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THE IMPACT OF CPA DECISIONMAKING ON IRAQ RECONSTRUCTION

HEARING

BEFORE THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

FEBRUARY 6, 2007

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CONTENTS

	Page
Hearing held on February 6, 2007	1
Statement of:	
Bremer, Ambassador L. Paul, former administrator, Coalition Provisional Authority; Stuart W. Bowen, Jr., special inspector general for iraq reconstruction; and David R. Oliver, Jr., former advisor, Iraq Ministry of Finance and former director of management and budget, Coalition Provisional Authority	45
Bowen, Stuart W., Jr.,	71
Bremer, Ambassador L. Paul	45
Oliver, David R., Jr.,	127
Letters, statements, etc., submitted for the record by:	
Bowen, Stuart W., Jr., special inspector general for iraq reconstruction, prepared statement of	74
Braley, Hon. Bruce L., a Representative in Congress from the State of Iowa, prepared statement of	41
Bremer, Ambassador L. Paul, former administrator, Coalition Provisional Authority, prepared statement of	50
Davis, Hon. Tom, a Representative in Congress from the State of Virginia, prepared statement of	14
Higgins, Hon. Brian, a Representative in Congress from the State of New York, prepared statement of	25
Oliver, David R., Jr., former advisor, Iraq Ministry of Finance and former director of management and budget, Coalition Provisional Authority, prepared statement of	128
Sali, Hon. Bill, a Representative in Congress from the State of Idaho, prepared statement of	28
Sarbanes, Hon. John P., a Representative in Congress from the State of Maryland, prepared statement of	38
Waxman, Chairman Henry A., a Representative in Congress from the State of California, prepared statement of	5
Yarmuth, Hon. John A., a Representative in Congress from the State of Kentucky, prepared statement of	31

THE IMPACT OF CPA DECISIONMAKING ON IRAQ RECONSTRUCTION

TUESDAY, FEBRUARY 6, 2007

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m., in room 2157, Rayburn House Office Building, Hon. Henry A. Waxman (chairman of the committee) presiding.

Present: Representatives Waxman, Davis of Virginia, Lantos, Kanjorski, Maloney, Cummings, Kucinich, Davis of Illinois, Tierney, Clay, Watson, Lynch, Higgins, Yarmuth, Braley, Norton, McCollum, Cooper, Van Hollen, Hodes, Murphy, Sarbanes, Welch, Burton, Shays, McHugh, Mica, Souder, Platts, Duncan, Turner, Issa, Marchant, Westmoreland, Foxx, Bilbray, and Sali.

Also present: Representative Delahunt.

Staff present: Phil Schiliro, chief of staff; Phil Barnett, staff director and chief counsel; Kristin Amerling, general counsel; Karen Lightfoot, communications director and senior policy advisor; David Rapallo, chief investigative counsel; Theodore Chuang, deputy chief investigative counsel; Jeff Baran and Suzanne Renaud, counsels; Earley Green, chief clerk; Teresa Coufal, deputy clerk; Caren Auchman, press assistant; Kerry Gutknecht; Davis Hake; Sam Buffone; Lauren Belive; Will Ragland; David Marin, minority staff director; Larry Halloran, minority deputy staff director; Jennifer Safavian, minority chief counsel for oversight and investigations; Keith Ausbrook, minority general counsel; Ellen Brown, minority legislative director and senior policy counsel; A. Brooke Bennett, John Callender, and Howie Denis, minority counsels; Grace Washbourne, minority senior professional staff member; Christopher Bright, minority professional staff member; Nick Palarino, minority senior investigator and policy advisor; Patrick Lyden, minority parliamentarian and member services coordinator; Brian McNicoll, minority communications director; and Benjamin Chance, minority clerk.

Chairman WAXMAN. The meeting of the committee will please come to order.

Today's hearing launches our committee's investigation of waste, fraud and abuse in Federal spending. We will have the hearing today and a number of other hearings the rest of the week, and it will be the beginning of a 2-year effort to make sure that we can watch to protect taxpayers' money from being wasted through inefficiency or corruption or incompetence.

This effort isn't about policy differences, and it is not about partisanship. It is about making sure that Government, which has an important responsibility, is effective and as efficient as possible. Our effort is aimed at making sure taxpayer's dollars aren't wasted. To do this job right, everything must be on the table and subject to potential scrutiny.

We will need the help of anyone and everyone who has specific knowledge of waste, fraud and abuse in Government programs. The committee's Web site will now have a fraud, waste and abuse tip line to make it easier for our constituents to give us information we need. The Web site is www.oversight.house.gov. We will pursue all credible allegations that are shared with us.

Today's hearing provides us with $12 billion reasons to be concerned about fraud, waste and abuse. In a 13 month period from May 2003 to June 2004, the Federal Reserve sent nearly $12 billion in cash, mainly in hundred dollar bills, from the United States to Iraq. To do that, the Federal Reserve Bank in New York had to pack 281 million individual bills including more than 107 hundred dollar bills onto wooden pallets to be shipped to Iraq. The cash weighed more than 363 tons and was loaded onto C–130 cargo planes to be flown into Baghdad. The numbers are so large that it doesn't seem possible that they are true.

Who in their right mind would send 360 tons of cash into a war zone? But that is exactly what our Government did.

Stuart Bowen, the Special Inspector General for Iraq Reconstruction analyzed the cash transfer and concluded that when the money arrived in Iraq, the Coalition Provisional Authority which was run by our Government had not established sufficient managerial financial and contractual controls to ensure that the cash was used in a transparent manner. Even worse, Mr. Bowen concluded that the Coalition Provisional Authority handed over the money to the Iraqi ministries "without assurance the money was properly used or accounted for."

I am releasing a memorandum this morning that describes this mind-boggling situation in more detail, and I am pleased that Mr. Bowen and Ambassador Paul Bremer who led the Coalition Provisional Authority are with us today to shed more light on what happened to the $12 billion.

I know Ambassador Bremer has indicated in the past that it is unrealistic to expect the Government to keep close track of money sent into war zone, and I know the Inspector General believes the opposite is true and that strong standards are especially important if our Government is sending billions of dollars of cash into a chaotic and violent environment.

My concern is that without strong standards, we have no way of knowing whether the cash that was shipped into the Green Zone ended up in enemy hands.

Our goal is to assess the Coalition Provisional Authority's actions, not by some arbitrary international guidelines imposed by outsiders but by the Authority's own standards written into their own regulations. If the Coalition Provisional Authority didn't follow its own directives, we want to know why not, and we owe it to the American people to do everything we can to find out where the $12 billion went.

We also need to ask questions today about who was hired by the administration to manage the $12 billion in cash sent to Iraq and carry out the other responsibilities of the Coalition Provisional Authority. There were extraordinary, disturbing reports last fall that the CPA was filled with inexperienced and unqualified political cronies. This hearing will give us a chance to probe those allegations and find out what role incompetence and political cronyism played in the debacle that Iraq has now become.

Finally, before I turn to Mr. Davis for his opening statement, I would like to say a word about the empty witness chair. Our original goal for this hearing was to be retrospective and prospective, looking both backward and forward.

On January 10th, the President announced his new strategy for Iraq. This included an escalation of 21,000 troops, but it also included a request for another $1.2 billion in taxpayer funds for Iraq reconstruction.

The next day, Secretary of State Condoleezza Rice held a press conference and announced with fanfare that the administration's new point person for Iraq reconstruction would be Ambassador Tim Carney. This is what she said about his new role: "He will coordinate all relevant elements of the Embassy, USAID mission and IRMO to bring about a smooth transition from U.S. Government and other external assistance to full Iraqi self-reliance. He will work closely with MNF–1 to ensure Iraq's economic transition plans complement the joint security strategy."

Well, when the President asked for another billion dollars in taxpayer funds to be spent in Iraq, Congress has a right, in fact an obligation, to talk to the official in charge. After all the money we have seen wasted, we want to know what Ambassador Carney plans and find out what he has learned from past mistakes. So I invited Ambassador Carney to testify today. When my staff talked to Ambassador Carney directly, he was cooperative and said he was willing to come, but the State Department refused.

Their first excuse was that he had not yet filled out his paperwork. Even though Secretary Rice publicly announced his critical new position, he apparently could not talk to Congress because he had not been officially hired. Next the State Department said Ambassador Carney could not come because he did not yet know what he was going to do in Iraq. This seemed odd especially since the Secretary had already announced that he was her new point person on Iraq reconstruction.

Then just last week, we were informed that the Department suddenly decided that Ambassador Carney was needed in Baghdad right away. Even though he was not officially hired and according to the State Department had no idea what he was going to do in Iraq, he was put on a plane to Baghdad this past Friday. The State Department has now told us that they may make him available to Congress in 6 months. After all the billions wasted in Iraq, 6 months just isn't good enough.

So we have an empty chair for Ambassador Carney today, but I can assure the Secretary of State that the chair won't be empty for too long.

We are going to have opening statements from the members of the committee in 2 minutes length with the exception of Mr. Davis whom I want to recognize at this time.

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

Statement of Rep. Henry A. Waxman
Chairman, Committee on Oversight and Government Reform
Hearing on the Impact of CPA Decision-Making on
Iraq Reconstruction
February 6, 2007

Today's hearing launches this Committee's efforts to identify and eliminate fraud, waste, and abuse in federal spending. We will hold three more hearings this week and we will continue our work for the next two years.

This effort isn't about policy differences, it isn't about partisanship, and it isn't about denigrating government. I believe strongly that government can be an extraordinary force for good in our nation. But our Committee has an important responsibility to make government as effective and efficient as possible.

Our effort is aimed at making sure taxpayer dollars aren't wasted, either through incompetence or deceit. To do this job right, everything must be on the table and subject to potential scrutiny. And we will need the help of anyone who has specific knowledge of fraud, waste, and abuse in government programs.

The Committee's website will now have a fraud, waste, and abuse tip line to make it easier for our constituents to get us the information we need. The website is www.oversight.house.gov. We will pursue all credible allegations that are shared with us.

Today's hearing provides us with 12 billion reasons to be concerned about fraud, waste, and abuse.

In a thirteen month period, from May 2003 to June 2004, the Federal Reserve Bank in New York sent nearly $12 billion in cash — mainly in $100 bills — from the United States to Iraq.

To do that, the Federal Reserve had to pack 281 million individual bills — including more than 107 million $100 bills — onto wooden pallets to be shipped to Iraq. The cash weighed more than 363 tons and was loaded onto C-130 cargo planes to be flown into Baghdad.

The numbers are so large that it doesn't seem possible that they're true. Who in their right mind would send 363 tons of cash into a war zone? But that's exactly what our government did.

Stuart Bowen, the Special Inspector General for Iraq Reconstruction, analyzed this cash transfer and concluded that when the money arrived in Iraq, the Coalition Provisional Authority — which was run by our government — had not established "sufficient managerial, financial, and contractual controls to ensure" that the cash was used in "a transparent manner." Even worse, Mr. Bowen concluded that the Coalition Provisional Authority handed over the money to the Iraqi ministries "without assurance the monies were properly used or accounted for."

I am releasing a memorandum this morning that describes this mind-boggling situation in more detail. And I am pleased that Mr. Bowen and Ambassador Paul Bremer, who led the Coalition Provisional Authority, are with us today to shed more light on what happened to the $12 billion.

I know Ambassador Bremer has indicated in the past that it's unrealistic to expect the government to keep close track of money sent into a war zone. And I know the Inspector General believes that the opposite is true and that strong standards are especially important if our government is sending billions of dollars of cash into a chaotic and violent environment. My concern is that without strong standards, we

have no way of knowing whether the cash shipped into the Green Zone ended up in enemy hands.

Our goal is to assess the Coalition Provisional Authority's actions — not by some arbitrary international guidelines imposed by outsiders, but by the Authority's own standards, written in its own regulations. If the Coalition Provisional Authority didn't follow its own directives, we want to know why not. And we owe it to the American people to do everything we can to find out where the $12 billion went.

We also need to ask questions today about who was hired by the Administration to manage the $12 billion in cash sent to Iraq and carry out the other responsibilities of the Coalition Provisional Authority. There were extraordinarily disturbing reports last fall that the CPA was filled with inexperienced and unqualified political cronies. This hearing will give us a chance to probe those allegations and find out what role incompetence and political cronyism played in the debacle that Iraq has become.

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This is what she said about his new role:

> He will coordinate all relevant elements of the Embassy, USAID Mission, and IRMO to bring about a smooth transition from U.S. Government and other external assistance to full Iraqi self-reliance. He will also work closely with MNF-I to ensure Iraq's economic transition plans complement the joint security strategy.

When the President asks for another billion dollars in taxpayer funds to be spent in Iraq, Congress has a right — and an obligation — to talk to the official in charge. After all the money we've seen wasted, we

wanted to know Ambassador Carney's plans and find out what he has learned from past mistakes.

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But the State Department refused. Their first excuse was that he had not yet filled out his paperwork. Even though Secretary Rice publicly announced his critical new position, he apparently could not talk to Congress because he hadn't been officially hired.

Next, the State Department said Ambassador Carney could not come because he did not yet know what he would do in Iraq. This seemed odd, especially since Secretary Rice had already announced that he was her new point person on Iraq reconstruction.

Then, just last week, we were informed that the Department suddenly decided that Ambassador Carney needed to be in Baghdad ... right away. So even though he wasn't officially hired and, according to the State Department, had no idea what he would do, he was put on a plane to Baghdad this past Friday.

The State Department has now told us they might make Ambassador Carney available to Congress in six months. After all the billions wasted in Iraq, six months just isn't good enough. We will have an empty chair for Ambassador Carney today, but I can assure the Secretary of State that that chair won't be empty for long.

Mr. DAVIS OF VIRGINIA. Thank you very much, Mr. Waxman.

This committee has always been about saving taxpayers' money. If you look over the record of the last cycle, the GAO reported that because of the oversight this committee conducted in the last two Congresses, we saved the taxpayers over $6.5 billion. Saving taxpayers' money is what this is all about.

Of course, today's hearing is really focusing on DFI dollars. These are Development Fund for Iraq dollars which were not taxpayer dollars. These were Iraqi oil revenues.

Most of what we will do today, I think, and tomorrow were first brought to light in the course of over 19 hearings on Iraq, conducted under this committee's Republican leadership and reviewed by other committees, by the Inspector General, by GAO and others.

On the processes leading up to this morning, the majority has sent mixed signals about the subject of what the hearing was going to be today. Only late last night at 10:30 were we given the lengthy memo on CPA cash management. It is old news, but again at the last minute it is just changing the focus of the hearing. The rules require that Members receive memorandum 3 calendar days before the hearing.

Although technically we are correct, Mr. Waxman, we hope that in the future on these kinds of issues, we can work together and have a heads-up and be more collaborative as we approach these issues instead of getting a memo late the evening before.

On the substance, this is a classic example of ready, fire aim oversight. In the past 10 days, we have received over 80,000 pages of documents from contractors in response to the committee's request. Some of those documents undoubtedly would shed light on the matters that are going to be addressed by our witnesses in today's hearing, but in rushing to take testimony before anyone has the opportunity to carefully analyze all of that material, the committee starts with broad conclusions about the effectiveness of current reconstruction programs and supports those judgments only with a hastily culled and selective body of evidence. Reconstruction spending in Iraq and Afghanistan merits serious oversight, not a slap-dash rush to judgment.

The majority continues to equate a lack of exquisite accounting in Iraq with massive waste. Clearly, there was a leakage in the early all cash days of occupation and reconstruction. In the early days, there was no banking system in Iraq. There were no electronic transfers. There was no other way, except cash, to pay. But limited visibility over payments to Iraqi ministries by itself doesn't establish the majority's alleged $8 billion flood of fraud.

Concerns about Coalition Provisional Authority hiring practices are based on anecdotes and hearsay, not evidence. The Special Inspector General for Iraq looked at CPA employment practices and did not find undue political influence.

Real oversight gathers evidence, and then it follows those facts to conclusions. To help us do just that, beginning today our Republican committee Web site invites whistleblowers and anyone else with information about waste, abuse or fraud or needed reform to provide information anonymously or to e-mail us at www.oversight@mail.house.gov. Whether the subject is Iraq recon-

struction or why Sandy Berger was never given a polygraph, we want to help gather the facts that drive constructive oversight.

To be sure, many of us have been justifiably critical of the way Iraq reconstruction has been handled. Naive assumptions about post-invasion Iraq were slow to give way to harsh but obvious realities. It turns out we brought neither the plans nor the personnel for long term occupation and nation-building from the ground up. Dissolution of Iraq's army and security forces and rapid de-Ba'athification created a vacuum we were not prepared to fill.

But we should not let any discussion of failed means paralyze our will to achieve honorable ends. The main value in revisiting past mistakes is to make sure that the right lessons have been learned and corrective action is put in place. Self-righteous finger-wagging and political scape-goating won't make Iraq any more secure. It won't rebuild that ravaged Nation, and it won't bring the U.S. troops home any sooner.

Today there are more than 300,000 trained and equipped Iraqi security forces taking control in the provinces. There is a new emphasis on getting Iraqi businesses up and running and putting Iraqis back to work. Despite a prohibitive security environment, infrastructure projects are being completed. The administration has brought back a critique of previous Iraqi reconstruction policy. Ambassador Carney has agreed to coordinate these efforts. We wish him success and look forward to his coming before our committee.

Ambassador Bremer and the Special Inspector General, Mr. Bowen, bring extensive experience and expertise to this discussion, and we are grateful they could be here today.

I want to thank you, Chairman Waxman, for agreeing to our request to invite retired Admiral David Oliver. He worked as the Coalition Provisional Authority's Management and Budget Officer, and he brings a unique perspective to these important issues.

Welcome, gentlemen. Thank you.

[The prepared statement of Hon. Tom Davis follows:]

HENRY A. WAXMAN, CALIFORNIA
CHAIRMAN

TOM DAVIS, VIRGINIA
RANKING MINORITY MEMBER

ONE HUNDRED TENTH CONGRESS

Congress of the United States
House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
2157 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515–6143

Majority (202) 225-5051
Minority (202) 225-5074

Statement of Rep. Tom Davis,
Ranking Member
Committee on Oversight and Government Reform

"The Lasting Impact of CPA Decision-Making on Iraq Reconstruction"

Tuesday, February 6, 2007

Thank you, Mr. Chairman.

Despite what we just heard, the true purpose and scope of these hearings has never been clear. What has been clear is an undisguised desire to publicly re-hash prior criticisms of the Iraq reconstruction effort. Most of what we'll hear today and tomorrow was first brought to light over the course of the nineteen hearings on Iraq conducted under this Committee's Republican leadership.

This is a classic example of "Ready … Fire … Aim!" oversight. In the past ten days, we have received more than 80,000 pages of documents from contractors in response to the Committee's requests. Some of those documents undoubtedly would shed light on matters to be addressed by our witnesses in these hearings.

But in rushing to take testimony before any one has the opportunity to carefully analyze all that material, the Committee starts with broad conclusions about the effectiveness of current reconstruction programs and supports those judgments only with a hastily culled and selective body of evidence. Reconstruction spending in Iraq and Afghanistan merits serious oversight, not this slap-dash rush to old judgments.

The majority continues to equate a lack of exquisite accounting in Iraq with massive waste. Clearly, there was leakage in the early, all-cash days of occupation and reconstruction. People have been prosecuted for diverting money. But limited visibility over payments to Iraqi ministries, by itself, simply does not establish the majority's alleged eight billion dollar flood of fraud.

And concerns about Coalition Provisional Authority hiring practices are based on anecdotes and hearsay, not evidence. The Special Inspector General for Iraq looked at CPA employment practices and did not find undue political influence.

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But we should not let any discussion of failed means paralyze our will to achieve honorable ends. The main value in revisiting past mistakes is to make sure the right lessons have been learned and corrective actions put in place. Self-righteous finger-wagging and political scapegoating won't make Iraq any more secure, won't rebuild that ravaged nation, and won't bring U.S. troops home any sooner.

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Ambassador Bremer and the Special Inspector General, Mr. Bowen, bring extensive experience and expertise to this discussion, and we are grateful they could be here today. And thank you Chairman Waxman for agreeing to our request to invite retired Admiral David Oliver. He worked as the Coalition Provisional Authority's management and budget officer and brings a unique perspective to these important issues. Welcome gentlemen.

Chairman WAXMAN. Thank you, Mr. Davis.

I want to point out there may have been some misunderstanding about the supplemental briefing memo. We did send out a briefing memo within the required amount of time. This was supplemental information which we feel we have a right to do. We will try to iron out these differences for the future.

I do want to report that we seem to have rival tipline Web sites. Ours for the committee is www.oversight.house.gov. The Republicans, as Mr. Davis announced, have a different one. Feel free to contact whichever tipline would be of interest to anybody who has information about waste, fraud and abuse. We will be sharing the information, I expect.

Mr. DAVIS OF VIRGINIA. Absolutely.

Chairman WAXMAN. If you want to reach the committee directly, it is www.oversight.house.gov.

Without objection, I am now going to recognize the members of the committee for an opening statement of no more than 2 minutes and without objection, Representative Delahunt will be permitted to join us and participate in today's hearing.

Mr. Lantos.

Mr. LANTOS. Thank you, Mr. Chairman, for arranging this series of hearings.

As you know, I was in Iraq just over a week ago with Speaker Pelosi and other Members of the congressional national security leadership. What we found was bleak. Progress in reconstruction has been badly set back by inefficiency, fraud, and neglect.

Each quarter, the Special Inspector General files a report to Congress detailing the revolting revelations of waste and abuse of U.S. taxpayer funds. While the details still have the power to shock, I must say that this process is starting to feel like Groundhog Day. We keep waking up to the same nasty reality. Our efforts at creating a stable, sustainable Iraq were botched from the start through bad financial management and outright fraud, and we are still paying the price.

Mr. Chairman, I am also deeply troubled by the fact that Iraq's neighbors are failing to step up to the plate. Saudi Arabia, Kuwait and others, whose interest in seeing a stable Iraq is in fact greater than ours, have kept their wallets in their pockets. They have made some pledges, but as the Special Inspector General points out in his latest report, they have delivered virtually nothing. This is outrageous, as I pointed out to the Kuwaiti leadership last week in person, especially given the record windfall oil revenues the countries have enjoyed in recent years.

Mr. Chairman, you cannot unwind history nor can you unscramble this omelet, but it is some consolation to have one of its chefs, Mr. Bremer, testifying before us today. Perhaps he can shed some light on CPA's deeply flawed handling of the reconstruction which appears to have begun on day one.

I look forward to questioning our witnesses, and I want to thank you again for holding these hearings.

Chairman WAXMAN. Thank you, Mr. Lantos.

Mr. Shays.

Mr. SHAYS. Thank you, Mr. Chairman, for conducting this hearing. This is the 20th hearing. We have had 14 in my National Security Subcommittee and 5 in the full committee.

I have had many trips to Iraq, four outside the umbrella of the military, and they have taught me many things about this amazing country, this fertile crescent with two magnificent rivers, well educated people and frankly, oil that rivals Saudi Arabia. There are some things in our job that transcend politics, and my God, this has to be one of them.

On a bipartisan basis, we went into Iraq, and I believe on a bipartisan basis, we need to leave Iraq, leaving that country with the capability to defend itself as an independent nation.

When I ask a Shi'a, are they a Shi'a they say, I am a Shi'a but I am married to a Sunni. I ask a Sunni, are you a Sunni? They say, I am a Sunni, sir, but my daughter is a Shi'a.

I ask a Kurd, are you a Kurd? They say, I am a Kurd. But do you know we are Sunnis? They are Iraqis before they are Shi'as, Sunnis, and Kurds. They didn't attack us. We attacked them.

As we perform this open heart surgery, we have people now that say we must leave before we finish the surgery.

I know this is controversial, but so was the Revolutionary War. One-third of the American people supported it, one-third opposed it, and historians tell us one-third didn't know there was a war or didn't give a damn.

In the Civil War, we lost 10,372 individuals every month for 4 years, and for 3 years, President Abraham Lincoln was considered an imbecile by politicians, businessmen and military personnel, and it only turned when the war turned better.

Let me just conclude by saying that we have a resolution before Congress. Critics said we want a new Secretary of State, we want new leadership in Iraq, and we want a new plan. They have all three, and critics now are saying basically they are against the new plan and the status quo. The status quo isn't the way to proceed.

I look forward to this hearing, and I look forward to many more to come.

Chairman WAXMAN. Thank you, Mr. Shays.

Mr. Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman, and thank you for holding this vitally important hearing to examine the Coalition Provisional Authority management and control of funds for reconstruction in Iraq.

The House Armed Services Committee on which I am a member has been tasked with entertaining President Bush's latest budget request for $481 billion in defense spending. This request represents an 11 percent boost over last year, increasing spending to levels not seen since the Reagan era. Additionally, the President is requesting $93.4 billion in emergency supplemental funding for fiscal year 2007 and $141.7 billion for fiscal year 2008. This would bring the total amount spent in Iraq and Afghanistan since 2001 to $661 billion, eclipsing in real terms the cost of the Vietnam War.

Now I have said time and time again that I was against this war from the start. I voted against it. But I have also repeatedly said that now that we are in Iraq, we cannot leave its people worse off

than when we found them. Furthermore, we have an obligation to provide our troops on the ground with the support that they need.

However, before we can in good faith allocate historic amounts of taxpayer dollars to this President's war, I have one question that remains unanswered. What has the return on our investments been?

We have already dedicated more than 3,000 American lives and hundreds of billions of dollars of taxpayer dollars to this venture, and our investments have yielded nothing more than a bloody civil war. As good stewards of taxpayer dollars, Congress has an obligation to ensure that moneys spent are spent as effectively and efficiently as possible.

To the contrary, reports of waste, fraud, and abuse in Iraq are plentiful. Reports reveal that the U.S. Government cannot account for billions of dollars already distributed to the Coalition Provisional Authority for the purposes of reconstruction in Iraq. Furthermore and finally, nearly $20 billion in Iraqi funds, the money this President promised would help to pay for the war, cannot be tracked. This is simply unconscionable. Before we can justify tapping the American treasury for hundreds of billions more, we must find out what happened to the money that has already been allocated.

With that, I yield back.

Chairman WAXMAN. Thank you, Mr. Cummings.

Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman, and thank you for calling this hearing today.

I might point out that administration did offer Ambassador Satterfield who presently is the Deputy Chief of Mission in Baghdad. During the covered period, he was in fact the Deputy Assistant Secretary for Near East Affairs, and before that he has been in Lebanon, Damascus, Jeddah and Tunis. In fact, there is no person that would have been more qualified from the administration to speak on behalf of the ground forward. I truly regret the fact that he was not allowed to make his presentation and answer questions.

Of course, I am sorry that Ambassador Carney chose to be in a combat zone rather than be with us here today. What a surprise.

What is the difference, yes.

I might also, for the committee, put into perspective what $12 billion is. It certainly seems like a lot of money when you put it in hundred dollar bills and put it on forklifts and put into C–130's, but I think when you look at a country of more than 15 million people and a period of 15 months, you are really talking about $600 per person per year. I think when the American people look at the volume of human beings that were without an economy as a result of the toppling of Saddam, I think they will more accurately look at less than $1,000 per man, woman and child in that region would certainly be considered to be a measured amount to be spent.

No doubt there is fraud, abuse and waste. No doubt money ended up in somebody's pocket. But I might note for all of us that as we looked over Katrina, done in our own country within our own boundaries under a system that we all see used time and time

again, we were giving $2,000 debit cards that ended up buying color TVs at K-Mart.

Although I certainly look forward to the testimony and I have no doubt that there has been some waste, I also hope that we put this in perspective. Again, I am sorry Ambassador Satterfield was not acceptable to the committee.

I yield back.

Chairman WAXMAN. Thank you, Mr. Issa.

Mr. Satterfield did testify before this committee last fall. We asked for Mr. Carney because we wanted Mr. Carney. He is the one who is now going to be in charge. We wanted to know what his vision was, what he has learned from the past, what his plans are to be the person in charge of reconstruction in Iraq. We requested the State Department to reconsider their decision and allow him to be with us, and we hear from other sources, I think news sources, that he was put on a plane to Iraq. I think it is unfortunate that they are now saying we can't have him for 6 months. We ought to have him here, and I hope the State Department will reconsider their reconsideration.

Mr. Kucinich is next.

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

I have been circulating among my colleagues, a 12 point plan to end the war in Iraq, one element of which is to make sure that there is a viable reconstruction program because we realize that reconstruction is inevitably linked to reconciliation. The United Nations Security Council in addressing the issue of reconstruction understood that reconstruction was related to the humanitarian needs of the people of Iraq, and it wasn't only economic reconstruction. They also knew that reconstruction related to continued disarmament and the restoration of a civilian administration in Iraq. Now we see that this program has frustrated any attempts to end the war, and we see that billions of dollars have not been accounted for.

At some point, the record of this hearing needs to be brought to the deliberation of Congress whether individuals who hold high office in this country have committed high crimes and misdemeanors with respect to their misconduct in the administration of billions of dollars of American people's tax moneys or of the money that was raised from the people of Iraq because either way, whoever was in charge, it was still money that we had control over. Whatever happened to those billions of dollars, whether they got to the insurgency, whether they were stolen, whether they ended up on the other side of the world, we don't know, but because we don't know, there has to be accountability. You cannot let billions of dollars be stolen from a Coalition Provisional Authority that was established by this administration without accountability, and it is up to Congress to enforce that accountability.

So I am glad we are holding these hearings. Thank you.

Chairman WAXMAN. Thank you, Mr. Kucinich.

Mr. Mica.

Mr. MICA. Well, thank you, Mr. Chairman.

I guess I should thank you for holding this hearing, but I do have some concerns about the hearing, about first of all a pattern of attempting to discredit the President of the United States, a very ef-

fective means of making him out to be someone who is untruthful when in fact the Congress by a very wide margin authorized the action in Iraq.

I guess this is let the games begin as far as a series of hearings to try to further embarrass an effort that brought to halt, as the Prime Minister of Iraq when he came and testified to us said, more than a million Iraqis perished. We have uncovered over 300,000 mass graves. Here is a picture of some of those that we have uncovered. We brought to halt a regime that committed atrocities far and beyond anything we have known since probably Adolf Hitler or Khmer Rouge. But now we have to discredit those who risk their lives and serve their country to try to reconstruct that Nation and did so, I think, in very difficult circumstances.

I was asked a little bit about the money and why we paid in cash, and then I remembered I had tucked in the top of my desk drawer some of this cash. I just remembered that. But this is all Iraqi money. It was given to me by soldiers who came back from Iraq and they said it was worthless. So I got quite a bit of it. I just brought a few samples here. We basically destroyed the country in our effort to take over this sadistic regime, and they had no system of finances, no money, no banks, no ATMs, no one to administer it. That is why this was no good, and we did what we had to do using cash.

We couldn't send in Ernst and Young and other CPAs. We did send in some folks, who I read about, who stayed mostly in the Green Zone, but it wouldn't have mattered where they stayed.

Chairman WAXMAN. The gentleman's time has expired.

Mr. MICA. Again, this money was useless, and our folks that we sent tried to do the best they could, and we will hear about that today.

I yield back the balance of my time.

Chairman WAXMAN. Thank you, Mr. Mica.

Mr. Tierney.

Mr. TIERNEY. Thank you, Mr. Chairman.

Mr. Chairman, oversight is an obligation of this Congress. I think that all of us understand that besides legislating, our other largest responsibility is the obligation for oversight. People making assertions that when we exercise that obligation, we are somehow harming the President or calling into question U.S. actions actually conflict with our constitutional responsibilities and they go against the grain of the standard that the American people set for this Congress to meet.

The purpose of oversight is to inform better policy going forward. In order to do that, sometimes we have to look back. We have to look back and see what problems existed to make sure that they are not repeated. We have to find out what went right so that we can replicate that in the future, that we can try to ensure that we have in place the systems and the processes to effectively and efficiently carry out the policies of this country.

In looking in back in this instance, I am concerned with the apparent lack of planning that went into what one witness here today, Mr. Bremer, said was the second most significant goal of this country in Iraq and that was the reconstruction, the putting in place of an economy and an infrastructure for Iraqis so that they

in fact would be able to support an eventual government and support what the United States was doing there. Unfortunately, what we are going to find out today was that there was too little planning that went into that effect, that we had people operating and spending money in this very important process that were unqualified, that were not vetted, and in the end it caused great damage to our policy and to the situation in which we find ourselves.

There is a huge difference between having no accountability and having accountability in the extreme. It is no excuse that we couldn't have an accountability process akin to that in the United States, to say that all we could was nothing. I think today we should explore what could have been done to make sure that going forward we can hope that Ambassador Carney is going to put in place those policies, and we will have to wait for another day to make sure that in fact that is the case.

Now, Mr. Chairman, I thank you for having these hearings, and I would hope they become bipartisan in nature. I look forward to the information that we will glean from today's witnesses. Thank you.

Chairman WAXMAN. Thank you very much.

The Chair now recognizes Mr. Duncan.

Mr. DUNCAN. Well, thank you, Mr. Chairman.

Our former majority leader, Dick Armey said in an interview with the McClatchy newspapers just yesterday, he said he deeply regretted the decision to go to war in Iraq. He said, "Had I been more true to myself and the principles I believed in at the time, I would have openly opposed the whole adventure vocally and aggressively."

Chris Matthews, on election night, said, "The decision to go to war in Iraq was not a conservative decision historically. It asked Republicans 'to behave like a different people than they intrinsically are.'"

The reason I mention those quotes, conservative Republicans have traditionally been the biggest opponents, the biggest critics of Federal waste, fraud and abuse. Conservative Republicans should certainly feel no obligation to defend waste just because it has occurred in Iraq.

Ivan Nealon in the January 15th American Conservative Magazine said, "Many conservatives who regularly gripe about the Federal Government's ineffective and inefficient use of taxpayer dollars give the Pentagon a free ride on its profligate spending habits and when troops are engaged in combat overseas, the general public is wary of questioning even massive military expenditures." He says this free ride should end.

Conservatives have traditionally been the biggest opponents to interventionist foreign policies and nation-building. We need a return to the more humble foreign policy that President Bush advocated in his campaign in 2000.

Thank you, Mr. Chairman.

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

Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman and Ranking Member Davis for holding today's hearing.

After President Bush reneged on his pledge to spend Iraqis' money wisely, it is vital that our committee investigate the massive failure to properly manage the Development Fund for Iraq. Iraqi citizens should have reaped the full benefit of billions of dollars provided by their nation's resources. Instead, they had to watch from the sidelines as lax oversight from the CPA allowed funds meant for their humanitarian needs to be improperly used.

It is inexcusable that nearly $9 billion Iraqi dollars have not been accounted for, yet yesterday the President had the audacity to send Congress a budget plan that requests an extra $245 billion for the wars in Iraq and Afghanistan, including more than $1.8 billion for programs to strengthen democracy in Iraq. If this administration could not accomplish these goals with Iraqi money, how can they be trusted to be good stewards over American taxpayer dollars?

Where will all this money go? Will it go toward overpaying more American contractors?

While I commend Ambassador Bremer for his service to our country through his work in Iraq, it is obvious that the work of the CPA made a solid foundation for waste and fraud with its lack of transparency and inability to combat corruption. Billions have been wasted with no real progress. The CPA's failure to provide the necessary security to protect Iraq assets undermined all future efforts to reconstruct Iraq.

I welcome our witnesses and commend Mr. Bowen for identifying these inefficiencies.

I yield back and ask that my statement be included in the record.

Chairman WAXMAN. Without objection, that will be the order. Thank you very much.

Chairman WAXMAN. Mr. Souder.

Mr. SOUDER. Good morning, it is still required to be a Monday morning quarterback, but it is not comparable in any way to being an actual Super Bowl quarterback.

Those who were in top decisionmaking positions in Iraq in those early days when there was no government, no currency, no police forces, no functioning anything had to make rapid-fire constant decisions with minimal information. Many of those decisions were wrong. I hope these hearings will carefully and calmly study the good and bad decisions to learn for the future.

I hope these hearings will not become a self-righteous and arrogant display of comfortable Monday morning Bush-bashing. Unproven, politically charged words like political cronyism and implied impeachment for high crimes, both already used this morning, are not helpful.

I hope this is real oversight and not just political grandstanding.

Chairman WAXMAN. The gentleman yields back the balance of his time.

The Chair now recognizes Ms. Watson.

Ms. WATSON. Thank you, Mr. Chairman, for holding this oversight hearing. You are never wrong to seek the truth.

As we are deeply engaged in a National effort to bring democracy to Iraq, I and many of my colleagues continue to question the methods and presumptions that took us to Iraq and now there for over 3 years of occupation. But all of us here are united in our de-

sire to see democracy take hold in Iraq and to see Iraqis finally control their own destiny. Unfortunately, Mr. Chairman, our own actions have hobbled this effort. The foundations of democracy are transparency and accountability, yet in Iraq we have only shown the Iraqis how not to build their foundations. Our contracts and our reconstruction plans for Iraq are opaque with no-bids and cost-plus contracts being the norm.

The CPA, while you were Ambassador, Mr. Bremer, managed to misplace $9 billion. That is $9 billion that could be used for homeland security and to address Katrina. The U.S. Government officials in charge have never been held accountable.

Mr. Chairman, these are terrible examples for the fledgling Iraqi Government and to a people only now learning to be citizens instead of subjects. I don't believe there is a military solution in Iraq. There is only a diplomatic and political solution, and it starts with rectifying our failures and setting the right example of transparency and accountability to a people who have known too little of either. This committee can help fix this damage, and I look forward to working with my colleagues to fix it.

Thank you, Mr. Chairman.

Chairman WAXMAN. Thank you very much.

Mr. Westmoreland.

Mr. WESTMORELAND. Thank you, Mr. Chairman.

This week, this committee will hold a series of hearings with the ultimate goal of uncovering waste, fraud and abuse. However, if the majority is so concerned with Government waste, fraud and abuse, it may want to look at its own calendar. I believe this is our second hearing in this first month of Congress, yet several of the only 8 bills passed in the first 32 days of the 110th Congress were assigned to this committee yet no subcommittee or full committee hearing, no markup, no regular order, no 5 day work week.

The hearing that will be held here today and tomorrow have issues that have been discussed at length by this committee. Under Republican leadership, issues such as defense contracting and reconstruction spending were brought to the forefront 19 times in this committee alone without political motives.

The Coalition Provisional Authority's mission evolved rapidly in a very hostile environment. We all recognize that the CPA's initial system for distributing funds was not perfect. However, it is impractical to expect a Wall Street approach to a war zone problem.

Today, the systems in place are working in a much more acceptable manner. The Iraqi security forces are growing in size and strength and are taking on a greater role in securing their own land. The private sector of Iraq is becoming more stable with the help of local businesses and much needed infrastructure being completed.

I want to welcome this very distinguished panel, and I want to thank you for your willingness to serve this country in a very hostile environment, and I look forward to your testimony.

Thank you, Mr. Chairman. I yield back the balance of my time.

Chairman WAXMAN. Thank you very much.

The Chair now recognizes Mr. Higgins for 2 minutes.

Mr. HIGGINS. Thank you, Mr. Chairman.

I will submit my opening statement for the record and yield back the remainder of my time. Thank you.

[The prepared statement of Hon. Brian Higgins follows:]

Opening Statement
Representative Brian Higgins
"The Impact of CPA Decision-Making on Iraq Reconstruction"
February 6, 2007

Mr. Chairman, thank you for calling this hearing, and thank you to our witnesses for appearing. I am proud today to be a member of this committee and this Congress, which will finally call for answers as to how we wound up where we are, in regards to Iraq. I hope that we can finally force the Administration to recognize its mistakes and most importantly, learn from that so that we are not forced to repeat them.

I stated months and months ago that the Administration's assumptions regarding Iraq have not only changed, but were fundamentally flawed in the first place and that this Administration now has an obligation to this Congress and to the American people to clearly outline a new strategy for stability, reconstruction, and financing, toward the goal of transitioning full responsibility of Iraq to the Iraqi people and for a timely and safe withdrawal of American troops thereafter.

The key flawed assumptions regard security, reconstruction, and financing.

Where the U.S. goal was to create the stability that would allow a new, free Iraqi people to form a national unity government, today, increasing instability, an incredibly lethal insurgency, and terrorist activity have prevented progress.

Regarding reconstruction, the U.S. goal was to restore oil, water and electricity to pre-war levels and yet that has not happened, leaving the Iraqi population struggling without basic infrastructure.

On financing, the Administration assumed Iraqi oil revenue and international organizations would finance the entirety of Iraqi reconstruction and yet the U.S. taxpayer is footing the bill at a cost if at least $1.5 billion a week.

We have before us today Ambassador Bremer, the man in charge of so many of these original decisions and assumptions and his finance director David Oliver; I want to know from them why such destructive and incompetent decisions were made in the first place when they first arrived in Iraq. We also have SIGIR Bowen; years ago, now, he pointed out the foolishness and the absurdity in many of these decisions, but the Administration did not listen. Today, this Committee will listen and we will act.

But what is most important now is how we act – how we create change in Iraq and bring U.S. soldiers home quickly and safely. President Bush recently appointed Ambassador Timothy Carney as the Coordinator for Economic Transition in Iraq. We invited Ambassador Carney to be here today, to learn from these past mistakes that have taken the lives of too many American soldiers and innocent Iraqis, but the State Department would not allow it. The foolish decision to deny Ambassador Carney the opportunity to learn from these mistakes sadly leads me to believe that the Administration has in no way changed its policy towards Iraq, nor has it learned from its lethal blunders.

I am hopeful we can implore the Administration to listen to us today, but I am saddened, concerned, and angered, on behalf of the honorable soldiers fighting abroad, that it will not.

Chairman WAXMAN. Thank you, Mr. Higgins.

Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman, and I want to thank the ranking member for his help as well. I want to thank the panelists for your willingness to come before this committee and to help us with our work.

Paragraph 14 of the U.N. Security Council resolution directed that the Development Fund for Iraq be used in a transparent manner for the benefit of the Iraqi people. Unfortunately, our claims, at least my colleagues' claims that we did the best we could, those claims are not borne out by the facts.

The truth of the matter is, and a lot of this has been presented by the Special Inspector General Bowen in his report, demonstrates that the most basic safeguards for the 19 billion that we were asked to be custodians of on behalf of the Iraqi people—this is Iraqi money—we did not handle this in a manner that was transparent. We did not handle this money in a manner that was responsible or the way we would hope that our own money and our own taxpayer money would be handled.

When we talk to the contractors on the ground there when they were getting paid at the end of CPA's existence when the interim Iraqi Government was about to be sworn in and taking control, the only instructions they were given with respect to this money was to "bring a big bag." A lot of this money was handed out in cash out of the back of pickup trucks under the direction of the U.N. Security Council, we were supposed to hire certain accountants and to put safeguards in place. That was never done. As a result, it appears that $12 billion was handed out in cash, and there was no one until this year put in charge of the Iraq reconstruction efforts.

This is greatly distressing. I am getting questions from the Iraqi leadership now on my several visits to Iraq about how this could possibly happen. We have been hurt. Our credibility as a country has been hurt. The fact that the American people had to step up and replace this money with their own taxpayer money is also a disaster.

Just to rebut my colleagues on the other side of the aisle, we did not do the best we could. We did not do the best we could under difficult circumstances. We failed in this process greatly, and it is the effort of this committee to find out why.

Thank you, Mr. Chairman.

Chairman WAXMAN. Thank you, Mr. Lynch.

Mr. Sali.

Mr. SALI. Thank you, Mr. Chairman.

Our Nation has devoted billions of dollars to our efforts in Iraq, both for expenses of the war and also the reconstruction of the Iraqi economy. While much progress has been made, progress can be no excuse for fraud or waste. Congress must fulfil its constitutional duty of oversight to ensure that taxpayers' money is not squandered and more importantly that our service men and women get the resources that they need.

I note that cost overruns during a time of war are as old as the Republic. This does not justify financial mismanagement. However, it does underscore the fact that the issues before this committee are not unique. For example, Abraham Lincoln's Secretary of War,

Simon Cameron, was notoriously corrupt. As one historian has written, "Cameron's corruption was so notorious that Congressman Thaddeus Stevens, when discussing Cameron's honesty with Lincoln, told Lincoln, I don't think that he would steal a red hot stove. When Cameron demanded Stevens retract his statement, Stevens told Lincoln, I believe I told you he would not steal a red hot stove. I will now take that back."

Sixty years ago, the Truman Commission found huge quantities of money going to waste or worse in FDR's administration of World War II. By these examples, we are compelled that even if troubling and disgraceful things come to light this week, we cannot let our work devolve into partisan finger-pointing.

Finally, let us remember that Congress' own record on matters of financial management should keep us from pounding the ethical pulpit too stridently. One survey shows that the majority of Americans believe that more than half of all Federal spending is wasteful. For this distinguished committee and indeed all of Congress, that speaks directly and shamefully to the stewardship of the Nation's budget.

Our constituents and all Americans deserve an honest accounting of spending surrounding the conflict in Iraq. That is not in dispute. Where there has been incompetence or malfeasance, it needs to be revealed and more appropriately prosecuted. So let us proceed not with an agenda of retribution but rather the commitment to public integrity, honest inquiry and that often elusive but always needed quality of the truth, and let us apply only the same standard to this administration's stewardship of Iraq's reconstruction as we do to our own work here on Capitol Hill.

Thank you, Mr. Chairman. I yield back.

[The prepared statement of Hon. Bill Sali follows:]

Statement of U.S. Rep. Bill Sali (R-ID)
Hearing on Waste, Fraud and Abuse
In Iraq Reconstruction
House Committee on Oversight and Government Reform
February 6, 2007

Thank you, Mr. Chairman. I appreciate this opportunity to comment briefly at the outset of this important series of hearings.

Over the past several years, our nation has devoted tens of billions of dollars to our military efforts in Iraq, both in terms of the expenses of the war itself and also the reconstruction of the Iraqi economy. While much progress has been made, progress can be no excuse for fraud and waste.

It is imperative for Congress to fulfill its constitutional duty of oversight to ensure that the taxpayers' money is not squandered and, more importantly, that our service men and women are getting all the resources they need.

I also note that cost overruns during a time of war are as old as the Republic. This does not justify financial mismanagement or, worse, graft and unethical conduct. However, it does underscore the fact that the issues before our Committee this week are not unique.

For example, Abraham Lincoln's Secretary of War, Simon Cameron, was notoriously corrupt. As one historian has written, and I quote:

> (Cameron's) corruption was so notorious that Congressman Thaddeus Stevens, when discussing Cameron's honesty with Lincoln, told Lincoln that, "I don't think that he would steal a red hot stove." When Cameron demanded Stevens retract this statement, Cameron told Lincoln, "I believe I told you he would not steal a red-hot stove. I will now take that back."

Sixty years ago, the Truman Commission found huge quantities of money going to waste or worse in FDR's Administration during World War II.

So, even if troubling and disgraceful things come to light this week, we cannot let our work devolve into partisan finger-pointing.

Finally, let's remember that Congress's own record on matters of financial management should keep us from pounding the ethical pulpit too stridently. One survey shows that a majority of the American people believe that more than half of all federal spending is wasteful. For all of us on this distinguished Committee, that speaks directly, and shamefully, to our stewardship of the nation's budget.

Our constituents and all Americans deserve an honest accounting of spending surrounding the conflict in Iraq. That is not in dispute. And where there has been incompetence or malfeasance, it needs to be revealed and, where appropriate, prosecuted.

So, let us proceed not with an agenda of retribution but rather with a commitment both to public integrity and honest inquiry. Let us not look for peevish political advantage but for that often elusive but always needed quality, the truth. And let us apply only the same standard to this Administration's stewardship of Iraq reconstruction as we do to our own work here on Capital Hill.

Thank you, Mr. Chairman.

Chairman WAXMAN. Thank you, Mr. Sali.

Mr. Yarmuth.

Mr. YARMUTH. Thank you, Mr. Chairman. I want to thank you for demonstrating the leadership to hold this hearing and to schedule it promptly.

I also want to thank Ambassador Bremer, Mr. Bowen, and Mr. Oliver to joining us today as we examine the impact of the Coalition Provisional Authority's management and/or mismanagement of the Iraqi reconstruction.

Getting to the bottom of what appears to be egregious and consistent negligence as quickly as possible is, without question, in the best interest of this country. I say that, Mr. Chairman, not because I am anxious to point fingers or place blame but because I do believe the American people have a right to know, to demand a high level of competence from their Government and I think our troops deserve to know what happens to funding that could have been used to create more stable conditions. The young men and women in Iraq courageously fighting in the name of America must be assured that their Government is working with them. The Iraqi people who were told they were liberated should not have to watch their future squandered. While our President escalates this war against the will of the country, we need to at least show our constituents that we know what we are doing.

This hearing, Mr. Chairman, confronts the most pressing issue of our time. I am proud to be a part of this work, and I look forward to shedding some light on past mistakes to prevent future calamity. Thank you for holding the hearings.

I yield back.

[The prepared statement of Hon. John A. Yarmuth follows:]

Statement of Congressman John Yarmuth
Committee on Oversight and Government Reform

Statement on Full Committee Hearings on "The Lasting Impact of CPA Decision-Making on Iraq Reconstruction" and on "Iraqi Reconstruction: Reliance on Private Military Contractors and Status Report"
February 6, 2007

Mr. Chairman, I want to thank you for demonstrating the leadership to hold this hearing and to schedule it promptly. I also thank Ambassador Bremer, Mr. Bowen, and Mr. Oliver for joining us today as we examine the impact of the Coalition Provisional Authority's management and mismanagement of the Iraqi reconstruction.

Getting to the bottom of these egregious and consistent acts of negligence as quickly as possible is, without question, in the best interests of this country. I say that, Mr. Chairman, not because I am so anxious to point fingers or place the blame—though I do believe the American people have a right to demand to know what happened to their money and I think our troops deserve to know what happened to funding that could have been used to create more stable conditions.

But this hearing isn't about the past. Because whether we like it or not—and like most of us, I don't like it at all— we're still in Iraq. The CPA, during its tenure, and the contractors charged with reconstruction, gave us misinformation, mismanagement, and misappropriation. And after 50 billion dollars, we have no reason to believe that things have changed.

Now the President is asking for an additional 1.2 billions dollars. We will support our troops, but we will not be duped into allocating money on luxury trailers and swimming pools—not this Congress, not anymore. This Congress needs some real assurances that things are going to change and soon.

Some of the answers we already know. Billions of dollars were handed out in cash without proper documentation. People with a dearth of qualifications but a wealth of political connections were hired into positions of great responsibility. Unnecessary extravagances were pursued for those in charge rather than tending to the needs of the Iraqi people—food, electricity, an Iraqi military that could capably take the torch from our armed forces. What we need to find out today is why? And more importantly what must be done to avoid these abuses from EVER happening again.

Because the young men and women in Iraq, courageously fighting in the name of America must be assured that their government is working with them. The Iraqi people who were told they were being liberated should not have to watch their futures squandered. And while our President escalates this war against the will of the country, we need to at least tell our constituents that we can account for their tax dollars.

This hearing, Mr. Chairman, confronts the most pressing issue of our time. I am proud to be a part of this work and I look forward to shedding some light on past indiscretions to prevent future calamity. Thank you.

Chairman WAXMAN. Thank you very much.

Mr. Marchant. He is not here.

Mr. Turner.

Mr. TURNER. Thank you, Mr. Chairman.

I think it is important that this hearing is being held, and I think it is also important that people have noted that this committee under Chairman Davis' leadership had held 20 previous hearings on the issue of Iraqi reconstruction and oversight.

One thing that is clear in looking at all of the written testimony and the issue that we have before us is that this does not meet our American standards of what we expect for the conduct of an American-led operation.

Now I was not here when this Congress voted to provide authority to go into Iraq. In fact, over 70 members of the Republican conference were not here. I have, however, been here to support this effort and to support the men and women in uniform who are there, as have many people. I have traveled to Iraq twice, and I have traveled to Afghanistan twice. What troubles me is not our efforts to undertake review of where things have been done inappropriately or improperly as that it is always expanded into areas that I think undermine our ongoing effort and the morale of our men and women who are there.

Now it is clear from the report that we have in front of us that this does not meet our standards. It says the Coalition Provisional Authority approach to managing development funds for Iraq may have been sufficient if the Coalition Provisional Authority had some assurance that the Iraqi ministries had controls in place to effectively manage the disbursement of funds. Clearly, it has resulted in an impact on our being able to achieve our goals, on our reputation and on the Iraqi people. That does not meet the American standards. However, that is not an issue where we should go all the way to the extent of making statements that go to weaken America or to weaken our efforts and to support our men and women in an ongoing conflict.

It is important that we have this oversight. It is important that we find out what occurred and how we should improve it and the sources of those problems, some of which appear to be the qualifications of those who were in charge and some of those appear to be the processes that were in place. But this is not the place to continue to try to undermine what is an ongoing conflict with our men and women in uniform today whose families are watching and who are concerned for their safety. We should be committed to the ongoing processes that they meet American standards. We should not undermine our own country.

Chairman WAXMAN. Thank you. The gentleman's time has expired.

Ms. McCollum.

Ms. MCCOLLUM. Mr. Chairman, in March of this year, American troops and Iraqi citizens will start year five of this deadly war of choice. Iraq has devolved far beyond invasion, occupation and even civil war. It is now a horrific cauldron of death perpetrated by insurgents, militias, death squads and terrorists. America's troops and innocent Iraqis are trapped in the middle.

Today, we will examine the CPA's contribution to the incompetence, deception and negligence that are the hallmark of President Bush's Iraq policy. In the Iraqi war zone, some $38 billion U.S. taxpayer dollars has been appropriated, and much of it was spent on so-called reconstruction. The very concept of reconstruction in a war zone itself is an oxymoron. In addition to the funds Congress approved, over $20 billion of Iraqi funds were spent by the CPA, including $8 billion that cannot be accounted for.

What have been the consequences for U.S. troops of dumping $8 billion into Iraq's deadly stew of insurgents, terrorists and militias?

Did anyone, our intelligence agencies, State and Defense Departments, consider this a risky or dangerous idea?

To me, it is beyond comprehension, but it now appears possible that some of the CPA's unaccounted for cash eventually found its way into the hands of insurgents, militias or terrorists, possibly funding future attacks against our own troops.

Mr. Chairman, this Congress will not step aside. We will not abdicate our responsibilities for oversight. There will be no more rubber-stamp appeasement of a President in the name of political loyalty. Nearly 3,100 Americans have sacrificed their lives in Iraq. Over 20,000 more have sacrificed their bodies. Last year, 34,000 innocent Iraqis died violent deaths. Nearly 100 civilians are killed every single day of the year.

Mr. Chairman, thank you for providing this committee, the opportunity to ask the tough questions because the American people and our troops deserve the answers.

Thank you, Mr. Chairman.

Chairman WAXMAN. The gentlelady's time has expired.

Mr. McHugh.

Mr. MCHUGH. Thank you, Mr. Chairman.

The previous speaker mentioned trying to appease President Bush. We have to be very careful when we have these types of hearings, that we won't appear to be appeasing those who would do us in, and that is why I think these hearings are important so that it is very clear that the American people stand squarely behind our troops and what their goals are.

I have had an opportunity to visit Baghdad. I met with Mr. Bremer when I was over there. You know he had an extremely difficult job. In that kind of a climate that he was in, it is inconceivable to me that the things that he got accomplished could have been accomplished with perfection. Mistakes were made. There is no question about that. But I think under the circumstances, the job that he did and his compatriots did over there was good. Now if we find shortcomings in these hearings that can make sure that these things don't happen in the future, great, but mistakes are always made when you are in a conflict.

I would like to remind my colleagues that George Washington, his contemporary generals wanted him removed from power because he hadn't won any battles. It wasn't until he crossed the Delaware and attacked the Hessians at Trenton on Christmas morning that the thing started turning around and he became the father of our country. People don't remember that.

Abraham Lincoln's first general was George McClellan. McClellan wouldn't fight, and so Lincoln replaced him. McClellan was

running against him for reelection and because the war was going so badly and everybody said it was terrible, it was a sure thing Lincoln was going to be defeated until things turned around. Grant took Richmond, and other things took place. Then Lincoln was popular, and he went back up, and he was reelected President.

Every single war that you have that goes on for any period of time, the President, the administration in power is going to be criticized because people tire of war, but we must remember history and that war is hell. The people that are conducting it are really going to be the ones that bear the brunt of that, either good or bad. Sometimes when you are going through this, you just have to live it out. You have to stick it out.

We are in a war against terrorists, a worldwide war, and in my opinion it is one that we must win.

Finding fault and finding things we should correct is fine, but to just have a blame meeting isn't, in my opinion, constructive.

Chairman WAXMAN. The gentleman's time has expired.

Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Mr. Chairman, and thank you for holding these hearings and conducting this oversight which I think is absolutely essential in order to both assure greater accountability but also to learn the lessons of the past we move forward in Iraq. I do believe that if this Congress as a whole had done a better job of oversight over the past many years, we might have avoided some of the problems and mistakes that we have encountered.

The situation, as we know, is not getting better. We just had a national intelligence estimate that represents the consensus of the intelligence agencies that the situation is dire and deteriorating. Therefore, I think it is particularly of concern the Bush administration appears to continue to resist the notion of allowing this Congress to do its oversight job by not allowing Tim Carney to testify before this committee.

I just want to say, Mr. Chairman, I think if you look at the record, we can understand why they didn't want him here today. He went to Baghdad in April 2003. He left 2 months later, disgusted and disillusioned, according to a Washington Post story of January 14, 2007. He believed that the U.S. occupation administration in Iraq, the CPA, placed ideology over pragmatism. He was particularly concerned with the proposals for de-Ba'athification and issues regarding what he believed inadequate attention to repairing Iraqi infrastructure.

As we know, he was recently tapped to be sent back to Iraq, an admission, I think, by the administration that many of the earlier decisions taken were wrong. So it seems to me it would have been very beneficial for the committee to have him here today to understand his original concerns back in 2003 and learn from him what he expects to do differently going forward.

Again, it is a sign that this administration is not taking this Congress seriously with respect to our job in oversight. They are thumbing their nose at the Congress. They got used to a blank check, and they still want a blank check.

I hope, Mr. Chairman, that we will persist in ensuring that we receive his testimony. Thank you.

Chairman WAXMAN. Thank you, Mr. Van Hollen.

Mr. Bilbray.

Mr. BILBRAY. Yes, Mr. Chairman. Mr. Chairman, I would like to thank my California colleague, the chairman, for holding this hearing.

I think it is quite appropriate we investigate in depth the use of the funds from the Development Fund for Iraq, and it is quite appropriate because this is the successor to the notorious U.N. Oil for Food program, one of the most corrupt programs that I can remember and I think any of us would admit not only didn't do the job and not only wasted funds but actually financed to a large degree exactly the opposite of what was intended. So I think it is appropriate we hold this and see it in the perspective of where we have been, what was being done back in the nineties when I was previously serving in the House and how it evolved into where we are today.

I would like to just remind my colleagues the great problem with this program and its failure is not in the waste of money and is not in the expenditure and not even in the corruption if the corruption is there. The greatest damage done here, ladies and gentlemen, is to the perception to the world and the people in this part of the world that maybe Americans can't do everything that they set their heart out to do.

I don't know how many of you spend very much time outside of this country, but one of the perceptions that helped us win the cold war was the Soviet Bloc really did come to the conclusion that Americans do whatever they set their mind to do. So why call their bluff and try to fight them. Let us work with them.

That perception has been destroyed in the Middle East because we did not get the electricity on, the water on, the sewer running. We did not get the infrastructure in, and we did not have the ability either for fault or by reality to do what they thought we could always do because Americans can do anything.

I would just ask to remind us that we do have a very high standard and perception around the world. That standard might have been hurt severely by this war, but I think we also have to remember that we will never be able to raise that standard back up unless we stop being quick to judge and tear down and look at the fact that the rest of the world doesn't see you as Democrats, us as Republicans. They see all of us as Americans, and we will be judged on our success.

So let us use this hearing to try to build on that success and get back the feeling in America and send it to the rest of the world that Americans can do anything we want to do if we pull together.

I yield back, Mr. Chairman.

Chairman WAXMAN. Thank you, Mr. Bilbray.

Mr. Hodes.

Mr. HODES. Thank you, Mr. Chairman, for holding this hearing on the impact of CPA decisionmaking on Iraq reconstruction. I also thank the ranking member.

I look forward to hearing from Mr. Bremer and the rest of the witnesses.

From the reading I have done and the course of events we have experienced, we have a situation in Iraq that is devolved into chaos and bloodshed which is a cancer on the body politic. It seems rea-

sonable to conclude that the failure of the administration to conduct appropriate post-conflict reconstruction and management contributed significantly to the chaos and disaster we are experiencing.

There was a short window following the bombing and invasion in which we had to demonstrate that we could restore basic services, preserve existing institutions, create new ones and set the proper course for success in Iraq. It was up to American officials in charge to plan and execute a reconstruction strategy. At the very least, the American and Iraqi people deserved people experienced in post-conflict reconstruction and management, people with good knowledge about Iraq, its diverse people, its history and its culture. Instead, it appears that arrogance and incompetence were the hallmarks of attitudes and standards.

I am curious about what it was that Mr. Bremer, a man who had never been to Iraq, never led reconstruction efforts, could have been put in charge of the most important civil reconstruction program since the Marshall Plan. I want to know why half of the CPA staff had never worked outside the United States and had to get their first passport in order to travel to Iraq. I am curious to know why senior civil servants from agencies such as the Treasury, Energy and Commerce Departments were passed over in favor of recent college graduates with no experience in financial management, and they were put in charge of Iraq's $13 billion budget. It is critical that we get answers to these questions and those surrounding the disbursal of Iraqi money.

The President has just asked us for another $3.5 billion for Iraq reconstruction. How much more do the American people and the Iraqi people have to pay in dollars and in lives before the cycle of incompetence, corruption and cronyism ends?

If we are to achieve security and stability in Iraq, we need to finally learn from past mistakes and engage in an honest, transparent and efficient reconstruction program.

I appreciate the opportunity to have this hearing. I look forward to hearing from the witnesses so we can get some answers that may help us bring some stability to Iraq.

Thank you, Mr. Chairman.

Chairman WAXMAN. Thank you, Mr. Hodes.

Mr. Murphy.

Mr. MURPHY. Thank you, Mr. Chairman.

Occasionally, you hear from Members of this Congress and members of this administration that those that might question or investigate the premises and conduct of this war somehow don't support the brave men and women that are over there. Let me just share a story from my district that I think can be told 1,000 times over throughout this country.

I knocked on the door of a woman, during the campaign, whose son is going back for his second tour of duty in Iraq. He has two young kids. Though he personally opposes the war as does his family, he feels that it is his duty to not only his country but his fellow soldiers to be there and to support those efforts. What bothers her the most and in fact bothers the family the most is not just that we went into this war upon false premises but that once there, our military and our occupational infrastructure so badly mismanaged

the mission of occupation and reconstruction, that this country, Iraq, plunged into an unnecessary chaos that frankly is going to put her son in even graver jeopardy than he otherwise would have been.

I don't know if there is any answer to that woman or the thousands who ask those same questions around this country. With billions in unaccounted for cash-flowing through the CPA, it is hard to imagine that there is a satisfactory answer. But it is our duty to those families and to those brave men and women that are there to ask the questions that we are asking today, and I thank the chairman for holding this hearing.

Mr. Bremer, I remember reading your comments to the press when you said that we never had enough troops on the ground from the start, and I was frankly impressed by your courage to speak so candidly about an administration that too often treats its critics like its enemies. I hope you display the same type of candor today, and I look forward to your testimony and to the testimony of this panel.

I yield back, Mr. Chairman.

Chairman WAXMAN. Thank you, Mr. Murphy.

Mr. Sarbanes.

Mr. SARBANES. Thank you, Mr. Chairman, for holding this hearing today.

I am pleased that we are asking the tough questions about the administration's planning and prosecution of the war and the concurrent effort to rebuild Iraq. The climate created when ideological arrogance substitutes for sound and careful analysis is one that nurtures incompetence and usually leads to disastrous results.

The evidence is overwhelming that the administration's plan to reconstruct and establish governance in post-Saddam Iraq was rife with faulty logic and bad assumptions. Execution of the plan exposed our soldiers to increased risk and has resulted in the most tragic consequence, unnecessary loss of human life. The financial toll and impact on America's reputation abroad has also been enormous.

This administration's decisionmaking process in Iraq and as a general matter has all too often relied on the smallest group of insular advisors, ignoring military and foreign policy experts if their advice runs contrary to a prejudiced political ideology. Excluding dissent may result in a unified message but very often leads to poor decisions based on flawed information. The consequences of this can be seen every day in the continued instability and violence in Iraq.

Mr. Chairman, as America's civilian liberators descended upon Baghdad, something went terribly wrong. There was a vacuum of order and careful planning and sound judgment. The hearing today is to understand where the failures occurred, to demand accountability and to ensure that going forward these same mistakes are not repeated.

I thank you for holding today's hearing. I look forward to hearing from the panel.

[The prepared statement of Hon. John P. Sarbanes follows:]

Congress of the United States
Washington, DC 20515

Statement of Congressman John Sarbanes at the Oversight and Government Reform Committee hearing on "The Impact of CPA Decision-Making on Iraq Reconstruction."

Tuesday, February 6, 2007, 10am, in 2154 Rayburn House Office Building

Mr. Chairman, I want to thank you for holding this hearing today. I am pleased that we are finally asking the tough questions about the Administration's planning and prosecution of the war and the concurrent effort to rebuild Iraq.

The message from the American people is clear. They believe, rightly, that our troops have performed remarkably. But they also believe that the mission they have been given is an impossible one. There is a growing consensus that it is time to remove the troops from harm's way.

The climate created when ideological arrogance substitutes for sound and careful analysis is one that nurtures incompetence and usually leads to disastrous results. The evidence is overwhelming that the Administration's plan to reconstruct and establish governance in post-Saddam Iraq was rife with faulty logic and bad assumptions. Execution of the plan exposed our soldiers to increased risk and has resulted in the most tragic consequence: unnecessary loss of human life. The financial toll and impact on America's reputation abroad has also been enormous.

This Administration's decision making process, in Iraq and as a general matter, has all too often relied on the smallest group of insular advisors, ignoring military and foreign policy experts if their advice runs contrary to a prejudiced political ideology. Excluding dissent may result in a unified message but very often leads to poor decisions based on flawed information. The consequences of this can be seen every day in the continued instability and violence in Iraq.

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Contact: Pia Carusone, 202-225-4016

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Chairman WAXMAN. Thank you, Mr. Sarbanes.

Mr. Welch.

Mr. WELCH. Thank you, Mr. Chairman.

This hearing is really focusing responsibility where it belongs, and that is on civilian leadership. The fact of the matter is that our military has done its job. When they were sent to war by the President, the President wanted them to topple Saddam, they did; search for weapons of mass destruction, they reported back honestly, they didn't exist; and to allow Iraq to have Democratic elections and they have had three.

What has never been done is for the civilian leadership to do what it is the responsibility of that civilian leadership to do, and that is to have a plan, a realistic mission, one that is appropriate for a military and requires the people of America to engage in the effort that is defined. The President now is talking about political stability in Iraq. What we know is that there never, ever was a plan.

We have Mr. Bremer and others who are here. The questions will have to do with waste, fraud and abuse, decisions to disband the Baathist Army and so on. But the reality is, and we all know this, the people that were sent to Iraq went without a plan. They had to wing it. They made decisions on the fly, so much so that they literally were handing out tons of cash from the backs of pickup trucks.

The accountability that the American people deserve should focus where it belongs, and that is on the civilian leadership that from the moment that the invasion began never had a plan for the postfall of Saddam efforts that would be required to stabilize Iraq.

Mr. Chairman, I thank you for convening these hearings to allow us to have a long overdue inquiry into the civilian mismanagement of this war.

Chairman WAXMAN. Thank you, Mr. Welch.

Mr. Braley.

Mr. BRALEY. Thank you, Mr. Chairman and Ranking Member Davis.

As we begin these important hearings, it is important to remember that in 2005, Congress expressed in clear terms in the National Defense Authorization Act for fiscal year 2006 that calendar year 2006 should be a period of significant transition to full Iraqi sovereignty with Iraqi security forces taking the lead for the security of a free and sovereign Iraq, thereby creating the conditions for the phased redeployment of U.S. forces in Iraq.

2006 has come and gone. The Iraqi security forces are not taking the lead for the security of a free and sovereign Iraq, and instead of progressing toward a phased redeployment, the President has escalated our troop levels in Iraq.

Like Congress, the Special Inspector General for Iraq Reconstruction [SIGIR] considered 2006 to be a "Year of Transition." Yet, the SIGIR recently released review of that "Year of Transition" highlights grave areas of concern for the Reconstruction of Iraq: In 2006, Iraq crude oil production continued to lag significantly below targets. In 2006, demands for electricity greatly exceeded capacity. The capacity of Iraq's ministries to execute their budget remains weak. By August 2006, the Government of Iraq had executed only

43 percent of its budget. Despite billions of dollars in investments funded by U.S. taxpayers, the Government of Iraq has been unable to protect its infrastructure, particularly in the areas of electricity and oil pipelines. Finally, the security situation continues to deteriorate, and the effectiveness of the Iraqi Security Forces remains "a significant concern."

We are here today to examine how we got to this point and discuss lessons learned from our past mistakes and successes. A senior Department of Defense official has stated: The U.S. Government was not systemically structured to execute overseas reconstruction and stabilization programs when planning for managing post-war Iraq.

We are here to find out why and make sure that our future planning for Iraq does not suffer from similar limitations.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Bruce L. Braley follows:]

BRUCE L. BRALEY
1ST DISTRICT, IOWA

1408 LONGWORTH HOUSE OFFICE BUILDING
202-225-2911

Congress of the United States
House of Representatives
Washington, DC 20515–1501

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1. In 2006, Iraq Crude Oil Production continued to lag significantly below targets.
2. In 2006, demand for electricity greatly exceeded capacity.
3. The capacity of Iraq's ministries to execute their budgets remains "weak." By August 2006, the Government of Iraq had executed only 43% of its total budget.

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4. Despite billions of dollars in investments funded by U.S. taxpayers, the Government of Iraq has been unable to protect its infrastructure, particularly in the areas of electricity and oil pipelines.

5. The security situation continues to deteriorate, and the effectiveness of the Iraqi Security Forces remains "a significant concern."

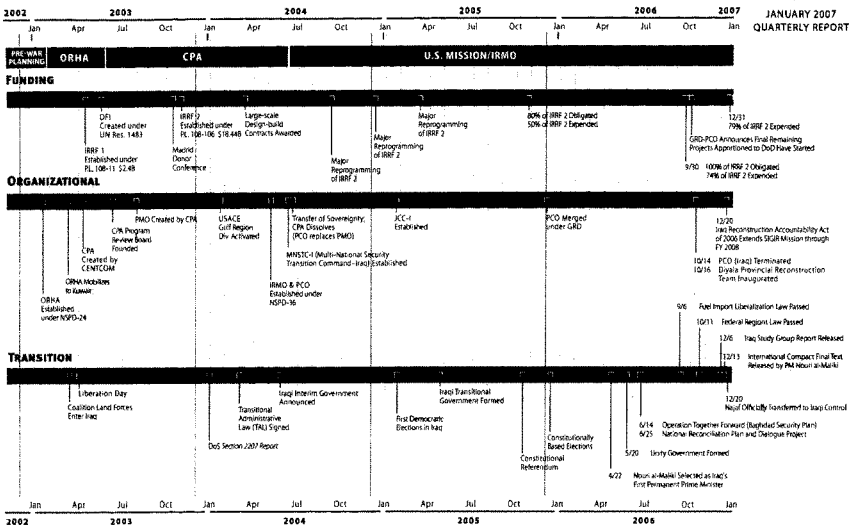
We are here today to examine how we got to this point, and discuss lessons learned from our past mistakes and successes. A senior Department of Defense official has stated that "the U.S. government was not systemically structured to execute overseas reconstruction and stabilization programs" when planning for managing post-war Iraq began. We are here to find out why, and to make sure that our future planning for Iraq does not suffer from similar limitations.

I look forward to the testimony from the witnesses who will be appearing before the committee this week on this important topic.

SIGIR SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION
www.sigir.mil
email: PublicAffairs@sigir.mil
(703) 428-1100

IRAQ RECONSTRUCTION TIMELINE

JANUARY 2007
QUARTERLY REPORT



2006: YEAR OF TRANSITION IN REVIEW

SIGIR ACTIVITIES IN 2006

SIGIR AUDITS

INSIGHT, FORESIGHT, OVERSIGHT

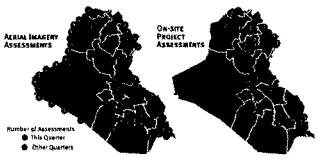
Issued 42 audit products to improve the transparency, efficiency, and effectiveness of the management of Iraq relief and reconstruction.

Promoted accountability, rule of law, and public trust in Iraq.

Focused on the end-state: the cost to complete U.S. projects, the sustainment and transition of U.S.-funded projects to the Government of Iraq (GOI), and building the capacity of Iraqi ministries and Iraqi Security Forces.

SIGIR INSPECTIONS

Approximately 70% of the projects that SIGIR inspected in 2006 were in compliance with contract specifications.



SIGIR INVESTIGATIONS

SIGIR is currently working on 78 cases. Investigations have resulted in 5 arrests and 4 convictions. Another 23 await prosecution.

SIGIR is a member of the International Contract Corruption Task Force (ICCTF).

The ICCTF has identified 36 cases. SIGIR has contributed 9 cases to the effort.

MEMBERS OF THE ICCTF

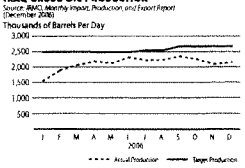
SIGIR
U.S. ARMY CID, Major Procurement Fraud Unit
DoS OIG, Criminal Investigations Directorate
USAID OIG
DCIS (DoD IG Defense Criminal Investigative Service)
Federal Bureau of Investigation

IRAQ RECONSTRUCTION AT A GLANCE: 2006

In 2006, oil production continued to lag below targets.

IRAQ CRUDE OIL PRODUCTION

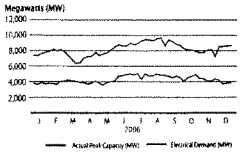
Source: IRMO, *Monthly Import, Production, and Export Report* (December 2006)



In 2006, demand for electricity exceeded capacity.

ELECTRICAL DEMAND VS. CAPACITY

Source: IRMO, *Weekly Status Report* (12/14/2005 - 12/26/2006)



CONTINUING CONCERNS

- Does the GOI have the capacity to operate and maintain IRRF projects?
- Has the GOI budgeted for operations and maintenance (O&M) of IRRF projects?
- Does the GOI have a plan to address infrastructure security?

CHALLENGES TO INFRASTRUCTURE TRANSITION

OPERATIONS AND MAINTENANCE

The U.S. strategy to train and assist the GOI on O&M remains unclear, and the GOI lacks sufficient capacity to operate and maintain facilities.

GOI BUDGET

The capacity of Iraq's ministries to execute their budgets remains weak. In August 2006, the GOI had executed only 43% of its total budget.

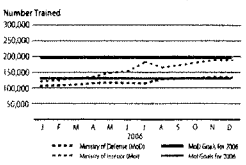
INFRASTRUCTURE PROTECTION

Despite significant investment, Iraq has been unable to protect its infrastructure: electricity towers and oil pipelines are continually interdicted.

The security situation continues to deteriorate, and the effectiveness of the Iraqi Security Forces remains a significant concern.

SECURITY FORCES TRAINED AND EQUIPPED

Source: IRMO, *Weekly Status Reports, 2006; 9010 Report* (February 2006)



FOR INFORMATION on all SIGIR work, including the full text of all final audit and inspection products, see the SIGIR website: **http://www.sigir.mil.**

Chairman WAXMAN. Thank you, Mr. Braley.

Mr. Davis.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Chairman.

I want to thank you for holding this hearing, and I am certain that the American people will thank you also because there is much too little known about what the needs are, what has happened in Iraq and have we spent our money and used our resources as wisely, as broadly, as prudently as possible. I am sure that this hearing will shed some light on these questions, and I want to thank you for the opportunity to raise them, and I look forward to the testimony of the witnesses.

I yield back.

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

Mrs. Maloney.

Mrs. MALONEY. Thank you, Mr. Chairman and ranking member for having this hearing.

In January 2005, the Special Inspector General for Iraq Reconstruction issued a report stating that more than $8.8 billion was unaccounted for. This will be the first hearing that will go into depth to try to find some answers as to what happened to $8.8 billion. It is Iraqi money, but I would say that if we had been better stewards of the Iraqi money, then we would have earned their trust and support and we would not be spending so much of the American taxpayers' money. It is astonishing the reports that we have read, the total lack of standards for the handling of billions and billions of dollars.

My question today to the Special Inspector General Bowen is: Was there any accountability for the $20 billion in funds used by the CPA? There are allegations of last minute CPA spending sprees, allegations that there was no physical security for the cash, allegations that there was a total indifference to any accountability and transparency. To me, it is astonishing that we could have $8.8 billion that is not accounted for.

I hope that Chairman Waxman lives up to his reputation of not stopping until you get the answers as to what happened.

I would just like to conclude that as we speak and hold this meeting, the President is now asking the country and the Congress to support his request for an additional 21,000 troops and billions and billions more in new funds for the war. I would like to hear if the administration has learned any lessons from the last 4 years, and I would like to know what accountability, oversight and management has been put in place to manage the dollars of America. We should manage the dollars of Iraq just as prudently as we would our own, and I would venture that if we had done a better job, we would be in a better position today.

I look forward to all of your testimonies, and I would like to learn as to what happened to these billions of dollars that were intended to help Iraq rebuild.

Thank you. I yield back.

Chairman WAXMAN. Thank you, Mrs. Maloney.

Mr. Delahunt.

Mr. DELAHUNT. No questions.

Chairman WAXMAN. We now come to the testimony of our witnesses, and I would like to introduce our distinguished panel.

We are pleased to have Ambassador Paul Bremer who was the Administrator of the Coalition Provisional Authority in Iraq from May 2003 to June 2004. He previously served as Ambassador to the Netherlands and Ambassador at Large on Counterterrorism. He has not testified before Congress since he left Baghdad in 2004, and the committee appreciates his willingness to be here today and to shed some light on some of the questions that we have for him.

Mr. Stuart Bowen is the Special Inspector General for Iraq Reconstruction. He has served in that position since January 2004. His office oversees obligations and expenditures for reconstruction and rehabilitation activities in Iraq. Mr. Bowen has issued more than 80 audits and other reports, and his office has more than 70 open investigations including two dozen under investigation by the Department of Justice.

David Oliver was the Budget Director for the Coalition Provisional Authority in Iraq for 6 months in 2003. Previously, Mr. Oliver served as a Rear Admiral in the U.S. Navy and as Under Secretary of Defense for Acquisition, Technology and Logistics. Mr. Oliver is currently the Chief Executive Officer of EADS, North America Defense.

It is our privilege to have all of you here. It is customary in this committee to swear in all witnesses, and I would like to ask you to stand and take an oath.

[Witnesses sworn.]

Chairman WAXMAN. The record will reflect that each of the witnesses answered in the affirmative.

Your prepared statements will be in the record in their entirety.

I want to begin with Ambassador Bremer.

STATEMENTS OF AMBASSADOR L. PAUL BREMER, FORMER ADMINISTRATOR, COALITION PROVISIONAL AUTHORITY; STUART W. BOWEN, JR., SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION; AND DAVID R. OLIVER, JR., FORMER ADVISOR, IRAQ MINISTRY OF FINANCE AND FORMER DIRECTOR OF MANAGEMENT AND BUDGET, COALITION PROVISIONAL AUTHORITY

STATEMENT OF AMBASSADOR L. PAUL BREMER

Mr. BREMER. Thank you, Mr. Chairman, for this opportunity to meet with the committee.

I appear on my behalf but also on behalf of the thousands and men and women who served with the CPA. They were all volunteers who left their families and risked their lives to work in Iraq under difficult and dangerous conditions.

I also want to pay tribute to the courage of the men and women in our Armed Forces, more than 3,000 of whom, as we have heard this morning, have given their lives in Iraq. We Americans and the Iraqi people are in their debt.

Mr. Chairman, let me say at the outset that I understand and share the frustration Americans and members of this committee feel about the violence we see every day in Iraq. It has certainly proven to be a much more difficult task than we anticipated.

Let me begin by noting that the subject of today's hearing is the CPA's use and accounting for funds which belong to the Iraqi peo-

ple held in the so-called Development Fund of Iraq [DFI]. These are not appropriated American funds available for use in the United States. They were Iraqi funds. Despite the chaotic situation we found on the ground in Iraq, Mr. Chairman, I believe the CPA discharged its responsibilities to manage these Iraqi funds on behalf of the Iraqi people.

Now I acknowledge that I made mistakes and that with the benefit of hindsight I would have made some decisions differently, but on the whole I think we made great progress under some of the most difficult conditions imaginable including putting Iraq on the path to democracy. As you consider the actions of the CPA, I respectfully request that you keep this in mind. I am proud of what we achieved, and I hope that after today's hearing, Members will understand what we faced and what we accomplished.

It is difficult, Mr. Chairman, to give a full picture of the desperate situation in Iraq in May 2003. The country was in chaos socially, politically and economically. The deep crisis had been brought about not by war, not by sanctions but by decades long corruption and incompetence of the Saddam regime. Among many shocking data, for example, during the 1990's, Saddam Hussein cut health care spending by 90 percent, 9–0 percent. No new hospitals had been built for 20 years. Half of the country's public health clinics were closed.

Even before the war, unemployment was running at 50 percent. Iraq's primitive banking system was shut down. The banks had no system for electronic transfer of funds. This was a cash-based economy. At the end of 2002, inflation was running at 115,000 percent.

In mid-2003, two reports, one by the GAO and the other by President Clinton's former Deputy of Defense, Dr. John Hamre, each compared the CPA's task to those faced by the allies at the end of the Second World War. The Special Inspector General for Iraq added, "There is no known precedent for an effort to manage the reconstruction of a nation on such a vast scale in the midst of danger and violence."

To deal with this crisis, Mr. Chairman, the CPA had the services of over 3,000 volunteers from 25 countries. Contrary to some reports, this was a remarkable and experienced group of men and women as I show in an attachment to my full statement. It was an honor to serve with them. Our top priority was to get the economy moving again. The reconstruction proved to be harder than anticipated because, as some members pointed out, pre-war planning had not anticipated the difficulty of the tasks we faced.

The first step was to get money into the hands of the Iraqi people as quickly as possible. Under Saddam Hussein, the Iraqi Government had been by far the country's largest employer, providing about four out of five of all jobs. But for several months since before the war, millions of Iraqi families had not received money owed them for civil services salaries or pensions. We used the Iraqi funds that are the subject of today's hearing to pay the Iraqis quickly.

This was exceptionally difficult at first because the Iraqi ministries lacked good payroll records. Ideally, we would have liked to put those records straight before paying the salaries and pensions, but as often in Iraq, the ideal collided with the harsh realities on

the ground. We simply could not delay paying salaries and pensions, delays would have been demoralizing and unfair to the millions of Iraqi families, and it might well have exacerbated danger to the American soldiers on the ground.

Using the Iraqi funds to pay the Iraqi families was further complicated by the lack of an effective banking system. As I mentioned, the banks were closed and in any event were unable to transfer funds electronically. So we had to pay Iraqis in cash wherever in Iraq they lived.

We also immediately put these Iraqi funds to work on large public works programs to create jobs, and we continued to pay the Iraqis who had been employed in the state-owned enterprises even after those enterprises were closed down. Due to a shortage of Iraqi currency, many of these expenses were paid in American dollars drawn from the Iraqi fund account.

Let me turn to the question of the CPA's management of these Iraqi Government funds. My colleagues and I, Mr. Chairman, fully understood and accepted our responsibility for the temporary stewardship of these Iraqi moneys. We took seriously our charge to operate in an open and transparent fashion and to use these Iraqi funds in the best interests of the Iraqi people. We always strived to meet those objectives, and where we may have fallen short, I accept responsibility.

I understand the committee's concern about the manner in which contracts were awarded using Iraqi funds, but it is important to remember that although as Administrator, I accept full responsibility for the missions assigned to the CPA, I did not have the authority over the awarding of contracts. This rested with the Department of Army.

Let us be clear about what we are talking about today before we start. Some press stories and some of the statements by the Members imply that the Special Inspector General's January 2005 report found that the CPA wasted or stole Iraqi funds. Yet, when he appeared before this very committee in June 2005 to discuss his audit report, the Special Inspector General stated, "There have been some misinterpretations about exactly what we said, so let me be clear about what the audit did not say. It did not say the money was lost. It did not say the money was stolen. It did not say the money was fraudulently disbursed by U.S. authorities."

Indeed, the Special Inspector General and the United States, United Nations each concluded the CPA had properly disbursed Iraqi funds from the Development Fund to the Iraqi ministries. The core difference between the Special Inspector General and the CPA turns largely on how the Iraqis handled the money, their money, after we disbursed it to those ministries, for the Special Inspector General's report implies that we should have gone much further, seeking to impose modern or in some cases, some Members have suggested American financial control systems on the disbursement of these Iraqi funds by Iraqi ministers themselves—this, in less than a year on a failed state in the middle of a war.

Mr. Chairman, I know of no person who spent meaningful time in Baghdad working with the Iraqi ministers, ministries who thought this was possible in the conditions under which we worked. Hereto, as so often in Iraq, the ideal clashed with the reality we

faced. We had to find a way to get the Iraqi people's money working quickly for them rebuilding their country. As was the case with salaries and pensions, we could not wait to install modern financial systems in the ministries.

A team of experts from the International Monetary Fund came and found that the existing Iraqi systems were adequate and recommended we use them while beginning the longer term process of modernizing those systems. We agreed, and so disbursements from the Iraqi Development Fund were made to the Iraqi ministries according to the procedures and controls spelled out in CPA regulations. The ministries used the existing Iraqi systems to carry out their responsibilities for the proper use of those funds.

It was not a perfect solution, but Mr. Chairman, there are no perfect solutions in Iraq.

Let me say in addition, Mr. Chairman, that during my time in Baghdad, I regularly visited these ministries, the Ministry of Finance, Ministry of Planning, the Central Bank. I saw first hand the primitive systems which Iraqi civil servants were struggling with. Most ministries did not even have computers but kept their records on handwritten spreadsheets. While I am not, certainly not a financial expert, my personal observations convinced me that the experts from the International Monetary Fund were correct that we could not expect rapidly to modernize those systems in the middle of a war.

But there was also a political dimension to our decision to use these existing Iraqi financial systems for the control of Iraqi funds once they were disbursed. The Coalition's strategy and indeed the intent of the international community expressed in several U.N. resolutions was to give the Iraqis responsibility quickly. This was, after all, their money to be used for the benefit of the Iraqi people. When Iraqi ministers were appointed by the Iraqi on September 3, 2003, I made clear to the ministers that it was their responsibility to develop and execute their ministry budgets.

My colleagues and I were, of course, acutely aware of the risks of corruption. Corruption had been encouraged, one could say even institutionalized under Saddam Hussein, particularly in the Oil for Food program which has already been touched on. So we took efforts to combat corruption. We established the independence of the Iraqi judiciary. We appointed inspectors general in every Iraqi ministry, revitalized an old respected Iraqi audit agency and set up a national commission to which any Iraqi can bring charges of fraud or waste. Of course, these institutions alone in a short time cannot abolish corruption, but a start has been made.

Mr. Chairman, I commend the committee's intention to see what lessons can be learned from this experience, and I would offer several briefly for your consideration before we turn to questions.

First, there is no substitute for good planning. We heard how the planning before the war was inadequate. I agree. The executive branch has taken steps in the last couple of years to improve its ability to cope with post-conflict situations, and I hope Congress will support these where appropriate.

Second, as I explained in my longer statement, a business as usual approach to both contracting and personnel severely hampered our ability to begin the massive job of reconstruction. The

Special Inspector General has developed useful ideas for processes in both these areas, contracting and personnel, which I commend to the attention of the committee.

Thank you.

[The prepared statement of Ambassador Bremer follows:]

Statement of the Honorable L. Paul Bremer, III
before the Committee on Oversight and Government Reform
U.S. House of Representatives

February 6, 2007

Mr. Chairman, members of the Committee, thank you for allowing me this opportunity to appear before your committee today to discuss the activities of the Coalition Provisional Authority (CPA) for Iraq. It was my privilege to serve as Administrator to the CPA from May 2003 until June 2004, when sovereignty was returned to the Iraqi people.

I am particularly pleased to appear before you not only on my own behalf, but also on behalf of the thousands of men and women who served with the CPA and with whom I had the privilege of working. There were more than 3,000 people at the CPA, representing 25 different countries, and all of these brave volunteers came to Iraq and worked tirelessly and often thanklessly in the middle of a war to begin the rebuilding process. I can attest to their putting in 18-20 hours of work a day, seven days a week, and I would like the Committee to know that all of them sacrificed a great deal in their efforts to help rebuild Iraq.

When I arrived in Iraq soon after the fall of the Saddam regime, I encountered conditions nothing short of devastating. The country was socially, politically, and economically impoverished; and, more than that, Saddam's brutal and corrupt reign had destroyed both the nation's spirit and its civil infrastructure. Neither the U.S. Government Accountability Office nor Dr. John Hamre, who formerly served as President Clinton's Deputy Secretary of Defense, were exaggerating when they each issued reports in mid-2003 comparing our tasks ahead in rebuilding Iraq to those faced by the Allies in the aftermath of World War II. The Special Inspector General for Iraq Reconstruction added, "There is no known precedent for an effort to manage the reconstruction of a nation on such a vast scale in the midst of danger and violence."

I thank each and every member of this Committee for your willingness to focus on the reconstruction activities and to examine the lessons that can be learned from our experience in Iraq. Many of you visited while I was serving in Iraq, and I thank you for the efforts you made to understand the situation we faced at that time, as well as today. Let me add that I understand and share your frustrations with the current situation there.

While some on this Committee did not agree with the decision to liberate Iraq, I believe the courageous American men and women in uniform did a noble thing in freeing 27 million Iraqis from one of the most vicious tyrannies in the world. As a result of that action, we assumed a responsibility to help the Iraqi people recover from the devastation wrought by Saddam and to help protect them from insurgents, international terrorists, criminal gangs, and unfriendly neighbors, many of whom want to see a free and democratic Iraq fail. And, despite all the problems we have faced in Iraq and the obstacles that have hindered our efforts, it is important to remember that to date our work has led to the completion of nearly 11,000 reconstruction projects in Iraq. Success in Iraq is still possible. But so is failure.

I begin my statement by giving the Committee a fuller sense of the social, political, and economic conditions that prompted the need for massive reconstruction in the first place and of the remarkable conditions on the ground, in the middle of war, in which my colleagues and I had to work. Second, I provide some background on the CPA's authority and responsibility, particularly with respect to the management of the Iraqi people's money deposited into the Development Fund for Iraq (DFI), which is the focus of today's hearing. Third, I explain what steps the CPA took to deal with the desperate and imminent crises that we confronted in the immediate aftermath of the regime's fall. Fourth, I describe the longer-term reform projects that we put in place. Fifth, I address the accountability concerns raised by the Special Inspector General regarding the CPA's handling of Iraqi funds in the DFI. Finally, I speak about some of the lessons learned from the CPA experience in Iraq.

Before proceeding, I should mention that I have not had an opportunity to review many of the records relevant to the period I served as Administrator, and therefore this statement and my testimony represent my best recollection of events that transpired during the very hectic time I served as CPA Administrator. In preparation for this testimony, I consulted with some of my former colleagues who served as my senior staff in Iraq. I am aware that this Committee has requested documents from the Government, and I also know that this Committee will be holding additional hearings. I would be happy to provide my comments on any new materials you develop at a later time.

I. Iraq's Devastated Political Economy

When I arrived in Iraq, the country was laboring under a deep crisis brought about not by war, nor by sanctions, but by structural deformities in the economy resulting from the systemic corruption and incompetence of Saddam's regime. Among many other shocking facts:

- Between 1980 and 2002, Iraq's per capita GDP dropped more than any other country's in the world.
- Unemployment before the war was already over 50%.
- During the 1990s, Saddam cut health care spending by 90%. By 2002, the Iraqi government was spending fewer than fifty cents per person per year on health care. No new hospitals had been built in twenty years. More than half of the country's public health clinics were closed. By the end of 2002, Iraq had the shortest life expectancy and highest infant mortality rates of any country in the region.
- Our experts estimated that fewer than 5% of the population had access to modern sewerage. As a result, some half million tons of untreated waste were being dumped daily into the Tigris and Euphrates rivers.
- Before the war, the country produced only 60% of its estimated electricity needs. When I arrived, Iraq was generating only enough power to service a small community, not a country of 27 million.
- Iraq's primitive banking system was inoperative. The banks had no system for electronic transfer of funds, and no experience with standard commercial lending practices.
- Under Saddam the government budget had been a state secret. We found that only 8% of the budget was actually directed through Iraqi ministries; the rest was allocated out of Saddam's presidential office.

- Most Iraqi ministries did not have computers or any experience with management techniques that met internationally recognized accounting standards.
- The majority of the government budget was spent on subsidies for food, fuel, and electricity, and to support inefficient and unproductive State Owned Enterprises (SOEs).
- At the fall of Baghdad, all 192 of the SOEs were closed down. About a third of them had been part of Saddam's military-intelligence network, and their buildings had been thoroughly looted, in most cases down to the foundations.
- The World Bank estimated that due to Saddam's greed and incompetence, Iraq had an "infrastructure deficit" of between $75 and $100 billion.
- For more than a decade, Saddam had simply printed more money to cover his chronic budget deficits. Soon after I arrived, the Acting Minister of Planning told me that at the end of 2002 inflation was running at an annual rate of 115,000%.

II. Authority and Responsibility

On May 9, 2003, President George W. Bush named me Presidential Envoy to Iraq, and on May 13, 2003, Secretary of Defense Donald H. Rumsfeld designated me to serve as the Administrator of the CPA, which was established by the Occupying Powers under the laws of war for the occupation of Iraq, as recognized in United Nations Security Council Resolution 1483. I was charged with responsibility for the temporary governance and reconstruction of Iraq and reported to the President through the Secretary of Defense.

As this Committee knows, I arrived in Baghdad at a time when much of the city was burning. Looting was still widespread. My first responsibilities were to kick start the economy, which was flat on its back, and to move quickly to lay the groundwork for a new and democratic Iraq. It is difficult in a few sentences to convey the enormity of the task the Coalition had been given. We started in chaos but had plenty of hope and determination. Our tasks included paying government salaries and pensions, reestablishing basic essential services, establishing an interim, representative Iraqi government, and beginning a political process with the goal of writing a new constitution and holding free elections. It was also obvious that reconstruction was a vital aspect of our mission. I was aware that in May of 2003, prior to my arrival, the Deputy Secretary of Defense had designated the Army as the Department of Defense's Executive Agency for the CPA. He specified that this included responsibility for contracting support for Iraq's reconstruction and further directed the Secretary of the Army to develop "appropriate management oversight for the acquisition and contracting support."

One of CPA's responsibilities was the management of funds provided from a number of different sources to be used in the reconstruction activities. Congress and the American people have been remarkably generous in providing billions of dollars for these activities. However, because the focus of this hearing is the use of Iraqi funds from the DFI, I limit my discussion accordingly. It is these funds that are the subject of the report of the Special Inspector General for Iraq Reconstruction of January 2005.

Let me first emphasize at the outset that these funds belonged to the Iraqi people. They were not appropriated American funds. Rather, funds were transferred into the DFI from multiple sources. In accordance with U.N. restrictions, revenues from the export sale of Iraqi

petroleum and natural gas had been deposited into the U.N.'s "Oil for Food" (OFF) program since 1996. As that program came to an end, surplus funds remaining in the OFF program were returned to the Iraqi people by being deposited into the DFI. Other sources of funds for the DFI were revenues from new export sales of Iraqi petroleum and natural gas, international donations, and repatriated assets seized by the United States and other nations.

U.N. Security Resolution 1483 which established the DFI also assigned responsibility for managing those Iraqi funds to the CPA. Resolution 1483 directed that the CPA, in consultation with the Iraqi Interim Government, disburse the funds in a "transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, and for the costs of Iraqi civil administration, and for other purposes benefiting the people of Iraq." Resolution 1483 also called for the DFI to be audited by independent public accountants approved by an International Advisory and Monitoring Board (IAMB), whose members included representatives from the U.N. Secretariat, the International Monetary Fund (IMF), the World Bank, and the Arab Fund. The IAMB hired the international accounting firm KPMG to conduct those audits.

The CPA issued regulations and memoranda to implement our mandate. Among them, CPA Regulation 2 obligated the CPA to accept responsibility for managing the DFI, acknowledged our obligations vis-à-vis outside audits, and outlined an internal management and budget process. Regulation 3 established a Program Review Board responsible for making recommendations to the Administrator regarding the expenditure of Iraqi government money. And, CPA Memorandum 4 defined the procedures for the execution of contracts and grants for the Iraqi people using Iraqi funds. In accordance with the order of the Secretary of Defense, responsibility for contract award and management, however, rested with the U.S. Department of the Army.

To help with the urgent rebuilding of Iraq, the CPA also had access to other Iraqi funds—state- or regime-owned cash, and funds and realizable securities that had been seized in Iraq in accordance with the law of war by members of the Coalition armed forces during the course of military operations. The Department of Defense, in consultation with the Secretary of State, Secretary of the Treasury, and the Director of the Office of Management and Budget, prescribed detailed procedures to ensure that these seized funds were appropriately accounted for, audited, and used only to assist the Iraqi people and support the reconstruction of Iraq.

In addition, in March 2003, approximately $1.7 billion in Iraqi assets located within the United States were vested in the Department of the Treasury pursuant to the International Emergency Economic Powers Act. These vested funds were also used only to aid the Iraqi people and assist in the reconstruction of Iraq.

Because of the difficult security situation in Iraq, the majority of the funds in the DFI that were denominated in U.S. dollars were kept in the Federal Reserve Bank of New York. Transfers from that account were made upon request by the CPA in accordance with procedures established by the Federal Reserve Bank.

I acted as Administrator of the CPA through June 28, 2004, when the CPA transferred full governing authority to the Iraqi Interim Government.

III. Urgent Steps to Deal with the Economic Crisis

Upon my arrival in Baghdad, the chaotic situation made it clear that we needed to take urgent steps to get the economy moving again, and that the United States's prewar planning had not anticipated the enormity and difficulty of the tasks ahead of us—currency stabilization, banking modernization, tackling widespread unemployment, repairing dilapidated infrastructure, and revitalizing an eroded industrial base. The disconnect between the prewar planning and the reality on the ground made the reconstruction job harder than we anticipated.

As an initial step, we deemed it vital to get money into the hands of the Iraqi people as quickly as possible. This meant tackling unemployment. The former Iraqi government was by far the country's largest employer, providing about four out of every five jobs. For several months, millions of Iraqi families had not received money owed them for civil service salaries or pensions.

But even this basic step was fraught with complications. First, we discovered that there had been no single pay grade system across the government, or often even within individual ministries. In many ministries our advisors could locate no payroll records at all. The entire civil service payroll system had been riddled with special deals, kickbacks, bonuses, and outright bribes. The CPA's economic advisors said that it would take three months to design a modern pay grade system for the civil service. But we did not have three months. In this, as in so many other areas, we had to act quickly with the tools we had at hand. And, in this, as in so many other cases we encountered, the best was the enemy of the good. Delaying the pay and pensions would have been destabilizing to the political economy, demoralizing to the citizens of Iraq eager to rebuild their country, and might have exacerbated the potency of the nascent insurgency and thereby increase the danger to Americans in Iraq. So, in three days, our team designed a simplified four-grade pay system for all civil servants. We raised the monthly pension for retirees tenfold.

But before we could begin paying millions of Iraqis with Iraqi government funds from the DFI, we had to figure out how to get the money into their hands. The banking system was in shambles. The banks had been closed since the end of the war and, in any case, lacked the means to transfer money electronically. So we had to pay the salaries and pensions in cash. Moreover, since we could not expect Iraqis to travel to Baghdad from Kirkuk, or Ramadi or Diwanya to pick up their salaries or pensions, we had to find a way to distribute these funds all over the country, despite the lousy roads and a war.

Our next problem involved the currency itself. We had committed ourselves to recognizing the Iraqi dinar as the nation's official currency so that the savings Iraqis had would be respected and valued. But due to the loss of a large supply of dinars in a flood at the Iraqi Central Bank, we had a shortage of Iraqi currency and were paying many of the Iraqi government expenses, such as salaries and pensions, in American dollars from the Iraqi government funds. Within weeks, my advisors were predicting the complete collapse of the

dinar, and the likely dollarization of Iraq's economy. This would have had disastrous political consequences for a country already laboring under the indignities of occupation. So, in consultation with the Iraqis, we made the risky decision to replace Iraq's entire currency. This involved printing and bringing into Iraq some 6,000 tons of new Iraqi currency—enough to fill about thirty 747 airplanes—and collecting and destroying almost 14,000 tons of old Iraqi currency. This huge undertaking was accomplished without major problems between October 2003 and January 2004 by a dedicated military/civilian team of CPA officials. The New Iraqi Dinar has been a great success. It has floated freely against all world currencies, and in recent months has appreciated against the U.S. Dollar.

At the same time we were ensuring that millions of Iraqi civil servants and pensioners were provided for, we used Iraqi funds to create more jobs through WPA-like construction projects, to promote opportunities for entrepreneurialism, and to improve health care. As a result, hundreds of thousands of jobs were created through the Iraqi ministries, a micro-lending program was established for women, and health care spending was raised from $35 million to $935 million. Finally, for the first time in modern Iraq's history, the national budget was published openly for all citizens to see.

IV. Longer-Term Economic Reforms

With respect to long-term economic reconstruction, the CPA took a number of steps to help modernize and liberalize the Iraqi political economy. Working in conjunction with the Iraqi ministries, we

- developed and presented balanced Iraqi government budgets for 2003 and 2004.
- established the independence of the Central Bank, freed interest rates from bureaucratic control, licensed foreign banks, and established a Trade Credit Bank.
- eliminated Saddam's prohibition on foreign investment, with the explicit exception of the oil industry that therefore remained off limits for foreigners.
- strengthened the country's trademark, patent, and copyright laws.
- reformed the Iraqi government's budgeting and financial management procedures, by introducing a Financial Management Information System, encouraging the World Bank to set up training programs on internationally recognized fiduciary accounting standards and techniques, and working, with the assistance of the IMF, to restructure the government's chart of accounts.

In two areas, however, we were less successful. First, we had intended to begin the process of privatizing those state enterprises that our experts believed might thrive in an open-market economy. But, concerned that a privatization initiative of that magnitude might exceed our authority under occupation law and concerned that this shock to the economy would put an additional 500,000 Iraqis out of work, at least temporarily, we cancelled the project. Contrary to some press reports, even during the period of time when we were seriously considering privatization and even when the state-owned enterprises were essentially non-functioning, we continued to pay employees of these firms. To the best of my knowledge, the workers are still being paid to this day.

Second, we were unable to rein in the huge government subsidies that had completely distorted the Iraqi economy under Saddam. Subsidies for fuel imports were costing over $3 billion a year; food subsidies another $3-4 billion; and, electrical power yet another $5-6 billion.

The chronic shortage of fuel oils presented us with an acute dilemma. Saddam had never built refinery capacity sufficient to meet the country's fuel needs. Our advisors estimated that even if all Iraq refineries were operating at full capacity (which they were not—even before the war), they could produce only about half of the country's demand for fuels. These shortages presented immediate challenges because millions of Iraqi families depended on liquefied natural gas for cooking and kerosene for heating. Already in the summer of 2003, there were long lines at gas stations—sometimes as many as 400 or 500 cars at a single station—due to the shortage of gasoline. There had been demonstrations and riots at some locations. Clearly, there was a serious risk of political unrest if the Iraqi people could not be supplied with these fuels.

Moreover, by setting the domestic prices of these fuels well below market, Saddam had created irresistible opportunities for Iraqi criminals to smuggle these fuels into neighboring countries. For example, a smuggler could get fifteen times as much in Syria for a liter of kerosene, ten times as much in Turkey for gas, or nine times as much for a liter of diesel in Jordan. Since the Coalition and Iraqis lacked sufficient forces to control the country's borders, large-scale smuggling continued to plague us throughout the CPA's time in Iraq.

We knew that these subsidies would eventually have to be reduced if Iraq's economy were to be modernized and liberalized. We felt that the people of Iraq could not adjust easily to the shock of ending subsidies upon which all Iraqis had come to depend. Given all of the other dislocations in the nation's political economy, we decided that low costs for necessities like energy and food should be continued for the immediate future.

V. Accountability

A. *Tackling Corruption*

My colleagues and I were mindful from the very outset of our time in Iraq that corruption had been encouraged, even institutionalized under Saddam Hussein. The Oil for Food scandal was only one dramatic and recent example of how corruption had become the operating principle of the Iraqi government. So I requested, and Congress approved, that the November 2004 Supplemental Budget include a provision for the establishment of a Special Inspector General for Iraqi Reconstruction. I welcomed his appointment and instructed our staff to be as cooperative as possible. Where he has found evidence of malfeasance, I have welcomed and continue to welcome his referral of cases to the appropriate authorities.

The CPA also took important steps to help the Iraqi government begin to deal with corruption. In September 2003, at the request of the Iraqi Minister of Justice, the CPA established a fully independent Iraqi judiciary. We also required that every Iraqi ministry have an Inspector General, a new position in Iraqi government, and we reinvigorated an old, respected Iraqi institution, the Board of Supreme Audit, roughly the equivalent of our Government Accountability Office. Finally, in consultation with a number of Iraqi lawyers, the Coalition

established a Commission on Public Integrity, to which any Iraqi citizen could take complaints of government corruption. In the three years since its establishment, the Commission has already heard thousands of complaints and referred hundreds of cases to court.

It would be unrealistic to expect that these institutions alone, and in such a short time, could eradicate corruption in Iraq. Like so much else, a generation's worth of corruption will take time to reform, and the democratically elected Iraqi government will have to continue its efforts to confront corruption.

B. *Managing and Overseeing Iraqi Funds*

The Chairman's letter asked that I be prepared to address the January 2005 report prepared by the Special Inspector General for Iraq Reconstruction. The report finds that the CPA did not effectively monitor the expenditures of Iraqi funds by the various Iraqi ministries.

Let me stress at the outset that my colleagues and I understood and fully endorsed the fiduciary responsibilities that came with managing the Iraqi people's money. We took seriously our charge to operate in an open and transparent fashion and to use these Iraqi moneys in the best interests of the Iraqi people. We always strived to meet those objectives, and where we may have fallen short, I accept responsibility.

But let us be clear what we are talking about here. When he appeared before this Committee in June 2005 to discuss his January 2005 audit, the Special Inspector General stated that "There have been some misinterpretations about exactly what we said, so let me be clear about what the audit did not say. It did not say that the money was lost. It did not say that the money was stolen. It did not say that the money was fraudulently disbursed by U.S. authorities."

As the Committee is aware, U.N. Security Council Resolution 1483 established the IAMB to monitor disbursements of Iraqi funds from the DFI. The IAMB commissioned the accounting firm KPMG to conduct audits of the Iraqi funds. Based on the results of these independent audit reports, the IAMB concluded that all the proceeds of known oil sales were properly deposited into the DFI and were properly and transparently accounted for in the DFI. The independent accountants also concluded that during the time the CPA was operating, all disbursements from the Iraqi government fund account were properly authorized and recorded.

The Special Inspector General confirmed, "The recording of disbursements from the CPA of the DFI that funded the Iraqi government is there. We have historical record of it. The issue is what happened to that money once it was distributed through the Ministry of Finance, the Iraqi Ministry of Finance, to the other ministries. That is the core issue with respect to the audit that we are here talking about, and that is managerial, financial and contractual controls. They were weak."

I agree with the Special Inspector General that the core accountability issue turns largely on how the Iraqis handled the money—*their* money—after we disbursed it to them.

As I interpret it, the Special Inspector General's report implies that the CPA should have imposed modern accounting and financial control systems in less than a year on a failed state in the middle of a war. I know of no one who spent time in Baghdad working with the Iraqi ministries who thought this was possible in the circumstances under which we worked.

While we understood our fiduciary responsibilities, we also knew that Iraqi ministries had often been sidelined in Saddam's budget process. Soon after arriving, we took immediate steps to determine the most effective way to disburse Iraqi funds consistent with our responsibilities. To this end, we asked the IMF to send us a team of experts to help us assess the capabilities of the existing Iraqi financial systems. Its conclusion was that these were not at international standards. This was no surprise.

So the question was: what should we do? The ideal solution was what the Special Inspector General's report implied—installing modern financial systems for control of these Iraqi government funds. But this ideal conflicted with the realities on the ground and the urgent need to get salaries and pensions paid to millions of Iraqi families. Neither the experts from the IMF nor our own CPA experts believed it would be possible to put such a system in place in Iraq in any reasonable time frame.

Let me say here, Mr. Chairman, that I regularly visited the Iraqi Ministry of Finance, Ministry of Planning, other Ministries, and the country's central bank. I saw first hand the primitive systems that the Iraqi civil servants were struggling with. While I am certainly not a financial expert, my personal observations convinced me that the experts from the IMF and the CPA were correct in judging that we could not expect rapidly to modernize those systems.

The CPA's Chief Financial Officer estimated that, even if we had had sufficient personnel (which we did not), it would have taken the CPA at least three years to develop a public-expenditure management system meeting internationally accepted accounting standards. This should not be surprising to Americans. It took our country 135 years to establish a single budgetary process and another 57 years after that to create a unified budget under the Office of Management and Budget.

The IMF concluded that the Iraqi financial systems could be made to work, and it recommended that in the interest of helping the Iraqi people get back on their feet, the CPA should channel as large a proportion of Iraqi government expenditures as possible through existing systems. We followed this advice. When Iraqi ministers took office on September 3, 2003, I made it clear to them that they were to develop their ministries' budgets and that their ministries were responsible for executing those budgets.

There was another factor at work, too. It was an overarching Coalition political objective to give Iraqis responsibility as quickly as possible. Using the existing Iraqi ministry system was consistent with that strategy and with the stated intent of the international community, expressed in U.N. Security Council Resolution 1483: "the right of the Iraqi people freely to determine their own political future and control their own natural resources." Moreover, U.N. Security Council Resolution 1511 affirmed that the "administration of Iraq will be progressively undertaken by the

evolving structures of the Iraqi Interim Administration." The resolution called upon the CPA "to return governing responsibilities and authorities to the people of Iraq as soon as practicable."

To provide a procedure for considering expenditures of Iraqi funds, we established a Program Review Board, with Iraqi representation. This Board was especially useful in the period before the Iraqi ministries developed their 2004 budgets and for emergency expenditures of Iraqi funds not foreseen in the budget.

Finally, the CPA also took steps to bring modern procedures to the Iraqi government. We introduced a Financial Management Information System in early 2004, worked with the IMF to develop a modern chart of accounts for Iraq, and encouraged the World Bank to train Iraqis in modern financial management.

I need to stress that the CPA's ability to monitor all these activities was severely hampered by a chronic shortage of staff. As the Special Inspector General noted in his January 2005 report, at the end of 2003, the CPA's management and budget staff was operating at 22% capacity. Though we repeatedly pressed Washington agencies for more people, our personnel shortages were never adequately addressed. Added to the problem of insufficient staff was the fact that we could only do such much monitoring in a country constantly besieged by violence and terrorism, often targeted at Iraqi officials, their ministries, and our own CPA employees. Indeed, as one KPMG report issued in September 2004 noted, security concerns prevented its auditors from actually surveying many of the ministries.

Under these circumstances, I believe that the CPA, by providing Iraqi money to the Iraqi ministries in accordance with the Iraqi budget developed by those ministries, met its obligations to the Iraqi people and fulfilled its duties under the Security Council mandate. It was in the interest of the Iraqi people, and of the security of the Americans there, that we moved quickly. Of course, we would have preferred an ideal system. But we were forced to settle for the reasonable and possible. That is why I particularly appreciate the Special Inspector General's acknowledgement in his July 2004 report that the CPA "faced a variety of daunting challenges, including extremely hazardous working conditions" and that what we accomplished "should be viewed within a larger context that recognizes the many successes that the CPA achieved and the organization's general responsiveness to many of the issues raised during our reviews."

C. *Personnel Matters*

The Chairman's letter also invited me to address questions about how key positions in the CPA were filled.

First, I want to dispel one of the more pernicious myths—that the CPA was dominated by young, inexperienced ideologues. This is nonsense. Let me say at the outset that my role in selecting staff for the CPA was limited. I did choose my personal staff, the Deputies for Policy and Operations, and a few senior advisors.

I append to this testimony a list of the top one hundred or so CPA advisors. This list briefly describes their credentials and shows that my colleagues were a remarkable group of

people with extensive relevant experience who have ably served this Government and those of our allies. As I stated from the outset, every single man and woman was a volunteer. They all came to Iraq to help the Iraqi people rebuild their country. They worked 18-20 hours a day, seven days a week in the middle of a war under difficult and dangerous circumstances. It may well be that among the 3,000 or so employees there were some people without relevant experience, and perhaps even some "ideologues." But on the whole, the CPA team was the most extraordinary group of men and women with whom I have ever worked. Like the courageous men and women of the American armed forces and our intelligence services, these civilians were heroes. It was an honor to serve with them.

We did have a real personnel problem. Reports, by the Special Inspector General and by the Government Accountability Office, have described the severe staffing problems the CPA faced throughout its time in Iraq. This chronic shortage was exacerbated by the fact that many of our staffers came for very short tours, sometimes for as few as 60 days. The Government Accountability Office, in its June 2004 report, said the CPA "generally operated with about 1/3 fewer staff than it required."

VI. Lessons Learned

I commend the committee for its focus in examining the lessons which can be learned from our experience in Iraq.

Perhaps the most obvious lesson learned is the importance of comprehensive planning for the demands of a post-conflict situation. The planning done in the case of Iraq was inadequate, largely because it was based on assumptions about the post-conflict situation that turned out to be wrong. And time to plan was short—months, not years, as had been the case in the occupations of Germany and Japan a half century earlier. I am encouraged that the State and Defense Departments have each taken steps to establish more formal structures for post-conflict operations.

Of course no plan will be perfect, which is why it is also important to develop processes that make it easier for the U.S. government to react to the rapidly changing circumstances inevitable in such situations. The Special Inspector General issued two reports addressing some changes in American government processes that I find very helpful.

On contracting, he is correct that it is essential in a war to simplify the contracting rules. It is a considerable understatement to say, as his report does, that the Federal Acquisition Regulation (FAR) "lacks ease of use." Such regulations are simply not designed to deal with wartime conditions. In his report of July 17, 2003 to the Secretary of Defense, former Deputy Secretary of Defense Dr. John Hamre wrote, "The CPA is badly handicapped by a 'business as usual' approach to the mechanics of government, such as getting permission to spend money or enter into contracts. This approach is not reasonable given the urgency of the situation in Iraq. There also appear to be unnecessary limitations in the area of contracts."

The officials of the Department of the Army involved in contracting with U.S.-appropriated funds worked day and night to comply with the FAR. As of June 28, 2004, nearly

eight months after the November Supplemental Budget became law, only 1% of the appropriated funds had actually been expended for reconstruction projects in Iraq. It is no wonder the Iraqi people were impatient with our efforts. The Special Inspector General has suggested an "enhanced contingency FAR" to simplify contracting rules in extreme circumstances such as those we faced in Iraq. This is an excellent idea, and I commend it to Congress.

Exacerbating our inability to work efficiently and quickly was the fact that CPA had a chronic shortage of qualified contracting personnel assigned to such tasks. The Special Inspector General has emphasized the importance of the U.S. government being able to mobilize large numbers of qualified contractors in those circumstances. Any assistance Congress can give to make this possible would seem to be justified.

In his "Lessons Learned" report on human resources, the Special Inspector General noted that workforce planning was very difficult given the complex and dangerous environment in which the CPA had to function. This is certainly true. Here, too, it should be possible to develop processes which make this difficult task somewhat less burdensome in the future. The objective should be to build a government-wide capacity for the rapid mobilization of qualified people prepared to serve for extended periods in dangerous situations.

I also fully support the recommendation of the Special Inspector General that the federal government develop a civilian reserve corps to meet future contingencies, and his suggestion that OMB implement a uniform set of human resources rules across the federal government for such contingencies. I would add that mobilizing the federal government is a necessary but not sufficient step. Much of the expertise in reconstruction resides in the private sector. Accordingly, some efforts should be taken to set up a process that enhances the U.S. Government's ability to draw from this broader talent pool in future contingencies.

VII. Conclusion

Again, on behalf of many heroic colleagues who served with me at the CPA, I thank you for this opportunity to shed light on our experiences in Iraq, and I look forward to our discussion of these matters.

Attachment to Testimony of Ambassador L. Paul Bremer, III
February 6, 2007

List of Top Officials of Coalition Provisional Authority

Deputy Administrators, Coalition Provisional Authority

Ambassador Clayton McManaway: Career diplomat.

Ambassador Richard Jones: Career diplomat. Ambassador to Lebanon, Kuwait and Kazakhstan under President Clinton. Fluent in Arabic.

Ambassador John Sawers: Career British diplomat, served concurrently as British Ambassador to Egypt. Fluent in Arabic.

Ambassador Jeremy Greenstock: Career British diplomat, formerly British Ambassador to the U.N.

Lt. Gen. Keith Kellogg: Retired career Army officer.

VAdm Adm. Scott Redd: Retired career Navy officer.

Lt. Gen. Jeff Oster: Retired career Marine officer.

Hon. Reuben Jeffery: Former Goldman Sachs international banker. Currently Chairman of the Commodity Futures Trading Commission.

Chief of Staff

Ambassador Patrick Kennedy: Career diplomat.

Stephen Smith: Career diplomat.

Chief Financial Officer

Al Runnels: over 30 years service in financial management, financial services and comptroller positions in the U.S. Department of Defense

Col. Erik Engelbrektsson: 28 years of experience in financial management at the U.S. Department of Defense; service in Bosnia and as Deputy Comptroller in the Defense Logistics Agency.

Director of Operations

Andrew Bearpark: A veteran overseas development and humanitarian assistance aid official for the British government. Prior postings included Bosnia and Kosovo

Head of Program Management Office

V Adm. David Nash: Four decades experience in building, design and program management with the U.S. Navy and the private sector.

General Counsel

BGen. Scott Castle: Career Army officer, deputy legal counsel, Department of Defense. Principal Deputy General Counsel, Department of the Army.

Senior Advisor for Congressional Affairs

Tom Korologos: Three decades experience in Congressional relations.

Senior Political Advisers

Ambassador Hume Horan: Retired career diplomat. Former ambassador to Cameroon, Sudan and Saudi Arabia. Fluent in Arabic.

Ambassador Chris Ross: Retired career diplomat, ambassador to Syria in the Clinton administration. Fluent in Arabic.

Ambassador Ryan Crocker: Career diplomat, ambassador to Kuwait and Lebanon in the Clinton administration. Fluent in Arabic.

Ambassador Ronald Neumann: Career diplomat. Previously ambassador to Bahrain. Fluent in Arabic.

Ambassador Ron Schlicher: Career diplomat. Previously U.S. consul general in Jerusalem. Fluent in Arabic.

Special Assistant for Speechwriting and Polling

Don Hamilton: Retired career diplomat.

Policy Planning

Dayton Maxwell: Career U.S. Agency for International Development (USAID).

Andrew Rathmell: Economist with RAND (nonpartisan think tank).

Other Political Advisers

Mike Gfoeller: Career diplomat. Head of CPA office in central Iraq. Fluent in Arabic.

Ambassador Olewoehler Olsen: Career Danish diplomat. Head of CPA office in southern Iraq. Former ambassador to Saudi Arabia and Syria. Fluent in Arabic.

Sir Hilary Sinnott: Career British diplomat. Second head of CPA office in southern Iraq. Fluent in Arabic.

Col. Richard Naab: Head of CPA office in northern Iraq. Retired career Army officer.

Herro Mustafa: Career diplomat. Second head of CPA office in northern Iraq. Fluent in Arabic and Kurdish.

Jules Chappell: Career British diplomat. Fluent in Arabic.

Irfan Siddiq: Career British diplomat. Fluent in Arabic.

Raad Alkadiri: Iraqi-British citizen. D.Phil. in International Relations from Oxford University, native Arabic speaker.

Tom Warrick: Career diplomat. Fluent in Arabic.

Scott Carpenter: Deputy Assistant Secretary of State for Democracy, Human Rights and Labor. Worked for the International Republican Institute on democratization projects in Eastern Europe.

Meghan O'Sullivan: Ph.D. from Oxford, worked at the Brookings Institution. State Department Policy Planning Office prior to service in Iraq.

Roman Martinez: Department of Defense.

Senior Advisers for Oil for Food Project

Ambassador Steve Mann: Career diplomat, ambassador to Turkmenistan during Clinton Administration.

Jim Warlick: Career diplomat.

Senior Project Manager for Currency Exchange

Gen. Hugh Tant: Retired career Army officer.

Senior Advisers to Iraqi Ministries

Ministry of Agriculture

Trevor Flugge: Australian wheat and livestock farmer; chairman of the Australian Wheat Board.

Lloyd Harbert: Career employee of U.S. Department of Agriculture.

Peter King: Career employee of Australian Department of Agriculture.

Ministry of Communications

Jerry Thames: 28-year career at AT&T and BT North America.

Dan Sudnick: 2001-03 with Cantabs Inc., a trade and technology investment company.

Ministry of Culture

Ambassador Mario Bondioli Osio: Retired Italian diplomat.

Ambassador Pietro Cordone: Retired Italian diplomat. Born in Egypt. Ambassador to Yemen and the United Arab Emirates. Fluent in Arabic.

John Russell: Massachusetts College of Art; archeologist and art historian.

Ministry of Defense

Walter Slocombe: Undersecretary of defense for policy during the Clinton administration.

David Gompert: Annapolis graduate, career Navy officer; president of RAND Europe from 2000 to 2003 and director of the National Defense Research Institute from 1993 to 2000.

Fred Smith: Career civil servant. Department of Defense and State Department.

Ministry of Displacement and Migration

Jennifer Johnson: Career diplomat.

Jose Lamego: Former Portuguese foreign minister and member of the Socialist Party of Portugal.

Larry Bartlett: Career civil servant in the Department of State.

Susan Johnson: Career diplomat.

Ministry of Education

Williamson M. Evers: Former education policy adviser to George W. Bush during the 2000 presidential campaign; research fellow at the Hoover Institution.

Leslye Arsht: Counselor to Secretary of Education Lamar Alexander. Former associate vice chancellor at Vanderbilt University and deputy press secretary to President Reagan.

Dorothy Mazaka: USAID employee.

Ministry of Electricity

Pete Gibson: Army Corps of Engineers.

Col. Randy Richardson: U.S. Army Reserves.

Col. Steve Browning: Serving officer, Army Corps of Engineers.

Jimmy Hicks: Former executive with Duke Power.

Ministry of Environment

Col. H. Allen Irish: Serving officer, U.S. Army.

Ed Theriot: Director of the Environmental Laboratory at the U.S. Army Engineer Research and Development Center. Career member of the Federal Senior Executive Service.

Ministry of Finance

Marek Belka: Former Deputy Prime Minister and Minister of Finance of Poland. Subsequently Polish Prime Minister.

Peter McPherson: President of Michigan State University. Former administrator of USAID.

RAdm. David Oliver: Retired naval officer. Former Principal Deputy Undersecretary of Defense in Clinton administration.

Anthony McDonald: Career civil servant with Australian Treasury Department.

David Nummy: Senior adviser for budget policy and management in the U.S. Treasury Department; staff member of the Senate Budget Committee, and assistant secretary for management of the U.S. Department of the Treasury.

Rodney Bent: Career Office of Management and Budget official and professional staff member on the House Appropriations Committee, Foreign Operations Subcommittee.

George Wolfe: Former law clerk to Judge Donald Russell, Fourth U.S. Court of Appeals. Deputy General Counsel to the U.S. Department of the Treasury, 2001-04.

Olin Wethington: Former Assistant Secretary for International Affairs at the U.S. Treasury and executive secretary, White House Economic Policy Council.

Ministry of Foreign Affairs

Ambassador David Dunford: Career diplomat; ambassador to Oman during the Clinton administration.

Susan Johnson: Career diplomat.

Steve Seche: Career diplomat.

Marc Sievers: Career diplomat.

Ministry of Health

Col. Steve Browning: Serving officer, Army Corps of Engineers.

James Haveman: Former director of the Michigan Department of Community Health and director of the Michigan Department of Mental Health.

Ministry of Higher Education

Dr. Andrew Erdmann: State Department policy planning staff responsible for counterterrorism, homeland security, and Central Asian policy. Previously a historian at Harvard.

Dr. John Agresto: Former president of St. John's College. Doctorate in political science from Cornell University.

Ministry of Housing and Construction

Dan Hitchings: Chief of engineering and construction at the Army Corps of Engineers' Pittsburgh district.

Jack Rintoul: Civil Engineer, Army Corps of Engineers.

Lt. Col. Joseph Morgan: U.S. Army. Served in Bosnia during Clinton administration.

Mike Karem: Former Deputy Assistant Secretary of Housing and Urban Development.

Ministry of Human Rights

Audrey Glover: British career diplomat. Former head of British delegation to the U.N. Commission on Human Rights.

Sandy Hodgkinson: Human rights specialist with the State Department. Navy Reserve Judge Advocate officer, worked as a military prosecutor and an instructor in crimes against humanity issues. Career member of the civil service.

Ministry of Industry and Minerals

Ambassador Tim Carney: Career diplomat. Ambassador to Sudan in the Clinton administration.

Rick Ortiz: Career diplomat.

Lt. Col. Brad Jackson: U.S. Army (Reserves).

Col. Lettie Bien: U.S. Army (Reserves).

Ministry of Interior

Robert Gifford: Policing expert from the U.S. Department of State who also served as an adviser in Afghanistan. Career member of the Senior Executive Service.

Bernard Kerik: Former chief of police in New York City.

Doug Brand: British. Chief constable, Yorkshire Police. Career law enforcement officer.

Steven Casteel: 32-year veteran of the Drug Enforcement Agency.

Brig. Gen. James Steele: Retired U.S. Army officer.

Ministry of Justice

Clint Williamson: Former director of the Justice Department at the U.N. Mission in Kosovo during the Clinton administration.

Maj. Gen. Donald F. Campbell: Serving judge on the Superior Court of New Jersey; and a major general in the U.S. Army Reserves.

Edward Schmults: Former deputy attorney general of the U.S.

Ministry of Labor and Social Affairs

Karen Walsh: USAID employee.

Chris Spear: Assistant secretary for policy, U.S. Department of Labor.

Lt. Col. Jim Otwell: U.S. Army, civil affairs officer.

Bob Gross: Attorney. Former general counsel and president of First Interstate Bank of Utah. Chief of staff to Gov. Mike Leavitt in 1997.

Ministry of Municipalities and Public Works

Michael Mutter: senior architectural and physical planning adviser at the British Department for International Development.

Ministry of Oil

Philip Carroll: Former chief executive of the U.S. division of Royal Dutch-Shell.

Robert McKee: Former Conoco-Phillips executive.

Gary Vogler: Former executive with Exxon Mobil.

Mike Stinson: Former executive with Conoco-Philips.

Ministry of Planning and Development

Simon Elvy: British career diplomat.

Neil Hawkins: Former member of the Australian army, Regional Force Surveillance Units.

Ministry of Private Sector Development

Thomas Foley: Founder and Chairman of the NTC Group Inc., an investment firm specializing in long-term equity investments in operating companies. M.B.A. from Harvard.

Mike Fleischer: President and member of the Board of Directors of Bogen Communications International, which makes telecommunications systems. M.B.A. from Harvard.

Ministry of Trade

Ambassador Robin Raphel: Career diplomat. Former U.S. ambassador to Tunisia and assistant secretary of state for South Asia during the Clinton administration.

R. David Luft: Department of Commerce employee.

Lt. Col Tracey Wright: Construction engineer in the U.S. Army.

Sue Hamrock: Career employee of the Department of Commerce.

Ministry of Transportation

Darrell Trent: Chairman and CEO of Acton Development Co.; acting secretary of transportation under President Reagan.

Ministry of Water Resources

Eugene Stakhiv: U.S. Army Institute for Water Resources.

Jerry Webb: U.S. Army Corps of Engineers, principal hydrologic and hydraulic engineer. 30 years experience in water resources field.

Ed Theriot: Director of the Environmental Laboratory at the U.S. Army Engineer Research and Development Center. Member of the Federal Government Senior Executive Service.

Ministry of Youth and Sport

Don Eberly: Founder of the National Fatherhood Initiative and the Civil Society Project, former deputy director of the White House Office of Faith Based and Community Initiatives.

Mounzer FatFat: A native of Lebanon. During the Clinton administration established sports and entertainment programs for Kosovo's youth under U.N. auspices.

Chairman WAXMAN. Thank you very much, Ambassador Bremer. Mr. Bowen.

STATEMENT OF STUART W. BOWEN, JR.

Mr. BOWEN. Thank you, Mr. Chairman and Ranking Member Davis and members of the committee, and thank you for the opportunity to address the committee on the topic that you identified, Mr. Chairman, at the outset and that is waste, fraud and abuse in Federal spending in Iraq.

I depart next week on my 15th trip to Iraq to join the 55 auditors, investigators and inspectors that are currently deployed there, carrying out exactly that mission. Congress has assigned my office the duty and responsibility to oversee and deter fraud, waste, and abuse with respect to the Iraq relief and reconstruction fund, and we continue to carry out that mission in Baghdad and across Iraq.

Indeed, we have 80 open investigations with respect to allegations of fraud arising from the U.S. program. Just last week, a contractor was sentenced to prison for crimes uncovered through a sting operation run by my office, and the week before that the former Comptroller of the South Central Region of the CPA was sentenced to 9 years in prison for a fraudulent scheme that he engaged in with a contractor. That contractor will be sentenced next week.

So we are making progress, aggressively pursuing fraud where we find it. But as I have said before to this committee, fraud, as a component of the U.S. effort in Iraq is a relatively minor component, as a percentage of the total investment. Waste is a different story, and we continue to look into that. Indeed, when Congress extended my organization in December, you assigned me the duty to do a forensic audit which is a stem to stern review of the Iraq relief and reconstruction fund that will completely and thoroughly answer that second matter.

Also before the committee this morning is the review, as you have talked about, of an audit that my office released almost exactly 2 years ago at the end of January in 2005, looking at how the CPA managed and oversaw the disbursements of Development Fund for Iraq moneys distributed to the Iraqi ministries.

Three years ago today, I arrived in Iraq on my first trip, and it so turned out that my office that I was assigned in the Republican Palace was next to the comptroller's office. In the course of those first 2 weeks, I conducted interviews with the comptroller and personnel in that office, and over the course of my first month there began to uncover concerns that persons working in that office brought anonymously to me. Out of that came my directive to my auditors to pursue this audit, specifically looking at what was happening to the Iraqi money, Development Fund for Iraq funds that had been transferred to the interim Iraqi ministries that were under CPA's guidance.

Now the regulatory and legal structure for this transfer of money was defined by the United Nations in U.N. Security Council Resolution 1483 which has been referred to. It imposed upon the CPA, the duty to disburse these oil revenues for the benefit of the Iraqi people in a transparent manner, and indeed this discussion today hinges on what transparency means.

There is a disagreement between what my office found and what CPA believed that word meant. In our review, in our review of CPA's Regulations 1, 2, and 3 and CPA Memo 4 which governed and defined CPA's financial oversight, and those were good regulations. The issue was implementation. We concluded that more should have been done to find out what the Iraqi ministries were doing with the $8 billion, $8.8 billion that had been disbursed to them for use to pay salaries, administrative expenses and other expenses, operational expenses.

Indeed, our review broke down the analysis into finding fault in managerial controls. There weren't enough personnel frankly as Mr. Oliver noted at the time when we interviewed him, not enough personnel in CPA's support office to the Ministry of Finance to be able to provide insight into how that ministry was operating, disbursing those dollars.

Financial controls, there was a CPA firm that was hired that was supposed to provide some internal auditing for how that money was moving, and indeed their mission evolved in the course of their assignment. As a result, they became more of an accounting support to the comptroller rather than an auditor of how that money was being used.

Third, contractual, there was a duty to ensure that Iraqi ministries had some contractual capacity and by its own regulations, CPA said hey, Iraqi ministries, you cannot engage in contracting unless we certify you. But that happened anyway. Only two ministries were certified, the Ministry of Electricity and the Ministry of Finance, the Ministry of Finance 2 days before the conclusion of the CPA.

However, it was because of the lack of personnel, the lack of insight into how the ministries were operating that there was a lack of accountability, and that is the ultimate conclusion here with respect to how those ministries used that money.

Now in our discussions with CPA officials about our findings after we had drafted the audit, that the dispute hinged upon what the duty of transparency was. In our view, that duty extended to requiring the Iraqi ministries to provide something more than nothing about how they were using that money. The CPA interpreted the transparency duty as transparency within CPA, and we did not raise concerns about that, and KPMG's own review found that CPA internally had procedures that operated reasonably effectively in moving the money out.

But what happened when it left? That is where the question mark is, and that was the concern raised and the ultimate conclusion found by our audit.

The IMF in 2003, when they did an initial review of, in mid-2003, of what the status of the Iraqi ministries were after the invasion raised significant concerns about the capacity of those ministries to carry out simple accounting, simple financial tracking. KPMG and Ernst and Young and the Board of Supreme Audit, the Iraqis' own oversight entity, had since reviewed the Iraqi ministries and to varying degrees in each case found those ministries wanting. Last July, Ernst and Young issued a report and reiterated it in October that there were shortfalls and weaknesses.

More to the point, our latest quarterly has an audit of ministry capacity development in Iraq, and it is still weak. As our report indicates, the facts speak for themselves. At the end of last year, the Iraqis left, still had in their treasury $12 billion unspent. That meant U.S. money was being spent to carry out programs that Iraqi money should have carried out, and indeed that is what this latest discussion about benchmarks, and indeed when I met with the Iraq Study Group, I emphasized benchmarks with teeth, with meaning need to be enforced to ensure that the Iraqi ministries executive their own money.

Well, the truth be told, this latest quarterly report is a watershed report for this reason. The end of the Iraq Relief and Reconstruction Fund is here. A very generous appropriation by Congress $21 plus billion for the restoration and recovery of that nation has been put entirely under contract and over 80 percent disbursed, spent. So 90 percent of the projects are done.

The period where the United States bears the preponderant burden of moving forward the relief and recovery of Iraq is past, and that means that burden must shift to the Iraqis themselves, and that means those ministries must execute; that Iraqi firms, Iraqi private contractors that we have documented have had some challenges along the way, Baghdad Police College notably, must step up; and finally that there must be a coordinated strategic plan run by Iraq, run by the new Iraqi Government that takes on the burden to relieve and reconstruct and recover that nation.

I go back next week. We will continue to provide quarterly reports to the Congress about the U.S. program. We will carry out a comprehensive audit of how we have spent that money, and we will continue to review how the Commander's Emergency Response Program, the economic support funds and other funds continue to be spent in Iraq to achieve these important goals.

Finally, we do continue to operate an important lessons learned program. Ambassador Bremer referred to our personnel study and our contracting study in March. We will release our third report on program and project management which will lay out in depth. I just finished editing it again, and it is being vetted, and it will lay out in detail how reconstruction was managed at the sites and through the programs. Finally, at the end of the year, we will produce a capping report, the Story of Iraq Reconstruction, that will capture all of these issues that we have looked at plus the broad range of issues raised in our quarterly reports and present them in an accessible and informative manner.

Mr. Chairman, thank you for your time to address the committee, and I look forward to questions.

[The prepared statement of Mr. Bowen follows:]

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HOUSE OVERSIGHT AND GOVERNMENT REFORM COMMITTEE

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

BEFORE THE

UNITED STATES HOUSE
OVERSIGHT AND GOVERNMENT REFORM COMMITTEE

UNITED STATES' INVOLVEMENT IN IRAQ RECONSTRUCTION

Tuesday, February 6, 2007
Washington, D.C.

Chairman Waxman, Ranking Member Davis, and members of the Committee: thank you for this opportunity to testify again before you on the United States' involvement in Iraq reconstruction. Specifically, I will address my Office's January 30, 2005 audit report on the *Oversight of Funds Provided to Iraqi Ministries through the National Budget Process* (SIGIR Report No. 05-004), which addresses the Coalition Provisional Authority's (CPA) financial and managerial controls over $8.8 billion from the Development Fund for Iraq (DFI) that the CPA disbursed to Iraqi ministries. I look forward to a productive exchange with the Committee regarding this audit and SIGIR's other work in Iraq.

BACKGROUND

I was appointed Inspector General of the Coalition Provisional Authority (CPA-IG) in late January 2004 and immediately began to staff and develop the organization and to structure an oversight plan for the Coalition Provisional Authority's programs and operations. My Office's first Quarterly Report was released on March 30, 2004. I deployed my first contingent of auditors to Iraq at the end of March 2004, just a few months before the June 28 dissolution of the CPA.

In October 2004, two months before the scheduled termination of the CPA-IG, the Congress passed legislation to continue my Office's the oversight function, redesignating it as the Special Inspector General for Iraq Reconstruction (SIGIR). The Congress also extended SIGIR's oversight to the entire $21 billion Iraq Relief and Reconstruction Fund (IRRF). The Congress extended SIGIR's mandate again in December 2006, providing my Office oversight authority over all FY 2006 reconstruction funding.

Pursuant to it enabling authority, SIGIR reports jointly to the Secretaries of State and Defense on U.S. reconstruction programs and operations. Importantly, where our reports find problems, they provide lessons learned and potential approaches for corrective action. Further, SIGIR distributes all reports directly to the Congress and makes them available to the public on our website, www.sigir.mil.

To execute their mission, SIGIR auditors apply a balanced review, providing oversight, insight, and foresight for the Iraq reconstruction program. SIGIR's *oversight* efforts, an IG's traditional focus, address whether the U.S. taxpayer investment was properly

executed pursuant to mandated legal requirements. This promotes transparency and accountability within the U.S. reconstruction effort. SIGIR's *insight* efforts advise the U.S. leadership on ongoing management issues identified in the course of SIGIR's work. SIGIR's *foresight* efforts focus on assisting management in achieving identified goals, such as effective transition of programs, sustainment of projects, and capacity building within Iraqi ministries.

IMPACT OF SIGIR'S WORK

To date, SIGIR has:

- Produced 12 Quarterly Reports.
- Issued 82 audit products and has another 14 audits underway. Of note, SIGIR maintains an ongoing follow-up program that tracks management response to our audit recommendations. We recently published a comprehensive follow-up report that found that U.S. agencies in Iraq have implemented 34 of the 40 recommendations we made to improve the transparency and accountability of the DFI.
- Produced 80 project assessments based on inspections of project sites. The most significant for this quarter was our second assessment of the Baghdad Police Academy.
- Opened 300 criminal and civil investigations leading to five arrests and convictions, including the recent conviction of Robert Stein, who was sentenced to nine years in prison and fined $3.6 million for his role in money laundering and conspiracy to defraud the CPA in Hilla, Iraq. SIGIR Investigations have resulted in another 23 cases currently under prosecution at the Department of Justice, and we are currently working on 76 on-going investigations.

SIGIR also has a robust Lessons Learned Program, with two reports already published (one on Human Capital Management and the other on Contracting). The third and final report, which addresses Program and Project Management, will be published this quarter. A Lessons Learned capping report, called The Story of Iraq Reconstruction, will be published by the end of this calendar year.

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

1. SIGIR audits have saved or recovered $50 million, identified better use of $7.8 million, and identified the potential to recover $106 million.
2. SIGIR investigations have recovered or seized assets amounting to $9.5 million, and are working on the recovery of an additional $15 million.
3. SIGIR inspections made recommendations to ensure the effective use of an estimated $39 million in reconstruction projects.

4. SIGIR enabled U.S. reconstruction management officials to:
   a. Improve efficiency/effectiveness and reduce expenditures;
   b. Implement or improve fund and asset controls;
   c. Enhance construction quality by ensuring adequacy of design specifications, stopping inadequate construction, and avoidance of re-work; and
   d. Avoid waste and unnecessary expenditures.

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

[SIGIR's latest quarterly report is submitted for the record, January 31, 2007, at http://www.sigir.mil/reports]

Oversight of Funds Provided to Iraqi Ministries through the National Budget

This audit report, which was accomplished during the late spring and early summer of 2004 and published on January 30, 2005, was the result of an audit SIGIR initiated to determine whether the CPA's implemented sufficient controls over DFI funds provided to the Interim Iraq Government (IIG) ministries through the national budget process. The audit concluded that CPA failed to implement adequate controls.

Audit Scope and Process

The audit arose out of concerns that were brought to my attention (during my first two visits to Iraq) by personnel who worked in the CPA Comptroller's Office. I discussed these concerns with my Assistant Inspector General for Audit and consequently the audit was initiated, with my most experienced auditors assigned to it.

The scope of the audit covered a selected period of CPA's oversight of DFI funds and entailed the extensive documentary review as well as many interviews with the key personnel involved in managing the DFI. Specifically, my staff interviewed or obtained statements from 38 CPA advisors to 10 different IIG ministries, as listed below by ministry:

Ministry of Finance

1. George Wolfe, Senior Advisor
2. David Oliver, CPA Director Office of Management and Budget (OMB) and Senior Advisor
3. Rodney Bent, CPA Co-Director OMB and Senior Advisor
4. Colonel Mulhern, Chief of Staff
5. John Hanley, Advisor
6. Brendan Lund, Advisor
7. Anita Greco, Advisor
8. Josh McCallum, Advisor

9. Pietro Toigo, Advisor
10. John Moore, Advisor

Ministry of Interior

11. Steve Castille, Senior Advisor
12. Steve Smith, Advisor
13. Rudy Vandaile-Kennedy, Advisor
14. Jim Vickery
15. Scott Erwin
16. Dan Jones
17. Geoff Howard
18. Mike Whitney

Ministry of Transportation

19. Captain Manson Brown, Senior Advisor
20. Doug Webster, Finance Advisor
21. Steve Myrow, Chief of Staff

Ministry of Communications

22. Jerry Thames, Senior Advisor
23. John Weaver, Chief of Staff
24. John Lyons, Finance Advisor

Ministry of Education

25. Todd Givens, Senior Advisor
26. Pam Riley, Senior Consultant

Ministry of Housing and Construction

27. Roliff Purrington, Senior Advisor
28. Doug Hageman, Chief of Staff and Budget Advisor

Ministry of Defense

29. David Gompert, Senior Advisor, National Security
30. Fred Smith, Advisor
31. Mr. Bendix, Finance Advisor

Ministry of Oil

32. Mike Stinson, Senior Advisor
33. Gary Vogler, Advisor
34. Robert McGuire, Counsel

Ministry of Labor and Social Affairs

35. Bob Gross, Senior Advisor
36. Maj. Martha Boyd, Chief of Staff and Advisor
37. Al Pino, Advisor

Ministry of Health

38. David Walker, Senior Consultant

My staff also interviewed the CPA Administrator, after he had reviewed an early draft of the audit.

Background

The CPA was the authority responsible for the temporary governance of Iraq from May 16, 2003, through June 28, 2004. The DFI was established during May 2003 by the power delegated by the President of the United States, pursuant to the approval of United Nations (UN) Security Council Resolution 1483, and the President assigned responsibility for managing the fund to the CPA Administrator.

The DFI consisted of:

(1) funds in bank accounts with the Federal Reserve Bank of New York and the Central Bank of Iraq;

(2) proceeds from export sales of petroleum, petroleum products, and natural gas from Iraq;

(3) surplus funds from the UN Oil for Food program; and

(4) funds and financial assets of the former Iraqi regime that were frozen and transferred by UN member states.

Consistent with UN Resolution 1483, the DFI was to be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq.

On May 9, 2003, the President designated Ambassador Bremer as his Presidential Envoy to Iraq, with responsibility for overseeing the use of Iraqi state or regime-owned property under U.S. possession made available to assist the Iraqi people and support the recovery of Iraq. Because of its responsibility, the CPA was obligated to provide the management oversight and controls required to ensure that DFI funds were used for their intended purposes.

The CPA had a fiduciary responsibility to manage the DFI for the benefit of the Iraqi people in accordance with UN Resolution 1483. To that end, CPA implemented Regulation Number 2 on June 10, 2003. This regulation enumerated the CPA's responsibilities for overseeing and controlling the establishment, administration, and use of the DFI for the benefit of the Iraqi people. The CPA subsequently published further guidance further detailing procedures and processes for controlling disbursements of monies from the fund.

The CPA took the position that expenditures by Iraqi ministries were to be managed by the Iraqis and overseen by the Iraqi Interim Government. Thus, the CPA assumed a

supervisory role and delegated to the Iraqi ministries the duty to manage and execute the budgets approved by the Administrator and allocated to them by the CPA Comptroller. This approach assumed that the IIG ministries had sufficient capacity to carry out these duties and presumed that the CPA was adequately staffed to provide sufficient supervision of the ministries budget execution.

Audit Findings

As a preliminary matter, our audit report did not say that the CPA lost taxpayer money, as some have reported, nor did it allege or imply that U.S. officials had engaged in any fraudulent practices. The DFI was not US money, but was composed of funds derived from the sale of Iraqi oil. The audit did conclude, however, that the CPA's internal controls for approximately $8.8 billion in DFI funds disbursed to Iraqi ministries through the national budget process failed to provide sufficient accountability for the use of those funds. As noted in the report, the CPA did not establish or implement sufficient managerial, financial, and contractual controls to ensure DFI funds were used in a transparent manner. Consequently, there was no assurance that funds were used for the purposes mandated by the United Nations Security Council Resolution 1483.

Managerial Controls

The CPA approach to managing DFI funds may have been sufficient if the CPA had some assurance that the Iraqi ministries had controls in place to effectively manage the disbursement of funds. We found that, although questions were raised about the ministries' ability to effectively manage DFI disbursements, the CPA did not properly review the internal controls in the Iraqi ministries.

In June 2003, the International Monetary Fund (IMF) provided preliminary observations to CPA officials which noted that addressing budget execution was more urgent than addressing budget planning. Further, an October 2003 IMF assessment indicated that the implementation of the budget by the Iraqi ministries would require a strengthening of payment and accounting functions, procurement procedures, and internal and external audit functions.

The International Advisory and Monitoring Board on Iraq, established by the UN to provide oversight of the DFI, conducted a review of DFI operations through he end of December 2003 (through KPMG) that found inadequate controls at Iraqi spending ministries including:

(1) the absence of reconciliation procedures for transfers between ministries and for bank accounts;

(2) inadequate accounting records;

(3) deviations from the tendering procedures designed to ensure competitive bidding; and

(4) insufficient payroll records.[1]

[1] UN Security Council Resolution 1483 required independent external audits of the administration of the DFI by the CPA. KPMG, a multinational accounting firm, was hired to conduct these audits.

In his comments to our audit report, the CPA Administrator similarly recognized such weaknesses within the IIG ministries, noting that the Iraqi government budget and personnel records, already inadequate before the war, had been destroyed by looting and willful criminal sabotage.

KPMG's report to the IAMB also identified personnel problems within CPA as a main finding, noting that there was a lack of clearly defined roles and responsibilities as well as a high turnover of CPA personnel. CPA-IG's first audit was on CPA personnel management, identifying a number of weaknesses. SIGIR's subsequent Lessons Learned Report on Human Capital Management, issued in February 2006, explicated these issues in detail.

Numerous CPA advisors, who were assigned to oversee and assist the ministries, reported to us that there were not enough experienced people to do the job they were tasked to do. For example, a CPA advisor to the Ministry of Finance stated that the CPA's biggest problem was understaffing and the government simply did not staff the organization properly. A senior CPA advisor to the same ministry described the staffing shortage as follows:

> CPA Ministry of Finance/OMB is facing a critical shortage of staff. As a result, we are no longer able to keep up with the daily CPA tasks and conduct business with the Ministry of Finance at the same time—let alone make progress with capacity building... This is mission critical—finance is the lifeblood of the economy. If it isn't working, we will not succeed in our mission.... Today, OMB has 12 of the 55 authorized billets filled. Of these12, currently there are 9 available for daily operations (two on leave, one TAD to Washington), the bulk of which are good, but inexperienced recent graduates.

Additionally, several individuals we spoke with had been in country for only a short period of time. The senior advisor to the Ministry of Housing and Construction stated that he had been in country 6 to 8 weeks and that the ministry had 4 senior advisors in the last year.

CPA's senior advisors' roles and responsibilities were not clearly articulated and conveyed to the advisors. Three advisors in the Ministry of Communications told us their responsibilities were not documented and they received no training or indoctrination. A senior consultant in the Ministry of Education stated that responsibilities were never spelled out. A senior advisor in the Ministry of Housing and Construction stated that he did not receive anything that spelled out his responsibilities. A senior advisor in the Ministry of Labor and Social Affairs stated that he was told during briefings in Washington that they would learn their responsibilities from the people in country. When he arrived in country, he was told there was no training or indoctrination. When he requested guidance from the CPA Office of General Counsel, he was told "There are no written guidelines delineating the senior advisors' role, responsibilities, and authority."

Financial Controls

The CPA did not implement adequate financial controls to ensure DFI funds were properly used. For example, there were inadequate controls pertaining to the payment of

salaries to Iraqi employees.[2] Consequently, there was no assurance that funds were not provided for so-called "ghost" employees. Our interviews during the course of the audit uncovered problems in this area.

The CPA Ministry of Finance/OMB could not provide any documentation to support approximately $17 million provided for Facilities Protective Services and Civil Defense Corps salaries in February 2004; and the CPA Advisor to the Ministry of the Interior and manager of the Facilities Protective Services program said that the Ministry was paid for 8,602 guards when only 602 could be validated. A CPA advisor to the Ministry of Finance was sufficiently concerned about payroll corruption that he submitted a formal complaint to the CPA-IG. The complaint alleged:

> Of the 1.6 million government employees currently on payroll, credible estimates put the number of ghost workers at somewhere between 250,000-300,000 employees. A report from one specific state owned enterprise indicates the militia leader forcefully withholds 75% of the ghost worker's salary as "gratitude" for their new job. The money is alleged according to the report to support the local political/religious movement which is fighting the Coalition Forces.

We referred this allegation to the Iraq Commission for Public Integrity for action.

The CPA had limited documentation on how monies were spent after disbursement to Iraqi ministries. After analyzing 10 CPA disbursements ranging from $120 to $900 million, we found that none of them were supported by budget spending plans and two, totaling $616 million, were not accompanied by disbursement vouchers. Additionally, although the UN provided approximately $2.5 billion to the DFI in Oil-for-Food funds in March and April 2004, the CPA did not update the Iraqi national budget to account for the infusion of these monies.

The CPA had a responsibility to determine whether the Iraqi ministries had basic financial controls in place prior to transferring full authority over funds to the ministries. This responsibility was mandated by the UN, acknowledged by U.S. government officials, was documented in the CPA Strategic Plan and CPA guidance. The CPA Administrator stated during the transfer of sovereignty to the Ministry of Health, which was the first Iraqi ministry to attain sovereignty, that the CPA gave full authority to the Iraqi ministries only after fundamental financial and budgetary controls were in place. However, the CPA did not review internal controls or the accounting and use of funds in the Ministry of Health prior to the transfer, and CPA officials stated they were unaware of the basis for the CPA Administrator's statement that controls were in place.

Contractual Controls

The CPA did not adequately control DFI contracting actions. Although the CPA established procedures (in CPA Memorandum No. 4) for executing contracts using DFI funds, these procedures were not followed. In keeping with the position that

[2] Funds for salary payments were provided through the national budget process to the responsible Iraqi Treasury offices or the Iraqi Ministry of Finance. Coalition forces that hired the security forces (Iraqi Border Police, Iraqi Civil Defense Corps, Iraqi Armed Forces, and Facilities Protective Services) were responsible for salary payments until responsibilities were transferred to the Iraqi ministries.

expenditures by Iraqi ministries were to be managed by the IIG, the CPA allowed IIG ministries to execute contracts using DFI funds, *but only* after the CPA Contracting Activity certified the contracting procedures of the ministry were adequate to ensure the transparent use and management of DFI funds.

During the tenure of CPA, the CPA Contracting Activity only certified the contracting procedures for 2 of 26 ministries (the Ministries of Finance and Electricity). If a ministry was not certified, it was required to execute all contracts through the CPA. However, there was reporting that Iraq's ministries (and senior advisors) engaged in extensive contracting, notwithstanding the lack of authorization. The Head of the CPA's Contracting Activity told us there were no procedures in place to ensure Iraqi Ministry's complied with the CPA established contracting regulations procedures, but *"hopefully the CPA advisors are providing oversight."*

SIGIR obtained data for contracts awarded by three IIG ministries with DFI funds (Communications, Housing and Construction, and Interior). These ministries had executed contracts using DFI funds, with one ministry (Housing and Construction) executing over 250 contracts valued at approximately $430 million. These contracts were executed without oversight from the CPA senior advisor for the ministry and without certification from the CPA Contracting Activity that the ministry's contracting procedures were sufficient to ensure compliance with UN Security Council Resolution 1483.

Management Comments to the Report

Both the CPA Administrator and the Director of the Defense Support Office — Iraq disagreed with our conclusion that the CPA failed to provide adequate and transparent stewardship of the DFI funds disbursed to Iraqi ministries. Their overarching position was that SIGIR ignored the political and administrative environment in which the CPA was operating. However, SIGIR staff lived in that environment and recognized that these conditions required meaningful controls. The CPA should have exerted more effective controls over the financial management of the DFI funds precisely because of the chaotic situation it was confronted with in Iraq. This is underscored by the acknowledged weaknesses within the Ministry of Finance in managing the national budget, the lack of reliable budgeting or personnel records, and the corrupted payroll systems.

Regarding the political situation, the CPA Administrator asserted that our report ignored the political context of the CPA role in Iraq to transfer as much responsibility to the Iraqi ministries as soon as possible and said the report suggested that the CPA should have placed hundreds of auditors into the ministries or have CPA Senior Advisors run the ministries. The report, however, did not suggest this. The report did conclude that the CPA should have done more to fulfill its oversight responsibilities assigned under UN Resolution 1483 (and reaffirmed in an October 2003 letter from the UN Security Council Secretary-General), which stated that the CPA was responsible for establishing financial and internal control systems to ensure DFI funds were used for the purposes for which they were disbursed. Of note, this was reaffirmed in a February 2004 notification from the CPA Senior advisor to the Ministry of Finance/OMB to all senior advisors that the CPA needed to determine whether there were adequate controls in the Iraqi ministries to

ensure DFI disbursements were received by the designated recipient and used as intended.

Recent Work on the DFI

We have continued to review U.S. oversight of the DFI funds. In 2005 and 2006, SIGIR issued 6 reports on the control and accountability for contracts, grants, and cash transactions and issued 40 recommendations for improvement. Some of these reviews led to the arrests and continued investigations that I discussed earlier.

Overall, we concluded that DFI accountability had improved. To illustrate, as of August 2006, the Joint Area Support Group-Central (JASG-C), which is responsible for administering DFI funds, spent about $1.4 million on audit services, database development, and computer equipment to satisfy SIGIR recommendations to improve the data and financial records and transparency regarding contracts. However, JASG-C failed to effectively define the requirements, write the contract, and monitor the contractor's work. As a result, one JASG-C official stated that these databases were so limited they produced little value added. As such, SIGIR believes that while agencies are taking steps to improve oversight, more still needs to be done for them to execute their fiduciary responsibility over the DFI.

CONCLUSION

Our audit report concluded that the CPA failed to implement sufficient oversight of the DFI. Specifically, it did not follow the oversight regulations adopted for DFI management.

For example, CPA Regulation Number 2 detailed the CPA DFI responsibilities, requiring the CPA to obtain the services of an independent certified public accountant firm to ensure the fund was administered and used in a transparent manner. The CPA contract award properly required the contractor to ensure the fund was administered and used in a transparent manner and for the purposes intended. By the time we issued the SIGIR report, the contractor had stated that it would review internal processes for controlling and documenting disbursement in the Iraqi ministries. It did not, however, perform this work.

CPA Memorandum Number 4 stated that part of the CPA's oversight responsibility was to ensure that funds were used for their intended purpose and that the CPA Comptroller and the Head of the CPA Contracting Activity must review contracting actions of interim Iraqi ministries. However, significant contracting by ministries was executed beyond the purview of CPA's contracting office. The CPA's own Strategic Plan called for reviews of Iraqi budget expenditure and control systems; but we found no evidence that this was accomplished.

In July 2004, a CPA/ Ministry of Finance advisor provided comments on our report and agreed with our findings. The advisor concluded that the SIGIR report:

> is appropriately critical of CPA and its handling of the Iraqi finances. They are correct to identify staffing and turnover as significant issues. As a result, standard operating procedures and adequate controls were never sufficiently implemented because the limited number of people in our office were busy doing rather than writing about doing.

Though critical of the report in not accounting for the operational environment in Iraq, the official nevertheless concluded that:

> the decision was made at the highest levels within CPA (and perhaps beyond Iraq) to let the Iraqis manage their own money. This decision was made knowing the Coalition would sacrifice 100% transparency and accountability of spending. What it would do is help promote independent Iraq operations in light of the aggressive one year transition timetable. We now find ourselves in the foreseeable situation where we do not have 100% accounting of the monies spent.

In conclusion, I would like to reiterate that SIGIR remains committed to supporting the reconstruction efforts in Iraq by identifying ways to accomplish the mission more effectively and efficiently, and by deterring fraud, waste, and abuse of U.S. taxpayer dollars. SIGIR's 55 auditors, inspectors and investigators in Iraq will continue to carry out the duties and responsibilities as mandated by the Congress.

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

COALITION PROVISIONAL AUTHORITY MEMORANDUM NUMBER 4

CONTRACT AND GRANT PROCEDURES APPLICABLE TO VESTED AND SEIZED IRAQI PROPERTY AND THE DEVELOPMENT FUND FOR IRAQ

IMPLEMENTATION OF REGULATION NUMBER 3, PROGRAM REVIEW BOARD (CPA/REG/18 June 2003/03)

Pursuant to my authority as Administrator of the Coalition Provisional Authority (CPA) and the laws and usages of war, and consistent with relevant U.N. Security Council resolutions, including Resolution 1483 (2003),

Underscoring that the Development Fund for Iraq (DFI) shall be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, and for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq, and that the Program Review Board as authorized by CPA Regulation Number 3 (18 June 2003) is responsible for recommending expenditures of resources from the DFI.

Noting that Resolution 1483 (2003) states that independent public accountants approved by and reporting to the International Advisory and Monetary Board (IAMB) shall audit the DFI to ensure that the DFI is used exclusively for the purposes stated in Resolution 1483 (2003),

Reaffirming that the CPA is committed to ensuring that all state- or regime-owned cash, funds or realizable securities that have been seized by Coalition Forces in Iraq consistent with the laws and usages of war, shall be used only to assist the Iraqi people and support the reconstruction of Iraq,

Implementing CPA Regulation Number 3, Program Review Board (CPA/REG/18 June 2003/03),

I hereby promulgate the following:

Section 1
Purpose

This memorandum establishes procedures applicable to the execution of contracts and grants for the benefit of the Iraqi people using Iraqi Funds, as defined herein. As steward

for the Iraqi people, the CPA will manage and spend Iraqi Funds, which belong to the Iraqi people, for their benefit. Although Iraqi Funds are not subject to the same laws and regulations that apply to funds provided to the CPA directly from Coalition governments, they shall be managed in a transparent manner that fully comports with the CPA's obligations under international law, including Resolution 1483.

Section 2
Applicability

This Memorandum applies to contracts and grants executed by or on behalf of the CPA., when those instruments obligate and expend Iraqi Funds. It covers contracts and grants executed by:

1) CPA Regional Directors carrying out the Regional Directors' Emergency Response Program;
2) CPA Regional Directors carrying out the Construction Initiative for Iraq Program;
3) Interim Ministry Officials, working in conjunction with Senior Ministry Advisors, when carrying out requirements that are not funded through the national Ministry budget process;
4) CPA's Head of Contracting Activity, or designee(s), and
5) Others delegated such authority by the Administrator.

This Memorandum does not apply to:

1) Iraqi Ministries and governmental agencies executing contracts or grants to fulfill requirements approved through the national budget process if the Administrator, or his designee, determines that the contracting procedure of the Ministry or agency is adequate to ensure the transparent use and management of Iraqi funds. However, if the contracting procedures of the particular Ministry or agency are not determined to be adequate, this Memorandum shall apply, and
2) Coalition Forces commanders carrying out the Commanders' Emergency Response Program. The Commanders' Emergency Response Program will use the procedures contained in FRAGO 89 (Appendix E) or any subsequent amended guidance to FRAGO 89.

Section 3
Definitions

1) "Competitive Range": A group of proposals that are eligible for award of a particular contract or grant, as determined by a Contracting Officer on the basis of cost and other factors stated in the solicitation.

2) "Contract": A written agreement whereby the CPA or Coalition Forces acquire goods, services or construction from a person or entity under prescribed terms and conditions, for the purpose of assisting the Iraqi people or assisting in the recovery of Iraq.

3) "Contract Award Committee": As used in this Memorandum, a group of three or more officials selected by the Contracting Officer appointing authority responsible for reviewing preliminary award decisions of Large Purchases for compliance with this Memorandum and sound business judgment. The Contract Award Committee need not convene as a group; however, except as provided in Section 7 below, a majority of the members must concur in the award decision prior to award.

4) "Contracting Officer": As used in this Memorandum, an individual who has been authorized by the Administrator, CPA, in accordance with Section 4 below, to enter into Contracts or Grants using Iraqi Funds.

5) "Grant": A written instrument that transfers Iraqi Funds from the CPA or Coalition Forces to a recipient grantee, in order to carry out a program or project that directly benefits the Iraqi people or assists in the recovery of Iraq.

6) "Invitation for Bids": An invitation to prospective contractors to submit proposals to meet CPA requirements. An invitation for bids describes a requirement for a prospective contract by explaining the nature of the opportunity, including the goods or services to be provided, required performance, the time for performance, requirements to demonstrate the responsibility of the potential source, unique requirements, the closing date for bids, and other information necessary for a potential source to submit a bid. With an IFB, the award is determined solely on the basis of price or price-related factors.

7) "Iraqi-based": A company (including a subsidiary company) whose principal place of business is located within Iraq.

8) "Iraqi Funds": Funds under the control of the Authority consisting of (a) proceeds from Iraqi state-owned property that has been vested or seized in accordance with applicable law and made available to the CPA to assist the Iraqi people and assist in the reconstruction of Iraq; and (b) funds in the Development Fund for Iraq, the establishment of which is noted in Resolution 1483 (2003). As used in this Memorandum, "Iraqi Funds" do not include funds provided through the appropriations process of Coalition member governments (for example, funds

provided directly to the CPA by the governments of the United States or the United Kingdom).

9) "Large Purchase": A contract with a value of greater than US$500,000.

10) "Micropurchase": A contract with a value of US$5,000 or less.

11) "Request for Proposal": An invitation to prospective contractors or grant recipients to submit proposals to meet CPA requirements. A request for proposal usually includes a description of a requirement for a prospective Contract or Grant that explains the nature of the opportunity including the goods or services to be provided, required performance, the time for performance, the evaluation criteria for Contract award, requirements to demonstrate the responsibility of the potential source, unique requirements, the closing date for proposals, and other information necessary for a potential source to submit a proposal.

12) "Small Purchase": A contract with a value greater than US$5000 and less than or equal to US$500,000.

13) "Solicitation": A request to submit offers or quotations to fulfill a requirement for goods or services that can be met through a Contract. "Request for Proposal" and "Invitation for Bids" are types of solicitation.

Section 4
Appointment of Contracting Officers

1) General. For the purpose of carrying out programs to assist the Iraqi people and assist in the recovery of Iraq using Iraqi Funds, the officials identified in paragraph 2 may appoint Contracting Officers who may enter into Contracts or Grants on behalf of the CPA. Unless otherwise terminated by the Administrator, this delegation shall remain in effect until the establishment of an internationally recognized, representative government by the people of Iraq.

2) The following officials are authorized to appoint Contracting Officers within their directorates, commands or organizations, in writing and in a form prescribed by the Head of Contracting Activity, CPA, in consultation with the CPA General Counsel:

    a) Head of Contracting Activity, CPA, or the Principal Assistant Responsible for Contracting, CPA;

b) CPA Directors of Oil Policy; Civil Affairs; Economic Development; AID; Operations and Infrastructure; Interior Affairs; Private Sector Development; and Security Affairs.

c) Senior Iraqi Ministry Advisors, in coordination with the interim Iraqi Ministers, for contracting officers within the ministry concerned, and.

d) Other persons specifically authorized by the Administrator.

3) In exercising their authority to appoint Contracting Officers, the officials listed in paragraph 2 above shall consider the training and experience of prospective appointees and shall, to the extent practicable, confer Contracting Officer authority on those officers already holding Coalition government contracting warrants and/or experience as contingency contracting officers or field ordering officers. The Head of Contracting Activity, CPA, with the approval of the Administrator, may prescribe additional requirements (such as completion of prescribed training requirements) that persons must hold prior to receiving Contracting Officer appointments.

4) Contracting Officers responsible for carrying out programs must actively coordinate proposed funding initiatives with all other Contracting and Grant-making officials in their geographic areas, in order to ensure against duplication of effort.

Section 5
Technical Supervision of Contracting Officers

The Head of Contracting Activity, CPA, shall be responsible for providing technical supervision over Contracting Officers appointed pursuant to Section 4, above. This technical supervision may include prescribing training requirements and prescribing appropriate forms for use in solicitations, contract awards, and grant awards. For contracting officers assigned to the CPA Contracting Activity, the Head of Contracting Activity, CPA, shall provide administrative oversight as well as technical supervision.

Section 6
Principles Applicable to Instruments

1) Identification of Parties. Contracts and Grants must prominently contain the following language to identify the parties:

"This contract/grant is entered into under the authority of the Administrator as head of the Coalition Provisional Authority (CPA), which is temporarily exercising governmental authority in Iraq pursuant to the law and usages of war and relevant United Nations Security Council Resolutions, including Resolution 1483 (2003) ("Coalition") and by
_____("Contractor")

2) Competition.

   a) Contracts. Unless otherwise exempted under this Memorandum, competition is mandatory for all Contracts. Reasonable efforts will be made to obtain competitive offers by publicizing a solicitation through bulletin boards, the CPA World Wide Web page, the UNDB, vendor databases developed by the Head of Contracting Activity, and other means. If circumstances require award of a contract without competition, a written justification describing the exigencies requiring contracting without competition will be documented in the Contract file. Contracts will be awarded to the offer providing the greatest value to the CPA or Coalition Forces, based on price and all other evaluation factors contained in the solicitation.

   b) Grants. Reasonable efforts will be made to identify all organizations capable of performing the Grant. Grants in excess of $500,000 will be tendered for proposals by capable organizations, except as authorized for good cause, in writing, by the official that appointed the Contracting Officer involved.

3) Preference for Iraqi Vendors. Iraqi-based vendors who are capable of performing a Contract or Grant in a responsible and responsive manner will be afforded the following preferences when competing with foreign firms. If the Contracting Officer determines that at least two Iraqi-based vendors are available, the Contracting Officer may limit the competition to Iraqi-based vendors only. If the Contracting Officer determines that limiting competition to Iraqi-based vendors is not appropriate, the Contracting Officer may use the amount of Iraqi participation in the contract (as a subcontractor or otherwise) as an evaluation criterion for purposes of determining who is entitled to the award of the contract.

4) Fair and Reasonable Price. The Contracting Officer must determine that the price of a contract is fair and reasonable. Prices for goods and services will not exceed their fair market value—as determined by the Contracting Officer—after considering the time for delivery or urgency of the service, and other relevant factors.

5) Conflicts of Interests. Contracts or Grants administered under this Memorandum will not directly or indirectly benefit any Ministry, CPA or Coalition Forces official or employee involved in the contracting or grant-making process, or the family members of such officials or employees. Persons involved in the contracting process, from the development of the requirement through the completion of performance, shall not:

   a) Hold financial interests that conflict with the conscientious performance of duty.

   b) Engage in financial transactions using nonpublic Government information or allow the improper use of such information to further any private interest.

   c) Solicit or accept any gift or other item of monetary value from any person or entity seeking official action from, doing business with, or conducting activities regulated by the CPA, or whose interests may be substantially affected by the performance or nonperformance of the employee's duties.

   d) Knowingly make unauthorized commitments or promises of any kind purporting to bind the CPA.

   e) Use public office for private gain.

   An official or employee of the CPA or Coalition Forces involved in the contracting process shall:

   a) Act impartially and not give preferential treatment to any private organization or individual.

   b) Disclose waste, fraud, abuse, and corruption to appropriate authorities.

   c) Endeavor to avoid any actions creating the appearance that they are violating the law or ethical standards.

6) Combining and Dividing Awards. To the extent practicable, requirements for a project or related projects may be consolidated into one contract, in order to reduce the administrative burden of contracting. Requirements may not be split to avoid the application of these rules.

7) Responsibility. Contracting officers must determine that a contractor who receives a contract award must be responsible. This means that the contractor must:

a) Have adequate financial resources to perform the contract, or the ability to obtain them;

b) Be able to comply with the required or proposed delivery or performance schedule, taking into consideration all existing commercial and governmental business commitments;

c) Have a satisfactory performance record, if the contractor has performed contracts in the past;

d) Have a satisfactory record of integrity and business ethics;

e) Have the necessary organization, experience, accounting and operational controls, and technical skills, or the ability to obtain them;

f) Have the necessary production, construction, and technical equipment and facilities, or the ability to obtain them; and

g) Be otherwise qualified and eligible to receive an award under applicable laws and regulations.

Section 7
Contracts

1) Micro-Purchases. Micro-Purchase Contracts may be awarded without competition if the Contracting Officer determines that the offered price and terms are fair and reasonable. However, Contracting Officers are encouraged to obtain competition when possible. Oral solicitations may be used. Micro-Purchases will be documented in summary files demonstrating competition (if any), basis for award (if other than lowest price), and material terms. The documentation will be tailored to the size and nature of the acquisition.

2) Small Purchases. Contracting Officers, when possible, will obtain at least three competitive offers for Small Purchases. For Small Purchases from $5,000.01 to $25,000, oral solicitations may be used; however, Contracting Officers must maintain documentation of sources solicited. For Small Purchases greater than $25,000, written solicitations will be used. Sufficient information will be included in the contract file to enable a review of the transaction, including evidence of competition or the basis for contracting without competition, price quotations, and the basis for the contract award if price is not the determining factor. Written justifications detailing the unique qualifications of the contractor or other exigent

circumstances requiring an award without competition will be prepared for Small Purchases. Requirements for justifications are contained in Appendix A.

a) Blanket Purchase Agreements. Contracting Officers are encouraged to use blanket purchase agreements for repetitive requirements to reduce administrative burdens and to obtain favorable pricing.

b) All Small Purchase contracts will contain payment terms including an agreed upon payment schedule (preferably with milestones tied to performance) for service contracts, and performance requirements clearly defining the responsibilities and time for performance. Additionally, the Contracting Officer will use appropriate contract provisions listed in Appendix B to this Memorandum for the particular solicitation or contract involved.

c) Requirements in excess of $10,000 should be posted at a public location and disseminated in a manner that will foster competition, including advertising in local media when appropriate, through bulletin boards, the CPA World Wide Web page, vendor databases developed by the Head of Contracting Activity, and other means.

3) Large Purchases.

a) Large Purchase Contracts will be competed, except as authorized below. All Large Purchase contract opportunities will be posted and advertised to the maximum extent practicable, with a goal of obtaining at least three competitive offers.

b) The Head of Contracting Activity, CPA, will ensure that experienced contracting officials are assigned to execute contracts underneath the HCA and provide technical assistance to all other appointed Contracting Officers or Iraqi Ministry Contracting Activities with respect to all Large Purchase solicitations.

c) Acquisitions generally will be made through negotiation. The contracting agency will develop a Request for Proposal (RFP) for submission to prospective contractors. The RFP will set forth the essential information necessary to fully describe the contracting opportunity. Contracting Officers may hold a pre-proposal conference to answer questions and to clarify the RFP, provided all prospective contractors are informed of the conference. Award evaluation factors will be tailored to the acquisition, but must include price as a factor. Other factors may include technical expertise, financial stability of the contractor based upon a review of

financial statements, and prior contract performance. The Contracting Officer may request final proposals from contractors in the competitive range. Based upon the review of the proposals, a preliminary award decision will be made.

d) If a contracting officer determines that (1) time permits the solicitation, submission and evaluation of sealed bids; (2) award will be made only on the basis of price or price-related factors; (3) discussions with prospective bidders will not be necessary, and (4) there is a reasonable expectation of receiving more than one sealed bid, the contractor may, instead of an RFP, use an Invitation for Bids (IFB) to compete the acquisition. The IFB will set forth the essential information necessary to fully describe the contracting opportunity. Contracting Officers may hold a pre-bid conference to answer questions and to clarify the IFB provided all prospective contractors are informed of the conference. Because an IFB requires that the requirement be clearly stated prior to issuing the solicitation, IFB's will only be used by contracting officers under the direct control of the Head of the Contracting Activity, CPA.

e) Written justifications detailing the unique qualifications of the contractor or other exigent circumstances requiring an award without competition will be prepared for all Large Purchases awarded without competition. Requirements for justifications are contained in Appendix A. All Large Purchase justifications will be reviewed and approved in writing by either the Contracting Officer's appointing authority or the Head of Contracting Activity, CPA, or his designee.

f) Except for awards by Contracting Officers appointed by the Head of Contracting Activity or the Principal Assistant Responsible for Contracting, CPA, Large Purchase preliminary award decisions will be reviewed by a Contract Award Committee of at least three officials, designated by the official who appointed the Contracting Officer for the particular project, prior to award. The Committee will review the proposals and Contract file to ensure compliance with procedural and competition requirements, that the contract represents sound business judgment, that the process used was fair and impartial, and that the proposed award represents the best value based upon the evaluation factors. Large Purchase preliminary award decisions by Contracting Officers appointed by the Head of the Contracting Activity, CPA will be coordinated with the Head of Contracting Activity, CPA, or his designee, prior to award.

g) Notwithstanding paragraph 3(e) above, Large Purchase Contracts may be executed in the absence of a Contract Award Committee, provided the

Head of Contracting Activity, CPA, determines that there are sufficient alternative means to ensure that the particular solicitation action has been appropriately managed.

h) Contracting officers are encouraged to establish payment schedules that provide for payments as the vendor accomplishes specified performance milestones.

4) Contract Modifications and Amendments. Contract modifications and amendments are subject to the same documentation provisions as original contracts. Contracting Officers must ensure the cost of the contract modification or amendment is fair and reasonable. Amendments or modifications that are outside the scope of the contract or that constitute new requirements should be addressed through new contracts.

Section 8
Monitoring Contract Performance

Consistent with their programmatic responsibility to ensure that contractors and grantees properly perform their duties, Contracting Officers shall be responsible for regularly monitoring the post-award execution of all Contracts they approve. This monitoring process includes ensuring that the contractor provides the agreed upon goods, services or construction in accordance with the provisions, and that payments are made in a timely manner. Contracting Officers shall include in the Contract file a written report describing post-award performance by contractors or grantees, including a final assessment upon completion of the Contract. Contracting officers shall rely upon locally available military engineering resources in assessing all repair and construction projects. All documents related to the establishment and execution of Contracts will be maintained in a Contract file that includes the materials described in Appendix A to this Memorandum.

Section 9
Grants

Consistent with Program Review Board requirements, Grants may be made available to support important public initiatives.

1) Applications for Grants must describe the initiative, anticipated costs and the desired results. The applications should also set forth objective standards for measuring the success of the Grant.

2) In reviewing grant applications, consideration shall be given to the number of people affected by the grant and the impact on community development. Grants should be reviewed during implementation and where appropriate funds should be made available on a schedule tied to the accomplishment of specific milestones specified by the CPA or Coalition Forces, and related to the objective measures of success.

3) Although there generally is little substantial involvement between the CPA or Coalition Forces and the grantee following the award of the Grant, a grant agreement will be conducted according to a form prescribed by the Head of Contracting Activity, CPA, in coordination with the Office of the General Counsel, CPA, and the grantee's performance must be monitored to ensure that the granted funds are expended for appropriate purposes consistent with the Grant, and to assess the grantee's suitability for future Grants. Contracting Officers responsible for Grants shall include in the Grant file a written report describing post-award performance by or grantees, including a final assessment upon completion of the Grant.

Section 10
Funds Allocated through the National Budget Process

1 Funds allocated through the National Budget Process will be made available to the interim Iraqi Ministries in accordance with the National Budget. The CPA Office of Management and Budget will allocate funds to the Iraqi Ministry of Finance for further distribution to the Iraqi Ministries, in accordance with the National Budget and in a manner that will ensure appropriate transparency. The interim Iraqi Ministries may draw on allocated funds by submitting a request for funds to the Iraqi Ministry of Finance,.

2) Contracts or grants executed by interim Iraqi Ministries may be carried out in accordance with applicable Iraqi laws and Ministry contracting procedures only if the Administrator or his designee determines that the Ministry's application of these controls will ensure transparency. However, in the event that a protest is filed against the proposed award of a contract or grant, the provisions of the Protests clause in Appendix B of this Memorandum shall apply. If the Administrator or his designee does not determine that applicable Iraqi laws and Ministry contracting procedures can ensure transparency in the use of Iraqi funds, the rules of this Memorandum shall apply.

3) As part of the CPA's responsibility to ensure that CPA Funds are used for their intended purpose, the CPA Comptroller, in coordination with the Head of

Contracting Activity, CPA, may, in his discretion, review contracting actions of interim Iraqi Ministries.

Section 11
Appendices

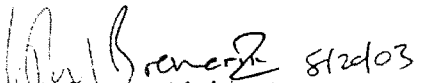
The Appendices provide supplemental instructions on preparing and executing Contracts and Grants pursuant to this Memorandum. The Program Review Board is hereby authorized to modify existing Appendices to this Memorandum, and issue additional Appendices, as may be required to ensure the effective execution of funding for the benefit of the Iraqi people. Any such modification or issuance shall be deemed to satisfy the requirements of CPA Regulation No. 3, section 6 (5).

Section 12
Protection of Confidential Acquisition Information

Contracting officers, or other persons involved in the contracting process, are specifically prohibited from releasing information contained in a proposal to any person not involved with the contracting process. For purposes of this section, "proposal" means any proposal, including a technical, management, or cost proposal, submitted by a contractor in response to the requirements of a solicitation for a competitive proposal. Any other disclosure of confidential acquisition information, including information concerning a successful proposal that is incorporated by reference into a contract, shall be protected in a manner consistent with 5 U.S.C. Section 552 and Parts 3 and 24 of the U. S. Federal Acquisition Regulation.

Section 13
Entry into Force

This Memorandum shall enter into force on the date of signature.



L. Paul Bremer, Administrator
Coalition Provisional Authority

CONTRACT AND GRANT PROCEDURES APPLICABLE TO VESTED AND SEIZED IRAQI PROPERTY AND DEVELOPMENT FUND FOR IRAQ

Contract File Requirements

APPENDIX A

Micro Purchases ($5,000 or less)
Contract file must include:

- Notes or documentation reflecting competition efforts, if any, including a written summary of oral solicitations if award is based on an oral solicitation.
- The basis for the award decision if other than lowest price.
- Material Contract terms (Who is to do What, When, and for How much?)
- Information demonstrating the outcome (such as receipts, delivery notices, notes of the contracting officer regarding contractor performance for services).
- Micro Purchase files will be maintained for 1 year following final contract payment.

Small Purchases ($5,000.01-$500,000)
Contract file must include:

- Documentation of oral solicitations made for contracts less than $25,000, written solicitations for contracts from $25,000.01 to $500,000.
- Evidence of competition, such as posted notices (including the location and length of time posted), direct solicitations, advertisements, posting on web pages.
- For solicitations in which only one source is solicited (i.e., sole-source contract awards), a written justification prepared in accordance with this Appendix.
- Evaluation Criteria, if applicable.
- Significant correspondence with vendors.
- Notification to successful vendor.
- Written contract containing required terms for agreements exceeding $10,000 or a summary of material terms for agreements less than $10,000.
- Invoices for progress payments and verification of performance including notes of inspections or monitoring where appropriate.
- Small Purchase Files will be maintained for 1 year following final contract payment.

Large Purchases (more than $500,000)
Documentation will be sufficient to enable review by the Contract Award Committee prior to award and then by auditors during the period of contract performance and thereafter. Files will include:

- A statement of need for the requirement to be addressed. This may be a request for services from the agency requesting the contract.

- Evidence of Competition, such as posted notices (including the location and length of time posted), direct solicitations, advertisements, posting on web pages, or other means used to publicize the opportunity to bid.
- All fully eligible responses from vendors to allow the Contract Award Committee to review the contracting options to ensure the proposed contract award is based upon sound business judgment.
- For contracts in which only one source is solicited, a written justification prepared in accordance with this Appendix.
- Contract award Evaluation Criteria. Price must be one of the contract evaluation criteria. Other criteria may include experience, prior contract performance, technical expertise, and delivery terms.
- Memorandum for Record memorializing the action by the Contract Award Committee acting to select the successful vendor. The MFR should identify board members, the bids considered, the criteria used, and the selected vendor.
- Significant correspondence with vendors.
- Notification to successful vendor.
- Written contract containing required terms.
- Contract Modifications and Amendments
- Contract performance and outcome information including invoices for progress payments and verification of performance including notes of inspections or monitoring where appropriate.
- Large Purchase Contract files will be maintained for a period of 3 years following final contract payment.

Sole-Source Contracting Justification and Approval Requirements

- Contracting Officers must document compelling reasons justifying sole source contracting in all contracts. Compelling reasons that may be considered when justifying sole-source contracting:
  - There is only one responsible source and no other supplies or service will satisfy requirements. This may include unacceptable delays in delivery or other unique circumstances, such as intellectual property rights or compatibility with existing systems.
  - Unusual or compelling urgency to satisfy requirements. This justification will only be used in cases where competition would represent a serious risk to agency objectives. Failure to accurately forecast agency needs is a not a sufficient justification.
- The justification must demonstrate the circumstances for foregoing adequate competition. If the circumstance is urgent and compelling, specifically explain the time constraints. Identify unique capabilities that are possessed by only one contractor.
- Justifications will include a description of efforts to obtain competition.
- Justifications will include facts supporting the Contracting Officer's determination that a fair and reasonable price was obtained.
- Justifications for sole-source awards in excess of $500,000 must be approved by the Contracting Officer's Appointing Authority or the Head of Contracting Authority, CPA.

Grants
Files will contain a statement of the community need to be addressed and intended purposes of the grant. Generally, the grant application is sufficient. The file will also contain outcome information including an assessment of the community impact of the grant.

Special Requirements for Construction Projects

- Maintain engineering drawings and approvals of plans until contract performance is complete.
- Cost Estimates by independent engineers should be obtained for Large Purchase projects to assist in the assessment of fair and reasonable value.
- Fixed-priced arrangements are preferred for construction contracts.
- Certificates of Completion.
- Change Orders and Amendments will be fully documented.

CONTRACT AND GRANT PROCEDURES APPLICABLE TO VESTED AND SEIZED IRAQI PROPERTY AND DEVELOPMENT FUND FOR IRAQ

Standard Terms and Conditions for Solicitations and Contracts in Excess of $5,000
APPENDIX B
Solicitation Terms and Conditions

1. **Submission of Offers.** The contractor will submit signed and dated offers to the office specified in this solicitation at or before the exact time specified in the solicitation. Offers may be submitted on letterhead stationery or as otherwise specified in the solicitation. At a minimum, offers must show:

a. The solicitation number.

b. The time specified in the solicitation for receipt of offers.

c. The name, address, and telephone number of the offeror.

d. A technical description of the items being offered in sufficient detail to evaluate compliance with the requirements in the solicitation. This may include product literature, or other documents, if necessary.

e. Terms of any express warranty.

f. Price and any discount terms.

g. Payment address (if different from mailing address)

h. Acknowledgment of solicitation amendments (if any)

i. Past performance information, when included as an evaluation factor, to include recent and relevant contracts for the same or similar items and other references (including contract numbers, points of contact with telephone numbers, and other relevant information)

j. A statement specifying the extent of agreement with all terms, conditions, and provisions included in the solicitation. Offers that fail to furnish required representations or information, or reject the terms and conditions of the solicitation may be excluded from consideration.

2. **Period for Acceptance of Offers.** The offeror agrees to hold the prices in its offer firm for 30 calendar days from the date specified for receipt of offers, unless another time period is specified in an addendum to the solicitation.

3. **Product Samples.** When required by the solicitation, product samples shall be submitted at or prior to the time specified for receipt of offers. Unless otherwise specified in this solicitation, these samples shall be submitted at no expense, and returned at the sender's request and expense, unless they are destroyed by preaward testing.

4. **Multiple Offers.** Offerors are encouraged to submit multiple offers presenting alternative terms and conditions or items for satisfying the requirements of this solicitation. Each offer submitted will be evaluated separately.

5. **Late Submissions, Modifications, Revisions, and Withdrawals of Offers.**

a. Offerors are responsible for submitting offers, and any modifications, revisions, or withdrawals, so as to reach the Contracting Officer designated in the solicitation by the time specified in the solicitation. If no time is specified in the solicitation, the time for receipt is 1630 hours, local time, for the designated contracting office on the date that offers or revisions are due.

b. Any offer, modification, revision, or withdrawal of an offer received at the contracting office designated in the solicitation after the exact time specified for receipt of offers is "late" and will not be considered unless it is received before award is made, the Contracting Officer determines that accepting the late offer would not unduly delay the acquisition, and

1) if it was transmitted through an electronic commerce method authorized by the solicitation, it was received at the initial point of entry to the contracting office not later than 1700 hours one working day prior to the date specified for receipt of offers, or

2) there is acceptable evidence to establish it was received at the location designated for the receipt of offers and was under government control prior to the time set for receipt of offers, or

3) if the solicitation was a request for proposals, it was the only proposal received.

c. However, a late modification of an otherwise successful offer that makes the offer's terms more favorable to the contracting organization issuing the solicitation will be considered at any time it is received and may be accepted.

d. Acceptable evidence to establish the time of receipt at the contracting office includes the time/date stamp of that installation on the offer wrapper, other documentary evidence of receipt maintained by the installation, or oral testimony or statements of contracting office personnel.

e. If an emergency or unanticipated event interrupts normal processes so that offers cannot be received at the contracting office designated for receipt of offers by the exact time specified in the solicitation, and urgent requirements preclude amendment of the solicitation or other notice of the extension of the closing date, the time specified for receipt of offers will be deemed to be extended to the same time of day specified in the solicitation on the first work day on which normal processes resume.

f. Offers may be withdrawn by written notice received at any time before the exact time set for receipt of offers. Oral offers in response to oral solicitations may be withdrawn orally. If the solicitation authorizes facsimile offers, offers may be withdrawn via facsimile received at any time before the exact time set for receipt of offers, subject to the conditions specified in the solicitation concerning facsimile offers. An offer may be withdrawn in person by an offeror or its authorized representative if, before the exact time set for receipt of offers, the identity of the person requesting withdrawal is established and the person signs a receipt for the offer.

6. **Contract Award.** The Contracting Officer intends to evaluate offers and award a contract without discussions with offerors. Therefore, the offeror's initial offer should contain the offeror's best terms from a price and technical standpoint. However, the Contracting Officer reserves the right to conduct discussions if later determined by the Contracting Officer to be necessary. The Contracting Officer may reject any or all offers if such action is in the public interest; accept other than the lowest-priced offer; and waive informalities and minor irregularities in offers received.

7. **Multiple Awards.** The Contracting Officer may accept any item or group of items of an offer, unless the offeror qualifies the offer by specific limitations. Unless otherwise provided in the schedule, offers may not be submitted for quantities less than those specified. The Contracting Officer reserves the right to make an award on any item for a quantity less than the quantity offered, at the unit prices offered, unless the offeror specifies otherwise in the offer.

8. **Evaluation.** The Contracting Officer will award a contract resulting from this solicitation to the responsible offeror whose offer conforming to the solicitation will be most advantageous to the contracting activity, price and other factors considered. The following factors shall be used to evaluate offers.

(Contracting Officer lists factors here, in order of importance)

9. **Options**. The Contracting Officer will evaluate offers for award purposes by adding the total price for all options to the total price for the basic requirement. The Contracting Officer may determine that an offer is unacceptable if the option prices are significantly unbalanced. Evaluation of options shall not obligate the Contracting Officer to exercise the option(s).

10. **Notice of Award.** A written notice of award or acceptance of an offer, mailed or otherwise furnished to the successful offeror within the time for acceptance of the offer, shall result in a binding contract without further action by either party. Before the offer's scheduled expiration time, the Contracting Officer may accept an offer (or part of an offer) whether or not there are negotiations after its receipt, unless a written notice of withdrawal is received before award.

11. **Protests.** A contractor wishing to object to the terms of a solicitation, the termination of a solicitation, the award of a contract, or the termination of the award of a contract, shall present the matter to the Contracting Officer for an initial decision. The contractor shall state to the Contracting Officer the basis for the protest. If the contractor does not agree with the Contracting Officer's initial decision, the Contractor may appeal the initial decision to the Head of Contracting Activity, CPA, for resolution. The decision of the Head of Contracting Activity, CPA, shall be the final decision in the matter.

12. **Evaluation of Foreign Currency Offers.** If the Contracting Officer receives offers in more than one currency, the Contracting Officer will evaluate offers by converting the foreign currency to United States currency using _____ rate in effect on the date specified for receipt of offers, if award is based on initial offers, or, if award is based on revised offers, on the date specified for receipt of proposal revisions.

Contract Terms and Conditions

13. **Inspection/Acceptance.** The Contractor shall only tender for acceptance those items that conform to the requirements of this contract. The Contracting Officer reserves the right to inspect or test any supplies or services that have been tendered for acceptance. The Contracting Officer may require repair or replacement of nonconforming supplies or reperformance of nonconforming services at no increase in contract price. The Contracting Officer must exercise the post-acceptance rights:

a. Within a reasonable time after the defect was discovered or should have been discovered, and

b. Before any substantial change occurs in the condition of the item, unless the change is due to the defect in the item.

14. **Assignment.** The Contractor shall not assign, transfer, or make any other disposition of this Contract, or any part thereof, without the prior written consent of the Contracting Officer.

15. **Changes.** Changes in the terms and conditions of this contract may be made only by written agreement of the parties.

16. **Disputes.** This contract is not subject to the Contract Disputes Act of 1978, as amended (41 U.S. Code, Sections 601-613). Failure of the parties to this contract to reach agreement on any request for equitable adjustment, claim, appeal, or action arising under or relating to this contract shall be a dispute to be resolved in accordance with the United States Federal Acquisition Regulation Clause 52.233-1, Disputes, which is incorporated herein by reference except that appeals from final decisions of a Contracting Officer may only be appealed to the U.S. Armed Services Board of Contract Appeals (ASBCA). The decision of the ASBCA shall be final. The contractor shall proceed diligently with performance of this contract, pending final resolution of any dispute arising under the contract.

17. **Excusable Delays.** The Contractor shall be liable for default unless nonperformance is caused by an occurrence beyond the reasonable control of the Contractor and without its fault or negligence such as, acts of God or the public enemy, acts of the Governmental activity in either its sovereign or contractual capacity, fires, floods, epidemics, quarantine restrictions, strikes, unusually severe weather, and delays of common carriers. The Contractor shall notify the Contracting Officer in writing as soon as it is reasonably possible after the commencement of any excusable delay, setting forth the full particulars in connection therewith, shall remedy such occurrence with all reasonable dispatch, and shall promptly give written notice to the Contracting Officer of the cessation of such occurrence.

18. **Invoice.** The Contractor shall submit an original invoice and three copies (or electronic invoice if authorized) to the address designated in the contract to receive invoices. The invoice must include:

a. Name and address of the Contractor.

b. Invoice date and number.

c. Contract number, contract line item number, and, if applicable, the order number.

d. Description, quantity, unit of measure, unit price, and extended price of the items delivered.

e. Shipping number and date of shipment, including the bill of lading number and weight of shipment if shipped on a bill of lading.

f. Terms of any discount for prompt payment offered.

g. Name, title, and phone number of person to notify in event of defective notice.

19. **Patent Indemnity.** The Contractor shall indemnify the Government agency involved in this contract and its officers, employees, and agents against liability, including costs, for actual or alleged direct or indirect contributory infringement of, or inducement to infringe, any patent,

trademark, or copyright, arising out of the performance of this contract, provided the Contractor is reasonably notified of such claims and proceedings.

20. **Payment.** Payment shall be made for items accepted by the Contracting Officer that have been delivered to the delivery destinations set forth in this contract. In connection with any discount offered for early payment, time shall be computed from the date of the invoice. For the purpose of computing the discount earned, payment shall be considered to have been made on the date which appears on the payment check or the specified payment date if an electronics fund transfer payment is made.

21. **Risk of Loss.** Unless the contract specifically provides otherwise, risk of loss or damage to the supplies provided under this contract shall remain with the Contractor until, and shall pay to the Contracting Officer upon:

a. Delivery of the supplies to a carrier, if transportation is f.o.b. origin.

b. Delivery of the supplies to the Contracting Officer or a representative at a destination specified in the contract, if transportation is f.o.b. destination.

22. **Taxes.** The contract price includes all applicable taxes and duties.

23. **Termination for Convenience.** The Contracting Officer reserves the right to terminate this contract, or any part hereof, for the sole convenience of the Government activity. In the event of such termination, the Contractor shall immediately stop all work hereunder and shall immediately cause any and all of its suppliers and subcontractors to cease work. Subject to the terms of this contract, the Contractor shall be paid a percentage of the contract price reflecting the percentage of the work performed prior to the notice of termination, plus reasonable charges the Contractor can demonstrate to the satisfaction of the Contracting Officer using its standard record keeping system, have resulted from the termination. The Contracting Officer, upon reasonable advanced notice, may inspect the financial records relating to this Contract including the amounts paid to subcontractors and the locations where any portion of the Contractor's performance occurs. The Contracting Officer may review the Contractor's financial statements upon request.

24. **Termination for Cause.** The Contracting Officer may terminate this contract, or any part hereof, for cause in the event of any default by the Contractor, or if the Contractor fails to comply with any contract terms and conditions, or fails to provide the Contracting Officer, upon request, with adequate assurances of future performance. In the event of termination for cause, the Government agency shall not be liable to the Contractor for any amount of supplies or services not accepted, and the Contractor shall be liable for any and all rights and remedies provided by law. If it is determined that the Contracting Officer improperly terminated this contract for cause, such termination shall be deemed a termination for convenience.

25. **Title.** Unless specified elsewhere in this contract, title to items furnished under this contract shall pass to the Government agency upon acceptance, regardless of when or where the Government agency takes physical possession.

26. **Warranty.** The Contractor warrants and implies that the items delivered hereunder are merchantable and fit for use for the particular purpose described in this contract.

27. **Immunities.** Except as provided in this contract, the Government of Iraq or its agents, including the CPA or other governmental agencies, have not waived any of their privileges or immunities.

28. **Legal Status.** The Contractor is an independent contractor. The Contractor's employees will not be considered government employees for any purpose. The Contractor is solely responsible for compensation agreements with employees.

29. **Contractor's Responsibility for Employees.** The Contractor is responsible for the professional and technical competence of its employees and will select reliable individuals who will perform effectively in the implementation of this Contract, respect the local customs, and conform to a high standard of moral and ethical conduct. The Contracting Officer may require that the Contractor remove from the job employees who endanger persons or property, or whose continued employment under this contract is inconsistent with the interest of military security.

30. **Subcontracting.** Except as authorized in this contract, the Contractor may not subcontract any portion of the performance of this Contract to another without the prior written consent of the Contracting Officer. The terms of any subcontract will be subject to and conform with the provisions of this Contract.

31. **Indemnification.** The Contractor shall defend, indemnify, and hold harmless all government entities involved in this contract, together with the entities' officers, agents, and employees from and against all suits, claims, or liabilities of any kind arising out of acts or omissions of the Contractor, its employees, or the Contractor's subcontractors.

32. **Insurance.** The Contractor represents and warrants that it shall maintain appropriate insurance including general commercial liability and workers compensation coverage in an adequate amount to cover third parties claims arising from or in connection with this Contract. Upon request, the Contractor will provide satisfactory evidence of the insurance required under this article.

33. **Use of Names and Symbols.** Except as required by this Contract, the Contractor will not advertise or otherwise makes public the fact that it is a contractor to the governmental entity in this Contract, nor will the Contractor use the name or emblem of the governmental entity for commercial purposes.

34. **Limitation of Liability.** Except as otherwise provided by an express warranty, the Contractor will not be liable to the governmental entity for consequential damages resulting from any defect or deficiencies in accepted items.

35, **Inconsistency between English Version and Translation of Contract.** In the event of inconsistency between any terms of this contract and any transaction into another language, the English language meaning shall control.

36. **Correspondence in English.** The Contractor shall ensure that all contract correspondence that is addressed to the governmental entity awarding this contract is submitted in English or with an English translation.

37. **Conflicts of Interest.** The Contractor warrants that no governmental official has received or will be offered by the Contractor any direct or indirect benefit in connection with or arising from the award of this contract. The Contractor agrees that any breach of this provision is a breach of an essential term of this Contract.

38. **Order of Precedence (except for Construction Contracts).** Any inconsistencies in this solicitation or contract shall be resolved by giving precedence in the following order:

a. The schedule of supplies/services.

b. The Assignments, Disputes, Payments, Invoice, Other Compliances clauses of this contract.

c. Addenda to this solicitation or contract, including any license agreements for computer software.

d. Solicitation provisions (if this is a solicitation)

e. The other standard clauses in this contract.

f. Other documents, exhibits, and attachments.

g. The specification (the narrative description of the work)

39. **Other Compliances.** The Contractor shall comply with all applicable laws, rules, and regulations applicable to its performance under this contract.

40. **Source of Funds.** The obligation under this contract is made with CPA Funds, as defined in CPA Memorandum Number 04 , dated August 19, 2003. No funds, appropriated or other, of any Coalition country are or will be obligated under this contract.

41. **Option to Extend the Term of the Contract.**

a. The governmental entity awarding this contract may extend the term of this contract by written notice to the Contractor within _____ days (insert number of days) prior to the end of the term of the contract, or the end of any option period previously exercised under the contract; provided that the Government entity gives the Contractor a preliminary written notice of its intent to extend at least _____(insert number of days) before the contract period (including option periods exercised) expires. The preliminary notice does not commit the governmental entity to an extension. If the Government exercises this option, the extended contract shall be considered to include this clause.

b. At the end of the contract period, or at the end of the final option period under this contract, whichever is later, if the governmental entity requires continued performance of services within the limits and at the rates specified in the contract, the governmental entity may extend the period of performance under this contract for an additional period not to exceed six months, by giving written notice to the Contractor at least _____ days before the end of the contract period or the end of the final option period exercised, whichever is later.

42. **Liquidated Damages.**

availability of labor, water, electric power, and roads; (3) uncertainties of weather, river stages, tides, or similar physical conditions at the site; (4) the conformation and conditions of the ground; (5) the character of equipment and facilities needed preliminary to and during work performance. The Contractor also acknowledges that it has satisfied itself as to the character, quality, and quantity of surface and subsurface materials or obstacles to be encountered insofar as the information is reasonably ascertainable from an inspection of the site, including all exploratory work done by the governmental agency involved, as well as from the drawing and specifications made a part of this contract. Any failure of the Contractor to take the action described and acknowledged in this paragraph will not relieve the Contractor from responsibility for estimating properly the difficulty and cost of successfully performing the work, or for proceeding to successfully perform the work without additional expense to the governmental agency involved.

b. The governmental agency involved in this contract assumes no responsibility for any conclusions or interpretations made by the Contractor based on the information made available by the Government, nor does the governmental agency assume responsibility for any understanding reached or representation made concerning conditions which can affect the work by any of its officers or agents before the execution of this contract, unless that understanding or representation is expressly stated in this contract.

46. **Material and Workmanship.**

a. All equipment, material, and articles incorporated into the work covered by this contract shall be new and of the most suitable grade for the purpose intended, unless otherwise specifically provided in this contract. References in the specifications to equipment, material, articles, or patented processes by trade name, make, or catalog number, shall be regarded as establishing a standard of quality and shall not be construed as limited competition. The Contractor may, at its option, use any equipment, material, article, or process that, in the judgment of the Contracting Officer, is equal to that named in the specifications, unless otherwise specifically provided in this contract.

b. The Contractor shall obtain the Contracting Officer's approval of the machinery and mechanical and other equipment to be incorporated into the work. When requesting approval, the Contractor shall furnish to the Contracting Officer the name of the manufacturer, the model number, and other information concerning the performance, capacity, nature, and rating of the machinery and mechanical and other equipment. When required by this contract or by the Contracting Officer, the Contractor shall also obtain the Contracting Officer's approval of the material or articles which the Contractor contemplates incorporating into the work. When requesting approval, the Contractor shall provide full information concerning the material or articles. When directed to do so, the Contractor shall submit samples for approval at the Contractor's expense, with all shipping charges prepaid. Machinery, equipment, material, and articles that do not have the required approval shall be installed or used at the risk of subsequent rejection.

c. All work under this contract shall be performed in a skillful and workmanlike manner. The Contracting Officer may require, in writing, that the Contractor remove from the work any employee the Contracting Officer deems incompetent, careless, or otherwise objectionable.

47. **Superintendence by the Contractor.** At all times during performance of this contract and until the work is completed and accepted, the Contractor shall directly superintend the work

a. If the Contractor fails to perform within the time specified in this contract, the Contractor shall, in place of actual damages, pay to the governmental entity liquidated damages of $_____ per calendar day of delay.

b. If the governmental entity terminates this contract in whole or in part under the Termination for Cause clause, the Contractor is liable for liquidated damages accruing until the governmental entity reasonably obtains similar delivery or performance. These liquidated damages are in addition to excess costs of repurchase under the Termination for Cause clause.

c. The Contractor will not be charged with liquidated damages when the delay in delivery or performance is beyond the control and without the fault or negligence of the Contractor as defined in the Excusable Delay clause.

Construction Contract Terms and Conditions
(For Construction Contracts Only)

43. **Performance of Work by the Contractor.** The Contractor shall perform on the site, and with its own organization, work equivalent to at least _____ percent of the total amount of work to be performed under the contract. This percentage may be reduced by a supplemental agreement to this contract if, during performing the work, the Contractor requests a reduction and the Contracting Officer determines that the reduction would be to the advantage of the Government.

44. **Differing Site Conditions.**

a. The Contractor shall promptly, and before the conditions are disturbed, give a written notice to the Contracting Officer of:

(1) Subsurface or latent physical conditions at the site which differ materially from those indicated in the Contract, or

(2) Unknown physical conditions at the site, of an unusual nature, which differ materially from those ordinarily encountered and generally recognized as inhering in work of the character provided for in the contract.

b. The Contracting Officer shall investigate the site conditions promptly after receiving the notice. If the conditions do materially so differ and cause an increase or decrease in the Contractor's cost of, or the time required for, performing any part of the work under this contract, whether or not changed as a result of the conditions, an equitable adjustment shall be made under this clause and the contract modified in writing accordingly.

c. No request by the Contractor for an equitable adjustment to the contract shall be allowed, unless the Contractor has given the written notice required; provided, that the time prescribed in paragraph (a) of this clause for giving written notice may be extended by the Contracting Officer.

d. No request by the Contractor for an equitable adjustment to the contract for differing site conditions shall be allowed if made after final payment under this contract.

45. **Site Investigation and Conditions Affecting the Work.**

a. The Contractor acknowledges that it has taken steps reasonably necessary to ascertain the nature and location of the work, and that it has investigated and satisfied itself as to the general and local conditions which can affect the work or its cost, including but not limited to (1) conditions bearing upon transportation, disposal, handling, and storage of materials; (2) the

or assign and have on the worksite a competent superintendent who is satisfactory to the Contracting Officer and has authority to act for the Contractor.

48. **Permits and Responsibilities.** The Contractor shall, without additional expense to the governmental entity awarding this contract, be responsible for obtaining any necessary licenses and permits, and for complying with any laws, codes, or regulations applicable to the performance of the work. The Contractor shall also be responsible for all damages to persons or property that occurs as a result of the Contractor's fault or negligence. The Contractor shall also be responsible for all materials delivered and work performed until completion and acceptance of the entire work, except for any completed unit of work which may have been accepted under the contract.

49, **Protection of Existing Vegetation, Structures, Equipment, Utilities, and Improvements.**

a. The Contractor shall preserve and protect all structures, equipment, and vegetation (such as trees, shrubs, and grass) on or adjacent to the work site, which are not to be removed and which do not unreasonably interfere with the work required under this contract. The Contractor shall only remove trees when specifically authorized to do so, and shall avoid damaging vegetation that will remain in place. If any limbs or branches of trees are broken during contract performance, or by the careless operation of equipment, or by workmen, the Contractor shall trim those limbs or branches with a clean cut and take such other action as the Contracting officer may direct.

b. The Contractor shall protect from damage all existing improvements and utilities (1) at or near the work site, and (2) on adjacent property of a third party, the locations of which are made known to or should be known by the Contractor. The Contractor shall repair any damage to those facilities, including those that are the property of a third party, resulting from failure to comply with the requirements of this contract or failure to exercise reasonable care in performing the work. If the Contractor fails or refuses to repair the damage promptly, the Contracting Officer may have the necessary work performed and charge the cost to the Contractor.

50. **Operations and Storage Areas.**

a. The Contractor shall confine all operations (including storage of materials) to areas authorized or approved by the Contracting Officer. The Contractor shall hold and save the government entity awarding this contract, its officers and agents, free and harmless from liability of any nature occasioned by the Contractor's performance.

b. Temporary buildings (such as storage sheds, shops, offices) and utilities may be erected by the Contractor only with the approval of the Contracting Officer and shall be built with labor and materials furnished by the Contractor without expense to the governmental entity awarding this contract. The temporary buildings and utilities shall remain the property of the Contractor and shall be removed by the Contractor at its expense upon completion of the work. With the written consent of the Contracting Officer, the buildings and utilities may be abandoned and need not be removed.

c. The Contractor shall, under rules established by the Contracting Officer, use only established roadways, or use temporary roadways constructed by the Contractor when and as authorized by the Contracting Officer. When materials are transported in prosecuting the work, vehicles shall not be loaded beyond the loading capacity recommended by the manufacturer of

the vehicle or prescribed by law or regulation. When it is necessary to cross curbs and sidewalks, the Contractor shall protect them from damage. The Contractor shall repair or pay for the repair of any damaged curbs, sidewalks, or roads.

51. **Cleaning Up.** The Contractor shall at all times keep the work area, including storage areas, free from accumulations of waste materials. Before completing the work, the Contractor shall remove from the work and premises any rubbish, tools, scaffolding, equipment, and materials that are not the property of the Government. Upon completing the work, the Contractor shall leave the work area in a clean, neat, and orderly condition satisfactory to the Contracting Officer.

52. **Accident Prevention.**

a. The Contractor shall provide and maintain work environments and procedures which will:

(1) Safeguard the public and governmental entity personnel, property, materials, supplies, and equipment exposed to Contractor operations and activities,

(2) Avoid interruptions of governmental entity operations and delays in project completion dates, and

(3) Control costs in the performance of this contract.

b. For these purposes on contracts for construction or dismantling, demolition, or removal of improvements, the Contractor shall:

(1) Provide appropriate safety barricades, signs, and signal lights.

(2) Ensure that any additional measures the Contracting Officer determines to be reasonably necessary for the purposes are taken.

c. Whenever the Contracting Officer becomes aware of any noncompliance with these requirements or any condition which poses a serious or imminent danger to the health and safety of the public or governmental entity personnel, the Contracting Officer shall notify the Contractor orally, with written confirmation, and request immediate initiation of corrective action. This notice, when delivered to the Contractor or the Contractor's representative at the work site, shall be deemed sufficient notice of the noncompliance and that corrective action is required. After receiving the notice, the Contractor shall immediately take corrective action. If the Contractor fails or refuses to promptly take corrective action, the Contracting Officer may issue an order stopping all or part of the work until satisfactory corrective action has been taken. The Contractor shall not be entitled to any equitable adjustment of the contract price or extension of the performance schedule on any stop work order issued under this clause.

d. The Contractor shall insert this clause, including this paragraph (d), with appropriate changes in the designation of the parties, in subcontracts.

53. **Schedules for Construction Contracts.**

a. The Contractor shall, within five days after the work commences on the contract or another period of time determined by the Contracting Officer, prepare and submit to the Contracting Officer for approval three copies of a practicable schedule showing the order in which the Contractor contemplates starting and completing the several salient features of the work (including acquiring materials and equipment). The schedule shall be in the form of a progress chart of suitable scale to indicate approximately the percentage of work scheduled for completion by any given date during the period. If the Contractor fails to submit a schedule

within the time prescribed, the Contracting Officer may withhold approval of progress payments until the Contractor submits the required schedule.

b. The Contractor shall report progress under the schedule to the Contracting Officer as directed by the Contracting Officer. If, in the opinion of the Contracting Officer, the Contractor falls behind the approved schedule, the Contractor shall take steps necessary to improve its progress, including those that may be required by the Contracting Officer, without additional cost to the governmental entity awarding this contract. In this circumstance, the Contracting Officer may require the Contractor to increase the number of shifts, overtime operations, days of work, and other efforts, and to submit for approval any supplementary schedule or schedules as the Contracting Officer deems necessary to demonstrate how the approved rate of progress will be regained.

c. Failure of the Contractor to comply with the requirements of the Contracting Officer under this clause shall be grounds for a determination by the Contracting Officer that the Contractor is not prosecuting the work with sufficient diligence to ensure completion within the time specified in the contract. Upon making this determination, the Contracting Officer may terminate the Contractor's right to proceed with the work, or any separable part of it, in accordance with the default terms of the contract.

54. **Specifications and Drawings for Construction.** The Contractor shall keep on the work site a copy of the drawings and specifications (the written description of the work) and shall at all times give the Contracting Officer access thereto. Anything mentioned in the specifications and not in the drawings, or shown on the drawings and not mentioned in the specifications, shall be of like effect as if shown or mentioned in both. In case of difference between drawings and specifications, the specifications shall govern. If case of difference in the figures between the drawings or in the specifications, the matter shall be promptly submitted to the Contracting Officer, who shall promptly make a determination in writing. Any adjustment by the Contractor without such a determination shall be at its own risk and expense. The Contracting Officer shall furnish from time to time such detailed drawings and other information as considered necessary, unless otherwise provided.

CONTRACT AND GRANT PROCEDURES APPLICABLE TO VESTED AND SEIZED IRAQI PROPERTY AND DEVELOPMENT FUND FOR IRAQ

Guidance for Issuing Grants
APPENDIX C

Considerations for Drafting Grant Agreements or Solicitations for Grant Proposals.

- Identify the objectives of the grant and need for assistance. Pinpoint any relevant physical, economic, social, financial, institutional, or other problems to be addressed by the grant.
- Consider the anticipated results or benefits expected. Identify costs and benefits to be derived. For example, show how problem will be improved as a result of the grant. Explain how the project will benefit the public.
  Examine the execution approach. List the activities in chronological order to show the schedule of accomplishments and expected completion dates. Identify the kinds of data to be collected and maintained, and discuss the criteria to be used to evaluate the results and success of the project. Explain the methodology that will be used to determine if the needs identified and discussed are being met and if the results and benefits identified are being achieved. List each organization, cooperator, consultant, or other key individuals who will work on the project along with a short description of the nature of their effort or contribution.
- Develop assessment and control measures. Establish criteria for judging the effectiveness and value of the grant. For larger grants, progress payments or other control measures should be included to ensure the grant is used effectively.

Executing Grants

- Grants may be made to government entities or other organizations for purposes benefiting the public good. Small reconstruction and public works projects, as well as projects that positively impact education and health care, may be appropriate for grants.
- Grant agreements will be recorded on forms prescribed by the Head of Contracting Activity, CPA, in consultation with the Office of the General Counsel, CPA.
  When executing grants ensure the grantee understands the purpose of the grant and the need to exercise fiscal responsibility including obtaining receipts for significant payments and for documenting the use of funds.

- Conduct periodic inspections of the grant activity to ensure the grant is being used appropriately.

CONTRACT AND GRANT PROCEDURES APPLICABLE TO VESTED AND SEIZED IRAQI PROPERTY AND DEVELOPMENT FUND FOR IRAQ

Frequently Asked Questions

APPENDIX D

What projects are appropriate for the expenditure of DFI Funds?

UN Security Council Resolution 1483 (2003) provides the following:

14. Underlines that the Development Fund for Iraq shall be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, and for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq;

This is the standard for use of DFI funds. If the contracting requirement does not fit squarely within these categories, other funding sources must be used. Requirements for the support of Coalition Forces may not be satisfied with DFI funds.

What special rules apply for contracts with Iraqi Funds?

Obligations under contracts with Iraqi Funds will be satisfied only with Iraqi Funds. A special clause is included in the contract to put all parties on notice of this important issue.

Military Units: Military units should not execute contracts in their names or in the name of their government for projects using Iraqi Funds. These contracts must contain the following language:

> "This contract/grant is entered into under the authority of the Administrator as head of the Coalition Provisional Authority (CPA), which is temporarily exercising governmental authority in Iraq pursuant to the law and usages of war and relevant United Nations Security Council Resolutions, including Resolution 1483 (2003) ("Coalition") and by _____("Contractor")

Coalition Provisional Authority: In order to clearly state the authority upon which the contract is being entered into, the clause set forth above must be included in each contract.

The CPA's authority is of limited duration and will terminate upon the establishment of an internationally recognized, representative government of Iraq. Therefore, it is important to ensure there is a "termination for convenience" clause in each contract.

Ministries of the Iraqi Government: Ministries of the Iraqi government should use Iraqi government contracting procedures when using CPA Funds, if the Administrator determines that the contracting procedures are adequate. If those procedures are inadequate, these procedures will be used.

When should I use a grant and when should I use a contract?

When the primary purpose is to support or stimulate the efforts of the recipient rather than to acquire a product or service, grants may be made to community agencies in support of community development or outreach programs. Grants have more limited oversight and are intended to allow the applicant greater flexibility. While the effectiveness of the grant should be assessed, the requirement need not be filled by another source if the intended aims are not achieved. Grants are generally awarded to government entities and non-profit organizations.

Contracts are used to acquire goods or services.

What factors should be used when evaluating potential contractors?

The requirements for each contract should be tailored to the acquisition. However all decisions to award contracts should involve consideration of the following factors:

- Value. While price is very important in determining a contract award, it ensuring the performance of the contract in responsible manner is also important.
- Financial Stability of Contractor. The financial stability of the contractor must be evaluated in all Large Purchase contracts or contracts involving a substantial percentage payment of the full contract award in advance. This review should include an analysis of its financial statements; audits where possible; credit reports; and other data assessing the fitness of the company.
- Past Performance. Past performance should be considered if the entity has performed previous services.

Appendix E

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(U) FRAGO 89 [COMMANDER'S EMERGENCY RESPONSE PROGRAM (CERP), FORMERLY THE BRIGADE COMMANDERS' DISCETIONARY FUND] TO CJTF-7 OPORD 03-036

(U) THIS FRAGO HAS BEEN REVIEWED AND APPROVED FOR RELEASE BY COL RADCLIFFE, CJTF-7 C3 CHOPS

SUBJ: COMMANDER'S EMERGENCY RESPONSE PROGRAM (CERP).

(U) REFERENCES:

A. V CORPS FRAGO 104M TO OPORD FINAL VICTORY, COMMANDERS DISCRETIONARY RECOVERY PROGRAM, DTG 070220LMAY03
B. V CORPS FRAGO 132M [CHANGE 1 TO FRAGO 104M - BDE CDR'S DISCRETIONARY FUNDS] TO V CORPS OPORD FINAL VICTORY, DTG 082130LMAY03
C. CFLCC FRAGO 32 TO OPORD 03-033, DTD 080922LMAY03
D. CFLCC FRAGO TO OPORD 03-033, DTD
E. FRAGO 458M [CHANGE 2 TO FRAGO 104M - BDE CDR'S DISCRETIONARY FUNDS] TO V CORPS OPORD FINAL VICTORY

(U) MAPS: [NO CHANGE]

(U) TIME ZONE USED THROUGHOUT THIS ORDER: DELTA

(U) TASK ORGANIZATION: [NO CHANGE]

1. (U) SITUATION. [NO CHANGE]

2. (U) MISSION. [NO CHANGE]

3. (U) EXECUTION. [NO CHANGE]

(U) COMMANDER'S INTENT [NO CHANGE]

3.B. (U) CONCEPT OF THE OPERATION. COALITION PROVISIONAL AUTHORITY (CPA) HAS EXPANDED AND INCREASED THE FUNDS AVAILABLE TO BRIGADE AND DIVISION COMMANDERS. THIS PROGRAM HAS BEEN RENAMED THE COMMANDERS EMERGENCY RESPONSE PROGRAM (CERP). BRIGADE COMMANDERS' WILL BE GIVEN $200,000 WITH AN INDIVIDUAL PROJECT LIMIT OF $50,000.00. THIS AUTHORITY REMAINS LIMITED TO BRIGADE/O-6 AND GOVERNORATE LEVEL COMMANDERS. ADDITIONALLY, DIVISION COMMANDERS WILL BE GIVEN A FUND OF $500,000 WITH AN INDIVUDUAL PROJECT LIMIT OF $100,000.00. THE INTENT IS TO PROVIDE MSC WITH A GREATER CAPABILITY AND FLEXIBILITY TO TAKE IMMEDIATE ACTION TO MAKE POSITIVE IMPACTS IN THEIR AREA OF RESPONSIBILITY.

3.B.1 BRIGADE/O-6 AND GOVERNORATE LEVEL COMMANDERS, UTILIZING OPCON CIVIL AFFAIRS ASSETS, WILL AGGRESSIVELY EXECUTE THEIR SPENDING PLAN IN ORDER TO BENEFIT THE PEOPLE OF IRAQ. BRIGADE/O-6 AND GOVERNORATE LEVEL COMMANDERS WILL HAVE THE AUTHORITY TO USE INITIAL CASH FUNDING, AT THEIR OWN DISCRETION, TO PURCHASE GOODS AND SERVICES RELATED TO RECONSTRUCTION EFFORTS FOR THE IRAQI PEOPLE. AT THE BRIGADE/ GROUP LEVEL INDIVIDUAL PROJECTS ARE NOT TO EXCEED $50,000.

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3.B.2. DIVISION COMMANDERS' HAVE THE AUTHORITY TO APPROVE PROJECTS UP TO $100,000. PROJECTS EXCEEDING $100,000 WILL BE SUBMITTED THROUGH C8/COMPTROLLER CHANNELS TO OCPA IAW PROCEDURES THAT WILL BE PUBLISHED BY SEPARATE FRAGO.

3.B.3. AS FUNDS ARE EXHAUSTED, BRIGADES/DIVISIONS WILL COORDINATE THROUGH THEIR ORGANIZATION G8 /COMPTROLLERS TO GAIN ADDITIONAL FUNDING AUTHORITY. THESE FUNDS ARE MONIES DERIVED FROM SEIZED IRAQI ASSETS.

3.B.4. THE COMMANDERS' EMERGENCY RESPONSE PROGRAM (CERP) IS A CPA FUNDED AUTHORITY PROVIDED FOR RECONSTRUCTION ASSISTANCE TO THE IRAQ PEOPLE. RECONSTRUCTION ASSISTANCE IS THE BUILDING, REPAIR, RECONSTITUTION, AND REESTABLISHMENT OF THE SOCIAL AND MATERIAL INFRASTRUCTURE IN IRAQ. THIS INCLUDES, BUT IS NOT LIMITED TO: WATER AND SANITATION INFRASTRUCTURE, FOOD PRODUCTION AND DISTRIBUTION, AGRICULTURE, ELECTRICAL POWER GENERATION AND DISTRIBUTION, HEALTHCARE, EDUCATION, TELECOMMUNICATIONS, PROJECTS IN FURTHERANCE OF ECONOMIC, FINANCIAL, MANAGEMENT IMPROVEMENTS, TRANSPORTATION, AND INITIATIVES WHICH FURTHER RESTORE OF THE RULE OF LAW AND EFFECTIVE GOVERNANCE, IRRIGATION SYSTEMS INSTALLATION OR RESTORATION, DAY LABORERS TO PERFORM CIVIC CLEANING, PURCHASE OR REPAIR OF CIVIC SUPPORT VEHICLES, AND REPAIRS TO CIVIC OR CULTURAL FACILITIES.

3.B.5. EXPENDITURES CAN INCLUDE GOODS AND SERVICES (I.E.CAN PURCHASE PARTS TO FIX SOMETHING OR PAY AN IRAQI CONTRACTOR TO FIX IT).

3.B.6. CJTF-7 WILL ISSUE RESOURCE DISTRIBUTION DOCUMENTS TO SUBORDINATE UNITS C8/COMPTROLLERS TO FUND BRIGADE/DIVISION COMMANDERS.

3.B.7. THE NEW LIMITS ARE EFFECTIVE IMMEDIATELY FOR FUNDS ALREADY DISTRIBUTED TO UNITS.

3.C TASKS TO SUBORDINATE UNITS

3.C.1 TASKS TO MSCs

3.C.1.B PROJECT PURCHASING OFFICERS (PPOS) MUST BE APPOINTED, IN WRITING BY THEIR COMMANDER, HAVE BEEN CERTIFIED AS A FIELD ORDERING OFFICER (FOO), AND MUST MAINTAIN A COPY OF THE FRAGO AUTHORIZING THE CERP PROGRAM.

3.C.1.C. COORDINATE FOR FINANCE SUPPORT WITH LOCAL FINANCE ELEMENTS TO PROVIDE CURRENCY SUPPORT AND PAY AGENT TRAINING.

3.C.1.D PROVIDE SECURITY FOR FUNDS AS NECESSARY

3.C.1.E PROVIDE TRANSPORTATION AND SECURITY TO PAY AGENTS AS REQUIRED

3.C.1.F. COORDINATE WITH ORGANIC FINANCE ELEMENTS FOR REQUIRED PAY AGENT DOCUMENTATION NECESSARY TO DRAW CASH.

3.D COORDINATING INSTRUCTIONS

3.D.1. COORDINATE ALL PROJECTS WITH REGIONAL OCPA OFFICES, GST AND CIVIL AFFAIRS ELEMENTS TO PREVENT DUPLICATION OF EFFORT AND TO ENSURE SYNCHRONIZATION.

3.D.2. IRAQI SEIZED ASSETS USED FOR THIS PROGRAM ARE NOT UNLIMITED. WORK TO ENSURE REASONABLE PRICES ARE PAID FOR GOODS/SERVICES RECEIVED, AND PROJECTS ARE CONSTRUCTED TO A MODEST, FUNCTIONAL STANDARD.

3.D.3. LIMITATIONS ON FUND EXPENDITURES:

3.D.3.A. FUNDS WILL NOT BE USED FOR EITHER THE DIRECT OR INDIRECT BENEFIT OF CJTF-7 FORCES, TO INCLUDE COALITION FORCES.

3.D.3.B. FUNDS WILL NOT BE USED FOR ENTERTAINMENT OF LOCAL IRAQI POPULATION

3.D.3.C. FUNDS WILL NOT BE USED TO FUND ANY TYPE OF WEAPONS BUY BACK PROGRAMS OR REWARDS PROGRAMS.

3.D.3.D. FUNDS WILL NOT BE USED TO BUY FIREARMS, AMMUNITION, OR THE REMOVAL OF UNEXPLODED ORDNANCE (UXO) FOR ANY PURPOSE.

3.D.3.E FUNDS WILL NOT BE USED FOR DUPLICATING SERVICES AVAILABLE THROUGH MUNICIPAL GOVERNMENTS.

3.D.3.F. UNITS CANNOT MIX CERP FUNDS AND UNIT OPERATIONS AND MAINTENANCE (OMA) FUNDS. PPOS MUST USE SEPARATE SF44'S AND DOCUMENT REGISTER FOR THESE FUNDS.

3.D.3.G. FUNDS WILL NOT BE USED TO PROVIDE SUPPORT TO INDIVIDUALS OR PRIVATE BUSINESSES (EXCEPTIONS POSSIBLE, I.E. REPAIR DAMAGE CAUSED BY COALITION FORCES.)

3.D.3.H. UNITS WILL NOT PAY SALARIES TO THE CIVIL WORK FORCE, PENSIONS, OR FUND EMERGENCY CIVIL SERVICE WORKER PAYMENTS. SALARIES AND EMERGENCY PAYMENTS ARE HANDLED DIRECTLY BY OCPA VIA IRAQI MINISTRIES AND LOCAL GST. SEE COMCFLCC FRAGO 366/416 FOR THESE PROCEDURES.

3.D.3.I. VIOLATIONS OF THESE RESTRICTIONS WILL RESULT IN TERMINATION OF CERP FUNDS FOR THAT UNIT.

3.D.4. ALL PROJECT PURCHASING OFFICERS WILL RECONCILE THEIR ACCOUNTS WITH FINANCE, RESOURCE MANAGEMENT, AND THEIR BRIGADE/DIVISION COMMANDER. COMMANDERS MUST CLEAR PPO WITH MEMO VALIDATING ALL PROJECTS AND SUBMIT PRB-1 (PROVIDED SEPERATELY TO COMPTROLLERS) THROUGH COMPTROLLER CHANNELS TO CJTF-7 C8.

3.D.5. PAY AGENTS ARE ENCOURAGED TO DRAW FUNDS AS NEEDED RATHER THAN LARGE BULK SUMS.

3.D.6. RECORD ALL PAYMENTS ON SF44 TO DOCUMENT PURCHASES MADE UNDER THIS PROGRAM. PROJECT PURCHASING OFFICERS ARE AUTHORIZED TO MAKE PURCHASES AND TO PAY FOR PROJECTS UP TO $50,000 AND $100,000 WITH THE SF 44 FOR THIS PROGRAM ONLY.

3.D.7. COMMANDERS ARE NOT AUTHORIZED TO DELIBERATELY OVER PAY. EXTRA PRECAUTION SHOULD BE TAKEN FOR EXPENSES OVER $10,000.00. FOR PROJECTS OVER $10,000, BRIGADE COMMANDERS MUST INFORM DIVISION COMMANDERS' IN ADVANCE, OBTAIN THREE BIDS FOR THE PROJECT, AND IDENTIFY AN INDIVIDUAL TO MANAGE THE PROJECT. DOCUMENT YOUR EFFORTS TO VERIFY COSTS ARE REASONABLE. FOR LARGER PROJECTS (OVER $10,000) PROGRESS PAYMENTS SHOULD BE MADE AS OPPOSED TO A LUMP SUM PAYMENT UP FRONT.

3.D.8. COMMANDERS WILL CONSULT WITH THEIR SERVICING STAFF JUDGE ADVOCATES AND FINANCE OFFICERS/RESOURCE MANAGERS FOR GUIDANCE ON THE IMPLEMENTATION OF THIS PROGRAM WITHIN THEIR COMMAND.

3.D.9. UNITS ARE ENCOURAGED TO ONLY REQUEST THE FUNDS THEY REASONABLY EXPECT TO EXECUTE.

3.D.10. REPORTS

3.D.10.A. UNITS MUST PROVIDE WEEKLY COMMANDERS DISCRETIONARY FUND FEEDER REPORTS ON SATURDAY OF EACH WEEK THROUGH UNIT COMPTROLLERS TO V CORPS/CJTF-7 G8/COMPTROLLER. INCLUDE UNIT, DATE OF PROJECT, LOCATION, AMOUNT SPENT, AND PROJECT DESCRIPTION. THIS REPORT SHOULD BE PREPARED REFLECTING ALL PROJECTS PERFORMED UNDER THE BULK FUND. UNIT COMPTROLLERS WILL CONSOLIDATE AND FORWARD THESE REPORTS NLT 1200 ON SATURDAY.

UNIT	DATE OF PROJECT	LOCATION	AMOUNT SPENT	BRIEF DESCRIPTION OF PROJECT

3.D.10.B. PRIOR TO RECEIVING AN ADDITIONAL INCREMENT OF FUNDS, UNITS WILL SUBMIT AN OCPA PRB-1 FORMS FOR ALL PROJECTS.

3.D.10.C. SUBMIT BOTH REPORTS ABOVE TO THE CJTF-7 DEPUTY C8, LTC DAVE GODDARD.

3.D.11. PROJECT PURCHASING OFFICER / PAY AGENT TEAMS WILL CLEAR OUTSTANDING SF44S PRIOR TO OBTAINING ADDITIONAL FUNDING APPROVAL.

3.D.12. DFAS ANNEX E AND OSD DIRECTIVES AUTHORIZE PROJECT PURCHASING OFFICERS TO CONTINUE THEIR DUTIES UNDER THEIR CURRENT CERTIFICATION AND TRAINING BY CONTRACTING OFFICERS.

3.D.13. POC FOR THIS FRAGO IS CJTF-7 C8, LTC DAVE GODDARD DNVT 302-550-2650, SIPRNET GODDARD@C5MAIN.HQ.C5.ARMY.SMIL.MIL, NIPRNET ACSRMXO@HQ.C5.ARMY.MIL

4. (U) SERVICE SUPPORT. [NO CHANGE]

5 (U) COMMAND AND SIGNAL. [NO CHANGE]

ACKNOWLEDGE

SANCHEZ
LTG

OFFICIAL:

WILLIAMS
C3

COALITION PROVISIONAL AUTHORITY REGULATION NUMBER 2

DEVELOPMENT FUND FOR IRAQ

Pursuant to my authority as Administrator of the Coalition Provisional Authority (CPA), and consistent with relevant U.N. Security Council resolutions, including Resolution 1483 (2003), and the laws and usages of war,

Noting the letter of May 8, 2003 from Permanent Representatives of the United States of America and the United Kingdom of Great Britain and Northern Ireland to the President of the United Nations Security Council (S/2003/538),

Recognizing that ninety-five percent of the proceeds of all export sales of petroleum, petroleum products, and natural gas from Iraq, as well as funds from other sources, shall be deposited into the Development Fund for Iraq until an internationally recognized, representative government of Iraq is properly constituted, and that five percent of the proceeds referred to in paragraph 20 of Resolution 1483 shall be deposited into the Compensation Fund established in accordance with Resolution 687 (1991),

Reaffirming that a major CPA objective is to ensure that the newly established Development Fund for Iraq and other Iraqi resources, including Iraqi petroleum and petroleum products, are dedicated to the well-being of the Iraqi people,

Committed to ensuring, consistent with paragraph 14 of Resolution 1483, that the Development Fund for Iraq shall be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, and for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq,

I hereby promulgate the following:

Section 1
Purpose

This Regulation applies to the administration, use, accounting and auditing of the Development Fund for Iraq (the "Fund"). The Regulation is intended and shall be applied to ensure that the Fund is managed in a transparent manner for and on behalf of the Iraqi people, consistent with Resolution 1483, and that all disbursements from the Fund are for purposes benefiting the people of Iraq.

Section 2
Responsibilities

1) Administrator of the CPA (Administrator). Oversees and controls the establishment, administration and use of the Fund for and on behalf of the Iraqi people, and directs disbursements from the Fund for those purposes he determines to be for the benefit of the people of Iraq.

2) Director, Economic Policy, CPA, or other CPA official designated by the Administrator. Manages the Fund, in coordination with the Central Bank of Iraq, the U.S. Federal Reserve Bank of New York and, if the Administrator directs that accounts be opened in the Bank for International Settlements (Switzerland) and/or other financial institutions, in coordination with those institutions.

3) CPA Program Review Board (PRB). Reviews all competing requirements for the relief and recovery of Iraq, assesses all available resources, and, in consultation with the Iraqi interim administration, when established, develops for the approval of the Administrator spending plans, consistent with a comprehensive budgetary framework, that identify prioritized requirements for proposed disbursements from the Fund; considers in this process information provided by the CPA International Coordination Council, the International Advisory and Monitoring Board, and other entities, as appropriate.

4) CPA International Coordination Council. Advises the PRB on matters relating to international efforts to assist the people of Iraq in the relief, recovery and development of their economy, including proposing specific projects for funding consideration; supporting efforts to encourage the global donor community to participate in this effort; providing the PRB with information regarding the nature and scope of international assistance to Iraq; and, as requested, making recommendations to the PRB with regard to disbursements from the Fund.

5) International Advisory and Monitoring Board of the Development Fund for Iraq (the "IAMB"). Including duly qualified representatives of the Secretary-General of the United Nations, the Managing Director of the International Monetary Fund, the Director-General of the Arab Fund for Social and Economic Development, and the President of the World Bank, and not to exceed three additional duly qualified members appointed by the IAMB with the approval of the Administrator. The IAMB shall approve independent public accountants responsible for auditing the Fund, the Oil Proceeds Receipts Account referred to in section 2(9), and auditing export sales of petroleum, petroleum products, and natural gas from Iraq. The Administrator, in consultation with the IAMB, may appoint up to five non-voting observers to the IAMB. Consistent with its terms of reference, the IAMB shall perform functions similar to those of outside audit committees and may provide information and comments to the PRB and the Administrator as appropriate to serve the purposes of Resolution 1483 and this Regulation.

6) Central Bank of Iraq. Holds the Fund on its books and administers the Fund as directed by the Administrator or his delegee.

7) U.S. Federal Reserve Bank of New York (the "Federal Reserve Bank") (and/or the Bank for International Settlements (Switzerland), and/or other financial institutions, if the Administrator directs that accounts in such institutions be opened). As agreed between such institution(s) and the Administrator, opens and maintains on its books the "Central Bank of Iraq/Development Fund for Iraq" account, as requested by the Administrator. Pursuant to Resolution 1483 and this Regulation, it is understood that the Federal Reserve Bank will be requested to open and maintain on its books an Oil Proceeds Receipts Account (the "Receipts Account") for the initial receipt of proceeds of all export sales of petroleum, petroleum products, and natural gas from Iraq and for the immediate transfer of ninety-five percent of such proceeds to the "Central Bank of Iraq/Development Fund for Iraq" account and five percent of such proceeds to the appropriate United Nations Compensation Fund account.

8) Independent public accountants (auditors). Nominated by the Administrator, approved by the IAMB, and reporting to the IAMB and the Administrator, the independent public accountants audit the Fund and audit all export sales of petroleum, petroleum products, and natural gas from Iraq, supporting the objectives of ensuring that the Fund is used in a transparent manner and that such export sales are made consistent with prevailing international market best practices.

Section 3
Establishment of the Fund

The Fund shall be held on the books of the Central Bank of Iraq, and the corpus of the Fund shall be held in an account entitled "Central Bank of Iraq/Development Fund for Iraq," in the Federal Reserve Bank (and/or other financial institution(s), if the Administrator so directs), for the Central Bank of Iraq.

Section 4
Control of the Fund

The Fund shall be controlled by the Administrator of the CPA, for and on behalf of the Iraqi people. The Central Bank of Iraq and the Federal Reserve Bank (and/or other financial institution(s), if the Administrator so directs), shall accept instructions, as agreed, concerning the Fund, including instructions to pay sums out of the Fund, only from the Administrator or his authorized delegee(s).

Section 5
Administration of the Fund

1) General. The Central Bank of Iraq/Development Fund for Iraq account in the Federal Reserve Bank shall be governed by the Federal Reserve Bank's standard terms and conditions regarding accounts of foreign central banks and governments, to the extent consistent with applicable law.

2) Communications Protocol. The Fund will be controlled by the Administrator through a communications protocol to be agreed upon between the Administrator and the Federal Reserve Bank (and/or other financial institution(s), if the Administrator so directs). This protocol shall be documented in a funds transfer security procedures agreement.

3) Deposits into the Fund. One billion United States dollars from unencumbered funds in the accounts established pursuant to paragraphs 8(a) and 8(b) of United Nations Security Council Resolution 986 (1995) have been transferred to the Fund; and it is anticipated that certain restored and surplus funds, pursuant to paragraphs 17 and 23 of Resolution 1483, will be transferred to the Fund. In addition, ninety-five percent of the proceeds from all export sales of petroleum, petroleum products, and natural gas from Iraq shall be deposited into the Fund, pursuant to paragraph 20 of Resolution 1483, and five percent of such proceeds shall be deposited in the Compensation Fund established pursuant to Resolution 687 (1991), pursuant to paragraph 21 of Resolution 1483. There shall also be accepted for deposit into the Fund any gifts, contributions, donations or other funds, revenues or proceeds.

4) Internal Accounting. The CPA shall obtain the services of an independent, certified public accounting firm to support the objective of ensuring that the Fund is administered and used in a transparent manner for the benefit of the people of Iraq, and is operated consistent with Resolution 1483. The accountants performing this function shall be separate from those public accountants (auditors) approved by the International Advisory and Monitoring Board.

5) Privileges and Immunities. The Fund, including the accounts that comprise its corpus, and the Receipts Account, shall enjoy the privileges and immunities as set forth in paragraph 22 of Resolution 1483, as well as privileges and immunities to which the Fund may be entitled under any other law, regulation, order, or directive.

Section 6
Disbursements from the Fund

1) Authority to Approve. Only the Administrator or his delegee may approve disbursements from the Fund.

2) Directions to Disburse. Sums shall be disbursed from the Fund, in accordance with this Regulation, only upon the express direction of the Administrator, or upon the express direction of individual(s) to whom the Administrator has delegated that authority.

3) Purposes. Sums may be disbursed from the Fund to meet the humanitarian needs of the Iraqi people and for the economic reconstruction and repair of Iraq's infrastructure; for the continued disarmament of Iraq; for the costs of Iraq's civilian administration; and for other purposes the Administrator determines to be for the benefit of the people of Iraq.

4) Proposals for Disbursements. Disbursements from the Fund generally shall be proposed through procedures prescribed in, or promulgated in implementation of the CPA Order establishing the PRB. These procedures shall ensure that proposed disbursements are set forth in a spending plan reflecting the cost, purpose and priority of the requirement, and that, prior to approval by the Administrator, all spending plans are developed in consultation with the Iraqi interim administration, once established.

Section 7
Auditing

The Fund and the export sales of petroleum, petroleum products, and natural gas from Iraq, shall be audited by independent public accountants nominated by the Administrator and approved by the IAMB. The expenses incurred in obtaining the services of the approved independent public accountants shall be charged against the Fund. The CPA shall cooperate fully with the IAMB and the approved independent public accountants in carrying out each party's respective responsibilities. In particular, the CPA shall provide the IAMB and such accountants with access to the Fund's financial records, with confidential materials protected in a manner agreed between the parties.

Section 8
Dissolution of the Fund

Until the Fund is dissolved by the Administrator in a manner consistent with Resolution 1483, the Central Bank of Iraq shall continue to hold on its books the Fund. Also, as agreed between the Administrator and the Federal Reserve Bank

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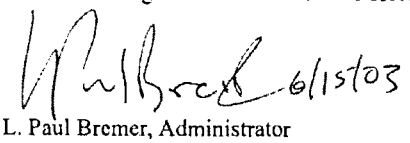
Dissolution of the Fund

Until the Fund is dissolved by the Administrator in a manner consistent with Resolution 1483, the Central Bank of Iraq shall continue to hold on its books the Fund. Also, as agreed between the Administrator and the Federal Reserve Bank (and/or other financial institution(s)), such institution(s) shall continue to maintain on its books the "Central Bank of Iraq/Development Fund for Iraq" account, and shall continue to accept deposits into, make disbursements from, and otherwise operate the account, in accordance with applicable laws, regulations, policies and agreements.

Section 9
Entry into Force

This Regulation shall enter into force on the date of signature.



L. Paul Bremer, Administrator
Coalition Provisional Authority

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

Mr. Oliver.

You want to pull the mic in close, and there is a button.

STATEMENT OF DAVID R. OLIVER, JR.

Mr. OLIVER. Mr. Chairman, I provided a paper I wrote in November 2003, when I came back.

Sir?

Chairman WAXMAN. Pull it in a little closer if you would, please.

Mr. OLIVER. I provided a report to the committee that I wrote in November 2003, when I came back because I wanted to show you what I said at that time.

I think the Ambassador has addressed, fully addressed the reasons we relied upon the Iraqis, the Iraqi Government to dispense and account for their DFI money.

[The prepared statement of Mr. Oliver follows:]

November 2003

Restarting the Economy in Iraq

by Dave Oliver
November 2003

Settling In.

On April 12, 2003, Lieutenant General Jay Garner (US Army, retired) arrived in Baghdad to begin the reconstruction of Iraq. Ambassador L. Paul (Jerry) Bremer succeeded Jay as Administrator a month later. I arrived in Iraq the first week in June and left the last day of October. I served the Coalition as the Director for Management and Budget, and the Iraqi government, as well as the Administrator, as the Senior Advisor to the Iraqi Minister of Finance.

Several weeks before I arrived, Peter McPherson, the President of Michigan State University, had been ensconced as the Director of Economic Policy. Economic policy and money need to be bedfellows, and fortunately, Peter and I quickly became good friends. Because of our personal and professional relationship, Peter and I worked every economic problem together, and normally jointly presented alternatives and recommendations to the Administrator.

Peter provided our team the international economic knowledge, as well as a unique personal ability to get well outside "the box" in looking at a problem. I was a wheel horse in implementing several of his ideas, managed the budget and worried about Iraq and Coalition issues that involved money.

Peter's special efforts were focused on –

> Maintaining the value of the Iraqi currency,
> Accomplishing sweeping economic reform to transition Iraq to a market economy, and
> Installing a modern banking system that would facilitate a new economy.

I endeavored to put these policies in place and jump-start the economy.

He and I reported directly to the Administrator, as did a half-dozen other Directors. Ambassador Pat Kennedy served as Chief of Staff for the 600 of us, a number which would climb to above a thousand in those six months. Ambassador Clay McManoway was the Administrator's senior counselor. They both were the Administrator's closest confidants, advised him on nearly all issues, and were of great help to me in thinking through the myriad of economic and practical problems.

November 2003

After initially relocating daily to follow the few working computers, Peter and I settled in with our staffs of experts on the second floor of the south wing in Saddam's over-decorated Republican Palace, declaring squatters rights on a former suite of two bedrooms and a sitting room. As soldiers and civilians sleeping in the Palace moved to the reopened Al Rasheed hotel in June, we shoved additional desks and chairs into a kitchen, as well as a bedroom and its sitting room.

It will probably be difficult for historians to document why particular decisions were made during this hectic period. Peter and I discussed issues extensively, but I fear neither of us documented much more than the succinct decision papers we provided Administrator Bremer to consider. There was neither the time nor the staff to spend time on files and documentation. All of us were working Iraq's economic issues on "Baghdad Time" -- seven days a week, from 6:30AM to often well after midnight. In order to at least partially correct that documentary oversight, this article lays out the economic situation we found during the first six months of the Coalition's occupation of Iraq, our intentions, successes, and some of the early consequences of our actions.

The Task.

Iraq is potentially a very rich country, about the size and population of California. The land lies in the breadbasket of the Middle East, athwart the historical floodplain created by the north to south passage of the Tigris and Euphrates Rivers. An extensive water aquifer burbles shallowly beneath these two famous rivers. Significantly, the Tigris also crisscrosses two developed oil fields – the visible representation of what some suspect is the greatest oil reservoir in the world.

The raw materials and human capital in Iraq could well produce a rich, powerful country. Iraq can be a strong contributor to world peace and stability. However, we feared this would not happen without dramatic economic and political change. The political change had started with the Coalition's disposition of Saddam. The economic change would be slow in coming without additional help from the Coalition.

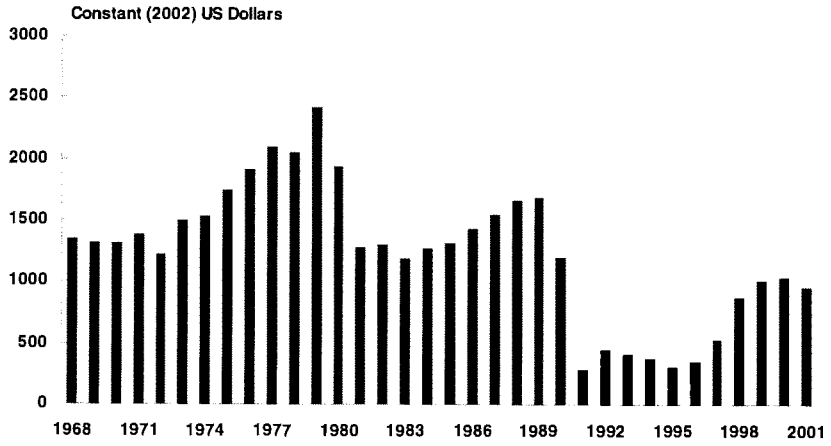
The challenge for this Moslem country is its geography and history. Strong potential enemies surround Iraq, and, although the Iraqis note these are the same lands that comprised the powerful Sumerian culture six thousand years ago -- Noah, Hammurabi and Nebuchadnezzar are long dead.

The current state of Iraq was cobbled together after World War I from areas traditionally occupied by the Shiites, Sunnis, Kurds and Turkomans. Iraq may be old in history, but it is very young in national identity. Life and death conflict between the factions is recent history for all Iraqis.

The economic situation in Iraq posed another barrier to success. When Saddam took power twenty-plus years ago, the Iraqi Gross Domestic Product was about the same per individual as other modern nations. However, this favorable position was destroyed by

the Baath Party's wars with Iran, Kuwait and the Kurds, nationalization of industries, and the basic management and economic flaws in the centrally-run economy Sadaam installed. When we arrived, the Gross Domestic Product per individual in Iraq was the same as in the Congo, a loss of forty years for the Iraqi people.

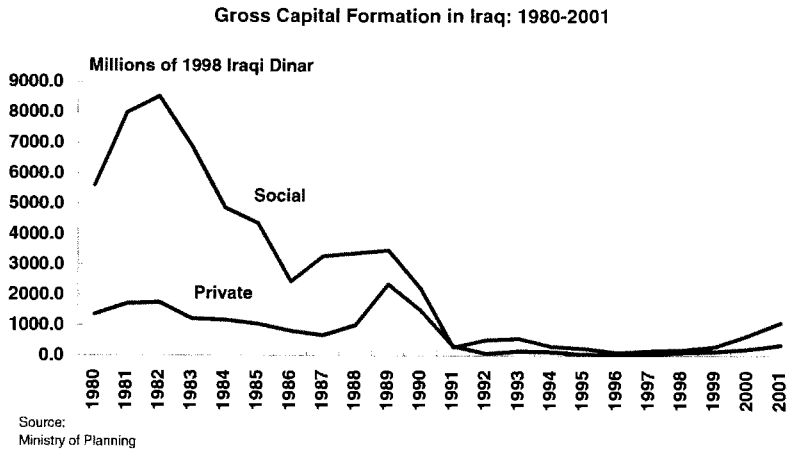
Iraqi per capita GDP: 1968-2001 ($US 2002)



Source: Ministry of Planning, CPA estimates.

The wars with Iran, Kuwait, and the Kurds also wasted every dollar of the substantial currency reserves that existed when Saddam took office in 1979. Additionally, subsequent international borrowing put Iraq in such debt that the current entire Iraqi Gross Domestic Product is insufficient to cover the interest on these loans. During the nineties, capital formation in Iraq by both the "social" or nationalized industries, as well as by the private sector, collapsed.

November 2003



When the Coalition arrived, Iraq was among the poorest of states. A college graduate schoolteacher earned $8/month, a bank manager $40/month and the Minister of Oil (excluding graft) took home less than $20,000 a year.

Our purpose was to assist the Iraqis in their goal of developing a country that was democratic, secular, and operated on a market-based economy. They and we believed that a market-based economy was essential to the long-term viability of their society. The middle-aged Iraqis we talked to remembered when their country was rich and growing, and agreed the fall of Saddam was their opportunity to make this critical economic change.

To start toward a transitional economy – one that would move from a centrally controlled situation to a market-based environment – would require Coalition assistance. It would require transitioning the 192 subsidized, inefficient, state-run companies, none with the slightest concern about a bottom line, to businesses that could compete in the Arab and world marketplace. Once the Iraqis achieved this, we believed their superior education and entrepreneurial spirit, assisted by the free flow of capital and their natural resources, would power them to economic success.

There, however, was a catch – the World Bank had documented the 24 Eastern European countries that had attempted a transition to a market-based economy after the collapse of the Soviet Union. Each had experienced a severe depression. There was an inevitable time lag after the old inefficient businesses collapsed before vibrant micro and small businesses grew in their place. Most of these depressions were worse than that which the United States experienced in the thirties. Less than a quarter of the transitioning economies (Romania, Poland, Albania, Hungary and Slovenia) recovered within a span of less than ten years.

In addition, as I will discuss, Iraq did not have the same preconditions that enabled these five relatively quick successes.

We recognized from the beginning that if the Coalition left before we achieved this transition, we would have lost the greatest prospect in the last fifty years to influence the Middle East, and the best opportunity since the Cold War to improve the long-term chances for world peace.

Equally as important, leaving Iraq without success would also severely damage the United States' influence around the world, as well as that of the key Allies (Brits, Aussies, Spanish, Italians and Poles), who were standing with us in the Coalition.

We studied, we thought, we talked and we consulted experts. Neither Peter McPherson nor I ever took a day off.

Establishing Stability.

When the Coalition team drove their Suburban SUVs North from Kuwait City to join Jay Garner, they found that widespread looting had destroyed nearly every Government building, as well as seriously damaging the oil fields and the electrical power distribution. Everything in Baghdad, Basra and elsewhere (except for the Kurdish Governates) which could be pried loose was missing, including desks, toilets, piping or wiring. The denuded husks had been torched to their concrete and marble shells.

There also was the enervating heat. The hot months of the early summer were upon us and there was no power for air conditioning. In the afternoons, as the thick concrete Baghdad walls absorbed the sun's rays from the cloudless blue sky, temperatures rose well above a hundred degrees, and remained there until the wee hours of the mornings.

There was less physical danger at this time than would later develop, but the requirement existed outside the "Green Zone" to wear Kevlar helmets and flak jackets (absent the essential ceramic plate inserts which would stop a bullet, which were unavailable to most of the civilians, as well as a fifth of the Coalition military).

The Green Zone was a "protected" area of about four square miles near the middle of Baghdad. "The Zone" surrounded Saddam's Republican Palace and the living trailers we had installed behind it, the Al Rasheed Hotel where many of the Coalition would live after the hotel reopened in early June, the Convention center, some residential areas and other palaces. The Green Zone is an upscale area. It includes the modern one-story building in which we would establish the Governing Council as well as the adjacent large center in which we planned to hold the Constitutional Convention.

The heat and the difficulty of the task weighed heavily on some, who looked for reasons to leave Iraq. We lost several valuable people, and more decided not to join us. The majority of the Coalition simply worked even longer hours.

One of the first orders of business was to coordinate the Iraqi Ministries' search for temporary facilities and to supply the minimal administrative necessities, such as desks and pens, so the Iraqis could again begin running their country.

Ministerial responsibilities for the twenty-odd Government organizations which would be retained (i.e. some hopelessly Baathist Ministries, such as War and Information, were abolished) had been assigned before the Coalition arrived in Kuwait. Coalition team members immediately spread out across Baghdad to locate their responsible civil servants (most of whom had either gone to their homes or fled Baghdad for the surrounding countryside in mid-March, shortly before the "decapitation attack"). The Coalition's initial goals were to establish personal relationships with the non-Baath senior civil servants, and to assist these senior officials in finding temporary facilities for their Ministries.

The Coalition men and women also were anxious to recover any records that existed, so the conditions in country could be compared with what the various Coalition intelligence agencies had estimated. Establishing the ground truth was recognized as important, and, in many cases, would prove surprising. Restarting Iraq would prove to be a harder task than anyone had imagined.

The successful safeguarding of records and vital data was one of the first indications of the true professionalism of the Iraqi civil servants. Although the top three tiers of nearly every Ministry were senior Baathists and either in hiding or told not to return, individuals in the next layers had preserved many of the records of the country, often hiding files and disks in their homes during the hostilities. The Coalition translator teams went to work, but it would be several weeks before an accurate picture of Iraq would emerge from the previously secret and redacted documents.

The Iraqis were helpful. In fact, they were usually bravely eager to assist. We had not yet captured Saddam or his sons, and there are more AK-47s in Iraq than ice cream cones on Coney Island in August. Officials known to be talking with us eventually sported at least one bullet hole in their cars. Several were killed. Nevertheless, most civil servants disregarded their own safety and were helpfully forthcoming. They wanted Saddam gone forever, and they were willing to risk their lives for a better Iraq. These true patriots saw the Coalition as a means to their goal.

Many Iraqis were astonishingly brave. This was especially true if one paid close attention to conversational pauses and body language. Poignant pauses or a slight flicker of an eyelid often indicated the questioner was not precisely on point. There was something important to learn, and the person questioned would honestly answer, but the question had to be precise. The answerer wished to help but was equally anxious to avoid a "quisling" label. We had to be attentive and alert. Many long conversations were a sophisticated version of the old game that starts with the clue of "animal, mineral or vegetable?"

Given that reluctance, senior Iraqis were in significant danger. Some in the Coalition wanted to publicize the support of these Iraqis and have appropriate native bureaucrats standing side-by-side with Coalition officials for all policy and change announcements. I was convinced that even good change has its detractors, and detractors in Iraq possess both AK-47s and access to explosives.

Therefore, I established the policy that I would order all changes and actions I desired the Finance and Planning Ministries to undertake. I vetted these orders with those Iraqis whose judgment I valued, but my final guidance was both written and directive. As I explained to Iraqi senior officials, their country needed them alive, and, while it was relatively calm now, I suspected that eventually there would be targeted violence against those assisting the Coalition. My goal was to make change happen, while offering my own body as the target of any dissatisfaction. I wore a flak jacket and was guarded by Coalition soldiers. Someday I was going home to America. They were going to continue to live in Iraq.

None of the officials for whom I felt responsible was assassinated.

There were other daunting barriers to rapid improvement. Working in temporary facilities only accentuated the backwardness of the Iraqi bureaucracy. The only item on the desk of the Director of Accounts, the key operating individual in the Finance Ministry, the one man with control over every dollar spent in Iraq, was a thick pad of carbon paper. No telephone. No computer.

Previously people came to see the Director General of Accounts, pled their case for disbursements over about $40, and he subsequently wrote out his decisions and orders in longhand. Even when the phones had worked, the system was that carbon copies of his orders had always been delivered to the other Ministries in Baghdad by couriers in cars. Now their cars had also been stolen or looted. The entire Government was at a halt.

Electrical power was another difficult problem to solve. The country now had 300MW, less than a tenth of the pre-war usage and much less than the (later established) 6000MW necessary to provide 24-hour power to the factories, businesses and homes in Iraq.

Within a couple of weeks, our bodies had physically adjusted to the pervasive heat, but the lack of lighting and power for our computers was a severe shortcoming. In addition, the Coalition was suffering in Iraqi minds and the newly freed press. The Iraqis could recall a quick comparison. Saddam had restored electricity within a month after the Allies attacked Iraq a decade ago.

We finally achieved the pre-war level of electricity in September, but, once we evened distribution around the country (previously Saddam had deliberately undersupplied the Shiites in the south), we were still only generating power sufficient to provide each Iraqi home light and air conditioning three hours out of every six. We also did not have sufficient power for essential industries. Several of the concrete companies, key to the reconstruction effort in Iraq, remained dark.

The Coalition's failure to match Saddam's management performance not only physically hindered our work, but was also a highly visible public demonstration of Coalition inadequacy. It would become evident that the Coalition was spread thin and we had an insufficient number of experienced managers assigned. We were too few in number and the talents of our experienced people excessively biased towards theory. The national electrical crisis was also our first indication that the Coalition did not have sufficient funds to accomplish our task.

Until the Kellogg, Brown and Root contractors could establish sufficient portable generators for the Palace (which finally occurred during the Fourth of July weekend), and string an internet connection along the six meter high corridors, communications between Coalition members, even in the Palace, were, at best, intermittent. Communications within the City of Baghdad, even with our satellite mobile phones, were not reliable when I departed at the end of October.

The more immediate problem for the Coalition in May was getting money in people's hands and out on the streets. There was no danger of starvation, but the great majority of people did not have funds for more discretionary purchases. In March, before the war, Saddam had directed early distribution of three months of Food Baskets (a United Nations program in which each Iraqi was provided imported food paid for from supervised oil export sales). Everyone had something to eat, but payment of government employees and pensioners (over a third of the Iraqi families) had stopped. The 1.1 million pensioners had not been paid in several months, and civil servants in the Kurdish region had not been remunerated since January.

The Coalition settled into the Palace located just north of the 14th of July Bridge over the Tigris. On our end of the bridge was a traffic circle that looped around a large bronze statue of an Iraqi soldier, rifle help triumphantly aloft, one foot on what looked suspiciously like a British soldier. The bridge commemorated the coup against the British-installed monarchy in 1958.

It was a good location for the Coalition. Every time we passed through the deserted four traffic lanes circling the statue, it reminded us of the transitory nature of any occupation.

In the Palace, Coalition members replaced shattered windows with cardboard and swept sand from the floors of their new sleeping quarters and offices as they made the first critical decision – to stabilize and use the existing Saddam Dinar.

Whether or not (and how to) sustain the value of the old currency was a major issue, and like all key decisions, neither completely black nor white. We could not immediately replace the existing 3300 tons of currency, and if the Saddam Dinar became worthless, as had the German Mark after World War I, citizen's savings would plummet in value. Starvation and unrest would inevitably follow the consequential severe inflation. On the other hand, we suspected former Baathist sympathizers had rooms full of old currency

secreted away in their homes. Would they use those funds to mount support against the Coalition?

The practical concern for the average citizen outweighed our ideological hated of the Baathists. We would stabilize the Saddam Dinar.

But, how was this to happen, when Saddam had pillaged the Central Bank of its reserves?

Three decisions were key:

We would pay the 2.4 million civil servants and pensioners' salaries with Saddam Dinar, while announcing that future monthly payments would be in US dollars. Both would be interchangeable as soon as we opened the banks (and both currencies quickly were interchangeable on the streets, where the moneychangers continued their normal business).

We would wait to lift the price controls Saddam had established, which fixed prices in Dinar, and

We would take care not to induce inflation. We would meet most of our fiscal needs with the solid US dollar – resisting the impulse to ramp up the printing presses to produce 10,000 dinar notes, and carefully holding salaries to a level consistent with the existing economy.

US dollars were immediately available to the Coalition from the Iraqi assets that had been frozen in New York banks after the 1991 war ($1.7B we called "vested" assets), plus Central Bank Reserves (looted by Saddam) that had been found by Coalition troops in the Palace (nearly $900M we termed "seized").[1] Having made a decision, we watched the "street rate" of moneylender conversion anxiously, as we turned to the first key decision – what should we pay the civil servants and pensioners?

Salary Payments and Scales.

The existing Iraqi civil service pay scale was a terrible jumble of basic pay and as many as thirteen special bonuses. Most of the pay was based on "bonuses," which were

[1] We dispersed this money in a disciplined manner visible and transparent to the International Community and our critics. The Administrator established a Program Review Board, which reviewed every proposed disbursement. Members of the Board included the Ambassadors from each of the Coalition members, US AID and others, including the Iraqi acting Finance Minister (who was always invited, but infrequently attended, probably to avoid a collaborator label). Peter chaired the Board for the first two months and then turned over the chairmanship to me. We were supported by a staff run by Sherri Kraham, who did all the coordination of requests and kept the records.

The records were all public (www.cpa-iraq.org), but we found many people interested in them did not want to travel to Iraq, so in August we began placing Board deliberations and decisions on the World Wide Internet, only omitting dollar amounts if a contract was still in the "bidding" process.

dependent primarily on non-performance-related items such as an individual's relative seniority in the Baath party.

The most extreme case I saw was a man whose monthly salary was only 50 dinar (assume 1500 dinar to the U.S. dollar, so he was making a base pay of less than 10 cents a month). One shouldn't feel too sorry for him, his monthly bonuses were 250,000 dinar (more than the total monthly pay of the individual running the entire Oil Ministry, a Ministry we expected to eventually produce more than $20B (US) revenue a year for Iraq).

We couldn't unravel the salary bonus system in the short time before we anticipated Iraqis might take to the streets, and we were appalled at some of the pay rates (for example, college graduate teachers were only paid between $8 and $28/month). At the same time, we recognized the existing low wage scales[2] would be a great incentive to foreign capital looking for locations to invest. We did not want to start paying Coalition-level wages, and thus destroy the important business economic advantage the Iraqis currently possessed.

This latter consideration also demonstrated our approach to Iraq's economy. It was the same as a physician -- first, do not harm. Not only was a Coalition-level wage scale inappropriate, we knew, when we left, the Iraqi budget would not be able to afford such compensation.

It was decided that rough justice could be done if the pre-war eight-tier civil service Iraqi pay scale were collapsed into four tiers, with the bottom tier paid 100,000 dinar, the next 200,000, then 300,000 and 400,000. This was within our resources, and would put sixty percent of the people in the lowest tier, thirty percent in the next tier, and ten percent in the upper two tiers.

Through great effort by Tony McDonald, on loan from the Australian Treasury, and David Nummy (U.S. Treasury), armed caravans were distributing cash nationwide to pensioners within three weeks. About half of the Government employees were paid within six weeks, and we had everyone paid by mid-July (last were the schoolteachers and previous members of the Iraqi Army and the Kurdish Peshmerga.) Jacob Nell of the British Treasury took over this program and made the monthly cash payment of $170M seem routine.

We were deliberately overpaying the lower grades. Cash was in the hands of at least a good portion of the workforce, and the streets were quiet. Unfortunately, we were underpaying the senior civil servants we needed to get the government and economy running again, which would soon lead to a pressing need for additional salary reform.

The extraordinary effort to get money into the hands of citizens, combined with the lifting of import restrictions, was an immediate success. By late June, we could see the results in the buzz of the marketplaces and the (rapidly disappearing and replenished)

[2] A taxi driver made $3-$4 a week, a day laborer less than a dollar a day, and a bank manager $40/month.

mountains of air conditioners, refrigerators and satellite dishes on the sidewalks in front of the small shops. The immediate cash crisis was solved, and the Dinar/Dollar exchange rate remained relatively stable on the streets.

Jacob Nell, one of the mainstays of our financial team -- a brilliant young man who was equally comfortable thinking about macroeconomics as he was working twenty-plus-hours a day executing the budget – would be seriously injured in the October rocket attack on the Al Rasheed Hotel. Jacob was successfully stabilized in the Green Zone and medically evacuated to his family in Cambridge, England.

The inequitable salaries quickly produced some tension. The Coalition was especially relying on two groups to perform, and we were underpaying both. The first underpaid group was the senior managers, who were largely willing to wait for the promise of equity, but the second were the oil company employees, essential in getting the oil fields back in production. In the one-product-economy Saddam's disastrous economic policies had developed for Iraq, the oil workers were accustomed to being specially pampered, and not reluctant to express their displeasure.

We recognized we needed an immediate comprehensive solution and formed two groups – one of the Ministry Advisors and the second of appropriate senior Iraqis -- to begin devising a new permanent salary structure. Our discussions were long. I espoused three principles:

First, the salary scale was to be based on performance, not education, and be free from bonuses. The previous salary scale had been built on the individual's level of education achieved rather than performance. Some Iraqis clearly did not believe me when I said that, in the United States, the chief executive's secretary nearly always made more than a beginning employee who arrived carrying only his PhD robe.

The policy of paying people based on their education level, rather than performance, had produced a previous salary scale that was incompatible with a market-based economy, and we spent many hours explaining this to both the Iraqis and the Coalition Senior Advisors (who too frequently became uncritical advocates for their Ministries). In the end, the American and Iraqi representatives of the Iraqi Ministries of Education, Higher Education and Justice, whose civil servants would be negatively affected by a performance based salary scale, never fully agreed with this principle. As elsewhere, personal self-interest drives a great deal of thinking in Iraq. Fortunately, there were fourteen votes in each group, and the majority acted responsibly.

Secondly, I wanted the military to be part of the national government employee wage scale. I did not want military pay disconnected from civil service pay as it is in the United States. I had watched what happens during cycles in which the military is held in low esteem (e.g., post-Vietnam War), and military pay drops so low it dissuades good people from staying or joining. At the moment, the average Iraqi hated the military -- Saddam had used the Army to involve Iraq in three disastrous wars. Left to themselves, the Iraqis would pay soldiers nothing. (Previously recruits had been paid only a dollar a

year, plus room and board). Nevertheless, the new Iraq would eventually need a professional military – both to deter aggression from their neighbors -- and to ensure respect for civilian authority.

There was also another reason for this policy of specifically including the military in any new salary scale. While the Ministry of War had been abolished and the Iraqi Army disbanded, the Coalition Military commanders were currently busily overpaying everyone they employed, and advocating excessive pay for the New Iraqi Army they were recruiting.

The military's reasoning was simple. Task Force 7 (our military) commanders, reported not to the Administrator (Ambassador Bremer), but to the military four-star in Tampa Bay, Florida. The military commanders were understandably focused on preventing military casualties. Because of the divided chain of command, they were not responsible for the long-term economic success of Iraq, and thus had no reason to consider the impact that paying people too much would have both on unemployment and the inability of Iraq to compete in the world marketplace.

The military commanders were worrying about finding Saddam and keeping the peace. They were not trying to evaluate whether the Iraqis could still use ancient production facilities profitably, as long as the wages remained low, and how best in the long run to attract foreign capital to build new jobs in Iraq.

I had several difficult conversations with the senior military commanders. Once adequately explained, they understood, in principle, the economic reasons for keeping pay equitable, but not excessive. Colonel Greg Gardner, Walt Slocombe's senior military aide (Walt was the Senior Advisor for Iraqi National Security), was of great help. Greg was instrumental in negotiating with the Coalition parties to develop a wage scale which included all military and law enforcement (e.g., police, border patrol, customs, etc.) forces, and was completely integrated into the national system of grades and steps.

My third principle was that the new salary scale had to be economically affordable. This was shorthand for insisting the new scale not fuel inflation. The low end had to start somewhat below what we were currently paying -- and the top end could not reflect the living standards of rich Kuwait, to which the Iraqis longingly looked -- but had to reflect the realities of today's Iraq.

In mid June, I asked Washington, London and Canberra for some salary experts to evaluate the work that was being done and to help bring the process to an answer. Even although the violence level was low at this time (only a few people a week were being killed), the Governments were relying on volunteers to fill civilian needs in Iraq and their subsequent silence was disappointing. I had told the Iraqis that we would have a new salary scale announced by August 15, and that promise was one of the key factors keeping the oil and electrical ministries working without significant protest.

November 2003

I firmly believe that you have to drive yourself to produce results as they are needed. In Iraq, there were overriding practical reasons why fiscal items such as the 2003 Budget, the new salary schedule and the 2004 Budget needed to be completed by certain dates. In these cases, I established and published aggressive dates by which the work would be accomplished. Rather than be professionally embarrassed, we delivered. The dates made us focus, and also ensured we did not dither about unknowables.

Finally, the Pentagon's Ray DuBois identified a couple of private firms who specialized in compensation that he could employ to help me. I called them. One said that they would need a yearlong study to do the work. That was clearly unsatisfactory. Time had passed while I searched for experts. I needed results in two weeks.

My second telephone call was the most rewarding I ever made in Iraq. Pete Smith, a worldwide expert in compensation, who had run his own large compensation-consulting firm, said he would drop everything and pay his own expenses to get to Iraq to help. He did. Pete was merely professionally extraordinary. He produced, with the help of Linda Oliver and Colonel Rich Reynolds, my military aide, a balanced salary schedule for Iraq.

When briefed, Administrator Bremer decided that the plan should include a "save pay" provision for those overpaid by our four-tier scale. He then presented the modified arrangement to the Iraqi Governing Council on 15 August. The new scale would go into effect as soon as the Ministries reclassified their employees. The announcement immediately assuaged the Iraqi groups most concerned about their pay, and facilitated aggressive recruiting of military, law enforcement and guard forces.

Our military forces were still unsure that the lowest pay rates were adequate, but two incidents served to make me personably comfortable with our lowest rate. The first was that 94% of the soldiers in the first New Iraqi Army recruiting class returned from their post-introductory training period leave. The second was a riot caused because an Iraqi official was requesting $150 cash bribes to award $50/month jobs.

Although I have arranged this economic discussion in categories, rather than time or event-sequencing decisions, it should be recognized that Peter and my teams were working all sorts of problems at the same time. In this case, Administrator Bremer had just appointed the Iraqi Governing Council and we were preparing (and negotiating) their budget. To lower the Council Members' initial salary expectations (which were unpolitically high), we agreed to tie their salaries to the civil servant salary scale. Their rate was to be a third higher than that of the highest civil servant grade.

I sensed from our negotiations that the lowest salary the Governing Council would accept was $2000/month. This corresponded well with some of the off-the-record conversations I had with senior ministers in which they discussed how much they had previously been paid, both over and under the table. We established the top civil service scale accordingly.

November 2003

When I was searching fruitlessly for someone in any Government to help Pete Smith, Linda Oliver, a senior career civil servant from the Pentagon, insisted, over my objections, on coming to Iraq for three weeks. I needed her. She was experienced in personnel management, smart and an invaluable addition to the team. Nevertheless, I did not enjoy watching someone I love go out in Baghdad each day in a Kevlar helmet and flak jacket. I was very relieved when her temporary assignment was over.

One final note about salaries. The Iraqi economy was changing so fast that private sector employment was tenuous. Government employees, however, could rely upon receiving a paycheck. Soon we were hearing reports of managers being physically threatened in order to force them to employ excess people. We also heard of payrolls growing without an obvious change in requirements.

I took the precaution of seizing the authority to hire and promote government employees in Iraq. It was unfair to ask an Iraqi to expose his family to danger over the obtuse principle that government should remain lean and as inexpensive as possible. Again, until a popular Iraqi political authority was in power, I believed that a Coalition member should be the one physically at risk for potentially unpopular decisions.

Banks.

Iraq under Saddam was a cash economy. It may have been because people were fearful Saddam would track any deposits. It may have been because none of the banks paid interest on deposits. Whatever the cause, it made economic recovery difficult. I had never appreciated all a banking system facilitates until we were forced to live without one.

Very few Iraqis had bank accounts and the Iraqi banks were decidedly not user-friendly. There were two major bank "systems" in Iraq – Rafidain and Rasheed -- with more than 340 branches between the two. Because none of the branches were electronically connected, there were actually 340 individual banks (four other specialty banks and seventeen small private commercial banks completed the spectrum). No branch would honor the checks of another branch, and the head honcho of the Central Bank personally had to approve any transfer of funds across the border of Iraq. The banks were merely vaults for deposits of funds, and probably reported all transactions to Baath authorities. Very few Iraqis had ever been in a bank. The public used the moneychangers and moneylenders in the street.

In addition, Saddam had looted the Central Bank in Baghdad of at least a billion dollars before he fled. We had also used Dinar in the banks to make the initial civil servant and pensioner payments. As a result, we feared the banking system was legally bankrupt.

From the first days, we had a large competent team of experts, with experience at the US Treasury or Bank of England, working hard every day trying to establish the financial

condition of the banks – did the vaults contain enough dinars to cover what depositors might well demand? We were trying to get the bank branches at least open so that businessmen had a place to deposit their receipts overnight.

Once the doors were open, we intended to build on that success, dramatically expand the customer base, and have the banks start providing loans and truly serving the communities. However, to take the first step, we had to have some feel for whether the banks had enough cash to cover their deposits. It would obviously set us back if we opened the banks and then had to close them because there were insufficient dinars in the vaults. Nevertheless, until the banks were open, we were daily inviting street robbery and violence.

We were delayed several times in getting a determination of how much money was in the vaults when various Coalition military officers took it upon themselves to go into a bank and demand payment for a debt a particular local citizen had convinced them was equitable. The military was just trying to keep peace and quiet on the streets and did not realize they were disrupting a major economic effort underfoot.[3] To make this basic dichotomy of purpose worse, communications between the Coalition military and civilian "sides" were poor.

Walt Slocombe and I were the only two Senior Advisors who understood working with the military well. We thus were the only two to make the basic, yet essential, arrangements for the Pentagon to provide us with senior military aides to foster better civilian/military interconnectivity.

While the bank team was accumulating data, we declared that all accounts for Government entities were zero, and that all inter-governmental debt was null and void. This policy also applied to the 192 nationalized companies, employing nearly half a million Iraqis. They now had no more debt. They also had no liquid assets. (We did not cancel the Treasury bills Rasheed and Rafidain had on deposit with the Central Bank.)

There were several reasons for, and a couple of exceptions to, this policy. The exceptions were the accounts of the Oil and Electrical Ministries. We needed these Ministries to perform as soon as possible – the Oil to restart the oil fields -- and the Electrical Commission to work night and day to get the power system back functioning. Early on, General Garner issued orders keeping the bank accounts of the Oil and Electricity Ministries open and available to those particular Ministries for use. We took the precaution of noting the operating balances in each of the accounts thus affected. None was more than a few million dollars.

The reasons to freeze all the other Governmental accounts were several. First, Iraq was bankrupt, and early fiscal recognition of that fact would facilitate recovery. Secondly, we were unsure of the validity of the inter-government transactions that had taken place in the weeks before the liberation. We knew that some government companies had been

[3] Chris Foote, who came to Iraq from his job a chief economist on the Council of Economic Advisors, and would proceed next to the Boston Federal Reserve, was one of our most brilliant advisors.

forced to buy unneeded product from others (a five years supply of cotton in one instance), and we were unsure what else may have happened under the "cover of paper" in the pre-war environment.

We decided to stop the music and ask all the players to find a chair. We directed nationalized businesses to establish plans and seek legitimate loans for the operating capital they needed to operate. By freezing all accounts, we would also save as many assets as possible for the refinancing of viable companies. Otherwise, there was nothing to prevent companies with no future (the ones with destroyed facilities or those already known [e.g., the Sugar Company] to be economic disasters), from wasting irreplaceable Iraqi cash assets. In the meantime, the Coalition paid all nationalized company employee salaries at the four-tier rate.

This freeze also had the effect of reducing the demands on the banks so they were temporarily liquid, if not necessary solvent.

Peter McPherson drove this key decision, and it was another example of his innovative approach to the situation we found in Iraq. Peter believed that the situation was one of "hopeless entanglement," a bankruptcy term Walt Slocombe contributed to our lexicon. There was a great deal of opposition to freezing the accounts within the Coalition advisory team. Peter addressed this division of opinion in several long meetings, of which one was particularly memorable. We all gathered in the common room between Peter and my offices.

Peter started by stating the situation and his plans as I have outlined above. Then he asked for comments as we went around the room. Each senior advisor outlined their professional opinions. As all spoke, they enunciated new reasons why such a policy was both theoretically and practically flawed. Many of the advisors were against freezing existing government bank accounts, and several were passionate. The meeting lasted for over an hour. Finally, Peter summed up the comments, "What I hear you saying is that…" and then, ignoring their conventional wisdom, he repeated, word for word, his original exposition!

I had listened quietly to the whole proceedings. I agreed with Peter, but felt that someone should point out his summation was definitely <u>not</u> what the group had said. Peter only chuckled, "But that's what I heard."

Several days later, I thought of a way to accomplish his goals. Peter concurred and Administrator Bremer approved. The hopeless entanglement was resolved.

An additional important fiscal measure Peter directed was in making the Central Bank independent of the Finance Ministry. This follows the practice of all market-based countries, and is intended to ensure the Central Bank is free to establish, independent of the Government, fiscally responsible short and long-term monetary policy. Thus, for example, the Iraqi Finance Ministry could not order the Central Bank to print money to

meet a deficit, the exact situation that had resulted in runaway inflation in Iraq during the early nineties.

Another important decision Peter and I made (as in all economic decisions, with Administrator Bremer's agreement and encouragement) was to let the dinar exchange rate "float." Rather than using Iraq's and the Coalition's limited resources to establish several billions of dollars as reserves in the Central Bank, we reasoned that Iraqis would view their currency as having the "full faith and confidence" of the US Federal Reserve behind it. (We didn't ask the Federal Reserve – we weren't interested in learning if they agreed with our use of their prestige). After some wavering, the dinar/dollar exchange rate steadied, and the Coalition had billions more to invest in reconstruction.

Peter's success with the Banks was extraordinary. His[4] team opened the Baghdad banks in late July. Private citizens and private companies were authorized full access to their accounts. The banks were back "functioning" in Iraq quicker than ever even contemplated in Afghanistan and other similar situations. There was no run on the banks. Now the banking team could work to make improvements that would add value to the Iraqi banking system.

Unfortunately, even though the banks were quickly "open for business," none of the nationalized companies had ever written a business plan. Instead, they had merely requested subsidies each year from their Ministry. In the cases where the individual Ministry could not, or would not, cover their losses, the Finance Ministry had done so, directing the Rafidain Bank to issue the necessary sums (with some inevitable deductions for the private accounts of the senior Baath members) as grants or pre-forgiven loans.

The Company executives, who had operated with subsidies for years, and invariably had no accounting or finance expertise on their staffs, were lost. Their "home" Ministries (each Ministry had previously been responsible for ten to fifty companies) were of little help. Although all the senior executives were smart, educated individuals, the United Nations' sanctions had effectively cut them off from the rest of the world' business experience for more than a decade.

Not only were they three or four business-knowledge cycles behind, the executives had functioned for decades in a pure centrally controlled economy. No matter what their

[4] The bank advisory team worked for Peter, but the Banks were physically owned and directed by the Finanee Ministry (and me, as the Senior Advisor). This was a potentially terrible management situation. As just one example, if the Bank Advisors did not agree with a policy Peter was pushing them to implement, I could rely on them to, late at night, when Peter was busy elsewhere, sidle into my office to try to get me to override his direction, of course without telling me of Peter's involvement. Our management arrangement only survived because Peter and I had become fast friends and made no decisions without consulting the other.

After awhile, both staffs recognized it was impossible to bureaucratically drive a wedge between us. Each was also answerable to either of us, depending on what Peter or I needed at the moment. Peter and I were joined at the hip, or at least at the cerebellum. I have never been on a team where I had a better personal and professional working relationship with an individual. This instant bonding was particularly noteworthy given the rapid pace of policy decisions and the life and death stress of the situation.

plant produced, they were accustomed to being considered a necessary portion of the Iraqi economy. With the sanctions, their particular plants had to function or Iraq didn't have the product. The Iraqi Government paid the costs incurred. There had been no incentives for the executives even to consider alternative ways of doing business or methods for controlling costs.

In August we addressed price controls. We released all nationalized Iraqi businesses (except the Oil and Electricity Companies) from bureaucratic and market price controls – only keeping a restriction that prices of a product could only rise 25% per quarter, to protect us against unforeseen market interrelationships – and then tasked the Iraqi business leaders to plan for a future without subsidies.

Coalition members worked with company leaders for weeks trying to develop reasonable business plans. When those plans were presented to the Rafidain and Rasheed management, the latter were equally mystified. In the past, the bankers had only followed orders from the Finance Ministry as who to and how much money to loan. They had never done any loan or risk evaluation. The process of getting the viable businesses up and running was slow.

Meanwhile, we were improving the bank services little by little. Larry Blume[5] (US Treasury) had purchased a simple satellite link and electronically connected the five central bank branches and over seventy branches of the Rafidain and Rasheed. They could thus start to perform same-day data exchanges and balancing across the city. In October, this system would support salary payments and the currency exchange.

We also stood up the dinar check clearing system and introduced dollar check clearing. The latter significantly reduced the requirement for every contractor working in Iraq to make multi-million dollar payments in cash.

With the assistance of some major international banks, we had also begun working on establishing a Trade Bank, so that Iraqis could reliably import and export goods. We encouraged the Central Bank to liberalize foreign exchange controls, so that private banks could start offering cross-border services (payments for imports, remittances from relatives abroad, etc.). Rasheed and Rafidain, as state-owned banks could not offer these services. Due to Iraq's extraordinary high international debt, any state assets which ventured abroad were likely to be seized by creditors.

On July 7, we announced that all the Iraqi Saddam dinars had to be exchanged for new money between the October 15th and January 15th. After mid-January, Saddam dinars would be worthless. During the exchange, we would get every Iraqi in a bank, many for the first time, by the simple strategy of using the banks as the only exchange locations for the new money (the banks were encouraged to consider this added work as a business opportunity to attract new accounts). The currency exchange plan was announced with

[5] Larry would demonstrate his broad leadership capabilities by later stepping in and running the critical public information preparations for the October currency conversion.

great fanfare. Now all we had to do was deliver on this monumental logistical and security task.

Printing presses in England and Spain (the Spanish had donated their services) were rolling, turning out the new currency that would replace the Saddam dinar and its two awkward denominations (250 and 10,000 dinar) with six different new bills. Bill Block from US Treasury conceived, analyzed, negotiated and shepherded this entire effort. We launched the currency replacement on October 15th. The new currency would prove to be a popular, economic and logistical success, with the countrywide distribution managed by Hugh Tant, a retired Army Brigadier General, assisted by Jacob Nell, Simon Gray (Bank of England) and John Rooney, our Scottish secret weapon.

Budgeting.

We published the first public budget for Iraq in twenty-four years on July 6th. Our goals for this initial budget were simple. We wanted to provide an immediate input of money to empower the civil servants to get the Government and Industry working again. We also wanted to involve the Iraqis hands-on in a professional budget development process, and, we needed to use the budget formulation and review process to start determining the impact of the numerous subsidies.

Understanding the costs and ramifications of the existing subsidy system was essential before we considered making changes.

Some of the subsidies were obvious. Pre-war, about 400,000 barrels of Basra light crude (market value of ten million US dollars) had been diverted each day into derivative petroleum products and provided to (privileged) Iraqis as subsidized goods. The subsidy (and bad economics) was enormous. Benzene (gas) was sold for 20 dinar a liter (4 cents/gallon). As a result, old inefficient cars crowded the donkeys on the streets, the latter pulling wooden carts carrying natural gas, at a thousandth the market cost, to businesses.

This was an easy subsidy to compute. Three hundred and sixty-five times ten million dollars a day is a subsidy of $4B a year (nearly twice what the oil fields would produce in 2003, and 20% of the full rate production of all the Iraqi oilfields) with no checks or evaluations on how the resource is used. There was no supply and demand equation in effect. There were just demand forces, which quickly, at the smallest supply disruption, produced long queues at the benzene stations.

Electricity was another obvious subsidy causing Iraqi market distortion. Power was provided at about 1/5th a cent per kilowatt, while the production cost was at least forty times that. Previously, Saddam had controlled the demand by shutting electricity off from his enemies, thus limiting both their standard of living as well as their economic development. We were currently resorting to rolling blackouts, a la California a few years ago, to even out the social and economic disruption, and allow people to plan, but

this was obviously only a temporary practical patch. Fortunately, homes and businesses were individually metered. Unfortunately, the deteriorating security situation, and an unaggressive Iraqi Electricity Commission, deterred collection of even these minimal normal revenues.

There were also not-so-obvious subsidies. Doing the initial budget, it became evident there were at least seven official exchange rates in use pre-war. As an example, while the street rate was about 1500 dinar per dollar, the Oil Ministry, when computing the tax due on their foreign oil sales, had been preferentially permitted to use a rate of one dinar per 3.4 dollars -- a rate 5000 times actual -- to the detriment of the Government!

The budget review process provided enough insights into the subsidies to realize that any perfunctory review was insufficient. By the end of June, we were only prepared to provide a budget that continued essential operations and made affordable repairs to the looting damage. We estimated that we would receive $3.4B in oil revenues for the rest of the year (soon to be downgraded to the $2B range as the dilapidated condition of the oil field equipment became evident and sabotage incidents continued to plague us). With the seized and vested money available, we could afford a budget of about $6B for the latter half of 2003.

Tony McDonald[6] and I had discovered two critical facts during the budget review. Issuing the budget would teach us a third.

Our first discovery was how the United Nations Oil for Food program had operated within Iraq. The second was that no one alive (and not on the run) in Iraq had any idea what moneys were required (or where the revenues would come from) to operate Iraq.

The hard lesson we learned was what happens in the absence of a political authority.

The Oil for Food program provided more than food to Iraq. Since 1997, under United Nations supervision, Iraqi oil was sold and the moneys used to buy items not subject to sanction. Everyone knew that fact, and many recognized that suppliers often paid a bribe. Our best information was that each Oil for Food contract involved a payment of ten percent of the contract's value to a member of Saddam's family or inner circle. What was unknown outside Iraq was what happened to the goods once they were imported, and the impact of those arrangements on the national budget.

Essentially, Oil for Food products, once imported, were consigned to the Trade, Agriculture or Health Ministries. Through a documentary sleight of hand, these goods were assessed a cost of zero by the Finance Ministry. The appropriate ministry then sold the goods at a fraction of their costs, and booked the entire sale as "profit."

There was a law that established how these profits were to be distributed. Forty percent of the "profits" went to the Finance Ministry, twenty percent went into "bonuses" for the

[6] Tony is a brilliant macroeconomist from Australian Treasury. He was my Deputy Director of the Office of Management and Budget.

senior people in the administering ministry, and most of the rest was retained as "capital" by the same ministry.

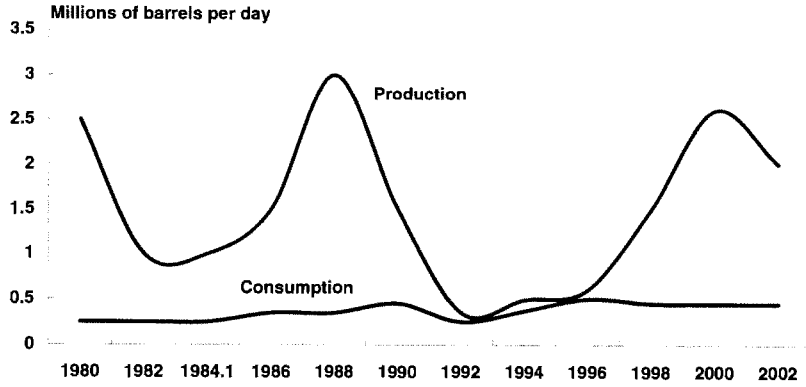
As one might expect, there were also a great number of "fees" involved at each step in the process, and the senior Baath Ministers of these favored organizations raked off untold millions. Our estimates were that this system produced less than $10B of annual economic value for the $15B of Iraqi oil that had been pumped and sold each year.

Our estimates were the only thing we had. UN Resolution 1483 specified that the Oil for Food program was to terminate on November 21, 2003. There were no central records at the UN or in Iraq by which we could accurately determine the key products would have to continue to be provided to the Iraqi economy. In addition, the only Government records (after subtracting funds which had been budgeted for the military and unnecessary public projects such as building more palaces) totaled only $1.3B. This was clearly wrong. The Iraqis had been spending at least $12B US a year.

Our estimates led to a sober realization. If all went better in the oil fields, and the price of oil stayed near its recent high (i.e., didn't drop by 70%, as it had done two years ago), Iraq would barely have enough money next year to pay civil servant salaries and ministry operating expenses. The Iraqis would also need government funds to buy the essential products the Oil for Food program had previously provided.

This prognosis assumed that we eliminated all graft and drove out the waste by placing all purchases on a competitive, rather than negotiated, basis. We were also counting on reaching a level of sustained oil production that Iraq had previously only achieved during infrequent periods of peak output. This would be difficult to achieve, as shown below.

Iraq Oil Production and Consumption: 1980-2002E



So how were we to get sufficient funds to assist Iraq in transitioning its economy from centrally controlled to market-driven? We would also need money if the Administrator choose to compensate the citizens when the oil, electrical and food subsidies are

eliminated. If cash were not so provided, we believed the consequential social disruption might well be more than this fragile young nation could absorb.

We discussed the best way for the Coalition to assist this process with the individuals on the International Monetary Fund and World Bank teams who were in Iraq conducting independent assessments. They were bright, experienced people who had seen many transitioning economies, and offered their assistance in thinking through the macroeconomics. Scott Brown from the IMF was particularly helpful in coordinating between the UN and the Coalition. He ignored the ideological rumblings that randomly emanated from both sides in New York and Washington, and focused on helping.

Scott would be of invaluable assistance until he was severely injured in the mid-August bombing of the United Nations building in Baghdad. He had been at the site of our weekly meeting. We were fortunately delayed in attending.

In June we had been struck by a UN study showing that all countries undertaking the transition to a market economy suffered significant periods of economic depression. Those countries that possessed the political will to persist were eventually much stronger economically, but some of the depressions had lingered for many years.

A notable exception was Poland, which had deliberately quickly collapsed their old industries. Poland had subsequently recovered from their depression in only two years. We discussed this with the staff of the World Bank (which produced the transition report we often referenced), as well as the International Monetary Fund individuals in country. One advantage of discussing the report with the authors is we could further question them on items particularly relevant to Iraq, as well as on what they had observed but not written down. We also questioned our own invaluable asset -- Marek Belka -- who had been the Deputy Finance Minister in Poland, and was currently serving as the Chairman of the Council for International Coordination for the Coalition.

Marek pointed out that there were two essential differences between the situation Poland faced and that which currently existed in Iraq. First, there was no security problem in Poland that hindered external capital investment.

Secondly, a good infrastructure (e.g. electrical power, potable water, telephones, etc.) existed in Poland to support the rapid development of micro and small businesses. We knew these types of businesses were particularly key. Attracting foreign capital was important, but micro and small businesses were essential for rapidly providing alternative jobs to those in the non-competitive nationalized industries that could be expected to fail.

Marek did not mention the third key difference in Iraq. All of the other countries that had decided to shift to a market-based economy had a political leadership in place when Communism collapsed. That leadership believed in the necessity of the change and were willing to lead their people to a new paradigm.

Iraq currently had no political leadership. In fact, some were concerned that any Iraqi political leader who achieved popular following might well differentiate himself by running on an anti-Coalition platform, now that neither Saddam nor the Baath party were threats. The Coalition was currently in charge, and many politicians around the world successfully achieve office by running against whoever is in power.

The Coalition could do little about this last factor. All we could do was assist the Iraqis in getting all the other economic cards in place so that a successful transition could be possible.

One card in the deck that was definitely defaced was the infrastructure. By July, it had become evident that the infrastructure in Iraq was much more fragile than had been predicted, or any of us had suspected. We were struggling to counter the continuing sabotage in the oil fields and the electrical grid, but the Coalition, the Iraqis and our contractors were also struggling even harder to overcome old, tired, and inadequate equipment.

After the UN sanctions took effect following Saddam's invasion of Iran in 1990, Iraq had done no periodic maintenance on any of the infrastructure. Due to fouled steam generating surfaces, many electrical generating plants could operate at no more than 20 percent of design power. In addition, only thirty percent of the irrigation pumps worked, and hundreds of millions of dollars intended for sewage plant repair had been diverted.

Iraq was literally falling apart. Our invasion seemed to have occurred just as the condition of the entire infrastructure teetered on the edge of the cliff of disaster. It appeared the looting was the last straw. Iraqis were no longer being tortured, and hundreds of thousands of government workers were now being paid a livable wage, but Iraq's infrastructure and living conditions were worse than before the war. We estimated it would take billions of dollars and at least a year before the average Iraqi could see the difference. The infrastructure had to be fixed if Iraqi entrepreneurs were to have a realistic chance. Where would we get the money?

And, by the way, how was our 2003 budget, which we had worked so hard to produce, doing in restarting the Iraqi economy? Not very well. Gary Brown (provided by U.S. Treasury) and Justin Tyson (another exceptional individual from Her Majesty's Government) were struggling to convince the Iraqi Ministries to spend the money the budget had allocated them. There was reconstruction work crying to be done. However, the Iraqi civil servants weren't getting money down to the people who needed it. Consequently, few of the public projects we had funded were underway and disappointingly few Iraqis were back at work. We worked to overcome each obstacle we found, making field trips to the sources of problems to ascertain ground truth. Every log we heaved out-of-the-way rolled aside only to reveal a new bureaucratic impediment.

We decided that I had made a fundamental error. My premise was that, given the funds, the professional Iraqi civil servants would take the initiative to get the country moving. I had met many of the remaining senior officials, and was convinced of their honesty and

professionalism. I also knew that the budget we had produced was only an approximation, and local officials would have to modify it to solve problems we in Baghdad had not anticipated. Thus, we had deliberately used Iraqi procedures and existing processes in developing the Budget, as well as in the distribution of money.

However, I underestimated the stifling effects of two decades of Saddam's rule. I should have realized that many of the bureaucrats with initiative had either been killed or discouraged. After several weeks of disappointment, we changed our plan in August and sent the 2003 budget moneys directly to the local Iraqi spending unit, asking our Coalition team members in the Regions and Governates to help prioritize the money locally. This began working better, but the Iraqis were still not executing the budget at the pace we had hoped, and the billions available were having little impact on the local economies.

It was not until Tony McDonald, Linda and I took a trip to the two Kurdish Governates in the North that we fully realized the core problem. In the North, where the Kurds had been protected from Saddam for twelve years by airplanes enforcing the UN sanctions, and two political parties were firmly in power, the economy was alive, construction was booming and unemployment was so low the politicians were worried about obtaining more labor. Here, established political authorities were aggressively using their budget for their needs. We had no such supporting establishment in the other Governates.

When the Governing Council subsequently appointed interim Ministers for the South, we saw an immediate change in the pace of budget execution. These new Iraqis might not have broad political support, but they were Iraqis of some constituted authority, who had responsibility for making progress and were answerable to a Governing Council that was beginning to think of itself in political terms. Budget execution immediately and noticeably improved, surging in those areas with particularly strong Ministers. (Equally noticeable were delays as individual bureaucrats, with either histories or sympathies the new Minister did not appreciate, were replaced, and new individuals learned on the job.)

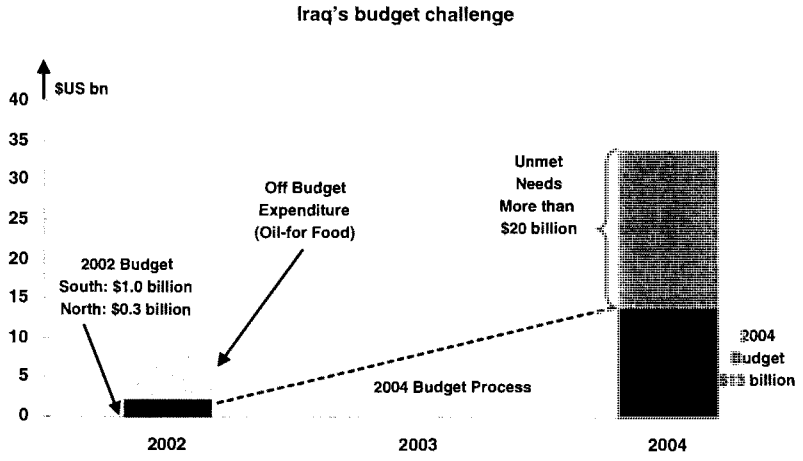
Budget execution improved, it was time to focus on how Iraq was to get sufficient funds to reconstruct and transition.

We had become convinced that Iraq was unique. Iraq needed to reestablish both security and the infrastructure before we would have the economic conditions precedent to a transitional economy. Our months in Iraq (along with the assessments UN teams were compiling) had been sufficient to establish the extent of the infrastructure needs. We needed to get the oil fields producing, the electrical grid reestablished, potable water to more than 50% of the Iraqis, sewage services to more than 5%, etc.

The Coalition had asked the Senior Advisors and the Iraqis to compile a list of their immediate needs. We knew that the financial needs over the next few years were on the order of $70B to $100B, but what did they require next year, in calendar year 2004? Their requests totaled more than $35B. We couldn't imagine how we could ever achieve that number, so we judgmentally reviewed that list and eliminated less essential items.

November 2003

No matter how we pared the list, we needed $20B more than we had available, or Iraqi reconstruction and transition would stall.



Source. Iraq 2004 Budget.

There were two possible sources of funds. The International Community holds a "Donors Conference" when countries go through the sort of disaster from which Iraq was emerging. That conference was scheduled for late October in Madrid. The UN had been conducting a needs assessment of Iraq, as had been the Coalition, for some weeks. Could the Donors Conference provide the needed funds? Would they?

Even if they did, there were three problems with Donor Conference money – quantity, quality and timing.

The quantity problem was simple. It was no big secret that the United States Government and much of the International Community had some serious disagreements over the way the Coalition had approached regime change in Iraq. With this background, even considering that the US would attempt to ensure its closest friends understood this donor's conference was "special," how much could we seriously expect to raise?

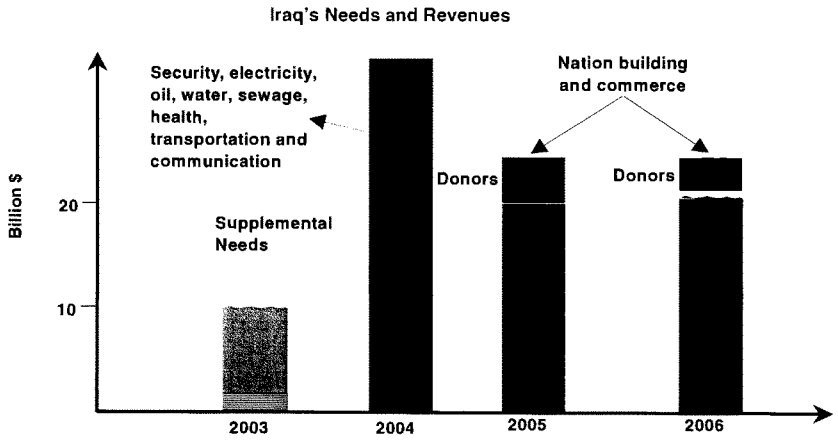
The "quality" issue was related. Nations that donated funds might well expect to control the problem(s) those funds addressed. If they were to choose to direct those funds to a problem that was not in our "critical path" to transition success (such as supporting Iraqi Olympic teams or rebuilding the Universities), then, while the funds would make Iraq a better place, they would not address our identified immediate needs.

November 2003

Our short-term needs also gave us a timing issue. Some of the Donors would likely "buy" a position inside Iraq to improve the economic position of their national companies. They would want to ensure that presence existed over several years, to give their companies an opportunity to gain an economic foothold in Iraq. That was in the Donor nation's interests. Iraq, however, needed an immediate influx of money in order to accelerate its transition to economic growth.

In addition, there were timing problems of getting Parliamentary approval of the pledges the diplomats would make. As a result, much of the money pledged at the Conference would actually not become available for Iraq until 2005 to 2007.

We decided that the best course was to ask the American Congress for help in 2004, and rely on the Donors Conference, as well as the reestablished Iraqi oil industry, for the subsequent two years. We predicted that the non-oil domestic economy would not show recovery until 2008. We developed a graph to show the plan. The shaded area in the 2003 column shows our estimate of the off-budget items which were not documented, and the bottom portion of the 2004 to 2006 columns show the oil and tax revenues which we expected in each year.



Source. Iraq 2004 Budget.

The Iraqis and we recognized we needed to produce the 2004 budget well in advance of the October's Donors Conference, in order that donors could see Iraq practicing honest, balanced and transparent budgeting. We also were documenting all needs, in each economic sector and in every village. We intended to put all this information on the

Internet, as we had the 2003 budget and our other fiscal decisions, so everyone could see and judge the situation.

The 2004 budget process was well underway. For the first time since 1979, the Iraqis held budget hearings, in which the Finance Minister publicly questioned each Minister about the requirements that Minister had presented, and made decisions that cut requests as necessary to conform to the gross revenues he expected in 2004.

Taxes.

In developing those expected revenues, the Iraqi Finance Minister, Peter McPherson and many others worked to make the necessary key decisions on custom duties and taxes.

The World Bank was insistent that a custom duty of zero would be viewed by the international community as demonstrative of an unwillingness by Iraq to tax itself for reconstruction. They cautioned that disregarding this advice might well negatively impact the Madrid donor's conference.

We strongly preferred keeping Iraq's borders free of all customs duties, so as not to encourage inefficient Iraqi industries to seek destructive protective duties. We had already heard the owners and/or managers of uneconomical Iraqi companies (and most were grossly inefficient) grousing about the need for protective duties. We had long conversations with the Governing Council representatives about how protective duties were simply the equivalent of imposing taxes on all the Iraqi people, and the mere existence of duties prevented capital from being efficiently reapplied to make more Iraqi jobs.

Everyone we talked to nodded agreement, just as everyone in the United States nods, but we feared that if the "zero barrier" were breached in the customs tax arena, Iraq, just as the United States, might suffer continual pressure to slide into protectionism. Our Treasury Department leadership, Secretary Snow and the Deputy Secretary, John Taylor, believed setting the customs tax at zero was important.

Peter McPherson particularly argued this issue long and hard.[7] The problem was not the Iraqis, but the International Monetary Fund. They wanted a ten percent duty, and unlike several items we had discussed with them, were adamant, on this one. Since the IMF was going to be one of the presenters at the donors' conference, and could well set the tone for the entire discussion, we made a political compromise and agreed to a flat 5% "reconstruction customs duty." The duty would sunset after two years.

[7] The US Treasury was tremendously supportive of both Peter and my efforts in Iraq. Peter talked to Secretary Snow at least weekly (and made several other late night calls to Chairman Alan Greenspan of the Federal Reserve). We took their suggestions seriously, and they, to their great credit, relied upon our judgment as to whether those suggestions were right for Iraq.

November 2003

We also set individual and corporate tax rates at no more than 15%, effective 1 January 2004. There were different considerations involved in each.

Iraq had a tax collection system, but it was not routinely deducted from wages, and the individual tax rates were so high that tax evasion had become a national game. Most Iraqis, who were well aware of the potential of their oil fields, did not believe it was necessary for individuals to pay any taxes. We discussed this for many hours with key members of the Governing Council's Budget Committee. The Coalition's position was that a tax on individuals was a necessary antecedent to the Iraqi citizen feeling involved in national fiscal decisions. In the end, we reached consensus on a low tax rate -- which other countries with histories of similar tax evasion problems had found resulted in more tax being collected.

A key meeting on this decision took place in the Administrator's office, in which Ambassador Bremer asked Peter McPherson, "Why a rate of 15%?

Peter's simple reply, "Russia has 13%, and there was a lot of McPherson wrapped up in that number," avoided a multi-hour discussion of international tax theory.

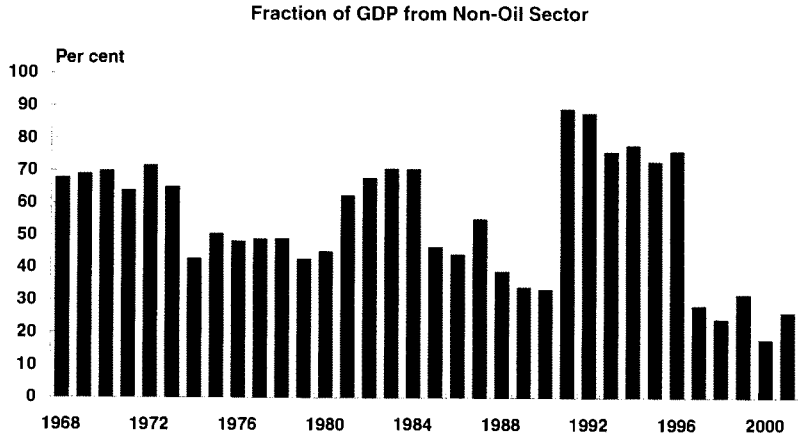
Previously the Iraqi Corporate tax rate was 25%, with the proceeds used to buy Iraqi property. The rents from the properties were then used to fund the retirement plan for private companies. The theory seemed good, but the properties were all underperforming (most were in rent controlled areas in Baghdad) and the consequent retirement pay was only $5/month. We intended to bring all the Iraqi retirees under a universal retirement system, and we wanted to set corporate taxes at a rate that would encourage development and investment. Concurrently, we needed to quickly establish a corporate tax rate so that company executives considering investment in Iraq could accurately estimate future returns and return on investment.

As another critical facet in providing some certainty for future companies contemplating capital investments in Iraq, Peter McPherson (after literally weeks of discussions) obtained Iraqi Governing Council agreement on capital investment parameters – foreign companies would be permitted to buy into any sector in Iraq (except oil, which was reserved for Iraqis). This was true in most countries. The news here was that the companies could exercise operational control of their investments (i.e. they would not be restricted to minority percentage positions, a consideration which stops most firms from investing outside their home territory). In addition, foreign investors would subsequently be permitted to remove earned profits from Iraq.

Some who did not understand Iraq criticized this move as opening Iraq to foreign exploitation. Those critics did not sit in the same meetings we had with Iraqis. Most senior Iraqis believed that any Iraqis who had profited in business under Saddam had only done so by doing Saddam's bidding. These private individuals might or might not be Baathists (and the only restrictions the Governing Council had set on the Baathists were that they not be part of the Government), but the antecedents of their funds were

popularly suspect. There was not enough "clean" money in Iraq, so the Iraqis established a set of rules that encouraged investments from sources outside the country.

The long-range goal was for Iraq to develop an economy in which oil revenues were not the big dog on the block. Before the last regime, the Iraqi private economy (including proceeds from the agriculture breadbasket) had been robust, and generated most of Iraq's GDP. We needed a rate that would reverse the trend shown in the graph below (the high percentages in '91 to '96 are a period of no oil exports).



Source. International Monetary Fund calculations.

Coincidentally, the Iraqis settled on 15% for the corporate tax rate.

In mid-September, at the annual meeting of the Board of Governors of the World Bank Group and the International Monetary Fund in Dubai, the Iraqis announced their Economic Reform Package, including the new tax and foreign investment policies. Observers noted these policies made Iraq the most open economy in the Middle East, even superior to Jordan and Israel. The Iraqis (with Peter McPherson's essential help) had positioned themselves to attract the foreign capital necessary for long-term growth. Now, if we could only get through the next year.

Reconstruction Funds.

After we compiled the extent of the Iraqi needs in August and September, Dan Devlin (another exceptional Aussie) assisted the Iraqis in preparing the 2004 budget, while Paul Hough (an outstanding American Colonel) and I worked on a request to the US Congress for supplemental appropriations, and Tony McDonald supervised preparing documentation for the October's Donors Conference in Madrid. By working all three

"money documents" at the same time, we ensured that we carefully examined the entire picture of Iraq for the next three years.

After a great deal of work by the entire Coalition team,[8] the US Congress provided nearly $19B US dollars, and the Donors Conference another $14B. With these pledges, and Iraq's expected future revenues, we believed the Iraqis had sufficient funds to succeed.

In September, while I was in Washington carrying Administrator Bremer's bag as he made our case for the Supplemental with Congress, the Coalition experienced its first attack on the Al Rasheed Hotel. A rocket penetrated into Sande Layton's room, but did not explode. Sande is a Navy civil servant who had volunteered to help me in Iraq. Her husband, Dan, was already present -- running the Iraq mine-clearing program. Sande was, like the rest of the team, innovative and hard working. She was not hurt in the attack. I assigned her more work so she had less time to worry about what might have happened.

Three weeks later, a second rocket attack on the Al Rasheed nearly killed Jacob Nell.

Subsidies.

Funding secured, we turned again to addressing the four major subsidy areas:

Monetizing the Food Basket,
Rationalizing the Nationalized Industries,
Bringing oil derivative products to border prices, and
Proper pricing of electricity.

Food Basket. The Food Basket program was a UN attempt to keep the Kuwait war sanctions from inadvertently starving the populace. The sanctions had been very successful in frustrating Saddam's program to develop weapons of mass destruction. However, the sanctions had not even touched the root cause of Iraqi's internal problem – Saddam and his family – who had continued stealing as much as ever. With foreign trade forbidden in the early nineties, and Saddam still stealing the same as before, the common Iraqi was economically driven to his or her knees.

The Food Basket program monthly provided each Iraqi man, woman and child with sufficient imported food for its basic nutritional needs. A Washington "think tank" had computed the cost for providing that basket at around $13, while another group had computed the value of the basket to the Iraqis as $6. The difference of seven dollars was due to the additional costs of UN supervision, the use of all imported items, and the waste involved in centrally planning and distributing the food. The unnecessary economic cost

[8] Tom Korologos, the Coalition's own "101st Senator," did the great majority of Capitol Hill heavy lifting to get the President's Supplemental request successfully through the Congress.

to Iraq from this was $1.5B a year, more than ten percent of their expected total revenues for 2004.

The key word in the previous paragraph for the Iraqis was "imported." Since all the food was imported, the previously vital Iraqi agriculture sector had been economically destroyed. Although it would present a potential disruption, the Iraqis we talked to wanted their agriculture sector restored. They were unanimous in wanting the food basket monetized.

The Coalition agreed. Monetizing the food basket would also build many, many small businesses, which would develop to transport and sell food to the public. The only issue was timing. We didn't want to be solving the monetization logistics and social problem at the same time we were trying to change out all the country's currency. In addition, there were numerous termination problems that had to be worked out, such as exactly how we were going to pay the people, and whether local markets would be ready to provide sufficient choices and quantity. A team was established to work the details and Administrator Bremer announced monetization would be accomplished during 2004.

Rationalization of Nationalized Industries. This was largely an evaluation and timing problem. As I earlier discussed, the nationalized industries were inefficient and the managers lacked basic modern business skills and tools. Nevertheless, we determined many companies could survive largely intact, and more could be successfully rationalized under a different business model.

Assisting the industries was a difficult task, as each company had different needs and futures. A team was formed to assist the Iraqis with that evaluation, and the Iraqis were provided millions of dollars of Coalition funds to hire their own expert consultants.

By the time we put together the 2004 Budget, we realized that some of the nationalized companies actually were doing inherently governmental work (e.g., controlling Iraqi commercial airspace). These divisions were folded into the appropriate Ministry during the budget process.

We also had provided some direct subsidies to the nationalized industries in the 2003 Budget. With these funds, plus the loans they obtained from the revitalized banking system, many companies opened their doors for operation. We set aside additional money in the 2004 Iraqi Budget for job retraining and unemployment compensation that would be necessary when security and infrastructure conditions were adjudged right to make the next transitional steps.

Oil Product and Electricity Pricing. The largest and economically most distorting subsidies in Iraq were those in the power industries. Not only did the existing prices remove the stabilizing effect of supply and demand and encourage Iraqis to make uneconomical choices in both their home and business investments, they also were a security issue. The low price of gas in Iraq, relative to that in the nations on their borders, established a very profitable incentive for smuggling.

Fixing this problem also offered the clear opportunity to put some of the revenues from the Iraqi oil industry directly into the hands of the Iraqi populace, either as a compensating cash payment or through alternative services, such as education or retirement plans. There were several models available in the world (Alaskan, Norwegian, etc.). The Iraqis and we discussed the options for best control of oil revenues, as well as whether the oil industry should be privatized, subject to an international board of directors, or left as a state-owned enterprise.

We were aware of the danger the oil industry posed to Iraq's future, for while there is underground wealth sufficient to propel Iraq to international power, no country which did not already have a solid existing constitutional government has managed to adapt to the economic temptations that accompanies oil riches.

Again, timing (we needed to get the oil fields producing before we had the assets to do any of the plans which were under consideration) was important. In addition, I counseled against moving too fast in making a decision as to how to alter the oil industry ownership. I was concerned that any quick decision would be viewed by the world community (and many Iraqis) as justifying the false proposition that the Coalition had only become involved in Iraq for the oil. I also felt we needed to give the new Iraqi Ministry management time to drive out the remaining graft.

The Coalition at this point had already turned down several opportunities to discuss future oil field development. Development of new fields would cost in excess of ten billion dollars and would require several years. Administrator Bremer, Peter and I all told the Governing Council that new oil development decisions would not solve their current economic problems and were best left to the future Iraqi political establishment they were all working hard to establish.

Military/Civilian Coordination.

Problems in this area affected the economic team and Iraq. The organization of the Coalition and the Military was awkward and used few of the existing best practices. There thus were continual communication breakdowns between our military and civilian groups. Some of the problems were inevitable, because of the different objectives, but more were self-inflicted.

Administrator Bremer, reported to the Secretary of Defense, and then to the President. The Coalition military commander, Lieutenant General Ric Sanchez, reported thorough the U.S. Central Command Commander to the Secretary of Defense. Thus, the two key men on the ground in Iraq had different immediate bosses. The Administrator and the Military Commander were quickly physically collocated a few feet from each other in the Palace, met with each other several times daily, and had a good personal relationship. However, I am convinced there should have been one person fully responsible for

everything happening in Iraq – General Sanchez should have reported directly to the Administrator.

There has to be only one person with the button of responsibility, and in a democracy, that person is a civilian.

I don't believe it would have necessarily changed their relationship, but it would have significantly affected the coordination of everyone who worked for them in the country, and forced better management.

It has to be recognized that the civilian members of the Coalition and their Military counterparts have different roles, which are often complementary, but are basically in conflict in Iraq.

The military was there to win the conflict, find Saddam and then keep the peace. The Coalition was there to assist the Iraqis in developing a democratic, secular government powered by a market-based economy. After the war, the Military was focused on rooting out the remaining bad guys and keeping the population quiet.

However, the Coalition was focused on change. Changes to the status quo inevitably make someone unhappy. Unhappy people will consider options for making their views known. Remaining quiet is only one of many options.

In the Pentagon, where the same differences in viewpoint often exist, a best practice has developed of having a senior Military Aide, well trusted by the military, serve in the immediate offices of all the senior civilians appointed by the President. These officers are assigned to provide the civilian with the military view of problems that arise. The same officers serve as effective communication channels between the civilians and the military. These officers were not routinely assigned in Iraq, even to the Directors and Senior Advisors who were making things happen twenty hours a day.

As an aside, these assistants have to be both senior (O-5 and O-6) regular Army, Marine Corps, Navy or Air Force for this to work. Junior officers or civil affairs officers cannot do the job required. They did not do the job in Iraq.

The civilians in the Coalition generally had no knowledge of military organization, and thus no idea of which parts of the military might either assist them or need to know what they were planning. The civilians didn't know whom to call. Senior military officers do know.

Do you think an Australian businessman, who has volunteered to help the Coalition, and is occupying an independent policy-making position in Iraq, has any idea who in the (largely) American military might be interested in the fact that he is about to stop the distribution of urea (a fertilizer the Iraqis were overusing (because it was free) on the their non-irrigated croplands)? Stopping distribution of urea might well cause

demonstrations counter to the interests of military. Not stopping distribution would result in lower crop yields, which would negatively impact Iraq's economy.

A military commander might see nothing wrong with going in a bank with his gun to get money for what seemed to him on the spot as not only very valid reasons, but also the righting of a previous injustice, especially if he believed this action might stop what he thought was potentially a demonstration. Of course, he thus might prevent the reopening of the banks, and result in six Iraqis being killed during the next week during armed robberies. This action is hard to fault if the military commander does not know the bigger picture.

Militaries also organize and communicate very effectively. That is the core of their job. They need to make the logistic trains run on time and be able to focus power on the right spot at the right moment. Civilians in government tend to focus on the power of ideas. They have a great deal of specific expertise, because that is their own core capability. Civilians tend not to be as interested in rigid organizations and do poorly communicating reliably.

There were 147,000 military personnel in Iraq, and less than a thousand Coalition civilians. The civilians were quickly driving governmental, economic and physical change. The military was trying to maintain quiet. There were inadequate mechanisms set up to coordinate these potentially disruptive goals.

Let me give you two examples. Administrator Bremer and Gene Stakhiv, the Senior Advisor for Irrigation, flew off one day, accompanied by a helicopter full of reporters to report a good news story. Gene was employing 100,000 Iraqis cleaning the irrigation ditches. Not only did this provide jobs, it increased the water available to agriculture. In addition, Gene's Ministry personnel were learning how to take initiative and make this new program work -- recruiting personnel, keeping the records, doing the payments, etc. The Iraqis were being paid $2.50 a day (above the normal manual labor rate), and when the jobs ended, they could take their shovels, wheelbarrows, etc. home. If they individually possessed such initiative, they automatically had tools to start up their own micro-business. It was a good story. Gene was one of those officials who did not have a senior military assistant.

As the helicopters neared the pay site, a Marine unit with responsibility for the area saw the Administrator would land near a large crowd of unruly Iraqis, so the Marines dispersed the Iraqis at gunpoint. Of course, the large crowd had been around the pay station, so now there was no "good story" for the photographers, but instead only an angry crowd shaking their fists.

Was the crowd unruly? Yes. The Ministry had failed to arrange for the proper size currency, and was trying to pay people with twenty-dollar bills for two days work. Once the Iraqis had waited in line and had their names checked against the work log, then four workers proceeded to the local moneylender to get it changed, each holding a corner of the bill.

The local Marine commander assessed the situation. He had access to five-dollar bills, and knew how to organize. His men assembled the crowd into orderly lines and paid them all in a few hours.

Unfortunately, he ignored the work log, and paid everyone in line. The nearby town heard the Americans were handing out money and many came to see what was going on. The commander paid everyone who got in line. He solved the problem according to his goals. Of course, we had wasted money and not exactly sent the larger message of a fair pay for an honest day's work.

The military commander dammed the civilians as poor organizers and managers. The Ministry thought the commander was an interfering, overbearing sod. No lessons were learned or corrective actions taken until I sent my Military Aide, Colonel Rich Reynolds, to resolve the situation.

Second example. There were four banks in Baghdad in which we stored large cash shipments received from the United States. Each had several hundred million in its vaults (as opposed to a normal Iraqi bank float of forty or fifty thousand dollars). These banks were guarded by military troops, as the Coalition could ill afford to lose this quantity of money.

While eating in the common mess in the Palace, for months I heard scraps of indignation from the civilians in charge of the banks about the military's lackadaisical attitude toward bank security. At least once a week, one key bank was left unguarded. Finally, during a meeting in which a civilian was cursing the military, and the junior "civil affairs" military officers assigned to the group were all nodding their heads, agreeing with the vitriol, I interrupted. I have spent a great deal of time working with each of the Coalition's military forces. I know they are definitely professional.

I took the complainer by the hand and went off in search of a General. Overnight we resolved the problem. The military was using grid coordinates of Baghdad to determine what needed guarding. Military units were being rotated between assignments weekly. Once a week, one bank was found unguarded. It did not take a rocket scientist to determine what was going on -- one of the key banks was designated with incorrect coordinates. Once a week, the new Army unit was setting up its armor around an empty warehouse. We never did bother to determine who had made the original error. It was sufficiently illuminating that the Coalition military and civilians viewed each other as belonging to the "other side."

Why had this error persisted for months? Because there was not a senior military aide assigned to the senior Coalition advisor in charge of the banks and financial systems (or the person responsible for trade, or the one responsible for regional coordination and development, etc). Thus, there was no effective communication system between the few hundred civilian Coalition members in charge of the country, and the hundred thousand

military on the ground, and there were two completely different chains of command operating in Iraq, with ineffective intra-chain communications.

This problem was not resolved when I left.

Planning Differently. Since my return to the United States, I am often asked what I would have done differently if I had been involved in the planning for Iraq. Probably nothing.

I was not involved in any way with the planning, but the professionals who were assembled for the Coalition Economic teams were good ones who knew a great deal about Iraq, and were experts in economic theory and practice. However, I believe we were all surprised by many of the conditions we found in Iraq.

"Nevertheless," friends insist, "what would you do differently, given your experience and 20-20 hindsight?"

Given those key caveats, let me suggest the following:

Funding. I know from experience that any time the United States employs military forces overseas to project the National Interest, the added cost to our Nation is between $3B and $4B a month. You can build the numbers up by adding the cost of Meals Ready to Eat, gasoline and bullets, or you can do the figures parametrically from the top down, the results are the same. Those costs are in addition to the $400B it will cost to run the Defense Department next year.

The United States is a rich country, with a Gross National Product around ten-and-a-half trillion dollars. Given this, if the United States has decided to use our military to enter an area and do "nation-building," should we not plan to give the Administrator, whom we are tasking with success for that plan, sufficient funds to be successful? I would recommend a minimum of six months of the cost of the military deployment, or in this case, at least $20B, to start.

It should be recognized that in the chaos of establishing a presence in a foreign environment, it will be some time before anyone can "know" how much money is needed. Cash is a blunt instrument that can quickly solve or begin to address a multitude of problems. If you have underestimated your needs, you lose valuable time getting additional money approved. In our case, we lost at least 16 weeks from the point it became obvious that we did not have enough money to address the security and infrastructure problems before we received additional money, and that was with the Administration and Congress bending over backward to assist us.

(I know it may not have appeared so to the readers of morning newspapers outside the Washington Beltway, but I participated in the conversations with senior Administration

officials and Members of Congress. Given all the issues involved, they all moved at a lighting pace for the American democracy.)

With the money we found in the Palace, the Iraqi funds which had been frozen in New York and elsewhere, the money appropriated by Congress, plus the oil revenues we could project, we had about $6B to do "nation-building" in Iraqin 2003. This sum was insufficient to attack the surprising conditions we found. I was continually stealing nickels from one important project to fund something else which had become of more immediate priority. One of the discriminators the United States brings to a party is money. We did not bring enough money to Iraq.

Talent. The Coalition nations have millions of the most talented individuals in the world. We needed, and did not have, several thousand of them. Our partners sent some of their best and brightest. The United States did not proportionally provide. There were all sorts of reasons that sending enough good people to Iraq was difficult, from simply the lack of places to sleep, to the difficulty in getting people to put their lives on hold to do a demonstrably dangerous job. Those involved in staffing the Coalition found every one of these obstacles.

We simply did not have sufficient people for the task. There was no time to maintain a record of what was occurring – it was difficult enough in my Directorate to maintain even the semblance of a correspondence chronological file. The volunteers that did come to Iraq performed heroically, but people frequently rotated through every four to eight weeks, and, when they departed, too often took their invaluable knowledge with them.

Since most problems involve or can be solved by money, the Office of Management and Budget was frequently where new people went for help. My staff frequently shifted desks – no one wanted to be the person nearest the entrance to our office -- for fear of getting yet another issue added to his already overflowing plate. It was only the good intentions and extraordinary performance of the few that kept Iraq's economic recovery moving.

I tried and failed even to make a dent in this problem. As I write this, there are only two experienced people in the Coalition's budget and finance directorate – trying to do the job of hundreds.

I will note one example, from many, of the deleterious impact of the lack of sufficient experienced talent. The electrical infrastructure was a disaster in Iraq. As I have previously noted, it was also an area in which the Coalition was broadly unfavorably compared with Saddam. Fixing this problem required an experienced and sophisticated management team. The Senior Coalition Advisor to the Iraqi Electricity Commission was a good person and an engineer. He was, however, relatively junior (a GS-15 for those who are familiar with American Civil Service scales), and had only one assistant.

When this Senior Advisor took personal leave, he was replaced by a 27-year-old individual, also a good person, with no management or engineering experience, who had

refinanced his flat in London, and, financially flush with 80,000£, decided he wanted to see what was going on in Iraq. The young man had flown to Amman, Jordan and taken a taxi to Baghdad to see if he could be of any help. When he, a breathing member of one of the Coalition partners, appeared at the gates of the Palace, he was pressed into service. Two weeks later, he was trying to run the entire Iraqi electrical grid recovery effort for the Coalition, his clothes still in a hotel room in Amman.

The United States military brings overwhelming force and capability to a military problem. The United States can also bring any situation money, talent and technology. When the United States plans to attend a function, it should bring all the attributes that garnered the invitation.

Summary. I believe it unimportant how or why the Coalition got to Iraq. We all were there, and the national interests of important States were intimately involved in success. In addition, whatever the chances for complete victory, the opportunity to assist the Iraqis in developing a democratic, secular country, with a market-based economy, which would vault them into becoming a stabilizing world power, was too important to spare any effort. The economic sector teams worked day and night with that dream.

We accomplished a great deal before we handed responsibility off to Poland's Marek Belka, America's Rodney Bent, and Australia's Tony McDonald. Government employees were being reliably paid with a new, viable, currency, and there was a fair national salary schedule in effect. The Iraqis were operating with a public budget, the budget for the following year was already published, and there were funds available to reconstruct Iraq over the next four years.

An independent Central Bank had been established, as well as a Trade Bank.[9] The commercial banks were open, providing both loans and interest on deposits, and serving as facilitators and a stimulus for Iraq's economic development. Census efforts were underway to determine the actual impact of changing economic policies. We had planned Iraq's disengagement and recovery from the Oil for Food program, and were well along to eliminating the disastrous system of subsidies.

Stabilizing new custom and tax rates were in place designed to attract new Iraqi and foreign investment.

In six months, we had accomplished more than any of us ever thought possible. History and graduate students will have to resolve whether the Iraqis' and our efforts were successful.

[9] An extraordinary achievement by Rick Bloom, a banker's banker, whom Peter had known at the Bank of America.

Chairman WAXMAN. Thank you very much.

I thank you very much for your testimony. You pointed out that there are lessons we need to learn. Both Ambassador Bremer and Mr. Bowen emphasized that point, and I think that is very important. But for us to learn lessons, we also need to know what happened in the past.

As I pointed out in a memo that I circulated, what we had was in a little more than a year, $12 billion in U.S. currency removed from the vaults of the Federal Reserve and flown into Iraq. This money, mainly hundred dollar bills, was packed into bricks, and each brick was worth $400,000 each. I think we have a picture of the bricks on the screen. They were assembled into large pallets containing over $60 million in cash and flown into Iraq.

In December 2003, Ambassador Bremer and the Coalition Provisional Authority asked for a shipment of $1.5 billion to be flown into Iraq, and a Federal Reserve official described this in an e-mail as the largest payout of U.S. currency in U.S. history. But this didn't remain the largest for very long because in June, $2.4 billion was sent to Iraq, and this time a Federal Reserve official wrote, "Just when you think you have seen it all, the CPA is ordering $2,401,600,000 in currency."

Well, the question this committee is trying to answer is: What happened to the money. Was it spent responsibly? Was it misspent? Was it wasted? Did it go to pay off corrupt officials? Or worst of all, did some of this money get into the hands of the insurgents and those who are fighting us today in Iraq?

Mr. Bowen, in your January 2005 report, you issued an audit and you tried to track what happened to part of the cash shipped to Iraq. The major finding in your audit is that the CPA did not establish or implement sufficient managerial, financial and contractual controls to ensure DFI funds were used in a transparent manner. In that report, you examined $8.8 billion in cash that was not properly accounted for.

My first question is whether this is all the cash that is missing. As a memo indicates, $12 billion in cash was shipped into Iraq. Do we know how any of this money was spent?

Mr. BOWEN. Yes, a total, the total amount of Development Fund for Iraq money that was disbursed or shipped to Iraq for its use in the period of the CPA was about $19 billion, but it was used for different purposes. The $8.8 billion is the amount from October 2003 through the end of June 2004, that we looked at in the course of this audit that was disbursed for the ministries' operations themselves.

There was also substantial funds, several billion executed through the Program Review Board, a program and contract review process managed by the CPA that approved Development Fund for Iraq money for use in the relief and reconstruction of Iraq.

Chairman WAXMAN. They had a Program Review Board. Was that to assure the transparency of the money to audit and know where the money was going?

Mr. BOWEN. Yes, it was to ensure that proposed projects were adequately vetted before they were executed. CPA was the interim government for Iraq. It had, pursuant to Regulation 1 of CPA and U.N. Security Council Resolution 1483, the responsibility for the

management of the entire DFI and also the responsibility that money was used for the benefit of the Iraqi people.

There are different ways that money was used. One way was to restart the operation of the ministries, and that required funding those ministries, and that is what the ministry budgets were for, and that is what the $8.8 billion was for.

Chairman WAXMAN. How much of that money has not been accounted for of the money you describe?

Mr. BOWEN. Are you talking about the ministry budget?

Chairman WAXMAN. Of the total amount of money that was shipped to Iraq in cash, how much is not accounted for?

Mr. BOWEN. Well, our audit did not look at the entire DFI. We just looked at the money appropriated for the ministries. When I say that we don't have good accounting, what I have really said is that it was the conclusion of our auditors and the finding of our audit that the CPA should have required more from the ministries with respect to how they executed that $8.8 billion.

Chairman WAXMAN. So this $8.8 billion was distributed to the ministries.

Mr. BOWEN. That is right.

Chairman WAXMAN. Did you try to find out what happened with the money once it went to the ministries?

Mr. BOWEN. No, there are audits that are conducted by KPMG, Ernst and Young, and the Board of Supreme Audit which we continue to support in their review of that, of that money. I met with the President of the Board of Supreme Audit who is looking at that, and I have helped him get the documentation of how that money was used such as it is available.

Chairman WAXMAN. How much of it went to ghost employees?

That has been a widely circulated charge that it went to ministries. They had a certain number of employees, but then they had so much more for more employees. If they didn't really have those people as employees, they would be ghost employees. Do you have any idea?

Mr. BOWEN. I don't know how much, but we identified the problem of paying ghost employees in the course of performing this audit. With respect to Facilities Protection Service employees at two ministries, only a small percentage of those actually on the rolls existed, at least pursuant to our interviews with the senior advisors to those ministries. They raised concerns to us about it.

But the problem of ghost employees has, I think, been an issue from the start. It is today in Iraq and was frankly before the invasion. It was a problem that endured since the age of Saddam.

Chairman WAXMAN. Ambassador Bremer, you had your own order requiring transparency. You were responsible for this money. Do you believe you applied appropriate standards in spending the $12 billion in cash and how do you respond to Mr. Bowen's concern that you didn't live up those responsibilities of transparency, that so much of this money went to the ministries and a great part of it went to ghost employees?

Mr. BREMER. Well, Mr. Chairman, first yes, as I said in my statement, I think under the circumstances that we faced in the middle of a war on the back of a basically bankrupt country, we met our obligations. Where the Inspector General's report went, I think,

further than any of us believed was possible, and it is just a difference of opinion here, was in the implication of his report that we should have been able to impose modern accounting system on the Iraqi ministries themselves for the execution of their budget. You know, he said——

Chairman WAXMAN. Is that what you are saying, Mr. Bowen, because that isn't what I understood you were saying? Mr. Bowen, is that the complaint of the Inspector General?

Mr. BOWEN. No. It was one level above that analysis. We weren't implying that. What our conclusion was, was that the duty of transparency required the CPA to obtain some reporting about how the ministries executed their budgets. In our discussions with the CPA during the course of this audit, the CPA's interpretation of transparency was that required transparency with respect to how the CPA managed the Development Fund for Iraq internally and not what happened to them after they were transferred to the ministries.

Chairman WAXMAN. Mr. Bowen, by dumping $12 billion in cash into Iraq without proper safeguards, as you have determined, could we have undermined our efforts in Iraq by actually funding the enemy?

Mr. BOWEN. I don't want to speculate about that, but I will say that the security problems and the corruption problems that have dogged the effort in Iraq and have burdened the interim Iraqi Government—and I should point out we are on our fourth government since the invasion in Iraq—continue to be a problem today as our latest quarterly report points out.

Chairman WAXMAN. Ambassador Bremer, are you concerned about the possibility that some of this money went to ghost employees, we don't know where it went, and it might be showing up in the hands of insurgents that are fighting U.S. troops?

Mr. BREMER. If there were evidence of that, I would certainly be concerned.

Chairman WAXMAN. We don't know whether there is evidence of it.

Mr. BREMER. I don't know.

Chairman WAXMAN. But we don't know whether the people who got the money were entitled to it or what they did with it.

Mr. BREMER. As the Inspector General pointed out, the problem of ghost employees was certainly there, and it was there even before the invasion, but I have no knowledge of moneys being diverted. I would certainly be concerned if I thought they were.

Chairman WAXMAN. Well, $12 billion is a lot of money. It could have been used for a lot of projects that American taxpayers ended up funding through our appropriations. It seems to me inconceivable that we can't explain what happened to it, but that seems to be the situation we are in. Is that an accurate statement, Mr. Bowen?

Mr. BOWEN. I think the weakness of Iraqi ministries to execute capital budgets has been a problem since the start, and our latest audit report on that matter clearly substantiates that fact. But the end of the Iraq Relief and Reconstruction Fund means that the Iraqis must sustain the burden to fund their relief and reconstruction moving forward.

Chairman WAXMAN. Thank you very much.

Mr. Davis.

Mr. DAVIS OF VIRGINIA. Thank you very much.

Mr. Bowen, let me start with you. We have heard about your January 2005 audit which determined that $8.8 billion from the DFI, the Development Fund for Iraq, was allocated "without adequate controls." Of course, we are coming into a country with basically no government, is that correct?

Mr. BOWEN. Well, yes, with the mere structures of government in place and that had to be reconstituted.

Mr. DAVIS OF VIRGINIA. And a lot of records were missing?

Mr. BOWEN. That is right.

Mr. DAVIS OF VIRGINIA. Payroll records, Mr. Bremer, payroll records were missing. I mean they were starting literally from scratch in some cases, is that correct, Mr. Bremer?

Mr. BREMER. Yes, that is right.

Mr. DAVIS OF VIRGINIA. Two misconceptions are commonly made, one, that these were U.S. tax dollars. Were these U.S. tax dollars, Mr. Bowen?

Mr. BOWEN. They were not.

Mr. DAVIS OF VIRGINIA. These were Iraqi dollars, correct?

Mr. BOWEN. That is right.

Mr. DAVIS OF VIRGINIA. Second, that this money was stolen, was this money stolen?

Mr. BOWEN. No, it was not.

Mr. DAVIS OF VIRGINIA. Thank you.

Can you clarify some points for us? Is there any evidence this money was fraudulently appropriated?

Mr. BOWEN. No evidence of that.

Mr. DAVIS OF VIRGINIA. Who had the ultimate control over these funds, the Iraqis or the CPA?

Mr. BOWEN. The CPA was the interim government of Iraq, so it had a fiduciary duty to manage the Development Fund for Iraq for the benefit of Iraqis. So until June 28, 2004, pursuant to the U.N. Security Council resolutions that were operative, the CPA had responsibility.

The Iraqi ministries were being stood up, and it was CPA's policy to help them stand up by giving them responsibility, and one of those was budget execution. And my core point, as I have said, is that there should have been some mechanism in place to obtain information about how those ministries executed those budgets.

Mr. DAVIS OF VIRGINIA. Let me ask Ambassador Bremer. You came in, and you have the money. The Iraqis haven't paid their people for sometimes months that was owed them at this point. What safeguards could you have put in place immediately, looking at this in retrospect?

Mr. BREMER. Well, we were dealing in a cash economy with no banks, no funds transfers, no national telephone system.

Mr. DAVIS OF VIRGINIA. Was there any alternative to putting the money on a plane and sending it?

Mr. BREMER. I don't, I haven't heard anybody come up with an alternative in the circumstances we had.

Mr. DAVIS OF VIRGINIA. You are just being ridiculed, but frankly if it is a cash economy, that is about the only option you have, isn't it?

Mr. BREMER. Yes, sir.

Mr. DAVIS OF VIRGINIA. All right. So what safeguards?

They needed to get money out to people right away. You had to trust the ministries. There was nobody else on the ground at that point.

Mr. BREMER. What we did was have our people from our offices check the payrolls that were being asked to be paid in each ministry against the pre-war payroll records of those ministries. Now, of course, we had very limited capability of knowing whether the pre-war payrolls were adequate, as the Inspector General pointed out, but we did that. Then the Ministry of Finance did a double check on all of the payrolls. That was the system.

Mr. DAVIS OF VIRGINIA. That was really the only check that you had at least immediately.

Mr. BREMER. Yes.

Mr. DAVIS OF VIRGINIA. Let me ask both of you. How long would it have taken to get up some kind of system?

Mr. Bowen, what would you have done under those circumstances where you needed to disburse money immediately and given the records that Ambassador Bremer is talking about. You are an accountant, and so you have to go by the book, but realistically on the ground, what would you have suggested?

Mr. BOWEN. I would have acquired some reporting from each ministry about how the money that they executed was used.

Mr. DAVIS OF VIRGINIA. Did you have anybody report to you, Ambassador Bremer?

Mr. BREMER. Well, the system as I understand it was that in the Iraqi system, which we agreed to use at the recommendation of the International Monetary Fund, every month a ministry would report back on its expenditures for the previous month and the Ministry of Finance would review those records before disbursing the next month. In other words, they were basically on a month to month basis.

The Ministry of Finance had an entire department that conducted these reviews. They often turned down requests because they didn't find that the Ministry of, say, Irrigation had provided adequate information, so they would delay disbursing the next month until they were satisfied. It is a rather, by our standards, cumbersome way to do it, but that is how they did it.

Mr. DAVIS OF VIRGINIA. Given the fact that you didn't have any systems up and operating and it was a cash economy.

Let me ask Mr. Bowen. Is it that there were no receipts or documentation or that they were just not very good?

Mr. BOWEN. In our review, there were virtually no, there was virtually no documentation. What we found were balance sheets, and that is what the CPA published on its Web site, that showed allocations and disbursements.

The Ministry of Finance was, as it is today, weak in its accounting capacities—as the IMF identified in June 2003, very weak in its internal controls—and as KPMG identified in December 2003 in

its report, there were significant weaknesses there and among other ministries with respect to those ministries' internal controls.

But really, the issue again is about the burden imposed by the duty of transparency that the U.N. required of the CPA with respect to how the DFI was used, and that, in our view, in the view of our audit, was that it required reporting to the CPA, which was the interim government of Iraq, more detail about how the money was transferred or used.

Mr. DAVIS OF VIRGINIA. Ambassador Bremer has just told us what they reported back and forth, is that correct? So you didn't ask him for any accountability.

Mr. Oliver, this is a good time to bring you in here. You were the advisor to the Iraqi Minister on Finance, so I hope you can shed some light on the process. Could you describe who made up the ministry and how it functioned?

Mr. OLIVER. The Ministry of Finance? The Ministry of Finance essentially was the senior ministry and was composed of significant people that knew how the distribution of the government was arranged. The key to it is you have to understand that there are no computers and there are no, there is no Internet connection. So, for example, the No. 3 person in finance is the man who distributes all the money, and in Iraq all the money over $26 required a written report from him to be expended. That person only had one thing on his desk which was not a telephone or a computer but was a pad of tracing paper on which he wrote these things out by long hand and they were transferred by car.

Now, as the Ambassador says, by the middle of each month under normal circumstances, each ministry would report back to the Minister of Finance as to what they had spent and they would allocate it.

I had only 4 to 10 people working for me. I had a quarter of them sitting with that person who was the Director of Finances, so they could oversee the reports that he was getting back over what was going on. Unfortunately, by the time the IG arrived, Jacob Noel [phonetically], who was the man who was in charge of that, had been injured in the attack on the Rashida [phonetically] Hotel and had gone back to the United Kingdom.

Mr. DAVIS OF VIRGINIA. When you noticed the ministry wasn't functioning at a level of adequate accountability, who did you report this to and what did you say and what did they say back?

Mr. OLIVER. I am not sure. I don't agree. I think the minister of, Ministry of Finance was a very competent organization which was supervised by the Board of Audit and Supervision which you have to understand. The Ministry of Finance and the Board of Audit is 1,600 U.K.-trained accountants which were certainly more competent than anything we could provide at that time.

Mr. DAVIS OF VIRGINIA. OK.

Ambassador Bremer, did you, at any point, notice that the funds being disbursed by the IAMB to the Iraqi Finance Ministry were being misused?

Mr. BREMER. Disbursed by whom, sir?

Mr. DAVIS OF VIRGINIA. The IAMB.

Mr. BREMER. I think the IAMB was the audit organization established by the U.N. Security Council Resolution 1483. I don't think

they had any responsibility for disbursing funds. Did you mean from?

Mr. DAVIS OF VIRGINIA. How about of your money that you were disbursing to them?

Mr. BREMER. I am afraid I don't understand the question.

Mr. DAVIS OF VIRGINIA. The CPA money.

Mr. BREMER. The CPA money, and what? I am afraid I don't understand.

Mr. DAVIS OF VIRGINIA. Let me ask Mr. Bowen this. What should you or what can the United States do to ensure that in the future standards of accountability cover reconstruction efforts past the point of disbursement because that is really the big problem here?

You, obviously, made adequate disbursements. You asked for accountability. You had to do this retroactively because the money had to get out there.

Mr. Bowen, do you agree with that?

Mr. BOWEN. Yes, well, and as Ambassador Bremer has pointed out, it was an extremely chaotic situation. When he arrived in Iraq, I think he has described the city was on fire.

Mr. DAVIS OF VIRGINIA. Of course, you have to get the money out.

Mr. BOWEN. And as you identified, the government was non-existent. To me, that situation screams for more oversight, more controls, more feedback than less.

Mr. DAVIS OF VIRGINIA. But you can't not disburse money at that point. You can't say well, we are going to give you 3 weeks to get this while people don't get money.

Mr. BOWEN. Yes. I am not going to compartmentalize the analysis just so you can't do this, you can't do that. If you are going to disburse the money, you ought to have some, and I don't mean Wall Street or whatever standard anyone wants, say Big 4, just something that provides feedback to the interim government about how that money was used. As our audit indicates, what that something was, was the Ministry said yes, we received this money; yes, we expended it. The level of detail beyond that, as the President of the Board of Supreme Audit has told me, is virtually non-existent.

Mr. DAVIS OF VIRGINIA. Well, let me get to the nub of this. Ambassador Bremer, just from your written testimony, I have this question. You noted that the Special Inspector General's report implies that the Coalition Provisional Authority should have imposed modern accounting and financial control systems in less than a year on a failed state in the middle of a war, and you say, I know of no one who spent time in Baghdad working with Iraqi ministries who thought this was possible in the circumstances under which we worked. Isn't that the nub of the whole issue?

Mr. BREMER. Yes, it is. Of course, I agree the ideal that the Inspector General lays out would be desirable, but we were in the middle of a war, working in very difficult conditions and we had to move quickly to get this Iraqi money working for the Iraqi people.

Chairman WAXMAN. Thank you, Mr. Davis.

Before I call on the next member, I just want to ask Mr. Bowen one question. What are the consequences today of the mistakes that we are discussing at the time that the Coalition Provisional

Government was not handling the money in the way you thought it should have been handled?

Mr. BOWEN. As I said, we are three governments down the road from there, so we are encountering a whole different series of problems, some similar, some very different. The biggest issues today, as I point out in my latest quarterly, are corruption. Barham Salih said last week, when talking about misappropriation of funds, it is occurring on the Iraqi side of the ledger simply because of the lack of accounting controls internally, the lack of capacity there. He pointed out.

Chairman WAXMAN. Just at the time of the Provisional Authority.

Mr. BOWEN. He pointed out that the Baiji Refinery lost to corruption about $1 billion in crude oil refined products, and his concern—this is the Deputy Prime Minister of Iraq speaking—was "that money went to the insurgents." If that is his concern, it is our concern too, and given the situation, the lack of stabilization, it is probably a plausible analysis on his part.

Chairman WAXMAN. Thank you.

Mr. Cummings.

Mr. CUMMINGS. Mr. Bowen, you said a few minutes ago information flowing that should have been flowing back to the CPA, you used the phrase something more than nothing. Is that what you said?

Mr. BOWEN. That is right.

Mr. CUMMINGS. So, basically, we don't know where a lot of this money actually ended up, do we?

Mr. BOWEN. Again, it is about the interpretation of transparency. The CPA was transparent in how the CPA managed its internal use of the DFI, and that has been confirmed by an outside auditor. But how that money was used by the Iraqi ministries is a question that I can't answer, but it is a question that the President of the Board of Supreme Audit is vigorously proceeding, pursuing right now with our support.

Mr. CUMMINGS. We don't have evidence. We have no evidence. We can't confirm that it didn't end up in the hands of insurgents, is that right?

Mr. BOWEN. Well, we know that it was, we have anecdotal evidence that it was used to pay salaries. We know that. We know that it was used to pay administrative overhead, but the reporting mechanisms from the ministries to the Ministry of Finance were weak, as identified by the IMF and then KPMG in 2003. But more to the point, CPA which was the interim government of Iraq did not get any sort of detailed insight into how that money was used by the ministries.

Mr. CUMMINGS. Thank you.

Ambassador Bremmer, I want to ask you about Regulation No. 2 which was issued on June 18, 2003. This regulation says that Iraqi funds administered by the CPA shall be managed "in a transparent manner for and on behalf of the Iraqi people consistent with U.N. Resolution 1483." You are familiar with that, are you not?

Mr. BREMER. Yes, sir.

Mr. CUMMINGS. Ambassador Bremer, this is your own regulation, isn't it?

Mr. BREMER. Yes, sir.

Mr. CUMMINGS. Do you think you met the standard?

Mr. BREMER. Yes, sir.

Mr. CUMMINGS. Mr. Bowen, you audited how these funds were spent. Do you think the CPA met the standard of Regulation No. 2?

Mr. BOWEN. Again, the audit looks at the $8.8 billion disbursed to the ministries, and so just looking at that particular tranche of the DFI, it was our finding that the CPA should have done more to ensure transparency of how the ministries themselves executed their budgets.

Mr. CUMMINGS. Let me ask you this. Regulation No. 2 also says the CPA shall obtain the services of an independent certified public accounting firm. Mr. Bowen, what would be the purpose of an independent certified public accounting firm? What would be the purpose of that?

Mr. BOWEN. Its mission was to service functionally the internal auditor to the comptroller of how the DFI was being managed and to promote transparency.

Mr. CUMMINGS. Now, Mr. Bowen, during your audit, did you determine whether the Ambassador in fact hired such an accounting firm?

Mr. BOWEN. They did hire an accounting firm, but the accounting firm, as we identified in the audit, didn't meet the milestones that were expected of it.

Mr. CUMMINGS. So were the purposes fulfilled by that accounting firm?

Mr. BOWEN. No, they weren't.

Mr. CUMMINGS. Ambassador Bremer, why didn't you bring a certified public accounting firm on pursuant to your own regulation?

Mr. BREMER. When I looked into this after I saw the Inspector General's report, it became clear that the CPA comptroller who was in charge of this project, and again I think it was reported by the Special Inspector General, once the accounting firm was hired, changed the task of that accounting firm to help him produce better track accounting for DFI funds.

The regulation, as you pointed out, calls for what it should be, he should support the objective of ensuring the fund is administered and used in a transparent way.

Mr. CUMMINGS. What was the name of that firm, by the way, the firm you refer to, if you know?

Mr. BREMER. That was hired?

Mr. CUMMINGS. Yes.

Mr. BREMER. North Star, I understand.

Mr. CUMMINGS. Can you tell the committee what type of company North Star was and can you tell the committee whether North Star had any accountants on its staff, any?

Mr. BREMER. I don't know what kind of firm it was other than it was an accounting firm. I have read the Special Inspector General's report that says that it had certified accountants on it.

Mr. CUMMINGS. Would you be concerned or upset if you found out that there were no accountants on North Star's staff? Would that concern you?

Mr. BREMER. It would if it were true. I don't know. I don't know if it is true.

Mr. CUMMINGS. Can you tell us the value of that contract?

Mr. BREMER. No, I don't know off the top. I would be happy to provide it.

Mr. CUMMINGS. Well, let me tell you. I can tell you it was $1.4 million.

Let me show you this. I would like to show you a picture of a house. Can you see that up there?

According to press accounts, this house in San Diego is listed to North Star as North Star's official business address. Did you know this company was run out of somebody's house, this company that got the $1.4 million?

Mr. BREMER. No. At the, I didn't know until I read about it in, I think the hearings that were held here in June 2005.

Mr. CUMMINGS. I see my time is up. Thank you, Mr. Chairman.

Chairman WAXMAN. Thank you, Mr. Cummings.

Mr. Issa.

Mr. ISSA. While that picture is up, I might note that this committee has encouraged telecommuting, and much of the Federal Government is presently run out of homes very similar to that.

Mr. Bowen, if I could followup on some things the chairman brought up earlier in his opening statement, as I understand, the Baathist Party was somewhere between a form of socialism and was a little between Stalin and Hitler if you wanted to look at how they ran business, and so they had a lot of communism in the sense that they had nationalized electricity, nationalized health care, nationalized everything, and that leads to a large Federal central budget.

How large pre our invasion was the budget? How much was dispensed by Saddam in his currency every month?

Mr. BOWEN. I don't, we don't have any information, and we never looked at Saddam's operations in the course of our work.

Mr. ISSA. Ambassador Bremer, what was the annual budget that Saddam was writing checks even under Oil for Food? What was he spending?

Mr. BREMER. I think I am going to have to defer to Admiral Oliver who may know the number. I don't know it off the top of my head.

Mr. ISSA. Third time is a charm, Admiral.

Mr. OLIVER. We decided that it was around $14.7 billion which is what we established for the first year's budget.

Mr. ISSA. OK, so we are talking about $15 billion. We are looking at a country that before we went in was spending of its own money, $15 billion, without any unusual war, disruption, etc., and it was handing bills with Saddam's picture on them. Is that right?

Mr. OLIVER. [Nodded affirmatively.]

Mr. ISSA. OK, I want to know what the there is. We are looking at a couple hundred dollars per capita in a socialist country where, as I understand it, the chairman as a representation of the party, they have been saying that the worst thing we could do, Ambassador Bremer, was dismiss the military, dismiss the government, dismiss these people and put the country into chaos. Didn't this money do exactly the opposite? Didn't it keep people on their job?

Mr. BREMER. Well, we thought it was very important after we arrived to take into account this important fact. Millions and millions of Iraqi families depended on civil service salaries, and millions more depended on civil service pensions. It was their only source of income. They had not been paid since before the war. It was clear to us that we needed to get this Iraqi money into their hands quickly, and that was our top objective. In a cash economy, it is not obvious to me what the alternative was, frankly.

Mr. ISSA. Mr. Bowen, following up on the same line, are we dealing with hundreds of millions or billions of dollars that ended up in Swiss banks the way they did under the Oil for Food program before the United States went into Iraq? Do you have any evidence of money ending up in large amounts from this cash in foreign countries?

Mr. BOWEN. I deal regularly with Commissioner Radhi who is the head of the Commission on Public Integrity, the FBI for Iraq set up by the CPA, and he has over 2,000 ongoing as a result of corruption with respect to the Development Fund for Iraq moneys. So, while we don't have jurisdiction over those cases, the Iraqi entity that does has reported to me cases amounting to the billions of dollars with respect to misappropriation or misallocation.

Mr. ISSA. You used a B. So out of $15 billion, you are saying $2 billion or more in cash were taken and redirected by Iraqis.

Mr. BOWEN. I should say he has allegations, cases, allegations of fraud. Those are not convictions, but he has cases ongoing that, yes, in multiple billions. That is correct.

Mr. ISSA. There are allegations of multiple billions.

Mr. BOWEN. Correct.

Mr. ISSA. So far, the Iraqis looking at how to control the Iraqi money, what have they established in the way of funds seized in foreign accounts because they obviously have the authority as a country to seize funds of these people they are alleging against?

How much money has been found overseas, locked up or in cash locked up?

Mr. BOWEN. They had a problem pursuing that. That is a good question, that they have weak internal procedures with respect to this, weak law enforcement. It is still developing government. It is a very fledgling democracy. But there are concerns that have been, that I have heard voiced to me by both Judge Radhi and Abdel Baset, President of the Board of Supreme Audit, about exactly this issue, their capacity to both convict those who have absconded with these funds, bring them to justice and recover the money.

Mr. ISSA. In the Oil for Food program over the years, how many billions of dollars did we assess were taken by Saddam, his family, friends and redirected?

Mr. BOWEN. I don't know how much we assessed, but I know that the VOCA report identified billions in potentially misappropriated funds.

Mr. ISSA. My time has run up.

But Ambassador Bremer, it is fair to say that this is part of what was going on when you took over, and the idea that you were going to completely eliminate it if you used any Iraqis at all to disburse the funds would have been ludicrous, wouldn't it?

Mr. BREMER. Yes.

Mr. ISSA. Thank you, Mr. Chairman.

Chairman WAXMAN. Thank you, Mr. Issa.

Mr. Tierney.

Mr. TIERNEY. Thank you, Mr. Chairman.

Last fall, the press reported that the CPA staff was filled with people who were not the best qualified candidates but who were hired because of their political connections. I would like to address that issue a little bit. There are two basic questions there essentially. One is whether or not unqualified people were given positions of responsibility and the other is whether the qualified people might have been rejected in favor of other people who were unqualified based on politics.

Let me focus on the first one of those issues, the qualifications. A Washington Post article back in May 2004, notes that six young people received e-mails out of the blue, asking if they would like to work with the CPA in Iraq. None of them had expressed any interest. None of them had any experience. None knew anything about Federal procurement and budget rules. All were hired without interviews, and all did not have security clearances.

Originally, the understanding was they were hired to take low level jobs in the CPA budget office, but because CPA had not recruited qualified senior people, they ended up responsible for spending the Iraq money in the budget.

All of them apparently posted their resumes on the Heritage Foundationsite and were hired off of that site along with other people. They were just out of college, and they were paid $100,000.

Ambassador Bremer, your fellow employee, Mr. Smith, who was the head of the CPA headquarters in Washington, DC, and worked for you said this about the qualifications of the staff: "I just don't think we sent the A team. We just didn't tap the right people to do this job. It was a tough, tough job. Instead we got people who went out there because of their political leanings"—sort of a harsh assessment on that.

I want to know who did the hiring. Was it you? Was it the Department of Defense and if it was the Department of Defense, who ordered it?

Do you agree with that statement or do you think you had your A team?

Mr. BREMER. Thank you. Excuse me. Thank you for that question.

Let me first start by agreeing and underlining one point which was that we had a chronic shortage of personnel in all areas as Admiral Oliver pointed out. It was always a problem to get enough people there, and we never had enough.

Second, I did not do the hiring of those people in that article. I don't think I even ever met any of those people. My role in hiring was very limited because of the amount of time I had to get ready to leave which was very short. I hired my personal staff, a couple of senior deputies to me and a couple of senior advisors.

The hiring, to answer your——

Mr. TIERNEY. Excuse me for interrupting you.

Mr. BREMER. Sure.

Mr. TIERNEY. Do you know who did hire these people?

Mr. BREMER. Yes, I was coming to that. You asked where the hiring was done. In an office in the Pentagon, and I think if the committee has questions about those procedures, that is the appropriate place to ask those questions.

Mr. TIERNEY. Do you know specifically which office and who was responsible for that?

Mr. BREMER. Well, the name of the man who I think was in charge of the office—I am not sure what his title was—was a man named O'Beirne. I don't know what his title was.

I have to say, Congressman, that I know this article made the allegation these people were rewarded for their political loyalty or something. It has never been entirely clear to me what kind of a reward it is to send somebody to Baghdad, but perhaps somebody can enlighten me on that. It wasn't obvious to the rest of us.

Mr. TIERNEY. I think some of the article mentioned that they were paid up to or more than $100,000 which by most accounts for somebody just out of school is not a bad reward.

You also had an interview with Frontline in which you stated: I might see a biography or one of my staff might and would say yes or no, but we really didn't have frankly very much time to vet all the people coming in.

You said you never looked at these particular people. Did any of your staff have responsibility for looking at these people in the budget office?

Mr. BREMER. The hiring was done in Washington by the Pentagon.

Mr. TIERNEY. Nobody on your staff had a chance to look it over?

Mr. BREMER. My, not in Baghdad, not that I, to my memory, I don't think anybody in Baghdad had time to look at those resumes, sir.

Mr. TIERNEY. You mentioned two goals that you had, primary goals. One, of course, was security and the other was the reconstruction and the putting of Iraqi people back to work in their economy. In planning this whole situation, what I think you are telling me is that the Department of Defense would force upon you individuals whom they had apparently hired and then put them in a position of this kind of extreme importance without your having any control over them?

Mr. BREMER. Let us, I have attached to my statement today the list of the top hundred or so people in the CPA.

Mr. TIERNEY. These are apparently people that you thought were vitally important. The idea of spending this money for reconstruction and economic improvement there would be, by your own admission, the second highest priority you had set.

My question really was: Once these people were put in place, you say without your input at all, did you then have the ability to exercise any control or assignment responsibilities for them?

Mr. BREMER. Well, not the low level people who are the subject of that particular article. What I was trying to say is that if you look at the attachment to my statement where I have listed the qualifications of the top 100 or so people—they would be the people that I would normally interact with more than others—you will find a very competent, experienced group of people from many different countries who were, in my view, competent. I don't exclude

the possibility that among the 3,000 people who worked for the CPA, there were people who were not competent.

Chairman WAXMAN. Thank you.

Mr. Tierney, I want to inform you and the committee members of our efforts to try to get information. When these allegations of cronyism appeared in the paper, we contacted last September the Pentagon and Department of Defense and asked for a briefing by James O'Beirne, the political appointee at the Pentagon, alleged to have screened the applicants, and we got no response to that.

Then when the election took place in January, Mr. Davis and I joined together in a request for a briefing and a meeting with Mr. O'Beirne, and we were told well, the reason they didn't answer our first request is that they have a policy of not giving information to those who are in the minority in Congress. We informed them that we are now in the majority, and this is a bipartisan request, and they indicated to us that they didn't know about it and they hadn't seen it even though we mailed it, we faxed it and we e-mailed that request to them.

It just seems to me this is quite frankly an example of stonewalling on their part, and I would hope that we would get the cooperation of the Department of Defense to at least let us ask questions not in a hearing but at a briefing from the person who is allegedly responsible for giving a litmus test and hiring political cronies rather than the very best people for the CPA.

I want to now recognize the gentleman from Florida, Mr. Mica.

Mr. MICA. Well, thank you. Thank you, Mr. Chairman.

Ambassador, again just to clarify a few things, you had control from April 21, 2003 to June 28, 2004, about 13½ months, correct, OK.

When you got there, tell me each of these entities' condition. Basically, the government, was it abolished?

Mr. BREMER. The situation in most of the ministries was that the top ministers and deputy ministers, the top two or in some cases three levels of officials had fled the country or were on the run.

Mr. MICA. The government was taken down. The banking system was taken down, correct, yes?

Mr. BREMER. That is right.

Mr. MICA. The major parties that sort of controlled, the cronies, the Baathists, all the rest, they were not part of this. The army dissolved, right. So there were no institutional ways.

I held up the money before. You know it is all about the money. There was no way to distribute funds. You said it was a cash economy, correct?

Mr. BREMER. That is right.

Mr. MICA. Yes, let us talk about the cash because this is about the money. This was money, Iraqi money. There was not a dollar of U.S. money in that, correct, or not?

Mr. BREMER. That is correct if we are talking about the Development Fund.

Mr. MICA. It was under U.N. Resolution 1483, the distribution of those funds basically. Bowen testified that IMF gave some little oversight in this with this money, was responsible for that under the United Nations, is that correct?

Mr. BREMER. I think what the Inspector General was talking about is that we invited a team of IMF experts to come and examine the internal financial controls of the Iraq ministries.

Mr. MICA. Now did you investigate, Mr. Bowen, corruption during this period of time for 14 months approximately that the Ambassador had charge over this?

Mr. BOWEN. Corruption within the Iraqi ministries?

Mr. MICA. Yes, you talked about Iraq and a number of people going to jail and under investigation.

Mr. BOWEN. Right.

Mr. MICA. That is contemporary?

Mr. BOWEN. That is contemporaneous, but we don't have jurisdiction over Iraqi ministries or Iraqis.

Mr. MICA. Yes, but how many people did you say contemporarily under investigation?

Mr. BOWEN. We have 80 investigations going on now.

Mr. MICA. For how many agencies and personnel for the government, several hundred, several thousand? I mean the span of them.

Mr. BOWEN. How many people are covered by these 80 investigations?

Mr. MICA. Yes, and the entity. Well, I will just tell you what I was getting at. Proportionately, we probably have more people in Congress under investigation right now. [Laughter.]

[Off mic comment.] Or in jail.

Mr. MICA. Or in jail.

Now the ministries were outside, weren't they? Weren't your operations in the Green Zone?

Mr. BOWEN. I traveled outside the Green Zone regularly.

Mr. MICA. Again, I am talking about from April 21st to May 2003, when the provisional government took over.

Mr. BOWEN. Yes.

Mr. MICA. Your guys went outside and went to the ministries?

Mr. BOWEN. No, no. This was a review.

Mr. MICA. Did they go outside and go to the ministries and check the documentation of how this money was spent?

Mr. BOWEN. That was not the aim of the audit. So, no, they didn't.

Mr. MICA. They didn't go outside the Green Zone and actually go to where the money was distributed.

Mr. BOWEN. No, because that is what the Board of Supreme Audit and the IAMB's auditors were doing.

Mr. MICA. Do you have their report?

Mr. BOWEN. Yes, we do.

Mr. MICA. You have their report, but your guys never did it, OK.

How much was the gross domestic product or just the whole gross economy of Iraq in, say, 2001 or 2002 prior to the invasion? Do you know?

Mr. BOWEN. Well, I think that Admiral Oliver.

Mr. MICA. Can you tell me?

Mr. OLIVER. $22 billion.

Mr. MICA. Pardon?

Mr. OLIVER. $22 billion.

Mr. MICA. $22, I have $25 billion. That is close.

How much was the expenditure to run the government in 2000 or 2001 before we got there?

Mr. BOWEN. Admiral Oliver identified it about $16 billion.

Mr. MICA. How much?

Mr. BOWEN. $16 billion.

Mr. MICA. So $16 billion to run the government; $8.8 billion sounds like a lot of money. It was Iraqi money.

Mr. BOWEN. That is right.

Mr. MICA. Actually, I would like to get those folks over here. If we could run the government on half the amount of money in a conflict, in war and distribute it in cash, maybe we ought to look at that system because that would cut our expenses by 50 percent. Just do the math. [Laughter.]

Weren't you trying to make the government under war conditions work, Ambassador Bremer?

Mr. BREMER. Yes, we had obviously very difficult circumstances.

Mr. MICA. I think you did a good job. Thank you.

Chairman WAXMAN. Thank you, Mr. Mica.

We will go to Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman.

Mr. Ambassador, there have been persistent reports that during your tenure as the head of the CPA in Baghdad, you repeatedly requested more U.S. troops but were rebuffed by the former Secretary of Defense, Mr. Rumsfeld. Is that accurate and if so, what difference would those extra troops have made at that time?

Mr. BREMER. Congressman, I took the position that the fundamental role of any government is the security of the people it is responsible for. We were the acting government of Iraq. Our most fundamental responsibility was security.

When I got to Baghdad, the city was on fire from looters. They were helping themselves to in and out of stores. You probably saw the pictures. Most of the ministries had been burned down including the Ministry of Finance. We had a real situation of chaos. I believed from the moment I arrived that we were not adequately fulfilling our duties as security, and I thought the solution to that, at least a solution, was to have more troops. As you pointed out, on several occasions during my entire 14 months there, I made this, I made my views clear.

Mr. CLAY. Thank you for that response.

One of your first official acts was to disband the Iraqi military. Do you regret making that decision? Will you now admit that your de-Ba'athification program helped to set the stage for the takeover of Iraqi politics by Shiite politicians with close ties to Iran?

Mr. BREMER. Those are two separate questions, and I will try to answer them both. On the question of the army, the fact of the matter is there was not a single unit of the Iraqi Army standing in place anywhere in the country at the fall of Baghdad. So there really was no army to disband. It certainly was a mistake to use the word, disband. That, I will grant you.

The question was? Should we recall the army?

Mr. CLAY. My oversight, I am sorry.

Mr. BREMER. Excuse me.

Mr. CLAY. That is my oversight. I am sorry.

Mr. BREMER. No, no, no. I used the word, disband. It was my mistake to put it in. You used the correct word. I should have not used the word, disband.

The question was: Should we recall the army. Now, committee members will remember that the army was Saddam's primary instrument of repression of the Iraqi people. They conducted a decade long war of genocide against the Kurds for which Iraqi officials are still standing trial now in the special tribunal. The Iraqi Army was the army that suppressed the Shi'a uprising in 1991 in the south and killed hundreds of thousands of Shi'a.

The Kurds and the Shi'a make up about 80 percent of Iraq's population. They were both cooperating with the occupation. To have recalled the army would have risked the continued cooperation of 80 percent of the Iraqi people and I think led to the secession of the Kurds from Iraq. It would have been a disastrous decision. So I stand by the decision not to recall the army and to rebuild the army from the bottom up.

The mistake I made, and I admit it, is when we announced that we were going to build the new army, we should have immediately said we are also going to pay the officers from the old army. It took us a month to do that. Once military commanders came to me and said, look, we really need to pay these guys, I immediately agreed. As soon as we announced we were going to start paying those pensions which we did, the demonstrations of the old army officers stopped. By the way, those pensions continued all the way through our time there. They were always paid.

Now de-Ba'athification, I am sorry to take so much of your time, but you asked two questions that are important. The Baath Party was modeled by Saddam Hussein, validly and publicly, on the Nazi Party because he admired the way in which Hitler used the Nazi Party to control the German people. So, for example, in the Baath Party, you had neighborhood committees. You had children who were paid to spy and report on their parents. It was all right out of Hitler's playbook. The Baath Party was the primary instrument of political repression.

We decided to take a very modest cut at saying the top 1 percent only of the Baath Party should no longer be allowed to have a public job. That is all it said. It was a very modestly drawn policy. The mistake I made was letting the Iraqi politicians implement it, and they broadened it way out. It was the right policy poorly implemented.

Mr. CLAY. I see. Thank you for your responses and thank you for your service to this country.

I will yield back the balance of my time.

Chairman WAXMAN. Thank you, Mr. Clay.

Mr. Burton.

Mr. BURTON. Thank you, Mr. Chairman.

Mr. Bremer, I hope all of my colleagues on both sides of the aisle are aware that you were there under a very, very difficult situation. You had to get through elections. You had to get a constitution drafted and approved while a war was going on. You had to disburse all these funds. You had to make sure you had personnel doing the job adequately. People need to take all of that into con-

sideration when they directly or indirectly start criticizing what you were doing, and I hope that they will do that.

A lot of these members who are asking some very difficult questions, which they are entitled to do, did not go to Iraq. They did not see firsthand what you were going through. When we were there, you even had a difficult time meeting with six or seven Members of the Congress because you were so busy working on that constitution and the elections. So I just hope my colleagues are aware of that.

Do you think, Mr. Bremer, that better preparation stateside including identifying key agency personnel would have helped with the stand-up or the efficiency of the CPA?

Mr. BREMER. Yes, I do. I think the pre-war planning was inadequate.

Mr. BURTON. Mr. Bowen, you have been very critical of the CPA's accounting procedures, but did you actually find that any funds were fraudulently spent or stolen?

Mr. BOWEN. We looked at 10 disbursements made by the CPA comptroller's office between October 2003 and 2004, and we found that none of the 10 disbursements which ranged from $120 to $900 million included documentation such as the required budget spending plans or supporting documentation from Iraqi ministries. Six of those disbursements were made without CPA OMB approving memoranda. Two disbursements totaling $616 million were not supported by any disbursement voucher.

Mr. BURTON. That is not my question. My question is: Did you find that any funds were fraudulently spent or stolen?

Now you are talking about maybe inadequacy of records.

Mr. BOWEN. Yes.

Mr. BURTON. But did you find any funds were fraudulently spent or stolen?

Mr. BOWEN. No. As I said when I last appeared before the committee and earlier today here before this committee, we found no instances of fraud.

Mr. BURTON. That is the answer. All that verbiage is fine, but the answer is no, right?

Mr. BOWEN. That is right. There was no instance of fraud.

Mr. BURTON. In your professional opinion, do you truly believe that the CPA and the Iraqi ministries were capable of adopting or enforcing the recommendations that you made to improve accounting and financial oversight? Do you think they were capable of doing that?

I mean you are in the middle of a war. You are bringing all these people in. You are trying to make sure the people are paid. You are trying to make sure that there is no waste of funds if it is at all possible. The question is: Do you think that they were capable of adopting or enforcing the recommendations you made to improve accounting and financial oversight in that kind of a climate?

Mr. BOWEN. Well, they did try to improve as our audit was going forward, so yes, there was some capacity to respond to it, but at the same time, our audit acknowledged that given the unstable environment, that it was simply difficult to carry out the mission the CPA had assigned.

Mr. BURTON. In describing the scope of your audit dated January 30, 2005, you say that your auditors interviewed CPA personnel, reviewed all available electronic and hard copy documents for the period May 2003 through July 2004 that were maintained by the CPA, Ministry of Finance and OMB and examined all available results performed by the Iraqi Inspector General and the Board of Supreme Audit.

Did the SIGIR staff go to the Ministry of Finance or any of the other Iraqi ministries where the records on budget expenditures would be found and how can an effective audit be performed on the basis of third-hand interviews instead of examining the actual source documents?

Mr. BOWEN. Actually, the senior advisors whom we interviewed had responsibility for overseeing the ministries in question, and indeed the comptroller's office was in charge of disbursing all the DFI money. It came out of the CPA, and so——

Mr. BURTON. The question is, and once again you are giving me a nice speech, but did the SIGIR staff go to the Ministry of Finance or any of the other Iraqi ministries where the records on budget expenditures were found?

Mr. BOWEN. We didn't.

Mr. BURTON. OK, that is the answer. You didn't go. So you didn't see them firsthand, right?

Mr. BOWEN. That was not the point of the audit. The point of the audit was to look at the CPA.

Mr. BURTON. No. The point of the audit is you look at the figures and you look at the records and you decide whether or not there is accuracy or whether or not there is fraudulence, and if you don't look and look at the documents directly, you can't make an accurate assumption.

Mr. BOWEN. Except there were——

Mr. BURTON. You are taking second and third-hand information, aren't you?

Mr. BOWEN. We relied on other auditors who did do that.

Mr. BURTON. You are taking second and third-hand information, aren't you?

Mr. BOWEN. No, sir, not with respect to the object and the purpose of our audit.

Mr. BURTON. Did you see the documents and go out there firsthand?

Mr. BOWEN. That was not the object of our audit.

Mr. BURTON. Did you see the documents and go out there firsthand?

Mr. BOWEN. We didn't go to the ministries to visit how they spent.

Mr. BURTON. No, and so where did you get the information?

Mr. BOWEN. From those who were responsible for overseeing it.

Mr. BURTON. You got it secondhand, right?

Mr. BOWEN. No, because, Mr. Burton——

Mr. BURTON. Well, if you didn't go locate it and see it firsthand, well, how can you tell you didn't get it secondhand?

Mr. BOWEN. The CPA was the interim government of Iraq.

Mr. BURTON. The gentleman ought to be a politician. [Laughter.]

Chairman WAXMAN. The gentleman's time has expired.

Ms. Watson.

Ms. WATSON. Thank you so much.

Admiral Oliver, you were head of the CPA's Office of Management and Budget, and you were Ambassador Bremer's deputy responsible for the reconstruction funding, correct?

Mr. OLIVER. Yes, ma'am.

Ms. WATSON. OK, last November, you were asked about the billions in cash that were unaccounted for, and I believe that there is an audio clip of your response. I wonder if we can get that played.

[Audio clip: I have no idea. I can't tell you whether or not the money went to the right things or didn't nor do I actually think it is important.

Billions of dollars of their money disappeared. Yeah, I understand. I am saying what difference does it make.]

Ms. WATSON. Admiral, these statements are hard for me to understand and they appear to reveal a total disregard for the requirements that Ambassador Bremer established in Regulation No. 2. Do you stand by these statements today?

Mr. OLIVER. That was a clip as I recall after a 30 or 40 minute conversation, and it comes back to the essence of I hope that Stuart has pointed out several times in a question about transparency. He believes that the CPA should have audited the information.

We decided that the only, the best way to make sure that we could withdraw as quickly as possible and for the safety of the troops was to rely upon the Iraqi system to distribute that money. Therefore, we made sure that it was transparent what we were doing with the money to the ministries and then relied upon the ministry system, the entire financial system they had to do that.

We had about, I had 4 to 10 people. The country population is about the same size as California which I think has 800 people in the same office. We thought this was the best way to make sure that the country's safety was performed.

Ms. WATSON. You said that you didn't think it was important.

Ambassador Bremer, you have made similar comments. In 2005, you gave a speech at Clark University where you said this: I suggest you not worry as the $9 billion was Iraqi money, not U.S. money.

Is that your attitude?

Mr. BREMER. My attitude is that the question involved the question of whether we were wasting American money, and I tried to point out in that answer that we were talking about Iraqi money, not American money. It was a taxpayer asking about, as I remember, his taxpayer money, and it was not American money.

Of course, we took seriously our responsibilities, as I have said right from the start, for these Iraqi funds.

Ms. WATSON. We were told by the President—this is the President's war—that the cost of the war was going to be paid for with the revenues from Iraqi oil, and we are trying to find out what happened to Iraqi revenues. Now we are being asked to back all of that up with U.S. dollars. I just think we need to hear from those of you involved, and there is such a callous attitude about well, it wasn't important, it was Iraqi money.

You can't tell us whether you know or not where that money went. There was no accountability, as Mr. Bowen said, after the money was given to the agencies, where it went. We do not have a paper trail. I think that is absolutely unacceptable at a time we are asking for a surge of troops and we are asking for hundreds of billions of dollars to be sent down that gopher hole that apparently was not accounted for in the past.

Why is it not important to us and to you what happened to the $12 billion in cash that had seemed to simply disappear?

We know that we forced a government on the Iraqis and they were not ready, but how can we in good conscience say to our constituents let us send them more money? There was no accountability then and what guarantees do we have that it is going to be accounted for now?

Mr. BREMER. Well, Congresswoman, again you are being asked now to appropriate more funds, and I am not here to comment about that. I don't represent the administration.

Ms. WATSON. Just tell me about what happened in the past.

Mr. BREMER. What happened in the past was I believe we met our responsibilities under the U.N. Security Council and under my direction adequately to account for and disburse the Iraqi funds.

Most of the funds, to answer your direct question, went to the running costs of the Iraqi Government, paying civil service salaries, paying pensions, starting irrigation projects and starting modest reconstruction products. That is where most of that money went.

Chairman WAXMAN. The gentlelady's time has expired.

Mr. Shays.

Mr. SHAYS. Thank you all for being here and thank the chairman for a continuation. This is the 20th hearing we have had on Iraq, and many of us have done our due diligence in Iraq as well.

Mr. Bremer, when you came, am I right in believing that you came when the looting had basically taken place?

All the ministries' buildings had been looted, all the equipment taken out, all the files taken out. Even the doors had been taken out. It looked like a bombed-out, frankly what I thought Berlin looked like. Is that kind of the environment you found yourself in?

Mr. BREMER. Yes, it was very chaotic, and the looting was still going on actually when I was there.

Mr. SHAYS. Isn't it true that we formed a joint task force for Iraq that was to get volunteers from the various departments of our Government to volunteer to go into Iraq, and isn't it true a lot of departments could not deliver enough people?

Mr. BREMER. During the entire 14 months we were in Iraq, we never had sufficient support for the personnel needs we had from various departments in the Government. That is right.

Mr. SHAYS. This is kind of the impression I get from some. Want a cushy job? Come to Iraq. Work 12 to 14 hours a day, 7 days a week, week in, week out, week in, week out. Come to Iraq. Work, eat, maybe exercise, sleep, work, eat and have a nice day and, by the way, dodge bullets, bombs and hope you don't get kidnaped and have your head chopped off.

We are to look at some people who went there and make an assumption that somehow they were rewarded and given a cushy job?

That is the one thing I could say to all of you. I never saw a cushy job in Iraq, and it is an outrage to make that assumption.

Every one of the people who served in Iraq were risking their lives whether they were in military uniform or whether they worked in your office or were sent out. Isn't that true?

Mr. BREMER. That is absolutely right.

Mr. SHAYS. Mr. Bowen, I am a great supporter of the work you did, but I want to be fair, and I don't think we are being fair. I think in the process of trying to show that you are valid, you are giving an impression that I think is unfair. Isn't it true that the Defense Department today has hundreds of billions of dollars of transactions that are not auditable?

Mr. BOWEN. That is true.

Mr. SHAYS. They are not auditable, so we can make any assumption. What happened to the money? We can't be certain of how the money was spent. We can suspect it was spent well, but it was not auditable, correct?

Mr. BOWEN. With respect to the overarching conclusion, yes.

Mr. SHAYS. I am talking about in the United States.

Mr. BOWEN. Yes.

Mr. SHAYS. If it is not auditable, you don't know what happened to the money.

Mr. BOWEN. That is right.

Mr. SHAYS. You found money that wasn't auditable. Now this is where I try to put myself in Mr. Bremer's shoes, and Lord knows, he knows I have been critical of things, some of which is maybe valid and some which isn't. We had our disagreements, didn't we, Mr. Bremer?

Mr. BREMER. I remember.

Mr. SHAYS. But what I am wrestling with is this. It is their money. We could have been accused of holding their money and not giving their money, being accused of taking their oil money which we said we wouldn't do. We had to find a way to get their money to them.

The first issue is in the transactions, can we account that we gave the money to Iraqis? Is that part auditable?

Mr. BOWEN. Yes.

Mr. SHAYS. So you are not disputing with Mr. Bremer that he gave the money, and it is auditable. We know it went to the Iraqis.

Mr. BOWEN. And there were problems with following CPA's rules, yes, yes.

Mr. SHAYS. We will get to that. We will get to that. But I want to get to the part. So we know the money went to the Iraqis.

Mr. BOWEN. Yes.

Mr. SHAYS. The real issue is what the hell did they do with it.

Mr. BOWEN. Yes.

Mr. SHAYS. I think it is fair to say that hundreds of millions, maybe even billions, were not spent the way it should have been spent. I make that assumption. I am not happy about it?

What I wrestle with is, tell me logically, how he could have gotten the money out and could have satisfied your rules as an accountant?

Mr. BOWEN. Well, not my rules but CPA's rules are the way that we judged the process. CPA Regulation 2, 3 and CPA Memorandum

4, and I was beginning to go through that with Mr. Burton before I was interrupted, what we looked at.

Mr. SHAYS. Give me the short version.

Mr. BOWEN. Well, we looked at a series of disbursements amounting to about over $1 billion in the course of carrying out the audit.

Mr. SHAYS. The Iraqis spent money badly, right?

Mr. BOWEN. If I may finish, that we looked at how they were disbursed by CPA to the Iraqis and whether the regulations CPA required of that process were followed, and the answer was no. And then, but the issue that we are talking about is the, is at another level, and that is the requirement of transparency, and you are asking me should the CPA have required of the Iraqis some input about how they used that money.

Mr. SHAYS. Let me just interrupt. Your answer is yes.

Let me just conclude by saying there were no computers.

Mr. BOWEN. That is right.

Mr. SHAYS. There were no desks. There was no paper. There was nothing. It was burned out, and this administrator made a decision that soldiers had to get paid, retirees had to be paid.

At any rate, thank you for being here.

Chairman WAXMAN. This administrator also decided that he would promulgate rules for transparency and, Mr. Bowen, he didn't follow his own rules. Is that what you are saying?

Mr. BOWEN. In the instances that we looked at in the course of this audit, there were, they were not complied with accordingly.

Chairman WAXMAN. Thank you.

Mr. Kucinich.

Mr. KUCINICH. Thank you, Mr. Chairman.

Ambassador Bremer and Mr. Bowen, I want to ask you about a specific example of the kind of spending that concerns many of us in this committee.

Ambassador Bremer, in your comments to the Inspector General's report, you say that an entity called the Program Review Board helped ensure transparency and accountability. Is that a correct characterization of what you said?

Mr. BREMER. [Nodded affirmatively.]

Mr. KUCINICH. Staff has a chart that I would like to show you, Mr. Bowen, a summary of the minutes from a meeting of this board in May 2004. Can we put that up?

What this chart represents is that the board, the Program Review Board, approved the transfer of $500 million in this meeting under the broad category of "security." On the right of this chart, it also says composition TBD which means to be determined. Mr. Bowen, have any of your audits uncovered where this particular $500 million actually went?

Mr. BOWEN. No, we haven't.

Mr. KUCINICH. Ambassador Bremer, can you tell the committee where that half of a billion dollars went?

Mr. BREMER. Mr. Chairman, I don't have a copy of the document the Congressman is referring to.

Mr. KUCINICH. Can staff provide him?

Mr. BREMER. I wonder if I could get a copy of the document before I answer the question.

Mr. KUCINICH. Can staff provide the Ambassador with a copy of that document? Thank you.

If you would just take a minute to look at it, Mr. Ambassador.

Mr. BREMER. Can you explain again what this table is taken from?

Mr. KUCINICH. What this represents is that the Program Review Board approved a transfer of $500 million in a meeting that was taken in May 2004. It was under the broad category of security. If you look to the right of it, it says composition TBD which means to be determined.

Mr. BREMER. Right.

Mr. KUCINICH. Mr. Bowen has just said that his audits have not been able to determine where the $500 million went. Mr. Bowen, you did say that?

Mr. BOWEN. That is right.

Mr. KUCINICH. OK, and I am asking you. Now that you have looked at the document, Ambassador Bremer, can you tell the committee where that half of a billion dollars went?

Mr. BREMER. Congressman, I think I would have to answer that in writing later. I just am not familiar with this meeting. I don't know the answer.

Mr. KUCINICH. Maybe I can help refresh your memory, Ambassador Bremer. Let me refer to the minutes of that meeting. The minutes say that the Australian and British members of the Program Review Board raised questions about the insufficient detail and "the lack of specificity with this proposal." To your knowledge, do you know, is that true?

Mr. BREMER. Congressman, just a point of order here, I didn't attend Program Review Board meetings, so even if you read me all of the minutes, it would be the first I had a chance to look at the minutes, sir.

Mr. KUCINICH. You never reviewed the minutes of any meetings——

Mr. BREMER. I did not.

Mr. KUCINICH [continuing]. That dealt with the spending of billions of dollars?

Mr. BREMER. No, I did not attend Program Review Board meetings. I was not a member. I was not a member.

Mr. KUCINICH. Did you ever read the minutes of any of the meetings?

You just established you didn't attend. Have you ever read the minutes of the meetings?

Mr. BREMER. I don't remember ever reading any minutes, no.

Mr. KUCINICH. Mr. Chairman, I find it more than curious that in his capacity as head of the Coalition Provisional Authority, the disposition of billions of dollars which went through those committees has never been reviewed by the person who is responsible.

Mr. BREMER. Excuse me, Congressman. That is not what I said. Your question was did I read the minutes, and I said I did not read the minutes.

Mr. KUCINICH. Did you read the minutes of any meetings?

Mr. BREMER. I did approve. No, not of the PRB. My job in terms of the Program Review Board was to work with the Iraqis and other members of the Coalition to set broad priorities on how these

funds should be spent. The staff of the Coalition Provisional Authority working with the Iraqi ministries would then produce proposals for how to spend the money. I assume, though I don't know that is what this represents, a proposal on how to spend the money. Those——

Mr. KUCINICH. Mr. Bowen just said that he doesn't know yet where that half a billion dollars went.

Mr. BREMER. I am not sure he was asked to look into it.

Mr. KUCINICH. What did you say?

Mr. BOWEN. We have not reviewed that, but therefore, I don't know what happened to that money. That is right.

Mr. KUCINICH. You don't know either, is that right, Mr. Ambassador?

Mr. BREMER. I said I don't know. I can provide an answer in writing. I don't know off the top of my head.

Mr. KUCINICH. Do you know, did the allies ever express to you any concerns they had about the lack of detail? Did they ever contact you personally?

Mr. BREMER. Not to my memory.

Chairman WAXMAN. The gentleman's time has expired.

Mr. KUCINICH. Thank you.

Chairman WAXMAN. Mr. Souder.

Mr. SOUDER. Well, this is about as much of a no win situation as you can get into. You are criticized for disbanding or not reorganizing the Iraqi Army because of ghost employees, but then when you keep the civilians, you are criticized for having ghost employees. It was just a mess. That is part of the clear difficulty here.

I appreciate your comments about the lack of pre-war planning. If there is one thing we have absolutely established, that it isn't just Monday morning quarterbacking. Senator Lugar raised this over and over and over before we went in, that there wasn't adequate planning for what was going to happen if it all didn't just join up in democracy the first day.

One of the fundamental questions, and let me clarify, Mr. Oliver, did you know anything about the $500 million?

Mr. OLIVER. I had been gone 5 months. I was safely in Arlington.

Mr. SOUDER. Would that type of expenditure normally—it looks like it was for security forces—would have gone to the Iraqi ministries for security?

Mr. OLIVER. I don't know, Congressman.

Mr. SOUDER. Did you have any other previous security allocations similar to that?

Mr. OLIVER. We had many security allocations for uniforms, for the Iraqi police forces, for the Iraqi Army, significant other entries with significant detail. It was placed on the Web during the period I was there.

Mr. SOUDER. Did you say you had 4 to 10 people? Is that what you said?

Mr. OLIVER. Yes, sir.

Mr. SOUDER. And that California would have 800?

Mr. OLIVER. Yes, sir, more.

Mr. SOUDER. Mr. Bowen, how many people do you think they needed to do the auditing of the Iraqi ministries?

Mr. BOWEN. Well, we did not conclude that they needed to do the auditing of Iraq ministries. What we concluded was that in order to meet the transparency burden, there should have been some mechanism to provide feedback from the ministries after they had spent it other than the fact that they had spent it.

Mr. SOUDER. So that wouldn't have taken any people.

Mr. BOWEN. Well, no. I think Mr. Oliver has pointed out here and to us emphatically that he was severely under-staffed, repeatedly asked for more staff and those requests weren't granted.

Mr. SOUDER. As an auditor, you don't have a recommendation of how many staff they would have needed to do that?

I mean this is to look for the future. You are in effect charging them with not implementing their own authority which is a disagreement of doing. There are 4 to 10 people. You have correctly said or you told us as Congress that from your perspective, they handled their side of the money. You just didn't feel they implemented tracking the Iraqi ministries. So the obvious question is: How many people would they have needed to track the Iraqi ministries?

You are the auditor. If we are going to learn for the future, do they need hundreds? Were they going to go outside the Green Zone and trot around with these people? We needed computers. You are criticizing them for not doing something. What is your solution for the future not to have that happen again?

Mr. BOWEN. And we have made those recommendations in our Lessons Learned report on personnel, specifically both with expertise and training is what was missing in this process. Persons with, and Admiral Oliver pointed this out to us. He didn't have people with the right training, with the right expertise to support him in carrying out the mission that he had been assigned.

And so, our recommendation in our Lessons Learned report on Human Capital Management is that there be a civilian reserve corps developed, and that recommendation is in process and under development both in this Congress and in the executive branch. I think that with respect to this issue, they will, that will ensure that you will have trained——

Mr. SOUDER. We are doing hindsight here, and there should have been foresight planning for this because clearly 4 to 10 people aren't going to do it.

Mr. BOWEN. That is right.

Mr. SOUDER. Let me ask Admiral Oliver. Did you look at, before you took this job, what happened in the Balkans, what happened after World War II, what has happened in Afghanistan, and did you raise a concern that maybe 4 to 10 people couldn't track this amount of money?

Mr. OLIVER. One of the things we did was the expertise for this lies in many cases with the United Nations' activities with the World Bank and the IMF. The Ambassador got those people in to talk to us about that specifically during a period, and we coordinated with them closely until the explosion at U.N. headquarters when they left the country, which was too bad because they were a great help.

Also, we coordinated with, the person who went on to become Prime Minister of Poland. One of the things that we determined

was that you needed to keep sovereignty and you needed to watch this for many years because all the countries, Communist countries that had gotten freedom after the fall of the Soviet Union, had gone through periods and the minimum period in which they even started to recover was 3 years.

Mr. SOUDER. If I may, Mr. Chairman, just ask do you believe had you had 800 people, you could have followed through the way the auditor is suggesting and been able to track the Iraqi ministries?

Mr. OLIVER. If we could have protected them, yes, sir.

Mr. SOUDER. Excuse me?

Mr. OLIVER. If we could have protected them.

Mr. SOUDER. If they would have had protection.

Mr. OLIVER. Thirty percent of the people who worked for me at that time were killed or injured by the time I left after 5 months.

Chairman WAXMAN. Thank you, Mr. Souder.

Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

Mr. Chairman, I am going to ask that a chart be displayed. This represents, for the witnesses, cash shipments to Iraq. As you can see, it demonstrates that in the final days of the CPA authority that massive amounts of cash were shipped to Iraq from the New York Federal Reserve Bank. In fact, I am told that more than $5 billion in cash was delivered in the last month of the CPA's existence alone.

The last two shipments of cash were truly enormous. On June 22, 2004, $2.4 billion, that is the tallest column there was June 22, $2.4 billion in cash to Iraq. This was the single largest cash shipment in Federal Reserve Bank history. Then 3 days later, another $1.6 billion was shipped.

Now together with the e-mails that the committee has, it demonstrates the urgency. They are actually trying to double and triple up shipments in advance of then it was a June 30th handoff from the CPA to the Iraqis. The Iraqis were going to take over their own government on the 30th. That was the plan according to your book, and I think it is generally acknowledged. So there is this huge rush to get cash into Iraq and have the CPA hand it out in the back of pickup trucks and in duffel bags full of cash, cash packs, before the Iraqis take over their government because once the Iraqis take over on the 30th, the CPA no longer has authority to remove money from the Federal Reserve Bank. They take control of their own money.

I am just wondering why. If your stated reason is that you wanted to get money to the Iraqis, if we left all the money there in the Federal Reserve Bank as of June 30th, the Iraqis would have had control of every single dollar in that account. It was their money. We are all agreed on that. It was money seized from Saddam. It was Oil for Food program money. It was oil revenues. There is no question; this is all Iraqi money. Yet, here we have the Coalition Provisional Authority breaking its back to fill enough planes, enough C–130's with cash to get it to Iraq and to hand it out before the Iraqis got control. That was the deadline.

I just want to ask why. Why did you handle it this way?

And, I want to ask you how long was the Finance Ministry, the Iraqi Finance Ministry, that you handed out all this cash to, how

long were they in operation before the CPA handed out all this cash?

Mr. BREMER. Thank you, Congressman. I welcome the chance because I think it is obviously a dramatic event, and I welcome the chance to explain it.

The Iraqi Minister of Finance, to answer your second question first, the Ministry of Finance was operating from the day we got there on May 12th. That is the group that Admiral Oliver worked with most of the time. The Ministry of Finance was generally regarded as one of the most competent of the Iraqi bureaucracies.

The Minister of Finance of Iraq asked us in early June for these shipments of his money, and the reason he gave is quite logical. He said, when we take over sovereignty on June 30th, it is going to be confusing. The new government is going to be trying to find their way around. They have to find their offices. There is going to be a lot of confusion. It is very difficult to follow the elaborate procedures established by the Federal Reserve Bank of New York on getting these moneys over here.

He said, I am concerned that I will not have the money to support the Iraqi Government expenses for the first couple of months after we are sovereign. We won't have the mechanisms in place. I won't know how to get the money here. I want to, in effect, pull forward funding for the Iraqi Government operations so that I am sure I have it in hand in Iraq in the Central Bank of Iraq—that is where this money went—in order to cover our expenses that are coming up as soon as we achieve sovereignty.

So these shipments were made at the explicit request of the Iraqi Ministry of Finance, to forward fund, in effect, government expenses, a perfectly, it seems to me, legitimate use of his money.

Mr. LYNCH. Let me just say that you knew full well that there were no mechanisms within those ministries to account for or to give us the assurances that those moneys, once disbursed, went to the purposes that we intended or that were for the transparent benefit of the Iraqi people.

Mr. BREMER. No, I don't agree with that characterization. I said earlier that our conclusion based on the recommendation of the team at the International Monetary Fund was that the mechanisms in place in the Iraqi ministries were adequate. They were certainly not modern, and we spent a great deal of time trying to modernize those at the same time we were using them, but I don't accept that they were not sufficient.

Chairman WAXMAN. The gentleman's time has expired.

Mr. Westmoreland.

Mr. WESTMORELAND. Thank you, Mr. Chairman, and I thank the panel for your willingness to not only be here today and testify but for your willingness to take on leadership jobs in a situation that was really, I think, unheard of for this country. So thank you for your willingness to do that.

Ambassador Bremer, how long after the fall of Baghdad did you actually go?

I know it was in May 2003. What was the time period there?

Mr. BREMER. Baghdad fell on April 9th. I arrived on May 12th.

Mr. WESTMORELAND. So about 30 days. I am assuming that you did have more to do at the time than read the minutes of all the meetings that were taking place at that time?

Mr. BREMER. That would be right.

Mr. WESTMORELAND. Asking or at least some of the questions that I hear some of the members of this committee asking would be almost like asking a commanding general to give an accounting of all the bullets fired by his men and what targets they hit, what they were aimed at, how many counted and the cost of each bullet and how much we could have saved if we had had more target practice. I think we did have some very poor pre-planning when we went into this, but I can't imagine. Could you just briefly describe?

I have read some of your opening statement. Could you just briefly describe, and I don't even know if it is even possible, what you encountered not only dealing with the economy? I know that Mr. Oliver from reading his testimony, only had a short period of time to come up with some of the economic decisions, and I am sure financial decisions that we were doing there.

What did you find when you got there versus what you thought you were getting into?

Mr. BREMER. I think the biggest surprise to me and my colleagues was how much damage Saddam Hussein had done to the economy of Iraq. We knew there would be some damage from the war, though it was actually very little.

What we did not realize was how much he had done to the entire economy over a period of almost three decades. And that, as I said in my opening statement, greatly complicated the task of reconstruction and the fact that we were dealing with a very primitive economy with no banks, no telephone, no Internet connections, made jobs that seemed rather easy in retrospect really hard in the reality.

Mr. WESTMORELAND. Mr. Bowen, what would you, in hindsight is always 20–20, but in the atmosphere that Ambassador Bremer and others found themselves in 30 days after the fall of Baghdad, what recommendations would you have made or could you make that should have taken place then that didn't, based on the circumstances that were there when we arrived with the CPA?

Mr. BOWEN. I think Ambassador Bremer was dealing with a situation wherein the assumptions that preceded him and shaped the planing up to that point were proving to be incorrect, and therefore he was in an untenable situation with the resources that he had at that time.

Those assumptions, as we are documenting in our lessons learned program, were that as evidenced by the initial Iraq Relief and Reconstruction Fund appropriation, were that the U.S. presence would be relatively short, and that the transition to Iraqi control would be rather rapid, and that the level of funding and its allocation through the USAID indicated that we would move to a relief and development program rapidly. The assumption, primary assumption proof that proved incorrect was that stabilization would be achieved rapidly. It looked like with the fall of the statue, that might happen, but it didn't.

Mr. WESTMORELAND. Basically, even though we had appropriated all these moneys with, I am assuming, intended purposes for them

to be spent, it was actually what the CPA found itself in was a position of really not knowing what all the expenses were going to be. Just in my short period of time in Government, I think had Ambassador Bremer tried to get some of the expenditures that he made approved and gone through all the correct channels, put in a position where they could be audited and a paper trail for all of these expenditures, he still wouldn't have it today, and so, some of these decisions had to be made on the fly.

I have been a small businessman all of my real adult life, and I have had to make decisions based on the fly that after I did them and looked at them, I may not have made them, but at the right time under those circumstances, they were the very best decision I could make for all people involved.

Chairman WAXMAN. The gentleman's time has expired.

Mr. WESTMORELAND. One last point, wouldn't you think that sometimes when you are in a situation like that, that you wouldn't do things that would always be the perfect auditable direction that you could go?

Mr. BOWEN. There is no doubt the circumstances were unprecedented in Iraq.

The other point is that my office was created just 5 months before the dissolution of CPA, and I got on the ground. I was the first appointee. I had to stand up an organization rapidly and get a report out. I got on the ground in April. That is 3 months before the dissolution, and so my review was narrowly targeted, but it fits within the larger context that you are describing and that is certainly the year before that review or 10 months before, it was a chaotic situation that was the result of assumptions being adjusted significantly.

Mr. WESTMORELAND. Thank you.

Chairman WAXMAN. Thank you, Mr. Westmoreland.

Mr. Higgins.

Mr. HIGGINS. Thank you, Mr. Chairman.

Mr. Oliver, Mr. Bowen and Ambassador Bremer, thank you very much for being here.

In trying to get a sense of this situation that we are in Iraq, I try to look for historical context, and several books have been written including Vali Nasr's The Shi'a Revival, where he argues that at the core of this is vengeance. It dates back to a history dating back to 632, and who is the rightful successor of Muhammad and a history of not only succession but also of oppression and repression.

I also looked to the early 20th century in the Ottoman provinces of Baghdad, of Mosul, of Basrah, and it was strong nationalist aspiration that enjoined the Shi'a and the Sunni to rise up against the British. They were also joined by Iraqi Christians and Jews. Now Shi'a and Sunni are fighting each other. At that time, Shi'a and Sunni prayed in each other's mosques. Now they blow up each other's mosques without contrition.

In the 1980's, it was 90 percent of the Iraqi troops were Shi'a fighting against a Shi'a Iran. Today, at least segments of that population are now collaborating with Iran, I think to undermine the military presence, the American military presence there.

Mr. Bremer, you had said in your opening statement that sovereignty was returned to the Iraqi people. We either returned it to them, and they really screwed it up or we never really gave it to them in the first place. I think the latter is true because you have also said the fundamental role, the elemental role of government is order, without which the government has no legitimacy in the eyes of the governed.

I am trying to figure this thing out as not a partisan but as an American that wants my country to survive, that wants my Government to survive, to do the right thing, but I find it hard to accept that American military planners could have screwed this thing up as badly as they did.

When I was in Iraq in August, I was very quiet. I listened to the Shi'a leaders, the Sunni leaders, the Kurd leaders, and my conclusion is this is not an inspiring bunch. This is not a group that feels a sense of urgency. This is not a group that has that burning national aspiration to somehow make this experiment, this very unique and important experiment for democracy in the Middle East work, and I am frustrated by that.

But I think at the core it was our inability to provide a center from which a legitimate government could evolve, from which a political center could evolve and from which a legitimate economy could evolve, and I am just afraid that it may be too late, that there isn't a military solution in Iraq and perhaps the political solution, we will not know for a long time. Perhaps we will still be there which is likely or after we are long gone. I think the point is we have lost our grip. We have lost our grasp of the complexity of that situation, and we have lost the confidence of the Iraqi people in that regard as well.

Mr. BREMER. Well, Congressman, thank you for that very thoughtful statement. I find much to agree with you in it. I certainly share your frustration. In fact, I think those of us who worked so hard the first year in Iraq, who have friends in Iraq, who have lost friends, Iraqi friends, are if anything even more, more deeply frustrated.

It is interesting you point to a contradiction. It is correct that in Iraqi history, Sunnis and Shi'as intermarried for generations. Most of the Iraqi, the largest Iraqi tribes all have Sunni and Shi'a members. During the time of the CPA, sectarian violence was almost unknown. We confirmed fewer than 100 sectarian killings in the 14 months we were there, fewer than 100.

What has gone wrong? We never provided, and you said it, and I said it, adequate security for the Iraqi people. As the al Qaeda terrorists carried out their stated strategy which was to kill Shi'a men, women and children in order to provoke sectarian tension, as they carried out, many of the Shi'a decided to turn to their own militia to defend themselves because they concluded that we couldn't defend them. And is, there is a dynamic there which is in some ways unique in Iraqi history, and I, like you, hope it is not too late.

Chairman WAXMAN. Thank you, Mr. Higgins.

Mr. Yarmuth.

Mr. YARMUTH. Thank you, Mr. Chairman.

I will concede, I think we all concede that you were put into a position that was quite chaotic and that you may have been put

into a spot which was a mission impossible, and we all know that stuff happens, right. I think part of our responsibility in trying to assess whether the CPA did its job properly is to assess whether the CPA was put into a position where it could do its job properly. While we talk a lot today about money being primarily the Iraqi's money that we were dealing with, there was a considerable amount of taxpayer money spent to fund the CPA, so we do have a considerable responsibility there to determine whether that money was spent properly.

You mentioned and many people have mentioned that you didn't have the resources you needed to do the job. You had 3,000 people there. That was inadequate. If you had 4,000 or 5,000, or 6,000, what are some of the things you might have done that would have created more effective controls that we all seem to agree could be better?

Mr. BREMER. Thank you. That is a helpful question.

Well, I think some of the problems that the Special Inspector General has uncovered and some of the other audits of not adequately following our procedures, which I understand from his reports we did not do, would have been, I can't swear they would have been corrected, but they would have been correctable if we had more people.

We had tremendous staff turnover. It wasn't just that we didn't have enough people. People came for 60 days or 90 days. So there was very little continuity in an extremely intense work environment of 16, 18 hours a day with people being shot at. It was very hard to acquire continuity. So I think if one had more people, we would have been able to better do the kinds of things which the Inspector General proposes that we should have done, and he does address some of these questions in his lessons learned on personnel which I commend to the Congress' attention.

Mr. YARMUTH. You also mentioned in your prepared testimony, you had a laundry list of what I would call preexisting conditions, things that you found that made your job very difficult, made everyone's job difficult, and they were things that presumably you would have wanted to know. Again, what difference would that have made knowing, for instance, that the banking system was inadequate, the ministries weren't adequate? How much difference would that have made and what would you have done differently if you had known some of those things?

Mr. BREMER. I think it would have changed the overall approach even before I got involved because when I had a chance to look back at the planning before the war, as the Inspector General pointed out, it was based on assumptions about what you have to always make assumptions on planning. What will the post-war situation look like? And the assumptions that they had in hand were, actually turned out to be not the same as the situation we faced. The situation was much worse.

It is a fair question to ask why we didn't know more about how run-down the Iraqi economy was, and I guess the answer must be that the intelligence services, certainly in the period after the first Gulf war, were focused on the primary question which was WMD. Don't seem to have that right either.

But they were not going out and looking at textile plants which is what I did when I got there. They weren't visiting refineries, going to see cement factories and shoe factories and finding out that these things were run on equipment that was 40 or 50 years old. We just didn't know the ground truth, and if we had known that, I think we would have mobilized more quickly. If I could have them, I would have brought more people, and we would have been working on the basis of a plan that would have been more in touch with reality.

Mr. YARMUTH. Thank you.

Chairman WAXMAN. Thank you, Mr. Yarmuth. You yield back your time.

Ms. McCollum.

Ms. MCCOLLUM. Thank you, Mr. Chair.

I have two questions I would like to ask, but I think that they are very much interrelated. One is I am concerned, Mr. Bremer, that we didn't get an accurate description of what you thought the security in Iraq was like. You have in July in your book, you say you try to warn Condoleezza Rice who was then the National Security Advisor. In fact, it is page 106 of your book, that you had been in Iraq for a while and you thought we only had half the number, half the number of soldiers we needed there and that we were running a real risk of having this go south on us.

Mr. BREMER. What page?

Ms. MCCOLLUM. Page 106. But then on Meet the Press in July 2003, when Mr. Russert asked you if we had enough, if we needed more American troops, if you had asked Secretary Rumsfeld for more American troops, you said no, I have not.

Mr. Russert said, do we need more?

You said, no, I believe we do not need more troops.

Which is accurate, that we needed more troops which you were telling Ms. Rice on 106 in your book or what you said to Mr. Russert?

Mr. BREMER. I said in my, and thank you for reading my book. I based my——

Ms. MCCOLLUM. I read everybody's.

Mr. BREMER. I based my assessment on a report that was given to me by the RAND Corp. which some members will be familiar with, a non-partisan, very highly respected think tank which, before the war, presented me with a draft report that suggested we needed about 480,000 troops in Iraq.

Ms. MCCOLLUM. Well, my question is: Which statement is more accurate today.

Mr. BREMER. Today, I don't think there is any question; we needed more troops.

Ms. MCCOLLUM. In hindsight, you are saying we needed more troops.

Mr. BREMER. Yes, ma'am.

Ms. MCCOLLUM. I met you in Iraq.

Mr. BREMER. Yes.

Ms. MCCOLLUM. I do sincerely thank you for your service. You put life and limb, as well as all the civilians and troops there do.

We have an ongoing war in Iraq, ongoing when you were there. A lot has been said about Marshall Plan reconstruction. There

wasn't the type of war raging in Japan and Germany that you found embraced with in Iraq, correct?

Mr. BREMER. That is right.

Ms. MCCOLLUM. Another thing that you said today, and I realize I am jumping around but my time is limited, that you thought that the Finance Ministry was the most competent and that you really wanted to push that money from the Oil for Food program, the Iraqi funds so that they had money for doing payroll and for ongoing operations. Yet, I find this a bit troubling because on page 190 of a book called Blood Money, there was a debate that went on. Should the Coalition spend the cash or leave it for the new Iraqi Government to manage? The decision, and you were part of it, was well, let us get the money and let us get more work done.

That led to contracts being radically moved forward, and so Mr. Bowen, I would like to ask you. Is it common sense on one single day that the review program approved $1.9 billion in new projects to be competitively bid out in 6 weeks and that in June, the United States, U.S. officials in June doubled the number of contracts that were issued without following any of the standing procedures using the money that was the Iraqi money?

This does not make any sense to me at all.

Mr. Bremer, the other thing you said, and your written statement is a little different from your public statement here. You said the International Monetary Fund found that the existing Iraqi systems were adequate and recommended that we use them.

Mr. Bowen, do you think the International Monetary Fund thought it would be a good idea to approve in one single day to hand over to the Iraqi Finance Ministry $1.9 billion in new projects?

Mr. BOWEN. There was an enormous uptick in the Program Review Board's approvals in the last month of CPA's existence, and our lessons learned review of that raised some concerns about it. Our audits raised concerns about it. But Ambassador Bremer pointed out that he was told it was the request of the Iraqi ministries to have that done, and that was not something that we have elicited before.

But the fact is that CPA contracting was beset with problems. They improved over time. They are much better now, but in three audits we did of CPA contracting, we found significant shortfalls.

Chairman WAXMAN. The gentlelady's time has expired.

Mr. Hodes, you have 5 minutes, and I think you can take it now before we break or we can break and come back.

Mr. HODES. I think it would be better if we broke.

Chairman WAXMAN. OK, that is fine.

We have two votes pending on the House floor. Let us break until 2. It will give you a chance to get something to eat.

We will reconvene here at 2 to complete the questioning.

[Recess.]

Chairman WAXMAN. The hearing will return to order. Before we broke, we were just about to recognize Mr. Hodes. I want to recognize him at this time to proceed with questions.

Mr. HODES. Thank you, Mr. Chairman.

I want to welcome back the witnesses. I trust you had a delightful respite from this hearing.

Mr. Bremer, I want to talk for a moment with you about de-Ba'athification. One of the first acts of yours was issuing Coalition Provisional Authority Order No. 1, banning people serving the top four levels of the Baath Party from holding government employment. Is that true?

Mr. BREMER. That is right.

Mr. HODES. Some believe that the decision to purge thousands of Baathists from the Iraqi Government deprived the Iraqi Government of valuable talent and experience and also fueled the insurgency, and many Iraqis now advocate rolling back the process. Was the order on de-Ba'athification your idea or did you receive instructions on this from someone else?

Mr. BREMER. I received the order from the Department of Defense.

Mr. HODES. In your book at page 12, you say I was neither Rumsfeld's nor Powell's man. I was the President's man. Do you recall that?

Mr. BREMER. Yes.

Mr. HODES. You were given all executive, legislative and judicial functions in Iraq, correct?

Mr. BREMER. That is right.

Mr. HODES. And you answered to the President.

Mr. BREMER. Through the Secretary of Defense.

Mr. HODES. But you were the President's man.

Mr. BREMER. Well, yes, that is a political statement. My chain of command was through the Secretary of Defense.

Mr. HODES. Did you discuss de-Ba'athification with President Bush?

Mr. BREMER. No.

Mr. HODES. Let me refer you, sir, to a Newsweek 2004 article, "Paul Bremer: Inner Circle No More?" You were quoted as saying, "The President told me that de-Ba'athification comes before the immediate needs of the Iraqi people." Was that an accurate quote?

Mr. BREMER. You know I don't remember saying that. I simply can't remember discussing de-Ba'athification at this point with the President. If I said it and it is an accurate quote, I must have, but I frankly don't remember discussing it with the President, not before the order was issued.

Mr. HODES. Did you have any discussions at any time with the President of the United States about de-Ba'athification?

Mr. BREMER. Well, I probably had discussions with him about it after the order was issued in one of my meetings, but I don't remember a specific case. It wouldn't surprise me if I did.

Mr. HODES. Would you agree that in October 2004 when you were quoted making the statements about what the President told you, your memory was probably better than it is today?

Mr. BREMER. I would think it is true of almost everybody, that their memory gets a little worse as you get older.

Mr. HODES. Now did you hear any counter-arguments about de-Ba'athification before you signed the order?

Mr. BREMER. What I describe in the book, as you know, the concerns that were raised by some of the political people who were advising me, that it would create people in Iraq who would not be happy about the Coalition. Now it is important to remember we are

talking about only the top four layers of the Baath Party, about 1 percent of the party, a very small percentage.

Mr. HODES. In your previous testimony, you said that basically you thought de-Ba'athification was the right idea.

Mr. BREMER. Yes.

Mr. HODES. But you left it to the Iraqis to implement.

Mr. BREMER. Right.

Mr. HODES. And they implemented it too broadly. Is that a correct assessment of your testimony?

Mr. BREMER. That is right.

Mr. HODES. Steve Browning, do you remember him?

Mr. BREMER. I am sorry. What name?

Mr. HODES. Steve Browning, an Army engineer.

Mr. BREMER. Yes, yes.

Mr. HODES. At one point, he was running five ministries at a time in Iraq, correct?

Mr. BREMER. I don't know. I know he was busy.

Mr. HODES. He is quoted as saying to you that the Baathists were the brains of the government and if you sent them home, the CPA would have a major problem running most ministries. Do you remember that conversation with Mr. Browning?

Mr. BREMER. I don't have any memory of it.

Mr. HODES. Now, ultimately, with respect to the Finance Ministry, how many Baathists ultimately were purged from the Finance Ministry as a result of your order?

Mr. BREMER. I don't know, but let me make a general point, Congressman, about this. The Baath Party officials who were affected by this very narrowly drawn order generally occupied the top two, in some cases, the top three positions in the ministry, and what we found, as Admiral Oliver has already testified to, is that underneath them there were very competent people. So the premise that by deBaathifying we somehow made the government unable to deliver is not correct. It was not our experience.

Our experience was that the career Iraqi civil servants who were not affected by this policy were on the whole effective and efficient, as Admiral Oliver has testified.

Mr. HODES. Let us focus on the Finance Ministry. You would agree with me that as a result of de-Ba'athification, the top level of management was removed, correct?

Mr. BREMER. No. I would say that again I will probably defer to Admiral Oliver who was more on the ground at the ministry. In most cases, as I said earlier, the de-Ba'athification decree had very little effect on the top levels of the ministries because the ministers and deputies had already left the country. They had already fled.

I don't know what the case, precise case was at the Ministry of Finance, but in most cases, those people had in fact already left their posts.

Mr. HODES. With respect to the cash that went through the Finance Ministry and then was disbursed, what oversight did you personally exercise in terms of asking for reports, following up with people, visiting the Finance Ministry or otherwise making sure for yourself that the money was being properly disbursed?

Mr. BREMER. As I have testified here all morning, our approach was somewhat different from that recommended and implied by the

question recommended by the Special Inspector General. Our approach was to focus on the transparent disbursement of these funds from the Development Fund of Iraq into the ministries, in most cases, the Ministry of Finance in the first case and then subsequently on to the other ministries. And as I have testified and as the Special Inspector General himself found, that process was done appropriately and was done transparently, and I was satisfied that it was done that way.

Chairman WAXMAN. The gentleman's time has expired.

Mr. HODES. Thank you.

Chairman WAXMAN. Mr. Murphy.

Mr. MURPHY. Thank you, Mr. Chairman.

I want to delve into the question of accountability here. Mr. Bowen, you came onto the scene, as you said, at the end of the CPA's time on the ground there.

Mr. BOWEN. That is right.

Mr. MURPHY. But during the entirety of the occupation or at least for a majority of it, there was a Department of Defense Inspector General on the ground in Iraq, is that true?

Mr. BOWEN. One person, that is right.

Mr. MURPHY. To your knowledge, were there other staff people under the Inspector General's charge through the Department of Defense?

Mr. BOWEN. I believe there was one other person assigned there for a short period, but I believe it was an office of one.

Mr. MURPHY. So overseeing the entire Inspector General's operation in Iraq through the Department of Defense, there were potentially only two people.

Mr. BOWEN. That is right, and I think this is one of the key lessons learned with respect to oversight. Next time that there is a contingency relief and reconstruction operation, there should be a robust oversight entity from the start and not just at the end.

Mr. MURPHY. Mr. Bremer, on the subject of accountability, we are talking now about $9 billion that go to agencies. Your testimony is essentially that it wasn't the CPA's responsibility once that money went to the agencies, to make sure that it was spent in accordance with the goals that at least your agency had set. Yet, your testimony also was that the Iraqi agencies simply weren't ready to be able to disburse that money in an effective means.

How are we as a Congress supposed to provide for accountability if your testimony is that it was not the CPA's job to account for how that money was spent and those agencies weren't ready to spend that money? How do we decide who to hold accountable for that?

Mr. BREMER. Well, just let me correct something, maybe a misunderstanding. I didn't say the Iraqi ministries couldn't account for it. I said that they had accounting procedures in place that the IMF considered adequate, obviously not perfect but adequate. And so, what we did was we worked to introduce a modern financial information system into those ministries—it is in my longer statement—to try to give them the capability to do the kind of onward accounting that you would want in a modern government.

I found it interesting that the Inspector General mentioned earlier in this morning's session that even today the Iraqi ministries

still have problems executing those budgets. So we seem to have been right that it wasn't going to happen quickly because we are now 3 years later and the Iraqi ministries are still struggling to put modern accounting procedures into place.

Mr. MURPHY. I would simply note, Mr. Bremer, that in Mr. Bowen's testimony, the International Advisory and Monitoring Board in Iraq found, in his words, that there inadequate controls in Iraqi spending at those ministries, and his testimony enunciates a list of those inadequate controls.

Let me ask you about the ministerial advisors that were placed in these agencies. Were any of those ministers during your time there disciplined or fired for the lack of oversight and the lack of controls that are cited here in Mr. Bowen's testimony?

Mr. BREMER. Any of the senior advisors?

Mr. MURPHY. Any of the senior advisors.

Mr. BREMER. For lack of which kind of controls? I am sorry. I don't understand what controls you are talking about.

Mr. MURPHY. We have testimony here from Mr. Bowen that once the money ended up in the various ministries, that there was a lack of accounting and there was a lack of controls for that money that ended up in those ministries. We had advisors there. How are we not to hold those advisors accountable for our inability to account for the money once it went to those ministries?

Mr. BREMER. Well, I can only repeat what I said just now in answer to the previous question which is that our concept to give the Iraqis responsibility as much as possible for this money as quickly as we could and following the recommendation of the International Monetary Fund, we put the responsibility into the Iraqi ministries for how those funds were spent once they were given to the ministries.

Now we have a difference of view on transparency between the Inspector General and me about whether that is adequate transparency. I believe it was. He has a different view.

Mr. MURPHY. The advisors that you placed in the capacities that they had in those various ministries, none of those advisors were held accountable during the time that you were there for the decisions made in those ministries. You, in essence, were willing to turn over the control completely to the Iraqis with those ministries.

Mr. BREMER. If you read the very first or second, I guess, regulation we signed, CPA Regulation 2, which established the Program Review Board, it says explicitly that it is our intention to give the Iraqis the responsibility for the execution of the budgets. When I met with the Iraqi ministers, they were not appointed until September 3, 2003. In the very first meeting, I said to them: You are responsible for the budgets, and you are responsible to execute those budgets.

Mr. MURPHY. Thank you, Mr. Chairman.

Mr. DAVIS OF ILLINOIS [presiding]. Mr. Van Hollen.

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

Let me start by thanking all of you gentlemen for your testimony and service. Ambassador Bremer, thank you for your service both in the State Department and in Iraq. You did have a daunting job.

Mr. Murphy's question actually is a good jumping-off point for my question because we have talked about the fact that this $9 bil-

lion that was given to the Iraqi ministries and was unaccounted for and had a discussion of who should have been better tracking that.

My question really is the sort of juxtaposition of that decision along with the de-Ba'athification decision because, as you know, Mr. Carney, who is going to be here to testify, thought that was a big mistake as did others. The CIA station chief at the time is quoted in another book as saying: You are going to drive 50,000 Baathists underground before nightfall. Don't do this.

I think it is fair to say—and I am quoting from a Washington Post article earlier this month—Carney and the other Americans tapped to run Iraqis' ministries knew that the senior managers in almost all government departments were Baathists, Hussein's government had forced them to join the party but that didn't mean that they all had blood on their hands or that they were all close associates to the former leader and without them, it would be much more challenging to get the government running again.

On the one hand, we have this decision where the testimony has been we are relying on the Iraqi ministries. At the same time, we are essentially gutting the top levels or purging the top levels of those ministries of their most competent managers which it seems to me led inexorably, in many ways, to the problems that we have seen.

I ask this question partly to look back so we can learn but partly because this remains an ongoing issue, as you know, in Iraq. Now I understood your earlier testimony to say that you didn't think the de-Ba'athification order was a mistake but the putting it in Iraqi hands was a mistake. Did you, at the time, appoint Chalabi to oversee that de-Ba'athification process?

Mr. BREMER. No. What I said when I issued the order was that we recognized that figuring out who should be affected by this order, who was really a believer and who was not a believer was a job that the Coalition was not going to be able to do. We were not going to be able to make the kind of fine distinctions. Did Abdul become a teacher because he is a Baathist and wants to inculcate ideology or did he become a Baathist because he wants to be a teacher? Those are distinctions which we needed to leave to the Iraqi people, and I said that right at the outset.

The mistake I made, and I have said it several times, is when the time came, and I said we will turn it over to Iraqis because we can't do it. The mistake I made was turning it over to the governing council, a group of politicians. They, in turn, turned it over to Mr. Chalabi. But it was a mistake because then what they did was interpret or implement it in a much broader fashion, and we had to basically correct that in the spring.

Mr. VAN HOLLEN. Right, and I guess according to that report in the Washington Post, it said after a few months, the CPA began to receive reports that 10,000 to 15,000 teachers had been fired because of the de-Ba'athification order.

I think that the problems that we have talked about with respect to tracking the $9 billion and other problems can be at least partly laid at the fact that these ministries were essentially stripped of some of their better managers.

Let me just ask you going forward because, as you know, Mr. Chalabi is now the chairman of the Supreme National Commission

for de-Ba'athification which continues to have that ultimate authority and there is legislation that has been introduced on this very question to try and address the concerns of the Baathists which, as you know, are primarily Sunnis and which goes to the heart of the ongoing dispute between the Shi'a and the Sunnis.

Do you think it is essential as part of political reconciliation, looking at the situation today, that they pass this piece of legislation that has been proposed by the Iraqi Parliament?

Mr. BREMER. Well, Congressman, I am not familiar with the text of the legislation, so I wouldn't want to endorse one law or another. I think, to take your question broadly, it is essential for them to find some stasis that is more or less acceptable to everybody on the question of de-Ba'athification.

It is not a straightforward question. The Shi'a who make up 60 percent of the population and the Kurds who make up another 20 percent were delighted with the de-Ba'athification and continue to support it. After all, three successive governments have not changed it there. So it is a sensitive problem, but I think it is a good idea to find a way to get back toward reconciliation, if you will.

I just can't comment on the particular legislation, however.

Mr. VAN HOLLEN. Right, I understand that the Kurds and the Shi'a were pleased with order.

Mr. BREMER. Right.

Mr. VAN HOLLEN. You have mentioned that in your earlier statements, and I can understand why too, I mean given the treatment they received from the Hussein Government.

Mr. BREMER. Right.

Mr. VAN HOLLEN. On the other hand, our objective now is to try and achieve some kind of national reconciliation. Everyone agrees that some political solution is necessary, that the military solution is not adequate and it cannot be achieved by military means alone.

Chalabi remains in this position. I guess my final question to you is: Do you think it is a good idea for him to be the guy in charge I mean of this commission because after all, as you know, he is still very much perceived to be a strong advocate for de-Ba'athification and that does make it more difficult, it seems to me, for others to perceive him as fair?

Mr. BREMER. Well, Congressman, I know, I know him, and I am aware of the controversy that surrounds him, and I don't think. Now I have been away for 2½ years. I don't think it is prudent for me to start commenting on Iraqi political figures in a public forum.

Mr. VAN HOLLEN. Thank you. Thank you, Mr. Ambassador.

Chairman WAXMAN [presiding]. Mr. Sarbanes.

Mr. SARBANES. Thank you, Mr. Chairman.

It is not a surprise, I guess, when incompetent people make bad decisions. As unfortunate as it is, from the testimony and what I have read, I think there was a fair number of incompetent people that were inside the CPA and that were making bad decisions. What is more interesting is when competent people make bad decisions, and the explanations for that can be that they are put into situations that are beyond their particular competency, and in some cases they may be in situations that are beyond anyone's

competency. I think bad decisions were made at the highest levels here, and I am not sure which explanation is the one that applies.

I find I am incredulous at the descriptions of how the money was handed over. To be very honest without wanting to sound flippant about it, if the understanding was we will keep giving you money as long as you keep telling us that you are spending it, which is essentially the way Mr. Bowen has described it, that is not a standard I would use in giving my own children their lunch money, frankly, which is why I don't believe that is what was happening.

I think there must have been another agenda, and I am drawing the conclusion that maybe it was to create some kind of plausible deniability with respect to how the funds were ultimately being used because if you could say well, it was the Iraqis' responsibility to take this money and spend it and to do the budgeting and have the controls, and we needed to hand it over as fast as we could, that appears to me to be driven by a desire for plausible deniability. I think it ends up, when you listen to Mr. Bowen, being a situation of implausible deniability.

Here is my question. I watched a Frontline episode in which they talked about the fact that you, Ambassador Bremer, were in regular, daily contact with Secretary Rumsfeld with respect to what was happening on the ground. I believe you have indicated that you relayed concerns about whether the number of troops was enough at different points along the way. What I am curious about is the extent to which you relayed the fact that there wasn't enough support within the CPA, that you didn't have the competencies that you needed. Was that ever relayed to the Secretary and what was the response to that?

Mr. BREMER. Yes, I raised it a number of times with him personally, but more importantly in a more practical way, my chief of staff who was trying to oversee the personnel situation in Iraq was basically pushing all the time, all Washington agencies to produce more people, and as both the Inspector General and the Government Accountability Office have reported, we never had sufficient staff.

Mr. SARBANES. What was the Secretary's response to you when you were conveying the need for this?

Mr. BREMER. You know, I don't remember his specific response. I suppose he would say he would look into it. I don't know. Actually, we had less problems getting people from the Defense Department than we did from other parts of the U.S. Government.

Mr. SARBANES. Did you ever relay to the Secretary or his designees in any kind of detail this process by which the money was being handed over and any concerns that you might have had about accountability on the other side?

Mr. BREMER. I don't recall talking to him about the money transfers in any detail. I mean as I said, we set in place procedures which were to help be sure that the money went for the needs of the Iraqi people, and the most important of those procedures was the budget, producing the government budget in Iraq, which the Iraqi people did on their own with our help starting in August 2003. It is not the kind of detailed discussion I would get into with the Secretary of Defense. I don't remember having any detailed discussions with him about that.

Mr. SARBANES. Thank you.

Chairman WAXMAN. Thank you, Mr. Sarbanes.

Mr. Welch.

Mr. WELCH. Thank you, Mr. Chairman.

I thank the witnesses for their appearance here.

Mr. Bowen, I wanted to ask you about Iraqi funds controlled by the CPA. They, as you know, were held at the Federal Reserve Bank, and shipments of cash were flown from the United States to Iraq. As the chairman alluded to or stated specifically in his opening remarks, there were 363 tons of cash shipped to Iraq on 484 pallets. I am new to Washington, but even by Washington standards, that is a fair amount of money. I think we have a photograph of the pallets of cash over there.

My question is your auditors evaluated the physical security of the cash when it was stored at the CPA offices. In your view, was that physical security adequate?

Mr. BOWEN. No. We found shortfalls with respect to that, with respect to the storage of that, some of that money, that the keys to the safe were not properly secured in the comptroller's office. They were in a duffle bag by a desk when we went in to look at it, and it was just an example of, within the comptroller's office, the failure to follow their own security requirements in the maintenance of security with respect to those funds.

That alludes to a point I want to clarify. Ambassador Bremer said that I had testified that the CPA met its standards in managing the DFI. What I said was that with respect to the transfer of the $8.8 billion to the ministries, we did not uncover fraud. However, the CPA did not follow its rules in the process for transferring that budget.

There were two components to our finding. One was the lack of transparency, and the other was the failure to follow its own rules, and I was alluding to it earlier in my testimony that there were at least 10 disbursements that we reviewed, ranging from $200 to $900 million each that failed to satisfy the requirements of CPA's rules.

Mr. WELCH. And those requirements that they ignored were?

Mr. BOWEN. The requirements were that there had to be documentation before the transfer to the Ministry of Finance or a ministry of a budget spend plan on file, that there had to be supporting documentation for, to which ministry that would go, that there had to be allocation memoranda approved by CPA OMB officials that there would be disbursement vouchers signed off on. In the sample that we looked at, covering billions of dollars that was transferred, one or more of those requirements were not met.

Mr. WELCH. You mentioned that the comptroller didn't follow its own rules about the security of the cash. There have been a number of other episodes that have attributed to the fog of war. Was there any reason related to whatever may have been going on the street that would have interfered with the ability of the comptroller and CPA to follow its own rules about providing for the physical security of the cash that had been transferred to it by the Federal Reserve?

Mr. BOWEN. I don't think, if you are asking me did the chaotic situation cause the comptroller to fail to follow his rules, and the answer is no. I think it was just administrative oversight.

Mr. WELCH. Your report mentions some payments from the back of pickup trucks and cash stored in the gunny sacks in the ministry office. Can you tell us any more about the physical security of those funds once they got out there on pickup trucks?

Mr. BOWEN. Well, there was some exposure. We did not, in the course of our review, uncover loss as a result of that exposure, but we raised concerns about the vulnerability evident in that manner of handling.

Mr. WELCH. Ambassador Bremer, could you respond? Do you think that you took adequate precautions to safeguard literally the billions in cash that was shipped to the CPA when you were in charge?

Mr. BREMER. I think we took the precautions that were possible under the circumstances, and I note that the Special Inspector General pointed out he didn't document losses of these funds. We were in a war zone, and when these moneys were put on a truck, they had to be guarded. There were restrictions on how it could happen.

I guess I keep coming back to the point that I am not sure I understand what the alternative was. This was a cash economy, no bank transfers, no Internet, no computers, no telephone systems. I don't understand what people think the alternative was, frankly, to paying these people in cash. I don't think there was one.

Mr. WELCH. A followup on that, if there was no secure administrative structure to give you confidence that the money distributed would be used in constructive ways, why not raise that fundamental question and hold off on distributing the cash?

Mr. BREMER. Well, let me answer that in two ways. Are you suggesting that I should not have paid the Iraqi civil servants? I should not have paid the pensions? I should not have paid the people running the government? I mean that is the implication of not paying it in cash. There was no alternative.

There is no alternative today. There still is no bank transfer system, electronic transfer system in Iraq.

Mr. WELCH. I understand. My understanding is that there were many so-called ghost employees. Did you have a system in place that assured you that the cash or a paycheck went to people who were actually doing work as opposed to the pockets of people who were claiming they had employees working for them?

Mr. BREMER. We knew there would be a problem with ghost employees. As Admiral Oliver testified this morning, this was the circumstance under Saddam Hussein. We knew there would be a problem. We tried our best to deal with by having our people review the payroll records that we could find in the ministries from the pre-war period, double-checking what we were paying against those lists and then having the Ministry of Finance itself also double-check that against its records. It was certainly not a perfect situation.

Did we pay some ghost employees? I suppose we probably did.

Chairman WAXMAN. The gentleman's time has expired.

Mr. WELCH. OK, thank you, Mr. Chairman.

Chairman WAXMAN. Mr. Braley.

Mr. BRALEY. Thank you, Mr. Chairman.

Ambassador Bremer, Mr. Bowen, Admiral Oliver, I want to start by thanking you for the sacrifices you have made in both your personal and professional lives on behalf of the people of this country. I know your jobs were challenging.

The purpose of my inquiry today is not to judge you but to learn. Ambassador Bremer, you gave us a template in your opening remarks by commending the committee's intention to see what lessons could be learned from these experiences and offering as the first lesson on your behalf that there is no substitute for good planning. Do you remember that?

You also noted in the hearing today: I think the pre-war planning was inadequate and that we had a chronic shortage of personnel in all areas, and you recommended to us the Special Inspector's lessons learned on personnel which I believe is the Lessons Learned on Human Capital Management. Was that the report you were referring to?

Mr. BREMER. Yes.

Mr. BRALEY. One of the instructive guidelines on the very first page of this report deals with how you staffed to prepare for the enormous responsibility you faced when you went into Iraq. Do you remember having that sense of overwhelming challenge when you went there?

Mr. BREMER. That is understating it, I think.

Mr. BRALEY. This report says: Given the sheer complexity of post-conflict reconstruction efforts, developing a clear strategic plan of action at the outset is critical to success. Would you agree with that as a general statement?

Mr. BREMER. Of course.

Mr. BRALEY. It also goes on to talk about the initial planning phase before you even became involved with the CPA, and I assume that as part of your duties, you became generally aware of what some of those planning stages consisted of.

Mr. BREMER. Well, I would say I didn't really have a chance to look too much in the rearview mirror until I got back 14 months later. So I really, I wasn't deeply involved in looking at the planning until after I finally left Iraq, but I have looked back now and I do think the planning was inadequate.

Mr. BRALEY. I assume when you took on this awesome challenge that you had at least some sense that people in the administration spent some level of involvement thinking about the challenges that you were going to face. Is that a fair statement?

Mr. BREMER. Sure.

Mr. BRALEY. One of the things that struck me from this report as incredibly surprising is that the Department of State during this initial planning phase had sponsored a Future of Iraq project which had generated a 1,200 page report on a variety of ambitious concepts for post-Saddam Iraq, and yet that report did not provide a comprehensive plan for management of post-war Iraq. Does that strike you as surprising?

Mr. BREMER. Well, you know, the Future of Iraq has had sort of a mixed press. It never was intended, according to the State Department, it never was intended to be a comprehensive plan for

post-war Iraq. So the answer to your question is yes, it didn't do that because that wasn't its intention.

Mr. BRALEY. But if you are going to devote that much time to studying the conditions in a post-Saddam era, is it surprising to you that the report did not contain at least some analysis of the reconstruction challenges?

Mr. BREMER. Well, it is surprising to me. Here is the problem as I understand, have come to understand it after I came back. The pre-war planning was based on assumptions about the kind of situation they would find on the ground in Iraq that turned out to be wrong. They thought there was going to be a large scale humanitarian problem. They thought there would be large scale refugee movements, both within Iraq and with the neighbors. They thought that Saddam would again set fire to the oil fields of his own country as he indeed had done in Kuwait.

Now there was some limited sabotage on the oil fields, but basically when my predecessor, General Garner, arrived in Baghdad right after the fall of Baghdad, what he found was the situation that he had been staffed up for was not the situation that there was on the ground. So the lesson learned there is that first of all, as I said in my testimony, there is no substitute for good planning, but planing also requires assumptions. You have to make some assumptions about what kind of thing you are planning for.

Where I think the Inspector General has been very helpful in that report and in the one on contracting is essentially saying, and I am putting words in his mouth, no matter how well you plan, what you have to do is have processes in place because the plan will always be wrong. It won't be exactly right. So what you have to focus on is getting the right processes, whether it is contracting or in this case, human resources.

That is why I think and hope that this committee as part of its responsibility will look closely at those lessons learned because some of those processes, particularly in contracting, may require legislation. It will at least require help from this committee.

Mr. BRALEY. One of the reasons that I am so concerned about this, if I may have a little bit of extra time to followup on that, is in President's Bush's January 10th speech about his surge proposal, he indicated that Secretary Rice will soon appoint a reconstruction coordinator in Baghdad to ensure better results for economic assistance being spent in Iraq. My question for you is: Have you ever been consulted about that coordinator and their responsibilities?

Mr. BREMER. No.

Mr. BRALEY. Thank you.

Chairman WAXMAN. Thank you, Mr. Braley.

Mr. Davis.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Chairman, and I certainly want to thank the gentleman not only for being here but also for your patience.

It seems to me that one of the fundamental questions that we are trying to get at is what happened to the money that was shipped to Iraq. We are trying to find out whether or not this money was spent responsibly, and we have talked about $12 billion in cash. Well, that is a lot of money, $12 billion.

Mr. Bowen, in your report, you discussed this and came up with some disturbing findings. Your report concludes that there was inadequate accountability for billions of dollars disbursed by the CPA. According to your report, a lot of these funds went to Iraqi ministries to pay salaries. You also learned of ghost payrollers. Just so that we all understand, could you tell us what a ghost payroller is?

Mr. BOWEN. A ghost employee, paying a ghost employee is paying someone who actually doesn't exist. It is an extra payment to a ministry based on its salary request, and we uncovered that in a couple of instances in interviews with the senior advisors' offices to two ministries wherein they had encountered a problem of the payment of ghost employees. They confirmed that, and my concern to them was what had they done about it. They said they had raised that concern, and the decision was not to take it on but to go ahead and continue to pay those according to those salary rolls because it was important to keep the peace by doing that.

Mr. DAVIS OF ILLINOIS. Can you tell us what kind of numbers you are talking about? Were these a few? Were they many?

Mr. BOWEN. Yes, in the case of one ministry, there were 8,206 guards on the payroll but 602 that were validated, and in the case of another there were over 1,400 guards, and just a fraction of those actually were validated.

Mr. DAVIS OF ILLINOIS. To your knowledge, was any action taken to rectify or improve the situation?

Mr. BOWEN. No.

Mr. DAVIS OF ILLINOIS. Ambassador Bremer, let me ask you, but first let me just say what one of your senior officials at the CPA said, a gentleman named Frank Willis. He said: I presume that some of them are ghost employees, but we paid them. There was a high level decision, I think, made that at least until January 1, 2004, salaries would continue to be paid to employees whether they worked or not because there was a fear if they were unemployed of riots and other complications.

Mr. Ambassador, did you make that decision or were these Mr. Willis' assumptions?

Mr. BREMER. I don't remember a specific decision. I gave general guidance that is consistent with that decision.

Here was the problem. The ministries or the cases that the Special Inspector General is referring to involved something called the Facilities Protection Service. This was an idea that the U.S. Military came up with to hire Iraqis to protect ministry buildings so that our soldiers would no longer have to have that duty and could be used better for either guarding the borders or fighting the insurgents or finding terrorists. So we built up this Facilities Protection Service in the various ministries, and there was quite a lot of understandable confusion about the process bringing these people on board.

When we, when I heard from some of my advisors—I don't remember him specifically mentioning it to me but he may have—that they had concerns that some of these payrolls were padded or we couldn't be 100 percent sure that there were whatever it was, 1,400 people on the payroll, we had basically two choices. We could try to figure out exactly who was on the payroll and who wasn't

which my advisors recommended against because they said, in effect, we will stop paying these people who were armed. By definition, they were armed because they defended these buildings. We are likely to have a couple of months while we try to scrub the numbers and figure out who is on the payroll and who is not.

It seemed a lesser risk, to me anyway, in terms of overall security to continue paying while we tried also to get this payroll system in better shape.

Mr. DAVIS OF ILLINOIS. It was kind of like on the streets in some of the big cities, they probably call that protection money. Do you think it is possible that some of that money could have gotten into the hands of the insurgents?

Mr. BREMER. I don't know. I wouldn't. I am not enough of an expert on protection money, but this is a slightly different problem.

The question was were they getting pay for people who either didn't come to work or people who weren't even on the payroll. My view was that there was a very substantial risk. We are talking here in terms of the Facilities Protection Service. I think something on the order of 70,000, if I remember correctly, around the end of the year. So it was a big number of people, and if we stopped paying them, my judgment was we were going to have real trouble.

Chairman WAXMAN. Will the gentleman yield to me?

Mr. DAVIS OF ILLINOIS. My time is up.

Can I just ask Mr. Bowen if he would think if any of that money could have gotten to insurgents?

Mr. BOWEN. I don't know, but in the course of our interview with the offices that this affected, they reported that they had asked that the Iraqi Ministry of Finance require certified payrolls prior to salary payments, but it was decided that CPA would rather overpay than risk not paying these other employees and inciting violence.

Mr. DAVIS OF ILLINOIS. I thank the gentleman very much and thank you, Mr. Chairman.

Chairman WAXMAN. Just on this point before I recognize the next member, 70,000 employees, they weren't all in security. These were employees of the different ministries that run the government of Iraq. Isn't that what we are talking about?

Mr. BREMER. It was called the Facilities Protection Service, and I think but I can't remember when we made. They worked——

Chairman WAXMAN. There were 70,000?

Mr. BREMER. Excuse me.

Chairman WAXMAN. Did that amount to 70,000 employees?

Mr. BREMER. Yes, something like that.

Chairman WAXMAN. It did.

I have an example of one ministry that had 8,206 employees they claim were on the payroll when in fact they only had 602, and another that CPA was paying the salaries of 1,471 but there were only 642 that could be validated. Now is the first time I have heard this figure of 70,000.

Presumably, they were people who were carried over from the existing government, isn't that right?

Mr. BREMER. No. These were, to a large degree, former members of the former army who were invited to become part of the security

services, either the policy, the new army, the civil defense national guard or the Facilities Protection Service.

Chairman WAXMAN. So they were part of the government when the Sunni Baathists were in charge of the government. You were worried about them the most.

Mr. BREMER. Well, I would have to, you know. If you wish, Mr. Chairman, I can probably get a more precise number for you. I am taking the 70,000 off the top of my head. I think it is about right.

But it was basically the idea here was to try to relieve the burden on American forces who were guarding most of these buildings most of the time until we got this new force organized, and it was to relieve the American forces from having to guard the Ministry of Transportation or the Ministry of Irrigation or some museum. That was the purpose of this Facilities Protection Service.

Chairman WAXMAN. Mr. Bowen, did you understand that all the ministries that received cash to pay their employees were security for the ministries?

Mr. BOWEN. In this case, the 74,000 were Facility Protection Service employees, yes. It is in our audit.

Chairman WAXMAN. But there were others as well, weren't there?

Mr. BOWEN. There are lots of other employees who were paid pursuant to salary rolls, and there was concern about ghost employees across the board, but in our audit, the focus and what was brought to our attention were the missing FPS guards.

Chairman WAXMAN. So we don't really have the full extent of all the ghost employees that were paid.

Mr. BOWEN. No, and as the audit points out, it is just this particular group where it was brought to our attention that ghost employees were being paid.

Chairman WAXMAN. That strikes me, Ambassador Bremer, as reckless. You knew the ghost employees were going to get this money. You took presumably the requests of the ministries for whatever numbers they gave, and you expected those were really off target, but you paid them anyway because you were worried about what would happen if you didn't pay.

Mr. BREMER. Well, they were already on the payroll when the Inspector General found these anomalies, and as I said, the question was what do we do. Are we going to stop paying them in which case we have 74,000, I hear now, armed men out there who are angry at us, who are no longer guarding the buildings. If I, if the American military had to put 70,000 back on those buildings, we are talking about a significant augmentation of American forces.

So what we did was try to continue to work to get modern payroll systems in place and scrub those lists as we went on. It seemed to me, and I would certainly do it again today, the right decision was to continue paying them and try to fix the payroll problem as we went along. It is not an ideal solution. I give you that.

Chairman WAXMAN. Mr. Bowen, do you feel that you are incorrect in your charge that there wasn't transparency? It sounds like Mr. Bremer knew exactly what he was doing. He knew that he was paying a lot of people that were not entitled to be paid with the cash that was coming into Iraq.

Mr. BOWEN. The transparency issue has to do with feedback from how Iraqi ministries used their funds that was transferred to them. This was simply an anomaly that we uncovered. However, we highlighted it because of the concerns that were raised to us by CPA staff that they had attempted to ameliorate it but a decision was made to not address the issue because of the security matter that Ambassador Bremer has underscored.

Chairman WAXMAN. But that seems again, the question I want to ask you, the tip of an iceberg. There were many, many other ghost employees in other ministries that were also paid, that didn't offer a threat to security, isn't that correct?

Mr. BOWEN. Well, that is not——

Chairman WAXMAN. You didn't audit them, but wouldn't one expect that to be the case?

Mr. BOWEN. Well, our concern was that ensuring the Iraqi Ministry of Finance developed more reliable payrolls was essential to avoid the misapplication of funds, and that continues to be a problem today.

Chairman WAXMAN. OK, thanks.

Mr. Delahunt.

Mr. DELAHUNT. Yes, thank you, Mr. Chairman, and thank you for inviting me to participate.

You know we have heard a lot about the dollars from the DFI being their money, Iraqi money, and clearly the bulk of that money came from the Oil for Food program that was administered by the United Nations. It was their money. Clearly, we had a fiduciary duty to monitor and to audit the use of that money. How much of their money is left in the control of the current government in Baghdad, if you know, Mr. Bowen?

Mr. BOWEN. Well, the current government in Baghdad has complete control of the income from the oil and gas sales which is 95 percent of the national income.

The question I think you are alluding to is what continuing control perhaps did the U.S. Government——

Mr. DELAHUNT. No, I am not even asking that. I am asking, if you know, if you could quantify the amount of money currently in the account of the Iraqi Government which received the moneys from the Oil for Food program.

Mr. BOWEN. I don't know what the current account levels are in the Federal District Bank of the Seventh District of New York, the Federal Reserve Bank, but their budget is upwards of $30 billion for 2007 and the amount left in the treasury at the end of last year, unspent, was about $12 billion.

Mr. DELAHUNT. That is the point that I wanted to make. Yet, I understand that in the proposal put forth by the administration that President Bush is requesting an additional $1.7 billion of American taxpayer dollars for reconstruction programs in Iraq. Is that your understanding too?

Mr. BOWEN. Yes, it is.

Mr. DELAHUNT. So let me put it in very simple terms. There is a surplus of $12 billion sitting in Iraq, and simultaneously the American taxpayer is being requested to appropriate $1.7 billion. Am I missing something or am I making a misrepresentation?

Mr. BOWEN. No. That is right, but I think the President also pointed out that the Iraqis must commit to spending $10 billion of their money on relief and reconstruction in this phase.

Mr. DELAHUNT. $10 billion out of the $12 billion?

Mr. BOWEN. That is probably where it must be drawn from.

Mr. DELAHUNT. That leaves still a surplus of $2 billion.

I yield to the chairman.

Chairman WAXMAN. Perhaps that is to pay for ghost employees.

Mr. DELAHUNT. Well, whatever it is to pay for, I am finding it difficult to reconcile requesting American taxpayers to come up with an additional $1.7 billion. My memory is it was a shade under or maybe a shade over $20 billion that is already been appropriated from American taxpayers to assist in the reconstruction of Iraq.

Mr. BOWEN. That is right, $21 billion in the Iraq Relief and Reconstruction Fund, another $10 billion in the Iraq Security Forces Fund and another $2.5 billion through the Commander's Emergency Response Program on top of that economic support fund. So the Congress has been very generous in supporting the relief and reconstruction and recovery of Iraq. That is why I think, as the administration has spoken, benchmarks with some bite is necessary to ensure that the Iraqi ministries participate, and it is their job to carry forward the recovery.

Mr. DELAHUNT. Mr. Bowen, I don't know if it is the Congress that has been generous, but the Congress has been very generous with the American taxpayer dollars.

At this point in time, given your testimony and presumably, Ambassador Bremer, you agree and, Mr. Oliver, you agree with what was just represented by the Special Inspector General, where there is $12 billion sitting somewhere in Iraq and the President has demanded—demanded that they spend $10 out of that $12 billion, my position is clearly I would hope that the executive would review, reconsider its request of the American taxpayer and insist that the Iraqi Government spend all of the $12 billion before we appropriate any additional moneys.

With that, I yield back, Mr. Chairman.

Chairman WAXMAN. Thank you, Mr. Delahunt.

Mr. Shays.

Mr. SHAYS. Thank you. I know we are closing up.

I would just like to make reference to, first, Mr. Delahunt's comments, and I mean this respectfully. This is an area where the majority party can weigh in and may find support from the minority party. I am not sure I want them to spend all their reserves, but that is an area where they can in fact spend their dollars to rebuild. I just think that we made a conclusion that we would be more successful if the rebuilding worked and that we would ultimately save lives and any way we can get them to spend money on reconstruction would be to our advantage.

I guess I would like to just make motion, whether we call these ghost employees or non-existing employees, isn't it a fact that one of the challenges we had as the general said, I had 900 people to pay, these are the names of these employees, and we had a sense that it may have been 800 and that this general could potentially

pocket the money? I mean isn't that something that we basically said could potentially happen, Mr. Bowen?

Mr. BOWEN. Yes, it is.

Mr. SHAYS. Ambassador Bremer.

Mr. BREMER. Yes.

Mr. SHAYS. But our challenge was to decide whether they got paid at all. I think, Mr. Bowen, you have made a valid point that said that Ambassador Bremer didn't follow the regulations as we sought to implement them. He made determinations that he couldn't. Would you not agree that this was a tough call?

In other words, you can say I got you because your regulations said you needed to do this, but in actual fact, in the midst of a war where there was no machinery, no papers, no documents of any kind, Mr. Bremer had to make a decision whether Iraqi troops got paid, whether Iraqi security got paid or whether for 2 months or so they didn't and even no guarantee after 2 months that we could resolve the issue, isn't that true?

Mr. BOWEN. That is true, and my audit was not an "I got you." It was the result. It was carried because of whistleblowers that came to my office, raising concerns, which made me duty-bound to address the issue and it unfolded as it did. But as a component of the overall review, the ghost employment issue is a minor part.

Mr. SHAYS. Right, I hear you.

Just basically in conclusion, it is good you are there. It is important that we deal with this issue. But as someone who led the whole congressional effort in our committee on the Oil for Food program, we know that Saddam undersold his oil and got kickbacks, overpaid for commodities and got kickbacks basically to the tune, we think, of $9 billion. We also recognize that there are hardly any meters in any of the Iraqi pipelines, no meters on their wells, no meters on their pipelines, no meters when it gets on board the ship. They just look at the difference in buoyancy of the ship. So we got a lot of work cut out for us.

Mr. Bremer, there are so many things that we can second guess you on, but I know this. You worked 7 days a week. You gave your heart and soul to this issue. You made some very important and successful decisions that you would get no credit for because no bad thing came. Then when certain things happened that weren't all that good, you get blamed for it. But I appreciate your eagerness to see us transfer power to the Iraqis in June.

People said we couldn't do that. I think we made success from June 2004 to all of 2005, and I think we saw huge problems in 2006 when Jafari just sat and took 4 months to decide what he was going to do before we had Mr. Maliki in. So I look at 2006 as the bad year above anything else.

Thank you, Mr. Chairman.

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

I am going to recognize myself.

We are not holding this hearing for an "I got you," and this is not a way to criticize you, Ambassador Bremer. Others will have to evaluate that. We are trying to find out what happened. If we had 70,000 claimed and let us say there were only 10,000, where would that money have gone? Would it have been in the pocket of the minister or do you think he handed it out to other people?

Do you have any sense of that, either Mr. Bowen or Mr. Bremer? Do we have any idea what happened to that money?

Mr. BOWEN. No, we don't have accounting for it, but as I said earlier, as a component of our overall review, the ghost employee issue was a small part. The larger issues were the requirements of the CPA to follow its rules, the comptroller's failure to do that and the necessity to ensure that there is some transparency on the Iraqi side.

Chairman WAXMAN. Right, so that was your audit and that was your evaluation of the failures.

Mr. BOWEN. That is right.

Chairman WAXMAN. But the reality is that maybe hundreds of thousands of people, we don't know, maybe less, were presumably paid but they didn't exist. So somebody had the money in hand. Who would have gotten that money, the minister?

Mr. BOWEN. You are right. Corruption is endemic within the government of Iraq. That is something that we identified repeatedly through the course of our quarterly reports in 2006, and it is something that is substantiated. It is not just a speculation but substantiated by the fact that Judge Radhi, the Commissioner of the Commission on Public Integrity has thousands of cases ongoing with respect to public corruption. The Minister of Oil was indicted the week before last.

Chairman WAXMAN. Continuing on, it wasn't just at that moment. It preceded that period of time, during the CPA and it has continued on to the present time.

Mr. BOWEN. Corruption certainly characterized Saddam's regime, and I think that it is going to be a generational solution. It takes the building of institutions within the country. The Inspectors General are new. The Commissioners of Public Integrity are new, and they are having a difficult time standing up simply because there is a lot of internal resistance to their work.

Chairman WAXMAN. A recent report by GAO examined what happened last year, 2006, and it found that the Iraqi Government budgeted about $6 billion for reconstruction projects for 2006, but it spent only $877 million of that amount. That is only 14 percent of what they promised. Mr. Bowen, last week, you said the Oil Ministry has to be able to carry out its capital program, but the GAO reported that the Oil Ministry spent less than 1 percent of its capital budget in 2006. Do you know whether that is an accurate statement or not?

Mr. BOWEN. That is accurate, and that is the budget execution problem that we have been talking about today.

Chairman WAXMAN. Well, I guess the question that Mr. Delahunt and others of us have is: Do you think the United States should continue to provide billions of dollars to Iraq with no conditions whatsoever or should Congress consider attaching some incentives for the Iraqis to use their own money and improve their own operation?

Mr. BOWEN. I think Congress is discussing benchmarks that have bite, and I think that is completely on target in light of these facts.

Chairman WAXMAN. Mr. Shays said we shouldn't be critical of Mr. Bremer, but if you look, step back, aside from the false infor-

mation that got us into the war, there was not sufficient planning. There weren't enough troops to provide for security. We never realized the damage that the economy suffered under Saddam Hussein, so when we got there, we didn't know how damaged it was. We expected that stabilization would happen rapidly, and we allowed the militias and the al Qaeda to stir up the rivalries as the people were looking to either the Sunni militia or the Shiite militia to give them security that we didn't provide. All of that has led to the situation we are in now which is a civil war.

Now maybe you shouldn't have paid ghost employees, maybe you should have, but the fact of the matter is all these assumptions, wrong, wrong, wrong, wrong, wrong, and we're in the situation we are in today.

Mr. Bremer, are you optimistic that we are going to be able to succeed in our objectives in Iraq?

Mr. BREMER. Well, I am still hopeful, Mr. Chairman. During my time in Iraq, I came to have a lot of respect for the Iraqi people. They are tough-minded people who, as one of the other Congressmen pointed out, historically have had a sense of being Iraqi.

Chairman WAXMAN. You are hopeful.

Mr. BREMER. I am hopeful.

Chairman WAXMAN. Would you invest in a company that made these many mistakes and then they might put out a little brochure saying past performance is no guide to the future, but would you think this is a good bet?

Mr. BREMER. We are all, if we are a taxpayer, we are an investor unless Congress decides otherwise, Mr. Chairman.

Chairman WAXMAN. We are indeed.

Mr. SHAYS. Mr. Chairman, can I just interject one word?

Chairman WAXMAN. Yes.

Mr. SHAYS. Just to say I would be one hypocrite if I had said not to be critical of Mr. Bremer because Mr. Bremer knows I have been critical of him. I just wanted to say that we need to put everything in perspective but, Mr. Bremer, you know.

Thank you.

Chairman WAXMAN. When we put it in perspective, you are the least of our problems. You were a problem nevertheless according to Mr. Bowen's audits, but we are now getting the background on all that.

Ms. Watson, do you want one last comment?

Ms. WATSON. Yes, I would like to just conclude my involvement here and thank these gentlemen for the time you have spent and your patience in addressing and responding to our questions.

There certainly is a double standard. I was an ambassador. We had to account for every single glass, every fork, every knife and anything that I had the government take over, they wouldn't bring back. I am getting the impression that this was such an unusual situation that it is not important to account for the dollars.

So I would like all of you to respond to this, and we will start with the Ambassador first. What gives you hope that the Iraqi people can do any better with their revenues than they have shown us in the past and Mr. Bowen, what gives you any optimism that we can never account——

Chairman WAXMAN. Ms. Watson, I am going to interrupt you because this is not a second round. If you could just make a concluding comment because these people have been here all day.

Ms. WATSON. I am aware of that, but I wanted them to give me some way to say, yes, I will go along with voting. Can you comment what makes you think this Iraqi Government can do any better about their expenditure of their money and our money?

Whatever your response is, that is the end of my remarks.

Mr. BOWEN. I think that the targets for U.S. money, I don't want to comment about Iraqi money. I have already said that there is a huge problem with ministry capacity. But with respect to U.S. money, I think the targets of the Commander's Emergency Response Program and the Provincial Reconstruction Team programs are the right places. CERP is about executing rapid turnaround, small scale reconstruction projects in an unstable environment, and that is what we have in Iraq.

The Provincial Reconstruction Team Program is about building governance at the provincial level across the country. In order for democracy to take root, it has to take root locally to succeed nationally, and they are off to a challenging start. Supplementing their capacity is important right now.

Chairman WAXMAN. Thank you very much.

Ms. McCollum, any last word?

Ms. MCCOLLUM. Well, yes, Mr. Chair, I am very glad we had the hearing today.

We were functioning as, to put in lay people's terms, as guardian ad litem for the Iraqi Oil for Food program, and we had many, many hearings here about how the U.N. failed in its responsibility to be a good guardian of the Iraqi oil money. So I think it is appropriate that we examine that the United States live up to high standards when asked to be the guardian.

Mr. Oliver, quoting from your testimony, you served as the Coalition Director for the Management and Budget for the Iraqi Government, the Administer, the Senior Advisor to the Iraqi Ministry of Finance.

I find it very troubling in a BBC report, and I will finish up what Ms. Watson had started earlier, when you were asked about their money: "Yeah, their money."

I am quoting you: "Billions of dollars of their money disappeared. Yeah, I understand that. I am saying what difference does it make?" Question: "But you don't know what happened to that money. You don't know whether it was used wisely or whether it was stolen." Mr. Oliver: "That is right. You have no idea. And the question is whether or not you set up a system to do that. I chose not to." Question: "Was that the right decision?" Mr. Oliver: "Absolutely."

I am very concerned, Mr. Chair, and I would ask this of the committee, to followup because there is some conflicting testimony. I am finding on page 4 of Mr. Bowen's report, he would lead one to believe that the International Monetary Fund found the existing Iraqi systems were adequate and recommended that we use them as they went forward disbursing funds, and in Mr. Bowen's report on page 6, the Monitor Board says there weren't adequate systems.

We could followup with that, so that we can learn lessons, Mr. Chair, so that we can be a better guardian ad litem in the future. Thank you so much for the hearing, and I thank the gentlemen, all three of them, for staying for the whole time.

Chairman WAXMAN. Thank you, Ms. McCollum.

We do thank you very much for your participation in this hearing. I think it has been helpful. We want to be retrospective to understand what has happened, but the objective has to be not to let things happen again. We should learn from what has happened. If we are going to make mistakes, let us make new ones and maybe even prevent some.

Thank you very much.

The meeting stands adjourned.

[Whereupon, at 3:15 p.m., the committee was adjourned.]

[Additional information submitted for the hearing record follows:]

TO: OGR Committee
FROM: Joe Heaton
RE: Question for the record, Ambassador Bremer
DATE: 2/12/2007

Management of the CPA required a broad expertise of institutional and governmental management issues as well as numerous policy issues, including: an understanding of the economy and economic development, infrastructure, security, defense, telecommunications and other utility services, banking and financial services, law enforcement, education, workforce, energy, agriculture, in addition to an overall ability to provide services to people and manage temporary local and state governments. Your qualifications, however, were focused primarily on foreign policy. How do you respond to allegations claiming that you may have lacked the necessary qualifications to effectively manage the CPA?

○