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BEFORE THE

**UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON FOREIGN OPERATIONS, EXPORT FINANCING
AND RELATED PROGRAMS**

OVERSIGHT HEARING ON IRAQ RECONSTRUCTION

**Wednesday, September 7, 2005
Washington, DC**

Introduction

Mr. Chairman, Ranking Member Lowey, and members of the Committee -- thank you for the opportunity to address you today on important matters regarding the United States' role in the reconstruction of Iraq and the oversight provided for the reconstruction program by my Office, the Special Inspector General for Iraq Reconstruction or SIGIR. I look forward to a productive exchange of views with you, which I hope will shed light on the most current issues now confronting the leadership of the Iraq reconstruction program.

It is no secret that the reconstruction program continues to face many daunting challenges; but, at the same time, I want to emphasize that we are making progress in Iraq. And I am optimistic about the reconstruction program's next phase, which focuses on executing projects while encouraging a deeper engagement by the Iraqis as we move toward transitioning more completed projects to direct Iraqi management.

I recently returned from my ninth trip to Iraq since my appointment as Inspector General 18 months ago. During this latest tour, I moved our Office's oversight work forward and met with the senior reconstruction leadership in Baghdad who are aggressively engaged in executing the next phase of the program. I was encouraged by their focus on what I see as the most important issues confronting the program now, namely, the sustainability of the infrastructure we have constructed and the effective management of remaining projects by controlling costs to complete.

I had an especially productive meeting with Ambassador Zalmay Khalilzad and came away optimistic that his vision and leadership will produce real results in Iraq. Ambassador Khalilzad understands the authority that President Bush provided the Chief of Mission through the NSPD, which makes him the leader of the reconstruction effort. I believe he is prepared to exercise that authority.

Ambassador Khalilzad recognizes the compelling need to begin transitioning leadership of the reconstruction program's management responsibilities to the Iraqis, and he is meeting with senior Iraqi leaders to move that transition process forward. I was pleased to hear the Ambassador say that he fully supports my Office's role in Iraq and that he recognizes the importance of our oversight. To that end, my Office, along with its ongoing oversight duties, continues to play a consultative role, serving in an advisory capacity on a number of key reconstruction working groups in Iraq.

In my meeting with Ambassador Khalilzad, I urged him to express support for the Iraqi anti-corruption program, which is a critical lynchpin in the long-term success of the establishment of a free and democratic government in Iraq. The Ambassador agreed that it is a central issue that needs attention.

I had a productive meeting with General George Casey, Commander of the Multi-National Force – Iraq. He expressed support for our oversight, particularly with respect to our review of the Commander's Emergency Response Program or CERP. At the request of the Deputy Secretary of Defense, we began an audit last year of CERP and have recently announced a second phase, which will look at this year's program.

General Casey asked me to look at ways that the Federal Acquisition Regulation might be amended to provide more reasonable measures of contracting in a war zone. I have directed my office to work cooperatively with the Department of Defense in reviewing this issue. Complementary to that effort is SIGIR's Lessons Learned Initiative, through which we will take a close look at the overall experience of contracting in Iraq by way of a series of forums that will gather experts on the key issues and produce separate reports for Congress and the affected Departments.

Background on the Office of the Special Inspector General for Iraq Reconstruction

Permit me now to provide you with a brief background on my Office.

The SIGIR is a temporary organization with a very specific mission – to execute oversight of the Iraq Reconstruction and Relief Fund through audits, investigations, and inspections. In simple terms, the Congress created us to report on how the US spent taxpayer dollars in the post-war reconstruction of Iraq.

Congress initially constituted SIGIR as the Coalition Provisional Authority Office of Inspector General (CPA-IG) in November 2003 through Public Law 108-106. That Law also provided \$18.4 billion for the Iraq Reconstruction and Relief Fund (the IRRF),

which we now oversee. I was appointed in late January 2004, made my first trip to Iraq soon thereafter, and produced our first quarterly report to the Congress in March 2004. SIGIR has produced five more Reports since then.

The CPA ceased operations on June 28, 2004, and the CPA-IG thus was scheduled to expire in December 2004. However, the Congress, recognizing the need for continued oversight, created the Office of the Special Inspector General for Iraq Reconstruction through the 2005 National Defense Authorization Act, which President Bush signed into law on October 29, 2004. I have served as the SIGIR since that date.

I report directly to the Secretaries of State and Defense, and I am charged with auditing and investigating programs and operations funded by the Iraq Relief and Reconstruction Fund. SIGIR is now operating optimally in executing its assigned mission, and we will carry out that mission in the hazardous environment that is Iraq today as long as Congress sees fit.

On-Going SIGIR Activities

During my latest tour in Baghdad, I worked with my staff to advance our audit, investigative, and inspections work. To date, SIGIR has completed and issued 23 audit reports covering a variety of matters affecting the management of Iraq reconstruction. Right now, we have 16 more audits underway, with 20 auditors working them on the ground in Baghdad. By October 15, we expect to have released 10 new audits. These audits will provide our concluding reviews of Coalition Provisional Authority activities, our first reporting on CERP, and our next phase of IRRF audits.

I also have several inspection teams, composed of engineers and auditors that span out across Iraq visiting and reporting on projects, despite the significant personal risk. These teams, which are part of an innovative Special Operations Division that I stood up recently within SIGIR, has issued four reports examining water projects, with five more out soon that will report on electricity projects. These reports and their accompanying photographs will appear in SIGIR's next Quarterly, which we will release at the end of October. The effect of this rapid-results team is to provide program managers with near real-time feedback on individual or systemic issues related to actual IRRF projects so they can be addressed immediately. Our close teamwork with reconstruction management has enabled us to identify key weaknesses and raise the issues requiring management action. The next slate of SIGIR inspections, scheduled for execution over the next 60 days, will provide detailed reviews of selected projects in the electricity, facilities, and oil sectors. The Special Operations Division is also using alternative (and safer) methods for exerting oversight, including overhead imagery and the use of Iraqi nationals to visit and photograph sites to keep risk to personnel at a minimum. This approach, if successful, will be shared with IRRF management as a potential tool for improving oversight of our work on the ground in Iraq.

I have 10 investigators on the ground in Baghdad, and five in Arlington, who are collectively handling 57 criminal cases as the only significant law enforcement entity on

the ground in Iraq looking at corruption issues in the 18 billion dollar IRRF program. These investigators average over 25 years of federal law enforcement experience each and come from the FBI, IRS, and other federal agencies. The investigators are working cases in close coordination with Department of Justice attorneys and several matters are approaching the indictment stage. We also have initiated a task force called SPITFIRE, which stands for the Special Investigative Task Force for Iraq Reconstruction. It is a partnership with the U.S. Immigration and Customs Enforcement (ICE) of the Department of Homeland Security, the Internal Revenue Service, and the U.S. Department of State's Office of Inspector General. SPITFIRE's purpose is to use specialized capabilities that enhance our capacity to detect fraud, trace international money laundering transactions, and monitor travel of suspects. Working closely with the Money Laundering and Asset Forfeiture Section of the Department of Justice, SPITFIRE is succeeding in applying advanced and effective investigative techniques to develop cases for prosecution.

As mentioned previously, I had informative visits with management during my latest trip. Along with Ambassador Khalilzad and General Casey, I met with most of the US senior leadership for Iraq reconstruction in Baghdad, including Brigadier General Bill McCoy, who is the new commander of the Corps of Engineers' Gulf Region Division (GRD), Ambassador Dan Speckhard, who is the new director of the Iraq Reconstruction Management Office (IRMO), Major General Daniel "Chip" Long, the departing Director of the Project and Contracting Office (PCO), and Dawn Liberi, who heads the USAID Mission in Iraq.

The highlights of these visits include:

1. General McCoy reported that a business plan is in place for the Corps of Engineers to gradually assume overall management control of all construction activity that is not under USAID or the Multi-National Security Training Command – Iraq (MNSTC-I). This means that PCO will become part of the GRD's management chain, which I believe enhance project coordination and control.
2. Ambassador Speckhard provided me with an overall plan for implementing a coordinated sustainability program in Iraq. Among other things, this evinced a commitment by the Chief of Mission to fully engage on this issue. Ambassador Speckhard also has wisely included SIGIR as an observer on key reconstruction planning meetings.
3. General Long provided me with information that revealed a dramatic shift by the PCO to direct contracting and away from use of the design-build contractors. This is an important development because it is generally more cost effective and it stimulates the Iraqi economy.

4. Dawn Liberi reported that there are very real funding shortfalls that are now confronting USAID's work in Iraq and that, absent new funding, programs would be scaled back or eliminated.

I also had two productive meetings with the Iraqi Commissioner of Public Integrity, Judge Rahdi al Rahdi, and his Senior State Department Consultant, Christopher King. Judge Rahdi, with whom I meet during each of my visits to Iraq, continues to take the lead in anti-corruption efforts in Iraq. He and I discussed a process for exchanging information on cases, and we are working on an agreement to achieve that end. He also plays a role in supporting the Inspectors General within the Iraqi system, which SIGIR has buttressed since their inception during CPA over a year ago; and the Board of Supreme Audit.

SIGIR continues to build upon its accomplishments in Iraq, expanding our capabilities to meet our significant mission. I was pleased that Ambassador Khalilzad has agreed to permit SIGIR to station 10 more personnel in Baghdad. These additional auditors, investigators, and inspectors are essential for me to address all of the important issues that stand before us. As the leading U.S. entity reviewing use of the IRRF in Iraq, SIGIR bears the responsibilities for promoting program success through oversight and "near-real-time" auditing advice, and deterring fraud, waste, and abuse.

I believe that the overwhelming majority of US personnel assigned to the reconstruction program in Iraq are doing their best and working long hours to make it work. My job is to serve as an additional resource that promotes success by advancing efficiency through oversight, to root out corrupt practices, and to report to the Congress and the Secretaries of State and Defense what we find.

Given the fact that the SIGIR is a temporary organization, I want to ensure that the effect of our oversight is "real time," and that we discuss inefficiencies with management as they are found, rather than wait for publication of a final report. Some of our most recent audit reports are examples of this approach. These provided management with a review of certain operating procedures, practices, and accountability measures; upon publication of the reports, most of our recommendations had already been accepted and implemented during the course of the audit. This balanced approach – working with management to make changes now, while retaining our required detachment as an oversight organization – maintains our reportorial integrity, while promoting our collective goal, the highest and best use of U.S. resources in the Iraq reconstruction program.

SIGIR has several initiatives that enhance our operations and add to the effectiveness of our reporting. We created the Iraq Inspectors General Council, which brings together each quarter representatives from all oversight organizations that have jurisdiction over Iraq. This Council, which I chair, discusses and de-conflicts oversight activities in Iraq. We have a parallel organization in Iraq, the Iraq Accountability Working Group, which is led by my Assistant Inspector General for Audit and gathers oversight personnel every other month in Baghdad for program updates. Finally, SIGIR

developed a Lessons Learned Initiative that will look at the Iraq reconstruction experience. We will examine human resources, contracting, and program management, respectively, over the course of three day-long forums that gather experts and those with Iraq experience to sift through the evidence and arrive at ground truth on these issues. The first panel on human resources will meet on September 20, at The Johns Hopkins University School of Advanced International Studies.

Issues

In our last Quarterly Report, SIGIR identified two leading challenges confronting the reconstruction program:

- Cost-to-complete: Can the Iraq reconstruction managers produce reliable estimates of the cost to complete ongoing projects?
- Sustainability: Can reconstruction projects funded by the U.S. government be sustained by the Iraqis after transition?

We noted that failure on either of these points puts at risk the important legacy of success that the U.S. intends to leave. My most recent trip to Iraq has convinced me that the US reconstruction leadership, beginning with Ambassador Khalilzad, has recognized the importance of these issues, and that the agencies involved are seeking workable solutions. Much is left to be done; but I am encouraged.

On the cost-to-complete issue, SIGIR issued an audit in July examining whether IRRF accounting and reporting systems were adequate to determine the cost-to-complete for current or planned projects. We found that the *Section 2207 Report* compiled by the Iraq Reconstruction Management Office (IRMO) did not meet the requirement, as mandated by Congress, to include estimates of the costs to complete each project and that information systems were not equipped to produce such. During the course of the audit, the PCO began reporting cost-to-complete estimates to IRMO, and IRMO thus initiated procedures for preparing and reporting cost-to-complete estimates. We have been advised that IRMO will begin reporting cost-to-complete estimates in the *Section 2207 Report* for September 2005. We have two more cost-to-complete audits that will be out by mid-October.

On sustainability, SIGIR has begun a series of audits that will look at the issue of whether U.S. government organizations have developed and approved plans to fund and support the transition and sustainment of completed projects and whether these plans are being implemented at the sector and project level as well as on the Iraqi side of the equation. This audit is well underway and we will have our first report out in mid-October.

Beginning with our April 30 Report to Congress, the SIGIR outlined a number of challenges facing the agencies and organizations involved in Iraq reconstruction. We identified five categories of challenges:

- *Strategy and Interagency Coordination:* At least a dozen offices representing six U.S. agencies directly spend money from the IRRF. There is minimal, if any, integration among the various systems that these offices use to manage information on contracting, finance, and projects. *Ambassador Khalilzad has recognized this issue and is acting upon it, pursuant to his authority under the NSPD.*
- *Program Management:* Inadequate processes, systems, documentation, training, and internal controls are regularly cited in oversight reports on Iraq reconstruction. To make informed, effective decisions, management requires more reliable data. *Ambassador Speckhard and General Long have recognized this issue and a single database solution is in process.*
- *Acquisition and Contract Management:* The SIGIR is concerned that insufficient management controls have created conditions for mismanagement, inefficiencies, and ineffectiveness in acquisition and contract management. *I continue to be concerned about invoice review and soon will announce an audit on this issue.*
- *Human Resources:* The SIGIR has observed that Iraq reconstruction efforts continue to be hampered by high turnover of key personnel and vacancies in critical positions. *SIGIR's first Lessons Learned Forum will address this in detail on September 20.*
- *Security:* Providing security continues to exact a heavy cost on Iraq reconstruction, slowing reconstruction efforts and reducing the potential impact of reconstruction. *The cost of security has clearly taken money away from reconstruction.*

Conclusion

The SIGIR is a specialized, temporary oversight organization with an unusual mission. We seek to provide prompt and effective advice and recommendations to those managing Iraq reconstruction, with the goal of working to promote efficiency, prevent waste, and thus save taxpayer dollars. As the Iraq reconstruction program rapidly moves forward, I believe that SIGIR can continue to play an important role in promoting program success. I was pleased that Ambassador Khalilzad welcomed SIGIR's presence within the process, and I agreed with him that SIGIR can and will make important contributions to the success of the next phase of Iraq reconstruction.

I am proud of my staff's willingness to serve in the highly hazardous environment that is Iraq today. They are a dedicated cadre of professionals, and many could be auditing or investigating in much safer and more stable environments. Instead, they have volunteered to serve our country in these challenging times, bringing their expertise to bear on this substantial and significant oversight issue.

SIGIR is carrying out the mission that the Congress has assigned with vigor, speed, and efficiency. In a nutshell, the SIGIR is succeeding and will continue to work as the “Taxpayers’ Watchdog” to ensure effective oversight, timely reporting, and to promote the ultimate success of the Iraq reconstruction program.

Thank you for your time and I look forward to answering any questions that the committee may have.