

**HEARING ON IRAQ RECONSTRUCTION:**

**AN OVERVIEW**

**Thursday, February 15, 2007,**

**House of Representatives,**

**Committee on Oversight and**

**Government Reform,**

**Washington, D.C.**

"This is a preliminary transcript of a Committee Hearing. It has not yet been subject to a review process to ensure that the statements within are appropriately attributed to the witness or member of Congress who made them, to determine whether there are any inconsistencies between the statements within and what was actually said at the proceeding, or to make any other corrections to ensure the accuracy of the record."

**Committee Hearings**

**of the**

**U.S. HOUSE OF REPRESENTATIVES**



**OFFICE OF THE CLERK**  
**Office of Official Reporters**

1 | Court Reporting Services, Inc.

2 | HGO046000

3 | HEARING ON IRAQ RECONSTRUCTION:

4 | AN OVERVIEW

5 | Thursday, February 15, 2007,

6 | House of Representatives,

7 | Committee on Oversight and

8 | Government Reform,

9 | Washington, D.C.

10 |       The committee met, pursuant to call, at 10:00 a.m., in  
11 | Room 2154, Rayburn House Office Building, the Honorable Henry  
12 | A. Waxman [chairman of the committee] presiding.

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

17 |       Staff Present: Phil Schiliro, Chief of Staff; Phil  
18 | Barnett, Staff Director and Chief Counsel; Karen Lightfoot,  
19 | Communications Director and Senior Policy Advisor; David  
20 | Rapallo, Chief Investigative Counsel; Theo Chuang, Deputy

21 Chief Investigative Counsel; Suzanne Renaud, Counsel; Molly  
22 Gulland, Assistant Communications Director; Christopher  
23 Davis, Professional Staff Member; Earley Green, Chief Clerk;  
24 Teresa Coufal, Deputy Clerk; Caren Auchman, Press Assistant;  
25 Leneal Scott; David Marin, Minority Staff Director; Larry  
26 Halloran, Minority Deputy Staff Director; Jennifer Safavian,  
27 Minority Chief Counsel for Oversight and Investigations;  
28 Keith Ausbrook, Minority Chief Counsel; John Brosnan,  
29 Minority Senior Procurement Counsel; Steve Castor, Minority  
30 Counsel; Edward Kidd, Minority Professional Staff Member;  
31 Nick Palarino, Minority Senior Investigator & Policy Advisor;  
32 and Benjamin Chance, Minority Clerk

33 Chairman WAXMAN. The meeting of the Committee will  
34 please come to order.

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

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

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

51 [The information follows:]

52 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

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

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

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

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

76 The audit was critical of not just the company; it was  
77 critical of the Government for failing to conduct any

78 | semblance of proper oversight. In this case, the contracting  
79 | officer did not even have a file--he literally didn't have a  
80 | file--for this \$600 million contract, and the Government  
81 | could not demonstrate that it had actually received tens of  
82 | millions of dollars in critical equipment, including armored  
83 | vehicles, body armor, and weapons.

84 |         Well, this is the equipment that is supposed to be going  
85 | to the Iraqis so they can take up the fight and allow our  
86 | U.S. service members to come home. Yet, virtually  
87 | nonexistence government oversight has put the entire effort  
88 | at risk.

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

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

101 |         I don't have the firsthand knowledge of these Provincial  
102 | Reconstruction Teams, but Kiki Munshi does. Until last week,

103 | she was a team leader. She has concluded that the civilian  
104 | surge won't work. She tells us the teams have been  
105 | drastically underfunded, have an ill-defined mission, and  
106 | have huge staffing shortfalls.

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

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

115 |         [The information follows:]

116 | \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

117 Chairman WAXMAN. She says, ``none of the objections or  
118 recommendations coming from the field about the 'civilian  
119 surge' appears to have reached Washington.''

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

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

128 [Prepared statement of Chairman Waxman follows:]

129 \*\*\*\*\* INSERT \*\*\*\*\*



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

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

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

137 [The information follows:]

138 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

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

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

153 Today we will hear from the three major oversight  
154 organizations tracking Federal procurements in Iraq. They  
155 have all testified here before, and they bring important  
156 perspectives informed by a substantial body of audit and  
157 review work. The picture painted by these witnesses is never  
158 pretty, nor will their testimony necessarily tell the  
159 complete story of an evolving, dynamic, and sometimes  
160 dangerous process. But this much is clear: poor security,  
161 an arcane, ill-suited management structure, and frequent  
162 management changes have produced a succession of troubled  
163 acquisitions. We need to know what has gotten better, what is

164 | being fixed, and, more importantly, what is still broken.  
165 | And we need to refine our understanding of the difference  
166 | between interim findings that may make this complex process  
167 | look bad and the real implications of the ``definitized``  
168 | costs ultimately paid by the Government.

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

180 |         These failures have plagued acquisition efforts in the  
181 | battle space from the beginning. Some of those initial  
182 | challenges have been mitigated; many have not. A lack of  
183 | planning and poor staff training caused many of the early  
184 | reconstruction contracts to be awarded using other than full  
185 | and open competition. Recent GAO reports show the vast  
186 | majority of more recent contract awards have been made on a  
187 | competitive basis. But GAO findings also point out that we  
188 | still do not have data on the total number of contract

189 employees or the full range of services they provide. That  
190 is a troubling blind spot in the effort to assess overall  
191 contract management and oversight in Iraq.

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

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

210 Many audits from the agencies represented here today  
211 have spent considerable time working in Iraq, and we value  
212 the experience and perspective our witnesses will provide on  
213 the important issues raised by the reconstruction contracts

214 | there. Much is at stake in terms of U.S. tax dollars and in  
215 | terms of effectively helping the Iraqi people rebuild the  
216 | basic infrastructure of their nation. We look forward to  
217 | their testimony and to a frank, constructive discussion.

218 |         Thank you.

219 |         [Prepared statement of Mr. Davis of Virginia follows:]

220 | \*\*\*\*\* INSERT \*\*\*\*\*

221 Chairman WAXMAN. Thank you, Mr. Davis.

222 The Chair, without objection, will hold the record open  
223 for one week to receive an opening statement by any of the  
224 members of the Committee.

225 Mr. ISSA. Mr. Chairman?

226 Chairman WAXMAN. But I would like to call on--

227 Mr. ISSA. Mr. Chairman?

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

230 But the Chair would like to now call on members who wish  
231 to make opening statements for two minutes, and will now look  
232 to Mr. Tierney.

233 Do you have an opening statement you wish to make?

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

237 [Prepared statement of Mr. Tierney follows:]

238 \*\*\*\*\* INSERT \*\*\*\*\*

239 Chairman WAXMAN. Okay.

240 Mr. Lynch?

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

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

245 Mr. Chairman, just last week the Department of Justice  
246 announced that we had three more indictments--three former  
247 Army officers and also two U.S. civilians--for their role in  
248 a scheme to defraud the Coalition Provisional Authority in  
249 the South Central Region in Al Hilla in Iraq. Specifically,  
250 the indictments alleged that the defendants, which includes,  
251 troubling, the former comptroller and the former  
252 second-in-command at CPA South Central, who funneled over  
253 \$8.6 million in rigged reconstruction contracts to American  
254 businessman Philip Bloom in exchange for \$1 million in cash  
255 plus an SUV, some jewelry, computers, airline tickets,  
256 liquor, and other items.

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

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

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

278 Mr. Chairman, that is what I want to focus on, whether  
279 we are going back and reviewing. When we find fraud, abuse,  
280 corruption, bribes, are we going back, after conviction,  
281 after the indictments, and reviewing the contracts that these  
282 folks have been involved in? Because I fear that it is a  
283 pattern of abuse and not just an individual instance.

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

288 [Prepared statement of Mr. Lynch follows:]



289

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

290 Chairman WAXMAN. Thank you, Mr. Lynch.

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

292 Mr. ISSA. Yes, I do.

293 Chairman WAXMAN. The gentleman is recognized.

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

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

313 Having said that, one of the main reasons that this  
314 Committee's work is resonating with the American people is in

315 fact that we are not satisfied with the results that are  
316 occurring in Iraq. The ongoing Sectarian violence is very  
317 frustrating.

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

327 With that, I yield back.

328 [Prepared statement of Mr. Issa follows:]

329 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

330 Chairman WAXMAN. Thank you, Mr. Issa.

331 Mr. Braley, opening statement?

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

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

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

354 In light of the increasing violence in Iraq, and

355 | considering that the President is requesting billions of  
356 | additional dollars from U.S. taxpayers to rebuild the  
357 | country, it is critical that we eliminate the waste, fraud,  
358 | and abuse that have been so prevalent in Iraq in the past  
359 | four years. It is our duty to ensure that the current and  
360 | future policies of the U.S. Government in Iraq keeps our  
361 | troops safe, spends the tax money of American citizens  
362 | responsibly, and makes real progress towards stabilizing and  
363 | rebuilding the country so that our troops can come home.

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

374 |       Thank you.

375 |       [Prepared statement of Mr. Braley follows:]

376 | \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

377 Chairman WAXMAN. Thank you, Mr. Braley.

378 Mr. Souder? Mr. Duncan, are you next? Okay.

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

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

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

396 Thank you, Mr. Chairman.

397 [Prepared statement of Mr. Duncan follows:]

398 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

399 Chairman WAXMAN. Thank you very much for your statement.

400 Mr. Sarbanes?

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

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

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

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

424 results are unacceptable.

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

429       Thank you, Mr. Chairman.

430       [Prepared statement of Mr. Sarbanes follows:]

431 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*



432 Chairman WAXMAN. Thank you, Mr. Sarbanes.

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

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

436 Chairman WAXMAN. Mr. Yarmouth?

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

439 Chairman WAXMAN. Mr. Higgins?

440 Mr. HIGGINS. Thank you, Mr. Chairman, just briefly.

441 Again, I thank you for your leadership and your diligence on  
442 this issue. Demanding accountability and transparency is our  
443 obligation, consistent with our oversight responsibility.

444 You continue to bring to this panel issues and individuals  
445 that hopefully will help us demand that kind of transparency  
446 and accountability, particularly in a very, very difficult  
447 period in our American history relative to this war, relative  
448 to the costs associated with it, and relative to the abuse  
449 and corruption in the spending of American taxpayer dollars.

450 So again I thank you and I look forward to hearing the  
451 statements of the panel. Thank you.

452 [Prepared statement of Mr. Higgins follows:]

453 \*\*\*\*\* INSERT \*\*\*\*\*

454 Chairman WAXMAN. Thank you, Mr. Higgins.

455 Mr. Kucinich?

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

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

466 The gross mismanagement of prior contracting efforts in  
467 Iraq leave Congress no choice but to be skeptical of current  
468 and future contracting efforts. And this hearing is timely  
469 with the recent Administrative request for an additional  
470 \$1.2 billion in U.S. taxpayer funds for Iraq reconstruction  
471 efforts in fiscal year 2008.

472 This Committee, Government auditors, and media accounts  
473 have highlighted failure after failure of contractor efforts  
474 to reconstruct Iraq's basic infrastructure. Unfortunately,  
475 the Administration has given low priority to reconstruction  
476 contracts and has failed to ensure these funds actually  
477 improve the situation in Iraq.

478 Mr. Chairman, we spent \$50 billion to reconstruct Iraq,

479 | but few Iraqis have seen their quality of life improve. It  
480 | is absolutely essential that we find a way to create a viable  
481 | reconstruction program as a means of taking Iraq to a  
482 | condition of stabilization and peace.

483 |         Thank you, Mr. Chairman.

484 |         [Prepared statement of Mr. Kucinich follows:]

485 | \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

486 Chairman WAXMAN. Thank you, Mr. Kucinich.

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

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

499 And, finally, William Reed, who is the Director of the  
500 Defense Contract Audit Agency, will provide the Committee  
501 with an update on his office's ongoing audits of spending on  
502 Iraq reconstruction and troop surge support costs. Mr.  
503 Reed's office has issued more than 1800 audits relating to  
504 work in Iraq, and we are privileged to have him with us  
505 today.

506 It is our policy to swear in all witnesses that appear  
507 before the Committee, so I would like to ask you to rise, if  
508 you would, and raise your right hand.

509 [Witnesses sworn.]

510 Chairman WAXMAN. The record will note that each of the

511 | witnesses answered in the affirmative.

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

516 |       Mr. Walker, let's begin with you.

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

522 | STATEMENT OF DAVID M. WALKER

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

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

537 |       DOD has relied extensively on contractors to undertake  
538 | major reconstruction projects and provide a broad range of

539 support services. But these efforts have not always achieved  
540 their desired outcomes, nor have they achieved such outcomes  
541 on an economical and efficient manner. The challenges  
542 encountered in Iraq are emblematic of a range of systemic and  
543 longstanding challenges faced by the Department of Defense.  
544 But these systemic problems are exacerbated and accentuated  
545 when you are dealing with contingency operations in a  
546 conflict zone. In this regard, we have identified DOD  
547 contract management to be high-risk because of its  
548 vulnerability to fraud, waste, abuse, and mismanagement. We  
549 did this 15 years ago and we have continued to report related  
550 problems.

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

560 The Iraq situation is more complicated, as the United  
561 States must rely on the Iraqi government to play a larger  
562 role, which will require capacity not yet present. As we  
563 previously reported, amid signs of progress, the coalition

564 faces numerous political, economic, and security challenges  
565 in rebuilding Iraq. In addition, the continued violence  
566 increases the risk that the United States will not be able to  
567 complete remaining reconstruction projects as planned. The  
568 violence also threatens the Iraqi government's ability to  
569 provide essential services to the Iraqi people.

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

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



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

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

603 |         In summary, there are a number of conditions that exist  
604 | in Iraq that have led to and will continue to lead to  
605 | increased risk of fraud, waste, and abuse of U.S. taxpayer  
606 | funds. DOD's extensive reliance on contractors to undertake  
607 | reconstruction projects and to provide a broad range of  
608 | support services to deployed forces requires that they  
609 | address a range of systemic and long-standing challenges in  
610 | an aggressive, consistent, and effective manner. This  
611 | reliance raises broader questions as to whether DOD has  
612 | become too dependent on contractors to provide essential  
613 | services without clearly identifying the appropriate roles

614 | and responsibilities, having adequate contracting terms, and  
615 | employing appropriate oversight and accountability  
616 | mechanisms.

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

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

629 |       [Prepared statement of Mr. Walker follows:]

630 | \*\*\*\*\* INSERT \*\*\*\*\*

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

634 Mr. Reed?

635 STATEMENT OF WILLIAM H. REED

636 Mr. REED. Good morning, Mr. Chairman and members of the  
637 Committee.

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

649 Since April of 2003, DCAA has worked with all the U.S.  
650 procurement organizations supporting Iraq reconstruction to  
651 establish the resources and planning information needed to  
652 carry out required audits of contract costs as they are

653 incurred and billed. These organizations include the Joint  
654 Contracting Command, the Army Sustainment Command, the U.S.  
655 Army Corps of Engineers, DCMA in Iraq and Kuwait, USAID, and  
656 the State Department. This coordination has enabled DCAA to  
657 maintain an inventory of Iraq-related auditable contracts.

658       Based on the inventory of auditable contracts as of  
659 September 30th, 2006, DCAA is responsible for auditing  
660 contracts at 93 contractors. These contractors hold more  
661 than 175 prime contracts with contract ceiling amounts of  
662 \$51.8 billion, of which \$38.5 billion had been funded at the  
663 end of fiscal year 2006. DCAA audits of cost-reimbursable  
664 contracts represent a continuous effort from evaluation of  
665 proposed prices to final closeout and payment. Initial  
666 audits of contractor business system internal controls and  
667 preliminary testing of contract costs are carried out to  
668 provide a basis for provisional approval of contractor  
669 interim payments and early detection of deficiencies.  
670 Comprehensive contract cost audits are performed annually  
671 throughout the life of the contract and are used by the  
672 contracting activity to adjust provisionally approved interim  
673 payments and ultimately to negotiate final payment to the  
674 contractor.

675       To carry out these audit requirements, DCAA did open an  
676 Iraq Branch Office in May 2003 and implemented planning and  
677 coordination procedures to effectively integrate audit work

678 | between that office and more than 50 DCAA CONUS Audit Offices  
679 | with cognizance of companies performing contracts in Iraq.

680 |       Through fiscal year 2006, DCAA has issued more than 1800  
681 | reports on Iraq-related contracts. We estimate issuing  
682 | another 600 reports in fiscal year 2007. DCAA oversight of  
683 | contracts in Iraq has found a number of problems. Our  
684 | resulting action has ranged from recommending changes in  
685 | business processes, to reduction of proposed or billed cost,  
686 | to referral of our findings to the Inspector General for  
687 | investigation and possible legal action.

688 |       The most frequent problems disclosed during our audits  
689 | of business systems involve timekeeping procedures, cash  
690 | management procedures, management of subcontracts, and  
691 | documentation of costs on proposals. The majority of these  
692 | problems have already been resolved or are actively being  
693 | worked by contractors and contracting officers. Where  
694 | appropriate, reductions to billed costs have been taken to  
695 | avoid potential inaccurate payments until process  
696 | deficiencies are corrected.

697 |       Through fiscal year 2006, DCAA has recommended  
698 | reductions in proposed and billed contract costs of \$4.9  
699 | billion. Where appropriate, DCAA has taken action to reduce  
700 | contractor billed costs for disputed amounts pending a  
701 | contracting officer decision. In addition, as has been  
702 | noted, DCAA has identified \$5.1 billion of estimated costs

703 | where the contractor did not provide sufficient information  
704 | to explain the basis for the estimated amounts. These  
705 | unsupported costs were usually resolved through contractor  
706 | submission of additional supporting information at the time  
707 | of contract price negotiation.

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

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

725 |         [Prepared statement of Mr. Reed follows:]

726 | \*\*\*\*\* INSERT \*\*\*\*\*

727 Chairman WAXMAN. Thank you very much, Mr. Reed.  
728 Mr. Bowen?

729 STATEMENT OF STUART W. BOWEN, JR.

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

735 I leave tomorrow on my fifteenth trip to Iraq. I have  
736 spent just over a year of the last three overseeing the  
737 efforts of my staff that is deployed there. Right now I have  
738 50 auditors, inspectors, and investigators working out of the  
739 Green Zone. They travel across Iraq visiting sites,  
740 investigating cases, and auditing programs.

741 Our twelfth report was released two weeks ago, twelfth  
742 quarterly report, and it is a watershed report because it  
743 carries an important message, that is, the end of the Iraq  
744 Relief and Reconstruction Fund is here, and the burden of  
745 sustaining the recovery and relief of Iraq, financial burden,  
746 must shift to the government of Iraq at this point, and that  
747 means the Iraqi government must execute and fund a coherent  
748 reconstruction plan, and cannot leave its money in the

749 treasury, as it did at the end of last year, leaving about  
750 \$10 billion that should have been spent on reconstruction.

751 The baton has passed. That is the message that I took  
752 to Secretary Rice and Deputy Secretary England, Secretary  
753 Gates when I met with them on the implications of our report.

754 Also, in the last week, I met with General Petraeus and  
755 yesterday with Ambassador Ryan Crocker, who is just leaving  
756 for Iraq, and with both of them I know that we will continue  
757 the good working relationship that I have had with the  
758 embassy and with MNFI to date.

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

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



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

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

792 And we have produced two lessons learned report that are  
793 effectuating change within the government system through both  
794 legislative and regulatory amendment, one in human capital  
795 management. It came out a year ago. It has been an issue  
796 from the start; it is still a challenge today, but less so,  
797 certainly burdened CPA, as we heard last week. Contracting  
798 came out last August, and a series of recommendations has

799 | helped move real-time lessons learned, the application of  
800 | real-time lessons learned in Iraq forward through the Joint  
801 | Contracting Command in Iraq. I work closely with the  
802 | commander there each trip, and things are better today than  
803 | they have been certainly in the history of Iraq  
804 | reconstruction.

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

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

816 |       The contract award fee process, an issue that came up  
817 | during my June trip in 2005, and I discovered that the award  
818 | fee process had no criteria and no documentation, it had no  
819 | direction that it should have had pursuant to government  
820 | regulations. But this is an example of how change happened  
821 | immediately. As soon as that was uncovered, within a week,  
822 | criteria were developed. The JCCI began to develop a new  
823 | program, and within a month, before the audit came out, the

824 | problem had been fixed. The problem, though, was that award  
825 | fees were being given, handed out based on weak criteria,  
826 | limited oversight, and really in violation of the core  
827 | principle of an award fee, that is, you award superior work,  
828 | good work, something that exceeds expectations. That is  
829 | going on today; it wasn't when we found this problem.

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

843 |         Thirdly, last June we released a report on  
844 | definitization. It is an abstract auditor term, but it means  
845 | getting a hold of costs when you start out on a cost-plus  
846 | contract that doesn't have defined requirements. And the  
847 | definitization requirement is essential to ensure that in a  
848 | cost-plus program, which we have in Iraq, that eventually the

849 government gets control of how much these projects are going  
850 to cost. And as our audit revealed, the definitization  
851 requirement was not followed in Iraq by the Department of  
852 Defense. We looked at 194 task orders valued at \$3.4 billion  
853 that should have been definitized and warrant--the  
854 definitization requirement requires 180 days after work  
855 begins you have to define what costs are. The Department of  
856 the Army recognized that that was an issue. The General  
857 Counsel issued an opinion saying the definitization should be  
858 followed, so it is moving forward, but it had not been before  
859 we began to look at it.

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

870 Administrative task orders was an issue that came to my  
871 attention when I was visiting with PCO, Project Contracting  
872 Office, and its predecessor, Project Management Office,  
873 during the reprogrammings, and I was concerned about overhead

874 | for contractors that weren't doing work. So we delved into  
875 | that and discovered that the need to control overhead costs  
876 | wasn't managed well in Iraq.

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

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

895 |         In closing, let me put this all in perspective. First  
896 | of all, fraud. Fraud has not been a significant component of  
897 | the U.S. experience in Iraq. Where we found it has been  
898 | egregious, we continue to pursue it. I have a coordinated

899 | effort that I referred to, but it has not been a significant  
900 | component of the U.S. experience. Waste is another issue,  
901 | and I am working on with General Walker and Mr. Reed and  
902 | others to identify that in clearer terms, and we are pursuing  
903 | that and the Congress has directed my office to perform a  
904 | forensic audit that will give you the hard data on that once  
905 | it is completed. And, finally, we will complete a  
906 | comprehensive lessons learned program in the course of this  
907 | year, and from that effectuate what I expect will be positive  
908 | change that will improve not only the continuing  
909 | reconstruction of Iraq, but planning for any future efforts.

910 |       Mr. Chairman, thank you for this opportunity.

911 |       [Prepared statement of Mr. Bowen follows:]

912 | \*\*\*\*\* INSERT \*\*\*\*\*

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

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

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

922 Mr. REED. That is correct.

923 Chairman WAXMAN. Okay. Now, that is an astonishing  
924 figure. Last fall, GAO reported to us that the number was  
925 \$3.5 billion in questioned and unsupported costs. Now, just  
926 a few months later, the overcharges and unsubstantiated bills  
927 are nearly three times larger. Let me ask about each  
928 category of suspect charges.

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

934 Mr. REED. That is correct.

935 Chairman WAXMAN. And unsupported--

936 Mr. REED. If I could point out, however--

937 Chairman WAXMAN. Sure.

938 Mr. REED.--in regards to the \$4.9 billion, it is  
939 important to note that a large part of this questioned costs  
940 occurs during the pricing of the contracts, rather than the  
941 payments. And where we make recommendations during the  
942 pricing of the contracts, the contracting officer's job is to  
943 consider our recommendations in negotiating the price. So,  
944 hopefully, we achieve reductions in the prices before we  
945 incur these costs.

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

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

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

953 Mr. REED. Yes, sir.

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

959 Mr. Reed, your office has been doing yeoman's work. You  
960 have issued more than 1800 audits relating to Iraq contracts,  
961 I believe, but have looked at only a fraction of the spending  
962 in Iraq. And according to the Congressional Budget Office,



963 | we spent over \$350 billion on the Iraq war. Do you know how  
964 | much of the \$350 billion has gone to private contractors?

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

968 |       Chairman WAXMAN. Mr. Bowen, you have looked at some  
969 | contracts that Mr. Reed hasn't looked at. The DynCorp  
970 | contract with the State Department is one example, and you  
971 | found egregious examples of misspending, like building  
972 | Olympic swimming pools, that Mr. Reed didn't seem to know  
973 | about, at least hasn't reported on. Also, even when Mr. Reed  
974 | may not see a problem based on his review of the billings,  
975 | your inspectors who are visiting the actual sites may see  
976 | enormous waste or substantial construction. This means that  
977 | you are finding examples of poor performance or wasteful  
978 | spending that even Mr. Reed doesn't know about, is that  
979 | correct?

980 |       Mr. BOWEN. My mission, as assigned by the Congress, is  
981 | to oversee the Iraq Relief and Reconstruction Fund, and we  
982 | work in conjunction with DCAA, interact with them at least  
983 | quarterly through the Iraq Inspector General's Counsel, and,  
984 | indeed, on the contract you are referring to, we will  
985 | continue to work together in getting to the bottom of where  
986 | that money went. We have identified a series of issues, as  
987 | you have pointed out, and we will follow up on that. More

988 | importantly, what that audit tells me to do is to follow the  
989 | rest of DynCorp's contracting in Iraq, and that we have an  
990 | audit plan to do exactly that.

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

998 | Mr. Bowen?

999 | Mr. BOWEN. I am not ready to put a number on this. Our  
1000 | series of audits--

1001 | Chairman WAXMAN. Well, higher or not?

1002 | Mr. BOWEN. Well, the forensic audit is going to get to  
1003 | the bottom of that, on the \$21 billion of the Iraq Relief and  
1004 | Reconstruction Fund, but there are about \$38 billion if you  
1005 | broadly define relief and reconstruction at work here, and  
1006 | that covers the Iraq Security Forces Fund, the Iraq Relief  
1007 | and Reconstruction Fund, the Commander's Emergency Response  
1008 | Program, the Economic Support Fund--

1009 | Chairman WAXMAN. When you look at it all, is it going to  
1010 | be more than \$10 billion?

1011 | Mr. BOWEN. I can't put a number on it right now, but  
1012 | there will be serious waste, significant waste that we will

1013 | continue to identify and eventually come to a number.

1014 | Chairman WAXMAN. I wasn't asking you for a number. Do  
1015 | you think it is going to be more than \$10 billion?

1016 | Mr. BOWEN. I try to confine myself to what I know and  
1017 | can reasonably analyze, and I am not ready to answer that  
1018 | affirmatively.

1019 | Chairman WAXMAN. Mr. Reed, do you think it is going to  
1020 | be more than \$10 billion?

1021 | Mr. REED. Well, certainly, we have 600 audits planned in  
1022 | fiscal year 2007, and many of this contracts will extend  
1023 | beyond fiscal year 2007, so we have many years of contract  
1024 | costs yet to audit. However, the types of findings that we  
1025 | have cannot always be characterized as fraud and waste. Many  
1026 | of our adjustments are the routine part of administering  
1027 | contracts, negotiating prices, administering contracts for  
1028 | allowable costs. And while certainly some do fall into that  
1029 | category--and I don't want to diminish the importance--that  
1030 | is, to the Department--to catch that and deal with it, but  
1031 | certainly DCAA costs questioned will continue as we continue  
1032 | our audits.

1033 | Chairman WAXMAN. Mr. Walker, is \$10 billion going to be  
1034 | exceeded?

1035 | Mr. WALKER. Mr. Chairman, it is impossible to be able to  
1036 | answer that question without doing a statistically valid  
1037 | sample or having some basis to do it. There is little

1038 | question that there are billions of dollars involved. How  
1039 | many, we can't tell you.

1040 | I think there are two issues that are important for you  
1041 | to know. First, the first thing you have to do is define  
1042 | what waste is. On page 6 of my testimony is a joint  
1043 | definition that we came up with and has been agreed to by  
1044 | SIGIR, the DOD IG, as well as Department of State IG, so that  
1045 | is the first thing we have got to do. We have got the  
1046 | definition; there it is. We are all doing related work.

1047 | And, secondly, the reason for the difference between  
1048 | DCAA's estimate and ours, primarily two things: one, they  
1049 | had a longer period of time and, number two, we only looked  
1050 | at final audits, we didn't look at pending audits. So those  
1051 | are the two primary reasons for the difference between our  
1052 | three point some billion dollar number and their \$10 billion  
1053 | number.

1054 | Chairman WAXMAN. That is understandable, but that means  
1055 | you haven't looked at all that Mr. Reed has looked at, and  
1056 | Mr. Reed hasn't looked at all the things that Mr. Bowen has  
1057 | looked at. But even if we just take it at about \$12 billion  
1058 | or \$10 billion, it is an enormous sum of money. And my staff  
1059 | has researched what we might have gotten for these amounts,  
1060 | and they determined that an up-armored Humvee vehicle costs  
1061 | about \$150,000 each. So for \$22 billion we could have  
1062 | purchased more than 146,000 Humvees. That is about one

1063 Humvee for every U.S. service member in Iraq.

1064 The contractors in Iraq may be pocketing billions, we  
1065 don't know how much, but the troops don't have the equipment  
1066 they need, and the taxpayer is, in my view, getting gauged.

1067 Mr. WALKER. In fairness, Mr. Chairman, there is no doubt  
1068 there is a tremendous amount of waste, but it is also  
1069 important to note that just because there has been a  
1070 determination that there is not enough evidence yet doesn't  
1071 mean that that is waste. There is a tremendous problem in  
1072 government in not having adequate controls, not having proper  
1073 documentation, not definitizing requirements enough, etc.,  
1074 but that doesn't necessarily mean that it is waste.

1075 Chairman WAXMAN. Okay, well, I appreciate that. We will  
1076 look at some of the specific examples later in the hearing.  
1077 But I now want to recognize Mr. Davis.

1078 Mr. DAVIS OF VIRGINIA. Let me try to clarify some issues  
1079 here.

1080 Mr. Reed, there has been some concern raised about the  
1081 ratio between the costs you flagged as questioned--I have  
1082 seen a number of estimates as high as \$10 billion--and the  
1083 quantum of those costs that the contracting agencies have  
1084 finally disallowed. Are you with me?

1085 In general, are you comfortable with the settlements  
1086 made by the agencies with the contractors on these costs?

1087 Mr. REED. The relationship between us and the

1088 | contracting officer is one of advisor, and we fully respect  
1089 | and acknowledge their authority to consider our  
1090 | recommendation along with other advisors that they have. I  
1091 | respect their important job and I am satisfied they are  
1092 | fairly considering our recommendations.

1093 |         Mr. DAVIS OF VIRGINIA. Are there any particular  
1094 | instances, for example, the large settlement between KBR and  
1095 | the Corps of Engineers under KBR's Rio contract, that  
1096 | troubles you?

1097 |         Mr. REED. No. I think the process worked, as it is  
1098 | defined, in terms of the responsibilities of DCAA versus that  
1099 | of the contracting officer and the Corps of Engineers. They  
1100 | rightly considered other evidence other than the audit  
1101 | reports and considered extenuating circumstances that might  
1102 | have affected the contractor's actions, uncontrollable  
1103 | circumstances, and they arrived at a--

1104 |         Mr. DAVIS OF VIRGINIA. In a war zone, that is fairly  
1105 | frequent, too, sometimes.

1106 |         Mr. REED. Yes. And in that particular case it occurred  
1107 | during the first nine months after the cessation of  
1108 | hostilities, and it was a very--obviously a very tense  
1109 | situation in that period.

1110 |         Mr. DAVIS OF VIRGINIA. And unsubstantiated costs versus  
1111 | an unsupported cost. An unsupported cost--my wife keeps our  
1112 | books and she wants me to account for everything. So if I go

1113 | to the dry cleaners, I pick up the dry cleaning, I come back  
1114 | and I don't have a receipt and I pay in cash, that would be  
1115 | an unsupported cost, is that the equivalent?

1116 |         Mr. REED. Yes.

1117 |         Mr. DAVIS OF VIRGINIA. It doesn't mean I wasted it, it  
1118 | just means at this point I don't have the backup  
1119 | documentation.

1120 |         Mr. REED. That is correct.

1121 |         Mr. DAVIS OF VIRGINIA. Is that a perspective of what an  
1122 | unsupported cost is?

1123 |         Mr. REED. Yes, it is.

1124 |         Mr. DAVIS OF VIRGINIA. And in a war zone, these kind of  
1125 | things--sometimes you get the higher unsupported costs than  
1126 | you might get, for example, if you are sitting down out in  
1127 | Fairfax, trying to move papers, is that fair?

1128 |         Mr. REED. Yes, it is. And I would also point out, once  
1129 | again, that many of these unsupported costs are not actually  
1130 | incurred costs, they are based on estimates to establish a  
1131 | price for the contract.

1132 |         Mr. DAVIS OF VIRGINIA. Correct. You made that point.

1133 |         Mr. REED. So at that point we hope to negotiate a fair  
1134 | and reasonable price based on solid evidence.

1135 |         Mr. DAVIS OF VIRGINIA. Okay. I hear all sorts of things  
1136 | thrown around, like overcharges, unreasonable costs, suspect  
1137 | costs, to describe this \$10 billion figure. What does that

1138 figure represent, are they really overcharges?

1139 Mr. REED. No. These are--DCAA's activities take place  
1140 during the administration of contracts. And certainly when  
1141 you are dealing with price proposals and you are questioning  
1142 costs or unsupported costs in a price proposal, what you are  
1143 talking about is how to negotiate a fair and reasonable  
1144 price. Ultimately, the contractor will--after he is awarded  
1145 the contract at the price, submits bills. These bills are  
1146 audited by DCAA, and at that point we are looking at actual  
1147 incurred costs, and these are differences of interpretation,  
1148 in many cases, over regulations and in terms of what is  
1149 compliant with the policies of the Department.

1150 Mr. DAVIS OF VIRGINIA. For example, if you didn't have  
1151 some deficit there between your costs and the final costs,  
1152 you really wouldn't be doing your job, would you?

1153 Mr. REED. That is correct.

1154 Mr. DAVIS OF VIRGINIA. I want to make sure I am clear  
1155 about the relationship between DCAA auditors and the  
1156 contractor officers. The DCAA auditors act as professional  
1157 advisors to the contracting officers on cost, pricing, and  
1158 other related matters, correct?

1159 Mr. REED. That is correct.

1160 Mr. DAVIS OF VIRGINIA. The contracting officer is then  
1161 free to take the advice or not take the advice. For example,  
1162 if DCAA may find that there is an overcharge of, say, \$1



1163 million, the contracting officer can then agree with that  
1164 amount or not based on his or her judgment, correct?

1165 Mr. REED. That is correct.

1166 Mr. DAVIS OF VIRGINIA. The contracting officer then has  
1167 to initiate any action against the contractor, isn't that how  
1168 it works?

1169 Mr. REED. Yes.

1170 Mr. DAVIS OF VIRGINIA. Okay. Has there ever been any  
1171 pressure on DCAA from any source in the Administration to  
1172 take it easy on anybody, but particularly KBR, Parsons, or  
1173 any other Iraq contractors, that you are aware of?

1174 Mr. REED. Absolutely not.

1175 Mr. DAVIS OF VIRGINIA. Have most of the contractors that  
1176 you have audited in connection with the Iraq reconstruction  
1177 and support efforts been cooperative?

1178 Mr. REED. Yes.

1179 Mr. DAVIS OF VIRGINIA. Any particular firms present any  
1180 special problems?

1181 Mr. REED. Well, certainly, KBR, being the largest by far  
1182 in terms of the dollar amounts of contracts we are auditing,  
1183 have been the focus of a lot of our attention, and in that  
1184 regard, the numbers of audit reports and the issues would  
1185 reflect that. I think companies, they have had their  
1186 problems, all companies that we have audited in Iraq have had  
1187 their problems in cooperation from the standpoint of having

1188 | good business systems and records in field circumstances, and  
1189 | KBR has certainly had their share of problems.

1190 |       Mr. DAVIS OF VIRGINIA. And you hold them to a high  
1191 | standard, right, at least from a going-in perspective? You  
1192 | don't cut them a lot of slack, do you, because they are in a  
1193 | war zone and they don't have the systems up?

1194 |       Mr. REED. We start from the same standards, but then we  
1195 | do try to be flexible and recognize that there are  
1196 | circumstances where the records might not be in perfect  
1197 | condition, given on the back of envelopes and things like  
1198 | that. So we try to be flexible in that regard, but we are  
1199 | not flexible in regards to having to have the evidence to  
1200 | support the cost ultimately.

1201 |       Mr. DAVIS OF VIRGINIA. Contract definitization is very  
1202 | important. Wasn't the lack--definitization. Wasn't the lack  
1203 | of definitization on many of these large contracts and task  
1204 | orders the root cause of many of the cost problems that  
1205 | occurred?

1206 |       Mr. REED. Well, it certainly was a factor. I wouldn't  
1207 | want to say it was the largest factor, but it was a factor.  
1208 | And I would like to point out that, in that regard, we also  
1209 | raised concerns about the slow definitization process,  
1210 | particularly on the LOGCAP contract. In fact, I testified  
1211 | about that in one of my earlier appearances before your  
1212 | Committee. And, in fact, we brought that to the attention of

1213 | the Army contracting officials, and I think we were largely  
1214 | responsible for working out a good schedule for them to catch  
1215 | up with the definitization on the LOGCAP contract, and now  
1216 | they are in much better shape than they were during the  
1217 | period--

1218 |         Mr. DAVIS OF VIRGINIA. But that is a key issue, getting  
1219 | that nailed down, right?

1220 |         Mr. REED. Absolutely.

1221 |         Mr. DAVIS OF VIRGINIA. How many fraud referrals has DCAA  
1222 | made in connection with the Iraq contracting effort?

1223 |         Mr. REED. To my knowledge, five.

1224 |         Mr. DAVIS OF VIRGINIA. Do you think the fact that many  
1225 | of the costs that your auditors had questioned had already  
1226 | been actually incurred by contractors by the time the  
1227 | contracting officer was called upon to settle the charges was  
1228 | a significant factor in the low sustain rate of your audit  
1229 | findings?

1230 |         Mr. REED. Yes, certainly, the Corps of Engineers has  
1231 | made that clear in some of the documentation of the results  
1232 | of their negotiation on the Rio contract, in particular, that  
1233 | there is a feeling that once the cost is incurred, it is much  
1234 | more difficult to challenge it. I, quite frankly, do not  
1235 | agree with that. I believe that the provisions of the  
1236 | contract are very clear that the costs must be determined  
1237 | allowable by the contracting officer. It doesn't matter if

1238 | they have been incurred or not incurred.

1239 |       Mr. DAVIS OF VIRGINIA. Let me just say to all three of  
1240 | you, you have great reputations, at least with our office, in  
1241 | terms of calling balls and strikes, being fair, and we take  
1242 | what you say very, very seriously up here. But I think the  
1243 | perspective is also important as we measure this.

1244 |       General Walker, let me just ask you. You and a number  
1245 | of witnesses and members have noted that DOD does not know  
1246 | the number of subcontractors or the number of contract  
1247 | employees in Iraq providing services, particularly security  
1248 | services. It is pretty clear that, from a military operation  
1249 | standpoint, that it makes sense to know how many folks are  
1250 | there carrying guns or that need to be protected. I am less  
1251 | clear how valuable that information is from an acquisition  
1252 | management standpoint. When the services are performed under  
1253 | large primes, we pay the prime to provide the service  
1254 | specified and we hold the firm responsible for that  
1255 | performance. How important is it to know whether the actual  
1256 | performance is provided by a first-tier or a fifteenth-tier  
1257 | subcontractor, as long as the price is reasonable, the  
1258 | services are performed in accordance with the contract?  
1259 | Aren't we, in effect, paying the prime contractor to manage  
1260 | the subcontracts and responsible for the overall performance?

1261 |       Mr. WALKER. Several comments. First, we are using  
1262 | contractors in new and unprecedented ways in Iraq, and I

1263 think there is a need, separate from this hearing, probably,  
1264 to have a discussion about the systemic and generic  
1265 contracting problems, including what is appropriate to use  
1266 contractors and not. But, secondly, no, there can be  
1267 problems--

1268 Mr. DAVIS OF VIRGINIA. Before you go there, General  
1269 Walker, I want you to finish--

1270 Mr. WALKER. Surely. I will answer your question.

1271 Mr. DAVIS OF VIRGINIA. I think that is one of the  
1272 problems, and we have had trouble getting Federal employees  
1273 to come over there.

1274 Mr. WALKER. We have.

1275 Mr. DAVIS OF VIRGINIA. And that is one of the reasons,  
1276 isn't it, that we have had to use the contractors, and it has  
1277 created a problem?

1278 Mr. WALKER. Well, there are several reasons. Number  
1279 one, we don't have adequate in-strength; number two, we are  
1280 having trouble getting people to come over. I mean, we can  
1281 go through that at a separate time, but let me answer your  
1282 question specifically.

1283 There can be problems when you don't know who the  
1284 contractors are and what the contractor terms are, even in  
1285 your scenario. For example, we found that tens of millions  
1286 of dollars of costs were incurred by the taxpayers in  
1287 circumstances where contractors who were receiving a per diem

1288 allowance for subsistence were using the facilities and the  
1289 food facilities that were being provided and, therefore, that  
1290 is waste. I mean, that is clear waste, okay? And that was  
1291 tens of millions of dollars. And so because we didn't know  
1292 who the contractors were, because they didn't know what the  
1293 contracting arrangements were for costs, that is one example  
1294 of where you can have waste.

1295 Mr. DAVIS OF VIRGINIA. Mr. Waxman, I think that is fine.

1296 I would just ask Mr. Bowen a very quick question on the  
1297 definitized contracts. Is that one of the biggest problems,  
1298 is definitization?

1299 Mr. BOWEN. Absolutely. Yes, sir.

1300 Mr. DAVIS OF VIRGINIA. I mean, it really boils down, at  
1301 the end of the day, in a lot of this, to getting those large  
1302 contracts--

1303 Mr. BOWEN. If you are going to use cost-plus contracts,  
1304 definitization has to happen at some point. There is a time  
1305 line or a percentage complete milestone upon which occurring  
1306 definitization should follow, and that was wrongly  
1307 interpreted in Iraq. It is now being corrected, but waste  
1308 occurred as a result.

1309 Chairman WAXMAN. Thank you, Mr. Davis.

1310 Mr. Tierney.

1311 Mr TIERNEY. Thank you, Mr. Chairman.

1312 Thank you, gentlemen, for your testimony and your help

1313 | here this morning.

1314 |       Mr. Walker, I am assuming that firms like KBR and  
1315 | Parsons get the contracts in the first place because they  
1316 | purport to have the kind of experience in these types of  
1317 | situations, is that right?

1318 |       Mr. WALKER. That is correct.

1319 |       Mr. TIERNEY. So, Mr. Reed, you had about \$10 billion in  
1320 | questioned or unsupported costs on the reconstruction on  
1321 | that, and you recommended that a certain amount of that money  
1322 | be withheld until those issues were resolved, is that  
1323 | correct?

1324 |       Mr. REED. Yes, that is correct.

1325 |       Mr. TIERNEY. Now, you provided to the Committee sort of  
1326 | a historical sustention rate that looked to me to be about 50  
1327 | percent to 75 percent most of the time, is that correct also?

1328 |       Mr. REED. Yes.

1329 |       Mr. TIERNEY. But in this instance it looks like the  
1330 | Department agreed with you only about somewhere between 25  
1331 | percent and 37 percent of the time. Can you explain that  
1332 | difference?

1333 |       Mr. REED. Well, I think the difference would go to the  
1334 | fact that we are dealing with a contingency contracting  
1335 | situation. Many of the awards are made under unusual and  
1336 | compelling authorities and, therefore, I think the  
1337 | contracting officers, in dealing with settling some of these

1338 | very significant issues, one of which has been mentioned  
1339 | already, the Rio contract and the price of fuel, and the  
1340 | other was dining facilities, which were two very big issues  
1341 | that the contracting officer settled. In both settlements I  
1342 | think the contracting officer gave considerable weight to the  
1343 | obstacles and difficulties the contractors were facing  
1344 | because of contingent circumstances.

1345 |         Mr. TIERNEY. So we have firms that say they want these  
1346 | contracts because supposedly they know how to deal with these  
1347 | situations, and then they get relaxation from the Department  
1348 | because supposedly they ran up against exactly what they were  
1349 | hired as experts to deal with. I find that still a little  
1350 | problematic when you look at the difference between 75  
1351 | percent of sustention and 37 percent. But my understanding  
1352 | also is that when you look at this situation or you examine  
1353 | and you audit, you take into account the fact that there are  
1354 | wartime complications, don't you?

1355 |         Mr. REED. Yes, we did. In fact--

1356 |         Mr. TIERNEY. In fact, Halliburton, on the oil thing,  
1357 | didn't you give them a grace period to account for the fact  
1358 | that they were in a wartime emergency, even though they  
1359 | purported to be an expert able to deal with that?

1360 |         Mr. REED. Yes, we did give them a grace period.

1361 |         Mr. TIERNEY. And, in fact, you didn't recommend  
1362 | withholding any charges for several months on Halliburton



1363 while they were making an adjustment to that environment, is  
1364 that correct?

1365 Mr. REED. That is correct.

1366 Mr. TIERNEY. At some point you finally said enough is  
1367 enough and you made your recommendations, and your  
1368 recommendations were a sustention rate significantly higher  
1369 than 25 percent to 37 percent, correct?

1370 Mr. REED. Correct.

1371 Mr. TIERNEY. Now, some have suggested that we may, the  
1372 Pentagon may have become too reliant on contractors in  
1373 general, and, Mr .Walker, you had some good testimony the  
1374 other day about that issue, and I think it should have the  
1375 attention of all of us. When that happens, when we rely so  
1376 heavily on contractors, doesn't that in fact give them the  
1377 leverage in these situations so if they go to the contracting  
1378 officer, they have real leverage; they can just refuse to  
1379 perform if somebody doesn't work out and pay them higher than  
1380 the recommended sustention rate, they could lave the military  
1381 with no alternatives. Is that a concern, Mr. Walker?

1382 Mr. WALKER. Well, it can change the leverage. But we  
1383 also don't have enough people who have the right kind of  
1384 skills and knowledge to be able to oversee the contracting  
1385 arrangements, even if the leverage is not changed.

1386 Mr. TIERNEY. Mr. Bowen, do you find that that is a  
1387 legitimate concern as well?

1388 Mr. WALKER. Absolutely. A simple axiom is elicited by  
1389 our collective oversight, and that is if you don't have the  
1390 right people on the scene and both government and contractor  
1391 looking at programs and projects, then you are going to end  
1392 up with programs that fall off the rails like the primary  
1393 health care clinic program or projects that don't meet  
1394 expectations like the Baghdad Police College.

1395 Mr. TIERNEY. Did you want to add something, Mr. Walker?

1396 Mr. WALKER. Real quickly. I think it is important to  
1397 reinforce there are systemic problems that are long-standing  
1398 with the Department of Defense. They are exacerbated and  
1399 accentuated when you have a contingency operation, which  
1400 Katrina and Iraq were both contingency operations, and a  
1401 conflict zone, which Iraq is a conflict zone. So it is  
1402 important we are focusing on Iraq, but this is the tip of an  
1403 iceberg that we have to focus on.

1404 Mr. TIERNEY. I heard you clearly on that, and I believe  
1405 that it is something we should look at.

1406 Mr. Bowen, let me just finish with you. You reviewed  
1407 the Al Fatah pipeline situation, am I right?

1408 Mr. BOWEN. Yes, sir.

1409 Mr. TIERNEY. That was along the Tigris River and  
1410 Halliburton, in that instance. was asked to restore a crucial  
1411 set of pipelines by digging across and under a river.

1412 Mr. BOWEN. That is right.

1413 Mr. TIERNEY. What you found, I understand, is that they  
1414 were just told by their expert that that was impossible to  
1415 do.

1416 Mr. BOWEN. That is right.

1417 Mr. TIERNEY. And, yet, they went ahead and spent \$76  
1418 million digging what turns out to be a ditch to nowhere.

1419 Mr. BOWEN. Yes. Eventually they followed what the  
1420 consultant said to do after expending tens of millions of  
1421 dollars fruitlessly.

1422 Mr. TIERNEY. And I guess that probably is one certain  
1423 highlight, that kind of insanity, about the dangers of  
1424 contracting too much out and having too few government people  
1425 to monitor and oversee that.

1426 And all of you gentlemen, I thank you for your  
1427 testimony.

1428 Mr. Walker, I think we should have a number of other  
1429 hearings on that issue.

1430 Thank you, I yield back, Mr. Chairman.

1431 Chairman WAXMAN. Thank you, Mr. Tierney.

1432 Mr. Souder?

1433 Mr. SOUDER. I thank the Chairman. I chuckle every time  
1434 I hear long-standing problem in the Department of Defense  
1435 that actually started with Robert Morris and the American  
1436 Revolution and the question of financing and whether--because  
1437 there is nothing more disgusting than fraudulent war

1438 profiteering when people are dying, and I think we all agree  
1439 with that.

1440 I have--first off, I want to say I appreciate the  
1441 caution all of you showed under questioning about what  
1442 numbers might be. I want to insert for the record--because  
1443 one of the things Mr. Bowen has done is corrected his initial  
1444 estimate to what actually the actual potential auditing from  
1445 October 2006 to January 2007, how much they actually saved in  
1446 the process. Because until you actually follow-up even in  
1447 your own projections and do a detailed audit process, you  
1448 don't know for sure what these dollars are. And you can grab  
1449 a headline with the huge number, but until we play the whole  
1450 thing through, we don't know what we are dealing with. In  
1451 fact, that seems to me one of the main things you are saying  
1452 today, and I basically have several questions here, because  
1453 is it or could more be done in the initial contract that when  
1454 you are bidding for the contract you have to have more  
1455 auditing and sufficient auditors and sufficient people doing  
1456 the paper trail in the bid for the contract? It just seems  
1457 like a basic cost of doing business. We are having to deal  
1458 with this in FEMA as well, when we appropriated some of the  
1459 Katrina money and added all those additional auditors. It  
1460 seems like that ought to be an up-front cost with the  
1461 dollars. Is it something--for example, if you are late on  
1462 delivering a contract, there are huge penalties. Do we have

1463 and should there be penalties for failure to have adequate  
1464 auditing and failure to keep the paperwork that could be  
1465 added to contracts, much like we would do for being late in a  
1466 contract?

1467 A second question is do we have the ability and do you  
1468 sense that a lot of this problem isn't actually with the  
1469 contractors, it is with the subcontractors? In the only  
1470 case--I shouldn't say the only case, but the primary case, in  
1471 one of my trips to Iraq, it was right in the middle of some  
1472 of the Parsons hospital questions, you just can't be anything  
1473 but appalled. But what was absolutely clear in that case was  
1474 that we had a whole layer of subcontractors, and the American  
1475 contractor is in many cases really just a broker. So we had  
1476 an American person to broker, and then we got into their  
1477 subsystem, and you have got to buy off this group, you have  
1478 got to buy off this group, you have got to buy off this  
1479 group. By that time there is not any money left to build a  
1480 hospital, so you get a substandard hospital; and the few that  
1481 we have are falling down. And the question is do we have a  
1482 system to figure out how to track the subcontractors? The  
1483 fraud here isn't necessarily at the American level, it is  
1484 how, in a war zone and in an unstable environment, do we  
1485 track subcontractors.

1486 The third question I have is do you think the biggest  
1487 problem here is lack of security? Because it seems to me

1488 | that one of the problems is that money was thrown at a  
1489 | variety of things, possibly, I don't know, but possibly even  
1490 | extra housing and swimming pools and all that, because nobody  
1491 | wanted to go or they were getting shot at and it was hard to  
1492 | recruit. In the subcontracting, one of the things we heard  
1493 | from the Army Corps was that it was really hard; the  
1494 | subcontractors show up, they kill somebody from their family  
1495 | or they shoot somebody there, they disappear, they are  
1496 | pouring the foundation, they don't use the normal time they  
1497 | would let to have cement dry for fear of getting shot at,  
1498 | they start putting up a beam and decide they are not going to  
1499 | finish the project because somebody is getting shot at. How  
1500 | much of this problem is actually related to security?

1501 |         Mr. WALKER. I will start.

1502 |         First, it is a shared responsibility between the  
1503 | government and the contractors at the prime and sublevel for  
1504 | the problems that we have. It is clearly a shared  
1505 | responsibility.

1506 |         Secondly, you talked about a number of different things  
1507 | that need to be looked at, but some of the things you talked  
1508 | about represented management responsibilities, some of the  
1509 | things you talked about represented oversight  
1510 | responsibilities, and some of the things you talked about  
1511 | represented audit roles; and I think we can talk about that  
1512 | separately, I think they are different.

1513           You have got to have the right incentives, transparency  
1514 and accountability mechanisms for the system to work. We  
1515 don't have that right now.

1516           And, last, yes, security is the big problem. There was  
1517 a presumption that we were going to have a permissive  
1518 security environment and, therefore, it was going to be easy  
1519 to engage in this reconstruction. We also assumed that the  
1520 Iraqis were going to have an ability to maintain it after we  
1521 did it. Thirty-three percent, on average, of contracting  
1522 costs for reconstruction were going for overhead; 10 percent  
1523 plus for security. That is obviously not what was expected  
1524 when we originally planned on this and when Congress  
1525 appropriated the funds.

1526           Mr. REED. You mentioned several areas. I guess your  
1527 comment about the need for having up-front audits before  
1528 contracts are awarded, in regards to that area, I think that  
1529 I agree with you totally; that is the prudent business  
1530 approach. In this situation, the unusual and compelling  
1531 circumstances made that somewhat problematic in terms of  
1532 awarding what is called letter contracts, the authority to  
1533 proceed, before the actual price of the contract was  
1534 negotiated, which is referred to in that case as  
1535 definitization, the problem we were talking about a moment  
1536 ago. And so certainly I think it wasn't a case of the  
1537 auditors not being available, it was a case of the speed of

1538 | which contractors had to be authorized to proceed. As that  
1539 | became less of an issue, DCAA was involved in most of the  
1540 | larger pricing actions that led to cost reimbursable  
1541 | contracts.

1542 |         The issue of subcontractors, this has been a tough area  
1543 | for us in auditing particularly KBR, because we expect the  
1544 | prime contractor, KBR, to take responsibility for  
1545 | administering its subcontractors. And so we were looking to  
1546 | them to tell us whether they have negotiated fair and  
1547 | reasonable prices with their subcontractors, whether they are  
1548 | monitoring their performance adequately to ensure they are  
1549 | delivering what the subcontract requires them to. KBR has  
1550 | not always met our expectations in regards to demonstrating  
1551 | the reasonableness of some of the prices. In fact, that was  
1552 | in the restore Iraqi oil that we talked a moment ago, was one  
1553 | of the big issues, is their procurement files did not contain  
1554 | sufficient documentation to show us how they determined what  
1555 | was a fair and reasonable price in the case of one particular  
1556 | subcontractor. That continues to be a problem with the  
1557 | continuing subcontracts.

1558 |         We really expect KBR to be auditing its subcontracts, if  
1559 | they are awarded on a cost-reimbursable basis, and we are  
1560 | pressing them very hard to live up to their responsibilities  
1561 | in that regard and to share with us the results.

1562 |         Chairman WAXMAN. Thank you, Mr. Souder.



1563 | We now go to Mr. Lynch.

1564 | Mr. LYNCH. Thank you, Mr. Chairman.

1565 | Just to follow-up, Mr. Bowen. I talked about earlier  
1566 | the Bloom case, where we actually got a conviction, and I  
1567 | recommended that we look at all of the other contracts that  
1568 | Mr. Bloom and the other people who were indicted and  
1569 | convicted had been involved in. It is my understanding, in  
1570 | response to that, you usaid that you had made that  
1571 | recommendation to the Pentagon as well, is that correct?

1572 | Mr. BOWEN. Yes, sir.

1573 | Mr. LYNCH. And that they had in fact hired a contractor?

1574 | Mr. BOWEN. Actually made it to the Joint Area Support  
1575 | Group, a DOD entity that is in charge of administrative  
1576 | management of the embassy.

1577 | Mr. LYNCH. Okay, so who is doing the actual  
1578 | investigation of those individuals who have already been  
1579 | convicted and the other contracts?

1580 | Mr. BOWEN. Well, the follow-up--this was a development  
1581 | fund for Iraq investigation that arose out of development  
1582 | fund for Iraq audits, and so we make recommendations on our  
1583 | audits, and one of them was to follow up on the other  
1584 | regions, just what you said. And the person responsible for  
1585 | following up on those DFI recommendations was the Joint Area  
1586 | Support Group in Iraq, and they hired a contractor to follow  
1587 | up on that recommendation, check the other regions, but our

1588 review, which was completed this last quarter, following up  
1589 on a recommendation concluded that they did not carry out the  
1590 recommendation properly, so we are going to follow up  
1591 ourselves.

1592 Mr. LYNCH. It is just getting worse. They had a failure  
1593 of a contractor, so what do we do? We hire another  
1594 contractor, who doesn't do their job. You know what I mean?  
1595 Actually, the Chairman and I have a bill that we are going to  
1596 have to put on the floor at some point, which requires the  
1597 Defense Department to take that up as well.

1598 Mr. Walker, I believe you have something to add?

1599 Mr. WALKER. I think it is important to note that the DFI  
1600 Fund is Iraqi money, not U.S. money. At the same point in  
1601 time, we had a fiduciary responsibility to be prudent with  
1602 regard to the use of that money. There are different pools  
1603 of money, and we have different audit authorities depending  
1604 upon which money is involved.

1605 Mr. LYNCH. Right. I am sorry, Mr. Reed, go ahead.

1606 Mr. REED. I think, without getting into details, it is a  
1607 reasonable assumption that investigations are continuing in  
1608 regards to these individuals and their association in other  
1609 contracts. We are supporting investigations, and I am not at  
1610 liberty to say much more about that.

1611 Also, I would point out that in terms of the La Nouvelle  
1612 situation, you mentioned specifically and Mr. Mazon, we are

1613 | demanding that KBR provide cost information on all  
1614 | subcontracts that he was associated with awarding. We are  
1615 | interested in whether those prices were fair and whether  
1616 | excessive profits were made on those subcontracts, and we are  
1617 | in the process of getting that information right now.

1618 |         Mr. LYNCH. Okay. I appreciate that, but it has been a  
1619 | while at La Nouvelle. Those folks were convicted quite a  
1620 | while ago, and we are still trying to get information from  
1621 | Halliburton?

1622 |         Mr. REED. Certainly, our first priority was to make sure  
1623 | we recovered the kickback amounts and the penalties  
1624 | associated with the actual plea that was made, and we have  
1625 | been auditing the estimates of that amount and supporting the  
1626 | settlement in that regard. As we were doing that, we began  
1627 | to move into the secondary issues, and we are trying to--we  
1628 | obviously have to be careful we do not step on the toes of  
1629 | any investigators who may be proceeding down the same trails  
1630 | unbeknownst to my auditors.

1631 |         Mr. LYNCH. Well, don't be too shy. Don't worry about  
1632 | stepping on some toes. If we can get to this corruption and  
1633 | the bribery and all that, that is very important.

1634 |         Mr. Bowen?

1635 |         Mr. BOWEN. Mr. Lynch, if I may offer one other point.  
1636 | Last Wednesday we unsealed indictments on five other  
1637 | individuals that were the results of follow-up investigations

1638 | with regard to the Bloom and Stein conspiracy in Hilla, and  
1639 | more are in the works. So there is follow-up with respect to  
1640 | them, but we also need to be sure we check the other CPA  
1641 | regions to see whether those comptroller offices operated  
1642 | properly.

1643 |         Mr. LYNCH. I appreciate that. The point I am trying to  
1644 | make here is that there are some core responsibilities of  
1645 | government on oversight, and I just do not want to have those  
1646 | government responsibilities that are so central to our  
1647 | oversight function here to be contracted out. That is where  
1648 | we got in this problem in the first place. And I understand  
1649 | we are short on staff, but there has got to be another way to  
1650 | do this.

1651 |         The central question I had, Mr. Bowen, last week we had  
1652 | the Army in, and they testified that they had no idea--even  
1653 | though it was an open, competitive bidding process, they had  
1654 | no idea that Blackwater was being paid for security work  
1655 | under LOGCAP, even though it was an open, competitive bidding  
1656 | process. They testified several months ago that there was no  
1657 | contract. Last week--you were at the earlier panel--they  
1658 | testified that, yes, in fact, that had gone on. And the  
1659 | problem is the tiering of all of these contracts. You have a  
1660 | general contractor, you have a subcontractor, you have a  
1661 | sub-subcontractor, and a sub-sub-subcontractor.

1662 |         I noticed in your report, Mr. Bowen, on page 8, we have

1663 | an example of this problem. The State Department awarded  
1664 | DynCorp a contract to build a residential camp for Iraqi  
1665 | police. DynCorp then subcontracted the work to a company  
1666 | called Corporate Bank. Corporate Bank then subcontracted the  
1667 | work to an Italian company called Cogim SpA.

1668 |         Now, I want to ask you about this because it is down in  
1669 | your report. On page 8 of your report you say that DynCorp  
1670 | was awarded a subcontract to build this for \$55 million.  
1671 | Now, they subcontracted to Corporate Bank to build it for \$55  
1672 | million on August 15th, 2004. That is according to your  
1673 | report. Two weeks later, on September 1st, 2004, that  
1674 | corporation, Corporate Bank, subcontracted it out to this  
1675 | Italian company, Cogim SpA, for \$47.1 million, to do the  
1676 | exact same scope of work.

1677 |         Now, in that two-week time period it appears that  
1678 | Corporate Bank made, I don't know, about \$8 million. I just  
1679 | want to understand. Is that right?

1680 |         Mr. BOWEN. I think you are alluding to a point Mr.  
1681 | Souder made as well, and that is visibility into how a prime  
1682 | subcontracts work and how that work is subcontracted down can  
1683 | result in dilution of financial effort and, as a result, lack  
1684 | of oversight. There is--the system that we operate under is  
1685 | a quality assurance program operated by the government, which  
1686 | expects that the contractor executes a quality control  
1687 | program over his subcontractors. And when the lack of

1688 | visibility by the operational overseer, the government doing  
1689 | the QA program results in loss of visibility and cost  
1690 | controls.

1691 |         Mr. LYNCH. I guess the central point of my question is  
1692 | this: Could you determine any value added by Corporate Bank  
1693 | in the two weeks they had the general contract? They made \$8  
1694 | million by re-subcontracting out the work to the Italian  
1695 | company.

1696 |         Mr. BOWEN. No, we didn't, and I think the lesson learned  
1697 | is we need to carefully study the design-build prime  
1698 | contracting process that was used in Iraq, how subcontracting  
1699 | happened, and definitization needs to operate within the  
1700 | cost-plus contract environment to control costs. And we  
1701 | heard repeatedly today that that was not executed  
1702 | effectively, has not been executed effectively.

1703 |         Mr. LYNCH. Thank you, Mr. Chairman. I yield back.

1704 |         Chairman WAXMAN. Thank you, Mr. Lynch.

1705 |         Mr. Braley?

1706 |         Mr. BRALEY. Thank you, Mr .Chairman.

1707 |         Mr. Walker, Mr. Reed, Mr. Bowen, thank you for your time  
1708 | here today.

1709 |         Mr. Walker, I appreciated your comment about the fact  
1710 | that no matter how dire the circumstances are we are talking  
1711 | about here today, they really represent just the tip of the  
1712 | iceberg and the real problem that we are facing in Iraq and

1713 | accountability.

1714 |         And, Mr. Bowen, I appreciated your comment about the  
1715 | watershed report that you issued in January. As you know  
1716 | from the last time we were together, I read that report and I  
1717 | was deeply disturbed by some of the forward-looking  
1718 | conclusions that you reached about the status of our  
1719 | situation in Iraq with future reconstruction efforts, so I  
1720 | thank you for your time.

1721 |         I would like to shift the focus and talk about swimming  
1722 | pools. I was very proud to be president of the Blackhawk  
1723 | Area Swim Team, where we had four teenage boys set three  
1724 | age-group swimming records in an Olympic swimming pool in  
1725 | Cedar Falls, Iowa, that no longer exists because of aging and  
1726 | deteriorating conditions. And one of the disturbing things  
1727 | about your report was that DynCorp's contract with the State  
1728 | Department revealed unauthorized work being performed under  
1729 | the contract, specifically the building of an Olympic sized  
1730 | swimming pool and luxury trailers without authorization from  
1731 | the State Department, is that correct?

1732 |         Mr. BOWEN. That is correct.

1733 |         Mr. BRALEY. And I understand we have some pictures that  
1734 | were not included in your report. Maybe we can put those up  
1735 | on the screen while I ask you a question.

1736 |         This first photograph that we are looking at appears to  
1737 | depict a pool that is in pretty poor conditions. As I

1738 understand it, DynCorp had the pool built but then it  
1739 collapsed, is that correct?

1740 Mr. BOWEN. That is right.

1741 Mr. BRALEY. And this pool was built in 2004 and then was  
1742 subsequently rebuilt.

1743 Mr. BOWEN. That is right.

1744 Mr. BRALEY. So let's put the picture of the pool up as  
1745 it appears today. Is that it?

1746 Mr. BOWEN. Yes, sir.

1747 Mr. BRALEY. It looks like a pretty impressive facility.

1748 Mr. BOWEN. Yes, sir.

1749 Mr. BRALEY. There are many swim clubs in this Country  
1750 who have limitations of being able to swim only in a 25-yard  
1751 or 25-meter pool, and that looks like one that would be  
1752 available for competition level swimming.

1753 Mr. BOWEN. Yes, sir.

1754 Mr. BRALEY. Now, do we know who paid for the pool to be  
1755 rebuilt a second time?

1756 Mr. BOWEN. No, we don't. That is something we are  
1757 following up on through our investigative work.

1758 Mr. BRALEY. So it could have been someone else, but as I  
1759 understand from the communications with your staff, this  
1760 could have been built again by DynCorp, is that correct?

1761 Mr. BOWEN. That is possible. That is a possibility, and  
1762 we will get that answer for you in short order.



1763 Mr. BRALEY. But, theoretically, U.S. taxpayers could  
1764 have paid for this pool twice.

1765 Mr. BOWEN. We will find out the answer to that question,  
1766 yes, sir.

1767 Mr. BRALEY. And do you know whose idea it was to build  
1768 this swimming pool?

1769 Mr. BOWEN. This was unauthorized work directed by the  
1770 Iraqi Ministry of Interior. Apparently, from the course of  
1771 our audit, it was approved by the senior advisor to the  
1772 Ministry of Interior for the Coalition Provisional Authority.

1773 Mr. BRALEY. Did DynCorp have authorization from the  
1774 State Department when they performed the work?

1775 Mr. BOWEN. No, they did not. The system that we have  
1776 set up depends on an effective contracting officer's  
1777 representative exerting oversight of how the money is spent  
1778 under a contract. That did not happen in this case and,  
1779 indeed, it has been a problem with respect to the State  
1780 Department's INL Office oversight of DynCorp. The result,  
1781 one of the salutary results of our audit is that that  
1782 contracting officer's representative has been replaced.

1783 Mr. BRALEY. Can you tell the Committee who the person  
1784 was at the CPA who gave that authorization?

1785 Mr. BOWEN. I think you should go to the INL Department  
1786 for who that person is.

1787 Mr. BRALEY. At our hearing last week on the \$12 billion

1788 | in cash that the CPA failed to properly account for,  
1789 | Ambassador Bremer and others made the argument that we  
1790 | shouldn't worry because it was just Iraqi money, and I  
1791 | disagreed with that argument at the time. Nevertheless,  
1792 | today we are talking about U.S. taxpayer money, and these  
1793 | same CPA officials seem to be just as careless with taxpayer  
1794 | money as they were with Iraqi money.

1795 |       I hope, Mr. Chairman, that the Committee will pursue  
1796 | this question with the State Department and push DynCorp to  
1797 | return all these millions of dollars, as the Inspector  
1798 | General recommended in his audit report.

1799 |       One of the other questions that I am concerned about are  
1800 | quality of life issues. One of the things we rarely talk  
1801 | about is the direct impact that these decisions have on the  
1802 | people in Iraq who are supposed to be benefitting from these  
1803 | dollars, and I am deeply disturbed about our continuing  
1804 | failure to meet the basic needs in the reconstruction in  
1805 | particular with the provision of electricity. Amazingly,  
1806 | although we have spent nearly \$3 billion in U.S. taxpayer  
1807 | money to restore electricity in Iraq, the production levels  
1808 | in 2006 were actually below pre-war levels.

1809 |       Mr. Walker, can we put that in everyday terms? In  
1810 | Baghdad, how many hours per day does the average family have  
1811 | electrical power?

1812 |       Mr. WALKER. Six.

1813 Mr. BRALEY. And the GAO report indicates that the power  
1814 supply that they have remains unreliable. Do people know  
1815 when the power is going on or off, or does it just happen  
1816 randomly?

1817 Mr. WALKER. There is not a pre-announced, pre-planned  
1818 schedule. And part of the problem here is because of the  
1819 terrorism. I mean, there is an effort to try to sabotage the  
1820 distribution of electricity even after it is generated from  
1821 the generating plant.

1822 Mr. BRALEY. Does that have an impact upon the approach  
1823 that we take in dealing with Iraqi people on a very  
1824 fundamental daily basis in terms of their trust for the  
1825 services that we are providing?

1826 Mr. WALKER. Well, first, the responsibility to provide  
1827 services, I would argue, rests with the Iraqi government.  
1828 The Iraqi government is responsible for providing,  
1829 electricity, clean water, and the basic essentials that every  
1830 citizen cares about. We are trying to help them do that, but  
1831 ultimately they are responsible and accountable. And the  
1832 failure to be able to do that reliably and effectively  
1833 obviously undercuts the Iraqi citizens' confidence in (a)  
1834 their government and (b) the effectiveness of the Coalition  
1835 to be able to generate results.

1836 Mr. BRALEY. Well, what impact does it have on the hearts  
1837 and minds of the Iraqi people when their own government has

1838 billions of dollars that are supposed to be devoted to these  
1839 reconstruction efforts and it remains unspent?

1840 Mr. WALKER. I am not sure if they know that. I am not  
1841 sure how much the Iraqi people know about what is or isn't  
1842 being done with regard to their funds. I can't comment on  
1843 that. Part of the reason they haven't spent the funds is  
1844 they don't have the capacity with regard to the systems, the  
1845 controls. They have bickering, believe it or not, between  
1846 various departments and agencies. Some departments and  
1847 agencies are controlled by Shi'a, some are controlled by  
1848 other factions. And the bottom line is the citizens want the  
1849 outcomes, they want to see the results, and they are not  
1850 seeing them yet.

1851 Chairman WAXMAN. Mr. Braley, your time has expired.

1852 Mr. BRALEY. Thank you.

1853 Chairman WAXMAN. I presume they may not know whether the  
1854 government has the funds and not using it, but they know they  
1855 don't have the electricity.

1856 Mr. WALKER. Right. And, in fact, I think it is  
1857 important to note that we are trying to work with our  
1858 counterparts, the Board of Supreme Audit, to try to help  
1859 build their capacity to be able to do their job. And as was  
1860 mentioned before with regard to the DFI funds, while they are  
1861 not U.S. money, we had a fiduciary responsibility, and both  
1862 Stuart Bowen and I have been trying to help make sure that

1863 | the records are turned over to the Board of Supreme Audit of  
1864 | Iraq so that they can audit what happened with that money. I  
1865 | mean, \$9 billion to \$12 billion is a lot of money. There  
1866 | needs to be accountability over that.

1867 | Chairman WAXMAN. Thank you, Mr. Walker.

1868 | Mr. Sarbanes, you are next.

1869 | Mr. SARBANES. Thank you, Mr. Chairman.

1870 | I wanted to go back and talk again a little bit more  
1871 | about the sustention rate and this notion of costs that get  
1872 | incurred before the contract has been definitized, as I guess  
1873 | it is called. If I am understanding what you have testified  
1874 | to, the chances that you can incur a lot of costs before  
1875 | definitization of a contract are improved in circumstances  
1876 | where contracts need to be let very quickly, where people  
1877 | brought on in ``emergency circumstances,`` is that right?

1878 | Mr. REED. Well, I think the risk that--

1879 | Mr. SARBANES. The risk, okay.

1880 | Mr. REED.--from my viewpoint, is that there is no cost  
1881 | control before a contract is definitized. In other words--

1882 | Mr. SARBANES. So if I am an enterprising contractor and  
1883 | I know how the system works, it might be in my interest to  
1884 | get in on a situation where a no bid contract or the fast  
1885 | letting of a contract was occurring, because then I know that  
1886 | I can load up a lot of costs during this period where things  
1887 | are being incurred but nothing has yet been definitized,

1888 right?

1889 Mr. REED. That is certainly a risk.

1890 Mr. SARBANES. Okay. And were the circumstances under  
1891 which Halliburton and KBR and some of these other contractors  
1892 came onboard were ones where things were happening quickly,  
1893 contracts were being let in an expeditious--to use the sort  
1894 of best connotation of it--way? There were circumstances  
1895 like that, right? I mean, that is essentially what was  
1896 happening here.

1897 Mr. REED. Yes.

1898 Mr. SARBANES. Do you want to respond?

1899 Mr. WALKER. Mr. Sarbanes, I think it is important to  
1900 note that when you are dealing with contingency  
1901 operations--and I would respectfully suggest that Iraq is a  
1902 military contingency operation; Katrina was a domestic  
1903 contingency operation--the government must do a better job of  
1904 planning in advance, engaging in advance contracting  
1905 activities that you can draw on on a task order basis, rather  
1906 than being in the situation where you have to negotiate  
1907 things quickly, in a crisis circumstance. These problems are  
1908 exacerbated under cost-plus contracts, which creates perverse  
1909 incentives for people to define the scope broadly, to incur  
1910 more costs for obvious reasons.

1911 Mr. SARBANES. And I agree the government needs to do  
1912 that, and I am looking at it from a contractor's standpoint

1913 | in terms of if you are unscrupulous as the contractor,  
1914 | wanting to sort of take as much advantage of the situation as  
1915 | you could, you could seize upon these contingency situations  
1916 | and push hard for whatever rules and checks the government  
1917 | was trying to put in place to be relaxed a little bit because  
1918 | there are cost opportunities available to you.

1919 |         But let me switch gears real quick. The process by  
1920 | which the auditors make a recommendation to the contract  
1921 | officer regarding questioned or unsupported costs, for  
1922 | example, what is that exactly? Is there a meeting convened  
1923 | and who is at that meeting?

1924 |         Mr. REED. No, we issue--

1925 |         Mr. SARBANES. How does that work?

1926 |         Mr. REED. We issue a written audit report.

1927 |         Mr. SARBANES. Okay.

1928 |         Mr. REED. Which explains what we audited, what we looked  
1929 | at, and what our conclusions were, and our recommendations.

1930 |         Mr. SARBANES. Okay. Is there ever a face-to-face  
1931 | exchange around the recommendation? And, if so, what is  
1932 | that?

1933 |         Mr. REED. Yes, there is continuous communication.

1934 |         Mr. SARBANES. Okay.

1935 |         Mr. REED. Especially in more significant issues. We  
1936 | give the contracting officer an early alert that we are  
1937 | having a major issue developing. We certainly talk to them

1938 | before we issue the audit report, and often we attend a  
1939 | negotiations side-by-side with them.

1940 |         Mr. SARBANES. Okay. So who is in the room for that kind  
1941 | of a meeting, that ``negotiation''? So the contracting  
1942 | officer is there and their staff, members of your staff are  
1943 | there, having made the recommendation. Is the contractor  
1944 | there as well?

1945 |         Mr. REED. It is usually a pre-meeting of the government  
1946 | people only to go over the strategy that the government side  
1947 | is going to take in whatever negotiation is going to take  
1948 | place, and then the contractor is brought in. In addition to  
1949 | the auditors, there may be government engineers, there may be  
1950 | contracting officer technical representatives who observe the  
1951 | physical work. It could be whatever the contracting officer  
1952 | feels he needs to support him in the negotiation.

1953 |         Mr. SARBANES. Okay, I have run out of time, but just  
1954 | real quick. Then, in terms of the contracting officer making  
1955 | a decision on what to accept, in a typical case, what kind of  
1956 | time frame is involved there, I mean, from the time you bring  
1957 | your recommendation forward to the time the decision is made  
1958 | on which costs to allow or not allow?

1959 |         Mr. REED. Well, there is considerable variation.

1960 |         Mr. SARBANES. Okay.

1961 |         Mr. REED. It could range from within hours to months.

1962 |         Mr. SARBANES. Okay.



1963 Mr. REED. Depending on the complexity of the nature of  
1964 the issue.

1965 Mr. SARBANES. All right.

1966 Thank you, Mr. Chairman.

1967 Chairman WAXMAN. Thank you, Mr. Sarbanes.

1968 Mr. Welch?

1969 Mr. WELCH. Thank you, Mr. Chairman.

1970 Mr. Bowen, in your audit of DynCorp's work for the State  
1971 Department, it is pretty troubling. I am still not clear on  
1972 exactly what the taxpayers got out, but let me ask you a few  
1973 questions about some figures.

1974 First, the total amount at issue was \$189 million, is  
1975 that right?

1976 Mr. BOWEN. That is right. This is a task order under a  
1977 very large contract, but this task order covered that amount.

1978 Mr. WELCH. Okay. And you did not examine all of the  
1979 costs, but you did examine quite a bit, and there is \$51.6  
1980 million for the residential camp at Adnan Palace, right?

1981 Mr. BOWEN. That is right.

1982 Mr. WELCH. And there is no such thing as a residential  
1983 camp at this moment at Adnan Palace?

1984 Mr. BOWEN. That is right, and there won't be.

1985 Mr. WELCH. So all the trailers that we bought for the  
1986 Iraqi police are sitting unused in storage somewhere in  
1987 Baghdad?

1988 Mr. BOWEN. At the Baghdad International Airport.

1989 Mr. WELCH. And do we have to pay rent to store them  
1990 there?

1991 Mr. BOWEN. Yes. Yes, sir.

1992 Mr. WALKER. I might note we have a lot of trailers in  
1993 Hope, Arkansas related to Katrina. Systemic problem.

1994 Mr. WELCH. Well, it sounds like FEMA was in charge of  
1995 this.

1996 And I noticed on page 10 of your report that the State  
1997 Department, when it realized it wasn't going to use these  
1998 trailers, they actually considered donating them to the  
1999 Hurricane Katrina victims, is that right?

2000 Mr. BOWEN. Yes, sir.

2001 Mr. WELCH. Do you know if they were planning on bringing  
2002 the folks in New Orleans to Baghdad or the trailers from  
2003 Baghdad to New Orleans?

2004 Mr. BOWEN. Well, I think the solution that is on the  
2005 table now is to use them for the new embassy compound.

2006 Mr. WELCH. I mean, is this true, they literally have \$51  
2007 million, trailers that are empty with people who are  
2008 homeless? That is the story?

2009 Mr. BOWEN. The story is we purchased trailers that we  
2010 didn't use, and haven't used yet.

2011 Mr. WELCH. Who can we congratulate for this good work?

2012 Mr. BOWEN. Well, what it has done is motivate me to look

2013 | at the rest of the DynCorp contract.

2014 |       Mr. WELCH. Well, thank you. Who is DynCorp?

2015 |       Mr. BOWEN. It is a Falls Church company, a very large  
2016 | defense contractor. They had the LOGCAP contract previous to  
2017 | KBR.

2018 |       Mr. WELCH. Let me ask you about another DynCorp  
2019 | contract. On page 2 of your audit you say that \$36.4 million  
2020 | was spent on weapons and equipment, including armored  
2021 | vehicles, body armor, communications equipment. But in your  
2022 | report, on page 17, because of poor record keeping, nobody  
2023 | can verify whether we got anything that we paid for.

2024 |       Mr. BOWEN. That is right.

2025 |       Mr. WELCH. Did your auditors try to locate the equipment  
2026 | that was purchased for this \$36 million?

2027 |       Mr. BOWEN. We are following up on that, but our job was  
2028 | to look at how the equipment was managed, and it was managed  
2029 | in a way that provided no assurances of accountability.

2030 |       Mr. WELCH. There were some questions earlier on  
2031 | suggesting that because it is a wartime situation, you can't  
2032 | keep records. I mean, is that really true? I don't get  
2033 | that. If you are dealing with corporations on these big  
2034 | purchases, \$36 million, it goes to equipment that is of vital  
2035 | importance to the security of the troops. What is the  
2036 | problem, what possible justification can there be to not have  
2037 | a system, even in Baghdad, that allows the taxpayer to know

2038 | that the equipment they paid to get to the troops was  
2039 | delivered?

2040 |       Mr. BOWEN. Well, there is no doubt that operating,  
2041 | managing these contracts in a wartime environment is very  
2042 | challenging, but the cost of doing that is also built into  
2043 | the contract itself, or is anticipated to be so, and simply  
2044 | because we are operating in a wartime environment further  
2045 | does not dispense with the need for accountability.

2046 |       Mr. WELCH. I really don't get that. I mean, this  
2047 | equipment, it is not like it is flown over in C-141s and just  
2048 | parachuted randomly to various locations, wherever it happens  
2049 | to land, it goes into the Green Zone or some secure location,  
2050 | right?

2051 |       Mr. BOWEN. That is right.

2052 |       Mr. WELCH. So the people who are dealing with the  
2053 | receipt of this equipment are in physically safe locations,  
2054 | right?

2055 |       Mr. BOWEN. Reasonably.

2056 |       Mr. WELCH. So what happens to the equipment after it  
2057 | goes out into the field is one thing, which may be difficult  
2058 | to understand and to account for, but its actual receipt in  
2059 | the country, that it arrived, that--why, in a war zone, is it  
2060 | any more difficult when, in fact, where the equipment arrives  
2061 | is a very secure location?

2062 |       Mr. BOWEN. Well, your question cuts to a core lesson

2063 | learned that needs to be learned and applied in Iraq and  
2064 | beyond, and that is in contingency relief and reconstruction  
2065 | and operations, there must be systems developed, trained, and  
2066 | ready to go that can ensure reasonable accountability of the  
2067 | taxpayers' money in the contingency operation.

2068 |         Mr. WELCH. Let me just ask one last question. In your  
2069 | report there was an indication that a contracting officer  
2070 | didn't even keep a file for a \$25 million contract. Is that  
2071 | right?

2072 |         Mr. BOWEN. That is right.

2073 |         Mr. WELCH. Literally, I mean, is there any  
2074 | justification, any justification for not keeping a copy of a  
2075 | contract for that amount of money?

2076 |         Mr. BOWEN. No, there isn't.

2077 |         Mr. WELCH. Thank you.

2078 |         Mr. WALKER. Mr. Chairman, can I quickly touch on  
2079 | something here? Thank you.

2080 |         Chairman WAXMAN. Mr. Walker?

2081 |         Mr. WALKER. Let me tell you why we continue to have  
2082 | these problems on a recurring basis; not just Iraq, but  
2083 | Department of Defense and other major departments. There is  
2084 | no accountability. The appropriations that are granted are  
2085 | not adjusted based upon these continued problems;  
2086 | organizations that are responsible for managing and  
2087 | overseeing these contracts are not held accountable.

2088 Contractors are not adequately held accountable; and the  
2089 individuals involved and who were responsible are not held  
2090 accountable.

2091 Mr. WELCH. And what could we do--

2092 Mr. WALKER. Why change?

2093 Mr. WELCH. What could we do to hold them accountable?

2094 Mr. WALKER. Well--

2095 Mr. WELCH. What three things could we do?

2096 Mr. WALKER. Well, one of the things you have to do is  
2097 you have to deal with the systemic problems that I provided  
2098 for the record as a follow-up to last week's hearing, and I  
2099 hope to have a chance to testify on this.

2100 Secondly, you need to hold both contractors and  
2101 government employees accountable when things don't go right.  
2102 There has got to be consequences. People ought to be  
2103 rewarded for doing a good job, absolutely. And I think it is  
2104 fair to say most contractors do a good job, and a vast  
2105 majority of Federal employees do a good job. They ought to  
2106 be recognized and rewarded. But when things don't go right,  
2107 there have to be consequences. And if there aren't  
2108 consequences, you are not going to get changed behavior. The  
2109 government is no different than the private sector in that  
2110 regard.

2111 Chairman WAXMAN. Mr. Welch's time is up, but, Mr. Bowen,  
2112 let me, just on this question of DynCorp, is this the first

2113 | time we have had an issue with DynCorp?

2114 |       Mr. BOWEN. No, it is not. It is our first comprehensive  
2115 | audit by my office, and, as I said, we are initiating a  
2116 | series of reviews.

2117 |       And as to what can we do, Mr. Welch, I would also  
2118 | suggest the debarment and suspension process is a meaningful  
2119 | method of accountability that could be utilized more  
2120 | effectively.

2121 |       Chairman WAXMAN. Thank you, Mr. Welch, but let me just  
2122 | point out that in December 2005 report on INL asset  
2123 | verification that was conducted in July-August 2005 reviewed  
2124 | DynCorp's inventory control and the report concluded INL  
2125 | cannot determine if the Bureau received what it paid for. I  
2126 | think this might be related to Bosnia. Are you familiar with  
2127 | that, Mr. Bowen?

2128 |       Mr. BOWEN. Yes, that is right. That was an INL review.  
2129 | INL has identified internally problems with DynCorp. Indeed,  
2130 | they identified problems with this contracting office's  
2131 | representative, as our report points out, in Bosnia. And let  
2132 | me point out also that this was a joint review with the  
2133 | Department of State Inspector General's Office, so we will  
2134 | continue to pursue reviews with them of these issues.

2135 |       Chairman WAXMAN. Mr. Walker's point is what are the  
2136 | consequences of these things, and that is something we need  
2137 | to look at.

2138 |       Next on the list is Mr. Higgins.

2139 |       Mr. HIGGINS. Thank you, Mr. Chairman. I just want to  
2140 | try to get to the gut of this thing.

2141 |       The essential services for any functioning society are  
2142 | electricity, water, health care, education. None of that  
2143 | seems to be improving very much in Iraq. Some, but not all  
2144 | of that, obviously, is the responsibility of the government  
2145 | and who's contracting with the contractors to do a lot of  
2146 | this work.

2147 |       Mr. Bowen, you had indicated that this is the twelfth  
2148 | quarterly report, there are 50 auditors and investigators on  
2149 | the ground in Iraq, and that the financial burden of Iraqi  
2150 | reconstruction is shifting to the Iraqis. Now, from what I  
2151 | see, is a government in Iraq that lacks legitimacy in the  
2152 | very eyes of the governed because it can't provide these  
2153 | essential services, and if we have \$50 billion--\$30 billion  
2154 | of which was United States money, American money; \$20 billion  
2155 | of which is Iraqi money--and we are not seeing measurable  
2156 | progress toward restoration of essential services and also  
2157 | oil production, it seems hardly confidence-inspiring that the  
2158 | responsibility is now shifting to, based on anybody's  
2159 | observation, an honest assessment of the legitimacy of the  
2160 | Iraqi government, it is not confidence-inspiring. Your  
2161 | thoughts?

2162 |       Mr. BOWEN. Well, one other essential element to a



2163 | working society's infrastructure is rule of law, and I think  
2164 | the lack of security in Baghdad and elsewhere across Iraq has  
2165 | prevented success of what was planned, an effective relief  
2166 | and reconstruction operation.

2167 |         The other thing, let me point out, is that the United  
2168 | States investment was meant to get the Iraqis started going  
2169 | forward. The infrastructure was seriously deteriorated  
2170 | through decades of neglect, and The World Bank's estimate was  
2171 | \$56 billion. In fact, that was low. I would say the cost to  
2172 | restore that infrastructure is at least \$100 billion, given  
2173 | what we found.

2174 |         But trying to do a relief and reconstruction operation  
2175 | before stabilization is achieved is difficult at best. That  
2176 | is certainly a lesson in Iraq.

2177 |         Mr. HIGGINS. And that is the point, I mean, stability  
2178 | hasn't been achieved, and there is obviously a lot of waste  
2179 | and abuse of very significant money, and this Congress is  
2180 | being asked to authorize more money for an effort that  
2181 | everybody, I believe, concludes is an abject failure. And I  
2182 | think it speaks to the oversight responsibility of Congress.  
2183 | I mean, you indicated that there is a real-time audit method  
2184 | being used.

2185 |         Mr. BOWEN. That is right.

2186 |         Mr. HIGGINS. After the conclusion of this twelfth  
2187 | quarterly report, is there any signs of progress this

2188 | situation is changing? I think that is a very important  
2189 | question relative to confidence or lack of confidence that  
2190 | this Congress has in the Administration's ability to  
2191 | effectively administer this.

2192 |         Mr. BOWEN. And the answer is yes, we have made progress.  
2193 |         The taxpayers and the Iraqis have received a lot of  
2194 | successful projects as a result of the \$21 billion  
2195 | investment, notwithstanding the problems that we have  
2196 | identified. Polio has been eradicated; 5,000 schools have  
2197 | been built or refurbished; there has been progress in the  
2198 | education sector, in roads and transportation,  
2199 | communications. But the key is developing a sustainable,  
2200 | coherent infrastructure strategy that brings the country  
2201 | together, at the same time bringing an effective and coherent  
2202 | rule of law strategy to bear in Baghdad and beyond, and that  
2203 | has been a continuing challenge. The investment targets,  
2204 | though, I think are the right ones to choose. The Provincial  
2205 | Reconstruction Team effort is the most important  
2206 | capacity-building endeavor in Iraq nationwide, and especially  
2207 | in Baghdad. The Commander's Emergency Response Program, we  
2208 | have looked at it a couple times; it is about maneuver units  
2209 | executing quick turnaround projects and, in an unstable  
2210 | environment, that is the right place to spend the money. The  
2211 | Community Action Program run by USAID has made a lot of  
2212 | difference at the very grassroots level. But progress has

2213 | been mixed.

2214 |       Mr. HIGGINS. Woefully inadequate. What about internal  
2215 | structures to enhance the issue of accountability and  
2216 | transparency moving forward?

2217 |       Mr. BOWEN. Well, that has been a story of gradual  
2218 | progress, partly driven by the presence of oversight on the  
2219 | ground in Iraq, both DCAA, GAO, SIGIR, auditors uncovering  
2220 | issues that need to get fixed. That is what I mean by  
2221 | real-time auditing, definitization, award fees, the hospital  
2222 | program, the management of property. It is about executing  
2223 | our job that incrementally brings improvement in the overall  
2224 | management and it is about working with management to get it  
2225 | done as we find problems, rather than to wait for reports to  
2226 | come out.

2227 |       Mr. HIGGINS. So you think it is a good thing that we are  
2228 | at this watershed period where the Iraqi reconstruction is  
2229 | shifting from United States influence to an almost exclusive  
2230 | Iraqi influence?

2231 |       Mr. BOWEN. Well, regardless of whether it is good or  
2232 | not, it is the current reality. It is going to drive  
2233 | decision-making moving forward, and the burden has shifted.  
2234 | The truth is \$38 billion invested the last four years. That  
2235 | is a significant taxpayer investment in Iraq at every level.  
2236 | That period is past, and the Iraqis cannot leave \$12 billion  
2237 | in their treasury again this year.

2238 Chairman WAXMAN. Thank you, Mr. Higgins.

2239 Mr. Yarmuth?

2240 Mr. YARMUTH. Thank you, Mr. Chairman.

2241 Mr. Walker, you have talked about systemic problems  
2242 which have made it more difficult for you to do the job which  
2243 we have asked you to do, which is to look out for the  
2244 taxpayers' money, so I want to focus a little bit maybe on an  
2245 area that we haven't talked about, which is the level of  
2246 cooperation you have received from other government entities.

2247 Last year, Congress was told that the Defense Department  
2248 Inspector General had nobody on the ground in Iraq, which was  
2249 astounding considering the amount of money that we are  
2250 spending there. I understand that has been rectified and  
2251 they have at least a few people there. It is also my  
2252 understanding that you would like to have people on the  
2253 ground in Iraq as well, and have made a request of the State  
2254 Department for space, is that correct?

2255 Mr. WALKER. We have space. I mean, we have already  
2256 agreed with SIGIR that we are going to co-locate with SIGIR.  
2257 What we have a request to the State Department, which they  
2258 are incredibly slow in responding to, is formal approval for  
2259 us to be able to have people in Iraq for longer periods of  
2260 time. Right now they approve us to be in for two week periods  
2261 of time and that is it, and we are asking for three to six  
2262 months, for people to be there for three to six months, and

2263 | then we can project supplemental people in and out for two  
2264 | week periods as a supplement to, not a substitute for, a few  
2265 | people that would have a continuing presence.

2266 |         Mr. YARMUTH. What is the rationale that they have used  
2267 | to try to restrict you in that type of way?

2268 |         Mr. WALKER. I am not--

2269 |         Mr. YARMUTH. They haven't used the not supporting our  
2270 | troops line?

2271 |         Mr. WALKER. Well, no, the issue is that--separation of  
2272 | powers? That is what their--well, they need to read the  
2273 | Constitution. There is a lot of people that aren't very good  
2274 | at understanding what the Constitution is. I mean, we are  
2275 | there to help the Congress exercise its appropriations,  
2276 | oversight, and authorization responsibilities. They are just  
2277 | incredibly slow. I mean, the State Department is a big  
2278 | bureaucracy. Not everybody is for oversight; not everybody  
2279 | is for transparency; not everybody is for accountability.  
2280 | And it is time that they acted on this. And I am going to  
2281 | call Secretary Rice on Monday if they don't give us an answer  
2282 | before this. This has just been going on too long.

2283 |         The other thing we need, quite frankly, is the Congress  
2284 | is not supporting our agency enough. It does not give us  
2285 | adequate funds. I am going to have to ask for a supplemental  
2286 | in order for us to be able to get our people over there and  
2287 | pay for it. We generate \$105 return for every \$1 invested on

2288 us. Second place in the world is 10 to 1, and we are getting  
2289 starved, and we hear about tens of--we have heard here about  
2290 billions of dollars of waste. I mean, what is the priority  
2291 here?

2292 Mr. YARMUTH. Mr. Chairman, I suggest we might want to  
2293 have someone from State Department respond to these issues as  
2294 well.

2295 Let me ask you about the Defense Department, turn to  
2296 them for a second. It is my understanding that you have been  
2297 studying the readiness and effectiveness of the Iraq security  
2298 forces. Is that correct as well?

2299 Mr. BOWEN. Yes, we have issued two audit reports last  
2300 quarter on that issue, and I know GAO is looking at it, as is  
2301 the Department of Defense Inspector General.

2302 Mr. WALKER. We are, and that is a critical point. I  
2303 appreciate your asking it. That comes back to the  
2304 transitional readiness assessment reports that we have been  
2305 seeking access to.

2306 Just so the members understand what that is, we have  
2307 U.S. troops embedded with Iraqi troops, and those troops are  
2308 responsible for doing detailed assessments as to leadership,  
2309 equipment, training, and other factors to try to assess the  
2310 true readiness of Iraqi troops. This is done for U.S.  
2311 troops, and we have had access to that information on a  
2312 recurring basis for many years. It is classified

2313 | information, but we have people with all the necessary  
2314 | clearances. And while we have received some briefing from  
2315 | the Defense Department, we have not received the detailed  
2316 | records. It is essential we get those.

2317 |         You are being asked to give several billion more  
2318 | dollars. You are being asked to support an increase in troop  
2319 | deployments. You are being asked to provide additional funds  
2320 | for a variety of things to support the standing up of the  
2321 | Iraqi security forces, which will help us get out quicker.  
2322 | You need this information in order to be able to assess  
2323 | whether or not it is making a difference, and we are the  
2324 | agent to get it for you.

2325 |         Mr. YARMUTH. Again, has this been--the rationale for  
2326 | this, is this another separation of powers allegation?

2327 |         Mr. WALKER. No. Believe it or not, I was really  
2328 | surprised to find out that, evidently, nobody in the Pentagon  
2329 | has actually seen this detailed information, that it has just  
2330 | been in the area of responsibility; it has been within Iraq  
2331 | and CENTCOM and the Multinational Force, MNFI. But my  
2332 | understanding is the Pentagon is just now getting some of  
2333 | this data, didn't even have it itself. People are concerned  
2334 | it is very ``sensitive information.'' Well, it is  
2335 | classified, that is true, and that makes it sensitive, but  
2336 | that doesn't mean that the Congress doesn't need it and we  
2337 | don't have a right to it. I mean, we do have a right to it,

2338 | and you need it and so do we.

2339 |       Mr. YARMUTH. Thank you, Mr. Walker.

2340 |       Mr. Chairman, I am sure we will want to insist that we  
2341 | get better cooperation from those two Departments.

2342 |       Chairman WAXMAN. Yes, absolutely. I agree  
2343 | wholeheartedly, and we will follow up on that.

2344 |       Mrs. Maloney?

2345 |       Mrs. MALONEY. Thank you, Mr. Chairman, for having this  
2346 | hearing, and I really want to thank GAO for providing us with  
2347 | nonpartisan accurate information. It is very vital for us to  
2348 | practice our oversight responsibilities and I, for one, will  
2349 | be supporting your request for additional funding so that you  
2350 | can give us the information to make good policy decisions.

2351 |       One of the reports that came out, which, in my sense, is  
2352 | government is the best, it was a bipartisan report with  
2353 | Congressman Hamilton and Baker, and in their report they said  
2354 | the situation in Iraq is grave and deteriorating. And one of  
2355 | their recommendations--their recommendations really called  
2356 | for a reversal of the policy that we are following now. They  
2357 | said we should start withdrawing troops, not sending in more  
2358 | troops.

2359 |       My brother is a former Vietnam veteran, Mr. Chairman,  
2360 | and he called me last night and he said that in Vietnam they  
2361 | kept sending more and more troops, and all they saw was more  
2362 | and more death, and it didn't work out, and he urged me to



2363 | vote against increasing the troops there.

2364 |         But one of the key proposals in the Hamilton-Baker  
2365 | report was number 21, that the U.S. should tell the Iraqis  
2366 | that the failure to meet their own milestones will only  
2367 | accelerate American withdrawal or result in a reduction of  
2368 | American support. So they are calling on us to really put  
2369 | their feet to the fire and tell the Iraqis very plainly, if  
2370 | they don't stand up and do their own work, then we are going  
2371 | to be leaving.

2372 |         The last constituent that I went to see, Mr. Chairman,  
2373 | at Walter Reed, it was a graduate of West Point, our finest  
2374 | and brightest; he was all shot up. I asked him how did it  
2375 | happen; he said, I wasn't on the front line, I was in charge  
2376 | of garbage removal. I mean, you could have knocked me over.  
2377 | I said, garbage removal? And he said, I knew I was in  
2378 | trouble when all my Iraqi colleagues started moving away from  
2379 | me, and then they came out and shot me.

2380 |         And I don't understand this policy where our troops are  
2381 | in a civil war. As one of them said, we are shooting and we  
2382 | don't know who we are shooting at. We don't know if they are  
2383 | an enemy or a friend; we don't know. We are in the middle of  
2384 | a civil war, and I question why American troops are being  
2385 | used for garbage detail in Baghdad. So I, for one, feel that  
2386 | it is time for us to be standing down and letting the Iraqi  
2387 | people take care of their problems. The longer we stay, they

2388 | run away from their responsibilities.

2389 |         Now, the reports that we have been getting--and I want  
2390 | to mention one from a former PRT leader, a Provincial  
2391 | Reconstruction Team, and this was a report where she said  
2392 | that the--she is talking about the civilian surge, not the  
2393 | troop surge, but that the civilian surge is not working. She  
2394 | says--and it is her words--that these teams, these  
2395 | reconstruction teams have not been successful to date, and  
2396 | she feels they are ill-defined mission and they will not be  
2397 | successful. And her comments are in opposition to this  
2398 | policy.

2399 |         But I have to come back. Mr. Walker, you mentioned that  
2400 | you were underfunded, and my constituents, I can't walk down  
2401 | the street without someone asking me about the \$12 billion  
2402 | that was flown over of Iraqi money, and of which \$8.8 billion  
2403 | is unaccounted for. That is the official term. Unaccounted  
2404 | for means missing, gone. And I know that it has been looked  
2405 | at, but I can't get it out of my mind and my constituents  
2406 | can't get it out of their mind that if we had been better  
2407 | stewards of the Iraqi money and the reconstruction, then we  
2408 | wouldn't be spending our American money on the Iraqi  
2409 | reconstruction.

2410 |         And I want to ask Mr. Bowen, Mr. Reed, Mr. Walker, if  
2411 | you have any insight on what happened to that \$8.8 billion?  
2412 | And you say we should be more accountable. Can you help us

2413 | in figuring out how to be more accountable on that \$8.8  
2414 | billion that dissolved into ether or whatever? And I just am  
2415 | very frustrated. If you could give us some stronger markers  
2416 | for the Administration.

2417 |       They say there are weapons of mass destruction. We  
2418 | can't find the weapons of mass destruction. They say give us  
2419 | a surge. We give them a surge, it doesn't work. We have  
2420 | given them four increases in troops and it hasn't worked.  
2421 | Can you think of any guidelines or oversight that might get  
2422 | the Department of Defense to have standards by which they  
2423 | will agree that, after a certain amount of misleading and  
2424 | failure, that they will begin to step down and ask the Iraqis  
2425 | to step up and take responsibility for their own country?

2426 |       Anyway, Mr. Walker.

2427 |       Mr. WALKER. I will start. First, as you know, I had a  
2428 | son who was a Marine Corps officer who fought in Iraq, so I  
2429 | have not only been working on this in my responsibility as  
2430 | Comptroller General and GAO's responsibility, I obviously  
2431 | have an interest given that I have a son that fought over  
2432 | there, although he is out now.

2433 |       Secondly, we did do a lot of work in support of the  
2434 | Iraqi Study Group. I was one of the first witnesses before  
2435 | the Iraqi Study Group. We gave them all of our reports and  
2436 | made access to all of our people there.

2437 |       Thirdly, one of the things that we have recommended a

2438 | long time ago to both the Executive Branch and the Congress  
2439 | is that you need to have more metrics and milestones both for  
2440 | what the U.S. is supposed to do and trying to accomplish and  
2441 | what the Iraqis are supposed to do and trying to accomplish.  
2442 | If you don't have appropriate metrics and milestones, and if  
2443 | you don't have adequate transparency over those metrics and  
2444 | milestones, you don't have any idea whether you are making  
2445 | progress or not and you can't make informed decisions.

2446 |       Part of that is why you need the TRAs, but it needs to  
2447 | go not just with regard to Iraqi security forces, it has to  
2448 | deal with some of the other issues that have been talked  
2449 | about here, electricity, water, a variety of other factors,  
2450 | oil production, for example. So there need to be more  
2451 | metrics and milestones and you need to be able to have  
2452 | somebody like GAO and others in the accountability community  
2453 | to assess the reliability of the information that you are  
2454 | being provided. The old trust but verify approach.

2455 |       Chairman WAXMAN. Thank you.

2456 |       Mr. Bowen?

2457 |       Mr. BOWEN. As we addressed last week and the CPA did not  
2458 | follow either its mandate required under the U.N. Security  
2459 | Council Resolution 1483 or its own rules in managing the  
2460 | Development Fund for Iraq and, thus, the Iraqi Ministries  
2461 | distributed that money, used that money, spent that money  
2462 | without any accountability back to CPA as to how it was used.

2463 | The Board of Supreme Audit continues to look at that issue.

2464 |       I have worked with GAO to provide the documents to the  
2465 | president of the Board of Supreme Audit so he can complete  
2466 | his audit. The audits that were completed by other entities  
2467 | employed by the U.N. looking at this issue found a lack of  
2468 | controls within the Ministries and, thus, no accountability.  
2469 | And, finally, the Commission on Public Integrity, the law  
2470 | enforcement arm in Iraq, ironically, created by the CPA, has  
2471 | hundreds of fraud cases ongoing with respect to what happened  
2472 | to that money.

2473 |       So it is not a good story as our audit reported almost  
2474 | two years ago.

2475 |       Chairman WAXMAN. Mr. Reed, do you want to respond?

2476 |       Mr. REED. I defer to Mr. Walker and Mr. Bowen and the  
2477 | god work they are doing in this area. It doesn't fall, of  
2478 | course, as a contract audit issue, but as a private citizen,  
2479 | I share your concerns equally.

2480 |       Mr. WALKER. If I may real quick, Mr. Waxman. As you  
2481 | know, and hopefully your constituents do, the \$9 billion,  
2482 | roughly, is Iraqi money, but that doesn't mean we shouldn't  
2483 | be concerned about it. We had a fiduciary responsibility with  
2484 | regard to that money, and that should be taken very  
2485 | seriously. We are, in part, going to be viewed as being  
2486 | responsible and accountable as to whether or not those funds  
2487 | were used properly and for appropriate purposes and with

2488 | positive outcomes irrespective of whose money it was.

2489 |         Now we need to make sure that the legitimate  
2490 | institutions of the Iraqi government, namely, the Board of  
2491 | Supreme Audit, has access and cooperation in order to conduct  
2492 | their audits of what happened with that money. And I and  
2493 | Stuart Bowen are trying to make sure that that happens, but  
2494 | there are varying degrees of cooperation that are occurring  
2495 | there.

2496 |         I found out recently, for example, that my counterpart,  
2497 | his home was entered into by our Army; all of the weapons  
2498 | were confiscated; no explanation, no apology. His  
2499 | predecessor was assassinated. The job is a pretty tough job.

2500 |         Not everybody is for transparency and accountability.  
2501 | Fortunately, in this Country, people debate about it rather  
2502 | than resort to violence.

2503 |         Chairman WAXMAN. Thank you, Mrs. Maloney.

2504 |         Mr. Bowen, just before I call on Mr. Clay, a  
2505 | clarification. Last week, when you were here with Ambassador  
2506 | Bremer, it seemed to me that both of you agreed there was no  
2507 | fraud. But now you are telling us that there is a fraud  
2508 | investigation by the Iraqis.

2509 |         Mr. BOWEN. Right.

2510 |         Chairman WAXMAN. So there was--there certainly appears  
2511 | to have been fraud by the Iraqis in the use of that cash, is  
2512 | that correct?

2513 Mr. BOWEN. Right. What I said was that our audit made  
2514 no findings of any fraud with respect to the disbursement of  
2515 that audit. What I have said today is that the CPI  
2516 commissioner reports to me, when I go visit with him, that he  
2517 has ongoing cases with respect to allegations of fraud,  
2518 allegations of fraud--and I think I said that last week as  
2519 well--on the use of that money.

2520 Chairman WAXMAN. CPI?

2521 Mr. BOWEN. Commission of Public Integrity. It is the  
2522 Iraqi FBI.

2523 Chairman WAXMAN. Okay. Thank you.

2524 Mr. Clay.

2525 Mr. CLAY. Thank you, Mr. Chairman, and thank you for  
2526 this series of hearings on Iraq.

2527 In his speech last month announcing his new strategy for  
2528 Iraq, President Bush asked Congress for an additional \$1.2  
2529 billion in economic aid to Iraq. That is a lot to ask of  
2530 American taxpayers who have already spent \$30 billion on Iraq  
2531 reconstruction. The President also said that, as part of  
2532 this plan, the Iraqis have promised to spend \$10 billion of  
2533 their own money. But when we examine previous Iraqi  
2534 commitments, we find a troubling pattern.

2535 Mr. Walker, according to a recent GAO report, the Iraqi  
2536 government budgeted about \$6 billion for reconstruction  
2537 projects for 2006, but as of August 2006 it had spent only

2538 | \$877 million of that amount. That is only 14 percent of what  
2539 | they promised to spend, isn't it?

2540 |       Mr. WALKER. You are correct that they have not spent  
2541 | near what their budget allows. And I think one of the things  
2542 | that Congress needs to think about when it is considering  
2543 | this appropriations request is whether or not you ought to  
2544 | have a matching concept, our funds will flow when their funds  
2545 | flow. We do that between Federal and State support  
2546 | circumstances and, of course, employers do that for pensions  
2547 | with regard to 401K. We need to think about that concept and  
2548 | to what extent that concept might apply here.

2549 |       Mr. CLAY. So like dollar for dollar, then, is what you  
2550 | are talking about.

2551 |       Mr. WALKER. Not necessarily dollar for dollar. If they  
2552 | committed to do \$10 billion, for example, and we have  
2553 | committed \$1 billion too. That is 12 percent. Maybe when  
2554 | their funds flow, our funds will flow. It is just a concept  
2555 | to think about.

2556 |       Mr. CLAY. Let me also ask you about the GAO report that  
2557 | also found that the Oil Ministry had spent less than 1  
2558 | percent of its capital budget in 2006, is that correct?

2559 |       Mr. WALKER. It is a very low percentage. I am not sure  
2560 | that it is less than 1 percent, but it is very low. That  
2561 | sounds about right.

2562 |       Mr. CLAY. Okay, thank you.



2563 Mr. Bowen, at our hearing last week you informed us that  
2564 at the end of last year there was about \$12 billion left in  
2565 the Iraqi treasury unspent.

2566 Mr. BOWEN. That is right.

2567 Mr. CLAY. Is that accurate?

2568 Mr. BOWEN. That is the number that I was told. Two days  
2569 ago the Iraqi Minister of Finance himself acknowledged at  
2570 least \$9 billion that should have been spent on  
2571 reconstruction and relief activities in Iraq was unspent and  
2572 left in the treasury last year.

2573 Mr. CLAY. What reason did they give you for not  
2574 spending?

2575 Mr. BOWEN. No reason is given, but we have an audit in  
2576 our latest quarterly report that addresses ministry capacity  
2577 development, a very significant issue in Iraq in that there  
2578 are a variety of reasons I have heard, and one is the  
2579 difficulty of the contracting system in Iraq. The regulatory  
2580 process is byzantine, the fear on the part of Iraqi  
2581 bureaucrats to sign anything because of potential  
2582 prosecution. But I think that probably the overarching issue  
2583 is the lack of a consensus upon a strategic plan on the Iraqi  
2584 side for a relief and reconstruction program for the country.

2585 Mr. CLAY. Now, the fact that the Iraqis have failed to  
2586 spend this money raises a question whether the Iraqi  
2587 government is trying to fund the reconstruction. I am

2588 | concerned that the Iraqi government may be waiting for the  
2589 | U.S. to spend American taxpayer dollars so that it doesn't  
2590 | have to spend Iraqi money on reconstruction of its own  
2591 | country. Do you get that sense?

2592 |         Mr. BOWEN. That is an issue of political will and it is  
2593 | a plausible conclusion.

2594 |         Mr. CLAY. And so, in your work in Iraq, you have seen  
2595 | signs that the government does not want to spend its money  
2596 | and they are waiting on American taxpayer dollars to flow.

2597 |         Mr. BOWEN. Well, as my latest report points out, the  
2598 | Iraq Relief and Reconstruction Fund is coming to an end, it  
2599 | is the end of the earth now, and that means, by simply  
2600 | definition, the Iraqis are going to have to sustain, going  
2601 | forward, the financial burden of the recovery of their  
2602 | country.

2603 |         Mr. CLAY. Thank you for that.

2604 |         And, Mr. Walker, do you have a similar impression, that  
2605 | the Iraqis may be waiting for the U.S. to spend their money  
2606 | before they spend any of the Iraqis?

2607 |         Mr. WALKER. They clearly have a number of capacity  
2608 | challenges which prevents them from spending the money; they  
2609 | don't have an overall plan. And, frankly, I mean, obviously,  
2610 | if somebody else is willing to spend money and you don't have  
2611 | to spend yours, then that has behavioral impacts.

2612 |         I might note that according to my very capable staff,

2613 almost 30 percent of DOD's reconstruction projects won't be  
2614 completed until late 2008. So while we have made substantial  
2615 progress, there is still work to be done.

2616 Mr. CLAY. And just to close, Mr. Walker, I sense a level  
2617 of frustration on your part at this entire ordeal of the Iraq  
2618 reconstruction, and maybe I am reading it wrong, but I  
2619 certainly sense it.

2620 Mr. WALKER. My frustration is broader than that. I  
2621 mean, the Defense Department is number one in the world in  
2622 fighting and winning armed conflicts, but they have 15 of 27  
2623 high-risk areas and there are billions of dollars wasted  
2624 every year. Billions.

2625 Mr. CLAY. Thank you, Mr. Chairman.

2626 Chairman WAXMAN. Thank you, Mr. Clay.

2627 Mr. Van Hollen?

2628 Mr. VAN HOLLEN. Thank you, Mr. Chairman.

2629 Let me thank all the witnesses for their testimony  
2630 today.

2631 Mr. Walker, I had some questions regarding the State  
2632 Department's diplomatic security operations and the contracts  
2633 they let under that, and I don't know to what extent GAO has  
2634 done recent work in this area. I know you have looked at it  
2635 in the past, but there is the Worldwide Personal Protective  
2636 Services Program and there are a number of firms that have  
2637 contracts under that overall umbrella, including DynCorp,

2638 Triple Canopy, and Blackwater.

2639 And there were some press reports back over the last  
2640 summer that suggested that some audits had found some major  
2641 discrepancies in terms of the amounts of monies paid for and  
2642 not being able to track the costs that those were allocated  
2643 to. I don't know how familiar you may be with those, and I  
2644 wondered if you could--

2645 Mr. WALKER. I am happy to try to go back and find out  
2646 what we have done and provide something for the record. I am  
2647 not familiar to be able to talk about it now. I will tell  
2648 you that we are using contractors in new and unprecedented  
2649 ways, including with regard to security arrangements. I  
2650 mean, if one goes--and I am sure you have been, I have been a  
2651 couple of times--to Iraq and in the Green Zone, you see a lot  
2652 of private contractors basically responsible for security,  
2653 including around where we currently have our ambassador,  
2654 which is not normally what you would see when you go to a  
2655 U.S. embassy elsewhere in the world.

2656 Mr. VAN HOLLEN. Right. That used to be a function  
2657 carried out by the Marines or other U.S. official members of  
2658 the armed forces.

2659 Mr. WALKER. Well, but obviously our presence is much  
2660 larger there; we have got a lot of contractors, we have got  
2661 troops there. But let's just say that there has been a  
2662 blurring of the roles and responsibilities, and part of that

2663 | is because we don't have enough in-strength, we don't have  
2664 | enough boots on the ground to do some of the things that need  
2665 | to get done.

2666 |         Mr. VAN HOLLEN. Does GAO have an estimate of how many  
2667 | so-called private soldiers are over there, people who are not  
2668 | members of the armed services but have responsibilities for  
2669 | security?

2670 |         Mr. WALKER. We don't, and, frankly, that is one of the  
2671 | problems, is that nobody is really responsible and  
2672 | accountable for maintaining some type of control over how  
2673 | many contractors we have, what are they doing, what are the  
2674 | contracting arrangements, etc.

2675 |         Mr. VAN HOLLEN. Okay. I am going to ask you to look  
2676 | into there were some press reports about a contract that was  
2677 | let under the Worldwide Personal Protective Services contract  
2678 | of the State Department, one to Blackwater, where they were,  
2679 | under the original contract, to be paid about \$229 million  
2680 | over five years. And yet, as of June 30th last year,  
2681 | according to a highly redacted audit statement that we have,  
2682 | they were actually paid an additional \$100 million under that  
2683 | contract, and I am interested in what the additional \$100  
2684 | million was spent on. And if you can comment on that now,  
2685 | great; otherwise, we will make sure you get this information.

2686 |         Mr. WALKER. I will try to get some more details, but it  
2687 | is my understanding that contractors do provide security for

2688 | our ambassador and certain other State Department personnel  
2689 | in Iraq.

2690 |       Mr. VAN HOLLEN. No, as you say, I have been there too  
2691 | and, you are right, when you get escorted from the airport  
2692 | and others, you often have private security.

2693 |       Mr. WALKER. Right.

2694 |       Mr. VAN HOLLEN. And it is an overall policy question as  
2695 | to what extent we should rely on those individuals.

2696 |       Mr. WALKER. I agree.

2697 |       Mr. VAN HOLLEN. And then there is the separate question,  
2698 | of course, when you do provide these contracts to provide for  
2699 | private security, whether or not the taxpayer is getting what  
2700 | it paid for, whether there are problems with the contract.

2701 |       Mr. WALKER. Value for money, right.

2702 |       Mr. VAN HOLLEN. So there is a particular contract here  
2703 | that I would ask you to take a look at going forward.

2704 |       Mr. WALKER. I will go back and find out what we have  
2705 | done and will touch base with you. We also want to  
2706 | coordinate our efforts to make sure there is not duplication  
2707 | of effort as to what might be being done by other members of  
2708 | the accountability community, but we will get back to you,  
2709 | Mr. Van Hollen.

2710 |       Mr. VAN HOLLEN. Okay. I don't know if either of the  
2711 | other witnesses want to testify. This is within the State  
2712 | Department, as I said, the Worldwide Personnel Protective

2713 Services.

2714 Mr. WALKER. Well, we would want to talk to the State  
2715 Department IG, for example, to find out what, if anything,  
2716 the State Department IG has done on this.

2717 Mr. VAN HOLLEN. Okay.

2718 Mr. REED. We have done work at DynCorp on some of their  
2719 protective service contracts, not the one, unfortunately,  
2720 that Mr. Bowen addressed earlier, but some of the earlier  
2721 ones we have been doing contract audits.

2722 Mr. VAN HOLLEN. Okay. Thank you.

2723 Thank you, Mr. Chairman.

2724 Chairman WAXMAN. Thank you very much, Mr. Van Hollen.

2725 I want to thank the three of you.

2726 Did you have anything further, Mr. Lynch?

2727 Mr. LYNCH. May I, Mr. Chairman? I just have one quick  
2728 question.

2729 Chairman WAXMAN. The gentleman is recognized for one  
2730 quick question.

2731 [Laughter.]

2732 Mr. LYNCH. Thank you, Mr. Chairman.

2733 I know I have spoken to Mr. Bowen before on this. I  
2734 have got enough experience in the construction industry to be  
2735 dangerous, and I know that in the private sector in this  
2736 Country we use a tool called critical path management, where  
2737 you actually have a construction diagram, a blueprint, if you

2738 | will, of a project and it is all laid out what function has  
2739 | to go next, pouring concrete, erecting steel, and it has the  
2740 | whole project laid out in a blueprint so that anybody walking  
2741 | onto that job to do oversight, to find out whether the  
2742 | project is on schedule or over budget can basically look at  
2743 | that document and find out whether or not the project is on  
2744 | schedule and on budget.

2745 |         Do they use anything like that in any of these--and this  
2746 | is a question that is certainly open to Mr. Walker and Mr.  
2747 | Reed. Do you use any tools like that that are required of  
2748 | these defense contractors and folks that are actually  
2749 | building these projects for us? Because, for us in the  
2750 | private sector in this Country, it offers an objective  
2751 | assessment of where the projects are at, and it is a great  
2752 | cost-containment tool. In my trips--I have been over there  
2753 | five times--I haven't been able to locate any documents that  
2754 | would help me make that type of assessment, and I just didn't  
2755 | know if you had access to those types of tools; critical path  
2756 | management, it basically lays out an accountability tool that  
2757 | you can track the projects on a case-by-case basis at a  
2758 | specific moment in time.

2759 |         Mr. REED. We have not seen that in our review of quality  
2760 | assurance programs. The quality assurance burden is broader  
2761 | and it requires the government to ensure that the contractor  
2762 | has a quality control program. That is where that tool would



2763 | come into use if it were there. But as we have heard today,  
2764 | the levels of subcontracting sometimes step down two or three  
2765 | steps beyond the prime, and that leads to a weakening of  
2766 | oversight, an attenuation of insight, and has cost some  
2767 | waste.

2768 |         Mr. LYNCH. Okay.

2769 |         Thank you, Mr. Chairman. I yield back.

2770 |         Chairman WAXMAN. Thank you. Good question, Mr. Lynch.

2771 |         I want to thank the three of you. You have been very  
2772 | helpful and I appreciate your testimony and look forward to  
2773 | continuing hearing from you and learning from you as to what  
2774 | accountability we are getting for the money that is being  
2775 | spent. Thank you.

2776 |         That concludes our business. The meeting stands  
2777 | adjourned.

2778 |         [Whereupon, at 12:37 p.m., the committee was adjourned.]

\*\*\*\*\*  
CONTENTS  
\*\*\*\*\*

STATEMENTS OF DAVID M. WALKER, COMPTROLLER GENERAL OF THE UNITED STATES, GOVERNMENT ACCOUNTABILITY OFFICE; STUART W. BOWEN, JR., SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION; WILLIAM H. REED, DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY	PAGE	29
STATEMENT OF DAVID M. WALKER	PAGE	29
STATEMENT OF WILLIAM H. REED	PAGE	34
STATEMENT OF STUART W. BOWEN, JR.	PAGE	38

\*\*\*\*\*  
INDEX OF INSERTS  
\*\*\*\*\*

***** COMMITTEE INSERT *****	PAGE	3
***** COMMITTEE INSERT *****	PAGE	6
***** INSERT *****	PAGE	7
***** COMMITTEE INSERT *****	PAGE	8
***** INSERT *****	PAGE	12
***** INSERT *****	PAGE	13
***** COMMITTEE INSERT *****	PAGE	16
***** COMMITTEE INSERT *****	PAGE	18
***** COMMITTEE INSERT *****	PAGE	20
***** COMMITTEE INSERT *****	PAGE	21
***** COMMITTEE INSERT *****	PAGE	23

\*\*\*\*\* INSERT \*\*\*\*\*

PAGE 24

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

PAGE 26

\*\*\*\*\* INSERT \*\*\*\*\*

PAGE 33

\*\*\*\*\* INSERT \*\*\*\*\*

PAGE 37

\*\*\*\*\* INSERT \*\*\*\*\*

PAGE 45