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EXAMINING THE EFFECTIVENESS OF U.S. EFFORTS TO COMBAT WASTE, FRAUD, ABUSE, AND CORRUPTION IN IRAQ

HEARINGS

BEFORE THE

COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

SPECIAL HEARINGS

MARCH 11, 2008—WASHINGTON, DC
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EXAMINING THE EFFECTIVENESS OF U.S. EFFORTS TO COMBAT WASTE, FRAUD, ABUSE, AND CORRUPTION IN IRAQ

TUESDAY, MARCH 11, 2008

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The committee met at 10:44 a.m., in room SD–106, Dirksen Senate Office Building, Hon. Patrick J. Leahy presiding.

Present: Senators Leahy, Murray, Dorgan, Feinstein, Lautenberg, Nelson, Cochran, Craig, and Allard.

OPENING STATEMENT OF SENATOR PATRICK J. LEAHY

Senator LEAHY. Good morning.

First off, I apologize to all of our witnesses and those in the audience for being late. It was unavoidable.

Chairman Byrd is not here today, but without objection I will include his full statement in the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR ROBERT C. BYRD

Ladies and Gentlemen, Members of the Committee, and our witnesses, I thank you for your attendance this morning. Today's hearing is the first in a series of hearings to be conducted by the Appropriations Committee to examine the costs and consequences of fraud, waste, abuse and corruption within Iraq and with U.S. government contracts involving Iraq. I hope that over the course of these hearings we will discover some solutions to these problems, some remedies to drain the festering abscess of waste, fraud, abuse and corruption.

Media reports, think tank papers and Congressional efforts, especially those of Representative Waxman and Senator Dorgan, have documented many aspects of these problems. But, it is still difficult to determine the full extent of the fraud and corruption that have become epidemic throughout seemingly every aspect of U.S. involvement in Iraq.

Since 2003, there has been a slow steady drumbeat of reports that throw light in some very dark corners of the Iraqi reconstruction effort, but over the last year, that drumbeat has intensified. It is becoming clear that fraud, waste, abuse and corruption are major contributors to the lack of progress on economic and governmental reconstruction in Iraq. This lack of success, in turn, undermines the legitimacy and authority of the Iraqi government and contributes to the perceived need for the United States and the international community to remain in Iraq.

The United States alone has invested well over six hundred billion dollars, five long and difficult years, and almost 4,000 lives to overthrow of Saddam Hussein's regime and to the subsequent stabilization and rebuilding of Iraq. Our own economy suffers while war deficits mount. We will hear testimony today about billions in U.S. dollars, wrapped in plastic and flown to Iraq, never to be seen again. We have learned about millions of dollars in cash, U.S. currency, carried out of U.S. offices in Iraq in boxes and put in car trunks, only to be seized by Iraqi officials before it could be spent on its intended purpose. That money has never been accounted for.

Weapons, too, by the tens of thousands, have been distributed with little or no accountability, and their current whereabouts remain in question.

Iraq is a nation of great natural resources, with vast oil wealth. It was asserted by the Administration that such resources could be tapped to fund reconstruction and investment in economic growth. So what has happened?

We all know that the security situation in Iraq is still poor. Better, perhaps, than it was in 2006, but still insufficient to encourage local economic investment, let alone foreign investment. Despite more than $45 billion in U.S. reconstruction investment alone since 2003, Iraq's infrastructure remains in poor shape. Oil production has not surpassed pre-war levels, power production fails to deliver more than a few hours of electricity per day, clean water is often not available, schools and hospitals still struggle. As of April 2007, only 8 of 150 planned primary healthcare facilities to be built by 2006 with U.S. reconstruction aid were open to the public. Our billions in reconstruction have not translated into bricks and mortar or lights and water, at least for the average Iraqi.

After five years of U.S. assistance, Iraq's economy is still struggling, and most of the country remains on a cash economy. Iraq soldiers disappear for weeks to hand carry their paychecks to their families because the banking system is inadequate. The government is unable to execute its budgets, it is rife with corruption and fraud, and it appears unable or unwilling to police itself. We have heard of instances in which $800 million of $1.3 billion allocated for Iraqi military procurement in a single year simply vanished, lost in the overseas bank accounts of former officials who live in luxury while their nation suffers.

Iraq's vast oil wealth has, to far too large an extent, financed Iraqi insurgents and militias. Some of it has lined the pockets of Iraqi government officials who have legions of so-called "ghost employees" working for them. It pays for fuel subsidies to Iraqi citizens, some of whom profit by reselling oil purchased at the subsidized price to United States contractors at an inflated price. No wonder there is little incentive for them to achieve political reconciliation.

Some U.S. officials ask why we should care how the Iraqis spend their own money. I'll tell you why. When Iraq misspends its own money and does not provide for its own security and its own reconstruction, guess who steps in to backfill that need? You do, and I do, and every American taxpayer does, to the tune of over $150 billion each year after year. That is why we must care, and care a lot, about corruption in the Iraqi government. Some Americans might not mind their tax dollars helping average Iraqis build a workable society, but I will bet that not one single American taxpayer likes the idea of their tax dollars fattening the wallet of a corrupt Iraqi official or going to an insurgent group that uses that money to build or buy explosive devices to be used against our troops.

Some U.S. contractors appear to be getting fat off of this war as well. Congress has heard from some whistleblowers that have brought to light the excesses associated with the profligate use of "cost-plus" contracts, and the practice of double counting or double billing for services provided to U.S. service members, as well as egregious abuses involving shoddy materials, contaminated water, or spoiled food. Contractors have been paid in full and been given bonuses even when their work was not exemplary. No civilian contractor here in the United States would get away with this kind work; why is it allowed to occur in Iraq?

What we are seeing in Iraq, I fear, is an endless cycle of corruption, an ever-turning water wheel of corrupt practices fed by the endless stream of dollars from U.S. reconstruction assistance, military operations support contracts, and misappropriated Iraqi oil revenues. As long as this wheel keeps turning and profiting contractors, officials, insurgents, and militias, there is no incentive for anyone to shut it down. Why would Iraqi officials want to build a functioning, transparent, accountable government and live only on their own salaries, when they can skim millions, take bribes and collect salaries for non-existent employees? Why would contractors want to make only a modest profit, when there is little accountability for fraudulent practices? And why would the insurgents and militants work for reconciliation or peace and stability in Iraq when their funding, prestige, and social aims are fostered in an environment of instability and corruption?

Our witnesses today include, on our first panel, the Honorable Claude M. Kicklighter, the Inspector General for the Department of Defense; Stuart W. Bowen, Jr., the Special Inspector General for Iraq Reconstruction; and the Honorable David M. Walker, Comptroller General of the United States.

On our second panel, I am pleased that Judge Radhi Hamza al-Radhi, the former Director of the Iraqi Commission on Public Integrity, will share his observations regarding the scope of government corruption and criminal activity in Iraq, as well as the adequacy of anticorruption efforts within the Iraqi government and the effectiveness of U.S. anticorruption support. Judge Radhi has faced death threats for his

heroic efforts in Iraq, and members of his staff have been killed pursuing corrupt activities in Iraq.

Senator LEAHY. As you know, the chairman's been a strong voice for accountability of our assistance programs in Iraq. I talked with Senator Byrd yesterday. I know he still has that concern. We look forward to him being back here very soon.

This committee has heard testimony on the President's budget request for billions of dollars for Iraq reconstruction over several years.

The Appropriations Committee is actually the only regulator on the spigot this administration opened in 2003, to flood Iraq with billions of dollars of U.S. taxpayers' money. I think it's time, after all these years, for the Congress to have a strong hand on that spigot, especially as we're considering another $108 billion in supplemental emergency funds—money which the United States has to actually borrow, and pay interest on.

Investigations of the Special Inspector General for Iraq Reconstruction (SIGIR), the Government Accountability Office (GAO), the media and others, have revealed waste and fraud on a scale unprecedented in our foreign assistance programs.

The administration's attitude toward budgeting, spending and accounting for U.S. tax dollars in Iraq can actually be summed up in two words, "Anything goes." Just put it on the American taxpayers' credit card.

Meanwhile, the American people's priorities here at home have been relegated further and further to the back of the line. We've heard this year that there are even more needs in the United States that are going to have to be put on the back burner, as we send more money to Iraq. Incidentally, we've been there longer than the United States was in World War II.

Beginning last year, the new Congress has begun oversight to try to correct these mistakes, and learn lessons so we can avoid them in the future. At today's hearing, we'll continue that process.

For an administration that came into office insisting they could be trusted to spend taxpayer dollars wisely, and then ignored any advice they disagreed with—including from people with decades of experience—both Republicans and Democrats—the record's shameful.

Even today, the administration continues to oppose remedies like the War Profiteering Prevention Act.

It's not that nothing has been accomplished—none of us are suggesting that. There have been some very successful projects in Iraq. But if one compares the results with the exorbitant amounts spent, it's an embarrassment.

As we struggle here, in the United States, to find the money to repair our decaying bridges or our roads or our schools, the administration has wasted hundreds of millions of dollars—some would say billions—in Iraq.

Now, at first, of course, we were told by the administration and the American people were told that Iraqi oil would pay to rebuild the country. That assertion by the chief architects of the war turned out to be either naïve or intentionally dishonest. I tend to think the latter.

Instead, since 2003, they spent $45 billion for Iraqi relief and reconstruction, which of course does not include the half trillion dollars spent on the military operations. In fact, the long-term cost of this war is already expected to approach $3 trillion, if you count the cost of rebuilding our military and caring for the wounded.

The administration spent huge amounts on no-bid contracts to companies like Halliburton and their subsidiaries, companies that have close connections with the White House. They charged exorbitant fees, they often did shoddy work, or never completed the work they were paid to do.

I, and others, have urged the administration to focus on smaller projects and give more responsibility and involvement to the Iraqi people themselves, those who know the area the best. But stubbornness, arrogance and incompetence won out, and only recently has the approach begun to change.

I want to commend Ambassador Ryan Crocker, and Ambassador Charles Ries, and their staffs, for the long overdue changes they're making.

As chairman of the State and Foreign Operations Subcommittee, I've seen how foreign aid can be effective—it can help transform people's lives for the better, it can help transform whole countries. And it serves our national interests in many, many ways. But in Iraq the experts were ignored by political ideologues who wanted a quick fix. So, at a time when hardworking Americans are losing their homes, and losing their jobs, and spending their savings on the soaring costs of healthcare, trying to make ends meet, these same taxpayers have a right to know how the administration has squandered so much of their hard-earned money in Iraq.

And they have a right to ask, today, with the price of oil at $108 a barrel, and the administration asking for billions of dollars more for Iraq reconstruction, why the American people should continue to foot the bill for what many say the Iraqis can afford themselves.

I've been joined by one of the most distinguished and senior members of the United States Senate, Senator Thad Cochran, who has also chaired this committee in the past, and I yield to Senator Cochran.

STATEMENT OF SENATOR THAD COCHRAN

Senator COCHRAN. Mr. Chairman, Thank you very much. You know, the seniority system is still alive and well in the U.S. Senate, and the more I'm here, the longer I'm here, the more I appreciate it.

I also appreciate the fact that we have a panel of witnesses here who are very important. We appreciate your coming to talk with us about the reconstruction, the rebuilding in Iraq, and the challenges that we face there, Comptroller General, GAO, Inspector General of the Department of Defense, and Stuart Bowen, the Special Inspector General for Iraq Reconstruction. We appreciate all of the hard work you are undertaking in terms of trying to analyze and make recommendations for changes in policies, procedures, laws that we may consider, identifying the priorities for more funding, or funding that isn't necessary in this effort—we would appreciate your advice and counsel as we proceed with our hearing today.

Thank you, Mr. Chairman.

Senator LEAHY. Thank you, Senator Cochran.

And our witnesses will be, first, David Walker, who is the Comptroller General of the United States. He became the seventh Comptroller General and began his 15-year term November 9, 1998, if I'm correct.

As Comptroller General, he is the Nation's chief accountability officer, and he's the head of the U.S. Government Accountability Office, in the legislative branch, which was founded in 1921 to improve the performance and ensure the accountability of the Federal Government for the benefit of the American people.

He will be followed by Claude M. Kicklighter, who is the Inspector General of the Department of Defense. He's the sixth Senate-confirmed DOD Inspector General, but he's served his country, not only since becoming inspector general on April 30 of last year, for over 50 years. First, as an Army officer for 35 years, retiring as a lieutenant general, followed by over 15 years as a distinguished public servant.

He is selected by the Secretaries of State and Defense to establish and direct the Iraq/Afghanistan Joint Transition Planning Group, and is a man of great knowledge and competence.

He'll be followed by Stuart Bowen, who is the Special Inspector General for Iraq Reconstruction. He has served as Special Inspector General since October 2004. He was previously the Inspector General for the Coalition Provisional Authority, for which he was appointed in January 2004, and he has been asked to conduct effective oversight of $47 billion appropriated for the reconstruction of Iraq.

We'll begin with the Comptroller General.

Mr. Walker, go ahead.

STATEMENT OF HON. DAVID M. WALKER, COMPTROLLER GENERAL, GOVERNMENT ACCOUNTABILITY OFFICE

Mr. WALKER. Thank you, Senator Leahy, Senator Cochran, members of the Senate Appropriations Committee. I'm pleased to be here today to discuss the challenges that the United States must address in order to improve performance and assure accountability over U.S. efforts to stabilize and reconstruct Iraq.

Between fiscal years 2001 and 2008, Congress appropriated nearly $700 billion for the global war on terrorism (GWOT). The majority of this amount has been provided for DOD military operations in support of Operation Iraqi Freedom (OIF), including the cost of equipping, maintaining, and supporting our deployed forces.

About $45 billion of this amount was provided for reconstruction efforts, including rebuilding Iraq's oil and electricity sectors, improving its security forces, and enhancing Iraq's capacity to govern.

I'm pleased to appear here today with two of my colleagues from the accountability community, the DOD Inspector General, and the Special Inspector General for Iraq Reconstruction. As you know, GAO and the Inspectors General have different roles and responsibilities, and we try to work in a coordinated fashion to try to get our job done, while avoiding duplication of efforts.

At GAO, our work tends to be more strategic, more long range, and cross-cutting across the different silos of Government, whereas

the Inspectors General tend to focus on fighting fraud, waste, abuse, and mismanagement within their respective Departments and agencies, and they tend to drill down more than GAO does.

I would like to note that—since one of the concerns of this committee is the issue of fraud, waste, and abuse—I would like to note that with regard to U.S. funds, fraud is not a major problem. It is a major problem with Iraqi funds. Corruption is a serious problem in Iraq.

But waste is a huge problem, both for the United States as well as for Iraq, and in that regard I recently worked with several of my colleagues in the Inspector General community to develop a definition of waste, which I found had not been defined before.

As we see it, waste occurs when taxpayers, in the aggregate, do not receive reasonable value for money in connection with any Government-funded activity, due to inappropriate acts or omissions by officials with control over, or access to, Government resources.

Most waste does not involve a violation of law, but it does involve mismanagement resulting from poor leadership or guidance, inappropriate acts or omissions, including the use of poor business arrangements or inadequate oversight, often caused by having too few skilled people to manage and oversee the task.

The United States is entering into its fifth year of efforts to rebuild and stabilize Iraq, but these efforts have neither consistently achieved their desired outcomes, nor have they done so, always, in an economic and efficient manner.

While specific facts and circumstances differed, a lack of well-defined requirements, poor business arrangements, and inadequate oversight and accountability have affected reconstruction, stabilization, and support efforts, alike.

Several longstanding and systemic problems continue to hinder the Department of Defense's management and oversight of contractors at deployed locations, including the failure to follow guidance, the failure to provide adequate numbers of contract oversight personnel, the failure to systematically collect and distribute lessons learned, and the failure to ensure pre-deployment training for military commanders and contract oversight personnel who have a role in connection with contractors.

I might, however, note, in fairness—things are getting better, and that a number of the recommendations we've made have been implemented. There's been an intention to implement others, and so we're seeing improvement, but we've still got a long way to go.

The United States has made available nearly $6 billion to rebuild Iraq's energy sector, as an example, and $300 million to develop its Government ministries, but neither one of these important efforts has a strategic and integrated plan.

We have a number of players on the field in the Federal Government, working with their Iraqi partners. Each are trying to do the best they can with regard to their narrow span of control, but we need a strategic and integrated plan with responsibility and accountability, not only overall, but with regard to each major components in order to make sure that we're going to achieve positive results in an economic, efficient, and effective manner.

The Iraqi Government is challenged. There is rampant corruption. There are problems with regard to capacity of their skills and

knowledge, there are problems, also, with regard to factionalization that exists within a number of the ministries, especially the largest ministries.

We've made certain recommendations to the State Department about putting together this strategic and integrated plan in connection with these two matters. As an example, they came back and said they felt that was the responsibility of the Iraqi Government. In our view it's a shared responsibility. U.S. taxpayer money is involved. And while it's a shared responsibility to be successful, we think that the State Department needs to work with the Iraqi Government to make these plans a reality.

Thank you, Senators, and I will be more than happy to answer questions after my colleagues have their opportunity to speak.

Senator LEAHY. Thank you very much, Mr. Walker.

[The statement follows:]

PREPARED STATEMENT OF DAVID M. WALKER

Mr. Chairman and Members of the Committee: I am pleased to be here today to discuss the challenges the United States must address to successfully improve performance and ensure accountability over U.S. efforts to stabilize and reconstruct Iraq. In my statement today, I will discuss (1) factors contributing to poor contracting outcomes and accountability, (2) long-standing issues in the Department of Defense's (DOD) management and oversight of contractors supporting deployed forces, and (3) efforts to improve the capacity of the Iraqi government.

Between fiscal years 2001 to 2008, Congress appropriated nearly $700 billion for the global war on terrorism.[1] The majority of this amount has been provided to DOD for military operations in support of Operation Iraqi Freedom, including the cost of equipping, maintaining, and supporting our deployed forces. About $45 billion was provided for reconstruction efforts, including rebuilding Iraq's oil and electricity sectors, improving its security forces, and enhancing Iraq's capacity to govern. Prudence with taxpayer funds and growing long-range fiscal challenges demand that the United States maximize its return on the billions of dollars invested in Iraq. 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.

My statement today is based upon GAO's extensive work spanning several years. Since 2003, we have issued nearly 130 Iraq-related reports and testimonies.[2] Our work in Iraq largely has been performed under my authority as Comptroller General to conduct evaluations on my own initiative since it is a matter of broad interest to the entire Congress. We performed this work in accordance with generally accepted government auditing standards.

I am pleased to appear with the DOD Inspector General and the Special Inspector General for Iraq Reconstruction. As you know, GAO and the inspectors general have different, but complementary, roles and responsibilities. GAO's broad audit authority allows it to support Congress through strategic analyses of issues that cut across multiple federal agencies and sources of funding, while the inspectors general focus primarily on preventing and exposing fraud, waste, and abuse in individual federal agency programs. The abilities of the inspectors general to provide in-country oversight of specific projects and reconstruction challenges have enabled GAO to focus on national, sector, and interagency issues. We and the other accountability organizations coordinate our oversight efforts to avoid duplication and leverage our resources.

I would like to note that several of my colleagues in the accountability community and I have developed a definition of waste. As we see it, waste occurs when taxpayers do not receive reasonable value for their money in connection with any government-funded activity due to inappropriate acts or omissions by officials with control over or access to government resources. Most waste does not involve a violation of law, but it does involve mismanagement resulting from poor leadership or guid-

[1] This figure includes military appropriations for Operation Noble Eagle, Operation Enduring Freedom, and Operation Iraqi Freedom, as well as stabilization and reconstruction appropriations for Iraq and Afghanistan.

[2] To see GAO reports on Iraq, click on http://GAO.gov/docsearch/featured/oif.html.

ance; inappropriate actions or omissions, including the use of poor business arrangements; or inadequate oversight, often caused by having too-few skilled people. Our reports and testimonies have provided specific examples where such issues resulted in higher costs, schedule delays, and unmet goals. I highlight some of these in my testimony. Nevertheless, estimating or quantifying the financial impact of fraudulent, wasteful, or abusive practices is not always feasible or practicable. However, the inability to do so should not detract from the need to improve management and accountability over our efforts in Iraq.

SUMMARY

The United States is entering its fifth year of efforts to rebuild and stabilize Iraq, but these efforts have neither consistently achieved their desired outcomes nor done so in an economic and efficient manner. While the specific facts and circumstances differed, a lack of well-defined requirements, poor business arrangements, and inadequate oversight and accountability have affected reconstruction, stabilization, and support efforts alike. Two GAO reports issued in July 2007 illustrate some of these problems. In one report, we found that DOD completed negotiations for task orders on an oil contract more than 6 months after the work commenced. As a result, the contractor incurred almost all of its costs at the time of negotiations, which influenced DOD's decision to pay nearly all of the $221 million in costs questioned by the Defense Contract Audit Agency (DCAA). In a second report, we found that unclear DOD guidance, inadequate staff, and insufficient technology resulted in poor accountability over 190,000 weapons provided to the Iraqi security forces. DOD concurred with our recommendation to identify accountability procedures for the program to train and equip the Iraqi security forces. However, as of March 2008, DOD had not developed the necessary procedures.

Several long-standing and systemic problems continue to hinder DOD's management and oversight of contractors at deployed locations, including the failure to follow planning guidance, provide adequate numbers of contract oversight personnel, systematically collect and distribute lessons learned, and ensure predeployment training for military commanders and contract oversight personnel on the use and role of contractors. The scale of contractor support DOD relies on today in locations such as Iraq and elsewhere amounts to billions of dollars worth of goods and services each year, underscoring the need to effectively manage and oversee contractor efforts. The magnitude of this support demands that DOD ensure that military personnel have the guidance, resources, and training to effectively monitor contractor performance at deployed locations. However, our work has identified instances where poor oversight and management of contractors led to negative financial and operational impacts. We have made a number of recommendations aimed at strengthening DOD's management and oversight of contractor support at deployed locations, and the department has agreed to implement many of those recommendations. However, we have found that DOD has made limited progress implementing some key recommendations.

The United States has made available nearly $6 billion to rebuild Iraq's energy sector and $300 million to develop its government ministries but lacks integrated strategic plans for both efforts. Building the capacity of the ministries is critical to ensure that Iraq can effectively assume responsibility for delivering government services and sustain the effort to rebuild and stabilize the country. Rebuilding Iraq's energy sector is necessary to ensure that Iraq can pay for these tasks and provide essential services to the Iraqi people. However, in the absence of a comprehensive and integrated strategic plan, U.S. efforts to build the capacity of the Iraqi government have been hindered by multiple U.S. agencies pursuing individual efforts without overarching direction. The creation of a comprehensive and integrated strategic plan for the energy sector is also essential for Iraq to identify the most pressing needs and address challenges affecting future development prospects. We recommended that the State Department work with Iraqi ministries to develop an integrated energy plan. State commented that the Iraqi government, not the U.S. government, should act on our recommendations. Given the billions of dollars provided to rebuild Iraq's energy sector and the limited capacity of Iraqi ministries, I believe that our recommendations to State are still valid.

DOD and State have taken action to implement some, but not all, of our recommendations, increasing the risk that past mistakes or lapses in accountability will be repeated and undermining efforts to enable Iraq to assume greater responsibility for rebuilding its nation. In doing so, DOD and State miss opportunities to improve outcomes and enhance accountability.

BACKGROUND

Several entities and U.S. agencies have played important roles in U.S. efforts to rebuild and stabilize Iraq. From May 2003 through June 2004, the Coalition Provisional Authority (CPA)[3] was responsible for overseeing, directing, and coordinating rebuilding efforts. After its dissolution, the Secretary of State assumed responsibilities for the supervision and general direction of reconstruction efforts in Iraq. DOD, including the U.S. Army Corps of Engineers, and United States Agency for International Development (USAID) have had responsibility for managing and overseeing specific reconstruction projects.

Contractors have largely carried out reconstruction efforts in Iraq. For example, in early 2004, the CPA, through various military organizations, awarded seven contracts to help provide overall direction, coordination, and oversight of 12 large design-build contractors. In turn, these 12 design-build contractors were responsible for the design and execution of construction activities in various sectors such as electricity, oil, and public works and water.

In addition, DOD has made extensive use of contractors to support its deployed forces. The scale of contractor support DOD relies on today in locations such Iraq and elsewhere amounts to billions of dollars worth of goods and services each year, underscoring the need to effectively manage and oversee contractor efforts. Contractors provide interpretation, intelligence analysis, and security services, as well as weapon systems maintenance and base operations support. The significance of such contracts is illustrated by the fact that the Army reported obligations of over $4.5 billion in fiscal year 2007 on its single-largest support contract, the Logistics Civil Augmentation Program (LOGCAP).

The collective effort of military, civilian, and contractor personnel in Iraq has been complicated by the country's security environment. The CPA's original reconstruction plan was premised on the assumption that a permissive security environment would enable the United States to restore Iraq's essential services to prewar levels. The CPA also assumed that the Iraqi government and the international community would help finance Iraq's development and that Iraqi oil revenues could help pay for reconstruction costs. None of these assumptions has materialized.

In February 2007, we reported that the security situation was continuing to deteriorate, impeding the management and execution of reconstruction efforts. As shown in figure 1, the security situation generally deteriorated through the summer of 2007, with the number of attacks increasing to about 180 per day in June 2007.

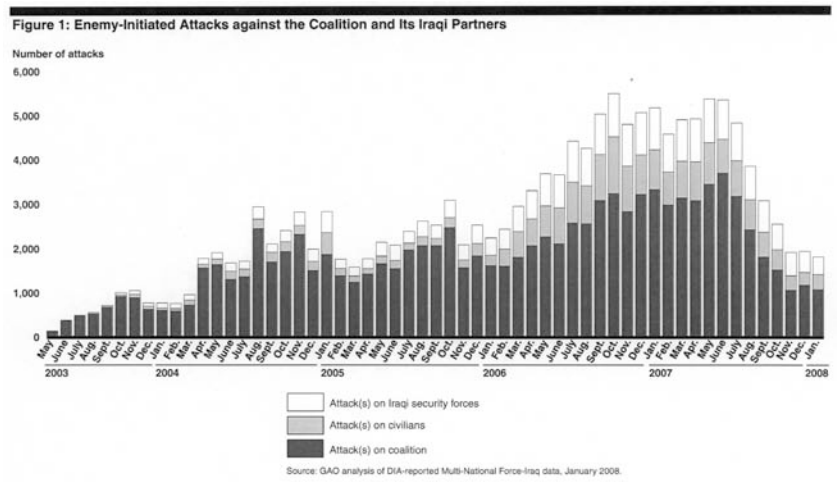

FIGURE 1.—*Enemy-Initiated Attacks against the Coalition and Its Iraqi Partners*

However, since then, the number of enemy-initiated attacks has decreased by about two-thirds, to the levels of early 2005. Specifically, the average number of

[3] Established in May 2003 and led by the United States and the United Kingdom, the CPA was the United Nations-recognized coalition authority responsible for the temporary governance of Iraq.

daily attacks decreased from about 180 in June 2007 to about 60 in January 2008—a nearly 70 percent decrease—as the number of attacks against coalition forces in particular fell considerably. The number of attacks on Iraqi security forces and civilians also declined from June 2007 levels. While security has improved in Iraq, a permissive security environment has yet to be achieved.

POOR CONTRACTING OUTCOMES AND ACCOUNTABILITY HINDER U.S. EFFORTS IN IRAQ

Our work over the past 5 years has shown that one or more of the elements essential for achieving good acquisition outcomes—well-defined requirements matched with adequate resources, sound business arrangements, and the capacity to properly manage and oversee contractor performance—were often missing during specific reconstruction efforts, in contracts to support deployed forces, and in our efforts to equip Iraqi security forces. The absence of these elements often contributed to unmet expectations, schedule delays, or higher-than-necessary costs, underscoring both the need to hold agencies and contractors accountable for outcomes, and the challenges of doing so. Such issues are not unique to Iraq but reflect some of the long-standing and systemic issues confronting DOD. They are, however, magnified in a contingency situation such as Iraq or Katrina. Further, we found that unclear DOD guidance resulted in poor accountability over 190,000 weapons provided to the Iraqi security forces.

Mismatch between Requirements and Resources

A prerequisite to good outcomes is a match between well-defined requirements and available resources. Shifts in overall 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 complicating efforts to hold agencies and contractors accountable. After the State Department assumed responsibility for U.S. reconstruction efforts in 2004, it re-examined the priorities and programs initiated by the CPA, with the objective of reprioritizing funding to key, high-impact projects. State increased support for security, law enforcement efforts, and oil infrastructure enhancements. These reallocations, affecting billions of dollars of planned work, led to the cancellation of some projects in the electricity and water sector.

At the contract level, the lack of well-defined requirements resulted in schedule delays and the United States potentially paying more than necessary. For example, in September 2005, we reported that difficulties in defining the cost, schedule, and work to be performed on projects in Iraq's water and sanitation sector contributed to project delays and reduced scopes of work.[4] We found that agreement between the U.S. government and contractors on the final cost, schedule, and scope of 18 of the 24 task orders valued at $873 million 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.

Previously, in July 2004, we reported that a disagreement between the LOGCAP contractor and the DCAA on how to bill for services to feed soldiers in Iraq involved at least $88 million in questioned costs.[5] The disagreement regarded whether the government should be billed on the camp populations specified in the statement of work or on the actual head count. A clearer statement of work, coupled with better DOD oversight of the contract, could have prevented the disagreement and mitigated the government's risk of paying for more services than needed.

Business Arrangements that Increased Risk

To award contracts and begin reconstruction efforts quickly, DOD used business arrangements that often increased DOD's risk of paying higher costs than it might have otherwise. Such arrangements often allowed contractors to begin work before key contract terms and conditions, such as the scope of the work and its price, were fully defined. For example, in a September 2006 report, 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.[6] In contrast, in the few instances in which the government negotiated the terms before starting work, the portion of questioned costs removed from the pro-

[4] 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).

[5] GAO, *Military Operations: DOD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight*, GAO–04–854 (Washington, D.C.: July 19, 2004).

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

posal was substantial. For example, in three audits related to a logistics support contract, DCAA questioned $204 million. Since the government and the contractor negotiated the terms prior to the onset of the work, the contractor had not incurred any costs at the time of negotiations. DCAA calculated that $120 million of the $204 million in questioned costs were removed as a result of its findings.

We subsequently issued a report in July 2007 that focused on the U.S. Army Corps of Engineers' $2.5 billion contract to Kellogg Brown & Root to restore Iraq's oil infrastructure and ensure an adequate fuel supply within Iraq.[7] DCAA reviewed the contract's 10 task orders and questioned $221 million in contractor costs. While DOD considered DCAA's audit findings and performed additional analysis, the lack of timely negotiations contributed significantly to DOD's decision on how to address the questioned costs. In this case, all 10 task orders were negotiated more than 180 days after the work commenced and the contractor had incurred almost all its costs at the time of negotiations. These circumstances influenced DOD's decision to pay nearly all of the $221 million in questioned costs.

Poor Management and Oversight of Contractor Performance

Managing contractors in an unstable contracting environment means greater attention to oversight, which relies on having a capable government workforce. Having personnel who are trained to conduct oversight and who are held accountable for their responsibilities is essential for effective oversight of contractors. If oversight is not conducted, not sufficient, or not well documented, DOD is at risk of being unable to identify and correct poor contractor performance. On multiple occasions, we and others have reported on deficiencies in DOD's oversight; for example:

—In December 2006, we reported that DOD did not have sufficient numbers of contractor oversight personnel at deployed locations, which limited its ability to obtain reasonable assurance that contractors were meeting contract requirements efficiently and effectively.[8]

—In October 2007, the report of the Commission on Army Acquisition and Program Management in Expeditionary Operations stated that the Army lacked the leadership and military and civilian personnel to provide sufficient contracting support to either expeditionary or peacetime missions. According to the Commission, Army contracting personnel experienced a 600-percent increase in their workload and were performing more complex tasks, while the number of Army civilians and military in the contracting workforce had remained stagnant or declined. As a result, the Commission found that the vital task of postaward contract management was rarely being done. It recommended that the Army increase the number of civilian and military personnel in its contracting workforce by 1,400 individuals.

—Our recent analysis of five types of vehicles presented to the Army as ready for acceptance from July 2006 through May 2007 found that 18 to 31 percent of the vehicles failed government inspection.[9] Some equipment presented to the Army failed inspection multiple times, sometimes for the same deficiency. Rework on equipment that failed inspections since May 2005 wasted $4.2 million.

Such issues are not unique to Iraq but often reflect the long-standing and systemic issues DOD faces. Since 1992, we have identified DOD contract management to be high risk due to its vulnerabilities to fraud, waste, abuse, and mismanagement. In a report issued in July 2006, we concluded that, because awards to contractors were large and growing, DOD would continue to be vulnerable to contracting fraud, waste or misuse of taxpayer dollars, and abuse.[10]

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[7] GAO, *Defense Contract Management: DOD's Lack of Adherence to Key Contracting Principles on Iraq Oil Contract Put Government Interests at Risk*, GAO–07–839 (Washington, D.C.: July 31, 2007).

[8] 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).

[9] GAO, *Defense Logistics: The Army Needs to Implement an Effective Management and Oversight Plan for the Equipment Maintenance Contract in Kuwait*, GAO–08–316R (Washington, D.C.: Jan. 22, 2008).

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

Insufficient Accountability over U.S.-Funded Equipment Provided to Iraqi Security Forces

In July 2007, we reported that DOD could not fully account for Iraqi security forces' receipt of U.S.-provided equipment.[11] Three factors contributed to this lapse in accountability. First, DOD had not specified which DOD equipment accountability[12] procedures, if any, applied to the train-and-equip program for Iraq. Congress funded the train-and-equip program for Iraq outside traditional security assistance programs, which, according to DOD officials, allowed DOD a large degree of flexibility in managing the program. These officials stated that, since the funding did not go through traditional security assistance programs, the DOD accountability requirements normally applicable to these programs did not apply. For example, under traditional security assistance programs, DOD regulations specify accountability procedures for storing, protecting, transporting, and registering small arms and other sensitive items transferred to foreign governments.

Second, DOD did not maintain a centralized record of all equipment distributed to the Iraqi security forces from June 2004 until December 2005. At that time, DOD established a consolidated property book system to track the issuance of equipment to the Iraqi security forces and was attempting to recover past records. Our analysis found a discrepancy of at least 190,000 weapons between data reported by the former Multinational Security Transition Command- Iraq (MNSTC–I) commander and the property books (see figure 2). Former DOD officials stated that this lapse was due to an insufficient number of staff and the lack of a fully operational network to distribute equipment, among other reasons.

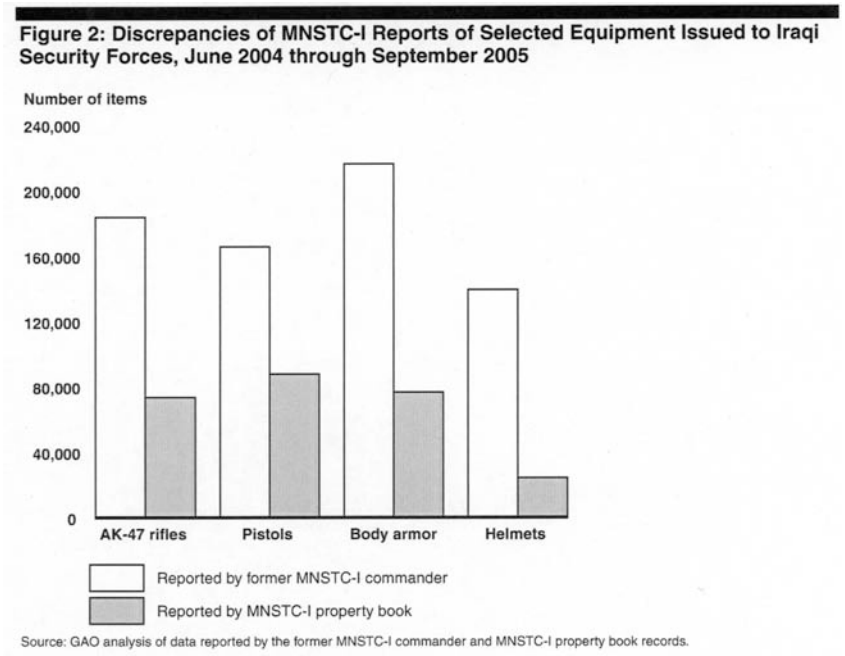

FIGURE 2.—*Discrepancies of MNSTC–I Reports of Selected Equipment Issued to Iraqi Security Forces, June 2004 through September 2005*

Third, since the beginning of the program, DOD has not consistently collected supporting documents that confirm when the equipment was received, the quantities of equipment delivered, or the Iraqi units receiving the equipment. Since June

[11] GAO, *Stabilizing Iraq: DOD Cannot Ensure That U.S.-Funded Equipment Has Reached Iraqi Security Forces*, GAO–07–711 (Washington, D.C.: July 31, 2007).

[12] DOD defines accountability as the obligation imposed by law, lawful order, or regulation accepted by an organization or person for keeping accurate records, to ensure control of property, documents, or funds, with or without physical possession.

2006, the command has placed greater emphasis on collecting this documentation. However, our review of the 2007 property books found continuing problems with missing and incomplete records. Further, the property books consist of extensive electronic spreadsheets, which are an inefficient data management tool given the large amount of data and limited personnel available to maintain the system.

In our July 2007 report, we recommended that the Secretary of Defense (1) determine which DOD accountability procedures apply or should apply to the program, and (2) after defining the required accountability procedures, ensure that sufficient staff, functioning distribution networks, standard operating procedures, and proper technology are available to meet the new requirements. DOD concurred with our recommendations but, as of March 3, 2008, had not determined which accountability procedures apply to the program.

LONG-STANDING PROBLEMS HINDER DOD'S MANAGEMENT AND OVERSIGHT OF CONTRACTORS SUPPORTING DEPLOYED FORCES

Several long-standing and systemic problems continue to hinder DOD's management and oversight of contractors at deployed locations, including the failure to follow planning guidance, an inadequate number of military and civilian contract oversight personnel, failure to systematically collect and distribute lessons learned, and the lack of comprehensive training for military commanders and contract oversight personnel. The recurring nature of these issues underscores the need for DOD leadership to ensure implementation of and compliance with existing guidance within the department. In prior reports, we made a number of recommendations aimed at strengthening DOD's management and oversight of contractor support at deployed locations, and the department has agreed to implement many of those recommendations. However, our prior work has found that DOD has made limited progress implementing some key recommendations. Our work on contracts to support deployed forces in Iraq has identified instances where poor oversight and management of contractors led to negative financial and operational impacts.

DOD Has Not Followed Long-standing Planning Guidance Regarding the Use of Contractors to Support Deployed Forces

Our work has shown that DOD has not followed long-standing planning guidance, particularly by not adequately factoring the use and role of contractors into its planning. For example, DOD guidance stresses the importance of fully integrating into logistics plans and orders the logistics functions performed by contractors along with those performed by military and government personnel. However, we noted in our 2003 report that the operations plan for the war in Iraq contained limited information on contractor support.[13] Similarly, DOD policy requires planning for contractor-provided services during crisis situations to provide a reasonable assurance of the continuation of services and to prepare a contingency plan for obtaining services from alternate sources if needed. Our review found that essential contractor services for deployed troops had not been identified and backup planning was not being done. Without firm plans, there is no assurance that the personnel needed to provide essential services will be available when needed.

In addition, we reported in 2004 that the Army did not follow its planning guidance when deciding to use the Army's LOGCAP contract.[14] Army guidance stresses the need for the clear identification of requirements and the development of a comprehensive statement of work early in the contingency planning process. Because this Army guidance was not followed, the plan to support the troops in Iraq was not comprehensive and was revised seven times in less than 1 year, generating a significant amount of rework that would have been avoided had the planning guidance been followed.

We have also found that DOD has not reviewed contractor support to identify the essential services provided and the department lacked visibility over the totality of contractor support to deployed forces. This information is essential in incorporating contractor support into planning efforts. For example, senior military commanders in Iraq stated that, when they began to develop a base consolidation plan for Iraq, they had no source to draw upon to determine how many contractors were on each installation.

DOD has taken some actions to address this challenge. For example, DOD is developing a database of contractors who deploy with U.S. forces. According to senior DOD officials familiar with the database, as of February 2008, the database had about 80,000 records. DOD is working with State to include new DOD contractors,

[13] 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).

[14] GAO–04–854.

including private security contractors, in the database. This effort responds to recommendations we made in 2003 and 2006 to enhance the department's visibility over contractors in locations such as Iraq and Afghanistan.[15] In addition, Joint Contracting Command Iraq/Afghanistan has created the Theater Business Clearance process that reviews and approves all contracts for work in Iraq or Afghanistan. Joint Contracting Command Iraq/Afghanistan officials stated that this has helped military commanders know ahead of time when contractors are coming to work on their bases and to ensure sufficient facilities are available for them. According to senior DOD officials, DOD is also developing a cadre of contracting planners to ensure that contractor support is included in combatant commanders' planning.

DOD Lacks Adequate Numbers of Trained Contract Oversight Personnel

Having the right people with the right skills to oversee contractor performance is crucial to ensuring that DOD receives the best value for the billions of dollars spent each year on contractor-provided services to support deployed forces. However, several reviews by GAO and other organizations have consistently found deficiencies in DOD's oversight of contractors due to an inadequate number of trained military and civilian personnel to carry out these duties.

Such concerns are not new, and we continue to find that poor oversight contributes to poor outcomes and wasted resources. For example, we reported in 2004 that DOD did not always have enough contract oversight personnel in place to manage and oversee its logistics support contracts such as LOGCAP and the Air Force Contract Augmentation Program (AFCAP). As a result, the Defense Contract Management Agency (DCMA) was unable to account for $2 million worth of tools that had been purchased using the AFCAP contract. In 2006, a LOGCAP Program Office official stated that the office did not prepare to hire additional contract oversight personnel in anticipation of an increased use of LOGCAP services due to Operation Iraqi Freedom. According to the official, if adequate staffing had been in place early, the Army could have realized substantial savings through more effective reviews of the increasing volume of LOGCAP requirements.

In January 2008, we reported that the Army was inadequately staffed to conduct oversight of an equipment maintenance contract in Kuwait, a contract with cumulative obligations of more than $500 million.[16] Vacant oversight personnel positions included a quality assurance specialist, a property administrator, and two quality assurance inspectors. According to Army officials, such shortfalls meant that surveillance was not being performed sufficiently, and the Army was less able to identify trends in contractor performance and begin corrective action. For example, a review of property accountability reports found that the contractor reported a total of $2.4 million in government-furnished property; however, two of the eight property listings alone totaled more than $2 million. Without adequate oversight of government property, the Army cannot be certain that duplicate supplies have not been ordered and that government property is not misplaced or misused.

DOD has taken some actions to address the challenge of a less-than-adequate number of contract oversight personnel. For example, in February 2007, the Deputy Assistant Secretary of the Army (Policy and Procurement) issued guidance that required, among other actions, contracting officers to ensure that a quality assurance surveillance plan be prepared and implemented for service contracts exceeding $2,500. Joint Contracting Command Iraq/Afghanistan officials stated that they are in the process of adding about 39 personnel to provide additional contractor oversight. Similarly, DCMA has deployed 100 more personnel and plans to deploy another 150 to provide contract oversight and administration to both ongoing and future contracts in Iraq. DCMA is providing oversight for DOD's private security contracts and other theater-wide contracts. Additionally, senior DOD officials stated that the department has created a task force to address the recommendations of the October 2007 report by the Commission on Army Acquisition and Program Management in Expeditionary Operations.

DOD Does Not Systematically Collect and Distribute Lessons Learned

DOD does not systematically ensure that lessons learned regarding the use of contractors to support deployed forces are shared with military personnel at deployed locations. Although DOD has a policy requiring the collection and distribution of lessons learned to the maximum extent possible, we found in our previous work that, with regard to contractor support to deployed forces, no procedures were in place to ensure lessons learned were being collected and distributed. For example, the Army regulation that establishes policies, responsibilities, and procedures for the

[15] GAO–07–145.
[16] GAO–08–316R.

implementation of the LOGCAP program makes customers that receive services under the LOGCAP contract responsible for collecting lessons learned. However, we have repeatedly found that DOD is not systematically collecting and sharing lessons learned on the use of contractors to support the deployed forces. We have made several recommendations in the past that DOD implement a department-wide lessons learned program for contractor support to deployed forces. However, we have previously reported that DOD has not established any procedures to systematically do this. We also found a failure to share best practices and lessons learned between units as one redeploys and the other deploys to replace it. As a result, new units essentially start at ground zero, having to resolve a number of difficulties until they understand contractor roles and responsibilities.

DOD Does Not Adequately Train Military Commanders and Contract Oversight Personnel

DOD does not routinely incorporate information about contractor support for deployed forces in its predeployment training of military personnel, despite the longstanding recognition of the need to provide such information. Our work has shown the need for better predeployment training of military commanders since the mid-1990s. DOD policy states that personnel should receive timely and effective training to ensure they have the knowledge and tools necessary to accomplish their missions.

We have made several recommendations that DOD improve its contractor support-related training. In each instance, DOD concurred with our recommendation. However, our previous work has found limited evidence that improvements have been made in terms of how DOD trains military commanders and contract oversight personnel on the use of contractors to support forces prior to deployment. We have found that limited or no predeployment training on the use of contractor support has caused a variety of problems for military commanders in deployed locations.

As we reported in 2006, several military commanders with limited or no predeployment training stated that they were not able to adequately plan for the use of those contractors.[17] According to the commanders, their predeployment training provided them with insufficient information on how much support contractors would be providing in Iraq. The commanders were therefore surprised by the substantial number of personnel they had to use to perform missions such as on-base escorts for third-country and host-country nationals, convoy security, and other force protection support to contractors.

We have found instances in which limited or no predeployment training for military commanders on the use of contractor support to deployed forces resulted in confusion about their roles and responsibilities in managing contractors. In some cases, concerns rose over the potential for military commanders to direct contractors to perform work outside the scope of the contract, which they lack the authority to do. As Army guidance makes clear, this can result in modifications to the contract that would involve additional costs and, in some cases, be in violation of competition requirements. For example, in 2006, a contractor stated that he was instructed by a military commander to release equipment the contractor was maintaining even though this action was not within the scope of the contract. The issue ultimately had to be resolved by the contracting officer.

In a 2005 report on the use of private security contractors in Iraq,[18] we found that commanders received no training or guidance on how to work with private security providers in Iraq. To highlight the lack of training and guidance, representatives from one unit stated they did not know private security providers were in their battle space until the providers called for assistance.[19]

We also found that contract oversight personnel such as contracting officers' representatives continue to receive limited or no predeployment training regarding their roles and responsibilities in monitoring contractor performance. Contracting officers' representatives are typically drawn from units receiving contractor-provided services and are not normally contracting specialists. However, DOD's acquisition regulations require that contracting officer's representatives be qualified through training and experience commensurate with their delegated responsibilities.

We have found that limited or no predeployment training of contract oversight personnel has caused a variety of problems in deployed locations.

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[17] GAO–07–145.

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

[19] In response to an incident in September 2007 in which 17 Iraqis died, the Department of State and DOD signed a memorandum of agreement in December 2007 outlining actions needed to improve oversight of private security contractors. GAO is currently reviewing U.S. agencies' use of private security contractors in Iraq.

The lack of training can affect the quality of service that contractors are providing at deployed locations. In a December 2006 report, officials from a corps support group in Iraq stated that, until they were able to get a properly trained contracting officer's representative in place, they experienced numerous problems regarding the quality of food service LOGCAP provided.

The lack of sufficient training also can lead to the inefficient use of military personnel. In the 2006 report, officials with a Stryker brigade stated that a lack of training hindered their ability to resolve staffing issues with a contractor conducting background screenings of third-country and host-country nationals. In this case, shortages of contractor-provided screeners forced the brigade to use its own intelligence personnel to conduct screenings. As a result, those personnel were not available for their primary intelligence-gathering responsibilities.

DOD and its components have made some improvements in providing training to military commanders and contract oversight personnel on the use of contractors to support deployed forces prior to their deployment. In DOD's response to our 2006 report, the Director of Defense Procurement and Acquisition Policy stated that the Army is making changes to its logistics training programs that would incorporate contracting officers' representatives training into its basic and advanced training for its ordnance, transportation, and quartermaster corps.[20]

In addition, the Defense Acquisition University has updated its contingency contracting course to include a lesson on contractors accompanying the force. DCMA is adding personnel to assist in the training and managing of contracting officers' representatives. However, training of military commanders and contract oversight personnel remains a challenge. For example, the 2007 report of the Commission on Army Acquisition and Program Management in Expeditionary Operations found that combatant commands do not recognize the significance of contracts and contractors in expeditionary operations. The report concluded that the Army needs to educate and train commanders on the important operational role of contracting.

LACK OF ADEQUATE STRATEGIC PLANNING IMPEDES U.S. EFFORTS TO DEVELOP CAPACITY IN IRAQI MINISTRIES AND IMPROVE OUTCOMES IN IRAQ'S ENERGY SECTOR

U.S.efforts to increase the Iraqi government's capacity to invest in its own rebuilding are undermined by strategic planning shortfalls in two critical areas—developing the capacity of the Iraqi ministries to effectively execute their responsibilities and integrating oil and electricity development into a unified plan. In the energy sector, developing a comprehensive and integrated strategic plan is essential to meeting energy production and export goals, which in turn will help Iraq meet its future financial needs. In both cases, U.S. assistance in developing these plans will help ensure that future U.S. expenditures in rebuilding Iraq will result in long-term benefits.

Department of State Has Not Developed a Comprehensive and Integrated Strategy to Develop Transparent and Accountable Iraqi Ministries

U.S. efforts to strengthen Iraqi ministries lack a strategic plan to integrate efforts, address challenges within the ministries, and set clear priorities.[21] Over the past 4 years, U.S. efforts to help build the capacity of the Iraqi national government have been characterized by multiple U.S. agencies leading individual efforts, without overarching direction from a lead entity that integrates their efforts, and shifting time frames and priorities in response to deteriorating security and the reorganization of the U.S. mission in Iraq. Consequently, U.S. efforts to date have not resulted in key Iraqi ministries having the capacity to effectively govern and assume increasing responsibility for operating, maintaining, and further investing in reconstruction projects.

The Iraqi ministries also face several challenges that pose a risk to their success and long-term sustainability.[22] First, our October 2007 report found that Iraqi ministries lack personnel with key skills, such as budgeting and procurement. Second, sectarian influence over ministry leadership and staff complicated efforts to build a professional and nonaligned civil service. Third, pervasive corruption in the Iraqi ministries impeded the effectiveness of U.S. efforts. Fourth, poor security limited U.S. advisors' access to their Iraqi counterparts, preventing ministry staff from at-

[20] GAO–07–145.

[21] To help Iraq develop the capability of its ministries, the United States has provided about $300 million between fiscal years 2005 to 2007.

[22] GAO, *Stabilizing and Rebuilding Iraq: U.S. Ministry Capacity Development Efforts Need an Overall Integrated Strategy to Guide Efforts and Manage Risk*, GAO–08–117 (Washington, D.C.: Oct. 1, 2007).

tending planned training sessions and contributing to the exodus of skilled professionals to other countries.

While recognizing these challenges, U.S. efforts to help build the capacity of the Iraqi ministry suffered from the lack of coordination and shifting priorities. First, no single agency was in charge of leading U.S. ministry capacity development efforts. State, DOD, and USAID have led separate efforts at Iraqi ministries, investing about $169 million in funds in 2005 and 2006 for these efforts. As of mid-2007, State and USAID were providing 169 capacity development advisors to 10 key civilian ministries; DOD was providing 215 to the Ministries of Defense and Interior. Although State took steps to improve coordination in early 2007, coordination between the agencies remains problematic. For example, although State, USAID, and DOD tried to develop a common set of metrics to measure ministry capacity in 2005, the agencies have now developed separate sets of metrics.

Second, the focus of U.S. capacity development efforts had shifted from long-term institution-building projects, such as helping the Iraqi government develop its own capacity development strategy, to an immediate effort to help Iraqi ministries overcome their inability to spend their capital budgets and deliver essential services to the Iraqi people. However, as we reported in January 2008, it is unclear if Iraq is spending its $10.1 billion capital budget since U.S. and Iraqi reports show widely disparate rates for Iraqi government spending in 2007.[23] Citing unofficial Ministry of Finance data, the administration's September 2007 Benchmark Assessment Report stated that the Iraqi ministries had spent 24 percent of their capital projects budgets, as of July 15, 2007. The report concluded that, compared with 2006, the government of Iraq was becoming more effective in spending its capital projects budget. However, the administration's report is not consistent with Iraq's official expenditure reports, which show that the central ministries had spent only 4.4 percent of their investment budget, as of August 2007. The lack of consistent and timely expenditure data limits transparency over Iraq's execution of $10.1 billion 2007 budget for capital projects and reconstruction. The most recent expenditure data show a capital expenditure rate of 7 percent for the central ministries, as of November 2007.

The U.S. government is beginning to develop a comprehensive and integrated strategy for U.S. capacity development efforts in Iraq, although agencies have been implementing separate programs since 2003. GAO's previous analyses of U.S. multiagency national strategies demonstrate that such a strategy should integrate the efforts of the involved agencies with the priorities of the Iraqi government, and include a clear purpose and scope; a delineation of U.S. roles, responsibilities, and coordination with other donors, including the United Nations; desired goals and objectives; performance measures; and a description of benefits and costs. U.S. efforts to develop Iraqi ministry capacity have included some but not all of these components. For example, agencies are working to clarify roles and responsibilities. However, U.S. efforts lack clear ties to Iraqi-identified priorities at all ministries and information on how resources will be targeted to achieve the desired end-state.

In October 2007, we recommended that State, in consultation with the Iraqi government, complete a comprehensive and integrated strategy for U.S. capacity development efforts. State recognized the value of an integrated strategy but stated that it may hinder efforts to tailor capacity development efforts to the priorities of each ministry. GAO's recommendation does not preclude tailoring capacity development efforts to meet each ministry's unique needs. A strategy ensures that a U.S.-funded program has consistent overall goals, clear leadership and roles, and risks that are assessed.

Similarly, in January 2008, we recommended that to help ensure more accurate reporting of the government of Iraq's spending of its capital projects budget, the Secretary of the Treasury work with the government of Iraq to ensure the reporting of accurate and reliable expenditure data. The Department of the Treasury agreed with our recommendation to ensure accurate and reliable reporting of Iraqi expenditure data and is working to implement it.

Lack of Adequate Strategic Planning Impedes U.S. and Iraqi Efforts to Restore Iraq's Energy Sectors

Despite the United States' investment of about $6 billion to rebuild Iraq's oil and electricity sectors, production in both sectors has consistently fallen below U.S. program goals of 3 million barrels per day and 6,000 megawatts of electrical peak generation capacity. As we reported in May 2007, it is difficult to identify the most pressing future funding needs, key rebuilding priorities, and existing vulnerabilities

[23] GAO, *Iraq Reconstruction: Better Data Needed to Assess Iraq's Budget Execution*, GAO–08–153 (Washington, D.C.: Jan. 15, 2008).

and risks within the sectors given the absence of an overarching strategic plan that comprehensively assesses the requirements of the energy sector as a whole.[24] While the Iraqi government has crafted a multiyear strategic plan for Iraq's electricity sector, no such plan exists for the oil sector. Given the highly interdependent nature of the oil and electricity sectors, such a plan would help identify the most pressing needs for the entire energy sector and help overcome the daunting challenges affecting future development prospects.

As shown in figure 3, Iraq's oil production and exports, despite recent improvements, continue to fall below U.S. goals. As of December 2007, Iraq produced about 2.5 million barrels of oil per day and exported nearly 2 million barrels per day, compared with the U.S. goals of 3 million barrels and 2.2 million barrels, respectively.[25]

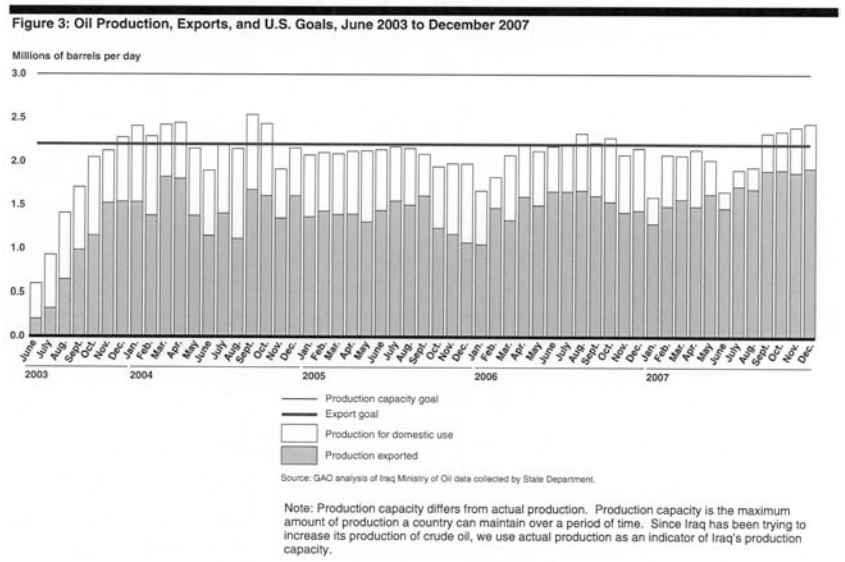

FIGURE 3.—*Oil Production, Exports, and U.S. Goals, June 2003 to December 2007*

In addition, U.S. goals for electricity remain unmet. The problem is compounded by increasing demand that outstrips supply. As of February 2008, demand for electricity was twice as high as the supply. In addition, available power in Baghdad was 9 hours per day, compared with 17 hours per day in Basra. As we previously reported in May 2007, one of the challenges in developing the electricity sector was the U.S. government's decision to install natural gas turbine engines despite the absence of a natural gas distribution network. Of the 35 engines installed, 16 were using diesel or crude oil rather than natural gas. As a result, maintenance was three times as costly and electricity generated decreased by 50 percent.

Billions of dollars are still needed to rebuild, maintain, and secure Iraq's oil and electricity infrastructure, underscoring the need for sound strategic planning. The Ministry of Electricity's 2006–2015 Electricity Master Plan estimates that $27 billion will be needed to reach its goal of providing reliable electricity across Iraq by 2015. According to DOD, investment in Iraq's oil sector is "woefully short" of the absolute minimum required to sustain current production, and additional foreign and private investment is needed. Moreover, U.S. officials and industry experts estimate that Iraq would need $20 billion to $30 billion over the next several years to reach and sustain a crude oil production capacity of 5 million barrels per day.

We recommended that the Secretary of State, in conjunction with relevant U.S. agencies and international donors, work with Iraqi ministries to develop an integrated energy strategy. State commented, however, that the Iraqi government, not the U.S. government, is responsible for taking action on GAO's recommendations.

[24] GAO, *Rebuilding Iraq: Integrated Strategic Plan Needed to Help Restore Iraq's Oil and Electricity Sectors*, GAO–07–677 (Washington, D.C.: May 15, 2007).

[25] According to State, revenues generated from Iraqi oil exports increased from $31 billion in 2006 to $41 billion in 2007 (Iraq Weekly Status Report, Feb. 6, 2008).

We believe that the recommendations are still valid given the billions of dollars made available for Iraq's energy sector, the limited capacity of the Iraqi ministries, and the U.S. government's influence in overseeing Iraq's rebuilding efforts.

CONCLUSION

U.S. efforts in Iraq are expansive: combating insurgents, training local security forces, shaping government institutions, reconstructing infrastructure, and enhancing public services. These efforts demonstrate a substantial commitment to most aspects of nation building. However, nation building is costly, particularly in the absence of a permissive security environment. Since 2001, Congress has appropriated about $700 billion for military and diplomatic activities in support of the global war on terrorism; the majority of this amount has supported U.S. actions in Iraq. This large expenditure of resources and the enormous task at hand heightens the levels of risk and offers the potential for fraud, waste, abuse, and corruption.

But, as GAO's audits point out, these risks are further heightened when U.S. programs lack sound strategic planning, well-defined requirements, adequate oversight and accountability, and sufficient training for personnel. Future investments in Iraq will require decision makers not only to assess the outcomes achieved thus far but also the outcomes that could have been achieved with more efficient and effective use of appropriated dollars. It will also require decision makers to consider difficult trade-offs as the nation faces increasing fiscal challenges on the home front. Nonetheless, continuing oversight by Congress and the accountability organizations is needed to ensure that opportunities for waste, fraud, abuse, and corruption are minimized.

In prior reports, GAO recommended that, to improve accountability and minimize opportunities for fraud, waste, and abuse of U.S. funds, (1) DOD adopt sound business processes in its acquisition strategies, such as definitizing contracts in a timely fashion and strengthening accountability procedures; (2) DOD leadership ensure implementation of and compliance with existing guidance to improve its management and oversight of contractors supporting deployed forces; and (3) U.S. agencies work with Iraq to develop strategic plans for key sectors.

DOD and State have taken action to implement some, but not all, of our recommendations. Given the billions of dollars that the United States has spent in Iraq to help rebuild its infrastructure, improve security, support our forces, and improve the capacity of the ministries, I believe our recommendations, if fully implemented, would improve accountability and outcomes. Whether they are fully implemented, however, will depend on the leadership at each agency to set the appropriate tone, ensure that existing guidance is effectively implemented, take actions to prevent mistakes from being repeated, and seize opportunities to ensure that the efforts to help rebuild and stabilize Iraq achieve their intended results.

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

Senator LEAHY. General Kicklighter.

STATEMENT OF HON. CLAUDE M. KICKLIGHTER, INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

General KICKLIGHTER. Senator Leahy, Senator Cochran, distinguished members of the Senate Appropriations Committee, thank you very much for the opportunity to appear before you this morning, and address corruption, fraud, waste, and abuse in Iraq. This testimony will cover the accomplishments of the Department of Defense Office of the Inspector General and other organizations in DOD, that have the mission to combat illegal and improper expenditures and improve accountability of DOD resources that support operations in Iraq.

To date, $492 billion has been appropriated to Defense for Operation Iraqi Freedom. The U.S. military presence in Iraq is aimed at providing a secure environment which will enable the Iraqi people to establish a stable and strong Government that upholds the rule of law, good governance, and helps keep this Nation on a path to freedom. Corruption greatly undermines the effort of both the

United States and Iraq, in establishing effective institutions of Government.

As this committee knows, better than most, the DOD Inspector General has the primary responsibility within Defense, for providing oversight of Defense programs and funds appropriated to the Department, at home and around the world, and especially in southwest Asia.

To accomplish our oversight mission, we have adopted a strategy that is based on maintaining an adequate presence in theater, but recognizing that much of the work can be done—and in some cases, should be done—outside of Iraq.

A very important part of our effort is ensuring inter-service and inter-agency coordination and collaboration, as Mr. Walker just talked about. We chair a quarterly Southwest Asia Joint Planning Group, which includes all the agencies that work together on this mission, and the DOD military organizations, to ensure coordination and collaboration and integration of our effort.

In December 2005, our office received a hotline complaint that alleged that a single U.S. Army officer was receiving illegal gratuities from a DOD contractor. This evolved into an extensive and ongoing criminal investigation, involving millions of dollars in bribes, and a large number of U.S. military officers, non-commissioned officers, DOD civilians, and contractor personnel.

In December 2006 and January 2007, we began to receive allegations from the Turkish National Police, and the Turkish Minister of Defense that weapons and explosives that were shipped to the Iraqi Security Forces were crossing their border, and finding their way into the hands of insurgents, terrorists, and criminals in Turkey.

Around the same time, we were also beginning to find some of the weapons that the United States had supplied to the Iraqi Security Forces in the hands and control of insurgent groups, and U.S. security contractors in Iraq.

With this information, we briefed the senior leadership in Defense, and those briefings resulted in the Secretary and the Chairman requesting that we send an assessment team to Iraq to review accountability, and also making sure that we kept the Secretary and the Chairman informed of our findings, but also making sure that we kept Congress fully informed, promptly, on this situation.

We briefed the chairmen and the ranking members of our oversight committees. In this committee, we briefed Senator Inouye and Senator Stevens. The general request from Congress was that we get a team on the ground rapidly, and check to make sure that the barn door had no cracks in it, and if it did, make sure that it was nailed up promptly.

We assembled an inter-agency, multidiscipline munitions assessment team, composed of subject matter experts, and deployed to Iraq and southwest Asia, in general.

Our preliminary findings were that DOD and the Iraqi Security Forces currently had a system in place for controlling and accounting for weapons and ammunition being supplied to the military and police units. However, there still remained work to be done.

Weapons were lost, early on, in large part due to battle losses on the battlefield, police stations being overrun, desertions, disintegra-

tion of untrained units—sometimes when they were committed to combat—some police and military personnel, and largely police, were selling their weapons, and poor recordkeeping. We also have an intensive investigation ongoing, looking into pilferage out of storage facilities.

The assessment team will return to Iraq in April to review progress and assess the current status of munitions accountability. They will also be looking at foreign military sales operations, progress in helping the Iraqis build their own logistics sustainment base, so that they can take over and conduct more independent operations, and take over more battle space.

As a result of our closed and ongoing investigations in southwest Asia, 18 Federal criminal indictments have been handed down, 26 Federal criminal informations have been issued, three hearings were conducted under Article 32, Uniformed Code of Military Justice, and in total, 25 people have been convicted of felony crimes, resulting in a total of 34 years of confinement, 35 years of probation, nine individuals and three companies were de-barred from contracting with the U.S. Government, 12 companies and 13 persons have been suspended from contracting with the United States Government. Two contractors have signed settlement agreements with the U.S. Government—a total of $11.1 million has been paid to the United States in restitution, recoveries—$365,000 was levied in fines and penalties, $1.76 million was forfeited back to the Government and $2.2 million was seized from the bank accounts of some of the companies involved.

In addition, we currently have 102 Iraqi-related investigations still ongoing. In November 2007, we realigned the internal core mission assets to support southwest Asia audit operations, by establishing an expeditionary audit division, comprised of highly skilled, 30 audit personnel. Currently, we have 196 audit personnel, conducting audits related to Iraq and southwest Asia operations.

In April 2008, approximately 25 auditors will be redeployed in support of OIF and Operation Enduring Freedom (OEF), with an additional 30 in reserve, to be called forward, if needed.

We have 24 ongoing Iraqi-related audit projects, and as a result of the findings and recommendations, we in the Department have identified more than $840 million in funds that could be put to better use.

We are dedicating more resources to this mission in Iraq on control and accountability, acquisition, contracting, corruption, waste, fraud, abuse, and expanding our footprint in all of southwest Asia, in some part, due to the support of this committee.

We will continue to evaluate the lessons learned, and do our best to minimize the mistakes of the past. We will keep Congress and our leadership fully and promptly informed as we make—as we conduct these audits and investigations, and we will assist to build a stronger inner-agency and DOD oversight team, as we go forward.

Sir, thank you for the opportunity of being here today, and I stand ready to try to answer your questions.

[The statement follows:]

PREPARED STATEMENT OF CLAUDE M. KICKLIGHTER

Mr. Chairman, Senator Cochran, and distinguished members of this committee, thank you for the opportunity to appear before you this morning and address corruption, fraud, waste, and abuse in Iraq. This testimony will cover the accomplishments of the Department of Defense Office of the Inspector General (DOD IG) and the other DOD organizations that have the mission to combat illegal and improper expenditures and to improve accountability of DOD resources that support operations in Iraq. To date, $655 billion has been appropriated to the Department of Defense in support of the men and women of our Armed Forces in Southwest Asia and the fight against terrorism, of which $492 billion has been appropriated to support Operation Iraqi Freedom [1]. The U.S. military presence in Iraq is aimed at providing a secure environment which will enable the Iraqi people to establish a stable government that upholds the rule of law and good governance. Corruption undermines the efforts of both the Iraqi people to establish effective institutions of government and undermines the United States ability to support this effort.

As this committee knows, the DOD IG has the primary responsibility within the Department of Defense for providing oversight of the defense programs and the funds appropriated to the Department at home and around the world, to include Southwest Asia. In this role, the DOD IG office oversees, integrates, and attempts to ensure there are no gaps in the stewardship of DOD resources. We spearhead the DOD oversight community in auditing, investigating, and inspecting accountability processes and internal controls, in areas such as contracting, logistics, and financial management. Collectively, the community has dedicated over 470 auditors and over 190 investigators that have reviewed a wide range of issues pertaining to Southwest Asia. We also work in close partnership with other oversight organizations, such as the Government Accountability Office (GAO), the Special Inspector General for Iraq Reconstruction (SIGIR), the Department of State, and the U.S. Agency for International Development. In addition, we provided the core staff for the Coalition Provisional Authority IG, and later assisted the stand-up of the SIGIR. Since 2003 the OIG has provided 141 full or part-time personnel in support of both organizations.

Adequate management controls and oversight to verify that proper safeguards are in place and working as intended are essential in the fight against corruption, fraud, waste, and abuse. Conditions where internal controls are severely lacking or proper oversight is minimal create opportunities for corruption, fraud, waste, and abuse. Additionally, individuals must be held accountable for violating laws and regulations and mismanagement of DOD resources.

OIG STRATEGY

To accomplish our oversight mission, we have adopted a strategy that is based on maintaining the right size presence in-theater but which also recognizes that much of our work can be done out of Iraq. An important part of our oversight effort is to improve inter-service and interagency coordination and collaboration to minimize duplication of effort and ensure that we have only the staff needed in-theater to accomplish the mission.

IN THEATER PRESENCE

We have adopted an expeditionary workforce model to support efforts throughout all of Southwest Asia. We have core staff forward deployed at all times. The core contingent is comprised of individuals serving between 6 and 12 month deployments. Expeditionary team members will deploy for as long as needed to complete the task, but no longer. The actual number of auditors, investigators, and inspectors in Southwest Asia and Iraq fluctuates on a daily basis depending on requirements.

We are increasing our presence in Southwest Asia and currently have 279 personnel dedicated to Southwest Asia operations and are deployable as mission requirements dictate. Currently we have 22 people deployed to Southwest Asia. Utilizing both domestic and in theater assets we have 28 ongoing Iraq related audits and inspections and 102 ongoing Iraq related investigations.

COORDINATION

We have jointly established and chair an interagency Southwest Asia Joint Planning Group (JPG) that meets quarterly and provides oversight of fraud, waste,

[1] Congressional Research Service report, "The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11," dated February 8, 2008. The numbers listed are DOD funds.

abuse, and criminal activities in the Southwest Asia region. The JPG provides unity of effort of the organizations engaged in this effort, including the Military Inspectors General and Auditors General, the Government Accountability Office, the Department of State and the U.S. Agency for International Development Inspectors General, the SIGIR, and the Combatant Commands Inspectors General. The mission of the JPG is to better coordinate and integrate oversight activities in the region. The Southwest Asia JPG leads the coordination and oversight required to identify and recommend improved mission support to military units conducting operations.

DETAILS ON MUNITIONS ACCOUNTABILITY

One example of the expeditionary model is the ongoing work regarding munitions control and accountability. In December 2005, our office received a Hotline complaint and other allegations that a senior U.S. Army officer received illegal gratuities from a DOD Contractor. This evolved into extensive and ongoing DOD criminal investigations, involving millions of dollars in bribes and a large number of U.S. military officers, non-commissioned officers, and civilian personnel.

In December 2006, and January 2007, we began to receive allegations from the Turkish National Police and the Turkish Ministry of Defense that weapons and explosives that were shipped to the Iraqi Security Forces (ISF) were crossing the border and finding their way into the hands of insurgents, terrorists, and criminals in Turkey. In response, we sent two special agents to Turkey in January 2007, to follow-up on the allegations. Around this time, we were also beginning to find some weapons that the United States had supplied to the ISF, in the hands and control of insurgent groups and U.S. security contractors in Iraq.

Additional concerns regarding the accountability and control of U.S. provided weapons and ammunition to ISF were also identified by SIGIR and GAO. In October of 2006, SIGIR identified materiel management control weaknesses regarding the accountability of weapons and the registration of weapons' serial numbers. In July 2007, GAO reported that DOD and Multi National Forces—Iraq could not fully account for weapons reported as previously issued to the Iraqi forces.

With this information, we briefed the Secretary of Defense; the Chairman, Joint Chiefs of Staff; and the senior Defense team. Those briefings resulted in the Secretary and Chairman requesting that we send an assessment team into Iraq to review accountability and control of munitions being supplied by the United States to ISF. In addition, the Secretary of the Army was asked to do an assessment of contracting in Southwest Asia. The Secretary of Defense and the Chairman requested they be kept fully informed and also that we keep Congress fully informed. We briefed the Chairmen and Ranking Members of our primary oversight committees to include the Chairman and Ranking Member of the Senate Appropriations Subcommittee on Defense (Senators Inouye and Stevens). The general request from Congress was to get on-the-ground post-haste, see if the barn door had a crack, and if so, nail it shut.

As a result, we assembled an interagency, multi-disciplinary Assessment Team on Munitions Accountability composed of twenty-two subject matter experts from the Office of Inspector General, U.S. Central Command, Army Audit Agency, Army Criminal Investigation Command (Army CID), Army Corps of Engineers, Air National Guard (who happened to be an Assistant U.S. Attorney General from Justice), Department of State, and the Department of Justice Bureau of Alcohol, Tobacco, Firearms and Explosives.

The assessment team's objectives were to:

—Determine whether DOD currently has adequate accountability and control over U.S.-purchased munitions before formal turnover to the ISF. Specifically, this included munitions from the time of arrival at selected Iraq ports of entry until formal turnover to ISF; and to

—Determine whether the ISF currently have adequate accountability and controls over U.S.-purchased munitions under their control. Specifically, this included munitions from the time of formal transfer to ISF through their subsequent issuance to selected Iraq military and police units.

Prior to our arrival in Iraq, we examined two additional related areas that are very important to the ability of the United States and ISF to account for and control munitions. One is establishing an effective Foreign Military Sales (FMS) program to support ISF, and the other is assisting the ISF to build their logistics sustainment base, for both military and police. The team did a lot of work in CONUS before they departed.

To better understand the overall CENTCOM theater logistics operations, we spent several days in Kuwait evaluating accountability, control and onwards shipment of ammunition. We also looked at contract operations. The team also spent a week in

Afghanistan looking at munitions accountability and control, contracting, and the Afghanistan National Security Forces logistics base.

The assessment team then spent five weeks in Iraq examining the current U.S. and ISF supply chain operations, including transportation, delivery, storage and distribution. The assessment began at the port of entry, through all the supply nodes until the issuance of weapons and ammunition to Iraqi military and police units at the end of their pipe line.

While in Iraq, the assessment team conferred with the U.S. Ambassador and staff, and the respective Commanders and staff of the Multi-National Force—Iraq (General Petraeus), the Multi-National Corps—Iraq (Lieutenant General Odierno), and the Multi-National Security Transition Command—Iraq (MNSTC–I) (Lieutenant General Dubik). The team also met with the U.S. Joint Contracting Command—Iraq/Afghanistan, U.S. Army Corps of Engineers, Gulf Region Division (to include the Logistics Movement Coordination Center and U.S. Warehouse at Abu Ghraib), MNSTC–I's Security Assistance Office (which manages FMS in Iraq), and many other officials with the Coalition Forces and U.S. Embassy Baghdad.

In addition, the team conferred with numerous Government of Iraq officials from the Ministry of Defense, the Ministry of Interior, the Inspectors General of the ministries, and various Iraqi Army units and police forces.

Our preliminary finding is that DOD and ISF have a system currently in place for controlling and accounting for weapons and ammunition being supplied to the ISF; however, there still remains work to be done. Many weapons were lost early on due in large part to battle loss, police stations being overrun, desertion, disintegration of untrained units, some police and military personnel selling their weapons, and poor record keeping. We also have an ongoing investigation into pilferage of storage facilities.

The U.S. supply of munitions to Iraq is shifting to FMS. The United States needs to put FMS on a war-time footing while also continuing to assist the ISF in building their logistics sustainment base. Both of these actions are underway and will greatly enhance the control and accountability of munitions. As reported by CENTCOM, a great deal of progress has already been made. Continued improvements in these two critical areas will also greatly enhance the ISF's ability to conduct independent operations and in taking over more battle space.

Since the Assessment Team's return in late October 2007, we have briefed the Secretary of Defense; the Deputy Secretary of Defense; the Chairman, Joint Chiefs of Staff; and other senior leaders. Further, we briefed our primary oversight committees. We are drafting the report and upon completion will provide it to CENTCOM and other DOD organizations for review and official comment. The report is expected to be released in April 2008. This will complete Phase I.

The Assessment Team is planning a follow-up trip (Phase II) to Iraq in April 2008, to review the status of actions taken on the report's recommendations and to assess the current status of munitions accountability and control, the FMS program, the development of their logistics sustainment base for the ISF, and contract operations in general. We will also spend time working with the Iraq Ministries of Defense and Interior Inspectors General.

DETAILS ON INVESTIGATIONS

The Defense Criminal Investigative Service (DCIS), the criminal investigative arm of the DOD Inspector General, has been engaged in investigating waste, fraud, abuse, and corruption pertaining to the Iraqi theater since the start of the war. Pursuant to the Inspector General Act of 1978, DCIS has broad criminal investigative jurisdiction regarding DOD programs and operations. However, effectively countering fraud in Southwest Asia requires the cooperative efforts of other DOD investigative agencies and Federal law enforcement partners as well as the audit community. Investigative jurisdiction for fraud offenses involving DOD, to include offenses pertaining to Southwest Asia, are established in DOD Instruction 5505.2, "Criminal Investigations of Fraud Offenses." The instruction establishes policies, responsibilities, and procedures for determining which of the DOD Criminal Investigative Organizations (DCIOs)—Defense Criminal Investigative Command (DCIS), the U.S. Army Criminal Investigation Command (Army CID), the Naval Criminal Investigative Service (NCIS), and the Air Force Office of Special Investigations (AFOSI)—are conducting investigations of fraud offenses under the United States Code and/or Uniform Code of Military Justice. DCIS has primary jurisdiction over matters involving most contract and procurement actions awarded by Defense Agencies, OSD components, and field activities. Additionally, DCIS has jurisdiction over, "any allegations [involving DOD] that the IG DOD considers appropriate for investigation by DCIS." This broad authority affords DCIS the ability to easily partner with other

agencies in an effort to protect the integrity of the entire DOD procurement and acquisition process—from countering fraud impacting initial research and development, to investigating fraud during contract execution, to ensuring appropriate disposal of products no longer needed by DOD components. The Service-specific Military Criminal Investigative Organizations (Army CID, NCIS, and AFOSI) typically focus upon allegations involving contract and procurements that their respective military department awards. Significant non-DOD partners in Iraq include the SIGIR, which investigates fraud involving Iraq reconstruction programs; and the FBI, which has overarching authority to investigate violations of various Federal statutes relating to fraud and corruption. Other organizations, such as the U.S. Department of State, Office of the Inspector General; and the U.S. Agency for International Development, Office of the Inspector General, partner with DCIS and other agencies when alleged fraudulent activity impacts their respective departments.

From May 2003 through October 2004, DCIS deployed teams of two to three agents to Baghdad. From October 2004 to present, the DCIS European Post of Duty and multiple CONUS DCIS offices have conducted a wide variety of investigations related to Iraq. In September 2006, DCIS established a permanent presence in Iraq by deploying four special agents to the theater—two special agents are currently assigned to Iraq and two special agents are assigned to Kuwait. An additional special agent has been temporarily deployed to Iraq to support a special cell investigating issues relating to weapons accountability. Two additional special agents will soon deploy to Afghanistan. These in-theater agents are the forward-deployed elements of the approximately 64 DCIS special agents in CONUS and OCONUS participating in Southwest Asia investigations.

DCIS protects America's warfighters by vigorously investigating alleged and suspected procurement fraud, corruption, and other breaches of public trust that impact critical DOD programs. Our investigations focus on matters such as bribery, theft, procurement fraud, illegal receipt of gratuities, bid-rigging, defective and substituted products, and conflicts of interest. DCIS' presence in the region has identified corrupt business practices, loss of U.S. funds through contract fraud, and theft of critical military equipment destined for the ISF.

DCIS plays a significant and pivotal role in both the National Procurement Fraud Task Force (NPFTF) and the International Contract Corruption Task Force (ICCTF). Under the auspices of the Department of Justice, the NPFTF was created on October 10, 2006, to promote the prevention, early detection, and prosecution of procurement fraud nationwide and abroad. This multi-disciplinary and multi-agency (e.g., Federal Inspectors General, U.S. Attorneys, Federal law enforcement agencies such as the FBI) coalition has been extremely effective in fostering and better coordinating procurement fraud investigations. The ICCTF, an offshoot of the NPFTF, was formed in November 2006, to specifically target fraud and corruption involving Southwest Asia. The primary goal of the ICCTF is to combine the resources of multiple investigative agencies to effectively and efficiently investigate and prosecute cases of contract fraud and public corruption related to U.S. government spending in Iraq, Kuwait, and Afghanistan. The participating agencies in the ICCTF are DCIS; the U.S. Army Criminal Investigation Command's Major Procurement Fraud Unit; the Office of the Inspector General, U.S. Department of State; the Office of the Inspector General, U.S. Agency for International Development; the Federal Bureau of Investigation (FBI); and the SIGIR. The ICCTF created a Joint Operations Center (JOC) in furtherance of achieving maximum interagency cooperation. The JOC, which is located in Washington, D.C., serves as the nerve center for the collection and sharing of intelligence regarding corruption and fraud relating to funding for the Global War on Terror (GWOT). The JOC coordinates intelligence-gathering, de-conflicts case work and deployments, disseminates intelligence, and provides analytic and logistical support[2] for the ICCTF agencies to enhance criminal prosecutions and crime-prevention. The JOC is the vital link into the entire intelligence community and provides a repository from which to disseminate intelligence indicative of criminal activity. Case information and criminal intelligence are shared, and accomplishments are reported jointly. The agency heads meet regularly to collectively provide policy, direction, and oversight.

In addition to investigating allegations of fraud, waste, and abuse, DCIS launched a proactive project which will analyze over $10 billion in payment vouchers related to U.S. Army purchases in Iraq. The vouchers are currently stored at the Defense Finance & Accounting Service (DFAS), Rome, NY. The project is being coordinated with DFAS, the DOD IG's Audit component, the Defense Contract Audit Agency, the U.S. Army Audit Agency, and the FBI. The project will attempt to identify fraudu-

[2] Logistics support can include, but is not limited to, laboratory services, polygraphs, and specialized equipment (e.g., GPS phones).

lent activity related to the war effort in Iraq and Afghanistan through utilization of data mining techniques. While the initiative is in its infancy, several questionable transactions have been identified and referred for further investigation. In addition to these analytical efforts to develop cases, the investigative team assigned to the project is also supporting ongoing investigations involving fraud and corruption in Iraq.

To pursue investigative leads concerning weapons accountability in Iraq, DCIS is participating in a multi-agency Weapons Investigative Cell. Other participants include Army CID and the Bureau of Alcohol, Tobacco, Firearms and Explosives. The Weapons Investigative Cell is working with the International Zone Police Department and Government of Iraq officials to conduct weapons and munitions accountability investigations. In addition, the Weapons Investigative Cell is coordinating its activities with other affected U.S. and foreign agencies, and is attempting to determine if there is any evidence of weapons leaving Iraqi warehouses and being diverted or sold to unauthorized sources.

As previously mentioned, investigations conducted in Southwest Asia are cooperative efforts. A total of sixty-four DCIS special agents (CONUS and OCONUS) are working the majority (97 percent) of these investigations in conjunction with one or more law enforcement partner agencies. DCIS' primary partner in countering DOD-related fraud in Southwest Asia is the Major Procurement Fraud Unit (MPFU), a component of Army CID. The MPFU conducts investigations into allegations of fraud associated with the Army's major acquisition programs. The MPFU is responsible for conducting Army-related investigations of allegations of fraud, defective pricing, corruption, kickbacks, antitrust violations and miscellaneous other incidents involving procurement fraud. Since June 2005, the MPFU has deployed 46 agents on rotational assignments to work in the region. The MPFU presently has 13 agents in offices in Iraq, Kuwait, and Afghanistan, and has initiated 146 investigations, of which 92 investigations are ongoing.

To date, DCIS has completed 25 investigations that are related to Southwest Asia. In addition, DCIS currently has 102 open investigations relating to the Iraqi theater. The majority of these investigations are being jointly investigated with one or more law enforcement partners. Of these 102 investigations, 16 are being conducted by agents deployed throughout Southwest Asia; the other 86 investigations are being conducted by special agents in the United States and Germany. DCIS attempts to transfer investigations developed in Southwest Asia to an appropriate CONUS venue as soon as practical so as to ensure we maximize the best use of our in-theater investigative resources and to begin and facilitate prosecution efforts.

DETAILS ON AUDITS

Our OIG expeditionary model combined with our regional strategy in approaching our work in Iraq raises issues that often require solutions at the systemic level, as already illustrated by the munitions assessment team findings and recommendations. Further, we continue to evolve our comprehensive plan for audits of contracts, subcontracts, and task and delivery orders in support of coalition forces in Iraq and Afghanistan. Given that Army Audit Agency is focusing on the Commander's Emergency Response Program (CERP) and contracts for basic life support activities and that SIGIR focus is on reconstruction contracts, we have begun and will to continue to conduct a series of audits and report on financial and contracting systems in Iraq that support Coalition Forces and Iraq operations including contracts for maintenance service, transportation, and fuel.

Additionally, we continue to focus on the training and equipping of the Iraqi military and police mission, acquisitions of key operational support assets such as body armor, fielding of mine resistant ambush protected vehicle, medical equipment, use of GWOT supplemental funds, controls over cash, monitoring of sensitive equipment, and out of country payments to name a few.

In November 2007, we realigned internal core mission assets to support SWA audit operations by establishing an expeditionary audit division comprised of about 30 people. This audit division is complemented by other work conducted by U.S. based teams. In total, we have 196 personnel conducting audits related to Iraq and Southwest Asia operations. In April 2008, approximately 25 people will be deployed in support of OIF/OEF with an additional 30 in reserve. We will also have about 16 additional personnel deployed in support of the Munitions Assessment Team, FMS processes, and the progress being made to establish an effective Government of Iraq logistics process to support the ISF.

We have 24 on-going Iraq-related audit projects reviewing mission-critical support functions that directly impact the warfighter, such as: contract surveillance, contract payments, resetting of returning U.S. forces equipment, and acquisition of armored

vehicles. Our audits also include oversight of cash and other monetary assets within Iraq as well as the execution of supplemental funds to train and equip the Iraq Security Forces. A complete list of completed reports, on-going projects, and planned projects is attached to this statement.

We plan to issue a final audit report on controls over payments in support of Iraqi operations, which amounted to $10.7 billion for February 2003, to June 2006, and have already referred 28 vouchers totaling $35.1 million to DCIS for potential investigation.

The following will be some key completed, ongoing, and planned audits.

COMPLETED AUDIT WORK

In our report D–2007–107, "Procurement Policy for Armored Vehicles," issued June 27, 2007, we addressed inquiries made by Congresswoman Louise M. Slaughter. We identified the following:

—The Marine Corps Systems Command awarded sole-source contracts for body armor and armored vehicles even though officials knew other sources were available for competition.

—Acquisition officials continued to award contracts for armored vehicles even though the contractor repeatedly failed to meet contractual delivery schedules for getting vehicles to the theater, and

—The government did not execute the liquidated damages clause of the contract to collect appropriate fees from the contractor.

In November 2006, we reported on the Army's small arms program including the availability, maintainability, and reliability of the small arms support for the warfighter. We found that the Army equipped its deployed forces in support of Operation Iraqi Freedom with the small arms necessary to meet Combatant Commanders requirements. However, to accomplish these requirements the deploying unit obtained some of the small arms from other sources, such as nondeployed units. As a result, the nondeployed units faced a potential shortage of small arms and may not have had the ability to adequately train and maintain equipment and personnel readiness at an acceptable level. We also determined that implementing and monitoring the Army Force Generation Program, as well as, developing an overarching Army training strategy will ensure that the unit's readiness is not degraded. We agreed with the Army that outlining requirements and developing a plan for small arms distribution will avert future small arms shortages.

We also found that the Army generally had adequate controls for maintainability and reliability of small arms fielded to the warfighter. As a result of the Army's proactive approach to maintenance and reliability, the warfighter is provided with reliable small arms capabilities to sustain operations in varying environments but we also agreed with the Army that following up on findings and recommendations made by the Soldier Weapons Assessment Team will address small arms maintainability risks identified. We determined that ongoing initiatives and management actions were responsive to our initial concerns and we agreed with the actions the Army took.

Another key report classified report, "Equipment Status of Deployed Forces within the U.S. Central Command," issued January 25, 2007. We reported that service members experienced shortages of force-protection equipment, such as up-armored vehicles, electronic countermeasure devices, crew-served weapons, and communications equipment. As a result, Service members were not always equipped to effectively complete their missions. Also, the Request for Forces process did not always ensure that Service members performing nontraditional missions, such as Provincial Reconstruction Teams (PRTs) and detainee operations (i.e. In Lieu Of units[3]), received the equipment necessary to perform their wartime mission. As a result, Service members performed missions without the proper equipment or postponed missions while waiting to receive equipment. As a result of this review, the Under Secretary of Defense for Personnel and Readiness issued interim policy on training and equipping In Lieu Of units. A follow-on audit on equipping units in Iraq in accordance with mission requirements is currently being conducted in conjunction with the Multi-National Forces-Iraq Inspector General.

Last week on March 6, we issued a report on a review of the use of supplemental funds for medical support of GWOT. We performed this review in response to Office of the Assistant Secretary of Defense (Health Affairs) concerns over the reporting and use of GWOT supplemental funding by the Military Health System (MHS). The Military Department Surgeons General did not consistently report obligations of

[3] Service members who perform wartime missions that are not traditionally organized, trained, and equipped to perform are called "In Lieu Of" (ILO) forces.

GWOT supplemental funds by mission as required by the TRICARE Management Activity. Without accurate and consistent reporting of GWOT supplemental fund obligations, DOD has no assurance that the Military Health System used funds for the missions for which they were requested. Additionally, DOD cannot ensure that the amounts reported in the fiscal year 2006 Defense Health Program Cost of War report are accurate and complete.

ONGOING AUDIT WORK

One of highest priority ongoing reviews is an assessment of the procurement, distribution, and use of body armor in DOD. This audit is being performed at the request of Congresswoman Louise M. Slaughter. The objective of the audit was to evaluate the procurement history and practices for body armor and the effect that the Army's decision to ban the use of personally purchased body armor has on the safety of Service members. The audit team is reviewing 35 contracts and 5 Federal Supply Schedule orders, valued at more than $5.2 billion, awarded by the Army and Marine Corps between January 2004 and December 2006 for body armor components. The team will determine whether the contracts and orders for body armor components, such as the outer tactical vest, enhanced side ballistic inserts, small arms protective inserts, and deltoid and auxiliary protectors, were awarded in accordance with the Federal Acquisition Regulation.

Another review relates to the protection of the Forces. We are assessing procurement and delivery of joint service armor protected vehicles. The objective is to determine whether the Mine Resistant Ambush Protected (MRAP) vehicle program office is effectively procuring armored vehicles in accordance with the Federal Acquisition Regulation and DOD requirements. Specifically, we will review MRAP program administration to determine whether the program office is taking appropriate actions to accelerate vehicle delivery to users. An additional objective is to review the Services' requirements for MRAP and High Mobility Multipurpose Wheeled Vehicles.

We have two on-going audits related to Common Access Cards (CAC) issued to contractors. The first will determine whether controls over Common Access Cards (CACs) provided to contractors are in place and work as intended: specifically, whether DOD officials issue CACs to contractors, verify the continued need for contractors to possess CACs, and whether cards are being revoked or recovered from contractors in accordance with DOD policies and procedures. The importance of this series of reviews is to also ensure we are not providing contractors access to benefits that are not called for in specific contracts such as over compensating by providing a contractor daily expenses for basic life support items and by issuing an improper CAC providing these same life support items free. The team visited 67 sites, identified with the greatest number of contractor CACs, to test processes for the contractor CAC lifecycle. The audit team also obtained contractor CAC data from the Defense Manpower Data Center and tested a sample of the data to evaluate the reliability of controls over the issuance, periodic verification of continued need, revocation, and recovery of contractor CACs. The team anticipates issuing a draft report in April 2008. The second project will address specifically the controls over the contractor CACs in Southwest Asia was announced on January 24, 2008.

We also are looking at the management and controls over selected funds to ensure proper use of and/or the support of payments in the following reviews:

—*Internal Controls Over Out-Of-Country Payments*.—The objective is to determine whether internal controls over out-of-country payments supporting GWOT provide reasonable assurance that payments are properly supported and recorded. DFAS Rome is the field accounting office for contingency disbursing in Iraq, Afghanistan, Kuwait, Saudi Arabia, and Egypt.

—*Funds appropriated for Afghanistan and Iraq processed through the Foreign Military Sales Trust Fund*.—The overall objective is to determine whether the funds appropriated for the security, reconstruction, and assistance of Afghanistan and Iraq and processed through the Foreign Military Sales Trust Fund are being properly managed. Specifically, we will determine whether the transfer of appropriated funds from the Army's accounts into the Foreign Military Sales Trust Fund was properly authorized, accounted for, and used for the intended purpose. In addition, we will verify whether the appropriated funds are properly reported in DOD financial reports.

—*Operations and Maintenance Funds Used for GWOT Military Construction Contracts*.—The objective is to determine whether DOD components followed requirements for using operations and maintenance funds for GWOT military construction. Specifically, we will determine whether DOD followed proper procedures for administering, executing, and reporting the use of operations and maintenance funds on GWOT military construction contracts.

—*Small arms ammunition fund management in support of GWOT*.—Specifically, we will determine whether financial management officials fully supported and properly incurred obligations and expenditures. We will also determine whether funds for small arms ammunition were accurately recorded in financial systems for reporting to the Office of the Secretary of Defense.

—*Internal controls over the Army, General Fund, Cash and other monetary assets held in Southwest Asia*.—To accomplish this review, we will verify the existence of cash reported by disbursing officers to the U.S. Treasury; inspect physical controls over cash; confirm collection and payment documents to insure adequate internal controls over disbursing officer accountability documents; and determine the source and use of cash. We anticipate conducting site visits from April to June of 2008 in Iraq, Afghanistan, Kuwait, Saudi Arabia, and Egypt.

PLANNED AUDIT WORK

We have attached a list of our current planned audits for SWA including Iraq and Iraq-related. We have also modified our planning process to include the specifics required by the National Defense Authorization Act for Fiscal Year 2008, January 28, 2008. Section 842 of the Act, "Investigation of waste, fraud, and abuse in wartime contracts and contracting processes in Iraq and Afghanistan," requires the Inspector General of the Department of Defense to develop a comprehensive plan for a series of audits of contracts, subcontracts, and task and delivery orders for the support of coalition forces. The group developing this plan consists of the most experienced and senior executives in our audit organization.

To develop the plan the group is: reviewing completed and ongoing audits and inspections; analyzing contract actions; researching the appropriations and expenditures; examining the contracting processes and systems; obtaining information from Iraq and Afghanistan; evaluating the related accounting and financial systems; and studying contracting problems that occurred in prior wars.

The group is identifying areas or gaps in need of audit coverage. Examples of areas that may require audit work are: maintenance service contracts; security service contracts; air transportation contracts; DOD financial systems used in Iraq and Afghanistan; and staffing and training of contract oversight personnel.

We want audits in the plan that will identify abuses and defects in contracts, systems and processes that can be promptly remedied. The plan will help us expand and refocus our audit efforts to support the war fighters. The plan will be coordinated through existing councils with the cognizant Inspectors General and Audit Chiefs.

DETAILS ON ANTICORRUPTION ACTIVITIES

We continue to play a key role in developing and promoting the establishment of effective oversight and security organizations in Afghanistan and Iraq. As we stated earlier, until recently, we provided two full-time IG advisors to the Multi-National Security Transition Command—Iraq (MNSTC–I) Transition Teams in Baghdad to assist the Offices of the Inspectors General for the Ministry of Defense, Joint Headquarters (JHQ), and the Ministry of Interior. Prior to reassigning these advisors back to Washington D.C., we facilitated the establishment of a new MNSTC–I billet for an "IG Integration Officer." The billet was approved and filled in July 2007 and is making a difference. The IG DOD will continue to provide assistance and advice as required.

While in Iraq, with the munitions assessment team, we visited with the Inspector General for the Ministry of Defense and staff and the Deputy Inspector General, Ministry of Interior and were impressed with their progress. We also met with all Inspectors General from all ministries at a central meeting.

In July 2007, we initiated a project to document the lessons learned during our 3-year experience in assisting in establishing and developing a viable, sustainable, effective IG system in Iraq. This project will capture the concepts, strategies, options, and practical applications establishing a Federal IG system may be appropriate in nation building missions and as an instrument to combat fraud, waste, abuse, and corruption in developing nations. The expected completion date for the lessons learned report is April 2008.

The OIG works with DOD agencies to prevent corruption, fraud, waste, and abuse by keeping all informed, to include Defense agencies and military commanders, of vulnerabilities detected within their systems; providing mission briefings which address the impact of fraud, waste, and abuse on DOD programs and operations; and by documenting deficiencies in DOD internal management controls when discovered during the course of an investigation.

Since the initiation of Operation Enduring Freedom and Operation Iraqi Freedom, we have acted in collaboration with the military services and the Defense Logistics Agency to pursue administrative remedies, such as suspensions and debarments from government contracting, against U.S. contractors and their personnel. We ensure investigations are coordinated with central points of contact, and we engage agency fraud counsels and suspension and debarment authorities to prevent repeat losses to DOD caused by unscrupulous contractor activities.

We are also a member of the U.S. Department of Justice Asset Forfeiture Program. Our participation in this program results in seizure of fraud proceeds from criminals who have targeted DOD. The intent of the program is to deter criminal activity, punish offenders, and dismantle criminal organizations. Forfeitures related to fraud and corruption in Iraq are soon expected to exceed $5.1 million in funds and property. It is anticipated that considerable additional funds and property will be seized in the future as ongoing cases are resolved.

PANEL ON CONTRACTING INTEGRITY

The John Warner National Defense Authorization Act of 2007 (Public Law 109–364) directed the DOD to convene a panel of senior leaders to conduct Department-wide reviews of progress to eliminate areas of vulnerability of the defense contracting system that allow fraud, waste, and abuse to occur. The panel was to review the report of the Comptroller General required by the National Defense Authorization Act of 2006 (Public Law 109–163) related to these areas of vulnerability, and to recommend changes in law, regulations, and policy deemed necessary.

The DOD IG representative is a member of the overall Panel on Contracting Integrity, a member of the subcommittee on Adequate Pricing, and is Chairperson of the Procurement Fraud Indicators subcommittee. The Procurement Fraud Indicators subcommittee is identifying what these indicators are and how they should best be addressed and used for the contracting/acquisition workforce.

As part of the Senior Steering Group for GWOT, DOD OIG representatives will meet monthly, beginning in March, to discuss ways to improved finance, accounting and procurement in Iraq. The group will determine needed tasks and timeframes; identify lead organizations and resource requirements to complete the tasks; determine whether an expeditionary finance and accounting capability is needed and if so, what would it look like, how it would be staffed, and how it would be funded; and discuss any changes needed in guidance to ensure the tasks can be completed efficiently and effectively. While it is imperative that solutions are implemented quickly, the group's focus is to propose and implement solutions that most benefit the warfighter and make the best use of the taxpayer's funds.

SIGNIFICANT ACCOMPLISHMENTS

Of the 102 ongoing DCIS investigations, 41 investigations involve public corruption offenses (bribery, gratuities, and conflicts of interest); 47 investigations involve procurement fraud offenses (false claims and statements, undelivered products, defective products, cost/labor mischarging); 13 investigations involve theft and technology protection offenses (theft of funds, property, equipment, supplies; and export violations involving U.S. technology and vehicles), and one terrorism-related case.

To date, DCIS' ongoing Iraq related investigations have identified 229 subjects consisting of 22 U.S. Government employees, 53 military personnel, 17 foreign nationals, 68 U.S. Government contractors, 23 U.S. Government sub-contractors, 6 dependents of military personnel, and 40 others with no known affiliation to the government.

As a result of closed and ongoing investigations in Southwest Asia, 18 Federal criminal indictments and 26 Federal criminal informations[4] have been issued, and 3 hearings have been conducted under Article 32 of the Uniform Code of Military Justice. In total, 25 persons have been convicted of felony crimes, resulting in a total of approximately 34 years of confinement and 35 years of probation; 9 individuals and 3 companies were debarred from contracting with the U.S. Government; 12 companies and 13 individuals were suspended from contracting; and 2 contractors signed settlement agreements with the U.S. Government. A total of $11.1 million

[4] "Information" is a criminal charge brought by a prosecutor without using a Grand Jury to get an indictment. The "Information" is filed in court and serves to notify the court and the accused of the charges. The "Information" must be in writing and must be supported by evidence submitted by the prosecutor, usually in the form of affidavits. The name is derived from the prosecutor providing information to the court to justify a prosecution.

was paid to the United States in restitution; $365,725 was levied in fines and penalties; $1.76 million was forfeited; and $2.2 million was seized.

As a result of our audit work since fiscal year 2003, we made 64 recommendations to improve financial management, logistics, contract administration, and accountability with DOD GWOT operations. Defense management took sufficient actions in implementing 48 of the 64 recommendations. As a result, our records show 48 recommendations closed, 16 remain open. Additionally, as a result of our findings and recommendations, we and the Department have identified over $840 million in funds that could be put to better use. We anticipate additional potential monetary benefits or improved financial management in the ongoing audits of controls over payments made in support of DOD Iraq operations, and internal controls over cash and other monetary assets. We also are working in partnership with the Defense Finance and Accounting Service on establishing minimum accountability requirements for payments made in support of DOD Iraq operations.

CLOSING

Thanks to Congressional support, we are now dedicating more resources to provide oversight on munitions control and accountability, acquisition, corruption, waste, fraud, abuse, and expanding our footprint in all of Southwest Asia. We will continually evaluate the lessons learned and do our best to prevent the mistakes of the past. We will continue to keep Congress and our leadership fully and promptly informed.

Thank you for the opportunity to appear before the committee today to address our ongoing oversight work regarding Iraq.

Senator LEAHY. And we will have questions—just one thought occurs to me, I just wanted to make sure I understand, of the number of auditors going in there, how many speak the language?

General KICKLIGHTER. Sir, I would say very few, if any.

Senator LEAHY. Thank you. I was afraid of that.

Mr. Bowen.

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

Mr. BOWEN. Thank you, Senator Leahy. And just, on that point, I have three auditors and one investigator on my staff who speak Arabic. Their presence has enhanced our capacity to provide oversight and engage with the Iraqis.

Senator LEAHY. Thank you.

General KICKLIGHTER. We have one.

Senator LEAHY. Thank you.

Mr. BOWEN. Thank you, Senator Leahy, Ranking Member Cochran, and members of the committee for this opportunity to appear before you today to discuss important issues facing the United States' continuing support for relief and reconstruction in Iraq.

The central matter before the committee today is the effectiveness of U.S. efforts to combat fraud, waste, abuse, and corruption in Iraq. This matter has two significant facets: fraud and waste within the U.S. program, and the problem of corruption within the Government of Iraq.

Two days ago, I returned from my 19th trip to Iraq since my appointment 4 years ago as Special Inspector General. During my 15-day stay, I had informative meetings on the many challenges confronting the program—the relief and reconstruction program—with former Prime Ministers Jaafri and Allawi, Deputy Prime Minister Barham Salih, and the current chair of the Baghdad Services Committee, Dr. Ahmed Chalabi.

I also met with the leaders of the two primary anti-corruption agencies in Iraq, Dr. Abdul Basit, who heads the board of supreme audit, and the new commissioner of what's now called the commis-

sion on integrity, formerly the commission on public integrity, Judge Rahim al-Ugaili.

Dr. Basit recounted to me during our visit that his current audits reveal a continuing and serious problem of corruption within Iraqi ministries. Judge Rahim, the new commissioner on integrity, admitted and acknowledged the current weakness of his investigators' capacity to fight corruption in Iraq—a symptom of, frankly, a rule of law system that's in need of much repair.

U.S. ANTICORRUPTION PROGRAMS INSUFFICIENT

Over the past 5 years, U.S. programs to bolster anti-corruption institutions in Iraq have been inconsistent, suffering from poor coordination, weak planning, and limited resources. SIGIR has completed several audits looking at these efforts and has found that the programs have yet to meet their goals.

But the U.S. Embassy is making progress on the recommendations, as evidenced in our most recent audit, and we're following that up with another review that will be published this spring to give more detail on that progress.

The Congress established SIGIR 4 years ago to provide oversight and relief of reconstruction funds in Iraq. Today, SIGIR has 36 auditors on the ground in Iraq—inspectors and investigators, as well—and we expect to expand our team to 46 to meet our newly expanded mandate.

FRAUD IN IRAQ RECONSTRUCTION

To date, SIGIR has issued 216 audits and inspections and addressed myriad problems within programs and projects of the U.S. reconstruction effort. Our investigative work has identified a number of instances of egregious fraud that have led to five convictions to date. In fact, this morning, jury selection has begun in the trial of three more persons arrested as a result of SIGIR investigations.

We currently have——

Senator LEAHY. Juries here? In the United States?

Mr. BOWEN. Yes, in New Jersey, in the Federal District Court in New Jersey.

Senator LEAHY. Okay.

Mr. BOWEN. We currently have over 50 cases ongoing, 30 of them under management at the Department of Justice. The real challenge in the U.S. program—as Comptroller General Walker noted—is the problem of waste with respect to the oversight and management execution of almost $50 billion in relief and reconstruction funds. The fraud has been egregious; but as a relative matter to the total investment, it's a small percentage.

WASTE IN IRAQ RECONSTRUCTION

Waste is another problem. It has diminished over time, as lessons learned have been applied, but it continues to be an issue, as our audits and inspections reveal.

SIGIR has found pervasive weakness in program and contract management. Our inspections found a wide array of problems at construction sites.

As requested by the committee, I've submitted, for the record, a number of examples from our auditors' inspections that identify vulnerabilities to fraud, waste, and abuse. Let me just highlight two in the interest of time.

The Baghdad Police College, which we first reported on 18 months ago, was a $72 million program. Really, this is a very critical single project, in my view, with respect to security, because it is where every Iraqi police officer is trained or is supposed to be trained.

I visited there, again, last week, to see what progress had been made resolving the many problems uncovered in that initial inspection. Those problems included plumbing that didn't work at all, resulting in breakdowns and seepage, which rendered certain barracks unusable.

Progress has been made. There are still problems with the plumbing, but I noted that the barracks are in better condition. Importantly, this program has expanded significantly, from that original $72 million program, and another $75 million will be spent—in phase II and phase III—that will result in a significantly greater capacity to train 12,000 Iraqi police officers.

The audit I want to mention is our review this last quarter of the design-build contract that was awarded to Parsons, Inc. in March 2004. Of the 11 task orders issued under this particular contract—which involved buildings and health—only 3 were completed. We've addressed some of the programs and projects before, most notably the primary health care clinic program. I think this is one of the single biggest failures of all of the programs in Iraq—one that would have provided clinics all across the country. It was a $186 million program, and when the contract was terminated, only six health clinics were complete.

Now the Corps of Engineers has made significant progress, direct-contracting the completion of a number of the remaining clinics. About 75 are complete today, and about 50 are open.

The Parsons design-build contract, frankly, is emblematic of a poor choice of a contracting vehicle to engage in the kind of work anticipated. We'll come out with the second review of Parson's this spring, looking at security and justice programs.

SUSTAINMENT OF RECONSTRUCTION EFFORT

The other key issue with respect to fraud, waste, and corruption in Iraq is sustainment. As you noted, Mr. Chairman, about $47 billion has been invested in Iraq. The success of that investment, regardless of how much has been accomplished to date, is contingent upon an effective program, operated by the Iraqis, funded by the minister of finance, overseen by the ministries, to sustain what we've provided.

Absent that, frankly, the biggest waste is yet to come, because those are enormously significant projects. Let me note one—the Nasiryah water treatment facility—which we're inspecting now. It is the most expensive project that the United States has undertaken, at a cost of $300 million. It is supposed to provide 600,000 persons in central Iraq with clean water, but it's operating at less than 50 percent capacity right now, because of poor operations and maintenance and lack of power. That inspection report will be out

in the spring detailing the issues. To its credit, the Embassy is responding to this matter, and Ambassador Crocker will visit Nasiryah soon to help further those efforts along. But sustainment is key to this waste issue.

Let me say that we continue to carry out our lessons learned program, with proposals for the Congress to consider that will improve how the U.S. manages contingency operations. I think if there's one overarching lesson learned, it's that reform is essential in this particular province in order to protect American interests abroad.

So, let me close by thanking you for this opportunity to testify, Senator Leahy, and for the opportunity to address these important matters. I look forward to your questions.

[The statement follows:]

PREPARED STATEMENT OF STUART W. BOWEN, JR.

INTRODUCTION

Chairman Byrd, Ranking Member Cochran, and members of the Committee, thank you for this opportunity to appear before you today to discuss important issues facing the United States' continuing support for the relief and reconstruction efforts in Iraq. The central issue that I will address is the effectiveness of U.S. efforts to combat fraud, waste, abuse, and corruption in Iraq. The efficacy of these efforts is essential to ensuring that the investment of billions in taxpayer dollars in relief and reconstruction activities in Iraq is protected and preserved.[1]

The Office of the Special Inspector General (SIGIR) began as the Coalition Provisional Authority Inspector General, starting work soon after my appointment in January 2004. SIGIR, which was formed in October 2004, reports to the Congress and jointly to the Secretaries of State and Defense. It is our mission to keep the Congress, the Administration, and the American people transparently informed about the results of our oversight, which have been both positive and negative, and to provide recommendations for improvement and lessons learned. During its short lifespan, SIGIR has issued 216 audit and inspection reports that address myriad programs and projects related to U.S. reconstruction efforts in Iraq. Our investigative work has identified a number of instances of egregious fraud that have led to five convictions to date, several trials that will begin this week, and pending indictments stemming from active cases.

Our audit and inspection reports document a number of challenging situations that we have examined and investigated in Iraq. As a preliminary matter, it is important 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 findings should be viewed in that light.

The security challenges in Iraq, however, do not supersede the applicable rule governing the use of taxpayer dollars, and, in fact, the difficult environment increases the need for comprehensive on-the-ground oversight. Thus, SIGIR has been and remains committed to maintaining a robust operational presence in Iraq to provide effective oversight and real-time review. Our collective reporting to date reveals a simple axiom: effective quality assurance programs carried out by the government and complemented by effective quality control programs performed by contractors will yield successful programs and projects. Where good quality assurance and quality control programs have been applied in Iraq, success has been achieved. SIGIR's inspection reports document that the majority of the projects we have visited have met contract expectations and are being used per their original intentions. However, of the 50 construction project assessments that were deemed a success, eight had inadequate design submissions, four had some form of inadequate construction, and two lacked sufficient attention to sustainability issues. Despite these findings, the overall rate of success is notable given the high security risks that have afflicted the program in Iraq.

Since SIGIR's inception, an essential element of our approach to oversight has been to rapidly identify problem areas and work with management to develop improvement plans. I instruct my auditors to produce audits that provide solutions to

[1] See Appendix I for a definition of fraud, waste, and abuse developed by GAO, SIGIR, and the Inspectors General of the Departments of Defense and State.

any findings and to be transparent with management throughout the audit process. This approach has worked. Most of SIGIR's published audits have provided recommendations with which management concurred and agreed to implement. This approach has promoted positive change in the program through the application of lessons learned along the way.

While the fraud we have found in Iraq has been egregious, it has also been limited in scope relative to the overall investment of taxpayer dollars in Iraq. However, SIGIR reporting has found that waste, while difficult to quantify in gross numbers, has been present in a wide variety of U.S.-funded Iraq reconstruction projects and programs. The problem of waste has diminished since the inception of the program as managers have applied lessons learned (e.g., moving from expensive design-build cost-plus contracts to direct, fixed-price contracts).

Regarding the preservation of the U.S. investment in Iraq, SIGIR has found weaknesses in plans and processes governing the transfer of U.S.-funded projects and assets to the Government of Iraq (GOI). We raised a red flag on this issue (in an audit released last July), noting that much of the U.S. reconstruction investment is at risk unless these issues are effectively addressed by the GOI.

Our investigative work and capacity are increasing, particularly with regard to using forensic capabilities to review allegations of contract fraud like double billing. We also are strengthening investigative coordination through expanded participation in various Iraq fraud task forces.

As our previous audits have noted, the U.S. support for GOI for anticorruption programs has been relatively limited and less effective than necessary. The GOI continues to face a plethora of problems arising from corruption within its governmental institutions, a reality that the GOI has begun to face publicly as evidenced in its three-day anticorruption conference in early January 2008. Taking seriously the fight against corruption—a burden shared by the GOI and the U.S. Mission in Iraq—is an essential element to the ultimate success of the fledgling Iraqi democracy. Success on this front is key to preserving the U.S. investment in Iraq's relief and reconstruction.

I returned two days ago from Iraq. It was my 19th trip over the past four years. During my 15-day stay, I had informative dialogues with a number of Iraqi officials about the past and present U.S. reconstruction programs. I met with former Prime Ministers Jaafri and Allawi, the current Deputy Prime Minister, Dr. Barham Salih, the Chair of the Baghdad Services Committee, Dr. Ahmed Chalabi, the President of the Board of Supreme Audit—Dr. Abdul Basit, and the new Commissioner of the Commission on Integrity. Judge Rahim al-Ugaili.

My discussions with Dr. Basit and Judge Rahim focused on the current state of corruption in the GOI. Dr. Basit acknowledged that corruption within a number of ministries continues to restrict their progress. Judge Rahim, who has been in his new position for just under two months, concurred that Iraq and, specifically, his Commission must improve its collective anticorruption investigative capacity through training, better coordination with U.S. investigators, and expanded use of technical tools and expertise. Prime Minister Maliki has designated 2008 as the Year of Reconstruction and Anticorruption. While this is a signal and welcome recognition within the Iraqi government of the importance of addressing this continuing problem, it is essential, as Dr. Basit related to me, that the GOI substantiate its welcome rhetoric with robust rule of laws actions.

I also met with Ambassador Crocker, General Petraeus, and the leaders of the primary U.S. reconstruction management offices, collectively finding continued progress toward improving processes for managing the U.S. investment in Iraq.

SIGIR BACKGROUND

My testimony is based on the audit reports that SIGIR has issued, in accord with Generally Accepted Audit Standards, and the SIGIR inspections and investigations, which have been completed in accord with standards established by the President's Council on Integrity and Efficiency (PCIE). Our continuing oversight work is summarized every three months in SIGIR's comprehensive Quarterly Reports—of note, we are the only IG required to produce quarterly reports to the Congress. We have also produced three lessons learned reports—on personnel, contracting, and program oversight—which have led to improvements through legislative and regulatory reforms. We are at work on a fourth cumulative lessons learned report scheduled for release this summer.

By maintaining a significant oversight presence on the ground in Iraq, SIGIR is uniquely and robustly positioned to review U.S. reconstruction programs through its cross-jurisdictional mandate authority and capacity derived from four years of institutional experience. We conduct, supervise, and coordinate audits and investigations

of the treatment, handling, and expenditure of amounts made available for the reconstruction of Iraq. We do so in order to ensure the independent and objective leadership of oversight; to promote economy, efficiency, and effectiveness; and to prevent and detect waste, fraud, and abuse in Iraq programs.

The Congress has assigned SIGIR the responsibility for conducting audits and investigations relating to expenditures from a set of accounts specified in law, including the Iraq Relief and Reconstruction Fund, the Iraq Security Forces Fund, the Commander's Emergency Response Program, the Economic Support Fund, and a variety of smaller funds. In addition, Congress has assigned SIGIR the duty to provide reporting on amounts appropriated or otherwise made available "for assistance for the reconstruction of Iraq . . . under any other provision of law."[2]

We regularly coordinate our work with other audit and investigative agencies with whom we share overlapping jurisdiction through a variety of mechanisms, including the Iraq Inspectors General Council, which I formed four years ago, and through joint audits with our sister agencies. Because of our unique mandate, SIGIR can take a multi-agency approach to the problems of Iraq reconstruction, comparing, for example, the Department of State's Provincial Reconstruction Teams and the Department of Defense's Commander's Emergency Response Program. These programs at times have similar goals but have also upon occasion used conflicting practices and procedures. SIGIR closely coordinates its work with the Government Accountability Office.

The enactment of the fiscal year 2008 National Defense Authorization Act (NDAA) in late January 2008 provided SIGIR with new responsibilities. Specifically, the NDAA give SIGIR expanded oversight of funds in the Iraq Security Forces Fund, the Commander's Emergency Response Program, and the Economic Support Fund. Section 842 of the NDAA directs SIGIR to develop a comprehensive audit plan for a series of audits of Federal agency contracts, subcontracts, and task and delivery orders for the performance of security and reconstruction functions in Iraq. This will require a level of effort beyond SIGIR's already extensive focus on contract audits of reconstruction activities. The legislation requires SIGIR to play a significant leadership role in planning and coordinating these audits with other relevant inspector general organizations, including the DOD IG, the DoS IG, and USAID IG.

Along with the work required under our new mandate, SIGIR continues its ongoing emphasis on detailed reconstruction contract review. Specifically, we continue work on our extant mandate to complete a final forensic audit report on all amounts appropriated or otherwise made available for the reconstruction of Iraq. To fulfill this requirement, SIGIR is executing a series of focused contract audits of large Iraq reconstruction contracts and will culminate this work with capping reports. Our focused financial audits have examined overall IRRF contract administration and oversight, contract outcomes, and have included assessments of vulnerabilities to fraud, waste, and abuse. Future contract audit coverage will be expanded to include contracts across additional reconstruction funding appropriations, years of funding, programs, and include construction as well as non-construction contracts.

AUDITS

Over its four-year existence, SIGIR's Audit Directorate has issued 108 audit reports that provide 315 recommendations. These recommendations cover a wide range of issues that have contributed to improvements in agency operations in Iraq reconstruction. SIGIR audits have been directly responsible for $58 million in savings and $40 million that has been put to better use. SIGIR has challenged $7.5 million in payments. The vast majority of our recommendations have been agreed to by the agencies to whom they were addressed, with many corrective actions underway or completed.

INSPECTIONS

As of January 2008, the SIGIR Inspections Directorate has issued 108 project assessment reports that cover reconstruction project sites in Iraq valued at over $1.265 billion. To date, SIGIR has conducted 84 construction assessments and 24 sustainment assessments. The assessments have yielded a variety of results, ranging from noting well-constructed projects to finding projects with serious deficiencies.

The projects with deficiencies are largely the result of insufficient government oversight and inadequate contractor performance. Of the 84 construction assessments, 34 had significant deficiencies preventing the project from meeting its origi-

[2] Sec. 3001(m)(2)(B) of Public Law 108–106 as amended by Sec. 1221, National Defense Authorization Act for Fiscal Year 2008 (Public Law 110–181).

nal objectives. These deficiencies resulted from inadequate design, construction, quality control, government quality assurance, and planning for sustainment.

INVESTIGATIONS

SIGIR's investigative work has produced 14 indictments, 14 arrests, 5 convictions, 9 individuals pending trial (several of whom go on trial this week), and over $17 million in fines, forfeitures, and restitution. We currently have 50 ongoing investigations into fraud, waste and abuse involving funds for the reconstruction of Iraq. From its inception, SIGIR has had a strong investigative presence in Iraq. Currently, we are expanding our capability throughout the continental United States, to areas where much of the information and many potential subjects are currently located.

SIGIR Investigations continues to work with a wide range of U.S. agency partners in its pursuit of allegations of fraud, waste, and abuse in Iraq relief, reconstruction, and infrastructure building. SIGIR's investigative partners include: U.S. Army Criminal Investigation Command, Major Procurement Fraud Unit (CID–MPFU); Defense Criminal Investigative Service (DCIS); Federal Bureau of Investigation (FBI); U.S. Agency for International Development, Office of Inspector General (USAID OIG); and U.S. Department of State, Office of Inspector General (DoS OIG). Our partnerships with other Federal law enforcement agencies have enhanced interagency cooperation and maximized our investigative resources through investigative case coordination and deconfliction.

SIGIR supports the ongoing national initiatives and task forces, such as the Defense Finance and Accounting Service invoice review project in Rome, New York. DCIS initiated the project to detect fraud involved with payments made by the U.S. Army to support the war effort in Iraq. Next week, two SIGIR agents will deploy to Rome, New York, to work with the task force in furtherance of this investigative effort.

SIGIR continues to participate in the National Procurement Fraud Task Force (NPFTF) and the International Working Committee (IWC), a subcommittee of the NPFTF. In October 2006, the Department of Justice (DoJ) Criminal Division created the NPFTF to promote the early detection, prevention, and prosecution of procurement fraud associated with increased contracting activity for national security and other government programs. The IWC links DoJ and Federal law enforcement agencies and provides a venue to address prosecutorial issues resulting from fraud investigations conducted in an international war zone.

While SIGIR agents in Iraq concentrate on American targets and work with our investigative partners and the DoJ, our special agents also continue to develop close relationships with Iraq's Commission on Integrity (CoI, formerly known as the Commission on Public Integrity) and the Board of Supreme Audit (BSA). My agents and I met with the head of the CoI during my recent visit to Iraq, and I am pleased to report that the close relationship that we previously had with the CoI will be continued under the CoI's new leadership. Thus, our agents in Iraq will be able to continue to assist Iraqi authorities in their investigations of Iraqi contractors who engaged in fraud potentially involving U.S. dollars.

A key component of SIGIR's investigative program has been the strategic development of investigative task forces that enable synergistic collaboration among law enforcement agencies pursuing Iraq fraud cases. SIGIR formed the first Iraq fraud task force in spring 2005. This initiative, the Special Investigative Task Force on Iraq Reconstruction (SPITFIRE), combined the efforts of SIGIR with investigative assets from the Internal Revenue Service, the Department of Homeland Security's Office of Immigration and Customs Enforcement, the Federal Bureau of Investigation, and the Department of State's Office of Inspector General. SPITFIRE succeeded in effectively pursuing the investigation of the Bloom-Stein conspiracy, the first major fraud prosecution in Iraq. SIGIR investigators developed allegations uncovered during a SIGIR audit, which revealed an egregious criminal conspiracy in Hilla, Iraq, involving tens of millions of dollars in fraudulent contracts, bribes, and kickbacks. Nine individuals (military, civilian, and contractors) were indicted, four convicted and five are pending trial; several others will go on trial start this week.

SIGIR is not limiting its efforts just to addressing contractor misconduct through the criminal and civil justice system. We also refer cases to the U.S. Army Legal Services Agency, Procurement Fraud Branch, for adjudication under the administrative suspension and debarment process. Since December 2005, SIGIR and its partner agencies have worked closely with the Army's Procurement Fraud Branch to suspend and debar contractors for fraud or corruption within the Army, including those involving Iraq reconstruction or Army support contracts in Iraq.

In June 2003, the Department of Defense designated the Department of the Army as the executive agent for contracting support to the Coalition Provisional Authority. As a result, the Army's suspension and debarment authority leads the effort to ensure the integrity of contractors performing these contracts. The goal of this program is to ensure that these contracts are awarded to, and performed by, contractors who are honest and ethical and who have the ability to successfully perform this important work. The Procurement Fraud Branch has also taken a leading role within the Army and at joint contracting organizations to train contracting officers to aid in the prevention and early detection of contractor fraud in Iraq reconstruction and support contracts. As reflected in SIGIR's last Quarterly Report to the United States Congress, the Army Procurement Fraud Branch reported that it had suspended 32 individuals or companies, proposed 30 for debarment, and debarred 20 based on allegations of fraud and misconduct connected to Iraq reconstruction and contractor fraud.

RECONSTRUCTION PROGRAM VULNERABLE TO FRAUD, WASTE, AND ABUSE

Systemic contracting and management problems, corruption, and the general lack of security in Iraq are major factors that have made reconstruction programs in Iraq vulnerable to fraud, waste and abuse. With the limited resources available, agencies often did not effectively administer or implement reconstruction contracts. This was particularly the case when it involved government oversight of the work performed and government review of invoices. Poor security exacerbated these problems by frequently making it too dangerous to provide oversight of reconstruction activities, to transport needed materials to construction sites, or to allow quality assurance personnel to visit sites. Our audits found pervasive weaknesses in program and contract management and our inspections uncovered many problems at construction sites. However, there have also been a number of successes in the program, and executive agencies have largely been responsive to our observations and recommendations, applying lesson learned along the way. As requested by the Committee, the following litany provides selected examples from our audits and inspections wherein we identified vulnerabilities to fraud, waste, and abuse.

Police Academy, Hilla, Iraq (SIGIR Inspection PA 05–032 issued January 31, 2006)

At the direction of the Coalition Provisional Authority, the Joint Contracting Command—Iraq awarded a contract to SBIG Logistics and Technical Services, Inc. for the construction and support for an addition to the Al Hillah (Hilla) Police Academy. The total contract price was $23.6 million, of which $9.1 million was specifically for the additional building. The SIGIR inspection identified numerous deficiencies with the construction project. Overall, the U.S. government did not implement a quality assurance program and it did not ensure the design requirements were met. Even though the statement of work clearly required design submittals from the contractor for the major components of the police academy addition, the contractor did not provide them for review. In addition, SIGIR found significant cracks in the walls, inadequate backup power capability, poorly constructed sidewalks, a poorly designed wastewater system, evidence of roof leaks, and inadequate security systems. The contractor did not deliver or install the two back-up generators that were required by the contract. In addition, one other generator that was removed for overhaul was not returned. The two remaining generators that were on site were not capable of sustaining the academy in case of a power outage.

Border Posts (SIGIR Inspections PA 05–021 thru PA 05–024 issued January 31, 2006)

USACE awarded a contract valued at $36.5 million in March of 2004 to Parsons, Inc., to build border posts at Iraq's border crossings. The contractor did not prepare a properly designed facility and did not obtain written approval from USACE for the design before construction. Projects were not consistent with the original objective to complete and commission border denial posts. The border forts were not constructed with the perimeter security requirements. The jail facility, generator units, fuel tanks, and water system were not secured, and there were no physical restrictions preventing access to the walls of the border posts.

During the design phase the contractor proposed replacing steel-reinforced concrete columns and beams with structural steel I-beams. There was no record that USACE reviewed or approved the design changes. During construction, USACE personnel observed that the horizontal I-beams supporting the roof were deflecting under the weight of the roofing material, and that some of the I-beams were improperly installed. A retrofit to reinforce the installed undersized I-beams was required.

U.S. Agency for International Development's (USAID) Management of the Basrah Children's Hospital Project (SIGIR Audit 06–026 issued July 31 2006)

USAID was tasked with constructing a pediatric hospital with an estimated ceiling cost of $50 million. In August 2004, USAID awarded a contract to Bechtel National, Inc., to build the hospital. However, early decisions to increase the size of the facility, design flaws, contract delays, poor construction and site security ultimately increased the price to between $149.5 and $169.5 million. USAID was required by Public Law 108–106 to report on the progress of construction and its incurred costs to the Congress. However, USAID's accounting systems and management processes were inadequate and failed to identify either construction progress or accurate contract costs. To stay within the cost limits, USAID stopped reporting indirect costs that may have totaled $48 million that should have been assigned to the contract. Further, based on cost data obtained from USAID, SIGIR estimated the new completion price to be between $149.5 and $169.5 million. Compounding these problems was a lack of effective program management and oversight by USAID and the Department of State. SIGIR observed that at the time of the audit, there was one contracting officer, one administrative contracting officer and one cognizant technical officer along with a few support staff who were responsible for management and oversight of $1.4 billion in construction activities including the Basrah Children's Hospital. Construction management was taken over by the U.S. Army Corps of Engineers (USACE). USACE says that completion of the hospital is now scheduled for mid-2008 with a planned opening of early 2009.

Baghdad Police College (SIGIR Inspections PA 06–078 and 06–079.2 issued January 29, 2007)

USACE awarded two task orders totaling $72.2 million to Parsons, Inc., to renovate portions and construct other portions of the Baghdad Police College. The contractor did not provide—and the government did not review—the required number of design drawings, USACE did not review the contractor's daily quality control reports and it also was unaware of significant construction deficiencies at the project site. SIGIR identified significant construction deficiencies, such as poor plumbing installation, expansion cracks, problems with the quality of the concrete, exposed rebar, and poor brickwork. Also, the construction and equipment installation were performed at a low level of workmanship by the contractor and did not comply with the international standards required in the contract. In addition, SIGIR found that the completed barracks buildings had significant plumbing failures and there were massive expansion cracks on the interior and exterior of the buildings that will leave the Iraqis with continual maintenance issues.

Finally, in an effort to complete the project, which was experiencing significant cost overruns and schedule slippages, 24 items were removed from the scope of work under the contract. During this inspection, SIGIR inspectors found indications of potential fraud and referred these matters to SIGIR Investigations for appropriate action.

On February 25, 2008, the SIGIR inspections staff initiated a follow-up assessment to determine the current status of the Baghdad Police College. During my recent trip to Iraq, I and my inspection team visited the Baghdad Police College as part of the new assessment. We found that, in addition to ongoing efforts to correct previous deficiencies (noted in our January 2007 report), the Multinational Security Transition Command—Iraq (MNSTC–I) is undertaking significant additional construction work. MNSTC–I estimates that current repair work will amount to $9 million and new construction contracts will amount to $42 million. Additional contracts to further expand training capabilities may add another $24 million to costs. The quality of the repair and construction work we observed on the initial return to the Baghdad Police College was decidedly better than the work that we previously reported on.

DynCorp International Task Order for the Iraqi Police Training Program Support (SIGIR Audit 06–029 issued January 30, 2007)

Under this task order issued in June 2004, the Department of State's Bureau for International Narcotics and Law (INL) contracted with DynCorp International for training services for international police liaison officers, training support equipment, and construction of a residential camp on the Adnan Palace grounds in Baghdad to house training personnel. The contract value was $188.7 million. Poor contract oversight resulted in millions of dollars being put at risk, and inadequate accounting of property acquired under the contract. Between July 2004 and June 2006, the Department of State paid about $43.8 million for manufacturing and temporary storage of a residential camp, including $4.2 million for unauthorized work associated with the camp. As of October 2007, INL has reached agreement for use of all the

trailers for either the Embassy or a camp to be established at the Baghdad International Airport. In addition, the Department of 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.

Relief and Reconstruction Funded Work at the Mosul Dam (SIGIR Inspection PA 07–105 issued October 29, 2007)

The United States Army Corps of Engineers selected CH2Mhill/Parsons as the Sector Project and Contracting Office Contractor. It was responsible for engineering analysis and technical consulting, requirements management, quality assurance, contract administration, procurement, and logistics support. 21 contracts valued at $27 million were let to foreign companies. The SIGIR inspection found numerous problems at the site. There were no design drawings and specifications for large silos for holding concrete or for the construction of a grout-mixing plant. In addition, the foundation bolts of the stationary silos were so poorly installed that in 43 of 144 cases (30 percent), there were few, if any, bolt threads for the nuts to twist on. The government's quality assurance program did not adequately ensure correct delivery and construction of materials and equipment.

Further, many contractor invoices lacked supporting details for materials and equipment claimed. For example, one contractor's invoice claimed the delivery of 4 contract-specified submersible pumps with 54-m^3/hour and 20-meter lift capability, but the pumps actually delivered had only 36-m^3/hour and 17.5-meter lift capability. In addition, the contractor delivered two 30-m^3/hour concrete mixing plants instead of the two 30-m^3/hour grout mixing plants specifically required.

Contract file documentation showed that the contracting officer attempted to modify the delivered concrete mixing plants into grout mixing plants at the expense of the U.S. government, instead of enforcing the Federal Acquisition Regulation clause in the contract that requires the contractor to replace or repair them at no increase in price.

Approximately $19.4 million worth of equipment and materials delivered to the Mosul Dam for the implementation of the grouting operations did not provide benefit to the Ministry of Water Resources and may have been wasted. During this inspection, SIGIR found indications of potential fraud and referred these matters to SIGIR investigations.

Department of State, Bureau of International Narcotics and Law Enforcement Affairs (INL), Management of DynCorp International, LLC, Contract for the Iraqi Police Training Program (SIGIR Audit 07–016 issued October 23, 2007)

INL awarded a contract to DynCorp International in February 2004, to provide housing, food, security, facilities, training support systems, and a cadre of law enforcement personnel to support the Iraqi civilian police-training program. As of August 23, 2007, INL had obligated about $1.4 billion and paid about $1.2 billion. INL's prior lack of management and financial controls created an environment vulnerable to waste and fraud and a situation whereby INL does not know specifically what it received for most of the $1.2 billion in expenditures. Although training has been conducted and equipment provided under the contract, INL officials report that (1) invoices and supporting documents submitted by DynCorp were in disarray, but are being organized; (2) INL had not validated the accuracy of the invoices it received prior to October 2006; INL personnel in Iraq and in Washington, D.C. are in the process of validating past invoices; and (4) INL lacks confidence that Department of State accounting records accurately capture the purpose for most disbursement. INL had taken action and continues to take action to improve its contract management in general and its management of the DynCorp contract in particular. According to INL officials, it will take three to five years to complete a 100 percent review and reconciliation of the invoices and a validation of the property records. To date, SIGIR's reviews of DynCorp contracts with INL have resulted in about $4.1 million in potential savings to the U.S. government. SIGIR plans to follow up its work on this contract later this year.

Outcome, Cost, and Oversight of Iraq Reconstruction Contract W914NS–04-D–0006 (SIGIR Audit 08–010 issued January 28, 2008)

In March 2004, USACE issued a contract to Parsons, Inc., with a ceiling price of $500 million to repair, renovate, or construct Iraqi ministry buildings and hospitals and to construct primary healthcare facilities. Of 11 task orders issued, only 3 were completed. The other 8 task orders were terminated for the convenience of the government with the work at most of the sites only partially completed. The projects were between 78 and 98 percent complete at the time.

USACE terminated these contracts because Parsons had poor control of its subcontractors, poorly managed and supervised the projects, and failed to control its

costs. Parsons made infrequent trips to the project sites and as a result there was an overall lack of knowledge regarding conditions at the sites and in reporting construction progress. On the government side, SIGIR observed numerous management weaknesses, including high turnover of personnel, contracting office personnel with limited contact experience, a failure to enforce contract requirements for monthly cost reports, and a failure to review contractor invoices before payment to assure that the work was performed.

U.S. Agency for International Development's (USAID) Efforts to Implement a Financial-Management Information System in Iraq (SIGIR Audit 08–007 issued January 25, 2008)

In 2003, USAID contracted with BearingPoint to develop and implement an Iraqi financial management information system. By October 2007, the system, which had achieved limited functionality, was shut down due to security issues and a lack of support by the Government of Iraq. At that point about $26 million had been expended for the system under broad-based contracts that included numerous other tasks related to economic and financial reforms for Iraq. Although deteriorating security conditions and competing demands for funds under the contracts no doubt adversely impacted the system's development, there was also a lack of clear direction based on user requirements. Neither the contracts nor BearingPoint's work plans provided that direction. As a result, information was not available to clearly assess progress on the system in relation to available benchmarks, making it difficult for USAID to assess BearingPoint's performance. In mid-January 2008, the Iraqi Minister of Finance and Acting Mission Director at USAID signed a Memorandum of Understanding to restart the system.

THE CHALLENGE IN QUANTIFYING WASTE

I am often asked: "What is the total amount that has been wasted in the U.S. reconstruction effort in Iraq?" To answer the total waste question, SIGIR would have to audit and inspect many more programs, projects, and contracts than we are able. I have 22 auditors in Iraq, 6 inspectors, and 5 investigative staff. Thus, our oversight targets are necessarily judgmentally selective, developed through strategic planning that aims to provide the widest review possible. The foregoing litany of oversight reporting illustrates the scope of issues arising from our reviews of Iraq reconstruction contracts. This variety makes it impossible to calculate now what the precise total waste figure might be. But our collection of audits and inspections provide an episodic story of waste, as we have defined it with the GAO (see definition at Appendix I).

One episode of waste is evidenced by our audit of the Iraq Financial Management System. The system is not being used and it does not appear that the GOI wants to use it. Thus, if the system ultimately falls into permanent disuse, then the entire U.S. investment, amounting to tens of millions of dollars, could be counted as waste. Other contracts we reviewed have uncovered decisions to reduce, descope, or terminate work because of cost overruns, changing needs, or security conditions. While some of these causes may be unavoidable others entail factors that point to waste. Despite these difficulties, I have directed my auditing team to continue to identify waste to the extent practical. We intend to do that principally through the forensic audit process. The bottom line is that our reporting demonstrates that waste—rather than fraud—has been the chief problem in the Iraq reconstruction program. But both the waste and the fraud issues could pale in comparison to the problem of ensuring that the GOI sustains the programs and projects funded by U.S. taxpayer dollars.

GOVERNMENT OF IRAQ (GOI) ACCEPTANCE AND SUSTAINMENT OF U.S.-FUNDED INFRASTRUCTURE CRUCIAL TO ENSURING U.S. ASSISTANCE IS NOT WASTED

SIGIR audits have revealed that the U.S. investment is vulnerable to additional waste if construction projects are not properly maintained. To realize the maximum benefit of reconstruction investments, the assets must be effectively maintained and operated. However, the U.S. government and the GOI have yet to implement effective programs and plans to ensure proper asset transfer and maintenance. Planning for the effective management of these assets, from small health clinics to complex electrical generation plants, is critical for the economic and political recovery of Iraq and the security of U.S. interests in Iraq.

SIGIR oversight has identified deficiencies related to the transfer of U.S. funded assets to the control of the GOI. Our audits and inspections identified that the U.S. and Iraqi governments need to improve the asset transfer process, and the GOI must address its shortfalls in sustaining U.S. funded projects to ensure that recon-

struction funds are not wasted. Overall, SIGIR determined that the inability of U.S. agencies to agree on one common asset transfer process, compounded by reluctance from Iraqi government officials at the national level to formally accept projects, has hindered the effective turnover of U.S. funded reconstruction projects.

U.S. TRANSFER PROCESS NEEDS IMPROVEMENT

SIGIR has issued five reports[3] on the transfer process, and we are currently working on a sixth. As explained in our July 2007 report, the asset transfer process is essential to both the United States and Iraq for two main reasons. First, it allows the GOI to recognize its ownership of the project. Asset recognition is the point at which the GOI officially agree that the project is complete, that all necessary project-specific documentation is in place, and that the U.S. government has provided the necessary training and orientation to the local Iraqi staff that will be responsible to manage, operate and maintain the new or refurbished facility. Second, it validates that the GOI is now responsible for project operation and maintenance and capital replacement. A formalized, unified asset transfer process allows the GOI to plan for and fund the operations and maintenance of U.S. funded construction projects.

SIGIR's audits have made recommendations to USACE, MNSTC–I, and USAID to complete, in coordination with the asset transfer focal point organization in the Embassy, the development of a common policy facilitating the transfer of competed projects to the GOI. SIGIR follow up reviews recommended that the Embassy develop a single uniform process for asset recognition and transfer for all agencies. In July 2007, SIGIR again assessed the progress and recommended that the U.S. Ambassador to Iraq provide senior level support to finalize a Memorandum of Understanding (MOU) between the United States and Iraq on asset transfer.

SIGIR is currently in the process of updating our previous asset transfer reports and we are seeing some improvements. Since we began our reviews of asset transfer, SIGIR has been consistent in emphasizing the need to standardize the process for transferring assets to the GOI. Most recently, the Embassy, specifically the Asset Transfer and Recognition Working Group, has drafted an Interagency Agreement to formalize the asset transfer process among all U.S. partners. However, our preliminary evaluation indicates that the agreement still allows each agency to use its own procedures, and covers only projects funded by the Iraq Relief and Reconstruction Fund (IRRF). We will be following up with the Embassy on these issues for further clarification.

SIGIR recommended last July that the Embassy execute an Asset Transfer MOU or Bilateral Agreement with the GOI. The working group drafted an MOU with the aim of achieving a consensus on each side's intentions with respect to the transfer of assets. Mission officials recently informed us that, although the MOU was delivered to the Deputy Prime Minister in November 2007, there has been no progress by the GOI regarding the pending MOU. Moreover, our current work suggests that the MOU, even if signed, may have only limited impact: it again relates only to IRRF, and the MOU stipulates that all agreements in the MOU are nonbinding. Embassy officials informed us that the most important aspect of the MOU is in the naming of an Iraqi point of contact to serve as a central point of contract within the Deputy Prime Minister's office on issues relating to asset transfer.

SIGIR INSPECTIONS AND AUDITS INDICATE PROBLEMS IN GOI SUSTAINMENT OF U.S. FUNDED PROJECTS

SIGIR audits and inspections have demonstrated that the GOI has had some successes but has experienced notable difficulties in sustaining transferred U.S. assets. To illustrate, SIGIR's Inspections staff conducted 24 sustainment assessments and found that 12 had significant deficiencies.[4] SIGIR's inspections indicate that some projects now under Iraqi control are not being adequately maintained, posing

[3] *GRD–PCO Management of the Transfer of IRRF-funded Assets to the Iraqi Government*, (SIGIR 05–028, January 24, 2006); *Multi-National Security Transition Command—Iraq Management of the Transfer of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government*, (SIGIR 06–006, April 29, 2006); *U.S. Agency for International Development Management of the Transfer of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government*, (SIGIR 06–007, April 29, 2006); *Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government*, (SIGIR 06–017, July 28, 2006); *Transfering Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq*, (SIGIR–07–004, July 25, 2007).

[4] However, the number of poorly sustained sites may be larger because several sites could not be visited due to security concerns. As a result, the assessment team relied upon a review of the contract and photos taken at the time the projects were completed. Thus, actual sustainment is not known.

threats to the condition and durability of the facilities and to the health and safety of those who work at them. Comprehensive Operations and Maintenance programs and effective training are key to improving prospects for sustainment.

Here are examples of what our inspections and audits found:

—*Erbil Maternity and Pediatric Hospital, Erbil, Iraq (SIGIR Inspection PA–06–94, April 19, 2007).*—In January 2007 SIGIR inspectors assessed the condition of this $6.8 million project that had been turned over to the GOI. At that time, SIGIR determined that long-term sustainability and serviceability of hospital equipment had been reduced because of the absence of effective operations and maintenance and parts-management programs. To illustrate, the hospital sewer system has occasionally clogged, causing wastewater to back up through floor drains into some sections of the hospital where patients receive care. This may have occurred because of the improper disposal of medical waste materials. SIGIR observed large quantities of medical waste in the sewer system's traps, manholes, and septic tank. Some mechanical equipment installed during renovation was inoperable either because operations and maintenance practices had been ineffective or because hospital workers chose not to use the new equipment. For example, SIGIR observed that a new incinerator installed during renovation was not used because the people initially trained to operate the incinerator were no longer employed at the hospital. Also a sophisticated new oxygen generator and distribution system was used only as a back-up system while hospital staff continued to use oxygen tanks that were not properly protected and secured. One of three new boilers was not operating, possibly because of a fire, and it was being used for parts. Critical water purification equipment did not function because weekly maintenance checks to observe and drain moisture traps were not performed.

SIGIR recommended that U.S. reconstruction officials engage with the appropriate Iraqi government officials to ensure sustainment of this U.S. taxpayer investment. They responded that our recommendations exceeded the contract requirements and their purview to address.

—*Recruiting, Babel Volunteer Center, Hilla, Iraq (SIGIR Inspection PA–06–089, April 17, 2007).*—In January 2007, we inspected the Al Hilla (Hilla) Recruitment and Training Center which cost $1.8 million to repair. Our inspectors identified numerous problems in its maintenance. For example, two bathroom floors had buckled, which caused damage to concrete and tiles. Because the tenants never evacuated the sewage holding tank, effluent backed up in the drain lines and leaked into the ground beneath the floors. The problem would have been mitigated if the sewage holding tank had been properly evacuated; however, force protection barriers and internal walls prevented pumping trucks from accessing the tanks.

Wiring appeared to have short-circuited and ignited an electrical box, which has been replaced. The SIGIR inspection noted that bathrooms were not clean, there were no beds for the Iraqi soldiers stationed at the facility, and electrical wiring had been improperly pieced-together to either repair burned-out circuits or to add lighting. The wastewater holding tank was full and channeling raw sewage onto the adjacent property, which eventually drains into the Hilla River. At the time of the inspection, SIGIR determined that if maintenance continued at its current level, the useful life of the facility would be significantly shortened and health hazards would persist. Insufficient funding was identified as the cause of inadequate maintenance.

—*West Baghdad International Airport Special Forces Barracks, Baghdad, Iraq (SIGIR Inspection PA–07–100, April 24, 2007).*—The Special Forces Barracks was a $5.2 million reconstruction project which SIGIR inspected in March 2007. The four 150 kilovolt (kV) electrical generators installed under the contract, valued at approximately $50,000 each, were not operational. SIGIR could not determine when or why the generators became inoperative, but observed that batteries were missing and the levels of engine oil were inadequate. Some bathroom floor drains in company barracks were plugged or drained very slowly, which caused flooding in the bathrooms. The roofs of at least three barracks leaked in several places where water accumulated around drain basins.

In this case, U.S. reconstruction managers were responsive to SIGIR recommendations and indicated they would work with the Iraqi government to develop the capacity necessary to sustain projects constructed with U.S. funds.

—*Doura Power Station, Units 5 and 6, Baghdad, Iraq (SIGIR Inspection PA–07–103, July 18, 2007).*—In June 2007 SIGIR inspected the Doura Power Station which cost $90.8 million to construct and an additional $80 million to provide for operations and maintenance and training for the Ministry of Electricity. SIGIR determined that sustainable operations at full capacity after start-up of

Units 5 and 6 could not be reasonably assured unless the Ministry of Electricity's operations and maintenance practices improved. To illustrate, SIGIR observed that the ministry improperly operated or insufficiently maintained equipment in environments where equipment failure was likely. For example, in April 2007, dust and oil film accumulated in critical parts, which caused the complete failure of Unit 5. Bypassing and intentionally overriding automatic controls caused a system imbalance and catastrophic failure of power plant equipment. Electricity was being illegally tapped directly from the power plant using ad hoc cable taps throughout the facility. SIGIR assessed, however, that a planned contract for operations and maintenance and to implement a local training program should result in the prevention of future similar type deficiencies. We will be assessing progress in the future.

—*Iraqi C–130 Base, Baghdad, Iraq (SIGIR Inspection PA–07–099, July 24, 2007)*.—This $30.8 million air base was inspected by SIGIR in May 2007. During the inspection, SIGIR observed that numerous generators were not functional. Moreover, SIGIR observed flaws in the sewage system. For example, the nearby storm-water collection pond and connected drainage ditch contained sewage. The holding tank design allows sewage removal only by pump. Therefore, it appeared that the waste-removal truck pumped the sewage from the collection tanks into the drainage ditch. SIGIR noted a number of documented malfunctions of the reverse osmosis (RO) system. Regular filter changes had not been performed, chlorine dosing did not meet requirements, and the RO system pressures were not within the recommended range. Additionally, filters, anti-scaling, testing kits, and other various maintenance items were not available on site.

SIGIR inspectors worked with MNSTC–I management during this project and identified that a master plan was under development that would address the problems identified.

SIGIR's audits on Commander's Emergency Response Program (CERP) projects have identified further sustainment problems. SIGIR reviewed the CERP program in 2006, 2007, and 2008.[5] Overall, SIGIR found that despite some improvements, continuing challenges in planning for the transition of completed projects to the Iraqi people and in fostering long term sustainment of completed projects. We also found instances of lack of coordination between the CERP program and programs managed by the Provincial Reconstruction Teams. While PRT programs tended to try to induce Iraqis to devise and solve their own problems, CERP programs tended to quickly "fix" problems identified by local commanders. Occasionally, the two programs were acting at cross-purposes. In addition, the CERP program has gotten involved in much larger projects over time, such as complex water projects, and its managers lack many of the necessary resources to carry such projects forward.

RESULTS OF SIGIR INVESTIGATIONS

In our U.S. office, SIGIR investigators have historically worked from one central location in Arlington, Virginia; however, we recently expanded our investigative presence in the United States by opening offices in Florida, Texas, and Pennsylvania, with an additional office soon to be opened in Ohio. The agents assigned to these offices are conducting SIGIR's investigative work in their areas—where much of the records and witnesses are located, as well as providing SIGIR's investigative expertise to local task forces that are investigating allegations of fraud in U.S. funded programs and operations in Iraq.

Pursuing allegations of criminal fraud in Iraq has been a high priority for me ever since my appointment as Inspector General four years ago, and I remain committed to ensuring SIGIR continues its rigorous investigation program. SIGIR's robust oversight efforts to date have helped deter fraud, yet much work remains to be done.

SIGIR's investigative work to date has resulted in the following convictions and indictments—noting that criminal indictments are only charges and not evidence of guilt and a defendant is presumed innocent until and unless proven guilty:

—On February 2, 2006, Robert Stein, the former CPA Comptroller and Funding Officer in Hilla, Iraq, pleaded guilty to conspiracy, bribery, money laundering, possession of machine guns, and being a felon in possession of a firearm. Stein was the primary co-conspirator with Philip Bloom funneling numerous fraudulent contract payments to Bloom in exchange for kickbacks and bribes. Stein

[5] *Commander's Emergency Response Program in Iraq Funds Many Large Scale Projects*, (SIGIR–08–006, January 25, 2008); *Management of the Commander's Emergency Response Program in Iraq for Fiscal Year 2006* (SIGIR–07–006, April 26, 2007); *Management of the Commander's Emergency Response Program for Fiscal Year 2005* (SIGIR–05–025, January 23, 2006).

also admitted to facilitating the purchase and possession of at least 50 weapons, including machine guns, gun barrel silencers and grenade launchers with misappropriated CPA funds. On January 29, 2007, Stein was sentenced to nine years in prison and three years of supervised release. Additionally, he was ordered to pay $3.6 million in restitution and forfeit $3.6 million in assets.

—On March 9, 2006, Philip Bloom, a U.S. citizen, who resided in Romania and Iraq, pleaded guilty to conspiracy, bribery, and money laundering in connection with a scheme to defraud the CPA. Bloom admitted that from December 2003 through December 2005, he, along with Robert Stein and numerous public officials, including several high-ranking U.S. Army officers, conspired to rig bids for federally-funded contracts awarded by the CPA-South Central Region (CPA–SC) so that all of the contracts were awarded to Bloom. The total value of the contracts awarded to Bloom exceeded $8.6 million. Bloom admitted paying Stein and other public officials over $2 million from proceeds of the fraudulently awarded contracts and an additional at least $2 million in stolen money from the CPA. On February 16, 2007, Bloom was sentenced to 46 months in prison and two years of supervised release. Additionally, he was ordered to pay $3.6 million in restitution and forfeit $3.6 million in assets.

—On August 4, 2006, Faheem Mousa Salam, an employee of a government contractor in Iraq, pleaded guilty to a violation of the Foreign Corrupt Practices Act for offering a bribe to an Iraqi police official. Salam is a naturalized U.S. citizen employed by Titan Corporation and was living in Baghdad, Iraq. According to court filings, Salam offered a senior Iraqi police officer $60,000 for the official's assistance with facilitating the purchase by a police training organization of approximately 1,000 armored vests and a sophisticated map printer for approximately $1 million. On February 2, 2007, Salam was sentenced to three years in prison, two years of supervised release and 250 hours of community service.

—On August 25, 2006, Bruce D. Hopfengardner, a Lieutenant Colonel in the United States Army Reserve, pleaded guilty to conspiracy to commit wire fraud and money laundering in connection with the Bloom-Stein scheme. In his guilty plea, Hopfengardner admitted that while serving as a special advisor to the CPA–SC, he used his official position to steer contracts to Philip H. Bloom, a U.S. citizen who owned and operated several companies in Iraq and Romania. In return, Bloom provided Hopfengardner with various items of value, including $144,500 in cash, over $70,000 worth of vehicles, a $2,000 computer and a $6,000 watch. Hopfengardner and his coconspirators laundered over $300,000 through various bank accounts in Iraq, Kuwait, Switzerland and the United States. Finally, Hopfengardner admitted that he stole $120,000 of funds designated for use in the reconstruction of Iraq from the CPA–SC and that he smuggled the stolen currency into the United States aboard commercial and military aircraft. On June 25, 2007, Hopfengardner was sentenced to 21 months in prison followed by 3 years supervised release, and ordered to forfeit $144,500.

—On February 7, 2007, U.S. Army Colonel Curtis G. Whiteford, U.S. Army Lt. Colonels Debra M. Harrison and Michael B. Wheeler and civilians Michael Morris and William Driver were indicted for various crimes related to the Bloom-Stein scheme in Hilla, Iraq. Whiteford, who was Stein's deputy in the comptroller's office, was charged with one count of conspiracy, one count of bribery and 11 counts of honest services wire fraud. Harrison, at one time the acting Comptroller at CPA–SC who oversaw the expenditure of CPA–SC funds for reconstruction projects, was charged with one count of conspiracy, one count of bribery, 11 counts of honest services wire fraud, four counts of interstate transport of stolen property, one count of bulk cash smuggling, four counts of money laundering and one count of preparing a false tax form. Wheeler, an advisor for CPA projects for the reconstruction of Iraq, was charged with one count of conspiracy, one count of bribery, 11 counts of honest services wire fraud, one count of interstate transport of stolen property and one count of bulk cash smuggling. Morris, who worked for Bloom, was charged with one count of conspiracy and 11 counts of wire fraud. Driver, who is Harrison's husband, was indicted on four counts of money laundering. The trial for Whiteford, Morris and Wheeler starts on March 11, 2008. The trial for Harrison and Driver has been postponed and a date has not yet been scheduled.

—On February 16, 2007, Steven Merkes, a former U.S. Air Force Master Sergeant working for the Department of Defense in Germany, pleaded guilty in U.S. District Court for accepting illegal bribes from Phillip Bloom. Merkes accepted the bribes in exchange for furnishing Bloom with sensitive contract information prior to awarding contracts to Bloom. Merkes was sentenced on February 16,

2007, to 12 months and one day in prison and ordered to pay restitution of $24,000.

—On July 23, 2007, U.S. Army Major John Cockerham, his wife Melissa Cockerham, and his sister Carolyn Blake, were arrested on a criminal complaint, and on August 22, 2007, they were charged with conspiracy to defraud the United States and to commit bribery, conspiracy to obstruct justice, and a money laundering conspiracy. Major Cockerham was also charged with three counts of bribery. According to the indictment, from late June 2004 through late December 2005, Major Cockerham was deployed to Camp Arifjan, Kuwait, serving as a contracting officer responsible for soliciting and reviewing bids for Department of Defense (DOD) contracts in support of operations in the Middle East, including Operation Iraqi Freedom. The contracts were for various goods and services to DOD, including bottled water destined for soldiers serving in Kuwait and Iraq. Major Cockerham, Melissa Cockerham, Blake, an unidentified co-conspirator, and others allegedly accepted millions of dollars in bribe payments on John Cockerhams' behalf, in return for his awarding co-conspirator contractors and others DOD contracts, including those for bottled water, through a rigged bidding process. Cockerham allegedly guaranteed that a contractor would receive a contract in return for the payment of money. Cash bribes paid to the defendants and other co-conspirators allegedly totaled $9.6 million. The indictment also alleges that Melissa Cockerham and Carolyn Blake received millions of dollars from these contractors, and that the conspirators deposited the money in bank accounts and safe deposit boxes in Kuwait and Dubai.

—On November 15, 2007, Terry Hall was arrested on a criminal complaint charging bribery. Subsequently, on November 20, 2007, a federal grand jury indicted Hall for soliciting bribes. The indictment alleged that Hall paid money and other things of value to a U.S. military contracting officer to influence the actions of the officer, including the award of more than $20 million in military contracts. Hall operated companies that had contracts with the U.S. military in Kuwait, including Freedom Consulting and Catering Co., U.S. Eagles Services Corp., and Total Government Allegiance. According to the indictment, those companies received more than $20 million worth of military contracts for providing, among other things, bottled water to the U.S. military in Kuwait.

ANTICORRUPTION: U.S. PROGRAMS AND IRAQI EFFORTS

In our January 2008 Quarterly Report to the Congress, we noted that the prevailing view among Iraqis about corruption in their country is not an optimistic one. Iraqis recognize the complex pattern woven from Iraq's long list of challenges—from its limited personnel and government capacity, to the fractious nature of politics, and all of those persisting in a still dangerous security environment. Corruption in Iraq, and for that matter in any country in transition, is not a problem that can be solved by simply creating a commission or by passing a law. It will take many long years of sustained effort, combined with political will, before the people of Iraq are assured that they are the beneficiaries of the oil riches and the full economic potential of their country.

Today, corruption remains endemic in Iraq. Unless checked, it is doubtful that many U.S. funded reconstruction efforts will be able to achieve their intended purpose. Furthermore, as SIGIR pointed out in its most recent Quarterly Report to Congress, Iraq is facing a windfall in potential oil revenues in 2008—over $50 billion that is highly vulnerable to corruption.

THE NATURE OF CORRUPTION

I testified in October 2007[6] that corruption in Iraq is a second insurgency because it directly harms the country's economic viability. In very real terms, corruption stymies the construction and maintenance of Iraq's infrastructure, deprives people of goods and services, reduces confidence in public institutions, and potentially aids insurgent groups reportedly funded by graft derived from oil smuggling or embezzlement. Corruption discourages hope, devalues America's contributions to Iraq, and strengthens the appeal of our opponents.

Surveys of Iraq's citizens continue to reveal a common belief that corruption is pervasive within their national government. Transparency International conducts annual surveys within countries on individuals' perceptions of the degree of public sector corruption. Their scores range from 10 for highly clean to 0 for highly corrupt.

[6] Testimony of Stuart W. Bowen, Jr., Special Inspector General for Iraq Reconstruction, "Assessing the State of Iraqi Corruption", House Committee on Oversight and Government Reform.

Out of 180 countries, Transparency International ranks Iraq at 178 with a score of 1.5. This data, while not conclusive, provides a grim independent assessment of corruption in Iraq.

Effective anticorruption programs must include a broad range of approaches to address the issue. Activities to address corruption may include establishing specific government entities which attack existing corruption. In Iraq, this includes the Commission on Integrity, which is the primary agency charged with investigating accusations of official corruption and bringing alleged offenders to court. It is analogous to the FBI. The Board of Supreme Audit is Iraq's analogue to the U.S. Government Accountability Office, and Iraq's system of Inspectors General parallels U.S. agency IGs. Additionally, U.S. efforts address the broad spectrum of conditions facilitating corruption by identifying deficiencies in investigative techniques and improving local governance capacity.

U.S. EMBASSY PROGRESS IN SUSTAINING HIGH LEVEL LEADERSHIP AND COMPREHENSIVE APPROACH

In January of this year, SIGIR issued its fourth review on U.S. support to Iraq's anticorruption efforts. SIGIR found that the U.S. Embassy in Iraq has taken action or has planned steps to address SIGIR's previous concerns. If effectively implemented, these actions would address all recommendations contained in earlier SIGIR reports.[7] Most notably, the Ambassador has identified actions to improve the oversight and coordination of the U.S. anticorruption effort and in December 2007 proposed to the Secretary of State a reorganization of personnel and assets to elevate the importance of anticorruption programs.

The Embassy has recognized the need to design and implement a comprehensive, integrated anticorruption strategy to assist the GOI and the Iraqi people in combating the corruption permeating government agencies, private business, and other institutions of Iraqi society. SIGIR supports these actions but notes that past efforts to revitalize and coordinate U.S. anticorruption efforts have been largely ineffective and suffered from a lack of management follow through. The success of these new efforts will, therefore, depend in large part on sustained management commitment, particularly in terms of day-to-day leadership and senior-management oversight.

At this time, preliminary observations from our ongoing work indicate that the Embassy is moving forward on its December plan, albeit slowly. To illustrate, the new Anticorruption Coordinator's Office has been established and initially staffed with six positions. An Acting Anticorruption Coordinator has been temporarily assigned until the position can be filled by a senior level U.S. government official. The State Department informed us that a preliminary selection has been made for this is position with a formal announcement imminent.

The Anticorruption Working Group has convened several times and seven subgroups have been established in order to better manage/achieve specific goals and objectives. The sub-groups have been assigned specific areas to coordinate such as: (1) implementing and monitoring anticorruption reforms, (2) establishing standards to evaluate U.S. government anticorruption assistance, and (3) maintaining and accurate inventory of U.S. anticorruption assistance programs to prevent duplication of efforts among U.S. civilian and military entities. Several sub-groups have met and actions are underway in several areas, many of which stem from recommendations in prior SIGIR reports.

GOVERNMENT OF IRAQ ANTICORRUPTION EFFORTS: CHALLENGES AND PROGRESS

I would like to address some of the challenges that I raised in my October 4, 2007 testimony on corruption in Iraq[8] and the steps the GOI is taking to fight this corruption.

Security

Security concerns throughout Iraq severely limit the transparency of government although as SIGIR as reported in our January 2008 quarterly report, violence has decreased and there is continuing progress in the capacity and size of the Iraqi Security Forces. Nevertheless, violence, or threats of violence as well as political influence over many of Iraq's public institutions remain. To demonstrate the impact of such conditions, I previously testified that Commission on Integrity investigators have been forced to reveal the details of their cases to the ministries and officials

[7] U.S. *Anticorruption Efforts in Iraq: Sustained Management Commitment is a Key to Success*, (SIGIR–08–008, January 24, 2008).

[8] SIGIR 07–015T October 4, 2007 "Assessing the State of Iraqi Corruption" Testimony presented to the House Oversight and Government Reform Committee.

they were investigating, placing witnesses and anticorruption officials in danger. At least 39 employees of the Commission have been murdered. Judges and judicial investigators have also been intimidated or killed.

Political Leadership and the Rule of Law

The absence of ability within the Iraqi judicial system to prosecute corruption cases effectively and fairly is a major obstacle to tackling the pervasive corruption in the country. These weaknesses stem from many factors: from the shortage of reliable judges, courtrooms and detention facilities, to political interference and the resulting culture of impunity. Article 136(b) of Iraq's Criminal Code is a notorious structural obstacle impeding Iraq's anticorruption efforts. This provision allows any Iraqi minister to grant, by fiat, complete immunity from prosecution to any ministry employee accused of wrongdoing.

In addition, an order issued by the Prime Minister in the spring of 2007 requires Iraqi law enforcement authorities to obtain permission from the Prime Minister's office before investigating current or former ministers. Although an Embassy official informed us that the head of the Commission on Integrity stated that the 2007 order had not impeded his recent activities, we continue to believe that these actions are incompatible with a well-functioning anti-corruption program.

Capacity

Iraq's anticorruption agencies, as well as government ministries charged with managing Iraq's financial resources and providing necessary services to its people, face significant capacity and resource shortfalls. Enormous shortfalls exist in the areas of investigations, audit and management. Moreover, our review of efforts to implement a financial management information system discussed earlier in this testimony demonstrated the vulnerabilities of current conditions. In 2003, the Coalition Provisional Authority and the International Monetary Fund conducted assessments that found that the GOI financial structure provided limited ability to monitor Iraqi ministerial budgets and expenditures, leaving the ministries vulnerable to fraud, waste and abuse.

Government of Iraq Efforts

SIGIR continues to monitor GOI anticorruption efforts. The first Anticorruption Conference was held in Baghdad on January 3, 2008. Organized by Deputy Prime Minister Baram Saleh, the conference announced that 18 initiatives, recommended by the Prime Minister, would begin as part of a National Campaign for Fighting Administrative Corruption. These initiatives are broad and address a wide range of issues. To illustrate, the plan calls for the adoption of data systems to provide transparency over public fund management and the execution of projects and plans. Moreover, addressing laws and regulations is an integral component of the plan; drafting a law on administrative corruption and review existing laws and regulations affecting money laundering are included as steps that must be taken. The Conference announcement also provided completion dates for each of the 18 initiatives. No later than April 1, 2008, for example, the Ministry of Foreign Affairs must implement the United Nation's agreement in fighting administrative corruption which Iraq agreed to join. Moreover, to support its anticorruption efforts, the GOI has created two groups: the Joint Anticorruption Council and the Council of Representation Committee on Integrity.

CORRUPTION EFFORTS MUST BE SUSTAINED

Just as it is critical that the Government of Iraq (GOI) develop effective sustainment measures for the "hard" construction projects, so must it develop effective sustainment plans for "soft" programs—corruption being foremost among them. Efforts to improve government processes, increase transparency, strengthen the civil service system, bolster training, and hold individuals accountable—are even more important. In the area of corruption fighting—ensuring that entities such as the Board of Supreme Audit remain independent, resourced and politically supported, are also critical. We recognize that this will not be an easy task. In Iraq, as in many countries in transition, corruption presents a very complex challenge.

SIGIR LESSONS LEARNED AND RECOMMENDATIONS

In concluding, SIGIR has identified the following lessons learned that relate to the issues we have discussed today.

Strategy and Planning

Include contracting and procurement personnel in all planning stages for post conflict reconstruction operations.

Clearly define, properly allocate, and effectively communicate essential contracting and procurement roles and responsibilities to all participating agencies.

Emphasize contracting methods that support smaller projects in the early phases of a contingency reconstruction effort.

Generally avoid using sole-source and limited competition contracting actions. These exceptional contracting actions can be used in exceptional cases, but the emphasis must always be on full transparency in contracting and procurement.

Policy and Process

Establish a single set of simple contracting regulations and procedures that provide uniform direction to all contracting personnel in a contingency environment.

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.

Definitize contracts as early in the process as possible. SIGIR Audit 06–019 found that there was a lack of clarity regarding regulatory requirements for definitization of task orders issued under contracts classified as Indefinite-Delivery/Indefinite Quantity (ID/IQ).

Designate a single unified contracting entity to coordinate all contracting activity in theater. JCC–I/A has recently been designated the coordinating agency.

Ensure sufficient data collection and integration before developing contract or task order requirements.

Avoid using expensive design-build contracts that have unclear requirements and are awarded on a cost-plus basis, especially for simpler projects when standard structures are needed in large numbers over a wide geographical area such as for schools and clinics.

Use operational assessment teams and audit teams to evaluate and provide suggested improvements to post-conflict reconstruction contracting processes and systems.

SIGIR, made the following recommendations in our Contracting Lessons Learned Report to improve contingency contracting:

—Explore the creation of an enhanced Contingency Federal Acquisition Regulation (CFAR). We observed that agencies have developed agency specific regulations implementing the government-wide Federal Acquisition Regulation (FAR). For example, the Army notes that the Department of State, which has unique capabilities important to expeditionary situations, has developed FAR implementing procedures that differ from DOD's.

—Pursue the institutionalization of special contracting programs such as the CERP which we noted before have unique roles in post-conflict reconstruction.

—Include contracting and program management staff at all phases of planning for contingency operations.

—Create a deployable reserve corps of contracting personnel who are trained to execute rapid relief and reconstruction contracting during contingency operations.

—Develop and implement information systems for managing contracting and procurement in contingency operations.

—Pre-compete and pre-qualify a diverse pool of contractors with expertise in specialized reconstruction areas.

OPTIONS FOR CONGRESS TO CONSIDER

The Senate, in S. 680, has taken a number of steps to improve post-conflict contracting.[9] Moreover, the Army has initiated its own review, with the Commission on Army Acquisition issuing an excellent report on the subject. We generally support the Commission report's recommendations and note that many of these recommendations are tied directly to areas of concern that SIGIR identified. We look forward to seeing their implementation.

We suggest that the Congress consider requiring any civilian agencies contracting in a contingency environment, most notably DoS and USAID, conduct their own comprehensive studies of their contracting operations to identify deficiencies and corrective actions. Specifically, we suggest these studies address their contracting and program and project management requirements, the status of their efforts to hire, train and ensure the speedy deployment of contingency contracting staff, and polices and procedures to manage and oversee contracts and contractors.

[9] Statement of Stuart W. Bowen, Jr. before the United States Senate Committee on Homeland Security Subcommittees, "Improving Contracting and Government Oversight of Contractors Performing Work in Contingency Operations", January 24, 2008.

Given the critical need for coordination and collaboration, we further suggest these studies also address how the agencies will work with their civilian, as well as military, counterparts in contingency operations. In this regard, I would also suggest that specific timeframes be established for identifying contracting and contract management problem areas and reporting to Congress their proposed solutions, including implementation plans with identified priorities of specific tasks and completion dates.

Lastly, I would suggest to the Committee and to other committees that have oversight of U.S. reconstruction funding in Iraq that they press the various agencies which come before them during the budget cycle about the agency's own plans to deal with the problems we have discovered in specific and systemic terms, and in both the medium and short terms.

CLOSING

Let me close by thanking you for the opportunity to testify before you today on these important matters. On behalf of all of my colleagues, who carry out the important mandate you have assigned SIGIR, I extend thanks for your support of our work by providing us the resources we need to get the job done. This completes my statement for the record, and I look forward to responding to your questions.

APPENDIX I.—WHAT ARE FRAUD, WASTE AND ABUSE?

Definitions.—Fraud, waste, and abuse generally relates to the U.S. taxpayers not receiving the full value of government funded activities. Fraud is an illegal action by a government or contractor officials for personal gain. Waste represents a transgression that is less than fraud and abuse and most waste does not involve a violation of law. Rather, waste relates primarily to conditions that could result in waste such as mismanagement, inappropriate actions or inadequate oversight. Waste involves the taxpayers as a whole 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.) Examples of waste in the acquisitions and contracting area include the following:

—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.
—Failure to use competitive bidding in appropriate circumstances.
—Over-reliance on cost-plus contracting arrangements where reasonable alternatives are available.
—Payment of incentive and award fees in circumstances where the contractor's performance, in terms of cost, schedule and quality outcomes, does not justify such fees.
—Failure to engage in selected pre-contracting activities for contingent events (e.g., hurricanes, military conflicts).
—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.

Abuse of authority or position involves decisions made for personal financial gains or for immediate or close family member or business associate. Abuse does not necessarily involve fraud or violation of law.[10]

Senator LEAHY. Thank you very much.

I have one question for all of you. But before I start, just to go back, General Kicklighter in your testimony you mentioned the diversion of U.S. weapons to Iraqi insurgents and your efforts to stop it. Are you confident today that U.S. weapons are not being diverted and used to kill and wound Americans?

General KICKLIGHTER. Senator, I am confident that both the United States—the coalition forces and the Iraqi Security Forces have put in place procedures to prevent that—accounting for weapons down to the company level, by serial number. And we went and looked at a lot of the nodes and down at police stations, and compa-

[10] GAO Letter to Congressman Ike Skelton on behalf of GAO, and the Inspectors General of SIGIR, DOD–IG and DOS–IG. February 7, 2007.

nies, and here's what the estimate is—is that all of the weapons coming through the system today, there is a major attempt to capture those weapons, and control them by serial number, and by weapons card down in the police station and down to the units.

Senator LEAHY. I'm thinking of the very large number of handguns that went unaccounted for, some even showed up in Turkey.

General KICKLIGHTER. Yes, sir.

Senator LEAHY. Are you confident that none of the American weapons today are being diverted and used against us?

General KICKLIGHTER. Yes, sir.

I can't say 100 percent that, you know, that any system is 100 percent, but I believe there is a good system in place that is getting better day by day, and there is not a major leakage of weapons going into the hands of the insurgents, or to the black market.

Senator LEAHY. Not a major leakage?

General KICKLIGHTER. No, sir. And, but there is a——

Senator LEAHY. That's not awfully comforting. And I'm not trying to quibble words here, but obviously the first weapons went out with no adequate way of checking them. We had the problem after the invasion that large ammunition dumps weren't even secured.

If you're a family member of one of our brave men and women who are over there fighting, you'd be concerned if, among the weapons they're facing, are weapons that came from the United States. I think you'd agree, from your own military background, that's something we should all be concerned about.

General KICKLIGHTER. We should be extremely concerned about tight controls of weapons, and ammunition. Making sure they don't fall into the wrong hands.

Senator LEAHY. Let me ask this question and I'll begin with Mr. Walker. Five years after we invaded Iraq, after spending $44 billion to rebuild the country, do you believe that there are effective controls in place today to prevent the theft and loss of U.S. taxpayer funds, and Iraqi Government funds?

Mr. WALKER. Senator Leahy, I think things are much better today than they were, but they're clearly not good enough. And I think there is a bigger picture question—the Iraqis have a budget surplus. We have a huge budget deficit.

Senator LEAHY. I'm going to be going into that, but go ahead.

Mr. WALKER. All right. One of the questions is, who should be paying?

Senator LEAHY. Well, they have $4 billion a month in oil revenues, that's about $50 billion a year. The President's asking for billions more in an emergency supplemental for the Iraqi reconstruction funds—any reason why we can't use some of that $50 billion a year of their oil revenues?

Mr. WALKER. Part of the problem, Senator Leahy, is that my information I have from my very capable staff is that for the calendar year that ended on 2007, from January through November, the Iraqis had spent less than 10 percent of their budget for several of the major ministries.

At the same point in time, we're all painfully aware of what is happening with crude oil prices. So, irrespective of what they budget, it's not being spent for various reasons, and, needless to say, revenues are going up.

Senator LEAHY. Which bothers me, because we're told in this country we can't spend money to fix our infrastructure, as bad as it is, we can't spend money to have our airports run well, we can't spend money to do research on cancer and Alzheimer's and diabetes and everything else, because of the war in Iraq. It seems if we ask for billions of dollars more for them, at some point, they ought to be able to pay for some of this themselves.

General Kicklighter, could they be doing more? And covering more of their own reconstruction costs than they do?

General KICKLIGHTER. Sir, I think that they are beginning to do more, and I know that they're doing more in the area of paying for their own military equipment. They are investing in foreign military sales now, and bringing weapons systems into the country that they are paying for. And I think that's certainly the trend that we should be following. As time goes on, they should pick up more and more of the expenses of their defense.

Senator LEAHY. Including reconstruction?

General KICKLIGHTER. Yes, sir.

Senator LEAHY. Mr. Bowen—first, do you believe that there are effective controls to prevent the theft and loss of U.S. taxpayer funds, and Iraqi Government funds?

And second, should the Iraqi Government be paying more of these reconstruction costs?

Mr. BOWEN. As to the first question, I agree with what Comptroller General Walker said: "The controls have gotten better." It's something that we've focused on since 2004, reporting on the challenges during CPA of the lack of controls and the need to improve.

My biggest concern on the control front is the issues related to direct contracting with Iraqi firms. It's an emphasis that the United States Joint Contracting Command—Iraq has pushed—I think, properly—forward, in order to employ more Iraqis and build capacity and promote capital growth.

However, those are Iraqi firms executing projects involving U.S. funds, and I continue to raise questions about that.

Senator LEAHY. During these past 5 years, has there been anyone from the Iraqi Government held accountable for the theft or loss of U.S. taxpayer funds?

Mr. BOWEN. That issue has not come to the fore. My concern on prosecution of Iraqis is there haven't been any, to speak of. The largest one——

Senator LEAHY. There hasn't been any corruption, or there hasn't been any prosecution?

Mr. BOWEN. Prosecution.

Senator LEAHY. I wanted to make sure.

Mr. BOWEN. Prosecution.

Senator LEAHY. As a former prosecutor, I know the difference.

Mr. BOWEN. Yes. The most notable case came to court 1 week ago in Baghdad, involving the deputy minister of health. There was significant evidence related to the sale of prescription drugs on the black market that had been ongoing within that ministry. The case was dismissed, because witnesses had been intimidated and did not show. That's the sign of a rule of law system that is not strong. Frankly, the corruption issue is a symptom of that weak rule of law system.

Senator LEAHY. Well, it's also costing American taxpayers a great deal of money, because they won't police their own corruption. It creates a real problem here.

Mr. BOWEN. Well, that's right. With respect to the oil revenue, that was the leading issue pointed out in our latest quarterly report that this windfall, as a result of this last quarter's maximum production level since the invasion, the maximum export level since the invasion, and the highest oil prices in history, all of these coalesced into an enormous revenue windfall for the Iraqi Government. They estimated revenues of $35 billion last November, and it's estimated to be closer to $60 billion. And that certainly gives them resources to carry forward with an extensive reconstruction plan.

Also, it makes it all the more important that Prime Minister Maliki carry forward since he's declared the year 2008 to be the year of reconstruction and anti-corruption on both of those fronts.

Senator LEAHY. I want more than decoration, I'd like to see them actually do it. Because we have to spend more for our aid because of the oil prices, they ought to be able to use some of their oil revenues to pay these costs, and not keep sending the bill to the United States.

Senator Cochran.

Senator COCHRAN. Mr. Chairman, thank you. I gather from the testimony of David Walker, that U.S. operations are not nearly as troublesome in terms of breaking down the system, procurement, safeguarding property, and all the rest.

I wondered if you have heard about the fact that the Army is moving to upgrade its oversight capabilities, and whether or not you had an opportunity to look into what they're doing.

Mr. WALKER. Well, first, Senator Cochran, let me clarify. I believe what I said was, was that with regard to fraud and corruption, that is a major problem with regard to the Iraqi Government and Iraqi funds. There is some with regard to U.S. personnel and U.S. funds, but not significant. The real problem is waste.

With regard to the issue that you raise, yes. In response to GAO recommendations, in response to the Gansler report, which undoubtedly, you're familiar with, the Army and the Department of Defense had started to send more contracting personnel and to try to add training and additional oversight capability. They've still got a ways to go, but they are taking steps.

Senator COCHRAN. And, Mr. Kicklighter, the Secretary of the Army specifically responded to the need to improve contracting work and established a commission to review these efforts. And I'm told the work of the Army's contracting forces activities were put under very close scrutiny.

And they announced last week that they were establishing a new contracting command, headed by a two-star general. What's your impression of the effort that's being made by the Army? Do you think these efforts will achieve the results that are intended?

General KICKLIGHTER. The short answer, sir, is that they will. The Army has had both the Gansler Commission, and they've also had a task force headed up by Lieutenant General Ross Thompson, and Kathy Condon, a deputy commander at Army Material Command.

These two independent bodies looked at how well we were organized to oversee and support contract operations around the world, but particularly in southwest Asia.

And those two bodies, which we kind of over-watched, came up with very similar recommendations. The Army has moved out, smartly. But a lot of the problems will not be able to be corrected overnight.

For example, they were woefully understaffed in personnel. That report calls for, I think, an additional thousand career civilians to be put against this problem, and 400 military, to bring military in the process much earlier in their career. Better training for both military and civilians—they have really moved out, but it will take some time to do the kinds of thing that are necessary, in my opinion.

Senator COCHRAN. Mr. Bowen, your office has prepared a series of "lessons learned" reports, in the areas of human capital management, contracting and procurement, and program and project management. Is there evidence that they have led to reducing incidents of fraud and waste?

Mr. BOWEN. Yes, there is evidence, in this regard. Our early audits revealed the contracting process during CPA was in disarray. Our audits, I think, helped lead to the formation of the Joint Contracting Command—Iraq, which gave a centralized point for the oversight of $13 billion in hard construction contracts, and several billion dollars more in nonconstruction spending which was part of the Iraq Relief and Reconstruction Fund.

We also recommended that the CERP doctrine be institutionalized, and be formalized, and be provided more oversight. That has begun to happen. CERP has expanded along the way, as well, and I think more attention in that regard would be helpful.

Our chief recommendation on contracting was the implementation of an enhanced contingency Federal acquisition regulation, and the Office of Federal Procurement Policy acknowledged that it would be useful. It also adopted a number of our recommendations on Federal contracting across the board, and I think those have been salutary events.

Senator COCHRAN. Your most recent quarterly report describes 2008 as "the Year of Transfer" of Iraq, as the Government of Iraq assumes greater responsibility for the financing and management of reconstruction efforts, are you working with them to help ensure that they benefit, also, from the lessons learned that your agency has documented?

Mr. BOWEN. The U.S. mission in Iraq is doing that and is seeking to build capacity. I think capacity-building is the point of the support spear, if you will, in Iraq, with respect to how the ministries operate. And it's all the more compelling an issue now, in light of this windfall in oil revenues.

I think the Year of Transfer involves transferring responsibility for planning, executing, and funding reconstruction and relief operations, and transferring responsibility for the remaining nine provinces, to Iraqi security control—nine have already transferred—and transferring responsibility. I've said this before, today the sustainment of what we build is to ensure that, collectively, the fledging Iraqi democracy can continue to grow.

Senator COCHRAN. Thank you very much.

Thank you, Mr. Chairman.

Senator LEAHY. Thank you, Senator Cochran.

Senator Murray, you were next, but I——

Senator MURRAY. Well, Mr. Chairman, Senator Dorgan has done an incredible amount of work on this, and I know the Byrd rule on seniority, but I would prefer to let Senator Dorgan ask his questions first, now.

Senator LEAHY. Certainly, Senator Dorgan has spent a lot of time working on this. He's been an extremely strong voice for accountability of Iraq Reconstruction funds.

Senator Dorgan, we'll yield to you, and then after the next Republican, we'll go to Senator Murray.

Senator DORGAN. Mr. Chairman, I thank the Senator for the courtesy. I'm not going to ask questions so much of this panel. I'm going to ask a lot of questions of the next witness. I want to thank all three who have come today. This is a lot of good work. I've met with Mr. Bowen in my office, and talked about SIGIR and the work you're doing. I had an opportunity to spend some time with Mr. Kicklighter. In fact, he just released an IG report yesterday that I think is very important. And of course, Mr. Walker has done, just terrific work in these areas.

So, I want to thank all of you. You are so important to us at this point.

I want to make a couple of comments, if I might. I really appreciate this hearing being held. I think for 5 years, frankly, Congress has done a miserable job of oversight, just a miserable job. And we've just shoveled money out the door, and it is the greatest waste, fraud, and abuse in the history of this country, I'm convinced. I'm convinced the American taxpayers have been stolen blind.

Let me give you just a couple of examples. I hold up a chart that shows a comment by Mr. Will Granger. He was in charge of all water quality for Iraq. We paid him for that. He worked for KBR, the Halliburton Corporation, they had a contract to provide water to military bases.

This is from an internal memorandum of the Halliburton Corporation that I was able to get a hold of. In it, he talks about the problems—they weren't testing water.

And Mr. Granger—this is an employee of Halliburton—says, "This event should be considered a near miss, as the consequences of these actions could have been very severe, resulting in mass sickness or death."

This is a 21-page internal report by the company that was paid to test water, and didn't do it.

The company denies this happened, and the Pentagon didn't care much about it, regrettably.

Mr. Kicklighter, thank you for the inspector general report that finally tells us, this is a set of facts that's very important.

Let me just also hold up Ms. Greenhouse's testimony. She talks about when the LOG/CAP and the RIO projects were originally given. This is the highest civilian contracting officer in the U.S. Army Corps of Engineers. She came to the Congress and she said, "I can unequivocally state that the abuse related to the contracts

awarded to KBR represents the most blatant and improper contract abuse I've witnessed during the course of my career." This is the highest civilian official at the Corps of Engineers. You know what she got for that honesty? Demoted. And, of course, now for 4 years, 3 years, that's been kicking around in the Pentagon.

Frank Willis, let me show you Frank Willis. He came forward. He was in a building in Iraq, and he showed us how money was saran-wrapped into football-sized packets. He said they used to throw them around. This money went to Custer Battles Corporation. They were told to "bring a bag, because we pay cash." This happens to be $2 million in $100 bills. And Frank Willis told us the way money was distributed, and he said it was the most unbelievable waste that he'd ever seen.

Now, let me show you a tiny little example. Mr. Henry Bunting showed up. I held 12 hearings in the Senate Democratic Policy Committee, because other committees weren't holding them. Henry Bunting showed up with this towel. This towel, as you see, is a white towel. Henry Bunting worked for KBR, he was supposed to order towels for the military, because now we contract everything out, even the buying of towels. So, he made an order for a towel, ordered a white towel.

The supervisor said, "No, you can't do that, you need to order a towel with KBR embroidered on it." He said, "The problem is, that will triple or quadruple the price." His supervisor says, "It doesn't matter, this is a cost-plus contract, taxpayers pay for that."

So, this is the towel the troops got, with "KBR" embroidered on it.

Now this is a tiny little issue. The fact is, this wouldn't be part of any investigation that's going on. But it's just a profound waste of taxpayers money.

And let me also say, that today we will hear from a witness, of the next panel, in which we will hear that U.S. tax dollars—stolen through corruption in Iraq—are funding the forces that have killed American soldiers. We'll hear that directly from someone who was in Iraq, and involved in this issue.

We'll hear from a witness who said that he showed up and was given $11 million in cash—$11 million in cash—and all he had to do was to give them a name, a photo ID, and an address. That's less documentation than you need to give to cash a $25 check in this country. $11 million which was, by the way, later stolen.

So, you know, we see these things—there was a question, I think, about are the Iraqis paying now, beginning to pay for their own defense equipment? We'll have testimony today, as well, that says, "Well, yeah, they are. In fact, they're ordering new tanks and planes and so on, some of which are never delivered, some of which are delivered as old equipment. And the former minister of defense cannot account for—and he's now gone, of course, with substantial property holdings in London—cannot account for $4 billion—$4 billion—that went through his hands. But I know where some of it is.

If I sound upset by this—I think what's happening here is unbelievable.

Mr. Kicklighter, the inspector general's report you released yesterday describes, I think, an undermining of our solders, even as

the American taxpayers are being fleeced. And we don't have nearly the resources that we need.

Inspector General Bowen, this is your third quarter report from last year, I've kept it on my desk, now, for 4 months. We have 967 water projects, right now that we're funding in Iraq. We have 478 electricity projects—you've done some awfully good work, delineating exactly what projects are ongoing, that are being funded with American tax dollars. And I appreciate your coming today to talk about them. We are a country that's up to its neck in debt, shoveling billions of dollars out the door, sending $100 bills over by C–130s on pallets. We are finally, at long, long, last, maybe going to give the taxpayer some feeling that there's some accountability and oversight? I wonder. I'm not certain of that, but I wonder.

This hearing is a very important hearing, it's the tip of the iceberg, and the three of you have done really excellent work.

I'm sorry to use my time just to talk, because you've got a lot to say, and I know that and I've read your reports and have kept pretty close track of this, having done 12 hearings. But, the next witness, I'm going to ask a lot of questions of the next witness. And I think this ought to be the first of a dozen or two dozen hearings, at which we put the—all the spotlights on the same spot, and demand on behalf of the America taxpayers and demand on behalf of soldiers, who strapped on body armor this morning, and went out and risked their lives—demand accountability. Because I think we have been cheated. And Congress needs to do and can do much, much better.

One final point. The Truman Committee that was established at the start of the Second World War—they held 60 hearings a year. They started with $15,000, they saved $15 billion for this country. They held 60 hearings a year, demanding accountability, and this Congress for 5 years, has been asleep.

So, Mr. Chairman, thank you for recognizing me.

Senator LEAHY. I would tell the Senator from North Dakota that the reports that he's brought out have been invaluable to this Senator.

I should also note, for those who think there may be any question of partisanship—the Truman Committee, which you talked about, was conducted by then-Senator Truman of Missouri, during a Democratically controlled Congress, with a Democratic President, in a war that had far more support in the United States than the current war does.

They still raised the questions, because—whether you support the war or are opposed to the war—Americans would like to think that money is spent wisely, and spent well. For those who have had family members serving there, or who have served there themselves, they want to make sure that it's done well.

I felt that way when my son was in the Marine Corps and got called up for Desert Storm. I feel that same way today, even though I have no family member there.

Senator Craig, you're next.

Senator CRAIG. Well, Mr. Chairman, thank you very much. I totally agree that these kinds of oversight hearings are critical, there should be more of them, as detailed as we can possibly become by the information available to us, I think is important.

General Kicklighter, you mentioned the need for employees to do the work at hand, and you mentioned numbers of 1,000-plus accountants or auditors or that type—is it possible to find them, and do they want to go to Iraq? Or will they go to Iraq?

General KICKLIGHTER. I think the problem is recruiting, training and preparing, and I think once that's been done, that there is a willingness to go serve. And 1,000 of these will be Department of Defense career civilians.

I've been to Iraq, I think, 11 or 12 times since the beginning, and every time that I've been there, I've been so impressed by the quality and the dedication and the commitment of both the military and the civilians that are there, and the civilians, in large part, are there because they want to be there, and they volunteer, but that's not always the case.

But, I think, Senator, once we've recruited, trained, and prepared these people, they will go, and they will provide the oversight we need, and the acquisition in the contracting world.

Senator CRAIG. I keep hearing there is a concern about civilians who are there. Can they do the kind of work necessary from inside the green zone? I would have to think they would have to be out on the ground?

General KICKLIGHTER. Sir, they do have to be out on the ground, and they're all over the country.

Senator CRAIG. Okay.

General KICKLIGHTER. They're in provincial reconstruction teams, they're in maintenance teams, they're in teaching teams, they're in engineer groups. And they do share risk, similar to what our troops do, our career civilians do.

But, to the extent possible, the same security that we can provide our military and our civilians, we're attempting to do that. But there are risks involved.

Senator CRAIG. Yes.

Both the chairman and the ranking member have expressed concern about oil revenues, and effective use of those oil revenues. I think many of us felt, as we funded the war, that the money that we fund goes to the troops. And in the very beginning, we talked about the potential and the capability of the Iraqi people, of funding—in large part—their own reconstruction.

Mr. Walker, first of all, thank you for your service, I understand you're leaving us, soon, and going into private life. Mañana?

Mr. WALKER. Tomorrow's my last day.

Senator CRAIG. Tomorrow is your last day.

Mr. WALKER. As Comptroller General, correct.

Senator CRAIG. Well, first and foremost, thank you for your service, it has been greatly appreciated.

In those concerns about the potential billions of dollars that are now coming into Iraq, and the unwillingness or the inability to expend them and, of course, the possible waste that could occur there, based on the fraud and abuse that we're now beginning to hear about, you mentioned the need for a strategic plan of implementation, I believe in the energy sector.

So the Iraqis want one? Are they willing to accept it? Do they know what we're talking about in that respect? And do they com-

prehend the need for a path forward that is both strategic, realistic, implementable, and therefore accountable?

Mr. WALKER. Well, Senator Craig, the Iraqis have a much more serious capacity problem than we do. There was a flight of talent from Iraq that occurred a number of years ago. Some individuals have come back, but not in adequate quantities to be able to address the skills and knowledge gap.

I think the simple fact is, that if they want our money—which presumably they do—and if we want to make sure that the taxpayers are getting a good return on investment, then we need to insist on it. And, you know, one of those things that has been mentioned before is, where is the accountability?

Senator CRAIG. Well, we need to insist on it. Are we insisting on it, to that degree?

Mr. WALKER. Well, our recommendation to the State Department was that they needed to develop a strategic and integrated plan with respect to the energy sector, as well as capacity building for the Iraqi ministries. Their comeback to us, was, "Well, the Iraqis ought to do that," and our comeback is, "No, it should be a shared responsibility, because it involved both U.S. taxpayer funds, and Iraqi funds, and we stand by that."

Senator CRAIG. And that's where it stands at the moment?

Mr. WALKER. That's where it stands right now.

Senator CRAIG. There's a disagreement, so it's not going forward?

Mr. WALKER. Well, we'll see. Right now, there's a disagreement, and as you know, under our Constitution, we can't force people to adopt our recommendations. We rely upon you and other members to encourage the executive branch to do the right thing.

Senator CRAIG. Mr. Walker, General Kicklighter, Mr. Bowen—lessons learned. It's my understanding that we're supposed to see a compilation of those soon.

What are some of the lessons learned that are bringing about the implementation that lessens the opportunity for fraud, waste, and abuse? All three of you, a couple of those that you have clearly learned and you have now effectively implemented?

Mr. BOWEN. On the contracting front?

Senator CRAIG. Yes.

Mr. BOWEN. First, ensuring that there is a single database for contracts in theater. That has been an extremely difficult endeavor, something we've focused on through our reviews over the last 3 years. It's still not possible to go to a single source and find out all of the projects and all of the contracts—that, to me, is a basic building block of accountability.

Second, ensuring that there is an understood and agreed-upon set of rules for contracting in theater. There are a whole variety of agencies contracting, and they have a whole variety of rules, which is a challenge for contractors operating in-country.

Third, on the personnel front, ensuring that the right people are selected for the right jobs, for an extended period. During the CPA tenure, there was constant turnover, and that turnover problem has gotten better, but it's still an issue.

We have documented situations where a certain contract has had—the Parsons contract, for example, has had 16 different con-

tracting officers, in just over 3 years. And that is simply a weakness in oversight that leads to waste.

Mr. WALKER. Senator Craig.

Senator CRAIG. Yes.

Mr. WALKER. With regard to Iraq, one of the critical needs is to have more on the ground oversight capability that's forward deployed, on the ground.

But second, I'd like to provide for the record, with the permission of the chairman, a listing of the 15 longstanding, systemic, acquisition and contracting problems that exists within the Department of Defense. They've been there for years, they result in billions of waste every year, and that waste is accentuated, and increased, when you're dealing with contingency operations. And Iraq is a contingency operation, just as Katrina was one, for domestic natural disaster, in the Department of Homeland Security.

Senator CRAIG. I'm sure the chairman will accept those for the record, it will be important for us to see.

[The information follows:]

SYSTEMIC ACQUISITION CHALLENGES AT THE DEPARTMENT OF DEFENSE

Service budgets are allocated largely according to top line historical percentages rather than Defense-wide strategic assessments and current and likely resource limitations.

Capabilities and requirements are based primarily on individual service wants versus collective Defense needs (i.e., based on current and expected future threats) that are both affordable and sustainable over time.

Defense consistently overpromises and underdelivers in connection with major weapons, information, and other systems (i.e., capabilities, costs, quantities, and schedule).

Defense often employs a "plug and pray approach" when costs escalate (i.e., divide total funding dollars by cost per copy, plug in the number that can be purchased, then pray that Congress will provide more funding to buy more quantities).

Congress sometimes forces the department to buy items (e.g., weapon systems) and provide services (e.g., additional health care for non-active beneficiaries, such as active duty members' dependents and military retirees and their dependents) that the department does not want and we cannot afford.

DOD tries to develop high-risk technologies after programs start instead of setting up funding, organizations, and processes to conduct high-risk technology development activities in low-cost environments, (i.e., technology development is not separated from product development). Program decisions to move into design and production are made without adequate standards or knowledge.

Program requirements are often set at unrealistic levels, then changed frequently as recognition sets in that they cannot be achieved. As a result, too much time passes, threats may change, or members of the user and acquisition communities may simply change their mind. The resulting program instability causes cost escalation, schedule delays, smaller quantities and reduced contractor accountability.

Contracts, especially service contracts, often do not have definitive or realistic requirements at the outset in order to control costs and facilitate accountability.

Contracts typically do not accurately reflect the complexity of projects or appropriately allocate risk between the contractors and the taxpayers (e.g., cost plus, cancellation charges).

Key program staff rotate too frequently, thus promoting myopia and reducing accountability (i.e., tours based on time versus key milestones). Additionally, the revolving door between industry and the department presents potential conflicts of interest.

The acquisition workforce faces serious challenges (e.g., size, skills, knowledge, and succession planning).

Incentive and award fees are often paid based on contractor attitudes and efforts versus positive results (i.e., cost, quality, and schedule).

Inadequate oversight is being conducted by both the department and Congress, which results in little to no accountability for recurring and systemic problems.

Some individual program and funding decisions made within the department and by Congress serve to undercut sound policies.

Lack of a professional, term-based Chief Management Officer at the department serves to slow progress on defense transformation and reduce the chance of success in the acquisitions/contracting and other key business areas.

Senator CRAIG. Are you saying that these problems that you're proposing to us as examples, or as realities, still exist today?

Mr. WALKER. They still exist today, to differing degrees. And, in fact, this afternoon, I'm testifying before the full Senate Armed Services Committee, and that will be one of the issues that I will talk about this afternoon.

Senator CRAIG. Thank you.

General Kicklighter, last one, he's following up on a question, general?

General KICKLIGHTER. Thank you, sir. That's an excellent question, and let me just tell you, one of those things that we're doing to capture the lessons learned—we're going through all of the investigations, the audits, the inspections that have been done since the beginning.

And I think that by next month, we will have done an evaluation of what are the themes and the lessons that we've learned from this war, and we'll make sure, Senator, that you get a copy of that, and this committee gets a copy of that when we finish that report.

But, it's going to be extremely valuable, and it will answer the kind of question that you answered.

Let me just add two points to that, and I think it reinforces what my colleagues have said.

One is that I think the problems that we had in contracting is that where we had poor oversight, where we had poor leadership, where we had the lack of the proper level of leadership, and the fact that we didn't have administrative support is what caused a lot of the problems for corruption and waste in the contracting world. And I think we've learned that lesson, and that reinforces what my two colleagues have said.

The other thing I'd like to reinforce, what Mr. Walker said, and that is the value of a strategic plan that integrates all of the effort out there. This is not only a kinetic war, but it's—the non-kinetic part is extremely important, in finishing this up.

And so the lesson, I think, is that a strategic plan that integrates all of our effort, and Senator Leahy talked about this in the beginning, about all of the ministries and so forth, an integrated plan that's updated frequently, that gives us a path for the future, I think, is a lesson that we've learned, as well.

Senator CRAIG. Thank you, Mr. Chairman.

Gentlemen, thank you for your service.

Senator LEAHY. Senator Feinstein.

Senator FEINSTEIN. Mr. Chairman, I just want to begin by thanking Senator Dorgan for the work he has done. You know, he spoke with an alarm in his voice, and I really hope you three gentlemen take note of this.

I think that we feel that this is the greatest instance of fraud, waste, and abuse that any of us have ever, ever seen. And it really deserves some kind of extra governmental effort.

Let me just take one of his instances, and I guess it was the AP that reported that dozens of U.S. troops have become ill from unmonitored and potentially unsafe water supplied by KBR.

Another report suggests that the company has avoided paying hundreds of millions of dollars in Federal Medicare and Social Security taxes by hiring workers through offshore entities based in the Cayman Islands.

Is that true or false? Whoever wants to answer it?

General KICKLIGHTER. Let me answer the water question.

Senator FEINSTEIN. General, thank you.

General KICKLIGHTER. That question is absolutely correct, and that problem was brought to this office by Senator Dorgan. He brought it to our attention.

Senator FEINSTEIN. Right, respectfully, I know it was correct.

General KICKLIGHTER. And it was absolutely correct. I do not know the answer to the other part of your question, but I will be happy to look into that, and report back to you.

Senator FEINSTEIN. All right, do either of the two of you know the answer to that question? True or false is the answer, Mr. Bowen?

Mr. BOWEN. I don't know the answer. I am aware from my many visits to Iraq of KBR's use of third country nationals to carry out a significant amount of their work.

Senator FEINSTEIN. To avoid taxes.

Well, it seemed to me that would be something that you ought to look at. I mean, they get top dollar times 100 for what they're doing, and it seems to me the very least they can do is pay taxes.

Well, let me ask you another one. It is believed that the Pentagon has known that KBR has exploited this loophole since at least 2004, even as the company has amassed an estimated $16 billion in contracts in Iraq. Is this true or false?

General KICKLIGHTER. I do not know the answer to that, Senator, but I will look into it and get back to you.

[The information follows:]

USE OF OVERSEAS COMPANIES BY KELLOGG, BROWN AND ROOT (KBR)

The Department of Defense Office of the Inspector General has not reviewed this issue. Under current law the practice is not illegal; however, the Defense Contract Audit Agency (DCAA) has conducted audits to ensure that contractors have not billed government contracts for taxes that were not incurred.

Recently both the House and Senate have introduced legislation, which if enacted would prevent this type of situation from reoccurring. H.R. 5602 and S. 2775, "Fair Share Act of 2008," have been introduced to amend the Internal Revenue Code of 1986 and the Social Security Act to treat certain domestically controlled foreign persons performing services under contract with the United States Government as American employers for purposes of certain employment taxes and benefits.

Senator FEINSTEIN. Okay. It has been reported that $8.9 billion of Iraqi oil has been essentially corrupted—in other words, put in somebody's pocket. Is that true?

Mr. BOWEN. I don't know the answer to that number. The fact is that corruption has afflicted the Iraqi oil sector, particularly up at the Baiji Refinery with respect to the smuggling of refined fuels, and that was a symptom of the subsidy program that created an incentive for smuggling. And I know that continues to be a problem today based on my recent visits with Iraqi authorities.

Mr. WALKER. Senator Feinstein, corruption has been a problem, in particular with regard to the energy sector. That's where the money is, that's their most valuable asset.

I might note one thing that I think is important. There are two pots of money—there is U.S. taxpayer money, and there's Iraqi money. And there was widely reported roughly $9 billion worth of money that disappeared, that was improperly accounted for. That was Iraqi money. And, in fact, the picture that you have there—even though it was U.S. currency, it was probably Iraqi deposits.

Here's the important point. Those funds were the responsibility of U.S. citizens. And so, even though they were Iraqi funds, we still have responsibility and should have accountability. And I've worked with my counterpart, Dr. Abdul Basit, who is chairman of the board of supreme audit in Iraq, to try to make sure he has access to the records, to be able to do audit work to hold people accountable.

So, even though it's Iraqi money, we should be concerned about it because we were responsible.

Senator FEINSTEIN. Absolutely, thank you.

Some American officials have estimated that as much as one-third of what they spend on Iraqi contracts and grants, end up unaccounted for or stolen, with a portion going to Shia or Sunni militias, true or false?

Mr. WALKER. I can't attest to the percentage—it is significant.

Senator FEINSTEIN. Anybody else like to add to that?

Mr. BOWEN. I can't attest to that percentage, either, but it is a significant problem.

This is the issue I alluded to earlier, with respect to the move toward direct contracting with Iraqi firms. That presents a challenge because of the U.S. dollars, and they are paying a company that we have limited insight into and oversight of.

Senator FEINSTEIN. Mr. Bowen, in your 2006 assessment of the Basrah Children's Hospital Project, you noted that USAID had only one contracting officer, and one technical officer to oversee 20 projects, worth $1.4 billion. Do any United States agencies today have sufficient numbers of monitoring personnel on the ground? I've heard what's been said. But, my question is, is it sufficient today?

Mr. BOWEN. A couple of things. First, as a result of those audits, the agencies responded by significantly expanding their presence and their oversight. For instance, the DynCorp contract is a parallel to the Bechtel contract, also a $1 billion contract, one that we reported had a significant shortfall in persons overseeing it. They had two persons. That simply doesn't pass the faintest muster.

But, they now have—I met the director of INL last week—14 persons here, in Washington, working on that contract, and 8 in Iraq. So, it's a several orders of magnitude increase.

Then to your real question, is this sufficient? I think more oversight's always better, and when you're talking about extraordinarily large sums of money being spent in a war zone that's very difficult to move around in——

Senator FEINSTEIN. Well, my question is, is it sufficient today?

Mr. BOWEN. Right.

Senator FEINSTEIN. And you're sort of skirting around the question.

Mr. BOWEN. Well, we have an ongoing audit that will update those previous reviews, that will specifically address that matter.

Senator FEINSTEIN. So, is the answer you don't know? Is it no? What is the answer?

Mr. BOWEN. The answer is that we don't know whether the improvements that they've made are adequate to oversee the current contracts, but our reviews, which will be out this spring, will provide details on it.

Senator FEINSTEIN. Thank you very much. My time is up.

Thank you very much, Mr. Chairman.

Senator LEAHY. Thank you.

And, Senator Lautenberg.

Senator LAUTENBERG. Yeah, Mr. Chairman, the litany that we hear here is of such a nature that you wonder—what kind of behavior dictated the theft and dishonesty with which this country of ours was dealt during this Iraq war? And Senator Dorgan has done substantial work, to his credit, it brought us face-to-face with some of the problems that exist.

And I served on the Department of Homeland Security Subcommittee, and tried to get oversight hearings. And Mr. Chairman, I want to congratulate you for holding this hearing. I tried to get oversight hearings in the Department of Homeland Security Subcommittee, and sent nine letters begging for oversight hearings, and was told that it wouldn't be necessary, because it would only be duplicative.

And when you see the list of things that have happened, and I point out—what a coincidence it is that Vice President Cheney has un-exercised options that he had—got when he was the CEO of Halliburton.

Now, I come out of the corporate world, and I understand fully what options are, and what they mean, and even though they're supposedly going to be given to a university, to accept them, I think is a little less than appropriate.

And when we look at Halliburton's behavior, and the things that they neglected to do—water tested positive for e. coli, coliform bacteria, they allowed our troops in Iraq to shower, bathe, sometimes brush their teeth with that water—charged—Halliburton charged taxpayers for services it never provided, and tens of thousands of meals it never served—outward theft.

You know, I served in a different war. And everybody's conscience drove them to be as frugal, as careful, as they could be. And if you deviated from full and honest support for your country, it was considered traitorous, that you were a traitor to the cause. And when we see that there have been sham corporations opened in the Caribbean and the Cayman Islands, and then shifted to Dubai—and by the way, we heard in the last year or so, that Halliburton was thinking of moving its headquarters to Dubai—and helping, from that office, helping Iran derive revenues from its oil, which they, in turn, spent to send people to kill our troops. It's something really rotten here, to develop a theme from another time in a play.

I want to ask Mr. Walker—the United States Senate Governmental Affairs Committee from 2003 to 2006, held only one oversight hearing on Iraq contracting, with only one witness. Was that a sufficient amount of oversight of this multibillion dollar program?

Mr. WALKER. Well, it's not enough oversight, Senator Lautenberg, the question is, which committee of jurisdiction or committees

of jurisdiction should be holding it? I would respectfully suggest that with respect to Senate Homeland Security and Governmental Affairs, clearly they had responsibility for Katrina, which was a domestic contingency. Yes, they have authority to look at Government contracting, Government-wide. The question is, was anybody else doing it?

Senator LAUTENBERG. Well, if we get to this point, and we find out that there's still questions being asked, there's still unanswered questions, then at what point does it get duplicative? At what point do we say, "Well, some other committee is doing it?" That's an old dodge, to hide behind another committee's jurisdiction, to say, "Well, I thought they were doing it." In good conscience, each one of us ought to be interested in what was taking place. And what's happened to the millions and billions of dollars that was wasted.

Mr. WALKER. Senator Lautenberg, if I can, real quickly. There wasn't enough oversight, in general, during that period of time.

Senator LAUTENBERG. Thank you very much.

Mr. Bowen, the Washington Post raised concern about a trip that you took in January to Maine. They said it was interpreted as political. It quoted a State Department official who reviewed your activity as saying, "This is the kind of thing we're taught not to do."

Did you check with the Office of Special Counsel to determine if this trip was an appropriate use of taxpayer funds?

Mr. BOWEN. No, I didn't. But I am invited to speak on Iraq reconstruction issues, and I was invited by Husson College up there, and I traveled up to speak to them.

Senator LAUTENBERG. Who were—who invited you?

Mr. BOWEN. Husson College, in Bangor, Maine.

Senator LAUTENBERG. Husson. Did you hold press conferences there? Did you do editorial board meetings?

Mr. BOWEN. I was invited to discuss our work by the editorial board.

Senator LAUTENBERG. By the editorial board?

Mr. BOWEN. Yes.

Senator LAUTENBERG. Were you accompanied to the editorial board meetings?

Mr. BOWEN. Yes, I was.

Senator LAUTENBERG. By whom?

Mr. BOWEN. By Senator Collins.

Senator LAUTENBERG. By Senator Collins? I see. And they review the kinds of questions that we're discussing here today?

Mr. BOWEN. It was just a review of our continuing work, oversight work, in Iraq.

Senator LAUTENBERG. Mr. Kicklighter—the troops who became sick from using unsafe water, do they have any recourse against Halliburton for its negligence?

General KICKLIGHTER. Senator, I don't know the answer to that, but we certainly are looking into what our recourse will be against Halliburton for not performing the contract as so specified.

Senator LAUTENBERG. I have a question here that I wanted to review with either Mr. Walker or Mr. Kicklighter.

On January 28 of this year, I sent a letter to the GAO asking for an investigation into a suspicious e-mail exchange indicating that the Army Audit Agency was told by the Army to not answer

questions about whether the cost of closing Fort Monmouth was higher than the Army indicated. The GAO passed the investigation to the Department of Justice, who passed it on to you, Mr. Kicklighter, and my question for you is, will you do this investigation, Mr. Kicklighter?

General KICKLIGHTER. Sir, we will. We had a meeting the other night, and we are in the process of looking into it, as we speak.

Senator LAUTENBERG. Thank you.

And one last thing, the Pentagon auditors have classified as "questionable" over $1 billion from Halliburton cost-plus log cap contract. Now, given this, should the Defense Department be permitted to continue to enter into cost-plus contracts which provide little incentive for a contractor to keep costs down?

Mr. WALKER. Senator Lautenberg, I think we need to reduce the number of cost-plus contracts. And I think that to the extent that we enter into a cost-plus contract, it is absolutely essential that the Government do its part to be very specific with regard to what type of products and services do we expect, in what quantities, in what timeframe, in what locations.

In the absence of doing that—which occurs all too frequently—you are essentially writing a blank check to the contractor. And that is wholly inappropriate.

Senator LAUTENBERG. Do you agree, Mr. Kicklighter?

General KICKLIGHTER. I totally agree. And to the extent possible, contracting should be free and open competition.

Senator LAUTENBERG. And I just quote from Senator Feinstein's comment about—this is the greatest instance, perhaps, in the history of this country—of fraud, waste, and abuse, at a time when people are so concerned about our mission there, and the wisdom in the first place, and the carrying on of this war that has demoralized this country, is incomprehensible.

Thank you, Mr. Chairman. And I appreciate the—your patience in letting me go beyond that time.

Senator LEAHY. Of course, Senator Lautenberg.

I think we can probably wrap up this panel fairly quickly. Mr. Bowen, let me ask you—according to Judge al-Radhi, who will testify shortly, there are more than 3,000 pending corruption investigations in Iraq, involving more than $18 billion that may have been lost to fraud. Only 300, one-tenth, of these cases have been resolved. The Iraqi Government has passed laws and taken steps to immunize a number of officials.

In 2006, you made 12 recommendations to improve the State Department's anticorruption efforts in Iraq. A year later, you found little progress had been made. The State Department only implemented two of your recommendations as of last July. In January of this year, a couple of months ago, 10 recommendations remained unaddressed. Am I correct in assuming we have a serious problem of corruption in Iraq?

Mr. BOWEN. Yes, Senator Leahy, you are. We have a two-fold problem—the problem of corruption in Iraq, and the problem of supporting Iraq's anticorruption institutions effectively.

Senator LEAHY. You've opened hundreds of investigations in cases of fraud, waste, and abuse and there are currently more than

55 open, active investigations, many of which have been referred to the Department of Justice.

According to your records, the Justice Department has only brought charges against about 14 individuals, and recovered only $17 million in fraud. Do you believe the Justice Department has moved aggressively enough? Should we turn this over to some good local sheriff's departments that might be more aggressive?

Mr. BOWEN. Well, we're working with——

Senator LEAHY. Sorry, that last may have been uncalled for, but I'm wearing my other hat as chairman of the Judiciary Committee.

Mr. BOWEN. Yes.

Senator LEAHY. I'm just wondering—it doesn't seem like we're getting an awful lot out of them?

Mr. BOWEN. We have some significant cases that are pending, that I can't address, of course. I would say that the effort by the Justice Department has improved over time, which is a continuing theme in the course of this hearing. I think that we'll see the fruit of those prosecutions this summer.

Senator LEAHY. Do DOD and Department of State still enter into cost-plus contracts in Iraq?

Mr. BOWEN. Yes, they do. And I think S. 680 is a good reform measure to help circumscribe the overuse of cost-plus contracts. It's clear—as our audits documented—that, for example, overhead was an extraordinarily high percentage of these cost-plus contracts. We have a report coming out this quarter that will show that overhead on one cost-plus contract was about 50 percent of the total cost of the contract. That's unacceptable.

Senator LEAHY. You've testified before in the Judiciary Committee in favor of the War Profiteering Prevention Act. Do you still support that?

Mr. BOWEN. Yes, sir, I do. I think strengthening oversight and prosecutions of contractors and Government officials who engage in corrupt practices is a good thing.

Senator LEAHY. Sometimes the idea that you might go to jail and not just get a fine might focus one's mind?

Mr. BOWEN. Focuses the mind, yes, sir.

Senator LEAHY. I found that when I was in law enforcement.

Senator Cochran, do you have any further?

Senator COCHRAN. Mr. Chairman, I think your convening this hearing has been very important, and also ensures that everyone will know that we're anxious to see that the funds that are appropriated by this Congress are spent for the purposes that we approved them, and without any culpability for fraud, abuse, or waste. And I think the gentlemen who have appeared before our committee today have convinced me that the best efforts in their offices are being made to achieve that goal. To ferret out waste, fraud, and abuse where it exists, and see that those who are guilty of it are brought to justice. And we appreciate your service in those ways. Thank you.

Senator LEAHY. I noted in my introduction of the Comptroller General, Mr. Walker, that he has a 15-year term. He's about two-thirds of the way through that, at almost 10 years, but he's going to be leaving tomorrow, if I'm correct, after 10 years of service. Service that I've been privileged to see. I've seen his candor, his

commitment to the Congress, and the American people, and the ability of both Republicans and Democrats alike to rely on what he's said.

I wish you well in your new career, but I might say, Mr. Walker, your service has been in the best of what one would expect of somebody serving our great country, and I commend you for that, and I suspect you'd find that virtually everybody else would agree.

Mr. WALKER. Thank you so much, Senator Leahy. It's been an honor and a privilege to serve.

Senator DORGAN. Mr. Chairman?

Senator LEAHY. Yes, Senator Dorgan?

Senator DORGAN. Two things, just in 30 seconds.

Let me also say, I think Mr. Walker has been an extraordinary public servant. He's provided just great service to this country. I regret he's leaving, but I understand the circumstances and wish him well. But, I thank him for his service.

Inspector General Bowen, our next witness is going to be Judge Radhi. We don't know Judge Radhi, but I understand you do. You have said this about him, and I want you at least for the committee's purposes, to respond.

You have said, "Judge Radhi is an honorable man and an effective crime fighter in Iraq," saying, "it's a loss he's no longer there." This is the man who was the head of the Commission on Public Integrity in Iraq. Twice his opponents have tried to kill him. He comes to this committee at some risk, to speak openly, but is that still your view of Judge Radhi?

Mr. BOWEN. Yes, Senator Dorgan, it is. I met with him during every trip that I took to Iraq and was sad to see him go.

Senator DORGAN. Well, it's a very courageous man who shows up here to be our next witness, and I just wanted the committee to understand that he doesn't come to us out of the blue—he comes to us as a very courageous man in Iraq who has risked his life to do good. Regrettably, he lost the battle, in many ways, there. But he's going to describe some things today that are very unusual, and very disturbing.

Inspector General Bowen, and Inspector General Kicklighter, thanks again for your service, as well.

Senator LEAHY. I thank you all.

Thank you, Mr. Walker, General Kicklighter, Mr. Bowen. We will recess for 5 minutes while we reset the table, thank you.

We're back in order.

Our next witness—may I have order, please.

Our next witness is Judge Radhi Hamza al-Radhi.

He served as Iraq's highest ranking anticorruption officer, Commissioner of the Iraqi Commission on Public Integrity, CPI, from 2004 to 2007. Under his tenure, CPI successfully investigated 3,000 corruption cases in courts for adjudication, 241 of the cases have been prosecuted and resulted in guilty verdicts.

Judge al-Radhi graduated from the Judicial Institute in Iraq in 1979, he has worked in legal affairs since. During the Iran-Iraq war, he was Director of Funds for Iraqi orphans.

The Judge resigned as Commissioner of CPI in September 2007, citing death threats against him, and political pressure from the Iraqi Government. CPI is one of those institutions in Iraq created

to provide governmental oversight. Unfortunately, the Prime Minister, Nouri al-Maliki, has refused to recognize the independence of CPI.

I should also note that we have a translator from the State Department, Nina Behrans, thank you.

Then Judge, it's great to have you here, welcome to the United States, not that you're a stranger here. Please go ahead, sir.

Senator DORGAN. Mr. Chairman?

Senator LEAHY. Yes.

Senator DORGAN. Before the Judge responds, I'd like to just make about two comments, and ask that we put, at this point, in the record, an article in Portfolio Magazine dated April 2008, that's this current month's magazine. It's titled, "The Betrayal of Judge Radhi: He fled missile attacks in Baghdad and came to the United States, and now he's on the run—how America turned its back on the top fraud cop in Iraq."

The reason I wanted to mention this is because this man has twice been the victim of attacks on his life, he's in this country, the State Department has been none too pleased with what he has said, because he hasn't painted the most wonderful picture of what's happening in Iraq. And if you don't paint a wonderful picture, those that want that mosaic painted don't want to listen to you much, so they're pretty upset with Judge al-Radhi, but I really appreciate his willingness and his courage to come forward, and I'm anxious to ask him a series of questions.

[The information follows:]

[From Condé Nast Portfolio, April 2008]

THE BETRAYAL OF JUDGE RADHI

He fled missile attacks in Baghdad and came to the United States. Now he's on the run.

HOW AMERICA TURNED ITS BACK ON ITS TOP FRAUD COP IN IRAQ

(By Christopher S. Stewart)

On an ordinary evening in early January, Judge Radhi Hamza al-Radhi shuffles through the tile-and-glass canyons of the Springfield Mall in Northern Virginia. No one notices him. He doesn't exactly look like a wanted man. He is a bespectacled 63-year-old Iraqi with receding white hair, a clipped mustache, a burn scar from childhood on his crooked nose, and distinctive black eyebrows. Smelling faintly of Aramis cologne, he shambles along, searching for something to do. In his tweed coat and brown shoes, he looks more like a college chemistry professor than the hardened crime fighter he was before everything went wrong and he had to run.

The judge comes here daily, sometimes twice a day—it's a three-minute walk from his new suburban hideout. He spends the time walking, gazing into the storefronts, observing faces, but mostly he's lost in thought. Occasionally, his eyes flicker up to the mall's second floor, as if he's looking for his enemies. But they are not there.

We stop at a western-wear shop, where he likes a tall, black Stetson hat, and stroll through Target, his favorite store because it has what he needs for his new life and, as he says, "there are so much sales." We stand near a blinking carousel and watch it turn.

After an hour or so, he enters a Brookstone store and falls into a massage chair. As the mechanical nubs knead his back, he recalls the way his life was in Iraq, 6,300 miles away, where he mingled with world leaders and fought the most important battle of his life. "It seems so long ago," he says. "I never thought it would end this way."

Before he fled Iraq, Radhi was the head of Iraq's Commission on Public Integrity, where he policed the country's government and investigated its biggest cases of bribery and financial chicanery. Set up and paid for, in part, by the United States, the agency was Iraq's F.B.I., and Radhi was compared to Eliot Ness, who took down the

Chicago Mob in the 1930s. Stuart Bowen, the U.S. special inspector general for Iraq reconstruction, described Radhi as his "most reliable partner . . . in Iraq," and Chuck Grinnell, a senior C.P.I. adviser, remembers, "He was one of the good guys, one of the few in Iraq."

The judge was appointed to the post by Ambassador Paul Bremer in the summer of 2004, almost a year after the U.S.-led invasion. At the time, Iraq was a free-for-all, with competing gangs and criminals gunning for a seemingly endless flow of reconstruction cash. The prevailing view held that the C.P.I. was vital to the advancement of the near-broke country, a sentiment reflected by President Bush in a 2005 speech to the Council on Foreign Relations. "Listen," he told a crowded ballroom at the Omni Shoreham Hotel in Washington, "the Iraqi people expect money to be spent openly and honestly, and so do the American people." He would tout the C.P.I. again a month later, in a speech to the Veterans of Foreign Wars.

The judge's job was, simply put, to figure out where the money was going. Billions of dollars were being wasted or stolen outright in Iraq, including $8.8 billion that went unaccounted for in 2003 and 2004. Many of Iraq's leaders were either directly participating in the thievery or quietly supporting it through hired guns, who later waged sectarian wars in the streets. Radhi was supposed to track down the criminals, stanch the hemorrhaging of money, and put an end to the corruption that was dubbed the "second insurgency" by Bowen and considered a principal source of funding for the terrorist groups that the U.S. military was trying to crush.

The Ministry of Interior, for instance, resembled a Mafia organization. Instead of working to guarantee the country's security, many of its officials, the judge discovered, were engaged in bribery, contract killing, and kidnapping. Hundreds of ghost workers collected wages that totaled more than $1 million a month. Meanwhile, the Mahdi Army, a Shiite militia devoted to cleric Moktada al-Sadr, had fully commandeered the ministries of health, trade, and transportation. Its soldiers, with the tacit approval of ministry employees, stole food and medical supplies, among other things, and resold them to fund the insurgency against the Americans and the Sunnis, the minority that still held power after Saddam Hussein's ouster. Over time, ambulances ferried weapons and mercenaries, while hospitals became integral to the militia's sectarian killing machine. Shiite soldiers executed Sunni patients and then killed family members listed in their medical files.

The Oil Ministry had many of the same problems. After the invasion, President Bush claimed that oil revenues would pay for most of Iraq's reconstruction. But even with the United States investing huge sums in oil projects, revenues weren't and still aren't covering costs, though $3 billion has been spent to date. Aging infrastructure and insurgents' attacks on pipelines were part of the trouble. But the biggest challenge was that criminal groups were stealing from depots and hijacking transport trucks, sometimes in collusion with ministry officials. Monthly, the state oil industry lost up to $90 million, and the judge claims that more than half of the smuggling profits went straight into local terrorism.

Although Radhi was officially in charge of investigating how the Iraqi government spent its budget, his work also uncovered how millions of American tax dollars were being diverted and used to bolster militia groups. The most visible way those American tax dollars ended up in the hands of the bad guys in Iraq was through U.S. capacity-building programs meant to help train ministry officials in everything from budgeting to delivering basic government services.

A recent Government Accountability Office report shows that the United States invested $169 million in these programs at about half a dozen of the most critical ministries in 2005 and 2006. Because the militias infiltrated most, if not all, of these ministries, the capacity-building money is, by extension, helping build the militias. In other words, by funding ministries, we are working against ourselves.

The amount of American tax money that has gone to the Iraqi militias is impossible to nail down, though Radhi says it could be tens, if not hundreds, of millions. So far, the United States has spent about $48 billion on Iraq reconstruction, with a notable chunk of that money passing through the agencies Radhi was investigating. Chris King, a former adviser to the judge at the State Department, says, "The worst elements in Iraq smile at us and take our money, but we're getting played. I went to the Justice Department guys and said, 'You are funding and training death squads. You can't say no one told you. I told you. You are funding death squads.' I have no doubt that U.S. reconstruction cash is funding militias."

Those death squads eventually targeted the judge. As his team built cases against some of the country's most powerful people—businessmen, clerics, politicians, warlords—threats came back. Grim voices muttered over cell phones, "Stop your investigations now" and "Do you know who you are messing with?" Soon his investigators and their families were dying: one body full of bullets, another hung on a meat hook, another disfigured with a power drill. There were sniper attacks and suicide

bombers. Government officials blocked his investigations. Sometimes he spent the night at safe houses with friends, who increasingly worried that he would be killed.

The United States, strangely enough, did not step in. Some said the United States was afraid to take sides, wary of alienating its allies in the Shiite-dominated government. Others suggested that Radhi's probes were becoming an embarrassment to the Bush administration, highlighting yet more trouble for a U.S. war effort that was already under siege. "There was a lack of due attention, political will, and support in the senior levels of the U.S. government," King says.

Still, the judge didn't waver. He worked through the interim and transitional Iraqi governments and through the rise of a newly sovereign Iraq. By the summer of 2007, even as his close advisers "focused solely on his survival," as one says, Radhi had launched almost 3,000 corruption cases. The accused included shady American companies and entrepreneurs, Iraqi ministers, and at least one member of Prime Minister Nuri al-Maliki's family. The total haul: $18 billion—a number as mind-boggling and damning to Iraqi politicians as it was to the Bush administration.

It was around this time that the missile came for Radhi.

It came hurtling out of the still-dim morning sky as the judge stood in a bath towel on the first floor of his walled compound at the edge of Baghdad's Green Zone. Around 6 a.m., the scorching late-July sun was just creeping over the mortar-scarred city's horizon. His family and bodyguards were still asleep in the two-story house. Everything was silent, except for some birds singing in the garden's olive trees.

When it hit, the missile made a huge thump that obliterated the morning quiet and convulsed the house like an earthquake. The memory of it still consumes the judge. He closes his eyes and tells me, "I thought I was dead." The missile, launched from a truck and believed to be about nine feet long, was meant to kill him and end his investigations. Most everyone agreed on this point. Yet somehow he survived. As the noise of the blast diminished, he stood in the hall, unshaven and barefoot, shards of glass and debris on the floor. The missile had hit an empty house across the street, now a smoldering pile of rubble. There were prayers of thanks to a gracious God, but the near-hit made the judge wonder if he had pressed things too far. The missile strike wasn't the last; a few weeks later, another arrived, destroying the empty house behind his, signaling to him that it was only a matter of time before the next rocket would hit its mark.

He decided he couldn't go back. He had a family—a wife and a daughter, who was eight months pregnant. The idea of being driven away by his enemies ate at him, but he felt he had no choice. "Radhi didn't leave for himself," Grinnell, the C.P.I. adviser, says. "He would have died in Iraq. But it became too much, and he left so that his family could survive."

After a trip to Washington last summer, Radhi resigned his C.P.I. job and asked the U.S. government for asylum. He had a couple of bags, a small amount of cash, and no idea where he would go.

In October, the judge began his move from a world he knew into much more uncertain terrain. Appearing before the House Committee on Oversight and Government Reform on Capitol Hill, he testified about his findings of corruption that reached all the way to the prime minister's office.

It was a huge story. Many people called the judge a hero, but others—particularly officials in the State Department, which had helped create him—distanced themselves. Documents detailing Iraqi corruption were retroactively classified, and staff members were instructed not to talk about the judge's allegations against the Maliki government. According to people involved in his case, the administration didn't know what to do with a man who was painting a negative picture of its efforts in Iraq, where it wanted people to believe that the situation was improving.

Things only got worse for Radhi. Soon after his arrival in the United States, the Iraqi government called for his arrest and prosecution, citing smuggled documents, corruption, and libel, and his pension was cut off. He shacked up in a budget hotel in a Virginia suburb but ran out of money after two weeks. An acquaintance kindly lent him an unfurnished townhouse. After his family and that of his security chief—11 people in all—were evacuated from Iraq, they joined him in Virginia. They shared three queen-size mattresses on the floor and coexisted amid a sad shipwreck scene of plastic lawn furniture, TV tables, pillows that served as couches, second-hand clothes, and donated food, most of which was shipped in by local Quakers, who had taken an interest in the refugees.

His asylum proceedings stalled as the State Department instructed employees not to support the judge in his flight from Iraq. "Team, I have ordered our current C.P.I. staff not to write any letters in support of Judge Radhi," one email read. When I called the State Department, no one wanted to comment on the judge. Once a key

U.S. partner in rebuilding Iraq, Radhi had implausibly become both a wanted man and a castaway.

At night, he lay awake next to his wife on a mattress on the floor wondering what had gone wrong. He had suddenly become a man without a country. I first meet the judge a couple of weeks after his congressional hearing. He sits upright in a white plastic lawn chair with a cardboard box of old personal documents next to him. Except for the two bags of clothes, the box was nearly all he'd carried with him from Baghdad. It contains just about the only items that testify to his existence—family photo albums, résumés, diplomas, and report cards from as far back as grade school. As Radhi pages through the files, he speaks through a translator, sometimes pausing to put a finger to his forehead as if in search of a distant memory. He wears a desert-brown suit with a yellow tie, and dark rings sag around his hard brown eyes. Though he looks as if he hasn't slept in weeks, he is surprisingly upbeat. "Things will get better," he tells me. "I'm hopeful."

This says a lot.

The judge, a secular Shiite, was born in 1945, the second-youngest of 10. Hamza Radhi al-Ketany, his father, was a successful seed merchant; his mother, a homemaker. The family lived in a cramped house in downtown Kut, a river city of about a half-million in eastern Iraq. After high school, he traveled to Beirut, Lebanon, for college, then returned to Iraq for law school at Baghdad University.

It was there, in the summer of 1968, that he caught his first glimpse of Saddam Hussein, a rising force in the Baath Party, which had recently seized power in a bloodless coup. Standing in front of about 1,000 law students in an auditorium, Hussein pulled out a pistol and began firing. Windows shattered and students ran.

Although some at the time hailed the Baath Party—baath is Arabic for renaissance—as the future of Arab unity and socialism, people who didn't join began to disappear, and fear infected the country. Intelligence agents were everywhere, and one night in 1970, at around midnight, they arrived at the 25-year-old Radhi's house in Kut, where he had a private law firm.

Radhi says that he was forced into a black Volkswagen sedan, blindfolded, and transported to the Palace of the End prison in Baghdad. There, he was asked why he had not joined the party. Radhi replied that he was not political. He was tied up, beaten with bats, hung upside down from a steel ceiling fan, given electric shocks, and thrown into a cell the size of a coffin. All night, he heard screams and moans emanating from prisoners in the hundreds or thousands of other cells around him.

After 100 days, he was released. His keepers told him not to speak of the place, though he would always have jagged white scars on his arms and back, as well as a soft spot about the size of a quarter on his skull, where the bats had done their work. He attempted to return to his life. Marriage helped to some extent. He wedded his cousin, a pretty brown-haired woman with whom he had grown up in Kut, and they had three children.

Later, Radhi joined the Ministry of Labor, where he inspected working conditions at regional factories and gained a reputation as a diligent and honest investigator. Seven years later, in 1977, he enrolled in the prestigious Judicial Institute, a two-year training program for the country's top judges and attorneys general.

Most of the students there were aligned with the Baath Party. Radhi still wasn't, which was why police returned when he was a year into the program, arrested him again, and interrogated him for another 10 days.

Hussein officially came to power in the summer of 1979. The next year, the country went to war with Iran. Radhi was appointed to a social post, where he spent the next eight years finding housing and schooling for children whose parents were battlefield casualties. In 1984, two of the judge's cousins disappeared after they were deemed to be communists; a third cousin, who refused to serve in the army, was executed by firing squad.

Despite being on the political and social fringe, the judge was eventually hired by the Ministry of Justice as an attorney for a job handling mainly civil cases. As most of his colleagues were Baath Party members, Radhi says the position began to wear on him. He heard about disappearances and deaths of "traitors." After three years, he quit, and for the next decade, he disappeared from the public sector.

During the next few years, Radhi kept a small law practice and lived as if politics didn't exist. He traveled to Yemen and Jordan searching for work, spending months at a time away. Nothing panned out, and his family struggled to get by. But then American soldiers arrived in March 2003, and after almost two decades, his hope returned. "I believed things were about to change," he says. "The bombing happened, and Saddam was gone. And I thought that I could help rebuild. I dreamed of a different place."

In November 2003, Bremer and his team devised the C.P.I. and began searching for the right person to fill its top post. Grinnell, the C.P.I. adviser, interviewed more than a dozen Iraqi candidates. With so much money at stake, the Americans knew it would probably be the most dangerous job in Iraq, pitting an unelected official earning $5,000 a month against the country's strongest political players—some of whom commanded death squads.

Many candidates dropped out, but Radhi was undeterred. "When we told him about the danger, he said to me—and I remember this vividly—'God will not take me one second before he is ready to see me,'" Grinnell says. Even though what Radhi said was a common phrase in Arabic, Grinnell says, "that shocked me about Radhi, because when you look at him, he doesn't look physically strong. But he has a presence that is felt."

The C.P.I. was charged with tracking Iraq's $30 billion to $40 billion annual budget through the murky channels of government and determining how much of it went into reconstruction and how much was wasted or stolen. To get the agency off the ground, the United States invested between $7 million and $12 million in it. As with most of Iraq's burgeoning institutions, a handful of adventurous Americans served as advisers. In this case, they came from the Coalition Provisional Authority and later the State Department. At first, the C.P.I. had only a few investigators, but its team in Baghdad even tually expanded to include 180 employees, with about 700 supplemental work ers and several offices sprinkled around the country.

And so it began. After a three-week training session, which took Radhi to the United States for the first time, he and his family moved into a protected house in Baghdad's Green Zone, and an office was assembled in a crumbling concrete building. Almost immediately, people began referring to the office as the Zoo, because it and five other C.P.I. properties occupied the city's former zoo grounds, now devoid of animals and overgrown with weeds. On the border with the Red Zone, as the rest of the city is ominously known, the Zoo was so far removed from the other buildings in the Green Zone that one American adviser, former New Hampshire Superior Court judge Arthur Brennan, described it as a "lonely outpost" suffused with a "Doctor Zhivago sense of bleakness and tragedy and inexplicable hope."

The days were long, starting at 6 a.m. and sometimes stretching well past midnight. Radhi would head home just as the Army snipers up in a nearby roost began burning their nightly fire to stay warm in the desert chill. The judge says he drank a lot of tea to stay alert, and the TV in his office, always tuned to CNN, supplied a constant soundtrack. The work was immensely complicated and was focused on Iraq's ministries, staffed for the most part by people who had never run a government agency.

It's difficult to investigate financial corruption under the best circumstances. But in Iraq, where some ministries were armed to the teeth and potential witnesses were either complicit, beholden to someone, or too terrified to speak, the investigations took on another layer of difficulty. Expectations of basic investigative work didn't take into account the ugly reality on the ground: armed bandits prowling the streets, sectarian militias battling for territory, insurgent warfare coming alive, droves of people disappearing daily, and most forms of trust nonexistent.

Almost immediately, the responsibilities of the detective job sucked up most of Radhi's time. He moved slowly, telling his men, "Shway, shway" (Step by step). Through interviews, audits, and official documents, the judge and his staff uncovered an anarchic and opaque world. Contracts were vague; nepotism and bribery abounded; budgets were filed the old-fashioned way, on paper; and cash by the truckload was vanishing abroad into private bank accounts or being funneled to militias. If you had a brain and some political connections, you could walk away from Iraq a millionaire. "Corruption was everywhere," the judge says. "Everywhere."

It took about a year for Radhi to collect enough evidence to begin passing his cases to the investigative court. And then rulings and a slew of arrest warrants put criminals on notice. Among the most stunning of the cases was a billion-dollar heist from the Ministry of Defense, where the Americans had handpicked the leaders, Defense Minister Hazem Shaalan and his deputy, Ziad Tariq Cattan. Before the U.S.-led invasion, the two men had been exiles from Hussein's Iraq: Shaalan was a real estate agent in London; Cattan lived in Poland and sold used cars. Following Hussein's ouster, the men returned to their homeland and became high-ranking officials, commanding large budgets and charged with equipping the new Iraqi army.

Months into their appointments, according to official documents, the men asked the Iraqi interim government, led by Prime Minister Ayad Allawi, a Shiite, for $1.2 billion. They claimed it was for new military equipment. But the equipment that eventually arrived, the judge says, was cheap, old, and mostly unusable: run-down helicopters, knockoff machine guns, defective bulletproof vests, and ammunition that was on the verge of self-detonating. The judge found nebulous contracts with

fake companies, with money flowing from the ministry into secret bank accounts abroad. More than $360 million worth of Polish-made Sokol helicopters, contracted through a "storefront company," were not delivered at all.

In September 2005, arrest warrants were issued for Shaalan and Cattan, but the men had already vanished with an alleged $850 million. Although both were later convicted of corruption and sentenced to dozens of years in prison (21 others were eventually charged in the case), they remain abroad, beyond the reach of Iraqi courts. Both Shaalan and Cattan have denied any wrongdoing. Cattan has even put up a website in hopes of clearing his name. But no money has yet been recovered.

The judge kept digging. By December 2005, months after a transitional Iraqi government led by Prime Minister Ibrahim al-Jaafari took over for Allawi, Radhi and his investigators had opened 800 cases, with more than 30 senior government officers appearing in criminal court and 91 cases scheduled to be brought before a judge.

Around this time, the backlash against the C.P.I. began. There were threats against Radhi and his crusaders, and in March, a suicide bomber strolled into the C.P.I.'s Mosul office and set off his device, killing himself and one of the agency's lead investigators, who had been looking into oil theft. Not long after, a C.P.I. security chief was executed on a Baghdad street along with his wife, who was seven months pregnant.

Iraqi ministries, meanwhile, started to shut their doors to Radhi's probes. It didn't help that the Jaafari government, following Allawi's lead, had restored a Hussein-era law that empowered the prime minister to exempt his cabinet from prosecution and gave ministers the authority to exempt their employees as well. Although Bremer had suspended the law when he created the C.P.I., the interim Iraqi government now claimed that the judge's cases were becoming politically motivated and had to be stopped.

When I ask Radhi about it, he laughs. "No one wanted us to investigate. If I investigated Kurds, the Kurds would say, 'You are biased. You are Arab.' If it was a Shia case, they would say, 'It's political.' If Sunni, they would say, 'You are Shia. You don't like us.' The people we were chasing wanted to stop us."

Amid this mayhem, investigators occasionally ran into Americans who sought to make dirty deals with Iraqi opportunists. The judge's lead investigator, Salam Jaddoa Adhoob, describes them as cowboys. "These guys operated with no rules. They came to Iraq to make fast money, and then they left with their pockets full," Adhoob tells me one night at his own safe house in a remote Virginia town, where he's lived since fleeing death threats more than six months ago.

According to Adhoob, one American business, the Hummer manufacturer AM General, signed a $59 million contract with the Iraqi Defense Ministry to provide the army with 500 armor-plated trucks. (General Motors bought the Hummer name in 1999, though AM General continues to manufacture the vehicle.) However, only 167 trucks arrived. Later, the AM General case and others involving Americans were, in accordance with a new policy, handed over to the inspector general's office. A government official concedes that a number of investigations are under way but wouldn't comment about AM General specifically except to say that "they are on everyone's radar." When I ask AM General about the allegations, Craig MacNab, a company spokesman, claims that he hasn't heard anything about them but cites a complex production process, made more difficult by turnover within the Iraqi Ministry of Defense. The remaining trucks are due to begin arriving in the spring of 2008—more than three years after the initial contract was signed.

In May 2006, following the country's parliamentary elections, Maliki became prime minister of the newly sovereign and Shiite-dominated Iraq. After two transitional governments and a lot of violence and lost money, Maliki promised transformation, though Radhi would come to see the ensuing months as particularly troublesome.

While Maliki spoke publicly about eradicating corruption, privately he began lobbying to bring Radhi's agency under his command. Maliki reenacted the controversial get-out-of-jail-free law. As a result, between September 2006 and February 2007, various ministers blocked at least 48 corruption cases involving a total of $35 million—not that the judge had the firepower to enter the ministries anyway. For those two years, Transparency International, the Berlin-based anticorruption watchdog, listed Iraq as the most corrupt country in the Middle East. Meanwhile, more suspected criminals fled, including 15 ministers, while more than 20 corruption-case judges were assassinated.

The tipping point for Radhi came when the imam who led the Iraqi Parliament's Shiite coalition demanded a meeting a few days after Saddam Hussein was executed, at the end of 2006. His name is Jala Alsaghir, but some call him the Lion.

"He was the Lion because of his jaw that juts out," Radhi says, "and he is a very dangerous man."

In a dimly lit room, the Lion, surrounded by a dozen or so bodyguards, told Radhi, "Your cases are touching high-level Shia people. It is time for you to stop your job," Radhi recalls. The judge took Alsaghir's words as a threat on his life. A week or so later, Alsaghir stood in front of Parliament and accused Radhi of corruption. Though nothing was officially done about the allegations, Radhi says that Alsaghir's words opened the floodgates of violence. "The people I was investigating realized that I was determined to keep investigating them and pursuing the rule of law," he explains.

By the end of 2006, 18 of Radhi's men were dead, and by the middle of 2007, another 10 were gone. The Maliki government, which had shored up power over the minority Sunnis, moved to further diminish Radhi's independence. First, the prime minister summoned the judge to his office to talk about his investigations of the oil and defense ministers and demanded that he fire Adhoob. After Radhi refused to comply with Maliki's demand, an order was issued directing the judge to "stop the pursuit of previous and current ministers, unless done through the prime minister's office." Another official letter dismissed a corruption case against Maliki's cousin, Salam al-Maliki, the transportation minister.

It appeared that Maliki, whose party now dominated the country's most moneyed and powerful ministries, was squeezing out the judge. Vance Jochim, an American adviser to the C.P.I., urged the United States to intervene. "I kept bringing this up to the embassy," Jochim says. "Tell the Iraqis we won't give them something. Take away the free gasoline in the Green Zone. But the embassy would never do that."

That's because the State Department itself appeared to be backing away from the judge. "Judge Radhi went where angels feared to tread and thought he would be protected, but he wasn't," explains Ali Allawi, the Iraqi finance minister at the time. "The United States decided to abandon him once his gangbusting began to affect a large number of people who were U.S. allies—all the ministers and top-level Iraqi players. He was a very courageous man, but he went after too many friends of the United States, and that got him in trouble."

Allawi said that if Radhi was intent on cracking down on the kingpins, "he should have built some political support around him. But he did not do that. He went after everyone at once, and that got him bombed."

Late in the spring of 2007, charges ranging from petty corruption to complicity in murder were leveled against Radhi in criminal court. Although the cases were ultimately dismissed, a radical Shiite cleric named Sheik Sabah al-Saadi, who had political ties to Prime Minister Maliki and oil-smuggling rings, pushed for a vote in Parliament to impeach Radhi.

In July, the U.S. embassy circulated a sensitive but unclassified report detailing the judge's alarming accounts of Iraqi corruption and greed, giving credence to his tale of the country's meltdown. By late summer, talk of his impeachment grew louder, and then the missile came gunning for him.

At the end of August, Radhi headed to Washington for training at the Justice Department. When he left for the airport, he kissed his wife and told her that things would be okay, though he feared that they would only get worse. As summer heat pummeled Baghdad, a missile struck the house behind his, nearly killing his family.

On October 4, Radhi testified in front of the House Committee on Oversight and Government Reform. Sitting at a long table, behind microphones and bottles of water, he recounted the story of the crimes his team had uncovered to members of the investigative committee. He told them about the rampant corruption among U.S. allies, including the Maliki government, and the theft of billions of dollars. He explained that reconstruction had almost stopped, that the lost money was propping up a terrorist movement that was ripping his country apart, and that the current government could not be trusted. "I have led my life governed by these few words: 'Law is above all. No one is above the law,'" he declared.

Comptroller General David Walker, Bowen, and Larry Butler, a deputy assistant secretary of state, also testified. Although Butler refused to discuss much of anything related to the judge's findings, Walker and Bowen spoke openly about Iraq's corruption problem. During his testimony, Bowen explained to the packed chamber that the loss of the judge was "a real blow to anticorruption efforts in Iraq. He was the most prominent corruption enforcer." Christopher Griffith, a C.P.I. adviser at the Zoo, echoed this during a prehearing interview, calling the judge "the most honest government-of-Iraq official that I have met in my 21 months in the country."

There was some antagonism in the room when Republican representative Dan Burton, of Indiana, questioned Radhi's authenticity. Referring to the "Saddam Hussein regime," under which the judge worked as a state lawyer, Burton wondered, "How did you get those jobs?" The judge, who spoke calmly through several hours

of testimony, replied that he had been given the job based on his "hard work" but that he'd refused to follow orders and then quit. He reminded Burton that the Baath regime put him in prison and, as he put it, "broke my head."

The testimony was a blow to General David Petraeus, the commander of the multinational forces in Iraq, and Ryan Crocker, the U.S. ambassador to Iraq, who had testified three weeks earlier about signs of progress in the current military surge, which began in January 2007 with an infusion of 30,000 troops. Following Radhi's testimony, there was a lot of talk in Washington about what the death of 3,800 U.S. soldiers and the spending of $450 billion had actually accomplished in Iraq. Alluding to the judge's testimony in a Los Angeles Times editorial, Representative Henry Waxman, of California, the Democratic chairman of the House Oversight Committee, wondered, "Is Maliki's corruption worth American lives?"

And even when the violence in Iraq began to ebb—which the judge warns is only a strategic pause—the biggest question remained: Considering Radhi's evidence, can we really trust the people in power in Iraq?

When Secretary of State Condoleezza Rice was pressed in a subsequent oversight hearing about Iraq, she evaded numerous questions about the judge's testimony. For instance, she declined to comment on the specific allegation that the prime minister had obstructed a probe into a cousin's business dealings and claimed that she didn't know about Maliki's secret immunity order, which had been circulated in Rice's office weeks before her testimony, though she admitted that such an order would be "deeply concerning."

Asylum for Radhi could come through in six weeks or six months. It is hard to know, especially considering the order prohibiting State Department employees from supporting the judge's efforts. In a further twist, Bowen's Office of the Special Inspector General for Iraq Reconstruction, one of the judge's most prominent supporters, is now under investigation for overspending and mismanagement.

In the meantime, the judge and his family can't work or apply for benefits and must rely on others for almost everything—money, food, and transportation.

Shortly after the judge's testimony, the Iraqi government gave his old job to a Maliki crony, a man alleged to be an oil mobster, who immediately began an investigation into Radhi's work. Since then, many say that the C.P.I. has fallen into disarray, with no clear mandate.

The judge, for now, remains a wanted man in Iraq.

I visit Radhi for the last time in early January, just after his relocation to a new two-bedroom condominium. His daughter and son-in-law also have their own place, right down the hall, as does his security chief's family.

Today, his life has slowed down, almost to a glacial pace. He spends stretches of the day watching a flat-screen TV, seeking news from Iraq. He also reads from a dictionary to improve his English and emails friends back home.

His new existence is hard on him. He doesn't enjoy depending on the $2,000 a month donated to him and his family by friends. His life has always been one of independence and dignity. As the months pass, a creeping feeling of isolation swells in his mind, though he doesn't complain. Sitting in his living room, which is outfitted with secondhand furniture and items from Target, he mostly talks about how grateful he is that his family got out of Iraq alive. Asked if he is angry about anything that happened, he shakes his head. "I believe I did the right thing," he tells me.

Next to asylum, his biggest concern for the future is finding work. When I speak to Ali Allawi, Iraq's former finance minister, he says that this is exactly why the judge's case is tragic. A great and courageous man in his home country, Radhi is now a foreigner whose inability to speak English fluently renders his skills virtually useless. "It's sad," Allawi says. "He could end up sweeping floors on the late shift at a place like Wal-Mart."

During one of my conversations with the judge, I can't resist asking a dumb question: "Did you ever think about stealing just a little bit of money for yourself?"

He looks at me funny, like I've made a bad joke. There was so much money floating around over there, I say. Wasn't he at all tempted to reach into the pot and take a little for himself?

At first, he's not sure if he heard me correctly. So I ask him again, and he sort of smiles before he becomes serious and says, "The temptation was there. Lots of money was offered to forget cases. But I am not that man."

This is the point. If he were that man, he would be somewhere else. Baathists wouldn't have tortured him, and he wouldn't have been forced out of his country. That man wouldn't be sitting on a donated brown couch.

So what about the $18 billion? I wonder if any of it will be recovered. The judge says no. It is lost. He says militias are still active in many Iraqi ministries, which continue to receive millions of dollars in U.S. taxpayer money.

As he sits here, he knows he still has many enemies. But he is safe now, he believes. "I don't think there will be rockets coming for me."

Later, we go to the mall. It's my last night with him. He takes me on a tour of his daily haunts. When we exit, it is late and dark. As we walk toward his apartment, through a nearly empty and silent parking lot, a low-flying helicopter suddenly and violently disrupts the suburban quiet.

For a moment, the judge's head angles skyward, his eyes opening wider than I've seen them. "That is the sound of Iraq," he says over the noise. He nods happily.

I ask him, "Do you ever miss it, Iraq?"

"Sometimes," he responds, as he watches the helicopter pass overhead before it disappears, leaving silence again. "I miss my country. I miss my work of helping my country. But this is home now."

Senator LEAHY. Judge, we are delighted that you're here. Please, go ahead with your statement.

STATEMENT OF JUDGE RADHI HAMZA aL-RADHI, FORMER COMMISSIONER, COMMISSION ON PUBLIC INTEGRITY, REPUBLIC OF IRAQ

Judge AL-RADHI. I am Judge Radhi Hamza al-Radhi, former commissioner of the Commission on Public Integrity, CPI, Republic of Iraq.

It is an honor to be here and to thank the American people who have sacrificed their lives and money in order to achieve noble goal in Iraq of ending the suffering, and supporting democracy, thank you thousands of times.

In my written testimony, I highlighted the reasons for the Commission on Public Integrity, my appointment as a Commissioner and my background and I summarized much of our historic work.

Corruption in Iraq today is rampant across the Government, costing tens of billions of dollars, and has infected virtually every agency and ministry, including some of the most powerful officials.

Corruption has been part of the failure of the Government of Iraq to control the militia that control parts of government. Unfortunately, today in Iraq, corruption has infected our biggest source of money, oil. Corruption has infected those who have the guns to restore law and order. And corruption has infected the very government officials who promise a new, better Iraq. Corruption keeps millions of Iraqis in inhumane living conditions, and it funds the killing of United States and Iraqi forces.

I have lived my life governed by these few words: "Law is above all, no one is above the law." This guiding principle should apply to all government departments and ministries, neutrally, fully, and without regard to sect, ethnicity, party affiliation, tribe or religion.

Unfortunately, we have been met with major problems. Since the establishment of the CPI, more than 31 employees have been assassinated, as well as at least an additional 12 family members.

In a number of cases, my staff and their relatives have been kidnapped or detained and tortured prior to being killed. Many of these people were gunned down at close range. This includes my staff member Mohanned Abd Salif, who was gunned down with his 7-month pregnant wife.

One of my staff members was protected by my security staff, but his father was kidnapped because his son worked at CPI. This staff member's father was 80 years old. When his dead body was found, a power drill had been used to drill his body with holes.

My head of our Mosul branch was killed by a suicide bomber in his office. Two weeks ago, one of my attorneys was shot and he is

now fighting for his life. Just Friday, the body of one of my investigators was found in a Baghdad trash dump.

These are just a few examples—there are many more. And, personally, my family's home has been attacked by missiles, and I by both missiles and snipers.

Justice loses, and corruption wins. Further, the prime minister and his government have refused to recognize the independence of the commission to appoint qualified people in the ministries, and foster honesty. Worse, the government has formally blocked actions against the presidency, the council of ministers and former and current ministers, used the law to empower ministries and the prime minister to stop specific corruption cases, and promoted sectarian agendas. Importantly, it has been impossible for CPI to safely and effectively investigate oil corruption where Sunni and Shia militias have control of the metering, transport, and distribution of Iraqi oil. This has resulted in the ministry of oil effectively financing terrorism through these militias.

I am afraid that the commission itself will now be used as a tool of corruption. I fear that the bravest and honest members of my CPI staff in Iraq are now facing a purge and being pressured into silence. My heart, my prayers are with them.

Let me share with you my situation. My case for asylum is currently pending. Just as my family's safety was at risk in Iraq, because of my work, now my words, including my words to you today, may add to my risk. Following my testimony before the U.S. House, the Iraqi prime minister himself threatened me with prosecution.

I come before you with faith and confidence that any service to my country and to all like you who stand against corruption will not cause any punishment in the United States.

For here in America, without protection or plan, I am but a feather in the wind.

But as a Judge and crime fighter, I know that even a feather can be stronger than greed and violence.

Thank you so much.

[The statement follows:]

PREPARED STATEMENT OF JUDGE RADHI HAMZA AL-RADHI

To Our Distinguished Chairman and Respected Members of the United States Senate, Ladies and Gentlemen:

GREETINGS

I am Judge Radhi Hamza al-Radhi, former Commissioner of the Commission on Public Integrity ("CPI"), Republic of Iraq. It is an honor to be here among you today to discuss with you the most important problems facing Iraq after the recent change. The change which led the United States and its allies in Iraq to eliminate the highest dictatorship in the world, that of Saddam Hussein. The dictatorship he built on the corpses, money and the suffering of Iraqis. I want to thank the American people who have sacrificed their life and money in order to achieve noble goals that are worthy of respect. The goal for Iraqi's rights, for the ending of their suffering and for the spread of democracy throughout Iraq, which is the key to progress and growth. Thank you thousands of times to everyone who participated and sacrificed for these noble goals.

REASONS FOR AN IRAQI COMMISSION ON PUBLIC INTEGRITY

Iraq is a rich country; however its infrastructure is essentially nonexistent and much work needs to be done.

Building democracy requires transparency from the Government in order for that government to manage socio-economic matters.

The Iraqi people are smart and hard working and are looking for progress. For that they deserve a fair and honest government.

Transparency and the presence of an effective Commission on Public Integrity as well as The Board of Supreme Audit and the Inspectors General will encourage foreign investment in Iraq.

The existence of these bodies dedicated to public oversight, especially CPI, would protect funds, and these funds would be devoted to public services for Iraqi people, leading to welfare and prosperity for them. This in turn would bring internal stability and would have positive impacts on regional and international stability.

The legal authorities for these anticorruption organizations are derived from the Coalition of Provisional Authorities orders including Order No. (55) establishing the Commission on Public Integrity, Order No. (57) establishing the office of Inspector General in each ministry and Order No. (77) Continuing the Board of Supreme Audit which was established in 1927.

APPOINTMENT AS COMMISSIONER

For these important reasons Iraq established the Commission on Public Integrity. I was honored to be named the Commissioner of CPI. The Iraqi Judicial Council selected three candidates for this position. Ambassador Bremer chose me to lead CPI because I graduated from the Judicial Institute in 1979 and I have 39 years of experience in legal affairs. Additionally, I was director of funds for Iraqi orphans during the Iraq-Iran war. While I consider myself an honest technocrat and judge, some have speculated that other credentials included the fact that I am Shia and that I was jailed and tortured by Saddam Hussein for refusing to join the Baath Party. According to the law, future commissioners will be selected from three candidates chosen from the Higher Juridical Council. The Prime Minister must pick one of these candidates and the Parliament must confirm this candidate. A Commissioner can only be fired for cause by a two-thirds vote of the Parliament. Therefore the responsibility of this power and the need for integrity in this office is great.

OPERATION OF CPI

This Commission on Public Integrity started in June 2004. American experts have had a great impact in providing advice and guidance to this magnificent Commission. The American experts helped us by establishing training courses from day one until now. They have spent a great amount time and of money to hold this Commission accountable to disseminate and promote the ethics of integrity for my country.

The functioning of CPI had been outstanding even under very difficult circumstances. It was able to build several important departments or directorates within 3 years, such as:

—The Directorate General of Prevention and Transparency, which prepared a Code of Conduct for all Iraqi government employees and has also prepared a Financial Disclosure program to disclose the financial interests of senior employees such as the general director and superior officers.

—The Directorate General for Non-Governmental Organization relations, which contacted most NGOs in Iraq in order to motivate them to achieve their objectives and solve their problems honestly. Some of these organizations have played a significant role in my country to develop morals and contribute to the reconstruction of Iraq and also to put pressure on the Government to provide better services to the Iraqi people.

—The Directorate General for Education, which worked to educate government employees on their duties and responsibilities, including promoting the Code of Conduct, educating Iraqi public on their rights and responsibilities as well as promoting the Hotline. In conjunction with the Ministry of Education, it worked to develop a curriculum for Iraqi school children to promote public service and ethics. It had a public affairs department to work with international and domestic news media organizations.

In addition, the Directorate General for Investigations investigated corruption in government departments and ministries.

RESULTS

During these three years, there have been many results produced for an organization so young and new to my country. I will briefly expand on many of the areas above such as our work with educating the government ministries in the Code of Conduct, work on Financial Disclosure, the establishment of an INTERPOL liaison office, printing and distribution of educational materials for children, a Civil Service Reform conference and NGO conference, Investigation Department has expanded with the establishment of a Forensics Division, an Investigative Research Division,

a Witness Protection Program and facilities, the establishment of a Statistics Division in the Administration Department which promulgates annual reports to the Iraqi government and the Iraqi people on the activities of CPI, the initial establishment of a Public Integrity and Ethics Institute to professionalize the civil service and provide training for CPI, the Board of Supreme Audit and the Inspectors General, the establishment of an anticorruption Hotline to receive calls from Iraqi citizens for the first time in Iraq's history, the printing and distribution Hotline promotional materials and other CPI materials.

For the first time, perhaps in Middle East history, a government minister was arrested, in accordance with the Rule of Law in a non-political, non-sectarian manner, on corruption charges. This case came early in our investigation process, before the full force of opposition to CPI was organized. Unfortunately, of the 3,000 corruption cases we successfully investigated and forwarded to the courts for adjudication, according to my records, only 241 cases to date were adjudicated with guilty sentences ranging between six months and one hundred and twenty years. However, the cost of corruption that my Commission has uncovered so far across all ministries in Iraq has been estimated to be as high as $18 billion.

Broken down by Iraqi government ministry, that $18 billion was distributed in this way:

Ministry	Total Money
Defense	$5,000,000,000
Trade	3,000,000,000
Electricity	3,000,000,000
Transportation	2,000,000,000
Health	2,000,000,000
Interior	1,000,000,000
Communications	1,000,000,000
Housing	1,000,000,000
Finance	500,000,000
Oil	500,000,000

This data represents my estimate based only on cases before the courts as of late 2007. It does not break the numbers down by U.S. tax dollars or Iraqi dinar. While U.S. tax dollars may be of greater interest to this Committee, such a break down is very hard for me to determine. It also does not distinguish between degree of crime such as funds stolen and funds poorly spent due to mismanagement. It does not represent the cases that never made it to the courts or cases dismissed at the court, some of which were dismissed after judges were threatened or assassinated. In particular, it does not reflect the full extent of oil corruption, including metering fraud, theft, and smuggling. My small group of heroic investigators did not have the capacity to investigate all of the oil smuggling. In addition to theft by militias and government employees, I had received evidence of widespread smuggling including the reestablishment of the smuggling routes that Saddam Hussein's regime used to circumvent United Nations resolutions including the Oil for Food Program.

In addition, based on the end of year 2005 data available to me, I have attached for the Committee six graphs detailing how corruption was reported, our CPI caseload by ministry, the percentage of corruption cases by ministry, the disposition of cases, the corruption cases by kind and the demographics of the top 35 senior indicted officials.

GUIDING PRINCIPLE

I have led my life governed by these few words, "Law is above all, no one is above the law." This guiding principle applies to all government departments and ministries neutrally, fully and without regard to sect, ethnicity, party affiliation, tribe or religion.

MAIN OBSTACLES

The main obstacles to our work are:

—Violence, intimidation and personal attacks. Since the establishment of the Commission of Public Integrity, more than 31 employees have been assassinated as well as at least an additional 12 family members. In a number of cases, my staff and their relatives have been kidnapped or detained and tortured prior to being killed. Many of these people were gunned down at close range. This includes my staff member Mohanned Abd Salif who was gunned down on the street with his seven month pregnant wife. My Security Chief on

my staff was repeatedly threatened with death, and his father was recently kidnapped and killed because of his son's work at CPI. His body was found hung from a meat hook. One of my staff members who performed clerical duties was protected by my security staff, but his father was kidnapped because his son worked at CPI. This staff member's father was 80 years old. When his dead body was found, a power drill had been used to drill his body with holes. My head of our Mosul branch was killed by a suicide bomber in his office. Two weeks ago one of my attorneys was shot in the neck and in the chest, and is now fighting for his life. Just Friday the body of one of my investigators was found in a Baghdad trash dump. These are just a few examples, there are many more which were directed to my staff, me and our families. Personally, for example, my family's home has been repeatedly attacked by missiles, virtually destroying all around me. I have had a sniper bullet striking near me as I was outside my office. We know the corrupt will stop at nothing. They are so corrupt that they will attack their accusers and their families with both guns and meat hooks as well as counter charges of corruption. So that the accusers become the accused in a deadly game that all of us have witnessed.

—The Prime Minister and his government have refused to recognize the independence of the Commission on Public Integrity, even though the Iraqi Constitution sets forth the independence of CPI in point No. 102, 103.

—The interference of the Iraqi Government in Commission matters; officials and agencies in the Iraqi Government sent us formal letters forbidding us to take any action against the presidency, council of ministries and former and current ministers.

—The use of Article 136, Section B of the Criminal Procedures Law No. 23 of 1971, which prevented us from transmitting many corrupt employees' cases to court until we received permission from the minister of the agency we were investigating. This presented obvious problems. The same thing applied to corrupt ministers: We could not take any action until we could get the permission of the Prime Minister. Based on that, many corruption cases have been closed by the ministers and the Prime Minister, at an estimated worth of one hundred billion Iraqi dinar. In addition to the obstacles of Article 136, there was pressure put on the judiciary not to prosecute cases on behalf of individuals. Many of Iraq's judges live in fear of torture and assassination of themselves and their family members if they adjudicate cases of senior government officials.

—The Executive, Legislative and Judicial branches of the Iraqi Government did not work as required to promote the Rule of Law and fight corruption in Iraq. The executive branch often protected corrupt employees and actively attempted to eradicate or control the Commission. The legislative branch did not revise the anticorruption laws. The judiciary branch often succumbed to pressure and did not adjudicate corruption cases.

—The government did not appoint leaders, particularly ministers and Inspectors General that would fight corruption within ministries.

—In order to promote sectarian agendas, professional technocrats who were qualified to perform vital government services and administration were not appointed.

—Importantly, it has been impossible for the Commission on Public Integrity to safely and adequately investigate oil corruption where Sunni and Shia militias have control of the metering, transport and distribution of Iraqi oil. This has resulted in the Ministry of Oil effectively financing terrorism through these militias.

—Additionally, my small group of investigators investigated the largest number of cases in the Ministry of Defense and Ministry of Interior. As you might imagine, investigating the security forces of Iraq is very difficult, but necessary for an Iraqi future of transparency and the Rule of Law.

THE FUTURE

As the committee can appreciate, this is not an easy situation to resolve and it will not be resolved quickly or completely. Obviously the Government of Iraq, with the help of the U.S. government, needs to resolve the specific obstacles that I have listed above.

Further, the people who were dedicated and honest under my tenure at the Commission on Public Integrity need to be protected and supported and those who infiltrated the Commission for sectarian political reasons must be re-staffed with people who are truly committed to its mission and its guiding principle that "No one is above the law." If this does not happen, I am afraid that the Commission itself can be used as a tool of oppression as well as a tool of the corrupt to further corruption,

sectarianism and an illegal consolidation of power through targeted purges of political enemies.

Finally, the people of Iraq must see advances by the Iraqi Government on the political level, on economic reconstruction, on basic services, amenities and infrastructure, and on the rule of law. The Government of Iraq will fail and the Iraqi and American people will continue to suffer if the militias and militia controlled parts of the Iraqi government, including the security forces, are not brought under control. Sectarian corruption has eroded the work of the American and Iraqi people to build a better future for Iraq and the region.

CONCLUSION

Let me share with you my situation—at the least to the extent I am able right now. I and a staff delegation from the Commission on Public Integrity of the Republic of Iraq came to the United States on August 24, 2007, for forensics and evidence training with the U.S. Department of Justice. During our visit, threats against me and my family in Iraq escalated to a point where, together with the immense pressure of the last two years from the highest levels of the Iraqi Government, regretfully and painfully caused me to seek appropriate U.S. Government protection for my family. My family's safety became paramount.

My case for asylum was filed October 3, 2007, and is currently pending. Just as my family's safety was at risk in Iraq because of my work, now my words, including my words to you today, may add to my risk. Following my testimony before the United States House on October 4, 2007, the Iraqi Prime Minister himself threatened me with prosecution. Further, I am told that my former agency now has been directed to simply pursue charges against me and my staff and ignore the corruption in the Iraqi Government.

My staff and their families, I and my family, know too well that honesty, democracy and justice are not purchased without a price. While those ideals are praised loudly, the people who fight for them daily—the law enforcers, the anti-corruption fighters, the whistleblowers and their advocates—are too often met with violence, persecution, false allegations, and indifference. I have the greatest respect for the work, courage and sacrifice that the American people have made on behalf of Iraq. I come before you with faith and confidence that my service to my country and to all like you who stand against corruption will not cause any retaliation in the United States. This is not the case in Iraq today, where I and my Commission have been politically, legally, financially and physically attacked.

Now, here in America, without protection or plan, I am but a feather in the wind. I am a judge and a crime fighter. I don't know politics. I worked my life for my country. I love and I very much miss my country, but if I return, I will be killed. I look forward to the day when my status is secure and my family and I can begin to rebuild our life.

I see my work in uncovering billions of dollars of corruption as promoting democracy, public integrity and the rule of law in Iraq and look forward to working with all who will aid in this effort.

Thank you for your attention and patience, and please feel free to ask any questions.

Senator LEAHY. Judge, thank you very much. That was some of the most moving testimony that we've had in this room, and I appreciate that a great deal.

You've reported about the 3,000 pending corruption investigations in Iraq, and again, I applaud your courage in being willing to go forward with those investigations and all of us regret so very, very much the loss of lives of those who worked with you, and their family members.

You said those cases involved more than $18 billion lost to fraud. How much of that $18 billion, approximately, would you estimate came from the United States Government?

Judge AL-RADHI. Thank you, Mr. Chairman. I repeat in Arabic, because there is so much information, you know.

Senator LEAHY. Go ahead.

Judge AL-RADHI [spoken in Arabic]. With respect to monies that enter Iraq, whether from revenues from oil, or from United States sources or other foreign monies, we consider these monies to be

Iraqi monies, and we do control—provide control, oversight on these monies.

If the one who is playing with these monies is an Iraqi citizen, we do prosecute that Iraqi citizen and we send him for trial in whatever courts he is due.

And if it's a foreign person, we refer him then to Mr. Bowen's committee, because the law under Ambassador Bremer prevented us from prosecuting a non-Iraqi citizen.

And our investigations since the outset, until the day I arrived in the United States has been related to 3,000 cases, accounting for $18 billion, distributed among the various ministries. These cases are not being actively pursued in front of the relevant tribunals or courts. And this, from the first, undermines the oversight entities in Iraq.

Senator LEAHY. Do you know if any of the money that came from the United States that was stolen has now been recovered and returned to the United States?

Judge AL-RADHI [spoken in Arabic]. It entered into the pockets of the corrupt.

Senator LEAHY. Okay, that's what I thought. It's obvious to me, Judge, that you cannot continue your—or that nobody could continue the work you're doing, unless they were given complete and total security. Am I correct in that?

Judge AL-RADHI [spoken in Arabic]. Yes, sir, you are correct in that. I am surprised by what was put forth by the representative of DOD minutes ago, that he had requested the increase of the number of U.S. investigators. In Iraq we have three main oversight entities.

The first one, the first entity is the commission on public integrity, that has the power to refer to courts.

And the second one, the board of supreme audit, that oversees the financial issues of the ministries.

And the third body being the inspector general offices in each of the ministries in Iraq.

Why were these three entities weakened? Why were these three entities weakened when they were undertaking good performance?

Senator LEAHY. Thank you.

Senator Cochran.

Senator COCHRAN. Thank you very much for appearing before our hearing, we appreciate your courage.

Senator LEAHY. If you could just hold for just one moment, Senator Cochran. I'm going to go to another meeting.

Senator Dorgan who began all of this will fill in for me. But, I must say—I'm going to set the clock again for Senator Cochran—but I must say, Judge, I admire your courage, and I admire the courage of those who work with you. I think they want to see a better Iraq, and someday let us hope there will be. Thank you.

Senator Cochran.

Judge AL-RADHI. Thank you, Mr. Senator.

Senator COCHRAN. Judge, you heard the testimony of the witnesses, I assume, who preceded you at this hearing today talk about the effort that's being made through agencies of our Government, to be sure that funds that are appropriated and spent for Iraqi freedom and reconstruction are handled in ways that are

legal, and for which purposes have been approved by the countries that are donating, and making available these resources.

My question—one question that comes to my mind is that, do you know of any countries other than the United States who are trying to be helpful to Iraq, who are making any efforts to ensure that your anticorruption efforts, the Iraqi Government's efforts to deal with corruption are being supported and strengthened. Is anybody helping you, other than the United States?

Judge AL-RADHI [spoken in Arabic]. Thank you for your praise for my work. And I came here to thank the Americans for their great assistance to the Iraqis. However, Your Excellency, you have heard about the great mistakes that have been committed, and about the large amounts of money that have been wasted.

Sir, the infrastructure in Iraq is equal to zero. You heard in previous testimony about the increase in usable water. I wonder, is there no regular, usable water in Iraq for us to speak about?

Half of Baghdad, and I'm talking here about the region of Rasalfi, and it is a populous—a large area accounting for about 4 to 5 million people living in it—lives in the summer with no water. If there's no water, how can we speak about increases in usable water? This doesn't even account for the rural areas or remote areas that are located away from Baghdad, and their lack of water.

If you visited Baghdad, you would see for yourself that there is no water, no electricity, no sewage systems, no streets—everything is destroyed. If this is the case in Baghdad, then, what would be the case of other provinces?

The problem is that this government has failed in performing, in doing its duties for many reasons. One of these reasons is that this government has relied on blocs of sectarian cultures, if you will. It has distributed the ministries according to the various sects and groupings. Instead of employing the help of technocrats, they named to the various critical posts, politicians from these various blocs, political blocs. And you may be surprised if I tell you that many of these appointees have false degrees, fake college degrees, or bought degrees. And those who are governing Iraq today are doing it only to benefit their blocs, their various blocs.

Senator COCHRAN. Thank you very much.

I wonder, in your experience, observing the U.S. efforts to help reconstruct and rebuild and recover, do you notice the same kind of corruption among contractors who are actually given money directly from the United States to U.S.-owned firms, and U.S.-operated firms—do you see any evidence of corrupt practices among those companies, or are you talking about strictly those that are being supported by the Iraqi regime.

Judge AL-RADHI [spoken in Arabic]. Corruption is corruption. And the various entities have failed in undertaking the reconstruction process. And the fraudulent contracts into which they entered are all contracts which violate the laws.

The contract is usually written by a crook who manipulates the contract requirements. For example, the former defense minister, who was originally an instructor or a teacher, went to Pakistan and Poland and entered into contracts, and doesn't know anything about the technical aspects and requirements of contracts, but monies were paid for a contract amounting to $113 million and an-

other contract for the same amount, $113 million, and a third contract amounting to $167 million—all to purchase airplanes for Iraq. The monies were paid to the foreign companies, and the aircrafts were not delivered to Iraq.

When we brought that case in front of the courts, senior officials from the Defense Ministry of Iraq were witnesses. The crooks also entered in contracts to acquire ambulances, but these ambulances were not delivered either.

Nothwithstanding these problems, still in 2007, the Ministry of Defense in Iraq sent us a letter that the ministry of defense does not have a technical committee to inspect the weapons that are supposed to be received. So, no one takes a look at how many or quality of equipment comes to Iraq, and what does come is not inspected. And this is only a simple example.

Senator COCHRAN. Thank you. Thank you very much.

Senator, my time is expired.

Senator DORGAN [presiding]. Mr. al-Radhi, Judge al-Radhi, you indicated that you uncovered $18 billion worth of misspent funds in Iraq. Is it true that the majority of those funds came from the United States Government?

Judge AL-RADHI [spoken in Arabic]. Yes. That is correct, because most of these monies came from the DOD, so it is correct.

Senator DORGAN. Judge al-Radhi, you indicated that some of the same money that this committee, this Appropriations Committee, has appropriated to help rebuild Iraq, had been funneled to the insurgents and the militias that have killed American soldiers. How does that funneling of money happen, so that you believe money appropriated by this committee ends up in the hands of insurgents with which to kill American soldiers?

Judge AL-RADHI [spoken in Arabic]. When the ministry of defense buys not usable weapons, but bad weapons, how can the Iraqi army defend itself with such weapons?

Ms. BEHRANS. And sir, the interpreter, for the record, would like to tell you that the mention, the previous mention about the ministry of defense, relates to ministry of defense and not DOD. The interpreter got an explanation.

Senator DORGAN. I understand.

Ms. BEHRANS. Thank you, sir.

Judge AL-RADHI [spoken in Arabic]. This is on one hand. The other aspect is that the oil is being smuggled in Beiji from the Sunni militias and in Basrah, through the Shiite militias. And, of course, they will use this to purchase weapons. And, of course, these monies will target the killing of Iraqis and Americans.

Senator DORGAN. Judge al-Radhi, when you uncovered information about waste and fraud and abuse, did you share it with U.S. officials in Iraq, and if so, what was their response?

Judge AL-RADHI [spoken in Arabic]. Yes, we did share a lot with the U.S. officials about such discussions, because we—there is a U.S. representative or technical expert in each of the ministries. And I have wished for those experts to tell us if these ministers were corrupt, or to try to give us advice to end the corruption as we uncovered it.

However, the opposite happened. One of those experts came to me and did the opposite, he tried to defend the corrupt Iraqi min-

ister. Likewise, in the ministry of reconstruction and population, this expert came and defended those corrupt within the ministry. However, I must not generalize here, because some of the experts were very good people. However, this is what happened in some instances.

Senator DORGAN. But you are saying in your testimony that your personal knowledge is that some U.S. officials or advisors were given evidence of corruption by you, and they did not take action, or they actually defended the corruption, is that your testimony?

Judge AL-RADHI [spoken in Arabic]. Yes, correct.

Senator DORGAN. And is that because they didn't want to offend any of the ministries in the Iraqi Government, as they were trying to put ministries together?

Judge AL-RADHI [spoken in Arabic]. Many reasons. I cannot really define exactly, and precisely, the motive. However, some of them are corrupt, some of them wanted to steal money and to benefit from the reconstruction, and some of them had procedures that did not go along with Iraqi laws.

Senator DORGAN. Judge al-Radhi, my understanding is that you were given $11 million cash to start the commission on public integrity? You were told that the resources to start this commission on public integrity would be made available, you showed up, and they were made available in cash? You signed for the cash. Apparently you had a couple of people helping you load it into a car, took it home, had $11 million in cash in your home overnight, and then deposited it in a bank the next morning. My understanding is that $11 million disappeared while in a bank account. Can you describe that circumstance to us? And this, incidentally, was $11 million of U.S. taxpayers' money.

Judge AL-RADHI [spoken in Arabic]. $11 million, and this happened toward the end of the time when Ambassador Bremer was there.

Advisors and experts told the Ambassador to provide this money to the commission on public integrity to create an academy that would enable the creation of studying the ethics and integrity. And indeed, I went to this financial entity, a U.S. financial entity when they were in Iraq and I received a check for over $11 million. And I signed it with my name, because I was the head of the CPI in Iraq.

And in the same building of that entity, I went to the cashier's office, and I signed for the check and he paid the money to me. And I had four to five bodyguards, we transferred the amount, the monies, in a Suburban car, and this happened in the afternoon of that day.

So, I placed it at the directorate, at my office, and I slept in front of the door, that same night, along with the protection that was provided to me.

The next morning, early in the morning, we took the monies to the bank, and it was recorded under the name of our directorate in the Rafidain Bank.

After a lapse of time, the council of ministers issued an order and they retrieved all the monies in hard currency—foreign currency—from all the directorates, and one of these directorates was ours.

We told them, if you don't approve of the hard currency, give us instead of this foreign money, Iraqi currency for the academy project. We were answered with the following answer: that the minister of finance did not approve or give consent to give us the money. And I have a letter here, showing that they received the money—away from the CPI, and receipts that the money was received by the Central Bank, and by the ministry of finance.

[The information follows:]

In the Name of God the most Gracious, Most Merciful

Republic of Iraq
Ministry of Finance
Office: Accounting
Section: Cashing
No: 17/53
AH date:3286
CE date: 19/2/2006

To: Commission of Public Integrity /Financial Office
Subject: A Client Account

With reference to your book No: 193 of 6/2/2006 we confirm that the amount of $11,988.871/-eleven million, nine hundred and eighty eight thousand, and eight hundred and seventy one dollars has been in our account since 30/1/2005 according to the Central Bank notice No: 34548 enclosed.

With Appreciation

MUHIB ABDUL RAZAK ABDUL AZIZ,
General Director of the Accounting Office.
19/2/2006

CC to:
—Accounting Office/none Central System Office
—Accounting Office/cashing.
—Out put Section

بسم الله الرحمن الرحيم

جمهورية العراق
وزارة المالية

الدائرة
القسم
العدد
التاريخ الهجري
التاريخ الميلادي

الى/ مفوضيه النزاهه العامـــه/ الدائره الماليه
م/ رصيد حساب مدين

اشاره الى كتابكم المرقم ١٩٣ فـــي ٢٠٠٦/٢/٦
نؤيد قيد المبلغ (-/١١٩٨٨٨٧١) دولار (احد عشر مليون وتسعمائه وثمانيه وثمانون الف وثمانمائه وواحد وسبعون دولار لا غيرها) ايرادا في حساباتنا النقديه في تاريخ ٢٠٠٥/١١/٣٠ بموجب اشعار البنك المركزي المرقم ٣٤٥٤٨ والمرفق طيا
مع التقدير

محب عبد الرزاق عبد العزيز
مدير عام دائره المحاسبه / وكالـه
٢٠٠٦/٢/ ١٩

نسخه منه الى//
-/ دائره المحاسبه/ قسم النظام اللامركزي
-/ دائره المحاسبه/ النقديه
-/ شعبه الصادره

نغم ٢/١٩

CERTIFICATION OF TRANSLATION COMPETENCE

I, Tona Rashad, hereby certify that I am fluent in both written and oral English and the Arabic languages, and that I have translated the foregoing documents from Arabic to English to the best of my skill and ability and that the translation is a true, accurate translation of the Arabic original.

Tona Rashad,
Tel 202–828–1872
Email tona.rashad@hklaw.com
2099 Pennsylvania Avenue, N.W.
Suite 100
Washington, D.C. 20006–6801
Today's Date: March 10, 2008

In the Name of God the most Gracious, Most Merciful

Republic of Iraq
Ministry of Finance
Office: Accounting
Section: Vouchering
No: 902/21/1
AH date:13074
CE date: 21/9/2005

To: Al Rafedein Bank/Accounting Section
Subject: Closing Foreign Currency Accounts

According to your book No. 2108 of 2/7/2005 where you request the approval to exclude the Commission of Public Integrity from the procedures to close foreign currency accounts.

We would like to inform you that we did not get the Minister's approval for that exclusion and we should depend working on item No. 3920 of 5/4/2005 to close all open accounts in dollars for all (Al Rafedein) Bank Offices.

With appreciation...

FUAD ABDULLAH,
Ministry of Finance Agent.
19/9/2005

CC to:
—Commission of Public Integrity . . . to be informed . . . with appreciation
—Office of Accounting/cashing

بسم الله الرحمن الرحيم

جمهورية العراق
وزارة المالية

الدائرة المالية
القسم التنفيذي
العدد ٥٤١٤١١
التاريخ الهجري ١٤٢٧
التاريخ الميلادي ٢١/٩/٢٠٠٥

هيئة النزاهة العامة في العراق
الصادرة رقم ٥٦٥٨
في ٢٠٠٥/٩/٢٥

الى//مصرف الرافدين / شعبة الحسابات
م// غلق حسابات بالعمله الاجنبيـــه

أشارة الى كتابكم المرقم /٢١٠٨ في ٢٠٠٥/٧/٢ الذي طلبتم بموجبـــه الموافقه على أستثناء مفوضية النزاهه العامه من شروط غلق الحسابات الجاريه بالعمله الاجنبيـــه .

يرجى التفضل بالعلم بعدم حصول موافقة السيد الوزير على الاستثنـــاء حيث يتوجب العمل بمنشورنا المرقم /٣٩٢٠ في ٢٠٠٥/٤/٥ الـــخاص بغلق الحسابات الجاريه بالدولار الخاصه لكافة دوائر التمويل المركزي

.. مـع التقديـــــــر ..

فـؤاد عبد الله
وكيل وزارة الماليه
٢٠٠٥/٩/٨٩

نسخه منه الى//
- مفوضية النزاهه العامه .. للعلم .. مع التقدير ..
- دائرة المحاسبه/ النقديـــه

سميرة/٩/١٨

CERTIFICATION OF TRANSLATION COMPETENCE

I, Tona Rashad, hereby certify that I am fluent in both written and oral English and the Arabic languages, and that I have translated the foregoing documents from Arabic to English to the best of my skill and ability and that the translation is a true, accurate translation of the Arabic original.

Tona Rashad,
Tel 202–828–1872
Email tona.rashad@hklaw.com
2099 Pennsylvania Avenue, N.W.
Suite 100
Washington, D.C. 20006–6801
Today's Date: March 10, 2008

REPUBLIC OF IRAQ
PRIME MINISTER'S OFFICE
Ref.: m.r.n/s/7/914
Date: 04/01/2007

(Personal, Confidential and very Urgent)

To/The General Commission of Integrity

8569
743

Subject/Referral

Peace, mercy and blessings of Allah be upon you!

It has been decided not to refer any of the following parties to the court until approval of His Excellency, the Prime Minister, is obtained:

1. Presidential office
2. Council of Ministers
3. Current and previous ministers

With appreciation

Signed by DR. TARIQ NAJIM ABDULLAH,
Prime Minister's Office Manager.
04/01/2007

A copy to/

—Presidential office-Diwan/Please be informed . . . With appreciation
—Both Prime Minister Deputies/Please be informed . . . With appreciation
—Ministers' Cabinet Secretary General's Office/Please be informed . . . With appreciation
—Organizing unit
—Follow up
—Issued correspondence file

بسم الله الرحمن الرحيم

REPUBLIC OF IRAQ

Prime Minister Office

Co.

Date

جمهورية العراق

مكتب رئيس الوزراء

العدد: م.ر.ن/س/٧/٩١٤

التاريخ: ١ / ٤ / ٢٠٠٧

(سري وشخصي وعاجل جداً)

إلى / هيئة النزاهة العامة

٨٥٦٩
٧٤٣

م / إحالة

السَّلامُ عَلَيكُم وَرَحمَةُ اللهِ وَبَرَكاتُه

تنسّب عدم إحالة إيّ من الجهات الآتية إلى المحكمة إلاّ بعد إستحصال موافقة دولة رئيس الوزراء :

١. رئاسة الجمهورية

٢. رئاسة الوزراء

٣. الوزراء الحاليين والسابقين

مع التقدير

د. طارق نجم عبد الله

مدير مكتب رئيس الوزراء

١ /٤/٢٠٠٧

نسخة منه إلى /

- رئاسة الجمهورية – الديوان / للتفضل بالعلم .. مع التقدير
- السيدين نائبي رئيس الوزراء المحترمين / للتفضل بالعلم .. مع التقدير
- الأمانة العامة لمجلس الوزراء – مكتب الأمين / للتفضل بالإطلاع .. مع التقدير .
- وحدة التنسيق
- المتابعة.
- إضبارة الكتب الصادرة.

عبد الخالق ١/٤

CERTIFICATION OF TRANSLATION COMPETENCE

I, Tona Rashad, hereby certify that I am fluent in both written and oral English and the Arabic languages, and that I have translated the foregoing documents from Arabic to English to the best of my skill and ability and that the translation is a true, accurate translation of the Arabic original.

Tona Rashad,
Tel 202–828–1872
Email tona.rashad@hklaw.com
2099 Pennsylvania Avenue, N.W.
Suite 100
Washington, D.C. 20006–6801
Today's Date: March 10, 2008

REPUBLIC OF IRAQ
PRIME MINISTER'S OFFICE
Ref.: m.r.n/s/7/923
Date: 04/02/2007

(Personal, Confidential and very Urgent)

To/The General Commission of Integrity

[Stamp of the General Commission of Integrity]
8568
743

Subject/Directive

[Stamp of the Investigations office]
Ref.: 6348
Date: 04/12/2007

Peace, mercy and blessings of Allah be upon you!

Your letter ref. no. s/78 dated 03/01/2007.

His Excellency, the Prime Minister, directed to emphasize our attached letter with ref. no. m.r.n./s/7/914 dated 04/01/2007, which directs to stop the pursuit of previous and current ministers, unless done through the Prime Minister's office, and our attached letter no. m.r.n./s/7/282 dated 02/04/2007, which refers to the authorization from the Prime Minister's office for ownership.

With appreciation

Attachments:

—The two above mentioned letters from the Prime Minister's Office

Signed by PRIME MINISTER NORI KAMIL AL-MALIKI'S OFFICE
DR. TARIQ NAJIM ABDULLAH,
Prime Minister's Office Manager,
04/02/2007

A copy to/
—Organizing unit
—Follow up

REPUBLIC OF IRAQ
Prime Minister Office

جمهورية العراق
مكتب رئيس الوزراء

(سري وشخصي وعاجل جداً)

إلى / هيئة النزاهة العامة

م / توجيه

دائرة التحقيقات
الوارد / ٦٣٤٨
التاريخ / ١٤/٤/س

السلام عليكم ورحمة الله وبركاته

كتابكم المرقم س/٧٨ في ٢٠٠٧/٣/١ .

وجّه دولة رئيس الوزراء بالتأكيد على كتابنا المرقم م.ر.ن/س/٧/٩١٤ في ٢٠٠٧/٤/١ المرفق طياً والقاضي بإيقاف تعقيبات الوزراء السابقين والحاليين إلا عبر رئاسة الوزراء ، وكتابنا المرقم م.ر.ن/س/٧/٢٨٢ في ٢٠٠٧/٢/٤ المرفق طياً والذي يشير إلى تخويل من رئاسة الوزراء بالتمليك .

مع التقدير

المرفقات :
- كتابا مكتب رئيس الوزراء أعلاه .

رئيس الوزراء
د. طارق نجم عبد الله
مدير مكتب رئيس الوزراء
٢٠٠٧/٤/٢

Republic of Iraq
Office of the Prime Minister

Number: M. R. N / S / 7 / 282
Date: 4/2/2007
[Stamp: Office of the Deputy Chairman of the Commission; Incoming; Number 686; Date 7/2/2007]
[Stamp: Commission of Public Integrity; (illegible) Iraq; (illegible) 226; (illegible) 7 2 7]

(Private and Confidential)

To: Commission of Public Integrity
Re: Transfer of Ownership

May the Peace, Mercy and Blessings of God be upon you.

His Excellency, the Prime Minister, has given the order that the Office of the Prime Minister has no objection to the procedures in place for the transfer of ownership of the residential housing owned by the Iraqi Ports Company, among which is the house registered in the name of Mr. Salam Audah Faleh, the former Minister of Transportation, on the basis of the acceptance of the General Secretariat of the Council of Ministers, as stated in its letter numbered Qaf/2/1/25/13796 of 20/9/2005 and pursuant to which transfer of ownership operations were properly conducted.

Regards.

Enclosures:

—Aforementioned Letter of General Secretariat of the Council of Ministers

—Record of Sale (Transfer of Ownership) of house number 190 Ajnadin Street

Office of Nouri Kamel Al-Maliki,
Prime Minister.

DR. TAREK NIJM ABDALLAH,
Director of the Office of the Prime Minister.
4/2/2007

Our Office/Urgent

To be referred to the Basra Branch (private and confidential).

A copy thereof is to be kept with us along with the enclosures.

(signature)

CC to:

—Ministry of Transportation—Office of the Minister For your information. Regards.

—General Secretariat of the Council of Ministers—Office of the Secretary/Your above letter. Regards.

—Honorable Mr. Salam Audah Faleh/Former Minister of Transportation/For your information. Regards.

—Outgoing letters file.

To: Office of the Judge

NO: Q/2/1/39/14708
Date: 3/9/2007

Ministries/Minster Office

Offices not related to Ministry/Office of Chief of Unite

Subject/Commission of Public Integrity

The Commission on Public Integrity's area of expertise is limited according to Order 55 of 2004 including the following:

1. Investigation of corruption cases and it has to be exposed to the Investigate Judge.

2. Refer all information related to possible violations of the code of conduct where either the violating employee or the one they suspect in him to the Minster, the Chief of Office not related to the Ministry to the Inspector General.

3. Publish structured lists to have officials reveal their financial assess.

4. Propose legislation related to anti corruption.

5. As a result, the Commission cannot request information, files or any other thing, yet they can investigate the Management and Corruption after it happens and when evidences presented against the accused. It could also refer all the received information about the information related to possible violations of the code of conduct to the Minister, the Chief of Office not related to the Ministry or the Inspector General where either the violating employee or the one they suspect for purposes of making an Investigation. And it doesn't have the right to stop or prevent it from happening if it related to the Ministry under investigation or the Office of the Inspector General.

We hope observance . . . with appreciation

DR. FARHAD NEMA ALLAH HUSSEIN,
Secretarial General of the Ministries Council.
30/8/2007

CC:

—Prim Minister Office/to be informed . . . with appreciation.

—Office of Secretarial General of the Ministries Council/to be informed . . . with appreciation.
—The Commotion of Public Integrity/Chief of Office/according to your book numbered T/detective/548//2007/4888 in 14/8/2007 for mentioned purpose . . . with appreciation.

العدد: ق/٧٢/ ٢٥٩/ ٨ / ٢٢٧١
التاريخ: ٢/٥/٢٠٠٧

الوزارات كافة / مكتب الوزير

الدوائر غير المرتبطة بوزارة / مكتب رئيس الدائرة

م/ هيئة النزاهة العامة

إنّ اختصاصات هيئة النزاهة محددة حصراً بموجب الأمر (٥٥) لسنة ٢٠٠٤ وتتمثل في ما يأتي :-

١. التحقيق في قضايا الفساد ولها ان تعرض الموضوع على قاضي التحقيق.
٢. احالة المعلومات المتعلقة بمخالفات محتملة لقواعد السلوك إلى الوزير أو رئيس الدائرة غير المرتبطة بوزارة التي يتبع لها الموظف المخالف المشتبه به أو إلى المفتش العام .
٣. اصدار لوائح تنظيمية ملزمة تقتضي من المسؤولين الكشف عن مصالحهم المالية .
٤. اقتراح تشريعات القوانين المتعلقة بمكافحة الفساد .

وبالتالي فأن ليس للهيئة طلب معلومات أو اضابير أو غير ذلك من الوزارات والجهات غير المرتبطة بوزارة وانما ينحصر عملها بالتحقيق في افعال الفساد الاداري المحددة بالقانون بعد وقوعها وبعد ان يتأيد لها توفر الادلة ضد المتهم ، ولها الحق ايضا باحالة الاخبارات الواردة إليها عن المخالفات المحتملة لقواعد السلوك إلى الوزير المختص أو رئيس الدائرة غير المرتبطة بوزارة أو إلى المفتش العام لاجراء التحقيق الاداري فيها دون ان يكون لها الصلاحية بالتحقيق فيها ابتداءً كما ليس لها ان تتخذ أي اجراءات بأي صورة كانت لتلافي أو منع وقوعها لأن ذلك منناط بالوزارة المختصة ودائرة المفتش العام فيها .

راجين الالتزام بذلك ... مع التقدير.

د. فرهاد نعمة الله حسين

ع / الأمين العام لمجلس الوزراء

٣٠/٨/٢٠٠٧

نسخة منه الى /

- مكتب دولة رئيس الوزراء / للتفضل بالعلم ... مع التقدير .
- مكتب السيد الامين العام لمجلس الوزراء / للتفضل بالعلم ... مع التقدير .
- مكتب السيد نائب الأمين العام لمجلس الوزراء / للتفضل بالعلم ... مع التقدير .
- هيئة النزاهة العامة / مكتب رئيس الهيئة / اشارة إلى كتابكم المرقم ت/تحري/٤٨/٤٨٨٨/٢٠٠٧/٥ في ١٤/٨/٢٠٠٧ . للغرض أعلاه ... مع التقدير .

ع/ن ٨/٢٨

CERTIFICATION OF TRANSLATION COMPETENCE

I, Tona Rashad, hereby certify that I am fluent in both written and oral English and the Arabic languages, and that I have translated the foregoing documents from Arabic to English to the best of my skill and ability and that the translation is a true, accurate translation of the Arabic original.

Tona Rashad,
Tel 202–828–1872
Email tona.rashad@hklaw.com
2099 Pennsylvania Avenue, N.W.

Suite 100
Washington, D.C. 20006–6801
Today's Date: March 10, 2008

Senator DORGAN. Judge al-Radhi, that was $11 million of American taxpayer's money—do you have any notion of how it was spent?

Judge AL-RADHI [spoken in Arabic]. The council of ministers took that money, and it was spent in a waste—in a public money waste fashion.

Senator DORGAN. My understanding, Judge al-Radhi, is that the American money that was given in large quantities to all of the ministries, was something called capacity building money. And you have indicated that, because virtually all of the ministries have been infiltrated by some of the militia, that so-called "capacity building" funding from the United States is the funding that has ended up, and been diverted into the militia's hands, is that correct?

Judge AL-RADHI [spoken in Arabic]. That is correct because the ministries were distributed according to the various political parties.

For instance, the ministry of health portfolio was given to one of the Shiite parties, so if there was an ill person from a different sect, ill and residing in a hospital, staying in a hospital, that ill person would be kidnapped from that hospital.

And this led to the loss of monies through such practices. The officer himself would sell his gun. And just as you have heard from the previous panel that testified minutes ago, such weapon have reached the frontier of Turkey.

And this is one of the reasons that undermined and weakened our institution, because we did track down the corrupt and we did give a diagnosis for corruption in the country, and for the first time, our institution, the CPI, for the first time in the Middle East, it would refer ministers to the courts for prosecution for nonpolitical reasons, but for the reasons of corruption.

Senator DORGAN. Judge al-Radhi, I want to hold up a chart that has the copy of a letter that I believe you received, it is in Arabic, and then translated to English. My understanding is it's a letter that came from the prime minister's office, and it says to you, "Peace, mercy and blessings of Allah be upon you, it has been decided not to refer any of the following parties to the court, until approval of his excellency, the prime minister, is obtained, presidential office, council of ministers, current and previous ministers, with the previous appreciation."

What, apparently, this means—you might confirm it—what, apparently, this means is as you began digging in to crime and corruption, and as I want to refer again to the description by the special inspector general who said you are an honorable man and an effective crime fighter in Iraq. As you began to dig into corruption and understand that some of the ministries were corrupt and misusing money, the prime minister's office said to your office, you are not able to refer any parties dealing with corruption to a court, unless the prime minister would give approval, is that correct?

Judge AL-RADHI [spoken in Arabic]. That is correct, and that directive violates the constitution, because we are considered an independent entity, based on article 102 of the Iraqi constitution.

Senator DORGAN. And do you believe this happened because you started talking about, well, for example, Mr.—I believe it was Mr. Hussan, the minister of defense where $4 billion was unaccounted for, I mean, they couldn't account for $4 billion of spending. Do you believe that because you were digging into that, the prime minister's office then came up with a letter of this type, to stop what you were doing?

Judge AL-RADHI [spoken in Arabic]. Yes, because of our investigations that included investigating practices from the ministry of oil, and the ministry of defense. Accordingly, we received this letter.

Senator DORGAN. Judge al-Radhi, let me conclude today by thanking you for being here. I must say to you, I'm embarrassed at the attendance of this committee, this committee room is full when we appropriate money. There seems to be less enthusiasm for oversight to determine how that money is spent. I appreciate the Senators who did attend, and my colleague, Senator Cochran, has been here for the whole period, and former chair and others, so I appreciate those who came.

But, frankly, this is a very significant issue. It should command a great deal of attention by this Congress, and I regret it has not.

I know they have tried to kill you, personally, you do this at great risk. And I also want to say one other thing. I'm very unhappy with the U.S. State Department, and the way that you have been treated, personally, since you came to this country. The State Department, I believe, has sort of set you loose over here with no help and guidance, and apparently no action on your asylum request, and your message is not in accordance with the message that some tell us about.

I think there are good things going on in Iraq and improvements going on in Iraq, and I think there's a lot of corruption and fraud and abuse—I think both represent an accurate story. The story you tell is not—is not welcomed by some. They don't want to hear those facts, and that interpretation and that information, so I believe you have not been treated well by the U.S. State Department, and I think that's a shame. I hope that one of these days the State Department will do what it should do for a man of your courage and your integrity.

Taking on the job as head of the commission on public integrity in a country in Iraq where so many have been assassinated and murdered, and their families have been threatened. And I read the account, by the way, of you standing in your house when a missile hit in that neighborhood and your house collapses around you and you were fortunately unhurt. But you're a man of great personal courage I believe, and there came a time when you couldn't continue to do your job in Iraq. And you come to this country and tell us what you see and what you know, that I think is very helpful to our United States Congress. And as one Member of the United States Senate, I want to tell you how much I appreciate your courage, your work, and your willingness to come today.

Thank you very much.

Judge AL-RADHI. Thank you so much.

ADDITIONAL COMMITTEE QUESTIONS

Senator DORGAN. Any members wishing to submit questions to the witnesses may do so and they will all be printed in the record.

[The following questions were not asked at the hearing, but were submitted to the witnesses for response subsequent to the hearing:]

QUESTIONS SUBMITTED TO DAVID M. WALKER

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

Question. Mr. Walker, a recent State Department report stated that in early 2006, the Iraqi oil ministry estimated that ten percent of the $4–5 billion in fuel imported for public consumption in Iraq at subsidized rates in 2005 was smuggled internally and out of the country for resale at market rates. Further, approximately ten percent of all oil smuggling profits were estimated to go to insurgents. Conservatively, those facts suggest that insurgents in Iraq have approximately $100 million per year available to them from that single source. Should we be concerned about this and can you estimate for us the total revenues available to the insurgents?

Answer. Yes. Congress should be concerned. GAO has previously reported that corruption is widespread and a problem for the Iraqi government. We do not have an estimate of the amount available to insurgents from petroleum-related corruption, but our report "Stabilizing Iraq: Armed Groups in Iraq Rely on Resources Generated in Iraq to Sustain High Levels of Violence" (GAO–07–782C) provides further information. The report title is unclassified but the body of the report is classified. A copy of this report is available to the Committee.

Question. Mr. Walker, since March 2004, experts have been urging Iraq to install control systems to measure and account for the amount of oil pumped out of Iraqi oil fields and processed at Iraqi refineries, as the best way to prevent corruption and the diversion of oil and oil revenues to insurgents and other unauthorized individuals. As recently as February 2008, such control measures were still being recommended. Why have control systems not been installed?

Answer. The lack oil metering in Iraq has been a problem since 1996 when the United Nations first cited the issue during the Oil for Food Program. In 2004, the Coalition Provisional Authority took steps to install a metering system, but lack of security stopped completion of this work. In 2006, the Iraqi government took steps to establish, within the next 2 years, a measuring system for Iraq's oil, gas, and related products within Iraq and export and import operations. However, we reported in 2007 that security continued to pose a challenge to Iraq's oil and electricity sectors and has led to project delays and increased costs. As of February 2008, the International Advisory and Monitoring Board (IAMB) reported that some metering at oil terminals had been installed, but there is an absence of a comprehensive system of metering, including no metering in the oil fields.[1]

Question. Mr. Walker, do you feel that there are sufficient controls over the accountability of the weapons the United States provides to Iraqi security forces? Please explain.

Answer. No. As of March 2008, the Department of Defense (DOD) had not implemented GAO's recommendations to improve accountability over the U.S. program to train and equip Iraqi security forces.[2] We recommended that the Secretary of Defense determine which DOD accountability procedures apply or should apply to the program. We also recommended that after defining the required accountability procedures, DOD ensure that sufficient staff, functioning distribution networks, standard operating procedures, and proper technology are available to meet the requirements.

Question. Mr. Walker, do we have confidence that the use of Development Fund for Iraq deposit accounts can be reconciled with income and spending?

Answer. GAO cannot determine the extent to which the Iraqi government is spending its $10.1 billion capital projects budget for 2007 because of wide discrep-

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[1] The IAMB is an independent audit oversight body for the Development Fund for Iraq (DFI) established pursuant to U.N. Security Council Resolution 1483 to help ensure that the DFI is used in a transparent manner for the benefit of the people of Iraq and export sales of petroleum products are made consistent with international best practices. The IAMB's terms of reference, approved in October 2003, allow it to oversee the completeness of deposits into the DFI, the management of the funds in the DFI and the use of DFI resources in the spending ministries, together with the power to complete special audits.

[2] GAO, *Stabilizing Iraq: DOD Cannot Ensure that U.S.-Funded Equipment Has Reached Iraqi Security Forces*, GAO–07–711 (Washington, D.C.: July 31, 2007).

ancies between Iraq and U.S. reports on Iraqi expenditures. The discrepancies highlight the uncertainty about Iraqi expenditures.[3] In addition, U.S. agencies, the World Bank, and independent auditors report serious internal control weaknesses in Iraqi government accounting procedures. For example, the World Bank reported that reconciliation of government of Iraq accounts is impossible. GAO plans to review issues related to Iraqi income and spending under the authority of the Comptroller General, based on a request from the Senate Armed Services Committee.

Question. Mr. Walker, is Iraq in possession of financial assets not accounted for in the Development Fund for Iraq accounts, and if so, where are these resources and do discrepancies exist in these accounts?

Answer. GAO has not examined whether the Iraq government has financial assets not accounted for in the Development Fund for Iraq (DFI). However, IAMB is responsible for overseeing the completeness of deposits into the Development Fund for Iraq. IAMB reported that auditors will finalize the 2007 audit of the DFI and report to IAMB during 2008.

Question. Mr. Walker, have there been any discrepancies noted between the Development Fund for Iraq balance reports and actual bank holdings, and if so, where?

Answer. GAO has not examined any potential discrepancies between the DFI balance reports and actual bank holdings. However, the International Monetary Fund reported in January 2008 that audits of the DFI noted large un-reconciled differences regarding oil extraction, production, and export sales. Also, the World Bank has reported that the government of Iraq lacks consolidated information on the exact number of government bank accounts it has and the balances in them. As part of a future GAO review referred to under question 8, GAO is planning to address some of these issues.

Question. Mr. Walker, is Iraq holding gold or other monetary assets that might not be accounted for in their deposit accounts?

Answer. GAO has not examined whether the government of Iraq is holding gold or other monetary assets not accounted for in DFI deposit accounts.

Question. Mr. Walker, I am concerned about what happens from year-to-year regarding unobligated funds due to Iraq's reported budget execution problems. If unobligated funds are rolled over from year to year, what is the confidence level that such funds are actually available for obligation and execution?

Answer. GAO cannot determine how much the Iraqi government has actually spent because U.S. and Iraqi reports show widely disparate spending data. Moreover, the IAMB, International Monetary Fund, and World Bank have concerns about whether Iraq government accounts can be reconciled. As a result, it is uncertain whether unused funds approved by Iraq's budget laws are actually available for obligation and execution the following year.

QUESTIONS SUBMITTED BY SENATOR DIANNE FEINSTEIN

Question. On March 6, 2008, the Boston Globe ran a story entitled "Top Iraq Contractor Skirts U.S. Taxes Offshore." In the story, the authors noted that "more than 21,000 people working for KBR in Iraq—including about 10,500 Americans—are listed as employees" of two shell companies for KBR registered in the Caribbean. The story also states: "the Defense Department has known since at least 2004 that KBR was avoiding taxes by declaring its American workers as employees of Cayman Islands shell companies, and officials said the move allowed KBR to perform the work more cheaply, saving Defense dollars." However, the article estimates a roughly $500 million shortfall in lost Social Security and Medicare revenue as a result of the practice.

Many employees did not know that they were employed by the shell companies, not KBR, and those employees have lost eligibility for Social Security, unemployment, and other government services as a result of these practices. KBR has amassed an estimated $16 billion in contracts in Iraq. On March 13th, Senator John Kerry (D-MA) introduced legislation to treat foreign subsidiaries of U.S. companies performing services under contract with the United States government as American employers for the purpose of Social Security and Medicare payroll taxes.

Can you comment on whether or not the Government Accountability Office has reviewed this issue and any findings that have come as a result of the review? If not, does the GAO plan to review the issue?

Answer. We have not reviewed KBR's hiring of personnel through companies registered in the Caribbean and have no ongoing work specifically related to this issue.

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[3] GAO, *Iraq Reconstruction: Better Data Needed to Assess Iraq's Budget Execution*, GAO–08–153 (Washington, D.C.: Jan. 15, 2008).

We have, however, previously reported on issues associated with federal contractors with offshore subsidiaries. For example, we reported in February 2004 that 59 of the 100 largest publicly traded federal contractors in fiscal year 2001, including Halliburton (then the parent company of KBR), reported having a subsidiary in a tax haven country.[4] We subsequently reported in June 2004 that large tax haven contractors were more likely to have a tax cost advantage in federal contracting than large domestic contractors.[5]

Question. With the multitude of reports raising questions about KBR's performance as a contractor in Iraq, why is the U.S. military still doing business with the company?

Answer. DOD may be in a better position to address its use of specific contractors or how it used past performance information when awarding specific contracts. We would like to note, however, that contracting is important to how many agencies accomplish their missions, and therefore it is critical that agencies focus on buying the right things the right way. This includes ensuring that contracts are awarded only to responsible contractors, and that contractors are held accountable for their performance. As we noted in July 2007, the use of contractor performance information is a key factor in doing so.[6]

Question. What actions has the GAO taken to address past problems with KBR and can you name the instances where the DOD has cancelled a large contact in Iraq due to mismanagement?

Answer. GAO has made multiple recommendations in previous reports aimed at improving DOD's oversight and management of contractors supporting deployed forces, including KBR. For example, GAO issued a report in July 2004 addressing the need for DOD to strengthen oversight of logistics support contracts such as the Army Logistics Civil Augmentation Program (LOGCAP).[7] In March 2005, GAO issued a report calling for high-level DOD coordination to improve the management of the LOGCAP contract.[8] And in December 2006, GAO issued a comprehensive report on contractor support to deployed forces that called for high-level DOD action to address long-standing problems with DOD's management and oversight of contractors supporting deployed forces.[9]

We do not have complete information on the extent to which DOD may have cancelled a large contract in Iraq due to mismanagement. We are aware of several instances in which DOD cancelled or terminated, at least in part, contracts or task orders for work in Iraq due to poor management and higher than expected costs For example, in May 2006, the U.S. Army Corps of Engineers announced that the contract with Parsons Global Services to build primary health care centers was partially terminated due to insufficient progress and escalating costs.

In a January report to Congress, the Congressional Research Service (CRS) recommended that Congress consider requiring that "the Defense Department use more fixed-price contracting in Iraq, task and delivery orders [be matched to] certain dollar constraints, and larger contracts be divided into smaller contracts, with better-defined discrete tasks."

Question. In your opinion, does the size of the contracts used in Iraq inhibit proper oversight of those contracts?

Answer. The size of a contract can be a factor in determining the extent and nature of oversight required, but in and of itself does not inhibit proper oversight. Rather, we and others have reported that DOD simply does not have a sufficient number of acquisition and contracting personnel to provide effective oversight over the range of contracts and contractors it employs in Iraq, thereby limiting its ability to obtain reasonable assurance that contractors were meeting contract requirements efficiently and effectively.

Question. Would a system similar to the one outlined by CRS help increase oversight of Iraq contracts?

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[4] GAO, *International Taxation: Information on Federal Contractors With Offshore Subsidiaries*, GAO–04–293, (Washington, D.C.: Feb. 2, 2004).

[5] GAO, *International Taxation: Tax Haven Companies Were More Likely to Have a Tax Cost Advantage in Federal Contracting*, GAO–04–856, (Washington, D.C.: June 30, 2004).

[6] GAO, *Federal Contracting: Use of Contractor Performance Information*, GAO–07–1111T, (Washington, D.C.: July 18, 2007).

[7] GAO, *Military Operations: DOD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight*, GAO–04–854 (Washington, D.C.: July 19, 2004).

[8] GAO, *Defense Logistics: High-Level DOD Coordination Is Needed to Further Improve the Management of the Army's LOGCAP Contract*, GAO–05–328 (Washington, D.C.: March 21, 2005).

[9] 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).

Answer. While we have not specifically assessed the options proposed by CRS in its January 2008 report, our work provides insights into some of the underlying issues that these proposals attempt to address. For example, we have reported that 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. Such contracts are generally used when uncertainties involved in contract performance, such as when the government's requirements or needs are not well-defined, do not allow the work to be priced on a fixed-price basis. In some cases, we found that the lack of well-defined requirements resulted in DOD using business arrangements that increased the government's risk, such as by allowing contractors to begin work before key contract terms and conditions, such as the scope of the work and its price, were fully defined.[10] Consequently, the extent that DOD is able to better define its requirements should enable it to increase its use of fixed-price contracts and enable it to definitize its contracts on a more timely basis.

The increased use of fixed-price contracts and the more timely definitization of contracts, however, does not obviate the need for effective management and oversight. In other words, if contracts are not effectively managed and given sufficient oversight, the government's risk is likely to increase. In that regard, DOD still needs to improve its capacity to manage and oversee contractor performance, including assuring that it has sufficient contract oversight personnel to provide effective oversight. We have made a number of recommendations aimed at strengthening DOD's management and oversight of contractor support at deployed locations, and the department has agreed to implement many of those recommendations. However, we have found that DOD has made limited progress implementing some key recommendations.

Question. What other barriers prevent the GAO or Inspectors General from improving oversight of these contracts?

Answer. Despite improvement since last year, the security situation in Iraq continues to hamper contract oversight. Operating within this environment, we and the other accountability organizations will continue to coordinate our oversight efforts to avoid duplication and leverage our resources.

QUESTIONS SUBMITTED BY SENATOR JUDD GREGG

Question. Has the Prime Minister or any other senior Iraqi government official taken any action to interfere with GOI investigations into cases of corruption? If so, please describe in detail the circumstances.

Answer. GAO has not examined allegations of senior Iraqi government officials interfering with government of Iraq investigations of corruption.

Question. What factors limit the ability of the CPI, the Board of Supreme Audit, and respective Ministry IGs from investigating and prosecuting cases of corruption?

Answer. Violence, intimidation, and attacks against staff are a major obstacle to investigations according to the former head of the Commission on Public Integrity (CPI). Aggravating this situation, we have reported that corruption within the ministries is widespread and the Iraqi civil service remains hampered by staff with political and sectarian loyalties. Also, Iraqi law is an obstacle. Article 136(b) of Iraq's Criminal Code allows any Iraqi minister to grant complete immunity of prosecution to any ministry employee accused of wrongdoing. These factors create a difficult environment to investigate charges of corruption.

Question. Have any documents in the possession of the U.S. Mission been altered by U.S. Government officials by removing the names of Iraqi leaders because the documents implicate those leaders in cases of corruption?

Answer. GAO has not investigated this issue.

Question. Has the U.S. Mission ever retroactively classified anticorruption or rule of law reports after Congress has requested such reports?

Answer. The U.S. Mission retroactively classified rule of law reports and documents GAO used as a source in our report "Stabilizing and Rebuilding Iraq: U.S. Ministry Capacity Development Efforts U.S. Ministry Capacity Development Efforts Need an Overall Integrated Strategy to Guide Efforts and Manage Risk" (GAO–08–117). We subsequently had to remove text and information from our unclassified report and reissue the report so it would remain unclassified.

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[10] See, for example, GAO, *Defense Contract Management: DOD's Lack of Adherence to Key Contracting Principles on Iraq Oil Contract Put Government Interests at Risk*, GAO–07–839 (Washington, D.C.: July 31, 2007) and *Iraq Contract Costs: DOD Consideration of Defense Contract Audit Agency's Findings*, GAO–06–1132 (Washington, D.C.: Sept. 25, 2006).

QUESTIONS SUBMITTED TO CLAUDE M. KICKLIGHTER

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

Question. General Kicklighter, the Department of Defense, through the Commander's Emergency Response Program, administers the Concerned Local Citizen program in Iraq. Reportedly, within that program there are about 80,000–90,000 individuals being paid about $350 per month; that amounts to about $30 million in total per month. Can you tell me how that money is distributed and what audit controls are in place to ensure that each individual actually exists and receives the amount intended to go to them?

Answer. The DODIG has not specifically reviewed the CERP program in Iraq. However, on February 28. 2007, we issued DOD IG report D–2007–0064, "Implementation of the Commanders' Emergency Response Program in Afghanistan." The overall objectives of the audit were to evaluate management's administration of the Commanders' Emergency Response Program (CERP), and determine whether the internal controls set up for the CERP in the Afghanistan area of responsibility protect DOD assets. We found that the Commander, Combined Forces Command Afghanistan established controls over the CERP; however, they were not effective in all cases. As a result:

—Of the 16 pay agents, 15 did not have appropriate physical security for storing cash, the sixteenth pay agent did not hold cash because she is collocated with a finance office. Of the 16 pay agents, 2 inappropriately disbursed cash.

—Some of the projects we reviewed did not fully achieve the intent of the CERP.

—Weaknesses in administrative processes led to inconsistent program implementation, unnecessary requirements, and insufficient documentation.

Question. General Kicklighter, do you believe that effective risk mitigation measures are in place to prevent the flow of funds from corrupt practices from reaching insurgents and militias and if not, what recommendations can you make to correct the problem?

Answer. We are conducting numerous audits that review the controls of funds. However, those reviews examine the control of funds from the time the funds are appropriated until the time those funds are obligated and expended. When funds are provided to the Iraq Security Forces (ISF), we do not review controls after the transfer of the funds to the ISF and therefore cannot comment on risk mitigation standards from that point onwards. Within DOD, we have found numerous instances of a lack of controls over funding, especially when funds used are cash. There is always a high risk of corruption when dealing with cash. Because there is not a sophisticated financial infrastructure in Iraq, many transactions are conducted with cash. I do not believe we will be able to effectively mitigate the risks of funds from corrupt practices reaching insurgents and militias until there is a sophisticated funding infrastructure in Iraq. In the meantime, we will review cash controls to ensure the most effective mitigation measures possible at this time are in use.

We will continue our investigative mission to identify and investigate corrupt practices with an anticipated result of prevent the "flow of funds" to anywhere other than their intended contractual purposes.

Question. General Kicklighter, how many actual Department of Defense audit and investigative employees, not counting contractors, but from the office of the Inspector General, are actually stationed in Iraq?

Answer. As of March 11, 2008, the Department of Defense Office of the Inspector General had 5 core staff auditors and 2 agents forward deployed in Iraq. Three auditors are located in the International Zone and two are located in Camp Victory. In addition, we had 2 agents in Kuwait and will soon have 2 agents in Afghanistan.

To accomplish our oversight mission, we have adopted a strategy that is based on maintaining the right size presence in-theater but which also recognizes that much of our work can be done out of Iraq. We have adopted an expeditionary workforce model to support efforts throughout all of Southwest Asia. We have 20 core staff forward deployed at all times. The core contingent is comprised of individuals serving between 6 and 12 month deployments. Expeditionary team members will deploy for as long as needed to complete the task, but no longer. The actual number of auditors, investigators, and inspectors in Southwest Asia and Iraq fluctuates on a daily basis depending on requirements.

We are increasing our presence in Southwest Asia and currently have 279 personnel dedicated to Southwest Asia operations and are deployable as mission requirements dictate. Currently we have 22 people deployed to Southwest Asia. Utilizing both domestic and in theater assets we have 28 ongoing Iraq related audits and inspections and 102 ongoing Iraq related investigations.

Question. General Kicklighter, there have been reports of "ghost employees" within the Ministry of the Interior that may total up to 20–30 percent of the force. Since that ministry, ironically, executes the law enforcement functions in Iraq, what is the extent of the problem and what steps are underway within Iraq to reconcile salary payments with physical employees?

Answer. The oversight responsibilities of the Office of the Inspector General extend to DOD appropriated funds in support of Defense operations to include Operation Iraqi Freedom. Our office has not done work regarding the employment records of the Iraq Ministry of Interior because our oversight authority does not include oversight of the Iraqi government.

Question. General Kicklighter, has a weapons accountability system been established to track weapons and other military equipment transferred from the United States to Iraq and if so, have weapons provided for prior to 2005 been located or otherwise accounted for?

Answer. The objectives of the DODIG Assessment Team on Munitions Accountability are to:

—Determine whether the DOD currently has adequate accountability and control over U.S.-purchased munitions before formal turnover to the ISF.

—Determine whether the ISF currently has adequate accountability and controls over U.S.-purchased munitions under their control.

The team is chartered to review the current situation on the ground not what occurred in the past. The team concluded the DOD and the ISF currently have a system in place for controlling and accounting for weapons and ammunition being supplied to the ISF; however, there still remains work to be done. As the U.S. supply of munitions to Iraq shifts to Foreign Military Sales (FMS), the United States needs to put the FMS program on a war-time footing while also assisting the ISF in building their logistics sustainment base.

—FMS systems and processes provide increased levels of accountability and control over munitions.

—U.S. military transition teams are working with their Iraqi military and police counterparts to strengthen ISF logistics, and related munitions accountability and control.

—Both these actions are underway and will greatly enhance the control and accountability of munitions.

The assessment report is currently being staffed for management comments. In addition, the assessment team deployed back to Iraq to review the status of corrective actions taken on the report's recommendations, and assess the current status of munitions control and accountability, FMS, and the Iraqi Logistics Sustainment base. They will return to Washington, DC in the late May/early June timeframe.

Question. General Kicklighter, does the Iraqi Ministry of Defense have a physical inventory system in place to track physical assets purchased with or provided by the United States or Development Fund for Iraq funds and have there been problems with inventory loss?

Answer. We have not and do not look at the methodology of tracking assets after those assets have been transferred to a foreign government. Report No. D–2008–026, "Management of the Iraq Security Forces Fund in Southwest Asia—Phase III," November 30, 2007 found that the Multi-National Security Transition Command—Iraq had problems accounting for physical inventory purchased with ISF funds before the transfer of those assets to ISF. Those problems are currently being addressed and we plan to conduct a follow-up audit early next year.

Question. General Kicklighter, in hearings last month, we learned that as of December 31, 2007, there were 163,540 private contractors in Iraq, and that 17 percent of those were Americans, with the rest being local nationals or Third Country Nationals. At the same hearing, Ambassador Kennedy testified that security contractors in Iraq receive an average of $1,222 per day, for an average yearly salary of $445,000. Recognizing that not all contractors are security personnel; can you provide the Committee with the total amount spent on contractors last year and the average daily and annual compensation rates for different categories of contract jobs?

Answer. We have not conducted an audit that would validate the number of private security contractors, the nationality breakdown of security contractors in Iraq, or average salary of security contractors in Iraq. We plan to begin an audit of private security contractors used in support of OIF. The overall objective will be to determine whether private security services contracts have clearly defined requirements and whether those requirements are being fully met by contractors. Specifically, we will determine whether contract statements of work were clear, definite, and certain, and whether the contract terms and conditions for private security services were clearly defined in the contracts. Within the scope of that audit, we

can address the average salaries of security contractors working on the judgmental sample of contracts that will be reviewed but will not be able to project those amounts to all Iraqi contracts. We simply do not have the resources to review all security contracts in Iraq or a statistical sample of Iraqi security contracts.

The Federal Procurement Data System shows that in excess of $315 billion was spent on DOD contracting in fiscal year 2007. We are not aware of a reliable source for average daily and annual compensation rates for different categories of contract jobs.

Question. General Kicklighter, some previous testimony from former private contractors and other sources suggests that Third Country Nationals hired as private contractors in Iraq by U.S. companies are not always paid or provided benefits on par with those provided to American contract personnel. Do you have any evidence to prove or disprove these reports and if true, is that payment differential reflected in the payments to the contracting company?

Answer. We have heard allegations on this issue but have not conducted audits or planned to conduct audits that would address the issue. This is not an area that contains clear criteria on the responsibilities of contractors. Many legal issues regarding international law and labor rates would have to be addressed before a substantive audit could be conducted. In addition, because many Third Country Nationals are hired as subcontractors, the legal issue of contract privity between DOD and the subcontractors would be a major issue.

Question. General Kicklighter, do you believe that effective risk mitigation measures are in place to prevent corruption in the use of U.S. and Iraqi funds, and if not, what recommendations can you make?

Answer. Effective risk mitigation requires a combination of efforts to include the oversight provided by the DOD IG, GAO, State IG, USAID IG, and SIGIR. In addition to the oversight community, the honesty and integrity of the federal and contractor workforces also play a large role in effective risk mitigation. However, no matter how many controls are put in place corruption will still exist. It is our mission to work with the resources provided by the Congress to assess risk and place our resources in areas that help to minimize that risk.

Section 842, "Investigation of Waste, Fraud, and Abuse in Wartime Contracts and Contracting Processes in Iraq and Afghanistan," of the Act (Public Law 110–181) requires the DOD IG to conduct, "thorough audits . . . to identify potential waste, fraud, and abuse in the performance of—Department of Defense contracts, subcontracts, and task and delivery orders for the logistical support of coalition forces in Iraq and Afghanistan." As a result of these concerns and due to the complex operational environment in Southwest Asia, we have established an Office for Strategic Plans and Operations for the Global War on Terror (GWOT). The new component is focused on GWOT and other high value, high visibility assessment missions. The establishment of this new office will supplement the efforts currently being undertaken by DOD IG components. This initiative is part of an ongoing Organizational Development Project that was initiated in January 2008 to assess corporate-level strategies, organizational alignments, geographical locations, personnel development, business practices, culture, and performance to best position the DOD IG to execute current, emerging and future missions.

Another initiative was the realignment of internal core mission assets within the Office of the Deputy Inspector General for Auditing to form the Joint and Overseas Operations Directorate to support Southwest Asia audit operations. This expeditionary audit directorate was formed in November 2007 to address corruption, fraud, waste, and abuse in Southwest Asia; combat illegal and improper expenditures; and improve accountability of DOD resources that support operations in Southwest Asia. To accomplish this mission, we expanded our presence in Qatar, Afghanistan, and Iraq; established a field office in Korea; and are establishing field offices in Germany and Hawaii.

Senate Report 110–77, to accompany the National Defense Authorization Act (NDAA) for Fiscal Year 2008, addresses funding for the Office of the Inspector General, Department of Defense (DOD IG) stating that, "The committee is concerned that funding levels for this important independent audit and investigative function is not keeping pace with the demands for Inspectors' General services in the global war on terror." The report also directs the IG to, "provide to the defense committees, by March 31, 2008, an analysis of the current and future personnel, organization, technology, and funding requirements of the OIG" to include, "a comprehensive and detailed master plan, with annual objectives and funding requirements, that provides the fastest possible increase in audit and investigative capabilities." This report was provided to the congressional Defense oversight committees on April 14, 2008.

Based on our analysis, the funding requirement for the DOD IG for fiscal year 2009 is $25.24 million above the level provided in the President's budget for fiscal year 2009. That $25.24 million is directly linked to requests by Congress to increase both audit and investigative efforts regarding Southwest Asia and the Global War on Terror. In fiscal year 2009, we estimate that the President's budget will allow for an increase to 1,474 FTEs. This would account for 37 of the 481 FTEs outlined in our DOD IG growth plan through fiscal year 2015, closing the gap for the desired end state to 444 FTEs, but falling 134 short of the 1,608 FTEs that we require for fiscal year 2009 in order to provide the fastest possible increase in our audit and investigative capabilities. Additional fiscal year 2009 funding will allow us to continue to increase our oversight efforts related to GWOT, contract management and acquisitions; and would support DOD IG audits conducted in response to Sec. 842 of the fiscal year 2008 NDAA, as mentioned above.

This growth, if supported by Congress, will enable us to perform our statutory duties and to provide additional coverage of the high risk and high impact areas of DOD contracting, major weapons system acquisitions, information technology, information security, human capital, charge cards, personnel and medical readiness, financial management, and homeland security. It will also allow for enhanced investigative support to Joint Terrorism Task Forces (JTTFs) located throughout the United States; establishment of new offices in geographic locations that have been previously neglected due to limited staffing; enhanced investigative support to the GWOT; and increased emphasis on investigating crimes in areas that have dropped in priority and have been largely neglected because of the new demands of today's environment.

QUESTIONS SUBMITTED BY SENATOR DIANNE FEINSTEIN

Question. On March 6, 2008, the Boston Globe ran a story entitled "Top Iraq Contractor Skirts U.S. Taxes Offshore." In the story, the authors noted that "than 21,000 people working for KBR in Iraq—including about 10,500 Americans—are listed as employees" of two shell companies for KBR registered in the Caribbean. The story also states: "the Defense Department has known since at least 2004 that KBR was avoiding taxes by declaring its American workers as employees of Cayman Islands shell companies, and officials said the move allowed KBR to perform the work more cheaply, saving Defense dollars." However, the article estimates a roughly $500 million shortfall in lost Social Security and Medicare revenue as a result of the practice.

Many employees did not know that they were employed by the shell companies, not KBR, and those employees have lost eligibility for Social Security, unemployment, and other government services as a result of these practices. KBR has amassed an estimated $16 billion in contracts in Iraq. On March 13th, Senator John Kerry (D-MA) introduced legislation to treat foreign subsidiaries of U.S. companies performing services under contract with the United States government as American employers for the purpose of Social Security and Medicare payroll taxes.

Can you comment on whether or not the DOD Inspector General's office has reviewed this issue and any findings that have come as a result of the review? If not, does the office plan to review the issue?

Answer. The Department of Defense Office of the Inspector General has not reviewed this issue. Under current law the practice is not illegal; however, the Defense Contract Audit Agency (DCAA) has conducted audits to ensure that contractors have not billed government contracts for taxes that were not incurred.

As you know, recently both the House and Senate have introduced legislation, which if enacted would prevent this type of situation from reoccurring. H.R. 5602 and S. 2775, sponsored by Senator Kerry, "Fair Share Act of 2008," have been introduced to amend the Internal Revenue Code of 1986 and the Social Security Act to treat certain domestically controlled foreign persons performing services under contract with the United States Government as American employers for purposes of certain employment taxes and benefits.

Question. With the multitude of reports raising questions about KBR's performance as a contractor in Iraq, why is the U.S. military still doing business with the company?

Answer. The decision to contract with a specific company is made by the Department and the DOD IG has no input into that decision.

The Federal Acquisition Regulations state that the prior performance of a company must be considered when awarding a new contract. However, there are no specifics on how to judge the prior performance of a large defense contractor. KBR has

not been debarred from Federal contracts and absent such action, there is no reason for a contracting officer not to consider KBR proposals for contract awards.

Question. What actions has the Pentagon taken to address past problems with KBR and can you name the instances where the DOD has cancelled a large contact in Iraq due to mismanagement?

Answer. The DODIG has no information on this topic and no knowledge of any instances of DOD cancelling a large contact in Iraq due to mismanagement because we have not conducted audits involving either of these situations.

QUESTIONS SUBMITTED TO STUART W. BOWEN, JR.

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

Question. Mr. Bowen, we have heard accounts which suggest that during the Coalition Provisional Authority period, projects were paid in full, up front, in cash, before work was begun on projects. Is this true, and was it commonplace?

Answer. From August to December 2004, the Inspector General of the Coalition Provisional Authority (CPA) audited the Control of Cash Provided to South-Central Iraq (Report Number 05–006). The auditors encountered instances in which one contractor was paid in full up front, in cash, before work was begun on projects. In that case at least 8 contracts worth $1,978,810 were paid in full up front. In addition, at least 23 grants, including 2 worth $950,000 each, were paid up front to the grant recipient prior to services being rendered or expenses incurred.

These instances involved the use of cash from the Development Fund for Iraq (for the most part this money was a combination of Seized and Vested assets and proceeds from the sale of Iraqi oil), and not from U.S. appropriated funds. The instances mentioned above involved contracts awarded to Mr. Phillip Bloom (contractor) and paid by Mr. Robert Stein (CPA employee). Our investigation of this anomaly resulted in Mr. Bloom and Mr. Stein pleading guilty to conspiracy, bribery, and money laundering in connection with a scheme to defraud the CPA. Both are currently in prison.

In our work to date, SIGIR has not encountered any instances involving U.S. appropriated funds in which contractors were paid in full, up front, in cash, before work was begun on projects

During the previously-mentioned audit of the Control of Cash Provided to South-Central Iraq, we also encountered instances in which local contractors were paid half of contract amounts up front before work was begin on projects. This practice was commonplace in the South-Central Region at the time. We believe that it was a factor in the overall poor value received for contracts awarded by the South-Central Region at that time.

In our work to date, we have encountered no instances involving U.S. appropriated funds in which contractors were paid half of contract amounts up front before work was to begin on projects.

Question. Mr. Bowen, have investigations or audits been performed to establish that the recipients of these U.S. funds are legitimate contracting entities such as builders, contractors, engineers, and so forth, and are such investigations standard procedure?

Answer. SIGIR has not performed audits with the issue discussed in the question as a particular objective. However, in each contract audit we focus on potential fraud, waste and abuse. In so doing, we have not to date identified the conditions you describe in any of our audits.

Question. Mr. Bowen, since the end of the tenure of the Coalition Provisional Authority in 2004, have investigations or audits been performed by U.S. or Iraqi entities to establish that the recipients of U.S. funds are legitimate contracting entities such as builders, contractors, engineers, and so forth, and if not, why?

Answer. SIGIR established an Inspections Directorate in the summer of 2005 to address these and other concerns.

As of our January 2008 Quarterly Report to Congress, the Inspections Directorate had visited and reported on 108 reconstruction sites throughout Iraq. Since then, the Inspections Directorate has visited an additional 10 sites and will be reporting on those sites in the future.

The Inspections Directorate has assessed contracted work of U.S. and non-U.S. contractors, large and small contractors, contractors in all reconstruction sectors, as well as on-going and completed construction work.

While the Inspections Directorate has found numerous instances of poorly designed and performed contracted work, no instances have been detected in which

builders, contractors, engineers, and so forth were not legitimate entities or did not exist.

The Inspections Directorate notes that prime contractors frequently subcontract a portion of project work. For example, electrical or plumbing subcontractors have been encountered on sites. But in such instances, the subcontractors have existed and been on site performing work. It should also be noted that contractors have been encouraged to use subcontractors as a means of employing larger numbers of Iraqis.

In addition, in each contract audit we focus on potential fraud, waste and abuse. We have not identified the conditions described in the question in any of our audits.

Question. Mr. Bowen, do you believe that effective risk mitigation measures are in place to control corruption in the use of U.S. and Iraqi funds and if not, what measures would you suggest?

Answer. Regarding the effectiveness of risk mitigation measures, we need to differentiate clearly funds that are under U.S. control and funds that are under Iraqi control. SIGIR has testified that we have found little fraud when the United States has been managing its funds. In our audits, waste has been the much bigger problem but has diminished as managers have applied lessons learned (e.g., moving from expensive design-build cost-plus contracts to direct, fixed-price contracts). Nonetheless, SIGIR has identified serious lapses in U.S. government oversight that create a significant risk of fraud in those contracts.

To mitigate the risk from corruption within the Iraqi government, the United States provides only small amounts of U.S. funding directly to Iraqis and primarily through small grants or micro-loans. Furthermore, when U.S. awards contracts to Iraqi entities, U.S. government entities maintain oversight responsibility for the applicable funds.

Question. Mr. Bowen, oil production metering has been recommended consistently since at least March 2004. What are the obstacles to fully implementing a comprehensive metering system? What are the estimates of revenue loss due to the lack of a comprehensive metering system?

Answer. SIGIR's Inspections Directorate has reviewed this issue in Baghdad and reports that the Government of Iraq (GoI) has a plan to implement a comprehensive metering system and is in the process of implementing the plan. The GoI plan calls for the acquisition of meters in 2007 and 2008 and installation of the meters in 2009. The Ministry of Finance, recognizing the significance that meters play in controlling the significant GoI revenue involved, has created a Department of Metering to administer and regulate meters.

Obstacles to the GoI's plan include:

—The difficulties that the GoI has in making acquisitions. In reaction to allegations of corruption, the GoI has instituted an extremely bureaucratic acquisition process requiring an exhaustive number of approvals. This bureaucratic approval process is exacerbated by the number and complexity of meters required to implement a comprehensive metering system.

—A comprehensive metering system requires accurate meters throughout the entire production and distribution system. The GoI has effective meters at the Al Basrah Oil Terminal (ABOT) where oil produced in the south is sold. It also has effective meters at the Ceyhan Facility in Turkey where oil produced in the north is sold. However, it does not have effective meters to determine how much oil is produced or whether oil is being lost or stolen as it is transmitted through dozens and dozens of processing points and hundreds of miles of pipelines to refineries or to the ABOT and Ceyhan sales facilities. To effectively control its oil, the GoI needs accurate meters at each of its Gas Oil Separation Plants, pumping stations, pressure monitoring stations, pipe connections, refineries etc.

—The meters that are currently in use by the GoI are manual, not electronic meters. The manual meters require that GoI personnel visit remote locations to obtain meter readings. In Iraq this is an inherently dangerous practice. Equally, if not more importantly, the manual readings do not provide the real time information that electronic meters would provide and that is needed throughout the system to detect leaks, thefts of oil, and malfunctioning equipment that result in loss of oil as it flows through the system. The GoI needs to implement its plan to acquire new electronic meters and tie them into central control facilities.

—The GoI has to acquire, keep calibrated, and protect hundreds of expensive meters. As previously noted the meters are at remote locations subject to tampering, theft and destruction.

Without an effective metering system, it is not possible to estimate the loss of revenue to the GoI. The GoI only knows how much oil it is selling, it does not have accurate information on the amount of oil it produces, uses internally, or loses due to leaks, inefficient processing, and malfunctioning equipment.

Question. Mr. Bowen, is there reason to believe that smuggled and or stolen oil resources might have been diverted to militias or other insurgent forces?

Answer. I testified before the Committee that ". . . corruption has afflicted the Iraqi oil sector, particularly up at the Baiji refinery, with respect to the smuggling of refined fuels. . . . I know that that continues to be a problem today, based on my recent visits with Iraqi authorities." The smuggling and corruption problems often involve the use or threat of violence and, although we do not have specific findings, it is possible that such resources might have been diverted to militias or insurgents not part of Iraq's security forces. Oil is a commodity that has been relatively easy for criminals to acquire illicitly and dispose of.

Question. Mr. Bowen, Prime Minster Maliki last year ordered Iraqi security forces, backed up by U.S. forces, to replace the security force at the Baiji refinery with a new civilian force. Reportedly, corruption is "down significantly." Can you further characterize this situation, in terms of production increases or significant reductions in the volume of fuel being diverted to insurgents, or if not, why not?

Answer. Assessing the security situation or diversion of assets to insurgents is beyond the scope of SIGIR's legislative authority. I do not have any additional information beyond what I provided in response to question 6.

Question. Has a system that electronically tracks funds and projects been established and fully implemented in Iraq or to what degree is it in place?

Answer. DOD agencies in Iraq track funds and monitor the status of their projects in the Iraq Reconstruction Management System (IRMS); the Department of State and U.S. Agency for International Development monitor contract status in their own internal systems. The need to track such information was recognized in 2004 when the then-existing Project and Contracting Office (PCO) initiated an information technology management reporting system. By mid 2005, however, the system was only partially operational and not being utilized by all of the agencies receiving amounts from the Iraq Relief and Reconstruction Fund account. In response, in September 2005 the U.S. Army Corps of Engineers, Gulf Region Division (GRD) and PCO officials recommended consolidating information from multiple sources into a single database, namely the IRMS. This system is in place today. Nevertheless, SIGIR reported in April 2006 that agencies inputting the data lacked internal controls to ensure the accuracy of the data they were providing, and civilian agencies maintain their own data systems. An audit that will be released this quarter looking at Terminations for Convenience and Terminations for Default will also address ongoing shortfalls in the electronic tracking of projects and U.S. funds for Iraq Reconstruction.

Question. Mr. Bowen, do you know what the unreconciled difference is between the $13 billion in Coalition Provisional Authority project money, money from U.S. taxpayers, provided to the Iraqi government and evidence of project completion?

Answer. In January 2005 SIGIR reported that the Coalition Provisional Authority (CPA) internal controls over approximately $8.8 billion in Development Fund for Iraq (DFI) monies disbursed to Iraqi ministries through the CPA's national budget process failed to provide sufficient accountability for the use of those funds. These monies were not U.S. taxpayer funds—they were Iraqi funds in the hands of CPA officials.

Question. Mr. Bowen, is there evidence that any Coalition Provisional Authority funds or resources purchased with these U.S. funds were diverted to private or insurgent use? Can you provide details or estimates?

Answer. SIGIR's investigative work involving CPA funds was initiated as a result of the Audit work performed under the "Audit of Cash Controls Over Disbursing Officers in Southern Iraq," Audit Number D2004–DCPAAF–0034. These funds were Development Fund for Iraq (DFI) funds, that is, they were Iraqi funds in the hands of CPA officials. (We are not aware that any of those funds have been diverted to insurgents.)

SIGIR's investigative work involving these CPA funds resulted in the following indictments and convictions:

—On February 2, 2006, Robert Stein, the former CPA Comptroller and Funding Officer in Hilla, Iraq, pleaded guilty to conspiracy, bribery, money laundering, possession of machine guns, and being a felon in possession of a firearm. Stein was the primary co-conspirator with Philip Bloom, funneling numerous fraudulent contract payments to Bloom in exchange for kickbacks and bribes. Stein also admitted to facilitating the purchase and possession of at least 50 weapons, including machine guns, gun barrel silencers and grenade launchers with misappropriated CPA funds. On January 29, 2007, Stein was sentenced to nine years in prison and three years of supervised release. Additionally, he was ordered to pay $3.6 million in restitution and forfeit $3.6 million in assets.

—On March 9, 2006, Philip Bloom, a U.S. citizen, who resided in Romania and Iraq, pleaded guilty to conspiracy, bribery, and money laundering in connection with a scheme to defraud the CPA. Bloom admitted that from December 2003 through December 2005, he, along with Robert Stein and numerous public officials, including several high-ranking U.S. Army officers, conspired to rig bids for federally-funded contracts awarded by the CPA-South Central Region (CPA–SC) so that all of the contracts were awarded to Bloom. The total value of the contracts awarded to Bloom exceeded $8.6 million. Bloom admitted paying Stein and other public officials over $2 million from proceeds of the fraudulently awarded contracts and an additional at least $2 million in stolen money from the CPA. On February 16, 2007, Bloom was sentenced to 46 months in prison and two years of supervised release. Additionally, he was ordered to pay $3.6 million in restitution and forfeit $3.6 million in assets.

—On August 4, 2006, Faheem Mousa Salam, an employee of a government contractor in Iraq, pleaded guilty to a violation of the Foreign Corrupt Practices Act for offering a bribe to an Iraqi police official. Salam is a naturalized U.S. citizen employed by Titan Corporation and was living in Baghdad, Iraq. According to court filings, Salam offered a senior Iraqi police officer $60,000 for the official's assistance with facilitating the purchase by a police training organization of approximately 1,000 armored vests and a sophisticated map printer for approximately $1 million. On February 2, 2007, Salam was sentenced to three years in prison, two years of supervised release and 250 hours of community service.

—On August 25, 2006, Bruce D. Hopfengardner, a Lieutenant Colonel in the United States Army Reserve, pleaded guilty to conspiracy to commit wire fraud and money laundering in connection with the Bloom-Stein scheme. In his guilty plea, Hopfengardner admitted that while serving as a special advisor to the CPA–SC, he used his official position to steer contracts to Philip H. Bloom, a U.S. citizen who owned and operated several companies in Iraq and Romania. In return, Bloom provided Hopfengardner with various items of value, including $144,500 in cash, over $70,000 worth of vehicles, a $2,000 computer and a $6,000 watch. Hopfengardner and his coconspirators laundered over $300,000 through various bank accounts in Iraq, Kuwait, Switzerland and the United States. Finally, Hopfengardner admitted that he stole $120,000 of funds designated for use in the reconstruction of Iraq from the CPA–SC and that he smuggled the stolen currency into the United States aboard commercial and military aircraft. On June 25, 2007, Hopfengardner was sentenced to 21 months in prison followed by 3 years supervised release, and ordered to forfeit $144,500.

—On February 7, 2007, U.S. Army Colonel Curtis G. Whiteford, U.S. Army Lt. Colonels Debra M. Harrison and Michael B. Wheeler and civilians Michael Morris and William Driver were indicted for various crimes related to the Bloom-Stein scheme in Hilla, Iraq. Whiteford, who was Stein's deputy in the comptroller's office, was charged with one count of conspiracy, one count of bribery and 11 counts of honest services wire fraud. Harrison, at one time the acting Comptroller at CPA–SC who oversaw the expenditure of CPA–SC funds for reconstruction projects, was charged with one count of conspiracy, one count of bribery, 11 counts of honest services wire fraud, four counts of interstate transport of stolen property, one count of bulk cash smuggling, four counts of money laundering and one count of preparing a false tax form. Wheeler, an advisor for CPA projects for the reconstruction of Iraq, was charged with one count of conspiracy, one count of bribery, 11 counts of honest services wire fraud, one count of interstate transport of stolen property and one count of bulk cash smuggling. Morris, who was alleged to have worked for Bloom as a middle-man in the criminal scheme, was charged with one count of conspiracy and 11 counts of wire fraud. Driver, who is Harrison's husband, was indicted on four counts of money laundering. The trial for Whiteford, Morris and Wheeler was scheduled to start on March 11, 2008; however, it has been rescheduled to begin in September 2008. It is anticipated that Harrison and Driver will be added to the list of defendants in this trial. In this connection we note that an indictment is merely an allegation. Defendants are presumed to be innocent until proven guilty.

—On February 16, 2007, Steven Merkes, a former U.S. Air Force Master Sergeant working for the Department of Defense in Germany, pleaded guilty in U.S. District Court for accepting illegal bribes from Phillip Bloom. Merkes accepted the bribes in exchange for furnishing Bloom with sensitive contract information prior to awarding contracts to Bloom. Merkes was sentenced on February 16, 2007, to 12 months and one day in prison and ordered to pay restitution of $24,000.

Question. Mr. Bowen, since the end of the tenure of the Coalition Provisional Authority in 2004, what is the unreconciled difference between the project money provided to Iraq and the evidence of project completion?

Answer. Very little in the way of U.S. appropriated funds have been provided directly to Iraq. Rather, appropriated funds have for the most part been allocated on specific contracts for specific projects and managed by one or more U.S. agency. In these cases, SIGIR has reported instances where monies were spent and projects were incomplete, such as for Primary Healthcare Centers. Recently, the United States has put in place a new strategy to provide modest sums of money for discrete purposes to local governmental entities and private individuals through, for example, the Commander's Emergency Response Program (CERP) and microloan programs. Through the end of fiscal year 2007, Congress had appropriated about $2.3 billion for CERP activities. The microloan program was funded at about $40 million as of January 2008.

Question. Mr. Bowen, since the end of the tenure of the Coalition Provisional Authority in 2004, is there evidence that any U.S. funds or resources purchased with these funds were diverted to private or insurgent use?

Answer. The United States has not turned substantial U.S. funds over to the Iraqi government (for example, in the form of cash assistance for balance of payments support, as is done for some countries). In almost all cases the United States purchases goods or services and makes them available for the purpose of developing Iraq. Once those goods and services are made available to the Iraqi government, the United States sees them as property of Iraq and as Iraq's responsibility to safeguard.

SIGIR has helped the U.S. Department of Justice bring charges against individuals for diversion of U.S. resources to private use prior to those resources having been transferred to Iraq's government. In additional cases, we believe corruption has occurred but insufficient evidence was available to make a case in U.S. courts. Other investigations are ongoing.

SIGIR has not determined via any of its audits that U.S. funds or resources purchased with these funds were diverted to insurgent use. We respectfully suggest this question can be best addressed by the Multi-National Forces-Iraq and U.S. intelligence agencies. Nevertheless, a SIGIR 2006 audit on weapons provided the GoI with U.S. funds found that not all weapons were properly accounted for by either DOD or the GoI, which raised security concerns.[1]

Question. Mr. Bowen, has there been any effort, to your knowledge, from the United States to hold anyone from the Iraqi government accountable for the diversion or loss of U.S. taxpayers' funds since the beginning of the post-war period?

Answer. We have no knowledge of any actions holding anyone from the Iraqi Government accountable for the diversion or loss of U.S. taxpayers' funds. SIGIR's investigations have primarily focused on contracting irregularities in connection with the expenditure of U.S. funds.

Question. Mr. Bowen, do you believe that effective risk mitigation measures are in place to prevent funds derived from corrupt practices from reaching insurgents and militias, and if not, what recommendations can you make?

Answer. I have repeatedly stated that corruption is tantamount to a second insurgency in Iraq. Moreover, the Government of Iraq is not poised to address the problem sufficiently as it lacks the training, staff, and in some cases the political will to do so. SIGIR has consistently addressed the need for the U.S. assistance program to pursue more aggressively its anticorruption program and made a series of recommendations to improve coordination and elevate the importance of its efforts. In January 2008 SIGIR reported that the Embassy had taken some specific steps to reinvigorate and improve the coordination of its diverse anticorruption activities which range from training judges to institutionalizing anticorruption entities such as the Board of Supreme Audit and Commission on Integrity.[2]

QUESTIONS SUBMITTED BY SENATOR FRANK R. LAUTENBERG

Question. What was the schedule and complete itinerary for your trip to Maine in January 2008?

Answer. My schedule/itinerary for the Maine trip was as follows:

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[1] *Iraqi Security Forces: Weapons Provided by the U.S. Department of Defense Using the Iraq Relief and Reconstruction Fund* (SIGIR–06–033, October 28, 2006).

[2] *U.S. Anticorruption Efforts in Iraq: Sustained Management Commitment is a Key to Success*, (SIGIR–08–008, January 24, 2008).

Schedule	Itinerary
Wednesday, January 2, 2008	
10:10–11:45 AM	USAir flight #3902 from Washington National to Portland, ME (coach class)
12:55–2:00 PM	Lunch with Sen. Collins, Mac's Grill, Auburn, ME
2:15 PM–3:15 PM	Maine Watch taping, MPBN Studio, Lewiston
6:30 PM–8:00 PM	Dinner with Bill Beardsley, President of Husson College, Mrs. Beardsley, and Sen. Collins at Perri House Restaurant, Bangor
RON	Sheraton Four Points Bangor, Bangor (government rate)
Thursday, January 3, 2008	
7:05 AM	Call to WVOM Radio
7:30–9:00 AM	Husson Business Breakfast, Husson College, Bangor
9:30–10:00 AM	Bangor Daily News Editorial Board Meeting, Bangor
12:10–1:30 PM	Lunch with Senator Collins and David Offer (retired Editorial Director/contributing columnist, Kennebec Journal), Vignola's, Portland
1:45–2:15 PM	Portland Press Herald Editorial Board Meeting, Portland Press Herald, Portland
5:06–6:52 PM	Depart Portland on USAir flight #3477 from Portland to Washington National (coach class)

Question. Please individually specify with what funds the following costs were paid with on the trip: Lodging, travel, and food.

Answer. Travel and Lodging were paid with SIGIR funds.

Food was paid for as follows:

—(1) On January 2, 2008, I purchased my lunch.

—(2) On January 2, 2008, the President of Husson College paid for my dinner.

—(3) On January 3, 2008, breakfast was provided at Husson College, as the presentation was part of a breakfast meeting sponsored by the College.

—(4) On January 3, 2008, Senator Collins paid for my lunch.

The meals mentioned above are the only meals I had during my trip.

In accordance with government travel rules, I claimed a pro-rata share of my per diem reimbursement for the lunch I purchased on January 2, 2008. I did not claim reimbursement from the government for any of the other meals.

The other meals fall within exceptions to the gift rule restrictions, i.e., employees may accept meals that are provided on the day they are speaking in their official capacity (5 CFR 2635.204(g)(1)) (meal 3) and gifts of less than $20 (5 CFR 2635.204(a)) (meal 2).

Moreover, the lunch purchased by Senator Collins (meal 4) does not fall under the gift statute, as she is not a prohibited source. (5 CFR 2635.203(d)).

Question. Did the SIGIR General Counsel clear your trip to make sure that it complied with the Hatch Act, 5 U.S.C. §§ 7321–7326?

Answer. The Designated Agency Ethics Officer reviewed the invitation from Husson College and the draft itinerary; he approved the trip. Office of General Counsel staff advised me before my trip that I should not participate in any political activity during my visit to Maine, pursuant to Hatch Act requirements. My activities were analyzed by Office of General Counsel staff after my return, and I was advised that there were no Hatch Act violations.

Question. Have you debriefed the SIGIR General Counsel on your activities during the trip to verify that you complied at all times with the Hatch Act and other applicable laws? If not, will you?

Answer. Upon my return from Maine, I reported on my activities to SIGIR's Office of General Counsel and, specifically, that I did not engage in any political activity during the trip. I provided specific information about the trip to the Designated Agency Ethics Officer to ensure compliance with ethical restrictions regarding gifts. SIGIR's Office of General Counsel advised that there were no violations of the Hatch Act.

Question. Who informed you of the opportunity to speak at Husson College?

Answer. Senator Collins.

Question. Who invited you to speak at Husson College?

Answer. I received a written invitation from William H. Beardsley, President of Husson College.

Question. What newspaper editorial boards did you speak with on the trip?

Answer. Bangor Daily News and The Portland Press Herald.

Question. Who invited you to speak before those editorial board(s)?

Answer. The boards' invitations were conveyed from Senator Collins's staff to my staff.

Question. Were you asked to speak to other members of the media? If so, by whom?

Answer. Yes. Senator Collins' staff conveyed invitations to my staff for me to be interviewed on "Maine Watch", on WVOM radio, and by a columnist for the Kennebec Journal.

Question. Please identify similar domestic trips that you have taken during your time as SIGIR.

Answer. I have spoken at the following colleges or universities: The George Washington University Law School, Washington, DC; The University of Texas at Austin, Lyndon B. Johnson School of Public Affairs, Austin, TX; St. Vincent College, Latrobe, PA; The University of the South, Sewanee, TN; and St. Mary's University School of Law, San Antonio, TX.

In addition, I have given presentations to numerous industry and public interest groups.

Question. How many speeches have you given across the country similar to your event at Husson College? Please provide specifics.

Answer. See above.

QUESTIONS SUBMITTED BY SENATOR JUDD GREGG

Question. To date, what concrete accomplishments have been achieved by the U.S. Mission's Anti-Corruption Working Group in combating corruption in Iraq?

Answer. The Mission's Anticorruption Working Group (ACWG) is a coordinating entity whose function is to provide direction and strategy to the numerous anticorruption-related programs managed by U.S. agencies in Iraq. Since 2006, SIGIR has reported in several reviews that the ACWG has lacked sustained management commitment and oversight, that efforts to revitalize and coordinate U.S. anticorruption efforts have been largely ineffective and suffered from a lack of management follow-through, and that the Embassy has lacked a comprehensive, integrated strategy that ties anticorruption support to the overall strategy of the U.S. Embassy in Iraq, with metrics to measure progress. As of January 2008, only two of SIGIR's 12 previous recommendations to improve management of the anticorruption program have been implemented. For example, the ACWG does not maintain an adequate inventory of ongoing anticorruption programs nor does it have established metrics to evaluate results.

In our January 2008 audit report reviewing United States Embassy's anti-corruption programs, SIGIR concluded that a December 2007 Mission plan to reinvigorate the ACWG and other anticorruption efforts appeared on a positive track but we cautioned that, as with previous efforts, the new approach needs sustained management commitment to leadership, additional resources, and program oversight to succeed.

Question. Given reported infiltration of certain Iraqi Ministries by elements hostile to U.S. interests, is there any evidence that the current leadership or offices of the Commission on Public Integrity (CPI), the Board of Supreme Audit or respective GOI Offices of Inspector General have been compromised by such elements?

Answer. SIGIR regularly meets with the leadership of the Board of Supreme Audit and the Commission on Integrity (COI, as the CPI is now known), and we have played an intermittent role in providing advice and direction to the several Iraqi Inspectors General. Neither the President of the BSA nor the Commissioner of the COI has ever evinced concerns about infiltration of their respective offices by elements hostile to the United States. Both of these entities are particularly receptive to U.S. support and SIGIR's relations with both have been exceptionally good. Unfortunately, elements hostile to the United States helped force out Judge Rahdi al Rahdi, the previous CPI/COI Commissioner. Over 30 CPI/COI employees have been killed over the past four years by hostile elements. The Iraqi IGs are a mixed bag, and SIGIR believes that there could be a potential problem with infiltration in the IG offices at "Sadrist ministries" (e.g., Ministry of Health).

The U.S. Embassy in Iraq has responsibilities concerning each of these entities and thus a question to the Embassy staff on this issue could be beneficial.

Question. How many CPI employees, including family members, have been murdered as a result of efforts to combat corruption in Iraq, and what steps are the GoI and the U.S. Mission taking to provide physical security for CPI employees and their family members?

Answer. In our meetings with the CPI/COI, SIGIR has learned that over 30 CPI personnel and family members have been killed over the past five years. The U.S. Embassy in Iraq has responsibilities concerning each of these entities and thus a question to the Embassy staff on this issue could be beneficial.

Question. What is the current role of the U.S. Mission's Office of Transparency and Accountability (OTA) in combating corruption in Iraq?

Answer. The Office of Accountability and Transparency (OAT) was subsumed into the Anticorruption Coordination Office in January 2008 as part of the Ambassador's new anticorruption strategy.[1] SIGIR reported that the OAT had been established to strengthen the Iraqi anticorruption institutions—the Board of Supreme Audit (BSA), the Office of the Inspector General (IG) at each ministry, and the then-Commission on Public Integrity (CPI)—and had accomplished a number of noteworthy achievements. These accomplishments included: providing a full-time advisor for the Iraqi IGs, providing a full-time advisor for the Board of Supreme Audit, and assisting in the development of a charter for the Joint Anticorruption Council. The new Anticorruption Coordination Office is now responsible for all for all anticorruption activities.

Question. What is the anticipated future role of OTA in combating corruption in Iraq?

Answer. OAT's role is covered in our response to the question above.

Question. Has the Prime Minister or any other senior Iraqi government official taken any action to interfere with GOI investigations into cases of corruption? If so, please describe in detail the circumstances.

Answer. SIGIR has received reports that investigations into corruption allegations within the GOI have been subject to political influence, but we do not have definitive proof of such influence having been asserted. In March 2007, the Prime Minister's Office issued an order requiring that any proposed investigation of any GOI minister or former minister must first obtain the permission from the Prime Minister's Office before proceeding. This directive apparently is still in effect today. This problematic directive augments the problematic statute in Iraqi Law, Article 136b, which provides that any minister can, by fiat, exempt any ministry employee from investigation for corruption. The CPI/COI discussed with SIGIR the widespread use and abuse of this provision to protect potentially guilty ministry employees.

Question. What factors limit the ability of the CPI, the Board of Supreme Audit, and respective Ministry IGs from investigating and prosecuting cases of corruption?

Answer. There remains much to be done on the legislative front to ensure a harmonized set of laws under which the Iraqi government can effectively prosecute cases of corruption. Amending Article 136b and revoking the Prime Minister's March 2007 directive are two needed reforms. In addition to these legal challenges, there are also implementation and capacity challenges, e.g., ensuring that the CPI/COI investigators have weapons permits; ensuring that the Iraqi IGs receive sufficient training and resources to do their jobs; and providing the BSA with access to the information it needs to provide adequate oversight. The U.S. Embassy and international organizations, such as the World Bank, are working to provide technical assistance to the GOI to improve its investigative and prosecutorial capabilities, but more needs to be done. The new CPI/COI Commissioner told me during my February visit with him that his investigators need more training before they are ready to really assume responsibly for full-blown investigations.

Question. Have any documents in the possession of the U.S. Mission been altered by U.S. Government officials by removing the names of Iraqi leaders because the documents implicate those leaders in cases of corruption?

Answer. It has been widely reported that certain draft documents internal to the U.S. Embassy addressing the issue of corruption, which included the names of Iraqi officials, have been revised due to diplomatic concerns. It should also be noted that the accuracy of any statements contained in such documents developed by U.S. advisors is potentially unverifiable. SIGIR has not performed a detailed study of this issue, however, and is unable to speak authoritatively on all documents. To the extent that we review specific documents related to corruption in our audits, our findings are contained within our audits. A new audit on anti-corruption efforts will be released at the end of April and copies will be provided to this committee as well as to the other committees to which we report.

Question. Has the U.S. Mission ever retroactively classified anticorruption or rule of law reports after Congress has requested such reports?

Answer. SIGIR is aware of reports that draft documents were made available to the media and that subsequently drafts were marked as classified. SIGIR has not formally reviewed these incidents, however, and we would encourage the committee to discuss the issue with the U.S. Mission.

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[1] *U.S. Anticorruption Efforts in Iraq: Sustained Management Commitment is a Key to Success* (SIGIR–08–008, January 24, 2008).

QUESTIONS SUBMITTED BY SENATOR LARRY CRAIG

Question. You estimated that Iraq will have upwards of a $50 billion windfall in the coming year, even as the Comptroller General estimates that Iraq spent as little as 24 percent of its capital project budgets and 4.4 percent of its investment budgets in 2007. As the United States and Iraq continue the "Year of Transfer," where is Iraq most capable of assuming financial control of reconstruction projects?

Answer. Given the current price of oil and record levels of Iraqi exports, the GOI is poised to realize over $60 billion in revenue for 2008, well above the $35 billion that Iraq estimated it would receive when it developed its $48 billion 2008 budget. In addition, there is $30 billion in reserves in the Central Bank of Iraq and at least $7 billion rolled over in unspent funds from 2007. Regarding these funds, there exists a continuing question about the government's capacity to obligate and expend that money on capital projects. There have been recent improvements in Iraq's procurement and contracting regulations aimed at enhancing the GOI's ability to invest in reconstruction. Some progress has been reported by U.S. officials on Iraq's willingness and ability to assume an increased role in funding its own needs.

It is important to also note that SIGIR inspections and audits generally find that projects that are jointly funded and administered are better quality and have a higher sustainment probability.

Question. If the United States began a targeted decrease in certain types of reconstruction funding, would the Iraqi government be able to balance that decrease with its own funds effectively?

Answer. The key issue is one of unmatched priorities. The Iraqi government has its own internal set of priorities concerning how it wants to spend its money. If the United States were to cease funding a particular project, the Iraqi government may in principle have the money to take over the funding, but may not want to invest in that particular project. The question then becomes how strategically important does the United States view that project and what are the chances that Iraq also sees that project as strategically important.

QUESTIONS SUBMITTED TO JUDGE RADHI HAMZA AL-RADHI

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

Question. Judge Radhi, do you believe that effective risk mitigation measures are in place to control corruption in the use of Iraqi funds and if not, what actions would you suggest?

Answer. There are effective risk mitigation measures with CPI, the Board of Supreme Audit and Inspectors General Offices. However, these agencies lack the independence mandated under Iraq's constitution. Furthermore, corruption mitigation requires cooperation between these three agencies and the various local and national government organizations. This cooperation allowing the three public integrity organizations to function effectively is largely absent at the present time.

Question. Judge Radhi, do you believe that effective risk mitigation measures are in place to prevent funds from corrupt practices from reaching insurgents and militias and if not, what recommendations can you make to improve the situation?

Answer. No arrangements exist to prevent funds gained through corrupt practices from reaching insurgents and militias. Therefore, you can see the Sunni insurgents and militias controlling roads in the West areas. They are stealing and looting Ministry of Oil trucks and Ministry of Trade food trucks. Likewise, you can see Shee's Militias smuggling in the South areas.

Millions of dollars are stolen monthly due to smuggling according to our information from collation forces. My suggestion, difficult as it may be, is to remove weapons from militias while going through the lengthy process of removing sectarian influences from the Ministry of Interior and Ministry of Defense.

Question. Judge Radhi, the Third Interim Report of the International Advisory and Monitoring Board (IAMB) on Iraq, covering the year 2007, notes that the IAMB is scheduled to conclude its oversight role of the financial positions of the Development Fund for Iraq (DFI) by mid-December 2008. The IAMB will hand off its oversight role to the Committee of Financial Experts (COFE), established by the Council of Ministers in October 2006. The COFE is led by the President of the Board of Supreme Audit and includes two independent experts "chosen by and reporting to the Council of Ministers." Based on your experience as the head of the Commission on Public Integrity, do you believe that the COFE will be able to operate effectively, independently, and securely in such a critical oversight position, and if not, what would you recommend to strengthen it?

Answer. No. While the sectarian distribution exists, these oversight agencies cannot work independently. The executive branch of the Iraqi government consistently interferes in the duties and limits the authority of oversight bodies and the judiciary. Article 136 is a clear example of this interference.

Question. Judge Radhi, has the United States and the international community put sufficient energy and resources behind the establishment and operation of Iraqi oversight and audit bodies and if not, what recommendations would you make to improve the situation?

Judge Radhi, in previous testimony, you have obliquely referred to corruption with non-governmental organizations operating in Iraq. In your testimony before the House of Representatives last October, you noted that the CPI established a Directorate General for Non-Governmental Organization Relations, "which contacted most non-governmental organizations in Iraq in order to motivate them to achieve their objectives and solve their problems honestly." What problems have you observed within the non-governmental organizations in Iraq, and what recommendations, if any, do you have?

Judge Radhi, do you have any further recommendations to make in order to ensure the effective functioning of Iraq's oversight bodies?

Answer. The United States and the international community put a lot of sufficient energy and resources behind the establishment and operation of Iraqi oversight and audit bodies. These audit and oversight bodies have hundreds of good officials who are technocrats and non-sectarian. These technocrats manage their work, but are consistently blocked and face strong interference from the executive government. Additionally, these oversight bodies are not able to function sufficiently due to the terrorists and militias. For example, in 2004, the president of Board of Supreme Audit was killed by terrorists. The professional cadre of this agency was effectively intimidated and sufficient transparency has not appeared in this agency.

Question. Judge Radhi, during your tenure, the Commission on Public Integrity (CPI) uncovered $18 billion worth of misspent funds. A majority of these funds came from the U.S. government, with additional contributions from Iraq oil sales, and contributions from other nations. It was CPI's mission to monitor the Iraqi government's use of these funds and investigate any related instances of waste, fraud, or abuse. Is that all correct? Please explain.

Answer. CPI's job was to follow the law as laid out in Order 55. I refer you to that document.

CPI started their work in 2004. Eventually 30 teams were formed to investigate each specific ministry and governmental body. Our investigations were launched after carefully evaluating information provided to CPI via our corruption hotline, informants, the Inspectors General offices, Parliament and occasionally from citizens walking into our offices.

Investigtions were evaluated and prioritized by my Director General for Investigations who met with me daily on the status of investigations and management of his department. Once CPI determined that a case had merit and had developed a sufficient level of evidence, this case was forwarded the courts. Under the Iraqi legal system, an investigative judge was then supposed to be assigned who was responsible for the court investigation, interviewing of witnesses, issuance of arrest warrants, and other aspects relating to the prosecution of a case. This investigative judge would then bring the corruption case before a trial judge who would determine guilt or innocence and penalties as appropriate. and prosecution of the case. had developed a case in consultation with me.

CPI presented 3,000 cases to investigative judges. Trial judges presided over 250 cases. Some cases were closed by investigative judges citing a lack of sufficient evidence. However, the majority or cases were formally or informally closed by the Prime Minister. Additionally, many investigative and trial judges were under severe pressure and threats to close cases. Also many accused of crimes escaped the country due to the weakness, indifference or neglect by the Ministry of Interior.

CPI and the judiciary received many letters and received many visitors from the Prime Minster's office for preventing investigations of current and former ministers, minister's council or presidency council. Ultimately, CPI's work was completely stopped preventing follow up on cases included the 18 billion U.S. dollars.

Question. Judge Radhi, during its existence, the Coalition Provisional Authority (CPA) managed the distribution of funds for reconstruction contracts to the Iraqi government. An American finance office in the CPA handled each of the Iraqi government's requests for money. The CPA would often give cash to individual Iraqi ministries for operations and to complete reconstruction projects. Is that correct? Please explain.

Answer. That is correct. CPA managed the distribution of funds for reconstruction contracts to the Iraqi government. CPA managed the distribution of funds by pro-

viding checks to the officials responsible in each ministry. These checks were exchanged for cash inside the CPA's financial office. This process resulted in a lot of money being stolen or handled in a corruption manners. Given the situation as it existed, CPI's position was that all funds should be transferred to the Ministry of Finance for further distribution in accordance with the schedule written by the Ministry of Planning.

Question. Judge Radhi, after the CPA dissolved, the U.S. Embassy was responsible for distributing funds to the Iraqi government. Some of these funds came from the State Department's office in the U.S. Embassy and some came from Department of Defense's office in the Embassy. Each Iraqi ministry office had an American "expert" from the U.S. Embassy who served as a liaison to these offices. Is it your understanding that most of these experts knew that the ministries had corruption but you are not aware of any examples of the U.S. government cutting off funds to an Iraqi entity due to corruption?

Answer. This information is correct. We did not see oversight done by some experts at the time the funds were distributed by the U.S. embassy. Some of these experts were good, others were not active, and the third kind would stand with the corrupted ministers.

Question. Judge Radhi, on the last day of its existence, the CPA gave you funds to establish an academy to train Iraqis to investigate corruption, is that correct? Can you tell us how that payment was made?

Answer. An American expert came to me at the last days before CPA dissolved. He informed me that $11 million was to be transferred to CPI to establish an academy to train Iraqis to work in corruption investigation. I went to the CPA financial office in the Green Zone the cash this check. The funds were locked in my office and I personally, with a team of armed guards, protected these funds until it could be transported and deposited in the Al-Rafideen Bank the next morning. I ensured that I received an accurate receipt from the bank to document that the entire amount was deposited. Later, the Minister's Council ordered the Ministry of Finance to transfer all government budgets containing U.S. dollars to a central fund. CPI was one of these ministries whose funds were taken. The Ministry of Finance refused our exclusion request and later refused our second request to exchange the same amount of funds for Iraqi dinars for the establishment of the Public Integrity and Ethics Institute.

Question. During its existence, the Coalition Provisional Authority (CPA) managed the distribution of funds for reconstruction contracts to the Iraqi government. An American finance office in the CPA handled each of the Iraqi government's requests for money. The CPA would often give cash to individual Iraqi ministries for operations and to complete reconstruction projects. Is that correct? Please explain.

Answer. That is correct. My understanding is that most ministries spent the funds illegally and in a corrupt manner.

Question. Judge Radhi, it is my understanding you told U.S. officials that direct payments to the ministries and cash transactions were the wrong way to disburse money in Iraq. And you recommended instead that it was better for all American funds to go to the Ministry of Finance instead of directly to each individual ministry. Is that correct? Please explain. Do you believe the other ministries did the same due diligence with their cash payments? Are you aware of any follow-up by the U.S. government to make sure that similar steps were taken by other ministries? Are you aware of any oversight of CPA's funds once they were distributed?

Answer. Absolutely Not. I do not believe that CPA could control or monitor funds after cash payments were made. If there was any monitoring of CPA funds, the situation only further deteriorated after the disestablishment of CPA.

Question. Judge Radhi, besides Iraqi Prime Minister Nouri Al-Maliki's continued threats of prosecution, have you or your CPI staff ever been threatened personally by Prime Minister Nouri Al-Maliki?

Answer. Yes. I was personally threatened by Prime Minister Nouri Al-Maliki. I was personally threatened by the head of the coalition bloc, Sheik Jala Al-deen Al-Sagher. I was also personally threatened by Sabah Al-Sa'ady, a member of Al-Fadila party. Additionally, I received a phone threat from Sheiaa militia when we started our investigation into oil smuggling in Basra. Furthermore I received a direct phone threat from Al-Qaida. My staff received many more threats. Finally, we lost 32 investigators and other CPI officials.

Question. Judge Radhi, your asylum case has been pending for over five months since October 3, 2007. How are you doing in the United States?

Answer. I am awaiting the decision on my asylum case.

Question. Judge Radhi, you have told us that many additional cases against government officials were not prosecuted because the government would not allow it. And that because of corruption, despite billions and billions of American dollars,

Iraq has completed less than one-tenth of its reconstruction projects. Is that true? Please explain.

Answer. That is correct. An American expert came to me one day and asked me why I was investigating the Ministry of Defense but not following up the Ministry of Oil issues in Beji. He traveled to Beji with big convoys. We did investigate the Ministry of Oil, but how could I send my small number of unarmed investigator to that place?

Question. Judge Radhi, is it true that the various militias also benefit from reconstruction funds, often taking resources by force? That in the area of Beiji, Sunni militias commandeer Iraqi government oil tankers and the militias then sell the oil on the black market, buying weapons with the proceeds?

Answer. I simply highlight that Shia and Sunni militias benefited by the actions of Ziad Al-Qatan and Naier Al-Jumaily. The latter was the last link between Al-Qaida and the defense ministry under the former minister Hazim Al-Shallan. Naier Al-Jumaily, who is also related to the current defense ministry, transferred millions of dollars to Jordan and Lebanon. The current minister is there to continue what Hazim did.

The Ministry of Defense purchased weapons made in 1975 with $1.6 billion. This amount far exceeds the actual value of the weapons. One senior American officer correctly observed that Iraqi forces can not successfully fight against well armed militias with old weapons.

The Shiaa militias do not have the same problems as the Sunni militias however since their leaders control the Iraqi government and support them with money and weapons.

Question. Judge Radhi, is it true that millions and millions of dollars from the Iraqi government have been funneled to the militias?

Judge Radhi, are there problems or corruption at the Ministry of Electricity? Please explain.

The Ministry of Electricity has been given millions and millions of dollars but still provides less than 10 percent, maybe only 5 to 6 percent of the country's needed electricity. Is that correct? Please explain.

The Minister of Electricity, Aiham Alsammarae, did not register all of the funds he received, which is why the Bureau of Supreme Audit wrote 13 "comments" about him and the CPI filed a case against Alsammarae. When the court convicted him, the American security company responsible for his protection smuggled him out of the country to the United States. Is that correct? Please explain.

Answer. Questions of electricity ministry.

Three ministers led this ministry and spent billions of dollars on electricity. The result is no power for Iraqi citizens beyond, perhaps, an average of three hours a day.

CPI received information from the Board of Supreme Audit which prompted CPI to start investigations against Ayham Al-Samarai and Muhsin Shalash. The courts prosecuted and found them guilty. Ayham Al-Samarai escaped Iraq with the help of an American security company. Shalash also escaped Iraq. Both cases were referred to Interpol.

Question. Judge Radhi, is the Minister of Finance, Bayan Jabr, involved in corruption? Please explain.

Judge Radhi, does Minister Jabr also head the militant wing of the al-Dawa party? When the United States recommended to the Ministry that it set up a modern accounting system, did Jabr prevent it from being established and when the Iraqi parliament asked Jabr to account for funds from the 2007 budget, he was unable to provide accurate information. Is that your understanding? Please explain in as great detail as possible.

Answer. Bayan Jabur the current finance minister is an engineer. A decision to appoint him as housing and constructor minister would therefore have been more understandable. His political position and his Sheaa abilities were paramount in being chosen for the finance position by the Shia coalition bloc despite not being otherwise technically qualified for the position.

Ministry of Finance failed to promote of the Iraqi dinar despite Iraq's oil riches. They failed in adhering to a budget and in making that budget reflect the needs of Iraq.

The Minister of Finance is corrupted since he couldn't give the parliament any reason for missing the 2007 budget. He uses his power instead of using his knowledge.

One example illustrating the problems in the Ministery of Finance under the current minister has to do with the "e-system." It is a good system that was brought by the Americans. It provides efficiency and transparency. The ministry shut down

the e-system. Excuses were made that the system failed due to the advisor being kidnapped even though hundreds of people had been trained on the system.

Finally, a huge problem occurred with a mysterious fire that burned all of the central bank official papers. Now nobody can explain the spending schedule of the Iraqi money. The fire was quickly registered as an accident.

There is no integrity without transparency.

Question. Does former Iraqi Minister of Defense, Hazim Sha'lan provide an example of the nature of government corruption in Iraq? Please explain.

Judge Radhi, is it true that Minister Sha'lam and his friends would establish front companies to bid on Ministry projects. Is that correct? Please explain in detail.

Judge Radhi, one example you recounted to the Committee prior to the hearing was the al-Ain al-Jariya (Flowing Spring) company, which received contracts to provide military equipment from Poland to the Iraqi government. The company was owned by a relative of the Deputy Prime Minster, Roz Nouri Shawis, and stole money from these contracts with the support of Ministry staff. Is that correct? Please explain.

Judge Radhi, you also recounted that the Deputy Prime Minister's brother-in-law laundered the money from these transactions to banks in Jordan from Iraq. Millions of dollars went missing from the Ministry, and Sha'lan was unable to account for $4 billion worth of expenditures. Sha'lan was eventually charged with fraud, but fled to London before being prosecuted. Shal'an's former deputy is now Minister of Defense. Is that all true? Please explain.

Answer. These statements are correct. Hazim Al-shalan is corrupt. His actions caused the loss of defense ministry money during a time when he should have been working to protect the Iraqi people. U.S. forces came to Iraq to free our people from a dictator regime. Al-Qaeda then fought against Iraqi and U.S. forces. While this was happening, defense ministry officials transferred reconstruction money to Jordan and Lebanon. Some of this money was transferred by Nori Shawees in his own brief case. The Secretary General is the brother of the vice president. Furthermore Ziad Al-Qatan and Nair Al-Jumaily are related to the current defense minister. Abdulhameed Mirza is Nori Shawes's brother in law. Abdulhameed helped this corruption as the Director General of Al-Ayeen Al-Jaria construction company. Later they rebuilt the scheme under the Sifeen Company. They built all these companies to make their defense contracts appear to be legal, while functioning as an intermediary between Poland and Ministry of Defense. The Ministry of Defense, using contracts to these companies, bought useless airplanes, tanks and ambulances from Hungary. The total purchase funds were provided in the beginning of the contracts. However, the equipment never received, useless or overpriced.

The court prosecuted and found guilty 26 officials for this corruption. However, the Iraqi government helped them to escape the country. Hazim Al-Shalan is a U.K. citizen. Ziad Al-qatan he is in Paris living like a prince.

It appears that the current minister of defense will finish what Hazim started. He formally worked as a body guard Saddam's son-in-law, Hussain Kamil. He spent time in jail for theft. He is totally corrupted.

Question. Judge Radhi, prior to the hearing, you have told us the Ministry of Defense also received inferior equipment from contractors. There were three contracts for Iraqi Army planes, the first two for $113 million and the third for $170 million. General Babekar al-Zibari, an Iraqi Army commander, later testified that the proper planes were never delivered. A report issued by a technical committee in the Ministry of Defense stated that among other things, the company was delivering old tanks to the Ministry of Defense and even old planes from the 1960s. Is that correct? And these weapons deals were engineered by former Ministry of Defense procurement office Ziad Cattan, who has since fled the country, is that also correct? Please explain in as much detail as possible.

Answer. That is correct. Babikr Zebari, as Forces General Chief, sent an official letter to the Prime Minster explaining this in detail including the names of the corrupt officials involved. This letter, sent in March 2008, was published on the internet.

All what I said is notary public in the criminal court and the CCCI.

COMMITTEE RECESS

Senator DORGAN. This hearing is recessed.

[Whereupon, at 1:10 p.m., Tuesday, March 11, the committee was recessed, to reconvene subject to the call of the Chair.]

EXAMINING THE EFFECTIVENESS OF U.S. EFFORTS TO COMBAT CORRUPTION, WASTE, FRAUD, AND ABUSE IN IRAQ

WEDNESDAY, JULY 23, 2008

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The committee met at 10:40 a.m., in room SD–106, Dirksen Senate Office Building, Hon. Robert C. Byrd (chairman) presiding.

Present: Senators Byrd, Leahy, Murray, Dorgan, Feinstein, Cochran, Craig, and Allard.

OPENING STATEMENT OF SENATOR ROBERT C. BYRD

Chairman BYRD. The committee will come to order.

We meet, today, to examine the adequacy of Defense contract oversight in Iraq and Afghanistan and to hear testimony from the Deputy Secretary of Defense, Gordon England, Acting Inspector General for the Department of Defense (DOD), Gordon Heddell, and commanding officer of U.S. Army Materiel Command, General Benjamin Griffin.

Before we begin, I wish to recognize a special observer at today's hearing, Mr. Michael Thibault, the co-chairman of the new Commission on Wartime Contracting. Co-chairman Thibault has a special interest in today's hearing, given his Commission's 2-year charter to study wartime contracting in Iraq and Afghanistan.

Secretary England, General Griffin, and Mr. Heddell, thank you for appearing before the committee today. Each of you is responsible for organizations charged with carrying out, managing, or auditing the massive contracts to companies that supply our forces in the field with everything from ammunition and fuel right down to barracks and food. These companies also carry out reconstruction projects throughout Iraq and Afghanistan.

This is the second hearing of the full Appropriations Committee this year on the topic of fraud, waste, abuse, and corruption in Iraq and Afghanistan. In the first hearing, we examined the scope and the scale of the problem, which is appalling, frankly. Appalling. Tens of billions of taxpayer dollars have been lost—gone. Worse, some of those funds and unaccounted for weapons are believed to have made their way to insurgent groups that have used them against our soldiers.

Now, Benjamin Franklin once observed that "a little neglect may breed mischief." In this case, I'm afraid neglect has bred a lot of mischief.

The Department of Defense and the Department of Justice have failed to aggressively investigate, and failed to prosecute, fraud and abuse. And I know that my colleagues have specific questions about specific cases. Hopefully, our witnesses are prepared to answer these questions fully so that we can learn from these specific examples how to avoid similar mistakes in the future.

My own concerns include specific examples of neglect, but I also want to know how the system broke down, and where the system broke down, and how and why the oversight processes that were in place failed to operate.

Now, many have rightfully blamed President Bush and Secretary of Defense Donald Rumsfeld and the Director of Reconstruction and Humanitarian Assistance for Postwar Iraq, Paul Bremer, for the unexpectedly difficult occupation of Iraq. But, Army commanders, as well as those in the other services, also deserve serious criticism for failing to grasp the strategic situation in Iraq and for failing to plan properly to implement the massive logistical requirements associated with sustained combat and postcombat operations.

It was General Dwight Eisenhower who said, "You will not find it difficult to prove that battles, campaigns, and even wars have been won or lost primarily because of logistics." The ability to keep troops well supplied is absolutely critical to every campaign.

If appropriate plans had been in place before we went to war, we would not have witnessed the scramble to support our troops with drivers, cooks, fuel, armored vehicles, bulletproof vests, and other tools. Commanders in Iraq should not have had to invent, on the spot, the networks of assistance for the new Iraqi Government. Had better planning been done, we might not have had to sign huge, open-ended, cost-plus contracts with civilian companies whose eyes must always be first on profits and dividends for stockholders before service to the troops and thrift for the taxpayer.

Because that planning was not done, we found ourselves—and, yes, we continue to find ourselves—totally dependent upon profit-oriented companies for even the day-to-day basics of feeding and housing our troops, as well as for carrying out a myriad of other functions of the mission, including security. These kinds of contracts open the door for every manager to game the system in order to maximize profits. Had better planning been conducted, and had better oversight been instituted from the very beginning, we might not be holding this hearing today.

Secretary England, in your prepared testimony, you focus on the progress that has been made. But, a report issued by the inspector general's office, just 5 days ago, on July 18, 2008, says, and I quote, that "the DOD oversight community and the Government Accountability Office (GAO) continue to report that longstanding problems continue to hinder DOD oversight of contractors at deployed locations."

In another report, released just 2 months ago, the Defense Criminal Investigative Service found that there had been only limited review of the completeness, the accuracy, and the propriety of contingency payment vouchers, and that there existed the potential—a great potential for fraud, waste, and abuse.

Now, failing to come to grips with the scope and the magnitude of this problem and failure to recognize the urgency of this problem points to a lack of leadership.

It is evident that our oversight resources have been strained past the breaking point. Army contracting dollars and actions have increased more than 350 percent over the last 11 years, while the contracting workforce has decreased by more than 50 percent. Too few auditors and too few contract managers are being asked to oversee too many contracts. Some individuals are responsible for contracts totaling in the billions of dollars. That's not shutting the barn door after the horses are gone, that's like taking the barn doors off the hinges and starting a stampede and saying, "Go to it. Yeah, man." This lack of planning on the part of the services, not only puts our treasure, but it also put our troops, in peril.

Too few investigators are being tasked with bringing perpetrators of fraud, perpetrators of waste, and perpetrators of corruption to justice and with recovering the billions of dollars that have been stolen from the American taxpayers. There are individuals living high on the hog, in the United States and in the cities of the Middle East, on these stolen funds.

The Federal Bureau of Investigation (FBI) has a grand total of five investigators in Iraq and Afghanistan working these cases. Five. As a result of our hearing in March, we included a significant increase for FBI investigators, in the supplemental appropriations act, to address these problems. But, for too long the barn door has been wide open. This is a failure of leadership.

As a result of the lack of enforcement actions, more individuals think that they can get away with bilking the U.S. Government or the Iraqi Government, embezzling funds, taking and making bribes, and substituting inferior goods or inferior workmanship, or just plain, old-fashioned stealing. This illegal activity takes money directly away from pressing needs of our troops and the needs of the Iraqi and the Afghan people.

We need to make "collars and dollars," our motto—more arrests, more indictments, and more funds recovered. We need to be more aggressive about minimizing the waste, fraud, and the corruption associated with these wars. If that requires a reallocation of resources or if it requires new legislation, I am certainly open to hearing from each of you about what is needed, as long as it results in prosecutions and the recovery of the hard-earned dollars that have been stolen from the American people.

Members will be recognized for statements and questions for up to 7 minutes in order of seniority.

I now turn to my distinguished friend and very able and learned colleague Senator Thad Cochran for any opening remarks he may wish to make.

STATEMENT OF SENATOR THAD COCHRAN

Senator COCHRAN. Mr. Chairman, thank you very much. I'm pleased to join you in welcoming our distinguished panel of witnesses this morning. We are interested in learning more about what the Department of Defense and related agencies are doing to make sure that our contracting efforts in support of the global war

on terrorism, and specifically our activities in Iraq and Afghanistan, are successful.

The United States is engaged in a serious conflict. It's very different from nation-against-nation war that many of us grew up understanding. But, in this new era, our forces have had to work with emerging governments, and, in some cases, in the absence of governments, in countries that are besieged with terrorism and graft and unusual challenges. They've had to rely on the support of commercial vendors, in many cases, to provide everything our soldiers and civilian employees there need—daily hotel, food services, even military equipment, maintenance services, construction assistance, transportation, personal security. These efforts have been carried out in a very dangerous area of the world, and they've been enormously challenging for the Department of Defense. And I think we need to acknowledge that right away.

Last year, there was a report by the Gansler Commission that concluded—after the great struggle with the Soviet Union, it was assumed that Defense budgets would decrease, urgency would decrease, and hence, a drawdown in acquisition capabilities could be made. But, then 9/11 changed all that. The Department of Defense had to add quickly to the workforce. In 1990, there were 500,000 people in the Department's workforce for acquisition, but that has decreased by more than half.

During the last few years, the need for those skills has grown exponentially. In fact, the Defense Department has executed almost 98,000 contracts in Iraq alone. There's been an expertise shortage. Mistakes have been made. Problems have arisen. A small number of people have been identified as just plain crooks. Some have been unscrupulous and have violated trust. There has been cheating of our servicemen and women. The American taxpayer and the citizens of our Nation, however, are supporting our military efforts to restore peace and opportunity in that troubled part of the world and to help protect our own national security interests in the process.

I think the Department of Defense and the Department of Justice have gotten together now, trying to determine the best ways to root out corruption and fraud, put an end to it, prosecute those who have profited illegally. There's still much work to be done, and I'm confident we'll learn more about that at this hearing.

And, for that, we're grateful for your willingness to be here, the work you're doing, and we are anxious to hear your views about what our Congress can do to help support you more fully.

You know, our committee was scheduled to mark up two fiscal year appropriations bills tomorrow, as well as a second supplemental bill. We need to do our work, too. And we are now learning that that's been put off, postponed indefinitely. Markup has been canceled. I don't want to change the topic for debate today, but I need to express my personal disappointment that we're not meeting in this committee to do our work, as we were scheduled to do tomorrow. Bills that we were supposed to mark up, very important to our Nation's well-being and to the success of our efforts in the war on terrorism.

But, I am, again, grateful for the witnesses being here and telling us what their reactions are to some of the things that are hap-

pening in the region that are under their responsibility and that are the subject of the hearing today.

Thank you very much.

Chairman BYRD. Thank you, Senator Cochran.

I share the view that the committee ought to do its work. That's exactly why I insisted on the committee marking up the war supplemental, and we've marked up 9 of the 12 fiscal year 2009 bills to date. That's why the committee has had multiple hearings on the President's budget and on his supplemental request and on fraud and corruption in Iraq.

Regrettably, the House of Representatives has not passed a single appropriations bill. Not one. As a result, it was necessary to delay the Thursday markup. But, I will continue to work with the House and Senate leadership so that we can mark up the supplemental and the three remaining 2009 bills.

I now turn to our witnesses—the Deputy Secretary of Defense, Gordon England, Acting Inspector General for the Department of Defense, Gordon Heddell, and commanding officer of the Army Materiel Command, General Benjamin Griffin—for their testimony.

I thank each of the witnesses.

Secretary England.

STATEMENT OF HON. GORDON ENGLAND, DEPUTY SECRETARY OF DEFENSE, DEPARTMENT OF DEFENSE

ACCOMPANIED BY SHAY ASSAD, DIRECTOR, DEFENSE PROCUREMENT, DEPARTMENT OF DEFENSE

Mr. ENGLAND. Chairman Byrd, I thank you for the opportunity to be here——

Chairman BYRD. We've spent billions of dollars on going to the Moon, putting a man on the Moon, and we haven't been able to come up with a good public address system.

Mr. ENGLAND. Let's try again, here, Mr. Chairman, now that the—I think the other mikes are off here on the table. Maybe that'll be better and we'll be able to proceed.

Chairman BYRD. Yes, all right.

Mr. ENGLAND. So, I do thank you, and I thank the distinguished members of the committee, for the opportunity to be here. I mean, hopefully we can answer your questions clearly, and also provide a perspective on an update of the progress, both how we got here, a little bit, and also an update of the progress that we're making regarding our contracting activities and the oversight of those activities, particularly in Iraq.

As you commented, I am pleased to have my distinguished colleagues with me. Gordon Heddell, from the Department of Defense, the Acting IG, will be able, I think, as part of his opening statement, to give you some specific statistics, in terms of convictions and investigations underway, so we are holding people accountable. He will cover that for you.

I'm also pleased that the commanding general of the U.S. Army Materiel Command, General Ben Griffin, is with us, and also Mr. Shay Assad, who's the Director of Defense Procurement. I believe those gentlemen also—we have representatives, at your request, from the Defense Contract Audit Agency and the Defense Contract Management Agency with us, so I'm hopeful we will be able to ad-

dress your issues and concerns, many of which you've already raised.

I do have a written statement for the record, and, of course, we're all prepared to answer your questions now.

As you are aware, and as you commented, the Department has struggled with our expeditionary contracting and the oversight of that contracting. Our expeditionary contracting overseas—in this case, specifically, in Iraq—we have struggled with that. And by way of perspective, since January 2003 we've obligated approximately $71 billion through those contracts. And, as was commented, there's been 98,000 expeditionary contract actions since 2003. And, unfortunately, this extraordinarily large volume of activity was not anticipated. The Department's hindsight today is much better than was its ability to predict, back in 2003, not to mention, of course, that much of this work was performed in a war zone, a dangerous and a very difficult environment.

Now, that said, the Department takes our contract accountability and contract oversight responsibilities very seriously. Multiple Department of Defense (DOD) agencies have engaged in literally thousands of aggressive reviews, audits, and oversight, and, in so doing, they have, indeed, uncovered instances of fraud and abuse. Those reviews have also led to recommended meaningful corrective actions, coupled with holding people accountable, and along with structural organizational changes. Now, many of those changes are centered in the Army and in our agencies, and you'll be hearing about them during this hearing.

Now, the Department will continue to improve the effectiveness and the efficiency of our contracting across the entire enterprise, but I do need to comment that it will take time to rebuild our acquisition and contracting workforce. As was commented, these personnel were dramatically reduced during the 1990s—some by congressional direction; I expect, some from Department initiatives. And these professional personnel are hard to replace. It's a lengthy training time involved to bring them up to their professional status. So, even today, it will likely take a few more years before all of these critical skills are fully replenished.

Looking back, we have learned that there are many demands on an expeditionary force. As you will recall, many of the discussions regarding length of deployments and dwell times for our military, well, those same considerations are applicable to our military and civilian contracting personnel. A deployable rotational force presents unique challenges and significantly more personnel than was anticipated back in 2003.

Now, the Department is certainly wiser today. We have benefited from our own experience, from independent studies, and from the results of the thousands of audits that I mentioned earlier. And I can assure you that we will continue to be aggressive in the pursuit of excellence, and, as you said, we owe no less to the American people.

Now, yesterday was another step forward in this process. Yesterday, I did have the pleasure and opportunity to swear in the new special inspector general for Afghanistan reconstruction, Major General Arnie Fields, United States Marine Corps (retired). I'm confident Arnie Fields will help to do in Afghanistan for the De-

partments of Defense and State what Stu Bowen has been able to accomplish over the past several years in Iraq as part of his special investigative status.

So, Mr. Chairman and members of the committee, I do thank you for your support of the outstanding men and women who wear the cloth of our Nation, and their families. I also want to thank the people who deployed, and who are deployed today, who do this contracting work for America. While the Department has problems with some of its processes, we are extraordinarily grateful to the brave men and women who deploy to Iraq to accomplish this very difficult mission.

And so, I do look forward to your questions, and hopefully we can provide some more visibility during this hearing, Mr. Chairman and members.

Chairman BYRD. Thank you.

[The statement follows:]

PREPARED STATEMENT OF GORDON ENGLAND

Chairman, Members of the Senate Committee on Appropriations, we deeply appreciate your concern and steadfast support of our military and welcome the opportunity to appear here today to provide an update on progress and improvements being made to the oversight of defense contracts for Operation Iraqi Freedom (OIF). We are pleased to report that while much work remains to be completed, meaningful progress has been made.

This is now the ninth congressional hearing in which the Department has participated on this subject, in addition to five briefings and six interviews. Additionally, the Department has submitted almost 250,000 pages of documentation to the various oversight committees. This committee is to be commended for the extraordinary amount of time and attention you have given to this very important issue.

We're delighted to have with us Department of Defense Acting Inspector General Gordon Heddell, Commanding General, U.S. Army Materiel Command, General Ben Griffin, and Director of Defense Procurement, Acquisition Policy and Strategic Sourcing, Mr. Shay Assad. Also, at the request of this committee, I'm joined by representatives from the Defense Contract Audit Agency and the Defense Contract Management Agency.

In addition to this statement for the record, the DOD Acting Inspector General, Mr. Gordon Heddell will be submitting a copy of the Department of Defense Inspector General's (DOD IG) Report No. D–2008–086, summarizing 302 Operations Enduring and Iraqi Freedom-related audit reports and testimonies issued by the Defense oversight community—including the DOD OIG, the Army Audit Agency, the Naval Audit Service, the Air Force Audit Agency, the Special Inspector General for Iraq Reconstruction (SIGIR), and the Government Accountability Office (GAO)—beginning fiscal year 2003 through fiscal year 2007.

OVERSIGHT OF DOD CONTRACTS FOR OIF

Since January 2003, DOD has obligated over $450 billion in support of OIF [1]. The majority of these funds have been spent on non-contract related items, such as personnel costs. However, of this total amount, approximately $78.8 billion has been obligated through 103,000 contract actions.[2] The Department of Defense (DOD) has obligated over 90 percent of these funds—roughly $71 billion—through nearly 98,000 contract actions.

Obviously, the volume and complexity of contracts have increased with the war, and DOD takes the accountability and oversight of these contracts very seriously. The Department's approach has been to conduct and support thorough reviews and investigations of programs and operations, to rapidly identify problem areas, and develop and implement improvement plans. As such, multiple DOD agencies have engaged in aggressive reviews and oversight, uncovering instances of fraud, waste, and abuse—as well as recommending corrective actions. Since the start of the war in

[1] Source: Defense Finance and Accounting Service, Cost of the Global War on Terror Monthly Report as of May 2008.

[2] Contract actions include: contract awards, modifications, and purchase/delivery orders above $25,000.

2003, the Defense oversight community and GAO have performed over 300 audits related to the Global War on Terror (GWOT). To date, DOD has implemented or is in the process of resolving most of the more than 980 proposed recommendations. In addition, the largest DOD audit operation—the Defense Contract Audit Agency (DCAA) has performed in excess of 2,500 GWOT-related contract audits, taking exception to $12 billion as either not acceptable or not supported. The monetary result has been savings and restitutions in excess of $1.3 billion.

DEPARTMENT OF DEFENSE INSPECTOR GENERAL'S REPORT

The DOD IG's report summarizes 302 reports and testimonies issued by the Defense oversight community and GAO, detailing the systemic challenges that have been identified, and prospectively summarizing corrective actions taken and still pending, as well as other management initiatives taken or underway that impact DOD operations supporting Operation Enduring Freedom (OEF) and OIF.

SYSTEMIC CHALLENGES BY FUNCTIONAL AREA

The DOD IG's report categorizes the systemic challenges into four areas: Contract Management, Logistics, Financial Management, and Other.

Contract Management—the Defense oversight community and GAO all reported on the challenges DOD has experienced with the lack of adequate oversight over contractors in both OEF and OIF.

Logistics—the Defense oversight community and GAO all reported on the challenges DOD has experienced with the logistics operations (accountability and visibility of assets, properly equipping forces, etc.) supporting OEF and OIF.

Financial Management—DOD experienced numerous challenges in providing accurate and reliable cost reporting for OEF and OIF operations.

SYSTEMIC CHALLENGES ACROSS FUNCTIONAL AREAS

Aside from challenges in each functional area, the DOD IG's report also identified common challenges across functional areas. Specifically, training and policy and procedure challenges were identified in more than one of the functional areas: Contract Management, Logistics, and Financial Management.

DOD INITIATIVES

The Department has initiated many actions to address contract-related challenges in OEF and OIF. These initiatives included establishing and revising guidance, fielding a new contractor accountability system, adding new contingency contracting training at DOD academic institutions, and looking at contracting challenges through commissions and task forces. Additional details are available in the DOD IG report.

DOD AUDIT COMMUNITY INITIATIVES

The Defense oversight community has also instituted its own initiatives to address the challenges presented to DOD in OEF and OIF operations. These initiatives include focused workforces, focused coordination groups, and comprehensive and coordinated oversight plans in response to statutory requirements. Additional details are available in the DOD IG report.

DEFENSE CONTRACT AUDIT AGENCY (DCAA)

DCAA is an integral part of the oversight and management controls instituted by DOD to ensure integrity and regulatory compliance by contractors performing on government contracts. 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 is the largest DOD audit operation and has, on average, 24 temporary duty personnel stationed in Iraq and Kuwait. To carry out its audit mission, DCAA established an office in Iraq in May 2003 and performs Iraq reconstruction audits at over 60 CONUS office locations. DCAA anticipates completing nearly 400 audits in fiscal year 2008, using approximately 100 work-years, to support Iraq Reconstruction efforts.

As mentioned earlier, to date, DCAA has performed in excess of 2,500 GWOT-related contract audits, taking exception to $12 billion as either not acceptable or not supported. As of March 30, 2008, DCAA is responsible for auditing contracts at 105

contractors. These contractors hold 226 prime contracts with obligated funding of over $51 billion. The monetary result has been savings and restitutions in excess of $1.3 billion.

SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION (SIGIR)

The SIGIR, was created by Congress to provide oversight of the Iraq Relief and Reconstruction Fund (IRRF) and all obligations, expenditures, and revenues associated with reconstruction and rehabilitation activities in Iraq. SIGIR oversight is accomplished via independent audits, field inspections, and criminal investigations into potential fraud, waste, and abuse of funds.

Currently, SIGIR has 13 auditors (5 additional auditors are in-processing), 5 inspectors (3 additional inspectors are in-processing), and 4 investigators (1 additional investigator is in-processing) in Iraq. To date, SIGIR has produced over 230 audits and inspections that have uncovered instances of waste and inefficiency.

SIGIR auditors report on every major fund supporting the Iraq reconstruction program including the Commanders' Emergency Response Program (CERP), IRRF, Iraq Security Forces Fund (ISSF), and Economic Support Fund (ESF). SIGIR inspectors also travel across Iraq to provide on-site reports of project progress.

SIGIR made the following recommendations in its Contracting Lessons Learned Report to improve contingency contracting:

—Explore the creation of an enhanced Contingency Federal Acquisition Regulation (CFAR). SIGIR observed that agencies have developed agency specific regulations implementing the government wide Federal Acquisition Regulation (FAR).

—Pursue the institutionalization of special contracting programs such as the CERP which SIGIR noted before have unique roles in post conflict reconstruction.

—Include contracting and program management staff at all phases of planning for contingency operations.

—Create a deployable reserve corps of contracting personnel who are trained to execute rapid relief and reconstruction contracting during contingency operations.

—Develop and implement information systems for managing contracting and procurement in contingency operations.

—Pre-compete and prequalify a diverse pool of contractors with expertise in specialized reconstruction areas.

ACTIONS STEMMING FROM SIGIR CONTRACTING LESSONS LEARNED RECOMMENDATIONS

SIGIR recommendations were key to informing the development of updating Emergency Acquisition guidance issued by the Office of Management and Budget Office of Federal Procurement Policy in May 2007. The guide is designed to help agencies prepare the acquisition workforce for emergencies and includes a number of management and operational best practices that should be considered in planning related to contingency operations, anti-terrorism activities, and national emergencies. SIGIR lessons learned directly contributed to the development of the guide.

In addition, the recently passed fiscal year 2008 Supplemental Appropriations bill includes three provisions requiring improvements in Iraq reconstruction programs that were recommended in SIGIR Audits, namely: Improvements in Asset Transfer processes and coordination with GOI, provisions to strengthen development and implementation of a comprehensive anti-corruption strategy, and development of a longer-term strategy to guide the future of Provincial Reconstruction Teams in Iraq.

GANSLER COMMISSION REPORT

On September 12, 2007, the Secretary of the Army established an independent Commission on Army Acquisition and Program Management in Expeditionary Operations, headed by former USD (AT&L) Jacques Gansler. Dr. Gansler released the Gansler Commission Report on November 1, 2007.

Subsequently, the Department, led by Under Secretary of Defense (AT&L), established the DOD Task Force for Contracting and Contract Management in Expeditionary Operations to pursue the Commission recommendations so that future military operations achieve greater effectiveness, efficiency, and transparency. The DUSD (A&T) then established a Steering Committee of Senior Leaders from OSD, the Military Departments, the Joint Staff, and the JCC–I/A to provide visibility, oversight, and to ensure timely completion of Task Force initiatives. The Task Force evaluated the applicability of the recommendations and developed long-term, enterprise-wide solutions. Today, in order to maintain the momentum achieved to date, the Steering Committee continues to oversee and monitor the work of the Task

Force. Also, to ensure accomplishment of the stated efforts/milestones, the Task Force is exchanging information every two weeks on the current status of efforts, roadblocks to accomplishment, and changes in reported estimated completion dates.

DOD and the Army reported to Congress on June 2, 2008, providing implementation plans and status for the recommendations—many of them long-term efforts—provided in the Gansler Commission Report. To date, DOD and the Army have completed almost half of the 40 total recommendations, including the addition of military and civilian structure and senior leadership oversight. Recommendations being implemented include the following:

—On January 30, 2008, the Army decided to establish a new two-star level Army Contracting Command under the Army Materiel Command. The new Command (Provisional stood-up March 31, 2008) includes two subordinate commands:
  —Expeditionary Contracting Command
  —Mission and Installation Contracting Command
—The Army established a new task force on February 29, 2008 to insure full analysis and fielding of long-term solutions to Army contracting. The work of this Task Force is ongoing and will continue as part of the Army Contracting Campaign Plan.
—The Army conducted an intensive review of more than 18,000 contract actions executed in Kuwait from 2003–2006 resulting in the settlement of claims that saved the Government over $10.4 million.
—AMC deployed a team of contracting professionals to review contracts at the U.S. Contracting Command Southwest Asia-Kuwait issued between 2003 and 2006 to determine if there may be any additional fraudulent activity. Several contract actions were referred to the Army CID for further evaluation.

Progress towards completing the remaining Gansler Report recommendations is ongoing, including some recommendations requiring Congressional action, such as the authority to acquire products and services produced in a contingency theater of operations outside the United States.

DEFENSE CONTRACT MANAGEMENT AGENCY (DCMA)

DCMA's mission is to perform Contract Administration Services for DOD, other Federal Agencies, foreign governments, and authorized international organizations. As the eyes and ears of the Department in contractor facilities, and as a Combat Support Agency, DCMA is responsible for ensuring the integrity of the government contracting process and providing a broad range of acquisition management services. DCMA services include acquisition planning support, contract management, quality assurance and product acceptance, engineering support services, software acquisition management, and property management. DCMA's contract management mission provides acquisition life-cycle support to our military services worldwide, as well as contingency contract support in Iraq and Afghanistan.

In fiscal year 2008 alone, DCMA has conducted over 14,500 on-site quality assurance visits in Iraq and Afghanistan, discovering 13,000 quality defects and issuing 128 corrective reports.

Based on recommendations by the Gansler Commission, DOD is re-examining DCMA's staffing to determine if they are appropriately resourced to manage the current level of activity and their expanded role in support of contingency contracting.

EXCELLENCE IN THE PURSUIT OF PERFECTION

There is one point that I would like to emphasize in this statement for the record. The Department of Defense, consisting of our military Services and inter-agency and industry partners, constitutes one of the largest and most complex enterprises in the world. So, despite our best efforts, it is inevitable that problems will occur and people will make mistakes—intentionally or otherwise. Nevertheless, our goal is to achieve excellence in the pursuit of perfection. So, we very much appreciate the many, dedicated people who spend countless hours carefully performing audits to help identify issues and problems that must be resolved and recommending actions to be taken. Without question, the audit process makes our system better.

We also appreciate the hard work of the hundreds of people who administer contracts on behalf of the Department of Defense. These individuals have a responsibility to serve the warfighting needs of our men and women in uniform, while protecting the best interests of the American taxpayers. By having DOD auditors work in partnership with these contracting officers as they negotiate, administer, and settle contracts we're better able to ensure all charges and claims are valid.

COMBATING CORRUPTION, WASTE, FRAUD, AND ABUSE IN IRAQ

Unfortunately, in an imperfect world—there will be people who will attempt to abuse the system through fraud, corruption, theft, or other criminal behavior. But, what is important is that the Department has a system and a process in place that ensures we are alerted to any violations and we are able to identify, prosecute, and convict the offenders.

Investigations of possible offenses are conducted by DOD IG's Defense Criminal Investigative Service (DCIS) and partnering federal enforcement agencies, including Air Force Office of Special Investigations (AFOSI), Army Criminal Investigation Command (CID), U.S. Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF), FBI, Immigration and Customs Enforcement (ICE), IRS–CID, Naval Criminal Investigative Service (NCIS), SIGIR, USAID–OIG, and USDA–OIG.

In total, since May 2003, there have been over 160 criminal investigations resulting in 22 indictments, 32 informations, and 32 convictions. 124 of those investigations are currently ongoing within DOD IG and its partner enforcement agencies. The majority of investigations were performed jointly with other enforcement agencies, including Army CID and SIGIR.

In accordance with Generally Accepted Government Auditing Standards, DCAA auditors have a responsibility to refer matters that raise a reasonable suspicion of fraud to the appropriate investigative agency. DCAA takes this responsibility very seriously and has established comprehensive procedures to report all potential instances of fraud. In addition, DCAA auditors support fraud investigations. During the first nine months of fiscal year 2008, DCAA auditors were involved in 84 completed investigations which resulted in DOD recovering $97 million.

While the cases of fraud found in Iraq have been deplorable, their discovery and the subsequent indictments and convictions of offenders, sends a clear message that abuse of this kind will not be tolerated.

CONCLUSION

Overall, the many lessons learned in the areas of human capital management, contracting and procurement, and program and project management have led to significant process and organizational improvements across the Department.

On today's modern battlefield, "contracting" has clearly become one of many Battlefield Operational Systems. Improving the quality of this system is not just the responsibility of contracting officers, auditors, and investigators; rather it's the responsibility of all officers and military planners. To this end we are placing increased emphasis in our schools on every officer's knowledge of and responsibility for ensuring a quality contracting system.

DOD has increased oversight and accountability of deployed contractors and project requirements in expeditionary operations. The formation of the Joint Contracting Command-Iraq (JCC-Iraq) has provided a centralized point for the oversight of $13 billion in hard construction contracts and several billion more in nonconstruction spending that was part of the Iraq Relief and Reconstruction Fund. Other contractor-related initiatives have included establishing an Executive Director for LOGCAP—a more than $30 billion Services program—to provide program management oversight of logistical support. In an effort to expand transparency, the Department has also granted SIGIR direct access to JCC-Iraq's electronic contractual documents, thus allowing for real-time review and oversight of contractual actions. In February 2007, I—as Deputy Secretary of Defense, established the Cost of War Senior Steering Group to oversee the timely resolution of policy, system, and procedural issues that impact the reporting of the cost of war. The objective is to improve the credibility, transparency, and timeliness of Cost of War reporting, to include the Commanders' Emergency Response Program (CERP). The Department has also deployed finance support teams to assist forward-deployed DOD elements, and we're reviewing and revising our federal financial management regulations to ensure proper and sufficient oversight and accountability of funds.

The Department continues to strive for excellence. In pursuit of this goal, the Department has made meaningful progress in efforts to address the challenges posed by oversight of defense contracts. We will continue to make improvements to ensure better effectiveness, efficiency, and accountability of resources and efforts across U.S. forces.

Chairman, Members of the Committee, thank you again for your continued and generous support of the outstanding men and women of our armed forces and their families. We look forward to your questions.

Chairman BYRD. Mr. Heddell.

STATEMENT OF HON. GORDON S. HEDDELL, ACTING INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

ACCOMPANIED BY MARY UGONE, DEPARTMENT OF DEFENSE

Mr. HEDDELL. Yes, sir, Mr. Chairman and distinguished members of this committee. Thank you for the opportunity to appear before you this morning.

My name is Gordon Heddell, and I am, as of last week, the Acting Inspector General for the Department of Defense.

The magnitude and complexity of the Department of Defense requires nothing less than a full-time effort. We are in a time of war, and our work not only saves taxpayer dollars, but also, and much, much more importantly, the lives of U.S. servicemembers.

The Department of Defense Inspector General has the primary responsibility within the Department of Defense for providing oversight of programs and appropriated funds. We spearhead the DOD oversight community in auditing, investigating, and inspecting accountability processes and internal controls. We work in close partnership with other oversight organizations, such as the Government Accountability Office, the Special Inspector General for Iraq Reconstruction, the Department of State, and the U.S. Agency for International Development.

The global war on terror, especially operations in Southwest Asia, continues to be a top priority of the DOD inspector general. We have 238 ongoing or completed projects that provide oversight of various functions and activities, such as acquisition, contracts and contract fraud, readiness, logistics, funds management, accountability, theft, corruption, and intelligence efforts.

IG STRATEGY

We have adopted an expeditionary workforce model to support efforts throughout Southwest Asia. We have core staff forward deployed to our field offices in Iraq, Afghanistan, Qatar, and Kuwait.

Expeditionary team members deploy to complete reviews. The number fluctuates on a daily basis depending on requirements. During April, May, and June, we had an average of 55 personnel in theater supporting Operation Iraqi Freedom (OIF) and Operation Enduring Freedom (OEF), and at one point during May, we had over 100 personnel in theater. As inspector general, I will evaluate our current and planned staff levels for our presence in Southwest Asia, and will make adjustments as necessary.

The goals of our expeditionary model are to minimize disruption to the warfighter, facilitate timely reviews and reports, and minimize risk to personnel.

We have completed, or are conducting, audit oversight efforts that cover approximately $158.9 billion related to DOD efforts in Iraq. Currently, we have 38 ongoing Iraq-related audit projects reviewing mission-critical support functions.

As of June 30, 2008, the Defense Criminal Investigative Service (DCIS) had 124 ongoing investigations related to Southwest Asia. These investigations involved 286 subjects. Thirty-two of these DCIS investigations have been adjudicated, resulting in 22 Federal criminal indictments, 32 Federal criminal informations, and 32 felony convictions. The adjudications have resulted in 54 years con-

finement, 44 years probation, debarment of 10 individuals and four companies, and suspension of 28 persons. The U.S. Government has accepted three settlement agreements, received $13.5 million in restitution, levied $374,125 in fines and penalties, received $1.76 million in forfeitures, and seized another $2.65 million in assets.

SECTION 842

On June 18, 2008, my office released the Comprehensive Audit Plan for Southwest Asia. The plan was facilitated by the DOD IG Joint Planning Group Southwest Asia, and includes the individual audit plans of my office and the inspectors general of the Department of State and USAID, as well as the Special Inspector General for Iraq Reconstruction, the Army Audit Agency, the Air Force Audit Agency, and the Defense Contract Audit Agency. The audits in the plan will help to identify abuses and defects in contracts, systems, and processes. The plan will be updated on a periodic basis.

LESSONS LEARNED AND INITIATIVES

On July 18, 2008, we issued a reported entitled "Challenges Impacting OIF and OEF Reported by Major Oversight Organizations Beginning in Fiscal Year 2003 Through Fiscal Year 2007." We compiled 302 reports and testimonies, given or issued, by the Defense oversight community and GAO.

Our analysis identified that, over the course of OIF and OEF, the Department of Defense experienced recurring challenges in contract management, logistics, and financial management.

We also captured many of the initiatives that DOD has underway, such as issuing updates to the Federal acquisition regulations and DOD policies regarding the oversight of deployed contractors, increasing the oversight of contractors performing logistical support work, deploying Defense finance and accounting service personnel to Southwest Asia to support personnel in financial operations, and assessing which business operations can be removed from in theater.

I would like to submit these two reports for the record.

In closing, thanks to your budgetary support, we are able to dedicate more resources to fight waste, fraud, and abuse. The office is on a firm footing to provide the necessary oversight. We look forward to working with this committee, and we will continue to keep Congress and our leadership fully and promptly informed.

Thank you for the opportunity to appear before the committee today to address our ongoing oversight work regarding Iraq.

Chairman BYRD. Thank you.

[The information follows:]

PREPARED STATEMENT OF GORDON S. HEDDELL

Mr. Chairman, Senator Cochran, and distinguished members of this committee, thank you for the opportunity to appear before you this morning and address corruption, fraud, waste, and abuse in Iraq. This testimony will cover the accomplishments of the Department of Defense Office of the Inspector General (DOD IG) and the other DOD organizations that have the mission to combat illegal and improper expenditures and to improve accountability of DOD resources that support operations in Iraq. Since February 2003, the United States has obligated an estimated

$435 billion in support of Operation Iraqi Freedom [1]. The U.S. military presence in Iraq is aimed at providing a secure environment which will enable the Iraqi people to establish a stable government that upholds the rule of law and good governance. Corruption undermines the efforts of both the Iraqi people to establish effective institutions of government and undermines the United States ability to support this effort.

As this committee knows, the DOD IG has the primary responsibility within the Department of Defense for providing oversight of defense programs and funds appropriated to the Department at home and around the world, to include Southwest Asia (SWA). In this role, the DOD IG office oversees, integrates, and attempts to ensure there are no gaps in the stewardship of DOD resources. We spearhead the DOD oversight community in auditing, investigating, and inspecting accountability processes and internal controls, in areas such as acquisition, contracting, logistics, and financial management. Collectively, the community has dedicated over 470 auditors and over 190 investigators that have reviewed a wide range of issues pertaining to SWA. We also work in close partnership with other oversight organizations, such as the Government Accountability Office (GAO), the Special Inspector General for Iraq Reconstruction (SIGIR), the Department of State, and the U.S. Agency for International Development (USAID). In addition, we provided the core staff for the Coalition Provisional Authority IG, and later assisted the stand-up of the SIGIR. Since 2003 the DOD IG has provided 141 full or part-time personnel in support of both organizations.

Adequate management controls and oversight to verify that proper safeguards are in place and working as intended are essential in the fight controls are severely lacking or proper oversight is minimal create opportunities for corruption, fraud, waste, and abuse. Additionally, individuals must be held accountable for violating laws and regulations and for mismanagement of DOD resources.

OIG STRATEGY

To accomplish its oversight mission, the DOD IG has adopted a strategy that is based on maintaining the optimal presence in theater, but which also recognizes that much of our work can be done away from the war zones. This strategy minimizes disruption to the warfighter ensuring they can meet their primary mission to fight and win the war, facilitates timely reviews and reporting of results in theater, as well as ensures the safety of personnel. An important part of our oversight effort is to improve inter-service and interagency coordination and collaboration to minimize duplication of effort and ensure that we have only the staff needed in theater to accomplish the mission.

The DOD IG has adopted an expeditionary workforce model to support efforts throughout all of SWA. The DOD IG has core staff forward deployed at all times. The core contingent is composed of individuals serving between 6 and 12 month deployments. Expeditionary team members deploy on temporary duty orders for as long as needed to complete reviews. The actual number of auditors, investigators, and inspectors in SWA fluctuates on a daily basis depending on the requirements. In June 2008, the DOD IG had 46 personnel in theater supporting OIF/OEF.

To provide a more effective and efficient oversight role, the DOD IG has established field offices in strategic SWA locations and continues key placement of DOD IG personnel in SWA. Our SWA field offices have been extremely active in supporting the personnel deployed into theater as well as their own assignments being performed.

In Iraq, our full time staff are working a joint audit with the Multi-National Force—Iraq Inspector General on Equipment Status for deployed forces. The auditors in Iraq also provide support to DOD IG teams based in the continental United States performing oversight related to Iraq such as the Munitions Assessment Team—II, management of contractor issues within SWA, and the validation of contracted construction projects.

In Afghanistan, our full time staff have been working two audits as well as providing support to our other teams coming into the country to perform other oversight work in areas such as Afghanistan Security Forces Funds, Controls over Army Cash and Other Monetary Assets, Contractor Common Access Cards in SWA, and Medical Equipment.

The following is a discussion of our SWA field offices.

[1] Source: Defense Finance and Accounting Service, Cost of the Global War on Terror Monthly Report as of May 2008.

Iraq Field Offices

In coordination with the Commanding General, Multi-National Force—Iraq and the U.S. Central Command, the DOD IG established field offices in Iraq at Camp Victory and the International Zone. The Iraq offices are staffed with up to five auditors at a time. In addition, the DOD IG has assigned auditors in Iraq to provide the Defense Criminal Investigative Service (DCIS) support for ongoing criminal investigations pertaining to contract fraud. The DCIS has established a permanent presence in Iraq. Two special agents are currently assigned to Iraq. An additional special agent has been temporarily deployed to support a special cell investigating issues relating to weapons accountability.

Afghanistan Field Office

In coordination with the U.S. Central Command, the DOD IG established a field office in Afghanistan at Bagram Air Base. The DOD IG Afghanistan Field Office is staffed by three full time auditors, who, along with expeditionary teams conduct projects in Afghanistan. One Special Agent was deployed to Afghanistan in April 2008. Two additional special agents will be deployed to Afghanistan in August of 2008. These agents will work alongside partner agencies, such as the U.S. Army Criminal Investigation Command and the Federal Bureau of Investigation to investigate fraud, waste, and abuse impacting theater operations.

Qatar Field Office

The DOD IG established a field office in Qatar collocated with the U.S. Central Command Air Forces on Al Udeid Air Base, Qatar. The Qatar office provides administrative operations support to the DOD IG SWA field offices. The Qatar office can also conduct audits as required in Iraq, Afghanistan, or throughout the U.S. Central Command area of responsibility. Additionally, the Qatar office staff facilitates, and may augment, other teams that require temporary travel in theater to conduct specific reviews.

Kuwait Field Office

The DOD IG field office in Kuwait is staffed by two DCIS special agents who are focused on contract fraud and other potential criminal activities in Kuwait that impact SWA efforts.

NEW OIG INITIATIVES

GWOT, especially operations in SWA, continues to be a top priority of the DOD IG and its five operational components. Our Auditing, Investigations, Intelligence, Policy and Oversight, and Special Plans and Operations components have 238 ongoing or completed projects; 84 in Auditing, 124 in Investigations, 13 in Intelligence, 13 in Policy and Oversight, and 4 in Special Plans and Operations,. Those 238 projects provide oversight of various functions and activities such as contracts and contract fraud, readiness, logistics, funds management, accountability, theft, corruption, and intelligence efforts. DOD IG has completed or is conducting audit oversight efforts that cover approximately $158.9 billion related to DOD efforts in SWA.

Establishment of the Special Plans and Operations Component

Our support to the Department of Defense involves a complex operational environment that includes changing requirements and the need for rapid and focused responses to challenging issues. As a result, we established a new Component, the Office for Special Plans and Operations (SPO) to augment the GWOT work being currently conducted by the DOD IG components. The new component is headed by the Principal Deputy Inspector General, who also serves as the Special Deputy Inspector General for SPO. The component focuses on the Global War on Terror and other high-value, high-visibility assessment missions as assigned. This office performs quick-assessment missions on critical, time-sensitive national security issues identified by the Secretary of Defense, Deputy Secretary of Defense, Chairman of the Joint Chiefs of Staff, and other members of the senior DOD leadership, as well as members of Congress. The goal of SPO is to focus on issues of critical importance to management and in a relatively short time provides answers to questions regarding a specific issue such as "What is the status?" and "What is going on right now?"

SPO was established by realigning current OIG resources and is composed of twenty interdisciplinary staff, evenly divided between civilian and military personnel. SPO has completed one project and currently has two others ongoing. The Inspector General and the Principal Deputy Inspector General have both been actively involved in the work being performed by SPO. The completed and ongoing work within the SPO directorate is discussed later in the testimony.

Section 842

The fiscal year 2008 National Defense Authorization Act requires the DOD IG and the Special Inspectors General for Iraq Reconstruction and Afghanistan Reconstruction to develop comprehensive plans for a series of audits respective to their outlined areas of oversight responsibilities in Iraq and Afghanistan (Public Law 110–181, Section 842, "Investigation of Waste, Fraud, and Abuse in Wartime Contracts and Contracting Processes in Iraq and Afghanistan").

In response to this statutory requirement, on June 18, 2008, the DOD IG, on behalf of the member Federal and DOD oversight agencies included in the plan, released the "Comprehensive Audit Plan for Southwest Asia." The plan was facilitated by the DOD IG Joint Planning Group—SWA and includes the individual audit plans of my office and the Inspectors General the Department of State and USAID and SIGIR. It also includes the planned audit work of the Army Audit Agency, Air Force Audit Agency, and Defense Contract Audit Agency because their major contributions to improve the efficiency and effectiveness of support to the military.

The audits in the plan will help to identify abuses and defects in contracts, systems and processes that can be promptly remedied. Developing the plan has enabled us to expand and refocus our audit efforts to support the war fighters. The plan will be updated on a periodic basis. Updates will include the Special Inspector General for Afghanistan Reconstruction plan.

The group identified areas or gaps in need of audit coverage. Examples of areas that require audit work are: maintenance service contracts, security service contracts, air transportation contracts, DOD financial systems used in Iraq and Afghanistan, and staffing and training of contract oversight personnel.

With the development of the Section 842 plan, our number of planned GWOT related audits increased 96 percent (from 27 planned projects in fiscal year 2008 to 53 planned projects identified in response to Section 842). However, since issuing the comprehensive Section 842 plan, other external factors have caused us to defer nine Section 842 projects. External factors include performing statutory requirements (such as the continuation of reviews on Interagency Purchases) and Congressional requested projects (such as DOD and DOD Contractor Efforts to Prevent Sexual Assault/Harassment Involving Contractor Employees in OEF/OIF), and performing the necessary audit work to opine on DOD financial statements (such as the Defense Information Systems Agency General Fund and Working Capital Fund Balance Sheets as of September 30, 2007). We deferred five planned Section 842 projects to assign 50 DOD IG auditors to perform the audit field work necessary to opine on the Defense Information Systems Agency financial statement.

Lessons Learned and Initiatives

On July 18, 2008, the DOD IG issued a summary report entitled, "Challenges Impacting Operations Iraqi Freedom and Enduring Freedom Reported by Major Oversight Organizations Beginning fiscal year 2003 through fiscal year 2007." The summary effort compiles 302 reports and testimonies given by the Defense Oversight Community and GAO. Our analysis identified that over the course of conducting Operations Enduring and Iraqi Freedom, DOD experienced, at times, significant and recurring challenges in contract management; logistics; and financial management. These areas have been reported as challenges within DOD since the early 1990s so it is not surprising that DOD is experiencing these challenges in Iraq and Afghanistan.

We also have captured many of the initiatives that DOD has underway that we believe address the challenges DOD is experiencing in its Iraq and Afghanistan operations. These DOD initiatives include issuing updates to the FAR and DOD policies regarding the oversight of deployed contractors, increase in oversight of contractors performing logistical support work, deploying DFAS personnel to Iraq, Afghanistan, and Kuwait to support the deployed personnel in financial operations, and assessing which business operations can be removed from the dangerous areas in theater and be performed outside of the dangerous areas.

ONGOING OVERSIGHT WORK

Investigations

The DCIS, the criminal investigative arm of the DOD Inspector General, has been engaged in investigating waste, fraud, abuse, and corruption pertaining to the Iraqi theater since the start of the war, and will continue to prioritize investigations involving the SWA theater. While the Inspector General Act of 1978 provides DCIS with broad criminal investigative jurisdiction regarding DOD programs and operations, effectively countering fraud in SWA requires the cooperative efforts of other

DOD investigative agencies, Federal law enforcement partners, and the audit community.

DCIS has primary jurisdiction over matters involving most contract and procurement actions awarded by Defense Agencies, Office of the Secretary of Defense components, and field activities. Additionally, DCIS has jurisdiction over, "any allegations [involving DOD] that the IG DOD considers appropriate for investigation by DCIS." This broad authority affords DCIS the ability to easily partner with other agencies in an effort to protect the integrity of the entire DOD procurement and acquisition process—from countering fraud impacting initial research and development, to investigating fraud during contract execution, to ensuring the appropriate disposal of products no longer needed by DOD components. The Service-specific Military Criminal Investigative Organizations—the Army Criminal Investigation Command (USACIDC or Army CID), the Naval Criminal Investigative Service (NCIS), and the Air Force Office of Special Investigations (AFOSI) typically focus upon allegations involving the award of contract and procurement actions of their respective military department. Non-DOD law enforcement partners in Iraq include the FBI, which has overarching authority to investigate violations of various Federal statutes relating to fraud and corruption; U.S. Department of State, Office of the Inspector General; the SIGIR; and the USAID Office of the Inspector General.

DCIS protects America's warfighters by vigorously investigating alleged and suspected procurement fraud, corruption, and other breaches of public trust that impact critical DOD programs. Our investigations focus on matters such as bribery, theft, procurement fraud, illegal receipt of gratuities, bid-rigging, defective and substituted products, and conflicts of interest. DCIS' investigative activities in the region have identified corrupt business practices, loss of U.S. funds through contract fraud, and theft of critical military equipment. For example, DCIS is a participating agency in a task force operation, initiated in January 2004, which investigates matters pertaining to the LOGCAP III contract awarded to Kellogg Brown and Root (KBR) in December 2001. This is a 10-year contract, administered by the Army Containment Command in Rock Island Arsenal, Illinois, that incorporates various task orders for support of Operation Iraqi Freedom. The task force is comprised of DCIS, FBI, Army CID, Internal Revenue Service, Defense Contract Audit Agency, U.S. Attorney's Office for the Central District of Illinois, and the Department of Justice Criminal and Civil Divisions. The task force is organized into five major categories: kickbacks; food service; reutilization of Iraq oil or RIO; qui tams; and other allegations. The task force has processed approximately 50 separate matters for investigation and initiated approximately 30 investigations resulting in 9 criminal indictments, 6 criminal informations, and 10 convictions. The convictions have resulted in approximately 6 years confinement and 14 years probation.

DCIS works closely with other components of the IG DOD and our federal and military partners to oversee ongoing operations in SWA relative to fraud and corruption. DCIS plays a significant and pivotal role with partner agencies in the National Procurement Fraud Task Force (NPFTF) and the International Contract Corruption Task Force (ICCTF). Under the auspices of the Department of Justice, the NPFTF was created in October 2006 to promote the prevention, early detection, and prosecution of procurement fraud nationwide and abroad. This multi-disciplinary and multi-agency coalition comprised of agencies from the Federal Inspectors General, U.S. Attorneys Offices, and Federal law enforcement agencies such as the FBI, has been extremely effective in fostering and better coordinating procurement fraud investigations.

The ICCTF, an offshoot of the NPFTF, was formed in November 2006, to specifically target fraud and corruption involving SWA. The primary goal of the ICCTF is to combine the resources of multiple investigative agencies to effectively and efficiently investigate and prosecute cases of contract fraud and public corruption related to U.S. Government spending in Iraq, Kuwait, and Afghanistan. The participating agencies in the ICCTF are DCIS; Army CID's Major Procurement Fraud Unit; the FBI; the Department of State Office of the Inspector General, USAID Office of the Inspector General, and SIGIR. Formation of the ICCTF has resulted in unprecedented cooperation in detecting, investigating, and prosecuting corruption and contract fraud. The ICCTF established a Joint Operations Center (JOC) in furtherance of achieving maximum interagency cooperation.

The JOC, which is located in Washington, D.C., serves as the nerve center for the collection and sharing of intelligence regarding corruption and fraud relating to funding for the GWOT. The JOC coordinates intelligence-gathering, de-conflicts case work and deployments, disseminates intelligence, and provides analytical and logistical support, such as laboratory services, polygraphs, and specialized equipment. The JOC is the vital link into the intelligence community and provides a repository from which to disseminate intelligence indicators of criminal activity. Case

information and criminal intelligence are shared without reservation, and statistical accomplishments are reported jointly. The agency heads meet regularly to collectively provide policy, direction, and oversight.

In addition to investigating allegations of fraud, waste, and abuse, DCIS launched a proactive project which will analyze over $14 billion in payment vouchers related to U.S. Army purchases in Iraq. The vouchers are currently stored at the Defense Finance & Accounting Service (DFAS), Rome, NY. The project is being coordinated with DFAS, the DOD IG's Audit component, the Defense Contract Audit Agency, the U.S. Army Audit Agency, and the FBI. The project will attempt to identify fraudulent activity related to the war effort in Iraq and Afghanistan through data mining techniques. To date, more than 90,000 payment vouchers, amounting to $1.5 billion, have been scanned into a searchable database, representing 11 percent of the total 800,000 records that will be reviewed for fiscal completeness or propriety. The recent hiring of 60 temporary DFAS employees to scan documents will eliminate the accumulated historical records at DFAS—Rome, NY, while current documents are being scanned in theater. While the initiative is in its infancy, several questionable transactions have been identified and referred for preliminary review or further investigation. In addition to these analytical efforts to develop cases, the investigative team assigned to the project is also supporting ongoing investigations involving fraud and corruption in Iraq.

From May 2003 through October 2004, DCIS deployed teams of two to three agents to Baghdad. From October 2004 to present, the DCIS European Post of Duty and multiple CONUS DCIS offices have conducted a wide variety of investigations related to Iraq and the SWA theater. In September 2006, DCIS re-established a permanent presence in Iraq by deploying four special agents to the theater—two special agents are currently assigned to Iraq and two special agents are assigned to Kuwait. A special agent has been deployed to Iraq to lead a special cell investigating issues relating to weapons accountability with a second agent identified to report in September. One special agent is currently deployed to Afghanistan and will be replaced by two special agents in August/September 2008. These in-theater agents are the forward-deployed elements of the 85 DCIS special agents in CONUS and OCONUS participating in SWA investigations.

As of June 30, 2008, DCIS has 124 ongoing investigations related to SWA; 12 are being investigated by agents in theater; and 112 are being investigated by DCIS offices in CONUS and Germany. DCIS attempts to transfer investigations developed in SWA to an appropriate CONUS venue as soon as practical to maximize the best use of in-theater investigative resources and to facilitate prosecution efforts.

As previously mentioned, investigations conducted in SWA are cooperative efforts. Of the 85 DCIS special agents working on SWA investigations, 78 special agents (CONUS and OCONUS) are jointly working the majority (97 percent) of these investigations in conjunction with one or more law enforcement partner agencies. DCIS' primary partner in countering DOD-related fraud in SWA is the Army CID's Major Procurement Fraud Unit (MPFU). The MPFU conducts investigations into allegations of fraud associated with the Army's major acquisition programs. The hiring of an additional 43 special agents and 5 staff has provided DCIS the opportunity to plan for expanded operations in theater with our U.S. Army partners.

DCIS is currently investigating 286 subjects, both U.S. and foreign personnel. Thirty-two DCIS investigations have been adjudicated, resulting in 22 federal criminal indictments, 32 federal criminal informations, and 32 felony convictions. The adjudications have resulted in a total of 54 years confinement and 44 years probation. Ten individuals and four companies have been debarred from contracting with the U.S. Government, and twenty-eight persons have been suspended from contracting with the Government. The U.S. Government has accepted three settlement agreements, received $13.5 million in restitution, levied $374,125 in fines and penalties, received $1.76 million in forfeitures, and seized another $2.65 million in assets. Much more is anticipated as investigation ready for prosecution mount.

Investigations in a war zone are affected by countless challenges, such as the complexity of the fraud or corruption scheme, the prevalence of conspiracies, the multinational and multi-cultural aspect of investigations involving foreign contractors, working with foreign governments and foreign security forces, operational tempo requirements and insurgent activity, translation and evaluation of foreign evidence, and precautionary transportation restrictions imposed by the U.S. Forces. Despite these challenges, DCIS aggressively pursues its important mission to investigate DOD-related criminal activity concerning fraud and public corruption and to devote substantial resources to projects and investigations designed to proactively identify potential fraud, waste, and abuse relating to SWA operations.

AUDIT

Our expeditionary model combined with our regional strategy in approaching our work in Iraq raises issues that often require solutions at the systemic level, as already illustrated by the munitions assessment team findings and recommendations. Further, we continue to evolve our comprehensive plan for audits of contracts, subcontracts, and task and delivery orders in support of coalition forces in Iraq and Afghanistan. Given that the Army Audit Agency is focusing on the Commander's Emergency Response Program and contracts for basic life support activities and that SIGIR focus is on reconstruction contracts, we have begun and will to continue to conduct a series of audits and report on financial and contracting systems in Iraq that support Coalition Forces and Iraq operations including contracts for maintenance service, transportation, and fuel.

Additionally, we continue to focus on the training and equipping of the Iraqi military and police mission, acquisitions of key operational support assets such as body armor, fielding of mine resistant ambush protected vehicles, medical equipment, use of GWOT supplemental funds, controls over cash, monitoring of sensitive equipment, and out-of-country payments to name a few.

In November 2007, we realigned internal core mission assets to support SWA audit operations by establishing an expeditionary audit division comprised of about 30 people. This audit division is complemented by other work conducted by U.S. based teams. In total, we have 218 personnel conducting audits related to Iraq. In June 2008, we had 32 audit personnel deployed in support of OIF/OEF.

We have 38 ongoing Iraq-related audit projects reviewing mission-critical support functions that directly impact the warfighter, such as: contract surveillance, contract payments, resetting of returning U.S. forces equipment, and acquisition of armored vehicles. Our audits also include oversight of cash and other monetary assets within Iraq and Afghanistan as well as the whether the funds processed through the foreign military trust fund are managed properly. A complete list of completed reports, on-going projects, and planned projects is attached to this statement.

The following are examples of significant completed and ongoing planned audits supporting DOD SWA operations.

Completed

Internal Controls Over Payments Made in Iraq, Kuwait and Egypt (D–2008–098). Contract and vendor payments lacked minimum supporting documentation and information for proper payment. When payments were not properly supported, the Army lacked assurance that funds were used as intended. On May 20, 2008 we testified on this project before the Committee on Oversight and Government Reform United States House of Representatives.

Management of the Iraq Security Forces Fund in Southwest Asia—Phase III (D–2008–026). The Multi-National Security Transition Command—Iraq was not able to demonstrate proper accountability for and management of the Iraq Security Forces Fund and could not always demonstrate that the delivery of services, equipment, and construction was properly made to the Iraq Security Forces. As a result, the Multi-National Security Transition Command—Iraq was unable to provide reasonable assurance that Iraq Security Forces Fund achieved the intended results, that resources were used in a manner consistent with the mission, and that the resources were protected from waste and mismanagement. On May 20, 2008 we testified on this project before the Committee on Oversight and Government Reform United States House of Representatives.

Potable and Nonpotable Water in Iraq (D–2008–060). We identified deficiencies in water operations and government oversight at three contractor-operated facilities and two military-operated facilities. Contractors provided bottled drinking water and bulk water to U.S. forces. Military water purification units only provided bulk water. From March 2004 to February 2006, the quality of water provided by contractors, through treatment or distribution at three of the sites we visited, was not maintained in accordance with field water sanitary standards as specified in Department of Army guidance. Although required, KBR did not maintain the quality of the water it distributed to point-of-use storage containers at Camp Ar Ramadi, Camp Q-West, and Camp Victory.

Additionally, at Camp Q-West, KBR improperly provided chlorinated wastewater from its Reverse Osmosis Water Purification Unit to personal hygiene facilities. Specifically, operators of the military water production sites we visited were not performing all required quality control tests nor did they maintain appropriate production, storage, and distribution records.

Because of corrective actions taken, contractor processes for providing potable and nonpotable water were adequate as of November 2006 when internal quality control

procedures and DOD oversight were in place to provide quality assurance for the processes of water production, production site storage, distribution, and storage at point-of-use facilities. However, military water purification units at LSA Anaconda and Camp Ali did not perform required quality control tests and did not maintain appropriate records of water produced, stored, and issued during the period reviewed. Therefore, water suppliers exposed U.S. forces to unmonitored and potentially unsafe water. Although there was no way to determine whether water provided by the contractors and military water purification units caused disease, contractors and military units responsible for water operations must always ensure that water provided to the forces meets all established standards and is safe to use.

Ongoing

Controls Over the Contractor Common Access Card Life Cycle in Southwest Asia. We have two ongoing audits related to Common Access Cards (CAC) issued to contractors. The first CAC audit is being performed in the United States to determine whether controls over CACs provided to contractors are in place and work as intended. Specifically, we will determine whether DOD officials issue CACs to contractors, verify the continued need for contractors to possess CACs, and whether cards are being revoked or recovered from contractors in accordance with DOD policies and procedures. The team has visited 67 CAC-related sites in the United States.

The second audit on the Contractor CAC lifecycle was conducted in Iraq, Afghanistan, Kuwait and Qatar. The objective is to determine if CAC issued to contractors were done in accordance with policies and instructions as set forth by DOD and Federal Regulations. This audit also includes a review of the Contractor Verification System, the system set forth as the DOD way of implementing Homeland Security Presidential Directive–12. Prior to returning to the United States, the staff provided memorandums to the commanders in the field addressing issues we found present in SWA.

The importance of this series of reviews is to also ensure we are not providing contractors access to benefits that are not called for in specific contracts. For example, over compensating contractors by providing them daily expenses for basic life support items and simultaneously issuing them an improper CAC providing the same life support items for free.

War Reserve Materiel.—From April 28, 2008 through May 30, 2008, we deployed an 8 person team (6 auditors and 2 investigators) to Oman, Qatar, Bahrain, and Kuwait to examine whether Air Force contracting officials managed and administered the DynCorp International War Reserve Materiel contract (valued at over $600 million) in accordance with Federal and DOD contracting policies. The War Reserve Materiel contract ensures U.S. Air Force Central Command readiness to support deployed forces by pre-positioning, maintaining, reconstituting, deploying and supporting war reserve materiel required to support U.S. Central Command operational plans and contingencies. The audit was initiated based on issues identified during a DCIS investigation. The team has visited U.S. Air Force Central Command headquarters, the Air Force contract oversight officials in Oman, the DynCorp program office in Oman, and two war reserve materiel storage facilities in Oman. Additionally, they visited war reserve materiel storage facilities in Qatar, Bahrain, and Kuwait. The team is continuing to focus on the administration and oversight of the contract by the Air Force.

Medical Equipment Used to Support Operations in Southwest Asia.—From April 23, 2008 through May 24, 2008, we deployed a four person team to SWA to evaluate the internal controls over medical equipment used to support operations in SWA. Specifically, we are determining whether controls are in place for acquiring mission-essential medical equipment and whether the recording and reporting of medical equipment are accurate and complete. The scope of this audit not only includes the medical equipment necessary for our military and coalition forces, but also the medical equipment necessary for detainees. During deployment, our auditors made site visits to medical facilities in Baghdad, Balad, Mosul, Al Taqaddum Iraq; Bagram, Afghanistan; as well as to a detainee medical facility in Baghdad, Iraq. Additionally, we visited medical logistics sites in Baghdad and Balad, Iraq; Bagram, Afghanistan, and Qatar. The team continues to work issues related to the audit objectives, and inconsistencies noted during site visits in the procurement, inventory, and maintenance processes. Additionally, we will focus on the incompatibility between the information systems used by the military departments to support the management of medical equipment and those processes.

Funds Appropriated for Afghanistan and Iraq Processed Through the Foreign Military Sales Trust Fund Funds appropriated for Afghanistan and Iraq processed through the Foreign Military Sales Trust Fund.—The overall objective is to determine whether funds appropriated for the security, reconstruction, and assistance of

Afghanistan and Iraq and processed through the Foreign Military Sales Trust Fund are being properly managed. Specifically, we will determine whether the transfer of appropriated funds from the Army's accounts into the Foreign Military Sales Trust Fund was properly authorized, accounted for, and used for the intended purpose. In addition, we will verify whether the appropriated funds are properly reported in DOD financial reports.

Assignment and Training of Contracting Officer's Representatives at Joint Contracting Command-Iraq/Afghanistan.—This audit is being accomplished by our auditors forward-deployed in Iraq. The DOD IG is determining whether personnel assigned to the Joint Contracting Command—Iraq/Afghanistan as Contracting Officer's Representatives have the training and expertise to perform their duties. There are approximately 825 Contracting Officer's Representatives performing contractual efforts within Iraq. The audit team will review the process for assigning Contracting Officer's Representatives to the Joint Contracting Command in Iraq. We will review their records to determine what training they completed and whether they had prior experience as Contracting Officer's Representatives. The team will conduct audit fieldwork within the Victory Base Complex and the International Zone in Iraq.

Afghanistan Security Forces Fund Phase III Air Force Real Property Accountability.—The initial DOD IG Expeditionary Team was in Afghanistan from February 23 to June 28, 2008. The team is conducting the third phase of a multiphase audit in response to Public Law 109–234, which directed the Inspector General to provide oversight of the Afghanistan Security Forces Fund (ASFF). The objective is to determine whether organizations in SWA that the U.S. Central Command assigned with the responsibility for managing the ASFF properly accounted for the goods and services purchased for the Afghanistan Security Forces (ASF) using the ASFF and whether the goods and services were properly delivered to the ASF. Based out of Camp Eggers and accompanied by staff from the Command, the team visited forward operating bases in Bagram, Gardez, Herat, Kandahar, Mazir-e-Sharif and Shindan, Afghanistan. We reviewed construction projects from three of the five Public Laws (109–13, 109–234, and 109–289) that appropriated about $4.7 billion to the ASF Fund. We reviewed 44 contract sites totaling $524.7 million. In addition, we reviewed the accountability of vehicles, communication equipment including computers and radios, and weapons. The senior U.S. military commanders were briefed on the preliminary findings and recommendations and we intend to issue the draft reports in the Fall.

Class III Fuel Procurement and Distribution in Southwest Asia.—The second DOD IG Expeditionary Team is scheduled to be in SWA from August 2008 to December 2008. The DOD IG is determining whether fuel used for ground operations in SWA to support Operations Iraqi Freedom and Enduring Freedom is procured and distributed efficiently and effectively. The audit team is reviewing 29 Defense Energy Supply Center contracts used to procure fuel in support of operations in SWA. The team will determine whether fuel is procured at fair and reasonable prices, whether fuel is distributed economically and efficiently to operational commands, and whether fuel supply points maintain accurate inventories. The team will conduct audit fieldwork in Kuwait, Afghanistan, Iraq and select forward operating locations.

POLICY AND OVERSIGHT

Beginning in November 2003, the DOD IG assigned Policy and Oversight inspectors and evaluators as advisors to Iraq—first to augment the Coalition Provisional Authority, then to support the SIGIR operation, then to facilitate the Embassy's Iraqi Reconstruction Management Office mission, and since July 2005, to provide resources for the Multi-National Security Transition Command—Iraq (MNSTC–I) transition teams. The advisors detailed to MNSTC–I assisted the Iraqi Ministers of Defence and Interior to establish, coordinate and develop a viable, self-sustaining Inspector General system—which was designed to help combat corruption, fraud, waste, and mismanagement. During this long-term effort, the advisors facilitated training for the respective IG staffs and mentored their leadership in the development of operating policies and procedures. In addition, the Inspections and Evaluations Directorate established a "Reach-Back" office to support the in-country advisors.

The following are examples of significant completed and ongoing planned audits supporting DOD SWA operations.

Completed

In addition to the deployment of advisors to Iraq, the Policy and Oversight component completed eight projects in support of the U.S. mission in SWA. Most of these projects were interagency engagements or included augmentees and subject matter experts external to the DOD IG organization. Overall, our partnerships with other

departments and agencies served to promote U.S. security interests through improved coordination, planning, and implementation for reconstruction and stabilization assistance for OIF and OEF. The following project titles provide an overview of the scope and breadth of these completed assessments:

—Interagency DOD–DOS IG Assessment of Iraqi Police Training;
—Combined Forces Command—Afghanistan Management Decision Model [for the Afghanistan National Army];
—Evaluation of Support to Mobilized Army National Guard and U.S. Army Reserve Units;
—Interagency DOD/DOS Assessment of Afghan National Police;
—Interagency [DOD, DOS, DOJ] Assessment of the Counternarcotics Program in Afghanistan;
—Review of the Investigative Documentation Associated with the Death of Army Corporal Stephen W. Castner in Iraq;
—Observations and Critique of the DOD Task Force on Mental Health;
—DOD/VA Care Transition Process for Service Members Injured in OIF/OEF; and
—Review of an Army investigation into a shooting by U.S. Forces in Baghdad that injured a Reuter's cameraman and killed a Reuter's driver.

Overall, these reports included over 110 recommendations to improve DOD strategies and program processes.

Ongoing Projects

Policy and Oversight has four ongoing projects related to DOD's activities in SWA and the global war on terrorism.

Assessment of the Section 1206 of the National Defense Authorization Act, Global Training and Equipment Program.—Requested by the Joint Staff and Office of the Under Secretary of Defense for Policy, the purposes of this project are to examine management's compliance with the legislation and identify recommendations for program improvements. Section 1206 authorized DOD to obligate up to $200 million in fiscal year 2006 and $300 million annually in fiscal years 2007 and 2008 to help partner nations combat terrorism or to cooperate with the U.S. military in stabilization or other military operations. As of fiscal year 2007, 44 countries are participating in the Section 1206 program.

Examination of Allegations Involving Outreach Efforts by the DOD Public Affairs Office.—The allegations were reported in the New York Times on April 20, 2008, and the review was requested by members of Congress. We are examining the allegations that the DOD Public Affairs Office gave special treatment to retired military personnel who provided media commentary on Global War on Terror policies and strategies. We are also investigating the allegation that these personnel were employed by Defense contractors and their special access to Pentagon leaders gave them a competitive advantage.

Review of Contracting Actions Relating to an Electrocution Fatality in Iraq.—This review was requested by the Deputy Under Secretary of Defense for Acquisition and Technology, in response to a memo from Congressman Jason Altmire. The fatality occurred on January 2, 2008, when the soldier was taking a shower. Our review will examine the relevant facility management, contracting, and maintenance actions prior and subsequent to the electrocution. We have also reviewed investigations conducted by service investigative agencies into electrocution deaths of other service members.

Evaluation DOD Management of Sexual Assault Complaints in Combat Areas.—The objectives are to determine whether DOD policies and procedures are adequate to respond to sexual assault complaints involving U.S. contractors and to ensure complaints are properly processed and referred for investigation.

SPECIAL PLANS AND OPERATIONS

The SPO Component has completed one assessment and is currently working on two additional reviews. The two ongoing reviews will result in three separate reports. The following are descriptions of the completed and ongoing planned SPO work supporting DOD SWA operations.

Completed Project

Assessment Team on Munitions Accountability I (MAT I).—From September 4, 2007 through October 22, 2007, the twenty-two person, interagency Assessment Team on Munitions Accountability deployed to Afghanistan, Kuwait, Qatar and Iraq to review the accountability and control of munitions being supplied by the United States to the Iraq Security Forces. While in Iraq, the team also reviewed the development of the Iraqi logistics sustainment base and the U.S.-managed Foreign Military Sales program.

This assessment was triggered, in part, by a Hotline complaint that a senior U.S. Army officer was receiving illegal gratuities and allegations from the Government of Turkey that munitions we had supplied the Iraq Security Forces were finding their way into the hands of terrorists, insurgents and criminals in Turkey. Subsequently, the Secretary of Defense and Congress requested that the DOD IG review the current state of arms and ammunition accountability and control in Iraq.

The team visited the Multinational Forces—Iraq, Multinational Security Transition Command—Iraq, Multinational Corps—Iraq, and elements of the Iraqi Ministry of Defense and the Iraqi Ministry of Interior. Members visited Abu Ghraib warehouse, Taji National Depot, Baghdad International Airport, the Baghdad Police College, the Logistics Management Control Center and several Iraqi Army and police units and installations.

A key finding was that DOD and the Iraq Security Forces have a system in place for controlling and accounting for weapons and ammunition being supplied to the Iraq Security Forces; however, there still remains work to be done. As the team deployed, it out-briefed senior in-country leadership who initiated immediate corrective actions in response to the preliminary observations and recommendations. The team's report was signed by the Inspector General on July 3, 2008 and copies were provided to the Secretary, Deputy Secretary, Chairman of the Joint Chiefs, and Under Secretaries for Policy and AT&L. It included 45 recommendations, with which management concurred with 42 (91 percent) of those recommendations. Progress has been made implementing all in-country recommendations.

Ongoing Projects

Munitions Assessment Team II (MAT II).—At the request of the Secretary of Defense, the Munitions Assessment Team returned to Iraq and Afghanistan from April 5 to May 25, 2008 to conduct a six-month follow-up. Specifically, the team reviewed the status of corrective actions initiated by management in response to MAT I's preliminary observations and recommendations in the areas of the current status of munitions accountability and control in Iraq and Afghanistan, the Foreign Military Sales program in Iraq and Afghanistan, and the development of the logistics sustainment bases, including the status of medical logistics capability for the security forces in Iraq and Afghanistan. The team out-briefed senior U.S. military commanders in both Iraq and Afghanistan upon its departure. The team continues to analyze the data collected and is preparing two draft reports covering approximately 50 observations and more than 100 recommendations.

Pakistan Assessment Team I.—The Pakistan Assessment Team visited Pakistan from April 16–26, 2008 to assess certain DOD funded programs supporting the Government of Pakistan. Congressional concern has been raised, reinforced by press reporting, that U.S. security assistance programs were not sufficiently well-focused to advance U.S. counter-terrorism interests in Pakistan and its Federal Administered Tribal Area (FATA) along the border with Afghanistan. In response to requests from the Secretary of Defense, U.S. Ambassador to Pakistan, Chairman, Joint Chief of Staff, USD(P), USD(C), and the Commander, U.S. Central Command, the DOD IG deployed an assessment team to Pakistan. The team assessed a number of DOD funded and managed bilateral assistance programs that support Pakistan's security development. Specifically, this included Coalition Support Funds, the Section 1206 Global Train and Equip program, Section 1206-like Train and Equip program for the Frontier Corps, International Military Education and Training, Foreign Military Financing, Counterterrorism Fellowship Program, and Counternarcotics. The team also reviewed the organizational capabilities and structure of the Office of Defense Representative—Pakistan, which is the umbrella organization for most DOD elements in Pakistan. The Secretary, Deputy Secretary and Chairman of the Joint Chiefs have been briefed on the preliminary findings and recommendations. The report is in the final stage of drafting.

INTELLIGENCE

The Office of Intelligence has organized multiple, narrowly focused GWOT evaluation projects around one core objective. That core objective is to assess how the DOD intelligence community is supporting the warfighter in Operation Enduring Freedom and Operation Iraqi Freedom. The plan is dynamic and may be readily modified based on changing national priorities (including taskings from Congress) and the operations tempo in the respective areas of operation.

We have 5 ongoing GWOT-related intelligence projects reviewing mission-critical functions that directly impact the warfighter, such as: intelligence collection activities, intelligence resources, and analytic and language training programs.

INTERAGENCY OVERSIGHT

The DOD IG is the lead oversight agency for accountability in DOD, and as such, is committed to maintaining an effective working relationship with other oversight organizations to minimize duplication of efforts and to provide more comprehensive coverage. Effective interagency coordination, collaboration, and partnerships within the oversight community are essential to providing comprehensive reviews of wartime expenditures to identify whether critical gaps exist, and then to recommend actions to fix those gaps.

Southwest Asia Joint Planning Group

The DOD IG has jointly established and chairs an interagency SWA Joint Planning Group that meets quarterly and provides oversight of fraud, waste, abuse, and criminal activities in the SWA region. The JPG provides a chance for collaboration and teamwork with the organizations engaged in this effort, including the military inspectors general and service auditors general, combatant commands inspectors general, the Defense Contract Audit Agency, the Defense Finance and Accounting Service, the Defense Contract Management Agency, the Inspectors General of State and the USAID, and the SIGIR. The mission of the JPG is to better coordinate and integrate oversight activities in the region. The SWA JPG leads the coordination and oversight required to identify and recommend improved mission support to military units conducting operations.

In conjunction with the SWA Joint Planning Group, the DOD IG also participates in the Afghanistan Working Group and the Iraq Inspectors General Council.

—The Afghanistan Working Group was established by the DOD IG, along with the Government Accountability Office, the Department of State Inspector General, and the USAID, established a working group on oversight activities in Afghanistan to minimize the impact on forward command operations, eradicate overlapping and duplicate oversight requests, and facilitate the exchange of oversight information. The DOD IG, as the Department of Defense representative of the group, also incorporates the ongoing and planned Afghanistan-related oversight efforts of the Service Auditors General into the working group.

—The Iraq Inspectors General Council chaired by the SIGIR, was established to minimize the impact on forward command operations, deconflict overlapping and duplicate oversight requests, and facilitate the exchange of oversight information unique to Iraq.

GWOT Cost of War Senior Steering Group

The DOD IG is an invited observer to the GWOT Cost of War Senior Steering Group that DOD established on February 26, 2007, to improve and standardize cost of war reporting. Attending the meetings helps the DOD IG remain apprised of DOD efforts for cost of war reporting and furthers its oversight regarding financial aspects of GWOT to ensure timeliness and value to the DOD. DOD IG representatives attended the December 2007 and March 2008 meetings. In December 2007, the DOD IG was invited by the Under Secretary of Defense (Comptroller) to perform quick-look reviews of the execution of GWOT funding patterns. Our support efforts were included in the Comptroller overall focused analysis of execution of funding. According to Comptroller officials, Comptroller personnel now perform monthly analysis of DOD execution of funding and reports the results to the Comptroller. The monthly analysis provides timely awareness of funding trends and potential funding execution concerns to the attention of the Comptroller.

Panel on Contracting Integrity

The DOD IG participates in the Panel on Contracting Integrity which was established under Section 813 of the National Defense Authorization Act for Fiscal Year 2007. The Panel is chaired by the Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics to conduct reviews of DOD progress in eliminating vulnerabilities in the Defense contracting systems that allow fraud, waste, and abuse and affect Operations Iraqi and Enduring Freedom. The DOD IG representative is a member of the overall Panel on Contracting Integrity, a member of the subcommittee on Adequate Pricing, and is Chairperson of the Procurement Fraud Indicators subcommittee. The Procurement Fraud Indicators subcommittee is identifying what these indicators are and how they should best be addressed and used for the contracting/acquisition workforce.

Joint Investigative Partnerships

DCIS works jointly with other federal law enforcement agencies, participates in various working groups and has agents assigned to FBI Joint Terrorism Task Forces

throughout the nation. Examples of partnerships between DCIS and other agencies include:

—Joint cases with the Federal Bureau of Investigation; Immigrations and Customs Enforcement; United States Secret Service; United States Marshals Service; Alcohol Tobacco and Firearms; United States Postal Inspection Service; and various IGs including National Aeronautics and Space Administration; General Services Administration; Health and Human Services; Veterans Affairs; Department of Transportation; Department of State; Housing and Urban Development; and the Military Criminal Investigative Organizations including the United States Army Criminal Investigation Command; Naval Criminal Investigative Service; and Air Force Office of Special Investigations.

—Member of the National Procurement Fraud Task Force, created in October 2006 to promote the prevention, early detection and prosecution of procurement fraud.

—Member of the International Contract Corruption Task Force with full time agent assigned to the Joint Operations Center.

—Member of the Defense Enterprise Working Group.

—Excellent working relationships with agencies in the SWA theater of operations.

CLOSING

Thanks to Congressional support, we are dedicating more resources to provide oversight on munitions control and accountability, acquisition, corruption, waste, fraud, abuse, and expanding our footprint SWA. We will continually evaluate the lessons learned. We are providing effective and meaningful oversight that assists DOD to address its challenges in conducting operations, safeguarding and deterring taxpayer monies from waste, fraud, and abuse, and most importantly, ensuring our brave military, civilian, coalition, contractors and the Iraqi and Afghanistan citizens supporting a free and sovereign democratic state are as safe as possible. We recognize there is a vast and important mission to support DOD's efforts and are proud to be part of this historic and important effort. This office is on firm footing to provide the necessary oversight. We look forward to working with this Committee. We will continue to keep Congress and our leadership fully and promptly informed.

Thank you for the opportunity to appear before the committee today to address our ongoing oversight work regarding Iraq.

COMPREHENSIVE AUDIT PLAN FOR SOUTHWEST ASIA

JUNE 2008.

Additional copies of this Audit Plan can be obtained by contacting: Office of the Deputy Inspector General for Auditing, Attn: Corporate Planning Branch, Room 801, 400 Army Navy Drive, Arlington, VA 22202–2884. (703) 604–9142 (DSN 664–9142)

This plan is also available on our Web site at: http://www.dodig.mil/audit

If you need additional information for the following agencies, please contact them directly.

Inspector General, Department of State
(202) 663–0378
http://oig.state.gov/
Inspector General, U.S. Agency for International Development
(202) 712–1020
http://www.usaid.gov/oig
Special Inspector General for Iraq Reconstruction
(703) 428–1058
www.sigir.mil
U.S. Army Audit Agency
(703) 681–8178
www.hqda.army.mil/aaaweb
Air Force Audit Agency
(703) 696–7904
www.afaa.hq.af.mil
Defense Contract Audit Agency
(703) 767–2236
www.dcaa.mil

FOREWORD

The Fiscal Year 2008 National Defense Authorization Act Section 842, "Investigation of Waste, Fraud, and Abuse in Wartime Contracts and Contracting Processes in Iraq and Afghanistan," January 28, 2008, requires the Inspector General of the Department of Defense to develop a comprehensive plan for a series of audits of Department of Defense contracts, subcontracts, and task and delivery orders for the logistical support of coalition forces in Iraq and Afghanistan. The Act also requires that the Special Inspector Generals for Iraq Reconstruction and Afghanistan Reconstruction develop a comprehensive plan for a series of audits of Federal agency contracts, subcontracts, and task and delivery orders for the performance of security and reconstruction functions in Iraq and Afghanistan.

We have expanded this audit plan beyond the statutory mandate to show all of the audit work for Iraq and Afghanistan, including other key issue areas, such as financial management, systems contracts, and human capital for contract administration. This plan incorporates the planned audit work of the Inspectors General of the Department of State and the U.S. Agency for International Development and the Special Inspector General for Iraq Reconstruction. It also includes the planned audit work of the Army Audit Agency, Air Force Audit Agency, and Defense Contract Audit Agency because of the major contributions they make to improve the efficiency and effectiveness of support to the military. We continue to coordinate audit plans through existing working groups and councils.

INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

PLANNED PROJECTS

Third Quarter Fiscal Year 2008 Start

Award of Urgent Procurements for Linguistics in Support of the Global War on Terror. Objective: To review whether the awards of urgent procurements for linguistics were properly justified and whether prices were appropriately established as fair and reasonable.

Contract Award and Administration of Security Services Contracts for Afghanistan. Objective: To determine whether security services contracts for Afghanistan are awarded and administered in accordance with the Federal Acquisition Regulation.

Contracting for Clothing Requirements for Civilian and Contractor Personnel Deployed to Iraq and Afghanistan. Objective: To determine how much the Central Issuing Facilities contracts fulfill the clothing requirement for both DOD civilian and contractor personnel deployed to Iraq and Afghanistan; how contract requirements, terms, and conditions were developed; and the adequacy of cost controls.

Contractor Reimbursement for Medical Care Provided by the Military in Southwest Asia. Objective: To examine the monetary burden on the military medical community in country to provide health care for contractor personnel as well as review contracts to determine whether reimbursement arrangements are addressed when contracts are bid and awarded. There are more civilians, particularly contractor personnel, than military personnel in Iraq and Afghanistan, and if these persons are injured and require medical attention or require refills for their medicines, those medical needs are provided by the military hospitals and trauma centers.

Contractors Indebted to the U.S. Government Performing Work in Support of the Global War on Terror. Objective: To review the DOD contractor debt collection process and the controls associated with the List of Contractors Indebted to the United States who are performing work in support of the Global War on Terror. Specifically, we will also identify if the Government is in a position to collect monies due to the Government prior to making any contract payments.

Controls over Contractor Common Access Cards in the U.S. Central Command. Objective: To evaluate the controls over the issuance, revocation, reverification, and recovery of contractor common access cards in the U.S. Central Command area of responsibility. We also plan to determine whether the CAC database will be a good source to identify the number of contractors in-country.

Defense Finance and Accounting Service Personnel Support for the Global War on Terror. Objective: To determine whether the current level of Defense Finance and Accounting Service personnel assigned to support the mission in Iraq, Afghanistan, and Kuwait is adequate to ensure accurate and timely accounting and contract payments.

Deferred Maintenance on DOD Weapon Systems as a Result of the Global War on Terror. Objective: To assess the extent and causes of deferred maintenance that result from the Global War on Terror.

DOD Compliance with Federal Tax Reporting Requirements for Contractors Supporting Global War on Terror. Objective: To determine whether payments to contractors and individuals performing work in support of the Global War on Terror were properly reported to the Internal Revenue Service.

Equipment Repairs and Maintenance Contracts in Support of Operation Iraqi Freedom and Operation Enduring Freedom. Objective: To evaluate the development of contract requirements, award of contracts and task orders, and the administration of the contracts and task orders for equipment repairs and maintenance within Iraq and Afghanistan.

Funds for Iraq Processed through the Security Assistance Program. Objective: To determine whether funds for Iraq processed through the Security Assistance Program and the Foreign Military Sales Trust Fund are properly managed.

Information Assurance of the Outside the Continental United States Navy Enterprise Network as it Relates to the Global War on Terror. Objective: To assess the integrity, confidentiality, and availability of the Outside the Continental United States Navy Enterprise Network particularly as it is used in Global War on Terror deployments. The information assurance testing will include examining continuity, enclave boundary defense, identification and authentication, personnel, security design and configuration, enclave computing environment, vulnerability and incident management, and physical and environmental information assurance control subject areas.

Marine Corps Military Pay in Support of the Global War on Terror. Objective: To determine whether Marine Corps military payroll disbursed in support of the Global War on Terror is paid in accordance with established laws and regulations.

Requirements Determination at the Defense Supply Center Columbus. Objective: To determine whether quantities of items being purchased by the Defense Supply Center Columbus matched anticipated Global War on Terror requirements and whether internal management controls over the determination of the procurement requirements were effective.

Review of Funds Transferred to Iraq and Afghanistan Security Forces through the State and Justice Departments. Objective: To evaluate the DOD oversight procedures over funding for the Iraq and Afghanistan Security Forces made through the Department of Justice and the State Department.

Transition Planning for the Logistics Civil Augmentation Program IV Contract. Objective: To determine whether the Army properly planned for acquisition transition from Logistics Civil Augmentation Program III contract to the Logistics Civil Augmentation Program IV contract.

Fourth Quarter Fiscal Year 2008 Start

Accounting Systems Used in Southwest Asia. Objective: To determine the adequacy of the accounting systems used in Southwest Asia to include capability for processing properly supported and recorded transactions.

Acquisition Workforce at the Defense Contract Management Agency. Objective: To assess the amount of DOD civilian, military, foreign national, and contracted support services within the Defense Contract Management Agency devoted to support the Global War on Terror. We will also evaluate whether the Defense Contract Management Agency Acquisition Workforce is adequately trained and certified.

Army and Air Force Military Pay in Support of the Global War on Terror. Objective: To determine whether the Army and Air Force military payroll disbursed in support of the Global War on Terror is paid in accordance with established laws and regulations.

Civilian Pay in Support of Global War on Terror. Objective: To determine whether civilian pay disbursed in support of the Global War on Terror is paid in accordance with established laws and regulations.

Controls Over the Funds to Refit Equipment at the Army Depots. Objective: To evaluate controls over the funds to refit equipment at the Army depots.

Controls Over Unliquidated Obligations on Contracts Supporting the Global War on Terror. Objective: To determine the amount of unliquidated obligations on contracts and whether DOD has established adequate management controls over the unliquidated obligations.

DOD Counter Narcoterrorism Technology Program Office, Program and Operations Support, Indefinite Delivery/Indefinite Quantity Contract. Objective: To determine whether the DOD Counter Narcoterrorism Technology Program Office support contract for Southwest Asia is consistent with the Federal Acquisition Regulation.

Durability and Sustainability of Body Armor. Objective: To evaluate the durability and sustainability of body armor. Specifically, we will evaluate the life cycle management of body armor components to include maintenance, repair, and durability.

Ground Standoff Mine Detection System Contract. Objective: To evaluate the manner in which Ground Standoff Mine Detection System contract requirements were developed, the procedures under which contracts or task or delivery orders were awarded, and the efficiency of DOD management and oversight of the contract.

High Mobility Multipurpose Wheeled Vehicle Contract. Objective: To determine whether American General charged fair and reasonable prices for noncommercial modifications under contract DAAE07–01–C–S001.

Internal Controls over Contract Systems Used in Southwest Asia. Objective: To determine the adequacy of internal controls of contracting systems used in Southwest Asia.

Logistics Support for the U.S. Special Operations Command. Objective: To determine whether contracts providing logistics support to the U.S. Special Operations Forces were properly awarded and administered.

Military Construction Projects Executed Through the Army's Logistics Civil Augmentation Program Contract. Objective: To survey the military construction projects for Iraq and Afghanistan performed under the Army's Logistics Civil Augmentation Program contracts and determine which projects need reviews.

Mine Resistant Ambush Protected Repair and Maintenance Contracts. Objective: To determine whether contracts for maintenance and repair of Mine Resistant Ambush Protected vehicles were properly awarded and administered.

Operation and Maintenance of Permanent Facilities in Afghanistan. Objective: To review the award and administration of contract W912ER–04–D–0003 task order 0015 for the operation and maintenance of facilities in Afghanistan.

Purchasing and Leasing of Vehicles in Support of Operation Iraqi Freedom and Operation Enduring Freedom. Objective: To examine contracts and task orders for vehicles either purchased or leased to support Operation Iraqi Freedom and Operation Enduring Freedom and to evaluate the development of the requirements, award of the contract or task order, the administration of the contract or task order, and the reasonableness of the cost to DOD.

Quality Assurance Procedures for Kevlar Helmets. We are initiating this project as a result of a Congressional request. Objective: To determine whether DOD was aware of prior defects with Kevlar helmets produced by Sioux Manufacturing, and whether DOD provided oversight to ensure the contractor met quality standards.

Rapid Development and Fielding of Material Solutions Within the Navy. Objective: To evaluate the management of the Navy process used to rapidly develop and field material solutions to meet urgent needs in support of the Global War on Terror.

Selection of Mode of Transportation of Materials in Support of Operation Iraqi Freedom and Operation Enduring Freedom. Objective: To examine contracts and task orders for ground, air, and sealift transportation modes and evaluate how the shipping requirements were determined, the procedures used to select the transporting company, the terms of the contract and task orders, and the oversight provided.

Survey of Kellogg Brown and Root Services Logistics Support for Contingency Operations. Objective: To determine the full extent of Kellogg Brown and Root Services logistics efforts and associated DOD costs in support of Contingency Operations.

Times and Material Contracts in Southwest Asia. Objective: To determine whether time and material contracts were awarded and administered in accordance with the Federal Acquisition Regulation.

U.S. Central Command Government Purchase Card Program. Objective: To assess whether the U.S. Central Command's use of government purchase cards complies with applicable laws and regulations. The audit helps meet the statutory mandate to perform periodic audits of the Department of Defense management of purchase cards per Title 10, United States Code, Section 2784.

Use of Contractor to Provide Food Service or Food in Support of Operation Iraqi Freedom and Operation Enduring Freedom. Objective: To examine contracts and task orders awarded for the Army Subsistence Program and evaluate whether the Defense Personnel Support Center, Philadelphia, PA, properly defined the requirements, awarded the contracts, and administered the contracts in support of Operation Iraqi Freedom and Operation Enduring Freedom.

Use of Contracts to Provide Fuels in Support of the Warfighter. Objective: To determine the extent to which contractors are providing fuels instead of the Defense Energy Supply Center; how contract requirements, terms and conditions were developed; and the adequacy of cost controls.

Use of Other Transaction Authority for Prototypes. Objective: To determine whether the Military Departments and Defense Agencies are properly using the other transactions for prototypes to bring new contractors into the Department to support the Global War on Terror efforts.

First Quarter Fiscal Year 2009 Start

Contracting for Facilities Operations Support Services for Operation Iraqi Freedom and Operation Enduring Freedom. Objective: To examine contracts and task orders for facilities operations support services (housekeeping, trash/garbage removal, landscaping, etc.), development of contract requirements, award of contracts and task orders, and the administration of the contracts and task orders.

Controls Over Contractor Common Access Cards in the U.S. European Command. Objective: To evaluate the controls over the issuance, revocation, reverification, and recovery of contractor common access cards in the European theater.

Controls Over Unliquidated Obligations on U.S. Army Corps of Engineers Contracts Supporting the Global War on Terror. Objective: To determine the amount of unliquidated obligations on contracts and whether the U.S. Army Corps of Engineers has established adequate management controls over the unliquidated obligations.

Management and Accountability of Class III Bulk JP–8 Fuel Supporting the U.S. Central Command Operations in Qatar. Objective: To evaluate the management of Bulk Class III JP–8 fuel operations in Qatar supporting U.S. Central Command Global War on Terror missions.

Medical Prime Vendor Contracts in Support of Operation Iraqi Freedom and Operation Enduring Freedom. Objective: To examine contracts and task orders under the Defense Supply Center-Philadelphia Medical Prime Vendor Program for terms and conditions, price controls given increased demand, and the ability of contractors to provide supplies in a timely manner to the warfighter.

Private Security Contractors Use in Operation Iraqi Freedom. Objective: To determine whether terms and conditions for private security services are clearly defined in contracts, whether security services are performed in accordance with the requirements of the contract, and whether oversight of security contracts is adequate.

Use of Priority Air Cargo Transportation to Provide Materials and Supplies in Support of Operation Iraqi Freedom and Operation Enduring Freedom. Objective: To evaluate how the shipping requirement was determined in the award and terms of contracts and delivery orders and associated costs for the use of priority air transportation.

ONGOING PROJECTS

Reports Projected Third Quarter Fiscal Year 2008

Contingency Construction Contracting Procedures Implemented by the Joint Contracting Command—Iraq/Afghanistan (D2007–D000LQ–0261 .000). Objective: To determine the efficiency of contingency construction contracting procedures implemented by the Joint Contracting Command—Iraq/Afghanistan in the Afghanistan Area of Operations. Specifically, we will review the effectiveness of practices related to solicitation, award, quality assurance, oversight, and final acceptance of constructions projects.

DOD Supplemental and Cost of War Execution Report Sections Pertaining to Procurement and Research, Development, Test, and Evaluation Funds (D2006–D000AE–0241.001). Objective: To determine how effectively the Office of the Secretary of Defense and the DOD Components prepared the DOD Supplemental and Cost of War Execution Report for procurement and research, development, test, and evaluation funds.

DOD Use of Global War on Terror Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation (D2006–D000AE–0241.002). Objective: To evaluate the adequacy of the DOD financial controls over use of Global War on Terror supplemental funding provided for procurement and research, development, test, and evaluation.

Internal Controls and Data Reliability in the Deployable Disbursing System (D2007–D000FL–0252.000). Objective: To determine whether the internal controls over transactions processed through the Deployable Disbursing System are adequate to ensure the reliability of the data processed. The audit will include financial information processed by disbursing stations supporting the Global War on Terror and will also include the recording of related obligations. This audit is a follow up on our "Audit of Internal Controls Over Out-of-Country Payments," D2006–D000FL–0208.000.

Summary of Issues Impacting Operations Iraqi Freedom and Enduring Freedom Reported by Major Oversight Organizations Beginning Fiscal Year 2003 Through Fiscal Year 2007 (D2007–D000XA–0249.000). Objective: To summarize contract, funds management, and other accountability issues identified in audit reports and congressional testimonies that discuss mission critical support to Operations Iraqi Freedom and Enduring Freedom.

Reports Projected Fourth Quarter Fiscal Year 2008

Contracts for Supplies Requiring Use of Radio Frequency Identification (D2008–D000AS–0022.000). Objective: To determine whether DOD Components are complying with policies on radio frequency identification. Specifically, we will determine whether DOD Components have prepared and implemented plans to use radio frequency identification. Additionally, we will assess whether DOD contracts issued since January 1, 2005, include requirements for using passive and active radio frequency identification tags and whether contractors are complying with those requirements.

Controls Over the Contractor Common Access Card Life Cycle (D2007–D000LA–0199.001). Objective: To determine whether controls over Common Access Cards provided to contractors are in place and work as intended. Specifically, we will determine whether DOD officials issue Common Access Cards to contractors, verify the continued need for contractors to possess Common Access Cards, and revoke or recover Common Access Cards from contractors in accordance with DOD policies and procedures.

Defense Hotline Allegations Concerning Contracts Issued by U.S. Army TACOM Life Cycle Management Command to BAE Systems Land and Armaments, Ground Systems Division (D2007–D000CK–0256.000). Objective: To review the allegations to the Defense Hotline concerning contracts issued by U.S. Army TACOM Life Cycle Management Command to BAE Systems Land and Armaments, Ground Systems Division. Specifically, we will determine whether contract award and administrative procedures were in compliance with Federal and DOD policy.

Distribution of Funds and the Validity of Obligations for the Management of the Afghanistan Security Forces Fund—Phase II (D2007–D000LQ–0161.001). Objective: To determine whether the distribution of the $1.9 billion from the Afghanistan Security Forces Fund complied with the 11 provisions of Public Law 109–234 and applicable appropriations law. In addition, we will determine whether the Afghanistan Security Forces Fund was obligated in accordance with legislative intent and applicable appropriations law.

DOD Training for U.S. Ground Forces Supporting Operation Iraqi Freedom (D2007–D000LH–0108.001). Objective: To determine whether U.S. Ground Forces supporting Operation Iraqi Freedom are receiving training necessary to meet operational requirements. This project is addressing the adequacy of equipment levels at Army and Marine Corps combat training centers and mobilization stations for ground forces units deploying in support of Operation Iraqi Freedom.

Expeditionary Fire Support System and Internally Transportable Vehicle Programs (D2008–D000AB–0091.000). Objective: To determine whether contract competition and program administration for the United States Marine Corps Expeditionary Fire Support System and Internally Transportable Vehicle were in accordance with the Federal Acquisition Regulation and supporting DOD guidance.

Funds Appropriated for Afghanistan and Iraq Processed Through the Foreign Military Sales Trust Fund (D2007–D000FD–0198.000). Objective: To determine whether the funds appropriated for the security, reconstruction, and assistance of Afghanistan and Iraq and processed though the Foreign Military Sales Trust Fund are being properly managed. Specifically, we will determine whether the transfer of appropriated funds from the Army's accounts into the Foreign Military Sales Trust Fund was properly authorized, accounted for, and used for the intended purpose. We will also determine whether Foreign Military Financing funds granted to Afghanistan and Iraq are properly accounted for and used for their intended purpose. In addition, we will verify whether the appropriated funds are properly reported in DOD financial reports.

Hiring Practices Used to Staff the Iraqi Provisional Authorities (D2007–D000LC–0051.000). Objective: To evaluate the hiring practices that DOD used to staff personnel to the provisional authorities supporting the Iraqi government from April 2003 to June 2004. Specifically, we will determine the Process DOD used to assign personnel to the Office of Reconstruction and Humanitarian Assistance and the Coalition Provisional Authority in Iraq.

Joint Follow-on Evaluation of Equipment Status (D2008–D000LQ–0111.000). Objective: To determine whether forces deployed in support of Operation Iraqi Freedom have the equipment to complete their missions and to evaluate whether units completing combat missions had the proper equipment in accordance with mission requirements.

Marine Corps' Management of the Recovery and Reset Programs (D2007–D000LD–0129.000). Objective: To evaluate the effectiveness of the Marine Corps' Recovery and Reset Programs for selected equipment. Specifically, we will review how the Marine Corps met its equipment requirements through the Reset and Re-

covery Programs, whether it effectively repaired or replaced selected equipment, and whether the Marine Corps used funds for their intended purpose.

Military Construction Funds Related to the Global War on Terror (D2007–D000CK–0201.000). Objective: To determine whether DOD Components followed requirements for using operations and maintenance funds for Global War on Terror military construction. Specifically, we will determine whether DOD followed proper procedures for administering, executing, and reporting the use of operations and maintenance funds on Global War on Terror military construction contracts.

Procurement and Delivery of Joint Service Armor Protected Vehicles (D2007–D000CK–0230.000). Objective: To determine whether the Mine Resistant Ambush Protected vehicle program office is procuring armored vehicles in accordance with the Federal Acquisition Regulation and DOD requirements. Specifically, we will review Mine Resistant Ambush Protected program administration to determine whether the program office is taking appropriate actions to accelerate vehicle delivery to users. An additional objective will be to review the Services' requirements for Mine Resistant Ambush Protected and High Mobility Multipurpose Wheeled Vehicles.

Procurement and Use of Nontactical Vehicles at Bagram Air Field (D2008–D000LQ–0063.000). Objective: To determine the effectiveness of the process for procuring and leasing nontactical vehicles at Bagram Air Field, Afghanistan. We will also review the cost of operating and maintaining nontactical vehicles and determine whether the amount of use complies with DOD guidance.

Security Over Radio Frequency Identification Information (D2008–D000AS–0044.000). Objective: To determine whether DOD implemented security controls to protect radio frequency identification information. Specifically, we will assess the implementation and effectiveness of those security controls over the information.

Small Arms Ammunition Fund Management in Support of the Global War on Terror (D2008–D000FJ–0014.000). Objective: To determine whether the Military Departments properly managed small arms ammunition funds in support of the Global War on Terror. Specifically, we will determine whether financial management officials fully supported and properly incurred obligations and expenditures. We will also determine whether funds for small arms ammunition were accurately recorded in financial systems for reporting to the Office of the Secretary of Defense.

Reports Projected Fiscal Year 2009

Acquisition of Ballistic Glass Contracts for the High Mobility Multipurpose Wheeled Vehicle Variants (D2008–D000CE–0187.000). Objective: To determine whether the award and administration process of the High Mobility Multipurpose Wheeled Vehicle ballistic glass contracts comply with the Federal Acquisition Regulation.

Air Force Combat Search and Rescue Helicopter (D2008–D000AB–0133.000). Objective: To determine whether changes to Combat Search and Rescue Helicopter Key Performance Parameters were made in accordance with applicable DOD and Air Force acquisition guidelines. Specifically, we will determine whether key performance parameter changes were properly designated and appropriately vetted through the Joint Requirements Oversight Council. In addition, we will determine whether key performance parameter changes will affect Air Force special operations capabilities in the Global War on Terror.

Air Force Contract Augmentation Program in Southwest Asia (D2008–D000JC–0202.000). Objective: To evaluate controls over Air Force Contract Augmentation Program. We will determine what contracts have been awarded, whether contracts were properly awarded, whether contracted services were provided in accordance with the statement of work and whether contract payments were appropriate.

Assignment and Training of Contracting Officer's Representatives at Joint Contracting Command—Iraq/Afghanistan (D2008–D000JC–0203.000). Objective: To determine whether personnel assigned as Contracting Officer's Representatives to the Joint Contracting CommandIraq/Afghanistan have proper training and expertise to perform their duties.

Class III Fuel Procurement and Distribution in Southwest Asia (D2008–D000JC–0186.000). Objective: To determine whether fuel used for ground operations in Southwest Asia to support Operations Iraqi Freedom and Enduring Freedom is procured and distributed efficiently and effectively. Specifically, we will determine whether fuel is procured at fair and reasonable prices, whether fuel is distributed economically and efficiently to operational commands, and whether fuel supply points maintain accurate inventories.

Control Over the Reporting of Transportation Costs in Support of the Global War on Terror (D2008–D000FI–0083.000). Objective: To evaluate the effectiveness of controls over the reporting of transportation costs related to the Global War on Terror.

Controls Over the Department of the Navy Military Payroll Disbursed in Support of the Global War on Terror (D2008–D000FC–0189.000) Objective: To determine whether the Department of the Navy is disbursing military payroll in support of the Global War on Terror in accordance with established laws and regulations. Specifically, we will determine whether the Department of the Navy maintains adequate support for payments related to deployments to an active combat zone.

Defense Emergency Response Fund for the Global War on Terror (D2008–D000FE–0106.000). Objective: To determine if the Defense Emergence Response Fund is used as intended and in adherence to the Office of Management and Budget guidance for the use of the funds. We will also determine if DOD has the ability to track the use of the Defense Emergency Relief Fund.

Defense Logistics Agency Contracts for Combat Vehicle Parts in Support of the Global War on Terror (D2008–D000FD–0214.000). Objective: To determine whether the Defense Logistics Agency used appropriate and effective contracting procedures to provide to customers the combat vehicle parts to support the Global War on Terror.

Distribution of Funds and the Validity of Obligations for the Management of the Afghanistan Security Forces Fund—Phase III (D2007–D000LQ–0161.002). Objective: To determine whether organizations in Southwest Asia that the U.S. Central Command assigned with the responsibility for managing the Afghanistan Security Forces Fund properly accounted for the goods and services purchased for the Afghanistan Security Forces using the Afghanistan Security Forces Fund and whether the goods and services were properly delivered to the Afghanistan Security Forces.

Marine Corps Implementation of the Urgent Universal Need Statement Process for Mine Resistant Ambush Protected Vehicles (D2008–D000AE–0174.000). Objective: To determine whether the Marine Corps decision making process responded appropriately and timely to Urgent Universal Need Statements submitted by field commanders for Mine Resistant Ambush Protected vehicles.

Organic Ship Utilization in Support of the Global War on Terror (D2008–D000AB–0193.000). Objective: To evaluate the effectiveness of policies and procedures used to ensure that activated Government-owned and Government-chartered vessels are used to the maximum extent prior to procuring commercial transportation to Southwest Asia.

Price Reasonableness for Contracts at U.S. Special Operations Command (D2008–D000CG–0123.000). Objective: To determine whether pricing of contracts at U.S. Special Operations Command complied with Federal Acquisition Regulation requirements for determining price reasonableness.

War Reserve Materiel Contract (D2008–D000CK–0161.000). Objective: To determine whether Air Force contracting officials managed and administered the DynCorp International War Reserve Materiel contract in accordance with Federal and DOD contracting policies.

INSPECTOR GENERAL, DEPARTMENT OF STATE

PLANNED PROJECTS

Third Quarter Fiscal Year 2008 Start

Audit

Personal Security Detail Contracts—Blackwater (Iraq) (with the Special Inspector General for Iraq Reconstruction)—(Financial Related & Performance Audit)

New Embassy Compound Phase I (Performance Audit)

New Embassy Compound Phase II (Performance Audit)

Fourth Quarter Fiscal Year 2008 Start Audit

Economic Support Fund—Afghanistan (Financial Related Audit)

Middle East Regional Office

Personal Security Detail Contracts—Dyncorp and Triple Canopy—Iraq (Performance Audit)

—Kennedy Report on Worldwide Personal Protective Services—Private Security Contractors—Iraq (Program Evaluation)

—Role, Staffing, and Effectiveness of Diplomatic Security—Iraq (Performance Audit)

First Quarter Fiscal Year 2009 Start

Audit

Property Inventory and Accountability at Embassy Baghdad (Performance Audit) (concurrent w/Office of Inspections Inspection of Embassy Baghdad)

Middle East Regional Office

Effectiveness of Worldwide Personal Protective Services contractors in Jerusalem
Emergency Action Plan of Embassies Baghdad and Kabul (Program Evaluation)

Second Quarter Fiscal Year 2009 Start

Audit

Personal Security Detail Contracts—Dyncorp and Triple Canopy (Iraq) (Financial Related)

Middle East Regional Office

Personal Security Detail (Worldwide Personal Protective Services) Contracts—Blackwater, Dyncorp, Triple Canopy Afghanistan
—Kennedy Report on Worldwide Personal Protective Services—Private Security Contractors—Afghanistan
—Role, Staffing, and Effectiveness of Diplomatic Security—Afghanistan (Financial Related and Performance Audit)

Third Quarter Fiscal Year 2009 Start

Inspection

De-mining Programs in Iraq and Afghanistan (Program Evaluation)

Fourth Quarter Fiscal Year 2009 Start

Audit

Economic Support Funds—West Bank
Logistics Civil Augmentation Program Task Order #100

Middle East Regional Office

Refugee Assistance and Human Rights in Afghanistan (Performance Audit)
Governing Justly and Democratically in Afghanistan (Performance Audit)
Embassy Baghdad/DOD Transition Plan (Joint with Inspector General, DOD) (Program Review)

Future Starts

Iraq

Economic Support Funds—Iraq
Verbal Notices to Proceed (Task Orders)—Worldwide Personal Protective Services
Diplomatic Security Armored Vehicle Procurement
Local Security Guard Program
Public Diplomacy Programs in Iraq
Democracy and Education Programs in Iraq
Follow-up Evaluations of Iraq Police Training
Follow-up Evaluations of Iraq Rule-of-Law Programs
Follow-up Evaluation of Anticorruption Programs in Iraq
Role, Function, and Effectiveness of Regional Embassy Offices in Iraq
Rightsizing (Staffing) of Embassy Baghdad
Follow-up on Role and Effectiveness of Provincial Reconstruction Teams in Iraq
Management of Iraq Security Programs
Review of Anti-Corruption Training and Development Programs in Iraq
Follow-up Review of Rule of Law Programs in Iraq
Review of Communications Security at Embassy Baghdad
Democracy Building: National Endowment for Democracy
Implementation of International Cooperative Administrative Support Services—Iraq

Afghanistan

Public Diplomacy Programs in Afghanistan
Middle East Partnership Initiative
Follow-up Evaluation of Afghanistan Police Training
Follow-up Evaluation of Afghan Rule-of-Law Programs
Effectiveness of Counter Narcotic Programs in Afghanistan
Effectiveness of Security Assistance in Afghanistan
Management of Afghanistan Security Programs
Implementation of International Cooperative Administrative Support Services—Afghanistan

Pakistan

Democracy and Education Programs in Pakistan

Federally Administered Tribal Areas in Pakistan
Effectiveness of Counter-narcotics Programs in Pakistan
Effectiveness of Security Assistance in Pakistan

Other

Middle East Partnership Initiative
Democracy and Education Programs in Lebanon
Security Assistance in Lebanon

ONGOING PROJECTS

Iraqi Special Immigrant VISA (Special Immigrant Visa) (Program Evaluation)
Iraqi Refugee Processing (Program Evaluation)

INSPECTOR GENERAL, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

PLANNED AUDITS—IRAQ

Performance Audits

USAID/Iraq's Community Stabilization Program. Objectives: (1) Is USAID/Iraq's Community Stabilization Program achieving its intended result with regard to activities in the community infrastructure and essential services component? (2) How has USAID/Iraq designed and implemented its Community Stabilization Program to help ensure that Iraqis continue to benefit from its activities after USAID involvement has ended? (Completed. Audit Report No. E–267–08–001–P, issued March 18, 2008)

USAID/Iraq's Management of the Marla Ruzicka Iraqi War Victims Fund. Objective: Is USAID/Iraq complying with provisions contained in public laws to help ensure that funds appropriated for the Marla Fund are used as intended? (Completed. Audit Report No. E–267–08–002–P, issued April 3, 2008)

USAID/Iraq's Community Action Program II. Objectives: (1) Is USAID/Iraq accurately measuring the jobs created by its community action program activities? (2) Are USAID/Iraq's community action program activities achieving intended results and what has been the impact?

USAID/Iraq's Monitoring and Evaluation Performance Program. Objectives: (1) Is the Monitoring and Evaluation Performance Program, Phase II program producing monitoring and evaluation reports that are timely, relevant, and useful for performance management? (2) Is USAID/Iraq using Monitoring and Evaluation Performance Program, Phase II program results to manage its portfolio?

USAID/Iraq's Management of Its Official Vehicle Fleet. Objective: Has USAID/Iraq acquired, utilized, and disposed of its official vehicles in accordance with USAID's Automated Directives System?

Followup Audit of USAID/Iraq's Local Governance Activities. Objective: Are USAID/Iraq's local governance activities achieving intended results and what has been the impact?

USAID/Iraq's National Capacity Development Program. Objective: Is USAID/Iraq's national capacity development program achieving its intended results and what has been the impact of this program?

Followup Audit of Provincial Reconstruction Teams in Iraq. Objectives: (1) Are USAID/Iraq provincial reconstruction team representatives performing their roles as activity managers as intended? (2) How is USAID/Iraq assisting the provincial reconstruction teams in the transition to traditional USAID activities?

USAID/Iraq's Agribusiness Program. Objective: Is USAID/Iraq's agribusiness program achieving intended results and what has been the impact?

USAID/Iraq's Provincial Economic Growth Program. Objectives: (1) Have USAID/Iraq's provincial economic growth activities created an enabling environment for business operations and what has been the impact? (2) Are USAID/Iraq's grant activities under its provincial economic growth program achieving intended results and what has been the impact?

Financial Audits

Objectives: Financial audit objectives include determining whether (1) costs incurred and billed by the recipient are allowable, allocable and reasonable, (2) the recipient's internal control structure is adequate, and (3) the recipient complies with agreement terms and applicable laws and regulations. Audits are performed by the Defense Contract Audit Agency at the request of OIG, who then reviews and issues the reports to USAID with applicable recommendations. The following financial audits are planned for fiscal year 2008:

—Direct Costs Incurred and Billed by Research Triangle Institute under Contract No. GHS–I–04–03–00028–00 from April 26, 2005 to December 31, 2006. (Completed. OIG Report No. E–267–08–001–D, issued October 4, 2007)

—Costs Incurred and Billed by Sallyport Global Services Ltd. under its Subcontracts with The Louis Berger Group, Inc. under USAID Contract Nos. 267–C–00–04–00417–00 for the Period September 27, 2004 through September 30, 2005 and 267–C–00–04–00435–00 for the Period August 1, 2005 through March 31, 2007. (Completed. OIG Report No. E–267–08–002–D, issued December 12, 2007)

—Costs Incurred and Billed by America's Development Foundation under Contract No. GEW–C–00–04–00001–00 from October 1, 2006 through June 30, 2007. (Completed. OIG Report No. E–267–08–003–D, issued January 23, 2008)

—Costs Incurred and Billed by Creative Associates International, Inc. under Contract No. EPP–C–00–04–00004–00 from July 1, 2005 through February 28, 2007. (Completed. OIG Report No. E–267–08–004–D, issued February 4, 2008)

—Costs Incurred and Billed by Management Systems International under USAID Contract No. AEP I–00–00–00024–00, Task No. 08, from June 26, 2003 through May 31, 2005. (Completed. OIG Report No. E–267–08–005–D, issued February 4, 2008)

—Costs Incurred and Billed by Bechtel National, Inc. under Contract Nos. EEE–C–00–03–00018–00 (Phase I) and SPU–C–00–04–0000 1–00 (Phase II) from November 1, 2006 to September 30, 2007. (Completed. OIG Report No. E–267–08–006–D, issued February 12, 2008)

—Cost Incurred and Billed by IntraHealth International, Inc. under its Subcontract No. 15–330–0208954 with Research Triangle Institute Contract No. GHS–1–04–03–00028–00 for the Period April 26, 2005 through December 31, 2006. (Completed. OIG Report No. E–267–08–007–D, issued February 24, 2008)

—Costs Incurred and Billed by International Business and Technical Consultants, Inc. (IBTCI) under Contract No. 267–C–00–05–00508–00 from January 1, 2006 through December 31, 2006. (Completed. OIG Report No. E–267–08–008–D, issued March 6, 2008)

—Costs Incurred and Billed by BearingPoint, Inc. under Contract No. 267–C–00–04–00405–00 for the Period October 1, 2006 through September 30, 2007. (Completed. OIG Report No. E–267–08–009–D, issued April 15, 2008)

—Costs Incurred and Billed by Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance under USAID Cooperative Agreement No. AFP–A–00–03–00003 for the Period August 1, 2004 through March 31, 2007.

—Costs Incurred and Billed by the International Foundation for Election Systems through the Consortium for Election and Political Process Strengthening under [1] USAID Agreement No. 267–A–00–04–00405–00 for the period October 1, 2005 through June 30, 2007, [2] USAID Agreement No. AFP–A–00–04–00014–00 for the period July 9, 2004 through June 30, 2006, and [3] USAID Agreement No. REE–A–00–04–0005 0–00 for the period July 26, 2004 through July 31, 2006.

—Costs Incurred and Billed by America's Development Foundation under USAID Contract No. GEW–C–00–04–00001–05 for the Period October 1, 2006 through June 30, 2007.

—Costs Incurred and Billed by International Relief & Development, Inc. under USAID Agreement No. AFP–A–00–03–0002–00 for the Period November 1, 2005 through March 31, 2007.

—Costs Incurred and Billed by Cooperative Housing Foundation International under USAID Agreement No. AFP–A–00–0300004–00 for the Period August 1, 2005 through April 30, 2007 and under USAID Agreement No. 267–A–00–06–00507–00 for the Period September 30, 2006 through September 30, 2007.

—Costs Incurred and Billed by Mercy Corps under USAID Agreement No. AFP–A–00–03–00001–00 for the Period August 1, 2004 through March 31, 2007.

—Costs Incurred and Billed by Save the Children Federation under USAID Agreement No. AFP–A–00–03–00005–00 for the Period August 1, 2004 through April 1, 2006.

—Agreed-upon Procedures Review of Direct and Indirect Costs Incurred by Research Triangle Institute under USAID Contract Nos. EDG–C–00–00010–00, 267–C–00–05–00505–00, and GHS–I–04–03–00028–00 Relating to Payments to Business Systems House during the Period March 26, 2003 through September 30, 2007.

—Costs Incurred and Billed by International Relief & Development, Inc. under USAID Agreement No. 267–A–00–06–00503–00 for the Period May 29, 2006 through September 30, 2007.

—Costs Incurred and Billed by BearingPoint, Inc. under USAID Contract No. 267–C–00–04–00405–00 for the Period August 1, 2005 through September 30, 2006.
—Costs Incurred and Billed by Louis Berger Group/The Services Group, Inc. under USAID Contract No.267–C–00–04–00435–06 for the Period October 1, 2006 through September 30, 2007.
—Costs Incurred and Billed by Management Systems International under USAID Contract No. AEP–I–01–05–00221–00 for the Period July 27, 2006 through September 30, 2007.
—Agreed-Upon Procedures Review of Requests for Equitable Adjustments Related to Excusable Delays by Bechtel National, Inc. under USAID Contract No. SPU–C–00–04–00001–00 for the Period January 5, 2004 through March 31, 2007 and Contract No. EEE–C–00–03–00018–00 for the Period April 17, 2003 through February 28, 2006.
—Costs Incurred and Billed by International Resources Group under USAID Contract No. 517–C–00–04–00106–00 for the Period November 1, 2006 through December 31, 2007.
—Costs Incurred and Billed by Research Triangle Institute under USAID Contract No. 267–C–00–05–00505–00 for the Period January 1, 2007 through December 31, 2007.
—Costs Incurred and Billed by Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance under USAID Cooperative Agreement No. AFP–A–00–03–00003 for the Period August 1, 2004 through March 31, 2007.
—Costs Incurred and Billed by Louis Berger Group, Inc. for the Period May 14, 2007 through May 13, 2008.
—Costs Incurred and Billed by the International Foundation for Election Systems through the Consortium for Election and Political Process Strengthening under USAID Agreement No. 267–A–00–04–00405–00 from July 1, 2007 through June 30, 2008.
—Costs Incurred and Billed by International Business & Technical Consultants, Inc. under USAID Contract No. 267–C–00–05–00508–00 for the Period January 1, 2007 through December 31, 2007.

PLANNED PROJECTS—AFGHANISTAN

Performance Audits

USAID/Afghanistan's Agriculture, Rural Investment and Enterprise Strengthening Program. Objective: Was USAID/Afghanistan's Agriculture, Rural Investment and Enterprise Strengthening Program achieving its intended results and what has been the impact? (Completed. Audit Report No. 5–306–08–001–P, issued January 22, 2008)

USAID/Afghanistan's Alternative Development Program—Southern Region. Objective: Did USAID/Afghanistan's Alternative Development Program/South achieve planned results, and what has been the impact? (Completed. Audit Report No. 5–306–08–003–P, issued March 17, 2008)

USAID/Afghanistan's Accelerating Sustainable Agriculture Program. Objective: Did USAID/Afghanistan's Accelerating Sustainable Agriculture Program achieve planned results, and what has been the impact?

USAID/Afghanistan's Technical Assistance Services to Implement the Small and Medium Sized Enterprise Development Activity in Afghanistan. Objective: Did USAID/Afghanistan's Technical Assistance Services to Implement the Small and Medium Sized Enterprise Development Activity achieve planned results, and what has been the impact?

USAID/Afghanistan's Higher Education Project. Objective: Did USAID/Afghanistan's Higher Education Project achieve planned results, and what has been the impact?

USAID/Afghanistan's Local Governance and Community Development Project in Northern and Western Regions of Afghanistan. Objective: Did USAID/Afghanistan's Local Governance and Community Development Project achieve planned results, and what has been the impact?

USAID/Afghanistan's Building Capacity Program. Objective: Did USAID/Afghanistan's Building Capacity Program achieve planned results, and what has been the impact?

USAID/Afghanistan's School and Health Clinic Buildings Completed Under the Schools and Clinics Construction and Refurbishment Program. Objective: Did USAID/Afghanistan's School and Health Clinic Buildings Completed under the

Schools and Clinics Construction and Refurbishment Program achieve planned results, and what has been the impact?

Selected Activities Funded Under USAID/Afghanistan's $1.4 Billion Infrastructure Rehabilitation Program. Objective: Did Selected Activities Funded under USAID/Afghanistan's $1.4 billion Infrastructure Rehabilitation Program achieve planned results, and what has been the impact?

Financial Audits

Objectives: Financial audit objectives include determining whether (1) costs incurred and billed by the recipient are allowable, allocable and reasonable, (2) the recipient's internal control structure is adequate, and (3) the recipient complies with agreement terms and applicable laws and regulations. Audits are performed by the Defense Contract Audit Agency or non-Federal auditors. The OIG reviews and issues the reports to USAID with applicable recommendations. The following financial audits are planned for fiscal year 2008:

—Local Costs incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306–C–00–02–00500–00, for the Period from April 1, 2007, to June 30, 2007. (Completed. OIG Report No. 5–306–08–001–N, issued November 27, 2007)

—Closeout Audit of the Project Titled "Business Advisory Services to Small and Medium-Sized Enterprises (SMEs) in Afghanistan," USAID/Afghanistan Cooperative Agreement No. 306–A–00–04–00570–00, Managed by Acap Management Limited, for the Period from September 30, 2004, to March 29, 2007. (Completed. OIG Report No. 5–306–08–019–R, issued April 25, 2008)

—Costs Incurred by DEG (Deutsche Ivestitions Entwicklungsgesellschaft mbH), USAID/Afghanistan Agreement No. 306–A–00–05–005 12–00, for the Period from February 3, 2005, to August 2, 2008

—Costs incurred by Bearing Point, Inc. to Implement the Economic Governance in Afghanistan (BP I), USAID/Afghanistan Contract No. 306–C–00–03–00001–00, for the Period from November 17, 2002, to December 15, 2005

—Costs incurred by PTS (Program-e Tahkim-e Solh) to Implement the National Commission For Peace and Reconciliation, USAID/Afghanistan Agreement No. 306–PIL–07–3060004–00, for the Period from April 1, 2007, to March 31, 2008

—Costs incurred by Bearing Point, Inc. to Implement the Strengthening Private Sector through Capacity Building (BP III), USAID/Afghanistan Contract No. GEG–I–00–04–00004–00, for the Period from September 26, 2005, to December 31, 2007

—Costs incurred by AEAI-Advance Engineering Associates, International to Implement the Afghanistan Energy Assistance Project, USAID/Afghanistan Contract No. EPP–I–OO–03–00004–00, for the Period ended December 31, 2007

—Quarterly Audits of Local Costs incurred by the Louis Berger Group, Inc. to Implement the Afghanistan Infrastructure Reconstruction Program (AIRP), USAID/Afghanistan Contract No. 306–I–00–06–00517–00

PLANNED PROJECTS—REST OF ASIA

Performance Audits

USAID/Indonesia's Tsunami-Related Housing Construction Activities Implemented by Cooperative Housing Foundation International. Objective: Were USAID/Indonesia's tsunami-related housing construction activities being implemented by the Cooperative Housing Foundation International (CHF) achieving planned results? (Completed. Audit Report No. 5–497–08–002–P, issued January 31, 2008)

USAID/Pakistan's Education Sector Reform Assistance Program. Objective: Did USAID/Pakistan's Education Sector Reform Assistance program achieve intended results and what has been the impact? (Completed. Audit Report No. 5–391–08–004–P, issued March 28, 2008)

USAID/India's Greenhouse Gas Pollution Prevention Project. Objective: Did USAID/India's Greenhouse Gas Pollution Prevention Project achieve planned results, and what has been the impact?

USAID/Mongolia's Economic Policy Reform and Competitiveness Project. Objective: Did USAID/Mongolia's Economic Policy Reform and Competitiveness Project achieve planned results, and what has been the impact?

USAID/Nepal's Health Program. Objective: Did USAID/Nepal's Health Program achieve planned results, and what has been the impact?

Critical USAID/Philippines' Activities under its Growth with Equity in Mindanao II Program Implemented by Louis Berger Group, Inc. Objective: Did Critical USAID/

Philippines" Activities under its Growth with Equity in Mindanao II Program achieve planned results, and what has been the impact?

Financial Audits

Objectives: Financial audit objectives include determining whether (1) costs incurred and billed by the recipient are allowable, allocable and reasonable, (2) the recipient's internal control structure is adequate, and (3) the recipient complies with agreement terms and applicable laws and regulations. Financial audits are conducted primarily of non-U.S. based organizations throughout the rest of Asia by non-Federal auditors. Non-U.S. recipients are required to have financial audits done if they spend more than $300,000 of USAID funds during their fiscal year. Financial audit reports conducted by non-Federal auditors are reviewed by the OIG office in Manila, Philippines, and the reports transmitted with applicable recommendations to the responsible USAID mission in the region. OIG expects to issue over 30 financial audit reports to USAID missions in the region, in addition to Iraq and Afghanistan, during fiscal year 2008.

SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

PLANNED PROJECTS

Third Quarter Fiscal Year 2008 Start

Follow-on Review of Iraq Security Forces Strength Accounting Methodologies, Including Use of Automated Systems (8024).

Follow-on Review of the Transition of Iraq Reconstruction Projects to the Government of Iraq (8022).

Iraq Reconstruction Management System (8027).

Progress and Plans to Transition Infrastructure Development for Iraqi Security Forces to the Iraqi Government (8026).

Reconstruction Contracts/Task Orders Terminated for Convenience or Default (8020) (follow-on to 7029).

Survey of Department of State and U.S. Agency for International Development Contracts and Grants for Democracy Building Projects in Iraq (8025).

Survey of Overall Economic Support Fund Programs Management and Expenditures (8021).

Triple Canopy Private Security Contract—Department of State (8028). Note: Assignment expected to identify agency unique focus on security contracting issues related to Iraq reconstruction under Section 842 legislation as well as identify issues that may require more in-depth audit focus on a cross-agency basis once results of this review are considered along with results from other ongoing reviews.

Start (To Be Determined)

Assessing Progress, Trends, and Cross-Program Coordination Related to Economic Development in Iraq (include DOD economic development efforts).

Individual U.S. Agency for International Development Democracy Building Program (Program Effectiveness Reviews). Placeholder for potential future program review of individual democracy building programs that may be identified in ongoing survey of Department of State and U.S. Agency for International Development contracts and grants management of democracy building programs related to Iraq reconstruction (see project code 8025)

Iraq Related Operating Expenses of U.S. Agencies Supporting Iraq Reconstruction Ministerial Capacity Development Follow-on.

Progress in Improving Infrastructure Security Across Key Sectors (oil, electricity, water, sewer, etc.).

Provisional Reconstruction Teams/Provisional Reconstruction Teams Follow-on

Selected Commander Emergency Response Program Contracts. (Placeholder for individual audits of selected contracts related to construction and on-construction projects

Selected Gulf Region Division Economic Support Fund Contracts. (Placeholder—priorities TBD based on results of project code 8025)

Selected Iraq Security Forces Fund Contracts. (Placeholder—priorities TBD based on other ongoing Iraq Security Forces Fund Contract work)

Selected Programs' Cash Controls and Cash Payments

Selected Security Contracts and Subcontracts. (Placeholder pending developing of listing of contracts and subcontracts to develop a sample of contracts and subcontracts to review)

Selected U.S. Agency for International Development Economic Support Fund Contracts. (Placeholder—priorities TBD based on results of project code 8025)

Survey of Present Use of Sole Source and Limited Competition in Contracting.

Triple Canopy Private Security Contracts—DOD. Note: Assignment expected to identify agency unique focus on security contracting issues under Section 842 legislation related to Iraq reconstruction as well as identify issues that may require more in-depth audit focus on a cross-agency basis once results of this review are considered along with results from other ongoing reviews.

Washington International and Black and Veatch Contracts—Water Sector.

ONGOING PROJECTS

Aegis Private Security Contract (8017). Note: Assignment is expected to be used to identify DOD/GRD unique security contracting and subcontracting issues that will help frame future security contracting reviews, particularly at the subcontractor level.

First 100 Audit Reports—Capping Report.

Joint SIGIR Department of State Inspector General Review of Spending Under Blackwater Contracts (7018).

Spending and Performance Under Development Alternatives Inc. (DAI) Contracts—Economic Development (7026).

Spending and Performance Under KBR Contracts—Oil Sector (8003).

Spending of United States Government Funds in Support of Iraq Reconstruction: Fluor-AMEC Joint Venture in the Electric and Public Works/Water Sectors (7022).

Spending of United States Government Funds in Support of Iraq Reconstruction: Research Triangle Institute (7023).

Spending of United States Government Funds Under Parsons, Inc., Iraq Reconstruction Contracts (S&J) (8006).

Survey of U.S. Government Contracts Related to the Performance of Security Functions in Iraq (8016). Note: Assignment expected to lead to fuller identification of contractors and subcontractors—and data needed to identify individual potential contract audits to be done under the Section 842 legislation related to Iraq reconstruction—as well as individual reviews of selected program and policy issues as may be required.

U.S. ARMY AUDIT AGENCY

PLANNED PROJECTS

Third Quarter Fiscal Year 2008 Start

Army Reserve Post—Mobilization Training (A–2008–FFS–0504.000). Objective: (1) Are post-mobilization training requirements adequately identified and executed for the Army Reserve? (2) Are all necessary unit and individual training requirements identified and completed prior to deployment? (3) Did post-mobilization training requirements unnecessarily duplicate pre-mobilization training?

Contracting Operations at the Joint Contracting Command—Iraq/Afghanistan—Kabul (A–2008–ALL–0401.000). Objective: Determine if goods and services acquired under contract were properly justified, awarded, and administered.

Follow up Audit of Logistics Civil Augmentation Program III Audits (A–2008–ALL–0321.000). Objective: Determine if the Army implemented agreed to recommendations and corrected the problems identified in the previous audit.

Long Lead Items for Reset (A–2008–ALM–0102.000). Objective: Are long lead items requirements valid and aimed at obtaining materiel just in time to meet the Army's needs?

National Guard Post—Mobilization Training (A–2008–FFS–0505.000). Objective: (1) Are post-mobilization training requirements adequately identified and executed for the National Guard? (2) Are all necessary unit and individual training requirements identified and completed prior to deployment? (3) Did post-mobilization training requirements unnecessarily duplicate pre-mobilization training?

Sustainment of Left Behind Equipment (A–2008–ALM–0247.000). Objective: Did the Army effectively and efficiently manage accountability and maintenance of its Continental United States left behind equipment?

Fourth Quarter Fiscal Year 2008 Start

Class V Retrograde Operations (A–2008–ALL–0397.000). Objective: (1) Determine if the Army has adequate processes and procedures in place to properly retrograde ammunition from Southwest Asia. (2) Determine if the Army has adequate accountability and visibility over ammunition.

Contracting Operations at the Joint Contracting Command—Iraq/Afghanistan—Fallujah (A–2008–ALL–0400.000). Objective: Determine if goods and services acquired under contract were properly justified, awarded, and administered.

Controls Over Logistics Civil Augmentation Program—White Property (A–2008–ALL–0398.000). Objective: Determine if the Logistics Civil Augmentation Program contractor properly managed and accounted for government acquired property.

Controls Over Vendor Payments—Kuwait (A–2008–ALL–0501.000). Objective: Evaluate the controls over vendor payments made on contracts awarded in Kuwait.

Housing Contracts-Area Support Group—Kuwait (A–2008–ALL–0403.000). Objective: (1) Determine whether the housing program in Kuwait is properly managed. (2) Determine if property or assets provided by the Government and acquired by the contractor are adequately managed.

Managing Reset, U.S. Army Pacific (A–2008–FFP–0506.000). Objective: Evaluate development and execution of reset requirements.

Retrograde Exit Strategy (A–2008–ALL–0402.000). Objective: Evaluate the Army's exit strategy to determine if high volume equipment and supply retrograde operations were adequately planned and executable for Southwest Asia.

First Quarter Fiscal Year 2009 Start

Single Channel Ground and Airborne Radio System Requirements (A–2008–ALA–0468.000). Objective: Determine the proper alignment of Single Channel Ground and Airborne Radio System requirements to short-term needs; and modernization plans to transition to the Joint Tactical Radio System.

Second Quarter Fiscal Year 2009 Start

Controls Over Vendor Pay—Joint Contracting Command (Iraq) (A–2008–ALL–0399.000). Objective: Evaluate the controls over vendor payments made on contracts awarded in Iraq.

Government Purchase Card Program in Southwest Asia. Objective: Evaluate the effectiveness of management controls over the government purchase card program. Specifically, determine if use of purchases cards were in accordance with established guidance, and goods and services acquired were adequately accounted for.

Information Assurance and Infrastructure in Southwest Asia. Objective: Determine whether the Army's controls and procedures protect and defend the integrity, confidentiality and availability of information and information systems during a contingency operation.

Logistics Civil Augmentation Program Operations IV in Support of Operation Enduring Freedom. Objective: To determine if services awarded under Logistics Civil Augmentation Program IV in Afghanistan were managed in a reasonable and cost-effective manner.

Logistics Civil Augmentation Program Operations IV in Support of Operation Iraqi Freedom. Objective: To determine if services awarded under Logistics Civil Augmentation Program IV in Iraq were managed in a reasonable and cost-effective manner.

Requirements Validation for Continental United States Based Mobilized Soldiers (A–2008–FFS–0443.000). Objective: (1) Determine if Soldiers mobilized to support contingency operations outside of theater continue to have valid mission essential requirements. (2) Determine the force structure impacts of the continued use of Soldiers mobilized to support contingency operations outside of theater operations.

Reserve Component Mobilization Strategy. Objective: Is the Reserve Component training strategy viable to meet Army Force Generation goals and the 12 month mobilization limitations?

Retrograde Exit Strategy—Continental United States. Objective: Evaluate the Army's exit strategy to determine if high volume equipment and supply retrograde operations were adequately planned and executable for Southwest Asia.

Transition from Logistics Civil Augmentation Program Operations to Sustainment Contracts—Iraq. Objective: Determine if the Army implemented best business practices to transition work performed under the Logistics Civil Augmentation Program contract to sustainment contracts.

Unit Training to Defeat Improvised Explosive Devices (A–2008–FFF–0081.000). Objective: Are units conducting appropriate training to counter the Improvised Explosive Devices threat?

Use of Non-Tactical Vehicles—Iraq. Objective: Determine if the Army effectively utilized its non-tactical vehicle fleet in a contingency environment.

ONGOING PROJECTS

Reports Projected Third Quarter Fiscal Year 2008

Accounting for Seized and Developmental Fund—Iraq Fund Balances (A–2007–FFM–0882.000). Objective: (1) What are the residual balances for seized and Developmental Fund—Iraq funds? (2) Are the balances reasonable and ready for transfer?

Advanced Training for Explosive Ordnance Disposal Soldiers (A–2008–FFD–0098.000). Objective: (1) Has Improvised Explosive Device defeat methods been fully integrated into advanced training for Explosive Ordnance Disposal Soldiers? (2) Has training for new equipment fielded during OIF/OEF been fully integrated into advanced training for Explosive Ordnance Disposal Soldiers?

Battle Loss Computations (A–2007–ALM–0305.000). Objective: Did the Army properly identify and adjust requirements and funding to replace Operational losses?

Billing for Container Detention Penalties (A–2007–ALR–0259.002). Objective: Are container detention charges relating to the Global War on Terror billed to the responsible activity?

Body Armor Requirements (A–2007–FFD–0067.000). Objective: (1) Has the Army established adequate quantitative requirements for the procurement of body armor? Does the Army have an adequate fielding plan for body armor?

Contracting Operations at the Joint Contracting Command—Iraq/Afghanistan—Baghdad (A–2007–ALL–0887.001). Objective: Determine if goods and services acquired under contract were properly justified, awarded, and administered.

Contracting Operations at the Joint Contracting Command—Iraq/Afghanistan—Victory (A–2007–ALL–0887.002). Objective: Determine if goods and services acquired under contract were properly justified, awarded, and administered.

Contract Operations U.S. Army Accessions Command—Southwest Asia—Kuwait (A–2007–ALL–0329.000). Objective: (1) Evaluate the effectiveness of contracting operations at U.S. Army Contracting Command Southwest Asia-Kuwait. (2) Determine whether contracting operations were performed in accordance with appropriate laws and regulations.

Followup Audit of Asset Visibility and Container Management (A–2007–ALL–0081.002). Objective: Determine if the U.S. Central Command implemented agreed to recommendations and fixed the problems identified in the previous audit report.

Management and Use of Contractor Acquired Property Under the Logistics Civil Augmentation Program Contract—Power Generators (A–2007–ALL–0212.001). Objective: Determine if power generators (property) acquired were effectively managed and used under the Logistics Civil Augmentation Program contract.

Management of Shipping Containers in Southwest Asia—Afghanistan (A–2007–ALL–0081.005). Objective: Determine if the Army maintained adequate visibility over shipping containers to, within, and from the Southwest Asia Theater of Operations.

Management of Shipping Containers in Southwest Asia—Continental United States (A–2007–ALL–0081.006). Objective: Determine if the Army maintained adequate visibility over shipping containers to, within, and from the Southwest Asia Theater of Operations.

Management of Shipping Containers in Southwest Asia—Kuwait (A–2007–ALL–0081.003). Objective: Determine if the Army maintained adequate visibility over shipping containers to, within, and from the Southwest Asia Theater of Operations.

Management of Shipping Containers in Southwest Asia—Summary (A–2007–ALL–0081.000). Objective: Determine if the Army maintained adequate visibility over shipping containers to, within, and from the Southwest Asia Theater of Operations.

Retrograde Operations in Southwest Asia—Iraq (A–2006–ALL–0397.000). Objective: (1) Determine whether retrograde operations in the Southwest Asia area of operations are managed in an effective and cost-efficient manner. (2) Determine whether adequate accountability and visibility were maintained over retrograded materiel and equipment.

Retrograde Operations in Southwest Asia—Kuwait (A–2007–ALL–0858.000). Objective: (1) Determine whether retrograde operations in the Southwest Asia area of operations are managed in an effective and cost-efficient manner. (2) Determine whether adequate accountability and visibility were maintained over retrograded materiel and equipment.

Retrograde Operations in Southwest Asia—Kuwait (Rear Support) (A–2007–ALL–0858.001). Objective: (1) Determine whether retrograde operations in the Southwest Asia area of operations are managed in an effective and cost-efficient manner. (2) Determine whether adequate accountability and visibility were maintained over retrograded materiel and equipment.

Temporary Change of Station Orders and Housing for Mobilized Soldiers (A–2007–FFS–0917.000). Objective: (1) Are policy and procedures governing the development of Temporary Change of Station orders adequate to ensure valid travel entitlements and proper authorizations? (2) Are policy and procedures governing the approval for payment of travel vouchers adequate to ensure care and prudent use of

travel funds for mobilized Soldiers? (3) Do Army installations have sufficient and cost-effective lodging to support Soldiers mobilizing to the National Capital Region?

Theater Maintenance Processes in Europe (A–2008–ALE–0071.000). Objective: Were theater maintenance processes structured and administered to meet reset goals and provide the best value?

Use of Role Players at Combat Training Centers (A–2007–FFF–0415.000). Objective: (1) Is the Army's process for acquiring role-players for the Combat Training Centers effective and efficient? (2) Is the logistical support provided for role-players at the Combat Training Centers consistent and cost-effective? (3) Does the Army adequately manage its role-players at the Combat Training Centers?

Reports Projected Fourth Quarter Fiscal Year 2008

Accountability of Contractors on the Battlefield (A–2007–FFS–0553.000). Objective: (1) Has the Army established direct authority and identified the roles and responsibilities for accountability of contractors on the battlefield? (2) Does the Synchronized Predeployment and Operational Tracker provide accurate, complete and relevant information for functional management of deployed Army contractor assets in theater? (3) Are the existing and proposed new processes and procedures for accounting for Army contractors within Iraq and Kuwait adequate?

Contracting Operations at the Joint Contracting Command—Iraq/Afghanistan—Bagram (A–2008–ALL–0320.001). Objective: Determine if goods and services acquired under contract were properly justified, awarded, and administered.

Contracting Operations at the Joint Contracting Command—Iraq/Afghanistan—Balad (A–2008–ALL–0319.000). Objective: Determine if goods and services acquired under contract were properly justified, awarded, and administered.

Establishing Rates for Shipping Containers (A–2007–ALR–0259.001). Objective: Are customer billing rates for break-bulk and container shipments based on appropriate costs?

Follow Up of Offline Purchases (A–2008–ALL–0466.000). Objective: Determine if the Army implemented agreed to recommendations and corrected the problems identified in the previous audit.

Government Property Provided to Contractors—Kuwait Base Operations (A–2008–ALL–0204.000). Objective: Determine whether the Army has adequate management and visibility over Government property provided to contractors for base support operations.

Impact of Mine Resistant Ambush Protected Vehicle Acquisitions on Other Systems (A–2007–ALA–0978.000). Objective: Did the Army adequately plan, assess, and adjust its requirements for new and existing vehicle systems impacted by the acquisition and deployment of the Mine Resistant Ambush Protected vehicle system?

Operational Purchases of Information Technology Equipment, Systems and Services—Forces Command (A–2005–FFI–0487.000). Objective: (1) Were controls over operational purchases and leases of information technology and communications equipment, systems, and services by U.S. Army Forces Command deploying units effective and operating? (2) Did units utilize appropriate funding sources for information technology and communications equipment purchases made in support of deployments?

Operational Purchases of Information Technology Equipment, Systems and Services—Iraq and Kuwait (A–2005–FFI–0487.001). Objective: Were controls over purchases and leases of information technology and communications equipment, systems, and services in place and operating effectively for units deployed in support of Operation Iraqi Freedom?

Reset Metrics (A–2007–ALM–0733.000). Objective: Did the Army have adequate processes to accurately report the status of reset and associated funding to Congress?

U.S. Army Corps of Engineer Contract Functions in Iraq (A–2008–ALL–0318.000). Objective: (1) Determine if contract requirements were correctly identified and resulted in acquisitions that met the needs of the Army. (2) Determine if deliverables were monitored to ensure products and services were provided in accordance with the terms of the contract. (3) Determine if contract closeout practices for terminated contracts were adequate and in the best interest of the Army. (4) Determine if contract award fee practices were adequate.

Reports Projected First Quarter Fiscal Year 2009

Army Reserve Pre-mobilization Training (A–2008–FFS–0101.000). Objective: (1) Are pre-mobilization training requirements adequately identified and executed for the Army Reserve? (2) Are all necessary unit and individual training requirements completed prior to mobilization? (3) Are training requirements maximized at pre-mobilization in order to minimize post-mobilization training?

Automatic Reset Items (A–2008–ALM–0312.000). Objective: (1) Is the Automatic Reset Induction effectively supporting equipment requirements in the Army Force Generation model?

Contracts for Reset (A–2007–ALM–0306.000). Objective: Did the Army have adequate oversight of field level reset requirements to effectively plan for contract maintenance support?

National Guard Pre-mobilization Training (A–2008–FFS–0353.000). Objective: (1) Are pre-mobilization training requirements adequately identified and executed for the National Guard? (2) Are all necessary unit and individual training requirements completed prior to mobilization? (3) Are training requirements maximized at pre-mobilization to minimize post-mobilization training?

Property Book Unit Supply Enhanced, 3rd Infantry Division (A–2008–ALR–0307.000). Objective: Determine if units used the Property Book Unit Supply Enhanced system to properly account for equipment and maintain accurate data.

Property Book Unit Supply Enhanced, 10th Mountain Division (A–2008–ALR–0360.000). Objective: Determine if units used the Property Book Unit Supply Enhanced system to properly account for equipment and maintain accurate data.

Property Book Unit Supply Enhanced, I Corps (A–2008–ALR–0357.000). Objective: Determine if units used the Property Book Unit Supply Enhanced system to properly account for equipment and maintain accurate data.

Property Book Unit Supply Enhanced; Summary Report (A–2008–ALR–0039.000). Objective: Determine if units used the Property Book Unit Supply Enhanced system to properly account for equipment and maintain accurate data.

Rapid Fielding Initiative (A–2007–ALA–0410.000). Objective: Validate: rapid fielding initiative requirements; the adequacy of the process used to resource rapid fielding initiative acquisitions; and plans to institutionalize rapid fielding initiative.

Use of Role Players Armywide (less Combat Training Centers) (A–2008–FFF–0148.000). Objective: (1) Is the Army's process for acquisition and use of Role-players for training cost-effective? (2) Is the logistical support provided to Role-Players consistent and cost effective? (3) Is the oversight and administration of Role-Player contractors adequate?

Reports Projected Second Quarter Fiscal Year 2009

Army Foreign Language Program—Contracting (A–2007–ZBI–0344.003). Objective: (1) Determine if the Army Foreign Language Program adequately identifies and receives contracted linguists to support mission requirements. (2) Determine if procedures and practices for awarding and justifying language contracts were adequate and in the best interest of the Army.

Directorate of Logistics Workload Supporting Reset (A–2008–ALM–0311.000). Objective: Did Army garrisons have an adequate process in place to identify and meet field level reset requirements in support of the Army Force Generation model?

Management of the Prepositioned Fleet at Combat Training Centers (A–2008–FFF–0044.000). Objective: (1) Are the pre-positioned fleets adequately configured? (2) Are rotational units effectively using the pre-positioned fleets? (3) Are the maintenance costs for the pre-positioned fleets reasonable?

AIR FORCE AUDIT AGENCY

PLANNED PROJECTS

Third Quarter Fiscal Year 2008 Start

AFCENT Deployed Locations Information Technology Equipment Accountability and Control (Project Number F2008–FD3000–0418). Objective: To evaluate United States Central Command Air Forces (AFCENT) information technology equipment accountability and control. Specifically, evaluate equipment requirements determination; accountability and control; and disposal.

AFCENT Management of Controlled Drugs (Project Number F2008–FD2000–0411). Objective: To determine whether medical personnel properly manage controlled drugs. Specifically, determine whether personnel properly receive, issue, store, and protect controlled drugs.

AFCENT Area of Responsibility Construction (Project Number F2008–FD1000–0419). Objective: To determine if AFCENT area of responsibility construction efficiently and effectively meets mission requirements. Specifically, determine if construction projects provide in-theater benefits and meet desired mission capabilities; personnel utilize existing, temporary, or movable facilities when possible; and personnel properly program, authorize, and document operations and maintenance funding for construction.

ONGOING PROJECTS

Reports Projected Third Quarter Fiscal Year 2008

AFCENT Aerial Port Operations (Project Number F2007–FD3000–0725). Objective: To determine whether Air Force personnel effectively managed aerial port operations within the CENTCOM area of responsibility. Specifically, determine whether Air Force personnel efficiently utilized airlift capacity, effectively managed cargo and passenger travel reimbursements in the area of responsibility, and effectively managed cargo and passenger movement.

AFCENT Civil Engineering Material Acquisition (Project F2007–FD1000–0830). Objective: To determine whether AFCENT effectively managed Civil Engineering material at deployed locations. Specifically, determine whether Civil Engineering personnel properly approved material purchases, obtained the most cost effective materials, and accounted for materials.

Reports Projected Fourth Quarter Fiscal Year 2008

AFCENT Munitions Management (Project Number F2007–FD3000–0777). Objective: To determine whether Air Force personnel properly manage munitions in the AFCENT Area of Responsibility. Specifically, determine whether personnel (a) properly account for, store and secure munitions inventories; and (b) accurately forecast munitions requirements.

AFCENT Deployed Locations War Reserve Materiel (Project Number F2007–FD3000–0781). Objective: To determine whether AFCENT personnel effectively manage war reserve materiel in the AFCENT Area of Responsibility. Specifically, determine whether AFCENT personnel accurately maintain war reserve materiel quantities on-hand to meet anticipated mission needs; appropriately use war reserve materiel assets for intended purposes; and properly manage war reserve materiel inventory by accounting for, maintaining, marking and storing on-hand war reserve materiel assets.

Pallet Management (Project F2007–FC4000–0034). Objective: To evaluate pallet management effectiveness. Specifically, evaluate requirements computation accuracy and retrograde effectiveness.

DEFENSE CONTRACT AUDIT AGENCY

DCAA's services include professional advice to acquisition officials on accounting and financial matters to assist them in the negotiation, award, administration and settlement of contracts.

Customer Requested Audits:

Many of DCAA's audits are performed at the request of contracting officers and are most commonly performed during the negotiation and award phase. DCAA has no control over the number or timing of these audits and must immediately respond to the audit requests as its top priority. DCAA issued 57 of these reports between October 2007 and March 2008. The major categories of audit services are described below.

Price Proposals.—Audits of price proposals submitted by contractors in connection with the award, modification, or re-pricing of Government contracts or subcontracts.

Agreed-Upon Procedures Price Proposal.—Evaluations of specific areas, including actual labor and overhead rates and/or cost realism analysis, requested by customers in connection with the award of Government contracts or subcontracts.

Other Special Requested Audits.—Audit assistance provided in response to special requests from the contracting community based on identified risks.

Preaward Accounting Surveys.—Preaward audits to determine whether a contractor's accounting system is acceptable for segregating and accumulating costs under Government contracts.

Contract Required Audits:

DCAA's audits of cost-reimbursable contracts represent a continuous effort from evaluation of proposed prices to final closeout and payment. DCAA is able to plan the extent and timing of most of the audits performed after the initial contract award. 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. DCAA issued 81 of these reports between October 2007 and March 2008. As of April 1, 2008 DCAA had 285 audits in process and another 68 audits planned for fiscal year 2008.

Description of audit area	Fiscal year 2008	
	In Process	Planned
Incurred Cost [1]	70	6
Labor Timekeeping [2]	37	13
Internal Controls [3]	63	20
Purchase Existence and Consumption [4]	22	6
Cost Accounting Standards [5]	62	17
Other [6]	31	6
Total	285	68

[1] *Incurred Cost.*—Audits of costs charged to Government contracts to determine whether they are allowable, allocable, and reasonable.
[2] *Labor Timekeeping.*—Audits to determine if the contractor consistently complies with established timekeeping system policies and procedures for recording labor costs.
[3] *Internal Controls.*—Audits of contractor internal control systems relating to the accounting and billing of costs under Government contracts.
[4] *Purchase Existence and Consumption.*—The physical observation of purchased materials and services and related inquiries regarding their documentation and verification of contract charges.
[5] *Cost Accounting Standards.*—Audits of Contractor Disclosure Statements and compliance with Cost Accounting Standards.
[6] *Other.*—Significant types of other audit activities include compliance with the Truth in Negotiations Act, and audits of economy and efficiency of contractor operations.

REPORT NO. D–2008–086
JULY 18, 2008

INSPECTOR GENERAL, UNITED STATES DEPARTMENT OF DEFENSE

CHALLENGES IMPACTING OPERATIONS IRAQI FREEDOM AND ENDURING FREEDOM REPORTED BY MAJOR OVERSIGHT ORGANIZATIONS BEGINNING FY 2003 THROUGH FY 2007

ADDITIONAL INFORMATION AND COPIES

To obtain additional copies of this report, visit the Web site of the Department of Defense Inspector General at http://www.dodig.mil/audit/reports or contact the Secondary Reports Distribution Unit at (703) 604–8937 (DSN 664–8937) or fax (703) 604–8932.

SUGGESTIONS FOR AUDITS

To suggest ideas for or to request future audits, contact the Office of the Deputy Inspector General for Auditing at (703) 604–9142 (DSN 664–9142) or fax (703) 604–8932. Ideas and requests can also be mailed to: ODIG–AUD (ATTN: Audit Suggestions), Department of Defense Inspector General, 400 Army Navy Drive (Room 801), Arlington, VA 22202–4704.

ACRONYMS AND ABBREVIATIONS

AAA—Army Audit Agency
AFAA—Air Force Audit Agency
CENTCOM—U.S. Central Command
CERP—Commanders' Emergency Response Program
DAU—Defense Acquisition University
DCAA—Defense Contract Audit Agency
DCMA—Defense Contract Management Agency
DFAS—Defense Finance and Accounting Service
DOD OIG—DOD Office of Inspector General
GAO—U.S. Government Accountability Office
GWOT—Global War on Terror
LOGCAP—Logistics Civil Augmentation Program
OEF—Operation Enduring Freedom
OIF—Operation Iraqi Freedom
OUSD(AT&L)—Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics
OUSD(C)—Office of the Under Secretary of Defense (Comptroller)
SIGIR—Special Inspector General for Iraq Reconstruction
SPOT—Synchronized Predeployment and Operational Tracker
UCMJ—Uniform Code of Military Justice

INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE,
ARLINGTON, VIRGINIA 22202–4704, JULY 18, 2008.

MEMORANDUM FOR DISTRIBUTION:

SUBJECT: Report on Challenges Impacting Operations Iraqi Freedom and Enduring Freedom Reported by Major Oversight Organizations Beginning FY 2003 Through FY 2007 (Report No. D–2008–086)

We are providing this report for your information and use. We did not issue a draft report because this report summarizes material that was already published. This report contains no recommendations; therefore, no written response to this report is required.

Questions should be directed to Mr. Paul Granetto at (703) 604–8905 or Mr. J.T. "Mickey" McDermott at (703) 604–8903. The team members are listed inside the back cover.

MARY L. UGONE,
Deputy Inspector General for Auditing.

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RESULTS IN BRIEF: CHALLENGES IMPACTING OPERATIONS IRAQI FREEDOM AND ENDURING FREEDOM REPORTED BY MAJOR OVERSIGHT ORGANIZATIONS BEGINNING FISCAL YEAR 2003 THROUGH FISCAL YEAR 2007

WHAT WE DID

We summarized 302 Operations Enduring and Iraqi Freedom related audit reports and testimonies issued by the Defense oversight community and GAO beginning fiscal year 2003 through fiscal year 2007. Based on the content of the reports and testimonies, we categorized the reports and testimonies into four areas: Contract Management, Logistics, Financial Management, and Other.

Within the four categories, we retrospectively identified systemic challenges. We then prospectively summarized corrective actions taken and still pending, as well as other management initiatives taken or underway, within the identified functional areas that impact DOD operations supporting Operations Enduring and Iraqi Freedom.

WHAT WE FOUND

Over the course of conducting Operations Enduring and Iraqi Freedom, DOD experienced, at times, significant and recurring challenges in the following functional areas:

—Contract Management: Contract Oversight and Resource Limitations;
—Logistics: Asset Accountability, Visibility, and Equipping the Force; and
—Financial Management: Accuracy of Cost Reporting and Accountability.

Further, there were challenges that were common in more than one of the functional areas. Specifically, shortfalls in DOD training and policy and procedures were challenges in more than one functional area.

DOD ACTION TAKEN

DOD took action to resolve Operations Enduring and Iraqi Freedom Contract Management, Logistics, and Financial Management, and "Other" challenges reported by the oversight organizations.

—From fiscal year 2003 through fiscal year 2007, the Defense oversight community and GAO issued 983 recommendations to improve DOD operations in Operations Enduring and Iraqi Freedom.
—DOD has resolved most of the recommendations as of September 30, 2007. We plan to report on progress made after September 30, 2007, in a future report.

DOD ONGOING INITIATIVES

Continuing action is underway to support various initiatives within DOD to address the challenges DOD faces for operations supporting Operations Enduring and Iraqi Freedom. For example, DOD has:

—Increased oversight and accountability over deployed contractors and over assessing the needs of its contracting workforce in expeditionary operations;
—Established an Executive Director to provide program management oversight over contractor logistical support; and
—Deployed financial support teams to assist the theater Commanders accountability over funds.

The DOD oversight community has restructured its workforce models and developed a comprehensive oversight plan for Operations Enduring and Iraqi Freedom which includes logistical support, financial management, and contract administration.

INTRODUCTION

OBJECTIVES

The overall audit objective was to summarize Operation Enduring Freedom (OEF) and Operation Iraqi Freedom (OIF) related audit reports and testimonies issued beginning fiscal year 2003 through fiscal year 2007 by the Defense oversight community. This community includes the DOD Office of Inspector General (DOD OIG), the Army Audit Agency (AAA), the Naval Audit Service, the Air Force Audit Agency (AFAA), the Special Inspector General for Iraq Reconstruction (SIGIR) and the Government Accountability Office (GAO). Retrospectively, we identified systemic challenges and prospectively, reported on the corrective actions taken and still pending as well as other management initiatives within the identified functional areas to improve DOD operations. See Appendix A for a discussion of the scope and methodology and Appendix B for the OEF and OIF related reports and testimonies we included in developing this summary. See Appendix C for definitions used to categorize OEF and OIF related report information.

BACKGROUND

Global War on Terror

The United States is engaged in a comprehensive effort to protect and defend the homeland and defeat terrorism. After the terrorist attacks of September 11, 2001, military operations began Operation Enduring Freedom, which takes place principally in and around Afghanistan, but also covers operations in the Horn of Africa, the Philippines, and elsewhere. In 2003, DOD began Operation Iraqi Freedom, which takes place in and around Iraq. According to GAO estimates, as of December 2007, DOD total cumulative reported obligations for the Global War on Terror (GWOT) were about $527 billion, of which about $406.2 billion is for operations for

Operation Iraqi Freedom, and about $92.9 billion is for operations for Operation Enduring Freedom.[1]

Systemic Challenges Facing the Department

This report summarizes the most prevalent of the systemic management and performance challenges facing the Department of Defense as identified in the audit reports issued fiscal years 2003 through 2007. Annually, the DOD OIG summarizes what it considers the most serious management and performance challenges. The DOD OIG summary and a brief assessment of the Department's progress in addressing those challenges are reported in the DOD Agency Financial Report.[2] In the fiscal year 2007 Agency Financial Report, the DOD OIG identified and reported, as it has in previous years, contract management and financial management as two challenge areas that have an impact on OEF and OIF as well as on GWOT.

Contract Management.—In the fiscal year 2007 Agency Financial Report, the DOD OIG reported that the Department continued to experience the management challenge to provide required materiel and services that are superior in performance, high in quality, sufficient in quantity, and within the time frames needed by the warfighter while balancing the cost concerns for the taxpayer. With the war, the volume and complexity of purchases have obviously increased. DOD spending in fiscal year 2007 (with supplementals) exceeded $600 billion, which is more than double the spending from fiscal year 2000. The sheer number of contracting actions and the pressures on contracting officials to award procurements faster make the challenge of correcting the problems more difficult.

Although the problems encountered in the contracting process are not unique to the wartime environment, the risk of critical gaps in the contracting process increases during contingency operations. The challenge in a wartime environment is to mitigate these gaps. Gaps occurred when: user requirements were not met, funds were not spent appropriately and were unaccounted for, goods and services were not properly accounted for, delivery of goods and services were not made properly, individuals involved in the acquisition process lacked integrity, and adequate documentation was not retained or prepared.

Financial Management.—In the fiscal year 2007 Agency Financial Report, the DOD OIG stated that the Department faced financial management challenges that are complex and long-standing, and pervade virtually all its business operations. The DOD OIG had previously identified and reported on several material control weaknesses that reflect some of the pervasive and long-standing financial management issues faced by DOD. These weaknesses, which also affect the safeguarding of assets and proper use of funds and impair the prevention and identification of fraud, waste, and abuse, include the following: Inventory and Government–Furnished material and contractor acquired material.

Logistics.—In the fiscal year 2005 Performance and Accountability Report, the DOD OIG stated the challenge of logistics is to provide the right force the right personnel, equipment, and supplies in the right place, at the right time, and in the right quantity, across the full range of military operations. The 2006 Quadrennial Defense Review Report discussed efforts to improve visibility into supply chain logistics costs and performance. It also stated that DOD sought to:

—establish a Defense Coalition Support Account to fund and, as appropriate, stockpile routine defense articles such as helmets, body armor, and night vision devices for use by coalition partners;

—expand Department authority to provide logistics support, supplies, and services to allies and coalition partners to enable coalition operations with U.S. forces;

—expand Department authority to lease or lend equipment to allies and coalition partners for use in military operations in which they are participating with U.S. forces; and

—expand the authorities of the Departments of State and Defense to train and equip foreign security forces best suited to internal counterterrorism and counter-insurgency operations.

The 2006 Quadrennial Defense Review Report also outlined initiatives to address challenges such as Radio Frequency Identification technologies, which will play a key role in achieving the Department's vision for implementing knowledge-enabled logistics support to the warfighter through automated asset visibility and management.[3]

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[1] GAO Report No. 08–557R.

[2] For fiscal year 2007, the Department has chosen to produce an alternative to the consolidated Performance and Accountability Report called the Agency Financial Report.

[3] Quadrennial Defense Review, February 6, 2006.

High-Risk Areas

Since 1990, the GAO has periodically reported on Government programs and operations that it identifies as "high risk." These efforts bring focus to a targeted list of major challenges that impede effective Government and cost the Government billions of dollars each year. Since 1990, GAO has identified DOD Contract Management, Logistics, and Financial Management as high-risk areas. Historically, high-risk areas have been so designated because of traditional vulnerabilities related to their greater susceptibility to fraud, waste, abuse, and mismanagement. As the high-risk program has evolved, the high-risk designation draws attention to areas associated with broad-based transformations needed to achieve greater economy, efficiency, effectiveness, accountability, and sustainability of selected key Government programs and operations. The DOD has eight of its own high-risk areas and shares responsibility for six Government-wide high-risk areas.[4]

Oversight

The Defense oversight community and GAO issued 314 reports and testimonies between October 1, 2002, and September 30, 2007, that support OEF and OIF. Of the 314 reports and testimonies, 12 reports are classified and not included in this report.

We reviewed the 302 reports and testimonies (246 reports and 56 testimonies) and categorized them into three main functional areas (Contract Management, Logistics, and Financial Management)[5] based on our review of the pertinent areas covered in the reports and the subsequent recommendations. We identified 983 recommendations that addressed one or more functional areas to improve operations that support OEF and OIF. Table 1 shows the number of reports and recommendations within the three main functional areas.

TABLE 1.—OEF AND OIF RELATED REPORTS AND TESTIMONIES(FISCAL YEAR 2003-FISCAL YEAR 2007)

Functional Area	Number of Reports and Testimonies [1]	Recommendations
Contract Management	103	302
Logistics	119	332
Financial Management	133	264
Other	73	119

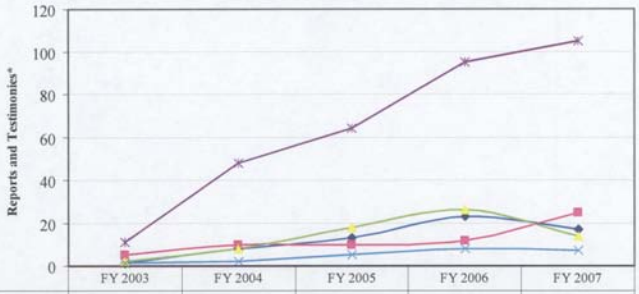
[1] The total will exceed 302 because reports and testimonies may cover multiple function areas.

Since fiscal year 2003, the Defense oversight community and GAO have steadily increased their oversight of OEF and OIF operations (see Table 2). The oversight community has provided a balanced review of Contract Management, Logistics, and Financial Management areas supporting OEF and OIF.

[4] GAO Report No. 07–310, "High-risk Series: An Update," January 2007.

[5] Reports and testimonies that were identified as outside Contract Management, Logistics, and Financial Management functional areas were categorized as "Other."

Table 2. Oversight of OEF and OIF Operations FY 2003 through FY 2007



	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Contract Management	1	8	13	23	17
Logistics	5	10	10	12	25
Financial Management	2	8	18	26	14
Other	1	2	5	8	7
Reports and Testimonies with No Recommendations	2	20	18	26	42
Total	11	48	64	95	105

*-A single report in this graph can have multiple recommendations in multiple categories.

Source: DoD OIG analysis

Recommendations

As of September 30, 2007, sufficient actions have been taken on 699 of the 983 recommendations (71 percent) and these recommendations are considered completed. We did not report on any recommendations that were closed after September 30, 2007, but will do so in a future report. Of the 284 recommendations open as of September 30, 2007, 55 recommendations were to agencies and activities outside of DOD. Table 4 shows the overall status of recommendations as of September 30, 2007.

Initiatives

In addition to the actions on OEF and OIF related recommendations, DOD has taken other actions, whether required by public law or self-initiated, to address challenges in Operations Enduring and Iraqi Freedom. For the purpose of this report, we focus on discussing initiatives that DOD has reported to us that we believe should directly help overcome DOD challenges in Contract Management, Logistics, and Financial Management.

CHAPTER 1. SYSTEMIC CHALLENGES DURING WARTIME CONTINGENCY OPERATIONS FOR CONTRACT MANAGEMENT, LOGISTICS, AND FINANCIAL MANAGEMENT

Over the course of conducting Operations Enduring and Iraqi Freedom, DOD experienced significant and recurring systemic challenges in the following functional areas:

—Contract Management: Contract Oversight and Resource Limitations;
—Logistics: Asset Accountability, Visibility, and Equipping the Force; and
—Financial Management: Accuracy of Cost Reporting and Accountability.

Further, systemic challenges were common in more than one of the functional areas. Specifically, shortfalls in training and in policy and procedures were systemic challenges reported in more than one functional area. The Defense oversight community and GAO have identified hundreds of millions of dollars in assets that DOD was unable to demonstrate adequate accountability for as well as more than a billion dollars in inaccurate cost reporting.

CONTRACT MANAGEMENT

DOD has experienced challenges since fiscal year 2003 in providing an adequate number of personnel to perform contractor oversight and in providing adequate training to the personnel that were performing oversight of contractors supporting Operations Enduring and Iraqi Freedom. The DOD OIG, AAA, AFAA, SIGIR, and

GAO all reported on the challenges DOD has experienced with the lack of adequate oversight over contractors in both OEF and OIF. As reported by the DOD oversight community and GAO, DOD has taken action since fiscal year 2003 to improve its guidance on the use of contractors to support deployed forces. However, the DOD oversight community and GAO continue to report that long-standing problems continue to hinder DOD oversight of contractors at deployed locations.

Contract Oversight Personnel

DOD has experienced challenges in providing an adequate number of personnel to perform contractor oversight for OEF and OIF. As reported by GAO, a lack of adequate contract oversight personnel was a DOD-wide problem; the problem was more severe for more demanding contracting environments such as Iraq and Afghanistan, and it presented unique difficulties. Without an adequate number of personnel to perform oversight of the contractors, DOD increases its risks that contractors are not meeting contract requirements.[6]

For example, the DOD OIG identified the lack of adequate contractor surveillance in fiscal year 2003 for 13 of 24 contracts, valued at $122 million. These contracts were awarded by the Defense Contracting Command—Washington to support the Office of Reconstruction and Humanitarian Assistance.[7] In fiscal year 2004, the GAO also identified that the lack of adequate staffing presented challenges to several agencies and resulted in inadequate contractor oversight. GAO stated that although agencies took action, some of these early contract administration issues were not fully resolved.[8] In fiscal year 2007, AFAA identified that U.S. Air Forces Central personnel at three of four locations in Southwest Asia did not adequately monitor contract performance for seven (out of ten) contracts valued at $27.4 million.[9] SIGIR discussed, in fiscal year 2007, the difficulty in recruiting qualified Contracting Officer's Technical Representatives for appointment in support of Logistics Civil Augmentation Program (LOGCAP) Task Order 130. During the SIGIR audit, the Defense Contract Management Agency (DCMA) did appoint 18 Contracting Officer's Technical Representatives to oversee the task order.[10] GAO also stated in fiscal year 2007 that although DOD took action to improve its guidance on the use of contractors to support deployed forces since fiscal year 2003, a number of long-standing problems continued to hinder DOD management and oversight of contractors at deployed locations. Although DOD issued the first DOD-wide instruction [11] on the use of contractors to support deployed forces, which addressed some of the problems that were previously raised, there were concerns that DOD Components were not implementing this instruction. Ultimately, while DOD new guidance was a good first step towards improving the Department's management and oversight of contractors, the Department continued to face problems, including:

—limited visibility over contractors and contractor activity,
—lack of adequate contract oversight personnel,
—limited collection and sharing of institutional knowledge, and
—limited or no information on contractor support in predeployment training.[12]

As stated by the DOD OIG, appropriate Government surveillance of contractor performance is required to give reasonable assurance that efficient methods and effective cost controls are being used.[13]

Contract Training

DOD experienced challenges to provide adequate training necessary for contract oversight personnel to perform their respective oversight functions. The DOD OIG reported that without adequate contract training for personnel assigned oversight duties, DOD cannot be assured that it paid fair and reasonable prices for goods and services purchased. For example, the DOD OIG identified the lack of adequate training of personnel in fiscal year 2003 at the Defense Contract Command—Washington. Specifically, Defense Contract Command—Washington personnel, who did not have contract backgrounds or contract-related training, inappropriately approved 13 out of 24 contracts without validating the cost data. The DOD OIG determined that Defense Contract Command—Washington personnel approved and signed $7 million invoiced by a contractor without verifying whether the Govern-

[6] GAO Report No. 07–145.
[7] DOD OIG Report No. D–2004–057.
[8] GAO Report No. 04–605.
[9] AFAA Report No. F–2007–0005–FD3000.
[10] SIGIR Report No. 07–001.
[11] DOD Instruction 3020.41, "Contractor Personnel Authorized to Accompany the U.S. Armed Forces," October 2005.
[12] GAO Report No. 07–145.
[13] DOD OIG Report No. D–2004–057.

ment received the material.[14] In another example, in fiscal year 2006, AAA identified that although the LOGCAP Support Unit had taken sufficient actions to improve training and its effectiveness, the training process did not provide enough practical exercises on determining and validating requirements and on preparing Statements of Work and Independent Government Cost Estimates.[15] In fiscal year 2007, AFAA identified that quality assurance personnel were not provided necessary training before they assumed quality assurance responsibilities.[16]

LOGISTICS

Before OEF and OIF, DOD experienced challenges in logistics business processes capabilities and responsibilities. Specifically, DOD logistics policies and procedures were inadequate to fully support the OEF and OIF contingency operations. A lack of clear and focused policies and procedures led to inconsistencies and inefficiencies including challenges in accountability and visibility over DOD assets and equipment destined for the sovereign governments of Afghanistan and Iraq.

The Defense oversight community and GAO have all reported on the challenges DOD has experienced with the logistics operations supporting OEF and OIF. The Defense oversight community and GAO have identified more than a billion dollars in assets that DOD was unable to demonstrate adequate accountability or visibility over. Since the 1990s, DOD supply chain management has been identified as a high-risk area because of high inventory levels and a supply system that was not responsive to the needs of the warfighter.

Logistics Accountability and Visibility

DOD could not demonstrate adequate accountability for more than $1.3 billion in deployed assets and could not demonstrate visibility over $318 million in assets as reported by the Defense oversight community. Accounting for location and disposition of assets, including munitions-related assets, was a challenge during OEF and OIF. Logistics accountability includes recommendations made to improve establishing or maintaining records to identify, acquire, account for, control, store, or properly dispose of assets.

ASSET ACCOUNTABILITY

DOD experienced challenges in demonstrating accountability over DOD, Government-Furnished, and Iraq and Afghanistan assets. The DOD oversight community and GAO identified about $1.3 billion in assets that DOD did not demonstrate adequate accountability over.

DOD Assets.—In fiscal year 2004, AFAA identified that an air expeditionary wing's accountability records did not include all weapons on hand, did not reflect accurate serial numbers for weapons on hand, but included weapons that were not on hand.[17] In fiscal year 2004, GAO identified a $1.2 billion discrepancy in supplies sent to theater versus what DOD theater personnel reported.[18] In fiscal year 2005, AFAA discussed another air expeditionary wing that could not locate 14 equipment assets valued at $8.7 million and did not record more than 400 on-hand equipment assets on accountable records.[19] In fiscal year 2006, AAA found that property records maintained by division units did not always accurately account for left-behind equipment and equipment returning from OEF and OIF. AAA also found that the property book records for 99 out of 879 vehicles contained discrepancies.[20] Again in fiscal year 2007, AFAA identified that the Air Force did not adequately account for deployed assets and that estimated activities Air Force-wide lost accountability of 5,800 deployed assets valued at $108 million.[21] In fiscal year 2007, AAA found that 8 percent of sampled returning equipment was not verified as accounted for on unit property records because some Army Reserve unit and installation personnel did not follow established procedures and best practices to process equipment transactions during the mobilization, deployment, demobilization, and redeployment process.[22] The lack of asset accountability impeded DOD visibility over deployed assets.

Government-Furnished Property and Equipment.—Contractors in theater did not always properly account for Government-Furnished property and equipment. In fis-

[14] DOD OIG Report No. D–2004–057.
[15] AAA Report No. A–2006–0018–ALL.
[16] AFAA Report No. F–2007–0005–FD3000.
[17] AFAA Report No. F–2004–0060–FDE000.
[18] GAO Report No. 04–305R.
[19] AFAA Report No. F–2005–0058–FDE000.
[20] AAA Report No. A–2006–0188–ALL.
[21] AFAA Report No. F–2007–0004–FC4000.
[22] AAA Report No. A–2007–0061.

cal year 2006, AAA identified a systemic problem with the accountability and visibility of Government-Furnished equipment that the Army transferred to the LOGCAP contractor. Specifically, the contractor's property administrator stated he did not notify the Army when they removed an asset from their property book.[23]

Government of Iraq and Afghanistan Assets.—DOD had a challenge accounting for U.S.-provided equipment. Specifically, GAO reported that DOD and Multi-National Force—Iraq may not be able to account for Iraqi Security Forces receipt of about 90,000 rifles and about 80,000 pistols that were reported as issued but were not recorded during the earlier phases of training and equipping Iraqi Forces (2004 through 2006).[24] GAO later reported that although DOD took action in December 2005 to establish a centralized record of all equipment distributed to Iraqi forces, DOD could not account for 190,000 weapons, 135,000 items of body armor, and 115,000 helmets reported as issued to Iraqi forces as of September 2005.[25] In fiscal year 2006, SIGIR identified that DOD did not have adequate accountability procedures in place over small arms procured for Iraq Security Forces. Specifically, SIGIR identified material weaknesses because not all weapons procured for the Iraq Security Forces were properly accounted for. This may indicate physical security concerns over weapons and the lack of accountability procedures to track and maintain visibility of small arms, to include those transferred.[26] In fiscal year 2007, GAO indicated that the overwhelming size and number of conventional munitions storage sites in Iraq, combined with certain prewar planning assumptions that proved to be invalid, resulted in U.S. Forces inadequately securing those sites and in widespread looting, according to field unit, lessons learned, and intelligence reports. Not securing these conventional munitions storage sites was costly because, as Government reports indicated, looted munitions were used to make Improvised Explosive Devices that killed or maimed many people and would likely continue to support terrorist attacks in the region. As of October 2006, according to Multi-National Corps—Iraq, some remote sites were not revisited to verify whether they posed any residual risk or whether they were physically secured. DOD did not appear to have conducted (in fiscal year 2007) a theater-wide survey and assessment of the risk that unsecured conventional munitions represent to U.S. forces and others.[27] Internal sources other than our universe of completed reports and testimonies show that in July 2007 the DOD OIG initiated and led an effort to assess the status of the lack of accountability over munitions in Iraq and Afghanistan.

As stated above in the accountability reports, the lack of accountability over assets affects DOD visibility over these assets, which can impact DOD ability to transfer equipment to units preparing to deploy.

ASSET VISIBILITY

DOD had challenges in demonstrating asset visibility, including visibility of about $318 million in assets. Without asset accountability, asset visibility was compromised because records identifying the location of equipment were not adjusted to reflect the redisposition of the assets. Although major combat operations were successful during the initial phases of OIF, there were substantial logistics support problems. Asset visibility is achieved by using timely and accurate information systems that track the distribution of assets. Visibility begins at the point from which materiel is shipped to the theater of operations and continues until it reaches the user. Critical to visibility is the capability to update source data dynamically with the near real-time status of shipments from other combat service support systems until the shipments arrive at their ultimate destinations. Units operating in the theater could not track equipment and supplies adequately. The inaccurate records caused DOD personnel to spend unnecessary time and energy locating equipment needed for units preparing to deploy. According to AAA and AFAA reports, higher-tiered asset systems did not contain asset visibility data used by Army and Air Force decision makers.

For example, in fiscal year 2006 and fiscal year 2007, AAA found that U.S. Army Forces Command used data recorded in asset visibility tools, such as Command Asset Visibility and Equipment Redistribution System, to identify and transfer equipment to units preparing to deploy. This process was compromised because of the erroneous supporting records.[28] In fiscal year 2007, AFAA reported that Air

[23] AAA Report No. A–2006–0083–ALL.
[24] GAO Report No. 07–308SP.
[25] GAO Report No. 07–711.
[26] SIGIR Report No. 06–033.
[27] GAO Report No. 07–444.
[28] AAA Report No. A–2006–0188–ALL; AAA Report No. A–2007–0061.

Force leaders did not have total asset visibility and were not always able to determine whether the right assets were at the right locations to meet mission requirements. AFAA estimated that activities Air Force-wide incorrectly coded deployed locations for 15,373 assets, valued at $213.2 million, and incorrectly reported the deployment status of 2,689 assets, valued at $104.7 million.[29]

The reports show that besides challenges in maintaining adequate visibility over assets on-hand, DOD experienced some challenges in providing its forces with the equipment necessary to conduct its missions.

Equipping the Force

DOD faced challenges in properly equipping its forces supporting OEF and OIF. Specifically, U.S. military forces experienced shortages in supplying necessary amounts of equipment such as small arms, armor for vehicles, and body armor. The DOD OIG and GAO highlighted various challenges for equipping military forces.

For example, in fiscal year 2007, the DOD OIG identified that the Army equipped its deployed forces in support of OIF with the small arms necessary to meet Combatant Commanders requirements. However, before deployment, some units were not fully equipped with the types of small arms required to do their assigned mission and had to obtain those small arms from other sources, such as nondeployed units. Nondeployed units faced a potential shortage of small arms and may not have had the ability to adequately train and maintain equipment and personnel readiness at an acceptable level.[30]

In fiscal year 2007, the DOD OIG surveyed about 1,100 Service members who supported OEF and OIF. The DOD OIG found that Service members experienced shortages of force-protection equipment, such as up-armored vehicles, electronic countermeasure devices, crew-served weapons, and communications equipment. As a result, Service members were not always able to effectively complete their missions; they had to perform missions without the proper equipment, use informal procedures to obtain equipment and sustainment support, and cancel or postpone missions while waiting to receive equipment.[31]

DOD also experienced challenges in equipping its forces with armored trucks and body armor. Acquisition-related issues caused shortages in meeting DOD armored trucks and body armor requirements. Specifically, DOD did not adequately leverage acquisition opportunities between Army and Marine Corps truck armor procurements. In addition, the increased requirement for new body armor exceeded the manufacturing increased-production capabilities.

Armored and Tactical Vehicles.—GAO identified that U.S. military forces in Iraq experienced shortages of truck armor. GAO also found that although truck armor requirements were determined in November 2003, the Army did not produce all the armor kits until February 2005 and did not install the kits to meet the initial requirements until May 2005.[32] In fiscal year 2007, the DOD OIG reported that the Marine Corps Systems Command continued to award contracts for armored vehicles to contractors who repeatedly failed to meet contractual delivery schedules for getting vehicles to the theater. In addition, the DOD OIG found that TACOM Life Cycle Management Command[33] awarded a contract for crew protection kits to another contractor that did not meet the Federal Acquisition Regulation definition of a responsible prospective contractor. Specifically, the contractor did not have the necessary production control procedures, property control systems, and quality assurance measures in place to meet contract requirements for crew protection kits. As a result, the TACOM Life Cycle Management Command received crew protection kits with missing and unusable components. This increased the kit installation time and required additional kit inspections.[34]

Body Armor.—DOD did not have an adequate supply of the new body armor in support of its expanded body armor requirements for Operation Iraqi Freedom. In fiscal year 2005, GAO reported that new Interceptor body armor was not available in sufficient quantities to U.S. Military forces in Iraq sometime between October 2002 and September 2004. But, according to U.S. Central Command (CENTCOM) officials, all personnel in Iraq had the new armor by January 2004. GAO also reported that because of the shortages, CENTCOM officials stated they had prioritized the issue of the new body armor to those who were most vulnerable. Body armor was also not available for all support personnel, such as the Army's 377th Theater

[29] AFAA Report No. F2007–0004–FC4000.
[30] DOD OIG Report No. D–2007–010.
[31] DOD OIG Report No. D–2007–049.
[32] GAO Report No. 07–308SP.
[33] Referred to in previous DOD Inspector General reports as the Tank-Automotive and Armaments Command.
[34] DOD OIG Report No. D–2007–107.

Support Command, while insurgents were attacking and interdicting supply routes in Iraq. GAO further stated that because of the shortages, many individuals bought body armor with personal funds. The Congressional Budget Office estimated that as many as 10,000 personnel purchased vests and as many as 20,000 purchased plates with personal funds; it estimated the total cost to reimburse them would have been $16 million in 2005.[35]

FINANCIAL MANAGEMENT

DOD experienced numerous challenges in its processes for recording and reporting its war-related costs. The challenges included long-standing deficiencies in DOD financial management systems and business processes, the use of estimates instead of actual cost data, and the lack of adequate supporting documentation. DOD took some steps to address these challenges, but problems remain. Without transparent and accurate cost reporting, Congress and DOD will not have reliable information on how much the war costs, sufficient details on how appropriated funds are spent, and the historical data needed to consider future funding needs. Reporting the cost of war, internal controls over cash, and DOD budget and obligation requirements are notable accountability challenges in Financial Management.

Accuracy of Cost Reporting

DOD experienced challenges in providing accurate and reliable cost reporting for OEF and OIF operations. The inadequate processes for recording and reporting GWOT costs raised concerns that these data may not accurately reflect the true nature of the cost. Specifically, neither DOD nor Congress can reliably know how much the war is costing or know the details on how appropriated funds are being spent, or have historical data useful in considering future funding needs. The Chief Financial Officers Act of 1990 requires agencies to ". . . develop and maintain an integrated agency accounting and financial system, including financial reporting and internal controls, which . . . provides for the development and reporting of cost information."[36] DOD Financial Management Regulation, volume 12, chapter 23, paragraph 230104, as of September 2007, requires that controls, accounting systems, and procedures provide in financial records the proper identification and recording of costs incurred in supporting contingency operations.

For example, in fiscal year 2005, GAO found numerous problems in DOD processes for recording and reporting costs for GWOT, raising significant concerns about the overall reliability of DOD reported cost data. Factors affecting the reliability of DOD reported costs included long-standing deficiencies in DOD financial systems, the lack of a systematic process to ensure that data were correctly entered into those systems, inaccurately reported costs, and difficulties in properly categorizing costs. In at least one case, reported costs may have been materially overstated. Specifically, GAO reported that DOD then-reported obligations for mobilized Army reservists in fiscal year 2004 were based primarily on estimates rather than actual information and differed from related payroll information by as much as $2.1 billion. In addition, GAO found inadvertent double counting in the Navy and Marine Corps' portion of DOD reported costs amounting to almost $1.8 billion from November 2004 through April 2005. GAO also found some incremental base operations costs that appeared, at best, incidental to the support of GWOT. In summary, although GAO identified significant data reliability problems, GAO did not determine the extent that total costs were misstated because it was not feasible to examine all reported costs.[37]

In addition to the double counting GAO found, in fiscal year 2005, the Naval Audit Service reported that 17 of the 44 Marine Corps System Command contracts (valued at $93.3 million) from fiscal year 2003 and fiscal year 2004 did not contain the proper Special Interest Codes. The Special Interest Codes indicated that the contracts supported OIF, would be reported as OIF-related expenses, and the Service would receive reimbursement for the OIF-related expenses.[38]

In fiscal year 2006, SIGIR found that the U.S. Army Corps of Engineers over reported its obligations by $362 million for Project and Contracting Office obligations recorded in U.S. Army Corps of Engineers financial records. The $362 million in obligations were recorded under the vendor name "Dummy Vendor," which does not constitute proper obligations. This also is not consistent with a 1995 decision by the Comptroller General of the United States on appropriations availability, the GAO Appropriations Law Manual, and the DOD Financial Management Regulation re-

[35] GAO Report No. 05–275.
[36] Chief Financial Officers Act of 1990, Section 902.
[37] GAO Report No. 05–8 82.
[38] Naval Audit Service Report No. N2005–0018.

quirements for the recording and reviewing of commitments and obligations. These funds would expire if proper obligations actions were not taken by September 30, 2006.[39]

Financial Accountability

DOD had challenges in demonstrating financial accountability in OEF and OIF. The GAO, DOD OIG, and SIGIR have reported on accountability challenges.

In fiscal year 2004, GAO reported its concerns over transparency and accountability over DOD GWOT cost reporting. It also reported that DOD cost reporting included large amounts of funds that were reported as obligated in miscellaneous categories and thus provided little insight on how those funds were spent. GAO highlighted that an earlier fiscal year 2004 report[40] identified that 35 percent of obligations DOD reported in the fiscal year 2003 Operation and Maintenance account were in "other supplies and equipment" and "other services and miscellaneous contracts."[41]

In fiscal year 2005, GAO reported that DOD modified its guidance to define more clearly some of the cost categories and DOD took additional steps to strengthen the oversight and program management of cost reporting. GAO reported individual commands took steps to control costs and DOD policy advised its officials of their financial management responsibilities to ensure the prudent use of contingency funding. However, GAO also had concerns that DOD did not systematically call for all commands involved in GWOT to take steps to control costs, set general parameters to guide cost-control efforts, and keep the Under Secretary of Defense (Comptroller) informed of those steps and their success. DOD agreed to most recommendations; however, it did not agree to establish DOD-wide guidance on cost controls.[42]

In fiscal year 2007, GAO reported that DOD and the Military Services took specific steps intended to improve the accuracy and reliability of their reported GWOT obligation data; however, some problems remained with transparency over certain costs and inaccuracies in reported obligations. In August 2005, the DOD Comptroller issued guidance to help DOD Components more accurately and consistently report obligations for contingencies such as GWOT. It directed DOD Components to perform a monthly variance analysis to review and validate that their reported obligations were accurate and provided a fair representation of ongoing activities. The DOD Comptroller also issued guidance that directed submitting DOD Components to attest to the accuracy of their monthly obligation data in DOD Supplemental and Cost of War Execution Report and affirm that the report provided a fair representation of ongoing activities. However, because these efforts were in the early stages of implementation, GAO did not fully evaluate the impact.[43]

Again, in fiscal year 2007, GAO reported on its concerns about the lack of detail in accounting for obligations and expenditures in the DOD procurement account. GAO stated the detailed accounting would provide Congress with the visibility it needs to identify the types of equipment procured with the reset funds it appropriates, such as aircraft, vehicles, or communication and electronic equipment.[44]

Commanders' Emergency Response Program.—DOD experienced challenges in CERP, such as maintaining program accountability over its CERP funding. AAA, SIGIR, GAO, and DOD OIG identified accountability-related challenges with the CERP program in Iraq and Afghanistan. The CERP supports OEF and OIF by providing ground commanders a source of funds to respond to urgent humanitarian relief and reconstruction requirements in their areas of responsibility by carrying out programs that immediately assist the local population. Table 3 shows the funds appropriated or requested (fiscal year 2008) for CERP, in billions of dollars.

[39] SIGIR Report No. 06–037.
[40] GAO Report No. 04–668.
[41] GAO Report No. 04–915.
[42] GAO Report No. GAO–05–882.
[43] GAO Report No. GAO–07–076.
[44] GAO Report No. GAO–07–814.

TABLE 3.—FUNDING FOR COMMANDERS' EMERGENCY RESPONSE PROGRAM

	Fiscal year—				GWOT total
	2005	2006	2007	2008	
Iraq	.7	.7	.7	.8	2.9
Afghanistan	.1	.2	.2	.2	[1] .8
Total	.8	.9	1.0	1.0	3.7

[1] The apparent discrepancy for Afghanistan is due to rounding.

Source: CERP data as reported by the Deputy Secretary of Defense during testimony before the House Budget Committee on July 31, 2007.

For fiscal year 2006 and fiscal year 2007, including DOD fiscal year 2007 CERP supplemental increase of $.5 billion, the CERP programs for OEF and OIF combined was about $1.9 billion.[45] In fiscal year 2005, AAA reported challenges with Multi-National Security Transition Command—Iraq documentation in the CERP files. It identified shortfalls in documenting and maintaining results of coordination with others, cost estimates from subordinates, Statements of Work, and requirement requests.[46] A followup report that AAA issued later in fiscal year 2005 showed that Multi-National Security Transition Command—Iraq had implemented previous recommendations, but still had opportunities to improve oversight of its CERP program.[47] Also during fiscal year 2005, SIGIR issued similar findings; it concluded that while CERP-appropriated funds were properly used for the intended purposes, controls over the distribution of appropriated funds were not consistently followed and required documents were not consistently used to maintain accountability of projects.[48]

By April 2007, SIGIR found that while Multi-National Corps—Iraq had improved its controls over fund accountability for CERP in Iraq, project documentation was still a weakness.[49] Also in fiscal year 2007, GAO reported that DOD needed to provide greater transparency on the use of CERP funds for condolence payments by clarifying the definitions as to what should be reported in the two CERP categories: (1) condolence payments and (2) battle damage payments. GAO further stated DOD needed to include document reference numbers for payments to allow DOD to determine whether expenditures of CERP funds were appropriately categorized and to permit DOD to obtain detailed information for analysis and reporting, as appropriate.[50] Further, in fiscal year 2007, the DOD OIG reported that for CERP in Afghanistan, 15 of the 16 pay agents reviewed did not have appropriate physical security for storing cash; the other pay agent did not hold cash because she was collocated with a finance office. Of the 16 pay agents, 2 inappropriately disbursed cash.

SYSTEMIC CHALLENGES ACROSS FUNCTIONAL AREAS

Aside from the challenges in each functional area previously discussed, in summarizing this report we identified common challenges across the functional areas. Specifically, from our review of the Defense oversight community and GAO reports and testimonies, training and policy and procedures challenges were identified in more than one of these functional areas: Contract Management, Logistics, and Financial Management.

Training

The Defense oversight community and GAO issued 39 reports and testimonies that discuss various training challenges DOD faced in conducting OEF and OIF operations. In the three functional areas, we identified: 15 reports and testimonies that discuss Contract Management training challenges; 15 reports and testimonies that discuss Logistics training challenges; and 9 reports and testimonies that discuss Financial Management training challenges.

Policies and Procedures

The Defense oversight community and GAO issued 121 reports that discuss various policy and procedure challenges DOD faced in conducting OEF and OIF operations. In the three functional areas, we identified: 29 reports that discuss Contract

[45] Fiscal Year 2007 Emergency Supplemental Request for the Global War on Terror, DOD, February 2007.
[46] AAA Report No. A–2005–0173–ALE.
[47] AAA Report No. A–2005–0332–ALE.
[48] SIGIR Report No. 05–0 14.
[49] SIGIR Report No. 07–006.
[50] GAO Report No. GAO–07–699.

Management policy and procedure challenges; 53 reports that discuss Logistics policy and procedure challenges; and 39 reports that discuss Financial Management policy and procedure challenges.

CHAPTER 2. RESPONSIVE ACTIONS TAKEN BY MANAGEMENT TO ADDRESS RECOMMENDATIONS

As of September 30, 2007, sufficient actions had been taken on 699 of the 983 recommendations (71 percent); these recommendations are considered completed. We did not report on any recommendations that were closed after September 30, 2007, but will do so in a future report. Of the 284 recommendations open as of September 30, 2007, 55 recommendations were to agencies and activities outside of DOD. Table 4 shows the overall status of recommendations as of September 30, 2007.

TABLE 4.—OVERALL STATUS OF RECOMMENDATIONS

	Recommendations	Closed	Percent Closed	Open	Percent Open
Fiscal year:					
2003	28	27	96.4	1	3.6
2004	105	96	91.4	9	8.6
2005	257	211	82.1	46	17.9
2006	282	220	78.0	62	22.0
2007	311	145	46.6	166	53.4
Total	983	699	71.1	284	28.9

STANDARDS FOR FOLLOWUP ON RECOMMENDATIONS

Office of Management and Budget Circular A–50 "Audit Followup," September 29, 1982, states that audit followup is an integral part of good management and is a shared responsibility of agency management officials and auditors. Each agency must establish systems to ensure the prompt and proper resolution and implementation of audit recommendations. These systems must provide for a complete record of action taken on both monetary and nonmonetary findings and recommendations.[51]

Generally accepted government auditing standards prescribe followup requirements for audit findings and recommendations. Accordingly, for performance audits, generally accepted government auditing standards state that auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current work, including determining the extent to which testing the implementation of the corrective actions applies to the current engagement objectives.[52]

DOD Directive 7650.3, "Follow-up on General Accounting Office (GAO), DOD Inspector General (DOD IG), and Internal Audit Reports," October 18, 2006, provides guidance for GAO, DOD OIG, and other DOD internal audit organizations. Followup is an integral part of good management and is a responsibility shared by DOD managers and auditors. Each agency implements its own followup program in accordance with the prescribed standards. Further, as described by SIGIR officials, in general, SIGIR attempts to follow up on open recommendations semiannually to provide current data in the required semiannual reports to Congress. According to the SIGIR Deputy Assistant Inspector General for Audit, as of April 2008, SIGIR was developing an automated followup tracking system.

CHAPTER 3. INITIATIVES TAKEN BY DOD TO ADDRESS CONTRACT MANAGEMENT, LOGISTICS, AND FINANCIAL MANAGEMENT CHALLENGES

Besides taking action on OEF and OIF related recommendations, DOD took other actions, whether required by public law or self-initiated, to address challenges in Operations Enduring and Iraqi Freedom. For the purpose of this report, we focus on discussing initiatives that DOD reported to us that we believe should directly

[51] Office of Management and Budget Circular A–50, September 29, 1982.

[52] GAO–07–731G Government Auditing Standards, July 2007, Chapter 7 "Field Work Standards for Performance Audits," Section 7.36 "Previous Audits and Attestation Engagements."

help overcome challenges in DOD Contract Management, Logistics, and Financial Management in OEF and OIF.[53]

CONTRACT MANAGEMENT INITIATIVES

DOD initiated many actions to address contract-related challenges in OEF and OIF. These initiatives included establishing and revising guidance, fielding a new contractor accountability system, adding new contingency contracting training at DOD academic institutions, and looking at contracting challenges through commissions and task forces.

Guidance on Oversight of Contractors.—DOD has issued additional guidance to address contracting-related challenges in OEF and OIF, which includes jurisdiction over contractors in contingency areas of operations, tracking contractors performing work outside the United States, as well as managing and integrating contractor support in joint and contingency areas of operations.

—On October 17, 2006, the Uniform Code of Military Justice (UCMJ) was amended to extend UCMJ jurisdiction over persons serving with or accompanying U.S. Armed Forces in the field in times of declared war or contingency operations. The Secretary of Defense's March 10, 2008, memorandum, UCMJ Jurisdiction Over DOD Civilian Employees, DOD Contractor Personnel, and Other Persons Serving With or Accompanying the Armed Forces Overseas During Declared War and in Contingency Operations, provides additional guidance to commanders on exercising their UCMJ authority over civilians and contractors during contingency operations, including those supporting the GWOT.

—In November 2006, DOD issued implementation for Procedures, Guidance and Information No. 225–74, "Solicitation and Award of Contracts for Performance in a Foreign Country or Delivery to any Unified Combatant Command Theater of Operation." It requires Combatant Command Contracting offices to establish and maintain a Web page listing all prevailing regulations, policies, requirements, host nation laws, Orders/Fragmentary Orders, Combatant Commander's directives, unique clauses, and other considerations necessary for soliciting and awarding contracts for performance in or delivery to that Combatant Command area of responsibility.

—In January 2007, the Deputy Under Secretary of Defense (Logistics and Materiel Readiness) and the Deputy Under Secretary of Defense (Program Integration) issued guidance instructing the use of the Synchronized Predeployment and Operational Tracker (SPOT) as the central repository for information on contractors deploying with U.S. Forces. On March 19, 2007, the Director, Defense Procurement and Acquisition Policy issued implementing guidance and instructed the use of SPOT. On January 28, 2008, the Director, Defense Procurement and Acquisition Policy issued guidance that requires that DOD contractor personnel data be entered into SPOT for the CENTCOM area of responsibility by August 1, 2008.

—In October 2007, the acting Under Secretary of Defense for Acquisition, Technology, and Logistics issued a memorandum with procedures for contracting, contract concurrence, and contract oversight for Iraq and Afghanistan. This memo and subsequent policy, procedures, and guidance, issued by the Director, Defense Procurement and Acquisition Policy, instructs contracting officers to have the Joint Contracting Command—Iraq and Afghanistan review and clear Statements of Work and terms and conditions of all contracts requiring performance in Iraq or Afghanistan before awarding a contract. Also, upon award of any contract, the procuring contracting officer must assign to the Joint Contracting Command—Iraq and Afghanistan Federal Acquisition Regulation (FAR) Part 42 and Defense Federal Acquisition Regulation Supplement (DFARS) Part 242 contract administration of the contract portions that relates to performance in Iraq or Afghanistan.

—In March 2008, DOD issued DFARS 225.3, "Contracts Performed Outside the United States." It requires contracting officers, when using the clause Federal Acquisition Regulation 52.225–19, "Contractor Personnel in a Designated Operational Area or Supporting a Diplomatic or Consular Mission Outside the United States," to inform the contractor that SPOT is the appropriate automated system to use for the list of contractor personnel required by paragraph (g) of the clause.

—DOD drafted Joint Publication 4–10, "Operational Contract Support in Joint Operations," which contains detailed content on contracting and contractor management in joint operations. The draft joint publication defines key per-

[53] We are not attesting to the adequacy or effectiveness of the DOD initiatives reported.

sonnel involved in the contracting process and includes a Contracting Support Plan Checklist and a Contractor Integration Plan Checklist. The Contracting Support Plan Checklist covers the key requirements associated with orchestrating and managing contracting efforts in a joint operations area, including a requirement to ensure that there are adequately trained Contracting Officer Representatives and Contracting Officer Technical Representatives to assist in managing contract performance. The Contractor Integration Plan checklist covers the key requirements associated with managing contractor personnel in a joint operations area and providing Government-Furnished support, when such support is required. DOD expects to issue the joint publication July 2008.[54]

—DOD is updating DOD Instruction 3020.41, "Integrating Operational Contract Support into Contingency Operations" (formerly entitled "Contractor Personnel Authorized to Accompany the U.S. Armed Forces"). The update provides an authoritative and comprehensive roadmap of policy and procedures applicable to contractor personnel authorized to accompany the U.S. Armed Forces. The revised version contains significant changes to the existing instruction including incorporating lessons learned from current operations, requirements for developing contractor oversight plans, and requirements for adequate military personnel needed to execute contract oversight.[55]

SPOT.—DOD developed SPOT, an automated system, to track contractors. SPOT, hosted in the Army network domain (https://spot.altess.army.mil/default.aspx) and operated by a contractor, has been designated as the Joint Enterprise contractor management and accountability system to provide a central source of contingency contractor information in accordance with DOD Instruction 3020.41, "Contractor Personnel Authorized to Accompany the U.S. Armed Forces," October 3, 2005. Contractor companies are required to maintain by name (of each employee) accountability in SPOT while Government representatives use SPOT for oversight of the contractors they deploy.

Contingency Contracting: A Joint Handbook.—Beginning the first quarter of fiscal year 2008, DOD distributed Contingency Contracting: A Joint Handbook (the Contingency Contracting Joint Handbook) to the contingency contracting workforce.[56] The Contingency Contracting Joint Handbook, authorized by the Director, Defense Procurement and Acquisition Policy and Strategic Sourcing, provides a consolidated source of information for contingency contracting officers conducting contingency contracting operations in a Joint environment. The hardcopy book and accompanying DVD are intended to be used for training at home stations, for reference during deployment, and for training while deployed. The handbook and DVD provide useful tools, templates, and training that enable the contingency contracting officer to be effective in any contracting environment. The Contingency Contracting Joint Handbook was prepared by the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD[AT&L]), Defense Acquisition, Technology, and Logistics contingency contracting staff, the Defense Acquisition University, and the Air Force Logistics Management Agency.[57]

Contingency Contract Training.—Under the fiscal year 2007 National Defense Authorization Act, DOD has expanded contingency contracting training modules through the Defense Acquisition University (DAU) as required by Section 854 of the Act.[58] DAU has redesigned the contingency contracting curriculum to improve training supporting "journeyman-level" contingency contracting operations. This will enable experienced contingency contracting officers to be deployable worldwide and be effective immediately upon arriving at the site.[59] One example of specific training DAU already provides is the Construction Contract Management course prepared by DAU for the Joint Contracting Command—Iraq and Afghanistan. DAU has revised the program of instruction for the Joint Contingency Contracting Course, CON 234,

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[54] Deputy Director, Program Acquisition and Contingency Contracting, Defense Procurement and Acquisition Policy, April 28, 2008.

[55] Ibid.

[56] Panel on Contracting Integrity, Quarterly Progress Update, March 31, 2008.

[57] Contingency Contracting: A Joint Handbook.

[58] Mr. Gary Motsek, Assistant Deputy Under Secretary of Defense, Office of Program Support, before the Subcommittee on Oversight and Investigations, U.S. House of Representatives, on April 25, 2007.

[59] Honorable James Finley, Deputy Undersecretary of Defense for Acquisition and Technology, before the Subcommittee on Readiness and Management Support, Senate Armed Services Committee, April 2, 2008.

using the Joint Contingency Contracting Handbook.[60] DAU is also developing an advanced contingency contracting course.[61]

DAU also hosts the Joint Contingency Contracting Community of Practice on its Web site to facilitate collaboration and sharing of learning and job support assets, which will result in improved efficiencies and support. This initiative also serves as a repository for policy and guidance information, predeployment information, tools, and after action reports. This community of practice as a Web-based tool enables connects the contingency contracting community to share expertise and experience. Significant findings concerning contingency contracting from staff assistant visits or internal self-inspection programs, as well as after action reports and lessons learned, must be posted to the DAU Web site.[62] Additional information on DAU contingency contracting related matters can be found at https://acc.dau.mil/contingency.

Panel on Contracting Integrity.—On February 16, 2007, the OUSD(AT&L) established the Panel on Contracting Integrity in accordance with the requirements of Section 813 of the fiscal year 2007 National Defense Authorization Act (Section 813).

As required by Section 813, the Panel is reviewing DOD progress to eliminate areas of vulnerability that allow fraud, waste, and abuse to occur. The Panel established 10 subcommittees to support the review of contracting integrity issues: Current Structure of Contracting Integrity; Sustained Senior Leadership; Capable Contracting Workforce; Adequate Pricing; Appropriate Contracting Approaches and Techniques; Sufficient Contract Surveillance; Contracting Integrity in a Combat/Contingent Environment; Procurement Fraud Indicators; Contractor Employee Conflicts of Interest; and Recommendations for Change. Each subcommittee completed a formal report documenting the review of their designated focus areas and presented recommendations to enhance contracting integrity. The Panel reviewed the requirements of Section 813; the findings and 20 recommendations in the March 2005 Report of the Defense Science Board; and the recommendations of GAO Report GAO–06–838R, "Contract Management: DOD Vulnerabilities to Contracting Fraud, Waste and Abuse," July 7, 2006. In its first annual report to Congress (December 2007), the Panel identified 21 initial actions in 2008 in the following areas.

—Reinforce functional independence of contracting personnel and promptly fill contracting leadership positions with qualified leaders of integrity who expect and enforce ethical behavior.

—Determine appropriate size of the contracting workforce and ensure that it has the appropriate skills to effectively and efficiently price, award, and manage more than $300 billion in annual contracts.

—Develop a DOD-wide consistent contract policy-execution review plan, strengthen contracting approaches, and reinvigorate contract surveillance techniques.

—Improve planning and training for contracting in combat/contingent environments.

On March 31, 2008, OUSD(AT&L) issued an internal quarterly progress update. Additional internal quarterly updates on Panel initiatives are scheduled to be issued through the remainder of 2008. The March issue provided an update on the Panel and its subcommittees' efforts. The overview and efforts of the subcommittees on Contracting Integrity in a Combat/Contingent Environment and Procurement Fraud Indicators are discussed below.

Contracting Integrity in a Combat/Contingent Environment Subcommittee.—The Contracting Integrity in a Combat/Contingent Environment subcommittee is chaired by the Director, Defense Procurement and Acquisition Policy and Strategic Sourcing. For fiscal year 2008, the Contracting Integrity in a Combat/Contingent Environment subcommittee will improve training by leveraging Marine Corps and Air Force training capabilities; improve training on how to run a contracting office in a combat/contingent environment; and review Fraud Indicator Training and Contracting Office Transition Plan. In the March 2008 Quarterly Progress Update, the subcommittee reported that the Department has taken numerous steps forward in improving the quality of training offered to contingency contracting workforce members in DOD. For example, the Army revised its Functional Area 51 Contracting Officer Leader Development program and developed a new training strategy after closely reviewing the programs of instruction offered by both the U.S. Marine Corps and Air Force. For Fraud Indicator Training, the subcommittee reviewed the Contingency Contracting Joint Handbook and reported that with the use of the hand-

[60] Panel on Contracting Integrity, Quarterly Progress Update, March 31, 2008.

[61] Mr. John Young, Under Secretary of Defense for Acquisition, Technology, and Logistics, before the House Committee on Armed Services, on April 2, 2008.

[62] Mr. Richard Ginman, Deputy Director, Program Acquisition and Contingency Contracting, Defense Procurement and Acquisition Policy, April 28, 2008.

book and DAU training contracting officers will be able to identify specific indicators of contract fraud found most prevalent in a contingency environment. The subcommittee also reported that Chapter 4 of the Joint Contingency Contracting Handbook provides the initial elements of training to prepare the contingency contracting officer for transition planning.

Procurement Fraud Indicators Subcommittee.—The Procurement Fraud Indicators Subcommittee is chaired by the Assistant Inspector General, Acquisition and Contract Management, DOD OIG. The Executive Director for the Panel on Contracting Integrity initiated this subcommittee to identify what the procurement indicators are and how they should be addressed. The increased level of DOD spending, especially in a contingency or expeditionary environment and without a comparable increase in procurement staffing levels, has increased procurement risks. The March 2008 Quarterly Progress Update stated that recently reported fraud cases have increased visibility in this area. The membership of this subcommittee includes representatives nominated by the Inspectors General of the Military Departments. Further, in its update, the subcommittee reported it plans to evaluate previously developed information on procurement fraud indicators both within and outside of the Department and determine the best avenues for presenting the information to the procurement community. The following are examples of the subcommittee plans.

—Identify all relevant source material previously developed on procurement fraud indicators and:
  —determine the need for a Procurement Fraud Indicators handbook for acquisition personnel similar to the IG Procurement Fraud Indicators Handbook[63] for auditors;
  —review best practices from existing training courses to determine the potential for a training module for insertion into DAU training; and
  —pursue the feasibility of an acquisition Web site.
—Conduct research and analysis by implementing the following.
  —Subcommittee members will gather best practices from their own and other organizations.
  —Subcommittee will establish tasks necessary to review the best available information, review the revised IG Procurement Fraud Indicators Handbook, determine the need and contents of a separate acquisition handbook, analyze existing training segments, determine focus and content for DAU training module, and determine the potential for a one-stop acquisition Web site for procurement fraud indicators.

Commissions and Task Forces.—In an effort to improve its support of OEF and OIF and for future contingency operations, DOD has established many commissions and task forces. The following highlight a few facts on key commissions and task forces.

Commission on Army Acquisition and Program Management in Expeditionary Operations.—The Secretary of the Army established a 45-day commission led by Jacques Gansler, former Under Secretary of Defense for Acquisition, Technology, and Logistics (the Gansler Commission). The Gansler Commission will ". . . review the Army's policies, procedures, and operations regarding acquisition and program management in expeditionary operations and make findings and recommendations as to their effectiveness and compliance with applicable laws and regulations." In October 2007, the Commission issued its report, "Urgent Reform Required: Army Expeditionary Contracting," which states:

—The expeditionary environment requires more trained and experienced military officers and noncommissioned officers. As of October 2007, only 3 percent of Army contracting personnel were active duty military, and Army contracting career General Officer positions no longer existed.
—The Army's acquisition workforce was not adequately staffed, trained, structured, or empowered to meet the Army needs of 21st-century deployed warfighters. Only 56 percent of the military officers and 53 percent of the civilians in the contracting career field were certified for their then-current positions.
—In spite of a seven–Fold workload increase and greater complexity of contracting, the Institutional Army did not support this key capability (effective contract management).
—In spite of almost as many contractor personnel in the Kuwait/Iraq/Afghanistan Theater as there are U.S. military personnel, the Operational Army had not yet recognized the impact of contracting and contractors in expeditionary operations and on mission success.

[63] DOD OIG Handbook 7600.3, "Handbook on Fraud Indicators for Contract Auditors," March 31, 1993.

—Contracting (from requirements definition, through contract management, to contract closeout) was treated as an operational and institutional side issue instead of as a core competence.

Task Force on Contracting and Contract Management in Expeditionary Operations.—The Under Secretary of Defense for Acquisition, Technology, and Logistics established the Task Force on Contracting and Contract Management in Expeditionary Operations to address the specific Gansler Commission recommendations and to integrate activities responding to the Gansler Commission's recommendations with the many other relevant activities already underway in DOD. The task force is guided by senior leaders in the Acquisition, Technology, and Logistics organization, including the Deputy Under Secretary (Acquisition and Technology); the Director, Defense Procurement, Acquisition Policy, and Strategic Sourcing; and his Principal Deputy. These senior leaders are working closely with the Deputy Under Secretary (Logistics and Materiel Readiness) and the Assistant Deputy Under Secretary of Defense (Program Support). Membership of this task force includes representatives from all of the Services, the DCMA, the Joint Staff, the Joint Contingency Contracting cell for Iraq and Afghanistan, and various elements of the Office of the Secretary of Defense. The task force meets weekly for progress-tracking purposes, meets periodically with the Services and DCMA to ensure a coordinated and consistent DOD approach, and meets about once a month with Dr. Gansler to discuss any points of clarification regarding the Gansler Commission's recommendations.

The task force actions implement Section 849 of the fiscal year 2008 National Defense Authorization Act, which directed the Secretary of Defense, in consultation with the Joint Chiefs of Staff, to evaluate the Gansler Commission's recommendations to determine the extent to which such recommendations are applicable to the other Armed Forces.[64]

Army Contracting Initiatives.—The Army has implemented several initiatives to address contracting challenges. Specifically, in February 2008, the Army announced the Army Contracting Campaign Plan to address findings and recommendations from two previous independent reviews from the Gansler Commission and the Army Contracting Task Force. The Army Contracting Campaign Plan will enable the Secretary of the Army to execute recommended improvements to Army contracting. Further, the Secretary of the Army directed the establishment of the Army Contracting Command as a major subordinate command of the Army Materiel Command and the realignment of the Army Contracting Agency under the Army Materiel Command. The Army Contracting Agency provides contracting services for installation-level services and supplies, and common-use information technology hardware, software, and services. The realignment of Army Contracting Agency to Army Materiel Command places the majority of the Army's contracting resources into one Army command, which will provide a full range of contracting services.

LOGISTICS INITIATIVES

According to the Executive Director for LOGCAP, the following are initiatives in the logistics support program.

In April 2007, the Army created the Executive Director for LOGCAP, a more than $30 billion Services program, which reports to the Commanding General of the Army Sustainment Command. Establishing this position provides program management oversight of LOGCAP augmentation to combat support/combat service support functions for supported units in OEF and OIF. The Executive Director has overall executive responsibility for LOGCAP, under which contractors from the private sector provide a broad range of logistical and life support services to U.S. and allied forces during combat operations. The Executive Director also stated he provides liaison LOGCAP planners for Army Service Component Command worldwide operation planning for support of logistical and life support services.

As of March 2008, LOGCAP is supported by 66 reserve officer billets from the LOGCAP Support Unit. One of the LOGCAP initiatives is to increase this unit to 137 personnel, broken out into five detachments for worldwide deployment. A detachment or its elements would deploy with the newly established Army contract support brigades to assist in developing requirements.

The program currently consists of Deputy Program Directors deployed in Iraq, Afghanistan, and Kuwait supported by members of the LOGCAP Support Unit, the DCMA, and from members of the LOGCAP support contractor. According to the Ex-

[64] Mr. John Young, Under Secretary of Defense for Acquisition, Technology, and Logistics, before the House Committee on Armed Services, on April 2, 2008.

ecutive Director, he also uses continental U.S. assets to augment the requirements of the forward deployed elements.

Development of Future Doctrine for Logistical Support.—Concurrent to providing management support for logistic services, the program is also developing planning doctrine on including contractor logistical services in future contingency operations. The emphasis is "How to plan for, and include, LOGCAP services in operational support plans." The goal is to align LOGCAP operational planners with the contract support brigades to assist the decision-making process for when to use and in developing requirements for LOGCAP services.

Exercises and Deployment.—LOGCAP participates in military training exercises to teach awareness of LOGCAP efforts. LOGCAP also provides outreach support and awareness to logistics support personnel and DCMA officers deploying in theater.

In-theater Support.—LOGCAP provides in-theater support to military operations. LOGCAP personnel provide an overview of the program to military commanders, the Joint Contracting Command—Iraq and Afghanistan, regional contracting centers, and forward operating base mayors. The LOGCAP program personnel meet with division and garrison commands to educate them on the process used to seek the services of LOGCAP when organic logistics services cannot be used. This includes developing requirements, providing support for forward operating bases, operating dining facilities, or providing a multitude of field services.

Award Fee.—Because LOGCAP operates in different military operations and world-wide, the program has established an initiative to standardize the evaluation process across the various groups that assess contractors' performances in Iraq, Afghanistan, and Kuwait. It also includes an assessment of what efforts the contractors are making to improve the quality of operations.

FINANCIAL MANAGEMENT INITIATIVES

DOD Components have implemented many initiatives to address financial management challenges in wartime contingency operations such as OEF and OIF. The Office of the Under Secretary of Defense (Comptroller) (OUSD[C]) has implemented several initiatives such as issuing additional financial guidance and focused funding execution reviews, and establishing a senior steering group. The Director, Defense Finance and Accounting Service (DFAS) has implemented several initiatives such as deploying personnel in August 2007 to assist forward-deployed DOD elements in preparing and maintaining supporting documentation voucher transactions. In addition, DFAS initiatives implemented includes reducing the burden on units in Iraq and Kuwait and improve controls over documentation supporting commercial payments and payments to foreign governments. For some of the DFAS initiatives, the U.S. Army partnered with DFAS in implementing the initiative.

Under Secretary of Defense (Comptroller).—The OUSD(C) has initiated several actions to address cost and execution of funds challenges in OEF and OIF. Specifically, the OUSD(C) has issued additional financial management related guidance for contingency operations, performed focused analysis on funding monthly execution, and established the Cost of War Senior Steering Group.

Additional Financial Management Guidance.—The OUSD(C) wrote that because of recent reviews of commercial payments for goods and services in Iraq and Afghanistan, in September 2007 the OUSD(C) published guidance emphasizing the requirements for proper payments in contingency operations. The OUSD(C) memorandum prescribes certification guidelines for payments made in contingency operation areas including 11 types of information that certifying officers will typically use to certify and make payments.[65] In May 2008, the OUSD(C) updated the DOD Financial Management Regulation to incorporate the certification guidelines for commercial payments in contingency operations from the September 2007.[66]

Monthly Funding Execution Analysis.—In December 2007, the OUSD(C) initiated an effort to increase its overview of DOD execution of OEF and OIF related funding. As part of this effort, to gauge whether DOD can properly execute the funding requested for the specific fiscal years, the Comptroller invited personnel from other DOD Components, such as the DOD OIG, to perform quick-look reviews on the execution of GWOT funding patterns. These support efforts were included in the OUSD(C) overall focused analysis of execution of funding. According to OUSD(C) officials, OUSD(C) now performs a monthly analysis of DOD execution of funding and reports the results to the Under Secretary of Defense (Comptroller). The monthly

[65] OUSD(C) Memorandum, "Certified Commercial Payments in Contingency Operations," September 14, 2007.

[66] DOD Financial Management Regulation, Volume 10, Chapter 8 "Commercial Payment Vouchers and Supporting Documents," May 2008.

analysis provides timely awareness of funding trends and potential funding execution concerns to the attention of the Comptroller.

Cost of War Senior Steering Group.—In February 2007, the Deputy Secretary of Defense established the Cost of War Senior Steering Group to provide governance for the timely resolution of policy, system, and procedural issues that impact the reporting of the cost of war. The objective is to improve the credibility, transparency, and timeliness of the Cost of War reporting, to include CERP. The Cost of War Senior Steering Group is to: establish and charter the GWOT Cost of War Project Management Office; evaluate and approve plans and recommendations for the resolution of policy, system, and procedural issues that impact the credibility of Cost of War reporting; facilitate adoption of Cost of War reporting best business practices throughout DOD; and provide oversight and direction to the GWOT Cost of War Program Management Office on key metrics, trends, and initiatives that measure the improvements in Cost of War reporting.[67]

Defense Finance and Accounting Service.—The Director, DFAS has initiated a proactive effort both in theater and in the continental United States, to support the warfighter and mitigate challenges DOD has in OEF and OIF operations. According to the DFAS GWOT Program Management Office, since August 2007, DFAS has implemented the following financial related initiatives.

The DFAS GWOT Program Management Office: mapped processes and developed standard operating procedures for funding and reporting; improved tracking of GWOT funds and budget execution by Services leading to greater reliability of data incorporated in the GWOT Cost of War report; documented Components' legacy GWOT reporting business practices; implemented accuracy and compliance measures and scorecard; implemented GWOT Cost of War Status of Funds reporting; achieved a Green progress rating on the President's Management Agenda scorecard; established proactive, aggressive communication channels for GWOT audits; established a viable theater support program; and developed a repeatable process for monitoring GWOT audits, which is considered a "Best Practice" in addressing GWOT and financial audits for DOD.

In-Theater Support:

—Worked with theater commanders[68] to support finance operations and have deployed support teams to: perform finance functions; assist with in-depth reviews of commitments, obligations, and disbursements;—assist with conducting joint reviews; retrograde finance functions back to DFAS continental U.S. operations and free soldiers to perform other missions; provide training support on accounting, vendor pay, military pay disbursing, and supporting systems; keep lines of communication flowing between theater finance and DFAS to troubleshoot problems; support audit inquiries; and provide supplemental support during unit rotations.

—Included actions the Program Management Office performed in support of GWOT operations in the theater: improved payment controls and documentation in theater; implemented electronic imaging of documents in the theater of operations to improve the efficiency of reporting and to reduce risk to soldiers who transport documentation; issued guidance and updated policy regulations to improve the communication of requirements in the theater; assisted commands in executing and reporting GWOT budget execution; and participated in training units deploying to the theater.

DOD AUDIT COMMUNITY INITIATIVES

In addition to actions taken by the DOD Components, the Defense oversight community has instituted its own initiatives to address the challenges presented to DOD in OEF and OIF operations. Some of the initiatives within the Defense oversight community are focused workforces, focused coordination groups, and comprehensive and coordinated oversight plans in response to statutory requirements.

The Defense oversight community is increasing its partnerships and providing support within the Defense community for oversight efforts. For example, the DOD OIG and AAA are conducting a joint review of the Joint Contracting Command—Iraq and Afghanistan. In addition, the U.S. Army Corps of Engineers and AAA have provided personnel to support DOD OIG oversight efforts. The Naval Audit Service and AFAA have provided support to the DOD OIG munitions accountability assessment effort.

[67] See memorandum OSD 01647–07.

[68] Such as the Multi-National Corps—Iraq, Multi-National Security Transition Command—Iraq, Combined Joint Task Force-82, and 336th Financial Management Company Kuwait.

Audit Plan for Support of Coalition Forces in Iraq and Afghanistan.—The fiscal year 2008 National Defense Authorization Act, Section 842, "Investigation of Waste, Fraud, and Abuse in Wartime Contracts and Contracting Processes in Iraq and Afghanistan," January 28, 2008, requires the Inspector General of the Department of Defense to develop a comprehensive plan for a series of audits of DOD contracts, subcontracts, and task and delivery orders for the logistical support of coalition forces in Iraq and Afghanistan. The Act also requires that the Special Inspector General for Iraq Reconstruction and the Special Inspector General for Afghanistan Reconstruction develop a comprehensive plan for a series of audits of Federal agency contracts, subcontracts, and task and delivery orders for the performance of security and reconstruction functions in Afghanistan and Iraq.

To show all of the audit work for Afghanistan and Iraq, the DOD OIG has expanded the audit plan beyond the statutory mandate to include other key issue areas for Afghanistan and Iraq, such as financial management, and human capital for contract administration. The plan includes the planned audit work of the Inspectors General of the Department of State and the U.S. Agency for International Development and the Special Inspector General for Iraq Reconstruction. The plan also includes the planned audit work of the Army Audit Agency, Air Force Audit Agency, and Defense Contract Audit Agency because of the major contributions they make to improve the efficiency and effectiveness of support to the military.

The Inspectors General of Department of Defense, Department of State, Agency for International Development, and the Special Inspector General for Iraq Reconstruction are coordinating their audit plans through existing working groups and councils. Coordination will include the Special Inspector General for Afghanistan Reconstruction when, and if, one is appointed.

Workforce.—Within the Defense oversight community, the AAA, AFAA, and DOD OIG have instituted an expeditionary workforce structure.[69] The AAA and DOD OIG maintain a footprint of personnel on the ground in Afghanistan, Iraq, and Kuwait, whereas the focus of the Special Inspector General for Iraq Reconstruction is limited to Iraq. The AFAA has no permanent presence in Southwest Asia; however, it uses about 10 percent of available auditors per year on GWOT-related audits in the United States Air Forces Central overseas area of responsibility. The audit work is accomplished by using 24 person temporary teams twice a year to perform mobile audits for 7 to 8 weeks.

Coordination Groups.—The DOD OIG is the lead oversight agency for accountability in DOD and, as such, is committed to maintaining an effective working relationship with other oversight organizations to minimize duplication of efforts and to provide more comprehensive coverage. Effective interagency coordination, collaboration, and partnerships within the oversight community are essential to providing comprehensive reviews of wartime expenditures to identify whether critical gaps exist, and then to recommend actions to close those gaps.

SWA Joint Planning Group.—The DOD OIG has jointly established and chairs an intra- and interagency Southwest Asia Joint Planning Group that meets quarterly. The Group provides oversight of fraud, waste, abuse, and criminal activities in the Southwest Asia region. The Southwest Asia Joint Planning Group provides a chance for collaboration and team work with organizations engaged in this effort, including the Military Inspectors General and Service Auditors General, Combatant Commands Inspectors General, DCAA, DFAS, DCMA, the Inspectors General of State and the U.S. Agency for International Development, SIGIR, and GAO. The mission of the Southwest Asia Joint Planning Group is to better coordinate and integrate oversight activities in the region. The Southwest Asia Joint Planning Group leads the coordination and oversight required to identify and recommend improved mission support to military units conducting operations.

Afghanistan Working Group.—A subgroup of the Southwest Asia Joint Planning Group is the Afghanistan Working Group. The DOD OIG, along with the GAO, the Inspectors General of State, and the U.S. Agency for International Development, established the Working Group to minimize the impact on forward command operations, deconflict overlapping and duplicate oversight requests, and facilitate the exchange of oversight information related to Afghanistan. The DOD OIG, as the DOD representative, also incorporates the ongoing and planned Afghanistan-related oversight efforts of the Service Auditors General into the Working Group. The Afghanistan Working Group has convened to discuss ongoing, planned, and completed projects that address issues related to Afghanistan operations. This group has

[69] We define expeditionary workforce as mobile personnel dedicated to a specific mission and deployable to worldwide locations to conduct oversight to complement permanent workforce efforts.

briefed congressional committees and members of the ongoing, planned, and completed Afghanistan oversight projects.

Iraq Inspectors General Council.—In conjunction with the Southwest Asia Joint Planning Group, the DOD OIG also participates in the Iraq Inspectors General Council chaired by SIGIR to minimize the impact on forward command operations, deconflict overlapping and duplicate oversight requests, and facilitate the exchange of oversight information unique to Iraq.

The DOD OIG provides an overview of the DOD oversight community in its Semiannual Reports [70] to Congress. The DOD OIG Semiannual Report includes a chapter on the DOD oversight community's efforts for GWOT and Southwest Asia. Please see http://www.dodig.mil/sar/index.html for our published Semiannual Reports to Congress, including DOD oversight community's efforts on GWOT and Southwest Asia.

DOD OIG INITIATIVES

The DOD IG is committed to supporting the GWOT and the needs of the men and women fighting this war. Overall, the DOD IG is responsible for providing oversight to more than $655 billion in funds dedicated for the GWOT. The DOD OIG identifies and helps correct critical mission support problems that impact OEF and OIF. The DOD IG has established the following GWOT-related goals:

—*Goal 1*.—Increase the DOD OIG presence in Southwest Asia to work on priority issues directly supporting efforts for OEF and OIF.

—*Goal 2*.—Expand coverage of the DOD GWOT-related programs and operations by providing oversight in fundamental areas: contract surveillance, financial management, accountability of resources, as well as training and equipping of personnel and developing a logistics sustainment base.

—*Goal 3*.—Increase efforts to prevent the illegal transfer of strategic technologies and U.S. Munitions List items to prohibited nations, terrorist organizations, and other criminal enterprises.

Besides developing a comprehensive plan for a series of audits as required by the fiscal year 2008 National Defense Authorization Act, Section 842, "Investigation of Waste, Fraud, and Abuse in Wartime Contracts and Contracting Processes in Iraq and Afghanistan," January 28, 2008, the DOD OIG initiated several other actions to support OEF and OIF. The DOD OIG established field offices in four countries in Southwest Asia, created an expeditionary workforce, and participated in interagency focus groups. To accomplish its oversight mission, the DOD OIG has adopted a strategy that is based on maintaining the right-size presence in theater but also recognizes that much of its work can be done out of Iraq and Afghanistan. An important part of the DOD OIG oversight effort is to improve interservice and interagency coordination and collaboration to minimize duplication of effort and ensure that DOD OIG has only the staff needed in theater to accomplish the mission.

Southwest Asia Field Offices.—The DOD OIG has established field offices in Afghanistan, Iraq, Kuwait, and Qatar and continues key placement of DOD OIG personnel in Southwest Asia. DOD OIG presence facilitates timely reviews and reporting of results in theater and minimizes disruption to the warfighter.

Workforce.—The DOD OIG has adopted an expeditionary workforce model to support efforts throughout all of Southwest Asia. The DOD OIG has core staff forward deployed at all times. The core contingent is composed of individuals serving deployments of 6 to 12-months. Expeditionary team members deploy for as long as needed to complete the review.

Panel on Contracting Integrity.—The DOD OIG participates in the DOD Panel on Contracting Integrity. Established under Section 813 of the fiscal year 2007 National Defense Authorization Act, the Panel is chaired by the Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics to conduct reviews of DOD progress made in eliminating areas of vulnerability in the Defense contracting system. The DOD OIG is a member of the overall Panel on Contracting Integrity, a member of the subcommittee on Adequate Pricing, and is Chair of the Procurement Fraud Indicators subcommittee. The Procurement Fraud Indicators subcommittee is identifying what these indicators are and how they should best be addressed and used for the contracting/acquisition workforce.

GWOT Cost of War Senior Steering Group.—The DOD OIG is an invited observer to the GWOT Cost of War Senior Steering Group that DOD established on February 26, 2007, to improve and standardize cost of war reporting. Attending the Senior Steering Group meetings helps the DOD OIG remain apprised of DOD efforts for

[70] The DOD OIG issues the Semiannual Report to Congress in accordance with the Inspector General Act of 1978, as amended.

cost of war reporting and furthers its oversight regarding financial aspects of GWOT to ensure timeliness and value to the DOD.

Federal Bureau of Investigation Joint Terrorism Task Forces.—As of March 2008, the DOD OIG has personnel supporting more than 40 joint terrorism task forces, full-time or part-time. These task forces were formed to maximize interagency cooperation and coordination by creating cohesive units capable of addressing both international and domestic terrorism.

National Procurement Fraud Task Force.—The DOD OIG has been a member of the National Procurement Fraud Task Force since 2006. This task force promotes the prevention, early detection, and prosecution of procurement fraud.

International Contract Corruption Task Force.—The DOD OIG is a member of the International Contract Corruption Task Force. DOD OIG personnel are assigned full-time to the task force's Joint Operations Center. The International Contract Corruption Task Force was formed to specifically target fraud and corruption involving Southwest Asia. The primary goal of the task force is to combine the resources of multiple investigative agencies and to partner with the Department of Justice to effectively and efficiently investigate and prosecute cases of contract fraud and public corruption related to U.S. Government spending in Iraq, Kuwait, and Afghanistan.

DFAS-Rome, New York Project.—The DOD OIG initiated this proactive effort to analyze more than $10 billion in payment vouchers related to U.S. Army purchases in Iraq. The vouchers as of March 2008, were stored at DFAS-Rome, New York. This DOD OIG effort includes the Defense Criminal Investigative Service, DOD OIG Auditing, AAA, DCAA, and the Federal Bureau of Investigation.

ARMY AUDIT AGENCY INITIATIVES

Since June 2002, AAA has been actively involved in audit work in support of OEF and OIF. AAA maintains a significant presence in the CENTCOM area of responsibility to assist commanders in GWOT and has continuously had between 10 to 30 auditors deployed in Afghanistan, Iraq, and Kuwait since May 2005.

Audits in theater have focused primarily on logistics and contracting issues. Since the beginning of OEF and OIF, AAA has issued 31 reports addressing various aspects of Logistics Civil Augmentation Program (LOGCAP) operations, and 40 other reports addressing issues such as logistics, military pay, and fund management.

In June 2007, the AAA Auditor General accompanied a congressional delegation to Iraq and Kuwait that assessed contracting operations in theater. The delegation invited the AAA Auditor General because of the Auditor General's testimony to the Senate Armed Services Committee on April 19, 2007, about the AAA LOGCAP audit work. The delegation met with top Army officials and key representatives from the oversight community.

Currently, AAA is conducting audits in Afghanistan, Iraq, and Kuwait of contracting operations, retrograde operations, container management, and accountability of contractors on the battlefield. This work in theater stems from requests from the Secretary of the Army; the Commander, Multi-National Force—Iraq; U.S. Army Criminal Investigation Command; the Commanding General, Third U.S. Army and U.S. Army Forces Central Command; and the Commander, Joint Contracting Command—Iraq and Afghanistan.

AAA has been proactive in helping senior Army leadership improve contracting operations in Southwest Asia.

—At the request of the Secretary of the Army, AAA assessed contracting operations at the Kuwait Contracting Office. Essentially, AAA recreated contracting events associated with the operation and oversight of the Office from fiscal year 2002 through fiscal year 2007. The review identified contracting weaknesses and provided the Secretary with critical information needed to assess whether personnel with oversight responsibilities over the Office's operations performed their duties properly. The Secretary used the results of the review to initiate immediate corrective actions in Army contracting operations for current and future wartime contingencies. Moreover, the results were instrumental in the Secretary establishing the Army Contracting Task Force.

—AAA materially assisted the operations of the Army Contracting Task Force during fiscal year 2008. Task force members reviewed a statistical sampling of contracts awarded by the Kuwait Contracting Office between fiscal year 2003 and fiscal year 2006 that were valued at more than $25,000. To assist the task force, AAA provided the sample size, evaluated the methodology task force members used to review contracts and assess fraud indicators, and provided task force members with training on contract fraud and how to identify fraud indicators.

AAA has also been extremely active in assisting criminal investigators and Federal attorneys in support of contract fraud cases related to Southwest Asia operations.

—AAA provided, and continues to provide, extensive support to the International Contract Corruption Task Force. This task force includes members from U.S. Army Criminal Investigation Command, Defense Criminal Investigative Service, DCAA, DOD OIG, the Federal Bureau of Investigation, Department of Justice, and SIGIR. To support this task force, AAA extracted data from Army automated contracting and financial systems. AAA organized this information into usable databases, provided memorandums describing the scope and methodology used to extract the data from the systems, and trained task force members on how to use the contract and contract payment databases as an investigative tool.

—AAA provided, and continues to provide, extensive support to the Department of Justice's National Procurement Fraud Task Force to help obtain indictments and prosecutions related to procurement fraud cases in Southwest Asia. AAA obtained documentary evidence and analyzed data needed to prosecute several major procurement fraud cases. AAA also provided the task force a compilation of all the contract and payment information available in Army and DFAS automated systems to support contract and payment amounts for multiple contracts. These contracts were at the center of a nationally publicized procurement fraud case involving about $14 million of kickbacks allegedly paid to a military contracting officer.

—Currently, AAA is performing a major data-mining effort involving vendor payments in Kuwait. This effort is geared to identify potentially fraudulent payments and control weaknesses in automated and manual contract payment processes. This work supports both the International Contract Corruption Task Force and the Army Task Force on Contracting.

Establishing the Expeditionary Support Audit Team.—In October 2007, AAA realigned its staff and established the Expeditionary Support Audit Team to enhance audit support for overseas contingency operations. Establishing the team enabled AAA to improve its efficiency and responsiveness to Army leaders and combatant commanders on the ground in Southwest Asia in support of OEF and OIF.

AAA built the team exclusively from volunteers willing to serve in a deployed environment. The team consists of about 40 full-time (core) members, half of whom are deployed to Southwest Asia at any given time. The AAA continuously augments the core team with about 5 to 10 additional volunteers who deploy and work with the core members for 180-day assignments. This enables AAA to continuously operate with about 25 to 30 deployed staff and provide timely, relevant audit service in Southwest Asia. In fiscal year 2008 and fiscal year 2009, the Expeditionary Support Audit Team will concentrate its efforts in Southwest Asia on contracting and logistics operations.

Coordinating and Sharing with Other Oversight Activities.—Senior AAA officials have actively participated in the DOD Southwest Asia Joint Audit Planning Group since its inception. The planning group provides a forum for DOD auditors, inspectors, and investigators to share ideas and audit schedules to maximize coverage in the theater while avoiding duplication of effort. The AAA has also loaned auditors to assist the DOD OIG on several audit initiatives in Iraq. Likewise, AAA has maintained close coordination with the SIGIR. AAA is an active member of the Iraq Inspectors General Council that meets quarterly to discuss and coordinate audit coverage in Iraq. AAA also routinely shares audit information with senior Army officials, including U.S. Army Corps of Engineers Gulf Region Division personnel in Iraq, through regular teleconferences convened by the Assistant Secretary of the Army (Acquisition, Logistics, and Technology).

Army Contracting Campaign Plan Task Force.—The Army Contracting Campaign Plan Task Force is a proactive Army response to weaknesses identified in Army acquisition and contracting processes and to the findings and recommendations of the Gansler Commission on Army Acquisition and Program Management in Expeditionary Operations and the Army Contracting Task Force. The Army Contracting Campaign Plan Task Force is led by the Assistant Military Deputy to the Assistant Secretary of the Army (Acquisition, Logistics, and Technology). Its mission is to operationalize and institutionalize Army Contracting to provide an Army-wide standard for global contracting capability in support of warfighter needs across the full spectrum of military operations.

The Acting Under Secretary of the Army established the Army Contracting Campaign Plan Task Force and the task force held its "kick-off" meeting on March 26, 2008. The task force is ongoing and is supported by acquisition, contracting, and support personnel participating in working-level and decision-making forums such

as a two-star General Officer Steering Committee, Council of Colonels, and individual Implementation Planning Teams. AAA representatives have met with the task force director and he has requested that AAA provide independent and objective audit and attestation services as needed to support the development and implementation of the Army Contracting Campaign Plan. AAA personnel also attended the initial meetings of the Implementation Planning Team and the Council of Colonels.

AIR FORCE AUDIT AGENCY INITIATIVES

Since October 2005, AFAA has taken several initiatives in support of OEF and OIF. First, AFAA realigned branches of the Air and Space Operations Division to assign a program manager and four audit managers the responsibility to perform Air Force-wide audits focusing on operations in the U.S. Air Forces Central area of responsibility. As of April 2008, the branch has performed 11 multi-site audits focused exclusively or primarily on U.S. Air Forces Central operations. This branch also assisted other AFAA divisions in performing five multi-site audits with U.S. Air Forces Central area of responsibility involvement in functional areas such as health care, environmental and engineering, and supply.

Second, AFAA developed expeditionary audit teams to provide audit services in the U.S. Air Forces Central area of responsibility. The AFAA deploys an expeditionary audit team of volunteer civilian auditors into the U.S. Air Forces Central area of responsibility about twice a year. The audit team, consisting of 12 to 16 auditors and 3 team chiefs, deploys for about 45 days and performs audits at 5 to 7 area-of-responsibility installations. The AFAA will deploy its fifth expeditionary audit team in June 2008. Audits from the past four expeditionary audit teams have resulted in 72 installation-level audit reports and 17 Air Force audit reports, and have identified more than $75 million in potential monetary benefits.

Finally, AFAA participates in the Southwest Asia Joint Planning Group. The group's initial meeting was April 2007 and convenes approximately quarterly. The Planning Group coordinates various audit activities impacting Southwest Asia. During the meetings, representatives from the GAO, DOD OIG, DCAA, SIGIR, and the Service audit agencies, briefed recently completed, ongoing, and planned audits pertaining to operations in the CENTCOM area of responsibility. Attendees included the Combatant Command Inspectors Generals from Special Operations Command, Pacific Command, and CENTCOM. Information discussed during the meetings provided valuable input to AFAA audit efforts in the U.S. Air Forces Central area of responsibility.

DEFENSE CONTRACT AUDIT AGENCY INITIATIVES

To better inform the contracting community on the services DCAA can provide during contingency contracting operations, DCAA coordinated closely with DAU representatives to revise DAU Course 234, Contingency Contracting. DCAA also provided extensive support for coordinating the draft Expeditionary Contracting Policy, which establishes uniform policies and procedures for DOD contingency contracting officers deploying to a contingent environment. In addition, DCAA provided input and coordinated on the recently issued Joint Contingency Contracting Handbook, a pocket-sized handbook and accompanying compact disk, that provides the essential information and tools to operate and train effectively in a contingency contracting environment.

SIGIR INITIATIVES

The Special Inspector General for Iraq Reconstruction has two initiatives to assist in challenges in OIF. Specifically, SIGIR is capturing its own lessons learned as well as performing capping reports.

Lessons Learned.—SIGIR is carrying out an initiative to capture the lessons learned in Iraq reconstruction. The initiative is designed to enhance continuing work in Iraq and to inform future U.S. reconstruction efforts. On each of these issues, SIGIR is gathering information from extensive research and interviews, collating and distilling the information into white papers, and gathering panels of experts in three forums to evaluate the findings and make recommendations. The Lessons Learned Initiative focuses on three key subject areas:

—"Iraq Reconstruction: Lessons in Human Capital Management," February 2006, is the product of SIGIR audits, other research, and the Lessons Learned Forum held in September 2005 at Johns Hopkins University's Washington, D.C., campus. The document identifies and discusses four key components of effective human resource management: policy alignment, workforce planning, recruitment, and continuity.

—"Iraq Reconstruction: Lessons in Contracting and Procurement," July 2006, begins by examining contracting activity early in the Iraq program and traces its evolutionary development through the effort's succeeding phases. The concluding section lays out a series of key lessons followed by six recommendations for improving the U.S. Government's capacity to support and execute contracting and procurement in contingency environments.

—"Iraq Reconstruction: Lessons in Program and Project Management," March 2007, focuses on program and project management during the U.S.-led reconstruction mission, and tracks the evolution of the three organizations responsible for providing the strategic oversight and tactical direction of the reconstruction effort: the Office of Reconstruction and Humanitarian Assistance, the Coalition Provisional Authority, and the U.S. Mission—Iraq.

Capping Reports.—As reported in its January 30, 2008, report, SIGIR plans to present a series of performance audit capping reports that summarize the accomplishments in each of these reconstruction sectors: security and law enforcement; justice, public safety infrastructure, and civil society; electric; oil; water resources and sanitation; transportation and telecommunications; roads, bridges, and construction; private sector development; and education, refugees, human rights, democracy, and governance.

These reports will build on the information obtained in the focused contracting reviews conducted in fiscal year 2008 and provide detailed descriptions of the projects completed in each sector and the associated costs. SIGIR will also assess how well the Iraqis are maintaining the projects and assess the impact of each project on local communities.

APPENDIX A. SCOPE AND METHODOLOGY

The Defense oversight community—the DOD Office of Inspector General (OIG), the Army Audit Agency (AAA), the Naval Audit Service, the Air Force Audit Agency (AFAA), and the Special Inspector General for Iraq Reconstruction (SIGIR)—and the Government Accountability Office (GAO) issued 314 reports and testimonies (302 unclassified and 12 classified) beginning fiscal year 2003 through fiscal year 2007 that support Operation Enduring Freedom (OEF) or Operation Iraqi Freedom (OIF).

This non-audit service report summarizes 302 OEF and OIF related reports and testimonies from fiscal year 2003 through fiscal year 2007 issued and given by the Defense oversight community and GAO. We reviewed the OEF and OIF related reports and testimonies obtained, but we did not review the supporting documentation for any of the reports. Based on our review, we created functional areas (main categories) to categorize the reports and testimonies. The categories resulting from our review of the 314 OEF and OIF-related reports and testimonies issued by the audit agencies are: Contract Management, Logistics, Financial Management, and Other.

The team then reviewed the causes of the recommendations in the unclassified reports in order to determine systemic challenges in the reports. See Appendix C for the definitions the team used for each category. The categories resulting from our review of causes of the recommendations are as follows.

—Contract Management: Contract Administration; Policy and Procedure; Sourcing; Requirements; and Other/Strategic.

—Logistics: Policy and Procedure; Accountability; Sustainability; Requirements; and Other.

—Financial Management: Overall Financial Management; Internal Controls; Obligations; and Execution.

—Other: Policy and Procedure; Planning; Accountability; and Other.

The audit team also counted the recommendations in each report and determined the status of each recommendation. We obtained the status of the DOD OIG and GAO recommendations from the Defense Automated Management Information System; the AAA, AFAA, and Naval Audit Service status from representatives at those agencies; and the SIGIR status from the SIGIR January 30, 2008, quarterly report. The audit team also validated the status of GAO recommendations obtained from the Defense Automated Management Information System with GAO representatives.

We then sent the results of categorizing the causes of the recommendations into issue areas, the number of recommendations in each report, and the status of those recommendations to GAO, DOD OIG, AAA, Naval Audit Service, AFAA, and SIGIR for them to verify. Based on the other agencies' comments to our initial results, we updated our initial categorizations of the causes, number of recommendations, and status of the recommendations for the reports and testimonies.

Using the audit agencies' input of the categorization of the 302 unclassified reports and testimonies, the team reviewed the reports in the respective categories to

determine whether any systemic or recurring challenges in the categorized areas exist. The team also reviewed the status of the recommendations in those reports and determined whether DOD took appropriate action to address the 983 recommendations by determining how many recommendations remain open at the end of each fiscal year.

We sought out DOD initiatives regarding Contract Management, Logistics, and Financial Management challenges in OEF and OIF. We contacted the Office of the Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics; OUSD(C); Executive Director for LOGCAP Program, Army Sustainment Command; DFAS GWOT Program Management Office; and DCAA. We also sought out initiatives by the DOD oversight community and contacted AAA, Naval Audit Service, AFAA, DCAA, and SIGIR.

Use of Computer-Processed Data.—We relied on data that were entered into the Defense Automated Management Information System to determine the status of the DOD OIG and GAO report recommendations. We did not perform any tests of the validity of the data manually entered into the Defense Automated Management Information System by DOD OIG personnel when compiling information for this report.

APPENDIX B. OEF AND OIF REPORTS AND TESTIMONIES FISCAL YEAR 2003 THROUGH FISCAL YEAR 2007

From fiscal year 2003 through fiscal year 2007, the Defense oversight community and GAO have issued 314 reports and testimonies that relate to Operations Enduring Freedom or Iraqi Freedom. Where possible, hyperlinks to the complete reports are provided. The reports and testimonies are listed by agency, by issue date. The twelve classified reports are marked with an asterisk (*).

Army Audit Agency

The Army Audit Agency issued 77 audit reports or testimonies pertaining to Operations Enduring Freedom and Iraqi Freedom. To obtain copies of the Army Audit Agency reports, visit their Web site at https://www.aaa.army.mil. The site is available only to military domains and the Government Accountability Office. Other activities may request copies of Agency reports by contacting the Army Audit Agency Audit Coordination and Followup Office at 703–693–5679. Where possible, hyperlinks to the complete Army Audit Agency reports are provided below.

Army Audit Agency Report No. A–2007–0204–ALL, "Audit of Defense Base Act Insurance for the Logistics Civil Augmentation Program, Audit of Logistics Civil Augmentation Program Operations in Support of Operation Iraqi Freedom," September 28, 2007

Army Audit Agency Report No. A–2007–0215–FFS, "Contractor Support and Mobilization Stations—Ft. Bragg, North Carolina," September 18, 2007

Army Audit Agency Report No. A–2007–0210–FFS, "Contractor Support and Mobilization Stations—Ft. Carson, Colorado," September 10, 2007

Army Audit Agency Report No. A–2007–0191–FFM, "Agreed-Upon Procedures Attestation of the Results of the 2007 National Defense Authorization Act Audit on Wounded in Action Soldier Pay Accounts, Attestation Report," August 15, 2007

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APPENDIX C. DEFINITIONS USED FOR CATEGORIZATION OF OEF AND OIF REPORTS AND TESTIMONIES FISCAL YEAR 2003 THROUGH FISCAL YEAR 2007

To categorize the 302 OEF and OIF reports and testimonies, we developed definitions to categorize the causes that resulted in the recommendations issued by the Defense oversight community and GAO. We provided our definitions to the other oversight agencies when we vetted our initial categorizations. Our goal was to create categories and definitions that were simple and easily understood to provide common reference points as follows:

Contract Management

Administration.—This category includes recommendations that address oversight responsibilities, including Quality Assurance, Performance Monitoring, and Results, to ensure that the contractor provides the requirements requested. We consider this category as Government specific function.

Policy and Procedure.—This category includes recommendations that address implementing guidance, policy, and procedures for future contracts and is not limited to one specific contract.

Sourcing.—This category includes recommendations that address improving the negotiation and documentation of actions between the Government (customer) and the contractor (developer). This function involves both Government and contractor.

Requirements.—This category includes recommendations that address the development of requirements (what is needed by the customer). This function is Government specific with no contractor involvement in developing the requirements.

Other.—This category includes recommendations that are more general and address a more strategic approach to resolving systemic challenges.

Logistics

Policy and Procedures.—This category includes the recommendations made to improve the general goals and directives of a program, process, or plan including the steps, activities, and decisions made to accomplish those goals and directives.

Accountability.—This category includes recommendations made to improve establishing or maintaining records to identify, acquire, account for, control, store, or properly dispose of assets; including whether the cause addressed equipment on hand or on order, the status of the equipment, and the location of the equipment.

Sustainability.—This category includes recommendations to ensure maintaining a certain level or state of a process, program, or activity. It includes what needs to be done in order to keep a process, program, or activity running smoothly and efficiently.

Requirements.—This category includes recommendations made in order to improve determining the needs or conditions to meet a specific outcome. This includes required equipment, storage facilities, supplies, and personnel.

Other.—This category includes causes categorized as Other. (1) The causes do not specifically relate to Policy and Procedures, Accountability, Sustainability, or Requirements. (2) Many of the causes were very specific to a certain program and could not be applied to any other program. (3) Some of the recommendations were not tied to a specific cause, so those recommendations were categorized as Other.

Financial Management

Overall Financial Management.—This category includes overall financial management. The cause addressed by the recommendation covers the category of financial management but the cause was not specific enough to be classified in one of the other categories.

Internal Controls.—This category addresses anything that could involve the lack of checks and balances in the system. The Yellow Book describes internal controls as "The extent to which internal controls that are significant to the audit depend on the reliability of information processed or generated by information systems." We used this Yellow Book definition to guide our judgment.

Obligations.—This category addresses a cause that is directly related to obligations or involved obligation type challenges, for example, if a report spoke about command not doing a sufficient job of planning for a known expenditure. We considered information from the DOD Comptrollers office as it pertained to the Planning,

Programming, Budgeting, and Execution system. In particular, the Budgeting phase (formulation and justification) as it provides a platform for a detailed review of a program's pricing, phasing, and overall capability to be executed on time and within budget. The budgeting process addresses the years to be justified in the President's budget (including the current and upcoming execution years) and provides a forum to develop the Secretary's budget position.

Execution.—This category addresses the execution phase and everything involved with the actual spending of funds.

Other

Policy and Procedures.—This category addresses a cause related to general goals and directives of a program, process, or plan including the steps, activities, and decisions made to accomplish those goals and directives.

Planning.—This category includes a cause if it addressed providing a framework for developing anything; including processes for setting goals, developing strategies, and outlining tasks and schedules to accomplish a goal.

Accountability.—This category includes a cause that addressed establishing or maintaining records to identify, acquire, account for, control, store, or properly dispose of assets; including if the cause talked about equipment on hand or on order, the status of the equipment, and the location of the equipment.

Other.—This category includes causes that do not specifically relate to policy and procedures, planning, or accountability and causes that were very specific to a certain program and could not be applied to any other program.

TEAM MEMBERS

The Department of Defense Office of the Deputy Inspector General for Auditing prepared this report. The following personnel of the Department of Defense Office of Inspector General significantly contributed to this report: Joseph S. Dobish, Michael J. Guagliano, Cathy M. Mitchell, William G. Vannurden.

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Members from Southwest Asia Joint Planning Group also contributed to this summary report: Mr. J.T. Mickey McDermott, Chair—Joint Planning Group, Southwest Asia/GWOT; Mr. Joseph P. Mizzoni, U.S. Army Audit Agency; Mr. John D. Lombardo, U.S. Army Audit Agency; Mr. James Durbin, Naval Audit Service; Mr. Charles E. Atkinson, Jr., U.S. Air Force Audit Agency; Mr. Joe Garcia, Defense Contract Audit Agency; Mr. Greg Schmalfeldt, Defense Finance and Accounting Service.

Chairman BYRD. General Griffin.

STATEMENT OF GENERAL BENJAMIN S. GRIFFIN, COMMANDING GENERAL, U.S. ARMY MATERIEL COMMAND

ACCOMPANIED BY:

JEFFREY PARSONS, EXECUTIVE DIRECTOR, U.S. ARMY MATERIEL COMMAND

LEE THOMPSON, PROGRAM DIRECTOR, LOGISTICS CIVIL AUGMENTATION PROGRAM, U.S. ARMY SUSTAINMENT COMMAND

General GRIFFIN. Yes, sir.

Chairman Byrd, Senator Cochran, and distinguished members of the committee, thank you for the opportunity to be here today with our Deputy Secretary of Defense, The Honorable Gordon England, and other key members of the Department of Defense, to discuss the adequacy of Defense contract oversight for Operation Iraqi Freedom.

As you know, our Nation has been at war for over 6 years. The length of the conflict and the operational requirements for our forces have created significant challenges in sustaining our warfighters.

I will state up front that we are not where we want to be today, in terms of contracting, but we have made significant progress.

We are committed to improve our ability and capability to provide not only first-class expeditionary contracting, but also to implement improvements across the entire contracting system.

I want to assure you that we are continuously improving our ability to meet the needs of our troops in conflict and are implementing many of the recommendations identified by the Gansler Commission and the Army Contracting Task Force.

As the commanding general of the U.S. Army Materiel Command (AMC), my number one priority is support to soldiers, sailors, airmen, and marines who are warfighters. In pursuit of that goal, our contracting employees play a critical role in supporting our Nation at war. We have never fought an extended conflict that required such extensive reliance on contractor support. This is not to say that we have not had contractors since the Revolutionary War. We have extensive contract support inside of the United States and overseas supporting the global war on terrorism—food, maintenance, and security, a couple of things you mentioned, Mr. Chairman. These dedicated people are working 24/7 in Iraq and Afghanistan. Many have been severely wounded, and some have made the ultimate sacrifice in service to our Nation.

We are aggressively moving out to implement many of the Gansler Commission's recommendations. AMC's most significant action is the recent establishment of the Army Contracting Command, which we stood up in March. And the new Director sits to my left. The Army Contracting Command includes two subordinate commands, a deployable, one-star-level Expeditionary Contracting Command focused on support to forward-deployed forces, and a one-star-level Installation Contracting Command focused on support for Conus installations and other missions support.

The Expeditionary Contracting Command will include our contracting support brigades, contingency contracting battalions, senior contingency contracting teams, and contingency contracting teams. Our five major contracting centers that support our Army Materiel Commands, Life Cycle Management Commands, and other major subordinate commands will also be realigned under this new command. All of this is designed to improve contracting, Army-wide.

Additionally, Army Materiel Command will realign the Logistics Civil Augmentation Program (LOGCAP) office as a direct-report to the Army Contracting Command executive director.

Today, the Army Sustainment Command has the following structure in place to provide management and overwatch of LOGCAP in Iraq and Afghanistan: a colonel in Iraq, a colonel in Afghanistan, and a GS–15 on the ground in Kuwait, leading over 100 personnel in the oversight of LOGCAP. In addition, the Defense Contracts Management Agency (DCMA) has 97 personnel, primarily in Iraq and Afghanistan, performing LOGCAP contract management. It has appointed over 500 contracting officer representatives in Iraq and Afghanistan from operational supporting units to assist in day-to-day oversight of contractor performance.

We also assigned two senior executive service personnel to further enhance our leadership and management of LOGCAP. One is responsible for LOGCAP program management—Mr. Lee Thompson, who sits to Mr. Parsons's left—and one is responsible for the

acquisition center that awards and manages the LOGCAP contract. The alignment of the LOGCAP program under the new Army Contracting Command places emphasis on a single advocate with accountability and responsibility for contracting in theater and for expanding our surge and contingency capability. I think everybody here understands you need accountability, responsibility, and authority.

Here with me today are Mr. Jeff Parsons, the executive director of the newly established Army Contracting Command, and Mr. Lee Thompson, the program director for the Logistics Civil Augmentation Program, LOGCAP. These gentlemen are an integral part of Army Materiel Command's contracting role in Iraq.

We are also working with the Department of the Army and the Secretary of Defense in the implementation of other Gansler Commission recommendations to improve doctrine, training, and workforce development. To that end, we have developed a number of training initiatives to better prepare our military and civilian contract personnel, prior to their deployment, to support the Joint Contracting Command in Iraq and Afghanistan. We are capturing lessons learned as the soldiers and civilians return from deployments in Iraq and Afghanistan, and are using this feedback to improve our training.

I appreciate the Senate's support of our Army's efforts to provide our Nation's warfighters and allies with quality products and services. We need your support for our efforts to increase the size, the structure, and the training of our Government contracting workforce, both military and civilian, as outlined in my written statement, which I respectfully request be submitted for the record.

You have my commitment that we will continue to pursue improvements in our contracting process and workforce. Our warfighters and our taxpayers deserve no less.

I look forward to your questions.

Thank you.

Chairman BYRD. Without objection, the item will be included in the record.

General GRIFFIN. Thank you, sir.

[The statement follows:]

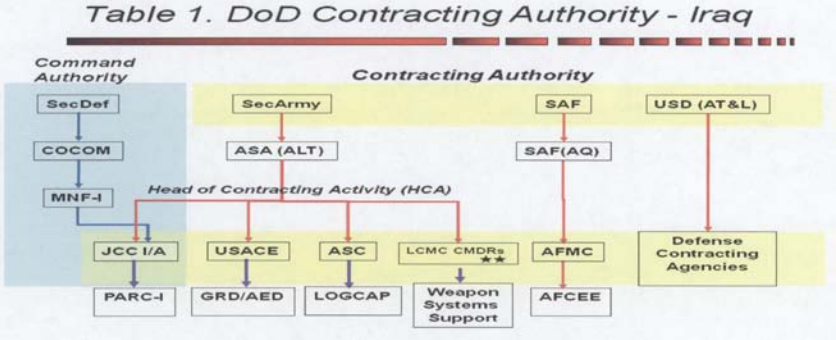
PREPARED STATEMENT OF GENERAL BENJAMIN S. GRIFFIN

Mr. Chairman, Senator Cochran, and members of the Committee, I thank you for the opportunity to appear before you today to discuss the adequacy of defense contract oversight for Operation Iraqi Freedom. To do this, I will describe how AMC is addressing the issues identified by the Commission on Army Acquisition and Program Management in Expeditionary Operations, which released its final report, "Urgent Reform Required: Army Expeditionary Contracting," on October 31, 2007; and by the Army Contracting Task Force which completed its work in March 2008.

Before I begin, however, I would like to ensure that the Committee understands the role of the Army Materiel Command's contract oversight and authority in U.S. Central Command's theater of operations. As shown in Table 1, Command authority flows from the Central Command (CENTCOM) Commander to the Multi National Force—Iraq (MNF–I) Commander, to the Joint Contracting Command Iraq-Afghanistan (JCC–I/A) Commander. Contracting authority flows from the Secretary of the Army to the Assistant Secretary of the Army, Acquisition, Logistics, and Technology, designated as the Army Senior Procurement Executive to the Head of the Contracting Activity.

The Army Heads of Contracting Activities engaged in the writing and the execution of contracts in support of Operation Iraqi Freedom: the Joint Contracting Command Iraq-Afghanistan (JCC–I/A); the Army Materiel Command's Life Cycle Man-

agement Commands; the Army Materiel Command's Army Sustainment Command; and the U.S. Army Corps of Engineers. Today, neither the Army Materiel Command nor the Army Contracting Command has contracting authority for any of these contracting activities.



Army Materiel Command's engagement in the CENTCOM theater of contracting operations primarily consists of the management and execution of the Logistics Civil Augmentation Program (LOGCAP) III contract, managed by the Army Sustainment Command located at Rock Island Arsenal, Illinois, a subordinate command of the Army Materiel Command. Additionally, equipment, maintenance and repair contracts are managed by the Army Materiel Command's Life Cycle Management Commands. These 2-star commands receive their contracting authority and oversight directly from the Assistant Secretary of the Army for Acquisition, Logistics, and Technology who is also the Army Senior Procurement Executive.

The Defense Contract Management Agency (DCMA), one of the Defense Contracting Agencies under the authority of the Under Secretary of Defense for Acquisition, Technology and Logistics has the responsibility for contract management of task orders awarded by the Army Sustainment Command under the LOGCAP III contract.

As you are aware, Secretary Geren chartered the Commission on Army Acquisition and Program Management in Expeditionary Operations chaired by Dr. Jacques Gansler, the former Under Secretary of Defense for Acquisition, Technology and Logistics, on August 30, 2007. The Gansler Commission provided an independent, long-term, strategic assessment of the Army's acquisition and contracting system and its ability to support expeditionary operations and sustain high operational demand in an era of persistent conflict.

To complement the work of the Commission, the Army Contracting Task Force was established in early September 2007, co-chaired by LTG N. Ross Thompson III, Military Deputy to the Assistant Secretary of the Army for Acquisition, Logistics and Technology and Ms. Kathryn Condon, Executive Deputy to the Commanding General at the Army Materiel Command. The task force mission was to take an intensive look at current Army operations and future plans for providing contracting support to contingency or other military operations. The task force findings and recommendations were consistent with those of the Gansler Commission. The Army Contracting Task Force final report was completed on March 17, 2008 and was presented to the Secretary of the Army.

The details of the report were included in the Army's submission of Section 849 of the National Defense Authorization Act for Fiscal Year 2008's report to Congress which also addresses all of the Army's actions underway to address Gansler Commission recommendations. Additionally, the report is being utilized by the Army Contracting Campaign Plan Task Force, established by Secretary of the Army in February 2008, to ensure that the Task Force and Gansler Commission's finding and recommendations are implemented as quickly as possible without the loss of momentum. This Army-wide contracting campaign plan will improve doctrine, organization, training, leadership, materiel, personnel and facilities. Achieving this objective will require resources, time, and sustained leadership focus.

The Gansler Commission made four overarching recommendations to ensure the success of future expeditionary operations: (1) increase the stature, quantity, and career development of military and civilian contracting personnel, particularly for expeditionary operations; (2) restructure organizations and restore responsibility to facilitate contracting and contract management; (3) provide training and tools for

overall contracting activities in expeditionary operations; and (4) obtain legislative, regulatory, and policy assistance to enable contracting effectiveness in expeditionary operations.

With regard to the first Gansler Commission recommendation—to increase the stature, quantity, and career development of the Army's contracting personnel—we have a number of initiatives underway. In June 2006, the Army approved a new force design structure consisting of 19-person Contracting Support Brigades, 8-person Contingency Contracting Battalions, 4-person Senior Contingency Contracting Teams, and 4-person Contingency Contracting Teams composed of Active Duty, Reserve, and Army National Guard personnel. Each Contracting Support Brigade will be commanded by a colonel. These brigades oversee Contingency Contracting Battalions commanded by lieutenant colonels, and Contingency Contracting Teams in the execution of the Army Service Component Commander's contracting support plan.

Prior to the Gansler Commission and the work of the Army Contracting Task Force, AMC had already taken action to increase the number of Contracting Support Brigades from four to seven; the number of Contingency Contracting Battalions from six to eleven; the number of Senior Contingency Contracting Teams from 15 to 18; and Contingency Contracting Teams from 105 to 153. This represents a potential increase of over 300 military personnel for a total of over 900 deployable military officers and non-commissioned officers. Sourcing for the proposed increases is currently being worked as part of the Department of Army Total Army Analysis process. Based upon the scope of the mission, we plan to augment the Contracting Support Brigades with deployable civilian personnel, including support from Army Criminal Investigative Division agents and Army Audit Agency officials to enhance and improve our ability to execute and manage contracts for expeditionary operations. Contracting Support Brigades will be located in the United States and overseas supporting operations in Southwest Asia, Korea, Europe, Africa, the Pacific, South America, and North America.

This new contingency contracting structure will provide ample professional development and growth opportunities for our military officers and non-commissioned officers, allowing them to progress in capability and experience from captains and sergeants, to colonels and sergeants major. This structure did not exist prior to Operation Enduring Freedom and Operation Iraqi Freedom. Not only will it enhance the development of our military contracting personnel, but also increase their stature once they are fully resourced.

Army Materiel Command has also identified the need to establish a Contracting Warrant Officer Corps. The Department is currently assessing this requirement. The technical expertise of Warrant Officers, coupled with contracting training and experience, would make them exceptionally qualified to fulfill the contract management and oversight role. If approved, this Warrant Officer Corps will consist of approximately 150 deployable military personnel with contracting expertise.

When deployed, Contracting Support Brigades, Battalions, and Teams will coordinate and integrate their plans with our seven Army Field Support Brigades, located in Afghanistan, Iraq, Korea, Hawaii, Germany, Fort Bragg, North Carolina, and Fort Hood, Texas, which provide logistical equipment support to deployed commanders—Army Materiel Command's face-to-the-field. These two brigade designs support the Army modular force in the execution of acquisition support, logistics, and technology activities needed to support and enable the full spectrum of operations.

In terms of career development, plans are also underway to move the accession point for contracting military officers two to three years earlier immediately following their Branch qualification at the captain level. This allows professional development and experience to begin earlier. For contracting non-commissioned officers, the accession point will occur upon achieving the rank of sergeant. We must also ensure the requisite training is accomplished prior to deploying on an expeditionary contracting mission, and it is our intent to defer deployment of military members during their first year in contracting.

In keeping with the Gansler Commission's second recommendation—to restructure Army contracting organizations and restore responsibility to better facilitate contracting and contract management in expeditionary and U.S. based operations—the Army Materiel Command, based upon direction from Secretary Geren on January 30, 2008, took action to establish a 2-star Army Contracting Command. At the same time, the Secretary directed the realignment of the Army Contracting Agency from the Assistant Secretary of the Army for Acquisition, Logistics, and Technology to the Army Materiel Command to become part of the Army Contracting Command. This new command is a major subordinate command to the Army Materiel Command. On March 13, 2008, the Army Contracting Command was activated in a provisional status, and on July 15, 2008 the Department of the Army approved the con-

cept plan for the new command. When fully resourced, this plan will increase our civilian personnel by more than 900 and our military personnel by more than 500. We anticipate initial operational capability on October 1, 2008 with a goal of full operational capability on October 1, 2009.

Our challenge will be to quickly resource and fill these new positions. This will take time. We are actively recruiting civilians and increasing accessions of military officers and non-commissioned officers into the Army Acquisition Corps. To enhance our hiring ability of civilian contracting personnel, we are pursuing direct hire authority from the Office of Personnel Management.

The Army Contracting Command includes two subordinate commands—a deployable 1-star level Expeditionary Contracting Command focused on support to forward deployed forces (including providing contracting personnel support for the Joint Contracting Command—Iraq and Afghanistan) and OCONUS installations; and a 1-star level Installation Contracting Command focused on support for CONUS installations and other mission support. The Expeditionary Contracting Command will include our Contracting Support Brigades, Contingency Contracting Battalions, Senior Contingency Contracting Teams, and Contingency Contracting Teams. Our five major acquisition contracting centers will be realigned under the Army Contracting Command to facilitate appropriate training, manning and work force development.

Additionally, the Army Materiel Command will realign the LOGCAP Program Office from the Army Sustainment Command to the Army Contracting Command as a direct report to the Executive Director. This realignment will place emphasis on a single advocate with the accountability and responsibility for contracting in addition to expanding our surge and contingency capability to resource staffing requirements with trained, skilled, designated and responsive expeditionary contracting capability.

The Army is moving out quickly to implement the third Gansler Commission recommendation—to provide training and tools. The Army is assessing opportunities to improve contingency contracting training at our Combined Training Centers. In April 2008, one of our Contingency Contracting Battalions participated in a situational training exercise held at the Battle Command Training Center on Fort Lewis, WA. This exercise focused on preparing military contingency contracting officers for rotation and integration into the Joint Contracting Command—Iraq/Afghanistan's current battle rhythm and contracting methodology. Training included tasks such as preparing a contracting support plan, coordinating with supported units, and the award, administration and close-out of service contracts. Through this exercise, participants gained "cradle to grave" knowledge of the contracting process in theater. Detailed after action reports are conducted after each training exercise and a survey is conducted 3–4 months after deployment to capture lessons learned. Our intent is to institutionalize such training in our Combined Training Centers and Battle Command Training Programs.

Several training and doctrine initiatives are underway and have continued to be a major focus for the Army. A final draft of the Joint Publication 4–10, Operational Contract Support was completed. The completion date for Field Manual Interim 4–93.42, Contract Support Brigade, was accelerated. The Army also worked with the Department of Defense to distribute the recently released "Joint Contingency Contracting Handbook." Leader education related to contracting and contractor management was accelerated. Development of FM 4–10, Commander's Guide to Contracting and Contractor Management was also accelerated.

The Army is continuing to modify and expand its leadership education curriculum related to the planning and management of Operational Contract Support with an enhanced focus on expeditionary operations. We have modified or added sixteen officer and non-commissioned officer professional military education courses to improve knowledge and skills in Operational Contract Support. The Army is also developing a 2-week resident course to train selected staff members (Brigade through Army Service Component Command levels) on how to plan for and manage Operational Contract Support and how to develop requirements packages.

To reduce knowledge gaps in training venues, the U.S. Army Training and Doctrine Command has developed a concept plan to add acquisition personnel to the Battle Command Training Program to support the Combat Training Centers. This new collective training capability will stimulate commanders and their staffs to solve expeditionary related tactical problems, will apply emerging doctrine to these tactical situations, and will promote a better appreciation of the challenge of integrating contractor support into military operations for both the Contingency Contracting Officer and the unit requiring the contract support.

At present the Army has put into place an intensive training and management program for our Contracting Officer Representatives which requires all Army Con-

tracting Officer Representatives to complete the Defense Acquisition University's on-line continuous learning module, "COR with a Mission Focus," prior to appointment. Army Materiel Command is working with the Department of the Army to ensure enforcement of this training.

In addition, Army Materiel Command has implemented a three-day Contracting Officer Representative training course for deployed forces in Kuwait. This training course requires nominated personnel to complete the Defense Acquisition University on-line training prior to attending onsite training. A performance assessment is conducted three to four weeks after a Contracting Officer Representative's (COR) appointment to evaluate how well he/she comprehends his/her roles and responsibilities in contract performance oversight. Since October 1, 2007, 485 CORs have been trained in Kuwait and as of June 1, 2008, 100 percent of service contracts in Kuwait have trained and appointed CORs providing contractor oversight.

To improve our contingency contracting training and doctrine, the Army is formally interviewing units as they return from theater to capture "expeditionary contracting" lessons learned and incorporate the findings into doctrine, training guides, and user handbooks. We are accelerating efforts to enhance leader education in contracting and contractor management and re-examining the training curriculum and timing for all newly accessed acquisition officers and civilians.

AMC is developing and fielding a Virtual Contracting Enterprise to provide electronic, web-based tools to enable visibility and analysis of our worldwide contracting mission.

In response to the fourth Gansler Commission recommendation regarding legislative proposals, the Army worked with the staff of the Office of the Secretary of Defense to develop legislative proposals to improve contracting effectiveness in expeditionary operations, including the Army's legislative proposal to establish five new general officer positions. Army Materiel Command requested three of those general officer positions for the Army Contracting Command; one, a seasoned contracting expert, would serve as a Major General Commander. This proposal will be presented to Congress during this session.

The work of the Army's Contracting Task Force has culminated in the implementation of significant reforms and corrective actions to eliminate deficiencies. These reforms and corrective actions resulted in significant improvements in the Kuwait contracting operations. Several new leaders are now in place; staffing was increased from 27 to 55 personnel through temporary duty assignment (TDY) augmentation and volunteers, including dedicated lawyers; ten additional military officers were sent to Kuwait for 90 days to review prior contracts; and new internal control processes for effective checks and balances were developed.

We also established a U.S. based office at the Army Materiel Command's Army Sustainment Command, located in Rock Island, Illinois to provide contracting support to Kuwait operations in the management and execution of $800 million in active contracts. Army Sustainment Command established a dedicated 15-member team, supported by legal professionals, charged to assist in resolving a number of claims, definitizing unpriced actions, and negotiating new contracts for requirements in ways that will result in significant cost avoidance or savings. The establishment of this capability leverages Army Materiel Command leadership and expertise. Our work continues with the orderly transfer of additional existing and future major contract actions from Kuwait to the Army Sustainment Command and eventually to the Army Contracting Command.

Finally, prior to the efforts of the Gansler Commission and the Army Contracting Task Force, Army Materiel Command recognized the need to make improvements in its contracting support to Operation Iraqi Freedom and Operation Enduring Freedom. We have learned many lessons from our early experiences with LOGCAP and are taking necessary steps to improve the execution and management of LOGCAP.

In 2004, Army Materiel Command took aggressive action to increase the number of personnel in the LOGCAP program office to better manage and execute the program. This allowed us to eliminate billions in unpriced task orders and reduce the cost risk to the Government.

In early 2005, the Army established a Senior Executive Service position to serve as the contracting and program director and provide overarching leadership/AMC established program offices in Iraq, Kuwait, and Afghanistan that are managed by Deputy Program Directors, who are all acquisition logistics professionals. In April 2007, the Army established a second Senior Executive Service position to separate contracting support from program management. This further enhanced our ability to provide oversight.

Additionally, we worked with the Defense Contract Management Agency to increase its support in theater. Today, there are 97 Defense Contract Management Agency personnel deployed in Southwest Asia augmenting our LOGCAP program of-

fices with contract management personnel. In addition to conducting reviews of the contractor's purchasing, billing, estimating, procurement and property systems, field personnel augment the program management teams with administrative contracting officers, quality assurance representatives, and property administrators whose responsibility it is to ensure contract compliance with contract terms and conditions. We also took action to deploy in excess of 50 U.S. Army Reserve Logistics Support Officers who augment the program office by assisting supported command units in developing their requirements. Furthermore, there are over 500 Contracting Officer Representatives, provided by the supported command units, who provide daily oversight of contractor performance.

Award fee boards are conducted every six months evaluating the contractor's performance, identifying areas for improvement, and assessing overall performance as it is measured against the award fee criteria. Board Membership consists of representatives from the supported commands, the LOGCAP Deputy Program Directors and the Defense Contract Management Agency. It is chaired by LOGCAP Program Director. Besides the Award Fee Evaluation Boards conducted every six months, there are monthly performance evaluation boards chaired by the supported unit. The Department of the Army also established a Contractor Acquired Property Review Board that ensures excess contract property is distributed to needed locations.

Based on lessons learned under the LOGCAP III contract, the Army developed a new acquisition strategy for LOGCAP IV that will utilize the services of three performance contractors to execute LOGCAP requirements and one contractor to support the LOGCAP Program Director in the management of the program and to conduct worldwide planning. LOGCAP IV contracts were awarded and task orders will be competed among the three performance contractors to ensure competitive pricing for required services. The award to three performance contractors provides the Army with increased capacity to respond to other contingencies foreign or domestic. The additional performance contractors minimize risk and ensure combat support/combat service support capability is responsive to worldwide contingencies.

In conclusion, while I primarily address the initiatives and resources AMC is pursuing to improve our Expeditionary Contracting capability, the success of future operations is a joint responsibility and will require DOD solutions and resourcing. To this end, we continue to work with our sister Services, the Joint Staff and other defense agencies.

Expeditionary military operations in Iraq and Afghanistan have placed extraordinary demands on our contracting system and the people who make it work. The vast majority of our military and civilian contracting personnel perform well in tough, austere conditions. We know that the success of our warfighters and those who lead them is linked directly to the success of our contracting workforce, and we are working hard to ensure that contracting is a core competency within the Army. The Army's focus on contracting is not just for contracting professionals. Warfighters set requirements and help manage contract execution—their involvement in the contracting process is critical.

My number one priority is support to our Soldiers, Sailors, Airmen and Marines. Our contracting professionals are focused on supporting these warfighters and inspiring the confidence and trust of the American people. We must never lose sight of the outstanding work to support the war in Iraq and Afghanistan that our contracting and contractor personnel are doing 24/7. This support at times results in the potential for and reality of loss of life and injury.

Our challenge is to ensure we have adequate structure, policy, and personnel who are trained to do the job in the right place at the right time—continually performing at an ethical standard that upholds Army values. This will not be easy. It will take time, but getting it done is essential. We cannot and will not fail—our warfighters and our taxpayers deserve no less.

Thank you for providing us with this opportunity to address the Army's oversight of contracting to support expeditionary operations. I look forward to answering your questions.

WEAPONS MISPLACED IN IRAQ

Chairman BYRD. Secretary England, in a July 2007 report, the Government Accountability Office found that unclear DOD guidance, inadequate staff, and insufficient technology resulted in poor accountability of over 190,000 weapons provided to Iraqi security forces. DOD concurred with GAO's recommendation to identify accountability procedures with a program to train and equip the Iraqi

security forces. However—I stress this, and I want to speak loudly and clearly—however, as of March 2008, DOD had not developed the necessary procedures.

Can you tell the committee whether or not those procedures have been developed and implemented yet? Have all the missing weapons been accounted for? And what additional oversight is planned to ensure that weapons accountability continues?

Mr. ENGLAND. Chairman Byrd, as I recall, we started this investigation, we turned it over to the DOD IG, because there were some fundamental issues. We did work to put procedures in place in parallel, but I can't tell you today exactly if they went out or not, so I don't have the specific status; I will have to get back with you on that.

[The information follows:]

The National Defense Authorization Act, 2008, Public Law No. 110–181, Section 1228, requires the President to implement a policy to control the export and transfer of defense articles into Iraq, including the implementation of a registration and monitoring system. The Department of Defense, through Multi-National Force—Iraq (MNF–I) has implemented many policies and procedures which will help meet the intent of this law as it comes into effect in late July 2008. First, Multi-National Security Transition Command—Iraq (MNSTC–I) implemented a database tracking system for weapons accountability. Following the Government Accountability Office (GAO) report of July 2007, MNSTC–I requested that the Department of Defense Inspector General (DODIG) conduct an inspection in October 2007. In implementing GAO and DODIG recommendations, MNSTC–I reconciled serial numbers of weapons and created a weapons database. All small arms procured for the Government of Iraq (GoI) through MNSTC–I, either from Iraqi Security Forces Fund (ISFF) or Foreign Military Sales (FMS), are now registered by serial number in this database, which is managed by MNSTC–I logistics personnel. Additionally, 100 percent serial number inventories were completed on all weapons held at Taji National Depot and Abu Ghraib Warehouse, enabling reconciliation of the database. MNF–I has worked to establish an unbroken chain of custody for the accountability and control of munitions under U.S. control from entry into Iraq to issuance to the ISF. The number of logistics and property accountability specialists in country (in MNSTC–I, in particular) has increased and increased security procedures throughout the chain of custody have been implemented. MNF–I has worked with the ISF to build their property accountability systems and structures. In July 2007, MNF–I partnered with the ISF to establish an M–16 Biometrics Program that links individual soldiers to the particular weapons they are issued. Prior to weapons issue, each soldier is required to provide biometric data in the form of a retinal scan, a voice scan, and fingerprints. In addition, soldiers' personnel and payroll data are verified before a weapon is issued. The final step in the process is to take a picture of each soldier holding his new weapon with the serial number visible. Similar biometric procedures have been implemented for Iraqi police badge and weapon issue, as well, and the Ministry of Interior requires policemen to present their identification card and weapon in order to receive monthly pay. The fidelity of data and level of detail captured in these accountability procedures are significant.

In coordination with the Iraqi Ground Forces Command (IGFC), MNSTC–I established an Iraqi/Coalition joint inspection team in October 2007 to inspect and assess Iraqi Divisions' equipment records and verify on-hand quantities. MNSTC–I was able to establish a baseline of where weapons are located and provide an operational snapshot of accountability in several Iraqi divisions. This data was utilized to reconcile the Coalition issue log with Iraqi hand receipts and assess the effectiveness of ISF accountability procedures.

Contractor delivery of weapons in theater has been further regulated. Since September 13, 2007, the Joint Contracting Command Iraq/Afghanistan (JCC–I/A) has ensured that all weapons contracts to procure and deliver munitions include a number of clauses to increase accountability. Contracts now require vendors and shippers to do the following: deliver munitions to Iraq through U.S. controlled ports of entry within Iraq; provide serial number lists electronically in advance of any weapons shipments to Iraq; post serial numbers on the inside and outside of weapons shipping containers; and provide en route visibility of weapons and munitions, to include the arrival dates and times of munitions cargo being delivered to Iraq.

Mr. ENGLAND. I do know there's a specific effort that was underway by the DOD IG to look into this whole matter. The impression I have is that we did take the corrective action to track those, and we do have a requirement, I believe, now by the National Defense Authorization Act (NDAA) to actually track those individual weapons. So, I will get back with you on the specific status, but I believe that was a requirement of last year's NDAA, in terms of tracking of each individual weapon in Iraq—not just pistols, but every kind of weapon. So, I will get back with you, sir, on the specific status in complying with that legislation.

Chairman BYRD. Do you know if the 190,000 weapons have been recovered?

Mr. ENGLAND. Mr. Chairman, I recall these conversations, but, I'll tell you, I can't—I cannot tell you the specifics right now. I mean, this is—I was—I'm just not prepared to discuss that subject with you. That's not something I looked at in preparation for this hearing. Maybe one of my colleagues here has a specific on——

We'll just—I expect we'll have to get back with you on this subject, unless somebody has a very detailed status today.

Chairman BYRD. Can somebody answer that question?

[No response.]

Mr. ENGLAND. Looks like we'll have to get back with you on that, Senator. So, we will close the loop with you after this hearing.

Chairman BYRD. All right.

LOSS OF U.S. COALITION PROVISIONAL AUTHORITY FUNDS IN IRAQ

Secretary England, a few months ago the Appropriations Committee held a hearing on fraud and corruption in Iraq. Several issues were raised relating to missing Coalition Provisional Authority (CPA) funds. But, DOD's responses to these questions remain unclear. Unclear. There was the suggestion that these funds were Iraqi funds and were no concern to the Department of Defense. But, when these funds disappeared, U.S. taxpayers were, and they continue to be, called upon to pay for Iraqi reconstruction. Since, at the time those funds disappeared, the Coalition Provisional Authority was answerable to the Department of Defense, I want to ask you to tell me the amount of Coalition Provisional Authority assistance and reconstruction funds doled out prior to the transition of power in Iraq that cannot be accounted for, and who is responsible for ensuring that those funds are accounted for, and what level of confidence is there that these funds did not make their way into—to join insurgent groups or militias.

Mr. ENGLAND. So, Mr. Chairman, I would tell you the person best capable of answering that is Mr. Stu Bowen, the special investigator for the Iraq reconstruction, so the SIGIR. And in my discussions with Stu Bowen in my office, this is one of the issues that they investigated in detail. And so, I would recommend we have Stu Bowen address that in detail with you, because that was specifically under his purview, and I believe—that is covered in one of his reports. So, there's been a number of reports by the SIGIR. I have to go back and take a look at those reports, but I believe that that is one of the issues that was covered by Stu Bowen, and I'll be happy to talk to Stu Bowen and get that data together for you.

[The information follows:]

The Coalition Provisional Authority (CPA) funds to which you refer are the $8.8 billion Development Fund for Iraq (DFI), an account that includes oil export sales from Iraq, balances from the U.N. Oil-for-Food Program, and frozen Saddam-era funds. The CPA, operating in a high threat environment, distributed DFI money to reconstruction projects and to Iraqi ministries.

Since December 2003, under U.N. mandate, the International Advisory and Monitoring Board (IAMB) has served as the oversight body for the DFI. The IAMB's July 15, 2004 audit report, after reviewing the CPA's management of DFI funds, concluded that all known oil proceeds, reported frozen assets, and transfers from the Oil-for-Food Program have been properly and transparently accounted for in the DFI.

Acknowledging that CPA operated under challenging circumstances, the IAMB report noted that the lack of oil metering and other problems made it difficult to determine that all DFI disbursements were made for the purposes intended.

Chairman BYRD. Senator Cochran.

Senator COCHRAN. Mr. Chairman, thank you.

General Griffin, last fall the Gansler report was released, and it contained some recommendations for changes in personnel, organization, and training of the Army's contracting forces. I understand that, in response to this report, the Army recently established a new Contracting Command that reports directly to you. Can you tell us how this effort will improve the Army's contracting oversight efforts?

ARMY CONTRACTING COMMAND

General GRIFFIN. Yes, sir. There were four areas that the Gansler Commission recommended: legislative, personnel, structure, and training. The Secretary of the Army wrote a letter transferring the Army Contracting Agency from the Assistant Secretary of the Army (Acquisition, Logistics, and Technology (ASA/ALT)) to AMC. With that transfer, we picked up the Army Contracting Agency.

We stood up the command. It'll be led by a future two star. Today, Mr. Parsons is the Senior Executive Service member who sits in that leadership position. We have come back to the Congress, now, asking for five general officer positions in the area of acquisition and contracting. One of those positions will be a two-star general officer who will follow Mr. Parsons. In addition, we have two subordinate commands there, one in charge of installation contracting and one in charge of expeditionary contracting.

This organization will give us a leadership contracting expertise level that we have not had before. We asked for 1,500 additional personnel; 900 of those are civilians and 500-and-some military. It will give us noncommissioned officers, officers, and now, for the first time, we've asked for warrant officers, and we will bring in a warrant officer corps, which will give us a technical level of expertise, not unlike what we have in our aviation community, that we've not had in the past.

On the personnel side, we've asked for direct-hire authority. That's now with the Office of Personnel Management (OPM). We've asked for direct-hire authority to speed up the process of bringing these folks onboard. But, we have a concept plan that's been approved inside the Department of the Army, which gets at the structure. The recommendation I made to the Secretary of the Army, and he approved, was a 3-year plan, which would bring the folks

on, get them trained, and start getting them into the field. That will tremendously augment the capability we have around the world today, both Conus and overseas, to augment our contracting.

Senator COCHRAN. One observation has been made, by someone in the region, that a major problem was the lack of adequately trained personnel. These are Army people who are involved in contracting with individuals and concerns in Iraq and Afghanistan. Do you have in place now a contracting process that is staffed with people who are better trained, or who will be? How have you addressed this concern?

ACQUISITION WORKFORCE TRAINING

General GRIFFIN. Well, for the training aspect, which I mentioned in my opening statement, we're capturing lessons learned from units as they redeploy. What we're trying to do is incorporate that into our training centers. We've expanded our training program in Kuwait for contracting-officer representatives who go into theater. I think we've trained in the neighborhood of 500, now, of those personnel. We've expanded some training at the Defense Acquisition University. But, across the board, we've looked at training at each level where we need the expertise.

What the Army Contracting Command will give us, which we've not had in the past, is the expertise and the oversight and a command structure for our acquisition workforce—for, really, contracting folks, unlike we've had in the past. And it'll help us, both from an expeditionary, as well as an installation, because we have some challenges, from an installation standpoint, as well in contractor oversight.

Senator COCHRAN. Secretary England, let me ask you if, departmentwide, there has been an effort to look at lessons learned, in terms of well-trained, capable contracting officers in the region to deal with this issue across the Department of Defense. Apparently, the Army has made changes, and is making an effort to deal with some of these problems. What's being done at the Department level?

Mr. ENGLAND. So, Senator, as you comment, the primary responsibility is in the Army, because they are the agent for the Department of Defense to do that. So, almost all the responsibility lies within the Army, but we have—in response to the Army, adjust whatever policies we need to, to support 'em. So, for example, they need more general officer slots, and so, legislation has come forward to the Congress to provide those particular slots in the Army. So, whenever we need DOD actions—we meet regularly on this subject—whenever there's actions needed at the Office of the Secretary of Defense (OSD) level, we work to support the Army, in terms of broader policies or legislation. We will continue to do that. If we need to expand—for example, IG or other organizations, DCMA or organizations like that—then we handle—agree with that—we handle the budget, we make sure they have slots available. So, we do whatever we can to facilitate the actions that people feel they have to do to have broader capability across the Department. But, it is specifically within the Army, in this case. And then the oversight, of course, are in many agencies, including the investigative agencies, while our primary investigative agency is

the Defense investigative agencies—we have those in the Air Force, in the Army, in the Navy—so, we have a number of investigative services. They are also all involved in this process, obviously, when we're going to have convictions or investigations. So, however we can work across that whole range of capabilities, we do so at the OSD level.

Senator COCHRAN. Great, thank you.

Thank you, Mr. Chairman.

Chairman BYRD. Senator Leahy.

Thank you. Thank you.

LACK OF OVERSIGHT OF U.S. CONTRACTS IN IRAQ

Senator LEAHY. Thank you, Mr. Chairman.

Chairman, I'm a strong believer in the inspectors general procedures in the various departments. When they work effectively, I think they're very, very good.

Secretary England, I know you've expressed similar views. And, seeing Mr. Heddell here, I have a couple of questions—there's a recent audit by the Inspector General's Office that examined more than $10 billion spent on various commercial contracts related to the war in Iraq, found, out of those $10 billion, about $1.4 billion didn't have sufficient documents showing how the money was spent, more than $7 billion failed to meet the Defense Department's own requirements for payments. They ended up referring 1 out of every 25 of them for criminal investigations. And that's shocking enough, but that's on a very small sample even, about 1 percent of the total payments.

And, according to the same audit, more than 180,000 similar payments were never reviewed or audited, and those could involve billions of dollars of losses. When will those remaining payments be audited?

Mr. HEDDELL. Senator Leahy, any inspector general—and, I think, particularly the inspector general for the Department of Defense—would be very concerned about any of these. And, of course, with Defense we're talking about extremely large amounts. And we have a number of ongoing initiatives. Some are in the criminal investigative arena, many others are in the audit arena.

To give you a complete answer, referring to some of the things that you specifically mentioned, I'm going to, with your permission, ask Deputy Inspector General Mary Ugone——

Senator LEAHY. And my——

Mr. HEDDELL [continuing]. To answer part of that——

Senator LEAHY [continuing]. My basic——

Mr. HEDDELL [continuing]. If it's okay, but——

Senator LEAHY [continuing]. My basic question is, Will these others be audited?

Mr. HEDDELL. The answer to that is, yes, sir. We are concerned about any issues that you mention, and they're concerns to us.

[The information follows:]

Defense Finance and Accounting Service—Rome retains approximately 800,000 vouchers pertaining to the contingency expenditures for the military's activities in Iraq, Kuwait and Afghanistan. These vouchers contain over 8 million pages of records with an approximate value of $14 billion. The effort that would be required to do a full audit of each voucher is not practical. To perform a full audit of each voucher would require an inordinate amount of our audit resources at the cost of

other ongoing projects. Instead of individually auditing each voucher we will be utilizing digitized versions of the records and applying data mining techniques, as well as traditional investigative methods to review the records.

To accomplish this, we have initiated a cooperative effort with the Defense Finance and Accounting Service. The Defense Finance and Accounting Service is the documents. These records, once scanned will be readily available for the Defense Criminal Investigative Service (DCIS), the criminal investigative arm of the DOD IG, and DOD IG auditors to review.

The Defense Finance and Accounting Service agreed that all of these historical records need to be scanned into a searchable database. This database is known as the Corporate Electronic Data Management System. Scanning the documents is a labor intensive process that is very time consuming. This spring, DFAS hired 65 summer employees to prepare and scan the vouchers into the Corporate Electronic Data Management System.

Once the vouchers are scanned, federal oversight organizations (to include DCIS) will be able to search millions of pages of records for information specific to subjects of investigations and other reviews. The DOD IG auditors and the Army Audit Agency are developing data mining protocols based upon the experience of the agents in the field. These offices are working together to avoid duplication of effort and to increase the likelihood of detecting fraud. Once fully developed the data mining protocols will be used by investigative and audit organizations to identify suspect vouchers and payments. The suspect vouchers will then be reviewed for sufficiency and appropriateness of the payments. All suspected illegal payments that are identified will be investigated.

While we are not performing a 100 percent review of all the vouchers, we feel our current approach is the best use of our time and resources. DFAS is in the process of scanning all voucher documentation which will allow oversight organizations ready access to all support documentation and will also enable the use of data mining protocols on a near real time basis. This will enable oversight organizations to identify potentially suspect payments much earlier in the process.

Senator LEAHY. And how long was that going to take?

Mr. HEDDELL. Well, I'd have to look at each individual issue. Mary, here, may be able to answer specifically on each one, but these audits, I can tell you, generally take—from beginning to end, you're talking at least 6 months. I know that's a long time. It depends on the issues, the scope of the audit, and what kinds of resources are available. But, these are very important issues to us, and so, they would get top priority.

Senator LEAHY. But, your testimony today is that they all will be completed.

Mr. HEDDELL. They will be, yes, sir.

Senator LEAHY. Ms. Ugone, did you want to add anything to that?

Ms. UGONE. I just wanted to say, the context of that audit, it was started in May 2006 because the Defense Criminal Investigative Service (DCIS) was concerned about $10.7 billion of vouchers in a warehouse, Defense Finance and Accounting Service (DFAS) room. And we came in to look at completeness and accuracy. We drew a statistical sample, based on dollars, and we had a 90-percent confidence level. But, we were still working with our agents. The agents and DFAS are scanning every voucher. That's going to take quite a bit of time, I think—if you work two shifts, it might take—24 hours a day—it would probably take 9 months to look at it. So, it's been a joint effort.

And the issue with us was, these are commercial vouchers, mostly, that we looked at that were out of Kuwait. We were concerned with the supporting documentation to provide the basis for a payment. So, we are going to be looking at it from an Office of the Inspector General (OIG) standpoint, yes.

Senator LEAHY. Do you need more——

Ms. UGONE. Scanning every payment voucher——

Senator LEAHY. Do you need more investigators? I mean, if we're talking about billions of dollars that may have been wasted or lost in fraud, do you need more investigators? Because I think most taxpayers would say it would be kind of nice to find out who defrauded whom and that somebody should go to jail.

Mr. HEDDELL. Senator Leahy, you know, any inspector general is going to say that they need more resources. But, when you look—I mean, the answer to your question is, yes, sir—but, when you look at the responsibility that the inspector general covers at the DOD, when you're talking about issues like defective products, terrorism, technology transfer, healthcare, financial crimes, the whole range of issues, those are just on the criminal side——

Senator LEAHY. Mr. Heddell, I'm—you know, I'm aware of that. And I'm aware of how they—the criminal law works. I was a prosecutor for 8 years, and I know that you can't cover every single thing. But, if these audits show, already, the potential of billions of dollars that's lost and defrauded, I'm far more worried about that than I am that somebody who may have, at a military base somewhere, topped off their personal car and—although with the price of gas today, I guess that does mount up. But, somebody who did that improperly—I'm far more interested in these billions of dollars, I'm far more interested if there were people, whether in the contractors or individual subcontractors or whatever, thought they could get away with it. And I'm far more interested in seeing some people, not just have to pay back a fine, which they may consider just a cost of doing business, but I'd like to see some people go to jail. You know, again, I—maybe I'm putting my own background of a prosecutor, but I always felt that, in some of these major commercial frauds, people are very willing to pay a fine, it's the cost of doing business; when they actually thought they were going to spend some time behind bars, they tightened up their procedure.

So, are we going to get to those kind of things?

Mr. HEDDELL. Well, I'd like to tell you yes, and I intend to make it possible, Senator Leahy, but a lot of these investigations are led by the United States attorneys' offices, and so, the timelines, to some extent, are affected——

Senator LEAHY. Well, then let me ask you——

Mr. HEDDELL [continuing]. By that.

EXTENDING THE STATUTE OF LIMITATIONS

Senator LEAHY [continuing]. About that, because during past wars, we found—World War I, World War II—we've been in Iraq now longer than we were in World War II—but in World War I, World War II, when Congress was afraid that auditors might not be able to complete the investigation of contracting fraud in time—remember the Truman Commission, things of that nature—they passed a law to suspend the statute of limitations during wartime, to make sure no one illegally profited by fraud. And I have introduced, along with Senator Grassley, bipartisan legislation, the Wartime Enforcement Fraud Act, S. 2892, that would extend the statute of limitations, just as we've done in past wars.

So, my question is, would such legislation give you enough of a breather and give you more time to do your investigations?

Mr. HEDDELL. I'm aware of that legislation, sir. And absolutely that proposal would be very beneficial to my office, and probably other inspectors general.

Senator LEAHY. Secretary England, do you agree?

Mr. ENGLAND. Sounds appropriate—Senator, it sounds appropriate to me. I mean, there's no question, we don't want waste, fraud, and abuse, and if people are guilty of it, they need to be prosecuted and indicted and convicted. So, whatever facilitates that, I'll definitely support.

Senator LEAHY. And I understand, in a war zone, it's not easy to complete these, and that's why I want to give you more time. Thank you.

Thank you, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATRICK J. LEAHY

Today, the Appropriations Committee continues rigorous oversight of how the Defense Department has spent more than $600 billion authorized for the wars in Iraq and Afghanistan. The stories of billions lost to fraud, waste, and abuse during these wars are now all too familiar. This Committee, as one of the main checks on this administration's wasteful war spending, must not only follow-up on these outrageous reports, but dig deeper and ask tougher questions to make sure that those who are responsible for this fraud, waste, and abuse are held accountable under the law.

I want to thank Chairman Byrd for calling this hearing, and I will continue to support his longstanding and consistent efforts to make sure this Committee carries out its oversight duties, particularly over wasteful wartime spending.

Just two months ago, the Defense Department's Inspector General issued a new audit of $10.7 billion in payments on basic commercial contracts during the wars in Iraq and Afghanistan. This audit confirmed yet again that American taxpayers have no clear picture of how billions of dollars have been spent in Iraq and Afghanistan. This audit found that there were no documents to show how $1.4 billion was spent, and more than $7 billion was spent without following the law or the Defense Department's rules. In some cases, there was no invoice showing what services were provided; in other cases, there was no record of who received the payment or for what purpose. These individual contracts often involved millions of taxpayer dollars, yet the Defense Department had no record of how the money was spent. The findings were so serious that the Inspector General referred one out of every 25 contracts for criminal investigation. This is unacceptable, this is wrong, and this is another example of this administration's mismanagement of the wars in Iraq and Afghanistan.

We need to do more than ask tough questions. We need to start holding those responsible for this fraud accountable, and I hope our witnesses today will shed new light on the steps being taken to investigate and prosecute those who improperly received money or defrauded the government. I was particularly concerned that this audit was based on a review of only a small sample of contracts, less than 1 percent of the total. According to the audit, there are still more than 180,000 similar contracts to review that would lead to more than 700 new criminal investigations involving hundreds of millions of dollars. I hope that our witnesses today will explain what efforts they have taken to carefully review all these remaining contracts, particularly where there's such a high risk for fraud.

I expect that we will also hear today how the task for reviewing and investigating these contracts during times of war is difficult and time-consuming. While this may be true, it is no less important that we continue these reviews. I have introduced legislation to give the government more tools to address this problem. In the last three Congresses, I have introduced the War Profiteering Prevention Act, which would give prosecutors and investigators the ability to pursue war profiteers overseas and those who take advantage of so-called "cost plus" contracts to defraud our Nation.

Along with Senator Grassley, I have also introduced the Wartime Enforcement of Fraud Act, which would extend the statute of limitation for contract fraud offenses during wartime. In past wars, Congress has suspended the criminal statute of limitations in order to give auditors and investigators more time to complete their re-

views of wartime contracts. This bill would do the same thing for the wars in Iraq and Afghanistan.

This bill is important to make sure that those who have taken advantage of our nation during times of war shall not escape unpunished.

I look forward to hearing from out witnesses today, and I encourage them to redouble their efforts to combat fraud, waste, and abuse in Iraq and Afghanistan, it continues to undermine the efforts of our troops and to squander American's hard earned money overseas.

Chairman BYRD. Senator Craig.

Senator CRAIG. Mr. Chairman, thank you.

ARMY REQUESTS ADDITIONAL GENERAL OFFICERS

General Griffin, our ranking member has discussed the Gansler Commission and its recommendation, and you've responded, speaking to the needed positions—five general officers recommendations sent up and four other proposals that you've mentioned. Let me fast-forward here. Given the uncertainty of legislative movement on The Hill at this time, and a near shutdown by Congress on any further activity this year, would you fast-forward for me, Who are you working with? I assume, the Armed Services Committee. And do you have any commitments to move this forward? And what is the importance of the timeliness of these actions so that you can proceed with those recommendations?

General GRIFFIN. Well, sir, the Secretary and the Chief made a decision very early on to move some senior personnel to the Army Contracting Command. So, those three leadership positions inside of the Army Contracting Command are filled today; one by a two-star equivalent SES, Mr. Parsons, one by a colonel newly promotable acquisition contracting officer, and one by a one-star SES equivalent acquisition contracting expert. So, first I want to leave you with the idea that they are, all three—very competent people there today.

The plan for the future, with the five general officer (GO) positions, is to have a position where we will promote a general officer into that two-star level that would be the commander of the Army Contracting Command. And we're still working this, in the specific allocations, but we envision two other GO positions in that Army Contracting Command—two one-star positions. Then, a fourth general officer position would be in the ASA/ALT from the Office of the Army Staff, Assistant Secretary of the Army (Acquisition, Logistics, and Technology) and that would be a two-star position. And one, I believe the plan is to put it in the Corps of Engineers. We submitted the request through OSD, and it was sent over to the Office of Management and Budget (OMB). And OMB now has passed it to the Congress. But, sir, I don't know the status of it right now, but we—I will come back to you. But, we are aggressively working the resourcing of those five GO positions.

[The information follows:]

On March 14, 2008, the Secretary of the Army, Pete Geren submitted a memorandum for the General Counsel of the Department of Defense on submission of legislative proposal to implement recommendations of the Commission on Army Acquisition and Program Management in Expeditionary Operations (Gansler Report).

This memorandum requested the establishment of five new Army General Officer positions in the Active Component and requested that it be staffed and submitted as a fiscal year 2009 legislative proposal. Prior to submission this request was re-

viewed by the Office of the Judge Advocate General, Army, the Officer of Army General Counsel, and coordinated with Army leadership.

On June 27, 2008, Acting General Counsel of the Department of Defense, Daniel J. Dell'Orto submitted formal correspondence to the President of the Senate, the Honorable Richard B. Cheney and Speaker of the House of Representatives, the Honorable Nancy Pelosi that Congress enact the request for five new Army General Officer positions as part of the National Defense Authorization Bill for fiscal year 2009.

Senator CRAIG. Well, my point here is, as we shut down for——

General GRIFFIN. Yes, sir.

Senator CRAIG [continuing]. In late September——

General GRIFFIN. Yes, sir.

Senator CRAIG [continuing]. Obviously, and we may not be back——

General GRIFFIN. Yes, sir.

Senator CRAIG [continuing]. Until early next year, or the Congress may not, depending—I would hope that—if there is some sense of urgency, it's expressed, and we can work with the chairmen of the appropriate committees to make this happen.

General GRIFFIN. Thank you. Thank you.

Senator CRAIG. Mr.—Heddell, is it?

Mr. HEDDELL. Yes, sir, it is.

CONSTRUCTION CONTRACTS IN AFGHANISTAN

Senator CRAIG. GAO cited serious problems with construction contracts in Afghanistan as far back as 2005, buildings that had not been started, had been left unfinished, even though the contractor involved had been paid for a completed project. Where I'm headed here is that, if we are moving personnel into Iraq, if there is going to be an intensive—a more intensive effort there, where are we with the facilities now? Where are you going, or have you looked forward into that situation to understand exactly where we might be—where these delays have put us? And are we prepared to meet those needs?

Mr. HEDDELL. I appreciate that question, Senator Craig. Being relatively new at the DOD, I'm aware of the issues that you've mentioned. I'd like to ask, with your permission, Deputy Inspector General Ugone, who is aware of that and can answer that question.

Senator CRAIG. Thank you.

Please.

Ms. UGONE. Thank you, sir.

With respect to Afghanistan, we have ongoing coverage. Particularly of importance to us is the Afghanistan Security Forces Fund, which is used to equip the Afghan police and army forces. We have ongoing work now. The team just redeployed back to the States. They spent 4 months there, looking at various types of issues, real property transfer, equipment accountability, and we also coordinated with the munitions assessment team on weapons accountability. And we think that's a very important country in the region. We have a regional strategy when we do our audit work, and we also are looking at contractor common-access cards, which, frankly, give contractors access to pretty much any facility here in the States, as well as forward, and that's of importance to us, as well.

So, there's quite a bit of initiatives that we're moving into Afghanistan, and we plan to also increase in Iraq, as well.

I hope that answers your question.

Senator CRAIG. Well, I—it may. You talk about what you're doing. Where are the problems you now see that need to be corrected if there are some that relate to a potential surge or a substantial deployment of U.S. personnel additionally into Afghanistan?

Ms. UGONE. Well, the issue that we have is similar to the issues that we have identified in a summary report. And as we've said before, we haven't reported out yet. We haven't drafted our report. Our preliminary observations, we have alerted the command in country, Combined Security Transition Command. We've alerted them to some preliminary issues. And those issues are not dissimilar to what we've already identified in our summary report, lessons learned. We have not yet drafted our report. Our team just returned at the end of June, and they had been there 4 months.

Senator CRAIG. When do you expect that report to be drafted and available?

Ms. UGONE. We're going to be doing a series of reports, draft reports. Normally, what happens is, in accordance with our standards, as well as to obtain management comments, there will be a series of drafts, starting in July, then August, then September; finals should be coming out beginning in, I believe, September, for the real property transfer issue that we are working on.

Senator CRAIG. Thank you.

Thank you, Mr. Chairman.

Ms. UGONE. Thank you, sir.

Chairman BYRD. Thank you.

Senator Murray.

ACCOUNTABILITY FROM U.S. CONTRACTORS

Senator MURRAY. Thank you very much, Mr. Chairman, for holding this really critical committee hearing. Obviously, this committee appropriates a lot of money, and we have a responsibility for oversight, and I really appreciate your taking the time to allow us to look at this closely.

I know my colleague Senator Dorgan has done an incredible amount of work on the issue of electrocution, and is going to focus on some of that in his questioning. And I want to thank him publicly for his work on that. I look forward to his—your responses to his questions.

But, let me ask a broader question to you, Secretary England. And I understand that this contract oversight is very difficult for our military. You're—you've been asked to fight two wars in a period of immense transition, and I—we know the military doesn't have the resources to carry out every task associated with this conflict. And that is, of course, why we do have contractors today.

Ideally, they provide a service for a cheaper amount for taxpayers, and do it well. But, I think we're all deeply concerned about the stories that we're hearing about tax dollars being wasted on fraudulent billing, on dead-end projects, on lack of accountability. And I understand that Defense contractors don't have to respond to the same chain of command as our servicemembers, and the oversight is difficult. However, it's just difficult for me to believe

that the DOD is helpless in using any kind of leverage against these—in order to secure favorable outcomes from them.

Can you tell us, or describe to this committee, what processes or leverages you do have in order to have accountability and make sure that tax dollars are being spent more wisely than what we—what it appears we have been seeing?

Mr. ENGLAND. Certainly, Senator.

Senator, first let me say—I mean, I firmly believe almost all of our contractors are forthright, honest, and do a very good job for us. The ones we hear about are the cases where people do bad things, and that's the way it always is; you always hear about the bad things, but there's a lot of good things. And without the contractors, frankly, we couldn't do these jobs that we do, in terms of DOD and for our military.

A comment about a lot of the functions that the contractors do for us when our military is not as large as it was, but also, it's now an All Volunteer Force, and, frankly, a lot of these types of jobs contractors do, our military people did not join the military to do these kind of jobs. They joined the military to be fighters and do a military job. So, we have come to rely on contractors. And, frankly, I believe that is appropriate as an adjunct to an All Volunteer Force.

That said, there are always situations where people either misbill—maybe deliberately, sometimes inadvertently—maybe they don't have sufficient data. A lot of these cases are looking for sufficient justification. It's not that they've done something wrong, it's there's not sufficient justification, so we need to have additional justification for the billing.

But, we have contracts that we have DCMA, here, our audit—not the audit agency, but our contracting, across the board, that assists—and they can discuss this somewhat—that assists all of our contract personnel. But, when people overbill, one, we correct that, and we get those monies back. So, if there's been an error, or even deliberate, we get that money back. So, if there's an overbilling, it comes back to us.

Now, if people do something fraudulent—I mean, if they break the law—and there are people who obviously break the law, like they do in any other endeavor—then we do have investigative agencies, starting with the Defense Criminal Investigative Agency that comes under IG. And, as I've said, we have those in all of our services.

Senator MURRAY. Well, yeah, I understand that. Is——

Mr. ENGLAND. And we prosecute——

Senator MURRAY [continuing]. It is a problem—are you——

Mr. ENGLAND. And we prosecute——

Senator MURRAY. And are we——

Mr. ENGLAND [continuing]. Those people. It just——

AGRESSIVE PROSECUTION OF WRONGDOING

Senator MURRAY [continuing]. Aggressive about that? I mean, I can see a case where the military is very reliant now on private contractors to do an incredible amount of work, and it's important—I can see a tendency for the military not to aggressively pros-

ecute or go after any of these contractors because of the close reliant relationship. Should that be a concern?

Mr. ENGLAND. Senator, I hope it's not a concern. I mean, when we know of cases of people who break the law, we have investigations, and we work with the Department of Justice, and we work to go prosecute those cases. I mean, I, somebody made that comment—I guess, Senator Leahy—I mean, we do make examples of people, so people understand that this system works appropriately and properly. And so, we do prosecute people, every opportunity, and when we have the information. I will say, sometimes it's harder in a war zone, so maybe the data's not—you know, it's harder to come by, in some circumstances. But, I can tell you, all the discussions I've had—I mean, this has been a very serious effort by all of our IG and investigative agencies to make absolutely certain that we prosecute people who have willfully done something wrong.

Senator MURRAY. Okay. Well, I—and I know Senator Dorgan's going to ask about the electrical situation, but it seems like when you've known something for that long, the question is, Where has the aggressiveness been? But, I want to let him focus on that question to you, unless you want to answer it really quickly here.

Mr. ENGLAND. No, I—I mean, we will talk about the—I think Mr. Shay Assad is better qualified than I am. But, in the electrical issue, I mean, the data is right, but not fully, I think, understood. While there have been significant—well, 16 people electrocuted—I mean, it's for a variety of causes, and I think it's important that we sit down and understand the variety of causes. I mean, we do have the one case of a fellow in the shower, but the cases are not people in showers. I mean, people sometimes grabbing a hot electrical wire when they're in their Humvee in the combat zone. There's people who literally fall into electrical wires. There's people working on the equipment. So, I think it's important to understand the source of all that. Mr. Assad has more of that to deal with.

If there is criminal negligence, then we definitely follow up on that. I mean, in most cases, when we investigate, we find out——

Senator MURRAY. Yeah. And my question was to——

Mr. ENGLAND [continuing]. That's not the case.

Senator MURRAY [continuing]. To the larger point, that there's a very close relationship now between the military and these private, very large companies, and your reliance on them to provide essential services for our military. Does that put the military in a tough situation in trying to prosecute any fraud that occurs with those, because of that important relationship?

Mr. ENGLAND. Senator, I would say not. I would say that companies themselves—they're like us, they do not want fraudulent people on their payrolls. I mean, they want to do the job right, because they're in business, most of these companies, for a long time. I mean, they want to do business with us, so they try to do a very high-quality, excellent job for us every day. And when they have employees that break the law or do inappropriate things, they have the same incentive we have, to go prosecute those people. I mean, they do not want people—I would say that's true with companies across America, you do not want employees that are not honest and forthright, in terms of doing their job every day. So, I think those

companies are aligned with us, in terms of prosecuting people who break the law.

Senator MURRAY. Well, thank you, Mr. Chairman. My time is up. I appreciate it.

Chairman BYRD. Senator Dorgan.

Senator DORGAN. Mr. Chairman, thank you. And thank you for holding this hearing.

Chairman BYRD. Thank you.

Senator DORGAN. Mr. Secretary, thank you for being here, and—appreciate all the witnesses.

POORLY EXECUTED CONTRACTS ENDANGER OUR TROOPS

I must say, I find all of this a pretty depressing situation. We are shoveling money out the door, and have been for a long while—almost three-quarters of $1 trillion, at this point, with very little oversight. We've barely scratched the surface on oversight. And the cases that I am well aware of—you know, the—it gives me precious little confidence that we're doing the right thing to address these issues. And I—what I'd like to do is ask questions about several areas. I don't know that we'll have sufficient time to get through them all.

But, on the issue of electrocutions, two mothers came to a hearing I held—I've held 17 hearings on these issues, only because there are precious few oversight hearings—two mothers came, whose sons were electrocuted in Iraq—one power-washing a Humvee, the other taking a shower. Originally, the Army suggested maybe the one taking a shower had taken a small portable appliance into the shower with him. It turns out that, of course, was not true. But, we had electricians, hired by the company that was involved in the electrical contracting, who left the company because they were upset about what the company was doing. They indicated that Kellogg Brown & Root was hiring people who were not qualified, didn't even know what basic grounding was, and so on. The testimony was pretty depressing, actually.

And so, it's clear that there was a lot of problems with the electrical wiring, and the contractor that had that contract—people have been electrocuted. And now, General Petraeus has asked the contractor that is the subject of allegations of shoddy work by employees who work for the contractor—has asked that contractor to go back now and do a review of all the wiring in Iraq.

Mr. Secretary, do you think that's an appropriate way to do a review of what's happening, to have the contractor that's the subject of the allegations go back and take a look at whether the work is good work?

Mr. ENGLAND. Senator, again, I'll let Mr. Assad cover this in more detail, but my understanding is, we're not going to just do that, we actually are going to have a group that will go out and independently audit, at least on a sample basis, to make sure that this work is being done appropriately. But, I think it's also to under—I think we do need to understand, maybe more fundamentally, how this whole system works with KBR and also the facilities, et cetera, because they do not have master electricians—I mean, everyone's not a master electrician. I mean, typically the

way they work anywhere—and, I think, even here in housing and all—there would be a master electrician, and people work for them.

That said, we are going to go audit this. We've also asked our organizations to go off and look at other buildings and start sampling other buildings in Iraq, not necessarily ones that KBR contracted. A lot of the buildings were just there when our military and personnel showed up. So, there is a lot of independent auditing that will be accomplished to ensure the safety of those buildings.

And perhaps I could have Mr. Assad say a few more words about that.

But, I agree with you, we want to have absolute confidence before our people use these facilities——

Senator DORGAN. Well——

Mr. ENGLAND [continuing]. That they're safe.

Senator DORGAN. Well, was General Petraeus not—I mean, my understanding is that General Petraeus made a decision and issued an order that KBR should go back and do a review of all the wiring contracted in Iraq. Is that not the case?

Mr. ENGLAND. No, I believe that's the case, but I believe that, also, the decision's been made that we will also then have other people sample that work to make absolutely certain it's been done correctly.

And so, can—someone else has more detail, I think, and——

Senator DORGAN. Well——

Mr. ENGLAND [continuing]. Can you help me, Assad?

So, we will sample that work to make sure that it is appropriate.

Mr. ASSAD. We're actually going to do two things: the sampling that the Secretary talked about and ensuring that we get more folks, from the Army Corps of Engineers and maybe Navy Facilities Command, on the ground who, in fact, can oversee the electrical work that is being done.

The principal work that KBR is doing, in the opinion of DCMA, was that the most important thing to do was to get an idea of what exactly was the total problem. And so, the most immediate way to do that was to get the contractor who is responsible for the maintenance of the buildings—most of the buildings that KBR oversees, they didn't construct, nor have they, frankly, done a lot of work in. They oversee the maintenance, and the maintenance is done primarily on an on-call basis. What we're doing is, we're changing that. In fact, we're inspecting all of the buildings, ground up, not just for electrical, but all safety issues, and then——

Senator DORGAN. Mr. Assad, my question—I apologize for interrupting.

Mr. ASSAD. Yeah.

Senator DORGAN. I may only get one question asked, if this is the case. My question was, Do you think it appropriate to ask the contractor, whose own employees have turned whistleblowers, saying that the contractor, among other things, is hiring third-country nationals who can't do the work because they don't know what to do, they're not skilled and qualified—to ask that contractor to go back and review the work? I—it just seem illogical to me.

Mr. ASSAD. I think it's appropriate to ensure that the contractor has qualified folks to do that work. And then—it's just as appropriate—and we will oversee what it is he's doing. And, as the Sec-

retary mentioned, on a sample basis, ensure that those inspections that he did are, in fact, accurate.

AEY AMMUNITION CONTRACTS

Senator DORGAN. Let me go to another case, if I might. Let me show a picture of Efraim Diveroli. This was an embarrassment, regrettably, on the front page of the New York Times, a 22-year-old chief executive officer of a company that was—essentially had been a shell company of the man's father in Florida, doing operations from behind a—an unmarked door in Miami Beach. He's 22 years old. He's the CEO of the company. He has a vice president that was a massage therapist, named David Packouz, 25 years old. And so, these two folks got $300 million in contracts. They're now—they've now been charged criminally.

But, I had Mr. Parsons in, in fact, with Mr.—with General Mortensen, the previous Deputy Commanding General of the Army Materiel Command, and the more I have looked at this, the more disgusted I have become. In fact, Mr. Parsons, you indicated—to me, I believe—that this company, AEY, looked good on paper, and you look at companies, not individuals. In fact, you and General Mortensen told me that even if the criminal charges were dropped, the Army Sustainment Command could reinstate the contract.

Let me ask a question about this. How is it that a $300 million set of contracts goes to a company that has a 22-year-old CEO and a 25-year-old massage therapist as a vice president, and they've done small contracting with the State Department, and found to be unfit, and, at that point, they get contracts for the Army Sustainment Command? Is that an embarrassment? It should be, in my judgment.

Mr. PARSONS. Sir, I'll address that. Yes, it is. After taking more time, looking at the investigation of this, we did find a flaw in the procurement process, in that we only require contracting officers to do past-performance reporting on contracts from $5 million. At the time, this company had held a lot of smaller-dollar contracts, where they had not performed well. That information was not in what we call our past-performance information retrieval system. So, when the contracting officer was making the selection of this contractor, that poor-past-performance information was not visible to her.

Now that we've seen that, we've seen that that is a—that's a mistake—it's a flaw in the process. The Army has initiated action, and so has the Office of the Secretary of Defense, to fix that. In the future, regardless of the dollar value, if somebody's performance results in a termination for default or a determination for cause, that information will be, now, included in the past-performance information retrieval system. I'm confident that if the contracting officer had seen that information, her decisions in that selection would have been different.

Senator DORGAN. Well, that's a different answer than you and General Mortensen gave to me in my office, is it not?

Mr. PARSONS. Yes, it is, sir. After we had met with you, we were still trying to gather additional data on AEY. That's when we discovered they had a lot of small-dollar contracts. Many of these were $3,000, $13,000, $200,000. And, again, because of that reporting

threshold requirement of only $5 million and above, these things weren't annotated in our database.

Senator DORGAN. Yeah.

Mr. PARSONS. And it is a flaw. And we appreciate your interest in it. It identified the flaw we had in that system. We've taken action to fix that in the future.

FAIR TREATMENT OF WHISTLEBLOWERS?

Senator DORGAN. And it just lacks common sense. I mean, it seems to me you'd take a look at a record of a company. And this just, on its face, looked foolish. I—you know, Mr. Secretary, you indicated that there's a lot of investigation going on, but, I have to tell you, I talked to you personally about the *Bunnatine Greenhouse* case. We've since had a case with Charles Smith. Bunnatine Greenhouse had the courage to speak publicly. She said the original contracts that were awarded over at the Corps of Engineers—she was the highest civilian contract official in the Corps—it was the most blatant contract abuse she had witnessed in her career.

And, incidentally, I called the person that hired her. She was, by all accounts, a terrific contracting officer. I called General Ballard, since retired, at home at night, and said to him, "General Ballard, tell me about Bunnatine Greenhouse, because she's just lost her job for speaking publicly about contracting abuse." And he said she was one of the finest people that he had ever hired. She was replaced by a person that had no contracting experience, and they had to send that person to school at night to get some experience. So, she was demoted because she spoke publicly about contracting abuse.

Now, 1 week ago—2 weeks ago, Charles Smith, who was the contracting officer for LOGCAP III, told us he was demoted, he lost his job—from General Johnson, by the way, who I'll mention in a moment—he lost his job because he indicated there was $1 billion of billing from Kellogg Brown & Root that was unsupported, and he was going to hold up the billing. And the folks from KBR said to him, "That's not going to happen." The next morning, he found he was demoted by General Jerome Johnson.

So, do you understand why someone who looks——

Mr. ENGLAND. So——

Senator DORGAN [continuing]. At all this and understands it, and gets no responses, really, is——

Mr. ENGLAND. So——

Senator DORGAN [continuing]. Concerned about it?

Mr. ENGLAND. So, Senator—but, that's not the way I remember it. Now——

Senator DORGAN. All right.

Mr. ENGLAND [continuing]. I know you called me about the young lady who was, at that time, talking—and I guess her name was Greenhouse; this was, maybe, 2 years ago, I'm not sure exactly—but, at your request, I did go back, and I had the whole case investigated. It turns out that particular lady was an SES, and 2 years prior to her testimony, she had gotten an unsatisfactory or something rating. That requires, if you have two or three of those ratings, that you be reduced to a GS–15 level. So, that action was be-

fore her testimony. I mean, it was not as a consequence of a—reporting contract abuse. I mean, it was before that incident.

But, I did ask the Army to investigate it. The Army IG looked at the case. In addition, it was reviewed by another party on—several times—because I wanted to make absolutely certain that we were not taking action against somebody because they were reporting issues. And I was convinced that what was happening was fair and equitable, in terms of the ratings, based on prior performance. So, I did not ever see a connection between those cases. And, I'll tell you, I was very scrupulous, in terms of working that with the Army at that time. So, I mean, I understand we disagree on that subject, but, at least from my point of view, I felt like we did investigate that thoroughly to make sure there was no connection.

CHARLES SMITH ALLEGATIONS

Senator DORGAN. If I might—I know I'm taking some extra time here; if you—if I might, I've seen all of those performance evaluations, and they started—she had "outstanding" performance evaluations—they started turning sour when the general who was heading the Corps of Engineers had a—the top contracting officer say, "You can't have these companies in the room while you're talking about the kind of contract you're going to construct for them. That's improper." And she began to blow the whistle. At that point, he began to decide, "You know what? We need to get her out of here, and so I'll do that with bad performance reviews."

But, even if one sets that aside, address the issue of Charles Smith, also on the front page of the New York Times, who was dismissed—in fact, never told he was dismissed, he simply showed up at a meeting, and General Jerome Johnson had replaced him overnight because he contested $1 billion in billings he thought were inappropriate from Kellogg Brown & Root.

General GRIFFIN. Senator, based upon Mr. Smith's allegations, which we take very seriously, the Department of the Army IG is investigating that incident, and I would—I would ask you that—once that investigation is complete, we'll come back to you and update you on the status.

Senator DORGAN. General, I appreciate that. And if I might just make two other comments.

As you know, we have contractors, that are doing work for the Department of Defense, that are employing their employees through the Cayman Islands. That is, U.S. employees being employed through the Cayman Islands in order to avoid paying payroll taxes. I wrote to the Secretary about that, and—I mean, I don't know why we would hire contractors who decide that they're going to have their employees paid through Cayman Island subsidiaries, through a postal box, in order to avoid paying payroll taxes. I think, simply, if I were running the Defense Department, I'd say, "You know what? You want to contract with us? You hire Americans. You run' em through your company in this country, and do it now." That ought to stop immediately. That's also an embarrassment. And I just—I don't understand why that continues.

And one more point. In this very room, General Jerome Johnson sat at that table and testified to the Senate Armed Services Committee that the issue—and this is just another issue, one of a dozen

or so—the issue of providing contaminated water to the Army camps in Iraq—we know that happened, by KBR, because of a 21-page internal report, and that was done by Will Granger, who was in charge of that function for the entire company, paid for by the taxpayer—he said this was a near miss, could have caused mass sickness or death, because they were providing water to the Army camps that were twice as contaminated as raw water from the Euphrates River. We had three whistleblowers from that company, an internal report from the company, and the company—and the Department of the Army said it never happened, it did not happen.

So, the—we knew it happened, because we had the internal document—in this case, from KBR—and three whistleblowers. Never happened.

So, the Army sent General Jerome Johnson to come to that table to tell the Senate Armed Services Committee it never happened.

I asked the inspector general to investigate it. Took the inspector general about 1½ years, and they issued the report. They said it did happen, and soldiers got sick as a result of it. And further, they said something very important. They said, "We notified the Department of Defense of our interim report 3 weeks before General Johnson came to the—this room to," apparently, deceive the Congress, saying it never happened.

I don't understand all these things. I don't understand why there wouldn't be a furious anger about contaminated water going to the troops or about someone being electrocuted in a shower because somebody forgot to ground a—I mean, I just—you know, I—my point is, we are spending so much money, and we need so much better work, in my judgment, both by the Department of Defense and the United States Congress in oversight. We just do. This not only fleeces the taxpayers, what's happening, but I think it undermines and disserves our soldiers.

You run a Pentagon, and you also—you've got a lot of folks serving in uniform. We deeply admire them. You know, these soldiers protect America. And I—my concern here, and my anger about all this, is not directed at our soldiers, it is, I think, a process that is undermining the work of our soldiers.

Mr. ENGLAND. Yes, sir.

Senator DORGAN. It——

Mr. ENGLAND. Senator, let me just say, I do not disagree. I mean, look, I do not disagree. I mean, by and large, I think all of our people and our contractors try to do what's right for America, and there are instances where people don't do what's right. And, in those cases, we do try, to the best of our ability, to find out what the problem is, correct it, and then put new processes in place so those problems won't happen again. I think we diligently work at that, and we have an enormous number of people who work that, in terms of our oversight. I don't know how many tens and tens of thousands of people just try to do that, to make this system better. I'll tell you, that's why we're all here, to make the system better.

So, all I can tell you is, we work at this. It is our fundamental responsibility to make the system work right. It doesn't always work right, but we do try to fix the problems when they are identified in a systemic way.

Senator DORGAN. But, in most cases, they deny—I mean, the young woman whose son was killed taking a shower, she was so upset, because they said, "Well, maybe he took an electrical appliance into the shower." That's not what happened to him. He was killed because of bad wiring. And yet, the Army was the one who said, "You know, we think it was something else."

And then, when I see General Johnson show up here and—so, you understand my angst about this.

Mr. ENGLAND. No, I understand. I mean, I hope you're dealing with the exceptions, though, and not the way the process works every day, Senator. I'm——

Senator DORGAN. Yeah, except that when Mr. Parsons tells me the way they used to select companies for these contracts, and you get a 22-year-old with precious experience, who's been defaulting—I don't know, defaulting—but has been deemed not to have been a good contractor on small contracts in the State Department, and he gets a much bigger contract from DOD—I'm saying the processes are broken and don't work, and we need to do better.

Mr. ENGLAND. And I'm telling—and I agree with you. I mean, I think that is an embarrassment, that shouldn't happen. I mean, I'm sort of shocked that that happened, frankly, that that could happen in our system. And when something that shocking happens, we take action to fix it, because it's a great embarrassment and shock to us. I mean, look, I don't disagree with you on that. When we have those kind of problems, we absolutely have to fix them. And what I can tell you is, we work every day to do that. I mean, we do work every day to do that. I hope what you're hearing are the exceptions. By and large, I believe the system works well, but there are exceptions, and we work very hard to fix those.

Senator DORGAN. I think——

Mr. ENGLAND. And we will continue to do that, Senator. I mean, that's——

Senator DORGAN. When General Mortensen came to see me, I mean, it was circle-the-wagons time, "They did everything right in this case. In fact, they'd do it again." And I said, "Are you kidding me?" That's unbelievable.

Mr. ENGLAND. Senator, let me just make one comment. When I was confirmed, in 2001 before the committee, I said, every time, we will be forthright, honest, and direct with everybody in every circumstance, and I tell this to everybody in the Department of Defense every day—forthright, honest, and direct, "You have a problem, deal with it, and—just deal with it. That's the way it is." So, I can tell you that is the way we try to run this Department. If there's exceptions, we also deal with that, because they're not acceptable to us.

Senator DORGAN. Well, you know that I like you and have been happy to be supportive of your nominations, so it's not about you. But, let me just—one final point.

Mr. Heddell, would you confirm that you all did the investigation in which the Army and the contractor said nothing happened, and, in fact——

KBR WATER ALLEGATIONS

General GRIFFIN. We've—Senator, we've got the investigation—I've got the—March 2007 memoranda, and I've got it—answers to where actions were taken in each case. We've also got the March 2008 final IG report. I've got that with me. We've been through that.

General Johnson is being investigated by the DOD IG with respect to your comments on his testimony. And then, at the end of that investigation, then I would be able to tell you more about that. But, we have the results of the IG inspection you're talking about. I've got exactly what was done in theater. And we've got, now, the latest report, as well.

Senator DORGAN. Mr. Chairman, thank you for holding this hearing. Congress needs to do a lot more, and we need to expect a lot more. And I think the Pentagon, the Army, and the inspector general—Mr. Inspector General, you're new. You and I have visited, but good luck on your work. We need your help badly.

Mr. HEDDELL. Well, I appreciate that, Senator. And I appreciate the conversation we had the other day. The issues you brought to my attention, I consider very important, and I'm addressing them.

Senator DORGAN. Mr. Secretary, thanks for your indulgence.

And, Mr. Chairman, I've well run out the clock, here, and you and the Senator from Mississippi have been very good to let me take the time.

Chairman BYRD. Thank you, Senator.

Mr. ENGLAND. Senator, I do appreciate your comments. I do appreciate 'em. They're helpful, and I appreciate your comments. And I appreciate your good work. Thank you.

Chairman BYRD. By prior agreement, Secretary England needs to leave at this time, but the other witnesses are prepared to continue for any further questions.

Senator Cochran.

Senator COCHRAN. Mr. Chairman, I have no further questions.

Chairman BYRD. General Griffin, given the large dollar amount of unaccounted-for expenditures, why has KBR been permitted to continue to contract with the Department of Defense?

LOGCAP IV ACQUISITION STRATEGY

General GRIFFIN. Sir, I will attempt to answer that, and then I will ask Mr. Parsons to also help me, here.

Chairman BYRD. All right.

General GRIFFIN. As you're aware, we have—now have a LOGCAP IV. And under LOGCAP IV, we have three major suppliers of contract services. And so, we are not dependent upon a single contractor for services, as we are today under LOGCAP III.

We believe that, under LOGCAP IV, with three different suppliers of services, we will be able to, number one, have a different leverage with respect to the services that are provided to us, and hopefully get a better product at a very competitive price. But, we went at LOGCAP IV because of some of the problems we were having in only having a single contractor supplying those services.

With that, I will turn it over to Mr. Parsons, let him specifically talk about KBR today.

Mr. PARSONS. Sir, I would just add that, you know, anytime one of these incidents is brought to our attention, where it appears that there's some egregious act or some kind of an issue going on with the LOGCAP contract, that we do take those seriously and look into them.

What we tend to find when we really start peeling the onionskin back is that there may not have been a real clarity in the definition of the requirements, there's not always a real clarity in the contract scope of work, in the statement of work. And so, trying to, you know, find the KBR totally accountable for some of these actions isn't always the case. In fact, in many cases, it's a shared responsibility, because of some of the work that we did on the Government side, getting back to why we need to better train our people, we need to get more people on board to execute this work.

And, as General Griffin said, you know, we initiated action, back in late 2004, early 2005, to come up with a new acquisition strategy so that we're no longer dependent upon one single contractor. We're confident, in the future as we compete these actions, that the competition will force better cost control, better quality, and better performance.

Chairman BYRD. So, a good question to end on,

Senator Dorgan, you have another question?

Senator DORGAN. Mr. Chairman, just one additional question. Maybe it's to Mr. Assad.

I described the issue of Mr. Peter—Mr. Smith, rather, who was replaced by General Johnson the morning after the Halliburton or KBR folks told him, "Well, we will get this—we will get this judgment changed." He was—he said there was about a billion—$1 billion that was not justifiable, or at least the evidence didn't—wasn't available for payment. And, the next morning, he came to a meeting and discovered that he was no longer in his position, he had been demoted. And it—he discovered something else, and that was that the DCAA, the audit agency, would also be replaced, and the auditing of that would be done by a private contractor.

Who can tell me about why that would have happened? And my understanding is, some of that still occurs on LOGCAP IV. But, is the Defense Contracts Audit Agency (DCAA) not capable of doing those audits? Why would a private company have—brought in to do the audits, who——

RCI AUDIT ASSISTANCE

Mr. PARSONS. Sir, I'll address that concern. I think you're making reference to RCI/SERCO. They——

Senator DORGAN. Yes.

Mr. PARSONS [continuing]. Did not replace DCAA in the auditing of KBR's books. They were brought in to assist the Government. They brought some technical expertise in to the Government during that timeframe to determine, one, what should a reasonable amount of money be paid for many of the costs that had been incurred by KBR, but, more importantly, to come up with an estimate for us, in the Government, help us develop an estimate on what the estimate to complete that work was. So, they did not replace DCAA, they came in to provide some technical expertise that we just lacked in the Government, again getting back to the impor-

tance of finding ways to increase our personnel and increase our training so that we develop that expertise in the future. And they're filling that void, and, to some extent, filling that void today. But, assuredly, we did not replace DCAA——

Senator DORGAN. I'm going to submit a list of questions on that subject to DCAA and to you.

And we also had testimony from, oh, for example, a KBR employee named Rory, who was a food service supervisor, saying that they were charging for—his company was charging for 10,000 meals a day and serving 5,000 meals a day. You know, the more public allegation, of 42,000 meals being charged every day, when 14,000 meals were served—I don't know what the disposition of that was, but that's 28,000-meals-a-day overcharge.

You know, I don't—we have sent all of that over to the DOD. Some of it goes in—I get letters back, saying, "We're looking into this. The Criminal Investigation Service is looking into it." And some of this is 4 years old, 3 years old, and you never hear back. And my hope is that, Mr. Inspector General, you'll be able to take a look at some of those older cases, because it seems to me that one of the lessons here from Mr. Smith and Ms. Greenhouse, is, if you speak up about this and complain about it, you're going to quickly lose your job. And I think that's an awful lesson for those in public service. I would hope we have people that have the courage to say—you know what? If we've got sweetheart contracts being awarded, we've got payments being made that aren't supportable, I hope we've got people that are willing to speak up. At least the two that have testified publicly did so at the cost of their job, regrettably.

General GRIFFIN. Senator, I would——

Mr. PARSONS. Senator——

General GRIFFIN [continuing]. Appreciate copies of anything like that you get, and I promise you we'll sort out the response and——

Senator DORGAN. I'll be happy to do that. And thanks—you have just taken over the Army Sustainment Command, I believe. Is that——

General GRIFFIN. No, sir. Actually, General Radin took it over, a year ago.

Senator DORGAN. Oh.

General GRIFFIN. So, General Johnson changed command at the—almost a year to date. So, General—Major General Radin is——

Senator DORGAN. All right.

General GRIFFIN [continuing]. Is the commander.

Senator DORGAN. Does General Mortensen report to you?

General GRIFFIN. Sir, General Mortensen is—has also retired.

Senator DORGAN. He's retired, yes.

General GRIFFIN. And General Dunwoody replaced General Mortensen.

Senator DORGAN. Mr. Chairman, thank you very much.

And I thank the witnesses.

General GRIFFIN. Yes, sir.

Senator DORGAN. Thanks for being here.

Chairman BYRD. Thank you, Senator.

Mr. Heddell, in response to my second question, concerning lost CPA funds, Secretary England referred the matter to Stuart Bowen, our Iraq inspector general. It was Stuart Bowen who testified before this committee in March about the lost funds. Given that the CPA funds may have found their way into the hands of insurgents who wish to do our soldiers harm, are you committed to tracking down those lost funds?

Mr. HEDDELL. Absolutely, Mr. Chairman. That obviously—it concerns me. I will say that, on that particular matter, the special inspector general for Iraqi reconstruction is investigating that. However, we're concerned about anything along that line that we become aware of.

Now, the fact that they are looking at that, we would defer to them to complete what they are doing so as not to confuse the issue. But, yes, sir, we would take any action that we can to save the American taxpayers' money; that shouldn't be wasted, lost, stolen, or abused.

Chairman BYRD. All right.

I thank each of the witnesses for appearing before the committee today. This committee cannot allow taxpayers' money to be wasted or stolen, nor can we tolerate the diversion of funds or weapons to insurgents or terrorists. Therefore, we will continue to aggressively investigate the matter.

ADDITIONAL COMMITTEE QUESTIONS

I'd ask that all members of the committee submit statements and questions for the record by close of business on Friday, July 25, 2008.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED TO HON. GORDON ENGLAND

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

Question. Secretary England, in a July 2007 report, the Government Accountability Office (GAO) found that "unclear DOD guidance, inadequate staff, and insufficient technology resulted in poor accountability over 190,000 weapons provided to Iraqi security forces. DOD concurred with GAO's recommendation to identify accountability procedures for the program to train and equip the Iraqi security forces. However, as of March 2008, DOD had not developed the necessary procedures." Can you tell the Committee if those procedures have been developed and implemented yet, have all of the missing weapons been accounted for, and what additional oversight is planned to ensure that weapons accountability continues?

Answer. The National Defense Authorization Act, 2008, Public Law No. 110–181, Section 1228, requires the President to implement a policy to control the export and transfer of defense articles into Iraq, including the implementation of a registration and monitoring system. The Department of Defense, through Multi-National Force—Iraq (MNF–I) has implemented many policies and procedures which will help meet the intent of this law as it comes into effect in late July 2008. First, Multi-National Security Transition Command—Iraq (MNSTC–I) implemented a database tracking system for weapons accountability. Following the Government Accountability Office (GAO) report of July 2007, MNSTC–I requested that the Department of Defense Inspector General (DODIG) conduct an inspection in October 2007. In implementing GAO and DODIG recommendations, MNSTC–I reconciled serial numbers of weapons and created a weapons database. All small arms procured for the Government of Iraq (GoI) through MNSTC–I, either from Iraqi Security Forces Fund (ISFF) or Foreign Military Sales (FMS), are now registered by serial number in this database, which is managed by MNSTC–I logistics personnel. Additionally,

100 percent serial number inventories were completed on all weapons held at Taji National Depot and Abu Ghraib Warehouse, enabling reconciliation of the database. MNF–I has worked to establish an unbroken chain of custody for the accountability and control of munitions under U.S. control from entry into Iraq to issuance to the ISF. The number of logistics and property accountability specialists in country (in MNSTC–I, in particular) has increased and increased security procedures throughout the chain of custody have been implemented. MNF–I has worked with the ISF to build their property accountability systems and structures. In July 2007, MNF–I partnered with the ISF to establish an M–16 Biometrics Program that links individual soldiers to the particular weapons they are issued. Prior to weapons issue, each soldier is required to provide biometric data in the form of a retinal scan, a voice scan, and fingerprints. In addition, soldiers' personnel and payroll data are verified before a weapon is issued. The final step in the process is to take a picture of each soldier holding his new weapon with the serial number visible. Similar biometric procedures have been implemented for Iraqi police badge and weapon issue, as well, and the Ministry of Interior requires policemen to present their identification card and weapon in order to receive monthly pay. The fidelity of data and level of detail captured in these accountability procedures are significant.

In coordination with the Iraqi Ground Forces Command (IGFC), MNSTC–I established an Iraqi/Coalition joint inspection team in October 2007 to inspect and assess Iraqi Divisions' equipment records and verify on-hand quantities. MNSTC–I was able to establish a baseline of where weapons are located and provide an operational snapshot of accountability in several Iraqi divisions. This data was utilized to reconcile the Coalition issue log with Iraqi hand receipts and assess the effectiveness of ISF accountability procedures.

Contractor delivery of weapons in theater has been further regulated. Since September 13, 2007, the Joint Contracting Command Iraq/Afghanistan (JCC–I/A) has ensured that all weapons contracts to procure and deliver munitions include a number of clauses to increase accountability. Contracts now require vendors and shippers to do the following: deliver munitions to Iraq through U.S. controlled ports of entry within Iraq; provide serial number lists electronically in advance of any weapons shipments to Iraq; post serial numbers on the inside and outside of weapons shipping containers; and provide en route visibility of weapons and munitions, to include the arrival dates and times of munitions cargo being delivered to Iraq.

Question. Secretary England, a few months ago, the Appropriations Committee held a hearing on fraud and corruption in Iraq. Several issues were raised relating to missing Coalition Provisional Authority funds, but DOD's responses to these questions remain unclear. There was the suggestion that these funds were Iraqi funds and of no concern to the Department of Defense. However, when these funds disappeared, U.S. taxpayers were—and continue to be—called upon to pay for Iraqi reconstruction. Since at the time those funds disappeared the Coalitional Provisional Authority was answerable to the Department of Defense, I would like you to tell me the amount of Coalition Provisional Authority assistance and reconstruction funds doled out prior to the transition of power in Iraq that cannot be accounted for, who is responsible for ensuring that these funds are accounted for, and what level of confidence is there that these funds did not make their way to insurgent groups or militias?

Answer. The Coalition Provisional Authority (CPA) funds to which you refer are the $8.8 billion Development Fund for Iraq (DFI), and account that includes oil export sales from Iraq, balances from the U.N. Oil-for-Food Program, and frozen Saddam-era funds. The CPA, operating in a high threat environment, distributed DFI money to reconstruction projects and to Iraqi ministries.

Since December 2003, under U.N. mandate, the International Advisory and Monitoring Board (IAMB) has served as the oversight body for the DFI. The IAMB's July 15, 2004 audit report, after reviewing the CPA's management of DFI funds, concluded that all known oil proceeds, reported frozen assets, and transfers from the Oil-for-Food Program have been properly and transparently accounted for in the DFI.

Acknowledging that CPA operated under challenging circumstances, the IAMB report noted that the lack of oil metering and other problems made it difficult to determine that all DFI disbursements were made for the purposes intended.

Question. At what point does the development of information that suggests that stolen funds may have found their way to the insurgents or militias shift from an inspection mission to an operational issue? Since in this case, the SIGIR can only point to their findings, it would seem that at some point operational, intelligence, or enforcement actions would fall to the Coalition military forces.

Answer. [Deleted].

Question. Secretary England, who specifically are the Iraqi and U.S. officials responsible for ensuring that Iraqi oil and oil revenues are not stolen and that oil production is metered and not diverted to the insurgents, as has been reported by GAO and others?

Answer. The Iraqi Ministry of Interior (MoI) is responsible for security at oil facilities. Over the past year, the MoI has consolidated the disparate oil security entities—most recently the Strategic Infrastructure Brigades—into as single Oil Protection Force. This step, along with other ministry-wide reforms, will continue to improve both professionalism and performance. In support, the Multi-National Security Transition Command—Iraq (MNSTC–I) provides small amounts of police equipment and training assistance.

Oversight of oil distribution and oil revenues is the responsibility of the Iraqi Ministry of Oil (MoO) and the individual state-owned operating companies. The MoO's metering department, which is best positioned to identify theft and smuggling, receives training in administration and financial accounting through USAID's ministerial capacity building program.

Question. Secretary England, since smuggled oil may have been funding both insurgents and terrorists over the last 5 years, I expect that stopping this is a key priority in the Department of Defense and therefore I expect that you should be able to answer this question: When can we expect to see effective metering and accounting process in place to ensure that all of the oil pumped from the ground in Iraq is accounted for?

Answer. Oil metering is essential to achieve financial transparency and accountability over oil resources in Iraq. The Iraqi Ministry of Oil (MoO), which is responsible for oil metering policy, and the individual state-owned companies, which install and use the metering systems, all have developed timelines to install and use oil meters. The Government of Iraq (GoI) is making slow but steady progress on installing oil meters at terminals across the country. However, USG advisors report that none of these timelines are being closely followed and that it cannot be determined when all planned meters will be in place and able to account for all of Iraq's oil.

Moreover, while the South Oil Company is using the metering system in Al Basrah for fiscal purposes, most individual operating companies use what meters have been installed monitor oil flow and not reconcile accounts. The MoO gathers and summarizes reports from the individual operating companies but does not verify the accuracy of the data or reconcile the quantities with the records maintained by the companies.

To address these issues, USAID provides training in administration and financial accounting to the MoO's metering department.

Question. Secretary England, because of the snail's pace at which investigations are initiated or are moving, the statute of limitation on many of the contracting offenses that have occurred in Iraq and Afghanistan will soon expire. Do you support current Congressional efforts to extend the statutes of limitation in cases involving these war zones?

Answer. The Department of Defense strongly believes that persons who commit crimes should be held accountable as appropriate. To the extent that an applicable statute of limitations serves to impede that effort, it should be extended to enable that effort to be successful.

Question. Secretary England, on July 18, 2008, just days after Senator Dorgan held a hearing about the electrocution deaths of 13 American personnel in Iraq due to faulty electrical work, the New York Times provided additional insight into the shoddy electrical work performed by U.S. contractors in Iraq. The article, citing internal Army documents, noted that in one six-month period from August 2006 through January 2007, at least 283 electrical fires destroyed or damaged American military facilities in Iraq and killed at least 3 other soldiers. In addition to the 13 deaths by electrocution, many more personnel have been injured, some seriously, by electrical shocks. Internal Army reports said KBR did a study and found a "systemic problem" with electrical work, although a KBR spokeswoman said the company found no evidence of a link between its work and the electrocutions. A Defense Contract Management Agency official, however, testified in a sworn statement that KBR and Army officials were well aware of the widespread electrical problems, including at the locations where individuals were killed. How is it that these widespread problems that rendered our troops unsafe in their own barracks were permitted to continue for so long, and what are you doing to correct the problem, jail those responsible for creating or permitting unsafe conditions to exist, and recover the payments made for this defective work?

Answer. Facilities contracts for Iraq and Afghanistan that the Army is responsible for are administered by three agencies: the Joint Contracting Command—Iraq/Afghanistan; the Army Corps of Engineers; and the Army Sustainment Command (a

subordinate Command of the Army Materiel Command). Each of these three contracting activities receive their Contracting Authority from the Senior Procurement Executive, the Assistant Secretary of the Army for Acquisition, Logistics and Technology, Mr. Dean Popps. I have been asked to answer these questions on behalf of the Army.

The overall responsibility for life, health and safety issues for soldiers in Iraq within the U.S. Central Command's area of operations (USCENTCOM AOR) rests with the Multi-National Force—Iraq (MNF–I). AMC's involvement with electrical issues within the USCENTCOM AOR is confined to the management of LOGCAP III contract with KBR (Kellogg Brown and Root Services). Under that contract, KBR is responsible for maintaining a multitude of facilities across Iraq in accordance with the terms and conditions of the base contract and applicable Statements of Work under specific Task Orders. The current Task Order, Number 139, spells out the various maintenance levels for facilities to be maintained by KBR. These levels of maintenance were established by the customer, Multi-National Corps—Iraq (MNC–I).

Actions taken:

—As a result of SSG Maseth's tragic death, the LOGCAP Executive Director in conjunction with DCMA (Defense Contract Management Agency) coordinated the inspection and repair of a number of facilities across the RPC (Radwaniyah Palace Complex).

—In addition, the LOGCAP Executive Director and the Army Sustainment Command commander are actively engaged with MNF–I as a member of Task Force SAFE (Safety Awareness for Fire and Electrical) which was stood up in order to understand the electrical and fire hazards in theater and develop the plan and critical tasks to ensure the future safety of military and civilian personnel in buildings and facilities in theater.

In order to ensure properly trained and certified personnel are provided by KBR in the performance of their maintenance requirements, the LOGCAP Procurement Contracting Officer modified the LOGCAP III contract to clearly define the Army's expectations for properly trained and certified personnel. This modification was issued on July 22, 2008.

Currently, there is not enough known information on defective work on any LOGCAP contract to determine what remedies will be taken. As current assessments are conducted, and it is determined there are contract remedies that are appropriate these actions will be pursued.

We are working hard to document the audit trail of events that led to these tragic events and will take appropriate action based on our findings.

Question. Secretary England, in a recent article in the Journal of Public Integrity, it was reported that the Army CID's Major Procurement Fraud Unit concluded by late 2005 that for a number of reasons, conditions in Iraq were highly conducive for fraud. Similarly, a recently published Defense Criminal Investigative Service assessment found that there had been only limited review of the completeness, accuracy, and propriety of contingency payment vouchers and that there existed the potential for fraud, waste, and abuse. While these reports were just recently published, both examined periods of time prior to June 2006. Over two years have passed. Can you explain what specifically has been done in your organizations to change these conditions and what is being done to identify and prosecute individual cases of fraud that occurred during this period?

Answer. In June of 2006, a key problem was inconsistency by Field Ordering Officers in the interpretation of authority for use of Standard Form 44 purchase orders. In response, DCMA now works closely with ordering officers to provide oversight and administration of the contracting and ordering agreements process to include the establishment of Task Force—Business and Stability Operations. This Task Force reviews purchase orders on a monthly basis to ensure proper use of and interpretation of contractual authorities.

Question. The Special Inspector General for Iraq Reconstruction (SIGIR) has testified about one problem in contracting in which large contracts are repeatedly "descoped" or scaled back by the government so that projects can be declared complete and the contractor rewarded although only a small percentage of the work originally envisioned has been completed. The Army Corps of Engineers was responsible for a number of these contracts. One notable case involved a $243 million contract for 150 primary healthcare centers in Iraq awarded to Parsons Global, Inc., in March 2004. By March 2006, despite the expenditure of $186 million, only six centers had been completed and 135 were partially constructed. The Army Corps of Engineers then issued a "termination for convenience" of the contract for 121 of the 135 partially completed centers, requiring the contractor to deliver only 20 of the original 150 centers, including the 6 that had already been accepted. As of April

2007, only 15 of the now-planned 142 health centers were completed, and only 8 were open to the public. Secretary England, can you update the committee on the status of this program, and can you estimate the loss to taxpayers for projects initiated in Iraq but never completed?

Answer. We do not believe the facts show that contracts have been repeatedly descoped or scaled back for the purpose of declaring projects as complete or for the purpose of rewarding the contractor. In the most part, projects have been descoped or scaled back to ensure that projects remain within budgeted costs. In many cases, contracts have been terminated so that more cost-effective alternatives can be undertaken to achieve the goals of the program.

For the Primary Healthcare Centers (PHC) program, the Army Corps of Engineers (COE) terminated Parsons for convenience due to cost overruns caused by construction delays. The termination of Parsons has allowed the U.S. Government to continue construction of the PHCs through firm fixed price contracts with local Iraqi contractors.

As of August 7, 2008, COE has a new contract; 117 PHC have now been completed and turned over to the Iraq Ministry of Health. Another two PHCs are awaiting acceptance by the Iraq Ministry of Health. The final target is to complete 132 centers. The last of these is expected to be completed in September 2008. Ten centers have since been deprogrammed due to security issues.

In a challenging and constantly changing environment such as Iraq, there will inevitably be some projects that do not meet original goals or cannot be completed by other means. In these cases, we work with Iraqi officials to try to achieve the best outcome for U.S. taxpayers. In a number of cases, the Iraqis have stepped up to complete projects using Iraq funds. In such cases, we do not consider that they represent a loss to the U.S. taxpayer.

Question. Secretary England, what is the number of contracts awarded in connection with the wars in Iraq and Afghanistan that were considered complete only because the original contract was significantly descoped?

Answer. We have no way to readily determine to what extent, if any, contracts awarded in connection with our operations in Iraq and Afghanistan may have been considered complete as a result of a reduction in scope. The Department of Defense uses the Federal Procurement Data System—Next Generation (FPDS–NG), the database for Federal procurement actions, to record contract actions. Unfortunately, FPDS–NG, while collecting up to 200 separate data elements on each contract, does not contain this specific information.

Question. Secretary England, can you tell the Committee how many investigations are pending at the agencies you are responsible for, and is this number the total of all investigations that have been referred to these agencies, or just the number they can reasonably execute with available resources?

Answer. It is my understanding that in fiscal year 2007, the DOD IG through its Defense Criminal Investigative Service (DCIS) initiated 622 criminal investigative cases and projects. In fiscal year 2008, through July 31, 2008, DCIS initiated 543. Presently, the DCIS has a total of 1,685 investigative actions pending, a number which closely follows their historical trend.

Question. Secretary England, in October 2007, the report of the Commission on Army Acquisition and Program Management in Expeditionary Operations stated that the Army lacked the leadership and military and civilian personnel to provide sufficient contracting support to either expeditionary or peacetime missions. According to the Commission, Army contracting personnel experienced a 600 percent increase in their workload and were performing more complex tasks, while the number of Army civilians and military in the contracting workforce had remained stagnant or declined. As a result, post-award contract management was rarely being done. The Commission recommended that the Army increase the number of civilian and military personnel in its contracting workforce by 1,400 individuals. Has the number increased, by how much, and what more needs to be done to rectify this problem?

Answer. As a result of the Gansler Commission recommendations, the Secretary of the Army directed the Army Materiel Command on January 30, 2008, to establish a two-star level Army Contracting Command (ACC). The Secretary also directed the transfer of the Army Contracting Agency from the Assistant Secretary of the Army (Acquisition Logistics and Technology) to AMC. The ACC was established in a provisional status on March 13, 2008 and a concept plan to implement the new command was approved by the Army on July 15, 2008. That concept plan creates two new commands: the Mission and Installation Contracting Command and the Expeditionary Contracting Command which will be led by brigadier generals and provide the leadership and focus necessary to support the peacetime and expeditionary contracting missions. This concept plan, when fully implemented, will provide an addi-

tional 921 civilians and 523 military personnel to improve contracting operations in contracting organizations that execute 70 percent of all Army contracting dollars. The ACC has established a three year plan to fill these new requirements. To date, approximately 300 additional civilians have been hired and the Army continues to fill authorized military positions with the qualified personnel that are currently serving. In order to fill the remaining military positions, we need to access additional military personnel into the Acquisition Corps. A request for direct hire authority is currently at OPM for consideration. The Department of Defense has requested Congress to enact legislation that will provide Direct Hire Authority to the Department of Defense for acquisition personnel. The Department also requests Congressional support in enacting legislation to authorize an increase of 5 General Officer positions within the Army to fill contracting leadership positions. The Department's legislative proposal for these General Officer positions was submitted to Congress on June 27, 2008.

Question. Secretary England, I am aware of at least one case of a U.S. company, Wye Oak Technologies, in which a U.S. contractor went to Iraq, contracted with the Iraqi government for services amounting to $25 million, performed the work, and never received payment. While the contract involved Iraqi government, U.S. military officials acted as advisors on the project. When the contract was completed, the payment was made, in full, to an Iraqi intermediary assigned by the Iraqi government who did not pass on any of the payment to the U.S. company. When Wye Oak officials returned to Iraq to collect their payment, they were murdered, and the Iraqi intermediary to whom the money had been paid fled the country and is believed to be in Jordan.

How common is this situation, and what recourse do American contractors have when they contract with the Iraqi government rather than the U.S. government? Was there an investigation into this matter and if not, why?

Answer. Wye Oak Technologies did not receive DOD funding and therefore would not be under the Department's purview. The company in question contracted directly with the Iraq government, who in turn appointed the Iraqi intermediary.

Question. Secretary England, how many contractors, as a result of their performance or practices, have been barred from future contracts and what types of issues were involved?

Answer. Since 2005, the Army has suspended 50 individuals and companies based on allegations of fraud and misconduct in Iraq in accordance with Federal Acquisition Regulation (FAR) 9.407. In addition, the Army has proposed 32 individuals and companies for debarment under FAR 9.406, resulting in 18 finalized debarments at this time. The Army is the Executive Agency for contracting in Iraq, and the Army Procurement Fraud Branch monitors in-theater fraud investigations, coordinates remedies with the Joint Contracting Command—Iraq/Afghanistan and the Department of Justice, and recommends to the Army Suspension and Debarment Official appropriate administrative remedies for perfected fraud cases. The types of cases most frequently occurring in Iraq relate to payment of bribes and kickbacks to U.S. military and civilian personnel, theft, false claims, false statements, and incomplete or deficient contract performance. The Procurement Fraud Branch also has processed a limited number of product substitution cases. Also notable are a number of actions involving the theft of fuel by military personnel and local nationals and the payment of kickbacks associated with management of warehouses for the Iraqi armed forces and police, resulting in multiple suspension and debarment actions over the past 12 months. The Department of the Navy's Acquisition Integrity Office has placed one individual on the Excluded Parties List System for offenses related to contracting in Iraq. That individual was a Marine Gunnery Sergeant who entered a guilty plea at a Special Court-Martial to two specifications of violations of Article 107 of the Uniform Code of Military Justice (UCMJ) and three specifications of violations of Article 134 of the UCMJ. The Air Force has debarred 11 companies and individuals. These relate to a company that was found to have sham subsidiaries and used a non-existing company to submit fraudulent invoices in furtherance of a scheme to overcharge the Coalition Provisional Authority. It also includes one individual who was found to have had a conflict of interest with respect to a personal/business relationship with a U.S. Government contractor. Defense Logistics Agency has had no cases involving conduct or misconduct related to an Iraq contract.

Question. Secretary England, the recent AEY case represents all that is wrong in defense contracting. A small, unqualified 3-person firm with minimal experience in arms exports, either inaccurately or fraudulently misidentified as a small disadvantaged business is awarded a contract worth almost $300 million to supply ammunition to Afghan security forces, even though its performance history was not very good. AEY then goes through suspected arms traffickers to Albania to purchase aged ammunition made in China, a clear violation of U.S. law, and repackages it

as Hungarian. It appears that the American ambassador to Albania may have endorsed a plan to remove evidence of the Chinese origin of the ammunition. AEY has been barred from future contracts, and its president, Efraim Diveroli, has been indicted, but what further efforts are underway to uncover and indict other individuals involved in perpetrating this fraud and to improve the contractor review and approval process?

Answer. During AMC's review of the AEY, Inc. contract award, AMC discovered that the Procuring Contracting Officer (PCO) was not aware of AEY, Inc.'s previous poor performance on other Government contracts. This occurred because DOD policy did not require the reporting of a contractor's performance on contract actions under $5 million. As a result, there were numerous small dollar contracts where AEY, Inc. had been terminated for cause that were not reported into the Contractor Performance Assessment Reporting System which feeds the DOD Past Performance Information Retrieval System. After AMC notified the Department of the Army and the Director of Defense Procurement, Acquisition Policy and Strategic Sourcing (DPAP) of this issue, DPAP promulgated new policy guidance on July 23, 2008, that now requires contracting officers to report all contracts terminated for cause or terminated for default, regardless of dollar value, to the DPAP. This policy change will allow a PCO to see all negative past performance information for future actions regardless of dollar value. This was not the case when the AEY contract was awarded.

In addition, in June 2008, the Department of Justice also indicted three of Mr. Diveroli's business associates, including Mr. David Packouz (Director and Vice President of AEY), Mr. Alexander Podrizki (an agent of AEY stationed in Albania) and Mr. Ralph Merrill (a business associate who provided financial and managerial assistance to AEY). AMC began working with law enforcement agencies on AEY more than 12 months prior to these indictments.

To preclude some of these problems in the future, the Commander, Joint Munitions and Lethality, Life-Cycle Management Command formed a Non-Standard Ammo Task Force (NSA–TF), with members from all key organizations, to implement policy and command guidance. To date we have accomplished the following:

—Developed general specifications for non-standard ammunition that provides among other things criteria for technical data package identification, quality assurance requirements, reliability thresholds, test requirements, and packaging/transportation requirements. PEO Ammo also has created a database of technical data (commercial & WARSAW specs), performance parameters, sources of manufacture, etc. for Non-Standard Ammunition (NSA).

—The Defense Contract Management Agency (DCMA) is conducting Source inspection at both CONUS and OCONUS sites. Point of inspection can be either a depot/staging area or the place of manufacture. The DCMA will have "eyes on" the NSA prior to it being delivered into the theatre.

—We are conducting theater visits to work the new specifications/standards/procedures with all the parties in the theater involved.

—We held an industry day with over 20 companies to get industry feedback on the generic specification concept and requirements.

—We created a database of all current NSA contracts specifying item, delivery dates, location and place of manufacture ensuring efficiency of inspection prior to shipment to theatre.

—We arranged for a team of subject matter experts (SMEs) to tour Arsenal Inc., in Bulgaria who is a major supplier of NSA. The TF will visit other major NSA suppliers as well.

—We are working to stand-up a Product Director's office within Program Executive Office for Ammunition to manage NSA issues and concerns. We expect this office to implement the appropriate program discipline and execution that we have with our US programs.

—We are working with outside agencies like DCMA, who provide QA/QC before and after the contract, to share lessons learned.

Question. Secretary England, what changes have occurred in the organizations under your command to improve contract management and oversight, and do you require any legislative assistance to meet your workload or to improve your operations?

Answer. The Department has taken a myriad of actions, spanning the domains of policy, doctrine, organization, training, material, leadership, education, and personnel, to better manage contracted support in deployed operations. These efforts are being overseen at the enterprise level, with broad participation of the Military Departments, Defense Agencies, and Joint Staff, to ensure the Department derives holistic solutions. Key actions are detailed in the report to Congress on the Department of Defense Program for Planning, Managing and Accounting for Contractor Services and Contractor Personnel during Contingency Operations that was sub-

mitted in April 2008 in response to section 854 of the National Defense Authorization Act for Fiscal Year 2007 (NDAA–07) and the report to Congress on the Department of Defense Task Force on Contracting and Contractor Management in Expeditionary Operations that was submitted in response to section 849 of NDAA–08.

In its October 2007 report, the Commission on Army Acquisition and Program Management in Expeditionary Operations (the "Gansler Commission") expressed concern about post-award contract management in theater. At the time, in-theater contracting resources were focused on awarding contracts, primarily due to staffing constraints. Since then, the Department has made much progress on this issue. Based on a December 2007 workload and resource analysis conducted by the Joint Contracting Command—Iraq/Afghanistan (JCC–I/A) and the Defense Contract Management Agency (DCMA), DCMA significantly increased its personnel in-theater to meet the current contract management and oversight needs. In June 2008, JCC–I/A and DCMA re-evaluated the resources needed in theater to provide theater-wide contract administration. A Joint Contracting Command Joint Manning Document has been put into place, and the Military Departments are in the process of taking over about half of those positions. In addition to resource analysis, the Department has been working with key organizations responsible for large (over $1 million) in-theater contracts for services for purposes of sharing data, lessons learned, and business rules to enable effective conduct of post-award administration in the theater of operations.

Question. Secretary England, are you aware of any White House involvement or queries in the Halliburton or KBR contract awards?

Answer. I am not aware of any White House involvement in the Halliburton or KBR contract awards.

Question. Secretary England, we keep hearing that Halliburton and KBR were the only companies with the necessary infrastructure to perform the original massive Iraq support contracts. However, once Halliburton and KBR were awarded the contracts, they then went out and subcontracted or hired everyone to perform the contract. Could those contracts have been bid as multiple smaller contracts, allowing more qualified companies to participate?

Answer. In the case of LOGCAP III, MNC–I is the primary customer for contract requirements generated in Iraq through their Joint Acquisition Review Board (JARB). The JARB process is designed to find alternate ways to satisfy requirements before resorting to LOGCAP. This includes the execution of smaller "theater" level contracts issued by the Joint Contracting Command—Iraq/Afghanistan. While many requirements have been executed through "theater" level contracts, MNC–I continues to rely upon LOGCAP in the execution of their larger contract requirements, in part, because the LOGCAP prime contractor plays a critical role by integrating and overseeing the complementary efforts of many subcontractors. With the recent award of three performance contracts in support of LOGCAP IV, the Army, working with its customers, will begin executing new contract requirements through the competition of task orders amongst three contractors. The size of the requirements for each contract will still be determined by the customer.

Question. Secretary England, we have received reports that companies contracting with DOD are off-shoring their assets and hiring to avoid providing benefits to U.S. citizens and paying payroll, unemployment, Medicare, and income taxes. In many cases, these hiring practices are deceptive, with the employee believing that he is working for a U.S. company. We have also heard that DOD condones this practice as a cost saving matter. The fiscal year 2009 National Defense Authorization bill will make it unlawful for companies engaging in this practice to receive an unfair competitive advantage because of this practice. Other proposals would ban these companies from contracting with DOD.

Do you support these legislative measures and if not, why?

Answer. While we understand the concern expressed by the committee regarding the practice of U.S. companies using off-shore subsidiaries to avoid certain taxes and costs, the manner in which a corporation organizes itself for tax purposes is not within the control of the Department of Defense. We note, however, that section 302 of the "Heroes Earnings Assistance and Relief Tax Act of 2008," Public Law 110–245, enacted on June 17, 2008, closes many of the off-shore tax "loopholes" identified by the committee. Section 302 will require that any foreign entity that is part of a U.S. "controlled group" (as defined for tax purposes) and that has employees performing services under a contract with the U.S. government, shall be treated as an American employer for purposes of FICA and Social Security taxes. Incorporating a subsidiary off-shore will no longer allow companies to avoid these employment taxes on U.S. government contracts. This provision should abrogate the necessity for language in the DOD authorization legislation.

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

Question. At the hearing, you stated that you had determined that Bunnatine Greenhouse's demotion stemmed entirely from poor performance reviews that she received prior to her becoming a whistleblower.

Were you aware that that those poor performance reviews initiated when Ms. Greenhouse began to internally challenge contracting improprieties in the Pentagon, beginning in 2002?

Answer. Ms. Greenhouse was employed by the Army Corps of Engineers and the Army is unable to respond to this question because this matter is in active litigation at the Department of Justice.

Question. How do you reconcile Ms. Greenhouse's excellent evaluations for years after her appointment by General Ballard to the much different evaluations she received in the ramp-up to the Iraq war?

Answer. Ms. Greenhouse was employed by the Army Corps of Engineers and the Army is unable to respond to this question because this matter is in active litigation at the Department of Justice.

Question. In your consideration of Ms. Greenhouse's case, did you consult with the officers who had written Ms. Greenhouse's excellent performance reviews from 1999 to 2002?

Answer. Ms. Greenhouse was employed by the Army Corps of Engineers and the Army is unable to respond to this question because this matter is in active litigation at the Department of Justice.

Question. Quite apart from the question of whether Ms. Greenhouse suffered retaliation for being a whistleblower, how do you respond to her core allegations that KBR received inappropriate favoritism in the awarding of the RIO contract, as described in her testimony of June 27, 2005?

Answer. There was no inappropriate favoritism exercised in the awarding of the RIO contract and all requirements of the Federal Acquisition Regulation (FAR) were strictly followed. KBR was determined to be the only contractor in a position to provide the services within the required timeframe given classified prewar planning requirements. Both the acquisition strategy and the supporting source selection plan were thoroughly reviewed and approved by various Army officials. In separate reviews, both the Government Accountability Office (GAO) and the Special Inspector General for Iraq Reconstruction (SIGIR) have found that the sole source justification and approval was properly conducted.

The RIO contract was always intended to be a bridge to a competitive contract award arrangement and was structured accordingly. In fact, the follow-on contracts were competitively awarded in January 2004. Task orders issued under the RIO contract were restricted to work required in the near term, leaving as much as possible for performance under the competitively awarded contracts. KBR's performance under the RIO contract has no relationship with their efforts under the LOGCAP contract.

Question. At the hearing, you testified that the Army would send "a group that will go out and independently audit, at least on a sample basis," the electrical work that KBR is doing. Mr. Assad added that this would include personnel from the Army Corps of Engineers and possibly Facilities Command.

Please state how many Army personnel you plan to send to Iraq and Afghanistan to supervise the electrical work that KBR is assigned to do.

Answer. For technical clarification, the Department of Defense does not supervise the work effort of KBR personnel; this is the responsibility of KBR management, acting in its capacity as an employer to its personnel or as a contractor to its subcontractors. The Department of Defense performs quality assurance oversight of KBR's contract support operations under the Logistics Civil Augmentation Program (LOGCAP) contract.

The Multi-National Force—Iraq (MNF–I) recently established Task Force—SAFE (Safety Action for Fire and Electricity). The Task Force (TF) SAFE mission is to assess and analyze fire and electrical safety issues, and to direct action to reduce risk throughout the MNF–I area of operations.

TF SAFE is developing action plans to reduce the risk of electrocution, shocks, and electrical fires. Part of this effort involves an assessment of resources needed to address overall fire and electrical safety, which includes the numbers of government representatives available to monitor electrical work performed by KBR or other contractors in theater. The U.S. Army Corps of Engineers is now working with MNF–I to quantify and furnish the projected resource needs to support the overall TF SAFE mission. The Army expects to use both internal personnel and contractor support to staff these resource requirements.

Question. Please describe the sampling methodology being used for this audit.

Answer. Task Force Safety Action for Fire and Electricity (SAFE) will inspect all buildings to a point where a baseline is established for proper applications of grounding and bonding procedures, and adherence to electrical codes. The inspection sampling plan will be based upon the relative occurrences of noted non-conformance and the unit prioritization scheme while considering occupancy and operational importance.

Question. Please quantify the ratio of KBR personnel doing electrical work to Army personnel supervising that work.

Answer. For technical clarification, the Department of Defense does not supervise the work effort of KBR personnel; this is the responsibility of KBR management, acting in its capacity as an employer to its personnel or as a contractor to its subcontractors. The Department of Defense performs quality assurance oversight of KBR's contract support operations under the Logistics Civil Augmentation Program (LOGCAP) contract.

The fluid environment and changing requirements in Iraq render it difficult to establish the ratio of government to contractor personnel with accuracy. Additionally, as indicated in response to a previous question, the U.S. Army Corps of Engineers is currently working with the Multi-National Forces—Iraq (MNF–I) to quantify projected resource needs to support the Task Force SAFE (Safety Action for Fire and Electricity) mission with government and contractor personnel to perform electrical and fire inspection oversight. Current information indicates that KBR has approximately 847 electrical positions in the U.S. Central Command (CENTCOM) area of responsibility.

Question. As I mentioned earlier in the hearing, the Department of Defense Inspector General conducted a survey of U.S. troops in Iraq with respect to water quality problems, which helped to determine that KBR had improperly treated and tested water at multiple U.S. military facilities in that theater. The IG visited four military installations and conducted a survey of hundreds of troops.

Have you conducted, are you conducting, or do you plan to conduct a similar survey of U.S. troops in Iraq to determine the incidence and frequency of electrical shocks (whether fatal or non-fatal) experienced by U.S. troops and civilians in Iraq?

Answer. It is my understanding that the Inspector General of the Department of Defense is not currently engaged in nor are they planning to conduct a survey to determine the incidences and frequency of electrical shocks experienced by U.S. troops and civilians in Iraq. Such a review would not be the best use of resources, because the risks associated with the electrical infrastructure within Iraq is already known.

The Department recognizes that additional work needs to be done to correct these issues. We have initiated the following actions to mitigate the risks to troops and civilians in Iraq:

(The DOD IG does not have a complete or current list of actions initiated by the Department regarding electrocutions; however, we do know that work is ongoing. Below are excerpts from testimony that occurred last month, suggest contacting these organizations for updates on what is ongoing.)

SAC, 7–23–2008

Part of a question raised by Senator Dorgan, during a SAC hearing on contractor oversight in Iraq and Afghanistan

"it's clear that there was a lot of problems with the electrical wiring, and the contractor that had that contract—people have been electrocuted. And now, General Petraeus has asked the contractor that is the subject of allegations of shoddy work by employees who work for the contractor—has asked that contractor to go back now and do a review of all the wiring in Iraq."

SAC, 7–23–2008

Deputy Secretary England response to a question raised by Senator Dorgan regarding ongoing reviews of electrical systems in Iraq.

"my understanding is, we're not going to just do that, we actually are going to have a group that will go out and independently audit, at least on a sample basis, to make sure that this work is being done appropriately."

"We've also asked our organizations to go off and look at other buildings and start sampling other buildings in Iraq, not necessarily ones that KBR contracted. A lot of the buildings were just there when our military and personnel showed up. So, there is a lot of independent auditing that will be accomplished to ensure the safety of those buildings."

SAC, 7–23–2008

Comments made by Shay Assad, Director, Defense Procurement in further response to a question raised by Senator Dorgan.

"We're actually going to do two things: the sampling that the Secretary talked about and ensuring that we get more folks, from the Army Corps of Engineers and maybe Navy Facilities Command, on the ground who, in fact, can oversee the electrical work that is being done.

The principal work that KBR is doing, in the opinion of DCMA, was that the most important thing to do was to get an idea of what exactly was the total problem. And so, the most immediate way to do that was to get the contractor who is responsible for the maintenance of the buildings—most of the buildings that KBR oversees, they didn't construct, nor have they, frankly, done a lot of work in. They oversee the maintenance, and the maintenance is done primarily on an on-call basis. What we're doing is, we're changing that. In fact, we're inspecting all of the buildings, ground up, not just for electrical, but all safety issues . . ."

HOGR, 7–30–2008

Opening Remarks of Jeffrey P. Parsons, Executive Director, Army Contracting Command, U.S. Army Materiel Command during HOGR hearing on electrical deficiencies in Iraq.

"We are also aware that there were previous contracts for the O&M of this facility prior to the task order issued under LOGCAP III. The U.S. Army Corps of Engineers awarded three previous contracts starting in November 2003 that required the O&M of the facilities.

Knowing that there were additional contracts requiring O&M of facilities in Iraq, we are in the process of identifying the scope of their contractual requirements. This review should provide us with a holistic picture. The electrical issues in Iraq involve more than just the LOGCAP III contract.

As a result of our investigations, we have taken a number of corrective actions. We are working with the U.S. Army Corps of Engineers to obtain additional expertise in the oversight of electrical work by our contractors.

Furthermore, we are working with the Corps of Engineers, DCMA, and the customer to develop a plan to conduct inspection verifications of those buildings recently inspected by KBR for life, health, and safety issues. We will utilize a third party to validate those inspections.

The LOGCAP program director also met with KBR officials to discuss their hiring practices and requirements for electricians to include certification requirements. Following this meeting, the contracting officer issued a contract modification to the LOGCAP III contract on July 21, 2008, to more clearly specify personnel and certification requirements.

KBR was also directed to submit a "Trades Certificate and Validation Plan" to the government describing the process they will use to recruit, train and retain qualified personnel. The plan must address the criteria through which personnel, including non-U.S. citizens, will be qualified and/or certified as a master, journeyman or apprentice, and the proposed schedule for implementing the plan. This requirement is also applicable to all subcontractors."

Question. Are you conducting any such survey in Afghanistan?

Answer. It is my understanding that the Inspector General of the Department of Defense is not currently engaged in nor are they planning to conduct a survey to determine the incidences and frequency of electrical shocks experienced by U.S. troops and civilians in Afghanistan.

Question. You testified that KBR typically "does not have master electricians," and hires a number of lesser qualified electricians. We understand that in the case of Staff Sergeant Ryan Maseth, the shower facility in which he was electrocuted had been the subject of numerous prior complaints of electric shocks. We further understand that KBR sent third-country nationals to fix those problems, and that KBR and the Army could not say whether these workers were certified electricians or not.

Please describe the qualifications of each KBR employee who performed electrical work at the camp where Sergeant Masseth was electrocuted.

Answer. There were ten KBR electricians that worked on electrical projects on the camp. The information received from KBR described the electricians from the employee resumes as follows:

—Former work experience as an electrician.

—Texas Electrical License; Journeyman license; apprenticeship program with Electrical Training Center.

—Attended Universal Technical Institute; former experience as journeyman.

—U.S.C.G. Class A Electrician Mate School; former work experience as an electrician.
—Certificate of 720 hours of basic electricity; former work experience as an electrician.
—Master and journeyman license; graduated from a technical college; possesses Electrical Contractor SC License; former work experience.
—4 year apprenticeship; former work experience as journeyman.
—California state certified journeyman; graduated from Associated Builders and Contractors; former work experience as an apprentice and journeyman.
—Direction of studies—Technical Electrician, High Voltage. Former work experience.
—High School degree. "Electro-technical IV degrees".

From this information it appears there was one Master Electrician, four with "journeyman" experience and nine with former work experience as an electrician.

Question. To the extent that KBR typically does not have master electricians, please explain the basis for continuing to rely on KBR for electrical maintenance in Iraq.

Answer. DOD continues to utilize KBR as one contractor to perform electrical work in the AOR because they utilize experienced electricians. Standard procedure in the United States, as well as in Iraq, is to have one Master Electrician per site. Master Electricians are supervisory and do not normally perform the hands-on electrical work as this type of work is accomplished by Journeyman and Apprentice Electricians. All ten employees performing electrical work at the camp where Sergeant Masseth was electrocuted were electricians: A review of the qualifications of the Apprentice Electricians indicated that they were just as or more qualified than the normal Apprentice Electricians utilized in the United States.

Question. Please identify how widely the Army distributed KBR's February 10, 2007 report about electrical problems at U.S. facilities in Iraq—specifying command levels and individuals notified.

Answer. We understand the question to refer to the KBR electrical department technical inspection (TI) performed on the Radwaniyah Palace D9. We are unable to identify distribution of this TI beyond the scope of KBR, the Logistics Civil Augmentation Program (LOGCAP) contract support operations within the Army Sustainment Command (ASC), the Defense Contract Management Agency (DCMA), and most recently, the DOD and Congressional investigative bodies looking into matters related to the January 2, 2008 electrocution incident.

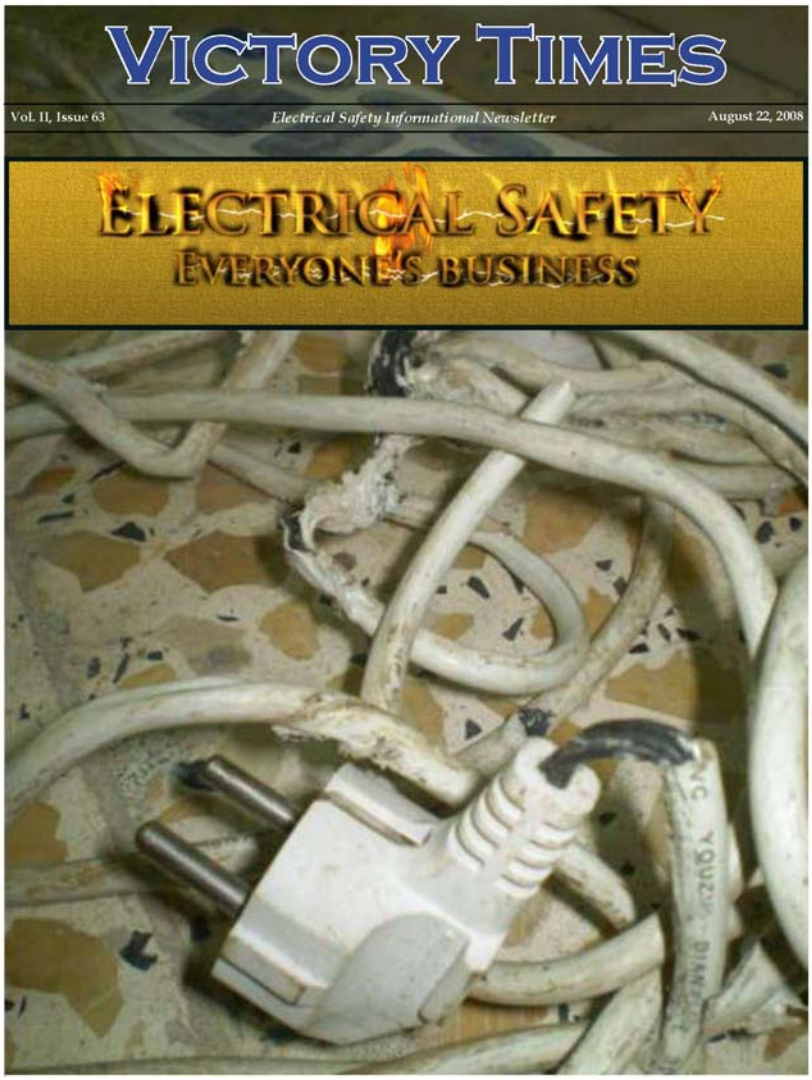
In general, technical inspection (TI) reports under the LOGCAP contract cover electrical, heating/ventilation/air conditioning (HVAC), plumbing, carpentry, and structural assessments. Technical inspections are generally done on two occasions: new work and maintenance level changes. When a unit requests support, the LOGCAP contractor prepares a TI, which is the basis for a Project Planning Estimate (PPE). The PPE is submitted to the requesting unit and the Army Sustainment Command (ASC) Logistics Support Officer to support government approval and funding determinations.

Question. To the extent that such notification has taken place, please describe what steps U.S. troops and civilian personnel have been advised to take in order to detect an electrical hazard.

Answer. Incoming military personnel receive required fire and electrical safety and reporting procedures briefings upon checking in at reception bases in theater. Training examples include do's and don't's of electrical and fire safety, contact numbers and methods for fire, police and ambulance assistance and specific safety issues unique to each location. Training also includes essential personal safety activities such as the safe use of power strips, reducing local electrical loads when equipment is not in use, practices to reduce the likelihood of fires due to electrical equipment failures and how to recognize defective or counterfeit equipment. Currently there is a theater-wide education program being simultaneously presented through the chain of command and safety channels. Units are required to report all electrical and fire incidents to a centralized group in order to analyze the information and make corrective actions through education, training, contracting, materiel, or command actions. Safety products are presented to commanders as well as being presented on Armed Forces Network (AFN) radio/TV, local newspapers (regular and special editions), computer screen savers, placed in living and work areas as well as dining facilities. The campaign will continue to mature as root-cause analysis shows areas of improvement in behaviors, policies or electrical construction.

Question. Provide examples of any such written notification.

Answer. The most recent examples are found in the August 22, 2008 Multi-National Force—Iraq (MNF–I) Safety Bulletin. A copy is provided.


VICTORY TIMES
Vol. II, Issue 63
Electrical Safety Informational Newsletter
August 22, 2008
ELECTRICAL SAFETY
EVERYONE'S BUSINESS

COMMENTARY

Avoid these dangerous practices

Overloaded power supplies, frayed cords can cause sparks, fires

Photos from MND-C Safety Office
Quotes from Command Sgt. Maj. Marvin L. Hill, command sergeant major, MNF-I

"Workplace fires kill about 200 workers each year and injured nearly 5,000. In many of these workplace fires, inadequate fire extinguishing systems and locked fire exits contributed to the losses. To prevent those losses, it's important to take a closer look at inspections, exits, fire extinguishers and training.
Inspections are Leader Business. Leaders at every level have a non-negotiable contract with the command to protect our warriors. Protecting the force is everybody's business."

"You are probably close to building a fire in your living quarter than you realize. If the plug doesn't fit, resist the temptation to modify it or jimmy rig it. Instead, consult a certified electrician or your first sergeant. Chances are, it may be necessary to replace your obsolete receptacles.
When you are finished using a small electrical appliance or entertainment equipment, unplug it.
Unplug extension cords that are not in use.
Inspect cords for serviceability prior to use and replace any that are cracked or frayed.
Buy only electrical products that are double insulated and approved by a recognized testing lab such as Underwriters Laboratories (UL)."

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Unsafe electrical practices can damage, kill

Story by
Staff Sgt. Jeremy D. Crisp
MNC-I PAO

Electricity: hard to imagine a world without it. With it, however, comes a responsibility to handle it properly in order to prevent accidents that can occur from shock, electrocution and fires.

Recent reports highlighting the electrical deaths of 16 servicemembers in Iraq have brought heightened awareness to the risk electricity poses in theater, and senior leaders are stressing the importance of safety in its regard.

Officials with Task Force Safe, a task force designed to help create awareness among servicemembers in Iraq regarding electrocutions and fires, state that although buildings in Iraq don't meet U.S. electrical code standards, walking into a trailer or building shouldn't be a cause for worry of electrocution.

And while the TF is working with contractors, officials and electricians in order to standardize the electrical code and inspect all of the buildings in which coalition forces reside, it is also stressing the cutting down of complacency and unsafe practices in order to minimize the risk of electrical shock or fires.

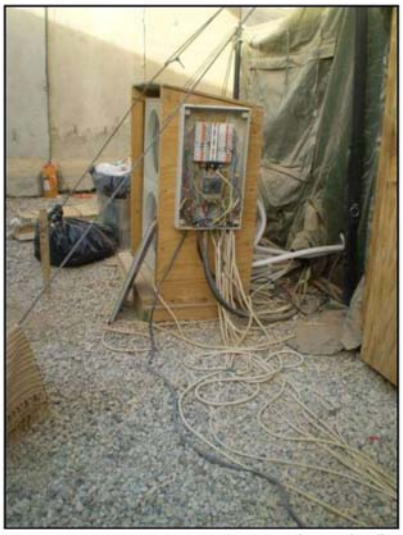

Photo courtesy of MND-C Safety Office

Task Force Safe has been formed to educate Soldiers about dangerous electrical practices like the one pictured above.

"We are wired into an infrastructure that we would consider, by American standards, to be substandard," said Jesse L. Martin, safety director, Multi-National Corps – Iraq, of some of the electrical wiring in buildings and trailers in which troops reside. "Realizing that, [servicemembers] should be extra careful."

Essentially, servicemember practices of overloading power strips in trailers or allowing an overabundance of dust in a room can cause bad connections or sparks which can lead to the worst of situations. That's why the safety office recommends against a myriad of unsafe electrical practices they routinely see troops conducting in living quarters. This includes 'daisy-chaining' electrical equipment, taping electrical cords and having too many appliances plugged into one outlet, to name some.

"Leaders should ensure Soldiers do not plug a bunch of things into one power strip," Martin recommends. "There should be monthly inspections [of rooms], and if something looks wrong, Soldiers and leaders should get an expert to check it. And anytime there is a spark or a small fire, it should be reported."

There are innumerable do's and don'ts when it comes to the realm of staying safe from electricity, however, the mainstay is that servicemembers need to be aware and "not take any chances with adapting or modifying electrical equipment," said Martin, a retired Soldier and veteran of eight years in the safety field.

"I have seen where

See **SAFETY**, *Page 5*

Electrical awareness plays key part in safety

Story courtesy of MNC-I Safety Office

Recent reports highlighting the electrical deaths of 16 servicemembers in Iraq have brought heightened awareness to the risk electricity poses in theater.

Officials with Task Force Safe, a task force designed to help create awareness among servicemembers in Iraq regarding electrocutions and fires, state that walking into a trailer or building shouldn't be a cause for worry of electrocution, but there are some dos and don'ts when it comes to playing it safe with electricity.

– Set your air conditioner on a low fan/cool setting.

– Turn off your lights and TV.

– Unplug all non-essential devices such as hair dryers, laptops, game systems and rechargeable items.

– Turn off power strips if not in use.

– Plug refrigerators directly into a wall outlet, not into power strips.

– Practice good housekeeping; keep your room neat and organized.

– Keep all items: bed, linen, boxes, etc. a safe distance away from electrical outlets.

– Don't use non-approved devices and power strips.

– Don't 'daisy chain' power strips (plugging one power strip into another.)

– Don't use hot plates.

Also, TF Safe is stressing its 'Top 10 things to keep safe.'

– If you feel a tingle of electricity or mild shock – report it immediately.

– Leave the technical work to the experts. Check for and report any potential electrical issues such as: loose connec-

See **TIPS**, *Page 5*

Fire Safety

Photo by Pfc. Eric J. Martinez, 13th Public Affairs Detachment

Josh Buonadonna, firefighter, South Camp Victory Fire Station, instructs Master Sgt. Joseph McLean, operations noncommissioned officer in-charge, Multi-National Corps-Iraq, Joint Combat Camera, on the proper use of a fire extinguisher during a fire warden and fire extinguisher safety class. This helps ensure that everyone is familiar with fire safety in the case of an emergency.

MNF-I TF SAFE

SAFETY BULLETIN

Electrical Equipment Labeling

MNF-I TF SAFE

How do you know for sure if the power strip, converter, or adapter you are using is an approved "certified" device? The information below will help you determine that.

All certified devices will have a label embedded in the device. The primary European certification label is **CE**. (look for the symbol on the device or cord).

Another certification label used in Europe is the UL/GS.

European UL GS Mark

"Be AWARE of COUNTERFEITERS placing CE or UL Labels on unapproved Devices"

The most common label used is the UL Mark

Underwriters Laboratory

BOTTOM LINE:

If your device does not have an embedded mark on the device or cord it is most likely not a certified device and can put you and others at serious risk. If you are unsure about your device have it checked at the Safety Office or the Mayor's Cell. Don't take riskswith electricity - it's a deadly gamble.

FEATURES

SAFETY, *from Page 4*

soldiers have used a damaged extension cord, taped it up, and daisy-chained it so they could have additional outlets," he said. "Unfortunately, this wire became hot, got dirt in it, and then it couldn't trip the power circuit."

A fire resulted from this incident, as there have been several trailer fires in the past few years in Iraq, however, preventative measures can be taken to help ensure fires of this kind are kept at a minimum.

Some ways to mitigate risk of electrocution or electrical fire, according to a report from TF Safe, are to:

- Ensure surge protectors and power strips remain free of dirt and dust.
- Remove any damaged electrical power strips and surge protectors.
- Unplug any devices not in use, especially when you leave the room.
- Do not use partially burned or damaged extension cords.
- Report any electrical problem to the Mayor's Cell or your supervisor immediately

Although it is the servicemembers and first-line leaders' responsibility to do their part preventing electrocutions and fires, Martin said; the command also has a responsibility to make broader fixes and the TF is one step in that direction.

According to officials from the MNC-I staff engineer section, there are "ongoing initiatives to combat the electrical construction issues in theater…"

They outline the 'way ahead,' which in part is to: "identify, prioritize [and] correct deficiencies and minimize risk from faulty electric materials, installation and maintenance."

In the meantime, TF Safe stresses that all servicemembers, from the top to the bottom, have a responsibility to each other to prevent electrical shocks and fires.

"We all must do our part to protect the force and eliminate needless accidents," said Col. John A. Lenk, director, Army Safety Augmentation Detachment, Forces Command, who is also the team chief for the safety and communications team with TF Safe.

For more safety information, visit the Army Combat Readiness/Safety Center at https://crc.army.mil/home/

TIPS, *from Page 3*

connections, exposed wiring and any burned or charred marks on the wall. If this exists, report it.

– Check your power strips and adapters to ensure they are certified. Look for the European CE or United Statess UL mark embedded in the device.

– Never overload the circuit. Do not daisy chain power strips and do not stack adapters.

– Make sure you keep at least 6" clearance in front of and around the wall outlets. Keep items or debris from making contact with the power strips.

– Know where the fire extinguishers are in your living and working areas and know how to use them.

– Unplug all non-essential items when not in use.

– Plug refrigerators and microwaves directly into an outlet, not into a power strip.

– No cooking or open flames in your living and work areas.

– Check CHU'sdays (On Tuesday, check your smoke detector and fire extinguisher).

For more safety information, visit the Army Combat Readiness/Safety Center at https://crc.army.mil/home/

MNF-I TF SAFE

POWER STRIP WORK SHEET

PROTECT YOUR INVESTMENT

MNF-I TF SAFE

Your television, stereo/radio, game-boy, and other ***electrical products*** that you have purchased ***can be seriously damaged or destroyed from overloaded circuits and electrical devices***. This worksheet is designed to help you protect your investments by doing some simple calculations to determine the electrical load on your power strip. Take a few minutes to complete the worksheet below. Remember, do not include your refrigerator in this equation because refrigerators cannot be plugged into a power strip; they must be plugged directly into the wall outlet. Also, you cannot daisy-chain power strips to increase your capabilities. In fact, this will have the opposite effect and increase your chances of an electrical overload… and loss of your equipment!

INSTRUCTIONS:

1. **Look for the UL or CE certification or label mark on your power strip.**
2. **Look for AMP rating on your power strip and write that value in the last line.**
3. **Look for the rated AC input on each appliance to be plugged into the power strip, and write those values in the last column. (NOTE: if it does not say 220V do not plug it in without a converter.)**
4. **If no AMPS are shown, look for the WATTS and write that number in the WATTS column. Divide WATTS by 220V and write the result in AMPS column.**
5. **Total ALL the AMPS. Your total CANNOT exceed the AMPS of your power strip.**

Appliance	WATTS		AMPS
		/220 =	
		/220 =	
		/220 =	
		/220 =	
		/220 =	
THIS TOTAL → CANNOT EXCEED the Power Strip Rating below			
POWER STRIP RATED AMPS:			( )

Page 7 *Victory Times* August 22, 2008

Question. In hindsight, is there anything that the Pentagon would have done differently with respect to the contracting out of electrical maintenance at U.S. military facilities?

Answer. Hindsight will always allow room for improvement as further assessment has proven regarding electrical safety issues. Based on the discussion and analysis performed by the MNF–I established 2-star Task Force (TF)—SAFE (Safety Action for Fire and Electricity) there are various ways to reduce future risk.

The TF will continue to work on developing and implementing action plans aimed at reducing the risk of electrical accidents. For instance, the U.S. Army Combat Readiness Center from Fort Rucker, AL recently deployed a team to promote an independent risk management assessment. We are awaiting results and in the interim, MNF–I is taking action along three lines of operation: Awareness; Plans, Policies and Standards; and Facilities. Leaders at every level are focused on finding and correcting conditions such as overloaded circuits. Commitment to awareness on hazard mitigation will significantly reduce risks. We are continuing to work on pro-

moting safety tips focused on fire and electrical safety to multiple media outlets, including Armed Forces Network radio, unit newspapers and other Command Information channels. We will continue to establish and eventually implement a baseline electrical code for the theater. The Department is going to continue to look for ways to promulgate future risk. We are committed to government oversight capability and building an inspection system focused on life-saving measures.

Question. In hindsight, were the 16 known deaths of U.S. military and civilian personnel in Iraq due to electrocution preventable?

Answer. Based on initial DOD IG review, the 16 electrocutions were preventable accidents. Nine of the 16 cases involved contact with power lines during military or construction operations. In some of these cases, the contact was inadvertent. In other cases, Servicemembers moved obstructive power lines by hand, apparently without knowing that the lines were electrified.

The remaining 7 electrocutions occurred while Service members were making electrical repairs and/or resulted from improper grounding of electrical equipment. In four of these cases, individuals were working with or attempting to repair electrical appliances (e.g., air conditioner, generator, power washer). In the remaining three cases, systems became electrified due to equipment failure coupled with lack of proper grounding. The DOD IG is still reviewing the circumstances of these 7 cases at the request of the House Oversight and Government Committee.

Question. Please identify the number of U.S. military and civilian personnel in Afghanistan who have died due to electrocution.

Answer. There are no U.S. military and civilian personnel in Afghanistan who have died due to electrocution.

QUESTIONS SUBMITTED BY SENATOR FRANK R. LAUTENBERG

Question. Earlier this year, I wrote a law to establish a special inspector general devoted to reviewing U.S. assistance to Afghanistan. In May, President Bush appointed Major General Arnold Fields to the post and last month, $7 million was appropriated for the office. Has this office begun its work? If not, when will this office begin operating?

Answer. The DOD OIG is working with the Special Inspector General for Afghanistan Reconstruction in commencing its mission. The Special Inspector General for Afghanistan Reconstruction will be included in the next update of the Comprehensive Audit Plan for Southwest Asia. The planned oversight work of the Special Inspector General for Afghanistan Reconstruction will be included along with the planned work of the respective oversight Agencies with Afghanistan related oversight responsibilities. In addition, the Special Inspector General for Afghanistan Reconstruction is invited to attend the August 20, 2008, Southwest Asia Joint Planning Group, which will facilitate being apprised of ongoing and planned Afghanistan related oversight efforts as well as integrating the Special Inspector General for Afghanistan Reconstruction into the future oversight of Afghanistan efforts.

Question. Last month, Charles Smith, a contracting official who was removed from his position as the Director of the Army's field Contracting Division after objecting to paying KBR over $1 billion in questionable costs spoke out publicly for the first time. This is the second high profile demotion of a whistleblower exposing KBR's outrageous overcharges. Will you commit to ensure an environment at DOD where employees are free to report waste, fraud and abuse without putting their jobs at stake?

Answer. I support the effective implementation of whistleblower protection laws. I am committed to creating an environment in which service members, civilian employees, and contractors feel free to report allegations of waste, fraud, and abuse without fear of reprisal. I also support the role of the Inspector General to accept such allegations and encourage anyone with knowledge of waste, fraud, or abuse to report that to the Inspector General. Information can be provided to Service Inspectors General or to the Inspector General of the Department of Defense's Hotline at 800–424–9098 (e-mail: hotline@dodig.mil).

Question. What mechanisms are being implemented to ensure that whistleblowers are not being retaliated against?

Answer. Our most effective means to prevent whistleblower retaliation is to proactively expand awareness of the protections available. The DOD Directives that implement 10 U.S.C. 1034 and 10 U.S.C. 1587 charge the Military Departments with the responsibility to disseminate information regarding whistleblower protections; and we recently requested that 10 U.S.C. 2409 be amended to include the requirement to inform Defense contractor employees in writing of their protections against retaliation for reporting wrongdoing. In addition, the IG, DOD, distributes

posters for display in IG offices service-wide that provide contact information for reporting wrongdoing or retaliation; and in every workshop we present on the standards for conducing reprisal investigations, the IG, DOD also reminds the Service IG representatives of their responsibilities to help their commanders avoid even the appearance of retaliation.

The Inspector General, Department of Defense (IG, DOD) has the statutory responsibility for conducting and overseeing whistleblower reprisal investigations submitted by members of the Armed Forces (10 U.S.C. 1034), Defense contractor employees (10 U.S.C. 2409), and nonappropriated fund employees (10 U.S.C. 1587). Although the majority of military reprisal investigations are conducted by Service IGs, the IG, DOD is the final approval authority and ensures the investigations are thorough and unbiased.

For most civilian appropriated fund employees, the U.S. Office of Special Counsel has jurisdiction for investigating whistleblower reprisal complaints under Title 5 U.S.C. 2301 and 2302. However, Title 5 does not provide whistleblower protections for employees of certain intelligence agencies. To provide whistleblower protections for employees of DOD intelligence agencies, as well as for other DOD civilian appropriated fund employees, the IG, DOD, has accepted complaints for administrative investigation under Section 7 of the IG Act, as amended (5 USC Appx. 7(a), (c)).

QUESTIONS SUBMITTED BY SENATOR MITCH MCCONNELL

Question. Does the Navy stand by its fiscal year 2009 budget request for the DDG 1000? If not, what are the reasons for the change in the Navy's position (both from the perspective of cost and of military requirements)?

Answer. The Navy's plan is to complete construction of the DDG 1000 ships currently under contract and the third DDG 1000 included in the President's fiscal year 2009 budget submission. This plan will provide stability for the industrial base and continue the development of advanced surface ship technologies such as radar systems, stealth, magnetic and acoustic quieting, and automated damage control.

Further, the Navy intends to reprogram funds to support DDG 51 class material procurement and related planning activities in fiscal year 2009. This will provide the dual benefits of buying additional spares at an economical price while also protecting future options for restarting DDG 51 production.

Question. Does the DDG 1000 class destroyer have greater capability than the current DDG 51 destroyer with regard to land attack operations, integrated power systems, radar suites and other key technologies?

Answer. The way ahead for surface combatant production in fiscal year 2010 and beyond will be determined by the Department of Defense's continuing assessment of existing and evolving threats, ensuring that it delivers those capabilities best suited to meet our national security needs both now and in the foreseeable future. This will include, but not be limited to, defense against missile threats and the challenging requirement to operate in littoral environments. As the Department of Defense develops its fiscal year 2010–2015 budget, all of these considerations will be weighed to ensure we build the right Navy for the future.

Question. Concern has been expressed that cost overruns for DDG 1000 might adversely affect the Navy's shipbuilding plan, and that restarting the DDG 51 program would pose less risk. Is that the Navy's position? If so, how would the risk associated with the DDG 51 be less?

Answer. The Navy's plan is to complete construction of the DDG 1000 ships currently under contract and the third DDG 1000 included in the President's fiscal year 2009 budget submission. This plan will provide stability for the industrial base and continue the development of advanced surface ship technologies such as radar systems, stealth, magnetic and acoustic quieting, and automated damage control.

Further, the Navy intends to reprogram funds to support DDG 51 class material procurement and related planning activities in fiscal year 2009. This will provide the dual benefits of buying additional spares at an economical price while also protecting future options for restarting DDG 51 production.

The way ahead for fiscal year 2010 and beyond will of course be determined by the Department of Defense's continuing assessment of existing and evolving threats, ensuring that it delivers those capabilities best suited to meet our national security needs both now and in the foreseeable future. This will include, but not be limited to, defense against missile threats and the challenging requirement to operate in littoral environments. Acquisition risk will also be an important consideration. As the Department of Defense develops its fiscal year 2010–2015 budget, all of these considerations will be weighed to ensure we build the right Navy for the future.

Question. Restarting the DDG 51 production program would appear to pose some logistical drawbacks such as the unavailability of parts and equipment obsolescence. If the Navy is giving serious consideration to restarting the DDG 51, how does the Navy intend to ameliorate these potential concerns?

Answer. The Navy's plan is to complete construction of the DDG 1000 ships currently under contract and the third DDG 1000 included in the President's fiscal year 2009 budget submission. This plan will provide stability for the industrial base and continue the development of advanced surface ship technologies such as radar systems, stealth, magnetic and acoustic quieting, and automated damage control.

Further, the Navy intends to reprogram funds to support DDG 51 class material procurement and related planning activities in fiscal year 2009. This will provide the dual benefits of buying additional spares at an economical price while also protecting future options for restarting DDG 51 production.

The most significant vendor issue for a restart is the DDG 51 reduction gear which would be about 50 weeks longer than the traditional reduction gear fabrication. However, both shipbuilders have indicated to the Navy that the lead time challenges inherent in restarting the production of DDG 51 Main Reduction gear sets can be mitigated with advance procurement and an adjusted build sequence. Regarding the combat systems, the last production contracts were awarded in 2006. The cost and ease of restarting those production lines is a function of time, and parts availability on military specification items.

The way ahead for fiscal year 2010 and beyond will of course be determined by the Department of Defense's continuing assessment of existing and evolving threats, ensuring that it delivers those capabilities best suited to meet our national security needs both now and in the foreseeable future. This will include, but not be limited to, defense against missile threats and the challenging requirement to operate in littoral environments. As the Department of Defense develops its fiscal year 2010–2015 budget, all of these considerations will be weighed to ensure we build the right Navy for the future.

QUESTION SUBMITTED BY SENATOR WAYNE ALLARD

Question. During a hearing before this Committee earlier this year, it was said that integrated plans between the DOD, Iraqi ministries, and other U.S. agencies was lacking. The absence of a comprehensive plan created waste and a misuse of funds.

Since then, what steps have you taken to address the integration of agencies? Is there now a comprehensive strategy that eliminates some of those loopholes that you were facing?

Answer. In March 2008, to further leverage the improved security situation, the U.S. Department of State appointed Ambassador Lawrence Benedict as Coordinator for Anti-Corruption Initiatives. As an Advisor to Ambassador Ryan Crocker at U.S. Embassy Baghdad, Ambassador Benedict is responsible for integrating U.S. Government support to the Government of Iraq's anti-corruption efforts.

Through the Office of the Coordinator for Anti-Corruption Initiatives, staff from the Department of State, Multi-National Security Transition Command—Iraq (MNSTC–I), USAID, and Ministry of Interior (MoI) and Ministry of Defense (MoD) Inspectors General have improved coordination on anti-corruption efforts, including inspections and audit trainings.

USG and GoI planning for a comprehensive Iraqi anti-corruption strategy that eliminates redundancies, fraud and waste is currently underway. As part of that strategy, in July 2008, the Iraqi Ministries of Interior and Defense hosted and Anti-Corruption Strategic Planning Conference. At the conference, GoI officials presented a draft strategic plan for MoI and MoD Inspectors General, which was developed with the assistance of Ambassador Benedict and MNSTC–I. The USG will continue to engage the GoI at the highest levels to implement this long-term strategy.

QUESTIONS SUBMITTED TO GENERAL BENJAMIN S. GRIFFIN

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

Question. General Griffin, because of the snail's pace at which investigations are initiated or are moving, the statute of limitation on many of the contracting offenses that have occurred in Iraq and Afghanistan will soon expire. Do you support current Congressional efforts to extend the statutes of limitation in cases involving these war zones?

Answer. Senator Byrd, I would welcome any tool, statutory or investigatory, that would allow us to improve the delivery of goods and services to our warfighters, and assist us in our stewardship over taxpayer dollars, including extension of the statute of limitations. I realize that there are many policy issues that must be considered as part of the legislative decision-making process, and I would defer these issues to the OSD Office of General Counsel, the Attorney General and the Justice Department.

Question. General Griffin, given the large dollar amount of unaccounted-for expenditures, why has KBR been permitted to continue to contract with the Department of Defense?

Answer. The Army has policy, regulations, and procedures in place designed to prevent awarding of contracts to companies who fail to demonstrate compliance with the terms and conditions of their contract. Prior to a contract award contracting officers are required to make a responsibility determination. As part of the determination they are required to assess the contractor records as a "responsible contractor." The Excluded Parties List System should be reviewed to determine if the contractor had previously been suspended or debarred. The contracting officer is also required to review the contractor's past performance data in the Contractor Performance Assessment Reporting System. Contracting officers are required to reference this data as part of the contract award process. This guidance, if routinely followed, is designed to ensure contracts are awarded only to companies with a responsible performance history, thereby helping to ensure the Army manages its resources efficiently and effectively.

The United States Army, in conjunction with the Defense Contract Audit Agency, continuously monitors and audits Kellogg, Brown, and Root Services Incorporated's (KBR) incurred costs. Currently, out of $26.515 billion in billings of incurred costs, the Army has withheld or suspended $114.553 million from KBR. KBR is working with the Army to resolve these issues. If they are not satisfactorily resolved, KBR will not be paid. This process is no different than the process would be for any other defense contractor and protects the Government's interests.

The Logistics Civil Augmentation Program (LOGCAP) III competition resulted in a single contract award to KBR in December 2001. As such, KBR is the only source for services under the LOGCAP III contract.

The competition for LOGCAP IV resulted in awards to three companies, including KBR, determined to offer the Best Value to the Government. Thus, there will be three sources for logistics support services task order awards under the LOGCAP IV contracts and the three companies will compete for each task order.

Question. General Griffin, we are still receiving a steady stream of reports about contract problems in Iraq. What improvements have been made in awarding and overseeing these contracts and why do these reports continue?

Answer. The complexity of contracting in Expeditionary Operations, especially Iraq, is a challenge to the entire Department of Defense. As was noted in the Gansler Commission Report entitled "Urgent Reform Required: Army Expeditionary Contracting", a number of improvements are needed to better prepare the Army for future Expeditionary Operations. The Army has already moved out on a number of the Gansler Commission recommendations as reported to Congress by the Army in response to Section 849 of the fiscal year 2008 National Defense Authorization Act. To this end, the Army Materiel Command has established a two-star level Army Contracting Command that will execute approximately 70 percent of all Army contract dollars. This new command also includes a one-star Expeditionary Command that is focused upon providing contracting support to forward deployed forces. This deployable one-star command consists of Contracting Support Brigades, Contingency Contracting Battalions, Senior Contingency Contracting Teams, and Contingency Contracting Teams. Once fully staffed, this Expeditionary Contracting Command will have over 1,100 military contracting personnel in the active, Army Reserve, and Army National Guard force. This new and expanded expeditionary contracting capability will improve the Army's ability to execute and manage contracts in future expeditionary operations.

In support of current contracting activity in Iraq, the Army Materiel Command is working closely with the Joint Contracting Command—Iraq/Afghanistan to improve the quality and training of our contracting military personnel before they deploy to Iraq and Afghanistan. We are capturing lessons learned through the Army's Acquisition, Logistics, and Technology Initiatives Office. These lessons learned are being used to improve our training and develop scenarios for our deploying personnel to exercise at our Combined Training Centers prior to deployment. The Army is also instituting blocks of contracting and contractor management training in courses for non-acquisition personnel. For example, all new Logistics commanders now receive a block of instruction on contracting and contractor management. The

Army is also expanding Contracting Officer Representative (COR) training to ensure Army personnel are trained and equipped to perform contract oversight. To date, over 500 Army personnel have received COR training in Kuwait.

To improve our execution of the Logistics Civil Augmentation Program (LOGCAP), the Army Materiel Command assigned two senior executive service personnel to further enhance our leadership and management of the program. In addition, the Army Sustainment Command has the following structure in place to provide management and oversight of LOGCAP in Iraq, Afghanistan and Kuwait: a Colonel in Iraq; a Colonel in Afghanistan; and a GS–15 on the ground in Kuwait, leading over 100 personnel in the oversight of LOGCAP. The Defense Contract Management Agency has 97 personnel, primarily in Iraq and Afghanistan, performing LOGCAP contract management, and has appointed over 500 contracting officer representatives in Iraq and Afghanistan from operational units to assist in day-to-day oversight of contractor performance. DCMA is also going to increase their number of personnel in theater providing quality assurance and quality control for LOGCAP by December 2008 to 127.

Finally we are working as quickly and smartly to transition from LOGCAP III to LOGCAP IV which addresses the structural issues and challenges that we experienced with LOGCAP III.

Question. General Griffin, of 23 inspections performed by May 2007 by the Special Inspector General for Iraq Reconstruction (SIGIR) on Parsons Global, Inc., contract specifications were not met and deficiencies were noted in 15 of the 23 sites, which included the Baghdad Police College, the Al Basra Oil Terminal, the Iraqi Civil Defense Headquarter and the Erbil Maternity and Pediatric Hospital. Parsons Global, Inc., was also involved in the costly effort to construct 150 primary healthcare centers in Iraq, of which only 15 were delivered and only 8 were open to the public as of April 2007. The Army Corps of Engineers has also, in the past, terminated work Parsons has done on other Iraqi hospitals and prisons because of schedule slips and cost overruns. Given that track record, should the United States government award any further contracts to Parsons and if so, why?

Answer. The Army's responsibility for awarding contracts does not extend to other government agencies and departments. However, the Army is the Executive Agent for the Department's contracting activities in Iraq and Afghanistan and as such is directly engaged in supporting our military forces.

The Army has policy, regulations, and procedures in place designed to prevent awarding of contracts to companies who fail to demonstrate compliance with the terms and conditions of their contract. Prior to a contract award contracting officers are required to make a responsibility determination. As part of the determination they are required to assess the contractor records as a "responsible contractor." The Excluded Parties List System should be reviewed to determine if the contractor had previously been suspended or debarred. The contracting officer is also required to review the contractor's past performance data in the Contractor Performance Assessment Reporting System. Contracting officers are required to reference this data as part of the contract award process. These processes are designed to ensure contracts are awarded only to companies with a responsible performance history, thereby helping to ensure the Army manages its resources efficiently and effectively.

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

Question. Please respond in detail to the allegations raised by former KBR electricians Debbie Crawford and Jefferey Bliss at the hearing held by the Senate Democratic Policy Committee on Friday 11, 2008, to the effect that KBR did not provide adequate electrical services. Be sure to include the allegations that KBR hired supervisors with little or no experience as electricians.

Answer. The terms and conditions of the LOGCAP III contract require KBR to provide all resources and management necessary to perform the mission in accordance with the basic contract and task order scopes of work.

The Defense Contract Management Agency (DCMA) has the responsibility of overseeing KBR's performance in the theater. The original contract did not require specific levels of expertise KBR employees or its supervisors must have. The contract is performance based and requires KBR to perform to set standards. It is our understanding that KBR's standards for recruiting electricians requires a minimum of 5 years experience and KBR's policy required these electricians to be placed under the supervision of a licensed KBR electrician once in theater. On occasion, an electrician will report to someone with a background in another trade or craft. This generally occurs when multiple crafts are involved in a single job.

After reviewing the contract language and in collaboration with DCMA, the Contracting Officer modified the basic contract on July 21, 2008, to add specific language for Personnel Certifications and Qualifications as follows:

—The contractor shall ensure that Contractor personnel assigned to perform specific functions possess a license, certification, training and/or education commensurate with the level of assigned duties.

—Contractor's personnel will be licensed, certified, trained and/or educated in accordance with the requirements of (1) any U.S. Government or U.S. Government recognized program applicable to the trade being performed, (2) any State or local government recognized program applicable to the trade being performed, or (3) any non-U.S. program that is deemed by the Contracting Officer to be equivalent to or in excess of any Government, State or local government program applicable to the trade being performed.

—The Contractor is required to submit a Trades Certificate and Validation Plan to the Government that describes the process to be used by the Contractor to recruit, train and retain personnel in accordance with the requirements of the clause.

—Upon receipt of the Validation Plan, the Government shall review and, if acceptable, approve the Plan, including the schedule for implementation.

Question. Please respond in detail to the allegations raised by former KBR electricians Debbie Crawford and Jefferey Bliss at the hearing held by the Senate Democratic Policy Committee on Friday 11, 2008, to the effect that KBR did not provide adequate electrical services. Be sure to include the allegations that KBR hired third-country electricians who did not speak English and were not familiar with U.S. and British electrical standards.

Answer. The LOGCAP III contract requires all contractor employees to either be literate in English or have a translator available at all times to the extent of being able to read, speak, and understand the language in order to ensure all safety, health, and security requirements are met to include understanding instructions concerning equipment to the extent that duties requires operation, maintenance and/or repair, However KBR did hire third country nationals who do not speak English.

KBR's policy is to screen foreign national candidates for English competency in pre-employment interviews. A second screening is conducted during pre-deployment training in Houston. Employees with basic competency have translators available in theater.

KBR provides on-the-job skills training to ensure all employees understand specific work performance requirements to perform their tasks. Employees are familiarized with trade specific systems that do not conform to American standards; such as 220V electrical systems that conform to British Standards. New hire electricians are teamed with an experienced senior electrician who introduces them to the working environment, for example, provides instruction regarding the use of power generation, 220/440V—50Hz, 3-phase power. The contractor provides employees Hazard Awareness and Safety Briefs on a daily basis.

Question. Please respond in detail to the allegations raised by former KBR electricians Debbie Crawford and Jefferey Bliss at the hearing held by the Senate Democratic Policy Committee on Friday 11, 2008, to the effect that KBR did not provide adequate electrical services. Be sure to include the allegations that KBR provided inadequate equipment to its electricians.

Answer. The terms and conditions of the LOGCAP III contract require KBR to provide all resources, management and equipment necessary to perform the mission in accordance with the basic contract and task order scopes of work.

DCMA is the agency responsible for oversight of the LOGCAP contract. DCMA has not issued any Corrective Action Reports (CARs) related to the contractor providing inadequate equipment to its electricians. The Army is not aware of any instances where KBR did not provide adequate equipment to its electricians.

Question. Please describe how much KBR is being paid to conduct the comprehensive review of electrical safety at U.S. facilities in Iraq that DCMA has requested.

Answer. The LOGCAP III contract is a cost reimbursable contract where KBR is reimbursed for all reasonable, allocable, and allowable costs incurred. The technical inspection being conducted by KBR was directed by the Defense Contract Management Agency. In accordance with the contract KBR will be reimbursed for all costs incurred. KBR will perform the inspections utilizing existing task order resources. Specific cost information when completed can be obtained from the LOGCAP Procuring Contracting Officer (PCO) located at ASC in Rock Island, IL.

Question. Please explain why under the LOGCAP IV contract, the Pentagon has announced that it will not issue task orders until 2010.

Answer. To the best of our knowledge, the Pentagon never announced that task orders under LOGCAP IV would not be issued until 2010.

We are looking to transition to LOGCAP IV as quickly and as smoothly as possible without disrupting support to combat operations.

The current plan is to transition work geographically in Southwest Asia. Kuwait was identified as the first area of operation to be competed under LOGCAP IV. Kuwait has three task orders to be competed, the largest of which is the Kuwait Area of Operation. The acquisition phase included an on-site country visit, by the LOGCAP IV contractors, of all facilities and operations contained in the Performance Work Statement. This was accomplished in July of this year.

A Request for Proposal is planned to be released to the LOGCAP IV contractors at the end of this month for the competition of the first Kuwait task order. Award is planned to be made in late October 2008 and the physical transition to begin shortly thereafter. The remaining two task orders will be competed starting in September with awards planned for early December. All three task orders will be physically transitioned to LOGCAP IV by the end of March 2009.

In parallel, the planning and Theater coordination for Afghanistan and Iraq will be underway starting in September and October, 2008. Close coordination will be made with Theater Commanders to minimize operational impacts and to minimize performance risk, as well as to maximize competitive opportunities and the efficient use of resources.

In addition, any new requirements outside of the current LOGCAP III Task Orders will be awarded under LOGCAP IV.

Question. Until new task orders are issued under the LOGCAP IV contract, will LOGCAP services be provided entirely by KBR?

Answer. The Army will continue to utilize LOGCAP III, with KBR as the single contractor, for support work until LOGCAP IV task orders are awarded.

We plan are issuing the Request for Proposal for the formal competition of the first of three Kuwait task orders. Award is to be made in late October and the physical transition to begin shortly thereafter. All three task orders will be physically transitioned to LOGCAP IV by the end of March 2009.

In parallel, the planning and Theater coordination for Afghanistan and Iraq will be underway starting in September and October, 2008. Close coordination will be made with Theater Commanders to minimize operational impacts and to minimize performance risk, as well as to maximize competitive opportunities and the efficient use of resources.

In addition, any new requirements outside of the current LOGCAP III Task Orders will be awarded under LOGCAP IV.

Question. Please explain in detail the specific functions that RCI (now part of the Serco Group) was contracted to perform in connection with determining the proper payment amount for the $1 billion in charges by KBR that DCAA had questioned.

Specify the contractual terms for those services, including the amount of any compensation.

Answer. The Task Order for the RCI services was signed September 27, 2004 by the Navy Contracting Officer in Philadelphia PA.

The Statement of Work for the RCI Task Order to support the LOGCAP III definitization is provided below in its entirety.

Statement of Work—00001.7 Engineering Based Cost Analysis

The contractor will assemble a team to serve as an adjunct to a Government special cost analysis team (SCAT). The contractor shall perform analyses requiring special efforts in support of the U.S. Army definitization effort under contract DAAA09.02–D–0007, Logistics Civil Augmentation Program (LOGCAP). The contractor shall assist the customer as needed in analyses such as, but not limited to, the following: Performance Based Logistical (PBL) analysis; Physical Configuration Audits; Work Breakdown Structure; Supply operations; Facility engineering and Construction; Contractor Logistics Support; Professional level technical/logistical assistance; Value analysis; and Food Service Analysis.

In execution of this task, various methodologies and technical disciplines may be applied. These may include, but are not limited to Engineering, Mathematics, Statistics, Computing, Logistics, Production, Economics, and Business Process Re-engineering.

Work under this task order will commence following a post award conference to be convened at the discretion of the Army Field Support Command shortly after the award date. The target completion date is 60 days from the date of the post award conference. This date is subject to change.

Specifically, the contractor team will perform a comprehensive independent evaluation of Kellogg, Brown and Root's cost proposal for task order 59 under the

LOGCAP contract. The contractor's evaluation will take into account all Government cost evaluations including, but not limited to, audit reports issued by the Defense Contract Audit Agency (DCAA) and technical evaluations issued by the Defense Contract Management Agency (DCMA). The SCAT leader "will provide all the pertinent Government reports required to support this task.

The contractor will submit its findings in a written report. The written report will be furnished in Microsoft Word format. All supporting calculations will be furnished in a working Microsoft Excel cost model. The report will address the KBR proposal and the corresponding position as expressed in the various Government audit and technical evaluations on a line item basis. The contractor will formulate an independent cost estimate for those elements of cost that have been questioned or set aside as unresolved/unsupported in the Government evaluations.

Supporting details will be properly cross-referenced to the cost elements. For the KBR and DCAA/Technical positions, the basis of estimate will be described sufficiently to allow the reader to understand the pertinent points. The contractor position will be supported with an explanation detailing every aspect of how the estimate was derived. This will include, at a minimum, the basis of estimate including assumptions and rationale. The basis of estimate will give the complete detail of sub-elements including, but not limited to, quantities, unit costs, labor types, hours required, hourly rates, overhead costs and profit. The contractor's cost estimate must be sufficiently documented to allow the Government to fully understand the basis of estimate.

At AFSC (for clarification, this is the former acronym for the Army Sustainment Command) request, the contractor may participate in negotiations.

Travel is anticipated in support of this task. The contractor shall participate in fact-finding visits and other site visits as required to meet Price Fighter and customer requirements. Notification lead times may be as short as one (1) day to initiate performance designated in this delivery order. Travel sites may include but are not limited to supplier facilities in Houston, TX and Program office in Rock Island, IL. The authorized per diem rate shall be the same as the prevailing per diem rate allowed by the Defense Joint Travel Regulations, Volume 2 for Civilian Personnel.

Delivery of Final Report.—Delivery of the final report shall be accomplished not later than November 19, 2005.

The estimated cost and fixed fee negotiated for the Task Order are as follows:

	Amount
Estimated cost	$1,425,063
Fixed Fee	72,150
Total	1,497,213

The Defense Contract Audit Agency has not completed the final audit of these costs.

Question. Identify whether any of these services has previously been performed by DCAA in connection with this or any other U.S. government contract.

Answer. DCAA has and still does provide their audit services for the LOGCAP contracts.

The services RCI provided to the government were a supplement to the Special Cost Analysis Team in which DCAA also participated. RCI participated as part of the overall cost analysis process and provided a further in-depth analysis to assist the Contracting Officer in making an informed decision.

Question. Explain in detail why you deemed that RCI was better suited than DCAA to perform these functions.

Answer. The services RCI provided to the government were a supplement to the Special Cost Analysis Team in which DCAA also participated. RCI participated as part of the overall cost analysis process and provided a further in-depth analysis to assist the Contracting Officer in making an informed decision. The use of an independent cost estimator allowed the Government to make an objective assessment of cost reasonableness in instances where financial data was unavailable in the contractor's records. RCI was able to use analyses techniques such as Parametric and Regression analyses to construct estimates to assist the Contracting Officer in making a decision. They were able to take the information provided by DCAA, research and analyze the data to assist the Contracting Officer in making a final determination. DCAA issues their findings but does not provide recommendations or perform detailed analyses when data is inconclusive or incomplete. DCAA then and now provides their audit services for the LOGCAP contracts.

The services provided by RCI included:

—Analyses of audits, operations, food services and work breakdown structure;
—Comprehensive independent evaluation of KBR's cost proposal for TO 59;
—Determination of cost drivers for each task;
—Cost estimating expertise in performing parametric and regression analyses;
—Expertise in all aspects of large-scale food service (OCONUS) that included facilities management, developing logistics and budget requirements, quality assurance and inspections, and customer service; and
—Provided statistically viable method to overcome lack of reliable data.

At no time were the services provided by RCI in lieu of functions that are performed by DCAA. RCI efforts were in concert with DCAA efforts.

Question. Charles Smith has testified that the replacement of DCAA by a private contractor for purposes of determining the proper payment amount for questioned charges was "unprecedented in his 31-year career." Are you aware of any precedent for such an action?

Answer. DCAA was not replaced by a private contractor for purposes of determining the proper payment amount. Rather, a private contractor (RCI) provided supplemental services to a Special Cost Analysis Team, headed by Government Contracting officials, in which DCAA also participated. DCAA then and now provides their audit services for the LOGCAP contracts.

Question. Please state how much RCI was compensated for its work relating to KBR's questioned costs under the LOGCAP III contract. To the extent that DCAA has performed similar work in the past, estimate how much DCAA's costs for such a service would have been.

Answer. The estimated cost and fixed fee negotiated in the Task Order for the RCI services is:

	Amount
Estimated cost	$1,425,063
Fixed Fee	72,150
Total	1,497,213

The Defense Contract Audit Agency has not completed the final audit of these costs.

The services provided by RCI and DCAA are not the same and therefore there is no cost comparison between the two services.

Question. Identify the specific services that RCI/Serco is now providing for the LOGCAP IV contract, and the contractual terms for those services, including the amount of any compensation. Identify any of these services that has been, or is currently being, performed by DCAA in connection with this or any other U.S. government contract.

Answer. The Acquisition Strategy that provides for a separate support contractor for LOGCAP IV was approved in August 2006.

The SERCO scope of work to support LOGCAP is provided below:

Scope.—The purpose of this contract is to maximize resources and expertise of the Support Contractor to provide LOGCAP program management analysis and support on a global basis. The contractor may deploy within the Continental United States (CONUS) in support of CONUS activities or world-wide in support of planning, training, exercises, or events. Requirements shall focus on LOGCAP capabilities and/or resources to support Army, Department of Defense components, U.S. Federal Government Inter-Agency requirements, and non-governmental and coalition forces LOGCAP support when approved by Department of the Army. This scope does not intend to limit LOGCAP responses to only military operations. SECRET clearance is required for Support contractor personnel. The LOGCAP Support contractor will perform the following functions: (1) provide operations support to the LOGCAP Operations Directorate; (2) provide program support to the LOGCAP Director staff; (3) provide liaison support between the LOGCAP Director and COCOM/ASCC staffs and assist with development of LOGCAP PWS and IGCE; (4) provide support to deployed LOGCAP Deputy Program Directors; (5) participate in LOGCAP related COCOM/ASCC exercises; (6) maintain the Worldwide management and Staffing Plan; and (7) maintain existing and document new COCOM/ASCC deliberate plans.

Services To Be Provided.—The Support Contractor shall have detailed knowledge of the LOGCAP program and provide acquisition and life cycle management support for the program. This includes but is not limited to assisting Government staff with planning, development of policy guidance, budgetary, contract and systems/program management, training, liaison between the LOGCAP Director and COCOM/ASCC staffs, and administrative functions. The Support Contractor shall provide In-Proc-

ess Reviews (IPR) at the discretion of the Government. Program support shall be provided to the LOGCAP Director, LOGCAP Operations Directorate, and deployed Deputy LOGCAP Directors. Program support may include liaison between supported units and the LOGCAP Director and staff, financial, technical, and pricing analysis of contractor cost estimates and task execution plans, training presentations and program of instruction (POI) development, exercise preparation and participation, and documentation and update of the LOGCAP World-wide Management and Staffing Plan (WMSP) and LOGCAP support plans. The Support Contractor shall collaborate with executing contractors, establish non-disclosure agreements as required, and document proprietary executing contractor input to the WMSP and COCOM/ASCC plans. It is not the intent of this contract to have the contractor perform inherently Governmental functions, or to have the contractor make discretionary decisions for the Government relating to the program or contracted support. The contractor will primarily provide advice, analysis, and draft document submissions for Government approval.

	Amount
Total negotiated amount:	
For period-of-performance 1—February 16, 2007 to February 15, 2008	$14,290,606.36
For period-of-performance 2—February 16, 2008 to February 15, 2009	25,328,931.14

Serco is not under contract to provide services that would otherwise be performed by DCAA.

QUESTION SUBMITTED BY SENATOR FRANK R. LAUTENBERG

Question. Last January, the DOD awarded a contract worth almost $300 million to a company called AEY to supply munitions to Afghan forces. This company operated from an unmarked office in Miami and was led by two men in their early twenties. We now know that most of the ammunition was Chinese-made and outdated. How can a company like this get such a huge contract with our Department of Defense?

Answer. Based on the evaluation of price and all non-price factors, AEY was determined the best value offeror. The Procuring Contracting Officer (PCO) had received positive past performance surveys regarding AEY's performance on contracts for same and similar requirements. Prior to contract award, the PCO requested and obtained a pre-award survey from the Defense Contract Management Agency, which recommended complete award based on satisfactory findings. The PCO checked the Excluded Parties List (EPLS), which listed neither AEY nor Efraim Diveroli. She also checked the Past Performance Information Management Systems (PPIMS), which included no records of poor performance or terminated contracts for AEY.

During a later investigation of AEY, it was discovered that there were contracts that were valued at less than $5 million under which AEY had performed poorly and/or were terminated for cause or default. The reporting of that negative performance in the past performance information retrieval system was not required because it did not meet the $5 million threshold for reporting, so this information was not available to the PCO. If this information had been available to the PCO, her decision would most likely have been different. This reporting flaw in the system has been corrected by a Department of Defense directive which mandates contracting officers to report terminations for cause or default, regardless of contract value. This information will now be available for source selection officials in the past performance information retrieval system.

In June 2008, the Department of Justice also indicted the President of AEY and three business associates. AMC assisted the law enforcement agencies on the AEY investigation more than 12 months prior to these indictments.

To preclude some of these problems in the future, the Program Executive Officer for Ammunition (PEO Ammo) formed a Non-Standard Ammo Task Force (NSA–TF), with members from all key organizations, to implement policy and command guidance. To date we have accomplished the following:

—Developed general specifications for non-standard ammunition that provide among other things criteria for technical data package identification, quality assurance requirements, reliability thresholds, test requirements, and packaging/transportation requirements. PEO Ammo also has created a database of technical data (commercial & WARSAW specs), performance parameters, sources of manufacture, etc. for NSA.

—DCMA is conducting Source inspection at both CONUS and OCONUS sites. Point of inspection can be either a depot/staging area or the place of manufacture. DCMA will have "eyes on" the NSA prior to it being delivered into the theatre.
—We are conducting theater visits to work the new specifications/standards/procedures with all the parties in the theater involved.
—We held an industry day with over 20 companies to get industry feedback on the generic specification concept and requirements.
—We created a database of all current NSA contracts specifying item, delivery dates, location and place of manufacture ensuring efficiency of inspection prior to shipment to theatre.
—We arranged for a team of subject matter experts (SMEs) to tour Arsenal Inc., in Bulgaria who is a major supplier of NSA. The TF will visit other major NSA suppliers as well.
—We are working to stand-up a Product Director's office within PEO Ammo to manage NSA issues and concerns. We expect this office to implement the appropriate program discipline and execution that we have with our U.S. programs.

QUESTIONS SUBMITTED TO GORDON S. HEDDELL

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

Question. Mr. Heddell, because of the snail's pace at which investigations are initiated or are moving, the statute of limitation on many of the contracting offenses that have occurred in Iraq and Afghanistan will soon expire. Do you support current Congressional efforts to extend the statutes of limitation in cases involving these war zones?

Answer. During the hearing Senator Leahy asked a similar question regarding the War Enforcement of Fraud Act, S. 2892, which would extend the statute of limitations. I responded to Senator Leahy "that proposal would be very beneficial to my office and probably other inspectors general." My position on the extension of the statute of limitations during wartime remains the same.

Question. Mr. Heddell, in a recent article in the Journal of Public Integrity, it was reported that the Army CIDs Major Procurement Fraud Unit concluded by late 2005 that for a number of reasons, conditions in Iraq were highly conducive for fraud. Similarly, a recently published Defense Criminal Investigative Service assessment found that there had been only limited review of the completeness, accuracy, and propriety of contingency payment vouchers and that there existed the potential for fraud, waste, and abuse. While these reports were just recently published, both examined periods of time prior to June 2006. Over two years have passed. Can you explain what specifically has been done in your organizations to change these conditions and what is being done to identify and prosecute individual cases of fraud that occurred during this period?

Answer. The DOD IG has primary jurisdiction over matters involving most contract and procurement actions awarded by Defense Agencies, Office of the Secretary of Defense components, and field activities. Additionally, we have jurisdiction over, "any allegations [involving DOD] that the IG DOD considers appropriate for investigation." This broad authority affords DCIS the ability to easily partner with other agencies in an effort to protect the integrity of the entire DOD procurement and acquisition process. We actively partner with the Service-specific Military Criminal Investigative Organizations—the Army Criminal Investigation Command, the Naval Criminal Investigative Service, and the Air Force Office of Special Investigations. In addition, we partner with the Federal Bureau of Investigation; U.S. Department of State, Office of the Inspector General; the Special Inspector General for Iraq Reconstruction; and the U.S. Agency for International Development, Office of the Inspector General.

In September 2006, the DOD IG established a permanent investigative presence in Iraq by deploying four Defense Criminal Investigative Service (DCIS) special agents to the theater. Two special agents have also been deployed to Iraq to support a special cell investigating issues relating to weapons accountability. In April 2008, one special agent was deployed to Afghanistan.

In September 2008, we will increase the DOD IG investigative presence in Southwest Asia to five DCIS special agents in Iraq, two special agents in Kuwait, and two agents in Afghanistan. Our European Resident Agency in Germany and multiple CONUS offices continue to conduct a wide variety of investigations related to Iraq and Afghanistan. In total, approximately 75 DCIS special agents are investigating procurement fraud, corruption, and other cases related to Southwest Asia.

The continued presence of the DOD IG in Iraq, Afghanistan, and Kuwait creates awareness within the Southwest Asia community that we are aggressively pursuing allegations of fraud and corruption. To date, several significant ongoing and closed criminal investigations, to include that of Major John Cockerham, Jr., his family, and associates have resulted in arrests, forfeitures, indictments, and prison sentences. Numerous additional adjudicative actions are impending. When further tangible results, such as arrests and convictions, are made public, they will further serve to deter future crimes and send a clear message that the DOD IG and its law enforcement partners will not tolerate fraud, waste, and abuse against the Department. A recent example is the arrest and charging of a former contractor in an ongoing investigation regarding the theft of nearly $40 million in jet and diesel fuel from Camp Liberty in Baghdad, Iraq.

To ensure investigations involving the war efforts in Iraq and Afghanistan are pursued efficiently and effectively, the DOD IG and its partner Federal law enforcement agencies refer the cases to the designated Department of Justice Southwest Asia Intake Officer during the early stages of the investigation. The Intake Officer, a DoJ attorney, serves as a primary point of contact to the special agents for investigative and prosecutive guidance. The Intake Officer also assists the agents in identifying the best venue to successfully prosecute the case. This collaborative effort between the law enforcement agencies and DoJ has been central to combating fraud and corruption in Southwest Asia.

We launched a project which will analyze over $14 billion in payment vouchers related to U.S. Army contingency purchases in Iraq. These vouchers are currently stored at the Defense Finance & Accounting Service (DFAS), Rome, NY. We are coordinating with DFAS, the Defense Contract Audit Agency, and the U.S. Army Audit Agency to collaboratively identify fraudulent payments through data mining techniques. As a result of our initial investigative concerns, we performed an audit of out of country payments (Report No. D–2008–098). As a result of the audit, DOD has initiated several critical measures that we believe will improve the accountability of out of country payments but we have not verified the efficacy of the new financial initiatives within DOD. Specifically, DOD modified the DOD Financial Management Regulation to address contingency operations, improved training, developed check lists, and transferred disbursing operations for contract payments back to the United States. To address the issues raised in our audit, the Director, DFAS deployed DFAS personnel to support the improvement of accountability within financial functions in Southwest Asia. This included assessing what financial functions could be removed from the theater and performed in areas where more resources could be committed. DOD is monitoring the progress of these actions and has established a matrix to measure progress.

Further, on August 27, 2007, we announced the audit of Internal Controls and Data Reliability in the Deployable Disbursing System. The DOD IG is evaluating whether the internal controls over transactions processed through the Deployable Disbursing System are adequate to ensure the reliability of the data processed. This audit includes financial information processed by disbursing stations supporting the Global War on Terror.

Question. Mr. Heddell, since Congress learns many of the cases involving waste, fraud and abuse from media reports and complaints received directly by the Members, I am curious: how does your office prioritize pending investigations, and how do you respond to whistleblower reports of abuses or unsafe conditions?

Answer. The DOD IG prioritizes investigations in line with the national defense priorities and available resources. Our investigative priorities for 2008 include:

—Continued vigorous investigative support to the Global War on Terrorism, as it affects the Department of Defense at home and abroad.

—Maintaining a high priority on procurement fraud investigations with emphasis on defective, substituted, and substandard products that impact the safety and mission-readiness of our warfighters.

—Continued focus on combating corruption by ferreting out and uncompromisingly investigating major DOD procurement fraud including bribery, corruption, kickbacks, and major thefts.

—Continued concentration on investigations, training, and awareness aimed at the illegal transfer of technology, systems, and equipment critical to the Department of Defense and dangerous if in the hands of proscribed persons and nations.

—Continued defense against cyber crimes and computer intrusions that impact DOD, with emphasis on computer network defense to protect the global information grid.

In addition, we carefully review and take appropriate action on all whistleblower reports from whatever source they emanate, whether through our Hotline, directly

to our military and civilian reprisal offices, or directly to our special agents in the field. Clearly, those allegations that concern the health and safety of the men and women deployed in the Southwest Asia theater are given the highest priority.

Items received through the hotline are considered to be high priority if they are:

—*Life Threatening*.—The source of the information believes that an existing condition constitutes a real and immediate threat to life. For example, a faulty aircraft ejection seat, substandard parachute riser cord, or a Service member threatens self harm or to harm others.

—*Time Sensitive*,—A matter that is ongoing or scheduled to take place in the immediate future and requires rapid response to halt or correct the problem.

Question. Mr. Heddell, what are your organization's audit and investigative priorities, who sets those priorities, and are you aware of any outside interference with the priorities of your organization?

Answer. The DOD IG Strategic Plan is the basis for our priorities. The strategic plan is developed by taking into consideration the risks and challenges the Department is facing and includes consideration of the President's Management Agenda, DOD Top Priorities, and GAO high-risk areas. Each component uses the IG strategic plan as the basis for setting their priorities. The priorities established for each component are directly linked to the goals established in the DOD IG Strategic Plan. There has been no outside interference with the establishment of the DOD IG Strategic Plans or our investigative and audit priorities. Below are our investigative and audit priorities.

Investigative Priorities

The Deputy Inspector General for Investigations and the Director, Defense Criminal Investigative Service, prioritize investigations in line with the national defense priorities and available resources. The priorities for 2008 are:

—Continued vigorous investigative support to the Global War on Terrorism, as it affects the Department of Defense at home and abroad.

—Maintaining a high priority on procurement fraud investigations with emphasis on defective, substituted, and substandard products that impact the safety and mission-readiness of our warfighters.

—Continued focus on combating corruption by ferreting out and uncompromisingly investigating major DOD procurement fraud including bribery, corruption, kickbacks, and major thefts.

—Continued concentration on investigations, training, and awareness aimed at the illegal transfer of technology, systems, and equipment critical to the Department of Defense and dangerous if in the hands of proscribed persons and nations.

—Continued defense against cyber crimes and computer intrusions that impact DOD, with emphasis on computer network defense to protect the global information grid.

Audit Priorities

The Deputy Inspector General for Audit, focuses audit priorities on the following high risk/high impact areas within DOD: Life or safety issues/health care; GWOT operations; contracting and acquisition programs; information technology management; and financial management.

Further, audit efforts are focused so we achieve results in the following areas: Improve the effectiveness and/or safety of service members; improve national security; identify potential monetary benefits; improve business operations; and comply with statutes and regulations.

Our priorities are reflected in our audit plan(s) which we publish yearly. These plans include projects we intend to perform during the fiscal year to address our view of the risks and challenges the Department is facing and to include consideration of the President's Management Agenda, DOD Top Priorities, and GAO high-risk areas.

Question. Mr. Heddell, please inform the Committee what percent of IG investigations are referred to the Department of Justice, the percentage of those that result in prosecution, and the primary reasons why the remaining cases are not referred or prosecuted?

Answer. Our investigators routinely discuss their investigations with prosecutors as soon as sufficient information is developed to indicate that a possible violation of U.S. law has occurred. As we and our partner Federal law enforcement agencies refer the cases to the designated DoJ Southwest Asia Intake Officer during the early stages of the investigation. The Intake Officer serves as a primary point of contact to the special agents for investigative and prosecutive guidance. The Intake Officer

also assists the agents in identifying the best venue to successfully prosecute the case. We believe this approach is very effective.

Overall, the DOD IG has 1,685 open criminal investigations and projects being handled by the Defense Criminal Investigative Service. Of the 1,685, we have 134 active investigations involving Iraq and Afghanistan which are at various stages of investigation. Of these 134 investigations, 110 are fraud related investigations. To date, 32 of the 134 investigations have been presented to either DoJ or command authorities for judicial or administrative action. The remaining investigations have not been presented for or taken for adjudication because information has not been sufficiently developed to warrant such action. As these investigations progress, DoJ is kept apprised of the status of the cases.

Question. Mr. Heddell, please inform the Committee as to the number of investigations performed by the Inspector General's office involving contracts in or in support of operations in Iraq and Afghanistan that have involved fraud; the percent of those cases that have resulted in arrests being made, and the percentage of those cases that have resulted in prosecution?

Answer. DOD IG investigations in Iraq and Afghanistan have focused on matters such as bribery, theft, procurement fraud, illegal receipt of gratuities, bid-rigging, defective and substituted products, and conflicts of interest.

Of the current 134 ongoing GWOT investigations, 110 are fraud related investigations. Thirty-two cases have been adjudicated with some type of administrative or judicial action, including 16 criminal indictments and 16 criminal informations which resulted in 17 felony convictions; 22 years confinement; 15 years probation; 2 companies and 6 individuals debarred from contracting; 24 companies and individuals suspended from contracting; 2 settlement agreements; 1 contract termination, 1 job suspension, $359,200 assessed in fines and penalties; forfeiture of $1,029,819; seizures of $2,043,079; and $9,889,420 in restitution to the U.S. Government.

Question. Mr. Heddell, do the arrests and prosecutions in these cases track well with the amount of the losses and the nature of the offense?

Answer. For the 32 adjudicated GWOT investigations, the Defense Criminal Investigative Service Investigative Data System (electronic case management system) indicates estimated losses due to fraud at $58.4 million. Thirty-two cases have been adjudicated with some type of administrative or judicial action, including 16 criminal indictments and 16 criminal informations which resulted in 17 felony convictions; 22 years confinement; 15 years probation; 2 companies and 6 individuals debarred from contracting; 24 companies and individuals suspended from contracting; 2 settlement agreements; 1 contract termination, 1 job suspension, $359,200 assessed in fines and penalties; forfeiture of $1,029,819; seizures of $2,043,079; and $9,889,420 restitution to the U.S. Government.

Question. Mr. Heddell, are the amounts recovered in cases that involve fines, penalties and restitution equivalent to the amounts of money lost by the taxpayer?

Answer. As of August 1, 2008, the total amount of fines, penalties, and restitution in GWOT investigations, including non-fraud investigations, amounted to $18.5 million. Fraud cases resulted in $13.322 million in recoveries, while the estimated losses in taxpayer dollars equaled $58.4 million.

Question. Mr. Heddell, a recent IG study entitled "Internal Controls over Payments Made in Iraq, Kuwait and Egypt" covers the period April 2001 through June 2006. The report, however, was not published until May 22, 2008. What was the cause of the delay in the publication of the report?

Answer. Audit fieldwork for D–2008–098, "Internal Controls Over Payments Made in Iraq, Kuwait and Egypt," was initiated in May 2006 and concluded in December 2007. We issued the draft report on February 11, 2008. We received management comments by April 25, 2008 and additional comments on May 15, 2008. The final report was issued on May 22, 2008.

As stated in the report, "audit trails for voucher payments did not exist." Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. It was a time consuming and labor intensive process for our auditors to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions given that the data was not readily available in a war zone.

Question. Mr. Heddell, what do you consider to be a metric or quantifiable measure of success in pursuing the priorities of your organization?

Answer. The mission of Inspector General's Office is to promote integrity, accountability, and improvement of Department of Defense personnel, programs and operations to support the Department's mission and serve the public interest. To facilitate the mission, OIG must maintain a dynamic organization that effectively proc-

esses client requests, statutory requirements, and self-initiated assessments that yield the greatest return on investment to the Department of Defense.

As such, the single and most important metric is the timely and accurate response to all requirements. In the short term, the metric centers on processes that are standardized, continuously refined and focused on product delivery and quality. This is accomplished through comprehensive strategic planning thereby allowing for the most effective use of our resources to conduct and supervise future audits and investigations relating to the programs and operations of within the Department of Defense.

Measures of success include both monetary and non-monetary benefits, the percentage of reports that address the key areas such as the Secretary of Defense focus areas, the President's Management Agenda, the Government Accountability Office's high-risk areas, and our own assessment of DOD's management challenges; and action taken by DOD management regarding our recommendations.

The DOD IG monitors the success of pursuing the priorities of the organization via a quarterly performance report that assesses each functional component in six categories: timeliness of projects, coverage of key areas, return on investment, external engagement, budget, and personnel.

Question. Mr. Heddell, A recent DOD–IG report, "Internal Controls Over Payments Made in Iraq, Kuwait and Egypt," dated May 22, 2008, provided some aggregate information regarding 183,486 commercial and miscellaneous payments totalling $10.7 billion, made by Army contingency disbursing stations between April 2001 and June 2006. Some $1.4 billion in commercial payments lacked even the most rudimentary supporting documentation and $6.3 billion in payments contained basic information but did not comply with all statutory and regulatory requirements. That means that $7.7 billion out of $10.7 billion paid out by the Army was not, in the DOD–IG's words, "properly supported" and does not "provide the necessary assurance that funds were used as intended." It does not mean that 70 percent of all funds paid out during that period were necessarily wasted or lost—only that contracting officers and auditors cannot confirm that the monies were paid for actual goods delivered, services provided, or that the products and work paid for actually met the contract requirements. Page 5 of the report notes that one payment of $11.1 million was paid to an American company without the benefit of either a receiving report or an invoice, leading the auditors to write that ". . . it is unclear how the disbursing office determined that the vendor was entitled to payment or the amount that was due." That is not a record to be proud of. Can you tell the committee how that compares to the July 2006 to July 2008 period?

Answer. We plan to conduct a followup audit to determine whether the actions taken by DOD as a result of this audit have improved controls and support for payments. In response to our report, "Internal Controls Over Payments Made in Iraq, Kuwait and Egypt," DOD stated that the fielding of the Deployable Disbursing System to all in-theater payment activities is a significant control. On August 27, 2007, we announced the audit of Internal Controls and Data Reliability in the Deployable Disbursing System. The DOD IG is evaluating whether the internal controls over transactions processed through the Deployable Disbursing System are adequate to ensure the reliability of the data processed. This audit includes financial information processed by disbursing stations supporting the Global War on Terror.

In addition, the Defense Finance and Accounting Service Internal Review performed a review of vouchers from disbursing stations in Iraq from October 2005 to April 2007. They reported that additional document management changes were necessary. Finally, the Assistant Secretary of the Army for Financial Management and Comptroller stated on March 24, 2008, that it will work with the Army Audit Agency to perform a more robust audit of payments made in theater and pre-deployment training in order to more accurately identify internal control issues and corrective actions.

As a correction, because of rounding, we estimated that $7.8 billion, not $7.7 billion, of payments did not meet all statutory or regulatory requirements. This was out of an estimated $8.2 billion, not $10.7 billion, of commercial payments. The difference between the $10.7 billion and the $8.2 billion were non-commercial payments of seized and vested assets or Command Emergency Response Program payments.

Question. Mr. Heddell, are inspector general reports staffed to the Office of the Secretary prior to their release, and if so, why?

Answer. We provide draft reports to the responsible officials within the Department of Defense prior to issuance of our final reports. The DOD IG follows, as required by the IG Act, generally accepted government auditing standards, "Government Auditing Standards," July 2007. These standards are established by the Gov-

ernment Accountability Office. Under these standards it is appropriate for auditors to staff reports with responsible officials.

Specifically, Government Auditing Standards, Chapter 8.32 states:

"Providing a draft report with findings for review and comment by responsible officials of the audited entity and others helps the auditors develop a report that is fair, complete, and objective. Including the views of responsible officials results in a report that presents not only the auditors' findings, conclusions, and recommendations, but also the perspectives of the responsible officials of the audited entity and the corrective actions they plan to take. Obtaining the comments in writing is preferred, but oral comments are acceptable."

Further, Chapter 8.36 also states:

"When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors' recommendations, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence."

Question. Mr. Heddell, if a Department of Defense civilian or official is involved in an Inspector General's investigation, is the Office of the Secretary of Defense advised prior to Justice Department referral and if so, why?

Answer. DOD IG criminal investigations and actions related thereto are not routinely briefed to the Office of the Secretary of Defense. We can imagine that in a very rare instance, the Secretary's office might be advised of an ongoing investigation prior to the Department of Justice (e.g., an Assistant United States Attorney) being engaged. However, the current IG Investigations leadership cannot recall one instance of this occurring.

Question. Mr. Heddell, have your office's requests for additional budget or resources to support oversight of contracts in Iraq ever been refused within the Department of Defense or at the Office of Management and Budget, and if so, why?

Answer. All requests for additional resources to support oversight of contracts in Iraq have been met. However, Senate Report 110–77, to accompany the National Defense Authorization Act (NDAA) for Fiscal Year 2008, addressed concerns of inadequate funding necessary to meet the Department of Defense (DOD), Office of Inspector General audit and investigative mission requirements. The Senate Armed Services Committee (SASC) directed the Inspector General to provide defense committees an analysis of current requirements. They further directed that the report include a comprehensive and detailed master plan, with annual objectives and funding requirements that will provide the fastest possible increase in audit and investigative capabilities.

The report submitted to the defense committees on March 31, 2008 identified a shortfall of $677.4 million between fiscal year 2010 and fiscal year 2015 as compared to the Inspector General's Fiscal Year 2010–2015 Fiscal Guidance.

Program Enhancements

This increase will allow us to increase audit and investigative functions. Since 2001 the defense budget has grown from $200 billion to well over $500 billion annually. Despite this growth the IG personnel strength has remained relatively constant. The potential for fraud and waste is significantly higher today due to the our diminishing ability to maintain adequate oversight of the Department's growing resources and programs.

Summary of Proposed Enhancements

TOA

[Current dollars in millions]

	Fiscal year—							
	2009	2010	2011	2012	2013	2014	2015	2010–15
Base								
Office of the Inspector General (OIG)	247.8	198.5	205.1	209.5	215.6	219.7	223.9	1,272.3

TOA—Continued

[Current dollars in millions]

	Fiscal year—							
	2009	2010	2011	2012	2013	2014	2015	2010–15
Enhancements								
OIG Growth Plan	.....	89.6	99.3	113	119	125.4	131.1	677.4

Effect of Enhancements

Auditors and investigators add value by helping to manage and control risk, and detect and deter fraud, waste, and abuse. During the period of October 1, 2004 through September 30, 2007, our auditors identified $3.476 billion in monetary benefits, an average of $5.2 million per auditor. In fiscal year 2006 and fiscal year 2007, our investigations resulted in 770 criminal indictments, 644 convictions, and over $3.14 billion in criminal, civil, and administrative recoveries. Excluding headquarters and field managers, this is an average of $6.24 million per agent, per year. Predictions of future achievements should not be based on prior accomplishments. However, it is reasonable to expect that there are greater chances of achieving monetary benefits if more resources are dedicated to conducting audits and investigations.

Question. Mr. Heddell, it seems that Congress learns about high profile cases of waste, fraud and abuse from the media and whistleblowers. This seems to suggest one of two possibilities: that you are not informing Congress when these types of cases arise, or, you are not investigating contract irregularities very aggressively. What is preventing whistleblowers from being able to bring cases to the IG rather than to Congress or the media in order to get results?

Answer. There is nothing impeding whistleblowers from contacting our office with cases of waste, fraud, and abuse. They have unfettered access to the DOD Hotline via the Internet, e-mail, fax, mail, and telephone. Professional investigators are available to receive telephone calls from 7 a.m. to 5 p.m. Eastern Time, Monday through Friday. Further, this last year, in an effort to encourage personnel stationed in Southwest Asia to report suspected fraud, waste, abuse, and mismanagement, we established a special, toll-free DOD Hotline number exclusively for their use. In the first three quarters of fiscal year 2008 the DOD Hotline received 10,196 contacts (13,560 in fiscal year 2007) from all sources.

Due to the sensitive nature of criminal and administrative investigations, we do not discuss ongoing investigations. Among other benefits, this allows investigators to look into allegations without alerting subjects, witnesses, and others that are key to an investigation about our activities and to protect the privacy interests of all parties. In fact, the DOD IG does not either confirm or deny the existence of an investigation to anyone without an authorized need to know.

Regarding audits my office does not discuss potential findings. We use our audit and inspection reports as our primary means to keep Congress informed of identified deficiencies within the Department.

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

Question. On July 12, 2005, a group of 28 senators wrote Secretary Rumsfeld to request an immediate and full investigation of allegations by former KBR food production manager Rory Mayberry, including allegations that U.S. troops in Iraq were being fed expired food or food that had been damaged by bullets and shrapnel. My office received letters from the IG on August 11, 2005, and again on January 27, 2006, stating that the DOD Inspector General was investigating this matter—but no further word on this issue.

Please describe the status of this investigation.

Answer. In August 2005, the KBR Task Force in Rock Island, Illinois, was contacted by the Army Sustainment Command (ASC) regarding allegations by Mr. Mayberry to Congress. Mr. Mayberry alleged KBR billed DOD for food it had not delivered. The referral from ASC requested the FBI investigate the over-billing of food by KBR. The referral did not mention food spoilage or shrapnel/bullets in meals provided to U.S. troops. The FBI determined Mr. Mayberry's allegations were not credible. In part, this assessment was based upon Mr. Mayberry's inability to provide concrete information that could be used to further corroborate the allegations or direct the agents to other investigative leads. In January 2006, Mr. Mayberry filed a qui tam suit regarding the over-billing and added allegations of spoilage and

munitions items found in food. In March 2008, DoJ declined to intervene in the qui tam suit citing lack of evidence. In August 2006, the same allegations were forwarded to our investigators, which following discussions with the FBI and DoJ, declined to pursue the allegations.

Question. Explain the reason for the delay in the resolution of this investigation, given that the allegations involved unsafe food being fed to the troops.

Answer. In August 2005, the KBR Task Force in Rock Island, Illinois, was contacted by the Army Sustainment Command (ASC) regarding allegations by Mr. Mayberry to Congress. Mr. Mayberry alleged KBR billed DOD for food it had not delivered. The referral from ASC requested the FBI investigate the over-billing of food by KBR. The referral did not mention food spoilage or shrapnel/bullets in meals provided to U.S. troops. The FBI determined Mr. Mayberry's allegations were not credible. In part, this assessment was based upon Mr. Mayberry's inability to provide concrete information that could be used to further corroborate the allegations or direct the agents to other investigative leads. In January 2006, Mr. Mayberry filed a qui tam suit regarding the over-billing and added allegations of spoilage and munitions items found in food. In March 2008, DoJ declined to intervene in the qui tam suit citing lack of evidence. In August 2006, the same allegations were forwarded to our investigators, which following discussions with the FBI and DoJ, declined to pursue the allegations.

QUESTIONS SUBMITTED BY SENATOR FRANK R. LAUTENBERG

Question. Earlier this year, I asked your predecessor to investigate a suspicious e-mail exchange indicating that the Army Audit Agency was told not to answer questions about whether the cost of closing Fort Monmouth was higher than the Army originally indicated. Mr. Kicklighter responded "Yes, we will." It's been four months. When will your office complete its investigation?

Answer. Our investigators are continuing their fieldwork regarding the issues of whether the Army Deputy Assistant Chief of Staff for Installation Management failed to take appropriate action when advised by Fort Monmouth personnel of an error in their original submission to a base closure data call and whether he improperly suppressed an audit into the matter. We anticipate completing that portion of the investigation in late October and will provide a copy of the report when it is completed.

We are also examining a related issue presented in a letter from the New Jersey Delegation as to whether the Director of Defense Research and Engineering improperly withheld information from the BRAC Commission. We anticipate completing this portion of the investigation by late October or early November and will provide a copy of the report when it is completed.

Question. In your opinion, should Congress end the LOGCAP "cost-plus" contracting process? Has it become just too rife for abuse?

Answer. My role as Inspector General is to report on whether DOD operations are taking place within the guidelines of the applicable laws and regulations. For me to speculate on whether programs should be ended could give the appearance of a loss of objectivity when reporting on whether DOD is performing operations in accordance with those laws.

However, I offer the following observation: "Cost-plus" contracts are legal and are supposed to be monitored pursuant to Federal Acquisition Regulations. The Federal Acquisition Regulations state that more resources are required to oversee contractor performance on "cost-plus" contracts than on firm fixed price contracts. Cost type contracts place the risk on the Government which must be balanced by an adequate surveillance system to ensure that DOD receives what it pays for.

In Iraq, a number of problems have occurred because there is an inadequate level of Government surveillance personnel in place or because responsibilities for providing surveillance have been delegated to contractor personnel with little incentive to protect Government resources. Over time, historical data can be developed and used to allow DOD better insight into expenditures such that portions of the logistics support should be able to be converted to fixed price work, thereby shifting some of the risk to the contractor and reducing the commensurate level of government surveillance. It is our opinion that continued use of a cost-plus contracting process will increase the likelihood of additional cases of waste and abuse unless additional measures including more resources for surveillance and converting cost-plus work to fixed price tasks when possible are established.

Therefore, DOD needs to better plan how to provide contractor oversight resources for contingency contracting actions involving "cost-plus" contracts. The wartime environment in Iraq increases challenges to conducting the surveillance required to

support cost-plus type contracts. As we state in our report D–2008–086, "Challenges Impacting Operations Iraqi Freedom and Enduring Freedom as Report by Major Oversight Organizations for Fiscal Year 2003 Through Fiscal Year 2007," the Army has taken several measures to oversee LOGCAP that we believe should improve the controls over LOGCAP. Some measures taken include in April 2007, the Army created an Executive Director for LOGCAP which brings program management oversight to LOGCAP. Further, DOD efforts include developing future planning doctrine on contractor logistical support in contingency operations.

QUESTIONS SUBMITTED BY SENATOR WAYNE ALLARD

Question. You mentioned in your testimony that over the course of conducting Operations Enduring and Iraqi Freedom, DOD experienced, at times, significant and recurring challenges in contract management, logistics, and financial management. You went on to say that these three areas have been reported as challenges within DOD since the early 1990s, and therefore not surprising that DOD is experiencing these challenges in Iraq and Afghanistan.

Why is this the case? In your estimation, what needs to be done that has been overlooked or unsuccessfully executed time and again that has caused these repeated challenges.

Answer. DOD is a large and very complex organization, which presents a tremendous management challenge in developing and implementing Department-wide improvements within areas such as contract management, logistics, and financial management. For specific wartime related challenges, we believe the Department needs to work in concert with the Commission on Wartime Contracting to institute policies and procedures for contingency operations. The Department has already begun many initiatives to address implementing contingency business operations and principles. Just as DOD prepares its military, the Department must prepare its business operations and personnel to support contingency operations.

Since 1990 and 1992, respectively, GAO has designated DOD Weapon Systems Acquisition and Contract Management as high-risk areas. Acquisition initiatives that began in the 1990s led to reductions in acquisition oversight assets and when the spending trend dramatically reversed after September 11th, the Department was not able to quickly react to the need for more contract and oversight support. The emphasis on urgency to support the war effort especially for contracting in an expeditionary environment has only served to increase the challenges. In fiscal year 2008, the Defense budget with war funding will approach $650 billion. This total is more than double the last DOD budget preceding September 11, 2001. Keeping pace with this spending would be a difficult proposition if acquisition and oversight assets were increasing at a proportional rate. But, from 1990 until the end of fiscal year 1999, total personnel included in the DOD acquisition workforce decreased about 50 percent, from 460,516 to 230,556 personnel. For example, since the mid 1990 the Defense Contract Management Agency has taken significant cuts in personnel (approximately 50 percent). Additional, emphasis/funding/billets for the Defense Contract Management Agency, Defense Contract Audit Agency, and the Defense Finance and Accounting Service would be beneficial in increasing the oversight of the performance and payment of contractors both at in the United States and abroad.

As of May 2008, there were approximately 25,000 contracting officers to handle over $315 billion in procurements of goods and services. Other organizations such as the Defense Contract Management Agency which is responsible for much of the administration and surveillance of DOD contracts decreased its staff levels by similar amounts during the same time frame. Even within the Inspector General's office, we reported in our March 31, 2008 growth plan that our auditors are unable to keep pace with the ballooning Defense budget and this growth "leaves the Department increasingly more vulnerable to fraud, waste and abuse."

Question. As you know, there are 825 Contracting Officer's Representatives performing contractual efforts within Iraq, and it is imperative that these Representatives have the proper training and expertise.

It is already July, 2008, when will the DOD Inspector General's office be able to determine whether personnel assigned to the Joint Contracting Command—Iraq/Afghanistan as Contracting Officer's Representatives have the training and expertise to perform their duties?

Answer. We announced an audit of the "Assignment and Training of Contracting Officers' Representatives at Joint Contracting Command—Iraq/Afghanistan," (Project No. D2008–D000JC–0203.000), on May 12, 2008, to review the qualifications of Contracting Officers' Representatives performing contractual efforts in Iraq.

The overall objective is to determine whether personnel assigned as Contracting Officers' Representatives to the Joint Contracting Command Iraq/Afghanistan have the necessary training and expertise required to perform their duties. We plan to issue a draft report in January 2009 and the final report in March 2009.

Question. With so many authorities responsible for detecting waste, fraud, and abuse in Iraq—including DOD and non-DOD law enforcement.

Are we most effectively combating corruption and fraud in Iraq? Are DOD and non-DOD law enforcement partners working together effectively? Is there an absolute need for each and every investigative and audit organization that is present right now in Iraq?

Answer. Pursuant to the Inspector General Act of 1978, we have broad criminal investigative jurisdiction regarding DOD programs and operations. The DOD IG has primary jurisdiction over matters involving most contract and procurement actions awarded by Defense Agencies, OSD components, and field activities. However, effectively countering fraud in Southwest Asia, just as in the United States, requires the cooperative efforts of other DOD investigative agencies and Federal law enforcement partners, as well as the audit community. As a team, special agents are more effectively combating corruption and fraud in Iraq and Afghanistan and avoiding duplication of effort by coordinating investigative activities and deconflicting cases. This cooperation has a synergetic effect that maximizes the time, tools, and efforts of the agencies involved. Our joint efforts thus far are having a positive impact in theater and are making a significant difference.

The DOD IG is the lead oversight agency for accountability in DOD, and as such, is committed to maintaining an effective working relationship with other oversight organizations to minimize duplication of efforts and to provide more comprehensive coverage. Effective interagency coordination, collaboration, and partnerships within the oversight community are essential to providing comprehensive reviews of wartime expenditures to identify whether critical gaps exist, and then to recommend actions to fix those gaps. Below is a brief description of investigative and audit partnerships we participate in to ensure coordination with other oversight organizations.

Joint Investigative Partnerships

The Defense Criminal Investigative Service (DCIS), the criminal investigative arm of the DOD IG works jointly with other federal law enforcement agencies, participates in various working groups and has agents assigned to FBI Joint Terrorism Task Forces throughout the nation. Examples of partnerships between the DCIS and other agencies include:

—Joint cases with the Federal Bureau of Investigation; Immigrations and Customs Enforcement; United States Secret Service; United States Marshals Service; Alcohol Tobacco and Firearms; United States Postal Inspection Service; and various IGs including National Aeronautics and Space Administration; General Services Administration; Health and Human Services; Veterans Affairs; Department of Transportation; Department of State; Housing and Urban Development; and the Military Criminal Investigative Organizations including the United States Army Criminal Investigation Command; Naval Criminal Investigative Service; and Air Force Office of Special Investigations.

—Member of the National Procurement Fraud Task Force, created in October 2006 to promote the prevention, early detection and prosecution of procurement fraud.

—Member of the International Contract Corruption Task Force with full time agent assigned to the Joint Operations Center.

—Member of the Defense Enterprise Working Group.

—Excellent working relationships with agencies in the SWA theater of operations.

Southwest Asia Joint Planning Group

The DOD IG has jointly established and chairs an interagency SWA Joint Planning Group that meets quarterly and provides oversight of fraud, waste, abuse, and criminal activities in the SWA region. The JPG provides a chance for collaboration and teamwork with the organizations engaged in this effort, including the military inspectors general and service auditors general, combatant commands inspectors general, the Defense Contract Audit Agency, the Defense Finance and Accounting Service, the Defense Contract Management Agency, the Inspectors General of State and the USAID, and the SIGIR. The mission of the JPG is to better coordinate and integrate oversight activities in the region. The SWA JPG leads the coordination and oversight required to identify and recommend improved mission support to military units conducting operations.

In conjunction with the SWA Joint Planning Group, the DOD IG also participates in the Afghanistan Working Group and the Iraq Inspectors General Council.

—The Afghanistan Working Group was established by the DOD IG, along with the Government Accountability Office, the Department of State Inspector General, and the USAID, established a working group on oversight activities in Afghanistan to minimize the impact on forward command operations, eradicate overlapping and duplicate oversight requests, and facilitate the exchange of oversight information. The DOD IG, as the Department of Defense representative of the group, also incorporates the ongoing and planned Afghanistan-related oversight efforts of the Service Auditors General into the working group.

—The Iraq Inspectors General Council chaired by the SIGIR, was established to minimize the impact on forward command operations, deconflict overlapping and duplicate oversight requests, and facilitate the exchange of oversight information unique to Iraq.

Question. I understand from your testimony that the service-specific Military Criminal Investigative Organizations—the Army Criminal Investigation Command, the Naval Criminal Investigative Service, and the Air Force Office of Special Investigations—typically focus upon allegations involving the award of contract and procurement actions of their respective military department.

How effective have these service-specific organizations been at detecting and eliminating waste, fraud, and abuse?

Answer. The DOD IG has primary jurisdiction over matters involving most procurement actions awarded by the Defense Agencies, OSD components, and field activities, but it can also undertake or join any DOD fraud, waste, and abuse investigation. The Defense Criminal Investigative Service's (DCIS) primary partner in countering DOD-related fraud in Southwest Asia is the U.S. Army Criminal Investigation Command's (CID) Major Procurement Fraud Unit (MPFU). The MPFU conducts investigations into allegations of fraud associated with the Army's major acquisition programs. DCIS and MPFU agents conduct fraud briefings to create awareness and to encourage DOD personnel and contractors to report fraud, waste and abuse. DCIS and MPFU agents also actively recruit sources for intelligence and information regarding past and current fraud, waste, and abuse against the Department. In addition, CID has a significant number of military special agents deployed throughout Southwest Asia who typically investigate general crimes and handle force protection matters. These military special agents represent yet another resource for invaluable information.

The immense and critical roles of the Naval Criminal Investigative Service and the Air Force Office of Special Investigations in force protection, counter-intelligence, and general crimes investigations has prevented significant engagement by these components in fraud investigations as they did prior to operations in Iraq and Afghanistan.

QUESTIONS SUBMITTED BY SENATOR LARRY CRAIG

Question. Mr. Heddell, one of the reports you provided this Committee goes into great detail about the lack of personnel available to actually provide adequate oversight over contractors overseas. Can you walk us through the steps that DOD IG's office is doing to incentivize and increase the number of folks joining the ranks of auditors overseas?

Answer. On March 31, 2008, the DOD IG provided the defense committees its growth plan for increasing Audit and Investigative Capabilities fiscal years 2008–2015 (as directed by the Committee on Armed Services, United States Senate, in the language of Senate Report 110–77, to accompany S. 1547, the National Defense Authorization Act for Fiscal Year 2008). As identified in Senate Report 110–77, "The committee is concerned that funding levels for this important independent audit and investigative function is not keeping pace with the demands for Inspectors General services in the global war on terror."

In November 2007, we realigned internal core mission assets within the Office of the Deputy Inspector General for Auditing to form the Joint and Overseas Operations Directorate to support Southwest Asia audit operations. This expeditionary audit directorate was formed to address corruption, fraud, waste, and abuse in Southwest Asia; combat illegal and improper expenditures; and improve accountability of DOD resources that support operations in Southwest Asia. Through this new directorate, we are expanding our audit presence in our field offices in Southwest Asia including Afghanistan and Iraq. We are also assessing the expansion of the DOD IG field office in Kuwait.

All DOD IG personnel working in Southwest Asia are there as volunteers. As mentioned, we employ an expeditionary workforce model in support of our Southwest Asia oversight efforts. Our expeditionary workforce model is structured using

a core of personnel assigned and deployed to our field offices in Southwest Asia. This provides us a base level of personnel to perform oversight in theater, support audit work being performed back in CONUS, and support incoming personnel performing specific fieldwork. This model allows us to attract employees who accept longer term assignments as well as those who desire limited term assignments working in combat related areas. We believe our expeditionary model along with the additional resources received, provides us incentives to attract personnel to deploy to Southwest Asia in support of our mission while minimizing risks and costs.

Within the Department of Defense, progress in training and equipping more contract officials to handle the increased workload will take time. However, a number of initiatives are underway that are addressing the challenges both within the Department and from proposed legislation that should lead to improvement and better meet these challenges. A commission headed by Dr. Jacques Gansler evaluated the Army Expeditionary Contracting and recommended urgent reform. As a result, the U.S. Army Materiel Command activated the Army Contracting Command which will oversee more than $85 billion in contracts annually and focus on maintaining and improving the Army's ability to respond globally in support of warfighters' needs.

Since 1990 and 1992, respectively, GAO has designated DOD Weapon Systems Acquisition and Contract Management as high-risk areas. Acquisition initiatives that began in the 1990s led to reductions in acquisition oversight assets and when the spending trend dramatically reversed after September 11th, the Department was not able to quickly react to the need for more contract and oversight support. The emphasis on urgency to support the war effort especially for contracting in an expeditionary environment has only served to increase the challenges.

In fiscal year 2008, the Defense budget with war funding will approach $650 billion. This total is more than double the last DOD budget preceding September 11, 2001. Keeping pace with this spending would be a difficult proposition if acquisition and oversight assets were increasing at a proportional rate. But, from 1990 until the end of fiscal year 1999, total personnel included in the DOD acquisition workforce decreased about 50 percent, from 460,516 to 230,556 personnel.

As of May 2008, there were approximately 25,000 contracting officers to handle over $315 billion in procurements of goods and services. Other organizations such as the Defense Contract Management Agency which is responsible for much of the administration and surveillance of DOD contracts decreased its staff levels by similar amounts during the same timeframe.

Question. Mr. Heddell, I am extremely concerned by the ongoing trend of providing inadequate armor for our troops in the field. The report specifically cites numerous incidents where the manufacturer either did not have the capability to produce enough armor or simply delivered substandard armor that put our troops at risk. Has this trend been improving since the problems identified in fiscal year 2007? And why have contractors with an ongoing history of poor performance continued to receive contracts for armor production?

Answer. The DOD IG has issued several reports regarding the armor capabilities supporting our troops. Our series of armor related reports cover body armor, armored vehicles, and armor kits for tactical vehicles. These issued reports identify that DOD has experienced challenges in fielding adequate armor capabilities for our troops. DOD IG has four armor related projects ongoing (two ongoing projects reviewing aspects of body armor and two ongoing projects addressing the Mine Resistant Armor Protected vehicle). In addition, we have another planned audit regarding the life cycle management of body armor. The four ongoing projects as well as the planned project should show whether progress is being made. The four ongoing armor related projects are:

—DOD Testing Requirements for Body Armor (D2008–D000JA–0263.000).
—Research on DOD Body Armor Contracts (D2008–D000CD–0256.000).
—Marine Corps Implementation of the Urgent Universal Need Statement Process for Mine Resistant Ambush Protected Vehicles (D2008–D000AE–0174.000).
—Procurement And Delivery Of Joint Service Armor Protected Vehicles (D2007–D000CK–0230.000).

Contracting decisions are the responsibility of the DOD contracting officials responsible for the acquisition. Past performance can be included as evaluation criteria in the acquisition process; however, as we discuss in report D–2007–107, "Procurement Policy for Armored Vehicles," the size of the industrial base (competitors) was a factor in awarding contracts to a contractor that could not meet production schedules. Specifically, for the Army Buffalo Mine Protected Clearance Vehicle, we found no indication that other sources were available for competition for the Buffalo. DOD can and has assessed liquidated damages to compensate for not meeting contractual requirements, such as with the Joint Explosive Ordnance Disposal Rapid Response Vehicle (JERRV). The performance of the current contractors providing

armor capabilities should be considered when making future acquisition decisions for armor capabilities. We are currently reviewing the contracts awarded for Mine Resistant Ambush Protected (MRAP) vehicles and assessing the strategies employed by the officials responsible for the procurement.

Investigative indices disclosed that since 1999, the DOD IG has investigated 29 allegations of improper manufacture or insufficient delivery of body armor or armored vehicles. In 2006, we initiated seven such investigations, five were initiated in 2007, and three have been initiated so far this year. There is insufficient data to assert generally that there has been a decline in incidents involving defective body armor, but we believe that increased scrutiny from auditors, law enforcement, and Congress is likely to have had an effect in reducing attempted fraud.

CONCLUSION OF HEARINGS

Chairman BYRD. This hearing is recessed, subject to the call of the chairman.

[Whereupon, at 12:35 p.m., Wednesday, July 23, the hearings were concluded and the committee was recessed, to reconvene subject to the call of the Chair.]

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