AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

# IRAQ RECONSTRUCTION: AN OVERVIEW

## HEARING

BEFORE THE

## COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

## HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

FEBRUARY 15, 2007

**Serial No. 110–27**

Printed for the use of the Committee on Oversight and Government Reform

Available via the World Wide Web: http://www.gpoaccess.gov/congress/index.html
http://www.house.gov/reform

U.S. GOVERNMENT PRINTING OFFICE

38–578 PDF WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON OVERSISGHT AND GOVERNMENT REFORM

HENRY A. WAXMAN, California, *Chairman*

TOM LANTOS, California
EDOLPHUS TOWNS, New York
PAUL E. KANJORSKI, Pennsylvania
CAROLYN B. MALONEY, New York
ELIJAH E. CUMMINGS, Maryland
DENNIS J. KUCINICH, Ohio
DANNY K. DAVIS, Illinois
JOHN F. TIERNEY, Massachusetts
WM. LACY CLAY, Missouri
DIANE E. WATSON, California
STEPHEN F. LYNCH, Massachusetts
BRIAN HIGGINS, New York
JOHN A. YARMUTH, Kentucky
BRUCE L. BRALEY, Iowa
ELEANOR HOLMES NORTON, District of Columbia
BETTY McCOLLUM, Minnesota
JIM COOPER, Tennessee
CHRIS VAN HOLLEN, Maryland
PAUL W. HODES, New Hampshire
CHRISTOPHER S. MURPHY, Connecticut
JOHN P. SARBANES, Maryland
PETER WELCH, Vermont

TOM DAVIS, Virginia
DAN BURTON, Indiana
CHRISTOPHER SHAYS, Connecticut
JOHN M. McHUGH, New York
JOHN L. MICA, Florida
MARK E. SOUDER, Indiana
TODD RUSSELL PLATTS, Pennsylvania
CHRIS CANNON, Utah
JOHN J. DUNCAN, Jr., Tennessee
MICHAEL R. TURNER, Ohio
DARRELL E. ISSA, California
KENNY MARCHANT, Texas
LYNN A. WESTMORELAND, Georgia
PATRICK T. McHENRY, North Carolina
VIRGINIA FOXX, North Carolina
BRIAN P. BILBRAY, California
BILL SALI, Idaho

PHIL SCHILIRO, *Chief of Staff*
PHIL BARNETT, *Staff Director*
EARLEY GREEN, *Chief Clerk*
DAVID MARIN, *Minority Staff Director*

# CONTENTS


| | Page |
|---|---|
| Hearing held on February 15, 2007 | 1 |
| Statement of: | |
| Walker, David M., Comptroller General of the United States, Government Accountability Office; Stuart W. Bowen, Jr., Special Inspector General for Iraq Reconstruction; and William H. Reed, Director, Defense Contract Audit Agency | 35 |
| Bowen, Stuart W., Jr. | 75 |
| Reed, William H. | 69 |
| Walker, David M. | 35 |
| Letters, statements, etc., submitted for the record by: | |
| Bowen, Stuart W., Jr., Special Inspector General for Iraq Reconstruction, prepared statement of | 79 |
| Clay, Hon. Wm. Lacy, a Representative in Congress from the State of Missouri, prepared statement of | 130 |
| Davis, Hon. Tom, a Representative in Congress from the State of Virginia: | |
| Prepared statement of | 29 |
| Staff memorandum | 23 |
| Reed, William H., Director, Defense Contract Audit Agency, prepared statement of | 71 |
| Walker, David M., Comptroller General of the United States, Government Accountability Office | 38 |
| Waxman, Hon. Henry A., a Representative in Congress from the State of California: | |
| Prepared statement of | 16 |
| Prepared statement of Kiki Skagen Munshi | 11 |
| Staff memorandum | 3 |

# IRAQ RECONSTRUCTION: AN OVERVIEW

**THURSDAY, FEBRUARY 15, 2007**

HOUSE OF REPRESENTATIVES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
*Washington, DC.*

The committee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Henry A. Waxman (chairman of the committee) presiding.

Present: Representatives Waxman, Maloney, Kucinich, Davis of Illinois, Tierney, Clay, Lynch, Higgins, Yarmuth, Braley, Norton, Van Hollen, Hodes, Murphy, Sarbanes, Welch, Davis of Virginia, Souder, Duncan, Issa, and Sali.

Staff present: Phil Schiliro, chief of staff; Phil Barnett, staff director and chief counsel; Karen Lightfoot, communications director and senior policy advisor; David Rapallo, chief investigative counsel; Theo Chuang, deputy chief investigative counsel; Suzanne Renaud, counsel; Molly Gulland, assistant communications director; Christopher Davis, professional staff member; Earley Green, chief clerk; Teresa Coufal, deputy clerk; Caren Auchman, press assistant; Leneal Scott, information officer; David Marin, minority staff director; Larry Halloran, minority deputy staff director; Jennifer Safavian, minority chief counsel for oversight and investigations; Keith Ausbrook, minority chief counsel; John Brosnan, minority senior procurement counsel; Steve Castor, minority counsel; Edward Kidd, minority professional staff member; Nick Palarino, minority senior investigator and policy advisor; and Benjamin Chance, minority clerk.

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

Last week, our committee focused on the $12 billion in cash that was sent by our Government into Iraq. We learned that no one knows what really happened to that money or even whether it ended up in the hands of terrorists. All we know is that the cash is gone and billions were wasted.

Today we get more bad news. The Director of the Defense Contract Audit Agency is going to testify that there are more than $10 billion in questioned and unsupported costs relating to Iraq reconstruction and troop support contracts.

This estimate is three times higher than the $3.5 billion in questionable charges that the Government Accountability Office warned us about last year. And, in this new report, $2.7 billion in suspect billings are attributed to just one contractor: Halliburton. My staff has prepared a memorandum on this subject, and, if there is no objection, I will enter it into the record.

[The information referred to follows:]

HENRY A. WAXMAN, CALIFORNIA
CHAIRMAN

TOM DAVIS, VIRGINIA
RANKING MINORITY MEMBER

ONE HUNDRED TENTH CONGRESS

Congress of the United States
House of Representatives
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
2157 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515–6143

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

**MEMORANDUM**

**February 15, 2007**

**To: Members of the Committee on Oversight and Government Reform**

**Fr: Majority Staff**

**Re: Supplemental Information on Iraq Reconstruction Contracts**

In preparation for the full Committee hearing on the status of Iraq reconstruction efforts, this memorandum provides new information on the total amount of contractor overcharges in Iraq.

Last fall, GAO reported to Congress that Pentagon auditors had identified approximately $3.5 billion in contractor charges as "questioned" or "unsupported" costs. The Pentagon auditors have recently informed the Committee of significantly higher estimates of wasteful spending in Iraq. According to the auditors, questioned and unsupported costs have now risen to more than $10 billion — nearly three times higher than previously reported. According to the Pentagon auditors, more than one in six dollars they have audited in Iraq is suspect.

According to the information the Committee has received, over $2.7 billion in questioned and unsupported costs have been identified in contracts held by Halliburton, the largest private contractor operating in Iraq. The auditors also informed the Committee that Pentagon officials have rejected the majority of their recommendations to disallow the unreasonable charges they have identified.

The estimate of $10 billion in wasteful or undocumented spending in Iraq is likely to underestimate the full magnitude of the problem. Although the Pentagon auditors have reviewed $57 billion in Iraq spending, this does not include the total universe of spending for contractors working in Iraq. Moreover, the Pentagon auditors focus primarily on the reasonableness of costs that contractors propose and incur rather than physical inspections to determine whether contractors have delivered everything required under the contract. While such inspections are sometimes performed by other entities, such as the Special Inspector General for Iraq Reconstruction, they have not been conducted comprehensively or uniformly to date.

## I. $10 BILLION IN QUESTIONED AND UNSUPPORTED COSTS IN IRAQ

The Defense Contract Audit Agency (DCAA) is responsible for performing audits of contracts with the Department of Defense and the branches of the military. In a briefing to Committee staff on February 1, 2007, DCAA reported that it has now identified a total of more than $10 billion in questioned and unsupported costs submitted by contractors for work in Iraq through the end of Fiscal Year 2006.[1]

DCAA defines "questioned" costs as those that should be excluded because they are unreasonably high and "unsupported" costs as those for which contractors have failed to provide sufficient documentation. Of the $10 billion, DCAA identified approximately $4.9 billion as questioned costs and approximately $5.1 billion as unsupported costs.

DCAA's new $10 billion figure dwarfs previous reports of contractor overcharges in Iraq. On September 25, 2006, the U.S. Government Accountability Office issued a report reviewing DCAA Iraq reconstruction audits issued between February 2003 and February 2006.[2] This GAO report concluded that DCAA had identified approximately $3.5 billion in questioned and unsupported costs by contractors working in Iraq, including $2.1 billion in questioned costs and $1.4 billion in unsupported costs. DCAA's new $10 billion figure is nearly three times higher than the previously reported estimate.

DCAA also informed the Committee that in the audits conducted to date, more than one out of every six dollars spent for Iraq reconstruction and troop support contracts was suspect. Through September 2006, DCAA auditors had examined $57 billion for Iraq reconstruction and troop support. The $10 billion in questioned and unsupported costs identified by DCAA represents 18% of the total contract dollars examined by DCAA.

## II. PENTAGON REJECTIONS OF AUDITOR RECOMMENDATIONS

The Defense Department has disagreed with a majority of DCAA's recommendations to disallow questioned costs. When DCAA identifies contractor charges as "questioned" costs, it recommends that the Defense Department not pay these charges to the contractor. According to DCAA, the Defense Department typically agrees with its recommendations and withholds 50% to 75% of costs.[3] DCAA calls this the "sustention rate." With respect to Iraq overcharges, however, the opposite has occurred. Instead of withholding up to 75% of the disputed charges, the Pentagon has been withholding between 25% and 37% of the amounts in dispute.

---

[1] Briefing by William Reed, Director, Defense Contract Audit Agency, to Staff, House Committee on Oversight and Government Reform (Feb. 1, 2007).

[2] Government Accountability Office, *Iraq Contract Costs: DOD Consideration of Defense Contract Audit Agency's Findings* (Report No. GAO-06-1132) (Sept. 25, 2006).

[3] Briefing by William Reed, Director, Defense Contract Audit Agency, to Staff, House Committee on Government Reform (Mar. 3, 2006).

Of the $10 billion in questioned and unsupported costs, DCAA has identified $4.9 billion in questioned costs through FY 2006. Of that amount, Defense Department officials have come to a resolution on $2.6 billion in questioned costs. Of this $2.6 billion, Defense Department officials have agreed with DCAA recommendations to withhold $632 million. This represents only 25% of the total costs questioned by the DCAA.

Of the $2.6 billion in questioned costs that have been resolved, approximately $876 million were associated with work not ultimately contracted for by the Defense Department, such as costs questioned in "pre-award" audits of competitive bids that did not result in winning contract awards. Even factoring in these amounts, DCAA's sustention rate remains at approximately 37%, in contrast to the historical rate of between 50% and 75%.

## III. AUDITOR FINDINGS ON SPECIFIC IRAQ CONTRACTS

In addition to providing new information on the totality of questioned and unsupported costs, DCAA has provided the Committee with updated data on charges relating to several specific contracts.

### A. Halliburton Contracts

The largest private contractor operating in Iraq is Halliburton. Through its KBR subsidiary, Halliburton has held three large contracts in Iraq: the Logistics Civil Augmentation Program (LOGCAP) contract to provide support services to the troops; the Restore Iraqi Oil (RIO) contract to rebuild oil fields throughout Iraq; and the Restore Iraqi Oil 2 (RIO 2) contract to rebuild oil fields in southern Iraq. The total value of these three contracts is approximately $25.7 billion.[4] According to the information received by the Committee, it appears that DCAA has audited $19.8 billion of the costs incurred under the Halliburton contracts and identified over $2.7 billion in questioned and unsupported billings.

**The LOGCAP Contract.** Under the LOGCAP contract for logistical and life support for U.S. troops, DCAA has identified nearly $2.4 billion in questioned and unsupported costs, including $1.9 billion in questioned costs and $450 million in unsupported costs. This $2.4 billion figure represents 15% of the $16.2 billion in LOGCAP costs audited by DCAA. The $1.9 billion in questioned costs is significantly higher than the $1.3 billion in questioned costs reported by DCAA in March 2006.[5]

Among the costs questioned by DCAA under the LOGCAP contract are $212 million worth of meals that exceeded the value of actual meals served, $100 million in costs associated with sites that have been closed down, and $42 million in duplicated subcontractor costs.

---

[4] According to DCAA, the total current value for the ongoing LOGCAP contract is $22.1 billion, the total amount expended under the RIO contract was $2.4 billion, and the total contract value for the RIO2 contract was $1.2 billion, for a total value of $25.7 billion for all three contracts.

[5] Briefing by William Reed, Director, Defense Contract Audit Agency, to Staff, House Committee on Government Reform (Mar. 3, 2006).

Of the $1.07 billion in questioned costs under the LOGCAP contract that have been resolved, the Defense Department has sustained the DCAA auditors on $465 million, 43% of the disputed costs.

**The RIO Contract.** The first RIO contract was awarded to Halliburton without competition in March 2003 to restore and operate Iraq's oil fields. Under this contract, DCAA has identified over $281 million in questioned and unsupported costs, including $221 million in questioned costs and $60 million in unsupported costs. This total represents 12% of the $2.4 billion in RIO costs billed by Halliburton. The vast majority of questioned costs related to unreasonable costs charged by Halliburton to import millions of gallons of gasoline into Iraq from Kuwait and Turkey. According to a report released by Chairman Waxman's staff, these fuel charges were inflated by surcharges of up to $1.86 per gallon for transportation, overhead, and profits, resulting in fuels prices twice as high as reasonable.[6]

The Defense Department has now resolved all of these questioned costs. It sustained DCAA's recommendations for only $26 million, just 12% of the total amount in dispute. GAO is currently examining the propriety of the Department's payments to Halliburton under this contract.

**The RIO 2 Contract.** The RIO 2 contract for oil field restoration in southern Iraq was awarded to Halliburton in January 2004 as a follow-on contract to RIO. Under this contract, DCAA has identified approximately $52 million in questioned and unsupported costs, including $47.7 million in questioned costs and $4 million in unsupported costs.

The RIO2 contract was awarded to Halliburton despite warnings from auditors not to enter into further contracts with Halliburton.[7] Since then, it has been plagued with problems, such as billing for excessive employees and failing to complete projects on time. On one task order, DCAA concluded that 69% of the costs were questioned or unsupported. Halliburton's deficiencies led to the issuance of a cure notice in which the Project and Contracting Office stated that Halliburton's "lack of cost containment and funds management is the single biggest detriment to this program."[8]

DCAA has not provided data on the sustention rate of questioned costs under the RIO2 contract.

---

[6] Minority Staff, Special Investigations Division, House Committee on Government Reform, *Halliburton's Gasoline Overcharges* (June 21, 2004) (online at www.oversight.house.gov/Documents/20040817115902-43717.pdf).

[7] Defense Contract Audit Agency, *Status of Brown & Root Services (BRS) Estimating System Internal Controls* (Jan. 13, 2004).

[8] Letter from Project and Contracting Office to KBR (Jan. 29, 2005). *See* Minority Staff, Special Investigations Division, House Committee on Government Reform, *Halliburton's Performance Under the Restore Iraqi Oil 2 Contract* (Mar. 28, 2006) (online at www.oversight.house.gov/Documents/20061024163434-45471.pdf).

### B. The Parsons Contracts

Parsons is another large contractor operating in Iraq, with contracts worth over $2.2 billion for the reconstruction of Iraq's infrastructure, including contracts to build and renovate public buildings such as government offices, hospitals and housing and a contract to repair and operate the oil infrastructure in the northern part of Iraq. Under these Parsons contracts, DCAA has identified over $90 million in questioned and unsupported costs, including $15.7 million in questioned costs and $74.4 million in unsupported costs.

The Special Inspector General for Iraq Reconstruction has also identified problems involving Parsons's contracts. Parsons was awarded a contract in March 2004 to restore and build 150 primary health clinics in Iraq. Although Parsons charged the government $186 million under the contract, the IG has reported that the company completed only six health clinics.[9] On a contract to renovate the Baghdad Police College, the IG reported that Parsons's work resulted in feces and urine leaking through the ceilings.[10] According to the Special Inspector General for Iraq Reconstruction, 13 of the 14 major Parsons projects his office has visited have failed to meet acceptable standards.[11]

DCAA has not provided data on the sustention rate of questioned costs under Parsons Iraq reconstruction contracts.

## IV. UNDERESTIMATION

The $10 billion in questioned and unsupported costs identified by DCAA is likely to underestimate the full magnitude of wasteful spending in Iraq. Through the end of FY 2006, DCAA had audited only $57 billion in Iraq contracts. According to DCAA, it does not know the total amount spent on contracts in Iraq. The total amount, however, is likely to far exceed $57 billion. To date, the war in Iraq has cost the taxpayer $351 billion.[12]

In some cases, the Committee is aware of contracts that have not been audited by DCAA — and hence are not included in DCAA's $10 billion estimate of questioned and unsupported costs — but that have resulted in significant overcharges. For example, DynCorp has a contract with the State Department to help train and equip Iraqi police. Although DCAA did not audit

---

[9] House Committee on Government Reform, Testimony of Stuart W. Bowen, Special Inspector General for Iraq Reconstruction, *Hearing on the Reconstruction Contracting in Iraq* (Sept. 28, 2006).

[10] Special Inspector General for Iraq Reconstruction, *Baghdad Police College* (SIGIR PA-06-078.2 & 079.2) (Jan. 29, 2007).

[11] House Committee on Government Reform, Testimony of Stuart W. Bowen, Special Inspector General for Iraq Reconstruction, *Hearing on the Reconstruction Contracting in Iraq* (Sept. 28, 2006).

[12] Letter from Peter R. Orszag, Director, Congressional Budget Office, to Senator Kent Conrad, Chairman, Senate Budget Committee (Table 1) (Feb. 7, 2007).

this contract, the Special Inspector General for Iraq Reconstruction did conduct an audit and found millions of dollars in questionable contractor charges.[13]

Moreover, DCAA audits may not reveal the full scope of overcharging or abuse. DCAA conducts audits related primarily to the costs that contractors propose and incur. DCAA examines contractor documentation to ensure that costs such as labor and overhead are reasonable and consistent with rates charged under other contracts. DCAA also ensures that costs actually incurred by contractors are reasonable, allowable under the contract terms, and allocable to specific contract tasks. DCAA does not have engineers or other inspectors with the responsibility of verifying that the final product or service delivered by the contractor meets all contract terms.

Other audit entities, such as the Special Inspector General for Iraq Reconstruction, have conducted some physical inspections after contract work was completed and found significant performance problems. Wasteful spending attributable to poor performance is not typically included in DCAA cost audits.

---

[13] Special Inspector General for Iraq Reconstruction, *Review of DynCorp International, LLC, Contract Number S-LMAQM-04-C-0030, Task Order 0338, for the Iraqi Police Training Program Support* (SIGIR-06-029) (Jan. 30, 2007).

Chairman WAXMAN. Even worse, the actual amount of waste is likely even higher. The Defense Contract Audit Agency arrived at its $10 billion estimate after reviewing only $57 billion of Iraq contract spending. But American taxpayers have already spent over $350 billion for the war in Iraq. There is $300 billion still to audit. The total amount of waste, fraud, and abuse could be astronomical.

Let's add it up. Last week's $12 billion in cash and today's $10 billion in questionable charges combines for $22 billion. And there is still the potential for tens of billions more in waste. It is no wonder that taxpayers all across our country are fed up and demanding that we bring real oversight to the "anything goes" world of Iraq reconstruction.

Stuart Bowen, the Special Inspector General for Iraq Reconstruction, will tell us about a particularly egregious example of wasteful spending. It involves the State Department's contract with DynCorp to train and equip the Iraqi police.

The Defense Contract Audit Agency has not yet reviewed this contract. But the Inspector General found that taxpayer dollars were wasted on an Olympic sized pool that was not authorized under the contract.

The audit was critical of not just the company; it was critical of the Government for failing to conduct any semblance of proper oversight. In this case, the contracting officer did not even have a file—he literally didn't have a file—for this $600 million contract. And the Government could not demonstrate that it had actually received tens of millions of dollars in critical equipment, including armored vehicles, body armor, and weapons.

This is the equipment that is supposed to be going to the Iraqis so they can take up the fight and allow our U.S. service members to come home. Yet virtually nonexistence government oversight has put the entire effort at risk.

This is an intolerable mess. It is important that we hold people accountable for it, and just as important, that we prevent these outrages from happening again.

President Bush is planning on sending 21,000 more American soldiers into Iraq. He is also proposing that we spend almost $200 billion more on the Iraqi war effort and an additional $1.2 billion for economic assistance to Iraq. He wants to spend over $800 million of that amount on a "civilian surge" that will increase the number of Provincial Reconstruction Teams. These are the teams that are supposed to work with local Iraqis to develop democratic institutions and procedures.

I don't have the first-hand knowledge of these Provincial Reconstruction Teams. But Kiki Munshi does. Until last week, she was a team leader. She has concluded that the civilian surge won't work. She tells us the teams have been drastically underfunded, have an ill-defined mission, and have huge staffing shortfalls.

She believes injecting more teams into Baghdad will result in a bureaucratic nightmare. And what's worse, she says that when members of these teams were consulted about the President's proposal in the fall, they raised exactly these objections, but were ignored.

Mrs. Munshi could not be here today, but I would like to make her full written statement part of the official hearing record. And, without objection, that will be the order.

[The information referred to follows:]

**Statement for the Record**
**Committee on Oversight and Government Reform**
**Hearing on Iraq Reconstruction: An Overview**
**February 15, 2007**

**Kiki Skagen Munshi**
**Former Leader, Diyala Provincial Reconstruction Team**

Let me start with a bit of background. I joined USIA in 1980 and retired as a Senior Foreign Service Officer in 2002--somewhat early as I had re-married and because it was an way to avoid dealing with President Bush's Iraq policy. My career included a good deal of work on democracy and governance aas well as on the transition from a controlled to a free market economy.

I thought the war pure folly and still am not quite sure why it was pursued so vehemently, but came back from retirement to head a PRT because I had the requisite skills and we Americans have a moral obligation to try to do something about the mess we've created in Iraq. I lived and worked on FOB (Forward Operating Base) Warhorse from April 2006 until January 2007 when I resigned for health related reasons. I went "out of the wire", wearing armor and in HMMVs, regularly to meet Iraqi officials. If I were military I would be qualified for a Combat Action Award. Twice. My remarks are not theoretical.

I have decided to speak out because the men and women, civilian and military, deserve the best possible leadership we can give them. We cannot formulate coherent, effective policies without being honest about the problems we face and, for various reasons, people are reluctant to provide or accept honest information and opinion.

**I have two major themes here: (1) The civilian surge will not succeed; (2) The problems in the PRTs are illustrative of problems that run throughout the planning and execution of this war.**

Why won't the civilian surge succeed?

In spite of the magnificent and often quietly heroic work being done in Iraq by a lot of truly great people, the PRTs themselves aren't succeeding. The obstacles are too great.

**--Nobody knows quite what the PRTs are supposed to do**. The initial conception was that the PRTs would work with the Provincial Government and thus build democracy. Democracy, however, isn't restricted to government. It requires rule of law, a free and responsible press, and an informed citizenry. It needs to work in an economic context and, in this case, an economy that needs to complete the difficult transition from a state controlled semi-socialist context towards a free market economy. Over the months, this

initial concept has shifted towards a more encompassing definition of the work, but we were slowed down by it in the beginning.

**--The PRTs were/are not given necessary resources.** The PRTs had no/no operating budget until about October 2006 (our motto was, "If it's not nailed down, it's ours") and still have no flexible funds for programs. The initial concept was that we'd simply teach the government how to operate, and use other people's money for projects as needed. "Other people", however, tend not to want to relinquish control of their money and in any case most of the funds were and are oriented toward brick and mortar projects. The Iraqis don't need brick and mortar money--the GOI is sitting on billions of unspent dollars as it is. They need knowledge, access to information, and ideas to offset twenty years of being cut off from the rest of the world. We aren't equipped to supply that need.

**--Staffing of the PRTs was and is haphazard and often misguided.** We are to "coach, mentor and teach" democracy but few PRT members have any experience in this area. RTI is supposed to fill the gap but my RTI supplied senior Governance and Democracy Adviser was a Pakistani who has, as far as I know, never lived or worked in a Western democracy. My Provincial Program Manager was a former Border Patrol Commander. Smart, hardworking guy. No experience or knowledge relevant to the job he is supposed to do. The Civil Affairs military--National Guardsmen--came with a haphazard mix of skills. Some fit, some didn't.

**--We don't have enough time to do the work.** Democracy doesn't happen in a day or a year or even two years. Americans can't learn the territory and make wise decisions about the ways in which to advise a Provincial Government or spend money in two weeks or a month, especially when they have no prior Middle Eastern experience and no Arabic language skills, as is the case with most PRT members. Staying more than a year, given the difficult circumstances, is probably too long. As a result of this time warp, we are caught up in a frenzy of "get it done now" and that hasn't served us well.

**--We don't have enough time to understand the Iraqis before being expected to make decisions that involve them.** Iraqis are not (surprise) Americans and don't necessarily see things the way we do. They operate in a history rich and nuance laden environment. We Americans tend not to pay much attention to history (to our detriment) and are not comfortable with nuance. These cultural differences are tremendously important and we, by and large, have ignored them.

**--We inherited a lot of history, some of it good, some bad, all of it relevant and most of it unknown to us until we fell over it.** The CPA Provincial Governance people appear to have done a good job--at least in Diyala. Some of the Baghdad-imposed, military elaborated procedures forced on the Diyala Government were administrative disasters. This destroyed much of our credibility and it took time, again precious time, to undo past mistakes. My successor will probably feel he has to undo my mistakes, resulting in yet another change of policy. La plus ca change...

**--The military runs the show in many provinces (and probably Iraq) and this can cause problems.** As one of the PRTs on a FOB we were totally dependent on the military for our life support, safety, and daily working environment. They also had the most accessible money. When the Brigade was good, this worked well--our PRT was considered a model in civil military relations as long as Colonel Brian Jones was in charge. We drew team members from the Brigade (their legal people, PAO, and Brigade Surgeon) as well as from a confusing array of USG agencies and private contractors and if you had asked me then to choose between State and the military I would have taken the military in a snap. After rotation, the new Brigade did not really support the PRT and its mission but, rather, thought it knew our job better than we did and wanted to control our work. Things fell apart. The Salah ad Din PRT had the opposite experience--it started with a nighmare military but a new Brigade turned things around. All the PRTs embedded with the military are subject to the vicissitudes of military fortune, for good or ill, and it is hard, again, to maintain any continuity of policy.

**--The Provincial Governments can't resolve many of their problems because the origins and solutions to them lie in Baghdad.** For instance, CPA Regulations gave the Provincial Councils powers to make laws and raise revenue but these regulations are no longer accepted by practically everyone except the American Embassy. The new Constitution enumerates shared powers, but does not contain operational detail. This leaves the Provincial Councils in a legal limbo and, not incidentally, makes it very difficult to "coach, mentor and teach". Many other problems are beyond our ability or the Province's ability to resolve unless and until something is done in Baghdad. And the Government is Baghdad is dysfuntional.

**--Finally, and most important, as the level of violence grows--and it has, as I'm sure you know, grown throughout the country--it is less and less possible to conduct non-kinetic operations.** Investment isn't coming in, jobs aren't available, contractors are kidnapped and/or killed so projects don't go forward, the government grinds to a halt as people decide they'd rather live than show up for work.

**The end result is a situation where the existing PRTs do not actually accomplish very much.** There are some solid achievements--in Diyala it is primarily in the Rule of Law where we have an outstanding individual from the Department of Justice working to improve the ways in which the court system deals with prisoners; our USACE engineers and a Bilingual Bicultural Adviser managed to get four electrical substations, built with US funds but without proper consultation with the Ministry's representative in the Province, integrated into the electrical grid. Most of what we have begun, however, has fallen victim to American bureaucracy and Iraqi violence.

**Now, into this context, the Administration is proposing to inject multiple mini PRTs.** It is not clear what they will do, nor is the administrative relationship to existing PRTs fully outlined. I would worry about the resulting bureaucratic nightmare, but since they are unlikely to find the personnel (specialist positions already on PRTs remain vacant throughout Iraq as I write) in the first place and it takes months to put people in position in the country in the second, I'm not losing any sleep over these questions.

**What I am losing sleep over is that none of the objections or recommendations coming from the field about this "civilian surge" appears to have reached Washington or to have been taken into consideration.** Once again we are proceeding to lay people's lives on a line drawn with faulty information. Once again the fantasies of the "policy makers" drive decisions without much link to the realities on the ground. Once again dissent carries too many risks for those who need their jobs, even when the national interest is at stake.

The people still on PRT Diyala risk their lives almost every day to do their work. We owe them our very best. Nothing less is acceptable.

Chairman WAXMAN. As she says, "none of the objections or recommendations coming from the field about the 'civilian surge' appears to have reached Washington."

I want to assure Ms. Munshi that we hear her, and I want to assure the American people that we aren't going to let a handful of corporations walk away with enormous windfalls while thousands of American soldiers are sacrificing everything to defend this country.

I want to thank our witnesses for superb work in bringing accountability to the Iraq reconstruction efforts and I look forward to their testimony.

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

**Opening Statement of Rep. Henry A. Waxman**
**Chairman, Committee on Oversight and Government Reform**
**Hearing on "Iraq Reconstruction: An Overview"**
**February 15, 2007**

Last week, our Committee focused on the $12 billion in cash that our government sent to Iraq. We learned that no one knows what really happened to that money or even whether it ended up in the hands of terrorists. All we know is that the cash is gone and billions were wasted.

Today we get more bad news. The Director of the Defense Contract Audit Agency is going to testify that there are more than $10 billion in questioned and unsupported costs relating to Iraq reconstruction and troop support contracts.

This estimate is three times higher than the $3.5 billion in questionable charges that the Government Accountability Office warned us about last year. And in this new report, $2.7 billion in suspect billings are attributed to just one contractor: Halliburton. My staff has prepared a memorandum on this

subject and, if there is no objection, I will enter it into the record.

Even worse, the actual amount of waste is likely even higher. The Defense Contract Audit Agency arrived at its $10 billion estimate after reviewing only $57 billion of Iraq contract spending. But American taxpayers have already spent over $350 billion for the war in Iraq. There's $300 billion still to audit. The total amount of waste, fraud, and abuse could be astronomical.

Let's add it up. Last week's $12 billion in cash and today's $10 billion in questionable charges combines for $22 billion. And there's still the potential for tens of billions more in waste. It's no wonder that taxpayers all across our country are fed up and demanding that we bring real oversight to the "anything goes" world of Iraq reconstruction.

Stuart Bowen, the Special Inspector General for Iraq Reconstruction, will tell us about a particularly egregious example of wasteful spending. It involves the State

Department's contract with DynCorp to train and equip the Iraqi police.

The Defense Contract Audit Agency has not yet reviewed this contract. But the Inspector General found that taxpayer dollars were wasted on an Olympic sized pool that was not authorized under the contract.

The audit was critical of not just the company. It was critical of the government for failing to conduct any semblance of proper oversight. In this case, the contracting officer did not even have a file — he literally didn't have a file — for this $600 million contract. And the government could not demonstrate that it had actually received tens of millions of dollars in critical equipment, including armored vehicles, body armor, and weapons.

This is the equipment that is supposed to be going to the Iraqis so they can take up the fight and allow our U.S. service members to come home. Yet virtually nonexistent government oversight has put the entire effort at risk.

This is an intolerable mess. It's important that we hold people accountable for it, and just as important that we prevent these outrages from happening again.

President Bush is planning on sending 21,000 more American soldiers into Iraq. He is also proposing that we spend almost $200 billion more on the Iraqi war effort and an additional $1.2 billion for economic assistance to Iraq. He wants to spend over $800 million of that amount on a "civilian surge" that will increase the number of Provincial Reconstruction Teams. These are the teams that are supposed to work with local Iraqis to develop democratic institutions and procedures.

I don't have first-hand knowledge of these Provincial Reconstruction Teams. But Kiki Munshi does. Until last week, she was a team leader. She has concluded that the civilian surge won't work. She tells us the teams have been drastically underfunded, have an ill-defined mission, and have huge staffing shortfalls.

She believes injecting more teams into Baghdad will result in a bureaucratic nightmare. And what's worse, she says that when members of these teams were consulted about the President's proposal in the fall, they raised exactly these objections, but were ignored.

Ms. Munshi could not be here today, but I would like to make her full written statement part of the official hearing record.

As she says, "none of the objections or recommendations coming from the field about this 'civilian surge' appears to have reached Washington."

I want to assure Ms. Munshi that we hear her, and I want to assure the American people that we aren't going let a handful of corporations walk away with enormous windfalls while thousands of American soldiers are sacrificing everything to defend their country.

I want to thank our witnesses for superb work in bringing accountability to the Iraq reconstruction effort and I look forward to their testimony.

Chairman WAXMAN. But before we hear from them, I want to call on Mr. Davis, our ranking Republican Member.

Mr. DAVIS OF VIRGINIA. Thank you, Mr. Chairman. Let me also note I would like to put a supplemental memorandum into the record that our staff has drafted on the minority side.

Chairman WAXMAN. Without objection, that will be the order.

[The information referred to follows:]

**SUPPLEMENTAL MEMORANDUM**

**OVERSIGHT HEARING**

**"Iraqi Reconstruction: An Overview"**

**THURSDAY, FEBRUARY 15, 2007, 10:00 a.m.**

**ROOM 2154 RAYBURN HOUSE OFFICE BUILDING**

To: Members of the Committee

From: Republican Staff

Date: February 14, 2007

Re: Contracts for the Iraqi Police Training Program and the Baghdad Police College

Today's hearing provides an opportunity for the Committee to question representatives of several oversight entities for the Iraq reconstruction: The Government Accountability Office (GAO), the Special Inspector General for Iraq Reconstruction (SIGIR) and the Defense Contract Audit Agency (DCAA).

Crucial among these witnesses is SIGIR's Stuart W. Bowen, Jr. On the heels of SIGIR's January 2007 Quarterly Report to Congress, Bowen will provide testimony on his office's oversight of the Iraq reconstruction. The Quarterly Report contained information about two especially alarming reconstruction contracts – those for the Iraqi Police Training Program and the Baghdad Police College.

***Contract with DynCorp for the Iraqi Police Training Program***

SIGIR's January 2007 Quarterly Report found extraordinary waste in the State Department's contract with DynCorp for the Iraqi Police Training Program. The State Department paid nearly $44 million for the manufacture and storage of a residential camp to house 1,040 police training and advisor personnel that has never been used because of security concerns. SIGIR found that State may have spent another $36.4 million for weapons and equipment, including armored vehicles, body armor and communications equipment that cannot be accounted for. SIGIR also found unauthorized work on the aborted residential camp for such things as VIP trailers and an Olympic-sized swimming pool, neither of which have been used.

The Department of State (DoS) awarded a contract to DynCorp International, LLC (DynCorp), on February 18, 2004. The contract was for a base year with four one-year options. It had a potential value of about $1.8 billion. The first task, issued in June 2002 under the contract had a value of up to $188.7 million for a 3-month period to provide: training services for international police liaison officers; training support equipment; construction of a residential camp on the Adnan Palace grounds in Baghdad to house training personnel; and construction of five regional camps at selected locations in Iraq.

SIGIR found millions of dollars were wasted, put at risk, or could not be accounted for. Specifically, between July 2004 and June 2006, DoS paid about $43.8 million for manufacturing and temporary storage of a residential camp that has never been used, including $4.2 million for unauthorized work associated with the residential camp. In addition, DoS spent another $36.4 million for weapons and equipment, including armored vehicles, body armor, and communications equipment that cannot be accounted for due to sloppy paperwork.

A key part of this contract was the manufacture and installation of a residential camp to house 1,040 police training and advisor personnel with associated facilities including dining and office space. Instead of accomplishing this on its own, DynCorp awarded a subcontract valued at $55.1 million to Corporate Bank Financial Services (Corporate Bank), on August 15, 2004. Corporate turned around and on September 1 subcontracted the effort to an Italian manufacturing firm, Cogim SpA, for $47.1 million. A total of 1,048 trailers were to be manufactured. Because of security concerns, the project was cancelled in September 23, 2004.

SIGIR's investigation revealed the following disquieting facts:

- The manufacturing of the trailers began more than three months before the award of either of the two subcontracts.

- DynCorp submitted an invoice to DoS that included $18.0 million in mobilization fees for the residential camp for the period of April 17, 2004, through May 16, 2004 – before the task was awarded under the main contract.

- DoS contracting officials never questioned DynCorp about its invoice for mobilization fees for the residential camp before DynCorp had subcontracted for the manufacture of the trailers. DoS never clarified the status of the work when DynCorp was told to stop work.

- DynCorp billed for 500 trailers for the residential camp that may not have been manufactured or completed at the time of billing.

- Of the approximately $43.8 million spent on the residential camp, $4.2 million was for VIP trailers and an Olympic size swimming pool on the palace grounds neither of which were authorized.

- In December 2005, DoS found DynCorp's paperwork was sloppy – it was frequently ambiguous and lacked the level of detail necessary to determine what was procured.

***Contract with Parsons for the Baghdad Police College***

The Coalition Provisional Authority (CPA) awarded a contract to Parsons Delaware, Inc. (Parsons), to construct and renovate the Baghdad Police College (BPC) in March 2004. Upon the dissolution of the CPA, responsibility was given to the U.S. Army Corps of Engineers (Army Corps). The Army Corps became responsible for the administration of design-build contracts for the reconstruction of Iraq, including the Parsons contract.

Shortly after BPC facility went into operation the sewage and plumbing systems suffered catastrophic failures. Not surprisingly inspectors found poor quality assessment and control mechanisms and shoddy repairs to the facilities using low-quality plumbing fixtures. The government has already paid the contractor $62 million for this mess. We have also had to pay an additional $8 million to complete the work not finished by the initial contractor. This job will inevitably cost more and deliver less.

SIGIR's investigation found:

- The Baghdad Police College construction and renovation project results deviated from the contract and task order requirements. The contract Statement of Work called for providing the "Iraqi people with necessary basic public facilities and infrastructure with sufficient space accommodations and reliable public works, electrical, plumbing, mechanical, and communications resources that are easy to maintain, upgrade and repair…" The completed barracks buildings continue to experience significant plumbing failures and the massive expansion cracks on the interior and exterior of the buildings will leave the Iraqis with incessant maintenance problems.

- The Baghdad Police College construction and renovation project was badly designed and constructed, and poorly managed by the Army Corps.

- The Corps responded to charges that the water supply system contained human waste by contending that the leaking liquid identified as human waste was actually "dirt-filled fresh water."

- Despite the lack of oversight and poor project management by the Army Corps, the government paid Parsons approximately $5.3 million for substandard work.

- The Army Corps was paid nearly $2.5 million for doing little more than tracking the project.

- Most of the work did not meet contract standards. The project was rife with construction deficiencies: poor plumbing installation, expansion cracks, concrete segregation and honeycombing, reinforcement bar exposure, and poor brickwork. In addition, the construction and equipment installation workmanship was so poor that it did not comply with the international standards required by the contract and task orders.

- SIGIR found that the Army Corps did not review the contractor's daily quality control reports or perform other essential quality control functions. Consequently, the Army Corps was clueless about rampant construction deficiencies at the project site.

Mr. DAVIS OF VIRGINIA. We meet for the second time in as many weeks to look into the complex range of issues arising from extensive contracting activities in Iraq.

Mr. Chairman, I am of course pleased the committee is continuing this line of oversight that we began 3 years ago. But between last week's hearing and today's, I am afraid we may be peering into the wrong end of the telescope, looking first at very specific complaints about security contractors and then taking this much broader survey of troubled acquisitions in Iraq. That is backward and it risks spending the committee's time and credibility chasing transient or dated issues while systematic problems go without thorough scrutiny. I look forward to working with you in setting a more coherent agenda.

Today we will hear from the three major oversight organizations tracking Federal procurements in Iraq. They have all testified here before, and they bring important perspectives informed by a substantial body of audit and review work. The picture painted by these witnesses is never pretty, nor will their testimony necessarily tell the complete story of an evolving, dynamic, and sometimes dangerous process. But this much is clear: poor security, an arcane, ill-suited management structure, and frequent management changes have produced a succession of troubled acquisitions. We need to know what has gotten better, what is being fixed, and, more importantly, what is still broken. And we need to refine our understanding of the difference between interim findings that may make this complex process look bad and the real implications of the "definitized" costs ultimately paid by the Government.

Without question, many reconstruction projects have fallen far short of expectations, and we have yet to completely resolve serious problems in contract management and oversight in deployment locations. The underlying causes: the lack of sufficiently focused, high-level leadership, mismatches between requirements and resources, and an inadequate number of trained acquisition and oversight personnel. While these challenges are not unique in Iraq, a highly unstable environment and consequent security problems have greatly exacerbated the impact of resulting cost, performance, and oversight issues.

These failures have plagued acquisition efforts in the battle space from the beginning. Some of those initial challenges have been mitigated; many have not. A lack of planning and poor staff training caused many of the early reconstruction contracts to be awarded using other than full and open competition. Recent GAO reports show the vast majority of more recent contract awards have been made on a competitive basis. But GAO findings also point out that we still do not have data on the total number of contract employees or the full range of services they provide. That is a troubling blind spot in the effort to assess overall contract management and oversight in Iraq.

And recent reports by the Special Inspector General for Iraq point to inattentive management and oversight systems that still allow large contracts to careen out of control, wasting millions of dollars and buying far less than agreed. At times, between sloppy records, sloppier performance, and AWOL contract monitoring, we can't even be sure we got anything at all for the huge amounts

spent. SIGIR audit findings on construction contracts for a State Department residential camp and the Baghdad Police College describe ongoing, large-scale, and systematic vulnerabilities to waste and abuse in those critical, costly reconstruction programs.

True, the Inspector General also concludes that 80 percent of the Iraq reconstruction projects have been completed properly, on time, and within budget. But there is a great deal of money committed and still in the contract pipelines, and we need to be sure those projects are not on the same oversight audit-pilot that steered over contracts into a fiscal ditch in Iraq.

Many audits from the agencies represented here today have spent considerable time working in Iraq, and we value the experience and perspective our witnesses will provide on the important issues raised by the reconstruction contracts there. Much is at stake in terms of U.S. tax dollars and in terms of effectively helping the Iraqi people rebuild the basic infrastructure of their nation. We look forward to their testimony and to a frank, constructive discussion.

Thank you.

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

HENRY A. WAXMAN, CALIFORNIA
CHAIRMAN

TOM DAVIS, VIRGINIA
RANKING MINORITY MEMBER

ONE HUNDRED TENTH CONGRESS

Congress of the United States
House of Representatives
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
2157 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515–6143

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

**Statement of Rep. Tom Davis**
**Ranking Member**
**Committee on Oversight and Government Reform**
***"Iraqi Reconstruction: An Overview"***
**February 15, 2007**

Good morning. We meet for the second time in as many weeks to look into the complex range of issues arising from extensive contracting activities in Iraq.

Mr. Chairman, I am of course pleased the Committee is continuing this line of oversight that we began three years ago. But between last week's hearing and today's, I'm afraid we may be peering into the wrong end of the telescope – looking first at very specific complaints about security contractors and then taking this much broader survey of troubled acquisitions in Iraq. That's backward, and it risks spending the Committee's time and credibility chasing transient or dated issues while systemic problems go without thorough scrutiny. I look forward to working with you in setting a more coherent agenda.

Today we will hear from the three major oversight organizations tracking federal procurements in Iraq. They've all testified here before, and they bring important perspectives informed by a substantial body of audit and review work. The picture painted by these witnesses is never pretty, nor will their testimony necessarily tell the complete story of an evolving, dynamic sometimes dangerous process. But this much is clear: Poor security, an arcane, ill-suited management structure, and frequent management changes have produced a succession of troubled acquisitions. We need to know what's gotten better, what's still being fixed and what's still broken. And we need to refine our understanding of the differenee between interim findings that may make this complex process look bad and the real implications of the "definitized" costs ultimately paid by the government.

Without question, many reconstruction projects have fallen far short of expectations and we have yet to completely resolve serious problems in contract management and oversight in deployed locations. The underlying causes: the lack of sufficiently focused, high-level leadership, mismatches between requirements and resourees, and an inadequate number of trained acquisition and oversight personnel. While these challenges are not unique to Iraq, a highly unstable environment and consequent security problems have greatly exacerbated the impact of resulting cost, performance and oversight issues.

These failures have plagued acquisition efforts in the battle space from the beginning. Some of those initial challenges have been mitigated. Many have not. A lack of planning and poor staff training caused many of the early reconstruction contracts to be awarded using other than full and open competition. Recent GAO reports show the vast majority of more recent contract awards have been made on a competitive basis. But GAO findings also point out we still do not have data on the total number of contract employees or the full range of services they provide. That's a troubling blind spot in the effort to assess overall contract management and oversight in Iraq.

And recent reports by the Special Inspector General for Iraq point to inattentive management and oversight systems that still allow large contracts to careen out of control, wasting millions of dollars and buying far less than agreed. At times, between sloppy records, sloppier performance and AWOL contract monitoring, we can't even be sure we got anything at all for the huge amounts spent. SIGIR audit findings on construction contracts for a State Department residential camp and the Baghdad Police College describe on-going, large-scale, and systemic vulnerabilities to waste and abuse in those critical, and costly, reconstruction programs.

True, the Inspector General also concludes that 80 percent of the Iraq reconstruction projects have been completed properly, on time, and within budget. But there's a great deal of money committed and still in the contract pipelines, and we need to be sure those projects are not on the same oversight auto-pilot that steered other contracts into a fiscal ditch in Iraq.

Many auditors from the agencies represented here today have spent considerable time working in Iraq, and we value the experience and the perspective our witnesses will provide on the important issues raised by reconstruction contracts there. Much is at stake, in terms of U.S. tax dollars and in terms of effectively helping the Iraqi people rebuild the basic infrastructure of their nation. We look forward to their testimony and to a frank, constructive discussion.

Chairman WAXMAN. Thank you, Mr. Davis.

The Chair, without objection, will hold the record open for 1 week to receive an opening statement by any of the members of the committee.

Mr. ISSA. Mr. Chairman.

Chairman WAXMAN. But I would like to call on——

Mr. ISSA. Mr. Chairman.

Chairman WAXMAN. If the gentleman would permit, I would like to finish my sentence.

But the Chair would like to now call on Members who wish to make opening statements for 2 minutes, and will now look to Mr. Tierney.

Do you have an opening statement you wish to make?

Mr. TIERNEY. Mr. Chairman, I will put my remarks on the record if I have any, thank you. I would like to get to the witnesses.

Chairman WAXMAN. OK.

Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman. There are a couple of points I would like the panelists to focus on.

I do want to thank the gentlemen for the great work, and we appreciate your helping the committee with its work.

Mr. Chairman, just last week the Department of Justice announced that we had three more indictments—three former Army officers and also two U.S. civilians—for their role in a scheme to defraud the Coalition Provisional Authority in the South Central Region in Al Hilla in Iraq. Specifically, the indictments alleged that the defendants, which includes, troubling, the former comptroller and the former second-in-command at CPA South Central, who funneled over $8.6 million in rigged reconstruction contracts to American businessman Philip Bloom in exchange for $1 million in cash plus an SUV, some jewelry, computers, airline tickets, liquor, and other items.

These most recent indictments involving our reconstruction contracts in Iraq again beg the question whether the Defense Department is doing enough and, in fact, going back and reviewing all contracts that have been touched by these individuals and could have been compromised by these individuals who have been indicted or convicted for fraud or other violations of Federal law in relation to the contracts.

We have been asking this for a while. About 6 months ago I asked the Defense Department panelists the same question since June 2005. Then we had indictments of Jeffrey Mazon, a former Halliburton procurement manager, and Ali Hijazi, the managing partner of La Nouvelle, a general trading and contracting company. They had a kickback scheme through which a Kuwaiti firm, La Nouvelle, billed the U.S. taxpayer for more than $5.5 million for work that should have cost only about $680,000.

Regrettably, the committee and the chairman have been very helpful on this, but we have received only vague assurances from Mr. Reed of DCAA and from the Department's Acting Inspector General, Mr. Kimball, that such a review is in fact taking place.

Mr. Chairman, that is what I want to focus on, whether we are going back and reviewing. When we find fraud, abuse, corruption, bribes, are we going back, after conviction, after the indictments,

and reviewing the contracts that these folks have been involved in? Because I fear that it is a pattern of abuse and not just an individual instance.

Mr. Chairman, I want to thank you for your great work on this, and the ranking member, and I look forward to today's hearing for a discussion of all these compromised contracts. Thank you. I yield back.

Chairman WAXMAN. Thank you, Mr. Lynch.

Mr. Issa, do you wish to make an opening statement?

Mr. ISSA. Yes, I do.

Chairman WAXMAN. The gentleman is recognized.

Mr. ISSA. Thank you, Mr. Chairman. Mr. Chairman, I thank you for holding this hearing. I think it is critical. Although I believe that under the previous chairmanship we certainly had a record of asking questions, as the war on terror and particularly the war in Iraq continues, it becomes more and more evident that we have to differentiate the inefficiencies of war and the ineptness that sometimes occurs on the battlefield from true fraud and abuse.

I look forward to finding the fraud and abuse, but in the spirit of bipartisanism, I think it is also important that we, as a committee, recognize that war is wasteful, that, in fact, we, the American people, are thoroughly disappointed in the ineffectiveness of bringing a lasting piece to Iraq much more than we are the inefficiency of war. And I hope today that this hearing and our ongoing search not be misunderstood for telling our civilian and military personnel in combat that they shouldn't take risk. Taking risk, which sometimes leads to waste, is much better than having a perfect paper trail and bad outcome.

Having said that, one of the main reasons that this committee's work is resonating with the American people is in fact that we are not satisfied with the results that are occurring in Iraq. The ongoing Sectarian violence is very frustrating.

So I trust that we will send the right message, which is we will not tolerate dishonesty, fraud, or true abuses, but we do, as a committee and as a Congress, want people to continue to take the risk and the innovative investments that should lead to a lasting peace of Iraq, and that is why this committee has oversight, while at the same time the Appropriations Committee has been generous in continuing to grant the funding necessary for you all to do your job in a dangerous part of the world.

With that, I yield back.

Chairman WAXMAN. Thank you, Mr. Issa.

Mr. Braley, opening statement?

Mr. BRALEY. Thank you, Mr. Chairman and Ranking Member Davis, for hosting this hearing.

Last week's hearings on the policies and spending practices of the Coalition Provisional Authority was valuable in revealing some of the disastrous and wasteful mistakes that have been made that have contributed to the ongoing bloodshed, chaos, instability, and costs in Iraq. The point of the hearing was not to point fingers or to place blame but, rather, to learn from past errors so that we can improve our policies and make real progress in Iraq reconstruction, a critical element of stabilizing the country and bringing our troops home.

President Bush admitted, in his January 10th address to the Nation, in which he announced his plans to escalate the war in Iraq, that numerous mistakes had been made. He said that the current situation in Iraq is unacceptable and that it is clear that we need to change our strategy there. I agree. He also said that a successful strategy goes beyond military operations. Ordinary Iraqi citizens must see that military operations are accompanied by visible improvements in their neighborhoods and communities. I also agree with that statement.

In light of the increasing violence in Iraq, and considering that the President is requesting billions of additional dollars from U.S. taxpayers to rebuild the country, it is critical that we eliminate the waste, fraud, and abuse that have been so prevalent in Iraq in the past 4 years. It is our duty to ensure that the current and future policies of the U.S. Government in Iraq keeps our troops safe, spends the tax money of American citizens responsibly, and makes real progress toward stabilizing and rebuilding the country so that our troops can come home.

As he also outlined in his January 10th address to the Nation, President Bush recently appointed a reconstruction coordinator in Iraq, with the purpose of ensuring better results for economic assistance being spent there. I hope that the new coordinator, Timothy Carney, will take the information and insights provided last week and at today's hearings to heart. And I look forward to the testimony of our witnesses today and hope that this hearing will help us progress forward with more effective, responsible, and transparent reconstruction efforts.

Thank you.

Chairman WAXMAN. Thank you, Mr. Braley.

Mr. Souder. Mr. Duncan, are you next? OK.

Mr. DUNCAN. Well, thank you, Mr. Chairman, and thank you for calling this very important hearing.

I have always been very proud that my party, the Republican party, has been the most fiscally conservative party throughout its history for this country, and certainly no fiscally conservative person should feel any obligation to defend some of the lavish, wasteful, ridiculous, even scandalous, contracts that we have heard about in Iraq. This war has not been conducted in a fiscally conservative way, and we need to look into this.

Fiscal conservatives should be the ones most horrified by some of these things that we have heard about, and I know that DynCorp and some of these other corporations are so big and powerful and well-connected that probably nothing will ever be done to them, but if any of these things are true, then they should be prohibited from getting future government contracts, at least for some period of time.

Thank you, Mr. Chairman.

Chairman WAXMAN. Thank you very much for your statement.

Mr. Sarbanes.

Mr. SARBANES. Thank you, Mr. Chairman. Once again I want to congratulate you for holding these hearings. The amount of waste, fraud, and lack of accountability in the Iraq reconstruction and contracting processes is truly outrageous and inexcusable.

It is my understanding that the witnesses will testify today that $10 billion in questioned and unsupported contractor costs have now been identified in the Iraq reconstruction process, a truly shocking figure. The tragedy is that this amount of money could have gone to do so much good. Think, for example, what we could have done with this to rebuild after Hurricane Katrina.

Maybe most discouraging, this administration seems to regard this problem as minor or inconsequential. According to the Defense Contract Audit Agency, the Defense Department has been uncharacteristically and suspiciously lax in recouping and withholding payment when contractor costs are called into question. One is left to wonder what is really going on here.

There is no legitimate excuse for this lack of accountability. This is either an example of overwhelming incompetence or a willingness to look the other way because of personal or political relationships. In any case, the results are unacceptable.

There is only one element of this tragedy that I can be sure of: those who presided over the situation, the political managers of this war, failed our soldiers in harm's way and they failed the American people.

Thank you, Mr. Chairman.

Chairman WAXMAN. Thank you, Mr. Sarbanes.

Mr. Souder. No statement? Then we go to Mr. Welch.

Mr. WELCH. I would just as soon hear the witnesses, Mr. Chair. I am fine, thank you.

Chairman WAXMAN. Mr. Yarmouth.

Mr. YARMOUTH. I have no opening statement, Mr. Chairman. I welcome the panel and look forward to their testimony.

Chairman WAXMAN. Mr. Higgins.

Mr. HIGGINS. Thank you, Mr. Chairman, just briefly. Again, I thank you for your leadership and your diligence on this issue. Demanding accountability and transparency is our obligation, consistent with our oversight responsibility. You continue to bring to this panel issues and individuals that hopefully will help us demand that kind of transparency and accountability, particularly in a very, very difficult period in our American history relative to this war, relative to the costs associated with it, and relative to the abuse and corruption in the spending of American taxpayer dollars. So again I thank you and I look forward to hearing the statements of the panel. Thank you.

Chairman WAXMAN. Thank you, Mr. Higgins.

Mr. Kucinich.

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

The issue of Iraq reconstruction is central to the hopes that so many of us in Congress have: to bring the war to a conclusion. There are a number of plans out there to stop the war, and they recognize that a solid reconstruction program is vital to enable the Iraqi people not only to rebuild their country, but to provide jobs for the Iraqi people. This committee is going to be hearing from Government auditors who have been tasked with the understanding of the state of contracting in Iraq.

The gross mismanagement of prior contracting efforts in Iraq leave Congress no choice but to be skeptical of current and future contracting efforts. And this hearing is timely with the recent Ad-

ministrative request for an additional $1.2 billion in U.S. taxpayer funds for Iraq reconstruction efforts in fiscal year 2008.

This committee, Government auditors, and media accounts have highlighted failure after failure of contractor efforts to reconstruct Iraq's basic infrastructure. Unfortunately, the administration has given low priority to reconstruction contracts and has failed to ensure these funds actually improve the situation in Iraq.

Mr. Chairman, we spent $50 billion to reconstruct Iraq, but few Iraqis have seen their quality of life improve. It is absolutely essential that we find a way to create a viable reconstruction program as a means of taking Iraq to a condition of stabilization and peace.

Thank you, Mr. Chairman.

Chairman WAXMAN. Thank you, Mr. Kucinich.

I want to now introduce our panel. We are honored to have with us our Nation's top three auditors for Iraq reconstruction. David Walker is the Comptroller General of the United States. He will tell the committee about recent audits issued by the Government Accountability Office. GAO has uncovered many critical problems in the reconstruction efforts and with the Government's oversight of contractors.

Stuart Bowen is a Special Inspector General for Iraq Reconstruction. Mr. Bowen's work on Iraq reconstruction efforts has allowed those of us in Washington to hear firsthand accounts of how reconstruction efforts are going on in the ground.

And, finally, William Reed, who is the Director of the Defense Contract Audit Agency, will provide the committee with an update on his office's ongoing audits of spending on Iraq reconstruction and troop surge support costs. Mr. Reed's office has issued more than 1,800 audits relating to work in Iraq, and we are privileged to have him with us today.

It is our policy to swear in all witnesses that appear before the committee, so I would like to ask you to rise, if you would, and raise your right hands.

[Witnesses sworn.]

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

And what I would like to ask each of you to do, your prepared statements will be in the record in full. If you would summarize your statements or make your oral presentation to us in around 5 minutes.

Mr. Walker, let's begin with you.

## STATEMENTS OF DAVID M. WALKER, COMPTROLLER GENERAL OF THE UNITED STATES, GOVERNMENT ACCOUNTABILITY OFFICE; STUART W. BOWEN, JR., SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION; AND WILLIAM H. REED, DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

### STATEMENT OF DAVID M. WALKER

Mr. WALKER. Thank you, Chairman Waxman, Ranking Member Davis, other members of the committee. I am pleased to be back before you this week to talk about various issues relating to our Nation's efforts to stabilize and rebuild Iraq.

Prudence with taxpayer funds and our Nation's large and growing long-range fiscal challenges demand that the Defense Department maximize its return on the billions of dollars it has invested in Iraq-related reconstruction projects and support contracts. Further strengthening Iraq's fragile government institutions, which thus far have failed to adequately deter corruption, stimulate employment, and deliver essential services, is critical to establishing a peaceful, stable, and secure Iraq.

DOD has relied extensively on contractors to undertake major reconstruction projects and provide a broad range of support services. But these efforts have not always achieved their desired outcomes, nor have they achieved such outcomes on an economical and efficient manner. The challenges encountered in Iraq are emblematic of a range of systemic and longstanding challenges faced by the Department of Defense. But these systemic problems are exacerbated and accentuated when you are dealing with contingency operations in a conflict zone. In this regard, we have identified DOD contract management to be high-risk because of its vulnerability to fraud, waste, abuse, and mismanagement. We did this 15 years ago and we have continued to report related problems.

In a report issued in July 2006, we concluded that the awards to contractors were large and growing, that DOD will continue to be vulnerable to contracting fraud, waste, and abuse of taxpayer dollars unless it ends up dealing with a number of recurring and systemic challenges. While DOD has acknowledged its vulnerabilities and taken some actions to address them, many of the initiatives are still in their early stages and it is too soon to tell what impact they may have.

The Iraq situation is more complicated, as the United States must rely on the Iraqi government to play a larger role, which will require capacity not yet present. As we previously reported, amid signs of progress, the coalition faces numerous political, economic, and security challenges in rebuilding Iraq. In addition, the continued violence increases the risk that the United States will not be able to complete remaining reconstruction projects as planned. The violence also threatens the Iraqi government's ability to provide essential services to the Iraqi people.

The challenges faced by the Department of Defense on its reconstruction and support contracts in many cases reflect these longstanding and systemic challenges that DOD has had in connection with contracting activities. Such shortcomings result from various factors, including poorly defined or changing requirements; the use of poor business arrangements in inadequate contracting provisions; the absence of senior leadership and guidance; and an insufficient number of trained contracting, acquisition, and other personnel to mange, assess, and oversee contractor performance. In turn, these shortcomings manifest themselves in higher costs to taxpayers, schedule delays, unmet objectives, and other undesirable outcomes.

U.S. reconstruction efforts in Iraq continue to be hampered by a security situation that deteriorated in 2006. Although the number of trained and equipped Iraqi security forces has increased from about 174,000 in July 2005 to about 323,000 in December 2006, and more Iraqi Army units have taken the lead for

counterinsurgency operations, attacks on coalition and Iraqi security forces and civilians have increased. Consequently, U.S. forces have continued to conduct combat operations in urban areas, especially Baghdad.

Aggregate numbers of trained and equipped forces do not provide information on the capabilities and needs of these individual Iraqi units. Rather, this information is found in the unit level transitional readiness assessments. We have been attempting—we meaning GAO—since January 2006 in order to obtain access to this information. We have not been successful to date. It is absolutely essential, if the Congress wants to make informed decisions on authorization, appropriations, and in connection with oversight matters, that we get this information. We are talking about billions of dollars and thousands of American lives at stake.

In summary, there are a number of conditions that exist in Iraq that have led to and will continue to lead to increased risk of fraud, waste, and abuse of U.S. taxpayer funds. DOD's extensive reliance on contractors to undertake reconstruction projects and to provide a broad range of support services to deployed forces requires that they address a range of systemic and longstanding challenges in an aggressive, consistent, and effective manner. This reliance raises broader questions as to whether DOD has become too dependent on contractors to provide essential services without clearly identifying the appropriate roles and responsibilities, having adequate contracting terms, and employing appropriate oversight and accountability mechanisms.

Continuing reconstruction progress will require overall improvement in the security situation in Iraq. To do so, Iraqi security forces and provisional governments must be in a position to take responsibility for the security of their nation. At this time, their capacity to do so is questionable. Furthermore, the United States and the international community will need to support the Iraqi government's efforts to enhance its capacity to govern effectively and efficiently if it is to make a positive difference in the daily lives of the Iraqi people.

Thank you, Mr. Chairman, Ranking Member Davis. I am happy to hear from my colleagues now.

[The prepared statement of Mr. Walker follows:]

United States Government Accountability Office

GAO

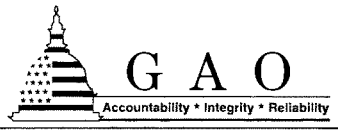
Testimony before the Committee on Oversight and Government Reform, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EST
Thursday, February 15, 2007

# REBUILDING IRAQ

## Reconstruction Progress Hindered by Contracting, Security, and Capacity Challenges

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




GAO-07-426T

February 15, 2007

GAO
Accountability · Integrity · Reliability

# Highlights

Highlights of GAO-07-426T, a testimony before the Committee on Oversight and Government Reform, House of Representatives

## REBUILDING IRAQ

# Reconstruction Progress Hindered by Contracting, Security, and Capacity Challenges

### Why GAO Did This Study

The Department of Defense (DOD) has relied extensively on contractors to undertake major reconstruction projects and provide support to its deployed forces, but these efforts have not always achieved desired outcomes. Further, the Iraqi government must be able to reduce violence, sustain reconstruction progress, improve basic services, and make a positive difference in the daily lives of the Iraqi people.

This statement discusses (1) factors affecting DOD's ability to promote successful acquisition outcomes on its contracts for reconstruction and for support to deployed forces in Iraq, (2) the deteriorating security situation and the capabilities of the Iraqi security forces, and (3) issues affecting the Iraqi government's ability to support and sustain future reconstruction progress.

The testimony is based upon our work on Iraq reconstruction and stabilization efforts, DOD contracting activities, and DOD's use of support contractors spanning several years. This work was conducted in accordance with generally accepted government auditing standards.

### What GAO Recommends

GAO is making no new recommendations in this testimony. GAO has previously made numerous recommendations to improve DOD's management and use of contracts. DOD has generally agreed with these recommendations and has taken some actions to implement them.

www.gao.gov/cgi-bin/getrpt?GAO-07-426T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Katherine V. Schinasi at (202) 512-4841 or schinasik@gao.gov.

### What GAO Found

The challenges faced by DOD on its reconstruction and support contracts often reflect systemic and long-standing shortcomings in DOD's capacity to manage contractor efforts. Such shortcomings result from poorly defined or changing requirements, the use of poor business arrangements, the absence of senior leadership and guidance, and an insufficient number of trained contracting, acquisition and other personnel to manage, assess and oversee contractor performance. In turn, these shortcomings manifest themselves in higher costs to taxpayers, schedule delays, unmet objectives, and other undesirable outcomes. For example, because DOD authorized contractors to begin work before reaching agreement on the scope and price of that work, DOD paid millions of dollars in costs that were questioned by the Defense Contract Audit Agency. Similarly, DOD lacks visibility on the extent to which they rely on contractors to support their operations. When senior military leaders began to develop a base consolidation plan, officials were unable to determine how many contractors were deployed and therefore ran the risk of over- or under-building the capacity of the consolidated bases.

U.S. reconstruction efforts also continue to be hampered by a security situation that continues to deteriorate. Although the number of trained and equipped Iraqi security forces increased to about 323,000 in December 2006 and more Iraqi Army units have taken the lead for counterinsurgency operations, attacks on coalition and Iraqi security forces and civilians have all increased. Aggregate numbers of trained and equipped Iraqi forces, however, do not provide information on the capabilities and needs of individual units. GAO has made repeated attempts to obtain unit-level Transition Readiness Assessments (TRAs) without success. This information is essential for the Congress to make fully informed decisions in connection with its authorization, appropriations, and oversight responsibilities.

As the U.S. attempts to turn over its reconstruction efforts, the capacity of the Iraqi government to continue overall reconstruction progress is undermined by shortfalls in the capacity of the Iraqi ministries, widespread corruption and the inability to fund and execute projects for which funds were previously budgeted. Iraqi government institutions are undeveloped and confront significant challenges in staffing a competent, nonaligned civil service; using modern technology; and managing resources and personnel effectively. For example, according to U.S. officials 20 to 30 percent of the Ministry of Interior staff are "ghost employees" whose salaries are collected by other officials. Further, corruption in Iraq poses a major challenge to building an effective Iraqi government and could jeopardize future flows of needed international assistance. Unclear budgeting and procurement rules have affected Iraq's efforts to spend capital budgets effectively and efficiently, according to U.S. officials. At the Ministry of Oil, for example, less than 1 percent of the $3.5 billion budgeted in 2006 for key enhancements to the country's oil production, distribution, and export facilities, had been spent as of August 2006.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss (1) factors affecting the Department of Defense's (DOD) ability to promote successful acquisition outcomes on its contracts for reconstruction and for support to deployed forces in Iraq, (2) the deteriorating security situation and the capabilities of the Iraqi security forces, and (3) issues affecting the Iraqi government's ability to support and sustain future reconstruction progress. Prudence with taxpayer funds and growing long-range fiscal challenges demand that DOD maximize its return on the billions of dollars it has invested in reconstruction projects and support contracts. Further, strengthening Iraq's fragile government institutions, which have thus far failed to adequately deter corruption, stimulate employment, or deliver essential services is critical to establishing a peaceful, stable, and secure Iraq.

DOD has relied extensively on contractors to undertake major reconstruction projects and provide support to its troops, but these efforts have not always achieved desired outcomes or achieved such outcomes in an economic and efficient manner. The challenges encountered in Iraq are emblematic of a range of systemic and long-standing challenges faced by DOD. In this regard, we identified DOD contract management to be high risk because of its vulnerability to fraud, waste, abuse, and mismanagement 15 years ago and have reported on DOD's long-standing problems with management and oversight of support contractors since 1997. In a report issued in July 2006, we concluded that with awards to contractors large and growing, DOD will continue to be vulnerable to contracting fraud, waste or misuse of taxpayer dollars, and abuse.[1] While DOD has acknowledged its vulnerabilities and taken some actions to address them, many of the initiatives are still in their early stages and it is too soon to tell what impact they may have.

The Iraqi situation is more complicated as the United States must rely on the Iraqi government to play a larger role, which will require capacity not yet present. As we previously reported, amid signs of progress, the coalition faces numerous political, economic, and security challenges in rebuilding Iraq. In addition, the continued violence increases the risk that the United States will not be able to complete remaining reconstruction

[1]GAO, *Contract Management: DOD Vulnerabilities to Contracting Fraud, Waste, and Abuse*, GAO-06-838R (Washington, D.C.: July 7, 2006).

projects as planned and threatens the Iraqi government's ability to provide essential services to the Iraqi people.

This testimony is based upon GAO's extensive work on Iraq reconstruction and stabilization efforts, DOD contracting activities, and DOD's use of support contractors spanning several years. This work was conducted in accordance with generally accepted government auditing standards.

## Summary

The challenges faced by DOD on its reconstruction and support contracts often reflect systemic and long-standing shortcomings in DOD's capacity to manage contractor efforts. Such shortcomings result from various factors, including poorly defined or changing requirements; the use of poor business arrangements; the absence of senior leadership and guidance; and an insufficient number of trained contracting, acquisition, and other personnel to manage, assess, and oversee contractor performance. In turn, these shortcomings manifest themselves in higher costs to taxpayers, schedule delays, unmet objectives, and other undesirable outcomes. For example, because DOD authorized contractors to begin work before reaching agreement on the scope and price of that work, DOD paid millions of dollars in incurred costs that were questioned by the Defense Contract Audit Agency. A DOD contracting official noted that the payment of incurred costs is required for cost-type contracts, absent unusual circumstances. Similarly, DOD lacks visibility on the extent to which it relies on contractors to support its operations. In turn, when senior military leaders began to develop a base consolidation plan, officials were unable to determine how many contractors were deployed and therefore ran the risk of over- or under-building the capacity of the consolidated bases. With about 29 percent of DOD's planned construction work remaining and the need for continued support for deployed forces, it is essential for DOD to address these shortcomings if the department is to increase its return on its investment in Iraq.

U.S. reconstruction efforts also continue to be hampered by a security situation that continues to deteriorate. Although the number of trained and equipped Iraqi security forces has increased from about 174,000 in July 2005 to about 323,000 in December 2006, and more Iraqi Army units have taken the lead for counterinsurgency operations, attacks on coalition and Iraqi security forces and civilians have all increased. Consequently, U.S. forces have continued to conduct combat operations in urban areas, especially Baghdad. Aggregate numbers of trained and equipped forces do not provide information on the capabilities and needs of individual units. Rather, this information is found in unit-level Transition Readiness

Assessment reports that are prepared by coalition advisors embedded in Iraqi units. GAO has made repeated attempts since January 2006 to obtain these assessments without success. These data are essential for the Congress to make fully informed decisions in connection with its authorization, appropriations, and oversight responsibilities.

As the United States attempts to turn over its reconstruction efforts, the capacity of the Iraqi government to continue overall reconstruction progress is undermined by shortfalls in the capacity of the Iraqi ministries, widespread corruption, and the Iraq government's inability to fund and execute projects for which funds were previously budgeted. Iraqi government institutions are undeveloped and confront significant challenges in staffing a competent, non-aligned civil service; using modern technology; and managing resources and personnel effectively. For example, according to U.S. government reports and international assessments, ministry personnel are frequently selected on the basis of political affiliation rather than competence or skills, and some ministries are under the authority of political parties hostile to the U.S. government. Further, according to U.S. officials, 20 to 30 percent of the Ministry of Interior staff are "ghost employees" whose salaries are collected by other officials. Corruption in Iraq poses a major challenge to building an effective Iraqi government and could jeopardize future flows of needed international assistance. According to U.S. officials, unclear budgeting and procurement rules have affected Iraq's efforts to spend capital budgets effectively and efficiently. For example, at the Ministry of Oil, less than 1 percent of the $3.5 billion budgeted in 2006 for key enhancements to the country's oil production, distribution, and export facilities had been spent as of August 2006.

## Background

The broader context of U.S. efforts for Iraqi reconstruction is tied to how missions and projects are being conducted and managed. Over the past decade, DOD has increasingly relied on contractors to provide a range of mission-critical services. Overall, DOD's obligations on service contracts rose from $82.3 billion in fiscal year 1996 to $141.2 billion in fiscal year 2005. According to DOD officials, the amount obligated on service contracts exceeded the amount the department spent on major weapon systems.

The growth in spending for services has coincided with decreases in DOD's workforce. DOD carried out this downsizing, however, without ensuring that it had the specific skills and competencies needed to accomplish DOD's mission. For example, the amount, nature, and

complexity of contracting for services have increased, which has challenged DOD's ability to maintain a workforce with the requisite knowledge of market conditions and industry trends, the ability to prepare clear statements of work, the technical details about the services they procure, and the capacity to manage and oversee contractors. Participants in an October 2005 GAO forum on Managing the Supplier Base for the 21st Century commented that the current federal acquisition workforce significantly lacks the new business skills needed to act as contract managers.

Contractors have an important role to play in the discharge of the government's responsibilities, and in some cases the use of contractors can result in improved economy, efficiency, and effectiveness. At the same time, there may be occasions when contractors are used to provide certain services because the government lacks another viable and timely option. In such cases, the government may actually be paying more and incurring higher risk than if such services were provided by federal employees. In this environment of increased reliance on contractors, sound planning and contract execution are critical for success. We have previously identified the need to examine the appropriate role for contractors to be among the challenges in meeting the nation's defense and other needs in the 21st century.[2]

The proper role of contractors in providing services to the government is currently the topic of some debate. In general, I believe there is a need to focus greater attention on what type of functions and activities should be contracted out and which ones should not, to review and reconsider the current independence and conflict of interest rules relating to contractors, and to identify the factors that prompt the government to use contractors in circumstances where the proper choice might be the use of civil servants or military personnel. Possible factors could include inadequate force structure; outdated or inadequate hiring policies, classification and compensation approaches; and inadequate numbers of full-time equivalent slots.

Turning to Iraq, DOD has relied extensively on contractors to undertake major reconstruction projects and provide support to its troops. For example, DOD has responsibility for a significant portion of the more than

[2]GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).

$30 billion in appropriated reconstruction funds and has awarded and managed many of the large reconstruction contracts, such as the contracts to rebuild Iraq's oil, water, and electrical infrastructure, and to train and equip Iraqi security forces. Further, U.S. military forces in Iraq have used contractors to a far greater extent than in prior operations to provide interpreters and intelligence analysts, as well as more traditional services such as weapon systems maintenance and base operations support. The Army alone estimates that almost 60,000 contractor employees currently support ongoing military operations in Southwest Asia and has spent about $15.4 billion on its single largest support contract—the Logistics Civil Augmentation Program (LOGCAP)—between 2001 and 2004.

Reconstruction and support contracts are often cost-reimbursement-type contracts, which allow the contractor to be reimbursed for reasonable, allowable, and allocable costs to the extent prescribed in the contracts. Further, these contracts often contain award fee provisions, which are intended to incentivize more efficient and effective contractor performance.[3] If contracts are not effectively managed and given sufficient oversight, the government's risk is likely to increase. For example, we have reported DOD needs to conduct periodic reviews of services provided under cost-reimbursement contracts to ensure that services are being provided and at an appropriate level and quality. Without such a review, the government is at risk to pay for services it no longer needs.

## DOD Needs to Improve Its Capacity to Manage Contractors

DOD's reliance on contractors for key reconstruction efforts and support to deployed forces requires that DOD create the conditions conducive for success. Our work has shown that these conditions include a match between requirements and resources, sound acquisition approaches, leadership and guidance, visibility and knowledge of the number of contractors and the services they provide, and the capacity to manage and assess contractor performance. As we have previously reported, in many cases these conditions were not present on DOD reconstruction and support contracts, increasing the potential for fraud, waste, abuse, and mismanagement.

[3]In December 2005, we reported that DOD programs engage in award fee practices that undermine efforts to motivate contractor performance and that do not hold contractors accountable for achieving desired acquisition outcomes. See GAO, *Defense Acquisitions: DOD Has Paid Billions in Award and Incentive Fees Regardless of Acquisition Outcomes*, GAO-06-66 (Washington, D.C.: Dec. 19, 2005).

Several of my colleagues in the accountability community and I have developed a definition of waste. As we see it, waste involves the taxpayers in the aggregate not receiving reasonable value for money in connection with any government funded activities due to an inappropriate act or omission by players with control over or access to government resources (e.g., executive, judicial or legislative branch employees, contractors, grantees or other recipients). Importantly, waste involves a transgression that is less than fraud and abuse. Further, most waste does not involve a violation of law, but rather relates primarily to mismanagement, inappropriate actions, or inadequate oversight. Illustrative examples of waste could include:

- unreasonable, unrealistic, inadequate or frequently changing requirements;
- proceeding with development or production of systems without achieving an adequate maturity of related technologies in situations where there is no compelling national security interest to do so;
- the failure to use competitive bidding in appropriate circumstances;
- an over-reliance on cost-plus contracting arrangements where reasonable alternatives are available;
- the payment of incentive and award fees in circumstances where the contractor's performance, in terms of costs, schedule and quality outcomes, does not justify such fees;
- the failure to engage in selected pre-contracting activities for contingent events;
- Congressional directions (e.g. earmarks) and agency spending actions where the action would not otherwise be taken based on an objective value and risk assessment and considering available resources.

## Changing Requirements and Resources Complicate Efforts to Hold DOD and Contractors Accountable for Outcomes

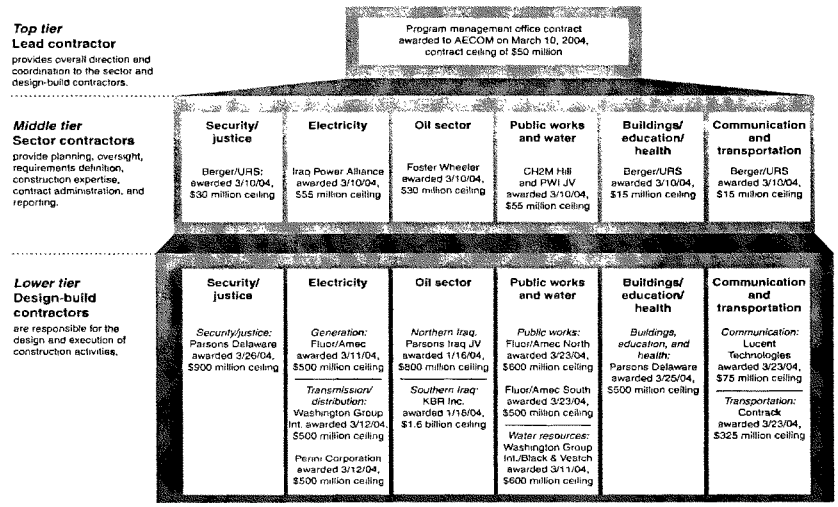
A prerequisite to having good outcomes is a match between well-defined requirements and available resources. Shifts in priorities and funding, even those made for good reasons, invariably have a cascading effect on individual contracts, making it more difficult to manage individual projects to successful outcomes and complicate efforts to hold DOD and contractors accountable for acquisition outcomes. I should note such problems reflect some of the systemic and long-standing challenges

confronting DOD, whether on contracts for services or major weapon systems. Contracts, especially service contracts, often do not have definitive or realistic requirements at the outset needed to control costs and facilitate accountability.

U.S. reconstruction goals were based on assumptions about the money and time needed, as well as a permissive security environment, all of which have proven unfounded. U.S. funding was not meant to rebuild Iraq's entire infrastructure, but rather to lay the groundwork for a longer-term reconstruction effort that anticipated significant assistance from international donors. To provide that foundation, the Coalition Provisional Authority (CPA) allocated $18.4 billion in fiscal year 2004 reconstruction funds among various projects in each reconstruction sector, such as oil, electricity, and water and sanitation.[4] The CPA used a multitiered contracting approach to manage and execute the projects. In this case, the CPA, through various military organizations, awarded 1 lead contractor, 6 sector contractors, and 12 design-build contracts in early 2004 (see fig. 1).

[4]From May 2003 through June 2004, the CPA was responsible for overseeing, directing, and coordinating rebuilding efforts.

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




Source: GAO.

After the CPA dissolved, the Department of State initiated an examination of the priorities and programs with the objectives of reprioritizing funding for projects that would not begin until mid- to late-2005 and using those funds to target key high-impact projects. By July 2005, the State Department had conducted a series of funding reallocations to address new priorities, including increased support for security and law enforcement efforts and oil infrastructure enhancements. One of the consequences of these reallocations was to reduce funding for the water and sanitation sector by about 44 percent, from $4.6 billion to $2.6 billion. One reallocation of $1.9 billion in September 2004 led DOD's Project and Contracting Office to cancel some projects, most of which had been planned to start in mid-2005.

Additionally, higher than anticipated costs associated with using the large design-build contracts contributed to DOD's decision to directly contract with Iraqi firms. For example, in the electricity sector, high cost estimates by one design-build contractor resulted in the termination of five task orders and the resolicitation of that work. After the task orders were canceled, the design-builder was slow to reduce overhead costs in accordance with the reduced workload, according to agency officials and documents. DOD is now directly contracting with Iraqi firms to reduce the costs of reconstruction efforts not requiring advanced technical and management expertise, such as erecting electrical distribution projects. Similarly, in the transportation sector, the design-build contractor demobilized and left Iraq shortly after award of the contract in March 2004 because DOD and the contractor agreed that the overall program costs were too high. Subsequently, DOD has made greater use of Iraqi contractors who were experienced in building roads and bridges.

Further, the lack of a permissive environment resulted in higher than anticipated security costs, which in turn, resulted in diverting planned reconstruction resources and led to canceling or reducing the scope of certain reconstruction projects. As we reported in July 2005, U.S. civilian agencies and the reconstruction contractors we evaluated generally obtained security services from private security providers.[5] We noted that the use of private security providers reflected, in part, the fact that providing security was not part of the U.S. military's stated mission. We also found, however, that despite significant role played by private security providers, U.S. agencies generally did not have complete data on the costs associated with their use. In June 2006, we reported that the agencies had agreed to include requirements for reconstruction contractors to report all costs for private security supplies and services that the contractor or any subcontractor may have to acquire necessary for successful contractor performance.[6]

[5]GAO, *Rebuilding Iraq: Actions Needed to Improve Use of Private Security Providers*, GAO-05-737 (Washington, D.C.: July 28, 2005).

[6]GAO, *Rebuilding Iraq: Actions Still Needed to Improve Use of Private Security Providers*, GAO-06-865T (Washington, D.C.: June 13, 2006).

## DOD's Business Arrangements Contributed to Increased Risks on Individual Contracts

Agency procurement personnel generally had limited advance warning prior to awarding the initial reconstruction contracts and were uncertain as to the full scope of reconstruction activities that were required. The need to award contracts and begin reconstruction efforts quickly contributed to DOD using business arrangements that potentially increased DOD's risks. Such arrangements included allowing contractors to begin work before agreeing on what needed to be done and at what price and, during the initial stages of reconstruction, awarding contracts that were not awarded under full and open competition.

To produce desired outcomes within available funding and required time frames, DOD and its contractors need to clearly understand reconstruction objectives and how they translate into the contract's terms and conditions: the goods or services needed, the level of performance or quality desired, the schedule, and the cost. When requirements were not clear, DOD often entered into contract arrangements that posed additional risks, in particular by authorizing contractors to begin work before key terms and conditions, including the work to be performed and its projected costs, were fully defined. For example,

- In 2004, we issued two reports that identified a considerable amount of work that was being undertaken in Iraq as undefinitized contract actions.[7] For example, we reported that as of March 2004, about $1.8 billion had been obligated on reconstruction contract actions without DOD and the contractors reaching agreement on the final scope and price of the work. Similarly, we found that as of June 2004, the Army and the contractor had definitized only 13 of the 54 task orders on the LOGCAP contract that required definitization. The lack of definitization contributed to the Army's inability to conduct award fee boards to assess the contractor's performance.[8]

- In September 2005, we reported that difficulties in defining the cost, schedule, and work to be performed associated with projects in the water sector contributed to project delays and reduced scopes of

[7]GAO, *Rebuilding Iraq: Fiscal Year 2003 Contract Award Procedures and Management Challenges*, GAO-04-605 (Washington, D.C.: June 1, 2004); and GAO, *Military Operations: DOD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight*, GAO-04-854 (Washington, D.C.: July 19, 2004).

[8]The LOGCAP award fee process was also hindered because of the failure to finalize the award fee plan and to appoint individuals to serve on the award fee boards, as well as concerns that some customers had not been documenting their LOGCAP experiences.

work.[9] We reported that DOD had obligated about $873 million on 24 task orders to rebuild Iraq's water and sanitation infrastructure, including municipal water supplies, sewage collection systems, dams, and a major irrigation project. We found, however, that agreement between the government and the contractors on the final cost, schedule, and scope of 18 of the 24 task orders we reviewed had been delayed. These delays occurred, in part, because Iraqi authorities, U.S. agencies, and contractors could not agree on scopes of work and construction details. For example, at one wastewater project, local officials wanted a certain type of sewer design that increased that project's cost.

- In September 2006, we issued a report on how DOD addressed issues raised by the Defense Contract Audit Agency in audits of Iraq-related contract costs.[10] In particular, we found that DOD contracting officials were less likely to remove the costs questioned by auditors if the contractor had already incurred these costs before the contract action was definitized. In one case, the Defense Contract Audit Agency questioned $84 million in an audit of a task order proposal for an oil mission. In this case, the contractor did not submit a proposal until a year after the work was authorized, and DOD and the contractor did not negotiate the final terms of the task order until more than a year after the contractor had completed the work. In the final negotiation documentation, the DOD contracting official stated that the payment of incurred costs is required for cost-type contracts, absent unusual circumstances. In contrast, in the few audit reports we reviewed where the government negotiated prior to starting work, we found that the portion of questioned costs removed from the proposal was substantial.

The need to award contracts and begin reconstruction efforts quickly—a contributing factor to DOD's use of undefinitized contract actions—also contributed to DOD using other than full and open competition during the initial stages of reconstruction. While full and open competition can be a tool to mitigate acquisition risks, DOD procurement officials had only a relatively short time—often only weeks—to award the first major

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

[10]GAO, *Iraq Contract Costs: DOD Consideration of Defense Contract Audit Agency's Findings*, GAO-06-1132 (Washington, D.C.: Sept. 25, 2006).

reconstruction contracts. As a result, these contracts were generally awarded using other than full and open competition. We recently reported that our ability to obtain complete information on DOD reconstruction contract actions was limited because not all DOD components consistently tracked or fully reported this information. Nevertheless, for the data we were able to obtain, consisting of $7 billion, or 82 percent, of DOD's total contract obligations between October 1, 2003, through March 31, 2006, DOD competed the vast majority of DOD's contract obligations.[11]

## DOD Lacked the Capacity to Properly Manage and Assess Contractor Performance

An unstable contracting environment—when wants, needs, and contract requirements are in flux—also requires greater attention to oversight, which relies on a capable government workforce. Managing and assessing postaward performance entails various activities to ensure that the delivery of services meets the terms of the contract and requires adequate surveillance resources, proper incentives, and a capable workforce for overseeing contracting activities. If surveillance is not conducted, not sufficient, or not well documented, DOD is at risk of being unable to identify and correct poor contractor performance in a timely manner and potentially paying too much for the services it receives.

We and others have reported on the impact of the lack of adequate numbers of properly trained acquisition personnel and high turnover rates on reconstruction efforts. For example,

- Our June 2004 report found that early contract administration challenges were caused, in part, by the lack of a sufficient number of personnel.
- Our September 2005 report on water and sanitation efforts found that frequent staff turnover affected both the definitization process and the overall pace and cost of reconstruction efforts.
- The Special Inspector General for Iraq Reconstruction found that one of the CPA's critical shortcomings in personnel was the inadequate link between position requirements and necessary skills.
- In 2004, an interagency assessment team found that the number of contracting personnel was insufficient to handle the increased

[11]GAO, *Rebuilding Iraq: Status of Competition for Iraq Reconstruction Contracts*, GAO-07-40 (Washington, D.C.: Oct. 6, 2006).

workload expected with the influx of fiscal year 2004 funding. In part, the CPA's decision to award seven contracts in early 2004 to help better coordinate and manage the fiscal year 2004 reconstruction efforts recognized this shortfall. As a result, however, DOD is relying on these contractors to help manage and oversee the design-build contractors.

DOD's lack of capacity contributed to challenges in using interagency contracting vehicles in Iraq. In certain instances, rather than develop and award its own contracts, DOD used contracts already awarded by other agencies. While this practice may improve efficiency and timeliness, these contracts need to be effectively managed, and their use requires a higher than usual degree of business acumen and flexibility on part of the workforce.

During the initial stages of reconstruction, we and the DOD Inspector General found instances in which DOD improperly used interagency contracts. For example, the Inspector General found that a DOD component circumvented contracting rules when awarding contracts on behalf of the CPA when using the General Services Administration's federal supply schedule. The Inspector General cited DOD's failure to plan for the acquisition support the CPA needed to perform its mission as contributing to this condition. Similarly, in April 2005 we reported that a lack of effective management controls—in particular insufficient management oversight and a lack of adequate training—led to breakdowns in the issuance and administration of task orders for interrogation and other services by the Department of the Interior on behalf of DOD.[12] These breakdowns included:

- issuing 10 out of 11 task orders that were beyond the scope of underlying contracts, in violation of competition rules;
- not complying with additional DOD competition requirements when issuing task orders for services on existing contracts;
- not properly justifying the decision to use interagency contracting;
- not complying with ordering procedures meant to ensure best value for the government; and

[12]GAO, *Interagency Contracting: Problems with DOD's and Interior's Orders to Support Military Operations*, GAO-05-201 (Washington, D.C.: Apr. 29, 2005).

- not adequately monitoring contractor performance.

Because officials at Interior and the Army responsible for the orders did not fully carry out their roles and responsibilities, the contractor was allowed to play a role in the procurement process normally performed by the government. Further, the Army officials responsible for overseeing the contractor, for the most part, lacked knowledge of contracting issues and were not aware of their basic duties and responsibilities. In part, problems such as these contributed to our decision to designate management of interagency contracting a high-risk area in January 2005.

To improve its capacity to plan and award contracts and manage contractor performance, DOD has merged the Project and Contracting Office with the U.S. Army Corps of Engineers' Gulf Region Division. Additionally, DOD established the Joint Contracting Command–Iraq to consolidate and prioritize contracting activities and resolve contracting issues, among other things. As noted previously, DOD has also attempted to directly contract with Iraqi firms, rather than rely on the large U.S. design-build contracts that it had awarded in early 2004. Although DOD expects this approach will reduce costs, it will also likely increase the administrative and oversight burden on DOD's workforce.

## DOD Needs Clear and Comprehensive Guidance and Leadership to Manage and Oversee Support Contractors

Since the mid-1990s, our reports have highlighted the need for clear and comprehensive guidance for managing and overseeing the use of contractors who support deployed forces. As we reported in December 2006, DOD has not yet fully addressed this long-standing problem.[13]

Such problems are not new. In assessing LOGCAP implementation during the Bosnian peacekeeping mission in 1997, we identified weaknesses in the available doctrine on how to manage contractor resources, including how to integrate contractors with military units and what type of management and oversight structure to establish.[14] We identified similar weaknesses when we began reviewing DOD's use of contractors in Iraq. For example, in 2003 we reported that guidance and other oversight

[13]GAO, *Military Operations: High-Level DOD Action Needed to Address Long-standing Problems with Management and Oversight of Contractors Supporting Deployed Forces*, GAO-07-145 (Washington, D.C.: Dec. 18, 2006).

[14]GAO, *Contingency Operations: Opportunities to Improve the Logistics Civil Augmentation Program*, GAO/NSIAD-97-63 (Washington, D.C.: Feb. 11, 1997).

mechanisms varied widely at the DOD, combatant command, and service levels, making it difficult to manage contractors effectively.[15] Similarly, in our 2005 report on private security contractors in Iraq, we noted that DOD had not issued any guidance to units deploying to Iraq on how to work with or coordinate efforts with private security contractors.[16] Further, we noted that the military may not have a clear understanding of the role of contractors, including private security providers, in Iraq and of the implications of having private security providers on the battle space.

Our prior work has shown that it is important for organizations to provide clear and complete guidance to those involved in program implementation. In our view, establishing baseline policies for managing and overseeing contractors would help ensure the efficient use of contractors in places such as Iraq. DOD took a noteworthy step to address some of these issues when it issued new guidance in 2005 on the use of contractors who support deployed forces. However, as our December 2006 report made clear, DOD's guidance does not address a number of problems we have repeatedly raised—such as the need to provide adequate contract oversight personnel, to collect and share lessons learned on the use of contractors supporting deployed forces, and to provide DOD commanders and contract oversight personnel with training on the use of contractors overseas prior to their deployment.

In addition to identifying the lack of clear and comprehensive guidance for managing contract personnel, we have issued several reports highlighting the need for DOD components to comply with departmental guidance on the use of contractors. For example, in our June 2003 report we noted that DOD components were not complying with a long-standing requirement to identify essential services provided by contractors and develop backup plans to ensure the continuation of those services during contingency operations should contractors become unavailable to provide those services. We believe that risk is inherent when relying on contractors to support deployed forces, and without a clear understanding of the potential consequences of not having the essential service available, the risks associated with the mission increase.

[15]GAO, *Military Operations: Contractors Provide Vital Services to Deployed Forces but Are Not Adequately Addressed in DOD Plans,* GAO-03-695 (Washington, D.C.: June 24, 2003).

[16]GAO-05-737.

In other reports, we highlighted our concerns over DOD's planning for the use of contractor support in Iraq—including the need to comply with guidance to identify operational requirements early in the planning process. When contractors are involved in planning efforts early, and given adequate time to plan and prepare to accomplish their assigned missions, the quality of the contractor's services improves and contract costs may be lowered. DOD's October 2005 guidance on the use of contractor support to deployed forces went a long way to consolidate existing policy and provide guidance on a wide range of contractor issues. However, as of December 2006, we found little evidence that DOD components were implementing that guidance, in part because no individual within DOD was responsible for reviewing DOD and service efforts to ensure the guidance was being consistently implemented.

We have made a number of recommendations for DOD to take steps to establish clear leadership and accountability for contractor support issues. For example, in our 2005 report on LOGCAP we recommended DOD designate a LOGCAP coordinator with the authority to participate in deliberations and advocate for the most effective and efficient use of the LOGCAP contract. Similarly, in our comprehensive review of contractors on the battlefield in 2006, we recommended DOD appoint a focal point within the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics—at a sufficiently senior level and with the appropriate resources—dedicated to leading DOD's efforts to improve its contract management and oversight. DOD agreed with these recommendations. In October 2006, DOD established the office of the Assistant Deputy Under Secretary of Defense for Program Support to serve as the office of primary responsibility for contractor support issues, but the office's specific roles and responsibilities have not yet been clearly defined.

## Military Commanders and Senior DOD Leaders Need to Have Visibility over the Contractors Who Support Them

DOD continues to lack the capability to provide senior leaders and military commanders with complete information on support provided by contractors to deployed forces. Without such visibility, senior leaders and military commanders cannot develop a complete picture of the extent to which they rely on contractors to support their operations. We first reported the need for better visibility in 2002 during a review of the costs associated with U.S. operations in the Balkans.[17] At that time, we reported

[17]GAO, *Defense Budget: Need to Strengthen Guidance and Oversight of Contingency Operations Costs*, GAO-02-150 (Washington, D.C.: May 21, 2002).

that DOD was unaware of (1) the number of contractors operating in the Balkans, (2) the tasks those contractors were contracted to do, and (3) the government's obligations to those contractors under the contracts. We noted a similar situation in 2003 in our report on DOD's use of contractors to support deployed forces in Southwest Asia and Kosovo.[18] At that time, we reported that although most contract oversight personnel had visibility over the individual contracts for which they were directly responsible, visibility of all contractor support at a specific location was practically nonexistent at the combatant commands, component commands, and deployed locations we visited. As a result, commanders at deployed locations had limited visibility and understanding of all contractor activity supporting their operations and frequently had no easy way to get answers to questions about contractor support. This lack of visibility inhibited the ability of commanders to resolve issues associated with contractor support such as force protection issues and the provision of support to the contractor personnel.

Moreover, in our December 2006 review of DOD's use of contractors in Iraq, we found that DOD's continuing problems with limited visibility over contractors in Iraq unnecessarily increased contracting costs to the government and introduced unnecessary risk. Without visibility over where contractors are deployed and what government support they are entitled to, costs to the government may increase; for example, at a contractor accountability task force meeting we attended, an Army Materiel Command official noted that an Army official estimated that about $43 million is lost each year on free meals provided to contractor employees at deployed locations who also receive a per diem food allowance. Also, when senior military leaders began to develop a base consolidation plan, officials were unable to determine how many contractors were deployed and therefore ran the risk of over- or under-building the capacity of the consolidated bases. DOD's October 2005 guidance on contractor support to deployed forces included a requirement that the department develop or designate a joint database to maintain by-name accountability of contractors deploying with the force and a summary of the services or capabilities they provide. The Army has taken the lead in this effort, and recently DOD designated a database intended to provide improved visibility over contractors deployed to support the military in Iraq, Afghanistan, and elsewhere.

[18]GAO-03-695.

## DOD Lacks a Sufficient Number of Trained Contractor Management and Oversight Personnel

As I previously noted, having the capacity to manage and assess contractor performance is a critical factor in promoting successful outcomes, yet as we reported in December 2006, DOD does not have sufficient numbers of trained contractor management and oversight personnel at deployed locations. Such personnel include not only the contracting officers who award contracts, but also those personnel who define the requirements, receive or benefit from the services obtained, and monitor contractor performance. The lack of an adequate number of trained personnel limits DOD's ability to obtain a reasonable assurance that contractors are meeting contract requirements efficiently and effectively.

Several contract oversight personnel stated that DOD does not have adequate personnel at deployed locations to effectively oversee and manage contractors. For example, an Army official acknowledged that the Army is struggling to find the capacity and expertise to provide the contracting support needed in Iraq. In addition, officials responsible for contracting with Multinational Forces-Iraq stated that they did not have enough contract oversight personnel and quality assurance representatives to allow the organization to reduce the Army's use of the LOGCAP contract by awarding more sustainment contracts for base operations support in Iraq. Similarly, a LOGCAP program official noted that if adequate staffing had been in place, the Army could have realized substantial savings on the LOGCAP contract through more effective reviews of new requirements. Finally, the contracting officer's representative for an intelligence support contract in Iraq stated that he was unable to visit all of the locations that he was responsible for overseeing.

The inability of contract oversight personnel to visit all the locations they are responsible for can create problems for units that face difficulties resolving contractor performance issues at those locations. For example, officials from a brigade support battalion stated that they had several concerns with the performance of a contractor that provided maintenance for the brigade's mine-clearing equipment. These concerns included delays in obtaining spare parts and a disagreement over the contractor's obligation to provide support in more austere locations in Iraq. According to the officials, their efforts to resolve these problems in a timely manner were hindered because the contracting officer's representative was located in Baghdad while the unit was stationed in western Iraq. In other instances, some contract oversight personnel may not even reside within the theater of operations. For example, we found the Defense Contract Management Agency's (DCMA) legal personnel responsible for LOGCAP in Iraq were stationed in Germany, while other LOGCAP contract oversight

personnel were stationed in the United States. According to a senior DCMA official in Iraq, relying on support from contract oversight personnel outside the theater of operations makes resolving contractor performance issues more difficult for military commanders in Iraq, who are operating under the demands and higher operational tempo of a contingency operation in a deployed location.

Our work has also shown the need for better predeployment training for military commanders and contract oversight personnel on the use of contractor support since the mid-1990s. Training is essential for military commanders because of their responsibility for identifying and validating requirements to be addressed by the contractor. In addition, commanders are responsible for evaluating the contractor's performance and ensuring the contract is performed in an economic and efficient manner. Similarly, training is essential for DOD contract oversight personnel who monitor the contractor's performance for the contracting officer.

As we reported in 2003, military commanders and contract management and oversight personnel we met in the Balkans and throughout Southwest Asia frequently cited the need for better preparatory training.[19] Additionally, in our 2004 review, we reported that many individuals using support contracts such as LOGCAP were unaware that they had any contract management or oversight roles.[20] Army customers stated that they knew nothing about LOGCAP before their deployment and that they had received no predeployment training regarding their roles and responsibilities in ensuring that the contract was used economically and efficiently. In 2005, we reported that military units did not receive specific predeployment training or guidance about working with private security providers. In our December 2006 report, we noted also that many officials responsible for contract management and oversight in Iraq told us they received little or no training on the use of contractors prior to their deployment, which led to confusion over their roles and responsibilities. For example, in several instances, military commanders attempted to direct or ran the risk of directing a contractor to perform work outside the scope of the contract, even though commanders are not authorized to do so. Such cases can result in increased costs to the government.

[19]GAO-03-695.

[20]GAO-04-854.

Over the years, we have made several recommendations to DOD intended to strengthen this training. Some of our recommendations were aimed at improving the training of military personnel on the use of contractor support at deployed locations, while others focused on training regarding specific contracts, such as LOGCAP, or the role of private security providers. Our recommendations have sought to ensure that military personnel deploying overseas have a clear understanding of the role of contractors and the support the military provides to them. DOD has agreed with most of our recommendations. However, we continue to find little evidence that DOD has improved training for military personnel on the use of contractors prior to their deployment.

## A Deteriorating Security Situation Continues to Hamper Reconstruction Efforts

The security situation continues to deteriorate, impeding the management and execution of reconstruction efforts. To improve this condition, the United States is, among other things, (1) training and equipping Iraqi security forces that will be capable of leading counterinsurgency operations, and (2) transferring security responsibilities to Iraqi forces and the Iraqi government as capabilities improve. Although progress has been made in transferring more responsibilities to the Iraqi security forces, the capabilities of individual units are uncertain.

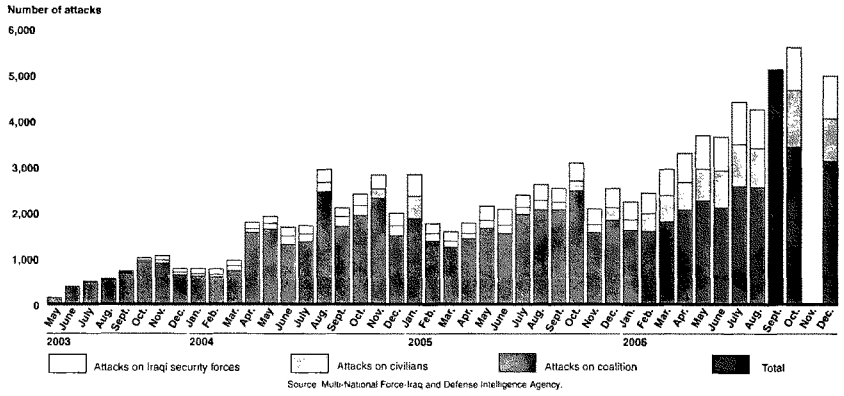
Since the fall of 2003, the U.S.-led multinational force in Iraq has developed and refined a series of plans to transfer security responsibilities to the Iraqi government and security forces, with the intent of creating conditions that would allow a gradual drawdown of the 140,000 U.S. military personnel in Iraq. This security transition was to occur first in conjunction with the neutralization of Iraq's insurgency and second with the development of Iraqi forces and government institutions capable of securing their country.

DOD and the State Department have reported progress in implementing the current security transition plan. For example, the State Department has reported that the number of trained and equipped Iraqi army and police forces has increased from about 174,000 in July 2005 to about 323,000 in December 2006. DOD and the State Department also have reported progress in transferring security responsibilities to Iraqi army units and provincial governments. For example, the number of Iraqi army battalions in the lead for counterinsurgency operations has increased from 21 in March 2005 to 89 in October 2006. In addition, 7 Iraqi army division headquarters and 30 brigade headquarters had assumed the lead by December 2006. Moreover, by mid-December 2006, three provincial

governments—Muthanna, Dhi Qar, and Najaf—had taken over security responsibilities for their provinces.

The reported progress in transferring security responsibilities to Iraq, however, has not led to improved security conditions. Since June 2003, overall security conditions in Iraq have deteriorated and grown more complex, as evidenced by the increased numbers of attacks and more recent Sunni-Shi'a sectarian strife after the February 2006 bombing of the Golden Mosque in Samarra (see figure 2). Enemy-initiated attacks against the coalition and its Iraqi partners have continued to increase during 2006. For example, the average total attacks per day increased from about 70 per day in January 2006 to about 180 per day in October 2006. In December 2006, the attacks averaged about 160 per day. These attacks have increased around major religious and political events, such as Ramadan and elections. Coalition forces are still the primary target of attacks, but the number of attacks on Iraqi security forces and civilians also has increased since 2003. In October 2006, the State Department reported that the recent increase in violence has hindered efforts to engage with Iraqi partners and shows the difficulty in making political and economic progress in the absence of adequate security conditions.

Figure 2: Enemy-Initiated Attacks against the Coalition and Its Iraqi Partners




Source: Multi-National Force-Iraq and Defense Intelligence Agency.

Note: An unclassified breakout of attacks by category is not available for September 2006, and an unclassified number of attacks is not available for November 2006.

Further, because of the level of violence in Iraq, the United States has not been able to draw down the number of U.S. forces in Iraq as early as planned. For example, after the increase in violence and collapse of Iraqi security forces during the spring of 2004, DOD decided to maintain a force level of about 138,000 troops until at least the end of 2005, rather than reducing the number of troops to 105,000 by May 2004, as had been announced the prior fall. Subsequently, DOD reversed a decision to significantly reduce the U.S. force level during the spring of 2006 because Iraqi and coalition forces could not contain the rapidly escalating violence that occurred the following summer. Moreover, rather than moving out of urban areas, U.S. forces have continued to conduct combat operations in Baghdad and other cities in Iraq, often in conjunction with Iraqi security forces. As you know, DOD is in the process of providing additional forces to help stem violence in Iraq.

Understanding the true capabilities of the Iraqi security forces is essential for the Congress to make fully informed decisions in connection with its authorization, appropriations, and oversight responsibilities. DOD and

State provide Congress with weekly and quarterly reports on the progress made in developing capable Iraqi security forces and transferring security responsibilities to the Iraqi army and the Iraqi government. This information is provided in two key areas: (1) the number of trained and equipped forces, and (2) the number of Iraqi army units and provincial governments that have assumed responsibility for security of specific geographic areas.

The aggregate nature of these reports, however, does not provide comprehensive information on the capabilities and needs of individual units. This information is found in unit-level Transition Readiness Assessment (TRA) reports. The TRA is a joint assessment, prepared monthly by the unit's coalition commander and Iraqi commander. According to Multinational Force-Iraq guidance, the purpose of the TRA system is to provide commanders with a method to consistently evaluate units; it also helps to identify factors hindering unit progress, determine resource shortfalls, and make resource allocation decisions. These reports provide the coalition commander's professional judgment on an Iraqi unit's capabilities and are based on ratings in personnel, command and control, equipment, sustainment and logistics, training, and leadership. These reports also serve as the basis for the Multinational Force-Iraq's determination of when a unit is capable of leading counterinsurgency operations and can assume security responsibilities for a specific area.

DOD provided GAO with classified, aggregate information on overall readiness levels for the Iraqi security forces—including an executive-level brief—and information on units in the lead, but has not provided unit-level reports on Iraqi forces' capabilities. GAO has made multiple requests for access to the unit-level TRA reports since January 2006. Nevertheless, as of last week, DOD still had not provided GAO unit-level TRA data, thereby limiting oversight over the progress achieved toward a critical objective.

## The Iraqi Government Currently Lacks the Capacity to Sustain and Continue Reconstruction and Security Efforts

While the United States has spent billions of dollars rebuilding the infrastructure and developing Iraqi security forces, U.S. and World Bank assessments have found that the Iraqi government's ability to sustain and maintain reconstruction efforts is hindered by several factors, including the lack of capacity in Iraq's key ministries and widespread corruption, and the inability of the Iraqi government to spend its 2006 capital budget for key infrastructure projects.

## Despite Some Progress, Concerns about Ministries' Capacity and Widespread Corruption Hinder Reconstruction Efforts

The United States has invested about $14 billion to restore essential services by repairing oil facilities, increasing electricity generating capacity, and restoring water treatment plants. For example, the U.S. Army Corps of Engineers reported that it had completed 293 of 523 planned electrical projects, including the installation of 35 natural gas turbines in Iraqi power generation plants. Additionally, reconstruction efforts have rebuilt or renovated schools, hospitals, border forts, post offices, and railway stations. Despite these efforts, a considerable amount of planned reconstruction work is not yet completed. DOD estimated that as of October 8, 2006, about 29 percent of the planned work remained to be completed, including some work that will not be completed until mid- to late 2008.

The Iraqi government has had difficulty operating and sustaining the aging oil infrastructure and maintaining the new and rehabilitated power generation facilities. For example,

- Iraq's oil production and exports have consistently fallen below their respective program goals. In 2006, oil production averaged 2.1 million barrels per day, compared with the U.S. goal of 3.0 million barrels per day. The Ministry of Oil has had difficulty operating and maintaining the refineries. According to U.S. officials, Iraq lacks qualified staff and expertise at the field, plant, and ministry levels, as well as an effective inventory control system for spare parts. According to the State Department, the Ministry of Oil will have difficulty maintaining future production levels unless it initiates an ambitious rehabilitation program. In addition, oil smuggling and theft of refined oil products have cost Iraq substantial resources.

- In 2006, electrical output reached 4,317 megawatts of peak generation per day, falling short of the U.S. goal of 6,000 megawatts. Prewar electrical output averaged 4,200 megawatts per day. Production also was outpaced by increasing demand, which has averaged about 8,210 megawatts per day. The Iraqi government has had difficulty sustaining the existing facilities. Problems include the lack of training, inadequate spare parts, and an ineffective asset management and parts inventory system. Moreover, plants are sometimes operated beyond their recommended limits, resulting in longer downtimes for maintenance. In addition, major transmission lines have been repeatedly sabotaged, and repair workers have been intimidated by anti-Iraqi forces.

In part, these shortfalls can be traced to the lack of capacity within Iraq's central government ministries. Iraqi government institutions are

undeveloped and confront significant challenges in staffing a competent, non-aligned civil service; using modern technology and managing resources effectively; and effectively fighting corruption. According to U.S. and World Bank assessments, ministry personnel are frequently selected on the basis of political affiliation rather than competence or skills, and some ministries are under the authority of political parties hostile to the U.S. government. The Iraqi ministries also lack adequate technology and have difficulty managing their resources and personnel. For example, the World Bank reports that the Iraqi government pays salaries to nonexistent, or ghost, employees that are collected by other officials. According to U.S. officials, 20 to 30 percent of the Ministry of Interior staff are ghost employees.

Further, corruption in Iraq is reportedly widespread and poses a major challenge to building an effective Iraqi government and could jeopardize future flows of needed international assistance. For example, a World Bank report notes that corruption undermines the government's ability to make effective use of current reconstruction assistance. A 2006 survey by Transparency International ranked Iraq's government as the second most corrupt government in the world. Moreover, between January 2005 and August 2006, 56 officials in Iraq's ministries were either convicted of corruption charges or subject to arrest warrants.

According to U.S. government and World Bank reports, the reasons for corruption in the Iraqi ministries are several, including the following:

- the absence of an effective Iraqi banking system leaves the government dependent on cash transactions;
- the majority of key Iraqi ministries have inadequately transparent, obsolete, or ambiguous procurement systems; and
- key accountability institutions, such as the inspectors general who were installed in each Iraqi ministry in 2004, lack the resources and independence to operate effectively and consistently.

Corruption is also pervasive in the oil sector, a critical source of revenue for the Iraqi government. In 2006, the World Bank and the Ministry of Oil's Inspector General estimated that millions of dollars of government revenue is lost each year to oil smuggling or diversion of refined products. According to State Department officials and reports, about 10 percent to 30 percent of refined fuels is diverted to the black market or is smuggled out of Iraq and sold for a profit. According to U.S. embassy documents, the

insurgency has been partly funded by corrupt activities within Iraq and from skimming profits from black marketers. In addition, Iraq lacks fully functioning meters to measure oil production and exports, precluding control over the distribution and sale of crude and refined products.

## Iraq Has Spent Little of Its Annual Capital Budget to Help Support Reconstruction Efforts

Sound government budgeting practices can help determine the priorities of the new government, provide transparency on government operations, and help decision makers weigh competing demands for limited resources. However, unclear budgeting and procurement rules have affected Iraq's efforts to spend capital budgets effectively and efficiently, according to U.S. officials. The inability to spend the funds raises serious questions for the government, which has to demonstrate to skeptical citizens that it can improve basic services and make a difference in their daily lives. The U.S. government has launched a series of initiatives in conjunction with other donors to address this issue and improve the Iraqi government's budget execution.

When the Iraqi government assumed control over its finances in 2004, it became responsible for determining how more than $25 billion annually in government revenues would be collected and spent to rebuild the country and operate the government. Unclear budgeting and procurement rules have affected Iraq's efforts to spend capital budgets effectively and efficiently, according to U.S. officials. As of August 2006, the government of Iraq had spent, on average, 14 percent of its 2006 capital projects budget (Iraq's fiscal year begins on January 1 of each year). Some of the lowest rate of spending occurs at the Ministry of Oil, which relies on damaged and outdated infrastructure to produce the oil that provides nearly all of the country's revenues (see table 1).

**Table 1: Iraq's 2006 Budget and Actual Expenditures through August 2006**
**Dollars in millions**

| | 2006 annual budget | | | Expenditures through August 2006 | | |
|---|---|---|---|---|---|---|
| Ministry | Capital goods | Capital projects | Total budget | Capital goods | Capital projects | Total budget |
| Finance | $10 | $33 | $16,506 | $1 | $74 | $8,895 |
| Planning | 4 | 27 | 55 | 0.4 | 3 | 9 |
| Interior | 233 | 27 | 1,919 | 25 | 0.2 | 958 |
| Defense | 864 | 33 | 3,443 | 12 | 0.0 | 831 |
| Oil | 2 | 3,533 | 3,590 | 0.4 | 4 | 40 |
| Electricity | 4 | 767 | 840 | 0.3 | 267 | 279 |
| Water | 0.2 | 200 | 259 | 0.0 | 49 | 78 |
| Justice | 3 | 10 | 74 | 2 | 0.2 | 34 |
| Others | 272 | 1,552 | 7,290 | 77 | 480 | 3,501 |
| **Total** | **$1,392** | **$6,181** | **$33,975** | **$117 (8.4%)** | **$877 (14.2%)** | **$14,623 (43.0%)** |

Source: GAO analysis of Iraqi budget data

Since most of the $34.5 billion in reconstruction funds provided between fiscal years 2003 and 2006 have been obligated, unexpended Iraqi funds represent an important source of additional financing. The capital goods budgets of the Interior and Defense ministries were intended for the purchase of weapons, ammunition, and vehicles, among other items. However, as of August 2006, Interior and Defense had spent only about 11 percent and 1 percent, respectively, of these budgeted funds.

Further, according to U.S. and foreign officials, the ability of the Iraqi government to fund improvements in its oil and electricity sectors remain uncertain. For example, the Ministry of Oil has had difficulty operating and maintaining its aging infrastructure, including some refineries originally constructed in the 1950s, 1960s, and 1970s. While the Ministry of Oil's $3.5 billion 2006 capital project's budget targeted key enhancements to the country's oil production, distribution, and export facilities, as of August 2006, the ministry had spent less than 1 percent of these budgeted funds.

Similarly, Iraq's electricity sector suffers from deteriorated, outdated, and inefficient infrastructure resulting from two decades of underinvestment in operations and maintenance, replacement, and expansion. This weakened infrastructure has led to unplanned outages. Despite the Ministry of Electricity's recent development of a 10-year master plan, Iraq's ability to fund improvements in its electricity sector remains uncertain. This uncertainty is due to low electricity tariffs, uncertain donor

commitments, and according to a World Bank assessment, an inadequate legal and regulatory framework.

## Concluding Observations

As I have discussed today, there are a number of conditions that exist in Iraq that have led to, or will lead to, increased risk of fraud, waste, and abuse of U.S. funds. DOD's extensive reliance on contractors to undertake reconstruction projects and provide support to deployed forces requires DOD to address long-standing challenges in an aggressive, effective manner. This reliance raises a broader question as to whether DOD has become too dependent on contractors to provide essential services without clearly identifying roles and responsibilities, and employing appropriate oversight and accountability mechanisms.

Continuing reconstruction progress will require overall improvement in the security situation in Iraq. To do so, Iraqi security forces and provincial governments must be in a position to take responsibility for the security of their nation. At this time, their capacity to do so is questionable. Furthermore, the U.S. and the international community will need to support the Iraqi government's efforts to enhance its capacity to govern effectively and efficiently if it is to make a positive difference in the daily lives of the Iraqi people.

---

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or other members may have at this time.

## GAO Contacts and Acknowledgments

For questions regarding this testimony, please call Katherine V. Schinasi at (202) 512-4841. Other contributors to this statement were Ridge Bowman, Daniel Chen, Joseph Christoff, Carole Coffey, Lynn Cothern, Timothy DiNapoli, Whitney Havens, John Hutton, John Krump, Steve Lord, Steve Marchesani, Tet Miyabara, Judy McCloskey, Mary Moutsos, Ken Patton, Jim Reynolds, and William Solis.

## GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

## Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

### Order by Mail or Phone

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

## To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

## Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

## Public Affairs

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

PRINTED ON RECYCLED PAPER

Chairman WAXMAN. Thank you, Mr. Walker. We will have questions of you after all the others have completed their testimony.

Mr. Reed.

**STATEMENT OF WILLIAM H. REED**

Mr. REED. Good morning, Mr. Chairman and members of the committee.

The Defense Contract Audit Agency has been an integral part of the oversight and management controls instituted by DOD to ensure integrity and regulatory compliance by contractors performing services in Iraq. DCAA's services include audits and professional advice to acquisition officials on accounting and financial matters to assist them in the negotiation, award, administration, and settlement of contracts. Decisionmaking authority on DCAA recommendations resides with contracting officers within the procurement organizations who work closely with DCAA throughout the contracting process.

Since April 2003, DCAA has worked with all the U.S. procurement organizations supporting Iraq reconstruction to establish the resources and planning information needed to carry out required audits of contract costs as they are incurred and billed. These organizations include the Joint Contracting Command, the Army Sustainment Command, the U.S. Army Corps of Engineers, DCMA in Iraq and Kuwait, USAID, and the State Department. This coordination has enabled DCAA to maintain an inventory of Iraq-related auditable contracts.

Based on the inventory of auditable contracts as of September 30, 2006, DCAA is responsible for auditing contracts at 93 contractors. These contractors hold more than 175 prime contracts with contract ceiling amounts of $51.8 billion, of which $38.5 billion had been funded at the end of fiscal year 2006. DCAA audits of cost-reimbursable contracts represent a continuous effort from evaluation of proposed prices to final closeout and payment. Initial audits of contractor business system internal controls and preliminary testing of contract costs are carried out to provide a basis for provisional approval of contractor interim payments and early detection of deficiencies. Comprehensive contract cost audits are performed annually throughout the life of the contract and are used by the contracting activity to adjust provisionally approved interim payments and ultimately to negotiate final payment to the contractor.

To carry out these audit requirements, DCAA did open an Iraq Branch Office in May 2003 and implemented planning and coordination procedures to effectively integrate audit work between that office and more than 50 DCAA CONUS Audit Offices with cognizance of companies performing contracts in Iraq.

Through fiscal year 2006, DCAA has issued more than 1,800 reports on Iraq-related contracts. We estimate issuing another 600 reports in fiscal year 2007. DCAA oversight of contracts in Iraq has found a number of problems. Our resulting action has ranged from recommending changes in business processes, to reduction of proposed or billed cost, to referral of our findings to the Inspector General for investigation and possible legal action.

The most frequent problems disclosed during our audits of business systems involve timekeeping procedures, cash management

procedures, management of subcontracts, and documentation of costs on proposals. The majority of these problems have already been resolved or are actively being worked by contractors and contracting officers. Where appropriate, reductions to billed costs have been taken to avoid potential inaccurate payments until process deficiencies are corrected.

Through fiscal year 2006, DCAA has recommended reductions in proposed and billed contract costs of $4.9 billion. Where appropriate, DCAA has taken action to reduce contractor billed costs for disputed amounts pending a contracting officer decision. In addition, as has been noted, DCAA has identified $5.1 billion of estimated costs where the contractor did not provide sufficient information to explain the basis for the estimated amounts. These unsupported costs were usually resolved through contractor submission of additional supporting information at the time of contract price negotiation.

In closing, I want to underscore that DCAA has worked closely with all acquisition organizations to ensure an integrated, well-managed contract audit process in Iraq. We have had a continuous presence in Iraq and the Middle East Theatre of Operations since May 2003, staffing our office entirely with civilian volunteers. To date, more than 180 DCAA auditors have served tours and, fortunately, none have been injured or killed. The challenges in applying business practices and auditing in Iraq are daunting and have required our auditors to be flexible, while insisting that the Department will not tolerate the billing of costs that do not comply with contract terms or are not appropriately documented and supported. DCAA has been and will continue to be vigilant about contract audit oversight and protecting the taxpayers' interests.

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

[The prepared statement of Mr. Reed follows:]

**Statement of Mr. William H. Reed**
**Director, Defense Contract Audit Agency**
**House Committee on Oversight and Government Reform**
**February 15, 2007**

Mr. Chairman, members of the Committee, my statement for this hearing will center on the Defense Contract Audit Agency's (DCAA) oversight of contract costs related to military operations and reconstruction in Iraq.

**DoD Contract Performance Oversight Responsibility**

DCAA has been an integral part of the oversight and management controls instituted by DoD to ensure integrity and regulatory compliance by contractors performing services in Iraq. DCAA's services include audits and professional advice to acquisition officials on accounting and financial matters to assist them in the negotiation, award, administration, and settlement of contracts. Decision-making authority on DCAA recommendations resides with contracting officers within the procurement organizations who work closely with DCAA throughout the contracting process.

**DCAA Staffing and Actions**

Since April 2003, DCAA has worked with all U.S. procurement organizations supporting Iraq Reconstruction to establish the resources and planning information needed to carry out required audits of contract costs as they are incurred and billed. These organizations include the Joint Contracting Command – Iraq/Afghanistan, the Army Sustainment Command, the U.S. Army Corps of Engineers, the Defense Contact Management Agency in Iraq and Kuwait, USAID, and the State Department. This coordination has enabled DCAA to maintain an inventory of Iraq-related auditable contracts.

Based on the inventory of auditable contracts as of September 30, 2006, DCAA is responsible for auditing Iraq-related contracts at 93 contractors. These contractors hold more than 175 prime contracts with contract ceiling amounts of $51.8 billion, of which $38.5 billion had been funded at the end of FY 2006. DCAA audits of cost-reimbursable contracts represent a continuous effort from evaluation of proposed prices to final closeout and payment. Initial audits of contractor business system internal controls and preliminary testing of contract costs are carried out to provide a basis for provisional approval of contractor interim payments and early detection of deficiencies. Comprehensive contract cost audits are performed annually throughout the life of the contract and are used by the contracting activity to adjust provisionally approved interim payments and ultimately to negotiate final payment to the contractor.

To carry out these extensive audit requirements, DCAA opened an Iraq Branch Office in May 2003 and implemented planning and coordination procedures to effectively integrate audit work between that office and more than 50 DCAA CONUS Audit Offices with cognizance of companies performing contracts in Iraq.

**Results of Audits**

Through FY 2006 DCAA has issued more than 1,800 reports on Iraq-related contracts. We estimate issuing another 600 reports in FY 2007. DCAA oversight of contracts in Iraq has found a number of problems. Our resulting action has ranged from recommending changes in business processes – to reduction of proposed or billed costs – to referral of our findings to the Inspector General for investigation and possible legal action against a contractor.

Reliability of business systems affecting contract costs – The most frequent problems disclosed during our audits of business systems involved timekeeping

procedures, cash management procedures, management of subcontracts, or documentation of costs on proposals. The majority of these problems have already been resolved or are actively being worked by contractors and contracting officers. Where appropriate, reductions to billed costs have been taken to avoid potential inaccurate payments until process deficiencies are corrected.

Reductions of proposed and billed costs – Through FY 2006 DCAA has recommended reductions in proposed and billed contract costs of $4.9 billion. Where appropriate, DCAA has taken action to reduce contractor billed costs for disputed amounts pending a contracting officer decision. In addition, DCAA has identified $5.1 billion of estimated costs where the contractor did not provide sufficient information to explain the basis for the estimated amounts. These unsupported costs were usually resolved through contractor submission of additional supporting information at the time of contract price negotiation.

**Closing**

In closing, I want to underscore that DCAA has worked closely with all acquisition organizations to insure an integrated, well-managed contract audit process in Iraq. We have had a continuous presence in Iraq and the Middle East Theatre of Operations since May 2003, staffing our office entirely with civilian volunteers. To date more than 180 DCAA auditors have served tours and fortunately, none have been injured or killed. The challenges in applying business practices and auditing in Iraq are daunting and have required our auditors to be flexible while insisting that the Department will not tolerate the billing of costs that do not comply with contract terms or are not appropriately documented and supported. DCAA has been and will continue to be vigilant about contract audit oversight and protecting the taxpayers' interests.

I look forward to addressing whatever questions or comments you have on DCAA's important role in Iraq. Thank you.

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

**STATEMENT OF STUART W. BOWEN, JR.**

Mr. BOWEN. Thank you. Good morning and thank you, Chairman Waxman, Ranking Member Davis, and members of the committee for this opportunity to address the committee again on my office's oversight efforts of the U.S. reconstruction effort in Iraq.

I leave tomorrow on my 15th trip to Iraq. I have spent just over a year of the last three overseeing the efforts of my staff that is deployed there. Right now I have 50 auditors, inspectors, and investigators working out of the Green Zone. They travel across Iraq visiting sites, investigating cases, and auditing programs.

Our 12th report was released 2 weeks ago, 12th quarterly report, and it is a watershed report because it carries an important message, that is, the end of the Iraq Relief and Reconstruction Fund is here, and the burden of sustaining the recovery and relief of Iraq, financial burden, must shift to the government of Iraq at this point, and that means the Iraqi government must execute and fund a coherent reconstruction plan, and cannot leave its money in the treasury, as it did at the end of last year, leaving about $10 billion that should have been spent on reconstruction.

The baton has passed. That is the message that I took to Secretary Rice and Deputy Secretary England, Secretary Gates when I met with them on the implications of our report. Also, in the last week, I met with General Petraeus and yesterday with Ambassador Ryan Crocker, who is just leaving for Iraq, and with both of them I know that we will continue the good working relationship that I have had with the embassy and with MNFI to date.

Also, yesterday I met with the Department of Justice, with Assistant Attorney General Alice Fisher, on the 20 cases that we have pending there, and I am pleased to report that the coordinated interagency effort to effectuate aggressive investigative work in Iraq is getting better. It is improving. It has improved over the last year, and I am very confident, over the coming year, that we will see more progress in that area.

And, Mr. Lynch, with respect to the question you raised, we have followed up on those issues. Philip Bloom, who was the primary driver behind the criminal scheme that occurred in Hilla 3 years ago, will be sentenced tomorrow, following three other persons who have already been sentenced and are going to prison. We have nine persons that have been indicted or convicted to date, and more to come.

We did a followup audit on exactly the issue you asked, and our recommendation was that the Government needed to hire a contractor or needed to pursue exactly this issue: what happened in the other regions. And they hired a contractor to followup on those issues, and the contractor, based on our most recent review, did not receive clear direction and they did not receive proper oversight, and so that followup is yet to be completed, but I am going to push it moving forward. And when I get back to Iraq, I am going to take on this issue, and we will meet with you when you get over there and discuss progress on that.

With my statement, I have submitted seven of our audits and inspections as examples of our work over the last 2½ years, as well as our quarterly report, and also I want to draw attention to an important issue that Ranking Member Davis raised, and that is the lessons learned that need to be drawn from our collective work, the collective work of those providing oversight.

And we have produced two lessons learned report that are effectuating change within the government system through both legislative and regulatory amendment, one in human capital management. It came out a year ago. It has been an issue from the start; it is still a challenge today, but less so, certainly burdened CPA, as we heard last week. Contracting came out last August, and a series of recommendations has helped move real-time lessons learned, the application of real-time lessons learned in Iraq forward through the Joint Contracting Command in Iraq. I work closely with the commander there each trip, and things are better today than they have been certainly in the history of Iraq reconstruction.

Finally, our lessons learned report on program and project management will be out in a little over a month, and it will tell the executory story of how programs were implemented and projects completed.

Briefly, I want to touch on the audits I have submitted as examples, just to exemplify what SIGIR is looking at and how we try to carry out what I call real-time auditing, which means working with management to effectuate changes when we uncover problems, and that has to be the way it works in Iraq because of the limited timeframe, and I go back there to push that same philosophy forward tomorrow.

The contract award fee process, an issue that came up during my June trip in 2005, and I discovered that the award fee process had no criteria and no documentation, it had no direction that it should have had pursuant to government regulations. But this is an example of how change happened immediately. As soon as that was uncovered, within a week, criteria were developed. The JCCI began to develop a new program, and within a month, before the audit came out, the problem had been fixed. The problem, though, was that award fees were being given, handed out based on weak criteria, limited oversight, and really in violation of the core principle of an award fee, that is, you award superior work, good work, something that exceeds expectations. That is going on today; it wasn't when we found this problem.

The primary health care clinic issue is probably the program that has been the biggest large-scale disappointment since it was an ambitious attempt to bring health care out to the rural areas, to build 150 centers across Iraq for $250 million. Two years later, $186 million had been spent and six were complete. The Corps of Engineers, to its credit, brought to our attention problems with Parsons, the contractor. We began to work immediately with the Ambassador Khalilzad to develop solutions to that. The execution of those solutions is still very gradual. A hundred twenty-one of those clinics are still under construction. We visited some of them in our inspections process, and they have shown to be substandard, as our reports reveal.

Third, last June we released a report on definitization. It is an abstract auditor term, but it means getting a hold of costs when you start out on a cost-plus contract that doesn't have defined requirements. And the definitization requirement is essential to ensure that in a cost-plus program, which we have in Iraq, that eventually the government gets control of how much these projects are going to cost. And as our audit revealed, the definitization requirement was not followed in Iraq by the Department of Defense. We looked at 194 task orders valued at $3.4 billion that should have been definitized and warrant—the definitization requirement requires 180 days after work begins you have to define what costs are. The Department of the Army recognized that was an issue. The General Counsel issued an opinion saying the definitization should be followed, so it is moving forward, but it had not been before we began to look at it.

Fourth, the Basra Children's Hospital, a USAID project that suffered from lack of oversight. The message there is you have to have more transparency. It fell behind, it was over budget, but that information didn't get up to levels that it needed to be. When it finally did, we recommended that Ambassador Khalilzad create a core group to manage this; he has. He moved management to the Corps of Engineers. It is moving forward, but rather than being done as it should have been a year ago, the hospital won't be finished for 6 to 12 months.

Administrative task orders was an issue that came to my attention when I was visiting with PCO, Project Contracting Office, and its predecessor, Project Management Office, during the reprogrammings, and I was concerned about overhead for contractors that weren't doing work. So we delved into that and discovered that the need to control overhead costs wasn't managed well in Iraq.

Finally, in our latest quarterly we have the report that the chairman referred to in his opening remarks about the police liaison officer camp that was going to be built at Adnan Palace, which is in the Green Zone, and was canceled. However, tens of millions of dollars was expended in buying the trailers anyway because of the lack of oversight of that project, including unauthorized work that was executed and equipment that, in the course of our audit, we were not able to account for.

The inspection I have submitted is of the Baghdad Police College. It has been a problematic project; an important project, the largest police college in the world, the locus for training police in Baghdad, the most difficult place in the world, and it simply has not met expectations. I just heard today from my staff over there that the Corps of Engineers is executing new contracts to fix what has been difficult to fix to date and the Iraqis have not accepted the project, though it was due to be turned over last month.

In closing, let me put this all in perspective. First of all, fraud. Fraud has not been a significant component of the U.S. experience in Iraq. Where we found it has been egregious, we continue to pursue it. I have a coordinated effort that I referred to, but it has not been a significant component of the U.S. experience. Waste is another issue, and I am working on with General Walker and Mr. Reed and others to identify that in clearer terms, and we are pur-

suing that and the Congress has directed my office to perform a forensic audit that will give you the hard data on that once it is completed. And, finally, we will complete a comprehensive lessons learned program in the course of this year, and from that effectuate what I expect will be positive change that will improve not only the continuing reconstruction of Iraq, but planning for any future efforts.

Mr. Chairman, thank you for this opportunity.

[The prepared statement of Mr. Bowen follows:]

FOR OFFICIAL USE ONLY
UNTIL RELEASED BY THE
HOUSE GOVERNMENT REFORM COMMITTEE

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

**BEFORE THE**

**UNITED STATES HOUSE**
**OVERSIGHT AND GOVERNMENT REFORM COMMITTEE**

**U.S. CONTRACTING IN IRAQ**

**Thursday, February 15, 2007**
**Washington, D.C.**

Chairman Waxman, Ranking Member Davis, and members of the Committee: thank you for this opportunity to address you today on important matters regarding the role of the Special Inspector General for Iraq Reconstruction (SIGIR) in auditing the U.S. contracting process in the reconstruction of Iraq. Today, I will provide you with a detailed overview of our oversight efforts of contracting in Iraq. I look forward to a productive exchange with the Committee regarding this issue.

## BACKGROUND

I was appointed as the Inspector General of the Coalition Provisional Authority (CPA) in January 2004 and began oversight of the CPA programs and operations with about a dozen staff in Baghdad in March of that year. The Office of the Special Inspector General was created in October 2004 only two months before the scheduled termination of the CPA Inspector General. SIGIR reports jointly to the Secretaries of State and Defense to keep them fully informed about the results of our reviews, good and not so good, as well as the recommendations for corrective action. Our reports are provided directly to the Congress and made available to the public on our website, www.sigir.mil.

The Congress has tasked SIGIR to provide oversight of the substantial United States investment in the reconstruction and relief of Iraq. This primarily entails the Iraq Relief and Reconstruction Fund, which amounts to just over $21 billion, as well as substantial amount of the Iraq Security Forces Fund (total $10 billion), the Commanders Emergency Response Program (total $2.5 billion), and the Economic Support Fund.

In carrying out its mission, SIGIR applies a balanced approach, providing oversight, insight, and foresight in the Iraq reconstruction program. SIGIR's *oversight* efforts, an Inspector General's traditional focus, address the ability to obtain maximum return on the U.S. taxpayer investment and to promote transparency and accountability of the U.S. administration of any Iraqi resources used. SIGIR's *insight* efforts advise the leadership

on management issues, with the emphasis on creating an environment of accountability, rule of law, and public trust in Iraq. SIGIR's *foresight* efforts focus on end-state issues, such as the cost to complete, transition, sustainment, and capacity building.

## IMPACT OF SIGIR'S WORK

To date, SIGIR has:

- Produced 12 Quarterly Reports.
- Issued 82 audit products and has another 14 audits underway. We recently published a report discussing how U.S. agencies in Iraq have implemented 34 of the 40 recommendations we made to improve the transparency and accountability of the Development Fund for Iraq.
- Produced 80 project assessments based on inspections of project sites. The most significant for this quarter was our second assessment of construction of the Baghdad Police College.
- Opened over 300 criminal and civil investigations leading to five arrests and four convictions, including the conviction of Mr. Robert Stein, who was recently sentenced to nine years in prison and fined $3.6 million for his role in money laundering and conspiracy to defraud the CPA in Hilla, Iraq. SIGIR Investigations have resulted in 23 cases currently under prosecution at the Department of Justice, and we are currently working on 78 on-going investigations.

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

*[SIGIR's latest quarterly report, issued January 30, 2007, is submitted for the record]*

## OVERSIGHT OF THE U.S. CONTRACTING PROCESSES

Our audit and inspection reports have documented a number of challenging situations that we have investigated in Iraq. As a preliminary matter, permit me to note that the reconstruction program in Iraq is unlike any other in history in that it has been carried out virtually under fire. Thus, it is fundamentally different from reconstruction in a stable environment and our finding should be viewed in that light.

The challenges of Iraq, however, do not reduce the importance of oversight; to the contrary, they increase the importance of effective operational oversight and real-time review. Indeed, our collective reporting reveals a simple axiom: effective quality assurance programs carried out by the government complemented by effective quality control programs performed by contractors yield successful programs and projects. Where good QA and QC programs have been applied in Iraq, success has been achieved.

FOR OFFICIAL USE ONLY
UNTIL RELEASED BY THE
HOUSE GOVERNMENT REFORM COMMITTEE

Of note, SIGIR's inspection reports document that most of the projects we have visited have met contract expectations. This rate of success is notable given the high security risks in Iraq.

Part of the mission of an Inspector General is to identify problem areas and work with management to fix them. I tell my auditors to bring me audits that provide solutions and not just findings. I am pleased to report that most of our audits provide recommendations that management agrees with and implements. This has promoted positive change in the Iraq reconstruction program.

## NOTABLE SIGIR AUDITS AND INSPECTIONS

*The Contract Award Fee Process*

The goal of award fees in contracting is to motivate a contractor's performance by offering financial incentives in areas critical to program success that are susceptible to measurement and evaluation. SIGIR reviewed the 18 cost-plus award-fee contracts funded with Iraq Relief and Reconstruction Fund (IRRF) funds—11 design-build (DB) contracts valued at up to $6.75 billion and 7 program management and support (PMAS) contracts valued in excess of $200 million. The 18 contracts were awarded through six different procuring activities.

In general, cost-plus-award-fee contracts include a base award fee (for simply meeting contract requirements) and a merit-based award fee for performance that exceeds contract expectations. For 16 of the 18 contracts, the base fee component was 3 percent, which is the highest base fee allowed by the Department of Defense Federal Acquisition Regulation (FAR) Supplement. To receive merit-based award fees, management should evaluate and measure contractors' performance against specific award fee evaluation criteria, which should be provided in the contracts. However, the 18 contracts did not contain the required criteria with definable metrics. This missing component creates the potential for inflated contractor performance evaluations.

Further, the Army FAR Supplement 5116.405-2 states that "contractors should not receive award fees (above the base fee) for simply meeting contract requirements." For 9 of the 11 DB contracts, the award fee plans allowed awards of an additional 50 percent to 74 percent of the award fee pool for average results. For the 7 PMAS contracts, the award fee plans permitted awards of an additional 60-70 percent of the award fee pool for some performance above standard while still allowing several weaknesses in performance to remain.

In addition, SIGIR reviewed award fee files and found that the recommendations and determinations of fees were not adequately documented to show that the integrity of the award fee determination process had been maintained. The documentation reviewed in contract files was insufficient to substantiate the award fees that were approved.

On July 19, 2005, SIGIR provided the Joint Contracting Command – Iraq /Afghanistan, the Project Contracting Office, and the U.S. Army Corps of Engineers Gulf Region

Division Award Fee Determining Official a briefing on the interim results of our audit.[1] At that time, these officials advised us that they were implementing new procedures that would address many of the corrective actions we identified. The Joint Contracting Command—Iraq/Afghanistan concurred with the recommendations in our report.

*[The SIGIR audit report on this matter is submitted for the record: Award Fee Process for Contractors Involved in Iraq Reconstruction (SIGIR-05-017, October 25, 2005)]*

*Primary Healthcare Centers*

The Primary Healthcare Centers project began with a March 2004 contract awarded to Parsons Global Inc. to construct 150 centers in Iraq, at a contract cost of about $243 million. Over the next two years, limited progress was made on this program, despite the expenditure of about $186 million. By March 2006, because of this lack of progress, the number of centers to be built had been reduced by eight, to 142. At that time, 135 centers were only partially constructed, one was placed under a different contract, and six had been accepted as complete by the U.S. Army Corps of Engineers (USACE).

The USACE then issued a "termination for convenience" of the contract for 121 of the 135 partially completed centers. This required the contractor to deliver 20 completed centers, including the six already completed. The USACE sought to contract out the completion of the remaining units. The incremental cost to complete the remaining 121 centers was estimated to be about $36 million. The USACE announced the award of contracts for these centers in September 2006.

Our audit found that both contractor performance and U.S. Government management actions were factors in the failure to complete the Public Healthcare Centers program as planned. We were told by the USACE that the contractor:

- Lacked qualified engineering staff to supervise its design work;
- Failed to check the capacity of its subcontractors to perform the required work;
- Failed to properly supervise the work of its subcontractors; and,
- Failed to enforce quality assurance and quality control activities.

SIGIR auditors identified:

- A lack of complete government response to contractor requests for equitable adjustments and excusable delays based on unplanned site conditions, design or scope changes, or delays based on site access restrictions or security;
- High government personnel turnover and organizational turbulence;
- Failure to follow required procedures for making contract changes;
- Poor cost controls;
- Poor cost-to-complete reporting;
- Failure to properly execute its administrative responsibilities; and,

[1] Interim Briefing to the Project and Contracting Office - Iraq and the Joint Contracting Command - Iraq on the Audit of the Award Fee Process, SIGIR-05-010, July 26, 2005.

- Failure to establish an adequate quality assurance program.

Our audit report concluded that the overall management of the projects should have been better executed. We provided recommendations for the project, as well as additional "lessons learned" for contract oversight. The responses we received from the three government organizations involved in the management of this program revealed that no one office had taken responsibility for the program.

*[The SIGIR audit report on this matter is submitted for the record: Audit Report on Management of the Primary Healthcare Centers Construction Projects (SIGIR-06-01, April 29, 2006)]*

*Use of Definitization Requirements*

Undefinitized contract actions are used when the contract terms, specifications, or price are not agreed upon before performance is begun. They are used in two cases: (1) when there is insufficient time to negotiate for a definitive contract to meet the government's needs; and (2) when the government's interest demands that a binding commitment be given so that contract performance can begin immediately. The Defense Federal Acquisition Regulation Supplement (DFARS) requires that definitization occur (to agree on the contract terms, specifications, and price) the earlier of (1) 180 days after the issuance of an undefinitized contact action; or (2) the date on which the amount of funds obligated under the contract action is equal to more than 50% of the not-to-exceed price.

In Iraq contracting, there was clearly a lack of clarity regarding the regulatory requirement for definitization of task orders issued under contracts classified as Indefinite-Delivery/Indefinite-Quantity (IDIQ) on the part of the primary U.S. Army organizations involved in awarding and administering different types of contracts. Specifically, U.S. Army procurement officials with the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A), the U.S. Army Corps of Engineers Gulf Region Division-Project and Contracting Office (GRD-PCO), and the Assistant Deputy Assistant Secretary of the Army for Policy and Procurement-Iraq/Afghanistan (ADASA P&P-I/A) all agreed that the DFARS regulation for definitization did not apply to task orders issued under contracts classified as IDIQ contracts. The basis of this interpretation was the lack of specific language in either the DFARS or the Federal Acquisition Regulation to associate an IDIQ contract as a type of contract that would be subject to the definitization provisions for an *undefinitized contract action*. As such, the application of definitization requirements to task orders issued under IDIQ contracts has been done on a voluntary basis.

On June 2, 2006, as a result of this audit and discussions with U.S. Army officials regarding the DFARS requirement for definitization, the Office of the Army General Counsel, in conjunction with the ADASA (P&P-I/A), re-examined this issue and agreed with SIGIR that the provisions of DFARS Subpart 217.74, "is the prescription for *undefinitized contract actions*, which would include task orders, if the terms, specifications or price are not agreed upon before performance is begun under the task order." Thus, the definitization requirement was not voluntary but mandatory.

We concluded the lack of clarity among U.S. Army procurement organizations as to the applicability of the DFARS definitization requirement for tasks orders issued under IDIQ contracts reduced control over contractor costs by the government. The incomplete nature of the content in the contract databases does not support the DFARS requirement for ensuring that definitization occurs in a timely manner, and thus implementing cost control. Cost containment is essential for contract administration relating to funds control over the IRRF appropriation which is subject to expiration at fiscal year end 2006.

*[The SIGIR audit report on this matter is submitted for the record: Review of the Use of Definitization Requirements for Contracts Supporting Reconstruction in Iraq (SIGIR-06-019, July 28, 2006)]*

Basrah Children's Hospital

The U.S. Agency for International Development (USAID) was tasked with construction of a modern, 50-bed pediatric facility in Basrah in southern Iraq, intended to improve the quality of care for both women and children. The Congress authorized $50 million for the project. Under a memorandum of understanding with USAID, Project HOPE was to provide a significant portion of the hospital equipment and have responsibility for training staff.

The job order issued by USAID in August 2004 to Bechtel National, Inc., required that the hospital be completed by December 2005. Over the next year, completion of the project slipped several times and, by March 2006, completion was projected as July 31, 2007, 16 months later than expected. Project delays and a revision in the allocation of indirect costs, had resulted in an increase of the estimated cost-at-completion to approximately $98 million from $50 million.

While the project status reports provided by the contractor to USAID identified slippages in the project, SIGIR auditors found that the information was not effectively acted upon and was not included, as required, in reports to Congress under Section 2207 of P.L. 108-106. The slippages also were not included in Project Assessment Reports.

The project suffered from a lack of sufficient oversight. For example, instead of the 50-bed facility with referral-level pediatric care, with an emphasis on pediatric oncology, as had been requested by the Iraqi Ministry of Health, the initial design presented by the contractor was for a 100-bed facility, encompassing over 25,000 square meters of space. The scope was subsequently modified to a 94-bed facility, with oncology services and radio therapy facilities. Of note, these modifications, which expanded the scope of the project, failed to request additional funding or extension of the project schedule.

Although USAID was responsible for the construction of the hospital, it did not include the installation of medical equipment, which was to be provided by Project Hope, in the project schedule or costs. The USAID Mission Director-Iraq told SIGIR that USAID did not believe it was required to track or report on the medical equipment since USAID was not providing the equipment. However, USAID was responsible for keeping the Congress and the responsible Department of State officials apprised. The Deputy Chief of Mission told SIGIR that he was unaware that the completion date reported by USAID did not reflect the delivery of a turnkey operation that would include medical equipment.

SIGIR found the USAID accounting systems and processes to be inadequate in that they failed to accurately identify and report project costs to Chief of Mission and the Congress. The April Section 2207 Report to the Congress stated the hospital cost-at-completion was $50 million, even though Bechtel had determined it would be at least $98 million. USAID told SIGIR that it believed it did not have to include an estimated $48 million in contractor indirect costs in its reports.

The SIGIR audit report stated that, under the current management and contracting structure, the actual turnkey cost for the project will be about $149.5 million to $169 million. Thus, SIGIR estimated that the project will require an additional $69.5 million to $89.5 million of additional funds to complete.

Effective oversight and management of the Basrah Children's Hospital Project schedule and cost was limited by the absence of effective program management and oversight. USAID did not establish an appropriate program management structure. To oversee its entire $1.4 billion construction program under the Iraq Relief and Reconstruction Fund (IRRF), comprising approximately 20 projects across eight infrastructure sectors, USAID relied on one administrative contracting officer and one cognizant technical officer. No program manager with sole responsibility for the hospital project was appointed, nor was a hospital program management office established.

The U.S. Mission-Iraq concurred with all of the recommendations of the SIGIR audit, and provided information on actions underway. Notably, the Ambassador has created a Reconstruction Core Group which includes all agencies involved in reconstruction. This group has devised a plan to complete the project, transferring program and project management for the Basrah Children's Hospital from USAID to the U.S. Army Corps of Engineers.

*[The SIGIR audit report on this matter is submitted for the record: Review of the U.S. Agency for International Development's Management of the Basrah Children's Hospital Project (SIGIR-06-026, July 31, 2006)]*

Administrative Task Orders

From January 13, 2004 to March 26, 2004, 12 Design-Build (DB) cost-reimbursement contracts totaling $5.8 billion were awarded to 9 contractors. Contractors incur administrative and overhead costs, as well as direct costs, associated with performing work. In spring of 2004, senior Program Management Office and the successor Project and Contracting Office program and contracting managers sought to simplify tracking of administrative and overhead costs for the 12 DB contracts through a new type of task order—an administrative task order (ATO). ATO's were intended to capture all administrative and overhead costs for each DB contract, separate from direct costs, for each individual construction task order under the contract. This was expected to provide several benefits, including allowing the Project and Contracting Office managers to better understand direct and indirect contractor costs and to increase the ability of managers to control and minimize administrative costs.

SIGIR found that ATOs were issued for 6 of the 12 DB contracts. Further, one of the six DB contracts with an ATO was terminated and demobilized less than one year after

contract award. Therefore, our audit focused on the 11 active DB contracts, of which 5 were issued one or more ATOs.

SIGIR found the DB contractors' administrative costs were not uniformly tracked because ATOs were not issued for all 11 DB contracts and there were inconsistencies in the ATOs that were issued:

- ATOs were issued for only 5 of the 11 DB contracts.
- Of the 5 DB contracts, 2 were issued ATOs that covered and separately identified four categories of ATO costs (Mobilization and Transportation, Management and Administration, Security, and Life Support).
- For the other 3 DB contracts, 2 were issued a single ATO that combined, rather than separated, ATO cost by specific categories; and 1 was issued an ATO that covered only Life Support costs.

In a series of audits, the Defense Contract Audit Agency (DCAA) found that for the five contracts for which ATOs were issued, only one of the contractors had adequate accounting and billing systems to capture administrative costs. While we relied on the contractors' invoices to analyze costs, DCAA's findings raise questions about the actual value of the invoiced costs.

Furthermore, the ATOs were issued at different times after contract award. Specifically,

- For four of the five DB contracts, ATOs were issued sometime between when mobilization task orders (TOs)[2] were issued and when substantial work began on the project. The earliest ATOs were issued two months after the mobilization TOs were issued.
- For the fifth DB contract, ATOs were not issued until after substantial work began.

During periods of limited direct project activity, ATO costs were greater than direct TO costs for the five DB contracts. During the period between contractor mobilization and the start of substantial direct project work—from February to November 2004—contractors for these five contracts submitted invoices for $62.1 million in ATO costs and $26.7 million in direct project costs.

Three to nine months elapsed from (1) the date when the mobilization TO was issued, and (2) the date when substantial direct project work began. For the five DB contracts, the average time elapsed was six months.

SIGIR believes that administrative and overhead costs that were intended to be charged against ATOs were actually higher than those invoiced because ATOs were not issued concurrent with the mobilization task orders. Contractors would have begun to incur administrative costs from the onset of mobilization. In the absence of ATOs, the contractors would have no other option but to include administrative costs in their mobilization or direct task order invoices or a combination of the two.

[2] These were orders to assemble and deploy the contractor's workforce.

SIGIR was unable to determine how de-scoping contract actions affected ATO costs because invoices are not maintained in a form that allowed such analysis. In one instance, we identified a de-scoping action that occurred on December 27, 2004, which was followed by an increase rather than a decrease in ATO costs. However, we cannot draw any conclusions from this analysis because the ATO costs included administrative costs for 14 different TOs issued under the contract, and the ATO invoices do not break out—nor are they required to break out—indirect costs by individual TOs. Furthermore, individual TOs are allowed to include multiple projects. In another instance, we documented that most costs incurred for the DB contract cancelled less than a year after it was issued were for mobilization, demobilization, and administrative costs.

To enable the U.S. government to better track administrative and overhead costs for future reconstruction contracts—both funded through the IRRF as well as under any future reconstruction effort—and to minimize costs during periods of inactivity until the authorization to begin work can be issued, we recommended that the Commanding General of GRD-PCO coordinate with the Commanding General of the Joint Contracting Command-Iraq/Afghanistan to take certain actions. Both organizations concurred with all of our recommendations.

*[The SIGIR audit report on this matter is submitted for the record: Review of Administrative Task Orders for Iraq Reconstruction Contracts (SIGIR-06-028, October 23, 2006)]*

Iraqi Police Training Program

The Department of State (DoS) Bureau of International Narcotics and Law Enforcement Bureau (INL) is responsible for assisting in the development of police capabilities. INL, as the program execution office, used the Iraq Relief and Reconstruction Fund (IRRF) to provide funding for Iraqi police training and assigned a contracting officer representative (COR) to monitor contract activities. The DoS Office of Acquisition Management provided contracting officer support to INL.

To assist in achieving its mission, the DoS awarded a contract to DynCorp International, LLC (DynCorp), on February 18, 2004. The contract was for a base year and four one-year options and had a potential value of about $1.8 billion. As part of this contract, DoS issued task order number 0338, with a not-to-exceed value of $188.7 million in June 2004, to DynCorp for an initial 3-month period to provide: training services for international police liaison officers; training support equipment; construction of a residential camp on the Adnan Palace grounds in Baghdad to house training personnel; and construction of five regional camps at selected locations in Iraq.

As of October 14, 2006, INL authorized, and DoS paid DynCorp $150.8 million for work performed through May 2006 under Task Order 0338. The bulk of activity under this task order was completed by October 22, 2004, but activities related to the residential camp continued to at least June 2006. Subsequent activities regarding the relocation of trailers purchased under Task Order 0338 for the residential camp and their continued storage were executed under a separate task order (number 1436) with DynCorp.

Our audit of this program (conducted jointly with the DoS Office of the Inspector General) focused on the establishment of the residential camp and the performance of unauthorized work by DynCorp. Specifically, it focused on the work to be done and items to be provided for the $51.6 million residential camp and the $36.4 million of equipment to be procured.

We found poor contract administration by INL and the DoS Office of Acquisition Management resulted in millions of dollars put at unnecessary risk, and property that can not be accounted for that was acquired under Task Order 0338. Specifically, between July 2004 and June 2006, DoS paid about $43.8 million for manufacturing and temporary storage of a residential camp that has never been used, including $4.2 million for unauthorized work associated with the residential camp. In addition, DoS may have spent another $36.4 million for weapons and equipment, including armored vehicles, body armor, and communications equipment that cannot be accounted for because invoices were vague and there was no backup documentation or property book specifically for items purchased under the task order.

A key part of Task Order 0338 was the manufacture and installation of a residential camp to house 1,040 police training and advisor personnel with associated facilities including dining and office space. To accomplish this, DynCorp issued a subcontract valued at $55.1 million to Corporate Bank Financial Services (Corporate Bank), on August 15, 2004, which in turn subcontracted with an Italian manufacturing firm, Cogim SpA, on September 1, 2004, for $47.1 million. A total of 1,048 trailers were to be manufactured. Because of security concerns, INL officials decided to cancel the residential camp project in September 2004. On or about September 23, 2004, the DoS contracting officer communicated to DynCorp INL's decision not to proceed on the camp. DynCorp, in turn, issued a stop-work order to Corporate Bank on September 25, 2004.

Based on our review, we identified the following series of events concerning the residential camp:

- We found contradictory information on the actual status of trailer manufacturing for the residential camp, as of September 2004. DynCorp issued the subcontract for the residential camp to Corporate Bank on August 15, 2004, and Corporate Bank in turn issued a subcontract to Cogim SpA on September 1, 2004. According to an INL internal review report, the manufacturing had actually begun in May 2004—more than three months before the subcontract for the residential camp project was issued. In addition, on July 30, 2004, DynCorp submitted an invoice to DoS that included $18.0 million in mobilization fees for the residential camp for the period of April 17, 2004, through May 16, 2004.
- We found no information to indicate that any INL official or the Contracting Office Representative (COR) questioned why DynCorp submitted an invoice for mobilization fees for the residential camp before it had subcontracted for the manufacture of the trailers. Nor did INL seek to determine the actual status of the work when DynCorp was notified not to proceed, given the $18 million paid to DynCorp for mobilization fees for the residential camp. Rather, INL relied on

DynCorp's representations. As such, the true status of the manufacturing effort was unknown as of the issuance of the notice.

- Of the approximately $43.8 million spent on the residential camp, $4.2 million was for work that was not contractually authorized—the Iraqi Ministry of Interior directed the work but DoS, as the contracting agency, never authorized it. The unauthorized work included relocating the residential camp to outside of the Adnan Palace grounds, manufacturing an additional 20 VIP trailers, and construction of an Olympic size swimming pool on the palace grounds.

In December 2005, INL issued an asset verification report documenting that DynCorp could not provide a complete property book and backup documentation for items it purchased for the U.S. government. The report concluded:

- DynCorp invoices were frequently ambiguous and lacked the level of detail necessary to determine what was procured.
- DynCorp did not maintain a complete list of items procured.
- DynCorp did not establish policy guidance or accountability procedures.

The report also concluded, "INL cannot determine if the bureau received what it paid for." In our review we found that the invoices for Task Order 0338 lacked the level of detail to determine what was procured and that the U.S. government or DynCorp did not maintain a complete list of items procured under Task Order 0338. Further, we found that the COR, although responsible for inspecting and accepting contractor work, did not ensure that DynCorp maintained proper inventory control records or maintain the records personally for the $36.4 million of proposed equipment that was to be procured under this task order.

In November 2005, before the SIGIR audit was announced, INL's Principal Deputy Assistant Secretary met with the DoS Inspector General and subsequently with DoS Investigations to discuss concerns of potential fraud with Task Order 0338. Specifically, INL reported that DynCorp had billed INL for 500 trailers for the residential camp related to this task order that may not have been manufactured or completed at the time of billing.

INL appears to be making some recent progress after about two years of attempting to find a resolution for the use of the residential camp trailers. In May 2006, we communicated our concern to the COR about moving the residential camp components from one storage location to another before formalizing plans for their ultimate use. Notwithstanding our concerns, the COR authorized DynCorp to move the trailers to the Baghdad International Airport. On June 24, 2006, DynCorp entered into a subcontract to obtain open and covered storage and security for the trailers at the Baghdad International Airport for an initial period of three months to two years. On September 7, 2006, INL told us that it planned to use the trailers to house INL's personnel, but faced complications due to limited availability of land and high demand that was driving up costs in the area near the Baghdad airport. As of January 18, 2007, INL appears to be

making progress in resolving the use of the trailers in that discussions are underway for an alternative use of the trailers at the Baghdad Embassy.

We recommended a number of actions to ensure that the contract work is properly invoiced, payments are proper, and the contract is properly managed. INL agreed with all of the recommendations and stated that many improvements were underway. The DoS Office of Acquisition Management did not concur with establishing limitations of tenure for contract administration officials.

*[The audit report on this matter is submitted for the record: Review of DynCorp International, LLC, Contract Number S-LMAQM-04-C-0030, Task Order 0338, for the Iraqi Police Training Program Support (SIGIR-06-029 and DoS-OIG-AUD/IQO-07-20, January 30, 2007)]*

Baghdad Police College

The Coalition Provisional Authority awarded a contract to Parsons Delaware, Inc, to construct and renovate the Baghdad Police College in March 2004. Upon the dissolution of the Coalition Provisional Authority, the Joint Contracting Command – Iraq/ Afghanistan became the contracting agent. The U.S. Army Corps of Engineers Gulf Region Division and the Project and Contracting Office are responsible for the efficient and effective execution and administration of design-build contracts for the reconstruction of Iraq. The Joint Contracting Command – Iraq/Afghanistan provided the Gulf Region Division and Project and Contracting Office with a roles and responsibilities matrix in order to specify the functions of each organization.

There were two task orders under the contract associated with work at the Baghdad Police College – Task Orders 06 and 29. Task Order 06 provided for a Public Safety Training Academy to supplement and expand the training facilities to train all departments of the Ministry of Interior. Task Order 29 was to provide all labor, materials, and services necessary to construct new buildings and/or renovate, improve, and expand existing buildings to supplement the Baghdad Public Safety Training Academy.

Our inspection determined that:

- The Baghdad Police College construction and renovation project results were not consistent with the original contract and task order objectives because the project was poorly designed, constructed, and the contractor and the U.S. Army Corps of Engineers Gulf Region Central Project Engineer and Quality Assurance Representatives did not effectively manage the project.
- Despite the lack of oversight and poor project management by the U.S. Army Corps of Engineers, the government paid Parsons approximately $5.3 million in base and awards fees for substandard work.
- The U.S. Army Corps of Engineers Gulf Region Central was paid approximately $2.5 million for simply tracking the progress of the project completion instead of

enforcing the procedures set forth in its own guidance regarding the Quality Assurance program.

- Construction costs were originally estimated to be approximately $73 million. The government estimates it will pay Parsons approximately $62 million for work both fully and partially completed. Additional contracts with other contractors in excess of $8 million have been awarded to complete some of the construction work not finished by Parsons. However, the majority of the de-scoped items, which were originally determined to be essential to a functioning police training college, will either be left as a shell (i.e. communications building) or not even attempted (i.e. driving course and fire protection). The U.S. Army Corps of Engineers has been unable to provide the original estimated costs and amount paid for each of the de-scoped items; therefore, it is not possible to determine the additional amount of funding required to complete all of the objectives of the task orders.
- U.S. government paid about $2.6 million for design work that was generally incomplete and inadequate prior to construction. The contractor did not provide and the government did not review the required number of design drawings for 30% and 60% submittals. For the design drawings reviewed, the government determined the submittals were generally incomplete and inadequate. For the 90% design drawing submittals, the government concluded that the drawings were "not acceptable as 90% submittal as these drawings are incomplete, inaccurate, and substandard." At 100%, many of the design drawing submittals were "rejected" by the government reviewer.
- The majority of the work observed did not meet the standards of the contract and task orders. SIGIR identified significant construction deficiencies, such as poor plumbing installation, expansion cracks, concrete segregation and honeycombing, reinforcement bar exposure, and poor brickwork. In addition, the construction and equipment installation was performed at a low level of workmanship by the contractor and did not comply with the international standards required by the contract and task orders.
- SIGIR found that construction was so poor for one facility that the prime contractor issued a Nonconformance Report and work was stopped while independent assessments were done to determine if the construction deficiencies could be corrected. Independent assessments determined that it would be too costly to attempt to correct the structural construction deficiencies. Even though the subcontractor agreed to "take financial responsibility for the engineering fix," this facility was removed from the scope of work under the contract after the government paid approximately $350,000 for the poor construction work, and it will require approximately $100,000 to demolish the facility.
- The U.S. government Quality Assurance program was essentially non-existent in monitoring the contractor's Quality Control program. SIGIR found that the U.S. Army Corps of Engineers, Gulf Region Central Project Engineer and the Quality Assurance Representatives did not review the contractor's daily Quality Control

reports. In addition, the Quality Assurance Representatives were used to track project progress and not to identify quality issues. The Quality Assurance Representatives did not identify any construction deficiencies in the daily Quality Assurance reports. Consequently, the U.S. Army Corps of Engineers was not aware of significant construction deficiencies at the project site.

- The Baghdad Police College construction and renovation project results were not consistent with the original contract and task order objectives. The contract Statement of Work called for providing the "Iraqi people with necessary basic public facilities and infrastructure with sufficient space accommodations and reliable public works, electrical, plumbing, mechanical, and communications resources that are easy to maintain, upgrade and repair..." The completed barracks buildings continue to experience significant plumbing failures and the massive expansion cracks on the interior and exterior of the buildings will leave the Iraqis with continual maintenance issues.

The Gulf Region Division generally concurred with our conclusions. However, the Gulf Region Division did not concur with all of our recommendations. Instead, the Gulf Region Division stated that, "not one graduation has been delayed, nor has a single class of cadets been delayed." The Gulf Region Division's comment regarding the ability of the Baghdad Police College to graduate cadets is not relevant to the issues raised in this report. The contract and task orders specifically required that the Baghdad Police College construction comply with international building standards and diligent quality management by the contractor and the government. The Gulf Region Division, in its comments, confirmed that international building standards were not followed and the quality management program of the contractor and the government was not adequate. The objective of the contract and task orders was to provide the Baghdad Police College staff an adequate training facility, including cadet barracks and classrooms, to train a substantial number of cadets. Instead, the poor construction and oversight forced the Baghdad Police College to relocate cadets from one barracks to another and, in at least one case, into a classroom as temporary living quarters.

We continue to work with the Gulf Region Division to reach a mutually satisfactory resolution.

*[The SIGIR inspection reports on this matter are submitted for the record: Review of Baghdad Police College (SIGIR-PA-06-078.2 and 079.2, January 29, 2007)*

**Contracting Lessons Learned**

SIGIR's contracting lessons learned report, released in January 2006, examines the establishment and evolution of the contracting policies, procedures, and systems used by U.S. government agencies to address the challenges associated with strategy and planning, policies and processes, and staffing during the U.S. reconstruction effort in Iraq. This report is the result of extensive research and a formal, collaborative process involving panels of experts from inside and outside government.

We distilled key lessons for contracting and procurement in Iraq to provide insight for strategy and planning, as well as for policies and processes.

Strategy and Planning Key Lessons:

- Include contracting and procurement personnel in all planning stages for post-conflict reconstruction operations. The pre-deployment interagency working groups for Iraq reconstruction did not adequately include contracting and procurement personnel.
- Clearly define, properly allocate, and effectively communicate essential contracting and procurement roles and responsibilities to all participating agencies. The failure to define contracting and procurement roles and responsibilities at the outset resulted in a subsequently fragmented system, foreclosing opportunities for collaboration and coordination on contracting and procurement.
- Emphasize contracting methods that support smaller projects in the early phases of a contingency reconstruction effort. The CERP and similar initiatives in Iraq proved the value of relatively small, rapidly executable projects that meet immediate local needs.
- 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. The use of sole-source and limited competition contracting in Iraq should have virtually ceased after hostilities ended (and previously sole-sourced limited competition contracts should have been promptly re-bid).

Policy and Process Key Lessons:

- Establish a single set of simple contracting regulations and procedures that provide uniform direction to all contracting personnel in contingency environments. The contracting process in Iraq reconstruction suffered from the variety of regulations applied by diverse agencies, which caused inconsistencies and inefficiencies that inhibited management and oversight.
- Develop deployable contracting and procurement systems before mobilizing for post-conflict efforts and test them to ensure that they can be effectively implemented in contingency situations. Contracting entities in Iraq developed ad

hoc operating systems and procedures, limiting efficiency and leading to inconsistent contracting documentation.

- Designate a single unified contracting entity to coordinate all contracting activity in theater. A unified contract review and approval point would help secure the maintenance of accurate information on all contracts, enhancing management and oversight.
- Ensure sufficient data collection and integration before developing contract or task order requirements. The lack of good requirements data slowed progress early in the reconstruction program.
- Avoid using expensive design-build contracts to execute small scale projects. While the use of large construction consortia may be appropriate for very extensive projects, most projects in Iraq were smaller and could have been executed through fixed-price direct contracting.
- Use operational assessment teams and audit teams to evaluate and provide suggested improvements to post-conflict reconstruction contracting processes and systems. Oversight entities should play a consultative role (along with their evaluative role), because the rapid pace of reconstruction contingency programs cannot easily accommodate the recommendations of long-term assessments or audits.

Our study produced six recommendations:

1. Explore the creation of an enhanced Contingency Federal Acquisition Regulation (CFAR). Although the existing Federal Acquisition Regulation (FAR) provides avenues for rapid contracting activity, the Iraq reconstruction experience suggests that the FAR lacks ease of use. Moreover, promoting greater uniformity through a single interagency CFAR could improve contracting and procurement practices in multi-agency contingency operations. An interagency working group led by DOD should explore developing a single set of simple and accessible contracting procedures for universal use in post-conflict reconstruction situations. Congress should take appropriate legislative action to implement the CFAR, once it is developed by the interagency working group.
2. Pursue the institutionalization of special contracting programs. In Iraq, smaller scale contracting programs, like the CERP and the Commanders Humanitarian Relief and Reconstruction Program, achieved great success. Congress should legislatively institutionalize such programs for easy implementation in future contingency operations.
3. Include contracting staff at all phases of planning for contingency operations. Contracting plays a central role in the execution of contingency operations, and thus it must be part of the pre-deployment planning process. Whether for stabilization or reconstruction operations, contracting officials help provide an accurate picture of the resources necessary to carry out the mission.

4. Create a deployable reserve corps of contracting personnel who are trained to execute rapid relief and reconstruction contracting during contingency operations. This contracting reserve corps could be coordinated by the DoS Office of the Coordinator for Reconstruction and Stabilization as part of its civilian ready reserve corps. An existing contingent of contracting professionals, trained in the use of the CFAR and other aspects of contingency contracting, could maximize contracting efficiency in a contingency environment.
5. Develop and implement information systems for managing contracting and procurement in contingency operations. The interagency working group that explores the CFAR should also review current contracting and procurement information systems and develop guidelines and processes for enhancing these existing systems or, if necessary, creating new ones to meet unique contingency operational needs.
6. Pre-compete and pre-qualify a diverse pool of contractors with expertise in specialized reconstruction areas. These contractors should receive initial reconstruction contracts during the start-up phase of a post-conflict reconstruction event.

Our report on lessons learned in program and project management will provide comparable insight into these aspects of Iraq reconstruction, and provide guidance for the future.

*[The SIGIR lessons learned report is submitted for the record: Iraq Reconstruction: Lessons in Contracting and Procurement, (Report Number 2, July 2006)]*

## SELECTED ONGOING AUDITS

**Review of Spending of Where the Money Went under Major Contracts and the Recording and Reporting of Associated Costs**

- The objective of these reviews is to determine, in detail, the costs incurred by contractors in performing work under selected contracts for reconstruction projects in Iraq, as well as the methods used to record and report associated costs. SIGIR will also evaluate the controls associated with program and contract management.

**Review of Close-out Processes and Procedures for Iraq Relief and Reconstruction Fund (IRRF) Contracts**

This audit will determine whether contracts funded by IRRF (including task orders, grants, and cooperative agreements) are being closed out on time and whether they comply with the Federal Acquisition Regulation (FAR) 4.804 1(a) and other applicable regulations, policies, and procedures. SIGIR will also determine what steps the government program and contract officials perform to ensure that the delivery of the goods or services meet the identified requirements and the payments were reasonable for goods and services received.

**Progress Review of the Transition of Iraq Relief and Reconstruction Fund (IRRF) Projects to the Government of Iraq**

The overall objective is to determine whether the Department of State, U.S. Agency for International Development, Gulf Regional Division, and Multi-National Security Transition Command-Iraq have developed and implemented plans for the transition of IRRF-funded projects to the Government of Iraq.

**Law Enforcement IRRF Projects and Efforts in Support of Iraq Relief and Reconstruction**

This review is a spin-off of the SIGIR review of the Bureau of International Narcotics and Law Enforcement Bureau (INL) efforts to build the Adnan Police Academy. That review identified serious weaknesses in contracting, contract administration, accountability, and overall management. This SIGIR review will also include INL's program at the International Jordanian Police Training Center.

## SELECTED PLANNED AUDITS

**Status of Asset Transfer of Iraq Relief and Reconstruction Investments**

The overall objective of this audit is to determine whether the U.S. government organizations responsible for managing Iraq relief and reconstruction projects have developed and approved policies and procedures for transferring the billions of dollars of assets – purchased, renovated and constructed with U.S. funds – to the Iraqi government and its citizens.

**Status of the Construction and Outfitting of Primary Healthcare Centers (PHC)**

Between September 8, 2005, and March 3, 2006, the U.S. government made a series of decisions to issue stop work orders to Parsons Global Services, Inc., that reduced the total number of PHCs to be completed by Parsons from 150 to 20 facilities. Although the Gulf Region Division's (GRD) contract to construct PHC facilities through Parsons was significantly reduced, the overall PHC construction requirement remained. GRD procured medical equipment sets based on this overall requirement. To its credit, GRD did arrange to have the medical equipment sets, furniture, and consumables delivered to storage facilities, thus reducing an extremely high risk of pilferage and susceptibility to damage. GRD has since negotiated firm-fixed-price contracts for constructing PHCs, and currently expects to complete 136 of them. Along with the six PHCs Parsons completed, there are expected to be a total of 142 PHCs (plus the training academy for a grand total of 143). The objectives of this review are to determine if the contractors are in compliance with the terms of the contract or task orders, whether the government representatives are complying with general legislative and regulatory guidance concerning contract administration and financial management, and what the final costs and completion schedules are targeted to be.

**CONCLUSION**

SIGIR remains committed to meeting the expectations of the U.S. Congress, the Secretaries of State and Defense, and the American public with timely and helpful information on U.S. progress and performance in Iraq reconstruction. To that end, I return to Iraq next week for my 15th survey of reconstruction in that nation.

As always, I will report to you on my findings at the end of the next quarter, and I look forward to your questions today.

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

Let me start with Mr. Reed. In your testimony today you highlighted some of DCAA's major findings related to Iraq, and I would like to ask you about some of these.

First, you said in your testimony that DCAA has identified $4.9 billion in questioned costs and $5.1 billion in unsupported costs. When I added these figures together, I end up with a total of more than $10 billion in questioned and supported costs. That is correct, isn't it?

Mr. REED. That is correct.

Chairman WAXMAN. OK. Now, that is an astonishing figure. Last fall, GAO reported to us that the number was $3.5 billion in questioned and unsupported costs. Now, just a few months later, the overcharges and unsubstantiated bills are nearly three times larger. Let me ask about each category of suspect charges.

When you identify costs as questioned, your audits, with their experience and expertise, believe these costs ultimately should not be paid to the contractor. In fact, that is your recommendation to the contracting officer, isn't that right?

Mr. REED. That is correct.

Chairman WAXMAN. And unsupported——

Mr. REED. If I could point out, however——

Chairman WAXMAN. Sure.

Mr. REED [continuing]. In regards to the $4.9 billion, it is important to note that a large part of this questioned costs occurs during the pricing of the contracts, rather than the payments. And where we make recommendations during the pricing of the contracts, the contracting officer's job is to consider our recommendations in negotiating the price. So, hopefully, we achieve reductions in the prices before we incur these costs.

Chairman WAXMAN. And unsupported costs are those with insufficient documentation from the contractor to justify the charges, isn't that correct?

Mr. REED. That is correct. And that area also deals with, in most cases, estimated cost, rather than billed cost.

Chairman WAXMAN. The total amount of dollars that you examined, I believe, was $57 billion, is that correct?

Mr. REED. Yes, sir.

Chairman WAXMAN. So that means that you are raising questions about 18 percent of the dollars you have reviewed. Put another way, about one out of every $6 that your office examined was either questioned or unsupported. That is a phenomenal amount of potential waste, fraud, and abuse.

Mr. Reed, your office has been doing yeoman's work. You have issued more than 1,800 audits relating to Iraq contracts, I believe, but have looked at only a fraction of the spending in Iraq. And according to the Congressional Budget Office, we spent over $350 billion on the Iraq war. Do you know how much of the $350 billion has gone to private contractors?

Mr. REED. No, I don't. I can tell you that in terms of what DCA is responsible for auditing, $51.8 billion has gone to private contractors.

Chairman WAXMAN. Mr. Bowen, you have looked at some contracts that Mr. Reed hasn't looked at. The DynCorp contract with

the State Department is one example, and you found egregious examples of misspending, like building Olympic swimming pools, that Mr. Reed didn't seem to know about, at least hasn't reported on. Also, even when Mr. Reed may not see a problem based on his review of the billings, your inspectors who are visiting the actual sites may see enormous waste or substantial construction. This means that you are finding examples of poor performance or wasteful spending that even Mr. Reed doesn't know about, is that correct?

Mr. BOWEN. My mission, as assigned by the Congress, is to oversee the Iraq Relief and Reconstruction Fund, and we work in conjunction with DCAA, interact with them at least quarterly through the Iraq Inspector General's Counsel, and, indeed, on the contract you are referring to, we will continue to work together in getting to the bottom of where that money went. We have identified a series of issues, as you have pointed out, and we will followup on that. More importantly, what that audit tells me to do is to follow the rest of DynCorp's contracting in Iraq, and that we have an audit plan to do exactly that.

Chairman WAXMAN. Now, let me ask each of you this question. Mr. Reed has identified $10 billion in questioned and unsupported costs. Do any of you think that the total amount of potential wasteful spending in Iraq is $10 billion or, when the final audits are done, will the amount of waste, fraud, abuse, and other types of unreasonable or unsupported spending be much higher?

Mr. Bowen.

Mr. BOWEN. I am not ready to put a number on this. Our series of audits——

Chairman WAXMAN. Well, higher or not?

Mr. BOWEN. Well, the forensic audit is going to get to the bottom of that, on the $21 billion of the Iraq Relief and Reconstruction Fund, but there are about $38 billion if you broadly define relief and reconstruction at work here, and that covers the Iraq Security Forces Fund, the Iraq Relief and Reconstruction Fund, the Commander's Emergency Response Program, the Economic Support Fund——

Chairman WAXMAN. When you look at it all, is it going to be more than $10 billion?

Mr. BOWEN. I can't put a number on it right now, but there will be serious waste, significant waste that we will continue to identify and eventually come to a number.

Chairman WAXMAN. I wasn't asking you for a number. Do you think it is going to be more than $10 billion?

Mr. BOWEN. I try to confine myself to what I know and can reasonably analyze, and I am not ready to answer that affirmatively.

Chairman WAXMAN. Mr. Reed, do you think it is going to be more than $10 billion?

Mr. REED. Well, certainly, we have 600 audits planned in fiscal year 2007, and many of this contracts will extend beyond fiscal year 2007, so we have many years of contract costs yet to audit. However, the types of findings that we have cannot always be characterized as fraud and waste. Many of our adjustments are the routine part of administering contracts, negotiating prices, administering contracts for allowable costs. And while certainly some do fall

into that category—and I don't want to diminish the importance—that is, to the Department—to catch that and deal with it, but certainly DCAA costs questioned will continue as we continue our audits.

Chairman WAXMAN. Mr. Walker, is $10 billion going to be exceeded?

Mr. WALKER. Mr. Chairman, it is impossible to be able to answer that question without doing a statistically valid sample or having some basis to do it. There is little question that there are billions of dollars involved. How many, we can't tell you.

I think there are two issues that are important for you to know. First, the first thing you have to do is define what waste is. On page 6 of my testimony is a joint definition that we came up with and has been agreed to by SIGIR, the DOD IG, as well as Department of State IG, so that is the first thing we have to do. We have the definition; there it is. We are all doing related work.

And, second, the reason for the difference between DCAA's estimate and ours, primarily two things: one, they had a longer period of time and, No. 2, we only looked at final audits, we didn't look at pending audits. So those are the two primary reasons for the difference between our three point some billion dollar number and their $10 billion number.

Chairman WAXMAN. That is understandable, but that means you haven't looked at all that Mr. Reed has looked at, and Mr. Reed hasn't looked at all the things that Mr. Bowen has looked at. But even if we just take it at about $12 billion or $10 billion, it is an enormous sum of money. And my staff has researched what we might have gotten for these amounts, and they determined that an up-armored Humvee vehicle costs about $150,000 each. So for $22 billion we could have purchased more than 146,000 Humvees. That is about one Humvee for every U.S. service member in Iraq.

The contractors in Iraq may be pocketing billions, we don't know how much, but the troops don't have the equipment they need, and the taxpayer is, in my view, getting gauged.

Mr. WALKER. In fairness, Mr. Chairman, there is no doubt there is a tremendous amount of waste, but it is also important to note that just because there has been a determination that there is not enough evidence yet doesn't mean that is waste. There is a tremendous problem in government in not having adequate controls, not having proper documentation, not definitizing requirements enough, etc., but that doesn't necessarily mean that it is waste.

Chairman WAXMAN. OK, well, I appreciate that. We will look at some of the specific examples later in the hearing. But I now want to recognize Mr. Davis.

Mr. DAVIS OF VIRGINIA. Let me try to clarify some issues here.

Mr. Reed, there has been some concern raised about the ratio between the costs you flagged as questioned—I have seen a number of estimates as high as $10 billion—and the quantum of those costs that the contracting agencies have finally disallowed. Are you with me?

In general, are you comfortable with the settlements made by the agencies with the contractors on these costs?

Mr. REED. The relationship between us and the contracting officer is one of advisor, and we fully respect and acknowledge their

authority to consider our recommendation along with other advisors that they have. I respect their important job and I am satisfied they are fairly considering our recommendations.

Mr. DAVIS OF VIRGINIA. Are there any particular instances, for example, the large settlement between KBR and the Corps of Engineers under KBR's Rio contract, that troubles you?

Mr. REED. No. I think the process worked, as it is defined, in terms of the responsibilities of DCAA versus that of the contracting officer and the Corps of Engineers. They rightly considered other evidence other than the audit reports and considered extenuating circumstances that might have affected the contractor's actions, uncontrollable circumstances, and they arrived at a——

Mr. DAVIS OF VIRGINIA. In a war zone, that is fairly frequent, too, sometimes.

Mr. REED. Yes. And in that particular case it occurred during the first 9 months after the cessation of hostilities, and it was a very—obviously a very tense situation in that period.

Mr. DAVIS OF VIRGINIA. And unsubstantiated costs versus an unsupported cost. An unsupported cost—my wife keeps our books and she wants me to account for everything. So if I go to the dry cleaners, I pick up the dry cleaning, I come back and I don't have a receipt and I pay in cash, that would be an unsupported cost, is that the equivalent?

Mr. REED. Yes.

Mr. DAVIS OF VIRGINIA. It doesn't mean I wasted it, it just means at this point I don't have the backup documentation.

Mr. REED. That is correct.

Mr. DAVIS OF VIRGINIA. Is that a perspective of what an unsupported cost is?

Mr. REED. Yes, it is.

Mr. DAVIS OF VIRGINIA. And in a war zone, these kind of things—sometimes you get the higher unsupported costs than you might get, for example, if you are sitting down out in Fairfax, trying to move papers, is that fair?

Mr. REED. Yes, it is. And I would also point out, once again, that many of these unsupported costs are not actually incurred costs, they are based on estimates to establish a price for the contract.

Mr. DAVIS OF VIRGINIA. Correct. You made that point.

Mr. REED. So at that point we hope to negotiate a fair and reasonable price based on solid evidence.

Mr. DAVIS OF VIRGINIA. OK. I hear all sorts of things thrown around, like overcharges, unreasonable costs, suspect costs, to describe this $10 billion figure. What does that figure represent, are they really overcharges?

Mr. REED. No. These are—DCAA's activities take place during the administration of contracts. And certainly when you are dealing with price proposals and you are questioning costs or unsupporting costs in a price proposal, what you are talking about is how to negotiate a fair and reasonable price. Ultimately, the contractor will—after he is awarded the contract at the price, submits bills. These bills are audited by DCAA, and at that point we are looking at actual incurred costs, and these are differences of interpretation, in many cases, over regulations and in terms of what is compliant with the policies of the Department.

Mr. DAVIS OF VIRGINIA. For example, if you didn't have some deficit there between your costs and the final costs, you really wouldn't be doing your job, would you?

Mr. REED. That is correct.

Mr. DAVIS OF VIRGINIA. I want to make sure I am clear about the relationship between DCAA auditors and the contractor officers. The DCAA auditors act as professional advisors to the contracting officers on cost, pricing, and other related matters, correct?

Mr. REED. That is correct.

Mr. DAVIS OF VIRGINIA. The contracting officer is then free to take the advice or not take the advice. For example, if DCAA may find that there is an overcharge of, say, $1 million, the contracting officer can then agree with that amount or not based on his or her judgment, correct?

Mr. REED. That is correct.

Mr. DAVIS OF VIRGINIA. The contracting officer then has to initiate any action against the contractor, isn't that how it works?

Mr. REED. Yes.

Mr. DAVIS OF VIRGINIA. OK. Has there ever been any pressure on DCAA from any source in the administration to take it easy on anybody, but particularly KBR, Parsons, or any other Iraq contractors, that you are aware of?

Mr. REED. Absolutely not.

Mr. DAVIS OF VIRGINIA. Have most of the contractors that you have audited in connection with the Iraq reconstruction and support efforts been cooperative?

Mr. REED. Yes.

Mr. DAVIS OF VIRGINIA. Any particular firms present any special problems?

Mr. REED. Well, certainly, KBR, being the largest by far in terms of the dollar amounts of contracts we are auditing, have been the focus of a lot of our attention, and in that regard, the numbers of audit reports and the issues would reflect that. I think companies, they have had their problems, all companies that we have audited in Iraq have had their problems in cooperation from the standpoint of having good business systems and records in field circumstances, and KBR has certainly had their share of problems.

Mr. DAVIS OF VIRGINIA. And you hold them to a high standard, right, at least from a going-in perspective? You don't cut them a lot of slack, do you, because they are in a war zone and they don't have the systems up?

Mr. REED. We start from the same standards, but then we do try to be flexible and recognize that there are circumstances where the records might not be in perfect condition, given on the back of envelopes and things like that. So we try to be flexible in that regard, but we are not flexible in regards to having to have the evidence to support the cost ultimately.

Mr. DAVIS OF VIRGINIA. Contract definitization is very important. Wasn't the lack—definitization. Wasn't the lack of definitization on many of these large contracts and task orders the root cause of many of the cost problems that occurred?

Mr. REED. Well, it certainly was a factor. I wouldn't want to say it was the largest factor, but it was a factor. And I would like to point out that, in that regard, we also raised concerns about the

slow definitization process, particularly on the LOGCAP contract. In fact, I testified about that in one of my earlier appearances before your committee. And, in fact, we brought that to the attention of the Army contracting officials, and I think we were largely responsible for working out a good schedule for them to catch up with the definitization on the LOGCAP contract, and now they are in much better shape than they were during the period——

Mr. DAVIS OF VIRGINIA. But that is a key issue, getting that nailed down, right?

Mr. REED. Absolutely.

Mr. DAVIS OF VIRGINIA. How many fraud referrals has DCAA made in connection with the Iraq contracting effort?

Mr. REED. To my knowledge, five.

Mr. DAVIS OF VIRGINIA. Do you think the fact that many of the costs that your auditors had questioned had already been actually incurred by contractors by the time the contracting officer was called upon to settle the charges was a significant factor in the low sustain rate of your audit findings?

Mr. REED. Yes, certainly, the Corps of Engineers has made that clear in some of the documentation of the results of their negotiation on the Rio contract, in particular, that there is a feeling that once the cost is incurred, it is much more difficult to challenge it. I, quite frankly, do not agree with that. I believe that the provisions of the contract are very clear that the costs must be determined allowable by the contracting officer. It doesn't matter if they have been incurred or not incurred.

Mr. DAVIS OF VIRGINIA. Let me just say to all three of you, you have great reputations, at least with our office, in terms of calling balls and strikes, being fair, and we take what you say very, very seriously up here. But I think the perspective is also important as we measure this.

General Walker, let me just ask you. You and a number of witnesses and members have noted that DOD does not know the number of subcontractors or the number of contract employees in Iraq providing services, particularly security services. It is pretty clear that, from a military operation standpoint, that it makes sense to know how many folks are there carrying guns or that need to be protected. I am less clear how valuable that information is from an acquisition management standpoint. When the services are performed under large primes, we pay the prime to provide the service specified and we hold the firm responsible for that performance. How important is it to know whether the actual performance is provided by a 1st-tier or a 15th-tier subcontractor, as long as the price is reasonable, the services are performed in accordance with the contract? Aren't we, in effect, paying the prime contractor to manage the subcontracts and responsible for the overall performance?

Mr. WALKER. Several comments. First, we are using contractors in new and unprecedented ways in Iraq, and I think there is a need, separate from this hearing, probably, to have a discussion about the systemic and generic contracting problems, including what is appropriate to use contractors and not. But, second, no, there can be problems——

Mr. DAVIS OF VIRGINIA. Before you go there, General Walker, I want you to finish——

Mr. WALKER. Surely. I will answer your question.

Mr. DAVIS OF VIRGINIA. I think that is one of the problems, and we have had trouble getting Federal employees to come over there.

Mr. WALKER. We have.

Mr. DAVIS OF VIRGINIA. And that is one of the reasons, isn't it, that we have had to use the contractors, and it has created a problem?

Mr. WALKER. Well, there are several reasons. No. 1, we don't have adequate in-strength; No. 2, we are having trouble getting people to come over. I mean, we can go through that at a separate time, but let me answer your question specifically.

There can be problems when you don't know who the contractors are and what the contractor terms are, even in your scenario. For example, we found that tens of millions of dollars of costs were incurred by the taxpayers in circumstances where contractors who were receiving a per diem allowance for subsistence were using the facilities and the food facilities that were being provided and, therefore, that is waste. I mean, that is clear waste, OK? And that was tens of millions of dollars. And so because we didn't know who the contractors were, because they didn't know what the contracting arrangements were for costs, that is one example of where you can have waste.

Mr. DAVIS OF VIRGINIA. Mr. Waxman, I think that is fine.

I would just ask Mr. Bowen a very quick question on the definitized contracts. Is that one of the biggest problems, is definitization?

Mr. BOWEN. Absolutely. Yes, sir.

Mr. DAVIS OF VIRGINIA. I mean, it really boils down, at the end of the day, in a lot of this, to getting those large contracts——

Mr. BOWEN. If you are going to use cost-plus contracts, definitization has to happen at some point. There is a time line or a percentage complete milestone upon which occurring definitization should follow, and that was wrongly interpreted in Iraq. It is now being corrected, but waste occurred as a result.

Chairman WAXMAN. Thank you, Mr. Davis.

Mr. Tierney.

Mr TIERNEY. Thank you, Mr. Chairman.

Thank you, gentlemen, for your testimony and your help here this morning.

Mr. Walker, I am assuming that firms like KBR and Parsons get the contracts in the first place because they purport to have the kind of experience in these types of situations, is that right?

Mr. WALKER. That is correct.

Mr. TIERNEY. So, Mr. Reed, you had about $10 billion in questioned or unsupported costs on the reconstruction on that, and you recommended that a certain amount of that money be withheld until those issues were resolved, is that correct?

Mr. REED. Yes, that is correct.

Mr. TIERNEY. Now, you provided to the committee sort of a historical sustention rate that looked to me to be about 50 percent to 75 percent most of the time, is that correct also?

Mr. REED. Yes.

Mr. TIERNEY. But in this instance it looks like the Department agreed with you only about somewhere between 25 percent and 37 percent of the time. Can you explain that difference?

Mr. REED. Well, I think the difference would go to the fact that we are dealing with a contingency contracting situation. Many of the awards are made under unusual and compelling authorities and, therefore, I think the contracting officers, in dealing with settling some of these very significant issues, one of which has been mentioned already, the Rio contract and the price of fuel, and the other was dining facilities, which were two very big issues that the contracting officer settled. In both settlements I think the contracting officer gave considerable weight to the obstacles and difficulties the contractors were facing because of contingent circumstances.

Mr. TIERNEY. So we have firms that say they want these contracts because supposedly they know how to deal with these situations, and then they get relaxation from the Department because supposedly they ran up against exactly what they were hired as experts to deal with. I find that still a little problematic when you look at the difference between 75 percent of sustention and 37 percent. But my understanding also is that when you look at this situation or you examine and you audit, you take into account the fact that there are wartime complications, don't you?

Mr. REED. Yes, we did. In fact——

Mr. TIERNEY. In fact, Halliburton, on the oil thing, didn't you give them a grace period to account for the fact that they were in a wartime emergency, even though they purported to be an expert able to deal with that?

Mr. REED. Yes, we did give them a grace period.

Mr. TIERNEY. And, in fact, you didn't recommend withholding any charges for several months on Halliburton while they were making an adjustment to that environment, is that correct?

Mr. REED. That is correct.

Mr. TIERNEY. At some point you finally said enough is enough and you made your recommendations, and your recommendations were a sustention rate significantly higher than 25 percent to 37 percent, correct?

Mr. REED. Correct.

Mr. TIERNEY. Now, some have suggested that we may, the Pentagon may have become too reliant on contractors in general, and, Mr. Walker, you had some good testimony the other day about that issue, and I think it should have the attention of all of us. When that happens, when we rely so heavily on contractors, doesn't that in fact give them the leverage in these situations so if they go to the contracting officer, they have real leverage; they can just refuse to perform if somebody doesn't work out and pay them higher than the recommended sustention rate, they could lave the military with no alternatives. Is that a concern, Mr. Walker?

Mr. WALKER. Well, it can change the leverage. But we also don't have enough people who have the right kind of skills and knowledge to be able to oversee the contracting arrangements, even if the leverage is not changed.

Mr. TIERNEY. Mr. Bowen, do you find that is a legitimate concern as well?

Mr. WALKER. Absolutely. A simple axiom is elicited by our collective oversight, and that is if you don't have the right people on the scene and both government and contractor looking at programs and projects, then you are going to end up with programs that fall off the rails like the primary health care clinic program or projects that don't meet expectations like the Baghdad Police College.

Mr. TIERNEY. Did you want to add something, Mr. Walker?

Mr. WALKER. Real quickly. I think it is important to reinforce there are systemic problems that are longstanding with the Department of Defense. They are exacerbated and accentuated when you have a contingency operation, which Katrina and Iraq were both contingency operations, and a conflict zone, which Iraq is a conflict zone. So it is important we are focusing on Iraq, but this is the tip of an iceberg that we have to focus on.

Mr. TIERNEY. I heard you clearly on that, and I believe that it is something we should look at.

Mr. Bowen, let me just finish with you. You reviewed the Al Fatah pipeline situation, am I right?

Mr. BOWEN. Yes, sir.

Mr. TIERNEY. That was along the Tigris River and Halliburton, in that instance. was asked to restore a crucial set of pipelines by digging across and under a river.

Mr. BOWEN. That is right.

Mr. TIERNEY. What you found, I understand, is that they were just told by their expert that was impossible to do.

Mr. BOWEN. That is right.

Mr. TIERNEY. And, yet, they went ahead and spent $76 million digging what turns out to be a ditch to nowhere.

Mr. BOWEN. Yes. Eventually they followed what the consultant said to do after expending tens of millions of dollars fruitlessly.

Mr. TIERNEY. And I guess that probably is one certain highlight, that kind of insanity, about the dangers of contracting too much out and having too few government people to monitor and oversee that.

And all of you gentlemen, I thank you for your testimony.

Mr. Walker, I think we should have a number of other hearings on that issue.

Thank you, I yield back, Mr. Chairman.

Chairman WAXMAN. Thank you, Mr. Tierney.

Mr. Souder.

Mr. SOUDER. I thank the chairman. I chuckle every time I hear longstanding problem in the Department of Defense that actually started with Robert Morris and the American Revolution and the question of financing and whether—because there is nothing more disgusting than fraudulent war profiteering when people are dying, and I think we all agree with that.

I have—first off, I want to say I appreciate the caution all of you showed under questioning about what numbers might be. I want to insert for the record—because one of the things Mr. Bowen has done is corrected his initial estimate to what actually the actual potential auditing from October 2006 to January 2007, how much they actually saved in the process. Because until you actually followup even in your own projections and do a detailed audit process, you don't know for sure what these dollars are. And you can grab

a headline with the huge number, but until we play the whole thing through, we don't know what we are dealing with. In fact, that seems to me one of the main things you are saying today, and I basically have several questions here, because is it or could more be done in the initial contract that when you are bidding for the contract you have to have more auditing and sufficient auditors and sufficient people doing the paper trail in the bid for the contract? It just seems like a basic cost of doing business. We are having to deal with this in FEMA as well, when we appropriated some of the Katrina money and added all those additional auditors. It seems like that ought to be an up-front cost with the dollars. Is it something—for example, if you are late on delivering a contract, there are huge penalties. Do we have and should there be penalties for failure to have adequate auditing and failure to keep the paperwork that could be added to contracts, much like we would do for being late in a contract?

A second question is do we have the ability and do you sense that a lot of this problem isn't actually with the contractors, it is with the subcontractors? In the only case—I shouldn't say the only case, but the primary case, in one of my trips to Iraq, it was right in the middle of some of the Parsons hospital questions, you just can't be anything but appalled. But what was absolutely clear in that case was that we had a whole layer of subcontractors, and the American contractor is in many cases really just a broker. So we had an American person to broker, and then we got into their subsystem, and you have to buy off this group, you have to buy off this group, you have to buy off this group. By that time there is not any money left to build a hospital, so you get a substandard hospital; and the few that we have are falling down. And the question is do we have a system to figure out how to track the subcontractors? The fraud here isn't necessarily at the American level, it is how, in a war zone and in an unstable environment, do we track subcontractors.

The third question I have is do you think the biggest problem here is lack of security? Because it seems to me that one of the problems is that money was thrown at a variety of things, possibly, I don't know, but possibly even extra housing and swimming pools and all that, because nobody wanted to go or they were getting shot at and it was hard to recruit. In the subcontracting, one of the things we heard from the Army Corps was that it was really hard; the subcontractors show up, they kill somebody from their family or they shoot somebody there, they disappear, they are pouring the foundation, they don't use the normal time they would let to have cement dry for fear of getting shot at, they start putting up a beam and decide they are not going to finish the project because somebody is getting shot at. How much of this problem is actually related to security?

Mr. WALKER. I will start.

First, it is a shared responsibility between the government and the contractors at the prime and sublevel for the problems that we have. It is clearly a shared responsibility.

Second, you talked about a number of different things that need to be looked at, but some of the things you talked about represented management responsibilities, some of the things you

talked about represented oversight responsibilities, and some of the things you talked about represented audit roles; and I think we can talk about that separately, I think they are different.

You have to have the right incentives, transparency and accountability mechanisms for the system to work. We don't have that right now.

And, last, yes, security is the big problem. There was a presumption that we were going to have a permissive security environment and, therefore, it was going to be easy to engage in this reconstruction. We also assumed that the Iraqis were going to have an ability to maintain it after we did it. Thirty-three percent, on average, of contracting costs for reconstruction were going for overhead; 10 percent plus for security. That is obviously not what was expected when we originally planned on this and when Congress appropriated the funds.

Mr. REED. You mentioned several areas. I guess your comment about the need for having up-front audits before contracts are awarded, in regards to that area, I think that I agree with you totally; that is the prudent business approach. In this situation, the unusual and compelling circumstances made that somewhat problematic in terms of awarding what is called letter contracts, the authority to proceed, before the actual price of the contract was negotiated, which is referred to in that case as definitization, the problem we were talking about a moment ago. And so certainly I think it wasn't a case of the auditors not being available, it was a case of the speed of which contractors had to be authorized to proceed. As that became less of an issue, DCAA was involved in most of the larger pricing actions that led to cost reimbursable contracts.

The issue of subcontractors, this has been a tough area for us in auditing particularly KBR, because we expect the prime contractor, KBR, to take responsibility for administering its subcontractors. And so we were looking to them to tell us whether they have negotiated fair and reasonable prices with their subcontractors, whether they are monitoring their performance adequately to ensure they are delivering what the subcontract requires them to. KBR has not always met our expectations in regards to demonstrating the reasonableness of some of the prices. In fact, that was in the restore Iraqi oil that we talked a moment ago, was one of the big issues, is their procurement files did not contain sufficient documentation to show us how they determined what was a fair and reasonable price in the case of one particular subcontractor. That continues to be a problem with the continuing subcontracts.

We really expect KBR to be auditing its subcontracts, if they are awarded on a cost-reimbursable basis, and we are pressing them very hard to live up to their responsibilities in that regard and to share with us the results.

Chairman WAXMAN. Thank you, Mr. Souder.

We now go to Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

Just to followup, Mr. Bowen. I talked about earlier the Bloom case, where we actually got a conviction, and I recommended that we look at all of the other contracts that Mr. Bloom and the other people who were indicted and convicted had been involved in. It is

my understanding, in response to that, you usaid that you had made that recommendation to the Pentagon as well, is that correct?

Mr. BOWEN. Yes, sir.

Mr. LYNCH. And that they had in fact hired a contractor?

Mr. BOWEN. Actually made it to the Joint Area Support Group, a DOD entity that is in charge of administrative management of the embassy.

Mr. LYNCH. OK, so who is doing the actual investigation of those individuals who have already been convicted and the other contracts?

Mr. BOWEN. Well, the followup—this was a development fund for Iraq investigation that arose out of development fund for Iraq audits, and so we make recommendations on our audits, and one of them was to followup on the other regions, just what you said. And the person responsible for following up on those DFI recommendations was the Joint Area Support Group in Iraq, and they hired a contractor to followup on that recommendation, check the other regions, but our review, which was completed this last quarter, following up on a recommendation concluded that they did not carry out the recommendation properly, so we are going to followup ourselves.

Mr. LYNCH. It is just getting worse. They had a failure of a contractor, so what do we do? We hire another contractor, who doesn't do their job. You know what I mean? Actually, the chairman and I have a bill that we are going to have to put on the floor at some point, which requires the Defense Department to take that up as well.

Mr. Walker, I believe you have something to add?

Mr. WALKER. I think it is important to note that the DFI Fund is Iraqi money, not U.S. money. At the same point in time, we had a fiduciary responsibility to be prudent with regard to the use of that money. There are different pools of money, and we have different audit authorities depending upon which money is involved.

Mr. LYNCH. Right. I am sorry, Mr. Reed, go ahead.

Mr. REED. I think, without getting into details, it is a reasonable assumption that investigations are continuing in regards to these individuals and their association in other contracts. We are supporting investigations, and I am not at liberty to say much more about that.

Also, I would point out that in terms of the La Nouvelle situation, you mentioned specifically and Mr. Mazon, we are demanding that KBR provide cost information on all subcontracts that he was associated with awarding. We are interested in whether those prices were fair and whether excessive profits were made on those subcontracts, and we are in the process of getting that information right now.

Mr. LYNCH. OK. I appreciate that, but it has been a while at La Nouvelle. Those folks were convicted quite a while ago, and we are still trying to get information from Halliburton?

Mr. REED. Certainly, our first priority was to make sure we recovered the kickback amounts and the penalties associated with the actual plea that was made, and we have been auditing the estimates of that amount and supporting the settlement in that regard. As we were doing that, we began to move into the secondary

issues, and we are trying to—we obviously have to be careful we do not step on the toes of any investigators who may be proceeding down the same trails unbeknownst to my auditors.

Mr. LYNCH. Well, don't be too shy. Don't worry about stepping on some toes. If we can get to this corruption and the bribery and all that, that is very important.

Mr. Bowen.

Mr. BOWEN. Mr. Lynch, if I may offer one other point. Last Wednesday we unsealed indictments on five other individuals that were the results of followup investigations with regard to the Bloom and Stein conspiracy in Hilla, and more are in the works. So there is followup with respect to them, but we also need to be sure we check the other CPA regions to see whether those comptroller offices operated properly.

Mr. LYNCH. I appreciate that. The point I am trying to make here is that there are some core responsibilities of government on oversight, and I just do not want to have those government responsibilities that are so central to our oversight function here to be contracted out. That is where we got in this problem in the first place. And I understand we are short on staff, but there has to be another way to do this.

The central question I had, Mr. Bowen, last week we had the Army in, and they testified that they had no idea—even though it was an open, competitive bidding process, they had no idea that Blackwater was being paid for security work under LOGCAP, even though it was an open, competitive bidding process. They testified several months ago that there was no contract. Last week—you were at the earlier panel—they testified that, yes, in fact, that had gone on. And the problem is the tiering of all of these contracts. You have a general contractor, you have a subcontractor, you have a sub-subcontractor, and a sub-sub-subcontractor.

I noticed in your report, Mr. Bowen, on page 8, we have an example of this problem. The State Department awarded DynCorp a contract to build a residential camp for Iraqi police. DynCorp then subcontracted the work to a company called Corporate Bank. Corporate Bank then subcontracted the work to an Italian company called Cogim SpA.

Now, I want to ask you about this because it is down in your report. On page 8 of your report you say that DynCorp was awarded a subcontract to build this for $55 million. Now, they subcontracted to Corporate Bank to build it for $55 million on August 15, 2004. That is according to your report. Two weeks later, on September 1, 2004, that corporation, Corporate Bank, subcontracted it out to this Italian company, Cogim SpA, for $47.1 million, to do the exact same scope of work.

Now, in that 2-week time period it appears that Corporate Bank made, I don't know, about $8 million. I just want to understand. Is that right?

Mr. BOWEN. I think you are alluding to a point Mr. Souder made as well, and that is visibility into how a prime subcontracts work and how that work is subcontracted down can result in dilution of financial effort and, as a result, lack of oversight. There is—the system that we operate under is a quality assurance program operated by the government, which expects that the contractor executes

a quality control program over his subcontractors. And when the lack of visibility by the operational overseer, the government doing the QA program results in loss of visibility and cost controls.

Mr. LYNCH. I guess the central point of my question is this: Could you determine any value added by Corporate Bank in the 2-weeks they had the general contract? They made $8 million by re-subcontracting out the work to the Italian company.

Mr. BOWEN. No, we didn't, and I think the lesson learned is we need to carefully study the design-build prime contracting process that was used in Iraq, how subcontracting happened, and definitization needs to operate within the cost-plus contract environment to control costs. And we heard repeatedly today that was not executed effectively, has not been executed effectively.

Mr. LYNCH. Thank you, Mr. Chairman. I yield back.

Chairman WAXMAN. Thank you, Mr. Lynch.

Mr. Braley.

Mr. BRALEY. Thank you, Mr .Chairman.

Mr. Walker, Mr. Reed, Mr. Bowen, thank you for your time here today.

Mr. Walker, I appreciated your comment about the fact that no matter how dire the circumstances are we are talking about here today, they really represent just the tip of the iceberg and the real problem that we are facing in Iraq and accountability.

And, Mr. Bowen, I appreciated your comment about the watershed report that you issued in January. As you know from the last time we were together, I read that report and I was deeply disturbed by some of the forward-looking conclusions that you reached about the status of our situation in Iraq with future reconstruction efforts, so I thank you for your time.

I would like to shift the focus and talk about swimming pools. I was very proud to be president of the Blackhawk Area Swim Team, where we had four teenage boys set three age-group swimming records in an Olympic swimming pool in Cedar Falls, IA, that no longer exists because of aging and deteriorating conditions. And one of the disturbing things about your report was that DynCorp's contract with the State Department revealed unauthorized work being performed under the contract, specifically the building of an Olympic sized swimming pool and luxury trailers without authorization from the State Department, is that correct?

Mr. BOWEN. That is correct.

Mr. BRALEY. And I understand we have some pictures that were not included in your report. Maybe we can put those up on the screen while I ask you a question.

This first photograph that we are looking at appears to depict a pool that is in pretty poor conditions. As I understand it, DynCorp had the pool built but then it collapsed, is that correct?

Mr. BOWEN. That is right.

Mr. BRALEY. And this pool was built in 2004 and then was subsequently rebuilt.

Mr. BOWEN. That is right.

Mr. BRALEY. So let's put the picture of the pool up as it appears today. Is that it?

Mr. BOWEN. Yes, sir.

Mr. BRALEY. It looks like a pretty impressive facility.

Mr. BOWEN. Yes, sir.

Mr. BRALEY. There are many swim clubs in this country who have limitations of being able to swim only in a 25-yard or 25-meter pool, and that looks like one that would be available for competition level swimming.

Mr. BOWEN. Yes, sir.

Mr. BRALEY. Now, do we know who paid for the pool to be rebuilt a second time?

Mr. BOWEN. No, we don't. That is something we are following up on through our investigative work.

Mr. BRALEY. So it could have been someone else, but as I understand from the communications with your staff, this could have been built again by DynCorp, is that correct?

Mr. BOWEN. That is possible. That is a possibility, and we will get that answer for you in short order.

Mr. BRALEY. But, theoretically, U.S. taxpayers could have paid for this pool twice.

Mr. BOWEN. We will find out the answer to that question, yes, sir.

Mr. BRALEY. And do you know whose idea it was to build this swimming pool?

Mr. BOWEN. This was unauthorized work directed by the Iraqi Ministry of Interior. Apparently, from the course of our audit, it was approved by the senior advisor to the Ministry of Interior for the Coalition Provisional Authority.

Mr. BRALEY. Did DynCorp have authorization from the State Department when they performed the work?

Mr. BOWEN. No, they did not. The system that we have set up depends on an effective contracting officer's representative exerting oversight of how the money is spent under a contract. That did not happen in this case and, indeed, it has been a problem with respect to the State Department's INL Office oversight of DynCorp. The result, one of the salutary results of our audit is that contracting officer's representative has been replaced.

Mr. BRALEY. Can you tell the committee who the person was at the CPA who gave that authorization?

Mr. BOWEN. I think you should go to the INL Department for who that person is.

Mr. BRALEY. At our hearing last week on the $12 billion in cash that the CPA failed to properly account for, Ambassador Bremer and others made the argument that we shouldn't worry because it was just Iraqi money, and I disagreed with that argument at the time. Nevertheless, today we are talking about U.S. taxpayer money, and these same CPA officials seem to be just as careless with taxpayer money as they were with Iraqi money.

I hope, Mr. Chairman, that the committee will pursue this question with the State Department and push DynCorp to return all these millions of dollars, as the Inspector General recommended in his audit report.

One of the other questions that I am concerned about are quality of life issues. One of the things we rarely talk about is the direct impact that these decisions have on the people in Iraq who are supposed to be benefiting from these dollars, and I am deeply disturbed about our continuing failure to meet the basic needs in the

reconstruction in particular with the provision of electricity. Amazingly, although we have spent nearly $3 billion in U.S. taxpayer money to restore electricity in Iraq, the production levels in 2006 were actually below pre-war levels.

Mr. Walker, can we put that in everyday terms? In Baghdad, how many hours per day does the average family have electrical power?

Mr. WALKER. Six.

Mr. BRALEY. And the GAO report indicates that the power supply that they have remains unreliable. Do people know when the power is going on or off, or does it just happen randomly?

Mr. WALKER. There is not a pre-announced, pre-planned schedule. And part of the problem here is because of the terrorism. I mean, there is an effort to try to sabotage the distribution of electricity even after it is generated from the generating plant.

Mr. BRALEY. Does that have an impact upon the approach that we take in dealing with Iraqi people on a very fundamental daily basis in terms of their trust for the services that we are providing?

Mr. WALKER. Well, first, the responsibility to provide services, I would argue, rests with the Iraqi government. The Iraqi government is responsible for providing, electricity, clean water, and the basic essentials that every citizen cares about. We are trying to help them do that, but ultimately they are responsible and accountable. And the failure to be able to do that reliably and effectively obviously undercuts the Iraqi citizens' confidence in (a) their government and (b) the effectiveness of the Coalition to be able to generate results.

Mr. BRALEY. Well, what impact does it have on the hearts and minds of the Iraqi people when their own government has billions of dollars that are supposed to be devoted to these reconstruction efforts and it remains unspent?

Mr. WALKER. I am not sure if they know that. I am not sure how much the Iraqi people know about what is or isn't being done with regard to their funds. I can't comment on that. Part of the reason they haven't spent the funds is they don't have the capacity with regard to the systems, the controls. They have bickering, believe it or not, between various departments and agencies. Some departments and agencies are controlled by Shi'a, some are controlled by other factions. And the bottom line is the citizens want the outcomes, they want to see the results, and they are not seeing them yet.

Chairman WAXMAN. Mr. Braley, your time has expired.

Mr. BRALEY. Thank you.

Chairman WAXMAN. I presume they may not know whether the government has the funds and not using it, but they know they don't have the electricity.

Mr. WALKER. Right. And, in fact, I think it is important to note that we are trying to work with our counterparts, the Board of Supreme Audit, to try to help build their capacity to be able to do their job. And as was mentioned before with regard to the DFI funds, while they are not U.S. money, we had a fiduciary responsibility, and both Stuart Bowen and I have been trying to help make sure that the records are turned over to the Board of Supreme Audit of Iraq so that they can audit what happened with

that money. I mean, $9 billion to $12 billion is a lot of money. There needs to be accountability over that.

Chairman WAXMAN. Thank you, Mr. Walker.

Mr. Sarbanes, you are next.

Mr. SARBANES. Thank you, Mr. Chairman.

I wanted to go back and talk again a little bit more about the sustention rate and this notion of costs that get incurred before the contract has been definitized, as I guess it is called. If I am understanding what you have testified to, the chances that you can incur a lot of costs before definitization of a contract are improved in circumstances where contracts need to be let very quickly, where people brought on in "emergency circumstances," is that right?

Mr. REED. Well, I think the risk that——

Mr. SARBANES. The risk, OK.

Mr. REED [continuing]. From my viewpoint, is that there is no cost control before a contract is definitized. In other words——

Mr. SARBANES. So if I am an enterprising contractor and I know how the system works, it might be in my interest to get in on a situation where a no bid contract or the fast letting of a contract was occurring, because then I know that I can load up a lot of costs during this period where things are being incurred but nothing has yet been definitized, right?

Mr. REED. That is certainly a risk.

Mr. SARBANES. OK. And were the circumstances under which Halliburton and KBR and some of these other contractors came onboard were ones where things were happening quickly, contracts were being let in an expeditious—to use the sort of best connotation of it—way? There were circumstances like that, right? I mean, that is essentially what was happening here.

Mr. REED. Yes.

Mr. SARBANES. Do you want to respond?

Mr. WALKER. Mr. Sarbanes, I think it is important to note that when you are dealing with contingency operations—and I would respectfully suggest that Iraq is a military contingency operation; Katrina was a domestic contingency operation—the government must do a better job of planning in advance, engaging in advance contracting activities that you can draw on on a task order basis, rather than being in the situation where you have to negotiate things quickly, in a crisis circumstance. These problems are exacerbated under cost-plus contracts, which creates perverse incentives for people to define the scope broadly, to incur more costs for obvious reasons.

Mr. SARBANES. And I agree the government needs to do that, and I am looking at it from a contractor's standpoint in terms of if you are unscrupulous as the contractor, wanting to sort of take as much advantage of the situation as you could, you could seize upon these contingency situations and push hard for whatever rules and checks the government was trying to put in place to be relaxed a little bit because there are cost opportunities available to you.

But let me switch gears real quick. The process by which the auditors make a recommendation to the contract officer regarding questioned or unsupported costs, for example, what is that exactly? Is there a meeting convened and who is at that meeting?

Mr. REED. No, we issue——

Mr. SARBANES. How does that work?

Mr. REED. We issue a written audit report.

Mr. SARBANES. OK.

Mr. REED. Which explains what we audited, what we looked at, and what our conclusions were, and our recommendations.

Mr. SARBANES. OK. Is there ever a face-to-face exchange around the recommendation? And, if so, what is that?

Mr. REED. Yes, there is continuous communication.

Mr. SARBANES. OK.

Mr. REED. Especially in more significant issues. We give the contracting officer an early alert that we are having a major issue developing. We certainly talk to them before we issue the audit report, and often we attend a negotiations side-by-side with them.

Mr. SARBANES. OK. So who is in the room for that kind of a meeting, that "negotiation?" So the contracting officer is there and their staff, members of your staff are there, having made the recommendation. Is the contractor there as well?

Mr. REED. It is usually a pre-meeting of the government people only to go over the strategy that the government side is going to take in whatever negotiation is going to take place, and then the contractor is brought in. In addition to the auditors, there may be government engineers, there may be contracting officer technical representatives who observe the physical work. It could be whatever the contracting officer feels he needs to support him in the negotiation.

Mr. SARBANES. OK, I have run out of time, but just real quick. Then, in terms of the contracting officer making a decision on what to accept, in a typical case, what kind of timeframe is involved there, I mean, from the time you bring your recommendation forward to the time the decision is made on which costs to allow or not allow?

Mr. REED. Well, there is considerable variation.

Mr. SARBANES. OK.

Mr. REED. It could range from within hours to months.

Mr. SARBANES. OK.

Mr. REED. Depending on the complexity of the nature of the issue.

Mr. SARBANES. All right.

Thank you, Mr. Chairman.

Chairman WAXMAN. Thank you, Mr. Sarbanes.

Mr. Welch.

Mr. WELCH. Thank you, Mr. Chairman.

Mr. Bowen, in your audit of DynCorp's work for the State Department, it is pretty troubling. I am still not clear on exactly what the taxpayers got out, but let me ask you a few questions about some figures.

First, the total amount at issue was $189 million, is that right?

Mr. BOWEN. That is right. This is a task order under a very large contract, but this task order covered that amount.

Mr. WELCH. OK. And you did not examine all of the costs, but you did examine quite a bit, and there is $51.6 million for the residential camp at Adnan Palace, right?

Mr. BOWEN. That is right.

Mr. WELCH. And there is no such thing as a residential camp at this moment at Adnan Palace?

Mr. BOWEN. That is right, and there won't be.

Mr. WELCH. So all the trailers that we bought for the Iraqi police are sitting unused in storage somewhere in Baghdad?

Mr. BOWEN. At the Baghdad International Airport.

Mr. WELCH. And do we have to pay rent to store them there?

Mr. BOWEN. Yes. Yes, sir.

Mr. WALKER. I might note we have a lot of trailers in Hope, AR related to Katrina. Systemic problem.

Mr. WELCH. Well, it sounds like FEMA was in charge of this.

And I noticed on page 10 of your report that the State Department, when it realized it wasn't going to use these trailers, they actually considered donating them to the Hurricane Katrina victims, is that right?

Mr. BOWEN. Yes, sir.

Mr. WELCH. Do you know if they were planning on bringing the folks in New Orleans to Baghdad or the trailers from Baghdad to New Orleans?

Mr. BOWEN. Well, I think the solution that is on the table now is to use them for the new embassy compound.

Mr. WELCH. I mean, is this true, they literally have $51 million, trailers that are empty with people who are homeless? That is the story?

Mr. BOWEN. The story is we purchased trailers that we didn't use, and haven't used yet.

Mr. WELCH. Who can we congratulate for this good work?

Mr. BOWEN. Well, what it has done is motivate me to look at the rest of the DynCorp contract.

Mr. WELCH. Well, thank you. Who is DynCorp?

Mr. BOWEN. It is a Falls Church company, a very large defense contractor. They had the LOGCAP contract previous to KBR.

Mr. WELCH. Let me ask you about another DynCorp contract. On page 2 of your audit you say that $36.4 million was spent on weapons and equipment, including armored vehicles, body armor, communications equipment. But in your report, on page 17, because of poor record keeping, nobody can verify whether we got anything that we paid for.

Mr. BOWEN. That is right.

Mr. WELCH. Did your auditors try to locate the equipment that was purchased for this $36 million?

Mr. BOWEN. We are following up on that, but our job was to look at how the equipment was managed, and it was managed in a way that provided no assurances of accountability.

Mr. WELCH. There were some questions earlier on suggesting that because it is a wartime situation, you can't keep records. I mean, is that really true? I don't get that. If you are dealing with corporations on these big purchases, $36 million, it goes to equipment that is of vital importance to the security of the troops. What is the problem, what possible justification can there be to not have a system, even in Baghdad, that allows the taxpayer to know that the equipment they paid to get to the troops was delivered?

Mr. BOWEN. Well, there is no doubt that operating, managing these contracts in a wartime environment is very challenging, but

the cost of doing that is also built into the contract itself, or is anticipated to be so, and simply because we are operating in a wartime environment further does not dispense with the need for accountability.

Mr. WELCH. I really don't get that. I mean, this equipment, it is not like it is flown over in C–141s and just parachuted randomly to various locations, wherever it happens to land, it goes into the Green Zone or some secure location, right?

Mr. BOWEN. That is right.

Mr. WELCH. So the people who are dealing with the receipt of this equipment are in physically safe locations, right?

Mr. BOWEN. Reasonably.

Mr. WELCH. So what happens to the equipment after it goes out into the field is one thing, which may be difficult to understand and to account for, but its actual receipt in the country, that it arrived, that—why, in a war zone, is it any more difficult when, in fact, where the equipment arrives is a very secure location?

Mr. BOWEN. Well, your question cuts to a core lesson learned that needs to be learned and applied in Iraq and beyond, and that is in contingency relief and reconstruction and operations, there must be systems developed, trained, and ready to go that can ensure reasonable accountability of the taxpayers' money in the contingency operation.

Mr. WELCH. Let me just ask one last question. In your report there was an indication that a contracting officer didn't even keep a file for a $25 million contract. Is that right?

Mr. BOWEN. That is right.

Mr. WELCH. Literally, I mean, is there any justification, any justification for not keeping a copy of a contract for that amount of money?

Mr. BOWEN. No, there isn't.

Mr. WELCH. Thank you.

Mr. WALKER. Mr. Chairman, can I quickly touch on something here? Thank you.

Chairman WAXMAN. Mr. Walker.

Mr. WALKER. Let me tell you why we continue to have these problems on a recurring basis; not just Iraq, but Department of Defense and other major departments. There is no accountability. The appropriations that are granted are not adjusted based upon these continued problems; organizations that are responsible for managing and overseeing these contracts are not held accountable. Contractors are not adequately held accountable; and the individuals involved and who were responsible are not held accountable.

Mr. WELCH. And what could we do——

Mr. WALKER. Why change?

Mr. WELCH. What could we do to hold them accountable?

Mr. WALKER. Well——

Mr. WELCH. What three things could we do?

Mr. WALKER. Well, one of the things you have to do is you have to deal with the systemic problems that I provided for the record as a followup to last week's hearing, and I hope to have a chance to testify on this.

Second, you need to hold both contractors and government employees accountable when things don't go right. There has to be

consequences. People ought to be rewarded for doing a good job, absolutely. And I think it is fair to say most contractors do a good job, and a vast majority of Federal employees do a good job. They ought to be recognized and rewarded. But when things don't go right, there have to be consequences. And if there aren't consequences, you are not going to get changed behavior. The government is no different than the private sector in that regard.

Chairman WAXMAN. Mr. Welch's time is up, but, Mr. Bowen, let me, just on this question of DynCorp, is this the first time we have had an issue with DynCorp?

Mr. BOWEN. No, it is not. It is our first comprehensive audit by my office, and, as I said, we are initiating a series of reviews.

And as to what can we do, Mr. Welch, I would also suggest the debarment and suspension process is a meaningful method of accountability that could be utilized more effectively.

Chairman WAXMAN. Thank you, Mr. Welch, but let me just point out that in December 2005 report on INL asset verification that was conducted in July August 2005 reviewed DynCorp's inventory control and the report concluded INL cannot determine if the Bureau received what it paid for. I think this might be related to Bosnia. Are you familiar with that, Mr. Bowen?

Mr. BOWEN. Yes, that is right. That was an INL review. INL has identified internally problems with DynCorp. Indeed, they identified problems with this contracting office's representative, as our report points out, in Bosnia. And let me point out also that this was a joint review with the Department of State Inspector General's Office, so we will continue to pursue reviews with them of these issues.

Chairman WAXMAN. Mr. Walker's point is what are the consequences of these things, and that is something we need to look at.

Next on the list is Mr. Higgins.

Mr. HIGGINS. Thank you, Mr. Chairman. I just want to try to get to the gut of this thing.

The essential services for any functioning society are electricity, water, health care, education. None of that seems to be improving very much in Iraq. Some, but not all of that, obviously, is the responsibility of the government and who's contracting with the contractors to do a lot of this work.

Mr. Bowen, you had indicated that this is the 12th quarterly report, there are 50 auditors and investigators on the ground in Iraq, and that the financial burden of Iraqi reconstruction is shifting to the Iraqis. Now, from what I see, is a government in Iraq that lacks legitimacy in the very eyes of the governed because it can't provide these essential services, and if we have $50 billion—$30 billion of which was U.S. money, American money; $20 billion of which is Iraqi money—and we are not seeing measurable progress toward restoration of essential services and also oil production, it seems hardly confidence-inspiring that the responsibility is now shifting to, based on anybody's observation, an honest assessment of the legitimacy of the Iraqi government, it is not confidence-inspiring. Your thoughts?

Mr. BOWEN. Well, one other essential element to a working society's infrastructure is rule of law, and I think the lack of security

in Baghdad and elsewhere across Iraq has prevented success of what was planned, an effective relief and reconstruction operation.

The other thing, let me point out, is that the U.S. investment was meant to get the Iraqis started going forward. The infrastructure was seriously deteriorated through decades of neglect, and The World Bank's estimate was $56 billion. In fact, that was low. I would say the cost to restore that infrastructure is at least $100 billion, given what we found.

But trying to do a relief and reconstruction operation before stabilization is achieved is difficult at best. That is certainly a lesson in Iraq.

Mr. HIGGINS. And that is the point, I mean, stability hasn't been achieved, and there is obviously a lot of waste and abuse of very significant money, and this Congress is being asked to authorize more money for an effort that everybody, I believe, concludes is an abject failure. And I think it speaks to the oversight responsibility of Congress. I mean, you indicated that there is a real-time audit method being used.

Mr. BOWEN. That is right.

Mr. HIGGINS. After the conclusion of this 12th quarterly report, is there any signs of progress this situation is changing? I think that is a very important question relative to confidence or lack of confidence that this Congress has in the administration's ability to effectively administer this.

Mr. BOWEN. And the answer is yes, we have made progress. The taxpayers and the Iraqis have received a lot of successful projects as a result of the $21 billion investment, notwithstanding the problems that we have identified. Polio has been eradicated; 5,000 schools have been built or refurbished; there has been progress in the education sector, in roads and transportation, communications. But the key is developing a sustainable, coherent infrastructure strategy that brings the country together, at the same time bringing an effective and coherent rule of law strategy to bear in Baghdad and beyond, and that has been a continuing challenge. The investment targets, though, I think are the right ones to choose. The Provincial Reconstruction Team effort is the most important capacity-building endeavor in Iraq nationwide, and especially in Baghdad. The Commander's Emergency Response Program, we have looked at it a couple times; it is about maneuver units executing quick turnaround projects and, in an unstable environment, that is the right place to spend the money. The Community Action Program run by USAID has made a lot of difference at the very grassroots level. But progress has been mixed.

Mr. HIGGINS. Woefully inadequate. What about internal structures to enhance the issue of accountability and transparency moving forward?

Mr. BOWEN. Well, that has been a story of gradual progress, partly driven by the presence of oversight on the ground in Iraq, both DCAA, GAO, SIGIR, auditors uncovering issues that need to get fixed. That is what I mean by real-time auditing, definitization, award fees, the hospital program, the management of property. It is about executing our job that incrementally brings improvement in the overall management and it is about working with manage-

ment to get it done as we find problems, rather than to wait for reports to come out.

Mr. HIGGINS. So you think it is a good thing that we are at this watershed period where the Iraqi reconstruction is shifting from U.S. influence to an almost exclusive Iraqi influence?

Mr. BOWEN. Well, regardless of whether it is good or not, it is the current reality. It is going to drive decisionmaking moving forward, and the burden has shifted. The truth is $38 billion invested the last 4 years. That is a significant taxpayer investment in Iraq at every level. That period is past, and the Iraqis cannot leave $12 billion in their treasury again this year.

Chairman WAXMAN. Thank you, Mr. Higgins.

Mr. Yarmuth.

Mr. YARMUTH. Thank you, Mr. Chairman.

Mr. Walker, you have talked about systemic problems which have made it more difficult for you to do the job which we have asked you to do, which is to look out for the taxpayers' money, so I want to focus a little bit maybe on an area that we haven't talked about, which is the level of cooperation you have received from other government entities.

Last year, Congress was told that the Defense Department Inspector General had nobody on the ground in Iraq, which was astounding considering the amount of money that we are spending there. I understand that has been rectified and they have at least a few people there. It is also my understanding that you would like to have people on the ground in Iraq as well, and have made a request of the State Department for space, is that correct?

Mr. WALKER. We have space. I mean, we have already agreed with SIGIR that we are going to co-locate with SIGIR. What we have a request to the State Department, which they are incredibly slow in responding to, is formal approval for us to be able to have people in Iraq for longer periods of time. Right now they approve us to be in for 2 week periods of time and that is it, and we are asking for 3 to 6 months, for people to be there for 3 three to 6 months, and then we can project supplemental people in and out for 2 week periods as a supplement to, not a substitute for, a few people that would have a continuing presence.

Mr. YARMUTH. What is the rationale that they have used to try to restrict you in that type of way?

Mr. WALKER. I am not——

Mr. YARMUTH. They haven't used the not supporting our troops line?

Mr. WALKER. Well, no, the issue is that—separation of powers? That is what their—well, they need to read the Constitution. There is a lot of people that aren't very good at understanding what the Constitution is. I mean, we are there to help the Congress exercise its appropriations, oversight, and authorization responsibilities. They are just incredibly slow. I mean, the State Department is a big bureaucracy. Not everybody is for oversight; not everybody is for transparency; not everybody is for accountability. And it is time that they acted on this. And I am going to call Secretary Rice on Monday if they don't give us an answer before this. This has just been going on too long.

The other thing we need, quite frankly, is the Congress is not supporting our agency enough. It does not give us adequate funds. I am going to have to ask for a supplemental in order for us to be able to get our people over there and pay for it. We generate $105 return for every $1 invested on us. Second place in the world is 10 to 1, and we are getting starved, and we hear about tens of—we have heard here about billions of dollars of waste. I mean, what is the priority here?

Mr. YARMUTH. Mr. Chairman, I suggest we might want to have someone from State Department respond to these issues as well.

Let me ask you about the Defense Department, turn to them for a second. It is my understanding that you have been studying the readiness and effectiveness of the Iraq security forces. Is that correct as well?

Mr. BOWEN. Yes, we have issued two audit reports last quarter on that issue, and I know GAO is looking at is, as is the Department of Defense Inspector General.

Mr. WALKER. We are, and that is a critical point. I appreciate your asking it. That comes back to the transitional readiness assessment reports that we have been seeking access to.

Just so the members understand what that is, we have U.S. troops embedded with Iraqi troops, and those troops are responsible for doing detailed assessments as to leadership, equipment, training, and other factors to try to assess the true readiness of Iraqi troops. This is done for U.S. troops, and we have had access to that information on a recurring basis for many years. It is classified information, but we have people with all the necessary clearances. And while we have received some briefing from the Defense Department, we have not received the detailed records. It is essential we get those.

You are being asked to give several billion more dollars. You are being asked to support an increase in troop deployments. You are being asked to provide additional funds for a variety of things to support the standing up of the Iraqi security forces, which will help us get out quicker. You need this information in order to be able to assess whether or not it is making a difference, and we are the agent to get it for you.

Mr. YARMUTH. Again, has this been—the rationale for this, is this another separation of powers allegation?

Mr. WALKER. No. Believe it or not, I was really surprised to find out that, evidently, nobody in the Pentagon has actually seen this detailed information, that it has just been in the area of responsibility; it has been within Iraq and CENTCOM and the Multinational Force, MNFI. But my understanding is the Pentagon is just now getting some of this data, didn't even have it itself. People are concerned it is very "sensitive information." Well, it is classified, that is true, and that makes it sensitive, but that doesn't mean that the Congress doesn't need it and we don't have a right to it. I mean, we do have a right to it, and you need it and so do we.

Mr. YARMUTH. Thank you, Mr. Walker.

Mr. Chairman, I am sure we will want to insist that we get better cooperation from those two Departments.

Chairman WAXMAN. Yes, absolutely. I agree wholeheartedly, and we will followup on that.

Mrs. Maloney.

Mrs. MALONEY. Thank you, Mr. Chairman, for having this hearing, and I really want to thank GAO for providing us with nonpartisan accurate information. It is very vital for us to practice our oversight responsibilities and I, for one, will be supporting your request for additional funding so that you can give us the information to make good policy decisions.

One of the reports that came out, which, in my sense, is government is the best, it was a bipartisan report with Congressman Hamilton and Baker, and in their report they said the situation in Iraq is grave and deteriorating. And one of their recommendations—their recommendations really called for a reversal of the policy that we are following now. They said we should start withdrawing troops, not sending in more troops.

My brother is a former Vietnam veteran, Mr. Chairman, and he called me last night and he said that in Vietnam they kept sending more and more troops, and all they saw was more and more death, and it didn't work out, and he urged me to vote against increasing the troops there.

But one of the key proposals in the Hamilton-Baker report was No. 21, that the United States should tell the Iraqis that the failure to meet their own milestones will only accelerate American withdrawal or result in a reduction of American support. So they are calling on us to really put their feet to the fire and tell the Iraqis very plainly, if they don't stand up and do their own work, then we are going to be leaving.

The last constituent that I went to see, Mr. Chairman, at Walter Reed, it was a graduate of West Point, our finest and brightest; he was all shot up. I asked him how did it happen; he said, I wasn't on the front line, I was in charge of garbage removal. I mean, you could have knocked me over. I said, garbage removal? And he said, I knew I was in trouble when all my Iraqi colleagues started moving away from me, and then they came out and shot me.

And I don't understand this policy where our troops are in a civil war. As one of them said, we are shooting and we don't know who we are shooting at. We don't know if they are an enemy or a friend; we don't know. We are in the middle of a civil war, and I question why American troops are being used for garbage detail in Baghdad. So I, for one, feel that it is time for us to be standing down and letting the Iraqi people take care of their problems. The longer we stay, they run away from their responsibilities.

Now, the reports that we have been getting—and I want to mention one from a former PRT leader, a Provincial Reconstruction Team, and this was a report where she said that the—she is talking about the civilian surge, not the troop surge, but that the civilian surge is not working. She says—and it is her words—that these teams, these reconstruction teams have not been successful to date, and she feels they are ill-defined mission and they will not be successful. And her comments are in opposition to this policy.

But I have to come back. Mr. Walker, you mentioned that you were underfunded, and my constituents, I can't walk down the street without someone asking me about the $12 billion that was

flown over of Iraqi money, and of which $8.8 billion is unaccounted for. That is the official term. Unaccounted for means missing, gone. And I know that it has been looked at, but I can't get it out of my mind and my constituents can't get it out of their mind that if we had been better stewards of the Iraqi money and the reconstruction, then we wouldn't be spending our American money on the Iraqi reconstruction.

And I want to ask Mr. Bowen, Mr. Reed, Mr. Walker, if you have any insight on what happened to that $8.8 billion? And you say we should be more accountable. Can you help us in figuring out how to be more accountable on that $8.8 billion that dissolved into ether or whatever? And I just am very frustrated. If you could give us some stronger markers for the administration.

They say there are weapons of mass destruction. We can't find the weapons of mass destruction. They say give us a surge. We give them a surge, it doesn't work. We have given them four increases in troops and it hasn't worked. Can you think of any guidelines or oversight that might get the Department of Defense to have standards by which they will agree that, after a certain amount of misleading and failure, that they will begin to step down and ask the Iraqis to step up and take responsibility for their own country?

Anyway, Mr. Walker.

Mr. WALKER. I will start. First, as you know, I had a son who was a Marine Corps officer who fought in Iraq, so I have not only been working on this in my responsibility as Comptroller General and GAO's responsibility, I obviously have an interest given that I have a son that fought over there, although he is out now.

Second, we did do a lot of work in support of the Iraqi Study Group. I was one of the first witnesses before the Iraqi Study Group. We gave them all of our reports and made access to all of our people there.

Third, one of the things that we have recommended a long time ago to both the executive branch and the Congress is that you need to have more metrics and milestones both for what the United States is supposed to do and trying to accomplish and what the Iraqis are supposed to do and trying to accomplish. If you don't have appropriate metrics and milestones, and if you don't have adequate transparency over those metrics and milestones, you don't have any idea whether you are making progress or not and you can't make informed decisions.

Part of that is why you need the TRAs, but it needs to go not just with regard to Iraqi security forces, it has to deal with some of the other issues that have been talked about here, electricity, water, a variety of other factors, oil production, for example. So there need to be more metrics and milestones and you need to be able to have somebody like GAO and others in the accountability community to assess the reliability of the information that you are being provided. The old trust but verify approach.

Chairman WAXMAN. Thank you.

Mr. Bowen.

Mr. BOWEN. As we addressed last week and the CPA did not follow either its mandate required under the U.N. Security Council Resolution 1483 or its own rules in managing the Development Fund for Iraq and, thus, the Iraqi Ministries distributed that

money, used that money, spent that money without any accountability back to CPA as to how it was used. The Board of Supreme Audit continues to look at that issue.

I have worked with GAO to provide the documents to the president of the Board of Supreme Audit so he can complete his audit. The audits that were completed by other entities employed by the U.N. looking at this issue found a lack of controls within the Ministries and, thus, no accountability. And, finally, the Commission on Public Integrity, the law enforcement arm in Iraq, ironically, created by the CPA, has hundreds of fraud cases ongoing with respect to what happened to that money.

So it is not a good story as our audit reported almost 2 years ago.

Chairman WAXMAN. Mr. Reed, do you want to respond?

Mr. REED. I defer to Mr. Walker and Mr. Bowen and the god work they are doing in this area. It doesn't fall, of course, as a contract audit issue, but as a private citizen, I share your concerns equally.

Mr. WALKER. If I may real quick, Mr. Waxman. As you know, and hopefully your constituents do, the $9 billion, roughly, is Iraqi money, but that doesn't mean we shouldn't be concerned about it. We had a fiduciary responsibility with regard to that money, and that should be taken very seriously. We are, in part, going to be viewed as being responsible and accountable as to whether or not those funds were used properly and for appropriate purposes and with positive outcomes irrespective of whose money it was.

Now we need to make sure that the legitimate institutions of the Iraqi government, namely, the Board of Supreme Audit, has access and cooperation in order to conduct their audits of what happened with that money. And I and Stuart Bowen are trying to make sure that happens, but there are varying degrees of cooperation that are occurring there.

I found out recently, for example, that my counterpart, his home was entered into by our Army; all of the weapons were confiscated; no explanation, no apology. His predecessor was assassinated. The job is a pretty tough job. Not everybody is for transparency and accountability. Fortunately, in this country, people debate about it rather than resort to violence.

Chairman WAXMAN. Thank you, Mrs. Maloney.

Mr. Bowen, just before I call on Mr. Clay, a clarification. Last week, when you were here with Ambassador Bremer, it seemed to me that both of you agreed there was no fraud. But now you are telling us that there is a fraud investigation by the Iraqis.

Mr. BOWEN. Right.

Chairman WAXMAN. So there was—there certainly appears to have been fraud by the Iraqis in the use of that cash, is that correct?

Mr. BOWEN. Right. What I said was that our audit made no findings of any fraud with respect to the disbursement of that audit. What I have said today is that the CPI commissioner reports to me, when I go visit with him, that he has ongoing cases with respect to allegations of fraud, allegations of fraud—and I think I said that last week as well—on the use of that money.

Chairman WAXMAN. CPI?

Mr. BOWEN. Commission of Public Integrity. It is the Iraqi FBI.

Chairman WAXMAN. OK. Thank you.

Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman, and thank you for this series of hearings on Iraq.

In his speech last month announcing his new strategy for Iraq, President Bush asked Congress for an additional $1.2 billion in economic aid to Iraq. That is a lot to ask of American taxpayers who have already spent $30 billion on Iraq reconstruction. The President also said that, as part of this plan, the Iraqis have promised to spend $10 billion of their own money. But when we examine previous Iraqi commitments, we find a troubling pattern.

Mr. Walker, according to a recent GAO report, the Iraqi government budgeted about $6 billion for reconstruction projects for 2006, but as of August 2006 it had spent only $877 million of that amount. That is only 14 percent of what they promised to spend, isn't it?

Mr. WALKER. You are correct that they have not spent near what their budget allows. And I think one of the things that Congress needs to think about when it is considering this appropriations request is whether or not you ought to have a matching concept, our funds will flow when their funds flow. We do that between Federal and State support circumstances and, of course, employers do that for pensions with regard to 401K. We need to think about that concept and to what extent that concept might apply here.

Mr. CLAY. So like dollar for dollar, then, is what you are talking about.

Mr. WALKER. Not necessarily dollar for dollar. If they committed to do $10 billion, for example, and we have committed $1 billion too. That is 12 percent. Maybe when their funds flow, our funds will flow. It is just a concept to think about.

Mr. CLAY. Let me also ask you about the GAO report that also found that the Oil Ministry had spent less than 1 percent of its capital budget in 2006, is that correct?

Mr. WALKER. It is a very low percentage. I am not sure that it is less than 1 percent, but it is very low. That sounds about right.

Mr. CLAY. OK, thank you.

Mr. Bowen, at our hearing last week you informed us that at the end of last year there was about $12 billion left in the Iraqi treasury unspent.

Mr. BOWEN. That is right.

Mr. CLAY. Is that accurate?

Mr. BOWEN. That is the number that I was told. Two days ago the Iraqi Minister of Finance himself acknowledged at least $9 billion that should have been spent on reconstruction and relief activities in Iraq was unspent and left in the treasury last year.

Mr. CLAY. What reason did they give you for not spending?

Mr. BOWEN. No reason is given, but we have an audit in our latest quarterly report that addresses ministry capacity development, a very significant issue in Iraq in that there are a variety of reasons I have heard, and one is the difficulty of the contracting system in Iraq. The regulatory process is byzantine, the fear on the part of Iraqi bureaucrats to sign anything because of potential prosecution. But I think that probably the overarching issue is the

lack of a consensus upon a strategic plan on the Iraqi side for a relief and reconstruction program for the country.

Mr. CLAY. Now, the fact that the Iraqis have failed to spend this money raises a question whether the Iraqi government is trying to fund the reconstruction. I am concerned that the Iraqi government may be waiting for the United States to spend American taxpayer dollars so that it doesn't have to spend Iraqi money on reconstruction of its own country. Do you get that sense?

Mr. BOWEN. That is an issue of political will and it is a plausible conclusion.

Mr. CLAY. And so, in your work in Iraq, you have seen signs that the government does not want to spend its money and they are waiting on American taxpayer dollars to flow.

Mr. BOWEN. Well, as my latest report points out, the Iraq Relief and Reconstruction Fund is coming to an end, it is the end of the earth now, and that means, by simply definition, the Iraqis are going to have to sustain, going forward, the financial burden of the recovery of their country.

Mr. CLAY. Thank you for that.

And, Mr. Walker, do you have a similar impression, that the Iraqis may be waiting for the United States to spend their money before they spend any of the Iraqis?

Mr. WALKER. They clearly have a number of capacity challenges which prevents them from spending the money; they don't have an overall plan. And, frankly, I mean, obviously, if somebody else is willing to spend money and you don't have to spend yours, then that has behavioral impacts.

I might note that according to my very capable staff, almost 30 percent of DOD's reconstruction projects won't be completed until late 2008. So while we have made substantial progress, there is still work to be done.

Mr. CLAY. And just to close, Mr. Walker, I sense a level of frustration on your part at this entire ordeal of the Iraq reconstruction, and maybe I am reading it wrong, but I certainly sense it.

Mr. WALKER. My frustration is broader than that. I mean, the Defense Department is No. 1 in the world in fighting and winning armed conflicts, but they have 15 of 27 high-risk areas and there are billions of dollars wasted every year. Billions.

Mr. CLAY. Thank you, Mr. Chairman.

Chairman WAXMAN. Thank you, Mr. Clay.

Mr. Van Hollen.

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

Let me thank all the witnesses for their testimony today.

Mr. Walker, I had some questions regarding the State Department's diplomatic security operations and the contracts they let under that, and I don't know to what extent GAO has done recent work in this area. I know you have looked at it in the past, but there is the Worldwide Personal Protective Services Program and there are a number of firms that have contracts under that overall umbrella, including DynCorp, Triple Canopy, and Blackwater.

And there were some press reports back over the last summer that suggested that some audits had found some major discrepancies in terms of the amounts of moneys paid for and not being able to track the costs that those were allocated to. I don't know

how familiar you may be with those, and I wondered if you could——

Mr. WALKER. I am happy to try to go back and find out what we have done and provide something for the record. I am not familiar to be able to talk about it now. I will tell you that we are using contractors in new and unprecedented ways, including with regard to security arrangements. I mean, if one goes—and I am sure you have been, I have been a couple of times—to Iraq and in the Green Zone, you see a lot of private contractors basically responsible for security, including around where we currently have our Ambassador, which is not normally what you would see when you go to a U.S. embassy elsewhere in the world.

Mr. VAN HOLLEN. Right. That used to be a function carried out by the Marines or other U.S. official members of the armed forces.

Mr. WALKER. Well, but obviously our presence is much larger there; we have a lot of contractors, we have troops there. But let's just say that there has been a blurring of the roles and responsibilities, and part of that is because we don't have enough in-strength, we don't have enough boots on the ground to do some of the things that need to get done.

Mr. VAN HOLLEN. Does GAO have an estimate of how many so-called private soldiers are over there, people who are not members of the armed services but have responsibilities for security?

Mr. WALKER. We don't, and, frankly, that is one of the problems, is that nobody is really responsible and accountable for maintaining some type of control over how many contractors we have, what are they doing, what are the contracting arrangements, etc.

Mr. VAN HOLLEN. OK. I am going to ask you to look into there were some press reports about a contract that was let under the Worldwide Personal Protective Services contract of the State Department, one to Blackwater, where they were, under the original contract, to be paid about $229 million over 5 years. And yet, as of June 30th last year, according to a highly redacted audit statement that we have, they were actually paid an additional $100 million under that contract, and I am interested in what the additional $100 million was spent on. And if you can comment on that now, great; otherwise, we will make sure you get this information.

Mr. WALKER. I will try to get some more details, but it is my understanding that contractors do provide security for our Ambassador and certain other State Department personnel in Iraq.

Mr. VAN HOLLEN. No, as you say, I have been there too and, you are right, when you get escorted from the airport and others, you often have private security.

Mr. WALKER. Right.

Mr. VAN HOLLEN. And it is an overall policy question as to what extent we should rely on those individuals.

Mr. WALKER. I agree.

Mr. VAN HOLLEN. And then there is the separate question, of course, when you do provide these contracts to provide for private security, whether or not the taxpayer is getting what it paid for, whether there are problems with the contract.

Mr. WALKER. Value for money, right.

Mr. VAN HOLLEN. So there is a particular contract here that I would ask you to take a look at going forward.

Mr. WALKER. I will go back and find out what we have done and will touch base with you. We also want to coordinate our efforts to make sure there is not duplication of effort as to what might be being done by other members of the accountability community, but we will get back to you, Mr. Van Hollen.

Mr. VAN HOLLEN. OK. I don't know if either of the other witnesses want to testify. This is within the State Department, as I said, the Worldwide Personnel Protective Services.

Mr. WALKER. Well, we would want to talk to the State Department IG, for example, to find out what, if anything, the State Department IG has done on this.

Mr. VAN HOLLEN. OK.

Mr. REED. We have done work at DynCorp on some of their protective service contracts, not the one, unfortunately, that Mr. Bowen addressed earlier, but some of the earlier ones we have been doing contract audits.

Mr. VAN HOLLEN. OK. Thank you.

Thank you, Mr. Chairman.

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

I want to thank the three of you.

Did you have anything further, Mr. Lynch?

Mr. LYNCH. May I, Mr. Chairman? I just have one quick question.

Chairman WAXMAN. The gentleman is recognized for one quick question. [Laughter.]

Mr. LYNCH. Thank you, Mr. Chairman.

I know I have spoken to Mr. Bowen before on this. I have enough experience in the construction industry to be dangerous, and I know that in the private sector in this country we use a tool called critical path management, where you actually have a construction diagram, a blueprint, if you will, of a project and it is all laid out what function has to go next, pouring concrete, erecting steel, and it has the whole project laid out in a blueprint so that anybody walking onto that job to do oversight, to find out whether the project is on schedule or over budget can basically look at that document and find out whether or not the project is on schedule and on budget.

Do they use anything like that in any of these—and this is a question that is certainly open to Mr. Walker and Mr. Reed. Do you use any tools like that are required of these defense contractors and folks that are actually building these projects for us? Because, for us in the private sector in this country, it offers an objective assessment of where the projects are at, and it is a great cost-containment tool. In my trips—I have been over there five times—I haven't been able to locate any documents that would help me make that type of assessment, and I just didn't know if you had access to those types of tools; critical path management, it basically lays out an accountability tool that you can track the projects on a case-by-case basis at a specific moment in time.

Mr. REED. We have not seen that in our review of quality assurance programs. The quality assurance burden is broader and it requires the government to ensure that the contractor has a quality control program. That is where that tool would come into use if it were there. But as we have heard today, the levels of subcontract-

ing sometimes step down two or three steps beyond the prime, and that leads to a weakening of oversight, an attenuation of insight, and has cost some waste.

Mr. LYNCH. OK.

Thank you, Mr. Chairman. I yield back.

Chairman WAXMAN. Thank you. Good question, Mr. Lynch.

I want to thank the three of you. You have been very helpful and I appreciate your testimony and look forward to continuing hearing from you and learning from you as to what accountability we are getting for the money that is being spent. Thank you.

That concludes our business. The meeting stands adjourned.

[Whereupon, at 12:37 p.m., the committee was adjourned.]

[The prepared statement of Hon. Wm. Lacy Clay follows:]

Statement of Wm. Lacy Clay
Iraq Reconstruction: An Overview"
February 15, 2007

Thank you Mr. Chairman, for holding this important hearing. It is criminal how contractors in Iraq have been allowed to rob and cheat taxpayers at our country's most vulnerable time. The Bush Administration has been negligent in its oversight of these contracts and failed to hold anyone accountable for wasting billions of hard earned taxpayer dollars. It is disturbing that Congress does not know the total amount that has been spent for contractors working in Iraq. It is equally troubling that Congress has turned a blind eye while taxpayer dollars have been mismanaged.

Enough is Enough! I adamantly oppose giving President Bush his requested $1.2 billion in additional funds for Iraq reconstruction. History will not look kindly if Congress fails to close the purse. I urge President Bush to recoup the money from contractors who have ripped off American taxpayers and let them foot the bill for further reconstructing Iraq. It is morally wrong to send more taxpayer dollars to Iraq when $1.2 billion could go a long way towards recovery efforts in America's Gulf Coast and other domestic priorities.

I look forward to hearing the testimony of our three experts who have conducted thorough audits and inspections of the contractors who have taken American taxpayers for a ride. I hope they can shed light on how Congress can facilitate receiving a refund from contractors guilty of abusing taxpayer dollars and prosecuting those who have failed to hold them accountable.

○