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BEFORE THE  
UNITED STATES HOUSE OF REPRESENTATIVES  
COMMITTEE ON THE BUDGET**

**“The Costs of Military Operations and Reconstruction in Iraq and Afghanistan”**

**Tuesday, July 31, 2007**

**Washington, D.C.**

Chairman Spratt, Ranking Member Ryan, and members of the Committee on the Budget, thank you for inviting me to appear before you today to address “The Costs of Military Operations and Reconstruction in Iraq and Afghanistan.”

The Office of the Special Inspector General for Iraq Reconstruction was created in January 2004, and is responsible for conducting the independent and objective oversight of more than \$31.8 billion in funds appropriated under the Iraq Relief and Reconstruction Fund and certain other appropriations.

Yesterday we released our 14th Quarterly Report to the Congress. This Report contains detailed reviews of SIGIR’s eight new audits, five new on-the-ground inspections, updates on SIGIR’s investigative work (which includes two recent sentencings and three recent arrests for fraud), and a sector by sector recounting of how taxpayer money has been allocated and spent for Iraq’s reconstruction through four major funds created by the Congress.

Over the past three years, SIGIR has produced 94 audits, nearly 100 on-the-ground inspections, opened over 300 investigations, released 3 “lessons learned” reports, and obtained savings, recoveries and restitution orders from audits and investigations amounting to over \$70 million. I am proud of the achievements of SIGIR’s auditors, inspectors, and investigators: 30 of them are working today in Iraq to carry out the oversight mission assigned by the Congress. I must note that their work has become more challenging over the past three months as attacks upon the Green Zone have markedly increased. Later this week, I will leave on my 17<sup>th</sup> trip to Iraq to support my team’s efforts in Baghdad and across Iraq.

The title of this hearing asks what the costs of Iraq’s reconstruction have been. That is a question that can be answered on several levels. SIGIR’s newest quarterly report helps provide those answers on a financial level.

The United States Congress has appropriated approximately \$44.5 billion for the relief and reconstruction of Iraq. That includes: around \$21 billion appropriated in 2003 to the Iraq Relief and Reconstruction Fund (IRRF); around \$14 billion appropriated to the Iraq Security Forces Fund (ISSF) since mid-2005; \$3.1 billion appropriated to the Economic Support Fund (ESF) since early 2006; \$2.5 billion appropriated to the Commander's Emergency Response Program (CERP) over the past three years; and approximately \$4 billion appropriated to 26 smaller accounts. Approximately 90 percent of the IRRF is spent, around 61 percent of the ISSF is spent, and around half of CERP and half of ESF appropriated to date has been spent. SIGIR has oversight of around 70 percent of these appropriations.

Pledges of international support amount to approximately \$18 billion in loans, grants and debt reductions, but, to date, just under \$4 billion of this amount has been used in Iraq. Our new quarterly report also notes that around \$36 billion in Iraqi funds have been used for relief and reconstruction purposes since 2003. In total, almost \$100 billion has been allocated for Iraq's recovery from varying sources.

SIGIR's audits and inspections have uncovered numerous instances of waste and inefficiency in the program; but we also have inspected many projects that have met contract expectations.

The reasons for the shortfalls we have found vary greatly. This quarter's reporting uncovered problems in sustainment at the Al Doura power plant south of Baghdad. The benefit of the \$90 million dollar investment in this project, which is so critical to providing power to Baghdad, has not been realized because of weak operations and maintenance practices by the Iraqis after the project was turned over in April 2006. Specifically, only one of the Al Doura units was brought on line, and it failed in late 2006 because of deleterious operational practices. The US Army Corps of Engineers is now repairing both units and expects to have them back on-line in August. Once up and fully running, Al Doura will provide 320 megawatts to the electric grid, adding 7.5 % to the current generated nationwide output and increasing greatly the hours of power available per day to Baghdad.

As happened at Al Doura, waste can occur because of poor operations and maintenance, whether in planning or execution. Waste also can occur due to weak oversight (see SIGIR's audit of the Primary Health Clinics program) or poor quality control (see SIGIR's inspection of the Baghdad Police College) or both (see this quarter's audit of KBR's support to the Embassy). "Waste" can also arise due to delays created by security problems. In any event, waste increases the cost of investment to help rebuild Iraq.

Part of SIGIR's mission is to root out waste, and we have accomplished that in a number of instances through our "real time" auditing approach. Real time auditing means keeping management informed during audits so that changes can be made to correct accountability and control weaknesses before the audit is released. The Task Order 130 audit this quarter is a perfect example of how this approach is applied. SIGIR auditors

found a number of problems in KBR's management of the provision of food, fuel, and shelter to the Embassy in the Green Zone. As the problems, were uncovered, management and KBR corrected them such that, by the time the audit was published on June 22, almost of the problems were remediated.

SIGIR's real time auditing is complemented by larger-scale contract audits that look to answer the question "where did the money go and what did we get for it." SIGIR will accomplish this mission by carrying out a series of focused financial audits of the largest contracts in Iraq reconstruction This audit program will meet the forensic audit requirement of the Iraq Accountability Act of 2006.

### FOCUSED FORENSIC AUDITS

SIGIR completed this quarter the first in its planned series of focused financial reviews of large contractors funded by the Iraq Relief and Reconstruction Fund (IRRF). SIGIR reviewed the spending of Bechtel National Inc. under its Phase II IRRF contract. Bechtel was the largest IRRF contractor.

The audit, which reviewed Bechtel's work under a \$1.33 billion contract with USAID, is emblematic of the challenges faced in Iraq reconstruction. Bechtel succeeded in meeting original contract scope requirements in about half of the contract's 24 task orders.

Among the findings, SIGIR found:

- The shortage of government contracting staff resulted in a lax oversight in the validation of performance.
- Approximately half of the job orders did not meet their original stated objectives.

SIGIR's audit illustrated both the successes of some task order projects and how some projects were descoped, cancelled, ran over their budgets, or were severely delayed. Among the items of concern uncovered by the audit was a government decision to pay Bechtel invoices within 10 days of receipt, with just two staff members assigned to the review process.

### ASSET TRANSFER

SIGIR has closely followed the asset transfer process in Iraq—that is, how U.S. agencies are turning over completed projects to Iraqi officials, both at the national and on the local levels. SIGIR has conducted four audits on various aspects of this important process.

This latest audit discovered that the Government of Iraq (GOI) has not formally accepted a single project since July 2006. Local Iraqi officials are accepting projects, but the national government has not. Completed projects that are not transferred also represent potential ongoing sustainment expenses for the U.S..

Typically, asset transfer between nations is managed under bilateral agreements. Thus, SIGIR recommended that the U.S. Ambassador to Iraq provide senior-level support to finalize a bilateral agreement between the United States and Iraq on asset transfer to the GOI. SIGIR believes that asset transfer to the GOI is best accomplished through a single U.S. government process, rather than by each implementing agency independently negotiating its own agreement.

### PROVINCIAL RECONSTRUCTION TEAMS

The United States is placing additional emphasis on the use of Provincial Reconstruction Teams (PRTs), which are civil-military teams designed to build capacity in local governance across Iraq through direct assistance to and training of provincial government personnel. As of June 2007, the United States has provided \$1.934 billion to support the Iraq PRT Program, and DoD has requested \$937 million in additional funding for FY 2008.

This quarter, SIGIR issued the second of three audits on the PRTs, which showed that the PRT program has made great strides overcoming problems with civil-military integration, operational support issues, and resource and staffing shortfalls. However, SIGIR continues to recommend that planners further define the objectives and develop a monitoring system to measure the performance of the PRT program, including clearly defined objectives and performance measures and milestones.

### SUSTAINMENT

For over 18 months, SIGIR has been raising concerns about the process for sustaining U.S.-funded infrastructure and systems after they have been turned over to the GOI. Last year, SIGIR instituted a regime of inspections to review sustainment of projects already turned over to Iraq. In the last two Quarterly Reports, SIGIR observed only limited progress in this regard. The Al Doura report issued this quarter was the most serious sustainment shortfall uncovered to date.

SIGIR's assessments this quarter suggest that some improvement has been made, but we note that efforts need to be more effective:

- In 3 of the 4 sustainment assessments SIGIR inspectors made this quarter, sustainment problems were identified, posing threats to the condition and durability of the facilities, and the health and safety of those who worked and lived in the facilities.
- In one other sustainment review, SIGIR found that sustainment was being properly addressed and the project should continue to remain functional.

A larger challenge to sustainment practices is likely to occur when the bulk of U.S.-funded projects are transferred to the GOI. The program and fiscal planning required by

the GOI to successfully meet this sustainment challenge reminds us of the importance of a well-defined asset transfer process.

## IMPROVEMENTS

The Committee has asked about improvements that agencies are making with respect to their Iraq reconstruction practices. Of note, agency management has been receptive to virtually all of SIGIR's recommendations, whether from our audits and inspections or our lessons learned reports. My co-panelist today, Ambassador Joe Saloom, was very responsive to SIGIR's recommendations during his recently completed year in Iraq as the Director of the Iraq Reconstruction Management Office.

Much has been done, for example, to repair the contract "definitization" process, through which cost-plus contract task orders are defined into a more fixed price state. SIGIR audited this definitization requirement in 2006 and found that it was not being applied. The agencies agreed with our concerns and our recommendation; thus, corrective measures have improved definitization practices in Iraq.

Two years ago, I learned, during one of my trips to Baghdad, that the award fee process for cost plus contracts was not being properly managed. I immediately ordered an audit of the process, and SIGIR's auditors found no adequate criteria in place for the award of very large award fees. The managing agency quickly reformed the process so that only performance exceeding expectations is rewarded. This was a good example of SIGIR's real time auditing.

SIGIR's multiple audits of the reconstruction database management systems eventually prompted the creation of a single project database, based on SIGIR's recommendations. Our lessons learned report on contracting recommends that this improvement be made part of the permanent planning structure.

SIGIR's lessons learned reports have effected a number of improvements. The contracting report helped evolve salutary change within the Joint Contracting Command/Iraq-Afghanistan. Senator Collins (R-ME) has introduced the "Accountability in Government Contracting Act," which would implement needed reform into the area of cost-plus contracting practices consistent with recommendations in the contracting lessons learned report. SIGIR's contracting report also prompted OMB's Office of Federal Procurement to adopt SIGIR's contingency contracting recommendations in its recently published contracting guidance.

Personnel practices in Iraq also changed after SIGIR's lessons learned report on human capital management. Changes included improved management of tour lengths and personnel transition. The need for developing a "civilian reserve corps" recommended in that report is receiving support in the agencies and from the Congress. Finally, SIGIR's most recent lessons learned report on program and project management contained what I

believe is SIGIR's most important recommendation: Congress should reform post-conflict contingency relief and reconstruction planning and structure.

#### INVESTIGATIONS

SIGIR aggressively pursues all credible allegations it receives of criminal misconduct on the part of government officials or contractors, and we work with other investigative agencies and with career prosecutors at the Justice Department to develop and prosecute our cases. SIGIR's investigative work has resulted in 13 arrests, 5 convictions, 5 imprisonments, and the recovery or restitution of over \$15 million. In the past ten days, SIGIR participated in arrests in a significant new bribery case, which arose from the work of one of the joint task forces of which SIGIR is a part.

Corruption *within* the Iraqi government is a serious problem that we refer to it as "the second insurgency." SIGIR's review of anticorruption support to Iraq found areas still in need of improvement. A recent reorganization of United States efforts followed SIGIR's recommendations and will help make progress in this important area.

#### SIGIR PLANNING

During the next reporting quarters, SIGIR will, among many other things, continue its focused financial reviews of large contractors, report on the results of the Provincial Reconstruction Team Program, assess and inspect Commanders' Emergency Response Program projects, and open up audits on large Iraq Security Force Fund contracts. In addition, we will continue to work aggressively on our many investigations of alleged criminality in the reconstruction program. In pursuing each of these missions, SIGIR continues to rely on and appreciate the support we receive from the Congress and the Departments of State and Defense.

Mr. Chairman, members of the Committee, thank you for your time and attention to these important matters, and I look forward to answering your questions.