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Statement of
Rep. Henry A. Waxman, Ranking Minority Member
Committee on Government Reform
Before the
Subcommittee on National Security, Emerging
Threats, and International Relations
Hearing on The Iraq Oil-for-Food Program:
Cash Cow Meets Paper Tiger

October 5, 2004

Today, this committee is holding the fifth congressional hearing to investigate allegations of mismanagement in the U.N. Oil for Food Program. This humanitarian effort was established in 1995 to provide for the basic needs of Iraqis while U.N. sanctions were in effect. Recently, there have been serious allegations of corruption, overpricing, and kickbacks under this program.

I want to make clear that I believe it is appropriate for Congress to investigate these allegations in an even-handed manner and follow the evidence wherever it leads.

My complaint is that our scope is too narrow. If we are going to look at how Iraq's oil proceeds have been managed, we have an obligation to examine not only the actions of the U.N., but also our own actions. In fact, I would argue that our first priority should be to investigate our own conduct.

The United States controlled Iraq's oil proceeds from the fall of Baghdad in May 2003 until June 2004. Yet Congress has not held a single hearing to examine the evidence of corruption, overpricing, and lack of transparency in the successor to the Oil for Food program – the Development Fund for Iraq – which was run by the Bush Administration when the United States exercised sovereignty over Iraq.

Here are the facts. When the Bush Administration took over in Iraq, it received \$20.6 billion through Iraqi oil proceeds, repatriated funds, and foreign donations. Halliburton was the single largest private recipient of these funds, receiving \$1.5 billion under its contract to run Iraq's oil fields.

This money belongs to the Iraqi people. It is not a slush fund. The Security Council directed the Administration to use these funds in a transparent manner for the benefit of the Iraqi people. The Security Council passed Resolution 1483, which set up the International Advisory and Monitoring Board to make sure the Bush Administration lived up to its obligations.

But the Bush Administration has not complied with this resolution. Reports from auditors at KPMG, an independent certified public accounting firm, as well as the Coalition Provisional Authority's own Inspector General, have found that the Bush Administration failed to properly account for Iraqi funds.

KPMG said the Bush Administration had "inadequate accounting systems," "inadequate record keeping," and "inadequate controls" over Iraqi oil proceeds. It reported that the Administration's entire accounting system consisted of only one contractor maintaining excel spreadsheets. That's one person for \$20 billion.

Likewise, the Inspector General concluded that the Bush Administration had no "effective contract review, tracking, and monitoring system," and that it failed to "demonstrate the transparency required."

These actions merit a full congressional investigation. They are compounded by evidence that the Bush Administration is now actively blocking efforts to account for these funds.

For six months, the Bush Administration has been withholding documents from international auditors charged by the Security Council to oversee the Administration's actions. In particular, the Bush Administration is withholding documents about Halliburton's receipt of \$1.5 billion in Iraqi oil proceeds.

The auditors have made seven distinct requests for this information, including a letter from the Controller of the United Nations directly to Ambassador Bremer. But the Administration has repeatedly refused to provide the documents, and continues to do so today.

Three months ago, the international auditors ordered a special audit of the contract with Halliburton. But again the Bush Administration has obstructed their work. Administration officials have refused to approve the audit's statement of work and refused to issue a request for proposal. The special audit has simply languished inside the Department of Defense.

At this Committee's previous hearing, Mr. Claude Hanks-Drielsma, an advisor to the Iraqi Governing Council, testified that the Bush Administration was not properly accounting for Iraqi funds. Ambassador Kennedy, who is here again today, could not explain why the Bush Administration failed to follow its own rules and hire an accounting firm to manage Iraqi oil proceeds. And the Administration failed to adequately respond to the questions for the record we sent jointly regarding the DFI.

These actions are hypocritical, they are arrogant, they breed resentment in the Arab world, and they further deteriorate our global alliances. But most of all, they undermine our efforts in Iraq, because they reinforce the image that our primary objective in Iraq was to seize control of the country's oil wealth.

If we are going to examine how Iraq's oil money has been spent – which I believe we should – we need to proceed in a fair and transparent way. And if we refuse to ask tough questions about the conduct of our own government officials, our efforts will have little credibility in the eyes of the world.