

David Norquist Nomination as DHS CFO
Senator Joseph Lieberman
May 8, 2006

Thank you Madam Chairman and welcome to this hearing Mr. Norquist.

I can't stress how important this hearing is. The person stepping into the job of Chief Financial Officer of the Department of Homeland Security faces enormous challenges.

The CFO will have to steer the 22 different agencies that make up DHS to financial stability so that DHS will finally get a clean audit. Previous audits have detailed serious shortcomings and poor financial management that has resulted in agencies running out of money for critical missions or having to impose sudden hiring freezes.

We cannot have these types of disruptions to the Department charged with securing our homeland.

And the CFO must work closely with the Chief Procurement Officer of the Department to bring an end to the embarrassing waste we have seen in many large DHS contracts.

The CFO will also need to decide what to do with the financial modernization project called EMERGE2 – or Electronically Managing Enterprise Resources for Government Effectiveness and Efficiency. The system was originally designed as a total transformation of DHS' financial systems, but has been downscaled in the President's FY07 budget request.

Given the importance of this job, in 2004, Congress changed the law to make the position of chief financial officer subject to Senate confirmation.

Serving as Chief Financial Officer will require a commitment not only to sound financial management, but also to openness and transparency. If you are confirmed, Mr. Norquist, we would expect you to cooperate closely with the Inspector General and GAO, and to provide information promptly to Congress.

In that spirit, I intend to ask you about your involvement in a troubling incident that relates to these important principles. While working at the Department of Defense, you led a team of government officials that decided not to disclose to a United Nations oversight board that KBR – a subsidiary of Halliburton – was suspected of overcharging Iraq millions of dollars.

In December 2003, the Defense Contract Audit Agency (DCAA) announced that its draft audit had found overcharges by KBR of as much as \$61 million for importing Kuwaiti fuel into Iraq. DCAA also said that significant additional overcharges were likely in the months to come.

The contract was largely paid for from the Development Fund for Iraq, also known as DFI, which was established by UN Security Council Resolution 1483. The money in this fund belongs to the Iraqi people. It came from Iraqi oil sales, assets that had been frozen in bank accounts outside the U.S., and \$8 billion in funds transferred from the UN Oil-for-Food program.

The UN gave control of the DFI to the Coalition Provisional Authority. The UN also established the International Advisory and Monitoring Board for Iraq to monitor our

government's administration of DFI. Resolution 1483 required that the Iraqi funds be "used in a transparent and equitable manner" and for the benefit of the Iraqi people.

Beginning in April 2004 and continuing through September, the UN oversight board made repeated requests for the DCAA audits of the KBR contracts. During that period, you were the U.S. Department of Defense's observer and liaison to the Board.

Accordingly, as you've told the Committee's staff investigators, you headed up the process that considered whether the audits would be given to the UN Board.

In October of 2004, you provided the oversight board redacted copies of the DCAA audits that struck every reference to every overcharge in every audit – 463 redactions in all. Had they not been redacted, the DCAA audits would have shown that more than \$177 million in overcharges and more than \$17 million in unsupported costs were funded with Iraqi money.

These redactions were made at KBR's request. The Department of Defense did not dispute a single one.

It would have been proper to redact information of a strictly proprietary nature. But when KBR handed over the redacted audits to the Department of Defense, it stated that it had struck information other than proprietary information. KBR explained that it had also redacted statements that the company believed were incorrect or misleading and that could damage KBR's ability to win and negotiate new work.

It is also very troubling that a contractor implicated in an overcharging scandal would be given the final say on what information to provide to the UN oversight board. After all, the UN board was the legal entity responsible for oversight of misspent Iraqi funds.

Mr. Norquist, I would like to hear more about your role in this incident. I think this episode is relevant to today's hearing because DHS needs a CFO who puts taxpayers first; who is committed to sound financial management and transparency; and who is willing to confront agencies that may be shirking their legal responsibilities.

In preparing for the hearing Committee staff reviewed many documents that had been produced by the Department of Defense, as well as others that are publicly available. I ask that a selection of the documents be entered into the hearing record so that I can ask the nominee about them.

I would also note that the Department of Defense refused to provide us with many hundreds of pages of responsive documents, but did let Committee staff review the documents at the Pentagon. In my questions I may refer to documents that our staff reviewed but we do not have.

Thank you Madam Chairman.