

GAO

Testimony before the Committee on
Government Reform, House of
Representatives

For Release on Delivery
Expected at 10:00 a.m. EDT
Thursday, September 28, 2006

REBUILDING IRAQ

Continued Progress
Requires Overcoming
Contract Management
Challenges

Statement of Katherine V. Schinasi, Managing Director,
Acquisition and Sourcing Management





Highlights of [GAO-06-1130T](#), a testimony to the Committee on Government Reform, House of Representatives

Why GAO Did This Study

The United States, along with its coalition partners and various international organizations, has undertaken a challenging, complex, and costly effort to stabilize and rebuild Iraq. The Department of Defense (DOD) has responsibility for a significant portion of the reconstruction effort.

Amid signs of progress, the coalition faces numerous political, security, and economic challenges in rebuilding Iraq. Within this environment, many reconstruction projects have fallen short of expectations, resulting in increased costs, schedule delays, reduced scopes of work, and in some cases project cancellations.

This testimony (1) discusses the overall progress that has been made in rebuilding Iraq and (2) describes challenges faced by DOD in achieving successful outcomes on individual projects.

This testimony reflects our reviews of reconstruction and DOD contract management issues, as well as work of the Special Inspector General for Iraq Reconstruction.

In our previous reports, we have made several recommendations to improve outcomes in Iraq. DOD generally agreed with our recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-1130T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Katherine V. Schinasi at (202) 512-4841 or schinasi@gao.gov.

REBUILDING IRAQ

Continued Progress Requires Overcoming Contract Management Challenges

What GAO Found

Overall, the United States generally has not met its goals for reconstruction activities in Iraq with respect to the oil, electricity, and water sectors. As of August 2006, oil production is below the prewar level, and the restoration of electricity and new or restored water treatment capacity remain below stated goals. One-third of DOD's planned construction work still needs to be completed and some work is not planned for completion until late 2008. Continuing violence in the region is one of the reasons that DOD is having difficulty achieving its goals.

The contracting challenges encountered in Iraq are emblematic of systemic issues faced by DOD. When setting requirements for work to be done, DOD made assumptions about funding and time frames that later proved to be unfounded. The failure to define realistic requirements has had a cascading effect on contracts and has made it difficult to take subsequent steps to get successful outcomes. For example, in the absence of settled requirements, agencies sometimes rely on what are known as undefinitized contract actions, which can leave the government exposed to increased costs. Further, DOD lacked the capacity to provide effective oversight and manage risks. We also found that DOD, at times, improperly used interagency contracts and was not able to take advantage of full and open competition during the initial stages of reconstruction. Just as multiple factors contribute to success or failure, multiple actors play a role in achieving successful acquisition outcomes, including policy makers, program managers, contracting officers, and the contractors themselves.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the contracting challenges the Department of Defense (DOD) faces in achieving successful acquisition outcomes in its efforts to stabilize and rebuild Iraq. The United States, along with its coalition partners and various international organizations, has undertaken a challenging and costly effort to stabilize and rebuild Iraq. This enormous effort is taking place in an unstable security environment, concurrent with Iraqi efforts to transition to a permanent government, and relies heavily on private companies for success. DOD has responsibility for a significant portion of the reconstruction efforts and has awarded and managed many of the large reconstruction contracts, such as contracts to rebuild Iraq's oil, water, and electrical infrastructure.

As we have previously noted, amid signs of progress, the coalition faces numerous political, security, and economic challenges in rebuilding Iraq.¹ For example, our recent assessment of the security situation in Iraq found that the conditions have deteriorated and grown more complex, as evidenced by the increased number of attacks and growing sectarian violence. Within this environment, many reconstruction projects have fallen short of expectations, resulting in increased costs, schedule delays, reduced scopes of work, and in some cases project cancellations. Poor acquisition outcomes are not unique to Iraq; we designated DOD's contract management activities as a high-risk area more than a decade ago. In our January 2005 high-risk report, we noted that DOD needs to use sound business practices when buying goods and services and have the right skills and capabilities in its acquisition workforce to properly manage these acquisitions.²

Today, I will briefly discuss the overall progress that has been made in rebuilding Iraq and then describe challenges faced by DOD in achieving successful outcomes on individual projects. This information is based on completed and ongoing reviews of efforts to rebuild Iraq that we have undertaken since 2003, as well as our work related to selected DOD

¹GAO, *Rebuilding Iraq: Governance, Security, Reconstruction, and Financing Challenges*, [GAO-06-697T](#) (Washington, D.C.: Apr. 25, 2006); GAO, *Rebuilding Iraq: More Comprehensive National Strategy Needed to Help Achieve U.S. Goals and Overcome Challenges*, [GAO-06-953T](#) (Washington, D.C.: Jul. 11, 2006); and GAO, *Stabilizing Iraq: An Assessment of the Security Situation*, [GAO-06-1094T](#) (Washington, D.C.: Sep. 11, 2006).

²GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: January 2005).

contract management issues. We conducted our reviews in accordance with generally accepted government auditing standards. In our previous reports, we have made several recommendations to improve outcomes in Iraq. DOD generally agreed with our recommendations.

My statement also considers the work of the Special Inspector General for Iraq Reconstruction, including audits of specific projects and lessons learned reports. We and other accountability organizations coordinate our oversight efforts with those conducted by the Inspector General to avoid duplication and maximize resources. In that regard, the Inspector General's ability to provide in-country oversight of specific projects and reconstruction challenges has enabled us to focus on national, sector, and interagency issues.

Summary

Overall, the United States generally has not met its goals for reconstruction activities in Iraq with respect to the oil, electricity, and water sectors. As of August 2006, oil production was below the prewar level, and the restoration of electricity and new or restored water treatment capacity remained below stated goals. One-third of DOD's planned construction work still needs to be completed and some work is not planned for completion until late 2008. Continuing violence is one of the reasons that DOD is having difficulty achieving its goals.

The contracting challenges encountered in Iraq are emblematic of systemic issues faced by DOD. When setting requirements for work to be done, DOD made assumptions about funding and time frames that later proved to be unfounded. The failure to define realistic requirements has had a cascading effect on contracts and has made it difficult to take subsequent steps to get successful outcomes. For example, in the absence of settled requirements, DOD sometimes relied on what are known as undefinitized contract actions, which can leave the government exposed to increased costs. Further, DOD lacked the capacity to provide effective oversight and manage risks. We also found that DOD, at times, improperly used interagency contracts and did not take advantage of full and open competition during the initial stages of reconstruction.

Background

The contracting processes, activities, and challenges associated with rebuilding Iraq can be viewed as similar to, albeit more complicated than, those DOD normally confronts. We and others have already reported on the large and continuing drain on reconstruction dollars to meet unanticipated security needs. Further, multiple players with diffuse and

changing responsibilities have had large roles in rebuilding Iraq, complicating lines of authority and accountability. Additionally, rebuilding a nation after decades of neglect and multiple wars is an inherently complex, challenging, and costly undertaking.

From May 2003 through June 2004, the Coalition Provisional Authority (CPA), led by the United States and the United Kingdom, was the United Nations recognized authority responsible for the temporary governance of Iraq and for overseeing, directing, and coordinating reconstruction efforts. During 2003, several agencies, most notably the U.S. Agency for International Development (USAID) and the U.S. Army Corps of Engineers, played a role in awarding and managing initial reconstruction contracts. To coordinate and manage the \$18.4 billion in reconstruction funding provided in fiscal year 2004, the CPA established a multi-tiered contracting approach for Iraq reconstruction activities. The CPA, through various military organizations, awarded the following contracts: 1 program management support contract to oversee reconstruction efforts; 6 sector program management contracts to coordinate reconstruction efforts specific to each sector; and 12 design-build contracts to execute specific construction tasks. DOD is now emphasizing greater use of local Iraqi firms to perform reconstruction work that was previously intended to be performed by the design-build contractors.

With the establishment of Iraq's interim government in June 2004, the CPA's responsibilities were transferred to the Iraqi government or to U.S. agencies. The Department of State is now responsible for overseeing U.S. efforts to rebuild Iraq. The Project and Contracting Office (PCO), a temporary DOD organization, was tasked with providing acquisition and project management support. In December 2005, DOD merged the PCO with the U.S. Army Corps of Engineers Gulf Region Division, which now supervises DOD reconstruction activities in Iraq. Additionally, the State Department's Iraq Reconstruction and Management Office is responsible for strategic planning and for prioritizing requirements, monitoring spending, and coordinating with the military commander. USAID continues to award its own contracts, which are generally associated with economic assistance, education and governance, and certain infrastructure projects.

U.S. Efforts Have Produced Mixed Results in Restoring Iraq's Essential Services

The United States has made some progress in restoring Iraq's essential services, but as of August 2006, such efforts generally have not met prewar production levels or U.S. goals. Reconstruction activities have focused on restoring essential services, such as refurbishing and repairing oil facilities, increasing electrical generating capacity, and restoring water treatment plants. About one-third of DOD's construction work remains, and DOD estimates that some work is not planned for completion until late 2008. Continued violence, however, may make it difficult for the United States to achieve its goals.

For August 2006, the U.S. embassy reported that the oil, electricity, and water sectors generally performed below the planned U.S. goals. Specifically,

- Crude oil production capacity was reported as about 2.4 million barrels per day (mbpd), below the prewar level of 2.6 mbpd and the desired goal of 3 mbpd.
- In the electricity sector, peak generation capacity was reported at 4,855 megawatts, above the prewar level of 4,300 megawatts, but below the U.S. goal of 6,000 megawatts. Further, the current demand for power continues to outstrip the available supply of electricity as more Iraqis purchase consumer items and devices requiring electricity to operate.
- In the water sector, new or restored treatment capacity was reported at about 1.44 million cubic meters per day, compared to the U.S. goal of 2.4 million cubic meters.³

According to senior CPA and State officials responsible for the U.S. strategy, the CPA's 2003 reconstruction plan assumed that (1) creating or restoring basic essential services for the Iraqi people took priority over jobs creation and the economy and (2) the United States should focus on long-term infrastructure projects because of the expertise the United States could provide. Further, the strategy assumed that reconstruction efforts would take place in a relatively benign environment. The difficult security environment and persistent attacks on U.S.-funded infrastructure, among other challenges, contributed to project delays, increased costs, and canceling or reducing the scope of some reconstruction projects. As

³The data for the water sector is as of September 18, 2006.

we reported on September 11, 2006, the overall security conditions have grown more complex, as evidenced by increased numbers of attacks and Sunni/Shi'a sectarian strife. The continuing violence may make it difficult for the United States to achieve its goals.

Iraq Contracting Challenges Reflect Systemic Issues Faced by DOD

The contracting challenges encountered in Iraq are emblematic of systemic issues faced by DOD. A fundamental prerequisite to having good outcomes is a match between well-defined requirements and available resources. At the sector, program, and project levels, the failure to define realistic requirements has had a cascading effect on contracts and made it difficult to take subsequent steps necessary to get to successful outcomes. For example, in the absence of settled requirements, DOD has sometimes relied on what are known as undefinitized contractual actions, which were used extensively in Iraq and can leave the government exposed to increased costs. Managing risks when requirements are in flux requires effective oversight, but DOD lacked the capacity to provide a sufficient acquisition workforce, thereby hindering oversight efforts. In Iraq, as elsewhere, we found instances in which DOD improperly used interagency contracts to meet reconstruction needs. Finally, the underlying market discipline offered by competition can help promote better outcomes, but DOD, like other agencies, was challenged, particularly early on, in its ability to realize the benefits of competition. One or more of these factors can contribute to unsatisfactory outcomes on individual projects; the net effect, however, is that many reconstruction projects did not achieve their intended goals and DOD has incurred unanticipated costs and schedule delays.

Matching Requirements with Available Resources

One of the factors that can contribute to poor DOD acquisition outcomes is the mismatch between wants, needs, affordability, and sustainability. This mismatch was evident in the reconstruction efforts in Iraq. U.S. reconstruction goals were based on assumptions about the money and time needed, which have proven unfounded. U.S. funding was not meant to rebuild Iraq's entire infrastructure, but rather to lay the groundwork for a longer-term reconstruction effort that anticipated significant assistance from international donors.

To provide that foundation, the CPA allocated \$18.4 billion in fiscal year 2004 reconstruction funds among various projects in each reconstruction sector, such as oil, electricity, and water and sanitation. As noted by the Special Inspector General, almost immediately after the CPA dissolved, the Department of State initiated an examination of the priorities and

programs with the objectives of reprioritizing funding for projects that would not begin until mid- to late-2005 and using those funds to target key high-impact projects. By July 2005, the State Department had conducted a series of funding reallocations to address new priorities, including increasing support for security and law enforcement efforts and oil infrastructure enhancements. One of the consequences of these reallocations was to reduce funding for the water and sanitation sector by about 44 percent, from \$4.6 billion to \$2.6 billion. One reallocation of \$1.9 billion in September 2004 led the PCO to cancel some projects, most of which were planned to start in mid-2005. Changes, even those made for good reasons, make it more difficult to manage individual projects to successful outcomes.

Further, such changes invariably have a cascading effect on individual contracts. To produce desired outcomes within available funding and required time frames, DOD and its contractors need to have a clear understanding of reconstruction objectives and how they translate into the terms and conditions of a contract: what goods or services are needed, when they are needed, the level of performance or quality desired, and what the cost will be. When such requirements were not clear, DOD often entered into contract arrangements on reconstruction efforts that posed additional risks. For example,

- In June 2004, we reported that faced with uncertainty as to the full extent of the rebuilding effort, DOD often authorized contractors to begin work before key terms and conditions, including the work to be performed and its projected costs, were fully defined.⁴ The use of undefinitized contract actions, while allowing needed work to begin quickly, can result in additional costs and risks to the government. We found that as of March 2004, about \$1.8 billion had been obligated on reconstruction contract actions without DOD and the contractors reaching agreement on the final scope and price of the work. In one case, we found a contract action that had been modified nine times between March and September 2003, increasing estimated costs from \$858,503 to about \$204.1 million without DOD and the contractor reaching agreement on the scope of work or final price.
- In September 2005, we reported that difficulties in defining the cost, schedule, and work to be performed associated with projects in the

⁴GAO, *Rebuilding Iraq: Fiscal Year 2003 Contract Award Procedures and Management Challenges*, [GAO-04-605](#) (Washington, D.C.: Jun. 1, 2004).

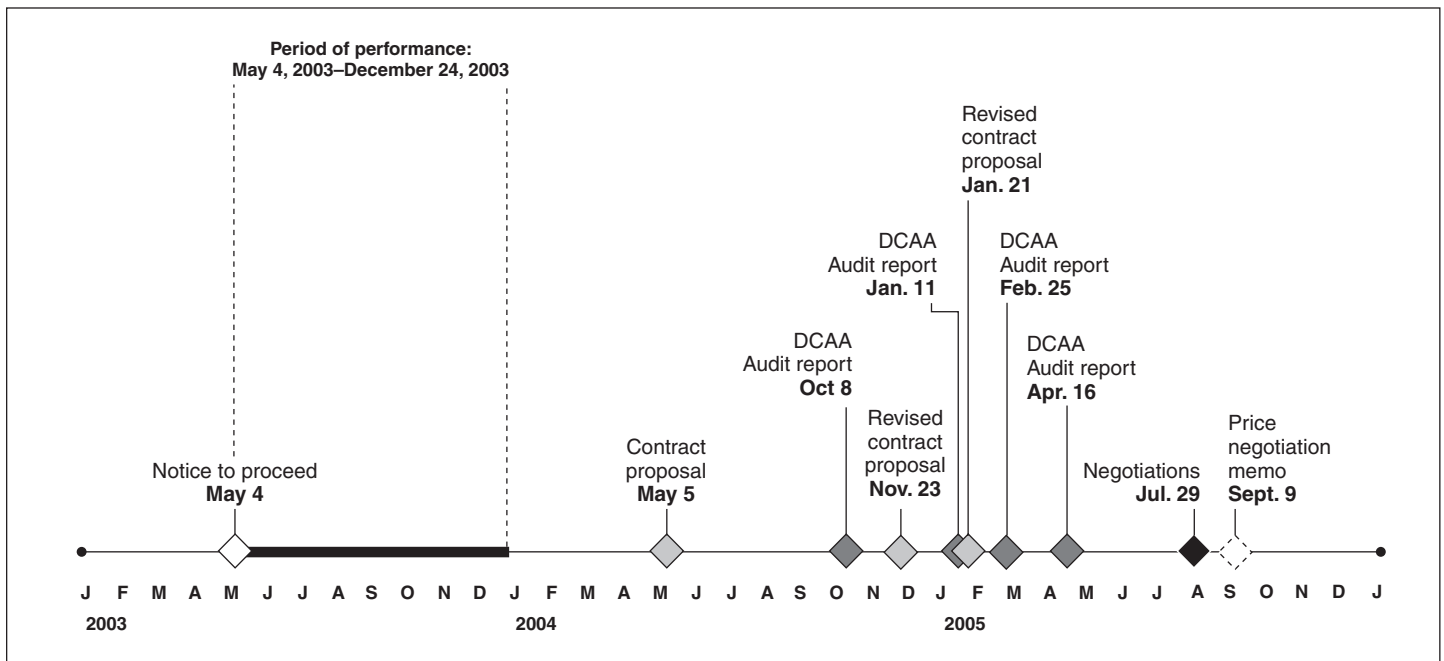
water sector contributed to project delays and reduced scopes of work.⁵ We reported that DOD had obligated about \$873 million on 24 task orders to rebuild Iraq's water and sanitation infrastructure, including municipal water supplies, sewage collection systems, dams, and a major irrigation project. We found, however, that agreement between the government and the contractors on the final cost, schedule, and scope of 18 of the 24 task orders we reviewed had been delayed. These delays occurred, in part, because Iraqi authorities, U.S. agencies, and contractors could not agree on scopes of work and construction details. For example, at one wastewater project, local officials wanted a certain type of sewer design that increased that project's cost.

- Earlier this week, we issued a report on how DOD addressed issues raised by the Defense Contract Audit Agency (DCAA) in audits of Iraq-related contract costs.⁶ We again noted that DOD frequently authorized contractors to begin work before reaching agreement on the scope or price of the work. In such cases, we found that DOD contracting officials were less likely to remove costs questioned by DCAA from a contractor's proposal when the contractor had already incurred these costs. For example, of the 18 audit reports we reviewed, DCAA issued 11 reports on contract actions where more than 180 days had elapsed between the beginning of the period of performance to final negotiations. For 9 of these audits, the period of performance DOD initially authorized for each contract action concluded before final negotiations took place. In one case, DCAA questioned \$84 million in its audit of a task order proposal for an oil mission. In this case, the contractor did not submit a proposal until a year after the work was authorized, and DOD and the contractor did not negotiate the final terms of the task order until more than a year after the contractor had completed work (see fig. 1). In the final negotiation documentation, the DOD contracting official stated that the payment of incurred costs is required for cost-type contracts, absent unusual circumstances. In contrast, in the few audit reports we reviewed where the government negotiated prior to starting work, we found that the portion of questioned costs removed from the proposal was substantial.

⁵GAO, *Rebuilding Iraq: U.S. Water and Sanitation Efforts Need Improved Measures for Assessing Impact and Sustained Resources for Maintaining Facilities*, [GAO-05-872](#) (Washington, D.C.: Sep. 7, 2005).

⁶GAO, *Iraq Contract Costs: DOD Consideration of Defense Contract Audit Agency's Findings*, [GAO-06-1132](#) (Washington, D.C.: Sep. 25, 2006).

Figure 1: Timeline of Key Contracting Events for Restore Iraqi Oil Contract, Task Order 5



Source: GAO analysis of DOD data.

Oversight and Workforce Issues

Instability—such as when wants, needs, and contract requirements are in a state of flux—requires greater attention to oversight, which in turn relies on a capable government workforce. Managing the attendant risks in unstable situations grows in both importance and difficulty. Unfortunately, attention to oversight and a capable government workforce has not always been evident during the reconstruction effort. Such workforce challenges are not unique to Iraq. DOD’s civilian workforce shrank by about 38 percent between fiscal years 1989 and 2002, but DOD performed this downsizing without ensuring that remaining staff had the specific skills and competencies needed to accomplish future DOD missions. In other cases, contractors have taken over support positions that were traditionally filled by government personnel. For example, a contractor began providing intelligence support to the Army in Germany in 1999 and deployed with the Army to Iraq in 2003. The Army, however, found itself unprepared for the volume of Iraqi detainees and the need for interrogation and other intelligence and logistics services.

We and others have reported on the impact of the lack of adequate acquisition personnel and high turnover rates on reconstruction efforts. For example, among the lessons learned identified by the Special Inspector General was that one of the CPA's critical personnel shortcomings was the inadequate link between position requirements and necessary skills. In this case, gaps existed in the experience levels of those hired, as well as in the quality and depth of their experiences relative to their assigned jobs. Similarly, in January 2004, an interagency assessment team was sent to Iraq to review the CPA's contracting capability. The team found that existing contracting personnel were insufficient to handle the increased workload that was expected with the influx of fiscal year 2004 reconstruction funding and that the CPA needed more individuals with acquisition expertise who could help the programmatic side of the operation. In part, the CPA's decision to award seven contracts in early 2004 to help better coordinate and manage the fiscal year 2004 reconstruction efforts was in recognition of this shortfall. As a result, DOD finds itself in the position of relying on contractors to help manage and oversee the work of other contractors.

At the contract level, having personnel who are trained to conduct oversight, assigned at or prior to contract award, and held accountable for their oversight responsibilities is essential for effective oversight. Our work has shown that if oversight is not conducted, is insufficient, or is not well documented, DOD, and other reconstruction agencies, risk not identifying and correcting poor contractor performance in a timely manner and paying contractors more than the value of the services they perform.⁷ For example,

- Our June 2004 report found that early contract administration challenges were caused, in part, by the lack of sufficient personnel.⁸ We found that, due to the lack of government personnel to provide oversight, one contractor may have purchased \$7 million in equipment and services that were not specifically authorized under the contract. Similarly, on another contract, to provide subject matter experts to the CPA and Iraqi ministries, DOD officials stated that some experts failed to report to duty or when they did, did not perform as expected. DOD officials attributed such performance issues to the lack of personnel to provide oversight when the experts arrived in Iraq.

⁷GAO, *Contract Management: Opportunities to Improve Surveillance on Department of Defense Service Contracts*, [GAO-05-274](#) (Washington, D.C.: Mar. 17, 2005).

⁸[GAO-04-605](#).

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- In July 2005, we noted that USAID obligated an additional \$33 million on one of its contracts to pay for unanticipated increases in security costs, which left it short of funds to pay for construction oversight and quality assurance efforts, as well as to fund administrative costs.⁹
 - Our September 2005 report on water and sanitation efforts found that frequent staff turnover affected both the definitization process and the overall pace and cost of reconstruction efforts.¹⁰ For example, new contracting officers had to be brought up to speed and would sometimes ask the contractor to resubmit information in formats different from those previously required. A PCO official also noted that the contracting office in Iraq lacked sufficient staff and equipment and that some of the staff assigned as contracting officers lacked experience with the type of projects the PCO managed.

Using Interagency Contracting Vehicles

Another area in which workforce shortfalls proved problematic was in DOD's use and management of interagency contracting vehicles. We identified management of interagency contracting as a high-risk area in January 2005. In recent years, federal agencies have been making a major shift in the way they procure many goods and services. Rather than developing and awarding their own contracts, agencies are making greater use of contracts already awarded by other agencies, referred to as interagency contracting. This practice offers the benefits of improved efficiency and timeliness. Such contracts, however, need to be effectively managed, and their use demands a higher than usual degree of business acumen and flexibility on the part of the acquisition workforce. Our work and that of some agency inspectors general found instances of improper use of interagency contracting, resulting from increasing demands on the acquisition workforce, insufficient training, inadequate guidance, an inordinate focus on meeting customer demands at the expense of complying with sound contracting policy and required procedures, and the lack of clear lines of responsibility and accountability.

During the initial stages of reconstruction, we and the DOD Inspector General found instances in which DOD improperly used interagency contracts for many of the same reasons. For example,

⁹GAO, *Rebuilding Iraq: Actions Needed to Improve Use of Private Security Providers*, GAO-05-737 (Washington, D.C.: Jul. 28, 2005).

¹⁰GAO-05-872.

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- In March 2004, the DOD Inspector General reported that a review of 24 contract actions awarded by a DOD component on behalf of the CPA revealed that DOD circumvented contracting rules, including improperly using General Services Administration federal supply schedule contracts and improperly contracting for personal services.¹¹ The Inspector General attributed this condition to the need to quickly award contracts and to DOD's failure to plan for the acquisition support the CPA needed to perform its mission.
 - In June 2004, we noted that a task order awarded by the Air Force to provide logistical support and equipment to support USAID's mission in Baghdad and at other sites in Iraq was, in part, outside the scope of the contract.¹² The Air Force indicated that it was issuing additional guidance to ensure that future task orders were within the scope of the contract.
 - In April 2005 we reported that a lack of effective management controls—in particular insufficient management oversight and a lack of adequate training—led to breakdowns in the issuance and administration of task orders for interrogation and other services by the Department of the Interior on behalf of DOD.¹³ These breakdowns included
 - issuing 10 out of 11 task orders that were beyond the scope of underlying contracts, in violation of competition rules;
 - not complying with additional DOD competition requirements when issuing task orders for services on existing contracts;
 - not properly justifying the decision to use interagency contracting;
 - not complying with ordering procedures meant to ensure best value for the government; and
 - not adequately monitoring contractor performance.

¹¹Office of the Inspector General, Department of Defense. *Acquisition: Contracts Awarded for the Coalition Provisional Authority by the Defense Contracting Command—Washington*. (Report No. D-2004-057, Arlington, Virginia, Mar. 18, 2004).

¹²[GAO-04-605](#).

¹³GAO, *Interagency Contracting: Problems with DOD's and Interior's Orders to Support Military Operations*, [GAO-05-201](#) (Washington, D.C.: Apr. 29, 2005).

Because officials at Interior and the Army responsible for the orders did not fully carry out their roles and responsibilities, the contractor was allowed to play a role in the procurement process normally performed by the government. Further, the Army officials responsible for overseeing the contractor, for the most part, lacked knowledge of contracting issues and were not aware of their basic duties and responsibilities.

Initial Inability to Benefit from Competition

Finally, one tool that can help mitigate acquisition risks is to rely on the discipline provided by market forces when contracts are awarded under full and open competition—that is, when all responsible prospective contractors are afforded the opportunity to compete. During the initial stages of reconstruction, we found that agencies were unable to take full advantage of competition, in part because of the relatively short time—often only weeks—to award the first contracts. Our June 2004 report found that agencies generally complied with applicable requirements for competition when awarding new contracts but did not always do so when issuing task orders against existing contracts. We found that 7 of the 11 task orders we reviewed were for work that was, in whole or in part, outside the scope of the existing contracts. In each of these cases, the out-of-scope work should have been awarded using competitive procedures or supported with a justification and approval for using other than full and open competition in accordance with legal requirements. Given the urgent need for reconstruction efforts, we noted that the authorities under the competition laws provided agencies ample latitude to justify their approach.

Such latitude presupposes that the rationale for such actions is valid; if not, then the loss of the benefits from competition cannot be easily justified. For example, in November 2005, we sustained a protest of a sole-source contract awarded by the Air Force in December 2004 for bilingual-bicultural advisers that was placed under an environmental services contract, which, on its face, did not include within its scope the bilingual-bicultural adviser requirement.¹⁴ We concluded that the agency's efforts were so fundamentally flawed as to indicate an unreasonable level of advance planning. In the same decision, we sustained a protest of a second, follow-on sole-source contract awarded by the Air Force in July 2005 to the same company, in which the justification and approval prepared in support of the contract was premised on the conclusion that the contractor was the only responsible source, yet the capabilities of

¹⁴*WorldWide Language Resources, Inc.*, B-296984, Nov. 14, 2005, 2005 CPD P 206.

other firms were not in fact considered. The lack of advance planning, the failure to meaningfully consider other sources, and the attempts to justify the use of sole-source contracts originated, in large part, from the desire and pressure to meet the customer's needs in a short time frame. At the time of our decision, the initial contract was substantially complete, but we recommended that the agency promptly obtain competition for the requirement or prepare a properly documented and supported justification and approval for the second contract.

Overall, the Special Inspector General has reported that competition has improved for Iraq reconstruction projects since the early reconstruction efforts. Next month we will issue a congressionally mandated report that will provide an assessment of competition for actions subsequent to our June 2004 report.

Conclusions

The reconstruction contracting problems we and others have reported on over the last several years are emblematic of contracting problems we have identified in numerous other situations but with more dramatic consequences for failure, as the nature of the task for the United States is so large and so costly. While some of the factors I discussed today—mismatches between needs, wants, affordability, and sustainability; oversight and workforce challenges; improper use of contracting approaches; and competition issues—were more prevalent in the initial stages of reconstruction, the risks posed by others have not yet been fully mitigated. Understanding not just where we are today, but why, is important to enable DOD to make corrections and prevent repeating mistakes.

Just as multiple factors contribute to success or failure, multiple actors play a role in achieving successful acquisition outcomes, including policy makers, program managers, contracting officers, and the contractors themselves.

Looking to the future, about one-third of DOD's planned construction work remains to be completed, including some work that is not planned for completion until the end of 2008. It is not too late for DOD to learn from its past difficulties and provide adequate oversight on these remaining projects. Delivering these projects on time and within cost is essential if we are to maximize the return on this investment and make a difference in the daily lives of the Iraqi people and help to provide the services they need—safe streets, clean water, reliable electricity, and affordable health care.

Mr. Chairman and members of the committee, this concludes my prepared statement. I will be happy to answer any questions you may have.

Scope and Methodology

In preparing this testimony, we relied primarily on our completed and ongoing reviews of efforts to rebuild Iraq that we have undertaken since 2003, as well as our work related to selected DOD contract management issues. We conducted these reviews in accordance with generally accepted government auditing standards. We also reviewed audit reports and lessons learned reports issued by the Special Inspector General for Iraq Reconstruction and work completed by the Inspector General, Department of Defense. We conducted this work in accordance with generally accepted government auditing standards in September 2006.

GAO Contacts and Staff Acknowledgments

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