

Opening Statement of

**Senator Susan M. Collins
Chairman, Committee on Homeland Security and
Governmental Affairs**

“Iraq Reconstruction: Lessons Learned in Contracting”

August 2, 2006

Today, the Committee will examine the status of the U.S. government’s contracting efforts in the relief and reconstruction program in Iraq. Our witness is Stuart Bowen, who has been Special Inspector General for Iraq Reconstruction since October of 2004.

The focus of this hearing is the “Lessons Learned” report on Iraq contracting, as well as the IG’s newest Quarterly Report, both of which have just been released. The “Lessons Learned” report provides a chronological review of the contracting experience in Iraq. It is a story of mistakes made,

of plans either poorly conceived or overwhelmed by the ongoing violence, and of waste, greed, and corruption that have drained dollars that should have been used to build schools and health clinics, improve the electrical grid, and repair the oil infrastructure.

What I found remarkable about this report is how many of the lessons apply to any massive reconstruction undertaking. Iraq and the hurricane-ravaged Gulf Coast present some similar challenges. In both cases, massive public and private efforts, indeed more than \$112 billion dollars combined, have been mobilized to repair infrastructure, to care for people in need, to rebuild communities, and to re-invigorate the economy. In both cases, the federal government has awarded contracts large and small. In both cases, mistakes, mismanagement and abuse led to unacceptable waste of precious resources and prolonged suffering.

During this Committee's Katrina investigation, the Inspector General for the Department of Homeland Security stressed that what we often call "lessons learned" are really only lessons recognized until those lessons are implemented.

Last September, this Committee approved a proposal Senator Lieberman and I developed that would have expanded SIGIR's authority to include the oversight of Gulf Coast relief and reconstruction. It is unfortunate that our proposal was blocked by the Administration. Had it been enacted, I believe that the thorough audits, extensive investigations, and vigorous oversight that have characterized the Inspector General's Iraqi experience would have helped to prevent the widespread waste, fraud, and abuse that have plagued assistance and recovery programs in the Gulf Coast.

The report before us today lists 10 lessons learned regarding contracting in Iraq. Although I will leave it to Mr. Bowen to explain them in detail, I believe they can be summed up as describing the need for greater planning and coordination in anticipation of a massive reconstruction effort. From the failure to involve procurement personnel in the preliminary planning to the lack of portable and tested systems to the over-reliance on non-competitive and expensive design-build contracts, the lessons of Iraq are strikingly similar to the lessons of Katrina.

The six recommendations in SIGIR's report also support the recommendations the Committee's Katrina investigation produced. In fact, our post-Katrina legislation, which was approved by the Committee last week, would implement four of the recommendations.

From Iraq to our own Gulf Coast, recent events have shown that the existing procurement structure is inadequate for mounting quick, effective, and accountable relief and reconstruction efforts. The lessons have been learned the hard way, through wasted tax dollars and unfinished projects.

We also will discuss today the latest Quarterly Report by SIGIR, which has just been released. I have been briefed quarterly by the Inspector General on his findings and have worked closely with his office on oversight. Due in part to his office's aggressive oversight, the Iraq reconstruction effort is going better, but there is still much room from improvement. It is a good news – bad news story.

For example, in the Electricity Sector, electricity generation rose above pre-war levels for the first time in more than a year. In the Oil and Gas Sector, oil production reached

the pre-war level of 2.5 million barrels per day for one week in mid-June before unfortunately decreasing in the following two weeks.

The report also reveals cost overruns, accounting irregularities, unfinished work, and evidence of fraud and corruption. One notable failure was in the Health Care Sector where the Basrah Children's Hospital project used an accounting shell game to hide ballooning costs and significant schedule delays. Originally budgeted at \$50 million, a recent assessment identified several options to complete the hospital, and the most recent cost-to-complete estimates range from \$149.5 million and \$169.5 million. In addition, the most recent projected completion date is now July 31, 2007, which is 576 days late.

During this past quarter, SIGIR completed 10 audits and 12 project assessments that provide important new recommendations for program improvements. In addition, SIGIR has opened 40 new investigations of alleged fraud and corruption, and continues to pursue investigative leads in Iraq and throughout the Middle East, Europe, and the United States.

Mr. Bowen's previous work has led the Department of Justice to file a plea agreement in which a Lieutenant Colonel of the U.S. Army Reserve pled guilty to felonies. This plea is tied to two previously reported convictions – those of CPA Comptroller Robert Stein and American citizen Phillip Bloom. The three conspired to steer millions of dollars worth of construction contracts to Mr. Bloom's company.

Another part of the report raises a red flag that I find very troubling. Nearly \$21 billion has been provided to the Iraq Relief and Reconstruction Fund since the start of this effort. As of the date of the Quarterly Report, \$1.74 billion remains unobligated, and the rush is on to obligate these funds before they expire at the end of the fiscal year on September 30th. The plan, according to this report, is to obligate these funds now for projects that are not fully fleshed out, and then to de-obligate them in the next fiscal year for other Iraq projects.

Never has the phrase “haste makes waste” sounded more ominous. To have almost \$2 billion floating around this way is utterly unacceptable and will undoubtedly lead to wasteful spending, questionable obligations, and excessive costs.

America has made a tremendous investment to promote freedom and democracy in Iraq, in the lives of our men and women in uniform, and of civilian contractors, and in taxpayer dollars. In this time of transition, the success of the new Iraqi government depends to a considerable extent upon the success of the ongoing reconstruction effort. Yet, the reports of the Inspector General indicate that while billions have been spent, reconstruction has fallen far short of promised outcomes. I look forward to discussing this effort with Mr. Bowen today.