
SIGIR TESTIMONY TO CONGRESS

This appendix reproduces the testimonies submitted by Special Inspector General Stuart W. Bowen to Congress. On February 7, 2006, he testified before the Senate Committee on Armed Forces, Subcommittee on Readiness and Management Support. On February 8, 2006, he testified before the Senate Committee on Foreign Relations. On June 8, 2006, he testified before the House Committee on International Relations.



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ON READINESS AND MANAGEMENT SUPPORT

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

BEFORE THE

**UNITED STATES SENATE
COMMITTEE ON ARMED SERVICES
SUBCOMMITTEE ON READINESS AND MANAGEMENT SUPPORT**

HEARING ON CONTRACTING ISSUES IN IRAQ

**Tuesday, February 7, 2006
Washington, DC**

Introduction

Mr. Chairman, Ranking Member Akaka, and members of the Subcommittee—thank you for the opportunity to address you today on important matters regarding the role of the United States in the reconstruction of Iraq and the oversight of such efforts provided by my office, the Special Inspector General for Iraq Reconstruction (SIGIR). I hope for a productive exchange of views and ideas in this hearing to illuminate issues and challenges regarding Iraq reconstruction that we are now confronting.

This hearing is particularly timely as I released last week the January 30, 2006 Quarterly Report to Congress and to the Secretaries of State and Defense containing seven new audit reports detailing challenges, issues and concerns in Iraq reconstruction efforts. SIGIR has now completed a total of 70 audit reports and project inspections. Among our 41 audit reports, almost half have dealt with contracting issues. Together, these provide an important perspective on U.S. progress in Iraq.

Throughout 2005, SIGIR provided independent, aggressive oversight to prevent waste, fraud and abuse in the dangerous operating environment in Iraq. My emphasis on real-time auditing – where guidance is provided immediately to management authorities upon the discovery of a need for change – enables rapid improvements that can save taxpayers money.

In our discussion of contracting issues arising from Iraq relief and reconstruction, I will include some information on how we are deriving lessons learned from the experience. I would like to illustrate one important lesson – oversight delayed is oversight denied.

Last week, an individual who had been employed by the CPA to manage reconstruction funds in South-Central Iraq, was convicted of bribery and fraud – the conclusion of a criminal case opened by SIGIR investigators in 2004. This individual is one of four subjects currently identified in connection with criminal activities involving Iraqi money that was intended for the benefit of the Iraqi people.

Court documents released last week contained a number of electronic messages between these individuals as they coordinated their criminal activities. Many of these e-mails were transmitted in January 2004 – a period when their activities, which had already gone on for months, were in full swing,

Coincidentally, in January 2004, January 20th to be precise, I was appointed as the Coalition Provisional Authority Inspector General. This appointment was the first formal, substantive measure to provide oversight of the entire range of Iraq reconstruction programs and operations. Unfortunately, the establishment of an inspector general came months too late to deter these particular criminal activities.

However, while we were not in place to keep these crimes from occurring, the trails of those who committed crimes in Iraq are still warm enough for us to follow. In partnership with the Department of Homeland Security Bureau of Immigration and Customs Enforcement, the Internal Revenue Service Criminal Investigation, and the Department of State Inspector General, we have created an interagency Special Investigative Task Force for Iraq Reconstruction, or SPITFIRE. With our SPITFIRE partners, and with the strong cooperation of the Department of Justice, we will continue to identify, arrest, and prosecute those relative few who dishonored our nation's efforts in the reconstruction of Iraq.

Thus, the important lesson is that oversight works, and it works well when it works hard. But, it works more efficiently the earlier it is put in place. Provisions for formal oversight of Iraq reconstruction should have been established at the very beginning of the endeavor.

While there has been much attention given to our work involving the Iraqi funds that were used by CPA for Iraq reconstruction, our current work chiefly involves the funds appropriated in the Iraq Relief and Reconstruction Fund (IRRF). I believe it is important to address apparent confusion in reports about the funds that were lost from the criminal activities we are investigating: we have found limited evidence of crimes involving appropriated funds provided by the American taxpaying public. Corruption is not a pervasive problem on the U.S. side of the reconstruction program. While we have found and reported inefficiencies and waste in the management of reconstruction contracts, projects, and finances, the problems and lack of controls in spending appropriated funds were far less serious than those that we found, and investigated, in the management of Iraqi funds used in reconstruction.

Even under the difficult conditions of Iraq, we have observed continuous improvement. The multiple organizations engaged in Iraq reconstruction have improved their coordination. The recent reorganization to integrate the Project and Contracting Office (PCO) with the Gulf Regional Division of the Army Corps of Engineers has contributed to these improvements.

Today, to help you to focus on contracting issues in Iraq reconstruction, I will discuss the findings from our audits that looked into contracting issues. SIGIR has conducted 17 audits into contracting matters since we began our work in Iraq in the spring of 2004:

Award of Sector Design–Build Construction Contracts (SIGIR-04-005 - July 23, 2004)

- The DoD Components used competitive procedures to award the design-build construction contracts for rebuilding the Iraqi infrastructure. However, except for the two contracts for the oil sector, the contract awards were limited to sources from designated countries, including the United States, Iraq, coalition partners, and force-contributing nations.
- On awarding these contracts, Army components properly advertised the requirements, developed source selection plans, and had sufficient controls to ensure that the plans were followed.
- As a result, the U.S. government obtained the benefits of competitive contracting, but the PMO faces challenges in ensuring that tasks performed under these contracts fully meet the U.S. government's requirements and are economically and efficiently executed.

Coalition Provisional Authority's Contracting Processes Leading Up To and Including Contract Award

(SIGIR-04-013 – July 27, 2004)

- The audit found that the CPA's Contracting Activity did not consistently provide oversight and technical supervision to the contracting officers awarding contracts on behalf of the CPA and Iraqi ministries.
- Specifically, the Procuring Contracting Officer (PCO) did not ensure that:
 - management information was accurate
 - contract files contained all the required documents
 - a fair and reasonable price was paid for the services received
 - contractors were capable of meeting delivery schedules
 - contractors were paid in accordance with contract requirements
- The CPA-IG recommended the Head of Contracting Activity attempt to recoup unsupported costs associated with a contract reviewed during the audit.

Task Order 0044 of the Logistics Civilian Augmentation Program III Contract

(SIGIR-05-003 – November 23, 2004)

- During the audit, SIGIR identified several problems concerning cost data submitted by KBR to the CPA for work performed under Task Order 0044 (*to provide for logistics and life support for personnel assigned to the CPA mission*). First, KBR did not provide sufficiently detailed cost data to evaluate overall project costs or to determine whether specific costs for services performed were reasonable. As a result, the ACO did not receive sufficient or reliable cost information to effectively manage TO 0044.
- Second, the lack of certified billing or cost and schedule reporting systems hampered effective monitoring of contract costs.
- Third, because the contractor did not provide detailed cost information to support actual expenses incurred, resource managers were unable to accurately forecast funding requirements to complete TO 0044.
- Based on limited audit work, SIGIR also believes that Federal Acquisition Regulations (FAR) Clause 52.216-26, Payments of Allowable Costs Before Definitization, should be enforced because of the lack of definitization for TO 0044.

Compliance with Contract No. W911SO-04-C-0003 Awarded to Aegis Defence Services Limited

(SIGIR-05-005 – April 20, 2005)

- Specifically, Aegis did not provide sufficient documentation to show that all of its employees who were issued weapons were qualified to use those weapons or that its Iraqi employees were properly vetted to ensure that they did not pose an internal security threat.
- Aegis was not fully performing several specific responsibilities required by the contract in the areas of personal security detail qualifications, regional operations centers, and security escorts and movement control.
- Further, SIGIR identified deficiencies in the monitoring of the contract by the Project and Contracting Office (PCO).
- As a result, there is no assurance that Aegis is providing the best possible safety and security for government and reconstruction contractor personnel and facilities as required by the contract.

**Administration of Iraq Relief and Reconstruction Fund Contract Files
(SIGIR-05-007 – April 30, 2005)**

- The PCO did not adequately maintain the 37 contracts and associated contract files SIGIR reviewed, valued at more than \$184 million, to fully support transactions relating to the performance of contract administration processes.
- Further, the PCO could not produce 21 percent, or 10 of the 48 randomly selected contract files for SIGIR's review.
- The PCO generally awarded contracts that contained adequately prepared statements of work, specific contract deliverables, and clearly negotiated contract terms. However, the audit identified significant deficiencies in contract administration processes and controls.
- Consequently, there was no assurance that the contract file data was available, complete, consistent, and reliable or that it could be used to effectively monitor and report the status of contracted project activity for the IRRF.
- The audit identified material management control weaknesses in the administration of contract files. Consequently, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of IRRF contracts.
- Management agreed with the finding and recommendations made in this report. The report contained seven recommendations. Actions have been taken or are underway to correct the reported deficiencies.

**Administration of Contracts Funded by the Development Fund for Iraq
(SIGIR-05-008 – April 30, 2005)**

- PCO did not fully comply with the requirements described in a memorandum from the Iraqi Interim Government Minister of Finance to monitor DFI contract administration.
- PCO and the Joint Area Support Group – Central (JASG-C) comptroller could not accurately identify the current value of obligations, payments, and unpaid obligations for DFI contracts. However, cash payments appeared to be made in a timely manner.
- PCO lacked the necessary controls and adequate documentation to effectively perform their responsibilities to monitor and administer contracts funded by the DFI.
- The audit identified material management control weaknesses in the accounting for DFI contract liabilities and in contract administration.
- Consequently, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of contracts funded by the DFI, that DFI funds were used in a transparent manner, or that DFI funds were used for the purposes mandated by UN Security Council Resolution 1483.
- The report contained six recommendations. Management from PCO and JASG-C agreed with the findings and recommendations made in this report. Actions have been taken or are underway to correct the reported deficiencies.

**Reconciliation of Reporting Differences of the Source of Funds Used on Contracts After June 28, 2004
(SIGIR-05-009 – July 8, 2005)**

- During the course of this audit, SIGIR found that it could not fully address the overall objective because 21 of the 69 contracts identified for review could not be located by government officials.
- SIGIR concluded that the 48 contracts reviewed disclosed no instances of incorrect obligations of DFI funds.

- SIGIR also concluded that the Joint Contracting Command-Iraq (JCC-I) current contract data files were not accurate and not adequately supported.
- Review showed that 48 of the 69 contracts contained data entry errors in documenting the date of the contract award or the source of the funding.
- JCC-I officials stated that the 21 contracts that could not be located may have been destroyed by a rocket that struck the Presidential Palace in January 2005 or that some of these contracts were turned over to Iraqi ministry officials after contract completion and final review by contracting officials. However, the JCC-I had no records to support these conjectures.
- During the audit, the JCC-I corrected the Contract Management Information System reporting errors identified by the audit. SIGIR believes that these actions sufficiently corrected the identified deficiencies.

**Attestation Engagement Report concerning the Award of Non-competitive Contract DACA63-03-D-0005 to Kellogg, Brown and Root Services, Inc.
(SIGIR-05-19 – September 30, 2005)**

- The Director of the Defense Reconstruction Support Office-Iraq (DRSO) asked SIGIR to provide an attestation on a non-competitively awarded contract that Kellogg, Brown and Root obtained before the 2003 Iraq war.
- SIGIR performed the attestation based on agreed-upon procedures of both DRSO and the UN International Advisory and Monitoring Board.
- The purpose of the attestation was to determine whether the non-competitive award of the contract was appropriately justified and whether the goods and services delivered and billed for were those required under the contract.
- SIGIR concluded that the use of the non-competitive contract was appropriately justified and that the goods and services delivered and billed for were those required under the contract.

**Management of Commander's Emergency Response Program for Fiscal Year 2004
(SIGIR-05-014 – October 13, 2005)**

- The overall objective of this audit was to evaluate the adequacy of controls over Commander's Emergency Response Program (CERP) funds.
- Funds available for CERP during the period under review amounted to more than \$727.1 million, of which approximately \$140 million were appropriated funds. SIGIR reviewed CERP transactions made by the U.S. Central Command's Multi-National Force-Iraq (MNF-I).
- SIGIR concluded that, while CERP-appropriated funds were properly used for their intended purposes, overall controls over CERP processes required improvement.

**Acquisition of Armored Vehicles Purchased through Contract W914NS-05-M-1189
(SIGIR-05-018 – October 21, 2005)**

- SIGIR performed this audit after receiving a Hotline complaint
- SIGIR concluded that MNSTC-I purchased seven armored Mercedes-Benz vehicles that did not have the required level of armored protection.
- In addition, MNSTC-I could not locate one of the vehicles after delivery was made.
- Thus SIGIR concluded that MNSTC-I may have paid \$945,000 for armored vehicles that will not meet the purpose intended and may not be available for use.
- SIGIR recommendations included that Commanding General, JCC-I/A, purchase armored vehicles by using standard supply contracts rather than commercial items contracts.

- Management from MNSTC-I and JCC-I/A agreed with the recommendations made in this report. Actions have been taken or are underway to implement the recommendations.

Award Fee Process for Contractors Involved in Iraq Reconstruction (SIGIR-05-017 – October 25, 2005)

- This audit was to determine whether award fees provided to contractors performing IRRF-funded projects are adequately reviewed, properly approved, sufficiently substantiated, and awarded according to established standards.
- In general, cost-plus award-fee contracts include a base award fee (for simply meeting contract requirements) and a merit-based award fee for performance that exceeds contract expectations. For 16 of the 18 contracts reviewed, the base fee component was 3%, the highest base fee allowed by the DoD FAR Supplement.
- However, the 18 contracts did not contain the required criteria with definable metrics. This missing component created the potential for inflated contractor performance evaluations.
- For 9 of the 11 design build contracts, the award fee plans allowed awards of an additional 50-74% of the award fee pool for *average* results.
- For the 7 program management-and-support (PMAS) contracts, the award fee plans permitted awards of an additional 60-70% of the award fee pool for some performance above standard while still allowing several weaknesses in performance to remain.
- SIGIR found that the Award Fee Evaluation Board recommendations and determinations of fees were not documented in sufficient detail to show that the integrity of the award fee determination process had been maintained. Thus, the documentation SIGIR reviewed in contract files was insufficient to substantiate the award fees that were approved.
- JCC-I/A concurred with SIGIR's findings and recommendations. Actions have been taken to comply with this report.
- As a result, award fees are now based on quality performance rather than providing contractors higher fees than deserved.

Management of Rapid Regional Response Program Grants in South-Central Iraq (SIGIR-05-015 – October 25, 2005)

- This audit report was one of a series of reports addressing controls over cash, contract management, and grants management for the Coalition Provisional Authority (CPA) South-Central Region. This audit report discussed the processes used for the authorization, award, execution, and oversight of grants within the CPA South-Central Region.
- SIGIR found that South-Central Region personnel, under the direction of the CPA, did not effectively manage 74 grants awarded through the Rapid Regional Response Program (R3P) amounting to \$20.8 million.
 - South-Central Region personnel could not account for \$20,541,000 in DFI funds provided for R3P grants, and they made payments of \$2,633,500 that exceeded the total value of grants awarded.
 - CPA South-Central Region personnel disbursed \$23,471,500 through 74 grants, although the award value of these grants was only \$20,838,000.
- SIGIR concluded that the South-Central Region failed to manage its R3P grant program.
- Management generally concurred with SIGIR recommendations.

Management of the Contracts, Grant, and Micro-purchases Used To Rehabilitate the Karbala Library
(SIGIR-05-020 – October 26, 2005)

- SIGIR found that, in the management of contracts, a grant, and micropurchase contracts using Rapid Regional Response Program funds, South-Central Region personnel:
 - circumvented guidance by splitting requirements into more than one contract to avoid seeking the required funding-level approval or to avoid required documentation
 - issued contracts for dollar amounts that exceeded requirements
 - did not monitor any contracts, the grant, or micro-purchase contracts; did not make any site visits; did not issue performance reports; did not prepare post-award assessments; did not act on the reports that the contractor was not performing to the standards set in the contracts
 - disbursed funds on contracts, a grant, and micro-purchase contracts for which work was not performed, work was not contracted, equipment and services were not delivered, or the contracted amount was exceeded
 - paid contract amount in full on the day the contracts, grant, and micropurchase contracts were signed and did not require that progress payments be tied to project performance
 - did not maintain files with accurate or required documentation
- South-Central Region personnel, under the direction of the CPA, did not comply with applicable guidance and did not properly manage R3P funds provided through 5 contracts, 1 grant, and 33 micro-purchase contracts used to rehabilitate the Library. Specifically, South-Central Region needlessly disbursed more than \$1.8 million for contracts, a grant, and micro-purchase contracts for which work was not performed, and the contracted amount was exceeded.
- Further, more than \$2.3 million in R3P funds was disbursed despite the fact that the total value of the contracts, grant, and micro-purchase contracts awarded for the Library was about \$2.1 million.
- The Director of IRMO, the Commanding General, JCC-I/A, and the Commander, JASG-C Baghdad concurred with the finding and recommendations.

Management of the Contracts and Grants Used To Construct and Operate the Babylon Police Academy
(SIGIR-05-016 – October 26, 2005)

- SIGIR found that, in the management of contracts and grants using R3P funds, South-Central Region personnel:
 - entered into an unauthorized land grant and violated conflict-of-interest rules
 - circumvented guidance by splitting requirements into more than one contract to avoid having to seek the appropriate funding-level approval and needlessly expended funds because work was not consolidated into a single contract
 - did not make site visits, did not issue final performance reports, and did not properly prepare certificates of completion forms
 - disbursed funds before contracts and grants were signed
 - did not establish the required separation of duties as a control over the disbursement of funds
 - did not maintain files that contained accurate or required documentation
- As a result, South-Central Region personnel, under the direction of CPA, did not comply with applicable guidance and did not properly manage approximately \$7.3 million of R3P funds. Specifically, South-Central Region needlessly expended almost \$1.3 million in contract funds for

duplicate construction projects; unnecessary or overpriced equipment; and requirements not identified in contract documents.

- Further, the South-Central Region could not account for more than \$2 million of disbursed grant funds.
- Management concurred with the recommendations made in this report. Actions have been taken or are underway to implement the recommendations.

Management of Rapid Regional Response Program Contracts in South-Central Iraq (SIGIR-05-023 – January 23, 2006)

- SIGIR found that South-Central Region personnel, under the direction of CPA, did not effectively manage 907 contracts and 1,212 micro-purchase contracts that were awarded through the RRRP, amounting to \$88.1 million. As a result:
 - 4 projects, using 20 contracts (2.2%) and several contract modifications, totaling approximately \$9.1 million, apparently split requirements to keep the contract awards below the \$500,000 approval threshold so as to circumvent the required reviews and reporting.
 - 158 contracts (17.4%), totaling approximately \$16.3 million, were either not competitively awarded or lacked documentation that showed a competitive process had taken place, and 26 contract files (3.0%), totaling approximately \$2.6 million, did not contain a signed contract.
 - 11 contracts (1.2%), totaling more than \$5.6 million, were issued without proper authorization, and 38 contracts (4.2%), totaling approximately \$7.0 million, were awarded after the transfer of responsibility for the DFI to the Iraqi government on June 28, 2004.
 - 91 projects (10.7%), totaling approximately \$11.6 million, were paid in full at the time of contract signing, and the completion of the project work was not verified; 11 contracts (1.2%) were overpaid by \$571,823; approximately \$515,000 was disbursed for CPA salaries and operations in violation of Program Review Board Guidance 06.2 (amended); approximately \$47,000-\$87,000 in cash was lost but not reported to the CPA Comptroller; and approximately \$23 million was transferred to unauthorized personnel, but documentation showed only \$6.3 million disbursed to contractors resulting in the loss of oversight of \$16.7 million.
 - 286 contract files (31.5%), totaling approximately \$31 million, did not contain certificates of completion, yet \$24 million had been disbursed for the projects. Other contract files were missing documentation for approximately \$12.6 million in disbursements and consequently, it could not be determined whether contractors were properly paid for work actually performed.
 - A property record book to document the property purchased with RRRP funds was not maintained; contract files for 160 vehicles, totaling approximately \$3.3 million, did not document the receipt of the vehicles, and there was limited documentation in the contract files to identify whether the beneficiary actually received the vehicles; ammunition and weapons were purchased, but detailed records of deliveries and distribution were not maintained; and not all of the weapons could be located.
 - 346 micro-purchase contracts (28.5%) exceeded the micro-purchase dollar limitation of \$5,000 yet did not maintain the required documentation in the files for awards greater than \$5,000; 387 micropurchase contract files (31.9%) did not contain disbursement documentation; 786 files (64.9%) did not contain a vendor invoice; and 838 files (69.1%) did not have a completion document.

- SIGIR also identified material internal control weaknesses. U.S. government agents and coalition partners did not comply with applicable guidance and did not properly control and account for Iraqi cash assets. Further, SIGIR found indications of potential fraud and referred these matters to the SIGIR Assistant Inspector General for Investigations for action. Related investigations are continuing.
- Based on the documentation examined, SIGIR concluded that CPA South-Central Region failed to adequately manage its RRRP contracts and micro-purchases
- Both the Commanding General, JCC-I/A and the Commander, JASG-C concurred with the findings and recommendations. Both Commands have actions underway to implement the recommendations, and the comments to all recommendations are fully responsive.

Management of the Commander's Emergency Response Program (CERP) for Fiscal Year 2005 (SIGIR-05-025 – January 23, 2006)

- SIGIR found that MNF-I had made considerable progress to improve the management of CERP. This included the improved alignment of projects with MNF-I strategic objectives, centralized tracking of project status and management of project records, and coordination of CERP with other U.S. reconstruction programs.
- SIGIR found, however, that the project data MNF-I used to track the progress of projects and report the status of projects to higher headquarter units contained several errors, and MNF-I units still did not fully comply with requirements for project records. In addition, SIGIR found that MNF-I lacked a consistent process to coordinate CERP projects with DoS and USAID when CERP was used in conjunction with other reconstruction programs in Iraq, and that it did not coordinate with DoS for the sustainment of large CERP construction projects.
- During the course of this audit, SIGIR notified MNF-I of its concerns about errors in the project-tracking tool. As a result, MNF-I initiated its own review of its FY 2005 project data. In addition, MNF-I and the U.S. Embassy-Iraq published a Joint Mission Statement on December 6, 2005, which stated that all political, military, and economic tools available to U.S. agencies in Iraq will be integrated in FY 2006 to maximize the effectiveness of U.S. efforts to rebuild Iraq.
- On behalf of MNF-I, the Multi-National Corps-Iraq (MNC-I) concurred or partially concurred with four of five recommendations of the report. SIGIR generally agreed with the comments provided by MNC-I and, in some cases, changed its report accordingly. USAID also provided technical comments for this report. SIGIR agreed with the comments and changed the audit report accordingly. The comments received are fully responsive.

Prompt Payment Act: Analysis of Expenditures Made from the Iraq Relief and Reconstruction Fund (SIGIR 06-002 February 3, 2006)

- In FY2005, approximately \$1.4 million in interest penalty payments were made by the Army against Iraq Relief and Reconstruction Fund disbursements of about \$5.275 billion made by Department of Defense organizations because of late payments of contractor invoices.
- This amount of interest exceeded an Army management goal that there be no more than \$85 in interest penalty payments for every million dollars disbursed; the \$1.4 million in interest penalties paid amounted to about \$259 in interest penalties per million disbursed and exceeded the Army goal by 304 percent.
- As a result, interest penalties paid to contractors from the Iraq Relief and Reconstruction Fund appropriation reduced, dollar-for-dollar, the availability of funds appropriated for the reconstruction of Iraq and for the benefit of the Iraqi people.

- The Office of the Assistant Secretary of the Army (Financial Management and Comptroller) concurred with the finding and recommendation and the comments to the recommendation are fully responsive.

All SIGIR audit reports are available to the public on our Web site at www.sigir.mil.

In addition to providing these typical products of inspector general oversight, SIGIR has also undertaken development of a retrospective analysis of the U.S. reconstruction experience in Iraq. This lessons-learned initiative is unfolding in three parts: human capital management, contracting, and program management.

Our lessons-learned process is rigorous. In addition to the significant data we have collected in our normal oversight activities, we have gathered information from a broad range of sources, especially from those who had boots-on-the-ground Iraq reconstruction experience. As well, we have been successful in attracting the participation of experts, in and out of government, to help us to understand clearly, what our nation must learn from the Iraq reconstruction experience.

As this hearing is intended to encompass contracting for Iraq reconstruction, I offer a preview of our Lessons Learned project on Contracting.

SIGIR began research on Iraq Reconstruction contracting in early autumn 2005. In December 2005, we completed a draft Contracting Lessons Learned Report, which we presented to two forums made up of experts involved with Iraq Reconstruction contracting. The first forum was for government officials, academics, and officials of non-profit organizations and think tanks. The second forum was for private sector personnel who held (or hold) Iraq reconstruction contracts from USAID and/or DOD. We are currently in the process of incorporating the information gained from these two events, further research, and interviews into the draft report. The revised paper will then be sent to Forum members and other appropriate persons for vetting, before final publication.

Based on our research thus far, SIGIR has made the following key observations concerning Iraq Reconstruction contracting:

The need for cooperation and collaboration is the overarching requirement for successful post-conflict reconstruction contracting. The job in Iraq proved just too big for one agency or contractor. US agencies and departments have various capacities, flexibilities, and differing areas of expertise in terms of contracting and program management. In Iraq, efforts seemed to be most successful when different agencies understood and leveraged each other's mandates, needs, skills, and strengths. Unfortunately, SIGIR research found many situations in which agencies' lack of cooperation contributed to contracting inefficiencies.

Other Observations:

- **Inclusion of Contracting Staff from the Beginning of Any Reconstruction Effort.** SIGIR research found that there was general agreement among agencies concerned with Iraq Reconstruction that contracting plays a central role in mission execution and cannot be an afterthought in the planning process. Whether for stabilization or reconstruction, contracting officials can provide an accurate and holistic picture of the resources needed to efficiently contract for a given mission. This understanding extends to the number of personnel required, their skills and functional areas, and the systems and procedures required for them to operate efficiently.

- **Use of Flexible Contracting Mechanisms.** There is mixed opinion in the government contracting community about whether a “wartime FAR” or other additional contracting regulations are required for post-conflict reconstruction efforts. Our information to date indicates that there needs to be a broader understanding of the flexibilities that currently exist in the FAR and its supplements, as well as the acceptable use of waivers and other provisions that apply when speed and flexibility are critical. SIGIR research indicates that not all contracting personnel in Iraq were properly informed about FAR flexibilities and thus were sometimes hesitant to use them, fearing that they might be subject to penalties for incorrect or improper use of these options. Methods are needed that would ensure personnel have the necessary knowledge and also the confidence to use such flexible mechanisms when necessary.
- **The Need for Better Requirements.** In order to efficiently procure an item or a service, contracting personnel must be provided with an adequate description of customers’ needs. The inability to properly define and prepare these “requirements statements” for projects appears to be a significant and continuing shortcoming of the Iraq Reconstruction process. To remedy this, customers and contracting personnel must work closely together on a continuing basis. There also needs to be sufficient personnel on the customer side -- both in the field and in the US – capable of laying out requirements with appropriate detail and accuracy. Moreover, in Iraq, this ability must be transferred to local personnel through capacity building, in order to strengthen long-term contracting capabilities.
- **Use of Special Contracting Programs.** During the reconstruction effort in Iraq, various programs containing flexible funding and contracting mechanisms were used in order to enable quick execution of small-scale projects. Some of these, such as USAID’s Office of Transitional Initiatives (OTI), predated the US intervention in Iraq, while others apparently evolved out of necessity during the conflict, such as the Commanders’ Emergency Response Program (CERP) and the Commanders’ Humanitarian Relief and Reconstruction Program (CHRRP). Other such programs included CPA’s “Accelerated Iraq Reconstruction Program (AIRP)” and the Project and Contracting Office’s (PCO) Rapid Contracting Initiative for the electricity sector.
 - The focus of these programs was to meet immediate needs – especially employment generation that would help ameliorate security conditions – and not necessarily the long-term reconstruction of the country. Yet, these smaller programs appear to be vital to creating an environment conducive to and able to absorb larger, more sustainable reconstruction efforts.
 - Given the generally positive performance of these programs, it would be important in future reconstruction efforts to make available designated pools of flexible funds for such initiatives, and to create standardized, but unrestrictive, mechanisms for contracting and managing these funds. It should be noted, however, that these programs can present accountability challenges due to their speed and flexibility.
- **Sustainment of Advances and Innovations.** Lessons have been learned throughout the experience of Iraq Reconstruction contracting, resulting in improvements to contracting and related processes. Examples include: the development of civilian-military partnerships, creation of centralized contracting coordination, flexible contracting mechanisms, and personnel who arrive in country better prepared to carry out their required tasks. This gain in understanding and capability needs to be institutionalized within the concerned US government agencies for application in future post-conflict reconstruction events.

Overall Impact Of The Security Situation On Contracting This is an area where SIGIR continues to carry out research and looks forward to providing more information as our findings develop.

Transition

2006 is a year of transition for the U.S. reconstruction program in Iraq. The successful December 2005 elections launched Iraq into a new phase of its history. The first government elected under Iraq's new constitution is now forming and will soon assume responsibility for managing Iraq's economy and infrastructure.

By the end of this fiscal year, the U. S. expects to have fully obligated the Iraq Relief and Reconstruction Fund (IRRF). IRRF dollars represent only a portion of the amount estimated by the World Bank and United Nations (UN) to be necessary to restore Iraq's infrastructure. The IRRF has provided a substantial down payment on what will be a lengthy restoration process. The progress made thus far with U.S. reconstruction funds has supplied the new Iraqi government with a significant start toward establishing an effective infrastructure and eventual prosperity.

As more and more IRRF-funded projects are completed, the U.S. agencies and elements that currently manage and implement the overall U.S. reconstruction effort, including the Iraq Reconstruction Management Office (IRMO), U.S. Agency for International Development (USAID), and the U.S. Army Corps of Engineers Gulf Region Division Project and Contracting Office (GRD-PCO), will implement transition strategies to ensure that completed projects and related assets are turned over to the appropriate Iraqi officials who have the training and budgetary resources necessary to sustain them.

As the transition process gains momentum, the U.S. reconstruction presence in Iraq should begin to shift toward foreign assistance programs managed by the Department of State (DoS) and the U.S. Agency for International Development (USAID).

Regarding the reconstruction transition, SIGIR has several concerns:

- Do all of the U.S. reconstruction implementing agencies in Iraq have strategic plans in place for transitioning their respective parts of the reconstruction program?
- Are there sufficient resources to support capacity development for national and local government officials, operations and maintenance, infrastructure security?
- Have Iraqi officials sufficiently budgeted and planned for the essential maintenance of the new, U.S.-provided infrastructure?
- Is the United States prepared to sustain the reconstruction presence required to complete planned projects that may take another three or four years to complete?

There are significant signs that transition planning is being implemented – the Iraq Reconstruction and Management Office, Department of State and Department of Defense are reviewing critical issues of funding and transition. The importance of this issue compels SIGIR to announce a new audit to review all reconstruction transition planning.

Reconstruction Gap

SIGIR introduced the concept of the Reconstruction Gap with our October 30 Report to Congress. We define the Reconstruction Gap as the difference between what was originally planned for reconstruction in the various sectors and what will actually be delivered.

To be clear, this is not an alarm bell, but merely an observation of a current reality: Changing conditions in Iraq, including deteriorating security conditions and evolving political and economic priorities, required IRRF reprogramming that altered sector funding levels and projected outcomes.

During the last quarter, we conducted an audit to examine the Reconstruction Gap further. We found that the U.S. government will not complete the number of projects anticipated by the IRRF program allocations in the November 2003 legislation. Our audit found these shortfalls:

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These shortfalls are substantially attributable to the autumn 2004 IRRF reprogramming, which increased the funding available for security by reducing the allocations to the Water sector from \$4.3 billion to \$2.1 billion (down 51.2%). The Electricity sector dropped from \$5.560 billion to \$4.309 billion (down 22.5%). Allocations to certain other sectors in addition to security increased: the Private Sector Development sector grew from a very low by 420%, and the Justice, Public Safety, Infrastructure, and Civil Society sector rose by 70%.

A number of factors combined to make these program changes necessary, the most significant being the rise of the insurgency. A new strategy that was more responsive to the new security and political situation in Iraq resulted in the reallocation of a total of \$5.6 billion in IRRF funding since August 2004. Additionally, administrative costs of the U.S. agencies implementing IRRF programs caused another \$425 million in program cuts. Another \$350 million is now budgeted for new sustainment activities that were not included in original planning. Finally, the following factors have also contributed to the reconstruction gap:

- inadequate or non-existent cost estimates for many projects in the original November 2003 plan
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I believe that more resources must be allocated to sustainability – the ability of a program to deliver its intended benefits for an extended period of time after major financial, managerial, and technical assistance from an external donor is terminated.

But the story of the Reconstruction Gap is fundamentally about security needs driven by a lethal and persistent insurgency. In addition to the reallocation by DoS of \$1.8 billion to training and equipping Iraqi security forces, the costs for the security of contractors have risen on average to more than 25%.

While this security spending reduces the funds available for actual reconstruction, it is vital. This is demonstrated most clearly by the number of contractors killed, kidnapped or wounded. Intimidation of

workers continues to delay projects, and the insecure environment has driven away critically needed foreign technicians in the essential service sectors.

It is difficult to overstate the impact of violence on the reconstruction program. Often, those commenting on Iraq reconstruction begin by stating that electrical capacity is lower than pre-war levels. They are correct. However, not many realize that electrical capacity grew above pre-war levels in mid-2004 and peaked in July 2005. Since then, however, the insurgents have targeted the electrical infrastructure, sabotaging the towers that carry high-voltage lines to Baghdad from generating facilities in the south. As well, increasing demand for electricity, provided to consumers at no cost, the influx of new appliances and new customers, and the creation of new industries, businesses, factories and jobs also contribute to nationwide shortages.

Sustainability

A SIGIR audit report published October 24, 2005 noted: “There is a growing recognition that the Iraqi government is not yet prepared to take over the near- or long-term management and funding of infrastructure developed through the IRRF projects.” Key recommendations from the October Quarterly Report—including the creation of a Sustainment Coordinator—have been implemented, but the coordinative function should continue to be a high priority for reconstruction managers in Iraq.

SIGIR audits conducted this quarter made these key sustainability recommendations:

- Create a single database of IRRF-related assets and provide it to the Iraqi government to support planning and budgeting.
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Cost-to-Complete

The cost-to-complete a project is defined as the total estimated cost of the project, less the actual cost of work performed to date. Nearly a year ago, SIGIR reported that the U.S. reconstruction program did not have reliable cost-to-complete estimates for its projects. The failure to compile and report cost-to-complete information, as required by Public Law 108-106, has made it difficult for implementing agencies to exercise effective fiscal management of IRRF dollars. Without current and accurate cost-to-complete data, management cannot determine whether sufficient funds will be available to complete ongoing work, nor can it project the availability of funds for any new programs or projects. This has also deprived SIGIR of the financial visibility I need to execute my oversight responsibility.

For the past year, SIGIR auditors have continually pressed for accurate cost-to-complete data. DoS confronted the issue last spring: in March 2005, a DoS team went to Baghdad to press for cost-to-complete data from agencies implementing the IRRF. This effort has produced limited success.

Anticorruption Efforts

Success in the reconstruction could be eroded in the long term unless Iraq is successful in developing and implementing substantial anticorruption measures. SIGIR is committed to intensifying U.S. efforts to promote an effective anticorruption system within the Iraqi government and commends the U.S. Mission’s efforts thus far to support anticorruption institutions in Iraq. In the October 2005 Quarterly

Report, we urged the Ambassador to hold an anticorruption summit, which he did in November 2005. The summit resulted in a proposal for a joint U.S.-Iraqi Anticorruption Working Group and initial agreement on the need for more training for officials from the Board of Supreme Audit, the Commission on Public Integrity, and the Inspectors General of the Iraqi ministries. The Embassy Anticorruption Working Group previously identified several major priorities, including:

- promoting market reforms and reducing subsidies
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In addition, the Board of Supreme Audit (BSA), though a holdover from the prior regime, is well respected by senior Iraqi officials and provides effective audit work across all ministries. Despite the hazardous environment in which we all find ourselves working, the BSA has expressed interest in using SIGIR's audit work in its own efforts.

As the anticorruption efforts continue, SIGIR will audit to evaluate progress.

The Way Ahead

As I have noted, 2006 is a year of transition for Iraq reconstruction, and of course, the Congress will face key decisions. As of February 1, the State Department reports that 84 percent of the \$18.4 billion Iraq Relief and Reconstruction Fund is obligated, under contract. What remains is less than \$3 billion, which we estimate will not permit the completion of all projects that were envisioned when the requirement for \$18.4 billion was being determined in late 2003.

While SIGIR has identified a Reconstruction Gap based on these initial requirements, and noted that water and electrical projects will not be completed, I reiterate that this is an observation – not an alarm bell.

Our conclusions on this matter do not constitute an evaluation of the original list of projects. We are not saying that all of these problems must be finished to complete successfully the U.S. investment in the reconstruction of Iraq. In our view, rather than to focus the remaining resources on finishing up this list of projects, our investment in ensuring the sustainment of projects that are or will be completed, and efforts toward building the capacity of the Iraqis to take over the repair of their infrastructure will bring a much higher return.

Also, among the improvements we have observed in the past year is the development of an integrated information management system to provide a more accurate picture for program management.

I am pleased to say that the cooperation that this inspector general is receiving from those engaged in Iraq reconstruction is refreshing. When I return to Iraq later this week, I will be in regular contact with senior reconstruction management, including IRMO director Ambassador Dan Speckhard, Army Corps of Engineers Gulf Regional Division commander Brigadier General Bill McCoy, and Major General Darryl A. Scott, who recently relieved Major General John Urias, as Commander, Joint Contracting Office –

Iraq. As well, I regularly meet with Ambassador Zalmay Khalilzad and the Multi-National Force – Iraq Commanding General, George W. Casey, Jr. Our relations are positive and productive and they are providing our 45 SIGIR auditors, inspectors, engineers and investigators in Iraq the access they need to provide this important oversight.

And in Washington, I met with Secretary of State Condoleezza Rice and Deputy Secretary of Defense Gordon England, and it is clear to me that they support our oversight.

Conclusion

We at SIGIR are vigorously carrying out the duties and responsibilities assigned by Congress in a very hazardous environment. I am proud of my staff's commitment and willingness to serve in a dangerous land far from their families. We will continue to ensure effective oversight and timely reporting, and to promote the success of the Iraq reconstruction plan.

I am gratified that Congress has recognized the impact of my office through the extension of our tenure. On November 10, the Congress passed Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2006 containing an amendment to extend the duration of SIGIR oversight by modifying the SIGIR termination clause to base it upon the level of IRRF expenditures, instead of obligations. I will continue to serve Congress and the Secretaries of State and Defense by providing rigorous oversight to prevent waste, fraud and abuse in Iraq.

I appreciate this opportunity to participate in this important hearing, and I look forward to answering any questions that the committee may have.

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SENATE COMMITTEE ON FOREIGN RELATIONS

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

BEFORE THE

**UNITED STATES SENATE
COMMITTEE ON FOREIGN RELATIONS**

HEARING TO EXAMINE IRAQ STABILIZATION AND RECONSTRUCTION.

**Wednesday, February 8, 2006
Washington, DC**

Introduction

Mr. Chairman, Ranking Member Biden, and members of the Committee—thank you for the opportunity to address you today on important matters regarding the role of the United States in the reconstruction of Iraq and the oversight of such efforts provided by my office, the Special Inspector General for Iraq Reconstruction (SIGIR). I hope for a productive exchange of views and ideas in this hearing to illuminate issues and challenges regarding Iraq reconstruction that we are now confronting.

This hearing is particularly timely as I released last week the January 30, 2006 Quarterly Report to Congress and to the Secretaries of State and Defense containing seven new audit reports detailing challenges, issues and concerns in Iraq reconstruction efforts. SIGIR has now completed a total of 70 audit reports and project inspections. These provide an important perspective on U.S. progress in Iraq.

Throughout 2005, SIGIR provided aggressive oversight to prevent waste, fraud and abuse in the at times lethal operating environment in Iraq. My emphasis on real-time auditing – where guidance is provided immediately to management authorities upon the discovery of a need for change – provides for independent assessments while effecting rapid improvements.

Your letter inviting me to appear before you today asked me to focus primarily on the management of appropriated funds, rather than the Iraqi funds that were used primarily during the era of the Coalition Provisional Authority. You emphasized the importance of understanding how funds provided so far have been managed, what lessons we have learned from our mistakes and how we can improve the way we do business so that every dollar is effectively spent.

Your charge for this hearing is “right down the middle” of our mission in our oversight of Iraq reconstruction. Today, I will focus, as requested, on the management of appropriated funds. However, I would first note that a primary lesson-learned is rooted in the handling of the Iraqi money by the CPA. This lesson: oversight delayed is oversight denied.

Last week, an individual who had been employed by the CPA to manage reconstruction funds in South-Central Iraq, was convicted of bribery and fraud – the conclusion of a criminal case opened by SIGIR investigators in 2004. This individual is one of four subjects currently identified in connection with criminal activities involving Iraqi money that was intended for the benefit of the Iraqi people.

Court documents released last week contained a number of electronic messages between these individuals as they coordinated their criminal activities. Many of these e-mails were transmitted in January 2004 – a period when their activities, which had gone on for months, were in full swing,

Coincidentally, in January 2004, January 20th to be precise, I was appointed as the Coalition Provisional Authority Inspector General. This appointment was the first substantive measure to provide oversight of Iraq reconstruction programs and operations. Unfortunately, the establishment of an inspector general came months too late to deter these criminal activities.

However, while we were not in place to keep these crimes from occurring, the trails of those who committed crimes in Iraq are still warm enough for us to follow. In partnership with the Department of Homeland Security Bureau of Immigration and Customs Enforcement, the Internal Revenue Service Criminal Investigation, and the Department of State Inspector General, we have created an interagency Special Investigative Task Force for Iraq Reconstruction, or SPITFIRE. With our SPITFIRE partners, and with the strong cooperation of the Department of Justice, we will continue to identify, arrest, and prosecute those relative few who dishonored our nation's efforts in the reconstruction of Iraq.

Thus, the lesson is that oversight works, and it works well when it works hard. But, it works more efficiently the earlier it is put in place. Provisions for formal oversight of Iraq reconstruction should have been established at the very beginning of the endeavor.

While there has been much attention given to our work involving the Iraqi funds that were used by CPA for Iraq reconstruction, our current work chiefly involves the funds appropriated in the Iraq Relief and Reconstruction Fund (IRRF). I believe it is important to address apparent confusion in reports about the funds that were lost from the criminal activities we are investigating: we have found limited evidence of crimes involving appropriated funds provided by the American taxpaying public. Corruption is not a pervasive problem on the U.S. side of the reconstruction program. While we have found and reported inefficiencies and waste in the management of reconstruction contracts, projects, and finances, the problems and lack of controls in spending appropriated funds were far less serious than those that we found, and investigated, in the management of Iraqi funds used in reconstruction.

Even under the difficult conditions of Iraq, we have observed continuous improvement. The multiple organizations engaged in Iraq reconstruction have improved their coordination. The recent reorganization to integrate the Project and Contracting Office (PCO) with the Gulf Regional Division of the Army Corps of Engineers has contributed to these improvements.

Today, to focus on the management of appropriated funds applied to the relief and reconstruction of Iraq, I will discuss the findings from our audits of programs and inspections, and our continuing interactions with reconstruction management.

In addition to providing these typical products of inspector general oversight, SIGIR has also undertaken development of a retrospective analysis of the U.S. reconstruction experience in Iraq. This lessons-learned initiative is unfolding in three parts: human capital management, contracting and procurement, and program and project management.

Our lessons-learned process is rigorous. In addition to the significant data we have collected in our normal oversight activities, we have gathered information from a broad range of sources, especially from those who had boots-on-the-ground Iraq reconstruction experience. As well, we have been successful in attracting the participation of experts, in and out of government, to help us to understand clearly, what our nation must learn from the Iraq reconstruction experience. I will discuss the progress of this effort during this hearing.

Let me first review and highlight some of our findings from the most recent SIGIR Quarterly and Semiannual Report to the U.S. Congress, which we delivered last week.

Transition

2006 is a year of transition for the U.S. reconstruction program in Iraq. The successful December 2005 elections launched Iraq into a new phase of its history. The first government elected under Iraq's new constitution is now forming and will soon assume responsibility for managing Iraq's economy and infrastructure.

By the end of this fiscal year, the U. S. expects to have fully obligated the Iraq Relief and Reconstruction Fund (IRRF). IRRF dollars represent only a portion of the amount estimated by the World Bank and United Nations (UN) to be necessary to restore Iraq's infrastructure. The IRRF has provided a substantial down payment on what will be a lengthy restoration process. The progress made thus far with U.S. reconstruction funds has supplied the new Iraqi government with a significant start toward establishing an effective infrastructure and eventual prosperity.

As more and more IRRF-funded projects are completed, the U.S. agencies and elements that currently manage and implement the overall U.S. reconstruction effort, including the Iraq Reconstruction Management Office (IRMO), U.S. Agency for International Development (USAID), and the U.S. Army Corps of Engineers Gulf Region Division Project and Contracting Office (GRD-PCO), will implement transition strategies to ensure that completed projects and related assets are turned over to the appropriate Iraqi officials who have the training and budgetary resources necessary to sustain them.

As the transition process gains momentum, the U.S. reconstruction presence in Iraq should begin to shift toward foreign assistance programs managed by the Department of State (DoS) and the U.S. Agency for International Development (USAID).

Regarding the reconstruction transition, SIGIR has several concerns:

- Do all of the U.S. reconstruction implementing agencies in Iraq have strategic plans in place for transitioning their respective parts of the reconstruction program?
- Are there sufficient resources to support capacity development for national and local government officials, operations and maintenance, infrastructure security?
- Have Iraqi officials sufficiently budgeted and planned for the essential maintenance of the new, U.S.-provided infrastructure?
- Is the United States prepared to sustain the reconstruction presence required to complete planned projects that may take another three or four years to complete?

There are significant signs that transition planning is being implemented – the Iraq Reconstruction and Management Office, Department of State and Department of Defense are reviewing critical issues of funding and transition. The importance of this issue compels SIGIR to announce a new audit to review all reconstruction transition planning.

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These shortfalls are substantially attributable to the autumn 2004 IRRF reprogramming, which increased the funding available for security by reducing the allocations to the Water sector from \$4.3 billion to \$2.1 billion (down 51.2%). The Electricity sector dropped from \$5.560 billion to \$4.309 billion (down 22.5%). Allocations to certain other sectors in addition to security increased: the Private Sector Development sector grew from a very low by 420%, and the Justice, Public Safety, Infrastructure, and Civil Society sector rose by 70%.

A number of factors combined to make these program changes necessary, the most significant being the rise of the insurgency. A new strategy that was more responsive to the new security and political situation in Iraq resulted in the reallocation of a total of \$5.6 billion in IRRF funding since August 2004. Additionally, administrative costs of the U.S. agencies implementing IRRF programs caused another \$425 million in program cuts. Another \$350 million is now budgeted for new sustainment activities that were not included in original planning. Finally, the following factors have also contributed to the reconstruction gap:

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The Human Toll

The lethal environment in Iraq continues to pose extraordinary challenges to reconstruction contractors. Since reconstruction began in March 2003, 467 death claims for contractors of all nationalities have been submitted under the Defense Base Act, according to the U.S. Department of Labor. The daily situation reports of the Gulf Region Division of the U.S. Army Corps of Engineers present the full range of dangers facing those who work on reconstruction projects in Iraq. The reports routinely list kidnappings, murders, attacks, bombings, armed vandalism, and threats. The January 13, 2006 report, for example, listed a car bombing, a gunshot through a car window, armed vandalism, a threat delivered by five armed and masked men on a jobsite, and six attacks on contractors.

Information Systems Management

Throughout 2005, SIGIR advised IRMO of the need for a single database for reconstruction projects in Iraq. Last quarter, IRMO mandated the creation of a consolidated database by December 2005, but this system has yet to become operational. As a result, it is difficult for me to assess the current progress of the overall project portfolio or to identify potential problems with individual projects. The reconstruction effort is too large and too important to be managed without access to accurate and complete data about the projects involved. IRMO and the implementing agencies in Baghdad are trying to develop a common policy and process to facilitate the legal, financial, and logistical transfer of assets to the Iraqi government. Two interagency working groups in Baghdad are addressing the problem. We continue to develop the SIGIR Iraq Reconstruction Information System (SIRIS), but the difficulties in extracting data from U.S. government agencies in Iraq hinder our responsiveness.

Lessons Learned

Recognizing an exceptional opportunity to fulfill an important need, SIGIR has undertaken the task to derive the lessons that should be learned and retained from our nation's experience in the rebuilding of Iraq. While this goes beyond the normal functions of an inspector general, we feel we have a responsibility to provide valuable advice as the U.S. develops new approaches to stabilization and reconstruction operations.

Through a process as rigorous as is to be expected from an inspector general, we are identifying and cataloging the most significant challenges the U.S. Government has faced, and making recommendations to guide efforts both to develop national capabilities, and planning for contingencies. This process involves substantial research; we have drawn on the expertise and experiences of those who served in Iraq and those who participated or observed from the outside. Perspectives gathered through interviews and inputs of individuals are then incorporated into white papers, which provide the foundation for discussions by panels of senior executives and experts from government, industry and academia. From these discussions emerge more substantial white papers and specific recommendations, which are then refined through a review and comment process by the participants. Once we achieve consensus, the final, and authoritative, report is published.

Begun in September 2004, the SIGIR Lessons Learned Initiative focuses on three substantive areas that have affected the success of Iraq reconstruction programs and operations:

- Human Capital Management
- Contracting, and
- Program and Project Management

The first lessons learned forum, held on September 20, 2005 focused on human capital management and the range of personnel issues that emerged. The resulting report, Iraq Reconstruction Lessons Learned: Human Capital Management, will be released shortly, but several conclusions can be clearly drawn:

- There was no template for recruiting personnel to staff a temporary surge relief and reconstruction effort.
- There was no contingency organization to lead the reconstruction and relief process.

The efforts in Iraq would have been greatly enhanced if a reserve civilian corps existed to deploy in such a situation, and contracting out the many responsibilities led to a lack of coordination. But it is important to remember that the Iraq reconstruction experience was affected by special circumstances that inhibited the ability to execute workforce planning. These circumstances included the temporary nature of the Coalition Provisional Authority, the deteriorating security environment, and inaccurate pre-war intelligence on the existing Iraqi bureaucracy.

SIGIR began research on Iraq Reconstruction contracting in early autumn 2005. In December 2005, we completed a draft Contracting Lessons Learned Report, which we presented to two forums made up of experts involved with Iraq Reconstruction contracting. The first forum was for government officials, academics, and officials of non-profit organizations and think tanks. The second forum was for private sector personnel who held (or hold) Iraq reconstruction contracts from USAID and/or DOD. We are currently in the process of incorporating the information gained from these two events, further research, and interviews into the draft report. The revised paper will then be sent to Forum members and other appropriate persons for vetting, before final publication.

Based on our research thus far, SIGIR has made the following key observations concerning Iraq Reconstruction contracting:

The need for cooperation and collaboration is the overarching requirement for successful post-conflict reconstruction contracting. The job in Iraq proved just too big for one agency or contractor. US agencies and departments have various capacities, flexibilities, and differing areas of expertise in terms of contracting and program management. In Iraq, efforts seemed to be most successful when different agencies understood and leveraged each other's mandates, needs, skills, and strengths. Unfortunately, SIGIR research found many situations in which agencies' lack of cooperation contributed to contracting inefficiencies.

Other Observations:

- **Inclusion of Contracting Staff from the Beginning of Any Reconstruction Effort.** SIGIR research found that there was general agreement among agencies concerned with Iraq Reconstruction that contracting plays a central role in mission execution and cannot be an afterthought in the planning process. Whether for stabilization or reconstruction, contracting officials can provide an accurate and holistic picture of the resources needed to efficiently contract for a given mission. This understanding extends to the number of personnel required, their skills and functional areas, and the systems and procedures required for them to operate efficiently.
- **Use of Flexible Contracting Mechanisms.** There is mixed opinion in the government contracting community about whether a "wartime FAR" or other additional contracting regulations are required for post-conflict reconstruction efforts. Our information to date indicates that there needs to be a broader understanding of the flexibilities that currently exist in the FAR and its supplements, as well as the acceptable use of waivers and other provisions that apply when speed and flexibility are critical. SIGIR research indicates that not all contracting personnel in Iraq were properly informed about FAR flexibilities and thus were sometimes hesitant to use them, fearing that they might be subject to penalties for incorrect or improper use of these options. Methods are needed that would ensure personnel have the necessary knowledge and also the confidence to use such flexible mechanisms when necessary.
- **The Need for Better Requirements.** In order to efficiently procure an item or a service, contracting personnel must be provided with an adequate description of customers' needs. The inability to properly define and prepare these "requirements statements" for projects appears to be a significant and continuing shortcoming of the Iraq Reconstruction process. To remedy this, customers and contracting personnel must work closely together on a continuing basis. There also needs to be sufficient personnel on the customer side -- both in the field and in the US -- capable of laying out requirements with appropriate detail and accuracy. Moreover, in Iraq, this ability must be transferred to local personnel through capacity building, in order to strengthen long-term contracting capabilities.
- **Use of Special Contracting Programs.** During the reconstruction effort in Iraq, various programs containing flexible funding and contracting mechanisms were used in order to enable quick execution of small-scale projects. Some of these, such as USAID's Office of Transitional Initiatives (OTI), predated the US intervention in Iraq, while others apparently evolved out of necessity during the conflict, such as the Commanders' Emergency Response Program (CERP) and the Commanders' Humanitarian Relief and Reconstruction Program (CHRRP). Other such programs included CPA's "Accelerated Iraq Reconstruction Program (AIRP)" and the Project and Contracting Office's (PCO) Rapid Contracting Initiative for the electricity sector.

- The focus of these programs was to meet immediate needs – especially employment generation that would help ameliorate security conditions – and not necessarily the long-term reconstruction of the country. Yet, these smaller programs appear to be vital to creating an environment conducive to and able to absorb larger, more sustainable reconstruction efforts.
 - Given the generally positive performance of these programs, it would be important in future reconstruction efforts to make available designated pools of flexible funds for such initiatives, and to create standardized, but unrestrictive, mechanisms for contracting and managing these funds. It should be noted, however, that these programs can present accountability challenges due to their speed and flexibility.
- **Sustainment of Advances and Innovations.** Lessons have been learned throughout the experience of Iraq Reconstruction contracting, resulting in improvements to contracting and related processes. Examples include: the development of civilian-military partnerships, creation of centralized contracting coordination, flexible contracting mechanisms, and personnel who arrive in country better prepared to carry out their required tasks. This gain in understanding and capability needs to be institutionalized within the concerned US government agencies for application in future post-conflict reconstruction events.

Overall Impact Of The Security Situation On Contracting This is an area where SIGIR continues to carry out research and looks forward to providing more information as our findings develop.

The third and final topic we are reviewing in our lessons learned initiative is program and project management. We are in the process of compiling a list of subject matter experts, and we plan to convene a forum in April.

I hope that the lessons learned initiative will enhance ongoing efforts in Iraq as well as to inform future U.S. reconstruction and stabilization planning and programs.

The Way Ahead

As I have noted, 2006 is a year of transition for Iraq reconstruction, and of course, the Congress will face key decisions. As of February 1, the State Department reports that 84 percent of the \$18.4 billion Iraq Relief and Reconstruction Fund is obligated, under contract. What remains is less than \$3 billion, which we estimate will not permit the completion of all projects that were envisioned when the requirement for \$18.4 billion was being determined in late 2003.

While SIGIR has identified a Reconstruction Gap based on these initial requirements, and noted that water and electrical projects will not be completed, I reiterate that this is an observation – not an alarm bell.

Our conclusions on this matter do not constitute an evaluation of the original list of projects. We are not saying that all of these problems must be finished to complete successfully the U.S. investment in the reconstruction of Iraq. In our view, rather than to focus the remaining resources on finishing up this list of projects, our investment in ensuring the sustainment of projects that are or will be completed, and efforts toward building the capacity of the Iraqis to take over the repair of their infrastructure will bring a much higher return.

Also, among the improvements we have observed in the past year is the development of an integrated information management system to provide a more accurate picture for program management.

I am pleased to say that the cooperation that this inspector general is receiving from those engaged in Iraq reconstruction is refreshing. When I return to Iraq later this week, I will be in regular contact with senior reconstruction management, including IRMO director Ambassador Dan Speckhard, Army Corps of Engineers Gulf Regional Division commander Brigadier General Bill McCoy, and Major General Darryl A. Scott, who recently relieved Major General John Urias, as Commander, Joint Contracting Office – Iraq. As well, I regularly meet with Ambassador Zalmay Khalilzad and the Multi-National Force – Iraq Commanding General, George W. Casey, Jr. Our relations are positive and productive and they are providing our 45 SIGIR auditors, inspectors, engineers and investigators in Iraq the access they need to provide this important oversight.

Conclusion

We at SIGIR are vigorously carrying out the duties and responsibilities assigned by Congress in a highly hazardous environment. I am proud of my staff's commitment and willingness to serve in a dangerous land far from their families. We will continue to ensure effective oversight and timely reporting, and to promote the success of the Iraq reconstruction plan.

I am gratified that Congress has recognized the impact of my office through the extension of our tenure. On November 10, the Congress passed Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2006 containing an amendment to extend the duration of SIGIR oversight by modifying the SIGIR termination clause to base it upon the level of IRRF expenditures, instead of obligations. I will continue to serve Congress and the Secretaries of State and Defense by providing rigorous oversight to prevent waste, fraud and abuse in Iraq.

I appreciate this opportunity to participate in this important hearing, and I look forward to answering any questions that the committee may have.

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

BEFORE THE

**UNITED STATES HOUSE
COMMITTEE ON INTERNATIONAL RELATIONS**

REVIEW OF IRAQ RECONSTRUCTION

**Thursday, June 8, 2006
Washington, DC**

Introduction

Mr. Chairman, Ranking Member Lantos, and members of the Committee—thank you for the opportunity to address you today on important matters regarding the United States' role in the reconstruction of Iraq. The Congress has tasked my office, the Special Inspector General for Iraq Reconstruction (SIGIR), to provide oversight of this substantial and challenging endeavor. I am here today to provide you with the most current reporting on SIGIR's oversight efforts in Iraq. I hope for a productive exchange of views and ideas in this hearing regarding Iraq reconstruction.

A few days after submitting our April 30, 2006 Quarterly Report to Congress, I returned to Iraq for my 12th tour, to work in Baghdad and across Iraq with SIGIR's 50 staff members currently stationed in Baghdad. I also had numerous meetings with those managing the operational and contracting components of the US reconstruction effort in Iraq. I returned from Iraq a week ago and I am pleased to provide you my observations garnered from my recent weeks of work in Iraq. I also want to update you on the critical issues raised in SIGIR's April 30, 2006 Quarterly Report to Congress.

As SIGIR noted in its January 2006 Quarterly Report, this is the Year of Transition in Iraq reconstruction. By the end of 2006, most programs and projects funded by the IRRF will be turned over to Iraqi authorities. With that prospect on the horizon, reconstruction planning and operations are increasingly becoming a joint enterprise, with U.S. and Iraqi officials coordinating more and more on the planning of key reconstruction initiatives.

With approximately 67% of the \$18.4 billion in Iraq Relief and Reconstruction Funds (IRRF) now expended and just under \$2 billion left to obligate, the U.S. reconstruction program in Iraq

is fully engaged in project execution and sustainment, contract close-out, and program transition. Effectively advancing the progress of reconstruction and development in Iraq at this critical juncture requires the U.S. government to work closely with the Iraqi government and international donors to sustain the substantial U.S. investment in Iraq's infrastructure.

In its April 2006 Quarterly Report, SIGIR identified five critical issues confronting the reconstruction program at this watershed moment in the Iraq endeavor:

- **Improve Infrastructure Security:** critical nodes must be protected
- **Close the Reconstruction Gap:** fund the Secretary of State's initiative to build capacity at the local level
- **Energize the Oil and Gas Industry:** 94% of Iraq's national income is derived from this industry but only 9% of the IRRF was spent on it
- **Fight Corruption:** Iraq continues to lose capital to widespread corrupt practices
- **Engage the Donor Community:** the reconstruction program must be multilateralized

Improve Infrastructure Security – SIGIR continues to review the critical issue of infrastructure security. Insurgent activity impedes ongoing reconstruction projects and interrupts the transition of these projects to Iraqi control. Attacks on Iraq's oil and gas and electrical infrastructures have limited progress in the past within these key sectors. Early U.S. efforts to address this issue did not succeed as SIGIR auditors discovered in a review of a \$147 million program called Task Force Shield, which was established in September 2003 to build Iraq's capacity to protect its oil and gas and electrical infrastructure. Task Force Shield sought to cover 340 key installations, 7,000 kilometers of oil pipeline, and 14,000 kilometers of electrical transmission lines. The audit found that the program failed to meet its goals.

SIGIR is now executing a significant current review of this issue and will provide a classified report on it during this quarter. I addressed the infrastructure security issue with U.S. leadership in Baghdad during my recent trip to Iraq. Recognizing its importance, the U.S. Ambassador to Iraq has made infrastructure security an essential element of the Embassy Joint Blueprint for Success. Of note, significant progress has been made on infrastructure security over the past quarter. For example, the Department of Defense dispatched a team of experts to Iraq last quarter to assess the protection of oil and gas facilities. They examined the sector's infrastructure protection programs, seeking to identify current security challenges. The team is now drafting a strategy that will help the Iraqis more effectively protect their energy infrastructure.

Close the Reconstruction Gap – SIGIR's October 2005 Quarterly Report identified a "reconstruction gap," which acknowledged that—for a variety of reasons, security being the most salient—the U.S. relief and reconstruction program will accomplish less than originally planned. The shortfall in various sectors was caused by more than 250 reprogramming actions, delays driven by security and administrative problems, poorly managed cost-to-complete schedules, and shifting emphases in contracting and program management. Of note, another reprogramming of the IRRF occurred this quarter: \$353 million was shifted from the electricity and health care construction sectors into non-construction programs. The reconstruction gap, however, comprises more than simply the notion that fewer projects will be completed than expected; it also addresses the shortfall's impact on outputs and outcomes.

Fewer projects completed axiomatically affects infrastructure outputs in Iraq—that is, fewer electrical projects means fewer megawatts on the grid, and fewer oil and gas projects means fewer barrels of oil produced per day. These constrictions have the cumulative effect of slowing improvement in the daily lives of Iraqis.

Ambassador Khalilzad's initiative to devolve more project decision-making to Iraqis at the local governorate level should help remediate the perceived effects of the reconstruction gap by giving Iraqis more of a say in reconstruction priorities that can be implemented close to home. Iraqis are now exerting a formative influence over project choices. Their management of the process through the Provincial Reconstruction Development Councils, assisted by coalition-staffed Provincial Reconstruction Teams, is building local government capacity in Iraq. The aim of the Ambassador's initiative is to produce more immediate, perceptible benefits for Iraqis in every governorate. The success of the Ambassador's initiative depends, in part, on new funding. Thus, SIGIR strongly supports the President's FY 2006 supplemental and FY 2007 budget requests, which propose an additional \$3.2 billion to help secure and sustain Iraq's critical infrastructure, to build the capacities of national and local governments, and to stimulate economic growth, increased employment, and private-sector development.

Energize the Oil and Gas Industry – Iraq has the second-largest oil and gas deposits in the world, with revenue from this sector providing 94% of Iraq's national income. Several factors, however, have limited progress in the oil and gas sector: breakdowns in the sector's deteriorated infrastructure, delays in forming the new Iraqi government, uncertainties regarding the legal framework governing Iraq's petroleum industry, and attacks on the sector's critical nodes.

Despite U.S. allocations of \$1.7 billion (9% of IRRF II) and supplemental Iraqi expenditures, the sector is struggling to return to pre-war oil production levels. Consequently, Iraq's national income has yet to achieve its great potential, which will be necessary if the country is to fully shoulder its primary role in recovery and reconstruction. Before the war, three assumptions were made about the oil and gas sector in Iraq:

- that oil and gas revenues in post-war Iraq would pay for much of the reconstruction
- that foreign private investment in the oil and gas sector would quickly flow into Iraq after the fall of the Saddam regime
- that post-war Iraq would be sufficiently secure to allow the development of oil and gas without hostile impediment.

To varying degrees, each of these assumptions has proved to be incorrect. Attacks on the oil infrastructure and a dilapidated system have slowed production and reduced potential revenue. Moreover, outside investors have been unwilling to commit capital to this sector until the insurgency abates and a permanent government takes power and articulates the rules of the game. Accordingly, the new Iraqi government, which is now forming, can provide necessary certainty by quickly drafting, approving and implementing laws that govern foreign investment in the oil and gas sector.

Fight Corruption – Corruption is another form of insurgency in Iraq. This second insurgency can be defeated only through the development of democratic values and systems, including the evolution of effective anticorruption institutions in Iraq. The primary players in this effort are the Commission on Public Integrity, the Board of Supreme Audit, and the 29 inspectors general in the Iraqi ministries.

SIGIR worked at generating support for these institutions early on and continues to highlight the need to support them financially. Iraq, the United States, and other donors should sustain and increase funding for these essential institutions. New funding will bolster their effectiveness, while raising general awareness of the new Iraqi government’s commitment to fighting corruption. Better anti-corruption practices would help improve the overall investment climate.

SIGIR previously reported that the Department of State developed an initiative to strengthen anticorruption efforts in Iraq. Now, at the request of U.S. Embassy-Baghdad, SIGIR and the DoS Office of Inspector General are finishing up a coordinated survey of the \$365 million supporting U.S. anticorruption programs in Iraq. The survey is intended to assess the initiatives and establish metrics to gauge progress. The next step should be to coordinate further with other donors on anti-corruption activities.

Engage the International Donor Community – As the year of transition in Iraq unfolds and IRRF funds concomitantly draw down, the role of international donor nations will become increasingly important. The next phase of Iraq’s reconstruction will require a broader international effort. U.S. reconstruction officials should begin now to engage more directly and intensively with their international counterparts—the World Bank, in particular—to help ensure that donors implement pledges and develop, in close coordination with the Iraqis, the way forward for the next phase of reconstruction.

Funding is particularly needed to stimulate the oil and gas sector, which has thus far underperformed for a variety of reasons (noted above). SIGIR applauds the promising development of an integrated donor database to aid coordinating and de-conflicting donor activities, but the system needs more comprehensive inputs from all donors before it can become an effective management tool.

SIGIR is now in its third year of providing oversight for reconstruction and relief in Iraq, detecting and preventing waste, fraud and abuse in the lethal operating environment that is Iraq today. Moreover, we continually seek to help improve the controls, processes and accountability measures of those managing Iraq reconstruction. I instruct every SIGIR auditor and inspector to focus on achieving real-time real time results by reporting problems immediately upon their discovery, which allows for improved operational guidance within the reconstruction program. We do not wait for our reports to be released to apprise those concerned of our concerns.

This philosophy diverges from traditional IG oversight mechanisms, but it is essential in Iraq because there is no time for lengthy critiques. Thus, along with its oversight role, SIGIR also performs a consultative role, seeking to achieve real, money-saving results by applying relief and reconstruction lessons learned in real time.

In Iraq, SIGIR staff works side-by-side with the leaders of the reconstruction program: Ambassador Zalmay Khalilzad; General George Casey, Commander, Multi-National Force, Iraq; Ambassador Dan Speckhard, the Director of the Iraq Reconstruction Management Office; Major General Bill McCoy, who is about to complete his tour as Commanding General, Gulf Regional Division, U.S. Army Corps of Engineers; Major General Darryl Scott, Commander, Joint Contracting Command-Iraq/Afghanistan; and Ms. Dawn Liberi, the USAID Mission Director.

In the course of performing our oversight functions during this reporting period, we found that the U.S. Ambassador to Iraq, the Commander of the U.S. Army Corps of Engineers Gulf Region Division, and the Mission Director of the U.S. Agency for International Development have continued to improve management coordination of the Iraq reconstruction program.

To facilitate coordination and collaboration among U.S. oversight bodies covering Iraq, SIGIR created and chairs the Iraq Inspectors General Council, to ensure that all oversight organizations keep one another informed of current and planned work on overseeing Iraq reconstruction programs.

The April 30, 2006, SIGIR Quarterly Report to Congress provides SIGIR's latest series of new audit and inspection reports, which, taken together, detail the current challenges, issues and concerns confronting the Iraq reconstruction effort.

More specifically, SIGIR issued 29 audits and inspections this quarter, which contain 58 new recommendations. Although these audits and inspections raise a variety of concerns, SIGIR generally found many instances of effective reconstruction projects and the overall picture, though mixed, nevertheless conveys a sense of gradual progress. SIGIR concluded that the likelihood of a project's success was high if quality control had been integrated actively into the project's management and if government oversight was consistent and disciplined.

SIGIR's audit work this quarter included a performance review of the contract to construct primary health care centers, an audit of reconstruction management information systems, and an examination of the planning and processes for transferring reconstruction assets to the new Iraqi government. The primary health care center report presents a difficult story.

Our comprehensive look found shortfalls: only 6 of 150 clinics have been completed, although 75% of the funding had been spent. In addition, 14 more clinics are being completed under the original contract, each with construction issues yet to be resolved. The Iraq Reconstruction Management Office estimates that approximately \$36 million will be required to complete 121 partially constructed clinics that were terminated for convenience.

The 13 inspections completed this quarter continued SIGIR's mission to provide on-site assessments of projects in every sector across Iraq. Most of the projects reviewed are still in progress; thus, SIGIR's recommendations allow for money-saving course-corrections. SIGIR also inspected 55 additional projects through its rapid-review program, using local hires to visit sites that SIGIR inspectors cannot reach.

Overall, SIGIR inspectors found that, where management and quality assurance programs were active in the on-site construction process, the quality of work usually met or exceeded contract standards. Moreover, we believe that the expansive coverage of its inspections teams provides a highly visible deterrent to those who might be inclined to commit acts of fraud, waste, and abuse.

SIGIR criminal investigators are currently working on 72 open cases involving fraud, theft, bribery, and other alleged crimes. As outlined in our quarterly report, contractor Philip Bloom and former Coalition Provisional Authority (CPA) regional comptroller Robert Stein pleaded guilty to conspiracy, bribery, and money laundering in connection with a scheme to defraud the CPA.

Bloom now faces up to 40 years in prison and a fine of \$750,000. Under the terms of his plea agreement, he must pay \$3.6 million in restitution and forfeit \$3.6 million in assets. Bloom admitted that from December 2003 through December 2005, he, Stein (who faces 30 years in prison), and other officials conspired to rig bids to ensure that the contracts were awarded to Bloom. The total value of the contracts exceeded \$8.6 million. Bloom admitted paying Stein and other public officials more than \$2 million in bribes.

Earlier this year, SIGIR investigators conducted a sting operation involving an alleged criminal conspiracy. The sting resulted in the arrest of a contractor who offered a bribe to a SIGIR undercover agent. The case is currently being managed by the U.S. Department of Justice.

During this quarter, the third forum of SIGIR's Lessons Learned Initiative was conducted, focusing on program and project management in Iraq reconstruction. It brought a number of the leading experts on Iraq reconstruction together for a day-long review of the research that SIGIR has compiled on this critical issue. In the next few weeks, SIGIR will release its second Lessons Learned report, addressing contracting in Iraq reconstruction. The report examines the establishment and evolution of the contracting policies, procedures, and systems used by U.S. government agencies to address the challenges associated with strategy and planning, policies and processes, and staffing during the U.S. reconstruction effort in Iraq. This report is the result of extensive research and a formal, collaborative process involving a panel of experts from inside and outside government. Our recommendations include:

- Creating a Contingency Federal Acquisition Regulation
- Institutionalizing special contracting programs for federal agencies
- Including contracting staff from the beginning of any reconstruction effort's pre-deployment planning process
- Creating a ready-to-deploy reserve corps of contracting personnel who are trained to execute relief and reconstruction contracting for contingency operations
- Developing a system for formulating better contracting and procurement requirements in contingency operations
- Pre-competing and pre-qualifying a diverse pool of contractors with expertise in specialized reconstruction areas

The program and project management report will be released in late summer of 2006. It will examine the issues associated with initiating, planning, executing, controlling, and closing/hand-

off of the Iraq reconstruction program. The report will examine a variety of execution challenges within the key project management issues: scope, time, cost, quality, people, communication, risk, and procurement (subcontractors).

SIGIR's first Lessons Learned report, which examined human capital management, was released in January. SIGIR will release a comprehensive capping report on all of our lessons learned in the Iraq reconstruction process during the first quarter of 2007.

As SIGIR looks to its next Quarterly Report, it is working on audits and inspections that address developing critical issues. For example, SIGIR is now conducting a review of ministry capacity building efforts. Iraq's new government is now re-staffing the 28 ministries responsible for managing government operations. For transition to succeed, Iraq must ensure that its ministries are ready to receive and capably manage completed projects. U.S. transition plans anticipate this structural development to occur within Iraq's government this year. SIGIR's review will provide an update on this issue.

In conclusion, let me say that SIGIR remains committed to supporting the reconstruction efforts in Iraq by identifying ways to accomplish the mission more effectively and efficiently, and by deterring fraud waste and abuse of US taxpayer dollars. SIGIR's 55 auditors, inspectors and investigators will continue to carry out the duties and responsibilities assigned by the Congress in the highly hazardous environment that is Iraq today.

I remain proud of my staff's commitment and willingness to serve in harm's way, far from their families, and in very fluid circumstances. I will continue to do my best to ensure effective oversight and timely reporting, and to thereby advance the success of the Iraq reconstruction plan. Thank you for the opportunity to participate in this important hearing, and I look forward to answering any questions that the Committee may have.

