more times people in uniform than we have civilian players.

Mr. SHAYS. Let me kind of dissect part of this. This subcommittee has done a lot of investigations. One was, we initiated the Oil-for-Food program. When we began the Oil-for-Food program, we learned that Saddam Hussein undersold the oil and got kickbacks and directed it where he chose and overpaid for commodities and got kickbacks and directed it for where he wanted.

The Dulfer report said two things: No weapons of mass destruction; the other thing the report said is, Saddam Hussein had bought off the French and the Russians and was convinced they would not support us in the Security Council and therefore did not believe we would come. He didn't believe we would attack him because he was convinced that his Oil-for-Food program had bought off the French and the Russians.

So I'm wrestling with, if they were basically bought off, what unbuys them?

Mr. WALKER. First, as you know, he is gone. We're dealing with a new situation. The one area where you can clearly say that tremendous progress has been made is politically. Tremendous progress.

I'm testifying on Thursday before the Congress on the issue of the U.N. and what the U.N. needs to do in order to be able to strengthen its controls and also what the U.N. needs to do in order to improve its oversight practices.

I believe, Mr. Chairman, that it is possible to be able to provide additional transparency and accountability and to get better results. We need to learn from Oil-for-Food. We need to try to make sure that appropriate steps are taken to minimize that happening again.

Mr. SHAYS. I'm not sure you're really responding to my question. If you don't have an answer, that's OK, but it's not debatable. Sad-

dam bought off the French and the Russians. They did not support going in. It's not debatable, at least in terms of his own people who said Saddam did not believe we would come. He was like Stalin after we attacked; just as the Germans attacked, he didn't believe it and had to have it reconfirmed.

That's one of the things I'm absolutely convinced about from my hearings, is Saddam had bought off the French and Russians; the U.N. would not support us. So what makes them support us now? What information do you have that could make me feel that they are going to support? That's what I'd like to know.

Mr. WALKER. There are two aspects, Mr. Chairman. I understand what you're saying. First, whether or not the U.N. as an institution and how it does business and what it takes for it as an institution to provide broadbased support, whether it can and will step forward. It is providing some support.

Mr. SHAYS. They have stepped forward politically. I want to make sure it's part of the record. They have helped the election process. And when I was there for their second election a week before, and I met with the U.N. Commission, they had helped organize the first vote, the second and third. Hugely successful.

I'm not right now talking about the U.N. structure, the commission. They said to me that the elections in October would be the fairest anywhere in the world, that there would be greater support of voters than we have in the United States. And we learned that they voted, 63 percent of all adults, not registered voters; we learned that when they voted, 79 percent supported the constitution, contrary to what people thought. And then in December, 76 percent of all adults. In the United States, if we get 65 percent of the two-thirds who bother to register, we think that's huge.

So you and I can probably agree that their election process—in just 1 year establishing a government, created a constitution, ratified a constitution, elected a government—is unbelievably successful. Would you agree?

Mr. WALKER. It has been successful on the political front, yes.

Mr. SHAYS. So the issue now, at least in terms of the general populace, so we can kind of put that aside and we can kind of say that the U.N. was very helpful in that process. That's an argument I think that says the value of having the international communities. I'm not arguing with your point that if we can get the international community engaged so the political process was successful, the U.N. was helpful, other countries helped in that process of the election. It leaves the security and the reconstruction. Obviously, the political process, as you point out, of 4-month delay is a big issue. So they are learning.

Would you agree that the Sunnis and Kurds—let me ask it this way and then I'll tell you what I think. What did you learn from the Sunnis and Kurds saying no to Jafri and ultimately the Shi'as agreeing to select someone else? What did that tell you about the political process?

Mr. WALKER. That's a recent event and a subsequent event to the work that we did and so we haven't done work directly on that.

If I can, Mr. Chairman, if you'll indulge me for a second, let me be clear as to where I think we need additional help from the

United States and from the international community, now that it looks——

Mr. SHAYS. I'm going to give you that chance because we're going to be here all day. What I'm trying to do is isolate where the issue is, and you want to jump right there, but I want to make sure that we have some understanding or disagreement, but some understanding of our disagreement on the three fronts, the economic, the security, the political and the economic.

What can we learn—if you want me to answer the question, I will, if you're not inclined to, but what do you think—what was the significance of ultimately, in your judgment, the minority holding fast and forcing the majority to select someone else?

Mr. WALKER. It shows that one has to compromise in order to achieve progress. It does show a willingness in the end, in my view, for a desire to try to form a government of national unity that can be acceptable broadly within Iraq. I think that is a plus. The real key, Mr. Chairman——

Mr. SHAYS. Unless you want to still talk about the political. Don't leave the political yet.

Mr. WALKER. I will talk only about the political. The real key is substantive success. As we know, we have a prime minister designate that was the result of the process that you just mentioned. Now that has to be finalized and the government needs to be stood up beyond the prime minister, including naming ministers to head all the different government agencies, with particular importance to defense——

Mr. SHAYS. Let me get to that because you're talking about what I think is a level underneath the democratic process of governance, which I think is a key point.

What I learned from this was when I go to Iraq, I meet with Iraqis, the Sunnis, Shia's and Kurds. They lecture me. They say, I'm an Iraqi. They say, I'm a Sunni, but I'm married to a Shi'a, or the Kurds will say, I am a Kurd, but I'm a Sunni. I am an Iraqi.

From the press, I learned Sunnis, Shi'as and Kurds, but from the Iraqis, I learned Iraqis. But those who never experienced democracy, they said majority rule, we get to run the place. And what we learned when we became a country is majority rule, minority rights.

For me, what is thrilling about what took place was that the minority, the Kurds and the Sunnis, both 20 percent, give or take, link up, were able to veto the choice of the Shi'as. The Shi'as resisted for month after month, finally said, you know what, we accept minority right. You don't get to choose who we choose, but you get to veto.

To me, that's just one more progress that's noticeable and real. Now you want to uncover the top part, which is the democracy, and get into the governance. I think there are some huge points here, and I think the point you're telling me is to succeed with the governance, because I'm going to tell you what I think and you tell me if I'm wrong, you have defense, interior, you have oil, go down the line, agriculture and so on. We don't have the capability to be with every department, nor do we have frankly the respect of the Iraqis to be the only ones.

So what I'm hearing you say is if you want that level to work, the governance, we have to bring in folks who have had this experience in other parts of the world.

Mr. WALKER. Correct. We and the international community have to do more to help the Iraqis help themselves build these institutions that can deliver results that all Iraqis care about. We talked earlier in this hearing about what's the status of the electricity, what's the status of the oil, what's the status of the water. Ultimately Iraqis are like people anywhere, they care about having safe streets, they want to have jobs, they want to have electricity, they want to have clean water, they want to have their trashed picked up, and we need to make sure that we're helping to deliver on that and it's not just us, it's the international community.

Mr. SHAYS. I just want to cover this territory. We obviously have the concern about their learning about democracy, being able to recognize majority rule, minority rights. The public has proved to us—they put us to shame. In their country, they participate at risk of death. I would also say at risk of death. You have Sunnis, Shi'as and Kurds that are trying to form a government, and in some areas, they're targets. They're not dead men walking, but their lives are at risk every day. Very brave people.

But it gets into this issue of corruption. Obviously, knowing how to do things, but corruption. I would like to say to you if anything brings down Iraq, my biggest fear is corruption. It leads me to make a parenthetical.

When Duke Cunningham, a Vietnam war hero and I believe a very patriotic person slipped in, step by step, into corruption, into payoffs, he not only was a corrupt person, he was a traitor. Because in the end, that's what brings down a democracy.

How do we deal with the corruption in Iraq? And you put it up there at high a level, as I would. Way up there.

Mr. WALKER. It is a very serious problem. When I went to Iraq the latest time, the two primary reasons that I went there was, No. 1, to participate in a monthly meeting that is held between General Casey, our Ambassador, and all the other top officials where they're trying to develop metrics and milestones to measure progress across all these dimensions which we and others have recommended for some time; and, second, to meet with my counterpart who's head of the Iraqi supreme audit institution.

I might note that I met his predecessor, who 3 weeks after meeting him was killed in a car bomb. When I met with my counterpart in Iraq, we actually had to change locations because one of our bomb sniffing dogs sniffed an explosive device close to where we were supposed to meet. So you're right, the people there are risking their lives in many cases to do their job.

We, the GAO, the international organization of supreme audit institutions, and others are trying to work to help the Iraqi Supreme Audit Board build its capacity to be able to do its job. I met last week with the chief justice of the Commission on Public Integrity, which as you know is a critical part of the Iraqi government to try to be able to combat corruption, and we are trying to work with him along with helping him network and my counterpart in Iraq to network with their Arab counterparts and others in the international community to try to deliver results.

In the final analysis, there are several things that are going to have to happen. There are significant revenues being lost as a result of corruption and as a result of the resale of oil and products—oil products.

Part of the problem with that is the pricing structure for petroleum products in Iraq is much lower than it is in the surrounding area, which creates a great incentive to arbitrage, to be able to obtain access to this and, you know, just go next door, one of several countries next door in order to generate the revenues from that. That has to be addressed, but that is going to be a difficult political decision because you're going to have to raise oil prices and gasoline prices in order to undercut that. Now look at how much controversy there is in this country right now with the increase in gasoline prices, but there you're talking about going from, you know, 25 cents a gallon to 85 to $1.25.

Mr. SHAYS. Let me just close up with a question so I can move to Mr. Van Hollen. Mr. Van Hollen, Mr. Waxman and I both ended up with 15 minutes, so you will have that time.

So the bottom line is corruption is huge. And do you believe it's systemic throughout——

Mr. WALKER. It is a pervasive problem. It is particularly acute in the oil sector because that's over 90 percent of the government's revenues.

For example, when I was in this meeting, and some of the information is classified so I can't get into this information, I looked at the data that they put up on the chart, and within 15 seconds I could tell that there was tremendous corruption going on. Because you know what the price of oil is, you know what production is, and you can see what's going on with revenues, and they don't track. So this is a serious issue that has to be addressed, but it's not confined just to that sector of the economy.

Mr. SHAYS. I'm just going to conclude by telling you what I think I'm hearing you say. And what I think I'm hearing you saying is that we absolutely need the help of the international community if we are going to see real and noticeable progress; that, absent that, it is going to stretch out at infinitum—and I'm going to put my parenthetical in—and then I question whether the American people will have the staying power if they don't start to see just continued and real progress. And, obviously, if the Iraqis don't see real progress, then I think they also look to do things in a different way.

I'm also going to say what I'm hearing you say—which I wasn't thinking about in the way you were, but I'm happy you brought it out—is I've been looking at the government sector, the democratic—the governance sector more in terms of the elected officials, and you're opening my eyes to see, lift that cover up and look at individual government agencies and the need to have some real oversight there, and obviously our foreign friends could be helpful in that.

Mr. WALKER. It's not just oversight. It's capacity building to help the people responsible for managing those agencies and delivering results to be effective in doing so but then having oversight to provide checks and balances to maximize the——

Mr. SHAYS. The training and the mentoring.

Mr. WALKER. Right.

Mr. SHAYS. Thank you, Mr. Van Hollen, for your patience.

Mr. VAN HOLLEN. Thank you, Mr. Chairman.

Mr. Walker, thank you again for your testimony.

You were very charitable when you said that there hadn't been enough oversight in the Congress here. With the exception of this subcommittee pursuing some oversight within its limited jurisdiction, I think the House of Representatives has been totally AWOL when it comes to oversight on this issue and has failed to live up to its constitutional responsibilities. And I think, frankly—again, with the exception of the subcommittee—it's embarrassing as an institution, as a separate branch of government.

We all remember back in May 2003, back on the aircraft carrier Abraham Lincoln when the President unveiled the big placard saying "Mission Accomplished." That was May 2003. I think we can understand why the American people now have some skepticism when the President talks about his strategy for victory and has a big placard there.

If you go through the measurements that we're talking about today and you look at the strategy for victory and their list of accomplishments, it is missing progress in the areas we're talking about, in the oil sector, in terms of comparison to prewar levels, electricity, other major measures of infrastructure improvement in the country. As we've said, you know, a big part of the problem has been the totally difficult security situation on the ground in Iraq.

In February of this year, when the report was issued, it stated that the security situation in Iraq has deteriorated since June 2003, with significant increases in attacks against Iraqi and coalition forces. Since that report, of course, we did have the bombing of the Mosque. Even after the new prime minister was named, we had a series of bombings in Baghdad. That same day we found a number of people, again, who had been shot through the head by militias.

I take it that between February and today you continue to believe that the security—we have not turned the corner on the security situation; is that right?

Mr. WALKER. There are still challenges. The data with regard to attacks from March is still classified. We were able to work with the Defense Department to obtain declassification of the January and February data but not March yet. I think if you look at page 11 of my testimony, figure two, you'll see a summary of the stability status, including security for Iraq. I don't think that's changed materially.

Mr. VAN HOLLEN. Did you have an opportunity to form an opinion during your visit there with respect to whether we've made any progress in terms of reducing militia activity, reducing the infiltration of militias into police forces, and the extent to which the armed forces—not the police forces, but the national armed forces—are successful in being free of sectarian sort of divisions in their ranks?

Mr. WALKER. We are doing additional work in that area.

I will tell you that, based upon the work that we've done so far, much more progress has been made with the military in a number of fronts, including that front, than with regard to the police forces.

The military has come along further, and the infiltration is a bigger issue based upon data that we have so far with regard to the police forces.

Mr. VAN HOLLEN. And no signs of improvement, to your knowledge, in that area.

Mr. WALKER. I couldn't say there's no signs of improvement. It's still a challenge.

Mr. VAN HOLLEN. All right. Let me ask a little bit about the sustainability issue because that's been a continuing challenge. Even when we've had some limited success in rebuilding infrastructure, the capacity of the Iraqi agencies, civilian agencies to maintain those improved infrastructures has been a very serious problem. The chairman alluded to it a little bit at the end of the questioning, the fact that, in addition to the political components, just the experts and everyday ability to maintain services is a challenge, to say the least.

Can you give us any kind of confidence that we are improving in that area? Because if you look at the measures, it doesn't seem to be. It seems, you know, we take one step forward in terms of infrastructure, reconstruction, and then two steps back with respect to the failure to maintain it. What is going on in that——

Mr. WALKER. Well, I think we have a problem with regard to planning and execution. Some of the examples have been provided here at this hearing already. Another example is that if you look, for example, at the health facilities, we have several hundred that we've been working on, but we're going to run out of money before a vast majority of them are completed.

I think one of the things we need to be thinking about is we've got a limited amount of resources. We need to make sure that we target those resources to generate the best results as quickly as possible. In some cases, that means building fewer in areas where we think we can actually be successful and then, after we end up achieving some successes, then focusing on other areas over time.

At the same point in time I will mention to you, as I said in my testimony, there's not going to be enough money. Additional money is going to be necessary in order to rebuild all the areas that need to be rebuilt, and the real question is where is it coming from and to what extent are the Iraqis going to be able to do it. And they're not going to be able to do it all, it's very clear, irrespective of what the price of oil is today. And, furthermore, you know, whether and to what extent we and others in the international community may step up in that regard; the jury is out on that.

Mr. VAN HOLLEN. Well, let me ask you, you're referring now to the $56 billion number you referred to. Where exactly does that number come from? Because there are lots of numbers, as I'm sure you know, out there with respect to——

Mr. WALKER. I'll ask Mr. Christoff to give you the details.

Mr. CHRISTOFF. The $56 billion was estimated in 2003 by a combination of the World Bank, the U.N. and CPA doing a quick initial estimate of about—I think all of the sectors, including oil and electricity.

Mr. VAN HOLLEN. And your estimate now is that's a low number, is that right, based on your testimony? Do you have any idea what the number is?

Mr. CHRISTOFF. We haven't concluded a number. But just the events that transpired after that estimate, a great deal of looting, higher security costs, plus estimates from both the Ministry of Oil and Electricity, that those two ministries alone will need $50 billion makes the $56 billion figure——

Mr. VAN HOLLEN. Clearly, the assumptions that were in place at the time of that $56 billion have not proven to be true. They were obviously very optimistic assumptions.

Let me ask you, with respect to the costs of reconstruction and the international commitments that have been made to date at donors' conferences, do you have any overall numbers pledged? And, second, do you have any numbers with respect to how many people have followed through with their commitments, who has followed through to date, who who has not followed through to date?

Mr. WALKER. We have some data on that. I'll ask Mr. Christoff to give the details.

But, as you know, Mr. Van Hollen, a lot of those pledges were in the form of loans rather than grants; and we all know there is a fundamental difference between a grant and a loan.

Mr. CHRISTOFF. $13.6 billion total that was pledged. I think we're up to about $3 billion that has actually come into the two trust funds, the U.N. and the World Bank trust funds.

Mr. VAN HOLLEN. Is that $3 billion of those grants or loans, do you know?

Mr. CHRISTOFF. That is grants, and the rest are predominantly loans. When I met with the Japanese about a month ago, they were on the verge of completing the loan agreement, about a $600 million loan agreement with the Iraqi government, so that would be probably one of the biggest loans that would be coming through if that could be brokered.

Mr. VAN HOLLEN. But other than the $3 billion, the remainder of the pledges have not been made to——

Mr. CHRISTOFF. Well, there are loans that are available once the government reaches agreement and once there is a government.

Mr. VAN HOLLEN. Let me followup a little bit on the corruption issue, because especially in the oil industry it seems to be that the lack of any kind of strong central government has allowed a lot of the chiefs of the tribal areas and others to take advantage of the situation.

You may have mentioned it, but I don't know if you're able to quantify the amount of revenue lost to the central government as a result of corruption. Obviously, it's a difficult number to get a hold of. I don't know if you have any estimate of what's been lost to the central government.

Mr. WALKER. We don't have a specific estimate, but it is very material.

Mr. VAN HOLLEN. All right.

As you may have seen, there was an estimate put together by Joe Stankiewicz, a Nobel-Prize-winning economist, as to the total cost of operations in Iraq—it wasn't just reconstruction; it was the total cost by the end of the day—in the range of $2 trillion. I don't know if you had an opportunity to look at the assumptions made in there and make a judgment as to whether that's in the ballpark.

We all remember early on when Larry Lindsay, President Bush's economic advisor, said that the cost might reach $200 billion—this is before the war—and the administration said, oh, no way, it's not going to get anywhere in that ballpark. Well, we know that his estimate we should have looked at suspiciously, not because it was too high but because it was too low. But I don't know if you've had any opportunity to make a judgment about the Stankiewicz quote.

Mr. WALKER. No, we haven't had an opportunity to do that.

Let me just say that, obviously, you would have to make a lot of assumptions, including a big one, which is how long are we going to be there and in what size and who's going to end up helping to fund this capacity building and the reconstruction needs over a period of time. I touched in my testimony the fact that one has to be careful not just to consider the direct cost but also there will be significant costs that will be incurred to recapitalize equipment, there is significant costs that will be incurred for disability benefits and a number of other benefits that will be paid for many years to come.

Mr. VAN HOLLEN. Right. And, to date, GAO has not tried to undertake that kind of——

Mr. WALKER. We have not. I would imagine that CBO may try. As you know, the agency in the legislative branch that's responsible for trying to run budget numbers for the Congress is the CBO, and we try not to compete with them.

Mr. VAN HOLLEN. Right. Let me ask you about Kirkuk—and I don't know—you have a little section in your report on Kirkuk. I don't know if you have any sense of the progress being made among the parties with respect to resolving the control of Kirkuk and control, of course, of the oil revenues that would be generated from that oil-rich region.

Mr. WALKER. I would ask Mr. Christoff to address that.

Mr. CHRISTOFF. The constitution basically says it needs to be resolved by 2007. It hasn't been resolved.

Mr. VAN HOLLEN. All right. And any negotiations, to your knowledge, that have gone on that would move us in the right direction?

Mr. CHRISTOFF. I'm not aware of any on Kirkuk.

Mr. VAN HOLLEN. All right.

Mr. WALKER. From a practical standpoint, without the national unity government being in place, it's probably not realistic to expect that there would be a tremendous amount of progress. Hopefully, there will be once it is fully in place.

Mr. VAN HOLLEN. Right. Well, they've tried off and on to negotiate the status of the oil revenues through the constitution and others. But you're right. I mean, I think that while I think it's a hopeful sign that they were able to get a prime minister named and some cabinet officials, so far I think it would be—you would be looking through rose-colored glasses to suggest that we're over the hill in any way, even on the political front here, given the strong sectarian divisions in Iraq.

Ambassador Khalilzad said what lots of us said many years ago with respect to Iraq, which is that we took the lid off Pandora's box; and the challenge in Iraq will always be to ensure that Iraqis see themselves, as the chairman said, as Iraqis first, as opposed to seeing themselves first as Sunnis, Shi'as, Kurds and other ethnic

groups within Iraq. And while some of the political leadership may have gotten there, I'm not sure the great majority of the country has gotten there yet; and that, of course, is a big part of the ultimate challenge.

Thank you, Mr. Chairman.

Mr. SHAYS. I thank the gentleman very much.

I would concur with the gentleman that the political challenge in Iraq is huge. And I like using your word governance, because it gets down below the political and also looks at the everyday operation of the government. So I'm going to think more about governance as opposed to the political when I divide them into three groups.

What I do think, though, is that Iraq has an easier opportunity of becoming a viable country than the United States had. I look at 1776, I look at the Articles of Confederation, I look at the Constitution. We had to amend the Constitution 10 times just to get Virginia to be a part of it.

And I'm concerned with this, they haven't done it yet in, what, 3 years. In 1 year, they had three elections; they established a constitution. So all I want to do is establish the point that their progress has been huge, but it could blow up in their face. And we will learn, how this new government is going to perform. It seems to me on the political side of the equation, if they don't get at corruption and don't make some inroads, then they're going to fail ultimately. That's what I think. Corruption has to be dealt with.

What I would like to get into is the issue of security, and I'm going to preface my question in this way. And I'm going to say, because I agree with my colleagues, that we totally underestimated the challenge. I try to look as objectively as I can and as candidly as I can. When we talked about the war originally, I honestly in my own mind said we could fund it with their oil. The administration rebuked me and said it's not going to be with their own oil because then it looks like we're going after their oil. It's going to be our own dollars.

When I came back in August 2003 and said people on the ground tell me they don't have any money, and the administration came in September with this request of $82 billion, I was floored by it. I mean, I was floored.

What I believe is this: that they had plans, but their plans were always wrong, and they were constantly always having to revise their plan. They always underestimated the challenge.

When I was speaking with Bernie Kuric, the former police chief—and it's somewhat controversial, but he is an expert—he told me when he was in Iraq in the early times and the people in Baghdad said we are going to disband the army, their police and their border patrol, he told me he got right in their face and basically said, let me understand something, you are going to get rid of their police? Who is going to provide security? And his basic comment to me was the folks who made that decision never got out of the Green Zone in Baghdad. They never got out.

So my view is that when we disbanded their army, their police and their border patrol, we left 24 million people defenseless in a country the size of California; and then we said to 150,000 coalition forces, you provide the police work, the border patrol and you be

their army. And then, by the way, you train their police, their border patrol and their army. That's what I think, and I think we took a huge nose drive.

So when I talk about progress, I don't look at April, 2003, Mr. Walker, and say, OK, we're here now, and it's a trend line like this. I look at it with a big drop, and the trend line going up—until the bombing in the dome—significantly. We started to train their police, their border patrol and their army.

Now this is the area that I want to talk to you about. It's my belief—and I will tell you a Democratic colleague from Georgia has enlightened me a little bit on this a little bit more. It's my belief that the Iraqi military is going to need us for a long time. They don't have the sergeants, the corporals. They didn't develop middle-level management. They don't have the strategic logistic support, as you pointed out. I'm emphasizing it. They're not going to be able to man helicopters in the next year or two. They don't have helicopters, and they're not going to have enough to man. So we're going to have to be for that.

They don't have the medics. They don't have a number of things that they need. So I thought, well, that's a bad thing.

Mr. McGovern said to me, I'm not sure in a country where the military has overthrown the government a number of times you want to have the military totally independent, totally without some embedded forces that basically help guide and mentor and make sure that these forces don't become a way to overcome democracy. Interesting point he made. He would make it better than I've made it.

I guess my point to you here is, do you believe that there has been significant progress with their police, their border patrol and Army? If not, why not and where? If you think there's been significant progress, do you think they have a long ways to go or what?

Mr. WALKER. I think there's been progress. There's been more progress with regard to the military than there has with the police forces. And I would respectfully suggest that if you want to really get a sense as to how performance is going in this area or any area you need to look at three dimensions: No. 1, how are things today; No. 2, how are they trending; and, No. 3, how do they compare to various other metrics?

In the case of Iraq, I would suggest at least two, prewar and goal. You have to look at all three, how do they stand, how are they trending and how do they compare to established metrics? Only by looking at all three of those do you really get a full and fair view I think of where things are.

But I would say that much more progress has been made with regard to the military forces. Some progress has been made with both.

Mr. SHAYS. But when you look at the stock market over 3 years you can say you were here and then you're here; what happened in between? Would you agree that when we disbanded their army, their police and their border patrol we left them basically defenseless and required an unbelievable effort on the part of a limited number of troops, 150,000 troops—would you agree that taking away their security left them somewhat defenseless for a period of time?

Mr. WALKER. Many believe that was a mistake and that it created a vacuum and that—and so I understand what you're saying, Mr. Chairman. You're saying that from a practical standpoint that might have been the truth, that might have been the floor. And if you look at that rather than merely prewar, then we could be better off than otherwise, one might assert.

Mr. SHAYS. I would make that argument.

Mr. WALKER. I understand.

Mr. SHAYS. OK. It strikes me, when we talk about security, that it's logical to me that reconstruction is not going to succeed very well if you can't provide security to which people can do their job; and so I put security and I put reconstruction in a closer link. And I'm somewhat reluctant to talk about this because it's been so successful we don't draw attention to it, but the one area that we can see no real destruction of any of the investments we've made—and there have been thousands of them—are the non-government organizations.

I'm not going to name them, but one non-government organization and another that I've interacted with, they hired Iraqis to do the work. When things got even dicier, they hired Iraqis to be the non-government organization and hire out the work. So you had westerners coming in with these non-government organizations, and they hired Iraqis, and then when security got bad the westerners left, except for one or two, they hired Iraqis to contract with Iraqis.

The testimony that we've had is not one school that they built, not one bridge, not one water structure has been destroyed; and my sense is that the model was Iraqis doing the work. I'd like you to talk about reconstruction as it relates to—if you've done any thought or work on this—having Iraqis do the work versus our coming in with people from outside doing the work.

Mr. WALKER. I'll ask Mr. Christoff to provide some details.

We have not, to my knowledge, done specific audit work in differentiating between those projects that were funded using that approach versus another. But if you can imagine, you get more ownership, you get more buy-in from the people because they were part of the solution.

Mr. CHRISTOFF. You also spend less money.

And I think one thing we're looking at right now is just how we move from the design/build approach that we began with under CPA to more direct contracting. And clearly one of the lessons learned is that you can employ more Iraqis, you can engage more Iraqis, and you eliminate the levels of overhead with the subcontractors and sub-subcontractors, and you can have a more direct and immediate impact.

Mr. WALKER. We have similar problems in the Katrina situation, quite frankly.

Mr. SHAYS. Interesting.

Well, I note that Mr. Ruppersberger is here.

I guess what I want to conclude this part of my questioning with is, intuitively, it strikes me that if you don't have good security you're not going to have successful reconstruction, particularly with the big projects. So when I hear that we haven't been as successful, I say I'm not surprised. I don't like it, but it seems to me when we

made that fateful decision of disbanding their army, their police and their border patrol—because I had Iraqis come to me and say, why are you putting my brother, my uncle and my father out of work? Why can't we at least guard the hospitals? And I didn't have a good answer because I don't know why we did it.

So my point to you is, when you tell me we haven't succeeded in these areas, would it have been possible for us to succeed without good security?

Mr. WALKER. I think security is much more than reconstruction. Clearly, it is one of the major contributors to the fact that we haven't made as much progress we would have liked and expected to at this point in time.

But as you know, Mr. Chairman, you and I both, when we were in undergraduate school, remember studying Maslow's hierarchy of needs; and the most basic thing for any civilization is security, self-preservation. And it's not just an issue of being able to do reconstruction, it's safe streets. So I think that because of some of the decisions that were made in the past we created more problems for ourselves and, in some cases, for the Iraqi people.

Mr. SHAYS. Thank you.

Mr. Ruppersberger, welcome. You have 15 minutes.

Mr. RUPPERSBERGER. Fifteen minutes, OK. I can do it quicker.

I just got back about 3 weeks ago from Iraq—more from an intelligence point of view on the Intelligence Committee—and one of the things that we did was really look and see where we were. And one of the things that I saw and what I would hope that we would look at—and I want your opinion on this—right now, I think the military has come a long way, the Iraqi military. We've been training them for, what, about 2½ years now? How many years have we been training the military?

Mr. WALKER. About 2 years. 2004. And I would agree, they've come a lot further.

Mr. RUPPERSBERGER. We've met with military, we've met with our people, General Casey. I would think at this point it's time that we start moving our troops from the urban areas and out to the perimeter, and I think this would accomplish something very positive.

First thing, the Iraqi people need to understand that this is their country and that their military—and, hopefully, police, even though they're not ready and we know that—that their military would start patrolling the streets and start letting the Iraqi people see that this is our country, this is our military. We still, by doing that, we see over and over, every day it seems, or at least once a week—which is very unfortunate—that our men and women, mostly National Guard, patrolling the urban areas in Iraq are getting blown up by either suicide bomb or roadside bomb. If they're not being killed, they're being maimed. There is no reason why the Iraqi military can't take control of that patrol.

We move our troops out to the perimeter; and then, by doing, that we are standing ready to help them when they need us. But they have to learn to do it on their own or they will be dependent on us forever, and that's not acceptable because eventually we have to start moving out to that area.

In our perimeter, we have some of the best special operations in the world, probably the best in the world. And what we're doing now, it seems to me, is that we are really engaging the bad guys, so to speak, on their level without really a lot of defense for our men and women who are in the military. By being in the perimeter, we can use our technology, we can use our SIGIR and our intelligence to a better level than we could by patrolling the streets, and we can also target those areas when, in fact, if the military is having a difficult time, they call 911 and we're there. A Blackhawk helicopter can get you anywhere in the urban area of Iraq in 15, 20 minutes.

I think by doing this we would be able to, No. 1, start sending a lot more of our troops home, but we have our key operations on the perimeter. We're backing up the Iraqis. We're not leaving because they're not ready yet, but they have to learn themselves to provide their security.

What do you think of that theory.

Mr. WALKER. I think there are a number of reasons why it is to our benefit for the Iraqis to take the lead as much as possible. When we came into Iraq, we were viewed as liberators initially. The longer we stay, the more that view is challenged.

I do think that the other thing that we need to do is we need to focus on what are the needs of the Iraqi military. And even if we train more and more units such that they can take the lead, they don't have certain equipment, they don't have certain capabilities, they don't have the type of intel, they don't have the type of communications, they don't have the lift capacity, the transportation capacity. But it's consistent with what you're saying, because I think one of the things we need to do is to focus on where it's going to be years before they have what they need and to target our resources and target our efforts to focus on the need but to try to get them to be out front as much as possible so that we're providing essential support; we're the reserve rather than being up front.

Mr. RUPPERSBERGER. Well, there's another issue there, too. It's the American people, and the American people understanding that, what's happening. And we see the poll numbers going down right now. By moving to the perimeter, it's an event. It says to the American people that we're not just doing the same thing every day, that there's nothing really changing. This is a major event for us to pull out of urban areas and to back up. And what you're saying, we can continue to supply the intelligence from the perimeter; we can give them the resources. They have a lot of resources now from what my briefing said. Yours may have been different. That's No. 1.

The second thing that really disturbs me a lot, the only way that—well, there are two issues. The first thing is that the Iraqi government must be formed, and it looks like they're getting to that level. If we didn't form an Iraqi government, if they didn't form their own government, it would seem to me we would have civil war, and once there is civil war we have to get out of there. I mean, we can't stay there and deal with the issues.

But I see things there starting to change. I think one reason is that the Sunnis understand now that they used to be in charge, but they realize that if they're not at the table, they will have severe

problems with themselves, their children and their grandchildren. And I think the Sunnis are starting to see that al Qaeda, who they might have had a relationship with, especially with Zarqawi, is starting to kill a lot of their own people, their own Sunnis; and I think, as a result of that, that's one of the reasons why they're coming to the table.

But I think one of the things that has to be done is that—not only from our point of view but from their new government point of view and from the Iraqi leadership, at this point you have to win the hearts and minds of the people; and if those people feel that their life was better under Saddam Hussein than it was under the present conditions, then we've lost, and you're not going to have what we're looking for in Iraq.

Now, in order to do that, we have to do a lot better in the area of infrastructure and dealing with basic things, transportation, education, potable water. I mean, these are things that need to be done.

I was very disturbed—I had a briefing with the Army Corps of Engineering while we were there about the lack—and this is something that I hope you can focus on—is that we have American contractors, some they're doing the job, some are not. But we have American contractors who have been given contracts, and they have not been held accountable for performance, and I think it's almost unpatriotic.

We've heard issues about Halliburton, and there is a lot there. There is a construction company right now, a major construction company, one of the largest in this country, who is contracted to build health centers, which are very relevant and very important. And money has been paid to this contractor, and yet they are not performing. That's inexcusable and it's unacceptable, and I just think that we have to learn from our past mistakes.

Any American company entering into a contract that has been given this contract and they are not performing, we have to make that an issue; and it is not being made an issue by the Department of Defense the way it should be. They're slipping, and they're making excuses that, well, it's a security issue.

Well, there are some contractors over there that are doing the job, and there are some that are not. And I would like to talk to you after this hearing about this one contracting company, which is one of the largest in the country, that have walked away, basically, from the issue of health centers, and we can't allow that to happen. They should be fined, they should be sued, we should do whatever we can to make them start—to help them to produce.

The amount of money that has been wasted, millions and maybe billions of dollars has been unaccountable from the beginning with the Office of Special Plans, we need to learn about that, and we can't have that structure anymore.

But now that we're trying to fix the infrastructure and we're still having problems with our own American contractors, I think we need to set up a system to deal with it. What is your opinion on that?

Mr. WALKER. My view is that there's been a tremendous amount of waste and mismanagement with regard to contracting. My view is that, with the Defense Department in particular, there have

been serious, long-standing systemic problems in the contracting area where, irrespective of the results that are achieved, that neither the executive branch nor the legislative branch has held the appropriate people accountable. That means both the contractors and the government officials who are responsible.

Mr. SHAYS. Would the gentleman suspend for just a second?

Mr. RUPPERSBERGER. Yes, I will yield.

Mr. SHAYS. I would say to you that you give us a list of some contractors, some areas within DOD that need a look, and we will have a hearing or a series of hearings on that. And the sooner you provide it to us the sooner we will do it.

Mr. WALKER. I'll give you a list.

Mr. SHAYS. Let me just tell you something. One of the things that I think was the problem with choosing Halliburton was there was this political effort to say, the Vice President—I want to just get that out. I want you—whatever it is—if Halliburton is on the list, whatever it is, I want you to give this subcommittee a list of things that have just irritated you, you're outraged by or whatever, or suspect things, we will have a hearing. And I'll pledge to this committee that we'll call them in, whatever it is; and let's get the politics out it, to the extent that we can, and go for it.

Mr. WALKER. I'll do that.

I'll give you one example where I've had one hearing on the Senate side but nothing on the House side yet, and that has to do with incentive and award fees, the fact that we issued a report in July of last year where the Defense Department paid out 91 percent on average of available incentive and award fees irrespective of the results as to cost, quality and performance. There is a systemic, long-standing problem, and it's not just Iraq.

Mr. RUPPERSBERGER. Does the gentleman yield back?

Mr. SHAYS. Yes.

Mr. RUPPERSBERGER. We agree. And you have to look at both sides. To begin with, when we went into Iraq, there were probably very few major corporations—and Halliburton is one. They've done some good, and they've done some bad, but they haven't been held accountable. And when you put these major companies that want to make money—I mean, that's what they're there for—that they have—there are some companies that would not have been able to supply all the linen and all the things that we need when we have a force. You need soap, you need toilet paper, you need all these issues just to have a force, wherever it is. But when they abuse that system and when there is not—a lack of accountability, where our fault, both in administration and Congress, we didn't set the standards. We didn't set the standards, and then we didn't have anybody overseeing them and holding them accountable for the standards, not only from a performance point of view but also from a financial point of view. I mean, performance audits, financial audits, it wasn't there. And we got into it, and we allowed the corporations to do it, and look what happened.

But where I'm concerned now—we have to learn from that in the past. I'm concerned for right now and where we're going, because we want to get our troops out of there as soon as we can. We want to try to stabilize that country.

And what we are seeing now, what I'm seeing, is contractors, large and major, that could do the job if they wanted to, and they're using as an excuse the security. We can provide the security in these certain areas and they can, too, and that should be part of their contract to provide their security. But when they don't do the job, we should cancel every government contract they have over here and leverage it. Why are we letting this system go forward where they're abusing our equipment and taking our dollars?

And then, not only that, but I believe when you're over there in a war zone, when our men and women are there and you're over there as a contractor and you're not producing, which slows down our process, it's unpatriotic.

And I applaud the chairman. I'm not mentioning any names now because I don't think it's the right time, but I would love to have this hearing. And I think it's very, very important.

You know, you get so frustrated in having these hearings and nothing gets accomplished. We need to start focusing on what is going on, who's abusing the process, making sure they're being held accountable for performance and the moneys they spend. And if they're not doing it we cut them off and we penalize them and we aggressively pursue them.

Mr. WALKER. And I think it's important to keep in mind that some contractors are doing a very good job——

Mr. RUPPERSBERGER. Some are.

Mr. WALKER. Some aren't. And some do pluses or minuses. I mean, sometimes the same contractor will be successful in some areas and not successful in others.

The last thing I will mention on this is it is a shared responsibility. In many cases, part of the problem is exactly what you touched on: The government has not done a very good job of being specific as to what we're looking for. What are the requirements? What are we looking for? In the absence of doing that, it's tough to hold people accountable. We've had situations where, basically, we've let the contractor define what they're going to provide, or where we keep on changing what the requirements are such that it's almost impossible for the contract to be successful.

I look forward to having the opportunity to focus on this issue, not just with regard to Iraq but with regard to the systemic problem, because it's serious.

Mr. SHAYS. Well, if a few years ago you couldn't audit one trillion transactions—I guess it was more than one trillion, wasn't it? I'm going back 4 or 5 years ago—you could not audit. There was no audit trail.

Mr. WALKER. The Defense Department remains the single largest obstacle to the U.S. Government being able to successfully withstand an audit.

Mr. SHAYS. Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Mr. Chairman.

I think it's very important that we do hold hearings in that area, and I was pleased to see you want to explore that area. Because, in response to your original questions from Mr. Waxman, I remember you said that. And I think most people would sort of say, well, look, we know we've got problems in Iraq, we've heard about the Halliburtons and the other problems in Iraq, but to say that it's

simply part of a larger problem with DOD contracting I think is something that most people are not aware of. And I think it's very important that we get to the bottom of that, especially given the huge amount of money we invest of our taxpayers' money in the area of defense.

And it does lead to a question I had with respect to the role of the Inspector General at DOD. I know it's maybe hard for one Inspector General to comment on the performance of the other, but it does beg the question if there are all these serious problems with respect to contracting at the Department of Defense, why is it that the Inspector General at the Department of Defense has not uncovered more of these abuses? Have they? We just haven't heard about them?

We know that with respect to Iraq—and we had a hearing in this subcommittee a while ago and we learned that because there was a special Inspector General created for Iraq the Inspector General for DOD decided not to put any people on the ground in Iraq, that their reports were based on essentially secondhand information—or not information direct, day-to-day on the ground. And many of the members of this subcommittee were very surprised to learn that they didn't have a presence on the ground. We realize that there is a special Inspector General, but for the DOD Inspector General not to have people on the ground at least as of that time, which was October of last year, was something I think shocked many of us.

So if you could comment on whether that system is broken at the Department of Defense, both with respect to Iraq and the oversight there, and more generally.

Mr. WALKER. Well, first, you properly point out, Mr. Van Hollen, that there is a special Inspector General in Iraq, SIGIR, which is referred to for reconstruction. That's not for everything. And that comes to the point that you're trying to make, is what is really important is that we recognize that there are a whole range of needs for oversight and accountability, both for positive performance and to assure appropriate accountability.

SIGIR is onsite. They have people both in Iraq as well as back here. They have the most front-line presence with regard to the accountability community.

DOD and others have had people there from time to time. We have had people there from time to time. We have committed that we are going to open an office, a small office, in Baghdad. We are in the process of taking steps to be able to do that, to be able to have some continuing presence there, to be able to project people in from time to time.

At the time that I was there last, which was the end of January, early February, DOD, I do not believe, had a recurring presence there. They would send people in from time to time.

I think you're raising a legitimate point, that there needs to be more done in order to assure who is covering what to make sure that we are minimizing duplication but also minimizing gaps.

Mr. VAN HOLLEN. Right. Well, I mean, as you point out, the SIGIR's responsibility covers the reconstruction effort. The bulk of the dollars—although we spent significant money on reconstruc-

tion, we spent even more on nonreconstruction efforts in Iraq in military operations and other procurement efforts going on there.

Frankly, I'm very pleased to hear you're going to have a presence on the ground. For us to discover that even to this day the Inspector General for the Department of Defense does not have people on the ground in Iraq regularly is, I think, very disconcerting and something, Mr. Chairman, I think we should address as a committee. And I would be happy to defer——

Mr. SHAYS. Thank you. I just want to say that this was a question raised when we had the Inspector Generals, and we received notice from the Inspector Generals that in their judgment they had made a mistake. They are setting up an operation in Kuwait, which to me is fine as long as they then are in the theater. If they're in Kuwait, we have operations all in that area, in Qatar and elsewhere.

But what is surprising to me is, when I thought about it, their explanation was we have an Inspector General; we don't need to be there. But, as you point out, it is only for reconstruction. So it was a mistake. They acknowledge it. They are there now because of questions you and others raised.

Mr. WALKER. If I could clarify for the record, Mr. Chairman and Mr. Van Hollen, we are dedicated to having a physical presence in the region. Our presence is Baghdad. We are looking at other options. We haven't dotted the I's and crossed the T's, but we're committed to having a continuing presence. We would prefer the Green Zone in Baghdad.

Mr. VAN HOLLEN. But just very briefly, since you made what I think is a very important point and something the subcommittee is going to be following up on with respect to contracting and procurement problems, abuses and wastes at the Department of Defense, is it that the Inspector General's office there is not adequately—does not have adequate work force, does not have the resources? I mean, why, given the—why are they still on your watchlist? Why are they the No. 1 worst performer in the U.S. Government, and why isn't the IG's office doing more about it?

Mr. WALKER. Because neither the executive branch nor the legislative branch has held DOD accountable for years.

Mr. VAN HOLLEN. Well, I would agree with you, as I said in my earlier remarks, that there has not been adequate oversight from Congress, No. 1. No. 2, I would hope—part of the purpose of having these independent Inspector Generals in these agencies like DOD is so that they have the freedom and the autonomy to uncover some of this, and it's disconcerting to learn that they have not. I'm drawing my own conclusions based on your testimony, but clearly they've not been doing an adequate job there.

Let me just ask one—there was some discussion a while ago about the fact that we had contracted out some of the interrogation efforts and things connected with torture—in fact, a Virginia company, CACI, was one of the ones that received that contract. Have you looked into that issue any more? Are we still contracting out interrogation services?

Mr. WALKER. I'll followup with regard to that level of specificity and provide it for the record.

[The information referred to follows:]

Iraq Contracting

Sound acquisition practices are key to minimizing waste, maximizing value and getting the most out of the Iraq stabilization and rebuilding efforts. Problems we have identified in our completed and ongoing Iraq work reflect those we have repeatedly found in other environments. Specifically, certain systemic factors serve to hinder efforts to achieve successful acquisition outcomes including:

- Failure to establish realistic and well-defined requirements
- Lack of timely definitization of contract terms and conditions
- Inadequate acquisition workforce resources
- Improper use of interagency contracts
- Limited competition
- Insufficient oversight of contractor performance

Context

- DOD is turning increasingly to the private sector to support mission activities. DOD acquisition and contracting are on GAO's high risk list.[1] Acquisition of services has additional challenges.
- Good acquisition outcomes are typically a shared responsibility among government program managers, contracting officials, and contractors.
- Troubled projects usually have more than one of the factors cited above.
- The security environment in Iraq and the related implications present additional challenges not otherwise present in other contracting activities.

The following represent examples of contracting problems found in Iraq:

- In our 2004 report on Iraq contract award procedures, we found that DOD authorized numerous contractors to begin work on projects such as restoring Iraq's oil and electrical infrastructure before key terms and conditions, including requirements of the work to be performed and projected costs, were fully defined.[2] While this approach allowed DOD to initiate work quickly, additional costs and risks were imposed on the government when contract terms and conditions were not definitized in a timely manner. We also found that inadequate acquisition workforce resources presented challenges to several agencies involved in Iraq reconstruction efforts and, at times, resulted in inadequate oversight of contractor activities. (Illustrative contractors: KBR and Washington International, Inc.)
- We also reported in 2004 that the Army failed to definitize in a timely manner many of the LOGCAP task orders it used to provide logistics support to U.S.

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[1] GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.: January 2005)
[2] GAO, *Rebuilding Iraq: Fiscal Year 2003 Contract Award Procedures and Management Challenges*, GAO-04-605 (Washington, D.C.: June 1, 2004).

forces in Iraq.[3] In March 2005, we reported that the Army had made significant progress in definitizing its LOGCAP task orders in a timely manner due in part to a more robust contracting office.[4] (Illustrative contractor: KBR)

- In our September 2005 report on the water sector, we reported difficulties in defining requirements, including the final cost, schedule, and scope of work for task orders in the water and sanitation sector.[5] Agency and contractor officials also cited frequent contracting officer turnover, poor worksite conditions, and unclear site ownership as factors affecting DOD's efforts to finalize the scope of work and cost estimates. (Illustrative contractors: FluorAmec, and Washington International/Black & Veatch)
- A 2006 SIGIR review of primary health care clinics found that DOD's poor requirements planning and program oversight contributed to disappointing results: only 6 of the 141 planned clinics were completed after approximately $186 million in costs were incurred as of March 2006.[6] In this case, DOD required an accelerated one-year schedule in contrast to the two-year schedule proposed by the contractor. According to agency documents, additional funds have been reprogrammed to complete the remaining centers. (Illustrative contractor: Parsons Global Services, Inc.)
- DOD incurred more that $75 million in costs and significant schedule delays in its initial attempts to replace the oil pipelines crossing the Tigris River at Al-Fatah in northern Iraq. According to agency interviews and IG reporting,[7] poorly defined requirements and lapses in U.S. government oversight contributed to the delays and cost increases. The agreed upon approach was to use horizontal directional drilling to place pipelines under the river even though a consultant had previously raised concerns about the feasibility of this approach given unstable geologic conditions. (Illustrative contractors: KBR and Parsons Iraq Joint Venture).
- In our April 2005 report, we found that DOD, faced with an urgent need for interrogation and other services in support of military operations in Iraq, turned to the Department of the Interior for contracting assistance.[8] However, numerous breakdowns occurred in the issuance and administration of the orders for these services, including not complying with additional DOD competition requirements when issuing task orders for services on existing contracts; not properly justifying the decision to use interagency contracting; and inadequate oversight of contractor performance. Because the officials at

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[3] GAO, *Military Operations: DOD's Extensive Use Of Logistics Support Contracts Requires Strengthened Oversight*, GAO-04-854 (Washington, D.C.: July 19, 2004).
[4] GAO, Defense Logistics: High-Level DOD Coordination is Needed to Further Improve the Management of the Army's LOGCAP Contract , GAO-05-328 (Washington, D.C.: March21, 2005).
[5] GAO, *Rebuilding Iraq: U.S. Water and Sanitation Efforts Need Improved Measures for Assessing Impact and Sustained Resources for Maintaining Facilities*, GAO-05-872 (Washington, D.C.: September 7, 2005).
[6] Special Inspector General for Iraq Reconstruction, *Management of the Primary Healthcare Centers Construction Projects*, SIGIR-06-011 (Washington, D.C.: April 29, 2006).
[7] Special Inspector General for Iraq Reconstruction, *Pipeline River Crossing Al Fatah, Iraq*, SA-05-001, (Washington, D.C.: January 27, 2006).
[8] GAO, *Interagency Contracting: Problems with DOD's and Interior's Orders to Support Military Operations*, GAO-05-201 (Washington, D.C.: April 29, 2005).

Interior and the Army responsible for the orders did not fully carry out their roles and responsibilities, the contractor was allowed to play a role in the procurement process normally performed by the government. GAO identified interagency contracting as a government-wide high risk issue in January 2005. (Illustrative contractor: CACI International, Inc.)

Prioritization of contract vulnerabilities. While all of these systemic problems continue to be of concern, two warrant particular attention because of their widespread nature and opportunities for prospective improvements: (1) the adequacy of government oversight over contracts in Iraq, and (2) the capacity of the acquisition workforce to oversee the heavy contract workload in Iraq.

Mr. WALKER. But I will tell you that was an example of an abuse of an interagency contracting arrangement. It's an area that is getting a lot more attention by us. It's a situation where there was a contract that was piggy-backed on to provide services that were not clearly provided for under that contract, and it really kind of puts a face on the overall issue.

Mr. VAN HOLLEN. They were just on some list, as I understand, and therefore all of a sudden they were deemed eligible to receive this much larger——

Mr. WALKER. Well, I think this is an important point. Congress has passed a number of reforms in the contracting area which have had positive consequences, but some problems have occurred. We have been able to eliminate a lot of paperwork. We've been able to get things done quicker. But in some situations we provided flexibilities where people have not always properly implemented those flexibilities and there have been some abuses, and this is one example, and it is one of many that are on our high-risk list. The DOD has 14 of 25 high-risk areas, either direct or indirect; and many of them have been on for many, many years.

Mr. VAN HOLLEN. Well, thank you; and thank you, Mr. Chairman. I look forward to pursuing those issues.

Mr. SHAYS. I thank you, Mr. Van Hollen.

Let me just conclude by asking you, Mr. Walker, one, is there a question or area we should have gone into that we didn't that you want to address? No. 2, I would appreciate just a very brief summary of your bottom line point in coming here today to make sure that, in the course of our asking these questions, we're not losing your bottom line point.

Mr. WALKER. Well, the bottom line—I will repeat my final paragraph, which I think sums it up.

Collectively, Iraq's future requires strong Iraqi leadership, sustained U.S. commitment, and a re-engaged international community. More needs to be done to help the Iraqis help themselves build capable government institutions that can deliver real results that benefit all of the Iraqi people. All of these steps will be essential in order to achieve real success in a reasonably timely and sustainable manner.

Mr. SHAYS. Thank you. I think that is very helpful testimony today. We again applaud the work of you and your team. It is highly professional and well respected by Congress. Thank you very much.

Mr. WALKER. Thank you.

Mr. SHAYS. This hearing is adjourned.

[Whereupon, at 11:52 a.m., the subcommittee was adjourned.]

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