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THE COSTS OF MILITARY OPERATIONS AND RECONSTRUCTION IN IRAQ AND AFGHANISTAN

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, DC, JULY 31, 2007

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THE COSTS OF MILITARY OPERATIONS AND RECONSTRUCTION IN IRAQ AND AFGHANISTAN

TUESDAY, JULY 31, 2007

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:00 a.m., in room 210, Cannon House Office Building, Hon. John M. Spratt, Jr. (Chairman of the committee) presiding.

Present: Representatives Spratt, Edwards, Allen, Schwartz, Beceerra, Doggett, Blumenauer, Boyd, McGovern, Scott, Etheridge, Hooley, Baird, and Smith.

Chairman SPRATT. I would like to welcome our first panel Deputy Secretary of Defense, Gordon England; the Under Secretary of Defense, Tina Jonas; General Sattler the J-5, all to discuss the cost of our operations in Iraq and Afghanistan.

This is the third time that Secretary England and Under Secretary Jonas have agreed to testify before the Budget Committee. You have accepted all of our invitations and frankly we very much appreciate your willingness to field our questions so that we can get a better grasp, a better idea of the cost of our operations in Iraq and Afghanistan.

We also have a second panel of excellent witnesses; Robert Sunshine of the Congressional Budget Office; Stuart Bowen who is the Special IG for Iraq reconstruction; Ambassador Joseph Saloom; and Deputy Assistant Secretary John Gastright from the State Department.

The purpose of this hearing as I said is to get a better handle, a better grasp, a better idea of the cost of military operations and reconstruction in Iraq and Afghanistan to date. And as equally important if not more important how much in future cost we are facing. In particular we would like a better understanding of how the requirements or assumptions that underlie the President's budget may have changed over the last several months and how these changes may affect the cost of operations next year and beyond.

Much has happened since the submission of the President's budget. The surge has been implemented, the 2007 War Supplemental has passed, the President's bench mark report has been submitted, the Walter Reed Commission, amongst other things, has been just released and this is to name only a few.

Since February the monthly burn-rate has already increased from $10 billion to $12 billion. We are here not just to count beans. We are here to ask some fundamental questions because what we are dealing with in our estimation of the cost are constructs that

are given to us by GAO, CBO, OMB—well not OMB because that is one of the things we are going to question for today. But we have several different constructs of cost which tend to converge on each other, but we would like to know are these approximations correct.

And secondly, we would like to know does the Department of Defense keep some similar sort of financial constructs of the cost of operations both historic and future. Do you have any way of projecting or do you project in your assemblage of the, FYDP, the future years defense plan, what likely costs are going to be for our deployment in Iraq and Afghanistan?

CBO has an estimate that model which has been upgraded, I will be using their old numbers. CBO said when we asked them, "What is the cost of staying there into the future?" CBO said, "If you draw down your forces in the theater, and that is Afghanistan and Iraq, to about 75,000 additional troops a remaining force of 75,000 troops, by the year 2013. And if you maintain that steady level of troops through 2017 the ten year cost is $845 billion."

Now add that to the cost we have already incurred, it is $1.1 to $1.2 trillion. That is a substantial sum of money and lots of trade offs and much needed things involved in appropriating that level of funding. And we would like to know if you could regard that as a reasonable approximation of what the future costs are likely to be.

We understand that about $44.5 billion has been spent or at least appropriated and remains to be obligated for reconstruction in Iraq. We would like to know if that number is correct and if we have the facilities to show for that sort of substantial outlay, $44.5 billion. In addition, we understand that the Iraqis have allocated $37 billion for reconstruction of their country, but they have yet to spend substantial sums of this money including $10 billion put aside in a fund, it was one of the bench mark objectives in determining whether or not the government was getting underway with projects it needs to do.

These are the sort of questions we would like to ask you today, we would like to explore with you today. We will receive testimony after your testimony about a number of projects there that have not been completed and yet the contractors have essentially spent 100 percent of the funds allocated to those projects. We would like to find out, number one, if these allegations are true. And, number two, if there are any consequences for the contractors who have spent fully the amount allocated but have not completed the facility. That includes seven or 12 health clinics, eight of 20 hospitals, a number of public facilities that have not been completed despite the fact that the budgeted amounts of money have been spent.

Let me just quickly take a minute to show you the numbers that we are talking about so that we are singing to some extent off the same sheet of music, or you at least know what we are talking about. Jose could you start with the series of charts. We will just run through these quickly.

1

Defense Increases During Bush Administration

National Defense Discretionary Budget Authority in Billions of Dollars

	2002-2004	2005	2006	2007	2008	2009	2010	2011	2002-2011
CBO January Baseline 2001	991.0	347.4	356.3	365.5	374.9	384.6	394.5	404.9	3619.0
Policy Increases Excluding War Funding	120.3	72.9	83.4	87.0	129.0	147.0	147.5	143.2	930.3
Iraq/Afghanistan/ Noble Eagle	190.2	79.5	116.8	169.8	141.8	133.0	112.0	91.0	1,034.1
Cost Risk	-	-	-	18.3	23.9	27.4	31.9	33.3	134.7
Total Increase	310.5	152.4	200.2	275.0	294.7	307.4	291.4	267.5	2,099.1
Total Bush Defense Program	1301.5	499.8	556.5	640.5	669.6	692.0	685.9	672.3	5,718.1

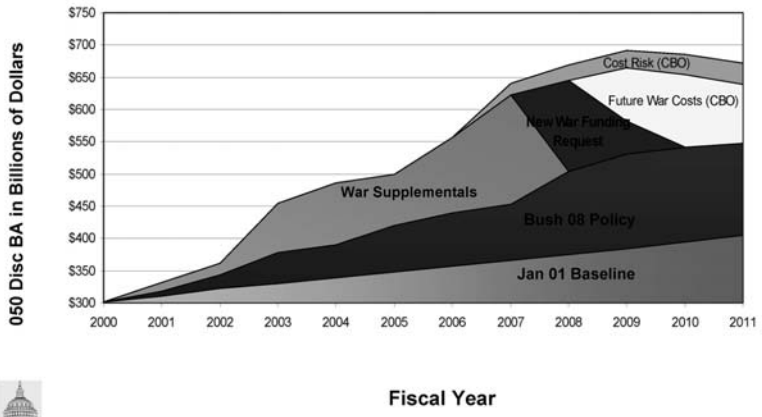
HBC

That is our estimation of difference in defense cost since the Bush Administration took office. The ten year budget at that time by CBO's forecast was $3.6 trillion, today it is $5.7 trillion. That is a substantial sum of money. We understand there are reasons for it, but it is a substantial sum to accommodate in any budget if you are trying to bring it to balance.

Next chart.

2

Increased Cost of Defense Under Bush Administration



HBC

Prepared by the House Budget Committee Democratic Staff

07/12/07

Here is our layer cake showing the different components of the increase in the Defense budget since the year 2000. And you can see that the war supplementals constitute a substantial part of that particular budget and whether or not they have to continue indefinitely into the future clearly has an impact on our Defense Program.

Next chart.

3

War Funding Provided to Date Totals More Than $600 Billion

Operation Iraqi Freedom	$450 Billion
Operation Enduring Freedom	$127 Billion
Operation Noble Eagle	$28 Billion

HBC Source: CRS 07/12/07

To date by our estimation with CBO's help and GAO's help and CRS's help Operation Iraqi Freedom has cost $450 billion, Operation Enduring Freedom Afghanistan, $127 billion, Operation Noble Eagle $28 billion. War funding provided to date is over $600 billion by the calculation of those who have like CBO and CRS.

Next chart.

4

War Costs Have Increased Each Year

2003	$81 Billion
2004	$94 Billion
2005	$108 Billion
2006	$122 Billion
2007	$173 Billion

HBC Source: CRS 07/12/07

Even though the war has gone on for in its fifth year now, it steadily increases. Instead of moving towards a conclusion where we spend less as we achieve our objectives, we are actually spending more and more each year. Now these numbers then the year 2009 fall off completely because there is no place over after that for national defense, but as you can see there is an ominous indication that the cost is continuing to increase, it has increased steadily for each of the last five years.

Next chart.

5

OIF/OEF: Average Cost Per Deployed Troop Increased 22 Percent Since 2003

Year	Cost Per Deployed Troop (in Thousands of Dollars)
2003	$320
2004	$340
2005	$350
2006	$390

This is just a way of figuring out the cost of keeping one troop and an expeditionary force in a theater like Iraq or Afghanistan. It is very, very substantial, $390,000 per troop. By a simple back of the envelope calculation, dividing the number of troops into the amount spent within that theater.

Next chart.

6

Cost of Operation Iraqi Freedom

Fiscal Year	Cost
2003	$53.0 Billion
2004	$75.9 Billion
2005	$84.7 Billion
2006	$101.7 Billion
2007	$135.2 Billion
Total Cost to U.S. Budget	**$450.4 Billion**

Source: CRS

07/12/07

And this is another calculation of the cost of Iraqi Freedom, which is $450 billion total cost of U.S. budget to date per the numbers provided as by CBO and CRS.

Next Chart.

7

2007 Iraq War Funding

Total Cost	$135.2 Billion
Cost Per Month	$11.3 Billion
Cost Per Day	$370 Million

HBC

07/12/07

Total cost $135 billion 2007. Cost per month comes out to be $11.3 billion. The cost per day $370 million. A substantial sum of money any way you cut it.

Next chart.

And this is CBO's chart which is out of date because we have just gotten a new estimation but I referred to it in my opening statement earlier. CBO says, "If you began drawing down your forces such by the year 2007—you would have by the year 2013, you would have about 75,000 troops in theater. The cost and if you then extended that force level of 75,000 troops in theater out over the next five years, the cost over ten years will be $840 billion." Now that is a consequential number. It has real trade offs and that is why we are here today.

We will refer to these charts again in the course of our hearing today, but I simply want to put them on the wall to let you know what we are working against. If you disagree that is part of the purpose of this hearing is to understand where you disagree and to improve our understanding, our grasp per the cost of the war.

Before proceeding with your statements, let me turn to Mr. Ryan our Ranking Member for his opening statement. Mr. Ryan.

Mr. RYAN. Thank you, Chairman. Deputy Secretary England it is nice to have you back with us again. I think this is your third time here this year. I also wanted to say to Inspector General Bowen and my friend Joe Saloom, the last time I saw you two gentleman was in Baghdad a few months ago. And it is nice to have you here and I look forward to your progress reports as well.

Of the many pressing issues this Congress faces, none seems more urgent than our operations in Iraq and Afghanistan as the Chairman just mentioned. And it is obvious from the many debates we have had this year here, there are a series of members in both sides of the aisle and on different sides of the issues who recognize that whatever we do over the next several months will have a profound and lasting implication.

So it is important for all of us to measure our steps carefully to avoid over simplifications, to get away from the bumper sticker phrases and accusations and to keep in earnest debate about the real stakes involved in our decisions that we are going to make. And I know that is the intention of Chairman Spratt and all of our members here today.

It is also obvious that when we discuss the cost of these operations we mean a great deal more than what can be measured in dollars. Nevertheless it is fitting to the Budget Committee should examine this part of this subject. The most tangible actions in this matter that Congress has taken, and will take again, involve budget related matters. Specifically providing funds for these operations for the troops themselves, for their equipment, supplies, support, and so on. So the Budget Committee should evaluate what we have spent so far, how we have spent it, and what lessons can be learned from our choices.

Early on in these operations the spending bills were truly supplemental, they were added on top of the President's budget. At the urging of this Committee, the President began including the estimated supplemental amounts in his annual appropriation submissions and we are very pleased to see the DOD and OMB moving in this direction. This year, the President's 2008 supplemental request is again included in the budget proposed in February. Unfortunately, the supplemental is not being considered as part of the DOD appropriations bill on the floor this week which will make it very difficult for the troops to receive their funding at the start of the fiscal year, a concern that we should serious consider at this hearing.

In addition, as a measure of credibility, Congress and the Administration should continue to include future war cost in the regular budget process. In estimating what those costs will be it is up to DOD to provide accurate and timely reporting of the monthly costs associated with the war and I hope that that will be the case.

If it is as the Chairman's charts suggest, then we should know it and we should budget for it. Administration has presumably learned from both successes and mistakes this period including its reconciliation in reconstruction efforts. We should insist that today's witnesses explain what they have learned and what they have done to ensure that any mistakes of the past will not be repeated. We are not going to answer every question about Iraq at this one hearing today, but we are not going to resolve all the many issues, but we should be looking into the budget ramifications and that is what we are going to be taking the course today.

But certainly we can make this hearing a useful contribution to the debate that is going on in Congress. I hope that is the case will all the members here today. And Deputy Secretary England, I think you know the general take of the interest we have here in the Committee, and I look forward to your testimony. I also look forward to hearing what mistakes that have been made have been corrected and how we are going to prevent those mistakes from being from happening again. And we also want to know how we are going in the next 12 months. Where things are going from a funding perspective, and how reliable the funding streams you may or

may not have as we consider the supplemental and the appropriations bill.

And with that, Mr. Chairman, I thank you for your indulgence.

Chairman SPRATT. Thank you, Mr. Ryan. Secretary England, the floor is yours, but before you take it let me say that we can take your prepared statement and make it part of the record so that you can summarize it. Thank you, sir.

STATEMENT OF THE HONORABLE GORDON ENGLAND, DEPUTY SECRETARY OF DEFENSE; ACCOMPANIED BY: TINA JONAS, UNDER SECRETARY OF DEFENSE (COMPTROLLER); LIEUTENANT GENERAL JOHN F. SATTLER, DIRECTOR FOR STRATEGIC PLANS AND POLICY, THE JOINT STAFF

STATEMENT OF GORDON ENGLAND

Mr. ENGLAND. Good. Mr. Chairman, thank you and Representative Ryan thank you. Members of the House Budget Committee, it is a pleasure to be back again. Some of those questions rather daunting questions I am not sure we can answer all those, but perhaps we can provide some clarity, or at least our thinking on some of those subjects. So we will do the best we can, Mr. Chairman.

First if all, I am very pleased to have back with me Tina Jonas who is our Comptroller. Also this time to have Lieutenant General John Sattler. He is the Director of Strategic Plans and Policy. And I believe he can be helpful in some of these discussions also today.

I do want to say I am very pleased to see you have the second—the second panel here today. I think that will be very helpful. And Stu Bowen who is a Special IG for Iraq deals with me directly and he has done a very excellent job. And as you mentioned, Joe Saloom, also John Gastright. So people who work with the Department pleased that they are here also for their panel, War Cost.

We do have a commitment. You know the Secretary is fully committed to a fully open and transparent dialogue with the Congress. We do provide the Congress our monthly cost of war reports. The last one we provided, this month in July, and it covered all the expenses from September 11, 2001 through May 2007.

Mr. Chair, we can discuss the dollars. Once in a while they get a little confusing, because I believe you deal with the entire federal government, we deal with only the DOD aspect. That said, our latest report through May, Congress had appropriated $549 billion for GWOT, of which we had obligated $438 billion as of May. So, again, the reports we turn in monthly and I think they are clear and hopefully they are clear and if not we will certainly clarify them for this Committee.

Our request this year is $141.7 billion. And as we commented, that is for the GWOT. As we commented in our last two hearings, that is literally extrapolating the current war costs for 2007 into 2008 because by the time we put the budget together, and frankly still at this time, that request will evolve and we will get additional insight when the President's September report on the Iraqi benchmarks comes forward. Also there is various assessments underway that all come about that time. So there are adjustments to fiscal year 2008. We can talk some of that today, but frankly it is going to be based on insights, the situation on the ground, the President's

decisions, time lines, etcetera. I mean basically we respond to the President's direction in this regard.

Now the last time I met there were questions about contracts and I think a number of members had questions about contracting in Iraq. And as of April 2007 if I can just give you the latest numbers. At that time there were 129,000 contractor personnel in Iraq. Twenty-one thousand were U.S. citizens. So about 16 percent are U.S. citizens. Forty- three thousand or 33 percent were third country nationals. And sixty-five thousand, which is what you like to see keeping the local Iraqis employed, 65,000 or 51 percent were the local Iraqi nationals.

You mentioned the and representative Ryan specifically in terms of oversight and accountability, we do have an number of processes in place. First of all, the DCAA, the Defense Contract Audit Agency they did over 35,000 reviews in fiscal year 2006. Reviewed about $345 billion in contracts and that effort saved about $2.3 billion. There is also the DOD IG they had a 34 GWOT related projects worth about $91 billion. And then you will here from Stu Bowen the Special IG Inspector for Iraq reconstruction and I will let him cover his, but he also has extensive coverage of contracts.

Regarding abuse, I mean we do everything we can, obviously, to prevent abuse but like every other part of society you can't prevent all of it, but you can uncover it and you can punish people who do not play by the law. And that is a deterrent when we find people who are doing things wrong, we do what everybody else does. We prosecute them. The DOD IG investigations have led to 17 convictions. The Special IG for Iraq reconstruction they have over 65 ongoing investigations and their efforts have led to five convictions. And I view that as good news because when people do bad things we want to catch them and we want to convict them as a deterrent to other people to live by the rules.

A few initiatives, IEDs. We have talked about this in the past. Improvised explosive devices, that is the reason most of our people are killed and injured. We spend about $4.4 billion and that is our recommendation as I believe for fiscal year 2008. In the past we have included MRAP vehicles, the new vehicles for specific kinds of threats in Iraq. We will be asking for additional funds that Congress just reprogrammed $1.2 billion and I thank the Congress for that.

We now have that $1.2 plus $4.4 for MRAPs, different than the IED but happens to be the same number, $4.4. So that $5.6 billion is being used to order 6,400 of these vehicles and we will be requesting another $5.8 so there will be an additional request that we know of today of—pardon me $5.3 because there is already $440 billion in the budget. So there will be $5.8 billion additional for MRAPs in the fiscal year 2008 and that is to buy additional vehicles and also all the support to go with those vehicles.

A comment. We do have a task force for business and stability operations in Iraq. As you probably know 40 percent of the Iraq population is under the age of 15, so jobs are very, very important and very important that we have economic development in Iraq. We have assessed 64 factories, commerce, DAID, agriculture, Iraqi ministries, DOD, also some other countries supporting us. And so there is a significant effort underway in terms of job creation.

CERP fund very important, Commanders Emergency Response Program. General Sattler can talk more about that, but again it is a way to employ Iraqis and show direct benefits.

Training and equipping, obviously important. Iraqi forces we are prepared to discuss that also with you in terms of the status and that is very important. Obviously, they need to come up to being able to take over the job so that we can, frankly, leave at some point. It is important that we have them up to speed and that is a major effort of the Department.

Lastly, I returned just a week or so, two weeks ago from both Iraq and Afghanistan. And I will tell you I was struck by the significant progress since my last visit. Yesterday I was also struck by an article in the New York Times by Michael O'Hanlon and Ken Pollack. And they were, "surprised" by the gain they saw. I mean they had a very positive article yesterday. They said our troops the moral is high. I can tell you that is the case, both Iraq and Afghanistan. And for the Iraqi security forces, their quote, "things look much better than before." That was also my observation. Things were obvious on a very positive slope in Iraq and also Afghanistan.

I did meet with many of the men and women who serve our military, who protect and defend this great nation every day and on behalf of them I do thank you and I thank the Congress for the support you provide us that we can therefore provide them.

So with that, Mr. Chairman, we would be pleased to take your questions and we will try to provide as much clarity as we can, but I will tell you the future is still quite hazy out there in terms of the total direction and, therefore, it is going to very hard to be definitive with you today, but to the extent we can be helpful, we certainly will be.

[The prepared statement of Gordon England follows:]

Statement of the Honorable Gordon England
Deputy Secretary of Defense
Before the House Budget Committee
31 July 2007

Chairman Spratt, Representative Ryan, Members of the House Budget Committee,

Thank you for the invitation to continue our discussion from January 18, 2007, about the costs of military operations and reconstruction in Iraq and Afghanistan, as part of the broader global war on terror (GWOT).

For the leaders and people of Iraq and Afghanistan, this is a challenging and difficult time, as they struggle to build states that can govern, defend and sustain themselves. For America, this is a time for leadership, commitment and resolve – to support these emerging new partners and allies in the war on terror.

In Iraq and Afghanistan, success requires the ongoing application of all instruments of national power. It is appropriate that your second panel this morning includes our colleagues from the Department of State, the Honorable Joseph Saloom and the Honorable John Gastright, Jr., as well as the Special Inspector General for Iraq Reconstruction, Stuart Bowen, Jr.

With me this morning is Ms. Tina Jonas, Under Secretary of Defense (Comptroller), and Lieutenant General John Sattler, Director for Strategic Plans and Policy on the Joint Staff. The three of us look forward to your questions.

As Secretary Gates has said, the Department is firmly committed to an open and transparent dialogue with the Congress about war costs.

The Department practices that transparency in part through the regular Cost of War Reports to the Congress. In July 2007, the Department delivered the most recent Report, accounting for war costs through May 2007.[1] That Report showed that since September 11, 2001, the Congress had appropriated $523 billion for Operation Enduring Freedom (OEF) and Operation Iraqi Freedom (OIF), out of a total of $549 billion for the global war on terror including Operation Noble Eagle (ONE). The Report further indicated that as of the end of May 2007, the Department had obligated $438.4 billion for OIF, OEF, and ONE.[2]

Of course, war costs represent only part of the Department's responsibilities. Since 9/11, the Department has been prosecuting the fight against terror and responding to natural disasters in real time, while simultaneously transforming both the force and the enterprise to meet the full array of current and future security challenges, at home and abroad. As ever, the Department's highest priority is taking care of our men and women in uniform and their families – this is the

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[1] Defense Finance and Accounting Service, "Cost of the Global War on Terror Monthly Report to Congress"

[2] By-year breakdown, in billions of current dollars, for GWOT obligations since September 11th, 2001, including OIF, OEF and ONE:

FY01	FY02	FY03	FY04	FY05	FY06	FY07	Total
16	17	66	70	91	103	75	438

finest fighting force in the world, and therefore expensive. The Administration's budget requests address and prioritize this full spectrum of concerns and responsibilities.

Since the first supplemental request for the current war effort, submitted shortly after 9/11, there has been a debate about war cost methodology. The usual budget process is deliberate, looking out one to two years into the future. Supplemental budget requests, prepared closer to the time when the money will be spent, more accurately reflect requirements on the ground – for example, the numbers and kinds of forces required, and the equipment that needs to be replaced.

In the National Defense Authorization Act of FY 2007, the Congress directed the President to submit the full-year costs of ongoing operations in the war on terror, in the defense budget request. The President did so, with the FY 2008 GWOT request. The Department is deeply cognizant of its responsibility to exercise good stewardship of taxpayer dollars, and committed to remaining professional, open, and transparent regarding processes and costs.

For the FY 2008 GWOT request, the Department extrapolated on the basis of current costs at the time of the request submission. That request, for a total of $141.7 billion, includes three major categories:

Continuing the Fight	$102.5 billion[3]
Enhancing Ground Forces	$1.6 billion[4]
Reconstituting the Force	$37.6 billion[5]

The forthcoming Iraqi Security Forces Assessment Commission Report, and the President's September Report on Iraqi Benchmarks, are likely to provide additional input and analysis relevant to GWOT requirements in FY 2008. The nature and scope of adjustments to the GWOT request will depend on these new insights, on the evolving situation on the ground, on the President's decisions, and on the timelines for action.

Accordingly, some adjustments to the FY 2008 GWOT request are expected. For example, the request does not contain any funding for the plus-up of forces in Iraq past October 1, 2007. The plus-up forces and their equipment will not be redeployed overnight, so some costs are expected. The request contained projected funding for Iraqi Security Forces – which will need to be adjusted pending the outcome of the Assessment currently underway. And additional funds will be needed for Mine Resistant Ambush Protected (MRAP) vehicles in FY 2008 – the FY 2008 GWOT request contains $400 million, but the total requirement for FY 2008 is now projected to be $5.8 billion. The Department will continue to evaluate that requirement as the program moves forward.

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[3] In billions of dollars: Operations 70.6; Force Protection and IED Defeat 15.2; Military intelligence 2.7; Security Forces 4.7; Coalition Support and CERP 2.7; Military construction .7; Non-DoD classified 5.9.
[4] For accelerating Brigade Combat Teams and Regimental Combat Teams
[5] Reconstitution includes repairing and replacing equipment that has been damaged or destroyed, in order to restore DoD inventories. The Department's methodology is replacing destroyed equipment with the latest appropriate model, rather than purchasing something obsolete.

It is critically important that Congress act on the President's entire budget request by October 1, 2007. Without FY 2008 GWOT funding, the Department would have to resort to using baseline accounts to support the war effort, which would be disruptive to critical efforts to improve and maintain readiness. Without that funding, the Department cannot make the long-term commitments required for effective and efficient management of DoD resources.

Future war funding requests beyond FY 2008 will be, of necessity, situation-dependent, and will require a flexible approach. The course of warfare itself is by definition uncertain, perhaps particularly so in an asymmetrical environment. Moreover, history shows that post-war commitments – from Japan, to Korea, to Kosovo – can last for many years, taking a wide variety of forms. Future requirements in Iraq and Afghanistan will depend on the course of events on the ground and the decisions made in the meantime.

One approach that will not work effectively is funding the Department on a monthly or quarterly basis. The Department's leadership, and commanders in the field, need sufficient, reliable, and sustained funding to support processes and systems like logistics, equipment maintenance, acquisition of replacement equipment, and the like. Contractors need the guarantee of sufficient funding in order to plan production schedules and acquire the materials needed. Insufficient or uncertain funding tends to delay delivery, drive up costs, and delay essential equipment needed by the men and women who are in harm's way.

Several key aspects of GWOT funding merit particular attention.

The Department's greatest concern for our deployed men and women is force protection. The single deadliest threat to our forces is from improvised explosive devices (IEDs) wielded by an innovative and adaptive adversary. The Department's Joint IED Defeat Organization (JIEDDO) continues to apply a comprehensive approach to countering the IED threat, including attacking the IED networks, developing and fielding thousands of IED counter-measures, and expanding pre-deployment training.[6]

The MRAP family of vehicles is a critical step forward in force protection. MRAPs are armored vehicles with a raised chassis and a V-shaped under-carriage, with improved ability to detect and deflect blasts from roadside and deeply buried bombs.

The Department's goal is to get as many of these lifesaving vehicles to servicemembers in the field, as quickly as prudently possible. To that end, the Department has dramatically compressed the normal contracting process, and helped industry ramp up production capacity – this is not 'business as usual'.

To date, the Congress has provided the Department with a total of $4.4 billion for MRAP vehicles. To further accelerate the procurement of MRAPs and to buy all available industrial production capacity, Secretary Gates requested, and the Congress just approved, a reprogramming of nearly $1.2 billion in FY 2007. The Department is using this total of $5.6

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[6] Funding appropriated and requested (FY08) for JIEDDO, in billions of dollars:

FY06	FY07	FY08 GWOT	FY08 Base	FY08 Total
3.3	4.3	4.0	.5	4.5

billion to order 6,400 MRAPs. The Defense Department expects more than half of these vehicles to be delivered by the end of this calendar year. In order to buy the maximum number of MRAP vehicles with the available funds, the Department is deferring some of the costs for these vehicles into FY 2008. The Department will require $5.3 billion in FY 2008 to purchase another 1,520 vehicles as well as to provide mission equipment, spares, logistics support, transportation costs and enhanced armor kits.

Another high priority is the training of security forces. America's most direct and effective partners in building stable and secure environments in Iraq and Afghanistan are the security forces – the military and the police – of those countries.

In Iraq, a critical component of the New Way Forward, initiated in January, is enhancing efforts to build the capacity and capabilities of the Iraqi Security Forces.[7] That includes not only a stronger U.S. presence, but also adjusted methodologies – increased partnering of coalition units with Iraqi counterparts, and more embedding of transition team personnel with Iraqi units.

The efforts in Iraq to date do show progress. As of last month, 154,000 military personnel and 194,000 police had been trained and equipped, toward a new total endstrength goal of 390,000 by December 2007. Iraqi forces include 119 Iraqi Army, Special Operations and Strategic Infrastructure Battalions, of which 96 are operating independently or in the lead in their areas of responsibility. For the current operations in Baghdad, the Government of Iraq was able to provide the equivalent of three brigades to support the effort. Congress has mandated an independent assessment of the training and readiness of the Iraqi Security Forces, due by late September.[8]

In addition, more than 30 Joint Security Stations have been established in Baghdad. They serve as coordination points for coalition forces, Iraqi police, Iraqi Army, and national police. They provide an extensive, permanent, overt security presence in local neighborhoods, designed to encourage confidence and facilitate relationships and information flow with the local population.

In Afghanistan, training, equipping, and mentoring the Afghan National Security Forces (ANSF) is an integral part of the strategy.[9] The quantities of forces and the capabilities required have been revised in view of the changing environment – including the resurgence of Al Qaeda and the Taliban, as well as criminal elements. A major focus is the creation of Afghan units able to independently conduct counter-insurgency operations.

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[7] Following is the funding appropriated and requested (FY 2008) to date for Iraqi Security Forces, in billions of current dollars. This funding supplements the support budgeted by the Government of Iraq to train and equip their own security forces - $7.3 billion in calendar year 2007.

FY04	FY05	FY06	FY07	FY08	Total
5.0	5.7	3.0	5.5	2	21.2

[8] Pursuant to Public Law 110-28, Section 1314, 25 May 2007. The Report is due 'not later than 120 days after the enactment of the Act.'

[9] Following is the funding appropriated and requested (FY 2008) to date for the ANSF, in billions of current dollars:

FY04	FY05	FY06	FY07	FY08	Total
.7	1.0	1.9	7.4	2.7	13.7

To date, about 115,000 ANSF, of a planned 152,000, have been trained and equipped. Of those, about 39,000 (of a planned 70,000) are Afghan National Army; while about 76,000 (of a planned 82,000) are Afghan National Police.

Indeed, training and equipping the security forces of partner countries is an integral part of the nation's strategy for meeting the full array of future global security challenges. In the long run, the most effective and sustainable approach is for partner nations around the world to meet and defeat terrorist and other threats within their own borders. Section 1206 authority, granted by the Congress in FY 2006 and FY 2007, has proven to be an extremely responsive tool for rapidly training and equipping partner nations' security forces, to meet emerging needs and opportunities. This year, the Administration continues to seek $500 million in dedicated funding in the FY 2008 baseline, for Section 1206 activities. The Administration is also requesting that the Congress increase Section 1206 budget authority from $300 million to $750 million, expand that authority to all security forces, and make this vital tool permanent.

The Commanders Emergency Response Program (CERP) has been a particularly effective initiative in the current war efforts.[10] In the early days of Operation Iraqi Freedom, commanders on the ground recognized the importance of complementing security initiatives with efforts to help provide basic social services, jumpstart local economies, and restore the local social fabric. CERP initially provided limited but immediately-available funds to make a concrete difference in people's daily lives. Many commanders came to consider CERP the most powerful weapon in their arsenal.

In recent years, CERP has continued to support a wide variety of small-scale relief and reconstruction projects, ranging from reconstruction of water and sanitation facilities, to school repair, to restoring power stations, lines and generators, to providing humanitarian relief, to renovating cultural centers, museums and libraries, to repairing telecommunications infrastructure.

CERP's responsiveness to local information and concerns is a key part of the broader counter-insurgency approach. The Department carefully monitors CERP execution, and reports quarterly on it to the Congress.[11] The CERP Reports provide summary listings of execution data, by category, and DoD provides more detailed project listings to Committee staff.

Success in the war on terror is a matter not only of buying the right things, but also of utilizing appropriate and rigorous processes for determining priorities and monitoring execution. Since 2001, reforming the defense enterprise itself has been a "main effort" – designed to make the Department more effective, and thereby more efficient.

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[10] Following are funds appropriated or requested (FY 2008), in billions of dollars. The apparent discrepancy for Afghanistan is due to rounding.

	FY05	FY06	FY07	FY08 GWOT	Total
Iraq	.7	.7	.7	.8	2.9
Afghanistan	.1	.2	.2	.2	.8
Total	.8	.9	1.0	1.0	3.7

[11] Pursuant to Section 1202 of the National Defense Authorization Act for FY 2006, and Section 9006 of the DoD Appropriations Act 2007

That effort has included introducing more inclusive and more rigorous decision-making processes, including the Deputy's Advisory Working Group (the "DAWG"), which I chair together with the Vice Chairman of the Joint Chiefs of Staff. Launched during the 2006 Quadrennial Defense Review, the DAWG is a highly inclusive governance body that meets frequently to articulate and update the Department's strategic vision, to determine the reorientation of capabilities and approaches required to meet that vision, and to refine budget priorities.

The Defense Business Systems Management Committee, which I chair, meets monthly to set corporate-level policy and programmatic priorities for business systems modernization, and to monitor and direct progress. For example, it oversees implementation of the Enterprise Transition Plan – the roadmap for progress, complete with schedules, metrics, and milestones.

Rigorous financial management is a critical component of the Department's business management efforts.

In December 2005, the Department launched an aggressive initiative – the Financial Improvement and Audit Readiness Plan (FIAR) – aimed at achieving an unqualified audit opinion while simultaneously institutionalizing improved systems for doing so. The goal is that by 2010, 72% of the Department's assets and 79% of its liabilities will receive clean audit opinions.

Financial management includes not only preparing for audit, but maximizing financial effectiveness and efficiency in general. In the last 6 years, the Defense Finance and Accounting Service (DFAS) has reduced costs by $238 million, and increased productivity by 39%. These efficiencies reduce total administrative overhead and return dollars to the warfighter.

The need for rigorous financial management extends to the contracting that supports our forces' efforts in Iraq and Afghanistan, and in the broader war on terror. In the war since 9/11, contractors have played a critical role in support functions, allowing the military to focus on operational missions.

As of April 2007, the Department had approximately 129,000 contractor personnel in Iraq, of whom approximately 16% were U.S. citizens, 51% were local nationals, and 33% were third-country nationals. In Afghanistan, as of April, there were approximately 4,600 U.S, contractor personnel supporting DoD.[12]

Some contracting practices and performance from the early years of the GWOT raised concerns in the Department and in the Congress. In response, DoD has worked assiduously to improve oversight and accountability of GWOT-related contracting.

The Department is committed to taking rigorous steps to eliminate waste, fraud and abuse. DoD's internal controls, modeled on leading-edge approaches in industry and other agencies, are proving very effective in checking and preventing possible errors.

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[12] Collection of data on local national and third-country national contractors supporting DoD in Afghanistan has been directed by CENTCOM; the data will be provided when available.

The DoD Inspector General (IG) plays an essential oversight role. In FY 2007, the DoD IG has 34 GWOT-related audit projects (10 completed, and 24 on-going), worth approximately $91.5 billion. That work is supported by approximately 150 auditors, including those based at field offices in Iraq, Afghanistan, and Qatar. From FY 2002 to FY 2006, the DoD IG completed 33 GWOT-related audits.

These efforts have included a series of reviews of the Iraq and Afghanistan Security Forces Funds (ISFF and ASFF) established to support training and equipping those forces, as well as constructing and renovating facilities and infrastructure for them. In its review of $5.7 billion of the $14 billion in ISFF funds appropriated through FY 2006, the DoD IG determined that the obligations of those funds had complied with the intent of applicable Public Law. The DoD IG is working with DFAS to resolve issues concerning substantiating documentation for the receipt of ISFF goods and services in Iraq.

At the Service level within DoD, to date, the U.S. Army Audit Agency has issued 37 audit reports directly related to the war efforts in Iraq and Afghanistan, and currently maintains 25 auditors in theater. The Air Force Audit Agency (AFAA) has completed 9 GWOT-related audits, producing approximately $50 million in monetary benefits. Seven additional AFAA audits are ongoing, and 7 others are planned. The work is carried out by 48 AFAA auditors who perform mobile audits in theater twice a year. The Navy Audit Service does not have any ongoing GWOT-related audits, but in 2005, it completed a limited review of 44 Marine Corps Systems command contracts, valued at $125 million.

An additional key player is the Office of the Special Inspector General for Iraq Reconstruction (SIGIR), as you will hear directly from Mr. Stuart W. Bowen, Jr., at the second panel today. SIGIR, mandated with oversight responsibility for the use and potential misuse of obligations, expenditures, and revenues associated with reconstruction and rehabilitation activities in Iraq, reports directly to the Secretaries of State and Defense, and complements the efforts of our agencies' respective Inspector General offices.

As the14th SIGIR Quarterly Report released yesterday indicates, between 1 February 2004 and 30 July 2007, SIGIR has completed 94 reports and continues to work on 19 additional audits.

Of course, in any organization – or any society – there is always the potential for criminal abuse by those who would deliberately violate the trust vested in them. While abuse of that nature cannot always be prevented, it can be uncovered and punished, creating a deterrent effect. For those cases, the Department has systems in place to prosecute offenders. To date, DoD IG investigations related to the war on terror have resulted in 17 convictions (2 in 2005, 12 in 2006, and 3 so far in 2007). Successful prosecutions include that of a former contractor employee who pled guilty to wire fraud and conspiracy to launder money, related to the award of a subcontract for food services in Kuwait. He was sentenced to a term of 12 months and one day in prison.

In addition, SIGIR has 65 ongoing investigations. Past SIGIR investigations have contributed to 5 convictions, including that of a former official in the Coalition Provisional Authority, for conspiracy to defraud the CPA, and to commit wire fraud and launder funds, in connection with

a scheme to steal currency designated for Iraqi reconstruction. Through 30 July 2007, SIGIR reports that its investigations have recovered or seized $19.8 million in court-ordered restitution and forfeiture.

Importantly, the Department's goal is not only to identify problems, but also to institutionalize solutions. The contractor performance oversight efforts by the Defense Contractor Audit Agency (DCAA) are helping contracting officials reduce proposed prices and recover over-billed costs. In Fiscal Year 2006, DCAA performed over 35,610 reviews, with a total contract value of approximately $345 billion, yielding a savings of over $2.3 billion.

An updated contractor registry program, using a web-based database tool – Synchronized Pre-deployment and Operational Tracking – is improving visibility on contracts and contractors accompanying the force.

Organizationally, the Department has created a Program Support Office, under the Under Secretary of Defense for Acquisition, Technology, and Logistics, to provide centralized policy, management, and oversight for contracts and contractor performance in support of all war and contingency operations. In theater, US Central Command created the Joint Contracting Command to provide centralized management and responsive operational contracting support for ongoing operations in Iraq and Afghanistan.

To lay a stronger basis for future efforts, "Contingency Contracting" is now taught at the Defense Acquisition University, and the Department is currently developing contingency acquisition curricula for other DoD schools.

To support the Congress's oversight mission, on July 2, 2007, DoD forwarded to the Congress the "Report on DoD-funded Service Contracts in Forward Areas", covering the numbers of contracts and contractors, the costs, and the types of activities, in Iraq and Afghanistan.[13] A complementary report on DoD programs and policies for managing contractor personnel will follow shortly.[14]

Two weeks ago, in Iraq and Afghanistan, I had the opportunity to talk with many brave Americans who have volunteered their service to protect and defend the nation and our friends and allies. Secretary Gates and I do thank you for your steadfast support for the men and women who wear the cloth of this nation and for the civilians who support them.

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[13] Pursuant to Section 3305 of the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act 2007, Public Law 110-28 (May 25, 2007)

[14] Pursuant to Section 854, John Warner National Defense Authorization Act for Fiscal Year 2007, Public Law 109-364 (October 17, 2006)

Chairman SPRATT. Thank you very much, Mr. Secretary. I believe you have to leave at twelve o'clock?

Mr. ENGLAND. Yes, I do, sir.

Chairman SPRATT. And I think we have votes just before then, so that converges our program our agenda converges with yours. That means I will sort of ride the gavel pretty closely up here to see that everyone gets their fair chance but that several then we also move along.

I failed to ask unanimous consent that all members be allowed to submit an opening statement. At this point in the record, if they care to do so, without objection, is so ordered.

Mr. Secretary, the numbers we show they are $610 billion for Iraq and Afghanistan and enhance North American security. Four-fifty of that going to Iraq and $127 billion of that going to Afghanistan. Do these comport with your own constructions of what the cost has been?

Mr. ENGLAND. Let me to turn it over to my Comptroller. I think she has, you know, the specific numbers. So, Tina, if you can address the specifics.

Ms. JONAS. Thank you. Mr. Chairman, I believe the numbers that you are using the $610 or what CBO is recording. That includes State Department figures, I believe, and other government numbers. We would, as the Secretary said in his opening statement, our cost of war reports again this is for the Department of Defense only, we record $438 billion—point four billion dollars as having been spent; $332.6 on Iraq, $78.1 on Afghanistan and another $27.7 for Operation Nobel Eagle which of course is our Homeland Defense.

Chairman SPRATT. And that is the Department of Defense.

Ms. JONAS. That is the Department of Defense.

Chairman SPRATT. The Pentagon itself. If you add in the State Department, I believe they may be including Veterans' Administration expenses, incremental expenses as well.

Ms. JONAS. Yes, sir.

Chairman SPRATT. All inclusive it is a bigger number. Do you have any notion of whether or not the $610, the $450, and the $127 are rough approximations of all inclusive cost?

Ms. JONAS. Again I would defer to you on that and I have not looked at the State figures myself. I would say that within the amounts that CRS has noted there is some disagreement on their figures including the fact that they have included $2 billion of base housing allowance housing money in that estimate.

So we have some minor disagreements, but I would say it is a rough order.

Chairman SPRATT. What about the surge itself, which involves the introduction of about 10,000 additional troops that have been over then. What is your estimation of the annual cost, the one year cost of the surge?

Mr. ENGLAND. We in the budget we had as I recall $6.5 billion that was the cost of the surge and that was until October 1. So we funded the surge until October 1 of this year, so that is six and a half billion dollars. We have no funding past October 1 for the surge. And we have no funding in the GWOT fiscal year 2008 cost of war.

Chairman SPRATT. Now I wanted to ask that question. Let me just stop you and not to interrupt you, but to get this point clear, because this emerged from our last hearing as well, I believe.

We have no money in the supplemental or the Department of Defense Appropriations bill for the surge beyond September 30?

Mr. ENGLAND. That is correct. That is correct. The decision was made to fund it through September 30. We did not include any cost in the fiscal year 2008 GWOT pending progress on the ground, because we did not know, one, how long the surge would last. It is a surge, remember this now goes back some period of time, Mr. Chairman, these costs were first put together. And so we did not

know what the level of activity would be past October 1, so we have nothing in the budget.

And at this point, frankly, we will delay providing a budget amendment, frankly, as long as we can until we get more clarity in terms of exactly what the commitment will be in Iraq in terms of those added cost.

Chairman SPRATT. Well if the decision is to extend the surge for additional months, will there have to be a supplemental request on top of the supplemental still pending and the Defense Appropriations bill? Will there have to be an additional supplement request to pay for it?

Mr. ENGLAND. I would expect there would be an amendment of some sort to the current GWOT supplemental. So that GWOT supplemental, $141.7, I don't know what the mechanism will be, but yes there will be a delta cost. And I and in fact there definitely will be a delta cost, because quite obviously at this point, I mean, all those troops will not be out on October 1. I mean it would be physically impossible to do that. So we know there will be some increased costs. I don't know what the mechanism will be to handle that, Mr. Chairman. I don't know if that is an amendment. I will let people more familiar with that decide.

Chairman SPRATT. Let me turn to contractor experiences in that theater in Iraq in particular. There have been all kinds of reports of projects started, budgets fully spent, projects partially completed and the contractors seem to have been exonerated. Seem to have walked away with impunity. Is that the case?

We don't hear the consequences of these contractor overruns. These contractor apparent violations, breaches of contract. Are there any consequences for these contractors who don't complete jobs within the budgeted cost of which they have contracted?

Mr. ENGLAND. I would say contracts with DOD we definitely track the contractors and if people don't perform, if nothing else has an effect on their next contract. So past performance is certainly a criteria in awarding contracts in the future. I think each one of those you would have to look at individually. And of course again I think the Special IG can comment better than I can.

I mean a lot of these contracts are under extraordinary difficult situations and terms and conditions change I expect in a lot of cases just because the conditions on the ground. But Mr. Chairman, I think it would be better, frankly, to discuss that with the Special IG, because every one of those circumstances is a different situation.

Chairman SPRATT. One last question to you and or to Secretary Jonas. We just received this morning a calculation by CBO using their model for projecting future cost of our engagement in Iraq and Afghanistan. And the projection they gave us shows that military operations between 2008, 2017 ten year period of time, meaning incremental outlay of probably $845 to $931 billion. With an indigenous security forces, they have, this is not the right chart. I don't think you have this yet because I think we got it this morning. You do? Okay.

Chart number 18.

18

Future War Costs: CBO Calculates between $924 Billion and $1 Trillion

(Budget Authority in Billions of Dollars)

	2008-2017
Military Operations	845 - 931
Indigenous Security Forces	50
Foreign Aid and Diplomacy	16
Veterans Services	13
Total	**924 - 1,010**

Assumes Deployed Troop Levels Reduce to 75,000 in Iraq and Afghanistan Theater by 2013 and Remain. The Low-end Estimate Assumes the Troop "Surge" in Iraq Lasts 4 Months; The High-end Estimate Assumes it Lasts 24 Months.

HBC

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Military operations at $845 to $931 billion, indigenous security forces, $50 billion, foreign aid and diplomacy, $16 billion, veterans services, $13 billion. Obviously, there is some clear estimates there that are not firm numbers, but nevertheless they come up from an approximation of the ten year cost of remaining—of maintaining a presence of 75,000 troops, building down to that over five years. And then for five years maintaining that level between $924 billion and $1 trillion dollars.

Do you do any sort of forecast yourself as you look at the course that we are likely to take? Does the Pentagon turn to your shop, Secretary Jonas or turn to you Mr. Secretary and say, "Give us your best take, your best estimate of what staying here one year, five years, and ten years is likely to be so we can factor it into our decision making."

Mr. ENGLAND. I would say, Mr. Chairman, we don't because that bottom line up there is an assumption. I mean it depends on what your assumptions are. That is a long way in the future to have those assumptions and then to predict cost. So——

Chairman SPRATT. It is an extrapolation from existing cost and we have got five years of experience so they are extrapolating from that, not just pulling an assumption out of the air. They are extrapolating from known cost to what future costs are likely to be at certain force levels.

Mr. ENGLAND. Yes, sir. I mean that is the assumption is those force levels and of course that is the driver in the assumptions. So when you are talking 2008 to 2017, I mean the assumption is there is 75,000 troops I guess on the—and on this assumption for that entire period of time. I mean we don't have that sort of assumption. I don't know if that is valid or not. Obviously, you make an assumption whatever those costs are, but I can't tell you if that is a

valid assumption. I don't think anybody can, Mr. Chairman. I mean that is a long time in the future to be assuming a troop level and I am not sure we know what that troop level will be in a year, frankly, much less all the way out to 2017.

So the final numbers, obviously, a function of what that assumption is, but I would think lots of people would have a different assumption in terms of those troop levels. So I don't know how we can help you with that, Mr. Chairman.

And we don't have that sort of an assumption going out to that period of time. I mean we look through a FYDP, so we are only looking at a five year period, and that is for our base budget where we actually know and predict the size of our force. I mean we know by law the size of our force. We know what are normal deployments are. We know what our equipment and maintenance, we know what is being procured. So we estimate that over a five year period. We do it with a reasonable degree of certainty but we don't do that with war cost, because we don't have that degree of certainty, certainly.

Chairman SPRATT. Thank you, sir. Mr. Ryan.

Mr. RYAN. Secretary, I wanted to ask you about just the way we do the supplementals here. We have, you know, and from this Committee's perspective we have long been saying give us the supplementals early so we can plan for the full fiscal year ahead and you did that. And that was helpful. You submitted the fiscal year 2007 and fiscal year 2008 supplemental back in February with the budget itself. It took us until about June to get the fiscal year 2007 supplemental done.

The DOD approps bill is on the floor this week. It had been our hope that the fiscal year 2008 supplemental would be on the floor this week with the DOD approps bill, but that doesn't seem to be the case. Can you, you just mentioned in your answer to the Chairman that you do not have funding for fiscal year 2008 beginning October 1 for Iraq funding. Is that correct?

Mr. ENGLAND. That is correct.

Mr. RYAN. So we have this——

Mr. ENGLAND. We do not—pardon me. We have fiscal year 2008——

Mr. RYAN. Surge, yeah.

Mr. ENGLAND [continuing]. Funding but not for the surge.

Mr. RYAN. That is what I mean.

Mr. ENGLAND. Yes. Right.

Mr. RYAN. And so we know that we are still going to have these troops here. We know that on October 1 this is going to occur. The question I want to get at is, what reprogramming authority do you have if you don't get the funding in time? How much latitude do you have, number one. Number two, what efficiencies are lost, what are the cost associated with doing this piecemeal, incrementally?

I believe that, you know, we are losing a lot of efficiencies by doing this on a drib and drab standpoint and just doing this like we have done before in a month at a time or something like that.

Can you go to the cost that are involved with having to reprogram these funds away from other priorities into pressing priorities

and not having that sort of predictability that getting a full years worth of appropriations give you.

Mr. ENGLAND. So it is very, very disruptive and Congressman Ryan you are right, in the fiscal year 2007 which came very late there was a lot of debate about the 2007. Everybody said, "Well you can last until such and such a time." The fact of the matter is we move a lot of money around in the Department. It is also extraordinary disruptive for our men and women who serve, because we literally take money out of their accounts and various accounts to pay for ongoing operations, things that we need to fund.

We also have commitments. So for example, the vehicles I talked about. When we buy those vehicles, I mean that is a large cash flow and our manufacturers buy materials and goods to go into a long production chain. Now if we only fund them incrementally, they can only buy very small lots, no one ever ramps up production, so frankly, we can't make our production rates. So we do need funding, reliable, predictable funding over a period of time so we can make commitments for everything that we buy, for everything that we spend in both support of our normal operations and of course for our war operations.

So when the funding is late, we then have to reallocate funds for some period of time, which is very disruptive. And if they come incrementally then we cannot make the kind of commitments we need to make on a long term basis. So it is costly, but it is also that we can't do the mission of the Department of Defense. So first you can't do the mission, and secondly it is costly, and third it is very disruptive for our men and women in uniform.

Mr. RYAN. What program—if this stalemates through September, your fiscal year 2008 supplemental, what programming authority do you have and how long can you play that game until you literally run out of funds?

Mr. ENGLAND. So, Tina, can you talk——

Ms. JONAS. Yes. Mr. Ryan, we have approximately, I believe it is about $3 billion roughly, $3 billion in reprogramming authority, but as the Deputy said, that tends to hurt our other programs. I mean for example one important program to readiness are the depot maintenance accounts. And so we tend to take money from areas like that. Last year we had to borrow some money, I believe, from the accounts which pay our troops. So it does tend to get difficult. It certainly provides an element of uncertainty that is not helpful as we try to move forward.

Mr. ENGLAND. Also——

Mr. RYAN. Go ahead.

Mr. ENGLAND. Mr. Ryan, if I can comment. I believe the reprogramming authority level is set by the Congress, is that not right?

Mr. RYAN. Right.

Ms. JONAS. That is right, sir.

Mr. RYAN. Yeah.

Mr. ENGLAND. So typically we ask for say $5 billion in reprogramming or $8 billion so that we have some flexibility, but normally that is limited, because obviously the Congress has line item authority and they tend to want to limit that, and that is understood. But a higher reprogramming, obviously, eases things for us,

but it does not solve the problem and we still have the same fundamental problem, but to the extent we can have a higher reprogramming authority that would also be helpful.

Mr. RYAN. Your fiscal year 2008 supp request is $141 and your reprogramming authority is three right now——

Ms. JONAS. I believe it is about three.

Mr. RYAN [continuing]. As it stands? Okay. Let me ask you one question on the MRAP. How many MRAP vehicles are in production now?

Mr. ENGLAND. I believe we have on order over 3,000 vehicles actually definitize orders. We have we will have a total, I believe, of over 6,000 as we definitize current contracts. So I believe right now we will have as we definitize contracts, 6,400 vehicles.

Mr. RYAN. That is the $4.4 billion that has already been obligated?

Mr. ENGLAND. That is the $4.4 plus the $1.2 of reprogramming dollars that was just reprogrammed by the Congress through the last couple weeks ago.

So that is the $5.6 and that is for those vehicles, but what we did, Mr. Ryan, because we wanted the vehicles as quickly and as many as we could and as quickly as we could, so we increased the production ramp to the maximum production ramp. We deferred a number of the support dollars and the spares and all that to maintain the vehicles so we moved that into the fiscal year 2008. So that will be part of the $5.3 billion that we will come back to the Congress in fiscal year 2008 and that will buy us another tranche of vehicles plus the year's worth actual two years, I think, of support cost and spares and all those things we have to buy to support the vehicles.

Mr. RYAN. How many are deployed in the field? Any?

Mr. ENGLAND. Yes. We have—I will have to get you a specific number. Do you know, John?

General SATTLER. I do not have that number, Mr. Secretary.

Mr. ENGLAND. Okay.

Mr. RYAN. The reason I ask the question is——

Mr. ENGLAND. But hundreds.

Mr. RYAN [continuing]. I mean the enemy has the EFPs which are so much more deadly IEDs. The question I want to get to is, have the MRAPs proven to be more effective, measurably and demonstrably more effective in protecting our soldiers against EFP IEDs than their predecessor Humvees, Unarmored Humvees?

Mr. ENGLAND. Mr. Ryan, if you don't mind, I don't want to get into classified because I don't want to pass information on to our advisories. So I would rather defer that. I will tell you that the MRAP is designed for a very specific kind of under body——

Mr. RYAN. I understand.

Mr. ENGLAND [continuing]. Type of attack. And beyond that, I would like to go to a classified discussion with you or any members who may be interested.

Mr. RYAN. I would like to follow up with you on that.

Mr. ENGLAND. I would be happy to do so. I will make an appointment, sir.

Mr. RYAN. One final. The DOD approps bill as I mentioned is on the floor right now. I think it is $3.4 billion under the Administra-

tion's request. Have you analyzed this bill? It seems like a pretty, other than the $3.4 under the 302B it seems like a pretty vanilla straight forward approps bill. Have you put a SAP out on this bill in favor or against it?

Mr. ENGLAND. I do not believe we have, but I believe the real difference is about $1.7 billion, Tina, because of accounting type differences?

Ms. JONAS. This Committee would appreciate, there is a disagreement at this moment——

Mr. RYAN. Yeah. OMB CBO differences?

Ms. JONAS. Yes.

Mr. RYAN. Yeah.

Ms. JONAS. There are. And so we are trying to assess what the exact reduction to our budget would be.

Mr. RYAN. No SAP has been released?

Ms. JONAS. To my knowledge, it has not yet been. But I would say that one area, and we are very appreciative to the support of the Congress. One area that we are a bit concerned about in this bill is the reductions to our operations and maintenance accounts in the order of $6 billion, and of course that does impact our readiness.

Mr. RYAN. Thank you, Chairman.

Chairman SPRATT. Mr. Edwards.

Mr. EDWARDS. Secretary England, Secretary Jonas, John Sattler, thank you all for you distinguished service to our country.

Secretary England, you commented, I believe in your opening remarks that based on your trip to Iraq and Afghanistan recently, you saw "significant progress in Iraq and Afghanistan." I hope you are right, I fear you are wrong. And I would like I want to give you time to perhaps explain what you meant by "significant progress in Iraq and Afghanistan."

And I have great respect for you because I have known you for 20 years, but my concern about the word we have been getting out of this Administration for the last five years has been each year has been significant progress being made, but the facts on the ground don't seem to bear that out.

For example, in terms of significant progress in today's Washington Post, Mr. Chairman I would like to read into the record. A consortium of humanitarian groups led by a British group concluded that 28 percent of children are malnourished in Iraq compared to 19 percent before the 2003 invasion. That nearly a third of the population needs emergency aid. Ninety-two percent of Iraqi children have learning problems, mostly due to the climate of fear. Fifteen percent or four million Iraqis regularly cannot buy enough food. Seventy percent are without adequate water supplies compared with half of the population prior to 2003. More than two million Iraqis, mostly women and children, have been displaced inside Iraq, another two million have left the country and about 40 percent of Iraq's professional class has left since 2003. That would be devastating had that occurred in the United States population.

I guess in addition to that I would say that, you know, after five years training Iraqi army is incapable of defending its nation and providing security for its families; virtually no political reconcili-

ation. The majority of the parliament said they would like to see U.S. troops leave Iraq.

I guess my question would be in order to make significant military progress in Iraq, don't we in this kind of insurgents, don't we have to win the hearts and minds of the Iraqi people and the typical family there? And is there significant progress from their perspective, how their daily life is ongoing?

The Washington Post article would suggest otherwise. Perhaps your comments were more narrowly focused on certain military aspects. And let me stop at that point to allow you in fairness and out of my great respect for you personally to further explain what you meant by their significant progress in Iraq and Afghanistan.

Mr. ENGLAND. So Mr. Edwards, first of all, I was in downtown Baghdad. Yes, had SAPI plates and a helmet because you know you are in downtown Baghdad, but I was also in downtown Baghdad with people walking the streets and going into stores. And the shopping centers are being expanded, so the outdoor shopping centers. They are protected because, obviously, one person with a vehicle borne IED can cause great havoc so just like any other place in the world one person can do great havoc so there are protectors so that people can't bring vehicles into those areas anymore.

Markets are expanding, people are shopping and lives are starting to return to normal in those areas where our troops, along with the Iraqis. By the way, I was in one of the security stations with Iraqi police and with the Iraqi military and they are there with our men and women on the front, and in fact leading in many of those areas.

I was also out in Al Ambar Province. Al Ambar Province is as big as the State of North Carolina. The day before I was there, there were four incidents in the entire Al Ambar Province. Business is coming to life. And by the way, the Sheiks and people are coming back into the area. There is another interesting report in the paper today about how, you know, that area is now starting to expand to other areas in Iraq. So I think as you look at the country and you look at different sectors of the country, large sectors of the country are returning to normal because people are now wanting to live normal lives.

Jobs are very important. I had mentioned the jobs. I mean this is counter insurgency type operation so you did need to win the hearts and minds, but this is about jobs and we are working that part of it program also. Like I think what is very important is to factually look at the progress being made every day. I mean I know people like to go back to the past and quote all the facts, but I my view is you have to deal with the facts on the ground today and what will continue to evolve as the surge progresses.

So when you talk to the commanders and the people there, I think they feel like great progress is being made. My view was compared to prior trips it was great progress and also by the way again I point to the O'Hanan article yesterday, another view. I think there is more and more people now starting to make a more detailed assessment and the trend line in my judgement is now positive. Doesn't mean there aren't problems. It is still a war, but progress in a war.

Mr. EDWARDS. Thank you.

Chairman SPRATT. Mr. Lungren.

Mr. ENGLAND. Thank you.

Chairman SPRATT. You are first according to my list. Mr. Tiberi. Mr. Tiberi.

Mr. TIBERI. Thank you, Mr. Chairman. I thank you for having this hearing today. I have some questions, but I want to first start off with a statement that Ms. Jonas made at the end of Mr. Ryan's testimony regarding funding and how it impacts operations and—the operations and maintenance account and how that would impact readiness. Can you further comment on that?

Ms. JONAS. Actually, I might also ask General Sattler to talk about the impacts to the force. But one of the areas that we have ran into issues last year was making sure that our depot maintenance capability was there. And we do put those funds in the operations accounts. And we want to make sure that our depos are operating capacity to repair equipment and so that became a difficulty last year.

Mr. ENGLAND. But also Mr. Tiberi, I mean the current bill I understand that is to being marked up now, appropriations bill is short six and a half billion dollars I believe in O and M, is that right, Tina?

Ms. JONAS. It is five point seven billion.

Mr. ENGLAND. Okay. Five point seven billion. So, obviously, that is five point seven billion. Now that is not the war budget, that is our base operating support budget. So O and M is just that, it is all of our operation and maintenance for the ongoing activities of the Department of Defense. And so that is a problem, I mean, if we are down almost six billion dollars, we will have to deal with that some way. But that it is a lot of money for our basic force that we use to literally steam our ships and maintain our equipment and you know all the things are in that account. So six billion dollars, obviously, is a very large deficit for us. Now the bill is not complete, but I think that was part of the discussion earlier about the "six billion dollars."

And, General, do you have a word or so?

General SATTLER. I would just pile on that, obviously the depo is as the gear comes back from inside theater or the stuff that is cycled back and replaced that it needs to go through the depos to be upgraded and maintained to be put back into the forces, the active, the guard, and the reserve that are back here that are training and preparing to do other missions or to go back to Iraq or Afghanistan, sir.

Mr. TIBERI. Thank you. Mr. England, you mentioned earlier that the article was in the paper yesterday in the New York Times. Within that article it talks about the observation of local leaders working with our marines and army units in establishing and providing basic services of electricity, fuel, clean water, and sanitation to the people and being done pretty well.

Initially that was being done mostly with U.S. dollars, I believe. Can you comment on that and how that is working today? The reconstruction dollars.

Mr. ENGLAND. As I recall, and perhaps somebody here can correct me. As I recall the Iraqis are now spending more than we are in terms of those activities. So we are spending, I believe, about

five and a half billion dollars and they are spending about seven and a half billion dollars in terms of their own infrastructure.

[The information follows:]

The information for the record correct data is: For 2007, Iraq has a capital budget for reconstruction of about $10.1 billion; while U.S. appropriated funds in 2007 amount to about $3.6 billion for reconstruction activities. This does not include the U.S. funds appropriated for Iraq security forces.

Mr. TIBERI. How does that relate to what is happening in——

Mr. ENGLAND. Pardon me. Is that right? Do I have that right?

Ms. JONAS. I believe that is right, sir. I think it is——

Mr. ENGLAND. Okay.

Ms. JONAS [continuing]. About seven point three.

Mr. ENGLAND. Okay. But it is pretty close. I mean they are now spending more than we are. So, yes, the answer is they are now spending more for their infrastructure.

Mr. TIBERI. How about in Afghanistan? What is the break down?

Mr. ENGLAND. I don't have that, sir.

Mr. TIBERI. Is that something you can get to me?

Mr. ENGLAND. Yes, sir.

Mr. TIBERI. Or to the Committee?

Mr. ENGLAND. Yes, sir.

Mr. TIBERI. What the U.S. spends, percentage of dollars on reconstruction versus everyone else.

Mr. ENGLAND. And specifically compared to the Iraqi—I mean compared to the Afghan government, that ratio?

Mr. TIBERI. And everybody else.

Mr. ENGLAND. Okay.

[The information follows:]

As of May 2007, the U.S. pledges for this fiscal year were about $10.1 billion of a total $12.1 billion pledged by 29 countries and organizations (chart submitted), that has been reported.

Presently, Afghanistan relies on international assistance for its reconstruction costs.

Donor	$M Pledges—FY 1386 (2007–2008)
ADB	$205.00
Australia	18.00
Belgium	9.88
Canada	127.91
Denmark	29.00
EC	195.00
ECHO	12.00
Finland	12.00
Germany	131.00
Greece	2.00
India	50.00
Iran	50.00
Islamic Dev Bank	30.00
Japan	150.00
Korea (Rep of)	7.00
Luxembourg	2.44
Netherlands	40.00
New Zealand	4.00
Norway	73.00
Pakistan	40.00
Saudi Arabia	51.00
Spain	36.33
Sweden	40.00
Switzerland	18.00
Turkey	18.00

Donor	$M Pledges—FY 1386 (2007–2008)
UK	300.90
UN Agencies	26.55
USA	10,117.00
WB	265.00
Total	12,061.01

Mr. TIBERI. With respect to Afghanistan and with respect to Iraq, is there anybody else spending money on reconstruction other than the U.S. and the Iraqis? Any other nations?

Mr. ENGLAND. I can't answer the question. I will have to get back with you, Congressman.

[The information follows:]

Iraq has benefited from international donations beyond those provided by the United States Government. The Special Inspector General has identified about $18.2 billion in international reconstruction donations.

The United States Government contributions to Afghanistan are among forty-three donors (countries and other organizations) identified as supporting Afghanistan reconstruction since 2002.

Mr. TIBERI. You can give me both the Iraq number and the Afghan number in terms of what we spend versus what their governments are spending as well as what other nations may be spending.

Mr. ENGLAND. We will get back with you on that. And I if I could go back to the——

Mr. TIBERI. Yes.

Mr. ENGLAND [continuing]. First discussion because I think again you will hear some of this from Stu Bowen later. It is important, obviously, to have a secure environment for economic development. I mean my view of this is security is one side of the coin, economic development is the other side of the coin and they go hand in hand. You have to have security for economic development and you have to economic development for security. So we have been providing this security envelope to get economic development.

Now, until you have security that is a mixed measure of the economic development, but as time goes on and again what you see in Al Ambar specifically as you get a more secure environment you see more economic development and then you will see the people taking more responsibility for their own infrastructure that they rely on.

So I mean these go together and I think you have to look at them that way.

Chairman SPRATT. Mr. Allen of Maine.

Mr. ALLEN. Thank you, Mr. Chairman and thank you all for being here. Secretary England, welcome back. I think I will start with you.

The first question I have, the Special Inspector General for Iraq last year in July issued a report. And in that report "lessons learned, lessons in contracting and procurement," he had this to say on the use of sole source or no-bid contracts. "Generally avoid using sole source and limited competition contracting actions. These exceptional contracting actions should be used as necessary but the emphasis must always be on full transparency in contracting and procurement. While use of sole source and limited

competition contracting in Iraq should have virtually ceased after hostilities ended." And I think they mean we got to Baghdad. "And previously sole source limited competition contracts should have been promptly rebid."

Is what is the policy today of the Department of Defense in terms of sole source contracts in Iraq? Have you gotten away from that practice or are you still doing it?

Mr. ENGLAND. Well most of those contracts, I don't believe are with the Department of Defense. Most I believe are with State and I guess Stu Bowen can help me with that. Most of the reconstruction are not actually DOD contracts.

I can tell you this, though, for DOD and the Special IG is absolutely right, but it applies everywhere. That is whenever we can we have competitive sourcing rather than sole source. I mean sole source is by exception to our policy. So we do have our contracting obligation is to have a competitive environment.

Now that said, many times we have a competitive environment, people are in place or manufacturing and there is a follow on and so you don't have another competition for a follow on contract. I mean, you know, in the extreme case once you let—once you have a competition, you let the competition or an F-35 Fighter follow on orders we don't compete, obviously, so that looks like sole source.

Mr. ALLEN. But in Iraq, when Iraq began you were doing you were relying heavily on Halliburton and Bechtel and others. I mean those were sole source contracts, right? No bid contracts?

Mr. ENGLAND. I actually I don't—I just can't really comment, Mr. Allen——

Mr. ALLEN. Okay.

Mr. ENGLAND [continuing]. As authoritatively on that.

Mr. ALLEN. Let me do something else. Let me turn to another slightly different topic. I understand there is no one federal agency that has a sole mission to audit, investigate, or oversee DOD appropriated funds for troops support services under LCAP, the logistics civil augmentation program. I gather that is the Halliburton KBR contract.

And there are—I understand there are many agencies who share the mission, including the Defense Contract Audit Agency, the Defense Contract Management Agency, the Army Audit Agency, and the DOD Inspector General. It has been proposed that the Special Inspector General for Iraq be given expanded authority to also investigate DOD logistics contracts in Iraq.

Do you agree with that proposal that Mr. Bowen should have expanded area to oversee these contracts?

Mr. ENGLAND. I guess I am not—look, we already have extensive oversight. Like you said, you mentioned four agencies, so I mean the DCA in itself did 35,000 reviews last year, so there is extensive reviews by all these agencies. All of them have their piece that they look at with their expert looking at it. So having another group look at these at this area, I don't know would be helpful or not.

On the other hand it gives another set of eyes on the ground. And I think Stu Bowen and his people have done a good job, but we do have extensive reviews and oversight and analysis of all of those, Mr. Allen.

Mr. ALLEN. I understand. One more question. One of the recommendations that Mr. Bowen made last year was, "To designate a single unified contracting entity to coordinate all contracting in theater." Does that solve the problem? Would you agree with that recommendation?

Mr. ENGLAND. Again, Mr. Allen, I don't—I am not sure I agree or I mean somebody will have to be closer to the specifics. Here is an—here is sort of the problem I have with all of this. Centralizing a vast organization is not always the best solution, I have found, my own experiences. Extraordinarily large organizations, large expenditures, you actually want to decentralize so that you can get, you know, views of different discrete parts of this, because this is not a homogeneous operation. These are vastly different in terms of contracts, kinds of contracts, jobs being accomplished.

So to look at this as one homogeneous contract, I mean my view is that is not always the best the most effective and the most efficient. So I would tend to say as a general, you are better decentralizing than you are having one organization trying to do this broad scope of activity.

Mr. ALLEN. Do you think the oversight of the Halliburton contract has been effective and efficient?

Mr. ENGLAND. I don't know, Mr. Allen. I just can't comment. I haven't been involved and I just don't know.

Mr. ALLEN. Thank you.

Chairman SPRATT. Mr. Lungren.

Mr. LUNGREN. Thank you. Thank you very much, Mr. Chairman. Mr. Secretary, again, thank you for being here as was stated before. I think it is your third appearance before us and we appreciate your testimony.

Earlier in response to a couple of questions with respect to contracts not being performed and so forth. You indicated some concern and said that if they are not performed if they come up again that goes against them. I just want to make sure that that is not all your saying. That if there are instances of fraud and abuse you would expect those to be prosecuted and fully support that, correct?

Mr. ENGLAND. Yes. But as I said in my opening statement there has been a number of those cases, unfortunately there are people who break the law——

Mr. LUNGREN. Right.

Mr. ENGLAND [continuing]. And then those people get punished. And, yes, there has been convictions and convictions based on various groups that were mentioned by Mr. Allen. They all have been working. There has been convictions, there is others underway. Fortunately, that is a very small percent. I—well under one percent——

Mr. LUNGREN. I agree with that.

Mr. ENGLAND [continuing]. Of both people and dollars.

Mr. LUNGREN. But we have a very small number of members of Congress who have been found to be guilty of crimes and yet when somebody like Duke Cunningham does it, in my judgement, he is taking money that ought to go to diverting it in a certain way, that basically diminishes the protection of our men and women in uniform. And I look at I it——

Mr. ENGLAND. Absolutely.

Mr. LUNGREN [continuing]. And I look at it the same way with anybody who is under a contract for reconstruction or anything else, they ought to be—they ought to get the full weight of the law. And I just wanted to make sure that you fully supportive of that.

Mr. ENGLAND. We violently agree, Mr. Lungren.

Mr. LUNGREN. Very good. I appreciate that. General, you talked equipment coming back and so forth. One of the complaints I have received from national guard back in California is that when they go to the theater of combat they leave their equipment there and they are behind, they are in a hole right now with respect to equipment to allow them to maintain their capability either to respond to incidences at home in their normal course of activity if we had a natural disaster or for particularized training to allow them to be in good shape when they show up in a theater of conflict.

What do you say about that? What concerns do you have about that? And what are we doing to address that?

Mr. ENGLAND. Okay. I will let you. Go, no go ahead, General, and then I will comment.

General SATTLER. Sir, I obviously the same we have the same challenges in the active force and in the reserve as well as the guard. And when we went forward and we left our sensitive equipment there to efficiently rotate forces in, they fell in on equipment that was left in a theater. And forces that went back home had training sets back at their home base.

Now that is a lot easier when you have large units, some marine units or army units active, where a unit comes in, leaves it gear behind, falls in on a gear of a unit coming home. In the case of the guard because they come from a geographic location if they leave their gear behind and another guard unit comes in, then we have a mismatch when the unit comes home.

So I understand the challenge and the problem. We have been working it as we procure additional equipment and we send equipment back to through the depots that Secretary Jonas talked about, when that is reworked it is sent out to where it is needed not necessarily to where it came back from.

Mr. LUNGREN. Okay. My concern is that national guard units having a capability to respond to natural disasters or other kinds—we have had examples of civil unrest in this country. We have had them in my State and the national guard is called out. I would hope that we would not have a situation where because we are doing what we need to do and I support what we are doing in Iraq and Afghanistan. I am a very strong supporter of that, but I don't want to see us with our units at home incapability of doing the other part of their job, which is just as important as what is happening in Iraq and Afghanistan to respond to either domestic civil unrest or which we have on a regular basis, natural disasters.

And I am concerned about that.

Mr. ENGLAND. If I can address it, because we have this discussion with General Blum who is head of the National Guard Bureau. There are at agreements between all the States in terms of national guard so that they actually, you know, share equipment when they need to.

The last time I sat down with General Blum, specifically, and there was a White House review, for example, for the hurricane

season. If you look at all the equipment that is available, I mean there is more than adequate equipment available within each region of the country to deal with natural disasters. I mean we still have vast quantities of equipment mainly what we have left in theaters is unique combat equipment and not equipment that you would use for natural disasters in the United States.

That said, we are also refurbishing and we have put, I believe, $30 billion in the budget, Tina?

Ms. JONAS. That is right.

Mr. ENGLAND. For national guard type equipment to, you know, reset and reconstitute the national guard. So that is an area focus, but in the meantime I can assure you that the nation is well being well served by the national guard. And my judgement is between the guards, particularly in regions, well prepared to do what is necessary in terms of natural disasters.

Mr. LUNGREN. If I just might be indulged a second. I appreciate that and I hope you are and I hope that we can continue to look at that. And we have reference to the hurricane season, that is sort of a cyclical thing. We have something in California called earth quakes which are non- cyclical and I am not sure you can plan in the same way for them. Thank you very much.

Chairman SPRATT. Mr. Doggett.

Mr. DOGGETT. Thank you and thank you for your testimony. My understanding of what you have said is that we have pending here in Congress to fund the war in Iraq and in Afghanistan $145 billion request. And you can't tell us today precisely what the appropriate level should be, but you know it is more than $145 billion?

Mr. ENGLAND. We took last January we projected, because request of the Congress.

Mr. DOGGETT. Of course.

Mr. ENGLAND. And right to——

Mr. DOGGETT. And you now realize that you need over five billion dollars more for the mine resistant equipment. That would be on top of the $145 billion?

Mr. ENGLAND. That is correct.

Mr. DOGGETT. And you will need the money for the surge which was not budgeted past the end of this fiscal year. So it wouldn't certainly wouldn't be unreasonable as we do our planning to estimate that we are up approaching $170 billion when you include that, $165, something in that range?

Mr. ENGLAND. I don't know if that is the number, sir. But you are right, there is the surge past October 1. There is also the MRAP vehicles. And I believe the appropriators have actually moved some other money into GWOT that was in the base bill, so that will be accounted for. So——

Mr. DOGGETT. And you wouldn't be surprised to have some other adjustments as well as you see the experience and the reports in September?

Mr. ENGLAND. That is correct.

Mr. DOGGETT. Now it is my understanding that while it certainly does require additional work in the accounting department that if that money is not—well, first of all I guess, that money will not be requested probably until the end of the fiscal year, the precise amount? Certainly not until after the September 15 report?

Mr. ENGLAND. I believe the $5.3 will be requested before that because we have that, we understand precisely what that is so since we know the number. Where we do not yet know what the cost will be, we will defer that as long as we can but hopefully still be able to, you know, have that responded to by the Congress by October the 1.

Mr. DOGGETT. All right. So you would hope by October 1, you would have this estimate to us of what the cost for those wars would be in the next fiscal year?

Mr. ENGLAND. That is correct.

Mr. DOGGETT. And you have capability if we can't act, of course, until you submit the request, but if the action is not immediate you have capability to continue the war surely into at least the beginning of next calendar year, don't you?

Mr. ENGLAND. We have, and I guess I will have to have my Comptroller here talk about what expenditures, you know, what has been expended or will be by that time. So certainly all, for example, the personnel dollars are paid by that point. I mean that will be expended. So various categories will be expended.

Tina, can you elaborate, please?

Ms. JONAS. Sir, it depends on, obviously, where we are on October 1. If the Congress has acted, obviously, we will be in good shape——

Mr. DOGGETT. If we have approved the bill that is up this week.

Ms. JONAS. That is right. And then we would have to just adjust either the supplemental——

Mr. DOGGETT. You would make adjustments and carry it into next year——

Ms. JONAS. That is right, sir.

Mr. DOGGETT [continuing]. Without the supplemental, right?

Ms. JONAS. That is right.

Mr. DOGGETT. Okay.

Ms. JONAS. The additional we were just talking about.

Mr. DOGGETT. And we you testified when you were before the Committee before, Ms. Jonas, that the burn-rate in Iraq had gotten up approaching $10 billion. If the request for next year is in the $165, $168—70 billion dollar range, then the burn-rate in Iraq has really risen to approaching $12 billion a month, isn't it?

Ms. JONAS. That would be about right. And——

Mr. DOGGETT. Okay. And as far as the long term cost in the chart that the Chairman mentioned earlier, General Petraeus told Fox News back in June that this not a challenge that can be resolved in a year or even two years. That the typical insurgency takes nine to ten years. Ambassador Crocker said in July that we are just getting into the first reel of five reels in Iraq, contrary to what many people say. If you assume, if you take not just any assumption, but General Petraeus' assumption of a nine to ten year commitment then the projection that we have of a trillion dollar war here is certainly not unreasonable, is it?

Mr. ENGLAND. Again, Congressman, it depends on what the assumption is in terms of a level——

Mr. DOGGETT. Right.

Mr. ENGLAND [continuing]. Of that effort.

Mr. DOGGETT. Of course.

Mr. ENGLAND. And I don't know what the level of that effort would be. So whatever that assumption is, the dollars will follow the assumption. In this case the assumption is 75,000 troops, but I don't know if that is valid or not. It certainly an assumption.

Mr. DOGGETT. The last time I asked you questions on March the 6, you told me that there was no effort underway at the Pentagon to plan for any cost of withdraw or draw-down.

Last week, as you know, Secretary Gates in a letter to Senator Clinton said that it was not only appropriate but essential to have such a plan. When did things change on that issue at the Pentagon? Between March 6 in your testimony and his letter of July 25.

Mr. ENGLAND. I think the—I think what the Secretary was saying at that time is there are various questions that you would ask regarding the war going forward. And so he has framed some of those questions, but what we will do, frankly, is we will cost whatever the President's decision is come September. I mean that will be the baseline as we go forward, Congressman. So whatever that decision by the President is, that will be the basis of our funding going forward.

Mr. DOGGETT. One last question. There has been comment with regard to the sources of foreign fighters and suicide bombers in Iraq, that a majority of the suicide bombers and the largest percentage of the foreign fighters in Iraq are Saudi nationals. Is that accurate?

General SATTLER. Well there certainly are some Saudi nationals that fit into the foreign fighter, the suicide bomber both vest and vehicle borne, Congressman. But I would rather take that for the record rather than—because there are a couple countries that dominate the foreign fighter network. So I would like to take that for the record so I don't put out erroneous information, sir.

Mr. DOGGETT. You want to submit something as a follow up, is that what you are saying?

General SATTLER. Yes, sir. I mean I will—I am sorry.

Mr. DOGGETT. The Saudi's are certainly—Saudi nationals are certainly one of the dominant countries in providing foreign nationals who are suicide fighters and others that are out killing Americans, right?

General SATTLER. A number of the foreign fighters do in fact originate from Saudi Arabia, yes, sir.

[The information follows:]

[DELETED]

Mr. DOGGETT. If you can respond in writing, promptly to the Committee to verify the press accounts that a majority of the foreign fighters in Iraq are Saudi nationals, a majority—suicide bombers, excuse me, are Saudi nationals and that about 40 percent of all foreign fighters coming into Iraq are Saudi nationals.

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

Chairman SPRATT. Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. Appreciate that. Thanks for being here. Those of us who support what we are doing still need to know how much it costs. I mean it is, you know, it is good practice to don't, you know, start a building a home until you know what it costs. And so questions that we have relative to the

costs, I hope we are not necessarily interpreted as being negative to what we are trying to do, but we need to know what it is that we are trying to accomplish.

Last week in the Armed Services Committee we passed out on a almost party line basis H.R. 3159 which is which would codify DODs intent and all of our intent to create dwell time for our men and women in service who have gone into harms way, they come home, we want them here for an extended period of time to recoup and get ready to do something again on behalf of our country.

But at the hearing, nobody on staff had a clue what that cost would be. And you could approach the analysis one of two ways. One, either increase the in-strength of the force, which I think is the right answer. Or you can dramatically draw-down the people who are in harms way, ignoring of course the situation on the ground, the circumstances in the fight to accomplish what we are going to require DOD to do. Like an unfunded mandate if this thing actually became law.

Have you at this stage and it may be way too early, Ms. Jonas or Secretary, have you all looked at how you would comply with that 3159 requirement? In other words, how many more troops would you need and what would that be cost be on a every year basis if we are able to increase the in-strength of our, particularly the marine corp and the army to accomplish a goal that all of us what to have accomplished.

Mr. ENGLAND. So Mr. Conaway, we do have a policy and we are growing both the marine corp and the army consistent with that policy in terms of increase in the dwell time. While that is a policy, I would also say, I think the Department and the nation needs to do what needs to be done in time of war, because there is an uncertainty in the nation, so I mean I hope this is not some law about dwell time.

I mean, obviously, the men and women who serve want to serve at the time of greatest threat to America. So while that is a policy and it is a policy that we, frankly, promulgate ourselves, right? We came out with the policy for both the guard and the reserve and the active force and we are growing the force to be able to sustain what we believe is the right size force in the field on a long term basis with the appropriate dwell times.

Nonetheless, I mean I would pretty violently say you don't want to put that in law, because you do have to have flexibility both within the DOD and with the force to respond to whatever happens in America. I mean, you know, at the right time you and I will both be serving if we need to, obviously.

So while that is a policy and we are gearing up for that, there is a cost, obviously, associated with it that is part of growing the force. I mean we are growing the army and the marine corp to be able to meet that long term commitment.

Mr. CONAWAY. Well, I guess, if you would get some folks to just take a look at that policy that came out of Committee, which focused on Iraq and dwell times and other—so it may be more of a political statement that it is a true effort to protect our troops and to make sure that we have got the right level of forces in place. I hope it is the latter not the former, but nevertheless it may just be political.

Could you look at that and give us some sort of an estimate of saying, "All right. We are going to keep the fight going the way we are. In order to maintain or accomplish the dwell time goals and policies that you have got in place, how many more people would we need?"

In other words, one of the things that Petraeus told us when he was here in May is that no one liked the extension of 15 months, additional three months to—but they all understood why it had to happen and the professionalism they are going to get it done. But to accomplish that goal, I think, we need to know what that cost is as a part of it.

Mr. ENGLAND. Mr. Conaway, when the Secretary came out with that policy, along with that policy we actually put forth also the growth of the military consistent with the policy.

Mr. CONAWAY. Right. So you are saying you have got that answer somewhere and you will get it back to us?

Mr. ENGLAND. Yeah. I mean my view is today when we project our long term needs for the nation in terms of how many troops deployed for what reasons in different parts of the world. When you look at that commitment, growing the force allows us to meet that commitment and the dwell time policies articulated by the Secretary of Defense.

So I believe we know today what that mix of growth, dwell times, and cost is.

Mr. CONAWAY. Okay. Understand, Mr. Secretary, that we are those statements are being made after a number of years of civilian leadership at the Pentagon saying, "We don't need any more forces." And so I want to make sure that all of those, you know, statements are made and I know you made in good faith, but I just want to make sure those of us on the other side look at four or five years of saying, "No, we don't need any more people," we want to make sure that if you need more people to accomplish that, then let us know.

Mr. ENGLAND. And that cost for the growth is in the budget.

Mr. CONAWAY. Right. Right.

Mr. ENGLAND. So and it is in the out year budget. So the growth and some of it was in 2007. So the cost of both the army and the marine corp to the new authorized level is in the base budget Department of Defense across the——

Mr. CONAWAY. We just want to make sure that new authorized in-strength is the right number. And if it needs to be bigger we need to know that going in. Thank you, Mr. Chairman. I yield back.

Chairman SPRATT. Mr. McGovern.

Mr. MCGOVERN. I thank you and thank you Mr. Secretary for being here. You have stated that future cost of the war in Iraq will be situation dependent. And I think everybody agrees with that. And I want to get back to something that Mr. Doggett raised. If the situation were the redeployment of all U.S. troops and contractors not needed for the protection of the U.S. Embassy our diplomatic personnel and for limited operations targeting foreign jihadists, I mean is it—I mean you must have cost estimates for the redeployment, you know, of all other U.S. troops from Iraq over a period of time. Do you have cost estimates for the redeployment

over six months or nine months or 12 months? Is that something that——

Mr. ENGLAND. No, sir, I don't.

Mr. MCGOVERN. Well, you know, what is a little bit disturbing is the fact that Congress, the House of Representatives have on record as voting for a time line. The Senate, if they ever get allowed to vote, would probably the majority would probably vote for the same thing.

I guess what I would like to ask, and I am not sure the proper way to request this, is that if you could give this Committee the estimates of the cost of the redeployment of U.S. forces over a period of six, nine, and 12 months. Is that something that you could provide the Committee?

Mr. ENGLAND. I would say, Mr. McGovern, you can only provide it if you understand all the guidelines that go into that. So there is a whole lot of considerations in terms of equipment. I mean so you could construct such a scenario.

Mr. MCGOVERN. I think that would be helpful to us given the fact that a majority of the House of Representatives is on record asking for a time line. And I am not sure what the situation is going to be in September, but it is conceivable that a majority in this House will vote again for a time line. And it is conceivable that the United States Senate will. And that, you know, a bill will be moved to President.

And I guess I would like to, you know, ask the Chairman or whatever the proper way to do this is, is if you could provide this Committee within the next 30 days so when we come back in September that we have some basic outlines of what in fact, you know, the cost of redeployment would be. I mean Senators Warner and Lugar, also two republicans have set out a set of guidelines that cost—that call for a date certain.

But I think it is important for us to know what we are talking about in terms of cost. Just as you, you know, kind of guestimate what in fact it might be to stay for a month or two months or three months or four months or a year. I think we would like to know what it would cost actually, you know, to bring our troops home with a caveat that obviously we would want to protect our the people at our Embassy and have a force there to respond to al-Qaida or any other threats.

And so if we could make that formal request here, and if you could get us something in the next 30 days that would be very much appreciated.

Mr. ENGLAND. So, Mr. McGovern, so let me just say, I do understand the request. And so I understand your request and I—and so I accept the request.

[The information follows:]

I provided the response to this Insert for the record directly to Representative McGovern's office, dated September 5, 2007.

Mr. MCGOVERN. All right. Thank you. One other issue here, and that is you know according to the October 2006 report of the Special Inspector General for Iraq reconstruction, only about 10,000 of the 370,000 smaller arms delivered through U.S. assistance had their serial numbers recorded. And I think there is slide on the bottom on the bottom of page five that deals with this.

Some of these arms and equipment have been discovered in the possession of sectarian militias, others have turned up on the black market. There have also been several recent articles as well as testimony before Congress that raise concerns about the reliability and loyalty of Iraq security forces. One article in the New York Times described how uniformed security forces equipped with U.S. arms have even attacked and ambushed U.S. military forces.

Now I read that U.S. military commanders are now pushing the strategy to create local militia groups to provide security who might or might not be hired at a later point by the Iraqi government. And these forces would be paid with, "U.S. emergency funds, reward payments, and other monies," according to a July 28 Washington Post article.

I guess my question is what emergency or other funds are being used to pay for these forces? Is this coming out of the Commanders Emergency Response Program monies?

General SATTLER. The movement that they are talking about, sir, is mainly out in Al Ambar Province where the Sheiks——

Mr. MCGOVERN. Right.

General SATTLER [continuing]. Have come forward and due to the brutality and intimidation of the al-Qaida they have basically worn our their welcome. So that the Sheiks have come forward, partnered with the commanders on the ground to go ahead and build local—to go ahead and take local security forces or under the tribal command and partner with. I am not I cannot—I do not know for a fact where the funds whether it is CERP funds or what type funds are being used initially to go ahead and pay those forces, but——

[The information follows:]

[DELETED]

Mr. MCGOVERN. If you could provide us that information as well, because CERP funds as I—is supposed to respond to "urgent humanitarian reconstruction needs." And I am I guess there is some concern about having those funds be, you know, directed to supporting militias.

And just this is the final thing, is how can we be assured that the funds, equipment, and arms that we are providing the Iraqi military police and security forces are not being used against U.S. troops in the field or in sectarian attacks against various Iraqi groups and communities as, you know, we have seen a number of reports that have appeared in the press about that. And I guess, you know, how do we ensure that, that is not the case in the future?

General SATTLER. Well, obviously, the commanders on the ground do the best they can do go ahead and vet those who would come forward to part of these security elements just like we do when we recruit them to send them to formal military training or to police academy, sir. So and they are in the process now of they are taking the fingerprints and they are putting them in that system so that we have a record of those individuals who step forward to become part of these security forces.

Mr. MCGOVERN. But clearly there is—there seems to be a problem when we have Iraqi—U.S. trained Iraqi security forces in some

cases attacking U.S. military and in some cases, in many cases, attacking Iraqi civilians.

So, obviously, something is not working the way we want it to. And I guess, and I know I am running out of time, but maybe you could provide us some sort of a statement as to, in fact, what is going on to try to deal with this situation more effectively.

Mr. ENGLAND. Mr. McGovern, we will try to actually categorize this in terms of scope and size. Obviously, Iraq, I mean there is a lot of security forces, a lot of capability. And so I don't know if this is just aberrant small group or how big this problem is. So we will try to characterize for you and also answer your questions.

Mr. MCGOVERN. Appreciate it. Thank you very much.

Chairman SPRATT. We have three votes coming up; a 15- minute vote followed by two 5-minute votes. I will ride the clock down to about three minutes, have 13 minutes left for the vote. We will go to Mr. Diaz-Balart and then we will come back to Mr. Scott and we will do the best we can. But Mr. Secretary England has to leave by 12 o'clock so there is no way we can make it back to see him. I am sorry for the members who will miss it.

For those who did not get to ask questions, we will put you in the front of the line for the next panel.

Mr. ENGLAND. Is there a next time, Mr. Chairman?

[Laughter.]

Chairman SPRATT. Mr. Diaz-Balart.

Mr. DIAZ-BALART. Thank you, Mr. Chairman. Gentleman, there is let me ask, is there any doubt that al-Qaida now is in Iraq? Or we are fighting al-Qaida in Iraq?

Mr. ENGLAND. There is no question there is al-Qaida in Iraq.

Mr. DIAZ-BALART. And again there is no question?

Mr. ENGLAND. There is no question. We know al-Qaida is in Iraq. I mean al-Qaida is firmly implanted in Iraq.

Mr. DIAZ-BALART. And—because I keep hearing and reading about the civil war, but the so called civil war, but if al-Qaida is in Iraq, again I am not the smartest guy in the world, so I am going to have to ask you again. We are sure that al-Qaida is in Iraq. We are fighting al-Qaida in Iraq and we are now—and the Iraqis are also now helping us fight al-Qaida in Iraq?

Mr. ENGLAND. They certainly are, at least in a lot of those provinces and a lot of those areas. And, General, I will let you speak, you are closer to military. But I mean every time just the last time I was there I mean that was that was the discussion about al-Qaida elements and everything you read, I mean every report, every Intel report, newspapers, everything is al-Qaida in Iraq.

Mr. DIAZ-BALART. This would be the same al-Qaida that when there was a vacuum in Afghanistan attack the United States. My question is then, if we don't fight al-Qaida there, is there any indication that they will just put down their arms and become farmers?

Mr. ENGLAND. I thought the last commander in Iraq said it well, and that is, if we withdraw from Iraq they will follow us back to the United States.

I mean look this is the fundamental question facing America. And that fundamental question is, how do you better protect and defend America? There are those of us who believe you want to be on the offense and you don't want them to be on the offense. You

always want al-Qaida on the defense. And, frankly, so far it seems to work for America. We have avoided an attack.

I think a large part of that is we have managed to keep al-Qaida on the defensive while we have been on the offense. I frankly believe it is not possible to protect and defend America inside America. I mean you do have to be on the offense otherwise we can obviously suffer our own chaos in this country.

Mr. DIAZ-BALART. Mr. Secretary, and if we were prematurely leave Iraq, in your opinion or is there any indication that al-Qaida would not, for example, then move to Afghanistan and try to fight the coalition forces there? Or would Afghanistan be perfectly safe regardless of us leaving al-Qaida alone in Iraq?

Mr. ENGLAND. I think the whole concern in the Middle East and of course the Secretary is in the Middle East this week with the—with Ambassador Rice to discuss the broad issues in Middle East, because our presence in the Middle East is obviously very important for stability and security there and that of course that translates to lots of other places in the world including the United States of America.

Mr. SCOTT. Thank you. Mr. Secretary, it is good to see you today and just to follow up, the just question you got, has our presence in Iraq increased or decreased the presence of al-Qaida in Iraq?

Mr. ENGLAND. In judgement, al-Qaida is al-Qaida. I mean they have a world wide ambition.

Mr. SCOTT. Has our presence—has our presence in Iraq increased or decreased the al-Qaida's presence in Iraq? You said al-Qaida is in Iraq.

Mr. ENGLAND. Yes.

Mr. SCOTT. Has our presence in Iraq increased or decreased al-Qaida's presence in Iraq?

Mr. ENGLAND. I hope we have drawn more al-Qaida in Iraq so frankly we can fight them and dispose of them.

Mr. SCOTT. The more al-Qaida in Iraq after we got there?

Mr. ENGLAND. I don't know. My comment was I hope, sir, that more of them are there rather than here so we can fight them.

Mr. SCOTT. We were told by the CIA that Iraq posed no terrorist threat to the United States and was not expected to pose a terrorist threat unless we attack them.

Mr. ENGLAND. Pardon me? Repeat your statement.

Mr. SCOTT. The CIA wrote a letter to the Senate Intelligence Committee indicating that in their opinion, it is in the Congressional Record, that Iraq posed no terrorist threat in their opinion to the United States before we attacked. And that an attack would increase the terrorist threat.

Let me ask you another question. You are familiar with the articles written over the weekend from the Washington Post and New York Times talking about wastes in the contracts. The headlines——

Mr. ENGLAND. I mean I have seen various articles.

Mr. SCOTT. Okay. Could you provide us for the record your response to those articles?

Mr. ENGLAND. Response to the articles?

Mr. SCOTT. Right.

Mr. ENGLAND. I normally don't respond to articles in the Washington Post, but I mean I don't know what you mean.

Mr. SCOTT. Are the articles true?

Mr. ENGLAND. We will provide you if you would like the actions taken, you know, to prevent waste, fraud and abuse and to convict people who do, you know, who break the law in that arena.

So I have commented in that regard that we do have lots of processes in place and we will be happy to provide that to you. And also the record of people that have been convicted to date uncovered by our processes that we utilize every day.

Mr. SCOTT. Okay. Are you satisfied with the budget for mental health services for our troops and veterans?

Mr. ENGLAND. There was an addition of $900 million which has being used now for both mental health and for TBI. And there is a group under way under the Chairmanship of myself and Gordon Mansfield who is the Deputy of Veterans' Affairs. So there is a group looking at this and we will be making recommendations in this area before the end of the year.

Mr. SCOTT. Thank you. In response to the question from the Ranking Member, you didn't answer because of security concerns about the vehicles and whether or not they are have certain capabilities. Has Congress provided enough funding to make sure that these vehicles are in fact the state of the art? There are a lot of published reports that suggest that if we had had better equipment early on that some of the troops might not have died.

Have we—has Congress provided enough money to get the state of the art vehicles?

Mr. ENGLAND. I would say that Congress has been very responsive to our request, Mr. Scott. And again more broadly I would rather talk to you off line in terms of what those capabilities are. But I can say this: the Congress has been very responsive to our request for special vehicles for our troops in Iraq and Afghanistan.

Mr. SCOTT. Okay. And I guess finally I wanted to question on the surge. We are seeing charts that plot out what it would cost if the surge last 24 months, or if lasts four months. What was the estimate when we started the surge of how long the surge would last?

Mr. ENGLAND. Again, we cost it. I am not sure we knew how long it would last, but we cost it until the end of this fiscal year. So at the beginning of the surge we costed the surge until the end of this fiscal year. And I don't recall there was a discussion of how long it would last. I just know there was a discussion of how much we would fund.

Mr. SCOTT. Is it unrealistic to think that we could in the foreseeable future, that is within ten years, get under 75,000 troops?

Mr. ENGLAND. Mr. Scott, again I don't know. It depends on what everybody's assumptions are. So if that is again, I think we need to wait until, you know, an assessment is made in terms of going forward in Iraq.

Mr. SCOTT. If we surge as far as 24—keep the surge numbers the deployment numbers up to where they are for 24 months, Senator Webb has a bill to limit the troop deployment to a reasonable length and frequency. What would a 24 month surge do in terms of troop deployment to an individual troop in terms of length of deployment and frequency of deployment?

Mr. ENGLAND. General, do you know?

[The information follows:]

The Secretary of Defense's current policy is that active Army forces will deploy according to a 15:12 deployment-to-dwell ratio. That is, active Army forces will deploy to USCENTCOM for no longer than 15 months and will spend no less than 12 months at home before deploying again. As such, our current deployment and rotational plans for active Army forces deployed to USCENTCOM are at or below a 1:1 deployment-to-dwell ratio. If the current USCENTCOM surge was to last for a total of 24 months, and assuming there are no other changes in global requirements, the deployment-to-dwell ratio for forces deployed to USCENTCOM will continue to decrease. Our forces will deploy for longer and/or deploy more frequently (thereby reducing dwell). It is difficult to provide the exact ratios without an in-depth study of different options to satisfy a particular scenario. As always, the intent would be to balance readiness and the increased stress on the force, to ensure our forces always remain ready and capable of fighting, and winning our Nation's wars.

General SATTLER. Sir, we will have to take that also to question and respond to you. To take a look at what continuing surge for 24 months would mean as far as dwell time, deployed time for the forces. We will have to take that on, sir.

Mr. ENGLAND. Yes, we will. We will respond to the record, sir.

Chairman SPRATT. We will have to call that a morning. Thank you very much for your forthright testimony. We appreciate you coming here once again and your cooperation with us.

The questions for the record that were asked. To Mr. Etheridge, you had one question you want to ask?

Mr. ETHERIDGE. Just permission, Mr. Chairman.

Chairman SPRATT. Go ahead. One more.

Mr. ETHERIDGE. For those of us who didn't get to ask question to send written request to the Secretary for him to respond?

Mr. ENGLAND. Absolutely. Yes, sir. If you will send them, we will try to promptly respond.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Chairman SPRATT. Thank you very much. And we very much appreciate it. And to our second panel, we have got one vote followed by two votes and we will be back as quickly as we possibly can. We very much appreciate you forbearance.

Mr. ENGLAND. Mr. Chairman, thank you very much.

Chairman SPRATT. The Committee stands in recess until pending the three votes that are now occurring on the House floor.

[Recess.]

Chairman SPRATT. We come now to our second panel which consists of Dr. Robert Sunshine, who is the Assistant Director for Budget and Analysis at CBO; Stuart Bowen who is the Special Inspector General and Senior Transition Advisor, State Department; the Honorable Joseph Saloom who is the Ambassador of the United States and also his is the Senior Transition Advisor, U.S. Department of State. Of course Stuart Bowen is the IG at the Pentagon or State? Which? Both? Okay. And the Honorable John A. Gastright, Jr., who is the Deputy Assistant Secretary for South and Central Asian Affairs in the Department of State.

Please bear with me with this cold. Yesterday I couldn't hear. Today I can't talk. I am—we are delighted to have all of you and we look forward to your testimony. And as with all witnesses we will make yours part of the record, your testimony, your written testimony so that you can summarize it as you see fit.

And we will start with Dr. Sunshine.

STATEMENTS OF ROBERT SUNSHINE, ASSISTANT DIRECTOR FOR BUDGET ANALYSIS, CONGRESSIONAL BUDGET OFFICE; STUART BOWEN, JR., SPECIAL INSPECTOR FOR IRAQ RECONSTRUCTION; HONORABLE JOSEPH SALOOM, AMBASSADOR OF THE UNITED STATES AND SENIOR TRANSITION ADVISOR, U.S. DEPARTMENT OF STATE; HONORABLE JOHN A. GASTRIGHT, JR., DEPUTY ASSISTANT SECRETARY FOR SOUTH AND CENTRAL ASIA AFFAIRS, U.S. DEPARTMENT OF STATE

STATEMENT OF ROBERT SUNSHINE

Mr. SUNSHINE. Thank you, Mr. Chairman. Mr. Chairman and Congressman Ryan, I appreciate the opportunity to appear before you today to discuss the cost of the U.S. operations in Iraq and Afghanistan and the war on terrorism. My testimony will address three questions. First, how mush is the U.S. spending on these operations and activities

Mr. RYAN. Can you pull the mic closer?

Mr. SUNSHINE. It is on? Yeah. Okay. First, how much is the U.S. spending on these operations and activities related to them. Second, what might be the cost of the recent increase in the number of troops deployed to the Iraq theater. And third, looking out over the next ten years, what might be the budgetary impact of U.S. operations in the war on terrorism under several different assumptions.

First, the big picture. CBO estimates that since September 2001 the Congress has appropriated $602 billion for military operations and other activities related to the war on terrorism. In addition, we estimate that the Department of Veterans' Affairs has spent another two billion for war- related care and benefits, bringing total funding to date to about $604 billion. That figure differs only slightly from a CRS figure of $610 billion. There are a number of judgements that both agencies have to make in doing this calculation and we differ only a little in how we make those judgements.

Specific appropriations which average $93 billion a year from 2003 to 2005 have now risen to $120 billion in 2006 and $170 billion in 2007. Most of the appropriations about $563 billion have been allocated for military operations and other defense related activities including funding for Afghan and Iraqi security forces. The Defense Department's 2007 appropriation for these purposes, $165 billion accounts for more than a quarter of its budget for the year. The Department has reported obligations for fiscal year 2007 that average almost $11 billion a month for expenses related to its operations in Iraq and Afghanistan and for other activities related to the war on terrorism.

Most of that sum, more than $9 billion a month is related to operations in Iraq. We estimate that in fiscal year 2007 the U.S. will spend about $120 billion for its operations in Iraq and elsewhere in the war on terrorism. These figures include cost for the State Department and intelligence agencies. That means that we are now spending on these activities more than ten percent of all the government's annually appropriated funds.

As for the recent increase in force levels, last year the Defense Department announced plans to deploy 15 army brigades and marine regiments in the Iraq theater. Comparing current force levels to what we thought we would have anticipated under those plans, CBO estimates that an additional 30 to 40,000 personnel from the four military services have been deployed on the ground in the Iraq theater. If that increase is sustained for four months, we estimate that added costs will come to about ten billion dollars. If it remains in place for a year, those additional costs will reach $22 billion.

Looking farther out, CBO has projected costs through 2017 for all activities associated with operations in Iraq, Afghanistan, and the war on terrorism on the basis of two long term scenarios requested by the Chairman.

One assumes that the number of deployed troops declines to 30,000 by 2010 and remains at that level for several years. That scenario produces out year costs of about $30 billion a year. The other assumes a higher long term commitment of 75,000 troops. That scenario results in out year costs of around $65 billion to $70 billion a year. Those costs are shown in tables five, six, and seven in my prepared statement

Because detailed operational statistics are not available, and because the nature of wartime operations is difficult to predict in any event, these estimates are rough approximations based on current funding and force levels. Costs in the next few years would be higher, how much higher would depend on the duration of the recent increase in force levels and the rapidity with which troops are withdrawn. Under the scenarios we assessed funding required for fiscal year 2008 might be in the range of $140 billion to $170 billion dollars. For 2009 the range is much bigger, from about $90 billion to $170 billion.

Than concludes my statement, Mr. Chairman. And I would be happy to answer any questions.

[The prepared statement of Robert Sunshine follows:]

CBO TESTIMONY

Statement of
Robert A. Sunshine
Assistant Director for Budget Analysis

Estimated Costs of U.S. Operations in Iraq and Afghanistan and of Other Activities Related to the War on Terrorism

before the
Committee on the Budget
U.S. House of Representatives

July 31, 2007

This document is embargoed until it is delivered at 10:00 a.m. (EDT) on Tuesday, July 31, 2007. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.

CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

Mr. Chairman, Congressman Ryan, and Members of the Committee, I appreciate the invitation to appear before you today to discuss the costs of U.S. operations in Iraq and Afghanistan and the government's activities related to the broader war on terrorism. My testimony will focus on appropriations and obligations to date, the potential costs of the recent increase in the number of troops in the Iraq theater, and the projected long-term costs of the war on terrorism under several different scenarios.

Summary

At the request of the Chairman of this Committee, the Congressional Budget Office (CBO) has tabulated the funding provided through July 2007 for military and diplomatic operations in Iraq and Afghanistan, and for other activities related to the war on terrorism, as well as for related costs incurred by the Department of Veterans Affairs (VA) for medical care, disability compensation, and survivors' benefits. CBO has also estimated the budgetary resources needed to finance the recent increase in the number of troops deployed to Iraq and has projected the total cost over the next 10 years of funding operations in support of the war on terrorism under scenarios specified by the Chairman.

Funding to Date

Since September 2001, the Congress has appropriated $602 billion for military operations and other activities related to Iraq, Afghanistan, and the war on terrorism. In addition, although not explicitly appropriated for that purpose, an estimated $2 billion has been spent by the VA for war-related benefits. Specific appropriations, which averaged about $93 billion a year from 2003 through 2005, have risen to $120 billion in 2006 and $170 billion in 2007.

According to CBO's estimates, about $533 billion of the appropriated sums has been allocated for U.S. military operations and other activities carried out by the Department of Defense (DoD). The department's 2007 appropriation for those purposes—$165 billion—accounts for more than a quarter of its budget for the year. The Defense Department is currently obligating an average of almost $11 billion a month for expenses related to its operations in Iraq and Afghanistan and for other activities related to the war on terrorism. Most of that sum (more than $9 billion per month) is related to operations in Iraq.

Of the $602 billion in total appropriations, approximately $30 billion has been provided to establish, train, and equip indigenous security forces in Iraq and Afghanistan, and about $39 billion has been appropriated for reconstruction and relief efforts, diplomatic and consular operations, embassy construction, economic support, and foreign aid. Including both specific appropriations and other costs incurred by the VA, a total of almost $3 billion has been provided for medical care and other VA programs to assist former service members affected by their participation in operations related to the war on terrorism.

Cost of the Increase in Force Levels
CBO projected the cost of the recent increase in the number of troops deployed to Iraq and also estimated the total amount of funding that would be required through 2017 to sustain U.S. forces in Iraq, Afghanistan, and other locations involved in the war on terrorism. Compared with DoD's previously announced plans for 2007, CBO estimates that an additional 30,000 to 40,000 personnel from the four military services have been deployed on the ground in the Iraq theater. Those additional troops will cost about $10 billion, $22 billion, or $40 billion, respectively, depending on whether that increase is sustained for four months, 12 months, or 24 months.

Projected Costs over 10 Years
In addition, CBO projected the costs through 2017 of all activities associated with operations in Iraq, Afghanistan, and the war on terrorism on the basis of two scenarios provided by Chairman Spratt. Because the Defense Department does not report detailed operational statistics, these estimates are rough approximations based on current funding and force levels.

In the first scenario, the number of personnel deployed on the ground for the war on terrorism would be reduced from the 2007 average of about 210,000 to 30,000 by the beginning of 2010 and then remain at that level through 2017.[1] CBO estimates that the cost to the U.S. government under this scenario would range from $481 billion to $603 billion over the 2008–2017 period, depending on how long the current personnel level in Iraq is sustained (see Table 1 on page 11).

In the second scenario, the number of personnel deployed to Iraq and other locations associated with the war on terrorism would decline more gradually, from an average of 210,000 in 2007 to 75,000 by the start of 2013 and then remain at that level through 2017. CBO estimates that total costs to the government under this scenario would range from $924 billion to $1,010 billion over the 2008–2017 period, again depending on how long the current personnel level in Iraq is sustained.

Estimated Funding Provided to Date

Since September 2001, lawmakers have provided $602 billion in budget authority specifically for military and diplomatic operations in Iraq, Afghanistan, and other regions in support of the war on terrorism, and for veterans' benefits and services (see Table 2 on page 12). Of that amount, about 70 percent has been allocated for the war in Iraq, CBO estimates.

1. Those personnel numbers exclude approximately 15,000 Navy personnel deployed aboard ships. CBO assumes that most of those personnel would be at sea as part of the Navy's traditional mission to project forces around the world.

Funding for military operations and other defense activities totals $533 billion thus far, most of which has gone to the Department of Defense. In addition, lawmakers provided $30 billion during the 2004–2007 period to train and equip indigenous security forces in Iraq and Afghanistan.[2] Including the $30 billion allocated for indigenous security forces, a total of $563 billion has been appropriated since September 2001 for defense-related activities in Iraq and Afghanistan and for the war on terrorism.

In addition to funding provided for defense activities since 2001, lawmakers have appropriated just over $39 billion for diplomatic operations and foreign aid to Iraq, Afghanistan, and other countries that are assisting the United States in the war on terrorism. Of that amount, $16 billion was appropriated for the Iraq Relief and Reconstruction Fund.

Those totals include much of the $120 billion in funding provided in the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007 (Public Law 110-28), which was enacted in May. Of the total amount appropriated in that act, approximately $100 billion was allocated for military and diplomatic operations and veterans' benefits related to the war in Iraq and Afghanistan, and for other activities tied to the war on terrorism.[3]

Because most appropriations for operations in Iraq and Afghanistan and for other activities related to the war on terrorism appear in the same budget accounts that record appropriations for other DoD activities, determining how much has actually been spent is difficult. However, CBO estimates that appropriations for defense-related activities in Iraq, Afghanistan, and the war on terrorism resulted in outlays of about $315 billion through fiscal year 2006. Of that amount, about $95 billion was spent in fiscal year 2006—approximately $8 billion a month. CBO projects that outlays for war-related defense activities will total roughly $115 billion in 2007—an average of between $9 billion and $10 billion a month. Of the funds appropriated for war-related international affairs activities, close to $25 billion was spent through 2006, CBO estimates, and another $5 billion will be spent in 2007.

In addition to the amounts specifically appropriated for war-related activities, CBO estimates that over the 2001-2007 period, the Department of Veterans Affairs has spent about $2 billion on assistance to, and treatment of, service members, veterans, and their families as a result of operations in Iraq and Afghanistan. Those costs cover medical care provided at VA facilities, disability compensation paid to

2. The $30 billion includes $5 billion provided for Iraqi security forces in 2004 in an appropriation for the Department of State's Iraq Relief and Reconstruction Fund.

3. Another $7.5 billion was appropriated for the departments of Defense, State, and Veterans Affairs for activities unrelated to the war on terrorism; the remaining $12.5 billion supported the activities of other federal agencies.

veterans with service-connected disabilities, and dependency and indemnity compensation benefits paid to survivors of service members.[4]

The Administration's Budget Request for Fiscal Year 2008

The President's budget proposal for 2008 includes a request for another $137 billion for military operations, $5 billion for indigenous security forces, and $3 billion for diplomatic operations and foreign aid. If the requested amounts are appropriated, the total amount of funding provided since 2001 for all operations in the war on terrorism would reach $747 billion. The Department of Defense has stated that its request is preliminary and that it may request additional funds during that year.

Estimated Cost of the Increased Number of Personnel Deployed in Iraq

In January 2007, the President announced his plan to increase the number of Army and Marine Corps troops deployed to the Iraq theater. That increase has been accomplished largely by deploying troops sooner than was previously planned and by extending the deployment of forces already in that theater of operations.

Identifying the exact amount of the increase in deployed U.S. forces is difficult—partly because the number of troops in the Iraq theater varies continually as units are deployed and other units leave, and partly because the number of troops that would have been in the Iraq theater under DoD's earlier plan is unclear.

Data obtained from the Department of Defense indicate that approximately 155,000 Army soldiers and Marines were deployed in the Iraq theater in June 2007, compared with the 125,000 to 130,000 that CBO estimates would have been deployed under the plans that DoD announced prior to December 2006. (CBO assumes that, under those plans, force levels in 2007 would have been similar to those in June 2006. The department had previously anticipated having 15 Army brigades and Marine regiments in Iraq in 2007; there are now 20.) Additionally, DoD indicated early last year that it would begin to rely more on the Navy and Air Force to provide combat and support personnel in that theater of operations

4. This estimate does not include the costs of disability retirement pay, disability severance pay, or Survivor Benefit Plan payments provided by DoD, most of which would be offset by VA benefits. Nor does it include payments from the Servicemembers' Group Life Insurance or Traumatic Servicemembers' Group Life Insurance programs. The additional costs incurred by those insurance programs for claims related to operations in Iraq and Afghanistan are paid by DoD and have been included in the estimate of funding for defense activities.

because of the demands that had been placed on the Army.[5] About 35,000 Navy and Air Force personnel were on the ground in the Iraq theater in June 2007, compared with the 25,000 to 30,000 who were there in 2006. In total, the number of troops from the four military services deployed on the ground in Iraq has grown to almost 190,000—an increase of between 30,000 and 40,000 personnel relative to the size of the ground forces that CBO would have anticipated under DoD's earlier plans.

The cost to deploy those additional forces will vary depending on how long DoD sustains the higher force levels. As requested by the Chairman, CBO has estimated the costs for three alternative cases, which assume that the personnel increase is sustained for four months, 12 months, or 24 months, respectively.

CBO based its estimate on appropriations provided in 2007 for military operations in Iraq and Afghanistan, and for the war on terrorism—a total of $152 billion—and subtracted from that amount the costs of activities not related to the conflict in Iraq and Afghanistan or not likely to vary significantly as a result of changes in the number of deployed troops. Of the funds provided in 2007 for personnel and personnel support, equipment repair and replacement, operating support, and transportation, CBO estimates that, in total, $100 billion was related to the size of the deployed forces. CBO projected costs for operations in Iraq in future years on the basis of changes to that force level that would occur under the three cases specified above. Most costs would be incurred during the deployment, but some would arise from restoring or replacing worn or damaged equipment and could extend beyond the end of the deployment by a year or more.

In the first case, current force levels—totaling about 190,000 on the ground in the Iraq theater—would be sustained for four months (at a cost of about $1.5 billion a month) and then decline over a four-month period, beginning in October 2007, to about 155,000. The increase in costs in that case would total $10 billion over fiscal years 2007–2009, CBO estimates (see Table 3 on page 13).

In the second case, current force levels would be sustained for 12 months and then decline to about 155,000 over a four-month period, beginning in June 2008. Increased costs in that case would amount to an estimated $22 billion over the 2007–2009 period.

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5. See Mike Mount, "Navy to Increase Numbers Inside Iraq" (CNN news report posted on February 7, 2006), available at www.cnn.com/2006/US/02/07/iraq.navy/. That report states: "In a briefing to Pentagon reporters Adm. Michael G. Mullen, the Chief of Naval Operations, said the Navy will start playing a bigger role in Iraq by adding to the 4,000 sailors already operating in the country." See also Christian Lowe, "Air Force Might Cut Pay for Surge" (April 25, 2007), available at www.military.com/NewsContent/0,13319,133428,00.html?ESRC=airforce-a.nl. In that report, the Air Force Chief of Staff states: "About 20,000 Air Force personnel have filled shortfalls in the ground services' manning—dubbed 'in lieu of taskings'—including convoy and base security operations and even detainee handling jobs."

In the third case, current force levels would be sustained for 24 months and then decline to about 155,000 over a four-month period, beginning in June 2009. Incremental costs in that case would total $40 billion over the 2007–2010 period, CBO estimates.

Estimated Future Funding Requirements

CBO has estimated the future funding requirements for operations in Iraq and Afghanistan, and for other activities related to the war on terrorism, under two broad, illustrative scenarios specified by Congressman Spratt. In each scenario, CBO considered three cases that incorporate different assumptions regarding the length of time the increase in forces in Iraq would be sustained. Under the first scenario, the number of deployed troops would decline from an average of approximately 210,000 active-duty, Reserve, and National Guard personnel on the ground in fiscal year 2007 to 30,000 in 2010 and would remain at that level over the 2010–2017 period, though not necessarily in Iraq and Afghanistan. In the second scenario, the number of deployed troops would decline more gradually over a six-year period, until 75,000 remained overseas in 2013 and each year thereafter (see Table 4 on page 14). CBO estimated the costs for both scenarios under the assumption that the current force level in Iraq would be sustained for periods of four, 12, or 24 months, for a total of six projections of funding for military operations.

Costs for Military Operations

The funding required for military operations over the 2008–2017 period would be different for each scenario. However, the number of personnel deployed in 2007 is the same in each projection, and CBO estimates that the $145 billion that the Congress provided for military operations in 2007 will be sufficient to cover the costs in that year.[6]

Scenario One: The Number of Deployed Troops Is Reduced to 30,000 by 2010. If the current personnel level in Iraq was sustained for four months, total deployed forces would begin to decline in October 2007. CBO assumes that the number of troops on the ground would drop to 180,000 in 2008 and then decline to approxi-

6. The Administration plans to increase the size of the active-duty Army to 547,400 personnel, the Marine Corps to 202,000 personnel, and the Army Reserve and National Guard to 564,200 over the next five years. The Congress provided an additional $7 billion in 2007 for that purpose, for a total of $152 billion for war-related military operations and defense activities in 2007. CBO estimates that another $162 billion will be required to increase the number of Army and Marine Corps personnel over the 2008–2017 period. The Administration has stated that the planned increase is not strictly linked to the deployment of personnel to Iraq and Afghanistan but is needed to improve military capabilities in general. Thus, CBO excludes funding for that purpose from the cost of the scenarios described in this statement. For additional information, see Congressional Budget Office, *Estimated Cost of the Administration's Proposal to Increase the Army's and the Marine Corps's Personnel Levels* (April 16, 2007).

mately 100,000, on average, during 2009. At the beginning of 2010, 30,000 personnel would remain deployed. Such a case would require $406 billion in funding over the 2008–2017 period, CBO estimates (see Table 5 on page 15).

Alternatively, if the current personnel level in Iraq was sustained for 12 months but then began to decline in June 2008, the total number of deployed troops would average 210,000 on the ground in 2008. Under this scenario, CBO assumes that the number would then decline to approximately 100,000 personnel, on average, during 2009 and then to 30,000 at the beginning of 2010. This case would require $440 billion in funding over the 2008–2017 period, CBO estimates.

If the current personnel level in Iraq was sustained for 24 months, however, and then began to decline in June of 2009, the total number of troops deployed to that theater would increase to an average of 220,000 on the ground in 2008, before declining to an average of 190,000 in 2009. CBO assumes that the remaining forces would be withdrawn rapidly during the last quarter of fiscal year 2009 until 30,000 remained deployed at the beginning of 2010. That case would require an estimated $528 billion in funding over the 2008–2017 period. (It is not clear whether DoD could withdraw 190,000 troops over a three-month period or whether such a rapid withdrawal would entail additional costs. A larger force was withdrawn over a period of several months following the liberation of Kuwait in 1991, but that force did not penetrate as far from major ports and airfields in Kuwait and Saudi Arabia and began withdrawing within a few months after combat operations ended, before durable positions were established.)

Scenario Two: The Number of Deployed Troops Is Reduced to 75,000 by 2013. Under this scenario, if the current personnel level in Iraq was sustained for four months, total deployed forces would begin to decline in October 2007 to an average of 180,000 on the ground in 2008. Troop levels would decline slightly in 2009, to approximately 175,000, and then drop more rapidly thereafter until 75,000 remained deployed at the beginning of 2013. That case would require $845 billion in funding over the 2008–2017 period, CBO estimates.

Alternatively, if the current personnel level in Iraq was sustained for 12 months and then began to decline in June of 2008, total deployed forces would average 210,000 on the ground in 2008 and then decline to an average of 175,000 in 2009. Troop levels would decline steadily each year thereafter until 75,000 remained deployed at the beginning of 2013. Such a case would require $879 billion in funding over the 2008–2017 period, CBO estimates.

Finally, if the current personnel level in Iraq was sustained for 24 months and began to decline in June of 2009, total deployed forces would increase to an average of 220,000 on the ground in 2008 and then decline to approximately 210,000 in 2009. That number would be further reduced to 165,000 in 2010, followed by additional reductions in subsequent years until 75,000 remained at the beginning

of 2013. CBO estimates that such a case would require $931 billion in funding over the 2008–2017 period.

Costs for Indigenous Security Forces

In developing its estimates, CBO assumed that the cost to train and equip indigenous security forces in Iraq and Afghanistan would be approximately the same under either scenario. To fund that effort, the Administration requested, and the Congress provided, $13 billion in 2007—a significant increase over the $5 billion appropriated in 2006 (see Table 6 on page 16). The Administration stated that the additional funding would enable those countries to field capable police and military forces sooner and that it anticipates less funding will be needed in 2008. On the basis of funding requested for 2008, CBO estimates that DoD would require about $50 billion over the 2008–2017 period to continue training and equipping indigenous security forces in Iraq and Afghanistan.

Costs for Diplomatic Operations and Foreign Aid

CBO projected the future costs of diplomatic operations and foreign aid in Iraq and Afghanistan on the basis of the amounts provided for those activities in 2007. For that year, the Congress appropriated just over $5 billion to fund diplomatic operations, assist local governments, and promote economic development. For these two scenarios, CBO estimates that costs for diplomatic operations and foreign aid would total about $4 billion for fiscal year 2008 and $16 billion over the 2008–2017 period.

CBO does not include in this estimate the cost of routine diplomatic operations after 2010 but anticipates that additional security costs of roughly a billion dollars each year will be incurred throughout the period covered by this analysis. (Those costs will depend heavily on future political and military developments in Iraq and Afghanistan.) We also expect that the United States will continue to provide foreign assistance to both countries during this period and beyond. Because the United States provides substantial amounts of foreign assistance to countries around the world in its conduct of foreign policy, however, CBO's estimates for this analysis do not include such assistance after 2010.

Spending by the Department of Veterans Affairs for Medical Care, Disability Compensation, and Survivors' Benefits

CBO estimated spending for medical care, disability compensation, and survivors' benefits on the basis of casualty rates for veterans of operations in Iraq and Afghanistan over the 2003–2006 period. Almost $1 billion in supplemental appropriations was provided to the VA in 2007 for medical administration costs, medical and prosthetics research, medical services for veterans of those operations, and other related purposes. In addition, CBO estimates that the VA will spend another $0.7 billion in 2007 for medical care and disability compensation for veterans of operations in Iraq and Afghanistan, as well as for compensation for survivors of service members who die in those operations.

Under the first scenario, in which the number of deployed troops declines to 30,000 by 2010, the VA would spend more than $9 billion over the 2008–2017 period on medical care, disability compensation, and survivors' benefits. Alternatively, if deployed forces declined to 75,000 by 2013, as in the second scenario, the VA would spend almost $13 billion for those purposes, CBO estimates (see Table 7 on page 16). The costs of those two scenarios would not vary substantially with changes in the number of months that deployed forces were maintained at the current level before troop levels began to decline.

Table 1.

Estimated Funding for U.S. Operations in Iraq and Afghanistan and for the War on Terrorism Under Two Scenarios

(Billions of dollars)

	Funding to Date, 2001–2007	Projected Funding, 2008–2017
Scenario One: The Number of Deployed Troops Is Reduced to 30,000 by 2010		
Military Operations and Other Defense Activities[a]	533[b]	406–528[c]
Indigenous Security Forces	30	50
Diplomatic Operations and Foreign Aid	39	16
Veterans' Benefits and Services[d]	3	9
Total	604	481–603
Scenario Two: The Number of Deployed Troops Is Reduced to 75,000 by 2013		
Military Operations and Other Defense Activities[a]	533[b]	845-931[c]
Indigenous Security Forces	30	50
Diplomatic Operations and Foreign Aid	39	16
Veterans' Benefits and Services[d]	3	13
Total	604	924–1,010

Source: Congressional Budget Office.

Note: Details may not add to totals because of rounding.

a. The projected cost of military operations and other defense activities through 2017 depends on assumptions regarding the length of time that current personnel levels in Iraq are sustained.

b. Funding in 2007 for military operations and other defense activities includes almost $7 billion to maintain an additional 45,000 personnel on active duty to support ongoing deployments and as part of the Administration's initiative to permanently increase the size of the Army and Marine Corps.

c. These amounts do not include the cost of the Administration's initiative to increase the size of the Army and Marine Corps, which CBO estimates will cost $162 billion over the 2008–2017 period.

d. Includes almost $2 billion that CBO estimates has been spent for medical care, disability compensation, and survivors' benefits over the 2001–2007 period from regular appropriations for the Department of Veterans Affairs. Also includes almost $1 billion appropriated in the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007 (Public Law 110-28) for medical care and other war-related purposes.

Table 2.

Estimated Appropriations Provided for U.S. Operations in Iraq and Afghanistan and for the War on Terrorism, 2001 to 2007

(Budget authority in billions of dollars, by fiscal year)

	2001	2002	2003	2004	2005	2006	2007	Total, 2001-2007
Military Operations and Other Defense Activities								
Iraq[a]	0	0	46	68	53	89	113	368
Other[b]	14	18	34	21	18	22	39	165
Subtotal	14	18	80	88	70	111	152	533
Indigenous Security Forces[c]								
Iraq	0	0	0	5	6	3	6	19
Afghanistan	0	0	0	0	1	2	7	11
Subtotal	0	0	0	5	7	5	13	30
Diplomatic Operations and Foreign Aid								
Iraq	0	0	3	15	1	3	3	25
Other	*	2	5	2	2	1	2	14
Subtotal	*	2	8	17	3	4	5	39
Veterans' Benefits and Services[d]								
Iraq	0	0	0	0	0	0	1	1
Other	0	0	0	0	0	0	*	*
Subtotal	0	0	0	0	0	0	1	1
Total	14	19	88	111	81	120	170	602

Source: Congressional Budget Office.

Note: Details may not add to totals because of rounding.

* = between zero and $500 million.

a. CBO estimated funding provided for Operation Iraqi Freedom by allocating funds on the basis of information contained in budget justification materials from the Department of Defense and in monthly reports on its obligations.

b. Includes Operation Enduring Freedom (in and around Afghanistan); Operation Noble Eagle (homeland security missions, such as combat air patrols, in the United States); the restructuring of Army and Marine Corps units; classified activities other than those funded by appropriations for the Iraq Freedom Fund; efforts to permanently increase the size of the Army and Marine Corps; and other operations. (For fiscal years 2005 through 2007, funding for Operation Noble Eagle has been intermingled with regular appropriations for the Department of Defense; that funding is not included in this table because it cannot be identified separately.)

c. Funding for indigenous security forces—which was appropriated in accounts for diplomatic operations and foreign aid (budget function 150) in 2004 and in accounts for defense (budget function 050) since 2005—is used to train and equip local military and police units in Iraq and Afghanistan.

d. Excludes almost $2 billion in estimated spending for medical care, disability compensation, and survivors' benefits for veterans of operations in Iraq and Afghanistan and the war on terrorism. Those amounts are based on CBO's estimates of spending from regular appropriations for the Department of Veterans Affairs and were not explicitly appropriated for war-related expenses.

Table 3.

Estimated Costs of the Increased Number of Personnel Deployed to Iraq Under Three Cases

(Budget authority in billions of dollars, by fiscal year)

	2007	2008	2009	2010	Total 2007–2010
Sustain the Additional 30,000 to 40,000 Troops in Iraq for 4 Months	6	4	1	0	10
Sustain the Additional 30,000 to 40,000 Troops in Iraq for 12 Months	6	13	3	0	22
Sustain the Additional 30,000 to 40,000 Troops in Iraq for 24 Months	6	15	15	3	40

Source: Congressional Budget Office.

Notes: Details may not add to totals because of rounding.

CBO estimates that the number of personnel deployed on the ground in Iraq has increased by 30,000 to 40,000 relative to the force levels that were previously anticipated for 2007. The amounts shown represent CBO's estimate of the incremental costs of deploying those additional troops. Each scenario includes the costs of a four-month buildup and a four-month withdrawal.

Table 4.

Projected Average Number of Military Personnel Deployed on the Ground in Iraq, Afghanistan, and Elsewhere in the War on Terrorism Under Two Scenarios

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Scenario One: The Number of Deployed Troops Is Reduced to 30,000 by 2010										
Assuming Increased Forces in Iraq Are Sustained for 4 Months	210,000	180,000	100,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Assuming Increased Forces in Iraq Are Sustained for 12 Months	210,000	210,000	100,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Assuming Increased Forces in Iraq Are Sustained for 24 Months	210,000	220,000	190,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
	Scenario Two: The Number of Deployed Troops Is Reduced to 75,000 by 2013										
Assuming Increased Forces in Iraq Are Sustained for 4 Months	210,000	180,000	175,000	165,000	135,000	100,000	75,000	75,000	75,000	75,000	75,000
Assuming Increased Forces in Iraq Are Sustained for 12 Months	210,000	210,000	175,000	165,000	135,000	100,000	75,000	75,000	75,000	75,000	75,000
Assuming Increased Forces in Iraq Are Sustained for 24 Months	210,000	220,000	210,000	165,000	135,000	100,000	75,000	75,000	75,000	75,000	75,000

Source: Congressional Budget Office.

Note: Because the scenarios include periods when the numbers of deployed troops are increasing and decreasing, the average number of troops deployed during a given year may differ from the maximum number of troops deployed that same year. Those personnel numbers exclude approximately 15,000 Navy personnel deployed aboard ships. CBO assumes that most of those personnel would be at sea as part of the Navy's traditional mission to project forces around the world.

Table 5.

Estimated Costs of Military Operations and Other Defense Activities in Iraq and Afghanistan and for the War on Terrorism Under Two Scenarios

(Budget authority in billions of dollars, by fiscal year)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total, 2008-2017[a]
Scenario One: The Number of Deployed Troops Is Reduced to 30,000 by 2010												
Assuming Increased Forces in Iraq Are Sustained for 4 Months	145	129	82	34	21	22	22	23	23	24	25	406
Assuming Increased Forces in Iraq Are Sustained for 12 Months	145	154	92	34	21	22	22	23	23	24	25	440
Assuming Increased Forces in Iraq Are Sustained for 24 Months	145	162	150	55	21	22	22	23	23	24	25	528
Scenario Two: The Number of Deployed Troops Is Reduced to 75,000 by 2013												
Assuming Increased Forces in Iraq Are Sustained for 4 Months	145	129	120	116	102	79	61	57	59	60	62	845
Assuming Increased Forces in Iraq Are Sustained for 12 Months	145	154	129	116	102	79	61	57	59	60	62	879
Assuming Increased Forces in Iraq Are Sustained for 24 Months	145	162	162	127	102	79	61	57	59	60	62	931
Memorandum:												
Cost to Increase Personnel Levels for the Army and Marine Corps[b]	7	15	19	20	19	17	14	14	15	15	15	162

Source: Congressional Budget Office.

Note: Details may not add to totals because of rounding.

a. Funding in 2007 is not included in this total but is included in the amounts shown in the last column of Table 2.

b. Funding for the cost of this initiative is not included in the totals for the scenarios above. Funding for 2007 was provided in the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007 (Public Law 110-28); the Department of Defense plans to request funding for that purpose as part of its regular budget request beginning in 2009.

Table 6.

Estimated Costs of Diplomatic Operations, Foreign Aid, and Support for Indigenous Security Forces

(Budget authority in billions of dollars, by fiscal year)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total, 2008-2017
Indigenous Security Forces	13	5	5	5	5	5	5	5	5	5	5	50
Diplomatic Operations and Foreign Aid	5	4	3	2	1	1	1	1	1	1	1	16

Source: Congressional Budget Office.

Table 7.

Estimated Spending by the Veterans Administration for Medical Care, Disability Compensation, and Survivors' Benefits

(Billions of dollars, by fiscal year)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total, 2008-2017
Scenario One	0.7	0.8	1	1	1	0.9	0.9	0.9	0.9	1	1	9.4
Scenario Two	0.7	0.8	1	1.1	1.2	1.3	1.4	1.4	1.4	1.5	1.6	12.7

Source: Congressional Budget Office.

Note: These amounts exclude spending of almost $1 billion from funding provided in the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007 (Public Law 110-28) for medical services for veterans of operations in Iraq and Afghanistan, medical administration costs, medical and prosthetics research, and other purposes. That amount is included in the last column of Table 2.

Chairman SPRATT. Thank you very much, Mr. Sunshine. Now Ambassador Bowen.

STATEMENT OF STUART W. BOWEN

Mr. BOWEN. Thank you, Chairman Spratt, Ranking Member Ryan, members of the Committee on the Budget. Thank you for inviting me today to address you. Well I am very appreciative of that

and because I had the opportunity always to work closely with Ambassadors in Iraq so. Thank you.

That is right. I report to Secretary Rice and Secretary Gates.

Chairman SPRATT. Thank you very much and you may proceed with your statement.

Mr. BOWEN. Thank you very much. Thank you for asking me to address the Committee on the cost of military operations and reconstruction in Iraq and Afghanistan. The Office of the Special Inspector General for Iraq Reconstruction was created in January of 2004 initially as the coalition provisional authority Inspector General. In October of that year the Congress created SIGIR. We have oversight now of about $32 billion in reconstruction funds. Thirty-two of the 44 that have been appropriated to date by Congress.

Yesterday we released our 14 quarterly report and this report contains detailed reviews of eight new audits, five new on the ground inspections, updates on our many investigations and a sector by sector review of how taxpayer money has been allocated and spent for Iraq reconstruction to the four major funds that Congress created. I leave this week for my 17 trip to Iraq to oversee the continuing work of the 30 auditors, inspectors, and investigators that are carrying our mission today in Baghdad.

The title of this hearing asks what the cost of Iraq reconstruction have been. SIGIRs newest quarterly report helps answer that question. The United States Congress has appropriated approximately $44 and a half billion for the relief and reconstruction of Iraq, including around $21 billion through the Iraq Relief and Reconstruction Fund; $14 billion through Iraq Security Forces Fund; $3.1 billion through the Economic Support Fund; and two and a half billion through the Commanders Emergency Response Program. About 90 percent of the IRRF is spent. Sixty-one percent of the ISSF is spent and half of the CERP and the ESF that has been appropriated to date has been spent.

My office has oversight of about 70 percent of these funds. Our audits and inspections and investigations have numerous incidences of waste and some egregious examples of fraud as evidenced just last week three new arrests were made in a case that SIGIR is a joint task force participant on. And we continue to move forward on 57 fraud cases. But waste is really the challenging issue in Iraq reconstruction. It is no surprise that our audits have uncovered incidences of waste, that is my job.

Part of our mission is to root out waste and abuse and we do that through real time auditing. And what that means is working with management to inform them about what we find in the course of our audits so that the corrections are made along the way. And Ambassador Saloom worked extraordinarily well with my office in the year that he was director of the Iraq Reconstruction Management Office in responding and making meaningful, positive changes in the mission. And so I commend him to the Committee for his excellent coordination on this effort.

The task order 130 audit that we just released, Ambassador Saloom worked closely with us on and it looked at how KBR supported the mission through food, fuel and shelter. And along the way a number of significant deficiencies were found, almost all of them were fixed before the audit was released three weeks ago.

Along with our real time auditing, we are also engaged in an ambitious focused forensic audit endeavor and that is looking at the largest contracts for Iraq reconstruction pursuant to the Congress' mandate to SIGIR and the Iraq Reconstruction Accountability Act of 2006 to carry out forensic auditing. The first one is our in this quarterly report. It is of Bechtel and it has some interesting and revealing statistics about how that contract was carried out. We are also next up dealing with Parson's, Blackwater, KBR are all underway and announced.

Asset transfer another important audit this quarter highlights the fact that the asset transfer process that had been worked out with the Iraqi government has been off the rails for about a year and other means have had to be used to transfer projects such as local transfer or unilateral transfer. That raises grave questions about the sustainability of what the U.S. has constructed in Iraq.

The Provincial Reconstruction Team Program audit in this quarterly is a piece of good news. Real progress has been made since our report of last October on security, resources, and staffing front. And the 15 new PRTs are being staffed and a number of the embedded PRTs are operational and we will have a report out in September on the ethicacy of that endeavor.

As I said, sustainment, that is ensuring that what the United States has provided Iraq continues to be operated and maintained is a continuing issue for our office and we carry out inspections looking at projects that have been handed over to the Iraqis at least a year and in this latest report the Al Doura power generation plant, the most important power plant for Baghdad is not working as revealed by our visit in June. Indeed it hasn't worked for most of this year. Ninety million dollars invested to get two units going, only one was ever started and that was in April of 2004. It was turned over the Iraqis and they it burned out the unit. And the Corps of Engineers has taken it over and we will have both restarted next week. In fact, one just started up the last couple of days and about 30 megs are flowing into the city. When both are up it will add seven and a half percent to the grid in power generated.

You also asked for improvements that SIGIR has helped effect in the course of our oversight, and much has been done as I pointed out by in the responsiveness of management to help apply many of our findings. For example, the definitization problem that we uncovered over a year ago and that is getting control over cost and cost plus contracts and it was virtually ignored. It had been virtually ignored. As a result of the audit the control over cost within those contract is beginning to be managed better. Certainly better than before.

Two years ago during my trip to—one of my trips to Baghdad, I discovered the award fee process for cost plus contracts of, you know, a very significant financial issue because there is a guarantee three percent plus of another possibility of 12 percent in each of these cost plus contracts. There were no criteria for those award fees. And as soon as we kicked off our audit, criteria were developed, files were developed, and that process was finally managed appropriately saving millions in taxpayer dollars.

Our audits of the construction—reconstruction database prompted coordination and develop of a meaningful database that kept track of reconstruction projects. Something that wasn't the case when our audit began. And our three lessons learned reports to date have effectuated real change. One on human capital management promoted the civilian reserve corp concept which is taking hold and I think an important structural reform necessary to for future contingency operations.

The contracting lessons learned report has produced some pending legislation from Senator Collins called the Accountability in Government Contracting, that is going to address this cost plus contract problem that we have continually focused on. And our most recent lessons learned report on program and project management emphasis the need for real reform of post conflict contingency relief and reconstruction operations. That is structural reform that I believe the Congress should provide for the agencies.

Our investigations continue. We coordinate well on a number of task forces with other IG's and the FBI. And I have six investigators on the ground today and 14 working here in D.C. and I expect in the course of the year we are going to make some real progress and have some more news to report to you in due course.

So with that I appreciate your time and look forward to answering your questions.

[The prepared statement of Stuart W. Bowen follows:]

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

Chairman Spratt, Ranking Member Ryan, and members of the Committee on the Budget, thank you for inviting me to appear before you today to address "The Costs of Military Operations and Reconstruction in Iraq and Afghanistan."

The Office of the Special Inspector General for Iraq Reconstruction was created in January 2004, and is responsible for conducting the independent and objective oversight of more than $31.8 billion in funds appropriated under the Iraq Relief and Reconstruction Fund and certain other appropriations.

Yesterday we released our 14th Quarterly Report to the Congress. This Report contains detailed reviews of SIGIR's eight new audits, five new on-the-ground inspections, updates on SIGIR's investigative work (which includes two recent sentencings and three recent arrests for fraud), and a sector by sector recounting of how taxpayer money has been allocated and spent for Iraq's reconstruction through four major funds created by the Congress.

Over the past three years, SIGIR has produced 94 audits, nearly 100 on-the-ground inspections, opened over 300 investigations, released 3 "lessons learned" reports, and obtained savings, recoveries and restitution orders from audits and investigations amounting to over $70 million. I am proud of the achievements of SIGIR's auditors, inspectors, and investigators: 30 of them are working today in Iraq to carry out the oversight mission assigned by the Congress. I must note that their work has become more challenging over the past three months as attacks upon the Green Zone have markedly increased. Later this week, I will leave on my 17th trip to Iraq to support my team's efforts in Baghdad and across Iraq.

The title of this hearing asks what the costs of Iraq's reconstruction have been. That is a question that can be answered on several levels. SIGIR's newest quarterly report helps provide those answers on a financial level.

The United States Congress has appropriated approximately $44.5 billion for the relief and reconstruction of Iraq. That includes: around $21 billion appropriated in 2003 to the Iraq Relief and Reconstruction Fund (IIRF); around $14 billion appropriated to the Iraq Security Forces Fund (ISSF) since mid-2005; $3.1 billion appropriated to the Economic Support Fund (ESF) since early 2006; $2.5 billion appropriated to the Commander's Emergency Response Program (CERP) over the past three years; and approximately $4 billion appropriated to 26 smaller accounts. Approximately 90 percent of the IRRF is spent, around 61 percent of the ISSF is spent,

and around half of CERP and half of ESF appropriated to date has been spent. SIGIR has oversight of around 70 percent of these appropriations.

Pledges of international support amount to approximately $18 billion in loans, grants and debt reductions, but, to date, just under $4 billion of this amount has been used in Iraq. Our new quarterly report also notes that around $36 billion in Iraqi funds have been used for relief and reconstruction purposes since 2003. In total, almost $100 billion has been allocated for Iraq's recovery from varying sources.

SIGIR's audits and inspections have uncovered numerous instances of waste and inefficiency in the program; but we also have inspected many projects that have met contract expectations.

The reasons for the shortfalls we have found vary greatly. This quarter's reporting uncovered problems in sustainment at the Al Doura power plant south of Baghdad. The benefit of the $90 million dollar investment in this project, which is so critical to providing power to Baghdad, has not been realized because of weak operations and maintenance practices by the Iraqis after the project was turned over in April 2006. Specifically, only one of the Al Doura units was brought on line, and it failed in late 2006 because of deleterious operational practices. The US Army Corps of Engineers is now repairing both units and expects to have them back on-line in August. Once up and fully running, Al Doura will provide 320 megawatts to the electric grid, adding 7.5 % to the current generated nationwide output and increasing greatly the hours of power available per day to Baghdad.

As happened at Al Doura, waste can occur because of poor operations and maintenance, whether in planning or execution. Waste also can occur due to weak oversight (see SIGIR's audit of the Primary Health Clinics program) or poor quality control (see SIGIR's inspection of the Baghdad Police College) or both (see this quarter's audit of KBR's support to the Embassy). "Waste" can also arise due to delays created by security problems. In any event, waste increases the cost of investment to help rebuild Iraq.

Part of SIGIR's mission is to root out waste, and we have accomplished that in a number of instances through our "real time" auditing approach. Real time auditing means keeping management informed during audits so that changes can be made to correct accountability and control weaknesses before the audit is released. The Task Order 130 audit this quarter is a perfect example of how this approach is applied. SIGIR auditors found a number of problems in KBR's management of the provision of food, fuel, and shelter to the Embassy in the Green Zone. As the problems, were uncovered, management and KBR corrected them such that, by the time the audit was published on June 22, almost of the problems were remediated.

SIGIR's real time auditing is complemented by larger-scale contract audits that look to answer the question "where did the money go and what did we get for it." SIGIR will accomplish this mission by carrying out a series of focused financial audits of the largest contracts in Iraq reconstruction This audit program will meet the forensic audit requirement of the Iraq Accountability Act of 2006.

FOCUSED FORENSIC AUDITS

SIGIR completed this quarter the first in its planned series of focused financial reviews of large contractors funded by the Iraq Relief and Reconstruction Fund (IRRF). SIGIR reviewed the spending of Bechtel National Inc. under its Phase II IRRF contract. Bechtel was the largest IRRF contractor.

The audit, which reviewed Bechtel's work under a $1.33 billion contract with USAID, is emblematic of the challenges faced in Iraq reconstruction. Bechtel succeeded in meeting original contract scope requirements in about half of the contract's 24 task orders.

Among the findings, SIGIR found:

- The shortage of government contracting staff resulted in a lax oversight in the validation of performance.
- Approximately half of the job orders did not meet their original stated objectives.

SIGIR's audit illustrated both the successes of some task order projects and how some projects were descoped, cancelled, ran over their budgets, or were severely delayed. Among the items of concern uncovered by the audit was a government decision to pay Bechtel invoices within 10 days of receipt, with just two staff members assigned to the review process.

ASSET TRANSFER

SIGIR has closely followed the asset transfer process in Iraq—that is, how U.S. agencies are turning over completed projects to Iraqi officials, both at the national

and on the local levels. SIGIR has conducted four audits on various aspects of this important process.

This latest audit discovered that the Government of Iraq (GOI) has not formally accepted a single project since July 2006. Local Iraqi officials are accepting projects, but the national government has not. Completed projects that are not transferred also represent potential ongoing sustainment expenses for the U.S.

Typically, asset transfer between nations is managed under bilateral agreements. Thus, SIGIR recommended that the U.S. Ambassador to Iraq provide senior-level support to finalize a bilateral agreement between the United States and Iraq on asset transfer to the GOI. SIGIR believes that asset transfer to the GOI is best accomplished through a single U.S. government process, rather than by each implementing agency independently negotiating its own agreement.

PROVINCIAL RECONSTRUCTION TEAMS

The United States is placing additional emphasis on the use of Provincial Reconstruction Teams (PRTs), which are civil-military teams designed to build capacity in local governance across Iraq through direct assistance to and training of provincial government personnel. As of June 2007, the United States has provided $1.934 billion to support the Iraq PRT Program, and DoD has requested $937 million in additional funding for FY 2008.

This quarter, SIGIR issued the second of three audits on the PRTs, which showed that the PRT program has made great strides overcoming problems with civil-military integration, operational support issues, and resource and staffing shortfalls. However, SIGIR continues to recommend that planners further define the objectives and develop a monitoring system to measure the performance of the PRT program, including clearly defined objectives and performance measures and milestones.

SUSTAINMENT

For over 18 months, SIGIR has been raising concerns about the process for sustaining U.S.-funded infrastructure and systems after they have been turned over to the GOI. Last year, SIGIR instituted a regime of inspections to review sustainment of projects already turned over to Iraq. In the last two Quarterly Reports, SIGIR observed only limited progress in this regard. The Al Doura report issued this quarter was the most serious sustainment shortfall uncovered to date.

SIGIR's assessments this quarter suggest that some improvement has been made, but we note that efforts need to be more effective:

- In 3 of the 4 sustainment assessments SIGIR inspectors made this quarter, sustainment problems were identified, posing threats to the condition and durability of the facilities, and the health and safety of those who worked and lived in the facilities.
- In one other sustainment review, SIGIR found that sustainment was being properly addressed and the project should continue to remain functional.

A larger challenge to sustainment practices is likely to occur when the bulk of U.S.-funded projects are transferred to the GOI. The program and fiscal planning required by the GOI to successfully meet this sustainment challenge reminds us of the importance of a well-defined asset transfer process.

IMPROVEMENTS

The Committee has asked about improvements that agencies are making with respect to their Iraq reconstruction practices. Of note, agency management has been receptive to virtually all of SIGIR's recommendations, whether from our audits and inspections or our lessons learned reports. My co-panelist today, Ambassador Joe Saloom, was very responsive to SIGIR's recommendations during his recently completed year in Iraq as the Director of the Iraq Reconstruction Management Office.

Much has been done, for example, to repair the contract "definitization" process, through which cost-plus contract task orders are defined into a more fixed price state. SIGIR audited this definitiatzation requirement in 2006 and found that it was not being applied. The agencies agreed with our concerns and our recommendation; thus, corrective measures have improved definitization practices in Iraq.

Two years ago, I learned, during one of my trips to Baghdad, that the award fee process for cost plus contracts was not being properly managed. I immediately ordered an audit of the process, and SIGIR's auditors found no adequate criteria in place for the award of very large award fees. The managing agency quickly reformed the process so that only performance exceeding expectations is rewarded. This was a good example of SIGIR's real time auditing.

SIGIR's multiple audits of the reconstruction database management systems eventually prompted the creation of a single project database, based on SIGIR's rec-

ommendations. Our lessons learned report on contracting recommends that this improvement be made part of the permanent planning structure.

SIGIR's lessons learned reports have effected a number of improvements. The contracting report helped evolve salutary change within the Joint Contracting Command/Iraq-Afghanistan. Senator Collins (R-ME) has introduced the "Accountability in Government Contracting Act," which would implement needed reform into the area of cost-plus contracting practices consistent with recommendations in the contracting lessons learned report. SIGIR's contracting report also prompted OMB's Office of Federal Procurement to adopt SIGIR's contingency contracting recommendations in its recently published contracting guidance.

Personnel practices in Iraq also changed after SIGIR's lessons learned report on human capital management. Changes included improved management of tour lengths and personnel transition. The need for developing a "civilian reserve corps" recommended in that report is receiving support in the agencies and from the Congress. Finally, SIGIR's most recent lessons learned report on program and project management contained what I believe is SIGIR's most important recommendation: Congress should reform post-conflict contingency relief and reconstruction planning and structure.

INVESTIGATIONS

SIGIR aggressively pursues all credible allegations it receives of criminal misconduct on the part of government officials or contractors, and we work with other investigative agencies and with career prosecutors at the Justice Department to develop and prosecute our cases. SIGIR's investigative work has resulted in 13 arrests, 5 convictions, 5 imprisonments, and the recovery or restitution of over $15 million. In the past ten days, SIGIR participated in arrests in a significant new bribery case, which arose form the work of one of the joint task forces of which SIGIR is a part.

Corruption within the Iraqi government is a serious problem that we refer to it as "the second insurgency." SIGIR's review of anticorruption support to Iraq found areas still in need of improvement. A recent reorganization of United States efforts followed SIGIR's recommendations and will help make progress in this important area.

SIGIR PLANNING

During the next reporting quarters, SIGIR will, among many other things, continue its focused financial reviews of large contractors, report on the results of the Provincial Reconstruction Team Program, assess and inspect Commanders' Emergency Response Program projects, and open up audits on large Iraq Security Force Fund contracts. In addition, we will continue to work aggressively on our many investigations of alleged criminality in the reconstruction program. In pursuing each of these missions, SIGIR continues to rely on and appreciate the support we receive from the Congress and the Departments of State and Defense.

Mr. Chairman, members of the Committee, thank you for your time and attention to these important matters, and I look forward to answering your questions.

Chairman SPRATT. Ambassador Saloom.

STATEMENT OF JOSEPH SALOOM

Mr. SALOOM. Thank you very much, Mr. Chairman. It is a pleasure for me to testify before you, Congressman Ryan, and other members of the Committee, ladies and gentleman.

I just got back—I got back from Iraq about two and a half months ago where I spent a year as head of the Iraq Reconstruction Management Office. So this is a topic that is near and dear to me. Okay.

So this is a topic of course that is very near and dear to me. I did have the chance to discuss this with Congressman Ryan when he was in Baghdad and actually we had quite a large number of Congressional visitors that we had the chance to discuss this program with.

Mr. Chairman, your letter inviting me here noted the Committee's interest in past and projected costs of reconstruction and what the departments were doing to identify and curb wasteful spending.

The answer to your first question is that our emphasis has moved for building things to building the capacity of the Iraqis to channel their own considerable resources to meeting the needs of the Iraqi people. If there was one theme that I had in my year there that was in every talk it was we are building capacity, not things.

Our efforts with the ministries in Baghdad are complemented by giving the provincial reconstruction teams that Mr. Bowen mentioned both the mission and the tools to spur the Iraqis at the provincial level and at the local level to use their resources to make visible improvements in the daily lives of Iraqis. What you are, I think, most interested in the budget impact of all of this change is that our requests for fiscal years 2006, 2007, and 2008 are each in order of magnitude smaller than the IRRF, the original IRRF 2003, 2004 IRRF funds which were $20.9 billion. So the numbers were $1.7 billion for 2006; $2.2 billion in 2007 and our request for 2008 is $1.4 billion.

I am especially delighted to see Special Inspector General for Iraq Stuart Bowen on this panel. I would simply echo what he mentioned—our record of working with SIGIR is overwhelmingly one of acceptance and implementation of the SIGIR recommendations to improve the management of resources that are entrusted to us by you, by Congress.

The most pressing fiscal challenge preventing Iraq from being self reliant in economic affairs is the failure of the Iraqis to execute their capital budget. They do very well at spending current doing current expenditures, wages, pensions that sort of thing. But it's mobilizing funds for projects that are particularly difficult. The bright side of this is that Iraqis have of all political persuasions from all regions of the country and at all levels recognize this problem and are moving to address it.

While our focus is on the way forward, we are also determined to manage effectively the remaining funds for Iraq reconstruction. As I mentioned, we received $20.9 billion in IRRF I and II. We have obligated 98 percent of IRRF II and as of July 17 we have disbursed 86 percent. The 90 percent number Stuart used was probably IRRF I and II together.

We expect to complete most ongoing IRRF II projects during the course of 2007. But we know that not every project has progressed as we would have wished. Some projects have deservedly attracted attention, including from Congress and from SIGIR. In such cases we have taken action to get them moving in the right direction and have moved to put in place management oversight structures to help ensure that similar problems do not reoccur.

We have learned lessons from our experience that have reshaped the program to more effectively meet its intended goals. In the early stages IRRF managers relied heavily on cost plus design build contracts with large U.S. and international firms. Experience has taught us as the situation evolved that it is often much more economical to move to firm fix priced contracts with other Iraqi companies or companies from the region and we have moved to do that.

To conclude, Iraq has a significant capital budget that it must mobilize to spend on needed facilities. We have designed our assistance to foster that mobilization but not to substitute for it.

Thank you very much. I look forward to your questions and to your ideas.

[The prepared statement of Joseph Saloom follows:]

PREPARED STATEMENT OF HON. JOSEPH SALOOM, AMBASSADOR OF THE UNITED STATES AND SENIOR TRANSITION ADVISOR, U.S. DEPARTMENT OF STATE

Mr. Chairman, Mr. Ryan, members of the Committee, ladies and gentlemen: It is a pleasure for me to appear before you today to discuss reconstruction in Iraq. I returned two and a half months ago from a year as Director of the Iraq Reconstruction Management Office where I worked on these issues on a daily basis and had the chance to brief some of you on these issues during your trips to Baghdad.

The Chairman's letter inviting me noted the Committee's interest in past and projected costs of reconstruction and what Departments were doing to identify and curb wasteful spending. The answer to the first question is that our emphasis has moved from building things to building the capacity of the Iraqi government to channel its considerable resources to meet the urgent needs of the Iraqi people in a transparent and accountable manner. We expect the Iraqis, not the U.S. taxpayer to pay for fixing the Iraqi economy, building on generous U.S. reconstruction assistance which we provided during the reconstruction phase of our assistance program to Iraq under the IRRF. As this phase winds down, we are focusing on building Iraqi capacity though the investment of a much smaller amount of U.S. funds to help Iraqi authorities to mobilize and channel their own resources to meet the needs of the Iraqi people.

The budget impact of this shift in focus is that our requests for FYs 2006, 2007 and 2008 each are an order of magnitude smaller than the IRRF funding. The Congress made available $1.7 billion in FY 2006, $2.2 billion in FY 2007 and our request for FY 2008 is $1.4 billion.

On the question of wasteful spending, I am delighted to see Special Inspector General Stuart Bowen on this panel. The Department of State works closely with SIGIR and is constantly exploring ways to improve monitoring of projects to minimize waste. The record of our working with SIGIR is overwhelmingly one of acceptance and implementation of SIGIR recommendations to improve management of the resources entrusted to us by Congress.

CHANGING FOCUS

As part of the President's New Way Forward announced in January, the focus of our assistance effort in Iraq is changing. As Iraqis increasingly take the lead we have shifted our focus from large infrastructure projects to capacity development and technical assistance programs that will increase the ability of the Iraqis to better plan and execute their capital budget, increase production of essential services in vital areas such as electricity and water, and improve governance at the national and provincial levels.

To meet these objectives, we continue to boost our capacity building effort with the central government in Baghdad and are extending and expanding our reach beyond the Green Zone to help local communities and leaders transition to self-sufficiency. At the center of this latter effort is the expansion of the Provincial Reconstruction Teams (PRTs).

CURBING WASTE

One of the issues I had to grapple with in deciding whether or not to take on the challenge of the IRMO position were the questions that have been raised regarding allegations of waste and abuse of Iraq Relief and Reconstruction Fund (IRRF) monies appropriated by Congress. Secretary Rice has emphasized in testimony her complete commitment to transparency and accountability. She meets regularly with the Special Inspector General for Iraq Reconstruction (SIGIR) Stuart Bowen. The State Department and our implementing agency partners also work closely with SIGIR to support the latter's program review of our assistance. I met frequently with Mr. Bowen during his trips to Baghdad. When he found deficiencies, my goal was to have his reports read "SIGIR found this problem and it either has been or is in the process of being fixed."

CIVIL MILITARY COMMON EFFORT

The President has reinforced our own troop levels in the Baghdad area and in Anbar Province. Also, these troops are doing things differently. The mission of this enhanced force is to augment the efforts of Iraqi troops and commanders to lead in the clearing and security of neighborhoods, protect the local population, provide essential services, and create conditions necessary to spur political reconciliation and economic development. The State Department is contributing robustly to this effort by expanding our presence—including by embedding our staff with military units—and closely coordinating with our military counterparts in and outside of Baghdad, as well as with the Iraqi government. Congress has provided additional budgetary resources for assistance programs designed to capitalize on security improvements by creating jobs and promoting economic revitalization. There must be the fullest possible civilian-military unity of effort if we are to be successful. In this vein I would like to underscore that hardly a day went by during my time in Baghdad when I did not hear or use the expression "One Team, One Mission" to describe the partnership between military and civilian elements. This ethos is also strong between Divisions and Brigade Combat Teams on the military side and the PRTs. I visited all ten of the PRTs that existed throughout Iraq at the time that I was there and found remarkable civil/military unity of purpose and team spirit. The fact that DOD has requested additional PRTs is the best indicator of the value our military colleagues place in this partnership.

To further reinforce this civil/military effort, we are deploying greater resources alongside our military in Baghdad, Anbar Province and North Babil. The centerpiece of this effort is the expansion of our Provincial Reconstruction Teams. We have doubled the number of PRTs from 10 to 20 and are adding anther four in the coming months. We are adding more than 300 new personnel to the existing personnel already on the ground. The first phase of PRT expansion is complete, as the ten new interagency PRT core teams (40 personnel in total) arrived in Iraq in March. The new PRTs—six in Baghdad, three in Anbar and one in north Babil—are embedded in Brigade Combat Teams engaged in security operations. To demonstrate our unity of effort, on February 22 the State Department and the Defense Department signed a Memorandum of Agreement to codify this joint civilian-military effort.

The State Department has assigned ten senior-level Team Leaders for these new PRTs. Each Team Leader is joined by a senior USAID development advisor, as well as a civil affairs officer and bilingual, bicultural advisor from the Department of Defense, to form core teams. These core teams completed the first specialized interagency PRT training course at the Foreign Service Institute, designed to prepare them for their new mission. PRT leaders worked jointly with Brigade Commanders to develop plans for the "build" phase of clear, secure, and build.

PRTs target both civilian and military resources, including foreign assistance and the Commanders' Emergency Response Program, against a common strategic plan to sustain stability, promote economic growth, advance our counter-insurgency efforts and foster Iraqi self-sufficiency where we have made security gains. In the next phases of our PRT expansion, we will augment the ten new PRTs and our existing PRTs with specialized technical personnel and add four more PRTs. Based upon ground-up evaluations, we are recruiting (among others) city planners, rule of law experts, and agribusiness development experts to meet provincial and local needs.

PRTs use targeted assistance designed to develop provincial capacity to govern in an effective and sustainable way. PRTs will continue to play a leading role in coordinating U.S. programs funded by the Congress, including Iraqi Provincial Reconstruction Development Councils (PRDC) and USAID's local governance, community stabilization, and community action programs.

IRAQI EFFORTS

Iraqis understand that they are in the lead and the Iraqi government is dedicated to doing its part to invest in its own economic development. The Government of Iraq is committed to spending $10 billion for capital projects. At a conference co-hosted by U.N. Secretary General Ban Ki-Moon, on May 3, Iraq committed to implement the comprehensive economic reform programs laid out in the International Compact with Iraq. On July 20 at the U.N. in New York, Iraq reported that it is making tangible progress toward meeting more than two-thirds of its International Compact goals and benchmarks.

The most pressing fiscal challenge preventing Iraq from being self-reliant in economic affairs is the failure of Iraqis to execute their capital budget. The Government of Iraq has available financial resources from oil revenues. They do not, however, uniformly have the capacity to execute this funding—especially when money must

move rapidly, as is the case with post-military-action stabilization in Baghdad and Anbar Province. Iraq must develop the means to put its money to use, both for short-term "build" efforts and longer-term capital investment.

The Iraqis have responded by designating budget execution as a high priority in 2007, and, to this end, the GOI has formed a budget execution taskforce led by Deputy Prime Minister Barham Salih, Finance Minister Bayan Jabr and Planning Minister Ali Baban. In coordination first with Ambassador Carney and now with Ambassador Ries, the joint taskforce held a conference for spending ministries and provinces to introduce new budget regulations and to dispel concerns about corruption allegations that stymied Iraqi spending in 2006. The Iraqi Ministry of Finance also has released 25 percent of the 2007 capital budget to ministries and16 percent to provinces and created incentives for ministries to execute their capital budgets or risk losing the funds. Ministries have committed nearly 25 percent of their funds to contracts, and provinces have committed 42 percent. Several ministries have demonstrated sufficient progress in allocating and spending their 2007 budget that the Ministry of Finance has released the second tranche of their budget funds, including the Ministries of Municipalities, Public Works and Electricity.

The PRTs are working closely with their provincial governments both to boost the capacity of provincial and local officials to execute their budgets but also to enhance communication and cooperation between provincial and central government entities. One of the most successful initiatives between the PRTs in the northern part of the country and Multinational Division North is a program that brings delegations of provincial officials to Baghdad to meet regularly with key central government officials whose cooperation is needed to move projects forward. Deputy Prime Minister Barham Salih plays a pivotal role in arranging the appropriate appointments for these provincial officials and this combined effort has removed many of the roadblocks to provincial spending. We remain cautiously optimistic that their resolve combined with our support will result in better budget execution in 2007.

SUPPORTING PHYSICAL INFRASTRUCTURE AND DEMOCRACY WITH THE IRAQ RELIEF AND RECONSTRUCTION FUND (IRRF)

While our focus is on the way forward, we are also determined to manage effectively the remaining funds for Iraq reconstruction. In Fiscal years 2003-4, we received $20.9 billion in the Iraq Relief and Reconstruction Fund (IRRF). This funding was intended to kick start the Iraqi economy and focused primarily on helping to re-establish the Iraqi security forces and police; restore essential services like water, electricity and oil; and improve health and education. Despite challenges, including insurgent attacks, IRRF projects have made significant improvements in Iraq. We have added capacity to provide clean water for up to 5.9 million Iraqis and capacity to provide sewerage for 5.2 million; added or rehabilitated more than 2,500 MW of generating capacity and helped to keep an additional 2,200 MW operating through preventive maintenance; and helped Iraq maintain oil production at relatively steady levels despite deteriorating security conditions. Democracy programs also helped Iraq hold three elections and provided advisers to support the drafting of the constitution.

IRRF was never designed to completely rebuild Iraq's degraded infrastructure. The 2003 UN/World Bank estimate of medium term reconstruction needs amounted to $56 billion based on certain assumptions about the security situation: an estimate today would certainly be higher.

We have obligated 98 percent of IRRF II, and, as of July 17, have disbursed 86%. The remaining 2% of IRRF funds "expired" on October 1, 2006 and will be used to cover technical adjustments to existing obligations as required under law. We expect to complete most ongoing IRRF II projects during the course of 2007.

But we know that not every project has progressed as we would have wished. Some projects have deservedly attracted attention, including from the Congress and from SIGIR, with whom we work very closely. In such cases, we have taken action to get them moving back in the right direction and have moved to put in place management oversight structures to help ensure that similar problems do not reoccur.

I want to emphasize the State Department's strong commitment to oversight of the funds Congress has appropriated to us for our efforts in Iraq. We have supported 14 audits by the Government Accountability Office, more than 80 audits and reports issued by the SIGIR as well as audits done by the Inspectors General of the various implementing agencies. We will continue to work closely with SIGIR, GAO, and the Inspectors General to maintain the highest standards of oversight and accountability for all of our operations in Iraq.

There are numerous studies and reports on the evolution of the IRRF program, the various times that it was adjusted and refocused, and why certain approaches

worked better than others. We have learned lessons from our experience and have reshaped the program to more effectively meet its intended goals. In early stages, IRRF managers relied heavily on "cost plus design build" contracts with large U.S. and international firms. The idea was that this was the only way to attract bidders capable of mobilizing quickly in the uncertain atmosphere of the early days of Operation Iraqi Freedom. Experience has taught us as the situation evolved that it was often more economical to move to firm fixed price contracts with Iraqi and regional firms for many projects, especially those that do not require specialized technical expertise.

ECONOMIC SUPPORT FUNDS: FY 2006 AND 2007

While IRRF was designed to start recovery of Iraq's severely degraded infrastructure, the focus of subsequent assistance efforts moved progressively away from construction of facilities and more to building capable and transparent Iraqi government structures at the central and provincial levels. Main spending categories for FY 2006 and FY 2007 were funds for use by the PRTs and USAID Local Governance Project (LGP) to train local and provincial leaders to take on the responsibility of governing in a decentralized system rather than taking orders from a central authority in Baghdad. In addition, Congress provided significant funds for the Community Stabilization Program (CSP) and the Community Action Program (CAP). The PRDC funds provided the new democratically elected provincial authorities with their first funds to program and allocate, teaching them how to use open and transparent procedures and to balance the needs of competing constituent interests. These PRDC, LGP, CSP funds all provide funds for near-term, high impact improvements in the lives of citizens after security operations created conditions for such projects to succeed.

Other major spending categories included operations and maintenance for U.S.-built projects, capacity building at plant level for operations and maintenance as well as longer term public administration training, democracy promotion, and support for rule of law, civil society, rural development and economic reform activities.

The common theme is that we are spending our money to help the Iraqis develop the capability to govern themselves in an efficient, transparent and democratic manner, and that we are not rebuilding major facilities for Iraq. The programs that actually involve construction are small, short term, high impact projects that are designed either as a capacity building tool for provincial governments or as civilian support to ongoing security operations by demonstrating that cooperating in combating insurgents and militias can bring a better life to citizens.

LOOKING FORWARD

Iraq has a significant capital budget that it must mobilize to spend on needed facilities. We have designed our assistance to foster that mobilization, not to substitute for it.

LESSONS LEARNED

Mr. Chairman, your letter noted the Committee's interest in what the departments are doing to identify and reduce wasteful spending. Beyond my testimony above, I would like to pass on some personal views of "lessons learned" for the future post-conflict operations based on my on my time working on reconstruction throughout Iraq for the past year. Some of you, including Ranking Member Ryan, have heard some of this before from me in Baghdad. Not surprisingly, many of these are similar to some of Special Inspector Bowen's recommendations in his "lessons learned" series.

I would like to stress the importance of "listening to the client" in order to have projects meet the priorities of the intended recipients: the key to local buy-in and local "ownership" of projects. This can be done relatively quickly for a small, high impact project but takes more time and consultation with a broader range of stakeholders for larger infrastructure projects. Special Inspector Bowen has noted the difficulties in the Asset Recognition and Transfer process. There are hosts of complicating factors involved with this process, including frequent changes in Ministers, but fundamentally, this process would have been easier if, from the start, the Iraqis had had a greater sense that these were projects that they had selected to meet their most important needs.

Use the local firms and workers as much as you can. This builds the local business community, the domestic economy and local employment and is likely to provide best value for money to the taxpayer. It forges a spirit of partnership with the local community. This requires a rapid survey of the capability of local firms because there will always be specialized requirements for which the local skill base

is inadequate. I concur with Special Inspector Bowen's suggestion to pre-compete and pre-qualify the specialized contractors that you will need for things local firms cannot do so that we can move quickly on items beyond the capacity of local firms.

Much like in medicine, there is a "golden hour" in post-conflict reconstruction, when small, high impact projects can demonstrate in the early stages of an operation our good intentions and show rapid benefits to the population of cooperation with us. Authority and funding to furnish a small generator to power local essential service providers or other similar items should be part of the toolkit that we should be able to deploy quickly in such situations. Every military commander that I worked with in Iraq stressed the importance of having a civilian capacity to do this as a complement and enhancement to CERP. Preplanned rapid procurement, contracting and grant-making mechanisms are especially important.

Special Inspector Bowen and I have often discussed the importance of quality assurance and my people in Baghdad were sick of me using the cliche that "you don't get what you expect, you get what you inspect." My chief of operations in IRMO, MG Steve Abt, visited projects at every opportunity and earned a Silver Star for taking fire so often when he was out looking at ongoing reconstruction efforts. I and my other IRMO colleagues also spent significant time in the "Red Zone" monitoring project progress as did colleagues at the Gulf Regional Division of the Corps of Engineers. Special Inspector Bowen and his people added to this effort by having "eyes on" projects. This monitoring and oversight will always be more complicated and costly if the environment is non-permissive and we need to recognize and plan for security issues as a cost of doing business and as a constraint on optimal monitoring.

In post-conflict operations, there will always be complementary programs done by different agencies under different authorities and drawing on different sources of funds but there needs to be a preplanned mechanism to deconflict and coordinate efforts and share best practices from the unit level to the national level. This mechanism needs to be something that civilians and military have trained together to implement as part of civil/military contingency post-conflict exercises. There are useful lessons to be learned from the experience of IRMO, CETI, and the PRTs as we design the way forward.

It is also a cliche that no battle plan survives the first contact with the enemy but I believe that if we do the things above, more of the plan will survive.

Thank you very much. I look forward to your questions and ideas.

Chairman SPRATT. Thank you, Ambassador. And now my constituent and as fellow South Carolinian, Secretary John Gastright.

STATEMENT OF JOHN A. GASTRIGHT, JR.

Mr. GASTRIGHT. Thank you, Mr. Chairman. It is a pleasure to be here today before yourself and Mr. Ryan and other members Committee.

Afghanistan obviously remains at the forefront of efforts to combat global terrorism. And I am pleased to say that we are winning, but this effort in Afghanistan is going to require many years of intense U.S. engagement and it is going to require continued support from the United States Congress.

I have this story I tell, I say in 1979 Afghanistan was one of the poorest countries in the world and then they went through 25 years of invasions and civil war. So they went backwards. We have a term that we use, in fact for this hearing, reconstruction. And that term doesn't accurately apply to the case of Afghanistan.

In Afghanistan we are starting from scratch. We are starting at less than zero. And so our approach these years has been focused on constructing a state. We started by building the institutions of that state. We started with a constitution. We worked on developing the Office of the Presidency, the Parliament. We started working on building an Afghan national army. They have never had an Afghan national army before. They defeated the soviets with the Mujadhideen and they had run the British our hundreds of years earlier with the same process. They have never had a na-

tional institution like that. We are working on building the Afghan police as well.

And we started moving on building the economic infrastructure on which you can build a sustainable economy. An economy that needs to provide economic opportunity for over 20 million Afghans over 60 percent of those under the age of 25.

And finally, today we are thinking forward about what we are going to do and it is about building capacity of that government to reach out and provide the services required to govern the Afghan people. At not only the government level at the central level, but at the sub-national level. And so far to date through fiscal year 2007 that has cost the American people about $22.7 billion.

It is going to require us to stay the course for many years, because we are talking about building the Afghan state so that it can never again be a haven for international terrorism. Again, I believe we are on the right track. Afghanistan is making great progress and I look forward to answering your questions. Thank you, sir.

[The prepared statement of John A. Gastright, Jr., follows:]

PREPARED STATEMENT OF HON. JOHN A. GASTRIGHT, JR., DEPUTY ASSISTANT SECRETARY OF STATE FOR SOUTH AND CENTRAL ASIAN AFFAIRS, U.S. DEPARTMENT OF STATE

INTRODUCTION

Mr. Chairman, Members of the Committee, almost six years after September 11, 2001, Afghanistan remains at the forefront of efforts to combat global terrorism. Make no mistake: we are winning, but this effort is going to require many years of intense U.S. engagement. And with the continued strong support of the United States Congress our strategic goal of a democratic Afghanistan that is never again a haven for international terrorism will be achieved.

The integrated strategy we are pursuing melds together security, governance, and reconstruction. Each line of effort reinforces the other. The focus of our security efforts is training the Afghan military and police forces and we are making real progress. To complement these efforts, we are strengthening Afghan national institutions and improving Afghan governance throughout the country. We continue to make excellent progress on road construction, which improves Afghan economic viability, and also intend to extend the availability of electricity. We are re-building the rural infrastructure, enabling agricultural production to take place in vast areas of the country until recently out of bounds because of lack of irrigation or the presence of land mines.

Since 2001, with this Committee's support, the United States has invested more than $22.7 billion into rebuilding Afghanistan, and we have made great progress on many fronts. The Congress has appropriated $10.1 billion for assistance in Fiscal Year 2007 alone, which includes over $2 billion of foreign operations assistance for reconstruction. Economic growth remains high, and major reconstruction milestones in health, education, and infrastructure development have been reached.

Despite these successes, renewed attacks, particularly in the south, by the Taliban and other groups opposed to the legitimate Government of Afghanistan, as well as the continued menace of narcotics production remind us that our efforts are far from complete and that our commitment needs to be strong and steady.

RECONSTRUCTION

Our military efforts are helping to create a secure environment, while our reconstruction activities are laying the foundation for a functioning Afghan economy by constructing roads, building power generation capacity, expanding rural development opportunities, and working with the Afghan Government to extend good governance to the Afghan people.

In 2001, after the fall of the Taliban, there were only 50 kilometers of paved roads in the entire country. Construction is complete on over 5,825 kilometers of highways and provincial roads. The Ring Road is fully subscribed; routes to neighboring countries are under construction; and provincial and district roads are knitting together the country, particularly in the south. Not only are these roads transforming the

rural landscape of Afghanistan and providing the foundation for a sustainable economy, they are also providing construction jobs and help to extend the writ of the central government. The Pyanj River Bridge, constructed by the U.S. Army Corps of Engineers, will link Afghanistan and Tajikistan. Once it is dedicated in August, it will draw Central and South Asia closer together by permitting the flow of goods and travelers that will help to re-establish Afghanistan as the transportation focal point for the region. We have also recently completed crossing facilities on the Turkmen border at Imamnazar. Allied to such physical infrastructure upgrades, the United States supports mentoring of customs and border police units in order to improve Afghanistan's ability to sustain itself.

Access to reliable, affordable power is also critical to the stabilization and development of Afghanistan. Today, roughly ten percent of Afghans have access to electricity. We are working with the Afghan Government and other donors to build a power generation network that can serve as an engine of development. The goal of the Afghan government is to provide power to 40 percent of its population by 2011. In recent months, success in security operations in the Sangin District of Helmand Province has permitted the resumption of construction on the Kajaki Dam project, which will provide electricity for Helmand and Kandahar Provinces to close to two million Afghans. In the north, with our international partners, we are assisting Afghanistan in its efforts to secure power purchase agreements with neighboring countries and to build transmission lines to Kabul.

In addition, we are working to harness the power of markets. To ensure that people have opportunities for employment and a chance to develop sustained alternative livelihoods, President Bush announced his support for the establishment of Reconstruction Opportunity Zones (ROZs) in Afghanistan and the border regions of Pakistan. By allowing certain goods manufactured in ROZs to enter the United States duty free as part of a comprehensive strategy of support for the Afghan private sector, this initiative can serve as a catalyst for increased trade and economic stability. The Administration is working with Congress, American industry, and the Afghan government to implement this initiative and to give these people, who need jobs and hope for the future, an opportunity to join the world economy and build sustainable livelihoods.

GOVERNANCE

Improved governance is essential to laying the foundations of a stable society. Widespread incapacity and corruption together with traditional patronage networks impede efforts to deliver government services. Afghans deplore the continued presence of corrupt officials at all levels. Regrettably, the central government has been slow to remove even those involved in some of the most egregious cases. However, the attorney general has launched efforts to hold corrupt officials accountable, and we are beginning to see progress on this front. Good governance is key to maintaining and reinforcing long-term stability, preventing the return of the Taliban and winning in Afghanistan.

At the July 2007 Rome Conference on Rule of Law in Afghanistan, the international community pledged approximately $98 million in new contributions to support justice sector reform efforts in Afghanistan, and they developed a plan to coordinate justice assistance programs in the provinces.

Where governmental authority is weak and provincial governors uncommitted, poppy cultivation has grown. Farmers must have alternative livelihoods; security forces (army and police) must enforce the law; and government officials need to provide the necessary leadership. Preliminary poppy cultivation figures this year show a distinct north-south split. In the North, where our five-pillar strategy (alternative development, eradication, interdiction, judicial reform, and public information) is working in synergy, poppy cultivation is down. In the South where our five pillars have a more difficult environment, poppy cultivation will likely be up significantly.

Mr. Chairman, we have made much progress in Afghanistan, yet the international community must persist in supporting the Afghan people until they are able to stand on their own two feet. We must ensure that Afghanistan never again becomes a safe-haven for those who wish us harm

Thank you Mr. Chairman, I look forward to responding to your questions.

Chairman SPRATT. Thank you very much indeed. Mr. Ryan I will turn first to you.

Mr. RYAN. Dr. Sunshine, what was the—I think you had this in your testimony, but what is the total money that has been spent on reconstruction in Iraq to date? Is that the $44 billion figure I heard? What is that number?

Mr. SUNSHINE. Yes. I think that is- let me check that for you. Well we have diplomatic operations and foreign aid we have about $39 billion. There is another five billion that was originally appropriated to the State Department that was for indigenous security forces. We put that in a separate pot so we are using $39 billion for diplomatic operations and foreign aid.

Now that is just not—that is not just reconstruction.

Mr. RYAN. Yeah. So——

Mr. SUNSHINE. That is the operation of the Embassy and all the other things that are going on.

Mr. RYAN. And the SIGIR has the number as well. Is that the 44? I think you used the $44 billion number, Stuart.

Mr. BOWEN. That is right. That is not the amount spent, that is the amount appropriated.

Mr. RYAN. To date?

Mr. BOWEN. Yes. To date, yeah. And it is combining the amount from the Iraq Relief Reconstruction Fund, the Iraq Security Forces Fund, the Commanders Emergency Response Program, and the Economic Support Fund as well as 26 sub- accounts.

Mr. RYAN. Let me ask both Joe and Stuart if I could, when a lot of the criticisms that we have seen on these trips to Iraq are on the Iraqi side of the budget. And the Iraqis' ability to, number one, execute their own budget, I can't recall the number but it was billions last year they literally couldn't execute. And then on the revenue side, the oil. And I can't recall the name of the refinery, General Odierno walked us through you know the "black market" problem with the refinery. The sabotage problem. I think he detached a unit from 82 airborne to protect it.

Can you give us a sense on where we are now with respect to helping the Iraqis execute their own budget and with the extent of the Iraqis protecting their own revenue base and preventing sabotage and the black market from eroding their own revenue base.

Who ever feels, you know, so motivated to answer.

Mr. SALOOM. Actually I have been working on this for much of the past year. Indeed, the capital budget this year is $10 billion. Execution last year was in the low 20 percent range. It is an absolutely pivotal thing but the Iraqis themselves recognize this problem and it is actually one thing on which all Iraqis agree. I mean all regions of the country, all political parties, all levels of government.

The Deputy Prime Minister, Dr. Barham Salih, has put together a task force to work on budget execution. They had a conference in March that explained to the new budget expedited procedures. We are working with them, Major General Darryl Scott who is head of the Joint Contracting Command for Iraq and Afghanistan, has been instrumental in helping set up procurement assistance centers in conjunction with the Ministry of Planning where one of the big problems has been ministries would get money, but they couldn't actually contract it out. Okay? They just didn't have the expertise or the experience. And this group is set up so that if a ministry or a province has a problem.

Now the first one of these is actually up and running, but they plan on having these in every province. In addition, we have set

up in Deputy Prime Minister Barham Salih's office a budget execution monitoring office. Well we have helped them to set it up.

Mr. RYAN. It is a total cash economy, correct?

Mr. SALOOM. Cash.

Mr. RYAN. So all cash?

Mr. SALOOM. Cash.

Mr. RYAN. Everything cash. Every project that is let, cash?

Mr. SALOOM. Cash.

Mr. RYAN. And 20 percent of the ten billion capital budget last year——

Mr. SALOOM. No. Twenty percent of last year's budget was spent. Last year's budget was capital budget was so much smaller.

Mr. RYAN. Okay. So this year it is ten billion?

Mr. SALOOM. This year is ten billion. But also USAID is working with six of the key ministries to put in project management units. So we are—we have made budget execution helping them on budget execution absolutely job one.

When the Iraqis themselves had their budget management conference in March we had a conference for all of our PRT leaders the following week and gave them binders this thick, sort of saying, here is how you help your provincial government to actually spend its money. And in addition there has been great cooperation with multi-national division north where they are bringing members of the local governments, they have got five or six governments in MND North.

They will bring the governors down to Baghdad and Dr. Barham Salih and his office will help coordinate meetings with all of the ministers for them so that they can advance projects that have to be approved at central level with the ministries that the governors can sit with the ministers and advance those projects.

So it is——

Mr. RYAN. Well I got to think it is——

Mr. SALOOM [continuing]. That is considerable effort.

Mr. RYAN. I got to think it is pretty tough for them to establish an audit trail on these cash transactions. Has the SIGIR looked at this on behalf of——

Mr. BOWEN. We have.

Mr. RYAN [continuing]. Of and——

Mr. BOWEN. We have. We have good reporting on and our latest quarterly about eight to ten billion was left unspent in the Treasury last year that should of been spent on capital projects, most notably administrative oil, $3.5 billion they spent $90 million. Less than two percent.

This year already, according to the Iraqis' own reporting, we know how reliable it is, $538 million has been spent or 23 percent of the ministry of oils budget. This is the result of a coordinated effort between the Embassy and the Iraqis. The Embassy has coordinator for economic transition who now has complete authority over economic issues with respect to Iraq, including the budget execution initiative.

The Iraqis have also created a budget execution monitoring unit. And so those are important steps which is why the bench mark on this three weeks ago was rated conditional satisfactory. The actual explanation under the bench mark show that the Iraqis have a ap-

propriated money for budget execution. The data on actual execution is still a question mark, but it points out that if they continue on current levels they might reach about 50 percent. It is not a linear process. But if they reach 50 percent that is significantly better than last year.

Mr. RYAN. In the revenue base, the black market on the oil coming out of the refineraries which is protects their own revenue. What progress has been established on that?

Mr. BOWEN. That is a huge issue. Ninety-four percent of the budget is derived from the sale of oil and gas reserve. Seventy-four percent of the GDP and Bhagee is the power plant you were talking about. And I think one of the best things that General Petraeus did when he came in was send a battalion up surround it and stop the black marketing that is going on, but it still an issue and that is why frankly the turkey pipeline gets taken out a lot. It is down almost all the time and because when that pipeline is down it means oil has to be exported by truck, which means it is susceptible to smuggling and indeed there is a significant black market for refined fuels, a lot, most of it coming out of Bhagee in Iraq.

And for and this is the core of the corruption problem.

Mr. RYAN. But no more smuggling out of the refinery itself?

Mr. BOWEN. Well I am going back to Iraq to find out what the current status is. I mean whether that battalion is still up there and what the issues are, because the Commissioner on Public Integrity reports to us it continues to be a problem.

Mr. RYAN. Joe, you spent a year doing reconstruction. What kind of projects are the way to go in the future versus what we did in the past? It seems like we had a lot of white elephant projects that really didn't advance the cause. And you mentioned, I think in your testimony, expanding the Iraqis' capacity. What lessons have we learned now after a few years of IRRF on what not to do and what to do? And I think anybody else who cares to comment on that, I would appreciate your answer on that.

Mr. SALOOM. I put some of those in my written testimony. I would say first and foremost is ask the client. I realize that in 2003 when we went in there wasn't an Iraqi government with which to coordinate these things. But looking forward in other places and under other circumstances, getting the taking the time to know what all of the stakeholders want, what as this goes to the issue that Stuart and I talk about all the time with sustainability. If there is buy-in at the beginning, the chances of you getting sustainability are going to be significantly higher.

So the first thing is consult with those people who will be affected by the project as the very first important step. Another one I mentioned briefly and it is a lesson learned that we actually have applied in Iraq is going to from fixed price contracts with local contractors. I asked GRD for the Gulf Regional Division of Corps of Engineers for some data on this and they sent me something back that from 2005 to 2007 the percentage of contracts going to Iraqis went from the low 40s to the 70s in terms of percent.

Mr. RYAN. When you switched to fixed price contracts?

Mr. SALOOM. And the switch to fixed price contract went from virtually 100 percent cost plus in 2003 to 95 percent from—this is GRD only.

Mr. RYAN. Yeah.

Mr. SALOOM. There are other contracting mechanisms and it is construction only. But virtually a complete turn around from of the GRD construction contracts from cost plus to firm fixed price.

So it is a lesson learned that we have both we have learned and applied.

Mr. RYAN. One last question. I think this is probably for the SIGIR. The cost plus contracts, this is a concern. Could you give us more of your take on how money has been wasted in these cost plus contracts and how a real audit trail hadn't been established until you started looking into this.

Mr. BOWEN. The Bechtel audit is a good example. Bechtel had 166 subcontractors, 60 percent of those usually subs to those subs many of them were Iraqi subcontractors. So in the evolution that Joe was talking about was simply removing the design build component out of the picture which also removed the dilution of the taxpayer's investment in Iraq. That is an expensive couple of steps down when you finally get health care facility or a refurbished power plant at the end, which done by regional or Iraqi firm. The lesson learned is exactly the one Joe pointed to and JCCI, the Joint Contract Command Iraq, moved agility there when we started to raise the issue and that is contract directly with fixed prices then you know what you are paying and you know what you are going to get and you have some accountability.

The cost plus system depends upon a definitization. As I said during my statement, it was observed in the breach in the course of the Iraq reconstruction system. Senator Collin's bill I also mentioned addresses the cost plus contracting matter and I think it provides reform that is very necessary.

This $18.4 billion in IRRF II was contracted out, the construction part, through 12 $500 million cost plus contracts. In other words, totally dependent, $6 billion dependent upon definitization that didn't happen overseen by six other contractors. So the oversight was outsourced as well. That is spelled out in our contracting lessons learned and our program management lessons learned report.

And I think the recommendations from both help provide some guidance for reform.

Chairman SPRATT. Mr. Allen.

Mr. ALLEN. Thank you, Mr. Chairman. And thank you all for being here. I think I would like to stay on this topic for a moment.

Mr. Bowen when Secretary England was here, I sort of read this part of your July report. And I am going to read it again just to get bring us back there. The recommendation you had was, "Generally avoid using sole source and limited competition contracting actions. These exceptional contracting actions should be used as necessary, but the emphasis must always be in full transparency in contracting and procurement. The use of sole source and limited competition contracting in Iraq should have virtually ceased after hostilities ended." You mean 2003?

Mr. BOWEN. Well I understand your point. Yeah.

Mr. ALLEN. Yeah. And previously sole source limited competition contracts should of been promptly rebid. You know this is in—this is a lessons learned that you wrote——

Mr. BOWEN. Yes.

Mr. ALLEN [continuing]. In July of 2006.

Mr BOWEN. That is right.

Mr. ALLEN. My question is, didn't you personally come to this conclusion much earlier than that in 2004 and 2005? You didn't really need a study to come to this conclusion did you?

Mr. BOWEN. Well it was—well you are right. When we started doing our audits of contracting and among our first set of audits we looked at the CPA contracting process and found many weaknesses. For instance, unlocatable contracts, no system, no portable database. Another recommendation is develop a contracting method that is used in theater. We found five different methods that were being used and that led simply to inconsistent audit trails that we have talked about today.

There was no way to find out how many contracts had been let because there was no single system developed. There were some missing contracts that we asked for and they said well they were on a thumb drive and someone had left the country.

Mr. ALLEN. If I can just interrupt you.

Mr. BOWEN. Yes.

Mr. ALLEN. You start—you took this position in January of 2004.

Mr. BOWEN. That is right.

Mr. ALLEN. So you are talking now about 2004 or?

Mr. BOWEN. 2004 and 2005.

Mr. ALLEN. 2004 and 2005.

Mr. BOWEN. It took a while to get the organization stood up and get auditors deployed to Iraq. So our first this first contracting audit began in April of 2004 and was published in July of 2004.

Mr. ALLEN. And how many different reports have you made since you personally became the inspector general for——

Mr. BOWEN. Ninety-four audits and 96 inspections.

Mr. ALLEN. Okay. And quarterly reports?

Mr. BOWEN. Fourteen.

Mr. ALLEN. Fourteen.

Mr. BOWEN. Three lessons learned reports.

Mr. ALLEN. And in the last three years, how many times have you testified before a House or a Senate Committee?

Mr. BOWEN. This is my twenty-first time.

Mr. ALLEN. But, let me break up, 2004, 2005, 2006, how many during that period?

Mr. BOWEN. I think none in 2004. And so all 11 this year, and ten last year. Or 12 this year and nine last year.

Mr. ALLEN. Okay. And none in 2005?

Mr. BOWEN. I don't know. I would have to go back and look. I think a couple, yeah.

Mr. ALLEN. Order of magnitude. Let me come back to another question here. The in the lessons learned that I referred to earlier, July 2006, you advocated for establishing a single set of simple contracting regulations and procedures that provide uniform direction to all contracting personnel in contingency environments. And I gather that is because so many agencies oversee, among other things, so many agencies oversee LCAP the——

Mr. BOWEN. Yes.

Mr. ALLEN [continuing]. The Halliburton KBR contract.

Mr. BOWEN. The——

Mr. ALLEN. Can you expand on that?

Mr. BOWEN. Yes. And interestingly, those recommendations about contingency contracting were adopted a week before last by the Office of Federal Procurement Policy as contingency guidelines. So it is an example, I think where SIGIR lessons learned have helped promote reform and helped develop a better approach to contracting.

Mr. ALLEN. Yeah. I don't question that, I just wish some of this had happened earlier.

We have spent, I am told, about $19 billion on training and arming Iraqi security forces. Is that about right as far as you know?

Mr. BOWEN. Eighteen billion. That is right.

Mr. ALLEN. Okay. And the your report says that actual present for duty—the actual present for duty number of Iraqi army personnel continues to be lower than reported. DOD states that only 65 percent of authorized personnel are active on duty in fielded units at any time.

Mr. BOWEN. That is right.

Mr. ALLEN. And that police trained by soldiers receive less emphasis on rule of law, human rights, and treatment of suspects and prisoners and policing in a democracy. Is that right?

Mr. BOWEN. That is right.

Mr. ALLEN. And that——

Mr. BOWEN. And it is changing though as the rule of law initiative develops.

Mr. ALLEN. Okay. Okay. What if anything—I am concerned that we are training Iraqi personnel who may well wind up using their training and using the arms that are provided to them either to kill each other or to attack U.S. military personnel. Have you looked at that issue and what have you found so far?

Mr. BOWEN. We do not look at that issue. We are—some reporting on that, that we get from DOD and there are concerns about the national police and if it's facility protection service. Those both have needed and have received reform because of sectarian issues that you elude to.

Mr. ALLEN. Okay. And I guess the last question I would have is that it has been suggested that you should have expanded authority to investigate DOD logistics contracts in Iraq, and I am thinking the Halliburton contract, which I understand is about half of what we have spent in terms of reconstruction. Is that number right?

Mr. BOWEN. On the DOD side I don't know what the logistic spending number is.

Mr. ALLEN. Well there is——

Mr. BOWEN. But LCAP if you are talking about LCAP it is $16 billion contract in Iraq.

Mr. ALLEN. Right. Okay. So that is—and Halliburton overall, KBR I should say——

Mr. BOWEN. That is right.

Mr. ALLEN [continuing]. Has received, I understand, about $20 billion, which is about half of the $44 you——

Mr. BOWEN. Well, again, we are mixing numbers here. That is all military DOD money that is not within our jurisdiction and that

is why the proposal, I think you are referring to in Senator Webb's bill is to provide us jurisdiction to look at that money.

Mr. ALLEN. What is your position on that proposal?

Mr. BOWEN. We will respond if assigned the task.

Mr. ALLEN. What is the—well the last thing I will say, what do you think is the extent, given current law of your responsibility if any, for overseeing Halliburton and KBR's contracts?

Mr. BOWEN. Well the Task Order 130 audit is a KBR audit. And it looked at real shortfalls on the part of KBR in managing fuel supply to the mission and providing food and managing the building program. But we only look at it to the extent that it involves Iraq relief and reconstruction fund money, which is a tiny fraction of the overall investment.

Mr. ALLEN. Okay. Well, thank you very much.

Mr. BOWEN. Thank you.

Chairman SPRATT. Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. The quarterly report you talk about convictions and results of some of the audits in the legal system. Can you did these convictions result in jail time?

Mr. BOWEN. They did.

Mr. CONAWAY. Can you give us a little how that——

Mr. BOWEN. Sure. We have a chart in Section one of this report, the first time we have included a detailed chart that lays out who the wrongdoer was, what where they were from, what their crime was, and all five of the——

Mr. CONAWAY. Okay.

Mr. BOWEN [continuing]. Persons from SIGIR are in prison now as a result of our investigation.

Mr. CONAWAY. Can you help me understand, those five convictions and the 13 arrests, eight pending trials.

Mr. BOWEN. Right.

Mr. CONAWAY. What is the scope of the overall transactions that you glean that from so is there any way extrapolate that to the broader issue?

Mr. BOWEN. Yes. The biggest crime that we uncovered was a result of an audit down in Hilla of a series of contracts. Really the CPA's management of $120 million. We found through that audit that $90 million had poor back-up paperwork. Then we drilled down further and we found $8 million was just missing. So I sent my investigators down there to look at it and they indeed found a number of significant problems. We began a year long investigation in this and have caught about eight people in this net and four of these five are from that scheme and they have gone to prison. It involved about $10 million in kick backs and bribes.

Mr. CONAWAY. Okay. Did we recover any of that money?

Mr. BOWEN. We have. We have recovered or have gotten restitution orders to date of $16 million total from our investigations.

Mr. CONAWAY. And then the 57 ongoing investigations, those are criminal——

Mr. BOWEN. Yes, they are.

Mr. CONAWAY. Could result in criminal as well?

Mr. BOWEN. There is some civil in there and but 90 percent are criminal.

Mr. CONAWAY. Criminal. Okay. You are talking and all I have got is this, right?

Mr. BOWEN. Yes.

Mr. CONAWAY. At this moment? The sustainment reviews?

Mr. BOWEN. Yes.

Mr. CONAWAY. And you also talk about of the four transfers only you are saying three of the four transfers cannot be sustained?

Mr. BOWEN. We are talking about our sustainment inspections and it was a regime we started last quarter to look at projects that had been handed over for over a year. Al Doura is the biggest one.

Mr. CONAWAY. Okay. Of the—give me a sense of what the scope of a project is. Is this is a tiny little $10 million deal or a billion dollars?

Mr. BOWEN. No. But we look at it across the board, but——

Mr. CONAWAY. Of the four that you have got.

Mr. BOWEN. Of the four. And the Al Doura one was—yeah. Al Doura was $90 million. That was one that fell short. It is a $90 million—$93 million rehabilitation of the most important electric plant providing power Baghdad.

Mr. CONAWAY. Right.

Mr. BOWEN. And so we went down there in June to see what the status was and that is as I mentioned in my testimony the it was not operating, neither unit. It could provide 320 megawatts to the grid, which would be seven and a 2half percent of the total power right now generated. And it would provide Baghdad with much more than the eight hours it is currently receiving.

Mr. CONAWAY. Okay. And the other two projects?

Mr. BOWEN. The there was——

Mr. CONAWAY. That is 90——

Mr. BOWEN. Yeah.

Mr. CONAWAY [continuing]. You said $90 million or $90 billion?

Mr. BOWEN. Ninety million.

Mr. CONAWAY. Million. Okay.

Mr. BOWEN. Ninety million. The there was the Al Rashid refurbishment which was a several million dollar project. It was a base in the Baghdad vicinity and the C-130 based also a refurbishment of barracks and providing generators.

Mr. CONAWAY. And——

Mr. BOWEN. Several million dollars much smaller than Al Doura.

Mr. CONAWAY. All right. And of those three, you talk about the are not being sustained properly?

Mr. BOWEN. Yes. There were problems with sustainment and——

Mr. CONAWAY. Was that ongoing?

Mr. BOWEN. Well the—we raised the problems and the expectation is that the Iraqis will address and repair the are the concerns we have. The generators are broken at the were broken at the Al Rashid base.

Mr. CONAWAY. Okay. And on the power plants you are—you said it is going to be online in August of 2007? Is that——

Mr. BOWEN. That is right. In that case the Corps of Engineers took over and one is started up a couple days ago. One of the units has started and it is producing 30 megawatts right now.

Mr. CONAWAY. When did the Corps take over?

Mr. BOWEN. They have—earlier this year. The beginning of this year.

Mr. CONAWAY. Okay. And you think they will have everything up, the other one going in August?

Mr. BOWEN. Yes. I met with the Commander of the Corps yesterday and he told me they will be up in August.

Mr. CONAWAY. Okay. On the asset transfers, on the first place, you are talking about asset transfers that the central government has not accepted any of those transfers. What does that mean to us?

Mr. BOWEN. That is right. This is our fourth audit on this issue. Very important. Tied to the sustainment issue, because it is about whether there is a plan for our projects to go within the jurisdiction—to be transferred within the jurisdiction of the Iraqis and then manage and operate and maintain properly.

A good process which worked out as the audit points out. And it from April to June of last year hundreds and hundreds of projects transferred with tens of millions of dollars. Then in July the ministry of finance abandoned the program. And there was no coordinated transfer program thereafter to replace it. And as a result local transfer had to occur and then eventually the Corps just developed a unilateral transfer process, certainly not what anybody wants with respect to these projects.

There is a pending remedy. A new bilateral agreement to re-energize, re-institute the transfer program that fell off the tracks a year ago.

Mr. CONAWAY. Okay. And you will review that for us next quarter or I mean that will be——

Mr. BOWEN. Yes, sir.

Mr. CONAWAY [continuing]. A subject you are continuing——

Mr. BOWEN. Yes.

Mr. CONAWAY [continuing]. Oversight?

Mr. BOWEN. Our recommendation to the Ambassador was to is to ensure that he and his counterpart execute that and they have accepted the recommendation.

Mr. CONAWAY. Okay. Good. Thank you, Mr. Chairman. I yield back. Thank you for your—and I apologize for interrupting you but we only get five minutes.

Mr. BOWEN. Sure. I understand.

Mr. CONAWAY. Unless I keep asking one last question.

Mr. BOWEN. Sorry for going on so long.

Mr. CONAWAY. Yeah. No, no, no. So, pardon my abruptness with you. I was trying to get some answers. Thank you, sir. I yield back.

Mr. BOWEN. Thank you. Thanks.

Chairman SPRATT. The number we have is $44.5 billion appropriated thus far for reconstruction work. We also are informed that Iraq has amassed about $37 billion for the same purpose. And that firms other assistance has been pledged, but yet to be delivered of about four billion out of an amount of $18 billion pledged, much of which I think was in loans as opposed to grants.

Mr. BOWEN. That is right.

Chairman SPRATT. Those numbers are roughly correct?

Mr. BOWEN. The Iraqi money is the amount that has already been spent. It is not it doesn't address the amount of money that

they currently are putting forward. That is the development fund for Iraq money, the development fund sub-accounts and the amount that was transferred to the Iraqis during the CPA and thereafter for their national budgets. That is where that number is derived from.

Chairman SPRATT. Well I take it that you included capital budgeting as one of the bench marks?

Mr. BOWEN. Yes. That is exactly right.

Chairman SPRATT. Because you—do you believe that is a sign of a functional government?

Mr. BOWEN. Exactly. And we have a separate section just addressing that issue. Yes, sir.

Chairman SPRATT. Sorry, I didn't understand you.

Mr. BOWEN. Yes. The capital—moving forward the expending the capital budget is essential to recovery of the economy.

Chairman SPRATT. Is the—here the numbers we were talking about 44.5, 36.9, and 18.2 of which four billion is in disbursed——

Mr. BOWEN. Yes. That is right.

Chairman SPRATT [continuing]. $14 billion remains in pledge. What is the hold up? Is it due partly to the fact that the technocrats who ran the government, the Baathists, are no longer in power and those who are in power don't have that confidence or capability?

Mr. BOWEN. I think that is part of it. The fact is that over the last four years, four governments have ruled Iraq. The CPA, ambassador—excuse me—Prime Minister Alawhi, Prime Minister Jaffri, and now Prime Minister Maliki's government.

And with each one of those turn overs there was frequently turn over among the ministry heads which led to turn over within the ministries themselves. Continuity of management in most ministries is relatively weak and I think so capacity is the issue you are pointing to is continuing to be a problem. And it is a place where economic support funds are being spent.

Chairman SPRATT. One of the reasons we are pursuing this is we had Mr. Wolfowitz here in March of 2003, March the 27th. And we asked him about reconstruction, normalization, putting Iraq back together again. And he said, "We are dealing with a country that can really finance its own reconstruction and relatively soon." Why did we make that assumption and why did it not work out?

Mr. BOWEN. The assumption was based on the fact that Iraq has the third largest oil and gas reserves in the world and an enormous potential for economic benefits to the citizens of Iraq. Only nine percent of the Iraq relief and reconstruction fund, however, was spent on the oil and gas sector. It was behind security, of course, behind electricity, behind water, behind economic development. The assumption was that it would begin to regenerate on its own. That assumption has proved false.

Chairman SPRATT. The goal set early after the war for reconstruction was, I believe, around two point five to three million barrels per day. Preferably the upper end of that.

Mr. BOWEN. The three. Yes.

Chairman SPRATT. The two point——

Mr. BOWEN. Yes, sir.

Chairman SPRATT [continuing]. Eight to three million is compared to about two and a half million barrels a day before the war.

Mr. BOWEN. That is right.

Chairman SPRATT. What happened? Is this due to sabotage, pilferage, corruption, over estimation, lack of competence, all of the above?

Mr. BOWEN. All of the above plus a debilitating infrastructure. The primary problems have been security. As I mentioned earlier that the pipelines get hit regularly. Then corruption right behind it as I mentioned the smuggling issue deprives the Iraqis of the benefits of a significant portion of their economy, because it is off budget. It doesn't benefit the country. And third, that there is a refinery system is debilitated, is deteriorated and needs capital investment now. As a result of that debilitated system, Iraqis import refined fuels. They cannot refine enough for their own needs.

And finally, related to the reconstruction enterprise, a number of the electrical generators that we have installed are running on the wrong fuel because the system is so inadequate that the natural gas necessary to run those generators is not laid and provided for the power plants.

Chairman SPRATT. In March the head of the Army Corps of Engineers of the Gulf Regional Division estimated that $100 billion more would be needed for reconstruction. This is in addition to the $100 billion provided to date from the U.S., Iraq and other sources. Do you know the derivation of that number and if so where is this $100 billion to be obtained?

Mr. BOWEN. I don't know the derivation, but I have heard numbers like that from World Bank or IMF estimates. As we have said in our last two quarterly reports and repeat again in this one, the burden of financing the recovery of Iraq is a burden squarely on the shoulders of the government of Iraq. And they have tremendous resources that are untapped in the oil and gas reserves. And if that sector can be brought online and operating optimally then there is a great potential for progress.

Chairman SPRATT. Let us just take the $10 billion that was earmarked, designated for as one of the bench marks for distribution to get the economy going again, tend to some essentially capital needs. The ten billion dollars subject to the bench mark apparently there is a memo, some sort of MOU for the allocation of this, but the allocation has never occurred. What is the problem?

Mr. BOWEN. Well, I think that the allocations have occurred, the execution is the open question. The bench mark report that came out three weeks ago gave the conditional satisfactory to the progress on the budget execution initiative. The coordinator for economic transition and the budget execution monitoring unit on the Iraqi side have pushed out funds to the provinces, $5.8 billion in capital funds, and the oil sector, the public works, ministry of education for example are spending their capital budgets. But getting good data from the ministry of finance about that execution is continues to be a challenge and is the mission of the coordinator for economic transition. So I can't give you a sense of whether it really is satisfactory at this point. There is a conditional satisfactory based on allocations to date.

Chairman SPRATT. There is a story in the New York Times this past weekend and I put this question to all of you. It said that even as we complete these projects the Iraqis are reluctant to take responsibility for them. Only one in seven apparently which has completed is actually been taken over. One out of every seven projects out of a couple thousand projects?

Mr. BOWEN. Right. That is from our asset transfer audit.

Chairman SPRATT. Yeah. Is that an accurate account?

Mr. BOWEN. Yes, sir. The asset transfer process needs to be reformed and re-energized with the new agreement.

Chairman SPRATT. One would think that they would want to get their hands on the equipment then, you know, exercise some dominion and control and——

Mr. BOWEN. Yes, sir.

Chairman SPRATT [continuing]. Be in charge. But apparently not. Is their a lack of get up and go? A lack of entrepreneurial spirit? Fear that they will fail and suffer the consequences?

Mr. BOWEN. I think a lot of the problem may be centered upon the current minister of finance as pointed out in our audit.

Chairman SPRATT. There obviously has been a lot of poor contracting work. Granted a lot of the contractors didn't estimate the security situation adequately and probably didn't appreciate the conditions. One thing for clarification I would like to have straightened out. You say cost plus and cost plus by itself is illegal, but there is cost plus fixed fee and cost plus incentive fee. Were most of these contracts fixed fee contracts?

Mr. BOWEN. They were a mixture of cost plus fixed and incentive. There was a three percent fixed fee and then the opportunity to earn 12 percent in incentive award fee. So a total amount of 15 percent award fee on the design build contracts, which is why I was so concerned when I found out there were no criteria for the management of the award fee process.

Chairman SPRATT. If you take all of these capital amounts that have been provided, the $44 billion or $37 billion and the $4 billion out of the 18 provided by other sources adds up to $80 odd billion dollars. What would you estimate is the value of the assets that corresponds with these investments today?

Mr. BOWEN. On the ground in Iraq?

Chairman SPRATT. Yeah.

Mr. BOWEN. I will—that is a tough question that we don't have enough data to answer yet. That is what I am trying to accomplish through these focused financial reviews is find out where the money went and what we got for it. And the Bechtel audit is the beginning of that. It lays out in that contract, you know for example, you know the Basrah Children's Hospital, the original budget was $37 million the final budget was $26 million but there were—had been other cost related to the delays. What the value of what ultimately is completed is something we are going to have to address over the course of these many focused financial reviews that SIGIR is now carrying out.

Chairman SPRATT. One final question then I will turn it over to Mr. Scott. With respect to those contracts that weren't completed where the contractors had substantial overruns and didn't stay to complete the job. Did you allow them or did the government allow

them, did we allow them some exoneration, some release from the contract so that they could walk away from the job without consequences or——

Mr. BOWEN. Yes. The fact is, is that the only way to recover for a poor performance under a cost plus fixed award fee contract is terminating for default. In most cases, however, in Iraq terminations have been for convenience.

Chairman SPRATT. Of the government.

Mr. BOWEN. And when there is termination for convenience there is no then cause of action that the government retains for going against the contractor for poor performance.

Chairman SPRATT. But down the road there are no penalties, no——

Mr. BOWEN. Well we are pursuing——

Chairman SPRATT [continuing]. Damages, debarment, anything like that?

Mr. BOWEN. We actually are pushing hard on the debarment suspension front in my office. And we are working with the Department of Army and we have made some progress there and we will continue to push it because that is an important mechanism too for accountability.

We also are going to do an audit of the terminations issue you just raised, because I have been looking at this as well for a while and we want to know what contracts were terminated, why they were terminated, and what the issues were connected to them.

So we will have a report by the end of the year to you on that.

Chairman SPRATT. Thank you very much. Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman. I wanted to follow that up. In what you will have at the end of the year, will that give us an idea of what these services should reasonably have cost?

Mr. BOWEN. Those were our focused financial reviews and with that and the Bechtel is the first. Parson's is next. We are doing Black Water and Floor and Research Triangle Institute. The big contracts in Iraq and out of that the purpose is to say what was contracted for, what was actually achieved, what was it originally suppose to cost, and what did it cost. And then explain the delta.

Mr. SCOTT. Well and what should it have reasonably cost, because there are a handful some of these are sole source and just because you contracted for it doesn't mean that is a reasonable cost. Can you get a kind of idea of what it should of cost?

Mr. BOWEN. That is beyond our capacity. What we can do is look at the contracts and find out. But let me just make a point on sole source. Sole source and limited competition, which was more common, occurred primarily in 2003. Since then it has been a very infrequent mechanism.

Mr. SCOTT. Well there—I would image that there are limited number of firms actually bidding so the real—you don't have this kind of competition you would have on a domestic contract. Is that right?

Mr. BOWEN. That is a fair point. Yes, sir.

Mr. SCOTT. And so if they I know in Virginia they would we had a when I was in the State House we had a scandal because people would have kind of cooperative bids.

Mr. BOWEN. Uh huh.

Mr. SCOTT. You bid high on this one so that my high bid will actually——

Mr. BOWEN. Bid rigging that is called.

Mr. SCOTT. Well courtesy bidding.

[Laughter.]

Mr. SCOTT. Without if everybody is just kind of bidding high generally, not rigging, just an understanding you can if everybody is bidding high then everybody is going to get a nice price. Now are you looking at what these value of the contract should be?

Mr. BOWEN. That is a job for the Defense Contract Audit Agency. Their mission is exactly that. They serve the contracting officers in reviewing bids and assessing whether they are financially appropriate.

Mr. SCOTT. Okay. Now when I was in the National Guard when you talked about privatizing you what we kind of thought of was privatizing KP. Everything else you would expect military personnel to actually do. Now we are using a lot of contractors to do what are essentially military functions.

Mr. BOWEN. That is right.

Mr. SCOTT. Is that an efficient way of getting things done?

Mr. BOWEN. That is a broad policy question. The LCAP——

Mr. SCOTT. But part of it is the numbers we see later on show that about 70,000 troops are going to cost—75,000 troops will cost $70 billion. That is about a million dollars a troop in round numbers. I imagine that part of that is because for every troop you got you got a bunch of contractors around. So it is not a really apples to apples comparison.

Does the use of contractors is that financially appropriate and does it affect your ability to get the job done when you are dealing with contractors that you can't—that aren't as responsive necessarily as the person in the chain of command.

Mr. BOWEN. Well this is an issue that is outside the jurisdiction of my office. It is within the jurisdiction of the Department of Defense IG because it has to do with DOD funding. I focus on reconstruction funding which is inner agency appropriations. We do look at a small portion of KBR's spending as it affects the reconstruction program. We will be auditing their oil contract. We had an audit out this quarter on their LCAP task order that supported the embassy and found a number of concerns there that were fixed.

Mr. SCOTT. Does your office have anything to do with mental health funding?

Mr. BOWEN. No, we don't.

Mr. SCOTT. Replacement of vehicles?

Mr. BOWEN. No, sir.

Mr. SCOTT. And things like that?

Mr. BOWEN. It is all Department of Defense.

Mr. SCOTT. Have you read the articles that were written over the weekend talking about things that have been wasted? New York Times and Washington Post?

Mr. BOWEN. Can you refer to me specifically which ones?

Mr. SCOTT. The headlines or report says, "Iraq Lags in Rebuilding." "U.S. Rebuilds Iraq Won't Act on Finished Work." "Bechtel's Projects Lacking in Iraq."

Mr. BOWEN. Yes. Those are articles reporting on our audits.

Mr. SCOTT. Okay. Are these reasonably accurate to the best of your knowledge?

Mr. BOWEN. Yes, they are.

Mr. SCOTT. Okay. Thank you, Mr. Chairman.

Chairman SPRATT. Thank you, Mr. Scott. To our panel, I would like to thank you very much for your excellent presentation, for your forthright responses. We really do appreciate you coming in, not least for your forbearance in waiting while we had to finish our votes on the floor. Thank you very much, indeed.

Mr. BOWEN. Thank you, Mr. Chairman.

Chairman SPRATT. A couple of housekeeping details before we finally recess. I would like to ask unanimous consent that my opening statement be made part of the record. In addition, Mr. McGovern has a study done by the Progressive Caucus which he would like to have inserted in the record as well, if there is no objection.

Mr. SCOTT. Mr. Chairman——

Chairman SPRATT. Hearing none, so ordered.

[The information follows:]

THE PROGRESSIVE CAUCUS: COST OF THE IRAQ WAR/OCCUPATION BY CONGRESSIONAL DISTRICT AND WHAT ELSE THAT $ COULD HAVE FINANCED

[ISSUE REPORT #1: JULY, 2007]

CPC Member	Total $ on Iraq War (million)	People with Health Care	Elementary School Teachers	Head Start Places for Children	Children w/ Health Care	Affordable Housing Units	New Elementary Schools	Scholarships for University Students	Music & Art Teachers	Public Safety Officers	Homes with Renewable Energy	Port Container Inspectors
Abercrombie	$883.00	296,947	16,965	117,958	297,861	2,764	67	238,917	16,965	21,657	1,470,114	12,786
Baldwin	$1,125.70	674,804	19,998	168,136	805,479	9,391	134	179,244	19,123	26416	1,372,905	17,896
Becerra	$687.10	282,193	10,366	81,542	256,291	2,057	52	105,515	10,246	12,783	1,224,272	9,184
Bordallo	Not found in NPP Database											
Robert Brady	$736.40	171,120	12,179	104,456	217,473	7,483	51	63,984	12,574	16,981	885,548	11,322
Corrine Brown	$899.90	289,060	16,643	121,839	452,793	6,636	141	290,864	15,559	21,420	632,904	11,100
Capuano	$1,170.00	340,649	17,334	139,090	426,199	4,064	88	126,107	20,165	23,553	1,824,237	17,584
Carson	$785.00	244,560	14,134	116,429	390,961	8,219	70	110,370	13,210	20,107	746,058	11,248
Christensen	Not found in NPP Database											
Clarke	$1,281	225,561	14,927	141,094	427,416	7,053	87	204,485	17,339	24,638	2,323,074	18,649
Clay	$844	314,085	18,017	124,087	301,778	8,473	100	121,243	16,735	21,215	736,708	13,432
Cleaver	$890.30	331,357	19007	130,911	318,373	8,939	104	127,910	17,655	22,382	777,220	14,170
Cohen	$837.70	138,958	16,578	115,735	232,690	8,711	92	158,343	16,273	23,300	620,197	11,779
Conyers	$753.10	258,837	10,504	112,906	514,761	6,071	68	81,747	10,401	16,284	1,058,482	11,394
Cummings	$941.90	171,769	15,232	125,234	337,003	5,052	83	120,440	16,078	20,296	874,483	17,807
Davis (IL.)	$1,288	468,502	20,967	188,357	772,918	9,303	152	148,616	22,616	26,014	1,706,375	19,825
DeFauzio	$746.50	160,824	13,064	110,650	223,075	4,621	78	132,985	13,731	15,912	701,662	12,488
DeLauro	2,346	804,569	33,822	325,826	934,954	11,334	177	299,122	33,008	47,322	2,922,032	30,178
Ellison	$1,402.10	393,858	24,271	198,871	454,051	8,827	164	160,314	22,019	31,812	1,586,596	16,477
Farr	$1,289.40	531,854	19,537	153,684	483,035	3,877	98	198,867	19,311	24,093	2,307,404	17,310
Fattah	$800.90	186,115	13,246	113,610	236,530	8,139	56	69,591	13,676	18,469	963,150	12,314
Filner	$1,033.00	424,237	15,584	122,587	385,297	3,092	78	158,628	15,403	19,218	1,840,519	13,808
Frank	$1,631	460,510	23,433	188,030	576,163	5,494	118	170,480	27,259	31,841	2,466,115	23,772
Grijalva	$696.30	153,305	16,138	89,145	300,591	5,301	53	154,809	15,113	16,515	596,557	8,329
Gutierrez	$1,142.70	417,211	18,671	167,736	688,299	8,284	136	132,346	20,140	23,167	1,519,562	17,655
Hall (N.Y.)	$2,342	425,316	28,147	266,045	805,930	13,300	163	385,576	32,694	46,456	4,380,352	35,163
Hare	$1,114.80	407,045	18,216	163,649	671,528	8,083	132	129,121	19,649	22,602	1,482,536	17,224
Hinchey	$1,406	255,521	16,910	159,834	484,187	7,990	98	231,646	19,642	27,910	2,631,631	21,125
Hirono	$844.00	283,811	16,215	112,740	284,686	2,642	64	228,349	16,215	20,699	1,405,082	12,221
Honda	$1,989	810,344	29,766	234,156	735,963	5,907	150	302,998	29,422	36,709	3,515,613	26,375
Jackson	$1,292	480,158	21,488	193,043	792,149	9,535	156	152,313	23,178	26,662	1,748,831	20,318

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Jackson-Lee	$1,057.80	230,237	19,996	149,167	433,033	12,611	107	151,718	18,830	25,344	805,546	17,913
Johnson (GA.)	$1,294	286,166	23,324	185,962	636,578	11,001	208	287,259	23,283	35,357	1,037,064	19,243
Tubbs-Jones	$808.30	270,917	13,734	124,799	459,647	73,649	73	100,004	12,372	19,388	905,181	16,673
Kaptur	$1,017.10	340,935	17,283	157,052	578,440	9,486	91	125,851	15,570	24,399	1,139,122	20,982
Kilapatrick	$650.50	223,586	9,074	97,529	444,656	5,244	59	70,614	8,984	14,066	914,328	9,842
Kucinich	$1,057.40	354,443	17,968	163,275	601,359	9,862	95	130,837	16,187	25,365	1,184,255	21,814
Lantos	$1,871	759,591	27,902	219,490	689,869	5,537	141	284,021	27,579	34,410	3,295,420	24,722
Lee	$1,167.30	479,385	17,609	138,523	435,383	3,494	89	179,248	17,405	21,717	2,079,774	15,603
Lewis (GA.)	$1,071.00	230,534	18,789	149,809	512,824	8,862	168	231,414	18,757	28,484	835,452	15,502
Loebsack	$823.40	259,765	19,032	123,881	369,806	10,245	97	146,720	18,241	20,400	926,476	13,795
Maloney	$2,104	378,262	25,032	236,611	716,767	11,829	145	342,918	29,077	41,317	3,895,739	31,273
Markey	$1,644	485,744	24,717	198,334	607,733	5,795	125	179,822	28,752	33,586	2,601,247	25,075
McDermott	$1,295	200,573	23,089	147,862	509,939	7,365	141	237,631	23,160	25,599	1,187,569	18,095
McGovern	$1,518	434,836	22,126	177,547	544,039	5,188	112	160,976	25,740	30,066	2,328,624	22,446
Miller (CA.)	$1,403	571,274	20,984	165,074	518,837	4,164	105	213,606	20,742	25,879	2,478,425	18,593
Moore (WISC.)	$793.30	475,538	14,093	118,487	567,625	6,618	94	126,315	13,477	18,615	967,493	12,611
Nadler	$1,751	311,600	20,621	194,913	590,450	9,744	119	282,485	23,953	34,036	3,209,185	25,762
Holmes-Norton	$2,335	590,376	39,034	311,645	727,150	7,965	204	1,107,837	39,034	39,598	4,057,835	34,465
Olver	$1,285	368,586	18,756	150,497	461,152	4,397	95	136,450	21,818	25,486	1,973,844	19,026
Pastor	$692.20	152,394	16,042	88,615	298,803	5,270	53	153,889	15,023	16,418	593,010	8,280
Payne	$1,286	141,943	18,656	145,369	506,426	5,052	89	137,832	15,788	23,326	1,779,046	17,977
Rangel	$1,017.40	184,936	12,239	115,682	350,434	5,783	70	167,656	14,216	20,200	1,904,660	15,290
Rush	$1,173	432,516	19,356	173,889	713,549	8,589	141	137,201	20,878	24,016	1,575,307	18,302
Linda Sanchez	$1,175	490,207	18,007	141,649	445,211	3,572	90	183,295	17,799	22,206	1,818,982	324,606
Sanders	$776.60	281,075	13,791	90,102	226,608	5,696	59	72,255	14,395	17,868	1,161,348	12,222
Schakowsky	$1,516	539,788	24,156	217,017	890,523	10,719	176	171,229	26,057	29,973	1,966,013	22,841
Serrano	$703.30	127,856	8,461	79,977	242,274	3,999	49	115,909	9,828	13,965	1,316,798	10,571
Slaughter	$1,156.50	210,241	13,913	131,510	398,385	6,574	81	190,596	16,161	22,964	2,165,281	17,382
Solis	$1,088.90	447,203	16,427	129,223	406,155	3,260	82	167,215	16,237	20,258	1,940,157	14,555
Stark	$1,640	674,442	24,774	194,886	612,535	4,916	124	252,182	24,488	30,553	2,926,012	21,951
Thompson (Miss.)	$449.30	97,385	9,914	74,279	255,206	6,617	70	104,014	9,430	14,583	332,634	7,309
Tierney	$1,752	502,312	25,560	205,098	628,461	5,992	129	185,955	29,734	34,732	2,689,966	25,930
Udall	$554.60	163,424	11,847	79,228	217,054	5,658	68	141,560	11,351	14,726	867,530	26,824

Velzquez	$1,061.60	192,986	12,772	120,717	365,689	6,034	74	174,954	14,835	21,079	1,987,572	15,955
Waters	$846.20	347,548	12,767	100,427	315,647	2,533	64	129,953	12,619	15,744	1,507,809	11,312
Watson	$832.80	342,028	12,563	98,832	310,634	2,493	63	127,889	12,419	15,494	1,483,861	11,132
Watt	$1,002.20	207,021	21,329	135,168	461,002	9,485	110	217,256	19,361	26,365	795,084	14,607
Waxman	$1,634	657,070	24,136	189,866	596,757	4789	122	245,686	23,857	29,766	2,850,643	21,385
Welch	Same as Sanders											
Woolsey	$1,528	639,045	23,474	184,658	580,388	4,658	118	238,947	23,203	28,949	2,772,445	20,799

Chairman SPRATT. Mr. Scott?

Mr. SCOTT. Ask unanimous consent that Congressional record S-10154, October 9, 2002 be entered into the record. It is the copy of the letter that the CIA wrote to Senator Graham about the presence of al-Qaida and the threat that was present in Iraq and the fact that it would be worse if we attacked.

Chairman SPRATT. How about letting us have a copy of that then for record.

Mr. SCOTT. Thank you.

[The information follows:]

[From the Congressional Record, October 9, 2002, page S10154:]

CENTRAL INTELLIGENCE AGENCY,
Washington, DC, October 7, 2002.

Hon. Bob Graham, *Chairman,*
Select Committee on Intelligence, U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: In response to your letter of 4 October 2002, we have made unclassified material available to further the Senate's forthcoming open debate on a Joint Resolution concerning Iraq.

As always, our declassification efforts seek a balance between your need for unfettered debate and our need to protect sources and methods. We have also been mindful of a shared interest in not providing to Saddam a blueprint of our intelligence capabilities and shortcoming, or with insight into our expectation of how he will and will not act. The salience of such concerns is only heightened by the possibility for hostilities between the U.S. and Iraq.

These are some of the reasons why we did not include our classified judgments on Saddam's decisionmaking regarding the use of weapons of mass destruction (WMD) in our recent unclassified paper on Iraq's Weapons of Mass Destruction. Viewing your request with those concerns in mind, however, we can declassify the following from the paragraphs you requested.

Baghdad for now appears to be drawing a line short of conducting terrorist attacks with conventional or CBW against the United States.

Should Saddam conclude that a US-led attack could no longer be deterred, he probably would become much less constrained in adopting terrorist actions. Such terrorism might involve conventional means, as with Iraq's unsuccessful attempt at a terrorist offensive in 1991, or CBW.

Saddam might decide that the extreme step of assisting Islamist terrorists in conducting a WMD attack against the United States would be his last chance to exact vengeance by taking a large number of victims with him.

Regarding the 2 October closed hearing, we can declassify the following dialogue. Senator Levin: * * * If (Saddam) didn't feel threatened, did not feel threatened, is it likely that he would initiate an attack using a weapon of mass destruction?

Senior Intelligence Witness: * * * My judgment would be that the probability of him initiating an attack—let me put a time frame on it—in the foreseeable future, given the conditions we understand now, the likelihood I think would be low.

Senator LEVIN: Now if he did initiate an attack you've * * * indicated he would probably attempt clandestine attacks against us * * * But what about his use of weapons of mass destruction? If we initiate an attack and he thought he was in extremis or otherwise, what's the likelihood in response to our attack that he would use chemical or biological weapons?

Senior Intelligence Witness: Pretty high, in my view.

In the above dialogue, the witness's qualifications—"in the foreseeable future, given the conditions we understand now"—were intended to underscore that the likelihood of Saddam using WMD for blackmail, deterrence, or otherwise grows as his arsenal builds. Moreover, if Saddam used WMD, it would disprove his repeated denials that he has such weapons.

Regarding Senator Bayh's question of Iraqi links to al-Qa'ida, Senators could draw from the following points for unclassified discussions: Our understanding of the relationship between Iraq and al-Qa'ida is evolving and is based on sources of varying reliability. Some of the information we have received comes from detainees, including some of high rank. We have solid reporting of senior level contacts between Iraq and al-Qa'ida going back a decade.

Credible information indicates that Iraq and al-Qa'ida have discussed safe haven and reciprocal non-aggression.

Since Operation Enduring Freedom, we have solid evidence of the presence in Iraq of al-Qa'ida members, including some that have been in Baghdad.

We have credible reporting that al-Qa'ida leaders sought contacts in Iraq who could help them acquire WMD capabilities. The reporting also stated that Iraq has provided training to al-Qa'ida members in the areas of poisons and gases and making conventional bombs.

Iraq's increasing support to extremist Palestinians, coupled with growing indications of a relationship with al-Qa'ida, suggest that Baghdad's links to terrorists will increase, even absent US military action.

Sincerely,

JOHN MCLAUGHLIN,
(For George J. Tenet, Director).

STATEMENT BY DCI GEORGE TENET,
October 8, 2002.

There is no inconsistency between our view of Saddam's growing threat and the view as expressed by the President in his speech. Although we think the chances of Saddam initiating a WMD attack at this moment are low—in part because it would constitute an admission that he possesses WMD—there is no question that the likelihood of Saddam using WMD against the United States or our allies in the region for blackmail, deterrence, or otherwise grows as his arsenal continues to build. His past use of WMD against civilian and military targets shows that he produces those weapons to use not just to deter.

Chairman SPRATT. Likewise I ask for unanimous consent that members who didn't have an opportunity to ask questions of the witnesses be given seven days to submit questions for the record. Without objection, so ordered.

[Questions submitted for the record and the witnesses' responses follow:]

Congressman: Congressman BLUMENAUER
Witness: Mr. BOWEN

QUESTION NO. 1: WATER QUALITY AND SANITATION ISSUES

Question: Special Inspector General Bowen: SIGIR's audits indicate limited progress in nearly every aspect of reconstruction. Please inform me as to steps planned to improve water quality and water sanitation infrastructure in Iraq. Are these planned actions sufficient to restore access to fresh water and functioning water sanitation to the Iraqi population?

Answer: The World Bank estimates that the Iraq water sector needs $14.4 billion to rebuild Iraq's public works and water system. According to information program managers have submitted to SIGIR, but which we have not independently verified, the U.S. has contributed approximately $2.38 billion in reconstruction funds to the water sector, the preponderance of which came from the Iraq Relief and Reconstruction Fund (IRRF). Of the total U.S. allocation for the water, $2.2 billion has been obligated and $1.72 billion expended.

The IRRF was used to fund approximately 1,100 water projects, including potable water, sewerage, water conservation, wastewater treatment, and pumping stations across Iraq, according to program managers; we are told that only about 100 projects remain ongoing. As only these few projects remain to be completed, it is unlikely that direct U.S. efforts in this sector will result in a significant further improvement in access to fresh water and functioning water sanitation to the Iraqi population.

The goal of the U.S. effort is to provide potable water capacity for 8.38 million people and sewerage service for 5.2 million people. As of July 31, 2007, U.S. projects have provided the capacity to serve 5.86 million people with potable water and 5.1 million people with sewerage service, according to figures provided to SIGIR by the program managers. It is important to note that the U.S. is not able to measure with accuracy how much water actually reaches Iraqis. The outcome metrics recorded by the Iraq Transition Assistance Office track "potential" impacts of U.S reconstruction efforts in the water sector.

Commanders' Emergency Response Program funds are starting to play a larger role in the water sector since IRRF funds are mostly expended.

Iraq's water treatment and sewerage facilities are operating at considerably less than normal capacity. The inability of Iraq's water ministries to sustain projects continues to limit progress in the sector. The security situation is the number one

challenge faced by ministries today in executing their work. According to an official of the Department of State's Near Eastern Affairs Bureau, "deteriorating [security] conditions are increasingly affecting the ability of both the Ministry of Water Resources and the Ministry of Municipalities and Public Works to operate and has reached a crisis stage."

SIGIR noted in its latest quarterly report that "employees [of the water ministries] have vacated Baghdad buildings in dangerous locations" and that Iraqi Ministry of Municipalities and Public Works officials said that "less than half of the remaining staff are showing up for work every day."

Congressman: Congressman BLUMENAUER
Witness: Mr. ENGLAND

QUESTION NO. 2: ENERGY EFFICIENCY IN DOD OPERATIONS

Question: Deputy Secretary of Defense England: In the 6 years since the publication of the Defense Science Board report, please fully discuss whether the Department of Defense has implemented any of its recommendations.

Answer: The 2001 Defense Science Board (DSB) recommendations have sparked an increased emphasis in DoD's approach to energy and energy security. This DoD emphasis is highlighted in my August 9, 2007 memorandum listing "energy initiatives" as a DoD top 25 transformation priority.

Core to Departmental efforts is an initiative to accurately value the fully burdened cost of fuel (FBCF) and integration of FBCF considerations into DoD acquisition processes. Integrating the FBCF, which studies have shown to be as high as $42 per gallon, will facilitate the use of energy efficient technologies in weapons systems development by revealing the true cost of energy across the life cycle of a weapons system. Formal process change to introduce FBCF considerations into acquisition programs began April 10, 2007 with an Under Secretary of Defense, Acquisition, Technology and Logistics (USD (AT&L)) memorandum. This memo identified three (3) pilot programs which are being used to develop the specific guidance and detailed procedures to apply the fully burdened cost fuel to acquisition processes. Overarching guidance mandating use of FBCF considerations is currently being integrated into DoD Instruction 5000.2, "Operation of the Defense Acquisition System".

In addition, last year the Department formed an Energy Security Task Force to explore energy efficient technologies applicable to the DoD. The Energy Security Task Force has the responsibility for technologies relative to DoD platforms, systems and installations and looks at both conventional and alternative energy sources and demand-reduction strategies.

The Department fully recognizes energy as a dominant factor in the 21st century battle space. While traditional Departmental approaches to energy have focused on supply-side efficiencies, the DSB and other studies have emphasized that energy must be addressed in a broader context. Accordingly, the Department is moving to incorporate energy considerations (cost and technologies) into key corporate processes on the demand-side to develop a more mobile and agile force.

Congressman: Congressman BLUMENAUER
Witness: Mr. ENGLAND

QUESTION NO. 3: ENERGY EFFICIENCY IN DOD OPERATIONS

Question: Deputy Secretary of Defense England: What is the status of your efforts to implement the performance parameter noted in ADM Giambastiani's 2006 memorandum? Also, is the "fully burdened cost of fuel" metric identified in Mr. Krieg's 2007 memorandum now being used in all acquisition trade studies?

Answer: Chairman of the Joint Chiefs of Staff (CJCS) incorporated the requirement for an energy efficiency key performance parameter (KPP) in the recent update to CJCS Instruction 3170.01F and CJCS Manual 3170.01C. These documents formally lay the foundation for the selective application of an energy efficiency KPP to DoD systems and potential capabilities. Currently, efforts are under way to develop the detailed criteria to determine how and when to apply an energy efficiency KPP to a program. The energy efficiency KPP must be measurable and serving to reduce both battle space supply-side challenges and life-cycle costs.

Complementing the energy efficiency KPP initiative, the USD (AT&L) April 10, 2007 Fully Burdened Cost of Fuel (FBCF) memo identified three (3) pilot programs

which are being used to develop the specific guidance and detailed procedures to apply the fully burdened cost fuel in acquisition processes. The Institute for Defense Analysis is on contract to assist in guidance and procedure development. Formal program performance based on fully burdened cost of fuel considerations should begin late 2008.

Congressman: Congressman BLUMENAUER
Witness: Mr. ENGLAND

QUESTION NO. 4: ENERGY EFFICIENCY IN DOD OPERATIONS

Question: Deputy Secretary of Defense England: I understand the Army has established a Rapid Equipping Force (REF) to respond to urgent operational needs in Iraq and Afghanistan. Please describe the status of this effort. Has the REF identified any conditions in Iraq contributing to the high fuel demand there? If so, what steps is the Department of Defense taking to relieve that situation?

Answer: The REF has been fully operational since October 3, 2005, and to date has developed over 257 types of technology and has shipped over 59,800 pieces of equipment to theater. The REF "leans forward" to provide advanced technology to meet operational commanders' immediate warfighting needs. The REF's cutting-edge solutions increase Soldiers' lethality and enhance their survivability.

Pursuant to a Joint Urgent Operational Need Statement from Commander, NMD-W, the REF chartered a Power Surety Task Force to assess energy requirements in support of contingency operations. The primary intent was to reduce the number of Soldiers and trucks exposed to enemy activity while moving bulk fuel. Surveys, beginning in November 2006, in Djibouti, Kuwait, Iraq and Afghanistan determined that the majority of fuel for Forward Operating Base (FOB) power generation is consumed powering HVAC for temporary work and living spaces (mainly tents). The REF quickly developed a technique, called Project Eskimo, which insulates temporary structures by applying sprayable foam to the exterior surfaces, controlling temperature, cutting dust infiltration, and reducing noise transmission. This solution was approved by Army Test and Evaluation Command (ATEC) and the Center for Health Promotion and Preventive Medicine in January 2007, with first deployment to theater in May 2007. To date, the REF has sprayed approximately 120,000 square feet in Iraq, 56,200 square feet in Djibouti, and 25,700 square feet in Kuwait; spraying in Afghanistan is scheduled for September 2007. Initial reports indicate that Project Eskimo is reducing HVAC power use by 45% to 80%.

The Army submitted a Joint Concept Technology Demonstration to the Department of Defense to continue the development of technologies and techniques such as Eskimo, which are focused on achieving energy independence at our Forward Operating Bases and Installations. The strategic importance of energy independence is now supported by the tactical relevance of reducing the number of trucks on the road. Reducing the burden cost of fuel in dollars is important; reducing the burden cost in blood is paramount.

Congressman: Congressman BLUMENAUER
Witness: Mr. ENGLAND

QUESTION NO. 5: RECRUITING STANDARDS IN LIGHT OF THE DEMANDS OF THE WAR

Question: Deputy Secretary of Defense England: What are the long-term costs imposed on the Army as a result of the relaxation of these standards? Are there any efforts to quantify the added costs of adding recruits who, in previous years, would have been rejected? Are there any limitations imposed on Army readiness as a result of these added costs?

Answer: Army recruiting standards are measured by a Soldier's mental category (MENTCAT) and whether or not the Soldier accessed with some type of waiver (medical, drug, moral, etc.). The Army does track loss rates by MENTCAT and by waiver, and the data clearly indicates that there is no significant long term cost of accessing Cat IV Soldiers or Soldiers who require a waiver.

All recruits access into the Army through a MOS specific Initial Entry Training (IET) pipeline. MENTCATs are an indicator of the trainability of the recruit and as such they are used solely to determine what MOS the Soldier is qualified for based upon his/her degree of technical capacity. There is no additional training for Cat IV Soldiers within a given IET pipeline. Therefore, the Army does not incur an extra training cost for accessing a Cat IV Soldier, nor does it degrade Army readi-

ness. The Army does track loss rates by MENTCAT, and the data shows that the loss rate of Cat IV Soldiers is only slightly more than that of the average of all Soldiers (and actually slightly better then Cat IIIA and IIIB soldiers). Since the Cat IV soldiers retain at about the average rate of all Soldiers, the Army does not expect a higher loss rate (and thus an increase to the accession mission) should the Army decide to access more Cat IV Soldiers.

Waivers are given to Soldiers who the Army otherwise deems fit to serve. There is no extra training necessary for Soldiers with a waiver, and as a whole, they have a loss rate almost exactly equal to those Soldiers without a waiver. Like Cat IV Soldiers, there appears to be no long term cost or decrease in readiness due to accessing a Soldier with a waiver under current policy.

Currently, the Army considers all recruits fully capable of serving in their designated MOS. If this policy changes in the future, and the Army is forced to allow Cat IV soldiers to serve in a MOS above their current technical capacity, then there is a foreseeable training cost to the Army.

Congressman: Congressman MCGOVERN
Witness: Mr. BOWEN

QUESTION NO. 6

Question: I asked Deputy Secretary England how we can be sure that funds, equipment and arms we are providing to Iraqi military, police and security forces are not being used against U.S. troops in the field or in sectarian attacks against various Iraqi groups and communities? I pose that same question to you, Mr. Bowen: In your investigations, can you reassure this Committee that this is not the case?

Answer: I can give no such assurances, in part because our jurisdiction is limited to a small portion of the programs related to the issues raised in the question. We did complete a report on weapons for Iraq security forces funded by the Iraq Relief and Reconstruction Fund (SIGIR 06-003), which disclosed problems with accountability for those weapons and which demonstrates that agency management did not use procedures intended to prevent those weapons from being misused.

Congressman: Congressman MCGOVERN
Witness: Mr. BOWEN

QUESTION NO. 7

Question: How well, in your opinion, are we tracking and monitoring the Iraqi military and security forces that we train, and the equipment and arms we provide them?

Answer: We have not directly examined the adequacy or effectiveness of efforts to track and monitor Iraqi military and security forces we have trained or the equipment and arms we have provided to them. SIGIR provides, in its Quarterly Report, information derived from a variety of sources which may help Members of Congress address this question, but we have not assessed the accuracy of that information. We did note, in the report cited above (SIGIR-06-003), serious problems with tracking arms provided to Iraqi security agencies. We anticipate undertaking other work in this area.

Once again, thank you very much indeed.

[Whereupon, at 1:30 p.m., the Committee was adjourned.]

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