

****Preliminary Transcript****

1 Court Reporting Services, Inc.
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3 HEARING ON ACCOUNTABILITY LAPSES
4 IN MULTIPLE FUNDS FOR IRAQ
5 Thursday, May 22, 2008,
6 House of Representatives,
7 Committee on Oversight and
8 Government Reform,
9 Washington, D.C.

"This is a preliminary transcript of a Committee¹ 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."

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, Davis of Virginia,
14 Cummings, Kucinich, Tierney, Clay, Watson, Lynch, Higgins,
15 Yarmuth, McCollum, Sarbanes, Platts, Duncan and Issa.

16 Staff Present: Phil Barnett, Staff Director and Chief
17 Counsel; Kristin Amerling, General Counsel; Karen Lightfoot,
18 Communications Director and Senior Policy Advisor; David
19 Rapallo, Chief Investigative Counsel; Theo Chuang, Deputy
20 Chief Investigative Counsel; Steve Glickman, Counsel; Mark
21 Stephenson, Professional Staff Member; Jen Berenholz, Deputy
22 Clerk; Caren Auchman, Press Assistant; Ella Hoffman, Press
23 Assistant; Leneal Scott, Information Systems Manager; Larry
24 Halloran, Minority Staff Director; Jennifer Safavian,
25 Minority Chief Counsel for Oversight and Investigations;
26 Keith Ausbrook, Minority General Counsel; Mason Alinger,
27 Minority Legislative Director; John Brosnan, Minority Senior
28 Procurement Counsel; A. Brooke Bennett, Minority Counsel;
29 Emile Monette, Minority Professional Staff Member; Nick
30 Palarino, Minority Senior Investigator and Policy Advisor;
31 Patrick Lyden, Minority Parliamentarian and Member Services
32 Coordinator; Brian McNicoll, Minority Communications
33 Director; Benjamin Chance, Minority Professional Staff
34 Member; and John Ohly, Minority Staff Assistant.

35 *Chairman Waxman. The Committee will please come to
36 order.

37 As many of us know, there are strong and fundamental
38 disagreements in Congress and throughout the Country about
39 President Bush's Iraq policy, but despite these differences
40 there is unanimous agreement in at least one area: Our
41 Government should do all it can to eliminate any waste, fraud
42 and abuse in the hundreds of billions of taxpayers' dollars
43 that are being spent on the war.

44 Normal accounting standards aren't always possible in
45 war zones, and we have kept that in mind during our
46 Committee's work. But some actions, like our Government's
47 decision to hand out \$12 billion in cash at the beginning of
48 the war, defy logic. As we learned in our hearings last
49 year, nearly \$9 billion of that money was distributed with no
50 accounting standards at all.

51 Today's hearing will give us a new status report on how
52 the Defense Department is safeguarding taxpayers' dollars.
53 We are very fortunate to have the Department's Deputy
54 Inspector General here to brief us on a new report.

55 The Defense Department has made over 180,000 payments to
56 contractors from offices in Iraq, Kuwait and Egypt. These

57 payments are for everything from bottled water to vehicles to
58 transportation services.

59 The Inspector General reviewed approximately \$8.2
60 billion in Defense spending and estimated that the Department
61 failed to properly account for \$7.8 billion. That means the
62 Defense Department had a stunning 95 percent failure rate in
63 following basic accounting standards.

64 The Inspector General concluded that \$1.4 billion of
65 these payments didn't even meet the most minimal requirements
66 necessary, leaving U.S. taxpayers vulnerable to waste and
67 fraud. In fact, the Inspector General has already referred
68 28 cases involving millions of dollars to criminal
69 investigators.

70 Few Americans may be aware of this, but the Defense
71 Department has paid \$135 million to Britain, South Korea,
72 Poland and other countries to conduct their operations in
73 Iraq. When the Inspector General tried to find out what this
74 money was used for, they couldn't find any answers.
75 Investigators reviewed 22 different voucher files, but not
76 one single payment made to these foreign countries had
77 documents explaining how the money was spent.

78 The Inspector General also found that the Pentagon gave

79 away \$1.8 billion in Iraqi assets with absolutely no
80 accountability. Investigators examined 53 payment vouchers
81 and couldn't find even one that adequately explained where
82 the money went.

83 In one remarkable instance, a \$320 million payment in
84 cash was handed over with little more than a signature in
85 exchange.

86 These new findings are on top of the Inspector General's
87 sobering November, 2007 report which concluded that the
88 Defense Department couldn't properly account for over \$5
89 billion in taxpayer funds spent in support of the Iraqi
90 security forces. That analysis reported that thousands of
91 weapons are unaccounted for, including assault rifles,
92 machine guns and rocket-propelled grenade launchers, and
93 millions of dollars have been squandered on construction
94 projects that don't exist.

95 Taken together, the Inspector General found that the
96 Defense Department did not properly account for almost \$15
97 billion. American taxpayers are picking up the tab for Iraqi
98 ministries, Coalition governments, U.S. and foreign
99 contractors, Iraqi security forces and Blackwater and other
100 U.S. security companies. We are even giving hundreds of

101 millions of dollars to local Iraqi tribal leaders in order to
102 get them to stop fighting, and much of this is spent without
103 the minimum safeguards needed to protect taxpayers.

104 Our troops seems to be the only ones who are held to
105 demanding standards. In fact, they often have to overcome
106 mindless obstacles just to get what they are owed.

107 Soldiers wounded in battle have received letters
108 demanding that they return signing bonuses because they
109 didn't complete their terms. In some cases, the Pentagon
110 even wanted interest.

111 Guard forces and Reservists have waited months, even
112 years, to get reimbursed for travel and meal expenses.

113 Sergeants have had to buy their own body armor. They
114 have had to armor their own Humvees, buy their own medical
115 supplies and even purchase their own global positioning
116 devices.

117 And, when the brigade of National Guard and Reserve
118 troops that served the longest tour of duty in Iraq came
119 home, they had to fight the Pentagon bureaucracy to get the
120 education benefits they had earned.

121 There is something very wrong when our wounded troops
122 have to fill out forms in triplicate for meal money while

123 billions of dollars in cash are handed out in Iraq with no
124 accountability.

125 The Inspector General has done important work, and this
126 new report deserves an official response from the Defense
127 Department. The Department has known about this audit for
128 more than a year and has known about this hearing for several
129 weeks, but the Department refused to testify voluntarily
130 today. I think that is a regrettable decision, but it will
131 not keep our Committee from giving this matter the careful
132 scrutiny it deserves.

133 I want to thank the Inspector General and his staff, and
134 I look forward to hearing today's testimony.

135 Mr. Davis.

136 [Prepared statement of Chairman Waxman follows:]

137 ***** INSERT *****

138 *Mr. Davis of Virginia. Thank you, Mr. Chairman, for
139 calling this hearing to examine the complex range of
140 vulnerabilities and management challenges raised by our
141 extensive security and reconstruction activities in Iraq. We
142 are pleased the Committee is continuing this line of
143 oversight which began when I sat in your chair.

144 During the 108th and 109th Congresses, the full
145 Committee and our subcommittees held a total of 19 hearings
146 focused on complex logistical support and reconstruction
147 contracts. In those sessions, we tried to transcend the
148 charged rhetoric and easy generalities that can swirl around
149 this topic and focus instead on the hard realities of using
150 last century business systems in a war zone on the other side
151 of the world. I hope today's hearing follows that
152 constructive path.

153 It is worth the Committee's sustained attention because
154 the bad news is inadequate DOD payment processes didn't start
155 with the Iraq War and they are unlikely to disappear when the
156 war is over.

157 I would just note that the DOD IG has done similar
158 audits and obtained similar results for vendor payment
159 activities outside the Iraq War.

160 In one report issued in 2002, the DOD IG stated serious
161 internal control weaknesses have been reported over the years
162 in the DOD payment process and system. Since the formation
163 of DFAS in the early 1990s, its processes and procedures have
164 been the subject of significant attention from the oversight
165 community in general.

166 For example, while investigation disbursements by DFAS
167 Oakland, California, the DOD IG found that the accounts
168 payable databases used to validate vendor systems and
169 payments were incomplete, inaccurate and virtually
170 unauditible. The auditors identified at least \$2.4 million
171 in duplicate payments in the limited sample that it reviewed.
172 That was a 1995 report.

173 While reviewing vendor payments at DFAS Denver, the DOD
174 IG found that approximately 176,000 of the 306,000 vendor
175 payments made over the course of the three-month period in
176 1999 lacked the required supporting documentation and
177 information.

178 In 2001, the DOD IG reviewed vendor payments at DFAS
179 Omaha for vendor payments on a \$25.5 million multi-year
180 maintenance contract. The auditors found \$2.9 in erroneous
181 obligations to the contract, \$530,000 in duplicative payments

182 of the contract and over \$700,000 of unnecessary upward
183 adjustments of obligations on the contract. That was in
184 March 2001, and that was just a very small sample.

185 The DOD IG, which will testify today, as I said, it has
186 suffered from longstanding and serious internal control
187 weaknesses, but spending in Iraq presents unique challenges
188 and provides undeniable opportunities for worthwhile
189 oversight.

190 Few people operating in an active combat zone would
191 refer to the documentation requirements of the financial
192 management process as mission critical work. Similarly, no
193 one would deny the imperative to tell American taxpayers how
194 their money is being spent. So we have to balance these two
195 truths and approach this issue with unclouded vision.

196 We need to know what has gotten better, what is still
197 being fixed and what is still broken, and we need to refine
198 our understanding of the differences between audit report
199 findings that take an unflattering snapshot of a complex
200 process and the real meaning of those findings to the long-
201 term integrity of systems handling huge disbursements of
202 taxpayer dollars.

203 Without question, many processed used with relative

204 success in peacetime operations here fall far short of
205 expectations when deployed in an active combat zone. In
206 Iraq, a highly unstable environment and consequent security
207 overhead greatly compound the scope of resulting cost,
208 performance and oversight issues.

209 The underlying causes: inadequate planning, a lack of
210 sustained, high-level leadership, mismatches between
211 requirements and resources and an insufficient number of
212 trained financial management personnel.

213 The last factor, not enough trained and experienced
214 acquisition professionals, is by no means unique to Iraq, and
215 we should not let a focus on the war blind us to the
216 Government-wide need for veteran finance officials to watch
217 over large and growing expenditures.

218 Today, we are going to hear from the Department of
219 Defense Deputy Inspector General for Audit, Ms. Mary Ugone.
220 She brings an important perspective informed by a substantial
221 body of audit and review work.

222 The picture painted by that work is not pretty. A
223 volatile environment, poor security and an arcane, ill-suited
224 regulatory structure have produced a succession of
225 transactions plagued by missing documentation and other lax

226 fiscal controls.

227 The IG findings remind us the truth of a war zone is
228 gritty enough. There is no need to embellish, inflate or
229 spin it. Thoughtful oversight will steer clear of hyperbolic
230 discussions and oversimplification of complex processes in
231 the search for meaningful reforms.

232 I look forward to her testimony and to a frank and
233 constructive discussion.

234 Thank you.

235 [Prepared statement of Mr. Davis of Virginia follows:]

236 ***** INSERT *****

237 *Chairman Waxman. Thank you very much, Mr. Davis.

238 It is the practice of the Committee to have opening
239 statements from the Chairman and the Ranking Member. We
240 don't have a great number of members here, so if members want
241 to make a brief opening statement, I will recognize them at
242 this point.

243 Mr. Kucinich.

244 *Mr. Kucinich. Thank you very much, Mr. Chairman. I
245 want to thank you and Ranking Member Davis for your ongoing
246 interest in providing accountability for the funds that are
247 used in Iraq.

248 One of the things that disturbs me about the approach
249 that the Administration has taken, Mr. Chairman, is that it
250 has treated the money of the people of Iraq as free money, as
251 though we don't have responsibility for the money that we
252 take custody of that belongs to the people of Iraq.

253 I think that those in the Administration who have had
254 custody of that money, who have, through their instance,
255 created systems for distributing the money, need to be held
256 accountable as though they were handling the money of the
257 taxpayers of the United States of America. This hearing, I
258 hope, proceeds in that spirit.

259 Because it is Iraq money and since we have a higher
260 responsibility, we can't act as though, well, that is just
261 Iraqi money and somehow anything goes. Actually, when you
262 look at it in terms of the work of particularly Coalition
263 Provisional Authority, anything has gone. Billions have gone
264 out the door, and we can't trace it. There are a lot of
265 questions there.

266 Mr. Chairman, thank you for holding this hearing. I
267 will be rejoining the hearing shortly. I have people in my
268 office I have to meet with, but thank you.

269 [Prepared statement of Mr. Kucinich follows:]

270 ***** COMMITTEE INSERT *****

271 *Chairman Waxman. Thank you, Mr. Kucinich.

272 Mr. Issa.

273 *Mr. Issa. Thank you, Mr. Chairman.

274 I will be brief. I would like to put my entire
275 statement in for the record.

276 I appreciate your holding this hearing. I think it is
277 incredibly important that we, on a bipartisan basis, continue
278 to operate an oversight role.

279 To that end, I would like to comment briefly that if in
280 fact the Majority doesn't begin the process of briefing us
281 until the 20th, if we have at 9:39 this morning the Majority
282 opinion coming out, giving us 21 minutes before the start to
283 begin to review an 11-page document, then in fact we, as a
284 Committee, are part of the problem. Although our guests are
285 important as part of the solution today, I would hope that we
286 could prevent this from happening so deliberately again in
287 the future.

288 Also, to that end, I hope today that we won't allow our
289 anti-war versus pro-war images to taint the legitimate need
290 for bipartisan oversight as to mistakes, fraud and lost
291 money. I break them down into those three categories for a
292 reason and hope that our witnesses will be able to give us

293 statistical clarity on what, in fact, is the level of
294 mistakes being made as a percentage now and in past
295 conflicts, what level of fraud do we believe has occurred and
296 what level of fraud have we taken steps to enforce criminal
297 violations against and, last but not least, the total loss
298 through all causes so that we can understand as a statistical
299 percentage of the dollars and the number of transactions.

300 I would hope that this Committee would look to the
301 statistical reality of a number of occurrences as we do in
302 the business world and not simply to dollars which, in a
303 multi-trillion dollar economy, always manage to end up being
304 large figures.

305 So, Mr. Chairman, I will put my entire statement in for
306 the record, and I hope that my comments will lead to our
307 staffs being able to work for better notification sooner in
308 the future.

309 I yield back.

310 [Prepared statement of Mr. Issa follows:]

311 ***** COMMITTEE INSERT *****

312 *Chairman Waxman. Ms. Watson, do you wish to make an
313 opening statement?

314 *Ms. Watson. Thank you so much, Mr. Chairman, for
315 holding today's hearing on the accountability of funds used
316 to support this war in Iraq.

317 I remember being told by the President that the cost of
318 this war would be revenues from the oil that was produced and
319 drilled out in Iraq. That appeared to be untrue. Today, we
320 are talking about taxpayers' U.S. dollars, taxpayers' money.

321 As you know, Mr. Chairman, we have been working
322 diligently to provide oversight of funds that may have been
323 inappropriately used while the occupation of Iraq has dragged
324 on. Over the course of the last 15 months, we have had
325 several hearings that were aimed at addressing the poor
326 accountability methods of the Coalition Provisional
327 Authority, contractors and subcontractors in Iraq.

328 Right here, I have a staff person who was in Iraq, and
329 we saw these contractors given millions and millions of
330 American dollars, and the goods and the services that were
331 supposed to be produced for our fighting forces never got to
332 them. I have a witness here in this chamber today.

333 The hearings opened our eyes to the potential waste of

334 almost \$50 billion in unauthorized security costs, overpriced
335 workers, compensation insurance, inefficiencies and cost
336 overruns associated with the construction of the U.S. Embassy
337 in Baghdad, the largest in the world for a rather small, what
338 is it, 58 million people population. The largest in the
339 world, costing a billion dollars, and this example is only to
340 name a few of the problems.

341 Also, last October, this Committee held a hearing on the
342 state of corruption in the Iraqi government that showed there
343 are severe problems with accountability in their government.
344 The reason why I bring this up is because if the United
345 States wants to be an example of democracy and accountability
346 in Iraq, we must demonstrate the need to abide by the Rule of
347 Law.

348 So I look forward to hearing the testimony of today's
349 panel on our current situation, describing as to why there
350 are deficiencies in the reporting of the Multi-National
351 Security Transition Command's ability to deliver weapons,
352 supplies and equipment to support the war in Iraq.

353 I thank you, Mr. Chairman, for the opportunity to
354 address the Committee, and I yield back the remainder of my
355 time.

356 [Prepared statement of Ms. Watson follows:]

357 ***** COMMITTEE INSERT *****

358 *Chairman Waxman. Thank you very much, Ms. Watson.

359 Mr. Duncan.

360 *Mr. Duncan. Thank you very much, Mr. Chairman. I
361 don't have a formal written statement, but I will briefly say
362 this.

363 This is my 20th year in the Congress, and I followed the
364 Congress very closely for more than 20 years prior to that.
365 In all that time, we have seen mind-boggling amounts of waste
366 in almost every Federal department and agency.

367 But in all those years, never has any department or
368 agency ever come close to the gigantic waste, fraud and abuse
369 that has gone on in Iraq, and fiscal conservatives should be
370 the ones most horrified by what has happened there. There
371 has been nothing fiscally conservative about the war in Iraq.

372 It is really shameful, and it is extremely unfair to the
373 taxpayers of this Country.

374 Thank you.

375 *Chairman Waxman. Thank you very much, Mr. Duncan.

376 Mr. Higgins.

377 *Mr. Higgins. Yes, thank you, Mr. Chairman. I applaud
378 your leadership on this issue today and historically.

379 I think this issue of accountability and oversight is

380 very, very important. We are talking about millions and
381 billions of dollars in an effort that doesn't appear to be
382 making much progress.

383 The congressional role historically in oversight,
384 particularly to support war efforts, has been critical as a
385 fundamental component in changing the direction in terms of
386 our policy. So I think this hearing is obviously very
387 important. I look forward to the testimony of the Inspector
388 General.

389 I applaud you again, Mr. Chairman, for your leadership,
390 and I yield back.

391 [Prepared statement of Mr. Higgins follows:]

392 ***** COMMITTEE INSERT *****

393 *Chairman Waxman. Thank you very much.

394 Mr. Sarbanes.

395 *Mr. Sarbanes. Thank you, Mr. Chairman, for holding
396 this hearing which is one in a series that you have held to
397 shed light on the tremendous war profiteering -- that is
398 really the only word or phrase to use to describe it -- that
399 has gone on in Iraq with the various contractors that have
400 been in that space over the last five to six years.

401 I want to say that I still am captive to this image that
402 I mentioned in a hearing we had last week of the days right
403 after the occupation when U.S. forces stood by and watched as
404 tremendous looting went on of ministries and other sites in
405 Iraq. It appears that the U.S. Government, the Department of
406 Defense and other agencies stood by and watched while the
407 looting of our treasury went on, on the part of many of these
408 contractors.

409 What I can't understand is did they not see it, did they
410 see it and not care or did they see and have some sort of
411 interest in having it occur? Hopefully, these hearings will
412 help us get to the bottom of that. Thank you.

413 [Prepared statement of Mr. Sarbanes follows:]

414 ***** COMMITTEE INSERT *****

415 *Chairman Waxman. Thank you very much, Mr. Sarbanes.

416 We are pleased to welcome our witnesses today: Mary
417 Ugone, Deputy Inspector General for Auditing, U.S. Department
418 of Defense, Office of the Inspector General; Patricia Marsh,
419 Assistant Inspector General, Defense Financial Auditing
420 Service Directorate, U.S. Department of Defense, Office of
421 the Inspector General; and Daniel Blair, Deputy Assistant
422 Inspector General, Defense Financial Auditing Service
423 Directorate, U.S. Department of Defense, Office of the
424 Inspector General.

425 We are pleased to welcome you to our hearing today.

426 It is the practice of this Committee that all witnesses
427 testify under oath, so if you would please stand and raise
428 your right hand.

429 [Witnesses sworn.]

430 *Chairman Waxman. The record will indicate that each of
431 the witnesses have answered in the affirmative.

432 Ms. Ugone, I want to recognize you now. We have your
433 prepared statements, and we are looking forward to your
434 testimony.

435 STATEMENTS OF MARY L. UGONE, DEPUTY INSPECTOR GENERAL FOR
436 AUDITING, U.S. DEPARTMENT OF DEFENSE, OFFICE OF THE INSPECTOR
437 GENERAL, ACCOMPANIED BY: PATRICIA MARSH, ASSISTANT INSPECTOR
438 GENERAL, DEFENSE FINANCIAL AUDITING SERVICE DIRECTORATE, U.S.
439 DEPARTMENT OF DEFENSE, OFFICE OF THE INSPECTOR GENERAL AND
440 DANIEL BLAIR, DEPUTY ASSISTANT INSPECTOR GENERAL, DEFENSE
441 FINANCIAL AUDITING SERVICE DIRECTORATE, U.S. DEPARTMENT OF
442 DEFENSE, OFFICE OF THE INSPECTOR GENERAL

443 STATEMENT OF MARY L. UGONE

444 *Ms. Ugone. It is an honor to be here before you.
445 Thank you.

446 Chairman Waxman, Congressman Davis and distinguished
447 members of the Committee, we appreciate the opportunity to
448 appear before you today to discuss controls over commercial
449 payments made in Iraq, Kuwait and Egypt, accounting for the
450 Commander's Emergency Response Program, CERP funds, provided
451 to Coalition partners and Iraqi seized and vested asset
452 payments and also to discuss the management of the Iraq
453 Security Forces Fund.

454 Our audit of controls over payments was initiated in

455 May, 2006, in response to a Defense Criminal Investigative
456 Service, DCIS, assessment that there had been limited review
457 of the completeness, accuracy and propriety of these payment
458 vouchers.

459 This concern centered on the potential existence of
460 fraud, waste and abuse related to over \$10.7 billion in
461 payment vouchers related to U.S. Army disbursement of which
462 we estimate that \$8.2 billion pertain to commercial payments.
463 The remaining \$2.5 billion are noncommercial payments.

464 We identified the need for improved processes and
465 guidance used by the Army and Defense Finance and Accounting
466 Service to review commercial payment information in a
467 contingency operation. Based on our review of 702 vouchers,
468 we estimated that the Army made \$1.4 billion in commercial
469 payments that did not have essential supporting information
470 needed to determine whether the payment was proper. We
471 identified information as essential because it was needed to
472 ensure that entitlement to a commercial payment matched the
473 goods or services provided.

474 Another \$6.3 billion in estimated commercial payments
475 did meet essential criteria but did not comply with other
476 requirements.

477 Essential criteria include receiving reports, invoices,
478 certifying official signature and payee signatures. For
479 example, a voucher for payment for \$11.1 million was missing
480 both the receiving report and invoice. Without a receiving
481 report and invoice, we don't know what we paid for.

482 As a result of our audit, on May 16, 2008, the Office of
483 the Under Secretary of Defense-Comptroller-Chief Financial
484 Officer notified us that the financial management regulation
485 was revised to incorporate guidance on commercial payment
486 vouchers and supporting documents in contingency operations.

487 CERP-funded projects are performed by both U.S. and
488 Coalition forces. We reviewed a sample of 22 payment
489 vouchers totaling \$134.8 million for CERP payments to
490 Coalition partners. None of them had sufficient supporting
491 documentation to provide reasonable assurance that these
492 funds were used for their intended purposes.

493 The sample of 53 payment vouchers for seized and vested
494 assets valued at \$1.8 billion did not have supporting
495 documentation that accounted for how the funds were to be
496 used as prescribed by existing guidance. We suggested that a
497 spending plan should be attached to serve as documentation
498 that accounted for how the funds were to be used.

499 During this audit, we referred 28 vouchers totaling
500 \$35.1 million to DCIS for potential follow-up.

501 With respect to the Iraq Security Forces Fund, the scope
502 of review of \$5.2 billion in funds used to provide equipment,
503 services, construction and other support to the Iraq security
504 forces, our November, 2007 audit report concluded that the
505 Multi-National Security Transition Command-Iraq could not
506 always demonstrate proper accountability of purchases using
507 these funds or that delivery of services, equipment and
508 construction were properly made to the Iraq security forces.

509 We judgmentally sampled 317 transactions valued at \$2.7
510 billion of which \$2 billion did not have adequate supporting
511 documentation needed to ensure that funds were properly
512 managed. For example, about 91.5 of the \$1.1 billion in
513 sample transactions for equipment purchases did not have
514 adequate supporting documentation of information such as
515 receiving reports or recorded vehicle identification numbers
516 or serial numbers.

517 For construction projects, documentation was not
518 adequate to support whether 93 percent of the \$400 million in
519 sampled projects were completed or that progress was
520 accurately recorded.

521 In April, 2008, the Command released its Logistics
522 Accountability Standard Operating Procedures as a result of
523 our audit.

524 In May, 2005, DCIS launched a proactive project to
525 analyze the payment vouchers at the Defense Finance and
526 Accounting Service Rome, New York in an attempt to identify
527 potentially fraudulent activity related to the war effort in
528 Iraq and Afghanistan. Work is ongoing to expand the review
529 of payment records for anomalies.

530 This concludes my oral testimony. I will be happy to
531 answer any questions that you may have. Thank you.

532 [Prepared statement of Ms. Ugone follows:]

533 ***** INSERT *****

534 *Chairman Waxman. Thank you very much.

535 I assume that Ms. Marsh and Mr. Blair are here to help
536 answer questions.

537 *Ms. Ugone. Yes.

538 *Chairman Waxman. Okay. I would like to recognize
539 myself first for a five-minute round.

540 Ms. Ugone, I would like to start by asking your primary
541 finding. You estimate that the Defense Department made \$1.4
542 billion in commercial payments that lacked minimum
543 documentation for a valid payment such as properly prepared
544 receiving reports, invoices and certified vouchers. Perhaps
545 we could talk about this by looking at an example.

546 On page 6 of your report, you mention a voucher for
547 \$11.1 million, and you provided us with a copy. I would like
548 to put it up on the screen.

549 This says that there was a payment on May 24th, 2005, to
550 someone named David M. Dial of Irmo, South Carolina at a
551 company called IAP. Is that right?

552 *Ms. Ugone. Right.

553 *Chairman Waxman. It is my understanding that IAP is
554 the same company that had all the problems with delivering
555 ice during Hurricane Katrina and the company that was in

556 charge of maintenance at Walter Reed.

557 Your report says that when you examined IAP's voucher,
558 "We could not identify the goods or services purchased."

559 What did you mean by that?

560 *Ms. Ugone. We meant that there was no invoice at all
561 that supported the request for payment, and there was no
562 receiving report that showed that actually the services or
563 goods were delivered. So there was nothing.

564 Actually, in essence, we were giving or providing a
565 payment without any basis for the payment. That is what we
566 mean. We don't know what we got.

567 *Chairman Waxman. Well, how could someone hand out more
568 than \$11 million without even writing down what they were
569 paying for? Isn't there someone at the Defense Department
570 who is supposed to verify that they got paid, that they got
571 what they paid for?

572 *Ms. Ugone. Yes. I mean when you look at the entire
573 set of regulatory requirements, there are 53 regulatory
574 requirements which help ensure that the Department is paying
575 what they should.

576 *Chairman Waxman. Did they meet any of the 53
577 requirements?

578 *Ms. Ugone. Well, that is where we get to the \$7.7
579 billion. One of the things that we had thought in a
580 contingency operation and what is a minimum essential
581 requirement, 27 of the 53 we determined were minimum of which
582 receiving reports and invoices are essential to determine
583 what you paid for. That is where we were able to project an
584 estimated \$1.4 billion that didn't even meet the minimum
585 essentials.

586 *Chairman Waxman. Well, in this specific instance, how
587 did the Defense Department even know that \$11.1 million was
588 the right amount for what they were buying?

589 *Ms. Ugone. Well, they didn't.

590 *Chairman Waxman. And you said there is no evidence
591 that the requesting organization receives the goods or
592 services purchased. So are you saying that the Department
593 couldn't provide any proof that they received anything for
594 this \$11 million?

595 *Ms. Ugone. What I can say is we don't know what we
596 paid for.

597 *Chairman Waxman. Well, the obvious problem is the
598 potential for abuse. You noted on page 14 of your report
599 that these kinds of ineffective controls create an

600 environment conducive to fraudulent activity.

601 In this case, how do we know that the taxpayer received
602 \$11 million in goods and services? I suppose the answer is
603 we don't know.

604 *Ms. Ugone. We don't know, not in this case.

605 *Chairman Waxman. Have you come across cases that you
606 feel warrant potential criminal investigation and was this
607 one of them?

608 *Ms. Ugone. I don't know if this is one of those that
609 was referred, but I can tell you of the 28 we referred 2
610 resulted in cases being initiated, 8 were incorporated into
611 ongoing investigations and the remaining are still being
612 reviewed. I can get back with you as to whether or not this
613 is one of those.

614 *Chairman Waxman. We have appropriated billions of
615 taxpayers' dollars for this war, and the American people
616 deserve to know that the Administration isn't squandering
617 their money. I think everybody understands that if you have
618 no record of what you are buying and no record of what you
619 received, there is going to be a major problem there.

620 Let me ask you about some other examples of commercial
621 payments.

622 *Ms. Watson. Mr. Chairman, would you yield for a
623 second?

624 *Chairman Waxman. I want to complete my questions here.
625 Then I will yield time.

626 There are other examples of payments that don't describe
627 what we bought or whether we even received anything for it.
628 There is another voucher, this one for \$5.7 million, and I
629 want to put that one up on the screen. This one wasn't
630 mentioned specifically in your report, but I wanted to ask
631 you about it.

632 The payment is to Al Kasid Specialized Vehicles Trading
633 Company, and it was made on August 13, 2004. The voucher
634 doesn't provide any information that explains what goods or
635 services the U.S. Government was buying. Is that correct?

636 *Ms. Ugone. That is correct.

637 *Chairman Waxman. Was there any invoice that provided
638 this kind of description?

639 *Ms. Ugone. I believe in this case also, and I would
640 have to get back with you. I believe this instance also was
641 where there was not an invoice as well.

642 *Chairman Waxman. Okay. I have some more questions.
643 It is a vehicle trading company, and maybe they sold cars,

644 but we don't know what they sold. That is, I think, a real
645 problem.

646 Mr. Davis.

647 *Mr. Davis of Virginia. Thank you, Mr. Chairman.

648 Thank you for your testimony and your work. We
649 appreciate it.

650 *Ms. Ugone. Thank you.

651 *Mr. Davis of Virginia. One thing I found a little
652 different in this report than others is you made an estimate
653 that the Army made \$1.4 billion in commercial payments that
654 lacked the minimum documentations that would be needed for
655 valid payment.

656 *Ms. Ugone. Right.

657 *Mr. Davis of Virginia. And the report further
658 estimates the Army made another \$6.3 billion in payments that
659 did not comply with other criteria.

660 But, in looking at the universe of commercial and
661 miscellaneous payments, there are 183,486 vouchers and you
662 really looked at 702.

663 *Ms. Ugone. That is correct.

664 *Mr. Davis of Virginia. How can you extrapolate a sound
665 number from that? These are estimates, are they not?

666 *Ms. Ugone. These are based on statistical projections.
667 We are at a 90 percent confidence level. What we ended up
668 doing was using dollars stratum or dollars to be able to
669 split out the vouchers.

670 So that is true. It is using our statistical
671 projections to estimate at a 90 percent confidence level.

672 So, if you look at the actual \$1.4 billion, there is a
673 range. There is an upper range and a lower range. The \$1.4
674 billion is the median of that estimation.

675 *Mr. Davis of Virginia. Let me just say what I would
676 have done, for what it is worth, which is to say something
677 like we would expect that such errors were carried through
678 the rest of the vouchers and put it in that vein because the
679 number gets thrown around as an absolute and, of course, we
680 are not dealing with absolutes. But there is one absolute
681 here, and that is this stuff has been completely mismanaged,
682 and this is ongoing and systemic.

683 How much of this is because we are in a war zone and how
684 much of this is just systematic? Is there any way to
685 guesstimate that, or is it a little of both?

686 *Ms. Ugone. I think it is both. I think the financial
687 management area has been a high risk every year. The

688 Government Accountability Office has identified it as the
689 high risk area. So I think that is recognized.

690 The other thing in a contingency environment, and we
691 understood this when we looked at the 53 regulatory
692 requirements, is what were absolutely essential that needed
693 to be applied when we determined entitlement to a commercial
694 payment.

695 Given the fact we were in a contingency operation, if we
696 applied all 53 requirements, you would have \$7.7 billion, in
697 essence, where you had payments that had an error. But what
698 we wanted to do was look at the minimum essentials which is
699 why we focused on 27.

700 In the environment, one of the key areas in a war, in a
701 contingency operation is you want to make sure that gaps in
702 internal controls are mitigated because that is critical,
703 because you are pressed. There is expediency, and you need
704 to make sure that those gaps are mitigated. We believe that
705 our criteria that we used would mitigate those gaps.

706 *Mr. Davis of Virginia. It has been a high risk for
707 some time, hasn't it?

708 *Ms. Ugone. Yes.

709 *Mr. Davis of Virginia. What has the Army done to

710 mitigate those high risks? Have they gone out to outside
711 experts and asked for help in terms of how they fix this?

712 *Ms. Ugone. Well, actually, during the audit, they did.
713 There were some actions taken.

714 One of the interesting things if you really look at a
715 slice of the data, you would look. You would see that most
716 of the commercial payments had occurred out of Kuwait, the
717 disbursing stations.

718 And, last year in the middle of the summer, what
719 happened was they actually moved the disbursing function back
720 here to the United States to DFAS so where the disbursements
721 for those commercial payments are now being made back here.

722 *Mr. Davis of Virginia. Are they being done better here
723 than in Kuwait?

724 *Ms. Ugone. We haven't done that assessment yet.

725 *Mr. Davis of Virginia. Because, in the past, DFAS has
726 had some real problems as I alluded in my opening statement.

727 *Ms. Ugone. Right.

728 *Mr. Davis of Virginia. Having nothing to do with war,
729 just how they function.

730 *Ms. Ugone. But I think one of the things, one of the
731 actions they were trying to do was try and move that

732 function, the certifying official function for commercial
733 payments back into DFAS rather than keep it in Kuwait which
734 was already having some issues with relation to other
735 functions like contracting.

736 *Mr. Davis of Virginia. On the surface, that would seem
737 to make some sense.

738 *Ms. Ugone. Right. I think that was a good initiative.

739 *Mr. Davis of Virginia. But we are still dealing with a
740 long-term systematic problem, aren't we, here?

741 *Ms. Ugone. Yes, we are.

742 *Mr. Davis of Virginia. How did the results of this
743 audit compare with similar work done at the DFAS Columbus,
744 DFAS Denver or Omaha where the offices are not supporting
745 Iraq War disbursements? I guess that is a better way to try
746 and get it.

747 *Ms. Ugone. This was a year-long effort as previously
748 described, and there was a lot of dialogue between.

749 We had two draft reports issued for discussion purposes.
750 We had one formal draft. We had meetings and dialogues
751 because one of the key differences is that we didn't apply
752 all the regulatory and statutory requirements when we were
753 making our assessment whereas when we did our typical audits

754 in Columbus, we would look at every possible regulation and
755 apply it. In this particular case, we wanted to take another
756 approach.

757 *Mr. Davis of Virginia. Just very quickly, I asked this
758 before, but let me just ask you. This is a systematic high-
759 risk problem. What is the Army doing about this, long term?

760 They might have, at least on this, moved it from Kuwait
761 back to the U.S. What are they doing long term to resolve
762 this? Have they brought in some of the world's brightest
763 consultants and controls people to do anything on this?

764 *Ms. Ugone. I don't know if they have done that or not.

765 *Mr. Davis of Virginia. You haven't seen it, though, in
766 your work?

767 *Ms. Ugone. No. At a much more macro level, I don't
768 know what their initiatives have been. I know what their
769 initiatives have been in response to this report.

770 *Mr. Davis of Virginia. Thank you.

771 *Chairman Waxman. Thank you, Mr. Davis.

772 Mr. Kucinich.

773 *Mr. Kucinich. Thank you very much.

774 Ms. Ugone, I would like to ask about findings in your
775 report.

776 *Ms. Ugone. Okay.

777 *Mr. Kucinich. That the Pentagon made \$135 million in
778 payments to foreign governments from the Commander's
779 Emergency Response Program also known as CERP, this whole
780 idea is news to me.

781 When the Pentagon comes up here and briefs Congress
782 about the CERP program, they talk about how it gives our
783 local military commanders the flexibility to hire Iraqis for
784 relatively small construction projects. They didn't say that
785 they are spending more than \$100 million of this money on
786 payments to foreign governments.

787 I am certain the American people don't know that this is
788 how their taxpayer dollars are being used, but your report
789 says that the Defense Department has given \$21 million to
790 South Korea, \$68 million to the United Kingdom and \$45
791 million to Poland. My first question is why?

792 If these are members of the Coalition of the willing,
793 why are they paying them anything and why aren't they
794 covering these costs themselves?

795 *Ms. Ugone. We didn't look at that issue as to why the
796 Department was doing this particular procedure.

797 *Mr. Kucinich. Why not?

798 *Ms. Ugone. We focused on whether or not. The scope of
799 our audit was to focus on whether or not the funds were being
800 used for their intended purposes. So we looked at whether or
801 not, when these payments were made to Coalition partners,
802 whether we could find a way to reconcile what we gave and
803 then what we got.

804 *Mr. Kucinich. Well, let's put aside the issue of who
805 should pay. Your report concludes that the Defense
806 Department basically has provided no information on how this
807 money was spent. According to your report, all -- all -- of
808 the 22 payments that you examined failed "to provide
809 reasonable assurance" that they were "intended or used for
810 their intended purposes."

811 Is that correct?

812 *Ms. Ugone. That is correct.

813 Also in the report, I would just like to say that
814 during the audit, one of the Coalition partners had initiated
815 efforts to reconcile the funds that we provided to them.

816 *Mr. Kucinich. Well, wait a minute. Let's talk about
817 an example. Your report cites a single \$8 million payment to
818 Poland on in September, 2004.

819 *Ms. Ugone. Right. Right.

820 *Mr. Kucinich. You provided the Committee with a copy
821 of that voucher. I would like to put it on the screen.
822 Staff would put that voucher on a screen.

823 Now, in the middle of the page, under the description of
824 articles or services, it says: Commander's Emergency Response
825 Program, CERP, funds for the benefit of the Iraqi people.
826 That is a pretty vague description of services, isn't it, to
827 benefit the Iraqi people?

828 *Ms. Ugone. Yes, it is.

829 *Mr. Kucinich. Well, then on the right side of the
830 page, the amount listed is \$8 million. Is that right?

831 *Ms. Ugone. That is correct.

832 *Mr. Kucinich. Where did this money actually go? How
833 do we know whether the Polish Army used these funds to
834 benefit the Iraqi people?

835 *Ms. Ugone. We don't.

836 *Mr. Kucinich. Now, Ms. Ugone, the Defense Department
837 refused to be here today, but they did submit comments to
838 your report, and here's what they said about this issue.
839 They said, "All funds advanced to our Coalition partners are
840 reconciled when the Coalition partner completes the assigned
841 mission."

842 Is that an accurate statement?

843 *Ms. Ugone. I am not aware of that comment. They
844 didn't share that information.

845 *Mr. Kucinich. Is that statement accurate to your
846 knowledge?

847 *Ms. Ugone. I think what is supposed to happen is there
848 should be some sort of reconciliation. I mean that is
849 assuming that none of the construction projects have been
850 completed during this time period. So that means that if
851 there is no construction project files provided, I imagine
852 they can't reconcile.

853 But the whole issue is these CERP funds are supposed to
854 be for the same purpose as for U.S. forces, which is for
855 construction projects as well as non-construction projects
856 related to the Iraqi people. The only way to figure out
857 whether or not those have been completed is to actually get
858 project files or data from the Coalition partners. We don't
859 have any data to show that.

860 *Mr. Kucinich. I understand that. That is why you said
861 all the 22 payments you examine failed to provide reasonable
862 assurance they were used for intended purposes.

863 I also understand that as a result of your investigation

864 the Defense Department tried to go back and ask these foreign
865 governments, get this, for evidence of how they spent their
866 funds.

867 But, sitting here today, can you identify a single
868 reconstruction project that was funded with this \$135
869 million?

870 *Ms. Ugone. No, we cannot.

871 *Mr. Kucinich. Think about that. Think about what that
872 means, Mr. Chairman, in terms of the credibility of this
873 Country and also how the people of Iraq are getting cheated
874 as well as the people of the United States are being cheated.

875 I yield back.

876 *Chairman Waxman. If the gentleman will yield to me the
877 few seconds he has, it sounds like the Coalition of the
878 willing is the Coalition of the paid. They are willing to be
879 paid.

880 Thank you.

881 Mr. Issa.

882 *Mr. Issa. Thank you, Mr. Chairman.

883 I would like to establish a couple of things sort of for
884 the record and for my own understanding. All three of you
885 are career professionals. Is that correct?

886 *Ms. Ugone. Yes.

887 *Mr. Issa. The vast majority, if not all, of the people
888 that were involved that you worked with on the ground in this
889 audit were career professionals. Is that correct?

890 *Ms. Ugone. Yes.

891 *Mr. Issa. Okay. I ask that in following up on Mr.
892 Davis' questions.

893 To the extent that we have not been able to make the
894 system work, there is little or no hand of political
895 appointees in this. This is, in fact, career people
896 overseeing career people, trying to come up with problems
897 that occur, in this case, related to a war zone where career
898 people are trying to dispense money and account for it. Is
899 that a fair statement?

900 *Ms. Ugone. I think the military, the forward, if you
901 take a look at the documentation we have, were also involved
902 in trying to.

903 *Mr. Issa. But we call our career military personnel,
904 career professionals.

905 *Ms. Ugone. Okay. Okay.

906 *Mr. Issa. Somehow until you get to about four stars,
907 you actually don't get to meet a politician most of the time.

908 So I am saying that because I want to understand. This
909 is not about the hand of the Bush Administration. This would
910 not be substantially different in any other administration.
911 These are arms of government doing their job and seeing
912 mistakes or flaws or lack of accountability. Is that
913 correct?

914 Does anyone disagree with that statement as best I
915 phrased it?

916 *Ms. Ugone. I don't disagree. We independently did
917 this audit work.

918 *Mr. Issa. I appreciate that.

919 Now I want to concentrate, following up on Mr.
920 Kucinich's questions because he and I do disagree on the
921 conduct of the war in a sense.

922 The use of CERP funds to help fund the Sons of Iraq.
923 Okay. That program appears to be working by independent
924 news communications.

925 Some of these funds, in fact, end up in the hands of
926 what Mr. Waxman characterized as bought hearts and minds
927 in some fashion, similar to that. Is that correct?

928 *Ms. Ugone. We didn't look at the Sons of Iraq.

929 *Mr. Issa. Well, you looked at the same funds.

930 *Ms. Ugone. We looked at the 22 payment vouchers
931 that were made to Coalition partners. We don't know what
932 it was used on, so we are not. I mean I can't address
933 that particular question.

934 *Mr. Issa. Okay. Mr. Chairman, I would like to have
935 an excerpt from the House Armed Services Committee -- this
936 was staff questions and answers -- inserted in the record
937 at this time.

938 *Chairman Waxman. Without objection, that will be
939 the order.

940 [The referenced information follows:]

941 ***** COMMITTEE INSERT *****

942 *Mr. Issa. I guess this may be beyond the level of
943 your audit, but whether it is CIA around the world during
944 the Cold War or a war zone here where we are trying to
945 fund sheiks and individuals in religious communities to
946 get people to take another look at our role in Iraq as not
947 an occupier but as somebody who wants to liberate and
948 leave, if those funds are essentially walking around
949 monies, to use in American term, wouldn't it be rather
950 hard to account for every dollar you give when you give a
951 few hundred dollars to dozens or hundreds of people in
952 order to essentially hold meetings and so on in the Iraqi
953 economy?

954 *Ms. Ugone. Yes, there are challenges. I agree with
955 that, but I think there should be some semblance of
956 accountability. No documentation is not acceptable from
957 our perspective.

958 *Mr. Issa. I appreciate that.

959 In my opening statement, I talked in terms of
960 statistics, and I see you have the statistics and you have
961 extrapolated it, but if you extrapolated past wars, how do
962 these compare?

963 *Ms. Ugone. We haven't looked at it and applied this

964 level of effort on past work. I mean this has been, for
965 us also, a new approach as well.

966 *Mr. Issa. Okay. So this is a first time. Would it
967 be possible for the Committee for you to answer for the
968 record, essentially extrapolating some previous similar
969 studies so that we could understand whether or not this
970 war is costing us more or less in the terms of unaccounted
971 for or poorly accounted for funds?

972 I don't think anyone on the dais wants to take an
973 improvement and punish it because it isn't perfect. At
974 the same time, if the trend line is in the wrong
975 direction, then corrective action could be very
976 appropriate. Would you agree?

977 *Ms. Ugone. Well, what I can do related to the
978 current, what we did look at was to see if it was getting
979 better during this particular audit. We looked at the
980 vouchers and, frankly, it wasn't getting better if you
981 looked at the years. We looked at 2003 to 2006, and it
982 wasn't getting better.

983 *Mr. Issa. I am running out of time.

984 Unfortunately, I can't account for differences in the
985 rise and fall of combat during that time, but isn't it

986 true that the Iraq economy is a cash economy? Isn't that
987 fundamentally one of the problems?

988 *Ms. Ugone. Well, it is true that there was a lot.
989 It is cash. It is a cash economy, in fact.

990 But our 702 vouchers that we estimated, \$1.4 billion,
991 that was not cash. That was a commercial payment. The
992 cash that we are talking about is the CERP for Coalition
993 partners and the seized and vested assets.

994 *Chairman Waxman. The gentleman's time is expired.

995 *Mr. Issa. Thank you, Mr. Chairman.

996 *Chairman Waxman. Ms. Watson.

997 *Ms. Watson. Thank you so much, Mr. Chairman.

998 My questions will go to what is happening now under
999 this Administration and under this Administration's war.
1000 I am not interested in past wars; now the wars that we are
1001 paying for here.

1002 Over a year ago, in February, 2007, this Committee
1003 held a hearing with the Special Inspector General from
1004 Iraq Reconstruction, Stuart Bowen. At that hearing, Mr.
1005 Bowen testified that the Bush Administration disbursed
1006 over \$8.8 billion in cash without assuring that the monies
1007 were properly used or accounted for. He was sworn in, and

1008 it is on the record -- \$8.8 billion.

1009 The administration for the Coalition Provisional
1010 Authority, Ambassador Paul Bremer also testified at that
1011 hearing, and he explained away this problem by making two
1012 arguments. First, he said these were not appropriated
1013 American funds. They were Iraqi funds, but we were told
1014 American dollars were used.

1015 Second, he said it was unrealistic to expect modern
1016 financial controls in less than a year on failed state in
1017 the middle of a war. That is a quote. It is on the
1018 record.

1019 So, Ms. Ugone, I think your report today demonstrates
1020 two things for me. First, it has now been more than five
1021 years since the war began, and we were told by the
1022 President that our mission was accomplished, and we are
1023 still having these problems. There is something wrong
1024 there.

1025 Second, your report finds critical deficiencies in
1026 how the Defense Department is disbursing billions of U.S.
1027 taxpayers' dollars. So, now we are talking about American
1028 money.

1029 Now I know you did examine some Iraqi assets, but let

1030 me ask about the U.S. funds. First, you examined a pool
1031 of roughly \$3.2 billion in commercial payments, and I have
1032 your full statement. I have asked my staff, who is
1033 standing right here, to highlight those figures.

1034 You report found that internal controls over these
1035 payments were inadequate. These commercial payments are
1036 from U.S. appropriated funds. Is that right?

1037 *Ms. Ugone. Most, yes, the majority.

1038 *Ms. Watson. Okay. Is it explained and maybe
1039 separated in your full statement?

1040 *Ms. Ugone. We can provide that information
1041 separately.

1042 *Ms. Watson. Okay. I would like to have that.

1043 *Ms. Ugone. There are different appropriations like
1044 Operations and Maintenance-Army, and there will be
1045 different levels of appropriations. So we can get that
1046 detailed to you.

1047 *Ms. Watson. Yes, and I will look through your full
1048 report.

1049 *Ms. Ugone. Okay.

1050 *Ms. Watson. You also found that \$135 million in
1051 funds from the Commander's Emergency Response Program were

1052 given to foreign governments without "reasonable assurance
1053 that they were used for the intended purposes."

1054 That was also U.S. dollars appropriated?

1055 *Ms. Ugone. Yes, the majority of it.

1056 *Ms. Watson. Okay. What was not? I hope you would
1057 clarify.

1058 *Ms. Ugone. I can clarify that and add the
1059 additional information on that to you separately.

1060 *Ms. Watson. Very good. In your November report,
1061 you found that the Defense Department failed to exercise
1062 proper accountability over \$5.2 billion in funds to
1063 support the Iraqi security forces. Those were also U.S.
1064 funds?

1065 *Ms. Ugone. Yes, that was the Iraqi, actually, the
1066 scope of our work on that particular, those \$5.2 billion
1067 that was provided to MNSTC-I, Multi-National Security
1068 Transition Command-Iraq. We judgmentally sampled. I
1069 believe it was 317 transactions for \$2.7 billion. So that
1070 is what we looked at as the scope of our review, \$2.7
1071 billion.

1072 *Ms. Watson. Okay. For these expenditures of U.S.
1073 tax dollars, you examined disbursements made through the

1074 year 2006. Is that right?

1075 *Ms. Ugone. We didn't look at disbursements on that
1076 particular audit. That was a little bit of a different
1077 scope on that.

1078 We were looking at whether or not, that there was a
1079 proper, a way to tell that there was a proper transfer to
1080 the Iraq security forces, and we looked at documentation
1081 to support that. That is what we were looking at.

1082 *Ms. Watson. So my time is up, but I will follow up.
1083 I will look at your full report, and then we can address
1084 questions directly to you.

1085 Thank you, Mr. Chairman.

1086 *Chairman Waxman. Thank you, Ms. Watson.

1087 Mr. Platts, you have no questions.

1088 Mr. Sarbanes.

1089 *Mr. Sarbanes. Thank you, Mr. Chairman.

1090 Ms. Ugone, I am going to ask about the genesis of the
1091 report that you are issuing today. You said in the report
1092 that you started the investigation at the request of the
1093 Defense Criminal Investigative Service, and I wanted to
1094 pursue that a little bit.

1095 At the beginning of the report, you said that the

1096 service concluded there had only been a limited review of
1097 the payments that are the subject of this hearing and
1098 "there existed the potential for fraud, waste and abuse."

1099 Is that correct?

1100 *Ms. Ugone. That is correct.

1101 *Mr. Sarbanes. Then throughout the report, you make
1102 reference to this. On page six, you say that an absence
1103 of supporting documentation makes the legitimacy of
1104 payments questionable. You say that missing voucher
1105 information could affect the legality of a vendor payment.

1106 On page 14, you say, "ineffective internal controls
1107 could create an environment conducive to fraudulent
1108 activity or improper use of funds."

1109 Is that right?

1110 *Ms. Ugone. That is correct.

1111 *Mr. Sarbanes. Basically perpetrating fraud on the
1112 U.S. Government is a crime, correct? That can be pursued
1113 as a criminal violation, right?

1114 *Ms. Ugone. Well, identifying; I think the key here
1115 is potential fraudulent activity. Our referrals haven't
1116 been culminated in anything conclusive from the
1117 investigative side of the house, but we did have enough

1118 for 28 vouchers out of the 702 that were reviewed that we
1119 referred because of missing information, unusual nature of
1120 transaction or DCIS was already interested in the payee.

1121 *Mr. Sarbanes. These are the kinds of things that
1122 immediately get flagged on a radar screen as being the
1123 kind of conduct and transactions and other things that
1124 could suggest that there is criminal activity behind them,
1125 potentially, correct?

1126 *Ms. Ugone. Right. Gaps in the controls create an
1127 environment that might be conducive for fraud, waste and
1128 abuse. That is really the key is your gaps, your critical
1129 gaps.

1130 *Mr. Sarbanes. Can you give us a sense? You don't
1131 have to reveal any sensitive law enforcement information,
1132 but how do you expect these cases to proceed?

1133 *Ms. Ugone. Well, we already have data from DCIS in
1134 a general sense. Two have resulted in cases being
1135 initiated, eight have been incorporated into ongoing
1136 investigations, and I believe the other eighteen are still
1137 undergoing review.

1138 *Mr. Sarbanes. You had a finding. I mean one of the
1139 most significant findings is that the Defense Department

1140 has "material internal control weakness" over its payment
1141 system in Iraq.

1142 I know this is accounting terminology and so forth,
1143 but one of the findings you included is particularly
1144 relevant, I thought. It said, "Our concern is more than
1145 an adequate audit trail."

1146 It is not just about the audit trail.

1147 "We are concerned there are significant gaps in
1148 internal controls over commercial payments made in a
1149 military contingency operation and that these gaps in
1150 internal controls can create," as you have been saying,
1151 situations where there is much higher vulnerability.

1152 These aren't your words, I am paraphrasing, but much
1153 higher vulnerability to fraud, waste and abuse.

1154 *Ms. Ugone. Right. Correct.

1155 *Mr. Sarbanes. So it is not just about the paperwork
1156 and collecting documentation in the audit.

1157 *Ms. Ugone. No.

1158 *Mr. Sarbanes. It is about making sure that the
1159 taxpayer dollars that are behind these funds are being
1160 used for intended purposes, correct?

1161 *Ms. Ugone. Correct.

1162 *Mr. Sarbanes. What is really inexplicable, and I
1163 think something that is hard for us to digest even though
1164 we have had so many hearings on this. Every time it is
1165 unbelievable, that the Defense Department is approving
1166 payments for \$11 million, \$5.7 million, \$6.3 million
1167 without any information about what they are buying.

1168 As far as I can tell, not just from this hearing but
1169 listening to other ones, the accounting principles that
1170 the Defense Department seem to be using in its interaction
1171 and transactions with all sorts of different players in
1172 this drama was essentially we will keep giving you money
1173 as long as you keep telling us that you are spending it.
1174 That was essentially the way the system seemed to operate.

1175 What I would like for you to answer, and I am about
1176 to run out of time, is from your experience, what is the
1177 motivation for somebody to not want to know how money is
1178 being spent?

1179 In other words, it could be neglect. It could be a
1180 breakdown in systems. But what I see here is really not
1181 wanting to know what is happening on the other side of the
1182 curtain. Let me just ask, are there ever instances where
1183 that turns out to be what was driving the lack of

1184 documentation?

1185 *Ms. Ugone. Well, we actually looked at it from a
1186 different perspective. One of the things that we have a
1187 recommendation in our report is when you are in a
1188 contingency environment, going to maybe five or six
1189 different regulations to figure out what you need to do,
1190 you may not have as much time to be able to do that.

1191 We recommended the Department to consolidate all the
1192 minimal essential information. So, if you had to actually
1193 look at the requirement, you could look on one sheet to
1194 figure out what you had to do to ensure a proper payment.

1195 That is one of the challenges is there is regulatory
1196 and statutory requirements embedded in different places,
1197 and that was a challenge too. When we looked for it, we
1198 actually didn't find the 53 requirements in one place.
1199 They are rooted in many different regulations, and I think
1200 that is really one of the primary challenges is trying to
1201 figure out what is absolutely minimally essential, which
1202 is why we identified the 27 criteria.

1203 *Mr. Sarbanes. Thank you.

1204 *Chairman Waxman. Thank you, Mr. Sarbanes

1205 Mr. Higgins.

1206 *Mr. Higgins. Thank you, Mr. Chairman.

1207 Ms. Ugone, I would like to ask you about the \$5.2
1208 billion for Iraq security forces.

1209 *Ms. Ugone. Okay.

1210 *Mr. Higgins. Providing assistance to help train and
1211 equip the Iraqi security forces has been one of the
1212 President's core strategies in Iraq. In a nationally
1213 televised address in June of 2005, the President said,
1214 "Our strategy can be summed up this way: As Iraqis stand
1215 up, we will stand down."

1216 To implement the President's goal, Congress
1217 appropriated 5.2 billion in 2005 to provide assistance to
1218 the Iraqi security forces including weapons, equipment,
1219 the construction of training and operating facilities.

1220 Ms. Ugone, in November, your office issued a report
1221 about these funds, and your conclusions was quite
1222 astounding. This is what you said: "The Defense
1223 Department did not have sufficient controls and procedures
1224 in place, did not maintain adequate oversight and did not
1225 maintain accountable property records. As a result, the
1226 Defense Department was unable to provide reasonable
1227 assurance that funds appropriated for the Iraq security

1228 forces achieved the intended results, that resources were
1229 used in a manner consistent with the mission and that
1230 resources were protected from waste and mismanagement."

1231 Ms. Ugone, this is supposed to be one of the
1232 President's core strategies in Iraq, training and
1233 equipping the Iraqi security forces so that young service
1234 members can come home. How can it be that something so
1235 critical, so fundamental to this effort can be so poorly
1236 administered?

1237 *Ms. Ugone. The issue when we looked at this area,
1238 we had spent 90 days forward, and we had looked at three
1239 major locations. We sent, deployed a team forward, and we
1240 looked at the port of entry on Um Qasr and I think Taegu
1241 National Depot and the Abu Ghraib warehouse.

1242 And, at that time, there have been changes since the
1243 time we reviewed the effort. As I mentioned in my
1244 testimony, in April, 2008, MNSTC-I has recognized the need
1245 to put in standard operating procedures.

1246 One of the key issues that we found was the fact that
1247 we could not trace from what we provided to the Iraqi
1248 security forces all the way back to the contract. There
1249 might instances. For example, for equipment, you could

1250 have a receiving report with vehicle identification
1251 numbers, but when you actually transfer the equipment to
1252 the Iraqi security forces, there was no listing of the
1253 vehicle identification numbers on the hand receipt.

1254 So those are the examples we had, and it was
1255 primarily documentation that supported whether or not the
1256 transfers were properly made to the Iraqi security forces.

1257 *Mr. Higgins. Yes. I think perhaps this is an
1258 unfair question of you, but the Defense Department refused
1259 to testify today. The report issued by your office found
1260 a lack of accountability over tens of thousands of weapons
1261 including pistols, assault rifles, rocket-propelled
1262 grenade launchers and even machine guns. Isn't that
1263 right?

1264 *Ms. Ugone. See, one of the things is there is a
1265 separate review going on of the munitions assessment team
1266 effort, and I wanted to make sure that they were focused
1267 more on the accountability of weapons, munitions. But,
1268 yes, we looked at the documentation supporting not only
1269 equipment, construction and services. That is correct.

1270 *Mr. Higgins. In addition to the weapons, your
1271 report offers a litany of deficiencies with control over

1272 91 percent of equipment transfers, fuel tankers and
1273 tractor-trailers worth \$1.5 million, generators worth \$7
1274 million and heavy tracked recovery vehicles worth \$10.2
1275 million.

1276 I don't know you lose a garbage truck in the middle
1277 of downtown Baghdad, but your report was not limited to
1278 equipment and supplies. You also report that 93 percent
1279 of construction projects you analyzed lacked adequate
1280 oversight and that millions of dollars were wasted as a
1281 result.

1282 I won't ask for an answer to this question, but it
1283 seems to me that mismanagement is crippling our mission in
1284 Iraq and, unfortunately, our troops and taxpayers will
1285 suffer as a result.

1286 I yield back, Mr. Chairman.

1287 *Chairman Waxman. Thank you very much, Mr. Higgins.

1288 *Mr. Clay is not here.

1289 Mr. Yarmuth.

1290 *Mr. Yarmuth. Thank you, Mr. Chairman.

1291 Ms. Ugone, on page 15 of your written testimony, you
1292 describe how the Defense Department spent \$1.8 billion in
1293 seized and vested Iraqi assets without adequate

1294 accountability. As I understand, seized and vested assets
1295 are Iraqi funds that were confiscated in Iraq or they were
1296 frozen in the United States, and the U.S. began spending
1297 them in the war in Iraq sometime after it began in 2003.
1298 Is that correct?

1299 *Ms. Ugone. Well, actually, the majority I think was
1300 spent during the CPA time period, and I believe \$7.5
1301 million was expended in October 2004, after the CPA
1302 transitioned on.

1303 *Mr. Yarmuth. Okay. Thank you.

1304 Your report then says that you examined 53 different
1305 payment vouchers for a total of \$1.8 billion, and they
1306 were all missing basic documentation to show how they were
1307 used. Here is what you said in your report: "There was no
1308 audit trail to verify the basis for the amount, who
1309 actually received the funds or how the funds were used."

1310 That is your testimony, correct?

1311 *Ms. Ugone. That is correct.

1312 *Mr. Yarmuth. Let me ask you about one example that
1313 was mentioned in your testimony. You provided with a copy
1314 of a receipt which I would like to have put on the screen.

1315 At the very top, in handwriting, you can see that

1316 this is a single payment to the Iraqi Ministry of Finance.
1317 In the middle of the page, you can also see that the
1318 purpose of the funds is for Iraqi salaries. If you look
1319 in the middle on the right, you can see that the total
1320 amount is \$320 million, and that is really all we know
1321 about the transaction. Is that correct?

1322 *Ms. Ugone. That is correct.

1323 *Mr. Yarmuth. There is one more detail. Under the
1324 quantity section, it says 1,000 employees or 1,000. We
1325 are assuming that is employees. It talks about salaries.
1326 So, if you read the document literally, it would indicate
1327 that 1,000 different Iraqi employees are being paid
1328 \$320,000 each.

1329 Now I know if you are talking about the chairman of
1330 Exxon, that is not a lot of money. It is probably about 1
1331 percent of what he made last year, but it is more than a
1332 member of Congress makes.

1333 Is there any explanation for this? Are those just
1334 kind of random numbers? They are just putting numbers in
1335 there because they didn't know what it was or could that
1336 literally be true?

1337 *Ms. Ugone. We don't have any documentation to

1338 explain, to support this quantity, this amount.

1339 *Mr. Yarmuth. So we really don't know. Really, we
1340 don't know if it was actually spent for salaries. It
1341 could have been spent for guns to fight insurgents or
1342 anything else.

1343 *Ms. Ugone. We don't know what it was spent for.

1344 *Mr. Yarmuth. Let me ask you. This has been
1345 mentioned many times today already.

1346 The Defense Department has refused to testify here,
1347 but in their written comments on your report, this is what
1348 they say: "We do not agree the audit trail documentation
1349 should include supporting budget details and spending
1350 plans that can be reconciled to payment vouchers. This is
1351 not a disbursing officer responsibility."

1352 Do you agree that this is not the Defense
1353 Department's responsibility?

1354 *Ms. Ugone. We believe that the Defense Department
1355 should add something like spending plans to account how
1356 the funds would be used and, in fact, we have been
1357 notified that the financial management regulation is
1358 undergoing revision to incorporate guidance on seized and
1359 vested assets.

1360 *Mr. Yarmuth. Referring to that comment again, can
1361 you maybe give us a guess as to what the official Defense
1362 Department budget, whose responsibility they believe it
1363 is, if it is not a disbursing officer?

1364 If they say it is not the disbursing officer, who
1365 else's responsibility could it be?

1366 *Ms. Ugone. I think part of it is the guidance. One
1367 of the issues that we took was when you look at the
1368 prescribed guidance, which was I believe in this regard an
1369 executive order, it was specific about accounting for
1370 these funds. So we looked at the comptroller promulgation
1371 of that executive order and believe that it omitted items
1372 such as spending plans.

1373 So what we had recommended and asked that the
1374 comptroller do was revise its guidance so that the
1375 disbursing officer would have that document available to
1376 be able to make those decisions.

1377 *Mr. Yarmuth. A final question, your report points
1378 out that on March 20th of 2003, the President signed
1379 Executive Order 13290 directing that payments from seized
1380 and vested Iraqi assets be adequately accounted for and
1381 auditable, and you also point out that that requirement

1382 was repeated in a presidential memo issued on April 30th,
1383 2003.

1384 Is it your conclusion today that the Defense
1385 Department failed to comply with the President's executive
1386 order as outlined in those two documents?

1387 *Ms. Ugone. We do not believe that there is a way to
1388 account for how those Iraqi seized and vested funds were
1389 used. That is correct.

1390 *Mr. Yarmuth. Thank you very much. I yield back.

1391 *Chairman Waxman. Thank you, Mr. Yarmuth.

1392 Mr. Lynch.

1393 *Mr. Lynch. Thank you, Mr. Chairman. I want to
1394 thank you for holding this hearing. I also want to thank
1395 the Ranking Member and the panelists, quite frankly, for
1396 your help.

1397 Ms. Ugone, I would like to talk to you about the 5.2
1398 billion in U.S. taxpayer dollars that were targeted for
1399 Iraqi security forces.

1400 I know there are several members. My colleague, Mr.
1401 Platts, who was here earlier, and a number of us have
1402 spent a lot of time on the ground in Anbar Province,
1403 principally in the area of Fallujah and also in Ramadi.

1404 Some months ago, the Chairman asked us to inspect the
1405 progress of construction of a couple of Iraqi Army bases,
1406 one in Fallujah and one in Ramadi. Now we, myself and
1407 Congressman Platts and a few others, were able to inspect
1408 the base in Fallujah. However, we were unable to inspect
1409 the base in Ar Ramadi, and I think you know why.

1410 On page 13 of your report, you state that the Defense
1411 Department was supposed to build, as we understood, a \$34
1412 million base for the new Iraqi Army in Al Anbar Province
1413 near Ramadi. You also found that the Defense Department
1414 paid a contractor, Ellis World Alliance Corporation, \$31.9
1415 million out of the \$34 million, about 93 percent of the
1416 contract, the problem being that the facility was never
1417 built.

1418 Is that correct?

1419 *Ms. Ugone. That is correct.

1420 *Mr. Lynch. Okay. This example is just so egregious
1421 that we wanted to investigate further. In meetings with
1422 Committee staff and the military service responsible for
1423 this contract, the Air Force said that the problem with
1424 this contract was that they never obtained the land rights
1425 necessary to construct the base.

1426 Despite the critical deficiency, the Air Force issued
1427 a notice to proceed with mobilization to the contractor,
1428 and they let them continue for nine months under this
1429 contract even though we didn't own the land and we
1430 couldn't build the base. Then nine months later, they
1431 finally called a halt to the program.

1432 The Air Force told us that "not a spade of dirt was
1433 turned on this project."

1434 They said it was an embarrassment and that they now
1435 have a new policy that says you can't proceed with a
1436 construction project until you have title for the land.

1437 Can you explain? I hate to put this onto you, but
1438 can you explain how a contract can go on for nine months,
1439 incurring millions and millions of dollars in costs --
1440 this is American taxpayer dollars. This is not Iraq
1441 money. This is our money -- before even the basic
1442 question of who owns the land is resolved?

1443 *Ms. Ugone. I can't explain that.

1444 *Mr. Lynch. Okay. Now what bothers me worse here is
1445 we have been out to Ramadi a number of times, as I say,
1446 and apparently the meter is still running on this because
1447 they have the raw materials, the bricks.

1448 I have a long history in construction, and they have
1449 all that material in warehouses. Of course, in Ramadi,
1450 you have to have everything heavily guarded. So now,
1451 basically, we are spending all the money that was supposed
1452 to build this base on protecting the raw materials.

1453 If you understand what the security people are making
1454 over there, it is costing us more to guard the bricks and
1455 the steel and the building components in the warehouse
1456 than the stuff in the warehouse is worth, and that
1457 troubles me greatly. It is just bad management.

1458 Is there anything you can help us with in terms of
1459 reversing this practice or making sure that this doesn't
1460 happen?

1461 *Ms. Ugone. I believe this was the one that we had
1462 referred to our Defense Criminal Investigative Service,
1463 and I can follow up to see what has occurred since the
1464 referral.

1465 *Mr. Lynch. This contractor is burning the monies
1466 there. They are basically spending it down. We are
1467 getting nothing for the value. It is an embarrassment. I
1468 agree with that assessment. We would never tolerate that
1469 in our country, and this is something that is directly

1470 under our control.

1471 Also, this Ellis World Alliance Corporation, I don't
1472 know what we are getting for our \$34 million. I couldn't
1473 see anything.

1474 There has to be a cutoff. We have to be able to
1475 terminate this thing and stop the cost to the American
1476 taxpayer.

1477 *Ms. Ugone. We will follow up and get back with you.

1478 *Mr. Lynch. That will be great. Thank you.

1479 I yield back, Mr. Chairman.

1480 *Chairman Waxman. Thank you very much, Mr. Lynch.

1481 Ms. McCollum.

1482 *Ms. McCollum. Thank you, Mr. Chair. Thank you for
1483 having this hearing.

1484 I want to follow up on a line of questioning that I
1485 actually started with Ambassador Crocker in the
1486 Appropriations Committee.

1487 Deputy Inspector General, your report concludes that
1488 the Defense Department made \$135 million in payments to
1489 foreign governments under the Commander's Emergency
1490 Response Fund. Your conclusion in the report is that
1491 there was no audit showing where the funds went.

1492 Last year, the Defense Department began using the
1493 CERP, the CERP funds for other purposes, bulk payments to
1494 local Iraqi tribal leaders so that their followers would
1495 stop fighting us. The Pentagon calls this the Sons of
1496 Iraq program.

1497 I ask this because the Pentagon now wants to ramp
1498 this program up to \$370 million in fiscal year 2008. This
1499 is a huge ramp-up for a program that did not exist a year
1500 ago.

1501 These funds are payments to foreign governments.
1502 They have no audit trail. They have no supporting
1503 documentation. They have no way to determine where the
1504 money actually went.

1505 In fact, I asked Ambassador Crocker about this
1506 program. I asked him about my concerns of child soldiers
1507 with some of the media reports that I have read. I asked
1508 him about the Sons of Iraq providing a false sense of
1509 security because no one from the State Department of the
1510 Department of Defense could tell me what would happen if
1511 these payments stopped.

1512 So I would like to ask you, has the IG's office done
1513 any work on this issue?

1514 *Ms. Ugone. No, we have not, not on the Sons of
1515 Iraq.

1516 *Ms. McCollum. What documentation would you expect
1517 to see in support of these types of payments? What kind
1518 of detail would you expect to have about the services
1519 provided, the type of employees being paid?

1520 *Ms. Ugone. Well, with respect to what we did look
1521 at, the 22 payment vouchers that were provided to
1522 Coalition partners, that was intended for either non-
1523 construction or construction efforts, for humanitarian
1524 purposes and other support purposes.

1525 We would have expected to see, for construction,
1526 project files -- project files that described what was,
1527 how the funds were being used, for what construction, what
1528 the status of the construction, what percentage of
1529 completion, some sort of mechanism to be able to reconcile
1530 how much.

1531 We provided bulk funding, what that bulk funding went
1532 into, whether it was non-construction and construction.
1533 If it was construction, we would expect a detailed project
1534 file for reconciliation purposes and, for non-
1535 construction, some sort of support that indicated what

1536 that money was being used for.

1537 *Ms. McCollum. So, if it went for something like the
1538 Sons of Iraq program, where we are paying Sunni groups to
1539 not fight against U.S. soldiers, you would expect to see a
1540 detailed list of employees, what kind of equipment they
1541 were given, who is being paid what on what basis. You
1542 would expect to see those types of things in an audit?

1543 *Ms. Ugone. Well, I would expect to see some level
1544 of detail supporting the Sons of Iraq program, but since I
1545 am not familiar with it, it is hard to talk about it. But
1546 I can get back to you.

1547 From the standpoint since I didn't look at it as part
1548 of the audit, I don't think it would be appropriate for me
1549 to say what it should include at this point, but I can
1550 take a look at that separately.

1551 *Ms. McCollum. I appreciate that.

1552 Mr. Chair, I am so glad you are having this hearing.
1553 I would like to encourage this Committee to do more
1554 examination about the issue of the Sons of Iraq. Many
1555 people think that this program has reduced the violence in
1556 Iraq. Others, including some in the national Shiite
1557 government, are concerned that U.S. funds are being used

1558 to buy weapons and fund Sunni groups that will engage in
1559 civil war when the United States leaves.

1560 I don't understand, Mr. Chair, why the United States
1561 has to spend \$370 million on this program. If we think it
1562 helps reduce violence in Iraq, then the Iraqi government
1563 should be excited about the reduction and they should pay
1564 for it.

1565 After all, we now know that the Iraqi government has
1566 \$70 billion in reserves. They should be paying for their
1567 own security.

1568 So, Mr. Chairman, due to the lack of accountability
1569 in the funds that you have pointed out here today and the
1570 rest of the construction issues, I would really encourage
1571 you and this Committee to work with Chairman Obey and Ms.
1572 Lowey and myself to find out more about the Sons of Iraq
1573 program and if there is any kind of audit paper trail on
1574 that.

1575 Thank you, Mr. Chair.

1576 *Chairman Waxman. Thank you very much, Ms. McCollum.
1577 We will certainly want to look into that with you.

1578 Mr. Tierney.

1579 *Mr. Tierney. Thank you, Mr. Chairman.

1580 I think we have covered this pretty extensively but,
1581 Ms. Ugone, I want to go in a different direction. I want
1582 to put on the record a little information about why we
1583 don't have any Defense Department witness before us here
1584 today.

1585 The Committee apparently sent a letter on May 9th to
1586 Defense Secretary Gates, requesting that he designate a
1587 witness for today's hearing.

1588 After multiple conversations and meetings with
1589 Defense Department officials, we received a letter this
1590 week, refusing the Committee's request. The letter cited
1591 as a reason for this decision the impending release of the
1592 IG's report and the desire to have a reasonable
1593 opportunity to digest the final version of the report.

1594 Ms. Ugone, how long has your office been working on
1595 this report?

1596 *Ms. Ugone. A year, actually, the audit -- no, it
1597 hasn't taken a year to get the report. We have been
1598 working on this audit for a year.

1599 *Mr. Tierney. And when did your office first make
1600 the Defense Department aware that your office was working
1601 on this audit?

1602 *Ms. Ugone. I believe we announced that in May of
1603 2006.

1604 *Mr. Tierney. Am I correct in saying that in May of
1605 2007, over a year ago, you gave the Defense Department an
1606 opportunity to try to locate additional documentation?

1607 *Ms. Ugone. Yes.

1608 *Mr. Tierney. To substitute the payments for which
1609 you found deficiencies?

1610 *Ms. Ugone. Yes. From May, 2007, it has been about
1611 a year where we first identified some of these critical
1612 issues, and we have been working with the Department since
1613 then.

1614 We have had two drafts for discussion purposes which
1615 is we write up our issues and provide it for discussion
1616 purposes. We had one formal draft, and we have many
1617 meetings, the most recent meeting being May 13, 2008.

1618 *Mr. Tierney. When was the first draft given to the
1619 Defense Department?

1620 *Ms. Ugone. The first discussion draft, I will have
1621 to get back with you. November, 2007.

1622 *Mr. Tierney. Was there another one given on
1623 February 11, 2008?

1624 *Ms. Ugone. Yes.

1625 *Mr. Tierney. In the appendix of your report today,
1626 you reproduced written comments from the Department of
1627 Defense. Is that right?

1628 *Ms. Ugone. Yes. In fact, we not only incorporated
1629 their comments to the official draft version. We also
1630 incorporated comments they provided to us, I believe, on
1631 May 16, 2008.

1632 *Mr. Tierney. So the Office of the Assistant
1633 Secretary of the Army, Financial Management and
1634 Comptroller provided comments on March 24, 2008.

1635 *Ms. Ugone. That is correct.

1636 *Mr. Tierney. The Defense Finance and Accounting
1637 Service provided comments on March 25, 2008.

1638 *Ms. Ugone. That is correct.

1639 *Mr. Tierney. The Office of the Undersecretary of
1640 Defense for Acquisition, Technology and Logistics provided
1641 comments on April 25, 2008.

1642 *Ms. Ugone. That is correct.

1643 *Mr. Tierney. So it is accurate to say the Defense
1644 Department, well, let me ask you. Do you think it is
1645 accurate for them to say that they haven't had ample

1646 notice of this and an opportunity to review?

1647 *Ms. Ugone. What I can say is that they were fully
1648 aware of our issues and concerns, and we have been working
1649 with them for over a year.

1650 *Mr. Tierney. It appears to me that they have had
1651 ample knowledge over time. They have worked with you.
1652 They have filed written responses.

1653 Mr. Chairman, if I might, this is not an uncommon
1654 problem, unfortunately, with the Defense Department being
1655 unwilling. It is clear to me why they are not here today.
1656 It has nothing to do with not getting notice, nothing with
1657 not being able to have an opportunity to respond. It has
1658 all to do with not wanting to be in front of the American
1659 public, trying to make answers as to what is going on.

1660 I think we have subpoena power, and I would ask you
1661 and the Ranking Member at some point in time to consider
1662 using it where appropriate, so the Department of Defense
1663 wouldn't think that they can avoid the kind of public
1664 scrutiny that we are specifically set up to do here.

1665 *Mr. Davis of Virginia. Will the gentleman yield?

1666 *Mr. Tierney. Yes.

1667 *Mr. Davis of Virginia. I would be happy to work

1668 with our Chairman on that.

1669 The one thing that is most frustrating is that you
1670 can go back 15 years and you see this same kind of
1671 problem. We are talking about a war zone today, but these
1672 are systematic problems that the GAO has put on their
1673 high-risk list every year, and they keep coming back and
1674 coming back and coming back.

1675 *Mr. Tierney. Reclaiming my time, that is why I
1676 think at some time, under some Administration, somewhere
1677 we have to call.

1678 I think some of the people at the Department of
1679 Defense are probably not the ones most responsible for
1680 what is going on. So it is not a personality thing. It
1681 is a case of getting a system in place where we get the
1682 answers that we need to correct these deficiencies so that
1683 they don't continue to repeat themselves.

1684 I thank the Chairman, and I yield back the balance of
1685 my time.

1686 *Chairman Waxman. If I can just respond to the
1687 gentleman, I think you are making an excellent point. We
1688 need to hear from the Defense Department, and I hope this
1689 hearing today will be a call to them that they have some

1690 explaining to do.

1691 The gentleman's time is expired.

1692 Mr. Cummings.

1693 *Mr. Cummings. Thank you very much.

1694 Ms. Ugone and all the witnesses, it is good to see
1695 you this morning.

1696 As I sat here, I could not help but think. I have
1697 just left my district, and I used to be a criminal lawyer
1698 in my before life. I actually saw people go to prison for
1699 stealing a \$100 bike.

1700 Here, we have a situation where something has gone
1701 awfully wrong. It is very interesting that as I listen to
1702 the Ranking Member say that this goes back 15 years, that
1703 concerns me.

1704 You know the author Stephen Covey has a book, and it
1705 is my favorite book. It is entitled the Speed of Trust,
1706 and it talks about how when you trust someone, things go
1707 along. The relationship moves along at a great speed than
1708 when you don't trust them.

1709 There are two types of trust. Competency, that is
1710 that you trust that somebody is competent to do the job
1711 that they have been assigned to do. For example, I would

1712 not have my mechanic cut my hair if I had some. And,
1713 there is another kind of trust that goes to honesty and
1714 integrity.

1715 As I have listened to your testimony and read through
1716 the documents, it seems to me that we may have both types
1717 of trust lacking here. Trust in competency, there is a
1718 lack of. It seems like somebody or a whole lot of people
1719 are incompetent. But there is also some dishonesty going
1720 on here too.

1721 I am glad to know that cases are being referred to
1722 the criminal division. I am just hoping that they will
1723 be.

1724 See, I don't buy this argument that something has
1725 been systematic because the guys in my neighborhood who I
1726 used to represent, they don't say that to them. They send
1727 them to prison for \$100.

1728 Here, we are talking about millions and billions of
1729 taxpayers' dollars, and we don't know where they have
1730 gone. Abracadabra -- they disappear.

1731 But, at the same time, there are three principles
1732 that concern me here. One, the United States of American
1733 and our citizens are hardworking taxpayers who are

1734 complaining every two weeks or every month when they get
1735 their checks that taxes are being taken out.

1736 They deserve three basic things. One, they deserve
1737 to get what we bargained for. That is a basic principle.

1738 Two, they deserve, in this instance, to have funds
1739 spent so that we can do those things that the Defense
1740 Department is supposed to do: to make sure that their
1741 lives are the best that they can be, to make sure that
1742 they defend this Country and do all those things that are
1743 supposed to be done.

1744 And then there is a third one, and it is one that Ms.
1745 McCollum alluded to. That is we must be in a situation
1746 where we know that our funds are not doing harm to us. If
1747 our own funds in some way are being turned around as if
1748 someone took a gun and turned it around and pointed it
1749 right back at you, it makes absolutely no sense.

1750 That is why I am taking my few minutes to say to you
1751 and ask that whatever the standard is that requires that
1752 folks or factual patterns be sent to the criminal
1753 division, I hope that they are because the American people
1754 support our troops. There may be differing views about
1755 the war, but they support our troops, and every member of

1756 Congress supports our troops a million percent.

1757 But I have to tell you, when somebody looks at C-SPAN
1758 and hears this kind of stuff, it has to make them very,
1759 very angry.

1760 The guys in my neighborhood, in the inner city of
1761 Baltimore, when they hear about this, they will say,
1762 Cummings, I mean, when I get home tonight, I can hear them
1763 now, you mean to tell me them people got away with
1764 millions, man? What is up with that? What is that about?

1765 I am hoping that somebody is brought to justice.
1766 Somebody needs to be brought to justice.

1767 You can comment on what I have said if you like, but
1768 I thank you for what you are doing, and I see my time is
1769 up.

1770 *Chairman Waxman. Do you want to respond in any way?

1771 *Ms. Ugone. No comment.

1772 *Chairman Waxman. Mr. Cummings, you are the last
1773 questioner, and I think you have done an excellent job in
1774 summing up the situation.

1775 To be told that this has been going on for a long
1776 time is no excuse for allowing it to continue, and to say
1777 we ought to look at past wars to see if there was money

1778 squandered is not going to make people feel any better if
1779 they see money being squandered in this war.

1780 I want to thank you for the work you have done. This
1781 is a very important report that you have given us today,
1782 and it is a wake-up call that we have to see changes
1783 because the taxpayers' money cannot be squandered the way
1784 it has been.

1785 We need accountability. That is the essence of
1786 government, so the people know that government belongs to
1787 them and not to the people running.

1788 I want to see if Mr. Davis wants to make any further
1789 questions or comments.

1790 *Mr. Davis of Virginia. I guess the frustration
1791 every one of us has up here -- you have it too -- is what
1792 is the Army doing to fix this?

1793 I know they moved. We talked about temporarily, on
1794 the Iraq side, moving some of the work from Kuwait back
1795 stateside, but the systematic problems in these areas.

1796 *Ms. Ugone. I think one of the areas that we really
1797 think and it is a workforce issue which I believe that
1798 this Committee as well as the Department has identified is
1799 a workforce issue is training.

1800 One of the areas that we have recommended the Army do
1801 is train the Army finance personnel in these matters as
1802 well because we understand in a contingency operation that
1803 we need to have essential information ready at hand, and
1804 people who perform those functions should be trained in
1805 how to apply the criteria quickly.

1806 *Mr. Davis of Virginia. This goes back to the
1807 comment, you go to war with the Army you have, I guess if
1808 you remember.

1809 But, look, why was the Army financial system
1810 overburdened with additional tasks and influx of billions
1811 and billions of dollars that were being distributed to the
1812 Coalition?

1813 What is the fix in this case and if you are just
1814 saying it is manpower or is getting competent people,
1815 system people in there with appropriate controls? Are the
1816 computer systems not working and interactive?

1817 *Ms. Ugone. Well, we are actually looking at that in
1818 some follow-on audits. One of the areas that we are going
1819 to look at is the Defense Finance and Accounting
1820 workforce, and we are also going to be reviewing the
1821 Defense Contract Management Agency workforce because that

1822 was also a challenge area in this environment. We plan to
1823 look at the deployable disbursing system which is supposed
1824 to be used and cited by the comptroller as a valuable
1825 additional to accounting for these funds in that
1826 environment.

1827 So we are doing follow-on work to take a look at many
1828 of those issues.

1829 *Mr. Davis of Virginia. Every year, on the GAO watch
1830 list, this is there. It stays there.

1831 This Committee got some things off the list. We got
1832 the whole postal thing off the watch list. We passed a
1833 massive bill working with it, very difficult to do, and we
1834 took it off the watch list. Things come off the watch
1835 list.

1836 If there is anything legislatively we need to do or
1837 if this is just a bureaucratic problem where the people
1838 can't seem to figure it out or get the resources, and I
1839 guess that is the ultimate question I would give you if
1840 you have any solutions.

1841 You are going to go back here. I guarantee you will
1842 be back here next year and the year with example after
1843 example, and nothing seems to change except incrementally.

1844 It is a huge frustration. If this were a few
1845 thousand dollars or a million dollars, but we are talking
1846 billions of dollars over time that they are taking out of
1847 hardworking people's paychecks or borrowing in the future.
1848 That is the frustration.

1849 *Ms. Ugone. If I could just comment, there is a
1850 lessons learned work group that is being sponsored by, I
1851 believe, the Principal Under Secretary of Defense
1852 Comptroller. It is the lessons learned with respect to
1853 not only disbursement but also to vendors. You know the
1854 contracting side of the house.

1855 The lessons learned group is made up of members from
1856 my organization as well as acquisition technology, the
1857 logistics comptroller, DFAS and Army. That working group
1858 met in April, I believe twice. So that effort is underway
1859 to resolve some of the issues and lessons learned
1860 identified during this particular audit.

1861 *Mr. Davis of Virginia. Look, all of you are great
1862 people. You are working hard at this. You are doing your
1863 jobs well, and you are identifying this.

1864 I think the problem goes up in division at the top in
1865 terms of do we really fix this. We have good people. We

1866 just need to deploy them right and give them the
1867 resources, but it doesn't seem to get done.

1868 Thank you very much. It is very helpful to us, I
1869 think, in trying to focus our energies in the right way.

1870 Mr. Chairman, I appreciate your holding this hearing.

1871 *Chairman Waxman. Thank you very much.

1872 *Ms. Ugone. Thank you very much.

1873 *Chairman Waxman. Thank you very much, Mr. Davis.

1874 We appreciate the work you are doing.

1875 *Ms. Ugone. Thank you.

1876 *Chairman Waxman. That concludes our hearing, and we
1877 stand adjourned.

1878 [Whereupon, at 11:45 a.m., the committee was
1879 adjourned.]